



Ministerie van Economische en Arbeidszaken

Vice Minister President
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Aan De Minister voor Bestuurlijke Vernieuwing
En Koninkrijksrelaties
De heer Th. C. de Graaf
Dtkv de Vertegenwoordiging van Nederland
In de Nederlandse Antillen
De heer A. Koerten
Scharlooweg 55
Alhier

Ons kenmerk:
/RvM

Uw kenmerk:
/Direcon

Onderwerp: economische
programma St. Maarten

Amice,
Bijgaand doe ik u toekomen de definitieve versie van de duurzame
economische programma van het eilandgebied St. Maarten. Dit programma is
dd. 8 juni 2004 goedgekeurd door het Bestuurscollege van St. Maarten.

Gaarne verzoek ik u uw welwillende medewerking om bovengenoemde
duurzame economische programma van St. Maarten door de Nederlandse
Regering te laten goedkeuren.

Ik hoop u hiermede naar voldoening te hebben geïnformeerd en zie gaarne een
positieve reactie uwerzijds tegemoet.

Hoogachtend,

De Minister van Economische en Arbeidszaken,

Errol A. Cova

Vertegenwoordiging
van Nederland

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**Comprehensive Economic Development Plan
2004-2007**

Sint Maarten



Island Territory of Sint Maarten

February 2004

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Summary

The great hurricane of the 1990's caused severe structural damages on St. Maarten, some of them irreversible. The aftermath of 911 terrorist attacks further undermined tourism in the region in general and for St. Maarten in particular. This exposes our economic vulnerability as a one-pillar economy, which is based on tourism and subsequently, government considers it imperative to commence the process of economic diversification to acquire economic sustainability.

In order to restore sustained economic growth and development on St. Maarten several instruments are being put into place. One significant program towards this objective is the CEDP (Comprehensive Economic Development Plan)

In this plan the funding stakeholders are

- ❖ The island Government of St. Maarten
- ❖ The co- donors
- ❖ The private sector of St. Maarten

The program initially started in September 2001, covering the period 2001-2005, however, a revised CEDP was developed in 2003 and this report covers the period of 2004-2007. The CEDP program focuses on (co-) funding for programs and the subsequent projects to strengthen:

1. Law enforcement
2. Education
3. Sustainable Economic Development
4. Administrative Development

The financing of the program is based on a fund-matching scheme in which the Island Government of St. Maarten, the (co)- donors and the private sector are the funding stakeholders. This program is expected to contribute in a significant way to the improvement and enhancement of structural sustained economic growth on St. Maarten. The manner in which this will be achieved is by means of a twofold approach,

- 1) Rebuilding of the tourism industry
- 2) Diversification of the economy.

The former relates specifically to the assessing of our tourism, improve our strengths, strengthen our weakness, minimize our threats, and capitalize on our opportunities. The assessment relates to all aspects of our tourism industry, traditional, vacation ownership, cruise, marine, as well as the product development aspects of the industry. Whereas the focus of the latter objective of diversification is primarily focused on the acquiring a more balance economy to cushion our vulnerability associated with the tourism industry or more specifically to our one pillar economy. By means of this effort, we will

ensure a more sustainable economic development for the citizens and visitors of St. Maarten.

To attain the above-mentioned objectives, the contribution of the various stakeholders for the period 2004-2007 will be

- 1) Island Government St. Maarten Naf 24.6 million
- 2) Private Sector St. Maarten Naf 27.1 million
- 3) (Co)-Donor Naf 37.6 million

By means of this partnership, the expected economic activity and the various associated spin-offs, the economy will undergo a significant transformation with the end result of acquiring sustainable economic development.

1. Introduction

St. Maarten is one of the five islands that form the Netherlands Antilles. Since 1648, St. Maarten (16 square miles) shares the island with St. Martin, a French dependency that covers 21 square miles on the northern part of the island.

Over the last decades, the economy of St. Maarten fared well and can generally be considered to be in a healthy state. Due to its ideal geographical location, its natural assets, its two-country charm and the multi-cultural background St. Maarten became a tourist attraction and a relatively prosperous island. From the early 1970s to 1994, the economy of St. Maarten has experienced substantial economic growth largely attributed to the tourism industry. In 1994 almost 600.000 stay-over tourists arrived on St. Maarten and more than 700.000 cruise passengers visited the island. However, in 1995, 1998 en 1999 hurricanes caused severe damage to the island's infrastructure and several hotel properties. The decrease in room capacity resulted in reduced tourist visitation, a decline in consumption, a loss of revenue for hotel owners, a decline in economic activities, serious unemployment and financial problems for the government.

Presently the island is still struggling to regain the economic prosperity it had before by raising productivity, reducing costs and creating new sources of employment and growth. This recovery has been set back by the negative trend in the development of tourism and international travel after 9/11.

This Comprehensive Economic Development Plan (CEDP) serves as the blueprint towards economic development of St. Maarten. Economic stimulation in order to create permanent sustainable jobs and income for government is the main goal of the CEDP. The projects and programs of the current CEDP 2001-2005 have been partly executed and are still important in achieving sustainable economic development of the island. In this updated version (2004-2007) of the Comprehensive Economic Development Plan 2001-2005 the priorities are redefined, projects that are already completed are eliminated and new projects are introduced. The updated version of the CEDP 2004-2007 focuses mainly on two aspects:

- Rebuilding of the tourism sector;
- Diversification of the economy.

For further development of the tourism sector and diversification of the economy certain infrastructure investments are a prerequisite. Other investments (in physical infrastructure, other facilities, training, schooling, new incentives, et cetera) will be needed to succeed the redevelopment of the tourism sector and the economic diversification. The specific nature of these investments will be based on the conclusions of several market-analyses and assessments.

The structure and content of the updated CEDP-St. Maarten is as follows:

- Chapter 2: background information on the current economic situation and policies, as well as the main bottlenecks and challenges to be addressed;
- Chapter 3: the objectives and content of the program, including the general effects and targets of the CEDP-St. Maarten;
- Chapter 4: the planned projects and activities to be executed;
- Chapter 5: the implementation of the CEDP-St. Maarten in terms of necessary means, organization and timeframe;
- Chapter 6: the assumptions and risks related to the execution of the CEDP;
- Chapter 7: the monitoring and evaluation of the progress and the effects of the CEDP-St. Maarten.

2. Background

2.1 Characteristics of the St. Maarten economy

General characteristics

St. Maarten was discovered in 1493 by Christopher Columbus on the feast day of St. Martin of Tours. In the 140 years that followed the island changed flags (Spanish, French, Dutch and English) many times. In 1648 the island was divided between The Netherlands and France by a Treaty of Concordia. The physical border between the two countries is symbolic; there is no border control and there is free access and movement between the two.

