



RESTRUCTURING PAPER
ON A
PROPOSED PROJECT RESTRUCTURING
OF
SINT MAARTEN ENTERPRISE SUPPORT PROJECT
APPROVED ON APRIL 4, 2019
TO
NATIONAL RECOVERY PROGRAM BUREAU
FINANCE, COMPETITIVENESS AND INNOVATION
LATIN AMERICA AND CARIBBEAN

Regional Vice President:	J. Humberto Lopez
Country Director:	Tahseen Sayed Khan
Regional Director:	Robert R. Taliercio
Practice Manager/Manager:	Zafer Mustafaoglu
Task Team Leader:	Fadwa Bennani



ABBREVIATIONS AND ACRONYMS

AR	Asset or Repair
CBCS	Central Bank of Curacao and Sint Maarten (<i>Centrale Bank van Curacao en Sint Maarten</i>)
DA	Designated Accounts
FM	Financial Management
GoSXM	Government of Sint Maarten
MG	Matching Grants
MSMEs	Micro, Small, and Medium Enterprises
NRPB	National Recovery Program Bureau
PDO	Project Development Objective
PFI	Participating Financial Institution
PIU	Project Implementation Unit
SGCA	Sub-Grant and Credit Agreement
SMEs	Small and Medium Sized Enterprises
WC	Working Capital



BASIC DATA

Product Information

Project ID P168549	Financing Instrument Investment Project Financing
Original EA Category Financial Intermediary Assessment (F)	Current EA Category Financial Intermediary Assessment (F)
Approval Date 04-Apr-2019	Current Closing Date

Organizations

Borrower National Recovery Program Bureau	Responsible Agency National Recovery Program Bureau
--	--

Project Development Objective (PDO)

Original PDO

The development objective is to support the recovery of micro, small, and medium sized enterprises through direct financial assistance to contribute to the restoration of economic activity.

Summary Status of Financing

Ln/Cr/Tf	Approval	Signing	Effectiveness	Closing	Net Commitment	Disbursed	Undisbursed
----------	----------	---------	---------------	---------	----------------	-----------	-------------

Policy Waiver(s)

Does this restructuring trigger the need for any policy waiver(s)?

No

I. PROJECT STATUS AND RATIONALE FOR RESTRUCTURING

1. The purpose of this restructuring is to introduce changes to the previously approved institutional structure and



financial management responsibilities under the Project, at the request of the recipient, in order to better align these with Sint Maarten's legal and administrative framework. The restructuring aims also to extend the Project's closing date by one year to compensate for the delay in effectiveness. Specifically, the recipient of the grant is proposed to be changed from the Government of Sint Maarten to the National Recovery Program Bureau (NRPB). In addition, the initially envisaged role of the Central Bank van Curacao en Sint Maarten (CBCS) for the management of component 1 of the Project is proposed to be taken on by the NRPB. In line with these changes in institutional and flow of funds arrangements, the financial management responsibilities under the Project are proposed to be undertaken by the NRPB instead of by the CBCS.

2. **The Government of Sint Maarten has requested a change to the recipient of the grant to the NRPB due to legal considerations.** Under the previously agreed arrangement, Sint Maarten was the designated recipient of the grant funds, which would then be on-granted to the National Recovery Program Bureau (NRPB) as the overall implementing agency for the Project. Since the approval of the project, in a letter dated November 12, 2019, the Prime Minister has requested that the grant agreement for this Project be concluded with the NRPB as the recipient of the proposed grant.

3. **The initially envisaged role of the Central Bank van Curacao en Sint Maarten (CBCS) in the project is also proposed to be adjusted due to legal considerations.** Since Project approval, the CBCS has determined that it cannot undertake the financial management for the project nor act as the financial intermediary of record and that it cannot sign the Subsidiary Grant and Credit Agreements (SGCAs) for that purpose, on behalf of Sint Maarten, with the PFIs. While the CBCS confirmed its capacity to act as a lender at Project negotiations, before the signing of the grant and project agreements, the CBCS conveyed that the initial legal guidance that it received was not aligned with the CBCS's charter. In the restructured project, the CBCS will support the NRPB as follows : (a) provide capacity building and advice to the Portfolio and Accounting Officer within PIU at NRPB on matters related to the disbursements to and from PFIs; and (b) advise the NRPB in relation to nonconfidential information concerning qualifying PFIs. The CBCS has agreed to carry out these two tasks at no cost to the Project. Component 1 is therefore revised to have the financing of PFIs carried by the NRPB, and the implementation budget in Component 3, which was originally assigned to the CBCS, is reassigned to the NRPB. Accordingly, the Subsidiary Grant and Credit Agreements (SGCA) with the PFIs will be signed by the NRPB and the financial management of the Project will be undertaken by the NRPB.

4. **The restructuring takes place prior to project signature and effectiveness.** The original project was approved by the Bank on April 4, 2019. Project implementation was paused since then due to deliberations on the role of the CBCS and the NRPB under the Project. The original Grant Agreement has not been signed and nor has the project been declared effective. The legal agreements with the Participating Financial Institutions (PFIs) have not been signed either, although most of the prequalified PFIs are still keen to participate in the project.

