



MSME Policy Framework St. Maarten

MINISTRY OF TOURISM, ECONOMIC AFFAIRS, TRAFFIC & TELECOMMUNICATION

[UPDATED MAY 2021]

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1. INTRODUCTION

The global economy is now experiencing the deepest recession since the Great Depression in the 1930s with a global GDP decline of more than 20%. It is further turning into a job crisis far worse than in 2008, or any hurricane crisis that St. Maarten experienced. Women, young people and workers on low incomes are expected to get hit the hardest, according to a report by the Organization for Economic Cooperation and Development (OECD)¹ and employment statistics.

The International Labor Organization (ILO) estimates that the impact of COVID-19 will result in a rise in global unemployment of between 5.3 million (low case scenario) and 24.7 million (high case scenario), signaling that sustaining business will particularly be difficult for Micro, Small and Medium Enterprises (MSMEs).²

The OECD in its note dated July 15th³ stated the following: “it is the largest public health crisis in living memory, which has also generated a major economic crisis, with a halt in production in affected countries and a collapse in consumption and confidence”. The coronavirus pandemic has affected companies worldwide, especially MSMEs, on both the supply and demand sides. On the supply side, companies are experiencing a reduction in the supply of labor, as workers are unwell or need to look after children or other dependents while schools are closed and movement of people is restricted. On the demand side, a sudden loss of demand and revenue for MSMEs severely affect their ability to function, and/or causes severe liquidity shortages. This is especially the case in St. Maarten, where MSMEs play a significant role in the economic structure, in particular the Tourism sector, which is the mainstay of the economy.

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

However, MSMEs are by nature less resilient and have less flexibility in dealing with (unexpected) costs. Based on the latter and given the current reality, this document seeks to foster the main component of the economic pillar, namely; Micro, Small and Medium Enterprises (MSMEs). Moreover, given that MSMEs currently represent approximately 80% of businesses on the island, this Policy

¹ OECD.Org, “OECD Economic Outlook”, June, 2020.

² ILO Monitor 1st Edition “COVID-19 and the world of work: Impact and policy responses”, March 18, 2020

³ OECD Policy Responses to Coronavirus (COVID-10) <http://www.oecd.org/coronavirus/policy-responses/coronavirus-covid-19-sme-policy-responses-04440101/>

Framework has been updated to reflect a more fitting definition of an MSME, while also re-emphasizing the measures needed to foster and stimulate MSMEs, pre and post disasters.

Strategies for implementing St. Maarten's MSME development policy focus on four main areas:

- i. The professionalization of MSMEs;
- ii. Increasing access to financing for new and existing enterprises;
- iii. Putting in place a supportive institutional infrastructure; and
- iv. Encouraging MSMEs to engage in industries to diversify the economy, by exploring opportunities primarily in the following areas:
 - Agricultural development:
 - I. Hydroponic farming
 - II. Agro-tourism (farm to plate-type restaurants)
 - III. Aquafarming
 - Tourism diversification:
 - I. Arts tourism (orange economy)
 - II. Sports tourism
 - III. Medical tourism
 - IV. Eco-lodges
 - Yachting and marine sector development
 - Assembly and light manufacturing
 - Small breweries and distilleries
 - Software development
 - Homeporting

The MSME Policy Framework takes into account the special constraints and opportunities faced by this sector and aims at strengthening institutions that will address these constraints and maximize exploitation of the opportunities.

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

2. MSME DEVELOPMENTS IN ST. MAARTEN

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

As an overview to the mature, growth and emerging sectors on St. Maarten the following are illustrated, giving credence to the sectors for opportunities and consideration.

| Mature sectors | Key sectors | Emerging opportunities for MSMEs |
|------------------------------|---|---|
| Traditional tourism | <ul style="list-style-type: none"> ▪ Small hotels ▪ Small restaurants ▪ Real estate rental ▪ Car rental ▪ Construction ▪ Retail to tourists ▪ B2B goods (furniture, vehicles, art, etc.) ▪ B2B services (repair, maintenance, advertising, laundry, etc.) | <ul style="list-style-type: none"> ▪ Provide services and products that enhance efficiency, including those related to energy, technology, financial management, marketing etc. ▪ Extend or diversify product offerings to include amongst others, tours, workshops, farm-to-plate concepts, etc. ▪ Provide capacity building services surrounding standards and certifications ▪ Provide more affordable and alternative forms of lodging (e.g. air bnb) |
| Government owned enterprises | <ul style="list-style-type: none"> ▪ Repair and maintenance ▪ Construction ▪ Capacity building ▪ Health care services ▪ Educational services ▪ Furniture and supplies (office, furniture, etc.) ▪ MICE (Meetings, Incentives, Conferences and Events organized for government) | <ul style="list-style-type: none"> ▪ Provide technological services to improve efficiency within Government and Government owned enterprises ▪ Provide capacity building services for other MSMEs to serve government, Government owned enterprises and other large accounts ▪ Provide outsourcing services to MSMEs serving Government, Government owned enterprises and other large accounts |