The economy of St. Maarten is generally a thriving economy¹. Due to its ideal geographical location for both the trade and tourism industries, its natural assets such as beaches and lagoons and the multi-cultural background, these attractions made it a prosperous island. Ever since the early 1970's, the economy of St. Maarten has experienced economic growth largely attributed to the tourism industry. The economy continued showing positive growth throughout the 1980's and the beginning of the 1990's. During 1994, tourism on the island was booming and reached its peak with 565,000 stay-over tourists in the many upscale hotels and guesthouses. There was an additional 719,000 cruise passengers arriving on the island in that same year amounting to a total of almost 1.3 million tourists which fueled a growth of 18% of the GDP in 1994.²

Almost two-thirds of the economically active population earns its salary in the tourism industry, while tourism also contributes substantially to St. Maarten's GDP, to foreign exchange earnings and government revenues. Already in the early nineties it was concluded that foreign exchange earnings from tourism could pay for all of St. Maarten's imports in terms of products and services.

This all seemed to come to an abrupt halt in 1995 after the passing of the devastating hurricane Luis³ and ten days later hurricane Marilyn. In 1998 and 1999 the island was struck by another three hurricanes. Since then St. Maarten has been struggling to regain the economic prosperity it had before. Eight years later the economy had not fully recovered. The recovery was set back by the steep decline in tourism and international travel caused by the aftermath of 9/11, the uncertainty about Sint Maarten's constitutional future, the growing concern about the financial situation of the Netherlands Antilles and the international economic decline.

Although St. Maarten has experienced hurricanes in the past, effects of business cycles and institutional uncertainties as well as sustained long term economic growth, the lasting effect of those in the 1990's was due to the structural damage suffered by the island in particular its infrastructure. The closure of various hotel properties for an extended period of time resulted in a decrease in the room capacity with the corresponding loss of revenue for hotel owners, jobs, and income for government. Additional consequences were high unemployment, a shift in the labor market, a decrease in consumption, and ultimately, a decline in economic activities. The substantial increase of unemployment resulted in less tax revenues, creating liquidity challenges for the government and limited resources for the marketing of the island.

¹ *The economy of St. Maarten is effectively dollarized and functions as a de facto free-trade zone; World Bank report, January 2001.*

² *Central Bureau of Statistics, Netherlands Antilles Statistical Orientation 1999.*

³ *According to a survey carried out by the United Nations Commission for Latin America and the Caribbean (ECLAC) hurricane Luis inflicted total damages and losses of over 1,000 million USD.*

To regain economic prosperity emphasis was placed on cruise tourism as a mechanism to jump-start the economy. This policy succeeded. From a 50%-50% ratio in stay-over arrivals and cruise passenger arrivals in the early nineties this ratio changed in the second half of the nineties. Between 1995 and 2000 on average two cruise passengers arrived for each land-based visitor. And in 2003 some 1 million cruise passengers visited the island. Still the number of stay-over tourists staying in hotels and guesthouses is far below the level of 1994. Now the time has come to strive for a more balanced and sustainable economic development. The Comprehensive Economic Development Plan serves as a guideline to achieve this sustainable economic development and will also contribute to further self-reliance and autonomy.

2.2 Government economic policy

Economy

The island's typical economic characteristic is the dominance of a single industry: tourism. This has its pro's and con's. Sint Maarten has experienced explosive economic growth and prosperity, but occasionally the island has suffered the consequences of the vulnerability inherent to this particular economic activity. Notwithstanding this economic paradox, tourism will remain the main pillar of the local economy for the foreseeable future. The Government will therefore continue to implement policies and programs, to sustain and improve the tourism infrastructure. But in addition, policies and programs to stimulate diversification are being put into place.

Ultimately, the diversification must broaden the economic activity on the island while supporting improvement and renovation of the mainstay activity.

The CEDP will have a supporting role in this regard as this program proposes realistic and feasible strategies, programs and projects specifically crafted to achieve the twin goals of rebuilding the tourism sector and expanding the economy by introducing new activities.

Public Finance

The financial position of the Island Territory is serious but manageable. Several measures have already been taken to achieve a manageable deficit, strengthening of the budgeting process, and improve the organization of the Administration. The Government will continue with its good corporate governance program that will offer structural solutions. In the period 2003-2006 fifteen projects will be carried out and are to be financed (NAFL 24 million) from the cooperation program policy development (samenwerkingsprogramma bestuurlijke ontwikkeling). The Government will implement measures to increase the efficiency, effectiveness and transparency of public finances. To this end, the Government commits itself to strengthening the financial departments of government both in terms of human and material resources. With the proper people and tools in place, budgeting will be based on approved policy priorities yet will remain sufficiently flexible to allow government to take suitable action depending if circumstances warrant this. This goal is also one of the objectives of the CEDP.

Also, an analysis of the core responsibilities of government will be carried out to ascertain where government service is best maintained "in house" and in what areas other approaches would better serve the common interest; where possible, outsourcing and privatization of services and activities will be pursued.

Completing the transfer of the Inspectorate of Taxes to the Island Territory of Sint Maarten, to allow this service to be integrated with the Island Receiver's Office, will lead to improvement in terms of the collection of government revenues and give the island government more autonomy in terms of its fiscal policy.

The Government will also work to implement measures that will broaden the income possibilities available to government. Tax simplification along with the development of fiscal measures better suited to the St. Maarten economy will be pursued to allow government to achieve a maximum level of income generation. In 2004 a research will be carried out in cooperation with the Tax Committee to identify possibilities to simplify the tax system. It is felt that because of its complexity and maintenance demands the actual tax system is not efficient and effective. Also there are indications that the tax burden for citizen and enterprises is too high.

2.3 Bottlenecks and challenges

Introduction

St. Maarten has become a regional center of tourism and economic activity. However, over the past decade, the economy has suffered from a number of external natural and economic shocks and institutional uncertainties from which it has yet to recover completely. The biggest shock was the passing of several devastating hurricanes, which drastically affected the economic growth and prosperity. The closure of various hotel properties for an extended period of time resulted in a decrease in the room capacity with the corresponding loss of revenue for hotel owners. Additional consequences, due to the devastation caused by the hurricanes, were unemployment, a shift in the labor market, a decrease in consumption, and a decline in economic activities.

Based on the economic situation and the priorities of government policy the following bottlenecks have to be solved and the following challenges has to be coped with to realize a sustainable economic development:

- improvement of infrastructure,
- rebuilding of tourism industry,
- economic diversification,
- new investment impulses,
- improvement of the public sector.

Improvement of infrastructure

Improvements in infrastructure remain a precondition for economic development and growth. Some projects of infrastructure are beneficiary and necessary for the whole economy (road network improvement, sewage and drainage system, waste management system, elements of the Development Vision for the Greater Philipsburg, Communication Network, et cetera) and other projects need to be carried out to realize the further development of tourism industry and economic diversification (e.g. restoration of monuments, establishment of nature parks, mooring facilities, incentives for the marine industry, et cetera).

