

BAHAMAS: BUSINESS BECKONS

As the Commonwealth of The Bahamas celebrates its 30th anniversary of independence from British rule, the new government of Perry G Christie has already made its mark on the social and economic wellbeing of the Bahamas, tightening fiscal controls and improving transparency and accountability to attract greater foreign investment.

Prime Minister Christie and the Progressive Liberal Party (PLP) swept to victory in May 2002, toppling the Free National Movement which had been in power for 10 years. The new government pledged to restimulate the economy, create a safer society, tackle poverty, ill health and ignorance, enhance freedoms, celebrate heritage, embrace youth and lift standards in national life. Top priorities are political stability, transparency and accountability, as the government recognizes that these are prerequisites to attracting foreign investment.

Progress has been rapid, with the establishment of sound economic policies to drive forward growth, and strategies to develop the existing strong industries of tourism, financial services and ship registry and to open up new avenues to prosperity such as e-commerce.

These achievements have been realized against a background of global slowdown, with the Bahamian economy, like so many others, hit hard by the reduction in tourism following the September 11, 2001 terrorism attacks and the weakening of the U.S. economy.

Despite a minor deterioration in 2002 as tourism numbers contracted, the economy is set fair to offer a stable and conducive investment environment. Annual inflation has been below 2% for the past six years, and GDP growth was 6% in 2000. The Bahamas has the highest GDP in the Caribbean and a good basic infrastructure which is being constantly upgraded. The main engines for growth are tourism and financial services, accounting for 60% and 15% of the GDP total of \$4.8 billion respectively.

These sectors will be driven forward by the government's focus that as a services-based economy, The Bahamas must concentrate on two inter-dependent principles – providing value for money and top quality service. However, the government is under no illusions regarding its dependence on the U.S. economy, which accounts for 85% of visitors. With fewer people travelling outside the U.S., this has inevitably slowed the pace of growth. Ironically, the proximity to the U.S. could also speed the recovery. Just 80 miles off the east coast of Florida, the archipelago of 700 islands has everything a tourist could wish for – beautiful beaches, azure waters, rich cultural history and high quality service.

“We are America's closest neighbour along its southern and eastern borders. At a time when most Americans will be disinclined to take long plane-rides or to venture far from home, the



The Bahamas is a major cruise ship destination.

psychological appeal of a destination with a strong tradition of friendship with the American people that is just 30 minutes away is both obvious and compelling,” says Christie.

His government sees foreign investment as key to development, and much has already been attracted to The Bahamas, particularly in the hotel sector. Investors are drawn by the favorable tax regime, economic and political stability and extensive investment concessions, not to mention the quality of life and beauty of the islands and their people.



**Perry G
Christie,
Prime Minister**



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INVESTMENT OPPORTUNITIES

Attracting foreign and domestic investment is key to further development, so the focus is on providing a conducive economic, legal, tax and monetary environment to tempt investors to exploit the huge potential.

Conditions are exceptionally favorable for investors, with political and economic stability, an independent judiciary, modern infrastructure, and the availability of a highly skilled labor force. Investors are free from capital gains, withholding, inheritance, corporate, personal income, dividends and interest taxes, and benefit from legislation offering specific investment incentives.

All this amid the beauty of the islands, a great climate and ideal geographic location. No wonder the second home market is booming, especially in Eleuthera, Abaco and Harbour Island. International investors and owners of residences valued at over \$500,000 are eligible for permanent residency status.

The Bahamas Investment Authority (BIA) was set up in 1993 to offer a one-stop shop for investors, and has had great success in enabling foreign companies to enter the market, making the process as transparent as possible and offering "a red carpet instead of red tape", according to Basil Albury, BIA Chief Executive.

"We have the investment infrastructure here, in terms of incentive legislation, to cover almost every major industry," he says.

BIA is focusing on the hotel and financial services sectors, and also on ecommerce, "which could become the third pillar of our economy", according to Mr Albury. Other areas include shipping registry, cruise and leisure ships, agriculture and fisheries.

