Project Information Document/ Integrated Safeguards Data Sheet (PID/ISDS)

Concept Stage | Date Prepared/Updated: 10-Nov-2018 | Report No: PIDISDSC25538

BASIC INFORMATION

A. Basic Project Data

Country	Project ID	Parent Project ID (if any)	Project Name
St Maarten	P168549		Sint Maarten Enterprise Recovery Project (P168549)
Region	**Estimated Appraisal Date**	**Estimated Board Date**	**Practice Area (Lead)**
LATIN AMERICA AND CARIBBEAN	Oct 22, 2018	Dec 18, 2018	Finance, Competitiveness and Innovation
Financing Instrument	**Borrower(s)**	**Implementing Agency**	
Investment Project Financing	Government of Sint Maarten	National Recovery Program Bureau / Interim Recovery Committee, Centrale Bank van Curacao en Sint Maarten	

Proposed Development Objective(s)

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

PROJECT FINANCING DATA (US$, Millions)

SUMMARY

Total Project Cost	35.00
Total Financing	35.00
of which IBRD/IDA	0.00
Financing Gap	0.00

DETAILS

Non-World Bank Group Financing

Trust Funds	35.00
Miscellaneous 1	35.00

Environmental Assessment Category	Concept Review Decision
F - Financial Intermediary Assessment	Track II-The review did authorize the preparation to continue

Other Decision (as needed)

B. Introduction and Context

Country Context

1. **Sint Maarten is a high-income constituent country[1] of the Kingdom of the Netherlands in the Caribbean. It occupies the southern half of an island shared with the French overseas collectivity of Saint Martin.** It is the most densely populated country in the Caribbean with a population of roughly 40,000 and a per capita Gross Domestic Product (GDP) of US$27,200 as of 2016.[2] Sint Maarten and Curaçao form a currency union with a joint central bank, the *Centrale Bank van Curaçao en Sint Maarten* (Central Bank of Curaçao and Sint Maarten, or CBCS) and a shared currency, the Netherlands Antillean guilder (NA f.), which maintains a fixed exchange rate to the U.S. dollar. Sint Maarten is currently rebuilding from damage caused by Hurricane Irma, a category 5 hurricane, that ravaged the island in September 2017, claiming lives and significantly deteriorating the socio-economic environment on the island.

2. **Sint Maarten is highly vulnerable to adverse climatic events due to its location within the hurricane belt and has been exposed to high winds and numerous hurricanes in the past decades.** These hazards have had catastrophic impacts on the economy, which relies on tourism. In 2016, tourism accounted for 45 percent of its GDP and 73 percent of its foreign exchange. The economy is driven by retail and wholesale trade, hotels and restaurants, real estate, transport and communication, yacht repair, and harbor services. Prior to the hurricane, Sint Maarten's capital, Philipsburg, was the second most visited port in the Caribbean, and its airport serves as a hub for several nearby smaller islands. Between 2012 and 2016, Sint Maarten received a yearly average of 1.8 million cruise passengers and 500,000 visitors arriving by air, who together spent about US$820 million a year.[3] Sint Maarten's nominal GDP was estimated at about US$1.07 billion in 2016.

3. **Sint Maarten remains in need of assistance after Hurricane Irma.** While loss of life was limited, total damages and losses were estimated at about US$2.4 billion or 220 percent of 2016 GDP. Of these total damages, approximately 130 percent of GDP in damages were in private housing, tourism and commerce sectors, and the publicly owned airport and harbor. Losses (foregone production and decline in economic flows over 2017 to 2019) were estimated at about 90 percent of GDP, mostly in the tourism sector.[4] As a result, Sint Maarten's economy is expected to contract by 8.5 percent in 2018, following an estimated 4.5 percent contraction in 2017. Growth is projected to rebound in 2019 and the economy is expected to return to its pre-Hurricane Irma real GDP level by 2025. Private external finance from direct investment, loans, pay-out of insurance claims, and funds held abroad will be needed to finance reconstruction of private properties and businesses. A sharp decline in tax revenue has cut public resource availability, while the need for public expenditure to rebuild public infrastructure and assist the affected population has risen sharply.

