

# Island Economies

Part II

## THE BAHAMAS

THE BAHAMAS, A THRIVING CENTER FOR FINANCE, TOURISM AND OPEN REGISTER SHIPPING, IS CELEBRATING 30 YEARS OF INDEPENDENCE THIS YEAR. ONLY 45 MILES FROM FLORIDA, THE BAHAMAS HAS AMBITIONS AS 'THE HONG KONG OF THE WEST'. THE COLONIAL LEGACY LEFT BY THE BRITISH ENDOWED THIS CARIBBEAN PARADISE WITH THE RULE OF LAW, THE ENGLISH LANGUAGE AND A WESTMINSTER-STYLE PARLIAMENTARY DEMOCRACY.

The energy to realize a new vision comes from the dynamism of Prime Minister Perry G. Christie, whose Progressive Liberal Party (PLP) took office in May 2002. He has pledged to promote economic growth, foreign investment and business confidence. The Bahamas has now been removed from an international blacklist of countries with questionable banking regimes by tightening 'know your customer' rules and banning shell banks.



■ The Honorable Perry G. Christie – Prime Minister

The Bahamas offers attractive incentives to the potential investor: a stable democratic environment, protection from personal and corporate income taxes and the ability to repatriate profits. Its strategic location, with extensive aviation and telecommunications links to the U.S., is complemented by a good pool of skilled workers. Governor of the Central Bank of The Bahamas Julian W. Francis says: "This proximity makes The Bahamas virtually an extension of the U.S. economy."

With 60% of GDP and half the workforce dependent on visitors, The Bahamas annually attracts more than 10 times its 314,000 population in tourists coming to enjoy its mild climate, offshore sports, game fishing and scuba diving.

### INTERNATIONAL CENTER FOR FINANCE

Financial services, with more than 350 banks and trust companies licensed, employ 6,000-plus people, accounting for up to 15% of GDP, but under the previous administration, the government came under intense pressure from international regulators. The incoming PLP government was left to implement laws to meet concerns by the OECD and the International Financial Action Task Force (FIATF) about regulatory weaknesses in combating money laundering.

Governor Francis, a banker with more than 30 years' experience, accepts the need for harmonization with other regulatory regimes, as part of the globalization process. Nearly 35 of the top 100 global banks operate in The Bahamas. Perhaps because of this, he is a noted skeptic on the value of regional trading blocs, such as the Caribbean Community (Caricom) and its Common Market.

"The real complaint is that smaller countries have been forced to comply far more rigidly than some of the larger countries," he says. "We only ask that the international standard-setting bodies apply to economies like The Bahamas the same indulgence afforded to their own members."

Francis thinks that The Bahamas has been a well-regulated jurisdiction in the past, with a progressive reputation, but believes that the acceleration of

technology in business has "accommodated the proliferation of criminality around the world".

The Bahamas has used this to take stock of what resources to put in place to become "a far more dynamic and well positioned financial center". Its competitive edge with other similar small jurisdictions is unchanged. "We do not seek to be bottom feeders: we seek to be in the mainstream and in the forefront of business development and the growth of industry," he says.

Hosting an international anti-money laundering and anti-terrorism seminar in June helped put The Bahamas in a favorable light with the regulators. "The standards are rapidly changing and that's why it is important that we get together regularly with the practitioners to understand exactly where we are," says Francis.



■ Julian W. Francis – Governor of the Central Bank

The Bahamas now favors a risk-based approach to fighting money laundering, giving more responsibility to managers of financial institutions to apply the regulations and then making them accountable for the outcomes. "We are not in any shape or form diluting the strength or coverage of our legislation," says the Governor. "We don't think that is appropriate."

The new government is focusing Bahamians' attention on the need for prudent financial and economic management, according to Minister of State for Finance James H. Smith. He was formerly Ambassador for Trade and chief negotiator for the Free Trade Area of the Americas. "The Bahamas has had a long and successful run doing very little except offering beaches, sun and sea," he says. "Now we are engaged in international trade talks."

The Bahamas successfully priced a \$200 million 30-year international bond issue in May with the order book three times oversubscribed and Citigroup as lead manager. With strong demand, The Bahamas was able to tighten the issue spread 3 basis points, reflecting the country's solid credit fundamentals and its A3 stable outlook rating with Moody's Investors Services. "In taking this route to raise money on the international markets we're really taking a big step," says Smith. "We're saying to the outside world that we don't mind being under your scrutiny."