Not surprisingly, the majority of investment has been concentrated in the tourism sector, by far the biggest revenue earner. Recent achievements include the reopening of Club Med in San Salvador in December 2002 following the devastation of Hurricane Michelle, and the \$140 million Abaco Land project to build an 18-hole golf course, 20 unit clubhouse, 50 residences and 75 condominiums. A second home project on Abaco is also on the table, as well as Phase 3 of the Kerzner International development on Paradise Island, including a hotel, luxury

villas, restaurant and retail expansion totalling over \$500 million.

The \$300 million Emerald Bay development project on Exuma combines the construction of a 200-room five star Four Seasons hotel, 18-hole championship golf course, a marina and an associated second home project. It will create some 1,000 jobs.

Meanwhile, existing hotels are also receiving investment. A fine example is the elegant and historical British Colonial Hilton hotel in Nassau. It was rebuilt in the early 1900s, but recently underwent a \$68 million restoration. The hotel features 291 rooms and suites, excellent conference and business facilities, two restaurants and three bars. It lies in the heart of downtown Nassau's main shopping and financial district, with its own private beachfront.

The newly created Ministry of Financial Services and Investments aims to co-ordinate and fast-track new and continued investments in the financial services sector, and to restore The Bahamas' preeminence as a financial center to rival London, New York, Switzerland, Hong Kong or Singapore.

Its work is complemented by the Bahamas Financial Services Board, a partnership between government and the private sector.

The Ministry has prepared a National Strategy for Financial Services with the primary goals of sustaining a successful, blue chip, well regulated and co-operative financial center, and expanding and diversifying the economy. A similar Strategic Plan for Investments aims to encourage foreign and local investment.

The Bahamas has been offering banking and trust services to the international financial community since the 1930s, and today has more than 4,000 professionals covering every aspect of financial services, including banking, private banking and trust services, mutual fund administration, capital markets, investment advisory services, accounting and legal services, ecommerce, insurance, and corporate and shipping registry.

More than 350 banks and trust companies are licensed to operate in the Bahamas, with over half having a physical presence there. Bank assets total some \$258 billion, and fund assets \$89 billion.

The first mutual fund was launched just 10 years ago, by Montaque Securities International (MSI), the first Bahamian-

owned offshore securities firm which offers a range of investment-oriented services such as asset management, offshore funds, and insurance/investment hybrids for asset protection. MSI President Owen Bethel contends that being small in the market is advantageous and allows the firm "to provide personalized service and customize to the clients rather than providing a cookie jar approach".

Legislation has been passed as a result of the work of a government financial task force to guarantee regulatory standards to meet OECD requirements. Now the comprehensive regulatory framework includes five regulators and supervisors, and should pave the way for accession into the World Trade Organization and the Free Trade Area of the Americas (FTAA).

One of the biggest changes of recent years is tighter regulation of the offshore sector, which now requires banking institutions which provide services from the Bahamas to have a physical presence there. It has also allowed greater competition in the sector, which has led to an increase in the quality of services offered.

Mr Bethel has worked for both the IMF and the World Bank and was Director of the BIA prior to setting up MSI. He welcomes the new regulatory framework: "It sends a message to offshore users or

investors that The Bahamas is certainly a decent jurisdiction for those doing legitimate business."

The Central Bank has been very involved in the overhaul of the regulatory system. "Our main job now is making the economy fully transparent and putting in place some areas of regulation that have not been in our financial services sector before," says Julian Francis, Governor of the Central Bank.

Part of the Bank's role is to ensure the safety and soundness of the banking system, support a high level of service throughout the banking sector, modernize the economy and develop new technology. It also has a crucial role in attracting investors, providing the confidence that their interests will be protected, and the economy managed with objectivity.

The Central Bank follows a monetary policy geared to making sure the economy is not overheating in times of economic uncertainty, particularly balance of payments stability, and to protect the peg with the U.S. dollar.



**Owen Bethel,
Montaque
Securities
International**



**Julian Francis,
Central Bank
Governor**

TRANSPORT LINKS

A good infrastructure base is essential to give investors the confidence to locate to The Bahamas. Transport is constantly being upgraded and the islands' importance as a shipping and cruise liner hub is growing.

There are 28 airports in The Bahamas, 15 of them international. Work has already been carried out to upgrade the airport at San Salvador for the reopening of Club Med to accommodate charter flights from France and New York. Nassau International Airport is soon to have major work, and all transport infrastructure – airport, bridges, roads – on Exuma will receive attention in preparation for the new hotel opening later in 2003.

