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# Focus audit on the reconstruction funds for Sint Maarten

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*A collection of facts*



May 2020



General Audit Chamber

Algemene Rekenkamer



This document is an English translation of the original Dutch language report entitled: "Focus-onderzoek naar de wederopbouwgelden voor Sint Maarten". In the event of textual contradictions or any other differences, the original Dutch text will prevail.

May 20, 2020

General Audit Chamber, Juancho Yrausquin Blvd 10, Philipsburg, Sint Maarten

## PREFACE

Hurricanes Irma and Maria hit St. Maarten in September 2017 and were enormously destructive. The Ombudsman's report, entitled: "[Home Repair: a revelation of a social crisis](#)", describes how dire people's situation were in 2019. The reconstruction takes a lot of time and requires financial support. A number of parties drafted reconstruction plans.

By means of a [Focus Audit](#), we intend to identify the parties involved, their responsibilities and the status of the (scheduled) projects. Focus audits are a new type of audit which differ from regular reviews inasmuch as they relate to 'current events' and only facts are presented; no recommendations nor conclusions are issued. The Court of Audit of the Netherlands conducted such an audit in 2018. Our focus audit differs from other audits because we were able to use a 'hands-on' approach to collect our information, by means of direct communication with the stakeholders on St. Maarten.

This report was developed based on the voluntary contribution of all parties. Specifically, we wish to thank the Prime Minister's cabinet, the Steering Committee and the National Recovery Program Bureau (NRPB) for their contributions.

Mention must also be made of the Court of Audit of the Netherlands. We would like to thank their project team for the positive cooperation we experienced.

Each link in this report references a source document. Readers are invited to use the public source document and learn more about the subject.

At the time this report was drafted, the world is confronted with COVID-19 (also known as Coronavirus). The (economic) impact of this virus is yet unknown. However, it is evident that it will have a fundamental negative impact. Due to the daily developments and the associated uncertainties, we have chosen to not speculate about the consequences in this report. Naturally, the General Audit Chamber continues to closely monitor the situation.

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## SUMMARY

Pursuant to article 39 of the National Ordinance General Audit Chamber, we can issue notifications. This report represents such a communication.

On November 10<sup>th</sup>, 2017, the Council of Ministers of the Netherlands took the decision to reserve an amount of € 550 million (\$ 548.5 million) for the reconstruction of St. Maarten. The funds are made available as a grant towards a reconstruction fund. The money transferred into the Fund is managed by the World Bank. To be eligible for Trust Fund money, ministries or third parties must prepare a project plan and follow certain procedures. The main parties involved in the process are:

- the Netherlands (donor, transfers installments (money) initialized by the World Bank);
- the World Bank (manager of the fund, initiates request for fund transfer from the Netherlands and carries out research for the implementation of a project);
- the government of St. Maarten (drafts project proposals and forwards these to the Steering Committee);
- the Steering Committee (assesses project proposals unanimously);
- the National Program Bureau for Reconstruction (NRPB, independent governing body which prepares, coordinates, implements and evaluates projects financed by the Fund).

The relationship between the Netherlands and the World Bank is governed by an agreement (Administration Arrangement). This document governs, among other things, when installments are transferred to supplement the Fund. At the end of 2019, two of the four installments were deposited into the fund (\$ 307.5 million). Without further agreements, the Netherlands will no longer be required to transfer installments after 2020.

At the end of 2019, there are 6 projects in progress and a total of \$ 203 million worth of projects have been approved. An amount of \$32 million was actually paid out (disbursed) towards projects. That is 5.8 percent of the total amount made available. There are eight projects under preparation at the end of 2019, representing an estimated \$177.0 million.

The challenge for the near term is ensuring the acceleration of disbursements. In the event there is money in the Fund after 2025, and the Fund ceases to exist, the World Bank will return the remaining amount to the Netherlands.

An above-average active hurricane season is expected this year. Taken together with the COVID-19 crisis, the challenge for all parties to get homes, schools and shelters hurricane-ready, if not yet achieved, is an even greater challenge.

## 1 OUR AUDIT

### 1.1 Basis for the audit

We are authorized by article 39 of the [National Ordinance General Audit Chamber](#) to issue notifications. This report is such a notification. All information in this report is public and was provided voluntarily by relevant parties. The report is a collection of facts and does not contain any recommendations, conclusions or opinions.