II. DESCRIPTION OF PROPOSED CHANGES

5. **The proposed changes to the project are: (i) the NRPB replaces the Government of Sint Maarten (represented through the Minister of General Affairs) as the recipient of this grant, (ii) under component 1, the NRPB will manage the funds disbursed to and received from the PFIs instead of the CBCS, (iii) the financial management function of the Project will be undertaken by the NRPB, and (iv) the Project closing date is extended by one year to December 30, 2024 in order to compensate for the delay in effectiveness.** The Subsidiary Grant and Credit Agreements (SGCA) with the PFIs will be signed by the NRPB. These agreements will however maintain the provisions for the CBCS to help the NRPB with non-confidential information regarding financial intermediaries and to provide guidance and support to the NRPB for the on-lending and on-granting to financial intermediaries. Part of the implementation budget of Component 3 originally assigned to CBCS to manage the funds to and from PFIs, is reassigned to the NRPB. Additionally, the Portfolio and



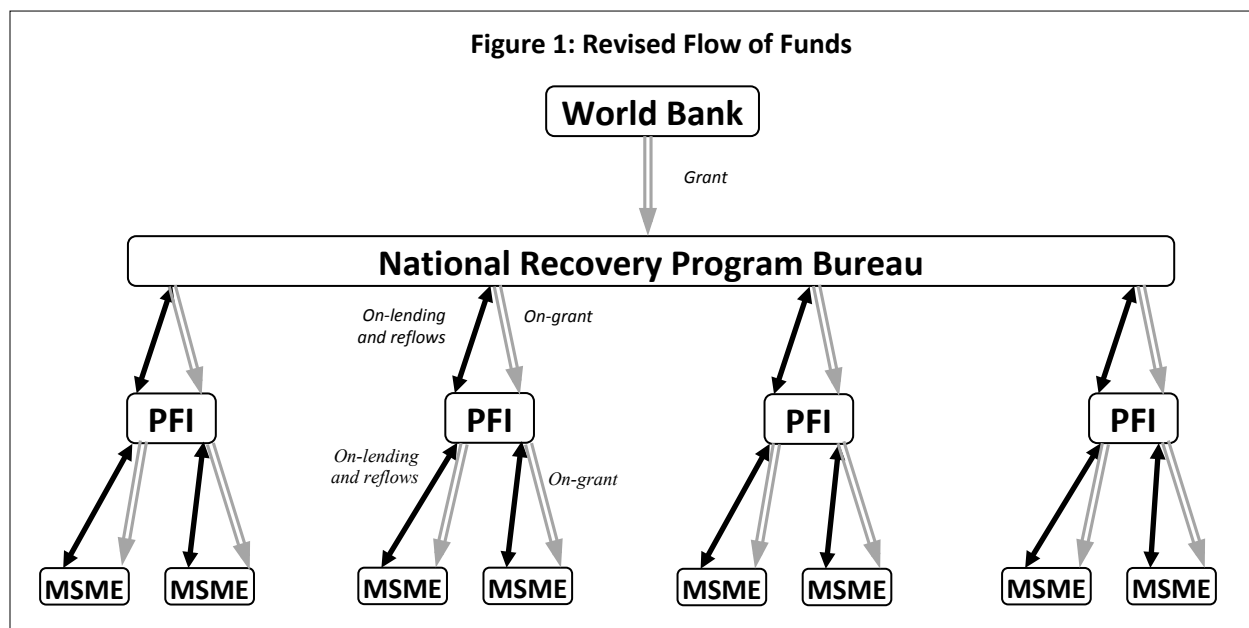
Accounting Officer (PAO) will be hired by the NRPB instead of the CBCS. The PAO, although hired by the NRPB, will receive help and advice from the CBCS' Treasury Department and from the World Bank Financial Management Specialist. Due to the delay in effectiveness and the extension of the closing date, there will be changes in the disbursement estimates, the implementation schedule and the timeline of achieving project results. The changes described above will trigger changes in institutional arrangements, legal covenants, and disbursement arrangements. There are however no changes to procurement arrangements, the environmental and social safeguards instruments, the safeguard ratings nor the safeguard implementation plans.

6. **A financial management assessment of the NRPB was undertaken in August 2019 to confirm its capacity to undertake financial management function in the restructured Project.** The FM assessment found that an action plan to fill the gaps in FM arrangements would be needed to mitigate FM risks, which were assessed as substantial. With such a plan in place however, FM arrangements would meet the Bank's requirements. As of February 26, 2020, five of the six actions under the plan have been completed as set out in the Table 1 below. The remaining action related to the finalization of the FM project manual is still pending and due by effectiveness.

Table 1: Status update of the action Plan for Financial Management (as of February 26, 2020)

Action	Responsible Entity	Target Date	Status
1. Hire Financial Management Assistant	NRPB	October 15, 2019	Done
2. Hire Financial Management Officer at NRPB	NRPB	January 1, 2020	Done
3. Additional training of NRPB FM staff on client connection	World Bank	September 16, 2019	Done
4. NRPB to gain access to project accounting system that facilitates the recording, control and reporting of project transactions for the provision of required financial reports	NRPB	September 15, 2019	Done
5. NRPB to regularize overdue audit status for the other projects implemented by NRPB	NRPB	Prior to restructuring	Done
6. NRPB to finalize and approve Project Financial Management manual (as part of Project Operations Manual) in content that is acceptable to the Bank	NRPB	By effectiveness	Pending

7. **There will be two changes to the flow of funds: i) The NRPB will be the recipient of the grant, replacing Sint Maarten (as represented by the Minister of General Affairs), and ii) funds to and from the PFIs will be managed by the NRPB instead of the CBCS.** Under the proposed arrangement, the funds will be granted by the World Bank directly to the NRPB. The NRPB will receive the funds and will in turn on-lend and on-grant these to the PFIs. Transfers will be executed by NRPB. As the final step of the flow of funds, the PFIs will on-lend and on-grant the funds to MSMEs and the PFIs will be responsible for the credit risk on the loan portion of the packages. All packages that have grants will include loans. Reflows begin from MSMEs as they start to repay their loans to a separate account, owned by the NRPB. During the life of the project, the reflows can be used for on-lending and on-granting operations to MSMEs. The use of the balance of the reflows account after closing will be agreed between the World Bank, the Government of Sint Maarten and the NRPB at mid-term review. The revised flow of funds is shown below in Figure 1 and detailed in Annex 1.



