



**Ministerie van Toerisme, Economische
Zaken, Verkeer en Telecommunicatie**
Ministry of Tourism, Economic Affairs, Transport and
Telecommunication

SME Policy Framework for St. Maarten

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Department of Economic Affairs, Transportation & Telecommunication



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CHAPTER 1

Introduction

The National Development Plan (NDP) of St. Maarten is built upon four pillars of sustainable development, namely culture, environment and infrastructure, social and human development, and economy. While no pillar is more vital than another, the economy, as a pillar, is essential to realizing the greater mission of the National Development Plan. The economy is the vehicle that mobilizes the resources necessary to achieving the country's development goals. As for St. Maarten, although dominated by tourism, indirectly it is largely small businesses that drive the country's consistent economic growth. In so doing, this document seeks to foster a main component of the economic pillar, namely; Small and Medium Enterprises (SMEs).

The economic, as well as social, contributions of SMEs make them a vital area of interest. Like many other countries, SMEs in St. Maarten can be easily established since their requirements in terms of capital; technology, management and even utilities are not as demanding as it is the case for large enterprises.

Strategies for implementing St. Maarten's SME development policy focus on three main areas, namely, the professionalization of SMEs, increasing access to financing for new and existing enterprises and putting into place a supportive institutional infrastructure. The SME Policy takes into account the special constraints and opportunities faced by this sector and aims at strengthening institutions which will address these constraints and maximize exploitation of the opportunities.

Through this policy framework, it is the government's intention to identify and address the needs of SMEs by creating an environment that fosters the growth of SMEs while simultaneously promoting the professionalism of St. Maarten's innovative entrepreneurs.



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CHAPTER 2

SME Developments in St. Maarten

Internationally SMEs are central to not only economic development, but also social development. St. Maarten also follows this trend, whereby SMEs are major contributors to national development. They are essential to job creation, income generation for the government and overall stimulation of national growth.

2.1 Definition

The term SME is most often used to refer to small and medium enterprises. It is also occasionally used interchangeably with the term MSME which refers to micro, small, and medium enterprises. Though the term SME is used broadly worldwide, there is no universal definition as SME characteristics and definitions are largely contextual, depending upon the size of a country's economy and level of development. In many countries, the most commonly used criteria for classifying SMEs are number of employees, investment and gross profit. While these categories may be fitting for other economies, it is essential to analyze St. Maarten in its own context. On St. Maarten many enterprises have fewer than five employees and little capital. Despite these small inputs they have the capacity to realize high turnover. Taking this into consideration, rather than focus on employee size and capital investment, SMEs on St. Maarten are classified based on monthly gross turnover.

Businesses with gross turnover of less than NAF 15,000 monthly are classified as micro enterprises. Businesses generating gross income between NAF 15,000 and NAF 50,000 monthly are classified as small. Businesses generating between NAF 50,000 and NAF 100,000 monthly are classified as medium sized enterprises while businesses generating more than NAF 100,000 monthly are classified as large businesses. These classifications of SMEs on St. Maarten are further illustrated in the table below:



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Categories of SMEs in St. Maarten

More than	But not more than	Enterprise Size
NAF. 0,--	NAF. 15.000,--	Micro
NAF. 15.000,--	NAF. 50.000,--	Small
NAF. 50.000,--	NAF. 75.000,--	Medium
NAF. 75.000,--	NAF. 100.000,--	
NAF. 100.000,--		Large

2.2 Government Efforts

The importance of SMEs has not gone unnoticed to the Government of St. Maarten. Small businesses on St. Maarten operate in an environment that attempts to minimize the bureaucracy associated with their establishment. Via the National Ordinance on Sole Proprietorships, it is noted that sole proprietorships established by citizens of the former Netherlands Antilles do not need to go through the process of applying for a business license, but only need to apply only for registration at the Chamber of Commerce.¹ With the implementation of this law, SMEs shorten the startup time and avoid costly fees associated with their establishment.

Outside of legislation, the government has empowered Business Service Organizations (BSOs) to offer much needed assistance to both businesses and other entities that assist businesses in their operation. In its capacity as facilitator of economic growth, the government of St. Maarten has provided indirect assistance to SMEs by subsidizing the Small Business Development Foundation (SBDF). SBDF, the main body responsible for the empowerment of SMEs was established to provide direct business advisory services, training and information to existing SMEs as well as to assist entrepreneurs interested in establishing small businesses.

Additionally, civil society on St. Maarten has been very proactive in fostering the growth of SMEs. On St. Maarten there are a number of Non-Governmental Organizations

¹ In cases where the business requires operational licenses, the proprietor will have to apply for the relevant licenses and permits.



