



Social Economic Initiative (SEI)

2007-2010

Sint Maarten

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1. Introduction

Background

In the "Hoofdlijnenakkoord" of November 2005, it was agreed that each entity of the Netherlands Antilles will establish an action program for social and economic measures. This Social Economic Initiative (SEI) is to make sure that the proper financial and economic foundations are laid for a sustainable future when the different constitutional statuses become effective.

In the "Slotverklaring" of November 2, 2006, the SEI was given a crucial position regarding debt relief and acquiring country status. The SEI measures are subject to approval by the Executive Council and the Kingdom Council of Ministers. The approval by the latter is due to the willingness of the Netherlands to contribute to the financing of the SEI with regard to the investment impulse and the social safety net. The SEI contributes towards the setting of the policy agenda for the next 3 year period, that is, beginning with the transition phase towards achieving country status and thereafter. Preferably, implementation of the SEI should therefore be feasible within mentioned period.

The measures

A list of possible reform measures and supporting measures has been prepared in the period June-August 2006 by a joint SXM-Dutch team. The measures and projects on this resulting list were further scrutinized based on their effectiveness in providing the proper financial and economic foundations to come to a healthy starting position. The indicative effects of the measures on economic indicators such as GDP, unemployment, productivity have been calculated insofar as possible with the use of the Soualiga economic model. This has resulted in proposed measures in the following areas:

1. Spatial planning and traffic congestion
2. Development of SME and economic diversification
3. Tourism marketing
4. Labor market and education
5. Regulation
6. Government finance
7. Data
8. Social issues

For each policy area possible measures have been identified. These measures entail both reform measures as well as supporting measures (investment impulse and social safety). For each measure specific implementation plans will be worked out. These implementation plans will indicate the planning, budgeting, financing and monitoring indicators for each of the measure that will be selected (addendum 3). To help secure the implementation of the measures, an amount of ANG 26,000,000 will be made available by the Dutch government over the period of the SEI. These funds are in addition to the regular development aid which Sint Maarten receives. The contribution of the Island Territory of Sint Maarten to the SEI matches that of the Dutch government, equalling ANG 26,000,000.

Chapter 2 elucidates on the eight areas for intervention and the individual policy measures. It also describes how the individual policy measures impact the economy through increase in tourism visitors, increase in labor productivity etc.

Chapter 3 quantifies the impact on the economy that the combined measures are expected to have based on the calculations in the Soualiga model.

Chapter 4 describes the implementation procedures for the SEI.

Chapter 5 describes the conclusions and pre-conditions for the implementation of the SEI.

2. Policy measures

2.1 Spatial planning and traffic congestion

Analysis

The strong economic growth of SXM increasingly puts a pressure on the use of land and the road system. This results in insufficiently regulated use of land (open market policy), severe traffic congestion and problems with waste management, which, among other things, endangers the attractiveness of the island for tourists and residents alike. This will affect the economic, social and environmental sustainability of the island. Enforcement of legislation concerning land use and economic activities is therefore very important. .

Policy objectives

- A reduction in traffic congestion
- The diversification of economic activities in specific economic areas
- The preservation of the quality of the island in terms of
 - The environment
 - Economic activities
- Increase the attractiveness of the island for tourists

Proposed measures

1. Review existing studies and plans (and if necessary conduct additional traffic and public transportation study) with the objective to reduce congestion by, for instance, improving the public transportation system and/or creating incentives to reduce traffic congestion.
2. Reduce certain clearly visible traffic bottlenecks by improving infrastructure.
3. Improving waste management and sewage treatment systems¹
4. Develop an island-wide comprehensive spatial development vision as a basis to develop specific zoning plans with the appropriate regulations.
5. Reinforce the VROM department: more capacity for policy development, monitoring and measuring environmental trends/developments/impacts.
6. Strengthen enforcement by ROB inspection department.

Assumptions for model input

1+2+3: When congestion of the traffic is reduced, the productivity of economic activity will increase. Furthermore, the tourist product of the island will become more attractive.

Model input: increase in productivity + increase number of tourist visits

4+5+6: The development of a spatial development vision and consequent zoning plan, together with reinforcement of the institutional capacity of the departments VROM and Inspection at the sector ROB

¹ Currently an ANG 13 million investment is being prepared by the Island Government with Dutch funding

will also enable a more balanced and sustainable spatial development, thereby increasing the attractiveness of the island to tourists, residents and investors, and increase the productivity level.

Model input: increase in productivity + increase number of tourist visits.

Implementation

policy area	Policy measure	gov't sector	contribution NL	contribution SXM	planning 2007			2008				2009				2010	
					Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
Spatial planning and traffic congestion	1. Conduct a traffic and public transportation study	ROB	200,000	200,000	preparation	preparation	preparation	preparation	preparation	preparation	preparation	preparation	preparation	preparation	preparation	preparation	preparation
	2. Reduce certain clearly visible traffic bottlenecks by improving infrastructure	ROB	7,000,000	7,000,000			preparation	preparation	preparation	preparation	preparation	preparation	preparation	preparation	preparation	preparation	preparation
	3. Improving waste management and sewage systems	ROB	2,000,000	2,000,000				preparation	preparation	preparation	preparation	preparation	preparation	preparation	preparation	preparation	preparation
	4. Develop an island-wide comprehensive spatial development vision as a basis to develop specific zoning plans with the appropriate regulations	ROB	0	250,000				preparation	preparation	preparation	preparation	preparation	preparation	preparation	preparation	preparation	preparation
	5. Reinforce the VROM department: more capacity for policy development, monitoring and measuring environmental trends/developments/impacts.	ROB	0	500,000	preparation	preparation	preparation	preparation	preparation	preparation	preparation	preparation	preparation	preparation	preparation	preparation	preparation
	6. Strengthen enforcement by ROB inspection department	ROB	0	500,000	preparation	preparation	preparation	preparation	preparation	preparation	preparation	preparation	preparation	preparation	preparation	preparation	preparation
sub-total		19,650,000	9,200,000	10,450,000													

2.2 Development of SME/diversification

Analysis

SXM's economy is not very diverse; economic activity takes place mostly in the tourist sector. By strengthening the small business sector and by stimulating more diverse economic activities, the economy will be less prone to external shocks that affect the tourist industry. This will also create a broader supply in jobs, so that there are more chances on the labor market for job seekers and graduates who studied abroad.

An Economic Diversification Study has been carried out, which indicated the following economic activities as the most feasible for SXM:

- o Marine (i.e. providing services for yachts and yacht owners)
- o Logistics and Distribution (i.e. becoming a logistical hub for the region)
- o Hydro-farming and agro-processing (i.e. foster small scale local entrepreneurship)
- o Higher Education (i.e. attracting foreign students by becoming an attractive host for foreign educational institutions). An option would be to attract higher education in the field of tourism.

It can be noted that the above mentioned economic diversification is ideally supportive of the tourism sector. .

Policy objectives

- More sustainable economy through economic diversification
- Create alternative job opportunities outside the tourism sector
- Diversify the tourist product (e.g. eco-tourism, health-tourism, conference tourism; see also paragraph 2.3)

Proposed measures

1. Develop marketing tools for new tourism and non-tourism market opportunities, including the development of promotion material.
2. Develop educational programs – besides the necessary improvement of the tourism oriented education - towards new economic activities within the present education infrastructure and to entrepreneurship in general.
3. Support the Small Business Development Foundation (SBDF).

Assumptions for model input

1+2+3: The proposed measures above will result in a growth in export, both of the tourist and non-tourist sector. The educational and training efforts will increase productivity and will reduce the unemployable workforce. Thus, both labor demand and supply will increase.