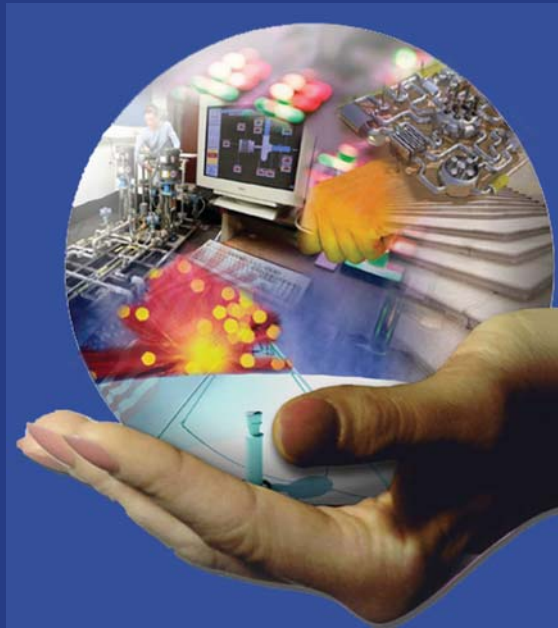
Freeport in Grand Bahama has welcomed major investors from the Middle East, who have had great success in containerized shipping and the hotel industry. A German company has expanded the ship repair facility at Freeport onto dry dock which will make it the largest wharf facility in the world. It is already the largest container port in the region and an important transshipment terminal between North and South America. Its Free Trade Zone covers 200 square miles, and the port is being further expanded – there are plans to create an industrial park which would tie up neatly with the transshipment and container facilities.

Cruise ships dock at Prince George's dock in Nassau which is to undergo refurbishment, and the aim is to attract quality vessels, including building the ship registry. This is already the third largest in the world, with strict registration criteria.

"We carry out the highest standards when registering ships," says Minister of Transport and Aviation Glenys Hanna Martin. "Some of the most prestigious cruise ships carry our flag."

Meanwhile, the national airline, Bahamasair, is to be restructured, and it is hoped to develop a ferry service to the islands. The existence of U.S. customs clearance in The Bahamas is also a clear advantage.

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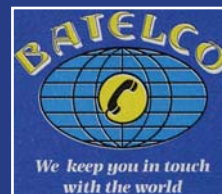


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ON TRACK FOR PRIVATIZATION

Liberalization of the telecommunications sector has introduced competition and paved the way for the privatization of the state operator BaTelCo. This in turn is likely to lead to further divestment.

Studies for the privatization of BaTelCo were carried out in 1997, leading to a downsizing of the company by some 50%, to 1,100 employees. BaTelCo has invested heavily in digital satellite services, and is looking at bringing in new technology to upgrade the network and increase capacity. It has also introduced a customer management system to facilitate the billing process.

The company provides internet services, high speed ADSL and digital switching and is now working on a project to introduce GSM

cellular technology. Some competition is already in place in the form of three independent providers of telecommunications services and nine internet service providers, while a license to operate a limited cellphone network has been issued.

The strategic partner who is successful in the bid for BaTelCo will bring leading edge technology to increase volume capacity, together with high speed data transmission. It is hoped they will also open up a new industry in ecommerce: The Bahamas has three cable connections to the U.S., and is part of the Western Hemisphere cabling connecting Latin and North America. Legislation is being put in place in preparation for ecommerce, addressing issues such as consumer protection and electronic signatures.

"You can do your research and development in London or Paris or Tokyo and your marketing from The Bahamas," says Minister of Finance James Smith.

These developments will help other industries such as financial services, and

especially tourism by improving marketing and online booking while lowering costs.

The privatization of BaTelCo is seen as the benchmark for further divestment, which might include the electricity and water supply companies.

BaTelCo President and Chief Executive Officer Michael Symonette believes the privatization will benefit everyone. "The benefit is an infrastructure that would provide for the needs of the individual as well as the important needs of the business community, and for foreign investors that want to go beyond Nassau and Grand Bahama," he says.

With a highly qualified workforce – 24% of the national budget goes to education and training – there is plenty of scope to accommodate these new industries, and sectors such as call centers show great promise. ■



Michael Symonette,
BaTelCo



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