| | | |
|---|---|--|
| Local trade | <ul style="list-style-type: none"> ▪ Increasing efficiency in purchasing ▪ Increasing efficiency in inventory management ▪ Increasing efficiency in transportation and distribution ▪ Increasing efficiency in financial management ▪ Online competition | <ul style="list-style-type: none"> ▪ Provide services (training, outsourcing, auditing, consulting) in key attention areas |
| Real estate | <ul style="list-style-type: none"> ▪ Timeshare ▪ Second homes ▪ Vacation rentals ▪ B2B goods (furniture, appliances.) ▪ B2B services (repair, maintenance, laundry, etc.) | <ul style="list-style-type: none"> ▪ Provide capacity building for MSMEs serving the real estate market ▪ Provide outsourcing services for MSMEs serving the real estate market ▪ Provide capacity building services surrounding standards and certifications |
| Growth sectors | Key sectors | Emerging opportunities for SMEs |
| Logistics and regional trade (transport, storage and communication) | <ul style="list-style-type: none"> ▪ Digital logistics ▪ Sales and marketing representatives ▪ Transnational education ▪ Medical tourism | <ul style="list-style-type: none"> ▪ Transportation ▪ General trade ▪ Support services |
| Other business services | | |
| Emerging sectors | Key sectors | Emerging opportunities for SMEs |
| Diversification within tourism | <ul style="list-style-type: none"> ▪ Different demographic segments (generations, LGBT, origins, income groups) ▪ Different lifestyle segments (eco, art, culture, sports) | <ul style="list-style-type: none"> ▪ MSME enterprises that offer eco, art, culture, sports, etc. ▪ Agro-tourism (farm-to-plate restaurants) ▪ Transportation ▪ Other unique forms of attractions ▪ Medical tourism |
| Yachting/Marine | <ul style="list-style-type: none"> ▪ Repair and Maintenance (repairing sails, boat mechanics, boat painters, shipyards) ▪ Servicing the crew and passengers (ship chandlers, laundry, caterers, etc.) | <ul style="list-style-type: none"> ▪ Repair and Maintenance ▪ Servicing the crew and passengers ▪ Immigration services ▪ Professional Deckhands and captains/sailors, cooks |

| | | |
|---------------------------------|---|--|
| | <ul style="list-style-type: none"> ▪ Immigration services ▪ Professional Deckhands and captains/sailors, cooks ▪ Training boaters (certified ailing courses) | |
| Renewable energy and technology | <ul style="list-style-type: none"> ▪ IT (Internet of things, apps, ecommerce, etc.) ▪ Renewable energy ▪ Waste management | <ul style="list-style-type: none"> ▪ Auditors, advisors, trainers with regard to the relevant technology ▪ Suppliers of the relevant technology ▪ Software development |
| Assembly & Light Manufacturing | <ul style="list-style-type: none"> ▪ Breweries & distilleries ▪ Made in SXM products ▪ Marine related manufacturing ▪ Reuse-recycle-reuse | <ul style="list-style-type: none"> ▪ Made in SXM products ▪ Marine related manufacturing ▪ Reuse-recycle-reuse ▪ Packaging & export services |
| Agricultural development | <ul style="list-style-type: none"> ▪ Community gardens ▪ Small farms (produce & livestock) ▪ Aquaponics farms | <ul style="list-style-type: none"> ▪ Community gardens ▪ Small farms (livestock) ▪ Aquaponics farms ▪ Hydroponics ▪ Agricultural research facilities ▪ Agro-processing |

2.1 DEFINITION

The term SME is 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 (M)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 (M)SMEs are: number of employees, investment and gross profit.

Given the above and the complexity involved in using the turnover by businesses as a means to measure the performance of businesses, stakeholders agreed that a revised MSME definition would better suit the demography of St. Maarten's business sector. The table below illustrates the newly adopted MSME definition developed by the Ministry of Tourism, Economic Affairs, Transportation and Telecommunication on St. Maarten, based on feedback from stakeholders.

| Micro Enterprise | | Small Enterprise | | Medium Enterprise | |
|------------------|----------------------------|------------------|----------------------------|-------------------|--------------------------|
| Max. Employment | Max. annual turnover (NAf) | Employment range | Max. annual turnover (NAf) | Employment range | Max. annual turnover NAf |
| 5 | 180,000 | 6-10 | 600,000 | 11-20 | 1.200,000 |

Whether or not an enterprise qualifies as a MSME is determined mainly by two factors, namely the number of fixed annual employees as well as the annual turnover. In complex cases, the annual turnover will be the deciding factor. For example, in a case where there is a discrepancy between the number of employees and the annual turnover, i.e. where the number of fixed annual employees are less than 20, but the annual turnover exceeds NAf 1.2 Million, the entity **will not** be considered a MSME. And, in cases where there are more fixed employees than 20, but the annual turnover is within NAf 1.2 Million, the entity **will** be considered a MSME.