Model input: export growth + increase in productivity + increase mediated unemployed²

Implementation

policy area	Policy measure	gov't sector	contribution NL	contribution SXM	planning 2007			2008				2009				2010		
					Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	
<i>Development of SME/diversification</i>	1. Develop educational programs – besides the necessary improvement of the tourism oriented education - towards new economic activities within the present education infrastructure and to entrepreneurship in general.	WELFARE	1,000,000	1,000,000	preparation	preparation	preparation	execution	execution	execution	execution	execution	execution	execution	execution	execution		
	2. Support the Small Business Development Foundation (SBDF).	E&T	250,000	250,000	execution	execution	execution	execution	execution	execution	execution	execution	execution	execution	execution	execution		
	3. Develop marketing tools for new tourism and non-tourism market opportunities, including the development of promotional material.	E&T	1,000,000	1,250,000	preparation	preparation	preparation	execution	execution	execution	execution	execution	execution	execution	execution	execution		
sub-total		4,750,000	2,250,000	2,500,000														

² reduction of persons that are considered unemployable, such as the physically challenged, school dropouts etc.

2.3 Tourism marketing

Analysis

The sustainability of the SXM economy will increase if the benefits and spin-offs associated with the stay-over tourism sector are maximized. Therefore SXM's attractiveness as a tourist destination should be improved. Presently, the marketing efforts by the government geared towards tourists with a higher disposable income are quite limited. The Tourism Master Plan (TourMap) provides recommendations to develop a structured marketing strategy.

Policy objectives

- Increase stay-over tourism (Attract name brand hotels/Upgrade facilities)
- Reduce seasonality in the tourist sector
- Increase the return and benefits of the tourist sector
- Attract tourists with higher disposable income

Proposed measures (including timeframe and cost estimate):

1. Establish a tourism authority
2. Based on tour map establish tourism marketing plan with specific measures aimed at increasing the intensity and scope of marketing activities (including an increase in marketing funds).

Assumptions for model input

1+2: These measures will predictably result in growth of the tourist sector and an increase in private investments.

Model input: Increase in tourism + Increase in private investments

Implementation

policy area	Policy measure	gov't sector	contribution NL	contribution SXM	planning 2007			2008				2009				2010		
					Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	
<i>Tourism marketing</i>	1. Establish tourism authority	E&T	0	500,000	preparation	preparation	preparation	execution	execution	execution	execution	execution	execution	execution	execution	execution		
	2. Increase the intensity and scope of marketing activities (including an increase in marketing funds)	E&T	2,000,000	2,000,000	execution	execution	execution	execution	execution	execution	execution	execution	execution	execution	execution	execution		
sub-total		4,500,000	2,000,000	2,500,000														

2.4 Labour market and education

Analysis

There is a severe problem regarding youth unemployment (official figure is 30%). Apparently, there is a mismatch between supply and demand of labor. There are several reasons for the mismatch. Firstly: youths leaving the school without a diploma (40-50% of the students³) are often unprepared to start working in the economy of SXM, which is mainly based on the tourist industry. The high drop out rate results from not enforcing compulsory education, and an insufficient supply of schools and teachers. Secondly, there are high numbers of illegal workers which are crowding out legal workers. The influx of both legal and illegal immigrants has also led to insufficient school capacity and is also putting pressure on other social services provided by the government. To improve this situation, strengthening of the educational system is needed and economic, labor and education policies need to be synchronized. Strengthening of immigration policy enforcement and labor inspection are very important preconditions to improve the employment possibilities of legal workers.

Policy objectives

- Increased local youth participation in labor market
- Synchronize the influx of low-wage immigrant workers with the local labor supply
- Provide a better match between labor demand and supply
- Increase labor productivity
- Reduce the number of illegal workers
- Increase supply of and quality of schools

Proposed measures

1. Invest in enforcement of immigration policy, including an integrated computerized system.
2. Primary and vocational education geared towards the labor market. One of the most prominent aspects of the education system must be to ensure that the needed skills for tourism services are well developed. This will not only lead to employability, but also to a general public attitude that is supportive to tourism. See 2.2 for education geared towards diversification sectors.
3. Implementation and enforcement of compulsory education; this has to be complemented with investments in school capacity to reduce congestion in existing school
4. Invest in second chance education (e.g. *Sociale Vormingsplicht*, on-the-job training)
5. Strengthening of labor inspection (labor conditions / minimum wage)
6. Execute a feasibility study into the effectiveness of incentives as to increase the employability of the unemployable segment of the labor market, e.g. fiscal incentives and the provision of child care centers (“kinderopvang”).

³ Census 2001

The measures focusing on enforcement of immigration policies can be carried out through separate funding arrangements, such as Plan Veiligheid Nederlandse Antillen (PVNA) or other future arrangements. Measures focusing on strengthening the educational system similarly have to be incorporated in the (new) multiyear Education Program.

Assumptions for model input

1: This measure will result in a decrease in the influx of both legal and illegal immigrants. By enforcing the immigration regulations and by synchronizing the influx of legal immigrants so that it matches the labor demand, there will be more chances on the labor market for both local and foreign legal workers.

Model input: Stabilization in immigration (NB: illegal immigrants are not incorporated in the model)

2-6: This package of measures is aimed at reducing the number of unemployable workers and to increase the participation of the local population in the labor market. Also the labor conditions of the active workforce are addressed.

Model input: Increase in productivity and employability

Implementation

policy area	Policy measure	gov't sector	contribution NL	contribution SXM	planning 2007			2008				2009				2010				
					Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2			
<i>Labour market and education</i>	1. Invest in enforcement of immigration policy, including an integrated computerized system.	PHP	pvna-sxm	pvna-sxm	p.m.															
	2. Primary and vocational education geared towards the labor market.	WELFARE	new education program	new education program	p.m.															
	3. Enforcement and implementation of compulsory education; this has to be complemented with investments in school capacity	WELFARE	3,000,000	300,000																
	4. Invest in second chance education (e.g. <i>Sociale Vormingsplicht</i> , on-the-job training)	WELFARE	1,800,000	200,000																
	5. Strengthening of labor inspection (labor conditions / minimum wage)	E&T	0	500,000																
	6. Execute a feasibility study into the effectiveness of incentives as to increase the employability of the unemployable segment of the labor market, e.g. fiscal incentives and the provision of child care centers ("kinderopvang").	E&T	200,000	100,000																
sub-total		6,100,000	5,000,000	1,100,000																

2.5 Regulation

Analysis

The government organization and legislation process have not kept pace with the rapid economic development on the island. As a result, there exist redundant and/or unnecessary procedures which increase the administrative burden of both government departments and business alike. As a result of new spatial and economic zoning regulation and by synchronization of policies (*i.e.* economic, labor, education and immigration policies) there will be more opportunities to reduce red tape. Furthermore, because of the small-scale of the economy and the limited number of suppliers in several markets there is a high risk of abuse of market power leading to inflated prices. This negatively affects the purchasing power of consumers and the cost of doing business.

It should furthermore be avoided that there is a lack of confidence in the products sold and services provided on the island as this could damage the image of the island as a tourist destination. Naturally, consumer protection is of high interest to local consumers as well.

Policy objectives

- Improve the investment climate by removing red tape and ensuring a transparent and predictable business environment.
- Improve market efficiency, leading to a better price and quality of products and services.
- Improve consumer protection, including the quality of the tourist product.

Proposed measures

1. Study the need and feasibility of the introduction of an independent competition authority with the necessary enforcement power.
2. Reduce red tape: increase the transparency of procedures, streamline/simplify procedures and abolish redundant procedures.
3. Strengthen consumer protection as well as health and safety inspection.

Assumptions for model input

1+2: The measures aimed at the regulation of competition issues will reduce both consumer prices and the production costs for the business sector. This will increase productivity and lower cost prices.

Model input: Increase in productivity + lower general cost prices

3: The reduction of red tape will create a more enabling business environment and therefore increase productivity.