### 1.2 Objective and audit questions

The objective of the Focus audit is providing factual information about the reconstruction funds by giving answers to the following main audit question:

*"How much of the € 550 million made available by the Netherlands for reconstruction has been paid out or allocated as of December 31, 2019?"*

In addition, the following sub-questions were formulated:

1. Who the parties involved in the reconstruction?
2. What are their responsibilities?
3. What plans have been drafted and what is the status of the implementation?
4. Until what date does St. Maarten have to spend the available funds?

### 1.3 Guide

In this report, we describe the parties involved in reconstruction and their responsibilities (Chapter 2). We also report the schedule within which St. Maarten must allocate or spend the available resources. In Chapter 3, we discuss the plans and the status of the implementation in. We also report the schedule within which St. Maarten must allocate or spend the available resources.

In Chapter 4, we present the challenges St. Maarten faces in the near term, based on the information we gathered and discussions that we held.

We conclude this report with the response of the NRPB (Chapter 5).

## 2 THE PARTIES INVOLVED AND THEIR RESPONSIBILITIES

### 2.1 The parties involved and their responsibilities

#### 2.1.1 The Netherlands

On November 10<sup>th</sup>, 2017, the Dutch Council of Ministers [decided](#) to reserve an amount of € 550 million for the reconstruction of St. Maarten. Of this amount, € 80.0 million was designated as [direct aid for St. Maarten](#). Up to € 470.0 million (\$ 548.5 million)<sup>1</sup> was made available as a [grant](#)<sup>2</sup> via a trust fund managed by the World Bank; the "Reconstruction Fund" (hereafter: the Fund). The funds are transferred from the Netherland in four installments. In determining the end date for transferring the money, two dates were found in public sources. In March 2018, the State Secretary for Interior and Kingdom Relations drafted a [letter](#) in which he states that the reconstruction funds are guaranteed in the budget of the Netherlands [until the end of 2021](#).. However, the [2019 Budget for Kingdom Relations](#) (presented in September 2018), indicates that the Netherlands will transfer installments for the Fund to the World Bank [until](#) 2021. It is the World Bank that takes the initiative to requests transfers of installments from the Netherlands.<sup>3</sup>

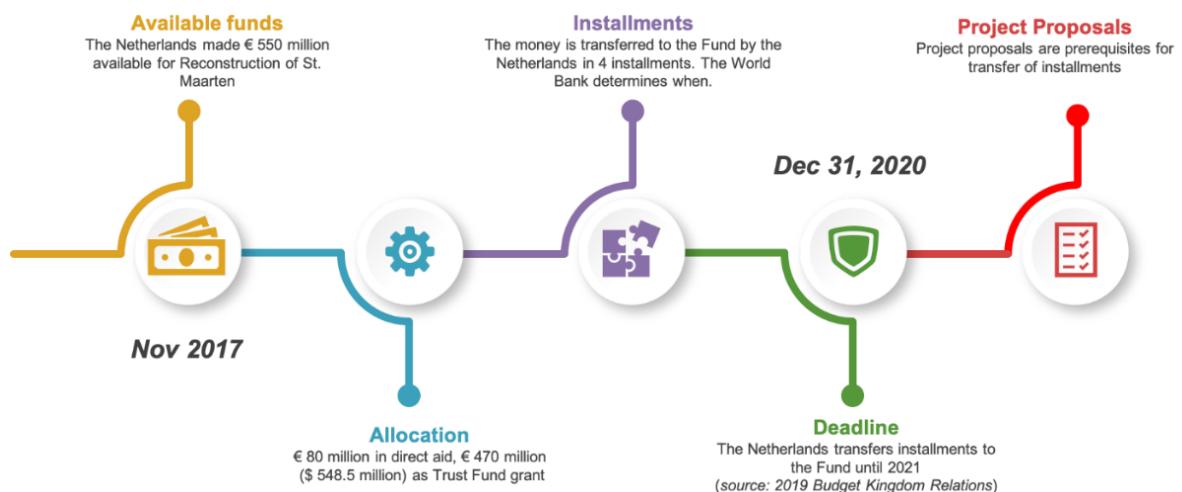
*A total of \$ 548,5 million was made available to the Fund.*

*As of 2017, 2 of the 4 installments were deposited, totaling \$ 305,7 million. Liquidity support was granted to Government in 2018. The remaining amount of approximately \$ 222 million has not been transferred as yet.*

*On January 1<sup>st</sup>, 2021, the Netherlands will no longer be obligated to transfer installments (money) to the Fund.*

In principle, the trust funds will cease to exist on December 31, 2025. In order to claim the entire amount from the Fund, project proposals must be drafted. If this does not occur, there is a possibility that the remainder will be sent back to the Dutch treasury.