Rebuilding of tourism sector

During the last couple of years hotel infrastructure has been rebuilt and repaired, other infrastructure (mega pier, expansion of airport, refurbishment and widening of Simpson Bay bridge opening, mooring facilities, road improvements et cetera) has been expanded and cruise tourism and private investment have increased. The cruise visitors and the timeshare owners were the first to return to the island. The government put emphasis on increasing cruise tourism as a mechanism to jump-start the economy. This strategy to attract the cruise industry required relatively little government resources, compared to the revenues required to reconstruct the Sint Maarten stay-over tourist product, and to promote it in the target markets. The number of cruise passenger arrivals increased from almost half a million in the beginning of the nineties to one million in 2003.

To further strengthen the St. Maarten economy a rebuilding strategy of tourism has to be developed. The costs and benefits of stay-over tourism and timeshare tourism versus cruise tourism has to be analysed. The redevelopment of the tourism industry must include policies geared toward a balanced development of the stay over visitors with different goals, needs and facilities (leisure, sport, yachting, culture, heritage, young, old, short stay, long stay, hotel, apartment, timesharing et cetera) and the cruise visitors.

Diversification of the economy

Diversification geared towards expanding the economic basis with development of other economic sectors has proven to be necessary for a sustainable economic development.

Based on the diversification strategy and priorities a clear investment policy, export policy, innovation policy, small business development policy and aviation policy can be developed.

New investment impulses

Return on investments was generally high up until 1995. After 1995 the profitability declined and remained low. This caused a vicious circular effect in the economy. That is why the economy of St. Maarten needs new investment impulses, for development of the tourism industry and through diversification, to strengthen the structure of the economy. If measures are not taken to revitalize the economy, growth in tourism will be limited. This means that the economy will remain stagnated, there will be no new jobs created and unemployment will remain high.

Improvement of the public sector

Sustainable economic recovery requires a stable macro-economic framework, reduction of administrative barriers, an adequate tax system, sustained focus, attention and execution of the development to pursue, and an efficient public sector. This will stimulate private investments. In Sint Maarten a good governance program is being executed and many measures are taken to realize these requirements. The CEDP gives stakeholders, policy makers and staff members in the Administration a clear focus to strive for and measurable objectives to achieve.

2.4 Target groups and stakeholders

The main target groups for the CEDP-St. Maarten are:

- Stay-over tourist from the USA, Europe, Canada and elsewhere;
- St. Maarten's private sector;
- The Administration apparatus;
- St. Maarten's community benefiting from employment and economic growth.

The major stakeholders involved in the CEDP-St. Maarten are:

- St. Maarten Government,
- St. Maarten Tourist Bureau and National Tourist Organization,
- St. Maarten Business Association,
- St. Maarten Hospitality and Trade Association
- Non-governmental organizations of St. Maarten.

2.5 Background information

Available background information and reports:

- St. Maarten Comprehensive Economic Development Plan 2001 – 2005, September 2001;
- Governing Program 2003 – 2007;
- Department of Economic Policy and Research, Half year Economic Report 2003, September 2003;
- Sector Economy & Tourism, Budget 2004 Policy
- St. Maarten Investment Guide;
- St. Maarten Tourist Bureau, Request for Proposal for Tourism Master Plan.

2.6 Other relevant activities

Sustainable economic recovery requires a stable macro-economic framework, reduction of administrative barriers, an adequate tax system, sound public finances, sustained focus, attention and execution of the development to pursue, and an efficient public sector. In the cooperation program 'Bestuurlijke Ontwikkeling' many measures of good corporate governance are taken and foreseen to improve the transparency, accountability, coordination and communication between branches of government and public companies. The CEDP is one of the instruments to give stakeholders, policy makers and staff members in the Administration a clear focus to strive for and measurable objectives to achieve.

In the future it will be seen if and to what degree activities and projects regarding fiscal policy, fiscal targets and public sector efficiency will be integrated into CEDP or will remain part of the other programs and plans of the Administration.

Fiscal policy and public finance

To achieve a healthier financial situation of the government more revenues should be generated and expenditures should be reduced.

The emphasis when it pertains to revenue increasing measures lies foremost in the improvement of the organization of the levying and collection of the federal and insular taxes and the correct and complete execution of existing island government ordinances. The activities aim at improving compliance of the taxpayers and broadening the tax base. The proposed actions focus on reviewing collection and taxation policies and, implementing actions towards improving the collection. In 2004 a study will be carried out that will lead to conclusions to simplify the actual tax system. Based on this study an implementation plan with defined actions and targets will be put in place for the re-organization of the island receiver department and integration with the central receivers department, aiming at increased effectiveness and efficiency in collecting insular taxes as well as levies.

More revenues can also be achieved by broadening the tax base and to establish a "One Bill System" for the payment of all business-, director's, branch-, operator's and sign board licenses. This will enhance the liquidity of government as well as streamline business information.

In 2004 a guideline for administrative procedures will be made to make more clear which branches of government demand information and use the same type of information. This guideline will also improve the transparency of the government. In the future a Central Business Registration Location/Center could solve and minimize the problems that many departments have with respect to having the right address information. By ensuring that businesses are duly registered, government will have more up to date information, on a consistent basis, to pursue businesses that are delinquent an/or businesses that are avoiding paying taxes. Consistent with the above-mentioned, is the utilization of the crib number as the primary source of gaining consistent information that can be shared and exchanged among different departments of government.

Public sector efficiency

An efficient public sector is directed towards higher efficiencies and quality of the output and eliminating inefficiencies at an increased rate of revenue versus lower cost. The government needs more transparency. Policy instruments to achieve these goals are better planning and control procedures, improved data reporting, budgetary discipline, prudent management of public debt, reduction of direct operational cost of government, supervision of government-owned companies, improved policies on tariffs of government services, elimination of excessive duplication and other counterproductive regulations, outsourcing of specific services and revaluation and refocus of tax holiday policies.

It is imperative for economic growth and for the attraction of foreign investment that bureaucratic nature of government be minimized. The red tape associated with government policies and excessive long procedures towards decision-making has to be circumvented to fully optimize the scarce resources of government.

To stimulate economic growth the island government will pursue facilitating and streamlining the business license procedure. This project has been long in the planning phase and now is the opportunity to execute this project. However, a precondition for the execution of the business license procedure is that government must take a decision on the type of policies to regulate the issuance and establishment of businesses. A concrete procedure is required to facilitate the process of streamlining the business license procedure.

For the continued economic development it is also needed that government execute and maintain regular control of businesses. This control ranges from prices control to control of businesses for proper licensing documents and other regular stipulations.

Financial relationship with Central Government

The Government of St. Maarten has started to redefine the financial relationship with the Federal Government. Analysis done by government indicates that there is an imbalance between the taxes collected by the Central Government on Sint Maarten, and central services received by Sint Maarten. Achieving a more equitable arrangement will be a priority of this Government. Sint Maarten's ability to borrow based on the conditions agreed to in the Protocol with the Central Government must be realized so that sufficient flexibility is given to the government to address the financial realities of Sint Maarten.