4. **From an enterprise perspective, the hurricane has significantly depressed economic activity and improving**

[1] Sint Maarten is one of the four constituent countries of the Kingdom of the Netherlands, along with Netherlands, Aruba, and Curaçao.
[2] From Central Bank of Curaçao and Sint Maarten, based on 2018 estimates.
[3] Data from the International Monetary Fund (IMF) and Statistical Yearbook, 2017, Department of Statistics Sint Maarten.
[4] Draft National Recovery and Resilience Plan (2018).

resiliency is critical for the future. The hurricane has significantly affected the tourism sector. Before the hurricane there were a total of 4,115 hotel and timeshare rooms on the Dutch side. As of October 2018, the capacity approached 65 percent of this level. Damages to the main airport and hotels have significantly reduced the number of overnight tourist arrivals and the airport is running at 60 percent throughput of the pre-hurricane levels (for both landing slots and passenger throughput), though cruise arrivals are now resuming to pre-hurricane levels. However, as most of the income on the island was derived from overnight stays of tourists arriving by air, the impact has been significant for enterprises and households. Many businesses have closed, and out-migration has increased. For surviving enterprises, there is a need to maintain workers and continue the post-disaster recovery investment to restore to pre-hurricane enterprise capital and labor levels.

Sectoral and Institutional Context

5. **Larger tourism assets in Sint Maarten—the airport and the hotels—play a critical role in the economy driving tourist arrivals and generating economic activity for other businesses.** This sector is slowly recovering with the number of available rooms growing, renewed support for a country-level marketing plan, and increasing airport passenger handling throughput. Work to repair the airport to handle capacities commensurate to pre-hurricane levels and concurrently provide for interim capacity, while the permanent structure is repaired, is ongoing. Although the hotel inventory will take longer to return, the majority of hotels have decided to reinvest and upgrade their properties**,** and almost all hotels have reinvestment plans to restore their room capacities over the next one to four years. Nevertheless, because some are struggling to secure financing and overcome short term cash flow challenges, while insurance payouts are still outstanding, a due diligence exercise is underway to assess hospitality financing needs and determine if a justification exists to provide public financing to address these needs in the future.

6. **There is a dire need to provide assistance to micro, small and medium sized enterprises (MSMEs), as many continue to struggle post hurricane.**[5] The cascade generated from larger tourism assets—the airport and the hotels—plays a critical role in the overall economy, particularly for MSMEs. These large assets function as anchors that drive overnight tourist arrivals, that in turn generate economic activity for other businesses. While reconstruction efforts are ongoing, and the economy slowly recovers, MSMEs need support to recover and maintain their business to minimize the adverse impact on employment and overall economic activity. Two surveys of enterprises were conducted by the World Bank in February and August 2018 to assess the damages to enterprises and asset replacement needs, respectively.

7. **These surveys confirmed that enterprises need financial support.** The support is needed for working capital, asset purchases, basic nonstructural repairs, and improvements to the facade of buildings, so they can return their operations to pre-hurricane levels. Enterprises reported median damages of US$50,000 to buildings, US$65,000 to enterprises' fixed assets, and US$40,000 to stock and inventory. Most enterprises were either not insured or underinsured. A reported 10 percent of enterprises closed as a result of the hurricane. Of those open, two-thirds were operating below pre-hurricane capacities. Many enterprises survived by: borrowing from family and friends, refinancing, through receiving extended grace periods offered by some lenders, using retained earnings, or extended supplier credit. The main obstacles to business operations listed by enterprises in August 2018 in descending order were: economic uncertainty, access to finance, taxes, and crime. Enterprises have not received any public financial support to date.

8. **While the economy is not at full potential, there is a need to stimulate the MSME sector to restore its capacity.** Some of these surviving enterprises have utilized most to all of their available liquid reserves or used other sources to help rebuild their businesses. A large percentage of MSMEs are not able to get financing as the commercial banks have high collateral requirements. Further, many have existing debt obligations or their collateral has been destroyed and are thus

at their borrowing capacity because of the hurricane**.** The environment for lending is underdeveloped as there is no credit bureau or collateral registry, and, further, the market for unsecured lending is limited. Although the banking sector has remained well capitalized, with some increases in loan delinquency rates as a result of the hurricane, the hurricane has exacerbated the already limited access to finance for MSMEs. The four commercial banks that dominate the market focus mainly on personal and large corporate real estate lending, and have limited offerings for MSME financing. The local development bank has a portfolio of 250 loans across the Dutch Antilles, some of which are MSME loans in Sint Maarten, but its portfolio has had low growth. A new microfinance institution that expanded into Sint Maarten last year (with 130 loans to date) has begun to serve the MSME segment. This proposed Enterprise Recovery Project therefore focuses on providing access to finance to MSMEs.