2.2. GOVERNMENT EFFORTS

The importance of MSMEs to the economy of St. Maarten is illustrated in the various St. Maarten Governing as well as National Government Programs. Small businesses on St. Maarten currently operate in an environment that attempts to minimize the bureaucracy associated with their establishment. Therefore, in the National Ordinance on the Establishment of Businesses ("Vestigingsregeling voor bedrijven"), it is noted that sole proprietorships established by persons of Dutch nationality, born in the former Netherlands Antilles (now reads born in St. Maarten) are no longer required to apply for a business license, but only need to register their sole proprietorship at

the Chamber of Commerce.⁴ With the implementation of this law, the startup time for MSMEs, is shortened and they are able to avoid costly fees associated with their establishment.

Additionally, civil society on St. Maarten has been very proactive in fostering the growth of MSMEs. On St. Maarten there are a number of Non-Governmental Organizations (NGOs) that seek to address the needs of MSMEs. 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 MSMEs have been rather weak, fragmented and lack sufficient resources and expertise. This calls for the need to strengthen those institutions supporting micro, small and medium enterprises. Therefore, this MSME Policy Framework intends to support and strengthen these institutions by promoting the training of not only entrepreneurs, but also providing access to resources such as business counselors and others that have attempted to assist MSMEs.

2.3 CONSTRAINTS FACED BY MSMEs IN ST. MAARTEN

Despite the ease of establishing themselves, in terms of capital requirements, MSMEs face unique challenges that are not common to large enterprises. Such challenges include: limited access to finance, cumbersome bureaucratic procedures in operating and growing their businesses and lack of an enabling environment. As a result of which, a large percentage of time and company resources are usually allocated to tax and legal compliance as well as the administrative tasks associated with keeping the business operational. These challenges are further exasperated as entrepreneurs often do not have access to continuous capacity building skills in among others human resource management, accounting, business management and business development services that they so desperately need.⁵

⁴ In cases where the business requires operational licenses, the proprietor will have to apply for the relevant licenses and permits.

⁵ 2nd OECD Conference of Ministers responsible for Small and Medium-sized enterprises (SMEs) "Promoting entrepreneurship and innovative SMEs in a Global Economy", June 2004

3. THE VALUE OF MSMEs

3.1 IMPORTANCE OF MICRO, SMALL AND MEDIUM ENTERPRISES

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

MSMEs 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. MSMEs contribute to the overall output of the economy while simultaneously cushioning rising unemployment. MSMEs 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 MSMEs 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

3.2 RATIONALE FOR A MSME POLICY FRAMEWORK

Although St. Maarten's economy is dominated by a robust tourism sector, carrying with it large resorts, MSMEs are the backbone of the country's economy. MSMEs are significant for employment creation, income generation, poverty alleviation, and a base for overall development. Based on internal analysis conducted by the Department of Economic Affairs, Transportation & Telecommunication (ETT) and the Ministry of Finance, data revealed that MSMEs 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 MSME sector until the first draft SME framework policy in 2014. The previous initiatives undertaken by the government have addressed specific issues, offering limited coordinated support. This has resulted in a number of gaps and leakages within the MSME sector. These gaps and leakages have limited the potential of MSME development.

Based on the importance of the MSME sector and its potential for exponential growth, the MSME 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 MSMEs are able to realize their full potential. This document intends to both professionalize and revolutionize the MSME 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 MSME sector of St. Maarten through tailor made interventions that take into account the unique challenges that MSMEs face on St. Maarten.

4. THE OBJECTIVES OF THE MSME POLICY FRAMEWORK

4.1 VISION

The vision of St. Maarten's MSME Policy Framework is the realization of a vibrant and professional MSME 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 MSME activities through increased professionalization, access to finance and the empowering of Business Service Organizations (BSOs) to improve the performance of MSMEs and realize a thriving MSME sector.

4.3 OVERALL OBJECTIVE

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

4.4 SCOPE OF THE POLICY FRAMEWORK

This MSME Policy Framework addresses the following key issue areas:

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

5. STRATEGIES FOR THE DEVELOPMENT OF ST. MAARTEN'S MSME SECTOR

A thorough evaluation and assessment of St. Maarten's MSME sector has indicated that the sector is facing a number of constraints, which in turn limits 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 MSMEs, this MSME policy framework provides a number of policy prescriptions aimed at addressing the challenges faced by MSMEs.