3. Objectives and content of the program

3.1 Reference path

The development of St. Maarten's economy without an explicit development policy is the starting point to analyze the objectives and the content of updated CEDP-St. Maarten 2004-2007. For the St. Maarten economy a technical reference scenario was made for the period 2004-2007. This technical reference scenario is an economic forecast excluding the expected effects of development policies as they are formulated in CEDP-St. Maarten. With this technical reference path the effects of the policy measures of CEDP-St. Maarten can be analyzed in the context of the economy as a whole. This technical reference path not only includes both so-called target variables (e.g. number of stay-over tourists) but also macro-economic objectives (e.g. increase of GDP, increase in employment or decrease of number of inhabitants below the poverty line).

For some variables in the technical reference path preliminary figures for the year 2003 are available. These variables are 'consumer price' and 'number of tourists' for which there are monthly figures available. For other variables the figures in the technical reference path for the year 2003 are estimations based on historic data and for some variables these estimations were necessarily based on realized figures for the years prior to 1997.⁴

Future economic developments are based on starting values of the year 2003 and the behavioral equations in the economic model of St. Maarten's economy. The growth of population and the labor productivity trend for example are forecasted based on the realized growth of these variables in the past years. Additional assumptions were necessary for variables that are exogenous in the models: the number of tourists⁵, prices, private investments, world trade and world prices⁶.

The number of tourist on St. Maarten was 730.000 cruise passenger arrivals (1994) and 530.000 stay-over arrivals (1990). Due to the hurricanes and the slow recovery because of the decline in international travel (9/11), the economic downturn and because of the weak finances of government this dropped to 545.000 thousand cruise passenger arrivals (1995) and 380.000 stay-over arrivals (2002). On average the annual number of stay-over tourists in hotels was 460,000 and the annual number of cruise passenger arrivals was 700.000 in de period 1989-2003. Because of the declining trend in stay-over tourists we use the assumption that without policy measures the number of stay over tourists in de period 2004-2007 will be far below the average of the earlier period (390.000) and that the number of cruise passenger arrivals will remain stable at the actual level (1 million yearly). Without policy measures real GDP-growth is 3%, the decline in unemployment will (at 1.7%) be marginal, real income growth of the average employee in enterprises will decline on average with more than 0.7% An expanded economic development plan should significantly improve the economic development of Sint Maarten.

⁴ The same formula's used for forecasting are used to estimate the missing values for the past. This procedure is used to estimate the most plausible trend (technical reference path) of important economic variables.

⁵ The growth of the number of tourists in the reference path was made on an elaborated analysis of the micro tourism database, which was improved and updated within the framework of this study.

⁶ World trade and world prices are derived form international sources.

The table below shows some of the variables that are calculated for the technical reference path.

Indicators	Yearly average 1989-2003	Reference values 2004 – 2007 (average)
# Stay-over tourists (x 1,000)	460	390
# Cruise passengers arrivals (x 1,000)	700	1.000
Real GDP-growth (% change)	1.7	3.0
Employment growth of enterprises (%)	-/ 0.2	2.8
Unemployment rate (%)	13.4	11.7
Current account in % of GDP	-/ 0.8	17.4
Public sector revenues in % of GDP	26.2	26.4
Real income growth average employee in enterprises	n.a.	-/ 0.7
Share of income earners below poverty line 2	n.a.	16.4

3.2 Long term development objectives

The development strategy of St. Maarten as described in the Comprehensive Economic Development Plan 2001–2005 and The Governing Program 2003-2007 is focused on raising productivity, reducing costs and creating new sources of employment and growth. These development targets are therefore also selected to monitor the results of the CEDP (e.g. productivity growth, number of tourists, GDP, employment, unemployment and real income development).

The main elements to achieve these objectives are:

- improvement of infrastructure,
- revamping of tourism industry,
- economic diversification,
- new investment impulses,
- improvement of the public sector (increase collection of revenue, reduce expenditures, increase efficiency and transparency).

3.3 Program objectives of CEDP-St. Maarten

Overall objective

The overall objectives are to raise productivity, reducing costs and creating new sources of employment. Key to achieve these objectives are a structural and sustainable redevelopment of the tourist sector and an effective diversification of the economy.

Based on the major bottlenecks and challenges the CEDP-St. Maarten consists of four key elements ('pre-conditional infrastructure investments and government policies', 'targeted tourism development, promotion and marketing', 'diversification and investment climate' and 'targeted infrastructure investments') each with its specific own objectives. For these four key elements of the program specific bottlenecks, objectives and the main focus of selected projects will be addressed.

Pre-conditional infrastructure investments and government policies

Bottlenecks

- Infrastructure not at par with the number of (cruise) tourists visiting the island and not up to the needs of the tourist sector as analyzed in the Carrying Capacity Study;
- Insufficient infrastructure as a precondition for diversification;
- A fragile financial situation of government;
- Inefficiencies in the public sector.

Objective

To improve the basic infrastructure of St. Maarten and the public sector efficiency.

Focus of projects

Several projects reinforce the basic infrastructure of St. Maarten:

- Philipsburg beautification (Development Vision for Greater Philipsburg area),
- Road improvements,
- Water management,
- Sewage and drainage systems,
- Waste management systems.

To increase the efficiency of the public sector the government focuses in particular on increasing income generation and on the reduction of costs:

- Increase of income (intensifying tax collection, broadening tax base, refocus of tax holidays, tariff policy of government services, improvement of the return on investment of publicly owned limited liability corporations),
- Reduction of costs (reducing 'no show' workers, reduction of red tape, outsourcing, privatization, simplifying the licensing system, increase of transparency, improvement of budgeting process and planning and control procedures).

Targeted tourism development, promotion and marketing

Bottlenecks

The decline in number of stay-over tourists and the increase in number of cruise tourists is not necessary a sustainable development of the tourism sector of St. Maarten. The costs and benefits for the economy of the different type of tourists (cruise, traditional stay-over, timeshare, yachting, conference, event tourism et cetera) are different. A balanced mixture of types of tourists is needed for a sustainable development of the tourist sector on the island. Other bottlenecks are the limited room capacity, the ending of de-fiscalization on the French side of the island and the need to encourage hotel developers to invest in St. Maarten.

Objectives

Execute an integrated approach to synchronize and to optimize investments and incentives to redevelop the tourist sector.

Focus of projects

To achieve an integrated approach to rebuilding of the tourist sector a Tourism Master Plan (TMP) is required. The fundamental basis of the TMP will be based on the results of the Carrying Capacity Study (CCS), which was conducted in the latter part of 2003. Based on the Tourism Master Plan more specific studies will be carried out, specific policies, instruments and incentives will be developed and executed, and investments to steer the redevelopment of the tourism sector in the right direction will be stimulated.

Simultaneously, it is required for government to continue to sustain the marketing efforts of the National Tourist Office. The liquidity challenges of government have consistently kept the Tourist Office from effectively executing its marketing targets.

Diversification and Investment climate

Bottlenecks

St. Maarten's economy relies for a great deal on the tourism industry. Over the past years it has become quite clear that this creates a fragile economy that is highly susceptible to natural disasters like hurricanes, but also to global changes such as a recession in America or the effects of 9/11.⁷ With insufficient development in other sectors the economy of St. Maarten remains vulnerable.