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(NGOs) that seek to address the needs of SMEs. NGOs often seek to empower entrepreneurs through professional coaching and some professional development. However, despite NGOs often having the best of intentions, most of the NGOs supporting SMEs are rather weak, fragmented and lack sufficient resources and expertise. This calls for the need to strengthen the institutions supporting small and medium enterprises. Therefore this SME Policy Framework intends to support and strengthen these institutions by promoting the training of not only entrepreneurs, but also business counselors and others that attempt to offer assistance to SMEs.

Beyond its borders, the government has looked towards international donors to fund projects geared towards economic development, including interventions that target SMEs and the infrastructure in which they operate. As a member of a number of regional and international organizations, St. Maarten uses its relationships with these organizations to seek technical assistance as well as direct financial assistance. Similarly, as a Dutch Overseas Territory of the European Union (EU), St. Maarten has unique access to EU funding at its disposal.

Although the government is playing such a major role within the process of addressing the needs of the greater business community and economy as a whole, it must also take the responsibility of monitoring St. Maarten's business environment. Though it will be tedious, continuous monitoring can be done clearly through a proper data collection system, thereby tracking the contribution of the SME sector to the overall economy.

2.3 Constraints faced by SMEs in St. Maarten

Despite the ease of establishing themselves, in terms of capital requirements, SMEs face unique challenges that are not common to large enterprises. Such challenges include the large percentage of time and company resources that must be allocated to tax and legal compliance and the administrative tasks associated with keeping the business operational. These challenges are further exasperated as entrepreneurs often lack key skills in human resource management, accounting, and business management. Parallel to the lack of sufficient entrepreneurial skills, SMEs often have little access to and knowledge of the business development services that they so desperately need.



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CHAPTER 3

The Value of SMEs

3.1 Importance of Small and Medium Enterprises

In a globally changing landscape characterized by continuous structural changes and enhanced competitive pressures, the role of SMEs in our society has become even more important as providers of employment opportunities and key players for the wellbeing of local communities. Vibrant SMEs will make St. Maarten more robust, with the resources and capacity to withstand the economic uncertainty of an increasingly globalized world.

SMEs are important to almost all economies, especially to small developing economies like St. Maarten's where issues such as employment and income distribution challenges exist. SMEs contribute to the overall output of the economy while simultaneously cushioning rising unemployment. SMEs contribute directly, and often significantly, to aggregate savings and investment and are also involved in the development of appropriate technology in the general sense. More specifically, the value of SMEs can be identified as follows:

- Engines of economic growth
- Critical for poverty alleviation
- A source of government revenue
- Vital sources of job opportunities
- Essential drivers of competition and market efficiency
- Major sources of technological innovation and new products



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3.2 Rationale for a SME Policy Framework

Although St. Maarten's economy is dominated by a robust tourism sector, carrying with it large resorts, SMEs are the backbone of the country's economy. SMEs are significant for employment creation, income generation, poverty alleviation, and a base overall development. SMEs account for approximately 85% of enterprises established on St. Maarten as well as approximately 20% of Turnover Tax revenue. However, despite these contributions, St. Maarten has never designed a specific policy focusing on the development of the SME sector. The previous initiatives undertaken by the government have addressed specific issues individually, offering limited coordinated support. This has resulted in a number of gaps and leakages within the SME sector. These gaps and leakages have limited the potential of SME development.

Based on the importance of the SME sector and its potential for exponential growth, the SME Policy Framework is designed to engage the entire sector to increase its contribution to the economic and national development of St. Maarten. Moreover, this document aims to put into place an institutional framework in which SMEs are able to realize their full potential. This document intends to both professionalize and revolutionize the SME sector to make it more vibrant and a sustainable source of income generation. Furthermore, it aims at creating a mechanism to put in place an effective institutional framework for its implementation, coordination, monitoring and evaluation. In this spirit, the following policies have been created to improve the SME sector of St. Maarten through tailor made interventions that take into account the unique challenges that SMEs face on St. Maarten.



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CHAPTER 4

The Objectives of the SME Policy Framework

4.1 Vision

The vision of St. Maarten's SME **Policy Framework** is the realization of a vibrant and professional SME sector that effectively and efficiently utilizes available resources to realize sustainable economic growth.

4.2 Mission

The **mission** of this Framework is to stimulate the development and growth of SME activities through increased professionalization, access to finance and the empowering of Business Service Organizations (BSOs) to improve the performance of SMEs and realize a thriving SME sector.

4.3 Overall Objective

The **overall objective** of this Framework is to foster job creation and income generation through the creation of new SMEs and empowering and professionalizing existing SMEs to increase their performance and contribution to the socioeconomic development of St. Maarten.

