



The World Bank

Sint Maarten Enterprise Support Project (P168549)

REPORT NO.: RES47505

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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

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I. 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 30-Dec-2024

Organizations

Borrower National Recovery Program Bureau	Responsible Agency National Recovery Program Bureau
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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 (US\$, Millions)

Ln/Cr/Tf	Approval	Signing	Effectiveness	Closing	Net Commitment	Disbursed	Undisbursed
TF-A9223	04-Apr-2019	05-Mar-2020	05-May-2020	30-Dec-2024	35.00	8.59	26.41

Policy Waiver(s)

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

No

II. SUMMARY OF PROJECT STATUS AND PROPOSED CHANGES



1 - The proposed restructuring aims to extend the closing date of the Sint Maarten Enterprise Support Project (P168549) from December 31st, 2024 to June 30, 2025. This is the second project restructuring which is required to reach more beneficiaries as indicated in the National Recovery Program Bureau's (NRPB) request letter dated March 8, 2021. The Project was first restructured on February 29th, 2020 to introduce changes to the institutional structure and financial management responsibilities to better align these with Sint Maarten's legal and administrative framework.

2 - The Project was approved by the Latin America and Caribbean Regional Vice President on April 4th, 2019 with the Project Development Objective (PDO) to support the recovery of Micro, Small, and Medium Enterprises (MSMEs) through direct financial assistance to contribute to the restoration of economic activity. It was prepared in response to Hurricane Irma which caused widespread devastation in September 2017. The PDO Indicators are: (i) Cumulative number of MSMEs receiving packages for assets, repairs or working capital (600 MSMEs); (ii) Cumulative number of women owned or managed MSMEs receiving packages for assets, repairs or working capital (240 MSMEs); (iii) Volume of grants and loans supported through the project over its lifetime (USD 32,500,000); and (iv) Volume of grants and loans supported through the project to women owned or managed MSMEs over its lifetime (USD 13,200,000). The Project became effective on May 5, 2020.

3 - The crisis triggered by the Covid-19 pandemic has significantly affected the implementation of the project. Sint Maarten is a tourism-based island economy which is highly dependent on international tourism. Before Hurricane Irma in September 2017, tourism directly accounted for 73 percent of foreign exchange earnings and 45 percent of GDP. In 2020, as a result of global border closures and travel restrictions, the economy of Sint Maarten contracted by an estimated 24 percent. This contraction had several effects on the implementation of the project. Due to the uncertain timing of the tourism rebound, lenders became more conservative. Balance sheets and income statements of borrowers were weakened by the economic contraction for most sectors, reducing the credit worthiness of many borrowers. With the uncertainty of the return of tourism, many borrowers decided to wait until there was less uncertainty to undertake their investments. Lenders working in Sint Maarten, have not tapped MSMEs as a potential market. Lenders tend to be typically conservative. They became more risk averse in the COVID-19 environment. The project introduced a risk sharing mechanism through a grant/loan ratio to incentivize lenders to provide working capital to MSMEs.

4 - Despite slow uptake during the first months of implementation, progress in implementation recently accelerated due to lifting of COVID-19 restrictions, strengthened capacity of the PIU, growing interest from PFIs, and strong support from the Government. Progress towards PDOs and Implementation Performance are both rated Moderately Satisfactory. As of June 2021, three PFIs have signed an agreement with the project. PFIs have received substantial support from NRPB and the World Bank to improve the quality of applications that are coming in from MSMEs. As of end July 2021, 60 applications for grant and loans were approved and 97 applications are under review; 56 were denied while 13 retracted their applications. The volume of grants and loans supported through the project to date reached US\$4.9 million against an end of project target of US\$32.5 million. The actual cumulative number of women owned or managed MSMEs receiving packages for assets, repairs, or working capital is 22 out of the 60 approved applications. This represents 37 percent of the beneficiaries which is in line with the end of year target for this indicator. Following the improvement in implementation, the overall disbursement to date reached about US\$6.4 million (18 percent of the total amount), which is ahead of the disbursement schedule of about US\$5 million (14 percent of the total). Lastly, there are no outstanding audit reports for the project, and the audit report received on June 30, 2021 was considered satisfactory. Internal control recommendations issued by the auditors were acknowledged by the NRPB and will be addressed during the calendar year 2021.



5 - Lessons from the first year of project implementation are expected to contribute to accelerating project implementation. These lessons, discussed during the implementation support mission of May 2021, include: (i) the need to strengthen the capacity of the potential beneficiaries, especially new businesses, to prepare and implement bankable projects; (ii) the need to provide more guidance to the PFIs to better assess the bankability of the projects based on good practices for MSMES financial and credit analysis; and (iii) the need to streamline the application process and improve the workflow for PFIs to reduce the amount of changes and time necessary to approve applications. Based on these lessons, the PIU is implementing an action plan and correctives measures as reflected in the Aide memoire of the May 2021 mission. These measures are also reflected in a revised project operation manual. An additional consultant has been recruited to provide support in screening the applications. More support is also provided to the applicants and the PFIs. A more active communication campaign is ongoing with support from the Government.

6 - However, even though reaching the overall PDO to support the recovery of MSMES remains achievable, reaching all the PDO Indicators is unlikely with the current closing date of December 31, 2024. Based on the projections and average amount of the grants and loans, even with the corrective measures above, the project would only be able to reach between 300 and 330 viable MSMEs if the closing date of December 31, 2024 is maintained, which is significantly below the PDO level indicator of 600 MSMEs. In terms of the volume supported through the project over its lifetime, the expectations are also to fall below the US\$32.5 million target, with an estimated total disbursement of between US\$24 million and US\$27 million. The target of 600 viable MSMEs might not be realistic and might be revisited during the midterm review planned before the end of 2021 and aided by the ongoing initiative of the Chamber of Commerce and Industry to clean their enterprise database to reflect a more accurate number of the enterprises in the country.

7 - Extending the closing date to June 30, 2025 would allow for more MSMEs to benefit from the Project and improve their repayment conditions. With the original closing date, a loan originated in June 2021 has a repayment of 3.5 years. Despite the grant component of the packages, this is a relatively short repayment period for an investment loan. This increases the monthly repayment amounts that are used to calculate the Debt Service Coverage Ratio (DSCR), a key ratio used by lenders to assess the ability of the borrower to repay the loan principal and interest. An additional half-year would allow for viable projects that take slightly longer to generate sufficient profits to repay the loan to be financed, and allow for businesses to obtain financing at a later period that would otherwise not be financed due to an insufficient repayment period.

III. DETAILED CHANGES

LOAN CLOSING DATE(S)

Ln/Cr/Tf	Status	Original Closing	Revised Closing(s)	Proposed Closing	Proposed Deadline for Withdrawal Applications
TF-A9223	Effective	30-Dec-2024		30-Jun-2025	30-Oct-2025



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