8. **The project closing date will be extended to December 30, 2024.** The original Project closing date was December 29, 2023. The maximum loan tenor is until Project closing¹, and in order not to reduce repayment periods of the SME loans and to avoid an increase in repayment amounts, it is important to extend the closing date. This extension will allow MSMEs to maintain repayment burden and time to repay their loans (as foreseen during the original design) and provide a reasonable timeline of recovery for the small business sector in Sint Maarten.

Based on guidance form OPCS, the below section provides updated information and changes that could not be reflected in the restructuring paper datasheet at this stage. The restructuring paper datasheet could be updated after signing.

Summary status of financing table (after restructuring)

Ln/ Cr/TF	Approval	Signing / effectiveness	Original closing date	Proposed closing date	Net commitment	Disbursed	Undisbursed
TFOA9223	April 4, 2019	NA	December 29, 2023	December 30, 2024	USD 35 m	USD 0 m	USD 35 m

Revised Legal Covenants (after restructuring)

Grant Agreement Reference	Description of Legal Covenant
Schedule 2, Section I, A 1	The Recipient shall maintain throughout Project implementation: (a) staffing with composition, resources, terms of reference and functions acceptable to the World Bank; and (b) a Project implementation unit (“PIU”), which shall, unless otherwise agreed to by the World Bank, include (i) a Project Manager, (ii) an Operations Officer, (iii) a Procurement Officer, and (iv) a Portfolio and Accounting Officer.

¹ The maximum maturity of SME loans, potentially beyond project closing, would be reviewed at mid-term review, based on implementation progress and the overall Trust Fund terms and conditions.



Schedule 2, Section I, A, 2	No later than ninety (90) days after the Effective Date, the Recipient shall hire or assign to the PIU a Procurement Officer, satisfactory to the Bank, for the carrying out of the Project.
Schedule 2, Section I, A, 3	The Recipient shall ensure the proper management, coordination, implementation, and monitoring and evaluation of the Project by the PIU, including: (a) selecting PFIs based on the eligibility criteria acceptable to the World Bank; (b) extending Sub-Financing to PFIs on terms and conditions acceptable to the World Bank, including those criteria, terms and conditions set forth in the Annex to this Schedule, all of which shall be part of the Operations Manual; and (c) monitoring said PFIs in carrying out Component 1 of the Project to ensure the PFIs (i) select Eligible Beneficiary Enterprises and Subprojects in compliance with eligibility criteria acceptable to the World Bank, and (ii) extend AR Subgrants, AR Sub-loans and WC Sub-loans to Eligible Beneficiary Enterprises on terms and conditions acceptable to the World Bank.
Schedule 2, Section I, A, 4, (a)	The Recipient shall ensure that all PFIs, Eligible Beneficiary Enterprises, and contractors under Component 1 of the Project have expressly agreed to comply and ensure their compliance with the environmental and social safeguard, fiduciary, and technical requirements applicable to the Project in accordance with the provisions of the Grant Agreement, the Project Agreement, and the Operations Manual.
Schedule 2, Section I, A, 4, (b)	The Recipient shall ensure that all relevant Project activities financed in whole or in part by the proceeds of the Grant are carried out in accordance with the provisions of the Anti-Corruption Guidelines, including ensuring, through the individual Sub-financing Agreements with PFIs, that all PFIs, Eligible Beneficiary Enterprises, and contractors to receive proceeds from the Grant expressly agree to comply with the provisions of the Anti-Corruption Guidelines, including (i) the right of the World Bank, and the Recipient to inspect and to require audits of all accounts, records and other documents of each PFI and each Eligible Beneficiary Enterprise relating to the Project that are required to be maintained pursuant to this Agreement, and (ii) the Recipient's right to suspend, terminate or seek refund of ineligible expenditures.
Schedule 2, Section I, A, 4, (c)	The Recipient shall ensure that in accordance with the terms set forth in the Operations Manual, the principal repayments made under Component 1 of the Project are utilized during the period of Project implementation to provide additional Sub-Financing to the same or other PFIs, and additional AR Sub-loans or WC Sub-loans to the same or other Eligible Beneficiary Enterprises (each case, "Reflows"), and such Reflows are used in a manner acceptable to the World Bank.
Schedule 2, Section I, A, 4, (d)	The Recipient shall establish separate commercial accounts with a commercial bank acceptable to the World Bank, in numbers, and in accordance with policies and procedures, satisfactory to the World Bank, respectively for purpose of: (i) extending Sub-Financing to PFIs under Component 1 of the Project, (ii) promptly depositing each payment and repayment received under all Sub-Financing Agreements and Sub-loan Agreements under Component 1 (b) and (c) of the Project and recording the same, and for said payments and repayments to (A) serve as Reflows, and (B) accumulate the amounts in trust.
Schedule 2, Section I, A, 5	In the carrying out of Component 1 of the Project, the Recipient shall: (a) obtain the support of the Centrale Bank van Curaçao en Sint Maarten ("CBCS") in the capacity building of the PIU; and (b) coordinate with the CBCS in obtaining nonconfidential information concerning qualifying PFIs necessary for the carrying out of Component 1 of the Project.
Schedule 2, Section I, A, 6	Not later than thirty days (30) days following the Effective Date, the Recipient shall establish, and thereafter maintain and publicize throughout Project implementation, a Project feedback and grievance redress mechanism, in form and substance satisfactory to the World Bank, to hear and determine fairly and in good faith all feedback and complaints raised in relation to the Project, and take all measures necessary to implement the determinations made by said feedback and grievance redress mechanism, in a manner satisfactory to the World Bank.
Schedule 2, Section I, B, 1	The Recipient shall maintain throughout Project implementation, an Operations Manual in substance, form, and manner acceptable to the World Bank.