Model input: Increase in productivity and investment

4: No input in the model

Implementation

policy area	Policy measure	gov't sector	contribution NL	contribution SXM	planning 2007			2008				2009				2010	
					Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
Regulation	1. Study the need and feasibility of the introduction of an independent competition authority with the necessary legislative power	E&T	250,000	0	preparation	preparation	preparation	execution	execution								
	2. Reduce red tape: increase the transparency of procedures, streamline/simplify procedures and abolish redundant procedures.	E&T	600,000	400,000	preparation	preparation	preparation	preparation	preparation								
	3. Strengthen consumer health and safety inspection	SHCA	0	500,000				preparation	preparation	preparation	preparation	preparation	preparation	preparation	preparation		
sub-total		1,750,000	850,000	900,000													

2.6 Government finance

Analysis

Presently the budget is not fully executed because of shortfalls in government revenues and higher expenditures due to accumulated deficits. A lot of potential revenues remain uncollected because of both a lack of enforcement and a narrow tax base. This is to say that certain groups and entities are currently excluded from taxation and there are limitations in the tax regulation as well. The government also provides a range of fiscal incentives to promote investments. Based on the current state of development it needs to be evaluated whether these incentives are still desirable.

When reviewing the government expenditures, the main financial risks are an unsustainable pension and health care system. In addition, the influx of (illegal) immigrants leads to a high increase in expenditures for social services provided by the government. There are presently no structural reserves to offset the negative effects of disasters, *i.e.* hurricanes.

Policy objectives

- Increasing government revenues by broadening the tax base (*i.e.* new forms of tax and new groups of taxpayers) and by increased enforcement.
- Improve prioritization of expenditure in order to achieve alignment with the government policy and adherence to sound financial management.
- Effective use of tax instruments for policy goals (*e.g.* income distribution, fiscal incentives).
- Improve preparedness to absorb external shocks.

Proposed measures

1. Review and adjust the tax system to ensure more effective enforcement and improved benefits. If and where necessary assistance, in keeping with the expressed willingness by the Netherlands to provide expertise for the SEI, will be requested from the Netherlands Ministry of Finance when conducting the review and possible adjustment of the tax system.

2. Reform health care system in order to achieve an affordable and sustainable general coverage based on the results of a comprehensive study of the situation in St. Maarten currently being conducted.
3. Reform the pension system into a general pension coverage for all workers that is affordable and sustainable based on the results of a comprehensive study of the situation in St. Maarten currently being conducted.
4. Introduction of a disaster reserve fund (for both natural and unnatural disasters) that is incorporated in budget legislation.

Assumptions for model input:

- 1: None; in general, this will result in increased tax revenues.
- 2+3: None; in general, this will result in lower expenditures.
- 4: Provisions for a disaster relief fund are incorporated in the output of the model.

Implementation

policy area	Policy measure	gov't sector	contribution NL	contribution SXM	preparation		execution				2009				2010		
					planning 2007	2008	2008	2008	2008	2008	2009	2009	2009	2009	2010	2010	
					Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
Government finance	1. Review and adjust the tax system to ensure more effective enforcement and higher revenues.	RESOURCES	900,000	100,000													
	2. Reform health care system in order to achieve an affordable and sustainable general coverage based on the results of a comprehensive study currently being conducted on assignment of the Island Government	SHCA	0	450,000													
	3. Reform the pension system into a general pension coverage for all workers that is affordable and sustainable, based on the results of a comprehensive study currently being conducted on assignment of the Island Government	WELFARE	0	450,000													
	4. Introduction of a disaster reserve fund (for both natural and unnatural disasters) that is incorporated in budget legislation.	ROB	0	100,000													

2.7 Data

Analysis

There is a lack of reliable statistics for a broad range of subjects and economic sectors. This scarcity in information severely hampers sound and efficient policy and decision-making. Also the human and technical capacity at the government departments is insufficient. This is caused by the lack of authority on the part of the island government (e.g. CBS is a central government organization), by the absence of an integrated automated system.

Policy objective:

- Ensuring reliable and consistent information to improve the policy and decision making process. The organization collecting the data has to be independent within the island government.
- Ensure that minimum data requirements are met (National Accounts); data is needed especially in the areas of Education, Labour Market, Income Distribution (poverty), Government Finance and measuring GDP

Proposed measures

1. Institutional strengthening of the relevant government institutions (training, projecting, forecasting and statistics). Given the importance of data (especially in the above mentioned areas) and the small size of Sint Maarten, further investigation is needed into the possibilities of inter-institutional co-operation within the Kingdom.
2. Integration, synchronization and interfacing of information through a computerized system
3. Obtaining a macro-economic model and training in use of the model

Assumptions for model input

None; this will improve public governance, which cannot be translated in an assumption for the model.

Implementation

policy area	Policy measure	gov't sector	contribution NL	contribution SXM	planning 2007			2008				2009				2010		
					Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	
<i>Data</i>	1. Institutional strengthening of the relevant government institutions (training, projecting, forecasting and statistics). Given the importance of data (especially in the above mentioned areas) and the small size of Sint Maarten, further investigation is needed into the possibilities of co-operation with other islands or outsourcing of data-gathering.	MAGMT. SUPP.SERV.	0	500,000	preparation	preparation	preparation	execution	execution	execution	execution	execution	execution	execution	execution	execution		
	2. Integration, synchronization and interfacing of information through a computerized system	MAGMT. SUPP.SERV.	900,000	100,000	preparation	preparation	preparation	execution	execution	execution	execution	execution	execution	execution	execution	execution		
	3. Obtaining a macro-economic model and training in use of the model	E&T	900,000	100,000	preparation	preparation	preparation	execution	execution	execution	execution	execution	execution	execution	execution	execution		
sub-total		2,500,000	1,800,000	700,000														

2.8 Social issues

Analysis

Social Housing and Infrastructure

There is a shortage of social housing on Sint Maarten, especially for the lower income category. In the Housing Vision (Woonvisie) established by the Executive Council and the SMHDF in 2003, it was determined that the demand for social housing until 2010 consists of 500 – 1200 low income homes. Based on a housing demand study of 2000 it was suggested that approximately 58% of the population surveyed could afford a maximum monthly rent of 600 ANG. The main target group rent category for social housing is between 400 – 600 ANG per month for families having a maximum monthly household income between 1200 – 3000 ANG. Approximately 184 low income homes will be constructed in 2007/8 leaving a substantial demand remaining. It is not financially feasible for the SMHDF to construct low income homes for this target group without subsidy assistance from the Government.

It is expected that an increase in the supply of low income housing will lead to an overall decrease in rent prices for this segment on the private market, which are currently considered too high.

Another point of attention is the poor infrastructure in the low-income neighborhoods (unpaved roads, sewage systems, etc.)

Pension, Social Security and Unemployment Insurance system

Because of a lack of general pension coverage for all workers (public and private sector) the Government is confronted with unforeseen costs to supplement the AOV (old age) pension provision with financial assistance. The feasibility needs to be investigated to the introduction of general pension coverage, including the alignment with the APNA to increase the base of the fund. This could possibly reduce the economies of scale argument associated and inherent with the population size of Sint Maarten. A study has been commissioned by the Island Government to address the future pension system for Sint Maarten.

Presently, workers are insured through the government (BZV), Social Security Bank (SVB) or through private insurance. The economies of scale as with the Pension System, presents obstacles to realizing general unemployment insurance. The lack of unemployment insurance puts the Island Territory at risk for the possible financial assistance to unemployed citizens. The unforeseen possibility of financial assistance in the event of low pension disbursements and unemployment puts the finances of the Government at risk. A study has been commissioned by the Island Government to address the future health care system

Policy objective

- Increase in affordable government housing for citizens in the lower income brackets.
- Social Security: increase the possibility for all workers to obtain a pension and unemployment insurance.