4.4 Scope of the Policy Framework

This SME Policy Framework addresses the following key issue areas:

- i. Reviews of the existing environment in which SMEs operate;
- ii. Increasing the level of professionalism within the SME sector so as a means to promote entrepreneurship;
- iii. Identifying strategies to facilitate SMEs' access to local and international financial services;
- iv. Developing and fostering public-private partnerships that promote SME development



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CHAPTER 5

Strategies for the Development of St. Maarten's SME Sector

A thorough evaluation and assessment of St. Maarten's SME sector has indicated that the sector is facing a number of constraints which in turn limit the growth and full potential of small and medium enterprises. These constraints are the starting points of this document. Given the previously described socioeconomic importance of SMEs, this SME policy framework provides a number of policy prescriptions aimed and addressing the challenges faced by SMEs.

Using a 'Think Small First' model, this policy framework sets out to address needs of small businesses and in turn bolster St. Maarten's economy as a whole. While large enterprises contribute substantially to government revenues, SMEs have the potential to grow and therefore expand the country's revenue base.

Throughout the rest of this section, challenges are identified and potential Government interventions are outlined. The main areas of focus include the regulatory framework and infrastructure in which SMEs operate, financial services, the professionalization of SMEs and entrepreneurs, and the strengthening of institutions that support the development of SMEs.

5.1 Legal and Regulatory Framework

While the Government of St. Maarten has introduced a number of policies regulating the country's business environment, there is no existing legislation that is specifically tailored to small and medium enterprises. The lack of tailor-made legislation is yet another challenge faced by SMEs. Due to this lack of legislation, SMEs do not operate in a legal framework that takes into consideration the unique challenges that they face. Though this framework outlines the Government's intentions for improving the business environment for SMEs, formal legislation must be drafted and enacted. To do so, the Government must include private sector partners to ensure that such a policy articulates the needs of SMEs.



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Policy Statement:

The Government will consult with stakeholders to formally draft and implement SME legislation designed to support micro, small, and medium sized enterprises.

5.2 Physical Infrastructure

The infrastructure in which a SME operates plays a crucial role in the success or failure of the business. St. Maarten's infrastructure, which includes road networks, electricity, water and telecommunication, is both costly and unreliable. The unstable provision of utilities on St. Maarten hampers the consistent and uninterrupted operation of SMEs. When compared to other islands in the region, St. Maarten's electric costs are quite high, adding to the cost of doing businesses. With electricity costs being linked to all areas of production and cutting into potential profit, it is important that both public and private sectors take the necessary steps to decrease the ever increasing electricity costs faced by consumers. As SMEs are completely reliant on the public utilities, it is essential that the government continuously take the necessary steps to improve the country's infrastructure so that SMEs are not plagued with high operating costs and unreliable utility provision.

Policy Statement:

The Government will continue to improve the physical infrastructures and provision of utilities in collaboration with private sector and other development partners.

5.3 Business Development Organizations

While the Government accepts the role of facilitator of SME growth, it does not work directly with individual SMEs. This task is left to Business Development Organizations (BSOs).



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5.3.1 Entrepreneurial Development

Despite St. Maarten's strong and growing economy, the development of strong SMEs is a challenge. A major factor limiting the growth of SMEs on St. Maarten is the lack of entrepreneurship throughout the various sectors of the economy. While many envision owning a business, there is a lack of entrepreneurial drive to realize such desires. Furthermore, the fear of business failure has promoted job seeking rather than job creating, leaving entrepreneurship under promoted.

Policy Statement:

The Government will promote entrepreneurial development through the empowerment of Business Development Organizations that provide key entrepreneurial training.

5.3.2 Business Training

Entrepreneurs who establish businesses face a number of challenges that hinder the optimum performance of their enterprises. Many entrepreneurs, despite their best efforts, often lack key business skills such as financial management, human resource management, tax compliance, and advertising. The lack of business training has two main causes. Firstly, entrepreneurs often do not understand the importance of having such skills and secondly, such trainings often carry heavy costs that often seem burdensome and unaffordable to the intended beneficiaries.

Policy Statement:

The Government will enhance the capacity of Business Service Organizations to provide affordable business training to entrepreneurs and their staff.



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5.3.3 Information Dissemination

As the Government moves to introduce new legislation and programs that target small and medium sized enterprises, it is imperative that SMEs are aware of such developments and how they can benefit. As information is essential to promoting all economic activities, steps are to be taken to ensure that all stakeholders have equal access to information about public and private sector initiatives.

Policy Statement:

The Government will promote the dissemination of information and facilitate equal access to development opportunities.

5.4 Access to Finance

For all businesses, it is necessary to have the adequate financial capital to operate efficiently. However, SMEs have limited access to capital when compared to large enterprises. SMEs' limited access to finance can be attributed to a number of reasons, such as: the inability of entrepreneurs to meet the collateral requirements associated with lending, lack of commercial banks' confidence in SMEs, lack of micro-finance opportunities, lack of guarantee functions to support commercial lending, high administrative costs occasionally associated with lending, and a lack of entrepreneurial skills in the development of business plans to meet banks' financing requirements.