Schedule 2, Section I, C, 1	The Recipient shall prepare and furnish to the World Bank not later than June 1st of each year during the implementation of the Project, a proposed Annual Work Plan and Budget and shall thereafter ensure that the Project is implemented with due diligence during said following year, in accordance with such Annual Work Plan and Budget as shall have been approved by the World Bank.
Schedule 2, Section I, D, 1, (a)	The Recipient shall ensure that AR Subgrants, AR Sub-loans, and WC Sub-loans are provided under Component 1 of the Project for any Subproject only after said Subproject and relevant Eligible Beneficiary Enterprise have been screened and approved in accordance with the provisions of the Operations Manual and the Environmental and Social Management Framework (“ESMF”).
Schedule 2, Section I, D, 1, (b)	The Recipient shall ensure that each Subproject under Component 1 of the Project has been subjected to an environmental and social analysis and its environmental and social impacts have been addressed by the respective Eligible Beneficiary Enterprise in a manner satisfactory to the World Bank in accordance with the provisions of the Operations Manual and the ESMF
Schedule 2, Section I, D, 1, (c)	The Recipient shall ensure that PFIs and Eligible Beneficiary Enterprises under Component 1 of the Project take all necessary measures in accordance with the Operations Manual, the ESMF, and any Environmental and Social Management Plans (“ESMPs”), and that these instruments and their respective provisions are not amended, suspended, abrogated, or repealed without the prior approval of the World Bank.
Schedule 2, Section I, D, 1, (d)	The Recipient shall ensure that no Subproject shall involve any land acquisition, Involuntary Resettlement, expropriation or other Excluded Activities.
Schedule 2, Section I, D, 1, (e)	The Recipient shall ensure that for Subprojects that require an ESMP, the Eligible Beneficiary Enterprise concerned shall carry out such plan in a timely manner, requiring such ESMP to be in compliance with the Operations Manual and ESMF, and shall include adequate information on the carrying out of such ESMPs in the Project Reports.
Schedule 2, Section I, D, 1, (f)	The Recipient shall ensure that any contract or agreement financed by the Project, as the case may be, includes Codes of Conduct, in form and substance acceptable to the World Bank.
Schedule 2, Section I, D, 1, (g)	The Recipient shall ensure that adequate information on the implementation of the ESMF is suitably included in the Project Reports.
Schedule 2, Section II, A, 1	The Recipient shall monitor and evaluate the progress of the Project, and prepare Project Reports in accordance with the provisions of Section 2.06 of the Standard Conditions and on the basis of indicators acceptable to the World Bank.
Schedule 2, Section II, B, 1 and 2	The Recipient shall ensure that a financial management system is maintained and that interim unaudited financial reports for the Project are prepared and furnished to the World Bank not later than forty-five (45) days after the end of each calendar quarter, covering the quarter, in form and substance satisfactory to the World Bank.
Schedule 2, Section II, B, 3	The Recipient shall have its Financial Statements for the Project audited. Each such audit of the Financial Statements shall cover the period of one (1) fiscal year of the Recipient. The audited Financial Statements for each such period shall be furnished to the World Bank not later than six (6) months after the end of such period.

**Revised conditions (after restructuring)**

Type of Condition	Description of Condition
Effectiveness (Article 4.01. (a))	The execution and delivery of the Grant Agreement, on behalf of the Recipient, has been duly authorized or ratified by all necessary governmental action.
Effectiveness (Article 4.01. (b))	If the Bank so requests, the condition of the Recipient, as represented or warranted to the World Bank at the date the Grant Agreement, has undergone no material adverse change after such date.
Effectiveness (Article 4.01. (c))	The Recipient has hired a Project Manager acceptable to the World Bank.
Effectiveness (Article 4.01. (d))	The Recipient has adopted an Operations Manual satisfactory to the World Bank.
Disbursement (Schedule 2, Section IV, B, 1)	No withdrawal shall be made under Category 1 until the Recipient has hired or assigned a Portfolio and Accounting Officer and an Operation Officer, satisfactory to the Bank, to work on the Project.