Proposed measures

1. Revision, update and enforcement of rent control legislation
2. Executing projects listed in the Woonvisie (Housing Vision): 500 – 1200 homes ending 2015
3. Improve the infrastructure in low-income neighborhoods (roads, sewage treatment system)
4. Regulating the construction industry through price control (
5. Conduct a study regarding the feasibility of unemployment insurance
6. Social security: pending outcome of study commissioned by the Island Government

Assumptions for model input

None, in general this will increase disposable income and purchasing power

Implementation

policy area	Policy measure	gov't sector	contribution NL	contribution SXM	planning 2007			2008				2009				2010		
					Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	
Social issues	1. Revision, update and enforcement of rent control legislation	E&T	0	250,000	preparation	preparation	preparation	execution	execution	execution	execution	execution	execution	execution	execution	execution		
	2. Executing projects listed in the Woonvisie (Housing Vision): 500 – 1200 homes ending 2015	ROB	4,000,000	3,000,000	preparation	preparation	preparation	execution	execution	execution	execution	execution	execution	execution	execution	execution		
	3. Improve the infrastructure in low-income neighborhoods (roads, sewage system)	ROB	0	3,000,000	preparation	preparation	preparation	execution	execution	execution	execution	execution	execution	execution	execution	execution		
	4. Conduct a study regarding the feasibility of unemployment insurance	E&T	0	500,000	preparation	preparation	preparation	execution	execution	execution	execution	execution	execution	execution	execution	execution		
	5. Social security: pending outcome of study commissioned by the Island Government	SHCA	0	pm	pm													
sub-total			10,750,000	4,000,000	6,750,000													

2.9 Overview of policy measures

Topic	Policy measure	Input in model
<i>Spatial planning and traffic congestion</i>	1. Conduct a traffic and public transportation study with the objective to improve the public transportation system and create incentives to reduce traffic congestion.	increase in productivity + increase number of tourist visits
	2. Reduce certain clearly visible traffic bottlenecks by improving infrastructure	
	3. Improving waste management and sewage systems	
	4. Develop an island-wide comprehensive spatial development vision as a basis to develop specific zoning plans with the appropriate regulations	
	5. Reinforce the VROM department: more capacity for policy development, monitoring and measuring environmental trends/developments/impacts.	
	6. Strengthen enforcement by ROB inspection department	
<i>Development of SME/diversification</i>	1. Develop educational programs – besides the necessary improvement of the tourism oriented education - towards new economic activities within the present education infrastructure and to entrepreneurship in general.	export growth + increase in productivity + increase mediated unemployed
	2. Support the Small Business Development Foundation (SBDF).	
	3. Develop marketing tools for new tourism and non-tourism market opportunities, including the development of promotional material.	
<i>Tourism marketing</i>	1. Establish tourism authority	Increase in tourism + Increase in private investments
	2. Increase the intensity and scope of marketing activities (including an increase in marketing funds)	
<i>Labour market and education</i>	1. Invest in enforcement of immigration policy, including an integrated computerized system.	Stabilization in immigration (NB: illegal immigrants are not incorporated in the model)
	2. Primary and vocational education geared towards the labor market. One of the most prominent aspects of the education system must be to ensure that the needed skills for touristic services are well developed. This will not only lead to employability, but also to a general public attitude that is supportive to tourism.	
	3. Enforcement and implementation of compulsory education; this has to be complemented with investments in school capacity	
	4. Invest in second chance education (e.g. <i>Sociale Vormingsplicht</i> , on-the-job training)	
	5. Strengthening of labor inspection (labor conditions / minimum wage)	
	6. Execute a feasibility study into the effectiveness of incentives as to increase the employability of the unemployable segment of the labor market, e.g. fiscal incentives and the provision of child care centers ("kinderopvang").	
<i>Regulation</i>	1. Study the need and feasibility of the introduction of an independent competition authority with the necessary legislative power	Increase in productivity + lower cost prices
	2. Reduce red tape: increase the transparency of procedures, streamline/simplify procedures and abolish redundant procedures.	
	3. Strengthen consumer health and safety inspection	

<i>Government finance</i>	1. Review and adjust the tax system to ensure more effective enforcement and higher revenues. If and where necessary assistance will be requested from the Netherlands' Ministry of Finance when conducting the review and possible adjustment.	None
	2. Reform health care system in order to achieve an affordable and sustainable general coverage based on the results of a comprehensive study currently being conducted on assignment of the Island Government	
	3. Reform the pension system into a general pension coverage for all workers that is affordable and sustainable, based on the results of a comprehensive study currently being conducted on assignment of the Island Government	
	4. Introduction of a disaster reserve fund (for both natural and unnatural disasters) that is incorporated in budget legislation.	
<i>Data</i>	1. Institutional strengthening of the relevant government institutions (training, projecting, forecasting and statistics). Given the importance of data (especially in the above mentioned areas) and the small size of Sint Maarten, further investigation is needed into the possibilities of co-operation with other islands or outsourcing of data-gathering.	None; this will improve public governance, which cannot be translated in an assumption for the model.
	2. Integration, synchronization and interfacing of information through a computerized system	
	3. Obtaining a macro-economic model and training in use of the model	
<i>Social issues</i>	1. Revision, update and enforcement of rent control legislation	None, in general this will increase in disposable income and purchasing power
	2. Executing projects listed in the Woonvisie (Housing Vision): 500 – 1200 homes ending 2015	
	3. Improve the infrastructure in low-income neighborhoods (roads, sewage system)	
	4. Conduct a study regarding the feasibility of unemployment insurance	
	5. Social security: pending outcome of study commissioned by the Island Government	

3. Quantification of the measures

3.1 Background

In this chapter the SEI scenario is quantified for the period 2007-2012 (2 years longer than the SEI period to be able to give an impression of the longer term developments). This scenario is based on a reference scenario, which assumes a continuation of the policy measures as described in the Baseline study SXM "Comprehensive Economic Development Plan 2004-2007 (CEDP)", February 2004, plus the effects of the SEI policy package.

The calculations were done with the "Soualiga" macro model⁴ of St. Maarten including the poverty module SXMtax⁵. Some minor improvements in the labor market block of the model were carried out, as well as the incorporation of some actual figures (like employment, inflation, and new minimum wage level). The figures concerning Sector Government⁶ are very preliminary estimates made by CBS Antilles. Sector Government includes not only the Government of the country St. Maarten, but also the share of St. Maarten in the Federal Government of the Netherlands Antilles. The government budget review ("begrotingsdoorlichting"), which will be carried out soon in co-operation with the Netherlands' Ministry of Finance, will give more details about the exact government budget. Because of the inaccuracies in both the revenues and expenditures of the Sector Government, the deficit has a very high inaccuracy margin. For this reason in this paragraph the figures concerning the deficit are presented in deviation of the level of the deficit in 2006. The deficit of the government of St. Maarten in the starting year 2006 is zero, because the Island Government is not allowed to borrow money. However, there exists a large stock (possibly 183 mln. ANG)⁷ of old suppliers' credit including pre-financed projects.

3.2 Cost of the measures

Time was too limited to make assumptions about the costs of the different measures. Next to that, the model is not equipped for such detailed assumptions. The overall assumption on which the measures are based is that Sint Maarten is able to take the costs for the different measures for its account, especially in the medium and longer term. There are different arguments on which this assumption is based:

- Tax revenues can be raised, as there's now a big informal market and not all taxes are sufficiently levied
- At the expenditure side of the budget measures can be taken to reallocate different expenditures, especially from the health care and pension system to others.
- A number of measures of the SEI are limited to enforcing the current law.

⁴ a computer model that calculates the economic effects of policy measures

⁵ a computer model that calculates the impact of policy measures on the people that make a living below the poverty line

⁶ the part of the computer model that covers the public sector

⁷ Onderzoeksrapport financieel beheer en schuldpositie St. Maarten 2006

In the short term there will be problems financing different measures by Sint Maarten. Therefore the investment impulse and the social safety net to be funded by the Netherlands were included as part of the "Hoofdlijnenakkoord." In the implementation plan a scheme for the allocation of the contribution of Netherlands will be worked out⁸.