Higher Level Objectives to which the Project Contributes

9. **The project will support the objectives of Sint Maarten's National Recovery and Resilience Plan (NRRP) to restore economic, community, and governance infrastructure and service delivery.** One of the three top priorities of the NRRP is a multisectoral approach to restart and revitalize the economy. The strategy emphasizes the need for immediate support to struggling MSMEs and the reconstruction of critical infrastructure. It also proposes the establishment of an Economic Recovery Fund to provide concessional financing for businesses. The project is aligned with the World Bank's twin goals of ending extreme poverty and boosting shared prosperity. It will target the entire population, help the country recover and resume economic activity, and contribute to strengthening future resilience to underpin sustainable and inclusive growth.

C. Proposed Development Objective(s)

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

Key Results (From PCN)

11. The PDO-level indicators are: (a) cumulative number of MSMEs receiving packages for assets, repairs, or working capital; and (b) volume of grants and loans supported through the project over its lifetime.

D. Concept Description

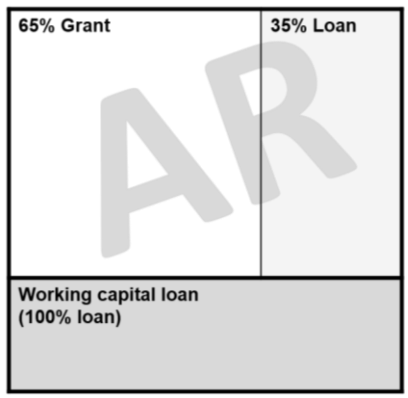
12. **The proposed project comprises three components.** The first component will finance a line of credit and grants, managed through the CBCS to participating financial institutions (PFIs), which will on-lend and on-grant these funds to eligible MSMEs. PFIs will provide tailored packages of grants and loans for asset purchase or repairs, as well as working capital loans if required, under special terms and conditions established by the project. The second component will finance an analytical study on the range of financial solutions to strengthen disaster resilience in the future. The third component will cover project management and implementation, as well as training to PFIs' loan officers in both MSME lending and business continuity.

13. **The proposed design considers the underwriting and screening requirements of MSMEs, as well as the governance and implementation challenges.** Custom financing packages will be available to MSMEs to apply for in the form of a combination of (a) grants and loans for assets or repairs (ARs) and (b) working capital (WC) loans. Assets to be financed by the project will be productive capital assets while repairs will be limited to basic nonstructural repairs. The AR will be part grant and part loan. The combination of grants and loans for the financing of investments assets and repairs,

and loans for WC responds to the needs underlined by enterprises in the surveys undertaken by the World Bank. The liquidity of the packages (both loan and grant) will come from the project and will be disbursed by the CBCS.

14. **Component 1: Direct financial support to MSMEs for investment and working capital (US$33.0 million).** This component will provide tailored packages to eligible MSMEs of grants and loans for AR investment, as well as WC loans if required. The AR investment is structured so that 65 percent of the investment is a grant and 35 percent is a loan. The WC loan is structured as a loan. This is shown in Figure 1. These will be administered by PFIs, who will take the credit risk on the loan portion of the packages.

Figure 1. AR and WC MSME Packages at Emergency Pricing



15. **MSME eligibility will be based on the MSME definition in Sint Maarten as well as other criteria.** Communication and outreach will be critical for raising awareness of the structure of the program. Eligible MSMEs must comply with the medium or smaller enterprise size definition, which corresponds to an average monthly revenue of US$55,866 or less over the last calendar year. Eligible MSMEs will need to be registered with the Chamber of Commerce, and those that sustained damages and those with longer histories of operations in the economy will be given priority. There will be a window for startups, who will benefit from a lower grant percentage, and a window for loan refinancing, limited to debt obligations originated after the hurricane.

16. **Component 2: Study of financial solutions for disaster resilience (US$0.4 million).** With a view to sustainability and to strengthening longer term disaster resilience through the financial sector, this component will finance a study of financial instruments, markets, tools, and solutions available to improve disaster resilience in Sint Maarten. Such markets or instruments may include private insurance, public asset insurance, sovereign insurance markets, regulation, and supervision of insurance and reinsurance, catastrophe modelling and valuations and appraisal standards.