III. SUMMARY OF CHANGES

	Changed	Not Changed
Implementing Agency	✓	
Results Framework	✓	
Loan Closing Date(s)	✓	
Reallocation between Disbursement Categories	✓	
Disbursements Arrangements	✓	
Disbursement Estimates	✓	
Legal Covenants	✓	
Institutional Arrangements	✓	
Financial Management	✓	
Implementation Schedule	✓	
Other Change(s)	✓	
DDO Status		✓
Project's Development Objectives		✓
DLIs		✓
Components and Cost		✓
Cancellations Proposed		✓



Overall Risk Rating		✓
Safeguard Policies Triggered		✓
EA category		✓
Procurement		✓
Economic and Financial Analysis		✓
Technical Analysis		✓
Social Analysis		✓
Environmental Analysis		✓

IV. DETAILED CHANGE(S)

IMPLEMENTING AGENCY

Implementing Agency Name	Type	Action
National Recovery Program Bureau	Implementing Agency	No Change
Centrale Bank van Curacao en Sint Maarten	Implementing Agency	Marked for Deletion

LOAN CLOSING DATE(S)

Ln/Cr/Tf	Status	Original Closing	Revised Closing(s)	Proposed Closing	Proposed Deadline for Withdrawal Applications
----------	--------	------------------	--------------------	------------------	---

REALLOCATION BETWEEN DISBURSEMENT CATEGORIES

	Current Allocation	Actuals + Committed	Proposed Allocation	Financing % (Type Total)	
				Current	Proposed

DISBURSEMENT ESTIMATES

Change in Disbursement Estimates

Yes

Year	Current	Proposed
------	---------	----------



2019	3,500,000.00	0.00
2020	8,750,000.00	1,000,000.00
2021	9,625,000.00	7,750,000.00
2022	6,125,000.00	9,800,000.00
2023	3,500,000.00	10,500,000.00
2024	3,500,000.00	5,950,000.00
2025	0.00	0.00

LEGAL COVENANTS

Loan/Credit/TF	Description	Status	Action
-	<p>Schedule 2, Section I.A.1(b)(i) - Institutional Arrangements. The Recipient shall maintain a Project implementation unit (“Recipient-PIU”) to be responsible for ensuring the proper management, coordination, implementation, and monitoring and evaluation of the Project, including the PFIs’ and ensuring the PFIs’ and Eligible Beneficiary Enterprises’ adherence to the relevant terms of the Grant Agreement and the Operations Manual, including all World Bank environment and social safeguard requirements; such Recipient-PIU shall include, unless otherwise agreed to by the World Bank, (A) a Project Manager, (B) an Operations Officer, and (C) a Procurement Officer; and</p>	Not complied with	Marked for Deletion
-	<p>Schedule 2, Section I.A.1(b)(ii) - Institutional Arrangements. The Recipient shall cause the Project Implementing Entity to maintain a Project implementation unit (“CBCS-PIU”) to be responsible for carrying out Component 1 of the Project and the Project’s technical and financial management responsibilities, as specified in the Operations Manual; in this respect, the CBCS-PIU shall include a Portfolio and Accounting Officer.</p>		
-	<p>Schedule 2, Section I.A.2 - Institutional Arrangements. The Recipient shall provide, or cause the Project Implementing Entity to provide, as promptly as needed,</p>		



the funds, facilities, appropriate staffing, services, and other resources.

Schedule 2, Section I.A.3 - Institutional Arrangements. The Recipient shall cause the Project Implementing Entity to perform all of the obligations of the Project Implementing Entity set forth in the Project Agreement and the Subsidiary Agreement, including: (a) selecting PFIs and extending Subsidiary Financing to PFIs, all based on criteria, terms and conditions acceptable to the World Bank; (b) monitoring said PFIs in carrying out Component 1 of the Project, and ensuring the PFIs select Eligible Beneficiary Enterprises and Subprojects and extend AR Subgrants, AR Sub-loans and WC Sub-loans to Eligible Beneficiary Enterprises, all based on criteria and on terms and conditions acceptable to the World Bank; (c) ensuring the PFIs' and Eligible Beneficiary Enterprises' adhere to the relevant terms of the Grant Agreement and the Operations Manual; and (d) carrying out Project monitoring and evaluation.

Schedule 2, Section I.A.5 - Institutional Arrangements. Not later than thirty days (30) days following the Effective Date, the Recipient shall establish, and thereafter maintain and publicize throughout Project implementation, a Project feedback and grievance redress mechanism, in form and substance satisfactory to the World Bank.

Schedule 2, Section I.C.1 - Institutional Arrangements. The Recipient shall maintain, and ensure that the Project Implementing Entity maintains, throughout Project implementation, an Operations Manual in substance, form, and manner acceptable to the World Bank.

Schedule 2, Section I.D (a) - Institutional Arrangements. The Recipient shall prepare and furnish, and as appropriate cause the Project Implementing Entity to prepare and furnish, to the World Bank not later than April 1st of each year during the implementation of the Project, a proposed Annual Work Plan and Budget, and ensure that the Project is implemented with due diligence during said following year, in accordance with such Annual Work Plan and Budget as shall have been approved by the World Bank.



Schedule 2, Section I.E.1(a) - Institutional Arrangements. The Recipient shall ensure, and cause the Project Implementing Entity to ensure, as the case may be, that AR Subgrants, AR Sub-loans, and WC Sub-loans are provided under Component 1 of the Project for any Subproject only after said Subproject and relevant Eligible Beneficiary Enterprise have been screened and approved in accordance with the provisions of the Operations Manual and the Environmental and Social Management Framework (“ESMF”).