In this chapter the following is presented: a preliminary review of the actual economic developments in the first years of the Comprehensive Economic Development Plan (CEDP) 2004-2007; an "Extended Baseline Scenario" that served as a starting point for the SEI policy package and the quantified SEI SXM scenario (extended baseline plus the SEI package of measures).

3.3 Preliminary mid-term review of CEDP 2004-2007

Based on an update of the Soualiga model, the actual figures of 2004 and 2005 can be compared with the targets in CEDP2004-2007 (table 3.1).

As a result of an increase in tourism in 2004, the growth of tourism and GDP, as well as the decrease of unemployment and development of the number of persons below 1000 ANG per month has exceeded the targets in the period 2004 and 2005. However, the developments during 2007 compared to 2005 in the Extended Baseline Scenario SXM (explained in next paragraph) for some variables are below the targets, as shown in the last column compared to the first one. So some intensification in a SEI policy package is needed, also because labor market policy has a high priority.

Table 3.1

	Mid term review Comprehensive Economic Development Plan 2004-2007			
	targets	actual	Extended Baseline Scenario	
	A	B	C	B +C
<i>Target variables:</i>	2007	2005	2007	
	compared to			
	2003	2003	2005	
change in no. stay over tourism *1000 cumulated	54	40	19	59
Real GDP in % cumulated	17	10	6	16
Employment businesses % cumulated	15	12	1	13
Change in number unemployed *1000	-0,2	-0,6	0,8	0,2
Change in unemployment rate in % point	-2	-4	3	-1
persons 15+ < 1000 NAG p.m. (prices 2003)				
change in numbers *1000 cumulated	1,7	1,3	-0,2	1,1
change in share in total 15+ in % point	1	0,8	-2,5	-1,7

Source: Soualiga & SXM-tax version 19January 2007

⁸ For calculation purposes as input in the model, the assumption was made that the amount funded by the Netherlands is ANG 21 mln. The actual amount is yet to be determined and based on preliminary estimates by St. Maarten the inputted amount is very conservative..

3.4 Extended Baseline Scenario St. Maarten

As a point of departure for the years up to 2006 the actual figures (or preliminary ones) were used as far as possible and for the years after 2006 – in this start scenario – assumptions were inspired by the BaselineStudy (CEDP2004-2007). Furthermore, the recent increase in minimum wage level were included in the Extended Baseline. Because the increases in investment – financed by donor Netherlands, the Island Government and the private investments that were expected in 2004 – are already included in the actual levels of investments, there was no need to incorporate additional growths of investments in the Extended Baseline Scenario. Assumed growth rates for the years after 2005 were incorporated for stay-over tourism (2% per annum) cruise tourism (2% per annum), total of other exports (1% per annum), trend in productivity (1% per annum). The first half of 2006 had almost the same level of stay over tourism as the corresponding period one year earlier. For this reason the assumption of 2% per annum in 2006 implies 4% in the second half of 2006. Concerning the growth of the number of stay over tourists the SEI-SXM team decided to use for future years a growth rate of 2% per annum in the Extended Baseline scenario (instead of the 4% in the CEDP). Because of the limited surface of Sint Maarten it will not be easy to sustain high growth rates. Following are the results of the Extended Baseline Scenario presented in table 3.2.

Table 3.2 The Extended Baseline Scenario

	2007	2008	2009	2010	2011	2012
<i>Target variables</i>	<i>total figures</i>					
real GDPgrowth %	3	3	3	3	4	4
real GDPgrowth % per capita	1	1	1	1	1	1
exports volume growth in %	3	3	3	3	3	3
employment of enterprises growth in %	1	1	1	2	2	2
employment by enterprises number *1000	17	17	17	18	18	18
unemployed number *1000	4	4	4	5	5	5
immigration (+)15-64 cumulated*1000 >1995	8	9	9	9	10	10
<i>persons 15+ <1000 ANG p.m.</i>						
number *1000 persons 15+ <1000 ANG p.m.	12	13	14	14	14	15
in % number persons 15+	45	47	49	49	49	50
number *1000 persons 15+ without income	5	5	5	5	5	5
Sector Gov. deficit in mln. ANG Chnge to'06	-4	-7	-11	-15	-21	-26
Disaster Reserve Fund	1	3	6	11	17	25

In this scenario the real production will go up, but also the immigration will continue and in combination with natural population growth, the supply of labour will increase. As a result the unemployment will increase and the number of people with an income of less than 1000 ANG per month (in 2003-prices, so after correction for inflation) will increase.

This scenario does not yet take into account the additional SEI policy measures.

3.5 The economic impact

The quantification of the SEI scenario is based on a set of assumptions that are incorporated into the Soualiga and SXMtax models. Inspired by the policy matrix as presented in an earlier chapter, reasonable estimates were made for the variables that are needed as input into the models. Because a detailed and accurate quantification of the effects of each individual measure is not that easy to make and quite impossible in such a short period of time, estimates were made concerning the effects of the sum of all measures to the values of the assumptions in the model.

In the first run of the economic model the amounts of additional investments by the government was set to zero. Then the preliminary package of assumptions resulted in an improvement (decrease) of the deficit of the government. However, so far the assumption has been a real constant level of government investments. In the second run, annual figures for the additional investments of the government were incorporated as indicated in table 3.3.

In the first run the calculations did not result in a decrease in the numbers of unemployed and the numbers of persons with a low income (less than 1000 ANG net per month). Such a decrease requires not only economic growth, but also increase in the employability of the unemployed in combination with tightening of immigration.

Table 3.4 illustrates the final set of assumptions incorporated into the model. Note that this assumption table is not an output of the model, but on the contrary, an input into the model. In this context it should be noted what is stated about the inaccuracy of these kinds of calculations in the documents to the Baseline Study Sustainable Economic Development Programme 2004-2007. In the end, the values of the target variables are not just the result of model calculations, but something the SEI SXM team feels are realistic as targets.⁹

Table 3.3 Assumptions SEI package

		2007	2008	2009	2010	2011	2012
Sint Maarten							
Additional Investments by donor Nld.	<i>mln Naf</i>	7,0	7,0	7,0	0,0	0,0	0,0
Additional Own investments Island Government	<i>mln Naf</i>	4,0	8,0	12,0	16,0	24,0	30,0
Additional Private investments	<i>mln Naf</i>	0,0	2,5	2,5	2,5	2,5	2,5
Additional Capital account BoP	<i>mln Naf</i>	0,0	1,3	1,3	1,3	1,3	1,3
Additional growth stay over tourism	%	0,0	0,5	0,5	0,5	0,5	0,5
Additional growth cruise tourism	%	0,0	2,0	2,0	2,0	2,0	2,0
Additional growth non-tourism exports	%	0,0	1,0	1,0	2,0	2,5	2,5
Additional Productivity	%	0,0	0,5	0,8	1,0	1,0	1,0
unemployment rate % employable	%	2,0	3,0	4,0	5,0	6,0	6,0
wage rate private setor	%	0,0	0,0	0,0	0,0	0,0	0,0
labour suppy in % labour force	%	0,0	0,5	0,5	0,5	0,5	0,5
net migration pop.(immi=-)*1000 exogenous	<i>*1000</i>	0,40	1,00	1,30	1,50	1,50	1,50
interest rate	%	0,0	0,0	-1,0	-1,0	0,0	0,0

⁹ Partial effects of individual assumptions are presented in the addendum.