Figure 1: Flow of funds



<sup>1</sup> We use an exchange rate of €1 = \$1.167. We note that in the [2019 Annual Report of the Reconstruction fund](#), an amount of \$ 554.3 million is reported. The difference relates to the currency exchange rates used on various dates.

<sup>2</sup> Click on the link and see question 31.

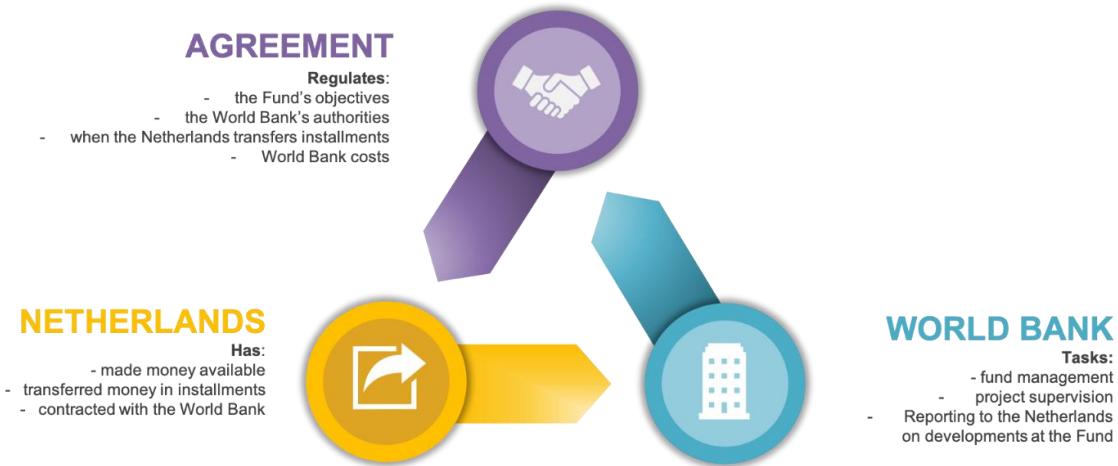
<sup>3</sup> Article 4 of the Administration Arrangement.

### 2.1.2 The agreement between the Netherlands and the World Bank

On April 16<sup>th</sup>, 2018, the Netherlands and the World Bank signed an ["Administration Arrangement"](#).<sup>4</sup> This agreement sets out the objectives and activities to be financed by the Fund.

The Administration Arrangement also lists four dates for transfer of installments. Depending on the pace of project implementation and the amount of money available in the Fund, the World Bank may, in consultation with the Netherlands, adjust the payment schedule.<sup>5</sup> At the time of publication of this report, the Netherlands transferred two of the four installments. The reason for the absence of the last two installments was not communicated to the NRPB.<sup>6</sup>

**Figure 2: Agreement between the Netherlands and the World Bank**



### 2.1.3 Government of St. Maarten

Together with the World Bank, the Government of St. Maarten drafted the ["National Recovery and Resilience Plan - A roadmap to Building Back Better"](#) (hereafter: NRRP). This plan was approved by the Parliament of St. Maarten on August 27<sup>th</sup>, 2018. The plan describes all activities required for recovery and the amount of money that is required for each phase.<sup>7</sup> To qualify for money the Fund, the ministries, or a third party, is required to prepare a project plan. The Steering Committee must approve the project plans. The Prime Minister oversees the performance of the NRPB's activities, which falls under her political and administrative responsibility.<sup>8</sup>

### 2.1.4 The Steering Committee

The Steering Committee consists of three persons. The Netherlands, the World Bank and the Government of St. Maarten each have one representative. They unanimously decide on project proposals. If approved, money is reserved for that project. The World Bank and Government develop the project for implementation. The NRPB fulfills a coordinating and supporting role. Based on the information it receives, the World Bank reviews the project further.<sup>9</sup>

<sup>4</sup> In its reaction of April 24th, 2020, the NRPB states that the Government of St. Maarten is not a party to the agreement and was not closely involved in the negotiations. Government did not have any input in the establishment and regulation of the Fund.

<sup>5</sup> Article 4 of the Administration Arrangement.

<sup>6</sup> Minutes of the meeting between the General Audit Chamber and the NRPB of February 20<sup>th</sup>, 2020.