Schedule 2, Section I.E.1 (b) - Institutional Arrangements. The Recipient shall ensure, and cause the Project Implementing Entity to ensure, as the case may be, that each Subproject under Component 1 of the Project has been subjected to an environmental and social analysis and its environmental and social impacts have been addressed by the respective Eligible Beneficiary Enterprise in a manner satisfactory to the World Bank in accordance with the provisions of the Operations Manual and the ESMF.

Schedule 2, Section I.E.1 (c) - Institutional Arrangements. The Recipient shall ensure, and cause the Project Implementing Entity to ensure, as the case may be, that PFIs and Eligible Beneficiary Enterprises under Component 1 of the Project take all necessary measures in accordance with the Operations Manual, the ESMF, and any Environmental and Social Management Plans (“ESMPs”), and that these instruments and their respective provisions are not amended, suspended, abrogated, or repealed without the prior approval of the World Bank.

Schedule 2, Section I.E.1 (d) - Institutional Arrangements. The Recipient shall ensure, and cause the Project Implementing Entity to ensure under Component 1 of the Project, that no Subproject shall involve any land acquisition, Involuntary Resettlement, expropriation or other Excluded Activities.

Schedule 2, Section I.E.1 (e) - Institutional Arrangements. The Recipient shall ensure, and cause the Project Implementing Entity to ensure through the respective PFIs, that for Subprojects that require an



ESMP, the Eligible Beneficiary Enterprise concerned shall carry out such plan in a timely manner, requiring such ESMP to be in compliance with the Operations Manual and ESMF, and shall include adequate information on the carrying out of such ESMPs in the Project Reports.

Schedule 2, Section I.E.1 (f) - Institutional Arrangements. The Recipient shall ensure, and cause the Project Implementing Entity to ensure, that any contract or agreement financed by the Project, as the case may be, includes Codes of Conduct, in form and substance acceptable to the World Bank.

Schedule 2, Section I.E.1 (g) - Institutional Arrangements. The Recipient shall ensure, and cause the Project Implementing Entity to ensure, that adequate information on the implementation of the ESMF is suitably included in the Project Reports.

Schedule 2, Section II.A.1 - Project Monitoring, Reporting and Evaluation. The Recipient shall monitor and evaluate, and cause the Project Implementing Entity to monitor and evaluate, the progress of the Project and prepare Project Reports on the basis of indicators acceptable to the World Bank.

Schedule 2, Section II.B - Project Monitoring, Reporting and Evaluation. The Recipient shall ensure, and cause the Project Implementing Entity to ensure, that a financial management system is maintained and that interim unaudited financial reports for the Project are prepared and furnished to the World Bank.

-

New covenants in revised Grant Agreement

Not yet due

New



Results framework

COUNTRY: St Maarten

Sint Maarten Enterprise Support Project

Project Development Objectives(s)

The development objective is to support the recovery of micro, small, and medium sized enterprises through direct financial assistance to contribute to the restoration of economic activity.

Project Development Objective Indicators by Objectives/ Outcomes

Indicator Name	DLI	Baseline	Intermediate Targets				End Target
			1	2	3	4	
Support the recovery of micro, small, and medium sized enterprises through financial assistance.							
Cumulative number of MSMEs receiving packages for assets, repairs or working capital (Number)	0.00		300.00	450.00	540.00	570.00	600.00
Cumulative number of women owned or managed MSMEs receiving packages for assets, repairs or working capital (Number)	0.00		120.00	180.00	216.00	228.00	240.00
Volume of grants and loans supported through the project over its lifetime (Amount(USD))	0.00		13,300,000.00	24,750,000.00	29,700,000.00	31,350,000.00	33,000,000.00
Volume of grants and loans supported through the project to women owned or managed MSMEs over its lifetime (Amount(USD))	0.00		5,280,000.00	9,900,000.00	11,880,000.00	12,540,000.00	13,200,000.00



Intermediate Results Indicators by Components

Indicator Name	DLI	Baseline	Intermediate Targets				End Target
			1	2	3	4	
Component 1: Direct financial support to MSMEs for investment and working capital							
Cumulative number of MSMEs that are new for participating lenders (Number)	0.00	45.00	67.00	81.00	85.00	90.00	
<i>Action: This indicator has been Revised</i>							
Percentage of loan packages by volume that include grants (Percentage)	0.00	80.00	80.00	80.00	80.00	80.00	80.00
Percentage of beneficiaries that feel project activities reflected their needs (Percentage)	0.00	60.00	65.00	70.00	75.00	75.00	
Percentage of loan packages that are less than US\$25,000 (Percentage)	0.00	15.00	15.00	15.00	15.00	15.00	15.00
Percentage of MSME packages that are non-performing (Percentage)	0.00	5.00	5.00	5.00	5.00	5.00	5.00
Component 2: Study of financial solutions for improved disaster resilience							
Study undertaken for improving financial solutions for disasters (Number)	0.00	0.00	0.00	1.00	1.00	1.00	
Component 3: Training, project implementation, audit and monitoring and evaluation							



Indicator Name	DLI	Baseline	Intermediate Targets				End Target
			1	2	3	4	
Cumulative number of loan officers trained in MSME lending (Number)		0.00	3.00	6.00	9.00	12.00	15.00
Cumulative Number of enterprises and loan officers trained in business continuity planning (BCP) (Number)		0.00	40.00	80.00	120.00	160.00	200.00