Please note that the rows in table 3.3 from employable unemployment rate to interest rate were not in the old CEDP2004-2007 assumptions table. In the SEI package it is assumed that as a result of labor market policies a large part of the unemployable unemployed will become employable unemployed. In the model the CBS unemployment rate is used (13% in 2005 of which we assume that 50% is unemployable). This assumption is incorporated into the model to calculate the effects on the unemployment rate. The results of incorporating the above set of assumptions into the models Soualiga and SXMtax, are illustrated in table 3.4:

Table 3.4 The development of the target variables in the TEST SEI-SXM Scenario

<i>Target variables</i>	2007	2008	2009	2010	2011	2012
	<i>total figures (baseline + policy package)</i>					
real GDPgrowth %	4	5	4	4	5	4
real GDPgrowth % per capita	2	4	4	5	5	4
exports volume growth in %	3	5	5	5	4	4
employment of enterprises growth in %	2	3	2	1	1	1
employment by enterprises number *1000	17	17	18	18	18	18
unemployed number *1000	3	3	3	3	2	2
immigration (+)15-64 cumulated*1000 after 1995	8	8	8	8	7	7
persons 15+ <1000 ANG p.m.						
number *1000 persons 15+ <1000 ANG p.m.	12	12	12	12	12	11
in % number persons 15+	45	46	46	45	43	42
number *1000 persons 15+ without income	4	4	4	4	4	4
Sector Gov. deficit in mln. ANG Change to 2006	-1	-7	-13	-20	-24	-31
Disaster Reserve Fund	0	2	6	12	19	29

Note that all these variables are indicative and have inaccuracy margins. This applies especially to the figures in the assumption tables. Because the model results are based on calculations with those assumptions as input, the model results are also indicative. The added value of this model exercise is not to end with accurate figures, but to demonstrate how policy measures can affect the socio-economic targets. These indicators therefore are not intended to serve as monitoring indicators for the execution of the SEI measures. Monitoring indicators for the measures will be formulated within the separate implementation plans for each measure (see also Chapter 4)

In table 3.5 the figures concerning the sum of Extended Baseline and SEI package are provided. Compared to the Extended Baseline the SEI Scenario results in 1% higher GDP per annum, in total on average 4% real growth per annum.

The SEI scenario (baseline plus SEI Package) shows an employment growth on average of 2 % per year, an increase in employment with fifteen hundred persons, a decrease in unemployed with one

thousand persons, and a decrease of persons below 1000 ANG per month with one thousand persons.

Compared to 2006 the government shows a budget surplus. It is assumed/proposed that 30% of that surplus will be allocated to a Disaster Reserve Fund. The remaining surplus in this forecast is not a target but needed for unforeseen, also given the inaccuracy of the calculations.

At present the Sint Maarten Country Government has an estimated 183 mln ANG of suppliers' credit. Within the framework of debt relief, the Netherlands will take cover that cost from the Island starting in the transition period and this will result in a decrease in expenditure by the Island. However at the same time it is assumed that Sint Maarten also has to contribute to the interest payments of the Netherlands Antilles Government debt, after deduction of the contribution of the government of the Netherlands. At this moment the statistical information concerning the costs and benefits of the transformation of the Island Territory into Country Sint Maarten and the abolishment of the Federal Government of the Netherlands Antilles is not clear. So the net effect on the deficit of the government on new Country St. Maarten is not clear. Study and practice will have to demonstrate if the level of services now rendered through the Federal Government compared to the Federal tax revenues collected on the island is balanced and if comparative services to be offered by the Country Sint Maarten should be improved with related increase in costs, which may affect the net balance between revenues and expenses related to these services.

4. Implementation

time-frame

The implementation phase of the measures will commence as per the date of signing of the Social Economic Initiative by Sint Maarten and The Netherlands. Because of the urgency to establish new relations in the Kingdom of the Netherlands, the timeframe for the execution of the measures is ambitious. The time-frame for the implementation of the SEI policy package has been set at three years (May 2007- May 2010) and should serve as a basis for the implementation plan that will be developed for each measure.

Implementation format

Each measure will be worked out in the format according to addendum 3. This format will serve as financing request for those measures that require approval by USONA, as well as for those measures that entail policy reform.

The format will also serve to monitor the progress of the implementation of each measure. It must be clear that the impact of the measures will surpass the time-frame of May 2007- May 2010. This means that part of the impact of the SEI will most likely not be felt prior to achieving country status. The main indicators for monitoring the progress of the implementation of the measures will be the formal establishment of policy, regulations and legislation by the Island Territory of Sint Maarten and subsequent execution and enforcement. More specific monitoring indicators will be developed in separate implementation plans.

Funding arrangements

The SEI has been allotted an amount of ANG 52,000,000. The funding of the SEI will equally shared by the Netherlands and the Island Territory of Sint Maarten. Each will make available an amount of ANG 26,000,000 over a three-year period for the execution of the SEI. The Dutch funds will be managed by USONA according to the procedures for project funding. The Netherlands will instruct USONA accordingly. In the attached implementation framework (addendum 2) a preliminary scheme for the allocation of the contribution of the Netherlands and of the Island Territory of Sint Maarten has been worked out.

It should be noted that this allocation scheme is based on a preliminary needs assessment. Changes in the allocation per measure are possible, while maintaining the overall cost sharing for the SEI at 50% for each government.

5. Conclusions

The SEI Program as presented here, if implemented fully and effectively, will result in a higher and more sustainable social-economic development of Sint Maarten in its new status as a country.

However, there are a number of important preconditions for this sustainable development to be actually realized:

- There has to be – where possible – increased policy coordination with the French part of the island given the competitive position in terms of prices. Given the scale of the future country Sint Maarten and the immediate (adverse) effects of policy measures taken unilaterally on one side of the island, cooperation in the field of, for instance, energy and water supply, traffic and public transports, and tax competition are very important.
- The eventual success of many policy measures depends on the successful enforcement of regulations. Be it in the field of labor conditions, immigrants, consumer protection, and the spatial zoning plan, if effective enforcement fails, the intended effects of the policy measure will be severely diminished. For the enforcement to be successful, a strong commitment by the government of Sint Maarten is needed as well as a substantial strengthening of the relevant (government) institutions.
- Policy measures that require input or facilitation by the Central Government during the transition phase have a higher risk of delay, whereby the Island Government is very limited in its authority to take the necessary measures, such as immigration, legislation, taxation, health care and social security.
- The strength of the economy of Sint Maarten lies in its attractiveness to tourists. Because the land area is limited, growth of the economy puts a severe strain on the use of the land. This will eventually have adverse effects on the image of St Maarten as an attractive tourist destination. Disappearance of nature and highly concentrated one-sided tourist-oriented businesses in the city therefore pose a threat to the sustainability of the economy of St Maarten.

Addendum 1 Partial effects of assumptions

This note gives additional information to paragraph 3.4 The economic impact of the measures, and explains how the Soualiga macromodel and SXM-tax module were used to quantify a SEI scenario for St. Maarten, using the models that were available on Internet.

Simulation variants towards SEI SXM scenario

In this chapter we will analyse step by step what is the effect on the target variables in deviation of the Extended baseline scenario for several policy measures, resulting in:

- Higher productivity
- More employable unemployed (which will decrease wage rates)
- More labour supply
- Less immigration
- Higher wage costs
- Reduction in implicit interest payments
- An intensification of the old CEDP package with 25%
- A test scenario consisting of a combination of the above mentioned items

These variants were calculated step by step because they are the components of the draft matrix of policy measures to SEI-SXM report. During workshops 17, 18 and 19 January at MMC in The Hague the SEI-SXM team first discussed these partial variants to test the plausibility of the models and to get a better idea what matrix of assumptions might be constructed, inspired by the table with measures.

In this chapter we discuss partial variants and we present the results on the target variables in deviation of the figures in the extended baseline.