Another major shift of emphasis announced by Smith, was a commitment to further privatization, including hotels, airlines, and telecommunications and utility companies. Divestiture of Bahamas Telecommunications Company (BaTelCo) has moved painfully slowly with California-based Trans World Telecom (TWT) and Cable & Wireless both interested in acquiring a 49% stake. "We will use this as a laboratory for future privatizations efforts," says Smith. "We are still seeking buyers for the two hotels owned by the government – the Radisson and the Lighthouse Beach."

Foreign direct investment of more than \$1 billion was invested in The Bahamas during the first year of PLP government, according to Minister of Financial Services and Investment, Allyson Maynard-Gibson. Part of this is the additional \$600 million committed by Kerzner International for phase three of Atlantis, the largest resort development in the world that when complete will employ 8,000 Bahamians. "This shows very clearly the confidence that investors have in The Bahamas," says Maynard-Gibson.

During the past 12 months, she has been focused on creating the platform for a re-launch of The Bahamas as a jurisdiction for financial services. It began with intense consultation over a new five-year strategic plan involving the Bahamas Financial Services Board and other industry groups to assist the

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government with investment funds and e-commerce legislation. "The Bahamas is very serious about the growth of investment funds, mutual funds and the external insurance sector," she says. "On the investment side we want to make it very easy for foreign direct investment, cutting red tape and rolling out the red carpet." Indeed, the Minister is aiming to cut the time taken to process applications through the government's investments board to less than 30 days.

Maynard-Gibson is adamant about the need for a streamlined regulatory framework with fast tracking where appropriate. "We need to respond very expeditiously – that's how fast – without compromising our blue chip standards," she says. "We want to be serious about being very competitive, finding ways to co-operate with the regulator, even in the approvals process."

The Minister considers that Grand Bahama, where the second biggest city Freeport is situated, is the logical hub for e-commerce for two reasons: there is an airport and it is already a successful container transshipment terminal with fully automated business processes. "There will be a fulfillment center there, and call centers, all because the framework we need to put in place is already implemented," she adds.

### PARADISE OFFERS MORE TO VISITORS

With only 35 of the 700 islands inhabited, The Bahamas are famous for their unspoiled pink powdery beaches and lagoons. With 80% of its four million tourists a year arriving from North America, The Bahamas is, nevertheless, largely unexplored by many visitors, beyond the capital Nassau on New Providence Island, according to General Manager of the British Colonial Hilton, Michael Hooper.

"The close proximity to the U.S. is sometimes forgotten by visitors to Florida with four to five gateways into Nassau from cities within one hour's flight," says Hooper. "Many visitors fail to take advantage of the variety of islands you can visit to add to Nassau.

Ideally located on a beautiful private beach, the British Colonial Hilton is only five minutes' walk from the financial district of Nassau. It is a newly remodeled resort, previously the site of the Old Fort Nassau, on eight beachfront acres and just steps away from duty-free shopping, the Straw Market, Nassau Harbor, historical sites and nightlife. In 1999, the property was internally renovated, retaining its historic façade to create 291 rooms, including 21 suites, three restaurants, three bars, swimming pool, gym and spa in addition to the private beach.

"We have Internet access in all our rooms – that is unique on the islands – and are located conveniently for two casinos and a golf course," says Hooper. "The feel of the hotel is 'old world' rather than modern but we have modern facilities. We have flexible meeting facilities and welcome business and

conference visitors. When visitors enter our lobby, they are in a classy and elegant hotel that matches any other in the world."

Ensuring the gateways for tourism arrivals and departures are open is the job of Minister of Transport and Aviation Glenys Hanna-Martin. Repairs at Nassau International Airport's main runway costing \$20 million and an upgrade to the terminal are now urgent projects.



■ Michael Hooper – General Manager, British Colonial Hilton

The Bahamas has the world's third largest fleet of international ships on its open register. "This fleet operates worldwide and as such, it is critical that it enjoys the freedom to trade without restriction," says Hanna-Martin.

Every year 1.8 million cruise ship passengers visit Nassau, forming the cornerstone of the tourist industry. The government plans to spend millions of dollars upgrading the Prince George Wharf, but the engagement with the cruise ship industry extends to extensive consultation over the nearby Bay Street Redevelopment Project to ensure that the attractions are what cruise ship passengers want.