ANNEX 1: IMPLEMENTATION ARRANGEMENTS AND SUPPORT PLAN

Financial Management and Disbursement Arrangements

- 1. National Recovery and Program Bureau (NRPB) is an agency that has been recently created in Sint Maarten to implement the project activities on behalf of the Government of Sint Maarten (GoSXM).** NRPB's FM team was not yet fully functioning at the time of the assessment as the transition from the Interim Recovery Committee (IRC) was still in its early stages. Gaps were identified in the financial management arrangements and these gaps are being addressed through an action plan, nevertheless the FM risk at the entity level remains Substantial.
- 2. Initially, the financial management responsibilities of this project were to be undertaken by the CBCS.** However, due to legal considerations, this role is transferred to NRBP which shall be responsible for managing disbursements to PFIs, accounting, and reporting as well as preparation and submission of quarterly unaudited interim financial reports (IFRs), specific reporting requested at the Trust Fund oversight level, and the annual financial statements, to be audited by an external audit firm that is acceptable to the World Bank.
- 3. A financial management assessment was conducted in August 2019 at NRPB as part as the preparation of the project restructuring.** Key financial management issues were discussed, and an action plan agreed. These mainly included the need: (a) to regularize the outstanding audit status for other projects implemented by NRPB; (b) for the finalization of FM staff recruitment; (c) for the current FM staff to gain access to the accounting system; and (d) to finalize the FM manual including internal control procedures.

The following sections describe the specific FM arrangements:

- 4. Organization and Staffing.** The FM team at the time of the assessment included one Financial Management Officer (FMO) who was recruited in August 2019 and one FMO consultant recruited for 6 months starting in July 2019. The FMO consultant position is planned to be replaced by a permanent position. The recruitment of a Financial Management Assistant consultant (FMA) was in progress and was finalized in December 2019. Moreover, for the implementation of Component 1, a Portfolio and Accounting Officer (PAO) will be recruited who will be responsible for monitoring disbursements to PFI, maintaining a portfolio of all loans and tracking payments and loan quality. The PAO will work closely with NRPB FM team. The FMA, PAO and FMO positions should ultimately be filled by permanent staff. Recruitment of permanent staff is subjected to the validation of a recruiting committee from the Government of Sint Maarten. In the interim vacant positions are planned to be filled with consultants. The entire FM team is new and has limited experience with World Bank projects. The World Bank provided training to both FMOs in July, 2019. Additional training on disbursement and use of Client Connection has been provided to the FM staff by the World Bank. Since the FM function is newly created at NRPB in order to anticipate any FM issues and support smooth implementation NRPB FM team should be fully integrated to the NRPB team.
- 5. Planning and Budgeting.** A budget for all the activities of the project for the entire implementation period will be prepared at the beginning of the project by NRPB and reviewed and approved by the World Bank for reasonableness. This budget will be periodically reviewed and updated as needed to reflect the progress of implementation. Annual budgets shall also be prepared. In order to be able to report on budget for different periods (SXM's fiscal year and WB's fiscal year) the budget should present monthly figures and be prepared on 18 months rolling period. NRPB will update its project-related annual work plan and procurement plan, which will be reviewed by the Bank. Quarterly estimates and review of those estimates will be part of budget management. Quarterly variance analysis (actual versus budgeted expenditures) should also be prepared and be provided as part of the quarterly progress reports. To effectively prepare budgets, the FM team should be involved in the relevant management and project team meetings.



6. **Accounting and maintenance of accounting records.** Project transactions will be recorded in a commercial off-the-shelf (COTS) accounting software, such as QuickBooks, to allow classification by expenditure categories and project components using a project specific chart of accounts. At the time of the assessment, NRPB's FM staff did not have full access to the accounting software as the transition with the Interim Reconstruction Bureau, which was managing the FM aspects of part of the portfolio's active projects, was not yet completed. On September 15, 2019, the FM team gained access to the relevant softwares.
7. **Internal controls, including internal audit.** The daily operations of the project will be guided by an Operations Manual, which incorporates the financial management procedures including segregation of duties requirements. The manual will be updated throughout the life of the project as needed to reflect the current procedures and processes.
8. **Flow of Funds.**
 - (i) **Designated accounts:** The following disbursement methods may be used to withdraw funds: (i) reimbursement; (ii) advance payments; and (iii) direct payments. Two designated accounts (DAs) will be opened in at the CBCS under the name of the Project: (i) DA-A for eligible expenditures to be financed from Disbursement Category 1; and (ii) DA-B for eligible expenditures to be financed Disbursement Category 2. Funds deposited into the DAs as advances will follow the Bank's disbursement policies and procedures, to be described in the Financing Agreement and in the Disbursement and Financial Information Letter (DFIL). Following the Bank's instructions in the DFIL, advances made to the DAs should be documented using IFRs and supporting documents as needed. The ceiling for advances to be made into the DAs will be specified in the DFIL. Eligible expenditures paid out of the DAs must be documented on a quarterly basis. Advances to the DA-A will be made based on quarterly forecasts. Specifically, for Component 1, disbursements will be primarily based on the use of Advances but will use the IFR to gauge the actual disbursements. For this it will be important for the IFRs to include a custom field to measure the actual disbursement to MSMEs under loans provided by the PFI.
 - (ii) **Operating accounts:** Three (3) bank accounts will be established with a commercial bank. Two accounts for implementation of Component 1 et one account for implementation of Components 2 and 3. For Component 1, two separate commercial bank accounts acceptable to the Bank will be opened: one project account to extend sub-financing to PFIs and one project reflows account to receive loan repayments by MSMEs and to provide additional sub-financing as described in the grant agreement. For Components 2 and 3 a separate bank account will be opened in local commercial bank to finance related goods and services. See Figures 2 and 3 below.
 - (iii) **Disbursements will be report based.** Advances will be provided to the DA based on six month's forecasts and subsequent quarterly IFRs will be used for documentation of expenditures and the request for subsequent advances. For Component 1, expenditures will be recognized upon the actual transfer of the funds for AR or WC from the PFIs to the MSMEs and not upon the approval of the related AR and WC MSME package. For Components 2 and 3, expenditures will be recognized upon the payment of the receipt of the goods or related services. The minimum application size for Direct Payments and Reimbursements and overall disbursement arrangements will follow standard disbursement policies and procedures established in the Disbursement Guidelines for Investment Project Financing, dated February 2017, and in the Disbursement and Information Letter of the project.