Objectives

In the old CEDP 2001-2005 several options to diversify the economy are mentioned: e.g. wholesale trade, distribution, warehousing, container transshipment, e-business, construction and light manufacturing. In the last years there has been much discussion on what can and should be done on St. Maarten to diversify the economy with little result. Therefore, in order to make choices that can create a sustainable diversification of the economy and to effectively use government resources (investments and incentives) an Economic Diversification Study (EDS) is needed first. This study will focus on identifying what type of sectors and sub-sectors can be stimulated in St. Maarten's case with what kind of instruments. Following the EDS in an Economic Stimulation Plan (ESP) the incentives are developed that are feasible for St. Maarten to effectively attract the investment opportunities as identified in the EDS.

Focus of projects

At first an Economic Diversification Study has to be carried out to identify the realistic and feasible possibilities of diversification of St. Maarten's economy. Projects, investments, incentives and instruments will follow out of the Economic Diversification Study and the Economic Stimulation Plan.

Targeted Infrastructure Investment

Bottlenecks

To redevelop the tourist sector and to diversify the economy specific incentives, instruments and investments have to be developed, executed and stimulated. With kind of bottlenecks have to be faced will be clear if the TMP and the EDS are carried out.

Objectives

To develop, implement, execute and stimulate incentives, instruments and investments that redevelop the tourist sector and the diversification of the economy in the desired direction.

Focus of projects

The focus of projects becomes clear as the TMP and the EDS are finalized.

⁷ In 2000, 50% of all stay-over tourists came from North America.

3.4 General program effects and targets

Overall program effect

The overall objective of the implementation of the CEDP-St. Maarten is to attract more tourists and tourists with a more attractive spending pattern than cruise passengers, to diversify the economy, to add new impulses to the economy and to stimulate (new) private investments. It is targeted that annually in four years because of CEDP an additional real economic growth of 1.2% is reached, that productivity will increase with 0.5%, employment growth in enterprises will improve with 1.0%, that unemployment declines with 0.7% and that public sector revenues as percentage of GDP will increase with 1 percentage point.

Pre-conditional infrastructure investments and government policies

Basic infrastructure investments and sound government policies are a condition to succeed the redevelopment of the tourist sector, the diversification of the economy and to stimulate a higher level of (foreign) direct investments.

Targeted tourism development, promotion and marketing

The effect of the targeted and structural development, marketing and promotion of St. Maarten's tourism product (product development, incentives, investments) will be a more balanced growth of the number of tourists. The benefits for the economy will be greater than without the targeted and structural development of the tourist sector. It is estimated that the number of stay-over tourists may increase with 2% a year in the period 2004-2007. This effect will not yet be visible in year 2004 because in that year the TMP will be carried out. The number of cruise passenger arrivals is estimated not to grow because of the choices that will be made after the completion of the TMP.

Diversification and investment climate

The incentives, instruments and investments that will result after the EDS will have a positive effect on the development of non-tourism export (+ 5% in 2006) and the employment of enterprises (yearly average +1.0%). These policy effects of the CEDP are indicative and depend of the projects, activities, incentives, instruments and investments that are selected as a consequence of the EDS.

Targeted infrastructure investments

The program effects of the targeted investments that will be carried out and that will be stimulated after the TMP and the EDS cannot be estimated separately. The result of these targeted investments are part of the overall effects of the CEDP.

4. Activities

4.1 Activities and outputs

Some projects necessary to reach the objectives of the updated CEDP-St. Maarten are listed in the following tables, categorized by the main parts of the plan, with a distinction in activities and output, followed by a short description of the specific background and objectives of these projects.

The execution of the CEDP-St. Maarten is to some degree flexible and the list of projects is neither final nor exhaustive. During the course of the implementation of the program it might prove necessary to add or remove projects and also priorities may be subject to change due to, amongst other things, external developments and available funds. In particular the results of the TMP and the EDS would add a determining factor to the type of projects and their priorities.

Some of the projects do not need large funding and are conditional for the execution of the plan (TMP, EDS, implementation of new instruments and policies, feasibility studies, structural promotion and marketing of St. Maarten's tourism). Other projects (in particular in infrastructure and the introduction of specific incentives) do need important public and private funding. Therefore the TMP and the EDS – in which bottlenecks, strengths, weaknesses and opportunities are identified - are very important for an efficient and effective execution of the redevelopment of the tourism sector and the diversification of the economy.

Pre-conditional Infrastructure investments and government policies

PROJECT ACTIVITIES	PROJECT OUTPUT
Basic Infrastructure Investments and government policies	
Philipsburg development and urban renewal	More attractive Philipsburg, specifically as a part of the St. Maarten tourist product (policy plans upgrading and diversification, boardwalk, upgrading & beautification of streets and alleys)
Roads and intersections	Better infrastructure to stimulate economic development
Water management, sewage, drainage systems, waste management systems, underground cabling	Improved efficiency in infrastructure water distribution, sewage and drainage systems, and in waste management systems
Efficiency of government	Increase of revenue, decrease of costs, shorter licensing procedures, satisfaction of citizen and foreign investors

Philipsburg development and urban renewal

In the last years several projects are already carried out: development vision Philipsburg, boardwalk/promenade beach Philipsburg, tourist market. In the updated CEDP the upgrading, beautification and diversification of Backstreet, Cannegieterstreet and other streets, alleys and squares and the finalization of the boardwalks is partly included.

Water management, sewage and drainage systems, waste management systems and underground cabling

The investments needed to improve water management, sewage and drainage systems, waste management systems and underground cabling are important conditions for a sustainable economic development of the island. In the last years a part of these investments are carried out. The remaining investments are already planned (breakwater bridge, mooring facilities Simpson Bay Lagoon, breakwater harbor) or are linked with the projects linked with the upgrading and beatification of Philipsburg.

Efficiency of government

The government plans to carry out several projects to increase the efficiency of government. These projects are of utmost importance to realize a sustainable development and to realize the policy effects of the CEDP (increase of private investments, additional growth of GDP et cetera). However, it is difficult to estimate the costs involved with these projects. Probably, the costs are relatively small. A clear direction, strong management and political will are important conditions to reap the benefits of more revenues, lower costs and higher efficiency.