The national flag carrier, Bahamasair, born out of the oil crisis of the 1970s, is a fairly small player in the global aviation industry, with its only North American services to Florida. Domestically speaking, it's the largest airline around. Minister of Works and Utilities Bradley B. Roberts told Parliament that the national carrier had lost \$86 million in the three years to 2002, attributing the failure to a range of operational factors, including expensive leased aircraft, but also to the aftermath of 9/11.

Bahamasair's board of directors has recommended a cost-cutting plan including the loss of 150 jobs, saving some \$3.5 million a year. By discontinuing services to some low-density routes, the company will be in a better position to concentrate on high-yield destinations including the Florida routes. The newest service introduced in December between Abaco and West Palm Beach, Florida, is already popular. "The airline can theoretically achieve profitability and solvency within two years," says Roberts.

### THE BAHAMAS – 'HONG KONG OF THE WEST'

The Bahamas has the potential to be the 'Hong Kong of the West' and to position the islands on the world map as a leader for infrastructure building, according to the Minister of Works and Utilities. "I see no reason why we cannot have infrastructure and services on a par with Taiwan, Hong Kong, Malaysia, Indonesia or Hawaii," he says.

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government delivering on its campaign promises,” says Roberts. It is the first time in the BEC’s history that electricity costs have been cut, which the Minister describes as a ‘Red Letter Day.’

Bradley is also determined to develop a culture of self-reliance and to reduce dependence on foreign consultants. He says trained and qualified Bahamians – engineers, architects, accountants, computer scientists, electrical technicians, road builders and construction workers – must be given their chance.

The government is evaluating bids from major operators for a 49% stake in BaTelCo with a view to a decision in September. BaTelCo celebrated the 100th anniversary of telecommunications with the rest of the world in 1992. The stakes for the privatization are high and go beyond the islands’ borders, besides providing a test for the PLP government.

Roberts says: “The aim is to develop and maintain the most modern, cost-effective telecommunications sector possible. This is to enhance The Bahamas’ competitive position in the global community, facilitate the country’s transition to a digital economy and to improve the quality of life for the Bahamian people.”

BaTelCo’s portfolio covers telephone networks, facsimile, telex, cellular radio telephone and private line services, packet switching, satellite leasing and radio licensing. It has more than 64,000 phones providing Direct Distance Dialing to more than 100 countries. Cell phone services were introduced to The Bahamas in 1988 and have grown from 3,478 subscribers to 125,000 at the end of 2002.

Michael Symonette, President and CEO, BaTelCo, says the company, with 62 installed cell sites, is now working with Nortel Networks on the implementation of a \$28 million GSM system from November 2003. “We are targeting pretty much the same areas for GSM – New Providence, Grand Bahama, Abaco. We have a challenge in

respect of the south east islands in terms of connectivity,” he says.



■ Michael Symonette –  
President and CEO of BaTelCo

The current BaTelCo strategy is to extend services to all communities in the islands where there are 10 or more households, but naturally many of these services are not strictly speaking economic.

“We need to have the backbone – that linkage,” says Symonette. “Radio systems only go up to a certain distance and the capacity is also limiting, whereas with fiber cable you could have almost unlimited capacity.”

Cell phone revenue, however, already accounts for 35% of BaTelCo revenue at \$67 million in 2002. The first phase of GSM will cover 90,000 lines, with a second phase released in 2004. Symonette says: “We are dependent on having the proper backbone and network – that’s extremely important to serve a wider community.”

Working with Swiss Telecom, BaTelCo has recently developed a digital satellite communications link between Switzerland and The Bahamas, two leading financial centers. “It will have a significant impact because it allows working that is akin to a private network and reduces costs by around 30%,” says Symonette.

Apart from GSM, BaTelCo is also looking at service improvements, including allowing its customers to access billing information on line. “We will also be going into integrated billing issues,” says Symonette. “We find a lot of customers are interested in having a consolidated bill instead of a different account for every service they receive from us.”

■ Business Focus  
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■ Bahamasair

Minister Roberts is the first to agree that The Bahamas has a long way to go if it is to usher in cutting edge technology and development comparable to China, Germany and the UK. “Our government is aggressively delivering on its promise to the Bahamian people, as stated in the PLP manifesto ‘Our Plan,’ to significantly lower the cost of services, while keeping The Bahamas at the cutting edge of technology,” he says.

The manifesto outlined a number of initiatives to improve the water supply and electricity distribution, including the completion of the electrification project for the Family Islands. From October 1, the Bahamas Electricity Corp (BEC) will reduce the cost of electricity to all customers in New Providence, Paradise Island and the Family Islands.

“This is a classic example of the new PLP

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