17. **Component 3: Lender training, project implementation, audit and monitoring and evaluation (US$1.6 million).** This component will finance the training of loan officers and other staff at financial institutions (FIs) with a view to improving their MSME lending skills and training in business continuity planning. This component will also fund implementation support and project governance. Although the FIs will be the MSME-facing entities, they will be regularly assessed and a monitoring and evaluation (M&E) reporting system will be established.

SAFEGUARDS

A. Project location and salient physical characteristics relevant to the safeguard analysis (if known)

The project activities will take place in Sint Marteen, specifically in the buildings (and attached grounds) of micro, small, and medium sized enterprises.

B. Borrower's Institutional Capacity for Safeguard Policies

The borrower's (the Interim Recovery Committee - IRC) institutional capacity for safeguard implementation is currently low. It is only in the last year that the World Bank has started to work in the country. However, with the startup of the emergency projects that have recently been approved by the World Bank, it is clear that this capacity is already improving. The project will be implemented by the IRC and the Central Bank of Curacao and Sint Maarten (CBCS). Almost all financial institutions (FI) in Sint Maarten are foreign owned—either Canadian or Dutch. As a result, their parent FI environmental and social underwriting standards have likely been transferred to the local branches in Sint Maarten from either Canada or the Netherlands. The final design in terms of safeguards will take these aforementioned conditions into consideration and will be discussed with the IRC and CBCS during the course of project preparation. Final arrangements will be updated in the appraisal stage ISDS. The need to trigger OP/BP 4.12 (Involuntary Resettlement) will be reviewed during preparation, and if it is determined that this is required, a Resettlement Policy Framework will be prepared to manage any impacts.

C. Environmental and Social Safeguards Specialists on the Team

Gibwa A. Kajubi, Social Specialist
Yasmin Tayyab, Social Specialist
Nyaneba E. Nkrumah, Environmental Specialist
Michael J. Darr, Environmental Specialist

D. Policies that might apply

Safeguard Policies	Triggered?	Explanation (Optional)
Environmental Assessment OP/BP 4.01	Yes	This project has triggered Safeguards Policy OP/BP 4.01 related to the potential risk associated with the project's activities. Component 1 (direct financial support to MSMEs for investment and working capital) will tailor financial packages (grants and lines of credit) to eligible MSMEs through the use of FIs, which may be banks or other types of financial institutions approved by the CBCS and the World Bank. The project will provide financial support to MSMEs that are engaged primarily in the tourism and services sectors (for example, restaurants, shops, creative industries, and tour operators). Non-tourism businesses in need of financial support may include agro-processing, equipment supply, retail, business or health services, light industry, or other enterprises. The specific MSME activities and location are not yet defined, but the grants and loans for repairs will be

	used only for basic nonstructural repairs inside the buildings and on the facade of buildings. Such activities may include painting, caulking, tiling, roof repairs, fencing, and so on. All Category A risk profiled activities will be screened out. The Environmental and Social Management Framework (ESMF) will include a process to exclude such subprojects from becoming eligible for financial support and the ESMF will incorporate an exclusion list. OP/BP 4.01 is triggered for two reasons: (a) there are a range of activities that the MSMEs can use project proceeds for, from painting and grouting to more substantial repairs such as roof repairs, with potential environmental impacts and risks, and; (b) the FIs may not have the capacity to manage environmental risks in projects. This is an additional risk to the project that must be managed through environmental safeguards. The project will prepare an ESMF before appraisal that will assess the potential risks and provide mitigation measures for the subprojects. In addition, the ESMF will outline a process (and checklist) for the FIs to follow to ensure that all subprojects are screened for environmental and social risks and impacts before implementation, that applicable permits are obtained, and that any additional assessment or Environmental and Social Management Plan (ESMP) development is undertaken. The ESMF will also direct ESMPs to be prepared as necessary and commensurate with the risk. In terms of the capacity to manage environmental risks, some of the FIs will be identified and assessed by the World Bank before appraisal. This assessment will include financial capacity, environmental management capacity, and so on. Other FIs will be assessed on an on-going basis once the project commences, and this assessment will be undertaken by the CBCS. If the FIs have low capacity in terms of environmental and social management, measures will be undertaken to address this. These measures include the recruitment of appropriate specialists, training, and securing the associated costs. These measures will be included in the ESMF and the Project Appraisal Document (PAD). Component 2 (study of financial solutions for disaster resilience) finances a technical study that is unlikely to trigger any safeguard policies. However, despite this, the study will be screened to ensure that there are no