In the first variant we assume that productivity goes up 1% per year. In the SEI measures matrix a number of measures (improvements of labour market and product markets) are presented. They all contribute to a higher productivity. The conclusion in the report "De relatie tussen goed overheidsbestuur en sociaal-economische ontwikkeling in het Caribische gebied", AIID, Amsterdam november 2006, states that good governance will contribute to a higher GDP. Furthermore a comparison between several Caribbean countries in the Appendix to the Baselinestudy Sustainable Economic Development 2004-2007 showed that countries with an enabling business environment like St. Maarten and Aruba, have a higher productivity (indicated by GDP per capita) than countries like Curaçao and Suriname.

A higher exogenous productivity trend affects Soualiga in three other variables: all cost prices go down, resulting in more competitiveness and by that in higher exports, followed by more consumption and higher GDP; for some part the higher productivity will increase wages, and that diminishes the first effect a little bit; the numbers of employees needed to produce a certain level of production will go down, so productivity increase on it self will not decrease unemployment in the short run. However thanks to the better competitiveness it will become easier for government to stimulate investments in the export sector. So policy measures in the field of productivity need to be a part of a whole package of policy measures.

How much a better enabling business environment will contribute to productivity growth is not easy to calculate. So we need to use an assumption to quantify the level of productivity increase. That assumption is inserted in the model and the model calculates the effects on the target variables.

In this exercise we use 1% higher productivity each year. After the SEI package is fixed we can discuss to start with a yearly increase of productivity of 0,5% and then gradually increase it till maybe 2 % or even more after some years.

Table 1

1% Extra productivity per annum	2007	2008	2009	2010	2011	2012
<i>Target variables</i>	<i>figures in deviation of baseline</i>					
real GDPgrowth %	1,1	1,4	1,4	1,5	1,5	1,5
real GDPgrowth % per capita	1,3	1,5	1,5	1,5	1,5	1,6
exports volume growth in %	0,8	1,1	1,1	1,1	1,1	1,2
employment of enterprises growth in %	-0,4	-0,3	-0,3	-0,2	-0,2	-0,2
employment by enterprises number *1000	-0,1	-0,1	-0,2	-0,2	-0,2	-0,3
unemployed number *1000	0,0	0,1	0,1	0,1	0,1	0,1
immigration (+)15-64 cumulated*1000 after 1995	0,0	-0,1	-0,1	-0,1	-0,2	-0,2
persons 15+ <1000 ANG p.m.						
number *1000 persons 15+ <1000 ANG p.m.	0,0	0,0	0,0	0,0	0,0	-0,1
in % number persons 15+	0,0	0,0	0,1	0,1	0,1	0,1
Sector Government deficit in mln. ANG	-1	-2	-4	-7	-9	-12

The next variant concerns labour market policy. The SEI policy matrix gives special attention to measures to activate unemployed by training, better system to match vacancies to unemployed, child care for unemployed mothers, decrease poverty trap, minimum wage, etc.

This activating labour market policy will make it easier to mediate a part of the unemployed. In the Soualiga model only the employable unemployed (“bemiddelbaren”) are relevant in the wage equation. The higher the number of employable unemployed, the lower the wage increase which will result in an increase in competitiveness and consequently a higher increase in exports, GDP and employment. So once we have made the assumption that activating labour market policy increases the employable (“bemiddelbaren”) unemployed and decreases the other unemployed, we can insert that assumption into the Soualiga and SXMtax model.

Because the labour market policy has priority in the SEI policy matrix, we assume that government policy will increase the number of employable (bemiddelbaren) with 3% point. The following table shows that in that case exports will go up, followed by employment. Because of the openness of St. Maarten economy this will decrease unemployment as well as increase immigration.

Table 2. 3% point less unemployable (so 3% point more employable) unemployed

	2007	2008	2009	2010	2011	2012
<i>Target variables</i>	<i>figures in deviation of baseline</i>					
real GDPgrowth %	1,1	1,7	0,5	0,4	0,3	0,3
real GDPgrowth % per capita	1,0	0,8	0,3	0,2	0,2	0,2
exports volume growth in %	0,0	2,0	0,5	0,3	0,3	0,2
employment of enterprises growth in %	0,2	2,2	0,5	0,3	0,3	0,3
employment by enterprises number *1000	0,0	0,4	0,5	0,6	0,6	0,7
unemployed number *1000	0,0	-0,2	-0,2	-0,3	-0,3	-0,3
immigration (+)15-64 cumulated*1000 after 1995	0,0	0,3	0,3	0,4	0,4	0,4
<i>persons 15+ <1000 ANG p.m.</i>						
number *1000 persons 15+ <1000 ANG p.m.	0,2	0,2	0,2	0,2	0,3	0,3
in % number persons 15+	0,5	0,2	0,2	0,2	0,2	0,2
Sector Government deficit in mln. ANG	-1	-4	-5	-6	-7	-7

The SEI policy matrix will also encourage labour supply (for example by decreasing the retirement age). As a test we inserted an assumed 1% increase in labour supply into the model. The table below shows that this will increase production and employment a little bit, but unemployment will go up and immigration down.

Table 3

1% per year more labor supply	2007	2008	2009	2010	2011	2012
<i>Target variables</i>	<i>figures in deviation of baseline</i>					
real GDPgrowth %	0,2	0,4	0,5	0,6	0,6	0,7
real GDPgrowth % per capita	0,6	0,7	0,7	0,8	0,8	0,9
exports volume growth in %	0,0	0,3	0,4	0,4	0,5	0,5
employment of enterprises growth in %	0,0	0,3	0,4	0,5	0,5	0,6
employment by enterprises number *1000	0,0	0,1	0,1	0,2	0,3	0,4
unemployed number *1000	0,1	0,2	0,3	0,4	0,6	0,7
immigration (+)15-64 cumulated*1000 after 1995	0,1	-0,2	-0,3	-0,3	-0,4	-0,5
<i>persons 15+ <1000 ANG p.m.</i>						
number *1000 persons 15+ <1000 ANG p.m.	-0,1	-0,2	-0,3	-0,4	-0,4	-0,5
in % number persons 15+	-0,1	-0,3	-0,5	-0,6	-0,8	-0,9
Sector Government deficit in mln. ANG	0	-2	-3	-4	-6	-8

The SEI policy package will result in less immigration. If we assume that 500 less immigrants enter Sint Maarten each year (from 2007-2012), the next table shows the results calculated with Soualiga and SXM tax. The lower immigration will result in less supply of labour, so will increase wages and decrease competitiveness. As a result employment will go down. However also the number of unemployed will go down, as well as the number of persons with an income below 1000 ANG net per month in prices 2003 (actually this is around 1100 in 2007).

Table 4



A decrease of 500 immigrants per year	2007	2008	2009	2010	2011	2012
<i>Target variables</i>	<i>figures in deviation of baseline</i>					
real GDPgrowth %	-0,3	-0,8	-0,9	-1,0	-1,1	-1,2
real GDPgrowth % per capita	0,4	0,2	0,1	0,0	0,0	-0,1
exports volume growth in %	0,0	-0,6	-0,7	-0,8	-0,8	-0,9
employment of enterprises growth in %	-0,1	-0,7	-0,8	-0,9	-0,9	-1,0
employment by enterprises number *1000	0,0	-0,1	-0,3	-0,4	-0,6	-0,8
unemployed number *1000	-0,2	-0,4	-0,6	-0,7	-0,9	-1,1
immigration (+)15-64 cumulated*1000 after'95-0,2	-0,2	-0,5	-0,8	-1,1	-1,4	-1,7
persons 15+ <1000 ANG p.m.						
number *1000 persons 15+ <1000 ANG p.m.	-0,2	-0,5	-0,7	-1,0	-1,3	-1,6
in % number persons 15+	-0,5	-0,9	-1,3	-1,7	-2,1	-2,5
Sector Government deficit in mln. ANG	-1	0	1	2	3	4

















































































In the Extended Baseline Scenario we assume in the models that the wage rate will follow inflation and labour market, so real wages stay more or less the same as long as the employable unemployment rate stays the same. In this variant we calculate the effects of 1% higher wage rate each year. As the table shows, this will result in lower competitiveness, so lower production and employment, so higher unemployment.