Targeted tourism development, promotion, marketing and training

PROJECT ACTIVITIES	PROJECT OUTPUT
St. Maarten targeted tourism development, promotion and marketing	
Tourism Master Plan and Tourism Marketing Master Plan	A clear strategy on tourism development for the coming years
Targeted promotion, marketing and product development	Marketing plans, promotion projects, publicity, incentives
Studies, new policies and instruments	Results of studies, cost-benefit analysis, implementation of new policies and instruments

Tourism Master Plan and Tourism Marketing Master Plan

A Tourism Master Plan and a Tourism Marketing Master Plan is needed to promote the further development of the tourism sector on the island and to stimulate a more sustainable and beneficial development of this sector. The Tourism Master Plan will identify:

- The possible diversification within the tourism sector thereby identifying what other types of industries within the tourism sectors can be developed and determine the infrastructure needed and the marketing strategy to stimulate those identified sectors i.e. marina/yachting, conference/group travel, et cetera.
- The repositioning of the island within the region by concerted efforts to adjust the marketing mix applied towards the tourism industry with major emphasis on product development in terms of both the physical development of the island and the human resource development.
- The obstacles to tourism-related investments (includes indirect activities that support tourism) that have to be dismantled,
- The possibility and incentives to develop so-called "brand name" properties,
- Incentive programs that extend the attractiveness of the Tax Holiday Hotel development program,

- Solutions for closed properties (Mullet Bay, Dawn Beach): zoning plan, assessment of economic impact of the area of the island, legal assessment of alternatives, expropriation,
- The need to streamline the registration process for new companies and expatriate labor, immigrations and work permit processes,
- The conditions that will provide the platforms for specific kinds of tourism development e.g. training, development of human capital, upgrading of tourist attractions, restoration of monuments, establishment of nature parks, stimulating the marine industry, et cetera.

The Tourist Master Plan will make an integrated development among the various tourism sub-segments and a more balanced development between daytrip- and stay-over visits possible. Already in the Carrying Capacity Study the major bottlenecks and needs of the tourist sector to realize an integrated development among various tourism sub-segments and to attract high spending tourists are identified. The targeted activities will be part of the Tourism Marketing Master Plan.

Promotion, marketing, product development and training

Resources are also needed to continuously market the island and promote the destination to ensure an increase of visitors to the island, in particular stay-over tourists and in particular segments of the tourism sector that need to be stimulated as a result of the TMP (yachting, conference tourism, festival tourism, tournaments tourism, heritage tourism et cetera. Also developments have to be stimulated to maintain the high level of cruise passengers visiting the island and to strengthen the development of other segments in the tourism industry are needed. Projects as Fort Amsterdam, culture park Belvedere and monuments in Philipsburg can be considered. This type of activities can be part of promotion, marketing and development.

Studies, new policies and instruments

To redevelop the tourism sector some in-depth feasibility studies are needed. The Carrying Capacity Study that has been carried out is a good example to develop sound policies and strategies. Furthermore, probably new policies and new instruments are needed as a result of the TMP to stimulate the development of specific segments of the tourism sector. One of these instruments will be the establishment of the National Tourist Organization (NTO). The NTO will execute the Tourism Master Plan will be executed by the NTO and will be geared towards the improvement of the tourism product. Promotional activities to attract new international chains to the island will also be part of the NTO's assignment.

Other policies and instruments can be focused on:

- Incentives to stimulate new segments of the tourism industry (conference tourism, festival tourism, competition tourism, heritage tourism, eco tourism, et cetera)
- Prerequisites for companies that want to make use of the Tax Holiday Hotel development program,
- Re-opening of closed properties.

Diversification and investment climate

PROJECT ACTIVITIES	PROJECT OUTPUT
Diversification and investment climate	
Economic Diversification Study	A clear strategy on diversification with a selection of target sectors with potential

Economic Diversification Study

Clear policies and strategies of economic diversification are needed to meet new challenges. Incentives and investment acquisition strategies to attract new type of industries are needed. The Economic Diversification Study will identify the possibilities of economic diversification within the context of the St. Maarten economy.

Economic and space limitations on St. Maarten are additional challenges for economic diversification. The tourism industry remains dominant and the high demand of space results in a high rents for commercial buildings and a lack of diversification in businesses in certain areas. E.g. the demand of cruise tourists resulted in the situation that mostly only jewelry stores can survive in Front street because they can afford the rent of commercial spaces.

In the past several ideas of economic diversification are brought up:

- E-business,
- call centers
- warehousing,
- transshipment activities,
- offshore activities,
- learning centers,
- outsourcing,
- developing of the marine sector,
- light manufacturing.

The EDS will identify which segments of these sectors have the potential to contribute to the economy of St. Maarten. The EDS will identify the critical success factors for the development of each (sub)sector in the St. Maarten context and will describe the content, scope and timeframe of incentives and instruments needed. To acquire investment opportunities an Economic Stimulation Plan and an Investment Policy will be developed taking into consideration the critical succes factors, content, scope, timeframe and means of the incentives and instruments needed.

Infrastructure related to redevelopment of tourism and target sectors

PROJECT ACTIVITIES	PROJECT OUTPUT
Targeted investments	
Tourism related	Completion of investments
Other sectors related	Completion of investments

Tourism related

Specific incentives, instruments and investments in infrastructure, training, human capital development and in labour market stimuli are needed to redevelop the tourism sector after the completion of the Tourist Master Plan. The needs of the tourist industry analysed in the Carrying Capacity Study will be addressed. From 2005 onwards these targeted investments and incentives are carried out and are part of the CEDP.

Other sector related

Specific incentives, instruments and investments in infrastructure, training, human capital development and in labour market stimulation will be proposed in the Economic Diversification Study. From 2005 onwards these targeted investments and incentives are carried out and are considered an essential part of the CEDP.

4.2 Project database

↑ Some NAFL 38.5 million is targeted for basic infrastructure, In particular, road improvement, road intersections, the upgrading of Front and Backstreet, Philipsburg development and urban renewal. For economic development also basic infrastructure in water management, sewage and drainage systems and waste management systems should be at par. In 2004 two important studies are foreseen: the Tourist Master Plan (rebuilding of the tourism sector) and the Economic Diversification Study (economic diversification). Incentives, instruments, investments and training needs for the rebuilding of the tourism sector and economic diversification will incorporate the results of both studies. As a result of these studies in the CEDP already targeted investments of NAFL 20 million are foreseen as an indication of the developments ahead. Furthermore, for the further development of the tourism sector already investments are foreseen for targeted promotion, marketing, feasibility studies, improvement of facilities, training and the development of new policies and instruments.

Indicative list of project activities

PROJECT ACTIVITIES 2004-2007	Total (x 1,000 NFL)
Basic infrastructure and government policies	
Total infrastructure investments	38,500
Further development of tourism	
Total redevelopment of tourism	29,000
Diversification and investment climate	
Economic diversification study	1,000
Total economic diversification	1,000
Targeted infrastructure investments	
Total targeted investments	20,000
Total of all projects	88,500

wan 17,5
wan 28,000
wan 60,000

5. Implementation

5.1 Inputs

The necessary means for implementing the CEDP-St. Maarten mainly concern input of personnel and running costs of the Island Territory of St. Maarten, supported by the National Tourist Organization and St. Maarten Business Community. To execute the CEDP and other relevant activities a number of departments and sections within departments are severely understaffed. This understaffing creates the reason for huge overtime, which has now been halted. However, this should not result in affecting negatively the quality and quantity of service performed by government. Therefore, it is estimated that for the implementation and managing of the program, as well as the preparation and executing of the projects, a total of two full-time-equivalent (FTE) of manpower is needed.

For external expertise in preparing and managing projects, including support in frequent monitoring of results and effects (see Chapter 7), an additional budget, as part of the CEDP-St. Maarten funding, of 200,000 NAFL will be reserved. These implementation costs do not include costs of execution.