Figure 2: Revised Flow of Funds for Component 1

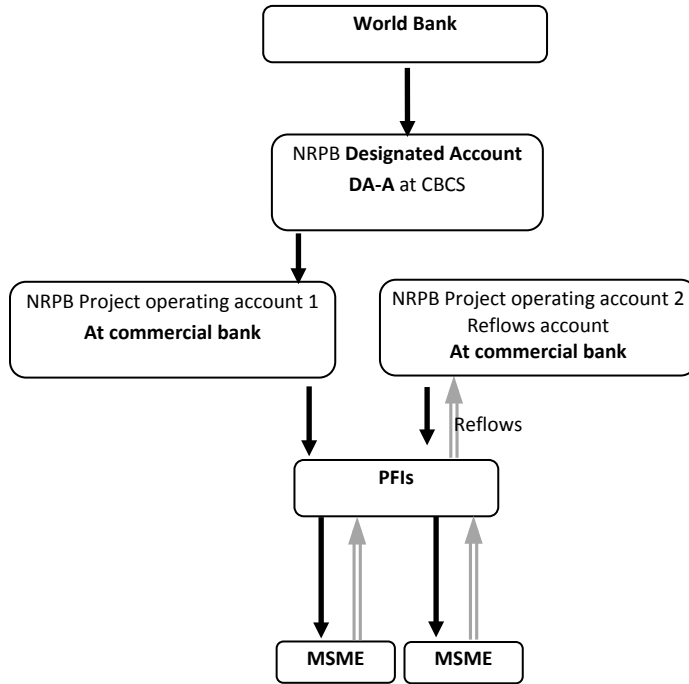
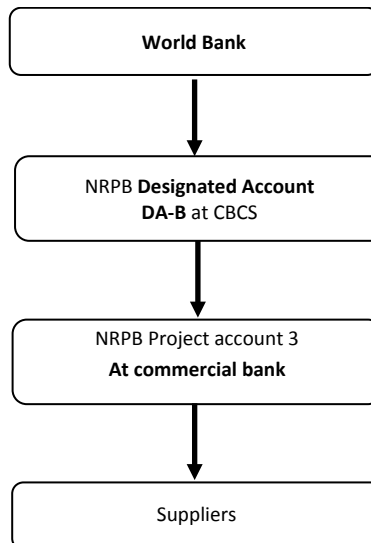


Figure 3: Flow of Funds for Components 2 and 3





9. **Financial Reporting.** Unaudited Interim Financial Reports (IFRs) are required quarterly and should be submitted to the Bank within 45 days of each calendar quarter. The IFRs should cover: (a) the sources and uses of funds, reconciling items, and cash balances, with expenditures classified by project component and /cost category; and (b) a statement of investments reporting the current trimester and the accumulated operations against ongoing plans, as well as footnotes explaining the important variances. Annual external audits, commissioned by NRPB and performed by acceptable auditors, are required with each audit covering one fiscal year (ending December 31). Project audit reports are due to the World Bank no later than six months after the end of each audit period. NRPB will contract an auditor, no later than six months after effectiveness. Periodic reports are also prepared for the Trust fund activities for which FM should provide requested documentation. At the time of the assessment, NRPB had overdue audit reports for active projects and was still in the process of recruiting the audit firm. For restructuring involving an extension of the Closing Date, if the specific agency that is responsible, fully or partially, for the financial management of project funds, here the Trust Fund funds, the closing date is not extended for any loan to a borrower with outstanding audit reports or audit reports which are not satisfactory to the Bank, unless the borrower and the Bank have agreed on actions to address the deficiencies². Overdue audit reports were submitted to the Bank on December 30th 2019.

10. **Financial Management Action Plan.** Based on Bank recommendations, an action plan to ensure that adequate financial management systems are in place was prepared. The mitigation measures included in the action plan are aimed at reducing or eliminating the financial management risks associated with the Project. These are in Table 1 above. The action plan implementation status has been updated as of February 21, 2020 as five of the six actions identified during the August 2019 assessment were completed.

11. **World Bank Financial Management Supervision Plan.** A World Bank financial management specialist will monitor the action plan to verify its implementation according to the deadlines specified in the plan. After effectiveness, the financial management specialist will review the annual audit report and the financial sections of the quarterly IFRs including a monthly reconciliation of accounts, and perform at least two complete supervision missions per year. This supervision strategy would be reviewed periodically and adjusted based on performance and risk.

² See para. 24 of BP on IPF OPS5.03-POL.110