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, MSMEs 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 and MSME policy principles are as follows:

1. Create an environment in which entrepreneurs and family businesses can thrive and entrepreneurship is rewarded;
2. Institutional environment or the "Think Small First" principle;
3. Operational environment: make public administrations responsive to MSMEs' needs;
4. Provision of information and support services and facilitate MSMEs' participation in public procurement;
5. Facilitate MSMEs' access to finance;
6. Promote the upgrading of skills in MSMEs and all forms of innovation;
7. The green economy: enable MSMEs to turn environmental challenges into opportunities;
8. Internationalization: encourage and support MSMEs to benefit from the growth of markets.

This MSME framework is presented in the table below:

| No. | MSME Policy Principle | MSME Dimension | Policy Sub- Dimensions |
|------------|---|---|---|
| 1. | Create an environment in which entrepreneurs and family businesses can thrive and entrepreneurship is rewarded | Education and training for entrepreneurship | <ul style="list-style-type: none"> • Policy framework for entrepreneurial learning, promotion of entrepreneurship • Entrepreneurship in education • Women’s entrepreneurship |
| 2. | Design rules according to the “Think Small First” principle | Institutional and regulatory framework for MSME policy making | <ul style="list-style-type: none"> • Institutional framework for MSME policy development (MSME definition, data collection on MSMEs, MSME statistics, MSME agency, MSME policy, MSME policy coordination) • Incentives for MSMEs (income tax, other fiscal incentives) • Legislative simplification and regulatory impact assessment (monitoring and evaluation of MSME policies; impact assessment of policies and programmes on MSMEs, developing MSME friendly legislation) • Public-private consultations |
| 3. | Make public administrations responsive to MSMEs’ needs | Operational environment for MSMEs | <p>Business registration (costs, time expensive, information to be submitted, approval process)</p> <ul style="list-style-type: none"> • Business licensing (costs, time, information to be submitted, approval process) • Operational licensing (health, safety) |
| 4. | Provide information and support services and facilitate MSMEs’ participation in public procurement. | Education and training for entrepreneurship | <ul style="list-style-type: none"> • Policy framework for entrepreneurial learning, promotion of entrepreneurship • Training for Entrepreneurs specifically to help guide them to be able to participate in Public Procurement • Develop policies, which require that a minimum % of the contractual work must be done by an MSME for (semi)-government projects, etc. • Access to finance |
| 5. | Facilitate MSMEs’ access to Finance and develop a legal and business environment supportive to timely payments to MSMEs | Access to finance for MSMEs | Sources of finance for MSMEs (micro credit, loan guarantee scheme, credit information, credit information bureau, angel networks, crowdfunding), Business support offered. |

| in commercial transactions | | | |
|----------------------------|--|--|--|
| 6. | Promote the upgrading of skills in MSMEs and all forms of innovation | Enterprise and Innovation policy for MSMEs | <ul style="list-style-type: none"> • Enterprise skills, training offered • Policy framework for MSMEs on innovation and technology including incubators • Support services for innovative companies • Promotion of eco-efficient businesses, promotion of environmental management systems • Training and recognizing the importance of the Role of the Bureau of Intellectual Properties with respect to Innovation, patents, copyrights, trademarks, etc. |
| 7. | Enable MSMEs to turn environmental challenges into opportunities | Enterprise and Innovation policy for MSMEs | <ul style="list-style-type: none"> • Enterprise skills trainings offered • Policy framework for MSMEs on innovation and technology including incubators • Support services for innovative companies • Promotion of eco-efficient businesses, promotion of environmental management systems |
| 8. | Encourage and support MSMEs to export to other growing markets | Internationalisation of MSMEs | <ul style="list-style-type: none"> • Internationalisation of MSMEs, export promotion strategy, export information, export training, export finance. • Training on Labelling, standards, mass production and consistency, branding, marketing, etc. |

Within each of these policy principles, programs and strategy are identified that would contribute to their achievement.

The following format has been adopted to further highlight each of the above policy principles:

1. Current situation;
2. Policy objective;
3. How will the objective be achieved?
4. Within which timeframe; and
5. By which entities?

Point of departure for a good SME policy is that it takes into account the day-to-day problems of small business people, making life as easy as possible for them. Laws and regulations should be as simple as possible, non-contradictory and business-friendly.