		related safeguard risks. In the event that there are, appropriate environmental and social risk management measures will be developed before implementation. Component 3 (lender training, project implementation, audit and monitoring and evaluation) does not have any environmental or social risk associated with its activities.
Performance Standards for Private Sector Activities OP/BP 4.03	No	OP/BP 4.03 does not apply because the project or project components are not designed, owned, constructed, and/or operated by a private entity, as defined under the policy.
Natural Habitats OP/BP 4.04	Yes	The subprojects will take place in/on buildings and their related grounds. All areas of natural habitat will be screened out through the ESMF. If any sensitive areas are identified, these will be flagged for further assessment through the ESMF screening process.
Forests OP/BP 4.36	No	The subprojects will take place in/on buildings and their related grounds. All forested areas will be screened out through the ESMF.
Pest Management OP 4.09	Yes	It is conceivable that pesticides (algaecides, herbicides, and so on) may be used to clean buildings that have been in a state of disrepair for over many months and that treatments for pest infestations (termites, other insects) may be required. For this reason, pesticides financed by the project must comply with the requirements and standards acceptable to the World Bank. The ESMF will develop an outline of a pesticide management plan that can be further developed and finalized before pesticides can be purchased and used in any of the project's activities, as well as standard mitigation measures for routine pesticide applications.
Physical Cultural Resources OP/BP 4.11	Yes	The policy is triggered to ensure that any historical buildings are considered during screening, and that chance find procedures are included, as per the standard practice in ESMFs. Appropriate provisions will be included in the ESMF to manage these cases properly according to policy requirements.
Indigenous Peoples OP/BP 4.10	No	The policy is not triggered because there are no individuals in Sint Maarten who meet the criteria to be considered indigenous under the policy.
Involuntary Resettlement OP/BP 4.12	TBD	The project will prepare an ESMF to mitigate social impacts. All subprojects will be assessed as per the guidelines and exclusion list in the ESMF. As such, all Category A subprojects that require land purchase will be excluded from financial eligibility. In the event the subprojects lead to loss of peoples' livelihood

		permanently or temporarily due to the refurbishments of buildings or other improvements planned under Component 1 (direct financial support to MSMEs for investment and working capital), the client will prepare a livelihood restoration plan. If subprojects result in permanent or temporary physical displacement, a Resettlement Action Plan will be prepared to manage the impacts. The ESMF prepared for the project will include the Resettlement Framework to mitigate the loss of livelihood and displacement. The exact nature of impact will be ascertained during appraisal when there will be clarity on the types of subprojects seeking financial support. This information is currently unknown; therefore, the decision to trigger OP/BP 4.12 will be determined during appraisal.
Safety of Dams OP/BP 4.37	No	The policy is not triggered as it does not involve dams.
Projects on International Waterways OP/BP 7.50	No	The policy is not triggered as it will not involve international waterways.
Projects in Disputed Areas OP/BP 7.60	No	Any subprojects in disputed areas will not be eligible for financing under the project through provisions that will be included in the ESMF.

E. Safeguard Preparation Plan

Tentative target date for preparing the Appraisal Stage PID/ISDS

Nov 20, 2018

Time frame for launching and completing the safeguard-related studies that may be needed. The specific studies and their timing should be specified in the Appraisal Stage PID/ISDS

The study and consultations for the ESMF will be launched in Q4 2018.

CONTACT POINT

World Bank

Nadeem M. Karmali
Senior Financial Sector Economist

Borrower/Client/Recipient

Government of Sint Maarten

Implementing Agencies

National Recovery Program Bureau / Interim Recovery Committee
Abel Knottnerus
Treaty Lawyer/Senior Policy Advisor
Abel.Knottnerus@sintmaartengov.org

Centrale Bank van Curacao en Sint Maarten
Fredericus Matto
Deputy Director Monetary & Economic Affairs
f.matto@centralbank.cw

FOR MORE INFORMATION CONTACT

The World Bank
1818 H Street, NW
Washington, D.C. 20433
Telephone: (202) 473-1000
Web: http://www.worldbank.org/projects

APPROVAL

Task Team Leader(s):	Nadeem M. Karmali

Approved By

Practice Manager/Manager:	Zafer Mustafaoglu	04-Oct-2018
Country Director:	Michelle C. Keane	13-Nov-2018