Table 5

1% wage rate increase each year	2007	2008	2009	2010	2011	2012
<i>Target variables</i>	<i>figures in deviation of baseline</i>					
real GDPgrowth %	-0,5	-1,2	-1,2	-1,1	-1,0	-1,0
real GDPgrowth % per capita	-0,5	-0,8	-0,7	-0,7	-0,7	-0,6
exports volume growth in %	0,0	-1,0	-1,0	-0,9	-0,8	-0,8
employment of enterprises growth in %	-0,1	-1,1	-1,1	-1,0	-0,9	-0,9
employment by enterprises number *1000	0,0	-0,2	-0,4	-0,6	-0,7	-0,9
unemployed number *1000	0,0	0,1	0,2	0,3	0,3	0,4
immigration (+)15-64 cumulated*1000 after '950,0	0,0	-0,1	-0,3	-0,4	-0,5	-0,6
persons 15+ <1000 ANG p.m.						
number *1000 persons 15+ <1000 ANG p.m.	-0,1	-0,1	-0,2	-0,3	-0,4	-0,4
in % number persons 15+	-0,2	-0,3	-0,3	-0,4	-0,4	-0,5
Sector Government deficit in mln. ANG	0	2	4	6	8	11

Addendum 2 Overview of measures and implementation

 preparation
 execution

policy area	Policy measure	gov't sector	contribution NL	contribution SXM	planning 2007			2008				2009				2010		
					Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	
<i>Spatial planning and traffic congestion</i>	1. Conduct a traffic and public transportation study	ROB	200,000	200,000														
	2. Reduce certain clearly visible traffic bottlenecks by improving infrastructure	ROB	7,000,000	7,000,000														
	3. Improving waste management and sewage systems	ROB	2,000,000	2,000,000														
	4. Develop an island-wide comprehensive spatial development vision as a basis to develop specific zoning plans with the appropriate regulations	ROB	0	250,000														
	5. Reinforce the VROM department: more capacity for policy development, monitoring and measuring environmental trends/developments/impacts.	ROB	0	500,000														
	6. Strengthen enforcement by ROB inspection department	ROB	0	500,000														
sub-total		19,650,000	9,200,000	10,450,000														
<i>Development of SME/diversification</i>	1. Develop educational programs – besides the necessary improvement of the tourism oriented education - towards new economic activities within the present education infrastructure and to entrepreneurship in general.	WELFARE	1,000,000	1,000,000														
	2. Support the Small Business Development Foundation (SBDF).	E&T	250,000	250,000														
	3. Develop marketing tools for new tourism and non-tourism market opportunities, including the development of promotional material.	E&T	1,000,000	1,250,000														

preparation
execution

policy area	Policy measure	gov't sector	contribution NL	contribution SXM	planning 2007			2008				2009				2010		
					Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	
sub-total		4,750,000	2,250,000	2,500,000														
<i>Tourism marketing</i>	1. Establish tourism authority	E&T	0	500,000														
	2. Increase the intensity and scope of marketing activities (including an increase in marketing funds)	E&T	2,000,000	2,000,000														
sub-total		4,500,000	2,000,000	2,500,000														
<i>Labour market and education</i>	1. Invest in enforcement of immigration policy, including an integrated computerized system.	PHP	pvna-sxm	pvna-sxm	p,m,													
	2. Primary and vocational education geared towards the labor market.	WELFARE	new education program	new education program	p.m.													
	3. Enforcement and implementation of compulsory education; this has to be complemented with investments in school capacity	WELFARE	3,000,000	300,000														
	4. Invest in second chance education (e.g. <i>Sociale Vormingsplicht</i> , on-the-job training)	WELFARE	1,800,000	200,000														
	5. Strengthening of labor inspection (labor conditions / minimum wage)	E&T	0	500,000														
	6. Execute a feasibility study into the effectiveness of incentives as to increase the employability of the unemployable segment of the labor market, e.g. fiscal incentives and the provision of child care centers ("kinderopvang").	E&T	200,000	100,000														
sub-total		6,100,000	5,000,000	1,100,000														

preparation
execution

policy area	Policy measure	gov't sector	contribution NL	contribution SXM	planning 2007			2008				2009				2010	
					Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
<i>Regulation</i>	1. Study the need and feasibility of the introduction of an independent competition authority with the necessary legislative power	E&T	250,000	0	preparation	preparation	execution	execution	execution								
	2. Reduce red tape: increase the transparency of procedures, streamline/simplify procedures and abolish redundant procedures.	E&T	600,000	400,000	preparation	preparation	execution	execution	execution								
	3. Strengthen consumer health and safety inspection	SHCA	0	500,000				preparation	preparation	execution	execution	execution	execution	execution	execution		
sub-total		1,750,000	850,000	900,000													
<i>Government finance</i>	1. Review and adjust the tax system to ensure more effective enforcement and higher revenues.	RESOURCES	900,000	100,000	preparation	preparation	execution	execution	execution	execution	execution	execution	execution	execution	execution		
	2. Reform health care system in order to achieve an affordable and sustainable general coverage based on the results of a comprehensive study currently being conducted on assignment of the Island Government	SHCA	0	450,000	preparation	preparation	execution	execution	execution	execution	execution	execution	execution	execution	execution		
	3. Reform the pension system into a general pension coverage for all workers that is affordable and sustainable, based on the results of a comprehensive study currently being conducted on assignment of the Island Government	WELFARE	0	450,000	preparation	preparation	execution	execution	execution	execution	execution	execution	execution	execution	execution		
	4. Introduction of a disaster reserve fund (for both natural and unnatural disasters) that is incorporated in budget legislation.	ROB	0	100,000				preparation	preparation	execution	execution	execution	execution	execution	execution		
sub-total		2,000,000	900,000	1,100,000													

preparation
execution

policy area	Policy measure	gov't sector	contribution NL	contribution SXM	planning 2007			2008				2009				2010	
					Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
<i>Data</i>	1. Institutional strengthening of the relevant government institutions (training, projecting, forecasting and statistics).	MAGMT. SUPP.SERV.	0	500,000													
	2. Integration, synchronization and interfacing of information through a computerized system	MAGMT. SUPP.SERV.	900,000	100,000													
	3. Obtaining a macro-economic model and training in use of the model	E&T	900,000	100,000													
sub-total		2,500,000	1,800,000	700,000													
<i>Social issues</i>	1. Revision, update and enforcement of rent control legislation	E&T	0	250,000													
	2. Executing projects listed in the Woonvisie (Housing Vision): 500 – 1200 homes ending 2015	ROB	4,000,000	3,000,000													
	3. Improve the infrastructure in low-income neighborhoods (roads, sewage system)	ROB	0	3,000,000													
	4. Conduct a study regarding the feasibility of unemployment insurance	E&T	0	500,000													
	5. Social security: pending outcome of study commissioned by the Island Government	SHCA	0	pm	pm												
sub-total		10,750,000	4,000,000	6,750,000													
grand total		52,000,000	26,000,000	26,000,000													

Addendum 3 Format for implementation of measures

SOCIAL ECONOMIC INITIATIVE

1	policy intervention area			
2	policy objective			
3	policy measure			
4	owner			
5	target group and stakeholders			
6	policy results	policy activities	monitoring indicators	policy assumptions
a				
b				
c				
d				

SOCIAL ECONOMIC INITIATIVE

			timeframe in months												
	policy results	policy activities	budget	1	2	3	4	5	6	7	8	9	10	11	12
a															
b															
c															
d															
		total investment budget	0												
		share Netherlands	0												
		share Sint Maarten	0												