5.1 MSME POLICY OBJECTIVES FOR ST. MAARTEN

5.1.1 Entrepreneurial environment

Current situation

Despite the strength and resilience of St. Maarten's private sector, the development of strong MSMEs is a challenge. A major factor limiting the growth of MSMEs on St. Maarten is the lack of entrepreneurship throughout the various sectors of the economy. This can possibly be attributed to the fear of business failure, which has promoted potential entrepreneurs towards job seeking rather than job creating, leaving entrepreneurship under promoted.

Considering the aforementioned, this policy framework advocates the stimulation of an entrepreneurial culture throughout the society.

Policy Objective:

To strengthen the existing entrepreneurial culture in which people are motivated and stimulated to start and operate a business, while at the same time imploring from the primary educational level the importance of entrepreneurship and how to generate business ideas.

How will this objective be achieved?

- Introduce an entrepreneurship programme in primary education and develop a train the teachers programme. Improve the cooperation between the Ministry of Tourism, Economic Affairs, Transportation and Telecommunication and the Ministry of Education, Culture, Youth and Sports to enforce this initiative.
- Introduce an after-school Youth Entrepreneurial Programme for students from 13 to 17 years.
- Encourage Entrepreneurial competitiveness -through the sponsoring of awards, for instance for youngest, best idea, green, innovative or female entrepreneurs. This demonstrates the government's appreciation to the efforts of entrepreneurs to contribute to the growth of the economy.
- Create a website where (potential) entrepreneurs can get all the information they need, or links to it.
- Promote entrepreneurial development through the empowerment of Business Development Organizations that should provide affordable key entrepreneurial training to entrepreneurs and their staff.

Timeframe:

Short to Mid-term (1 to 3 years)

Responsible entities:

Collaborative effort between the Ministries of TEATT, OCJS, (Small) Business Support Organizations.

5.1.2 Institutional environment or “Think small first”

The Think Small first policy principle generally applies to thinking of the small businesses in the development of policies and legislation, with the main objective being: how will such regulations impact them? Such policies include, but are not limited to, more responsive public administrations, less late payment of invoices, lower TOT for services supplied locally and better access to public procurement contracts.⁶ With this background in mind, the policy principles outlined in this section is distinguished into the following policy elements:

- i. Data and research;
- ii. Policy coordination;
- iii. Incentives for MSMEs;
- iv. Legislative simplification and regulatory impact assessments, to be handled in section 5.1.3;
- v. Public-private consultations; a red thread that runs through all policy elements.

i. Data and research

Current situation:

The Department of Statistics conducts a Business Cycle Survey (BCS) with the aim to collect up-to-date information on a regular basis about business and economic developments within industries falling in the non-financial sector. Additionally, the survey provides information on entrepreneurs' expectations and opinions of the business climate. However, there is no breakdown by size and in-depth information of MSMEs for other analytical purpose. To this end, research on MSMEs is currently limited.

⁶ "Think Small First": A Small Business Act for Europe, European Commission, https://ec.europa.eu/commission/presscorner/detail/en/IP_08_1003

Considering it is essential that the performance of MSMEs be monitored and evaluated against the implemented policies, the following objectives have been established:

Policy objectives:

Implement data collection system and instrument for MSMEs by size class and sector of activity, to be updated each year.

To study the structure and development of the MSMEs regularly with the aim to have insight in the strengths and weaknesses of the MSMEs.

How will this objective be achieved?

- The collection of MSME data will be based on sample surveys, as they are faster and cheaper.
- Strengthen collaboration with the Chamber of Commerce on data collection, access and sharing.
- Other sources of MSME data will be explored such as from the tax department, social security data;
- MSME statistics will be published regularly (annually or bi-annually);
- Collaborate with the University of St. Martin for a program of MSME studies to be developed. Studies are indispensable for proper policymaking: one has to know the facts and the figures.

Timeframe:

Short to Mid-term (1 to 3 years)

Responsible entities:

Ministry of TEATT (The dept. of STAT and ETT)

ii. Policy coordination

Current situation:

Currently, there is only limited coordination of policies affecting enterprises. Businesses have to deal separately with different governmental organizations, each requiring – legitimate – compliance, information, forms and fees. More coordination between government organizations in their dealings with businesses would result in saving time and costs.

The Ministry of Tourism, Economic Affairs, Transportation and Telecommunication feels the urgent need to coordinate the processes, thus formulating the following objective.

Policy objective:

To improve the coordination of policies affecting enterprises.

How will this objective be achieved?

- The Ministry of Tourism, Economic Affairs, Transportation and Telecommunication will develop and implement an MSME policy in coordination with other ministries. This will be done through the creation of an MSME Task Force with senior policymakers from all relevant ministries (Economy, Finance, Labour, Education, Technology, etc.) with the aim to coordinate the law making process affecting businesses.
- Sensitize the general public service of the needs of businesses.
- Continued budget for MSME development will be allocated based on a multi-annual programme.