Annual implementation costs (x 1,000 NAFL) are estimated to be:	
▪ Two FTE manpower (x 50,000 NAFL)	100
▪ External expertise	100
Total annual implementation costs	200

5.2 Organization and procedures

The Executive Council of St. Maarten is ultimately responsible for the implementation of the CEDP-St. Maarten.

The Administration will appoint a coordination team consisting of the Sector Director of Economy & Tourism (Chairman), Sector Director Management Support Services, the Head of Department of Economic Policy & Research, the Director of the Project Bureau and the Head of the St. Maarten Tourist Bureau and/or the National Tourist Organization (NTO), which will be responsible for the execution, monitoring and evaluation of the CEDP.

For the execution of the CEDP the coordination team will work closely together with the Program Office. The Program Office coordinates all development programs of all donors, organizes co-funding and integrates the development funds and projects with the regular policy process of the island government. In the beginning of 2004 the coordination team and a Sint Maarten Development Program 2004 will be established. In the Sint Maarten Development Program 2004 the four actual cooperation programs (Policy Development, Sustainable Economic Development, Education and Law Enforcement) will be integrated.

Various stakeholders, inside and outside of the government, will compile project proposals and implement projects. Many project proposals have to be developed after the completion of the TMP and the EDS. The projects and activities regarding the infrastructure and government policies will mainly be handled by the government agencies. The National Tourist Organization will have the lead in the projects related to the improvement of the tourist product and marketing. To carry out the targeted investments private investors on the island and from abroad will have an important role. Project owners report on a half yearly basis to the overall management of the CEDP with both financial and non-financial information.

The management of the program (coordination team) entails the updating of the program and the twice a year evaluation of its progress. It will also advise project-owners if necessary and consult the Commissioner and the Executive Counsel.

For the part of the CEDP-St. Maarten that will be supported by development cooperation funds of The Netherlands, the soon to be installed Development Fund will deal with requests for financing of individual projects. The main criteria for approval will be the accordance with the objectives of the CEDP-St. Maarten, efficiency, effectiveness and sustainability.

5.3 Timeframe

The CEDP-St. Maarten has a duration of four years and will start as soon as there is a formal political commitment of the St. Maarten government. For the use of Dutch development cooperation funding, the updated CEDP has to be approved as a solid base for sustainable economic development by the Dutch government.

Within the CEDP-St. Maarten the projects and activities are phased based on economic policy priorities, availability of funds, interdependency of projects and implementation capacity.

5.4 Estimated investment cost and financing plan

The preliminary and roughly estimated investments costs of the updated CEDP-St. Maarten are NAFL 88.5 million for the coming four years. International donors and the Netherlands Government (42%) the island government (28%) and private investors from abroad and from the island (30%) will cooperate to stimulate the economic development of Sint Maarten. The Tourist Master Plan, the Economic Diversification Study and several detailed feasibility studies will make clear if the private investments can be triggered. A concerted effort of international donors to combine their funds makes the funding needed feasible and realistic. The island government and the private sector will contribute towards the economic development plan. The integration of the development means in regular budgeting, planning and control procedures should facilitate the financing of the CEDP 2004-2007.

The following table gives an overview of the investment costs (x 1,000 NAFL) in the period 2004-2007 and their preliminary anticipated sources of finance.

Comprehensive Economic Development Plan St. Maarten 2004-2007

It is assumed that Philipsburg development and urban renewal and part of the investments of roads can be realized with financing of the island government companies, donor funds and by the private sector (parking garages, contributions for the upgrading and beautification, diversification of shops et cetera).

For the revamping of the tourist sector is supposed that the island government finances the detailed feasibility studies and half of the tourist related development and investments. The private sector will finance partly the tourist related developments, promotion and marketing. The international donors will finance the TMP and part of the promotion, marketing and improvements of the monuments of Philipsburg.

The Economic Diversification Study is financed by the development funds of the Dutch government.

To finance the targeted investments for the redevelopment of the tourist industry and for economic diversification the private sector and the international donors will play a major role. These investments take only place if the TMP and the EDS show clear potential for commercial investments and a favorable cost-benefit outcome from a societal point of view.

CEDP-St. Maarten	St. Maarten	Donors	Private	Total
Basic infrastructure and government policies	14,500	14,000	10,000	38,500
Targeted tourism development, promotion and marketing	4,700	17,200	7,100	29,000
Economic diversification and investment climate		1,000		1,000
Targeted infrastructure investment	5,000	5,000	10,000	20,000
Subtotal	24,200	37,200	27,100	88,500
Implementation	400	400	-	800
Total	24,600	37,600	27,100	89,300

Government

The investments of the government for the economic development program in the coming four years – additional to other current activities of government that support and facilitate economic development – come from (reallocation within) the current budget or indirectly through government subsidized organizations or government owned companies (public utilities, harbor, airport, et cetera). Due to the program there will be higher economic growth, an increase in real incomes, an increase in profitability of enterprises (higher growth of labour productivity) and a decline in unemployment. The government can use these additional incomes or reduced expenditures to partly finance projects and activities of the economic development plan.

Donors

The funding that is anticipated from donor funds in the coming four years consists of two parts:

1. Dutch development cooperation funds

This entails the island's share of the available funds from the Dutch development funds. The amount of anticipated donor funds from The Netherlands Government are derived from:

- The total available funds for development cooperation (annual some 40 million euro);
- A share for sustainable economic development; 50%
- A division over the Island Territories and the Central Government as proposed in the Wijers-report;
- For Sint Maarten this share equals an estimated annual funds of 7.65 million NAFL a year, hence a total of NAFL 30.6 million for the coming four years;
- It needs to be taken into account, that costs of projects (supported by development funds and not included in this program) that are already in execution will form a part of the determined donor budget.

2. Other donor funds and external financing

This amount of anticipated funds (NAFL 7 million for four years) consist of the following sources:

- Other international donors as the European Union (average annual flow of European Development Fund to the Netherlands Antilles between 1986 and 1999 was 7.2 million NAFL), United Nations or (technical) assistance from more regional institutions;
- Dutch and international funds and charity foundations that support social, cultural, heritage and environmental projects, be it directly to the government or through the participating stakeholders in the program;
- Reprioritization of Dutch development funds by the island government by slightly increasing the share of sustainable economic development (> 50%) in the total of the island development programs or through flexibility in the Wijers division shares in situations where budgets of other entities are not exhausted.

Private sector

The private sector 'contributions' to reach the objectives and targets of the economic development plan consists of various elements:

- So-called spin-off investments that are triggered or facilitated by public investments in the infrastructure, eliminations of bottlenecks, and the introduction of instruments, incentives and policies;
- Public-private-partnerships in investments in the infrastructure or utilities, and the development of infrastructure-related sites or projects;
- Matching of, or contribution to tourism marketing and promotion activities and contributions to, or co-financing of training and advice activities.