The lack of financing options available to SMEs limit their capacity to expand operations, hire personnel, exploit technological advancements, improve output and in turn increase revenue. While the Government is not directly involved in the operation of commercial financial institutions, it can encourage small business loans and micro-lending locally as well as pursue financing opportunities from international sources.

Policy Statement:

The Government will encourage local financial institutions to lend to SMEs and pursue financing and guarantee schemes from international sources.



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5.5 Institutional Framework for SME Development

Despite the best efforts of the Business Service Organizations (BSOs) and other Non-Governmental Organizations (NGOs) that attempt to assist SMEs, these organizations require further assistance. Many of the institutions that support SMEs are weak and lack the capacity to provide efficient services to SMEs. Currently, a number of stakeholders including Government ministries and departments, BSOs, NGOs and other development partners are working towards the creation and implementation of programs and initiatives to support St. Maarten's SME sector. In the past, many of these programs have not had the desired impact due to insufficient funding, lack of information dissemination or the lack of proper coordination between stakeholders. These challenges can be met by supporting both governmental and non-governmental stakeholders that offer assistance to SMEs.

Policy Statement

The Government will support and facilitate the strengthening of BSOs and NGOs that support the SME sector.

Taking into consideration the strategies for SME development mentioned throughout this chapter, the Ministry of Tourism, Economic Affairs, Transport and Telecommunication has identified key sectors of the economy that could best benefit from focused SME development. These sectors include e-business and e-services, marine trade and services, agriculture and aquaponics and financial services. Furthermore, initiatives taken by the Ministry of Tourism, Economic Affairs, Transport and Telecommunication such as the Bureau of Intellectual Property, E-Zone legislation, Maritime registration and proposed fuel farm all offer opportunities for SME linkages. Based upon previous studies, these areas have been identified as areas for job creation as well as means of economic stimulation to promote further national development.

Aside from focused Government efforts to promote growth, St. Maarten's geographic location also offers areas for SME development. With a major port in the Northeastern Caribbean, SMEs on St. Maarten can use these facilities as the backbone of shipping linkages, further boosting the country's status as a hub for transshipment. SMEs on St.



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Maarten have a number of opportunities for growth within existing economic sectors, as well as future sectors to be developed through further diversification; however a concerted effort must be made by all stakeholders.

CHAPTER 6

Roles and Responsibilities under the SME Policy Framework

The articulation of the previously outlined policy statements is essential to the realization of St. Maarten's SME sector. Parallel to this is the importance of properly outlining the various roles and responsibilities of SME stakeholders. The identification of stakeholders and demarcation of responsibilities allows for the smooth operationalization of programs and projects. As the challenges that face SMEs fall under the responsibility of numerous governmental departments and ministries, various Business Service Organizations as well as vast range of Non-Governmental Organizations, it is important that the roles and responsibilities of the respective bodies are outlined.

Government

The primary task of the Government of St. Maarten is to create and foster a business environment that fosters the creation and continued growth of small and medium enterprises. With this task, the Government must take the lead in realizing the country's SME vision. The Government will do this by continue to promote its SME agenda to local and international stakeholders.

Private Sector

While Government, through this policy framework, is the leader of SME development, the private sector is at the center of the SME sector. Thus, the private sector should take on the responsibilities associated with growing the SME sector. This includes the mobilization of resources, the dissemination of information and the promotion of entrepreneurial development. Similarly, the private sector must empower BSOs and NGOs by supporting the activities of these bodies to strengthen their operation.



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Businesses Development and Non-Governmental Organizations

BSOs and NGOs have the ability to provide key services to SMEs. These potential services include financial assistance and training in entrepreneurship, management and other areas of business operation. Though these entities should seek out to assist SMEs, they should do so in a manner that retains the objectives of the Government's SME Policy Framework.

Development Partners

St. Maarten is fortunate in its ability to gain technical and financial assistance from development partners. While such assistance is more than welcomed, development assistance from external partners should fall in line with other efforts and support the vision of the SME Policy Framework. To promote cohesive development of the SME sector, development partners will be pushed to support national efforts.

CHAPTER 7

Monitoring and Evaluation of the SME Policy Framework

This document outlines a number of objectives to be achieved through the implementation of the policy statements. As the document outlines the objectives as well as the responsibilities of various stakeholders, it is essential that it also include means of monitoring and evaluating the success of realizing its goals. Considering the difficulty in evaluating SME performance, it is suggested that the growth of SMEs be monitored by tracking changes in annual business license fees paid by SMEs as well as increases in taxes paid by SMEs.

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