Timeframe:

Short to Mid-term (1 to 3 years)

Responsible entities:

Ministry of TEATT (The dept. of ETT)

iii. Incentives for MSMEs**Current situation:**

At present there are no established fiscal incentives for MSMEs.

Policy objective

Create fiscal incentives for MSMEs, especially for very small firms with the aim to compensate for the disadvantages of being small.

How will this objective be achieved?

- All current incentives will be checked on MSME friendliness.
- It will be examined what special incentives can be introduced to stimulate MSME recovery, such as incentives for investment;
- It will be examined whether income/company tax incentives for MSMEs can be introduced e.g.
 - MSME tax deduction;
 - Starters deduction (e.g. for 3 years);
 - Income/company tax deduction for investments;
 - A grace period (for turnover tax and income tax) of for example 6 months for starters;
 - Simplification of the income tax form for SMEs.

Timeframe:

Short to Mid-term (1 to 3 years)

Responsible entities:

Ministry of Finance (the dept. of Fiscal Affairs) in consultation with the Ministry of TEATT and (Small) Business Support Organizations.

5.1.3 Operational environment: Business registration and licensing

Current situation:

In the recent COSME Doing Business study within the Overseas Countries and Territories (OCTs), it was found that St. Maarten performs better than the average in terms of licensing procedures, however, the days it costs to start a business and the hours it takes to fill in forms are still high from an international perspective. Overall, simplification of the process is therefore recommended.

Administratively, impediments to operating a business include relatively complex requirements for submitting income tax returns, social security payments and payment of turnover tax. The high costs of utilities are another burden for MSMEs. The infrastructure in which a MSME 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 MSMEs. When compared to other islands in the region, St. Maarten's electricity costs are quite high, adding to the cost of doing business. 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 increasing electricity bills.

As MSMEs are completely reliant on public utilities, it is essential that the government continuously take the necessary steps to improve the country's infrastructure so that MSMEs are not plagued with high operating costs and unreliable utility provision.

Policy objective:

To reduce the costs, procedures and length of time for licenses required for establishing a business, for administrative procedures to operate a business and to reduce the costs of utilities.

How will this objective be achieved?

Business start-up process:

The on-going process of simplification of the business licensing process will continue. It will involve reducing the length of documents to be submitted, still more on-line processing and abolishing unnecessary licenses.

Initiatives towards the reduction of the cost of doing business will include:

- The registration and licensing process will be streamlined. It will be reorganised in such a way that processes involving different organisations can be done simultaneously instead of one after each other.
- The government will cooperate with the private sector to implement a virtual one-stop-shop with all relevant information from different departments.
- Combine on-line registration and licensing, using only one form.

- Collectively agree on a unique¹ business number, to be used by all relevant entities, such as the Chamber of Commerce, Statistics department, the Tax office, Customs, the department of Labor, the notaries, etc. The selection can be made from the existing unique numbers that exist such as: the crib number, business license number and Chamber Registration number. The department of Statistics should have access to this system.
- Facilitate exchange of all data about enterprises between all entities, unless confidential (turnover, profit, etc.)
- The use of electronic signatures will be introduced.
- Review and implement existing proposals to improve and simplify the licensing process.

Timeframe:

Short to Mid-term (1 to 3 years).

Responsible entities:

The Ministries of Finance, TEATT and the St. Maarten Chamber of Commerce & Industry.

5.1.4 Information and support services

Current situation:

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, some entrepreneurs often do not understand the importance of having such skills and secondly, such trainings usually carry heavy costs that often seem burdensome and unaffordable to the intended beneficiaries.

The Small Business Development Foundation SBDF was set up to provide information, advice, mentoring, and training to businesses. It relied on government subsidies. As the government was not happy with their performance, the subsidy was stopped in 2015. As a consequence, the SBDF is no longer operational⁷.

The Chamber of Commerce, which had (and may revive) a center for small business, was mainly focusing on legal advice related to the establishment of the business. The Business Centre provided use of facilities, guidance, administrative assistance support, consultation and information and communication technology (ICT) services to entrepreneurs seeking to start, expand or strengthen their business. The Business Centre also offered the following services:

- Start-up package for beginners or aspiring entrepreneurs via ‘One on One’ sessions and business coaching;

⁷ The website of the SBDF is closed down and the Facebook page presents no news since June 2016.

- Group consultations and business mentoring;
- Seminars and training on good business practices;
- Network events, matchmaking sessions and business to business (B2B) meetings;
- Local, regional and international trade opportunities and exposure;
- Profiling and marketing via newsletters.

Policy objective:

To improve the access to information and improve the coverage and quality of support services for MSMEs.

How will this objective be achieved?