6. Assumptions and risks

Assumptions link the CEDP-St. Maarten to its environment, including those activities and developments that are important for the success of the plan, but cannot be directly controlled by it. The following table gives an overview of the most important assumptions, and a judgment of the risks that the assumptions do not hold and the mechanisms to react to situations where risks actually occur. Specific attention is paid to the assumptions and risks related to the conditions for an optimal implementation of the CEDP and to the sustainability of the effects of the program.

ASSUMPTIONS	RISKS
External dependencies	
No major global events which impact the key economic activity of Sint Maarten and or the region	Low-to-medium-risk: statistically every five year a tropical storm or hurricane will affect the island; most constructions are hurricane proof; a disaster emergency plan is in place
Private investments for the targeted investments in the redevelopment of the tourism industry and economic diversification	Low-risk: the feasibility studies (TMP and EDS) will identify the investments to be attracted from local and foreign investors
The CEDP-St. Maarten will have no substantial negative social external effects	Low-risk: stakeholders and NGO's are involved to seek social-economic synergy
The CEDP-St. Maarten will have no substantial negative environmental external effects	Medium-risk: the plan itself has no serious external environmental effects, but economic growth and diversification can put pressure on the environment
Program level	
Methodological approach is adequate to reach overall program objectives	Low-risk: CEDP-St. Maarten is based on logical framework and analyses by World Bank and other institutions
CEDP-St. Maarten has full administrative support	Low-risk: CEDP is formally approved by the Sint Maarten Government and is in line with the government program
There is sufficient institutional and management capacity to implement plan	Medium-risk: St. Maarten has the capacity to execute programs and projects; investments, programs, incentives and activities are based on feasibility studies (TMP & EDS); additional capacity is foreseen in CEDP; the government itself devotes important financial means to the program
The program has support of the social partners and other economic stakeholders	Medium-risk: participation of stakeholders was organized in a workshop with stakeholders from private sector
Funding, finance	
St. Maarten funding will be available	Medium-risk: the financial possibilities of the government are limited but government-owned companies have means for certain investments
Donor funding will be available	Low-risk: commitments on part of the Dutch Government are firm and other donor funds seem feasible

7. Monitoring and evaluation

7.1 Methodology and selection of indicators

The progress and the success of the updated CEDP will be monitored frequently. With the help of monitoring indicators the progress of the program and its activities, related to the development objectives, program targets and timeframe, will be measured objectively.

It is important to realize that the measuring of economic development (and consequently the effects of an economic program) is an art in itself. For small islands with little economic data this is even more difficult. On top of that, future developments depend much on externalities and for small-size economies 'individual' occurrences or developments can have a large influence on the outcome. In order to by-pass lengthy discussions on the validity or plausibility of economic forecasts, monitoring indicators will be presented as deviations of a so-called reference path.

This **reference scenario** pictures the economy in the coming years, based on the trends of the recent past and insights of local stakeholders, without having the pretension of closely predicting the future economic development. The targets and effects of the CEDP-St. Maarten will be reflected in a **policy scenario** as deviations from the reference values. For example, if the trend of future development of tourism is an annual growth of +1% (reference scenario) and the targeted effects of the redevelopment of the tourism sector is +2% annual growth of stay-over tourists the policy scenario will result in 3% growth of tourism. This extra 2% growth of the tourist sector is used as an indicator to monitor the success of the economic program.

The main criteria for the selection of the key monitoring indicators are:

- Close linkage to the program objectives and desired effects;
- Indicators are as SMART as possible (Specific, Measurable, Acceptable, Reasonable and Timely);
- Availability of (recent) data;
- Determinable by independent institutions.

7.2 Monitoring indicators

The following table and graphs give the reference- and policy values of the key monitoring indicators for measuring the effects of the CEDP-St. Maarten for the years 2004-2007. A selected number of important direct effects and macro-economic indicators are chosen that monitor the structural economic development of St. Maarten.

Without the Comprehensive Economic Development Plan 2004-2007 the number of stay-over tourist is estimated to be on average 390,000 and the number of visiting cruise passengers 1,000,000 (reference values). Without the Plan real GDP-growth is projected at 3%, employment growth at 2.8%, the unemployment rate at 11.7% and the real income of employees in enterprises will decline with 0.7% annually.

The execution of CEDP will give the economic development of Sint Maarten an important push. The negative trend in the development of stay-over tourists will be reversed (+ 20,000), non-tourist exports will growth due to economic diversification (+1.3%), productivity will increase additionally with 0.5% annually because of the

implementation of the good governance program and the efforts to improve efficiency of the public sector. The impulse of the CEDP will result in higher real GDP-growth (+1.2%), more employment growth (+1.0%), a decline in the unemployment rate (-/0.7%), higher public sector revenues (+1.0% as percentage of GDP) and an increase in real income growth of employees in enterprises (+0.3%).

Indicators	Reference values yearly average	Policy effects CEDP	Policy scenario yearly average
	2004 – 2007	2004 - 2007	2004 - 2007
<i>Direct results:</i>			
# Stay-over tourists (total)	390,000	20,000	410,000
# Day trippers (total)	1,000,000	-	1,000,000
Growth non-tourism exports (%)		1.3	
Additional productivity growth (%)		0.5	
<i>Macro-economic effects:</i>			
Real GDP-growth (%)	3.0	1.2	4.2
Employment growth (%)	2.8	1.0	3.8
Unemployment rate (%)	11.7	-/ 0.7	11.0
Current account in % GDP	17.4	-/ 1.9	15.6
Public sector revenues in % GDP	26.4	1.0	27.4
Real income growth employees	-/ 0.7	0.3	-/ 0.4
Below poverty line 2 (% earners)	16.4	-/ 0.15	16.2

7.3 Evaluations

The annual evaluation of the overall success of the CEDP-St. Maarten will be based upon the actually realized values of the monitoring indicators as reflected in paragraph 7.2. The collection of the data and the determination of the indicator values will be the responsibility of the coordination team. All actually statistical information can be delivered by the Central Bureau of Statistics of the Netherlands Antilles (CBS), including information that CBS gets from other institutes like the Central Bank, Tourist Offices, et cetera. What is needed is an annual update of all figures as in the Antillyse model for each island (the sum gives the whole of the Netherlands Antilles). CBS already provides this information for Curaçao and the business-plan of CBS states that similar consistent databases will be made for all other islands. In the economic program for the Central Government a project is included to facilitate CBS in order to guarantee that the information will become available for each island already in the year 2004.

The Island Government and the main donors will use these measurements as the principle information for evaluation of the progress of the CEDP-St. Maarten and, if necessary, this evaluation will lead to adjustments or adaptations of priorities.

Twice a year, the management of the CEDP-St. Maarten will make an internal evaluation of the CEDP in which the progress of the projects and activities will be the main focal point. Some external support for the frequent monitoring of the results and effects of the program is necessary. Where CBS can provide up-to-date figures in a consistent database that feed the economic model Soualiga, government officials will need some training & support to use the model for monitoring and evaluation purposes. A small budget is included in the implementation cost.