- Promote entrepreneurial development through the empowerment of Business Development Organizations that provide key entrepreneurial training and to provide affordable business training. Funding would need to be secured to financial support such entities and the various trainings and support activities. In the past such was funded via the COSME program, which is the EU program for the Competitiveness of Enterprises and Small and Medium-sized Enterprises.
- The Ministry of Tourism, Economic Affairs, Transportation and Telecommunication will have a policy making and supportive role in the provision of business support services in terms of identifying support priorities, allocating subsidies and monitoring and evaluating implementation. The implementation of support services will be done by appropriate business support organizations.
- The establishment of a new small business development center (SBDC) will be supported to coordinate and provide business support services. In this process, the experiences with the non-functional SBDF will be taken into account. Services offered will include information advice, mentoring and training;
- Monitor and evaluate the effectiveness of ongoing MSME support services supported by the government and based on the findings focus the support on the most effective business support activities.
- Promote especially business support activities for MSME recovery.

Timeframe:

Short term (<1 year).

5.1.5 Access to finance

Current situation:

Access to finance for MSMEs and for starters in particular is a major bottleneck in any country. The banking sector is often blamed for being risk averse in not lending more to MSMEs and for imposing too high collateral requirements. They consider the risk and the administrative costs too high, although there is a great need for loans to MSMEs and especially to very small enterprises.

On the other hand, MSMEs are criticized for not being ready to meet the loan requirements of the banks. Banks complain that small businesses that come to apply for loans are ill prepared and that more support should be provided to assist small businesses to prepare business plans and to get their financials in order.

In 2017, through collaboration with Statia and Saba the entity Qredits⁸ was established in St. Maarten. To date a large number of MSMEs have received assistance from this entity, especially in the aftermath of Hurricane Irma. Given the continued growing demand for the services and the government's aim to further stimulate and promote the sector, further collaboration and other additional, sustainable forms of financing need to be explored.

In August 2020, the NRPB launched its Enterprise Support Project, in which US\$ 30 Million has been made available to finance existing MSMEs seeking to expand their businesses as well as new MSMEs. The intention with this program is to encourage positive economic growth and diversification through entrepreneurship.

⁸ Qredits is a foundation that supports entrepreneurs to successfully start or invest in their business. It provides tools for writing a business plan, personal mentoring and the provision of microcredits. Qredits was established in The Netherlands in 2009. It is currently the largest provider of finance to Dutch MSMEs with 10,000 credits provided at a total amount of € 200 million. In 2015 Qredits established an office on Bonaire and on 1 April 2017 Qredits started operations in Aruba. Micro credits of max \$ 25,000 will be provided to small and medium-sized businesses that have no access to a number of (financial) services through the regular circuit.

Policy objective

To improve access to finance for MSMEs.

How will this objective be achieved?

- Continue to encourage local financial institutions to lend to MSMEs. The Enterprise Support Project of the National Recovery Program Bureau is a prime example of how public-private sector partnership can work towards achieving this objective, through the use of external funding to limit the risk of local lenders;
- Support the operation and development of Qredits;
- Seek additional source of financing for MSMEs; A role which can be executed by the selected business support organization(s).
- Support the introduction of soft loan products to facilitate investment in rehabilitation by MSMEs;
- Promote angel investors, crowd funding;
- Support training in business plan preparation and presentation of financial information.

Timeframe:

Mid-term (1 to 3 years).

Responsible entities:

The Ministries of Finance, TEATT & Funding agencies.

5.1.6 Skills and innovation

Current situation:

MSMEs have indicated their lack of key business skills and capacity as it pertains to financial management, human resource management, tax compliance, and advertising. Additionally there appears to be the need for innovation that would lead to the exploiting of new ideas towards the creation of a new product, process or service. This is extremely important given the ever-changing marketing dynamics and business globalization through the use of technology.

The government along with the Chamber have embarked on the provision of capacity building workshops for the MSME sector in recent years; however, as it pertains to the innovative component, a more structured approach is recommended. This approach would be done through the formulation of an innovation strategy based on the web portal of The Innovation Policy Platform. According to this

platform⁹ the following six policy dimensions are particularly relevant for innovative entrepreneurship:

1. Access to finance;
2. Access to knowledge;
3. Market development and access;
4. Access to labour;
5. Entrepreneurial capabilities and culture ;
6. Regulatory Framework.

Policy objective:

To improve the operating environment for innovative businesses.

How will this objective be achieved?

Issues that need to be addressed in an innovation policy for St. Maarten:

- Collaborate with Qredits and other financial institutions to promote and stimulate innovation in MSMEs.
- Stimulate access to knowledge, through technological co-operation between firms, R&D investments and other investments in innovation, intellectual property right systems and access to information and communication technologies (ICT).
- Access to skilled labour, via educational and labour reforms to meet current and developing business needs.
- Promotion of Entrepreneurial capabilities and culture. This deals with the business support structure. It means that the successor of SBDF should have at its disposal advisors who can help small business in the innovation process. It also deals with the entrepreneurial culture in a country. As mentioned before the government can play an important role by for instance introducing an award for the most innovative small business of the year; by demonstrating that the government is proud of successful entrepreneurs; and by creating role models;
- Support incubator initiatives.

Timeframe:

Mid-term (1 to 3 years).

Responsible entities:

The Ministries of Finance, TEATT & Funding agencies.

⁹ The Innovation Policy Platform (IPP) has been developed by the Organization for Economic Co-operation and Development (OECD) and the World Bank. It is a web-based interactive space that provides easy access to knowledge, learning resources, indicators and communities of practice on the design, implementation, and evaluation of innovation policies.

5.1.7 Internationalisation

Current situation:

Given St. Maarten's connectivity to international markets both by air and sea, this presents a great opportunity for MSMEs to explore and capitalize on their export capabilities. MSMEs on St. Maarten can use the harbour facilities as the backbone for shipping linkages, boosting the country's status as a hub for transshipment.

Policy objective:

To strengthen and expand the production and capacity of MSMEs to be prepared for export.

How will this objective be achieved?

- Collaboration with the Chamber of Commerce in promoting exports and providing information and support to do business abroad by SMEs.
- Promote the participation in relevant trade shows or trade missions to new and promising markets.
- Collaborate with Business Support Organizations to train MSMEs in modern techniques in marketing, including the needed IT skills, or by promoting business advisory services in these skills.
- Improve support for developing a quality infrastructure that can assure adequate standards and certification for export markets.
- Better exploitation of OCT access to the EU market.

Timeframe:

Mid-term (1 to 3 years).

Responsible entities:

The Ministries of Finance, TEATT & Funding agencies.

6. ROLES AND RESPONSIBILITIES UNDER THE MSME POLICY FRAMEWORK

The articulation of the previously outlined policy statements is essential to the realization of St. Maarten's MSME sector. Parallel to this is the importance of properly outlining the various roles and responsibilities of MSME stakeholders. The identification of stakeholders and demarcation of responsibilities allows for the smooth operationalization of programs and projects. As the challenges that face MSMEs 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.

6.1 GOVERNMENT

The primary task of the Government of St. Maarten is to facilitate and foster a business environment that fosters the creation and continued growth of micro, small and medium enterprises. With this task, the Government must continuously seek the collaboration for the realization of the country's MSME vision. The Government will do this by continue to promote its MSME agenda to local and international stakeholders.

6.2 PRIVATE SECTOR

While Government, through this policy framework, is the leader of MSME development, the private sector is at the center of the MSME sector. Thus, the private sector should take on the responsibilities associated with growing the MSME 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.

6.3 BUSINESSES DEVELOPMENT AND NON-GOVERNMENTAL ORGANIZATIONS

BSOs and NGOs have the ability to provide key services to MSMEs. 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 MSMEs, they should do so in a manner that retains the objectives of the Government's MSME Policy Framework.

6.4 DEVELOPMENT PARTNERS

St. Maarten is fortunate in its ability to gain technical and financial assistance from development partners, such as Rijksdienst voor Ondernemend Nederland (RVO) and the Enterprise Development Fund (EDF). While such assistance is more than welcome, development assistance from external partners should fall in line with other efforts and support the vision of the MSME Policy Framework. To promote cohesive development of the MSME sector, development partners will be pushed to support national efforts.

7. MONITORING AND EVALUATION OF THE MSME POLICY FRAMEWORK

This document outlines a number of objectives for 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 the means to monitor and evaluate the success of its goals. Considering the difficulty in evaluating MSME performance, it's suggested that the growth of MSMEs is monitored by tracking changes in annual business license fees paid by MSMEs as well as increases in taxes paid by MSMEs. A small business support organization can assist in this regard by carrying out specific activities to continuously and systematically monitor the performance of MSMEs and develop programs to help them thrive.

8. CONCLUSION

In conclusion, the development of MSMEs on St. Maarten is key for sustainable economic development. Through this policy framework, the intention is to achieve a cohesive approach towards stimulating sustainable micro, small and medium enterprises through facilitation of services, simplification of processes, provision of incentives and access to finance, training and export markets.

Additionally, government seeks to encourage entrepreneurs to be innovative and contribute towards economic diversification, as well as to embrace technology, recognize the importance of standards, certification and consistency as well as to think globally.

This policy framework should be used as a guide for all stakeholders to collaborate on the initiatives mentioned and to collectively stimulate and support MSME development as part of the larger goal of sustainable economic growth.