<sup>7</sup> Immediately: 1 year after the hurricane (2018); Short: 2 years after the hurricane (2019); Medium: 3 to 4 years after the hurricane (2020 through 2021); Long: more than 5 years after the hurricane (2022 and beyond).

<sup>8</sup> Temporary National Ordinance Reconstruction Program Bureau, Explanatory Memorandum, general paragraph.

<sup>9</sup> Minutes of the meeting of March 12<sup>th</sup>, 2020, between the General Audit Chamber and a member of the Steering Committee.

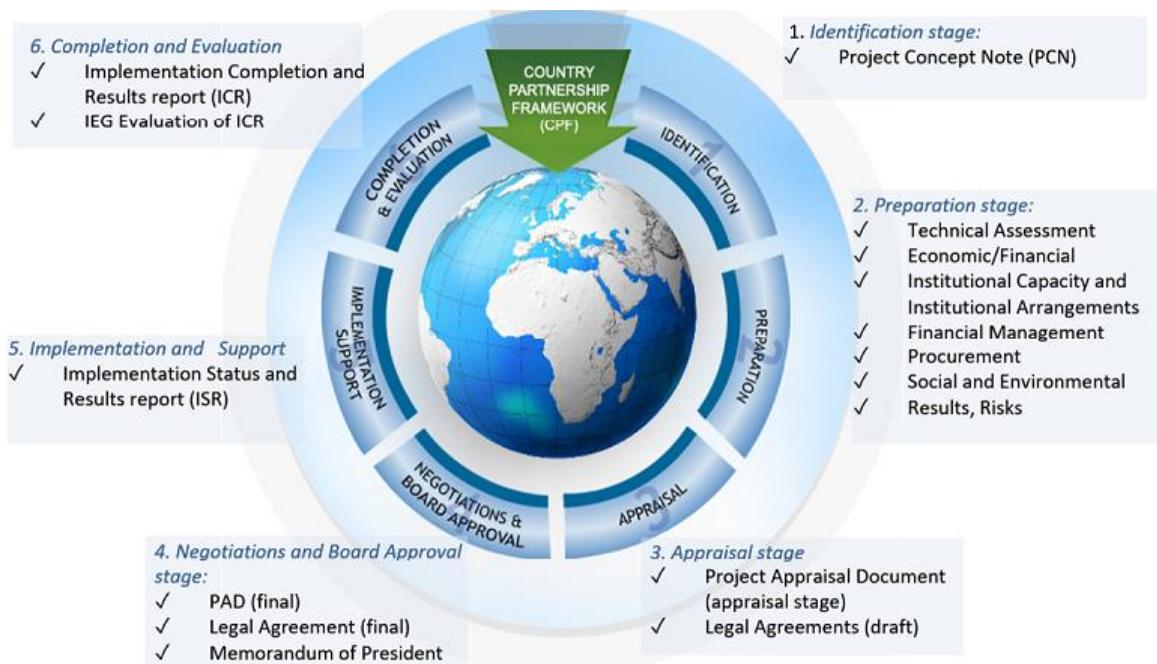
## 2.1.5 The World Bank

The World Bank manages the Fund. They initiate requests for the transfer of subsequent installments from the Netherlands. After the Steering Committee issues its unanimous decision, the phase of project preparation begins (phase 2 of the World Bank project cycle). Projects are prepared by the recipient (often the Government of St. Maarten) together with the World Bank and the NRPB.<sup>10</sup> The World Bank requests information from (mainly) Government if such was not presented along with the project plan. It is also possible that the World Bank requires additional information.<sup>11</sup>

By entering into a Grant Agreement, a commitment is created for the implementation of the project including the requisite funds. Once a commitment exists, the Netherlands cannot reclaim the money.<sup>12</sup>

To qualify for money from the Fund, World Bank procedures must be followed. Figure 3 shows the 6-step cycle used by the World Bank for the implementation of a project. Click [here](#) for details regarding the World Bank procedure.

**Figure 3: World Bank Project Cycle**



Several factors determine the pace at which funds are disbursed from the Fund. The better Government's preparation, the shorter the preparation stage (see step 2 in Figure 3). For example, projects are approved by the Steering Committee, though a project may take another year before it starts due to the World Bank's review.

On December 31<sup>st</sup>, 2025, the Trust Fund will, in principle, cease to exist. Payments after 2025, will only be made if this date is formally amended. In the event the Fund still has money remaining after 2025 (or other approved dates), the World Bank will return the funds to the Netherlands.<sup>13</sup> In its reaction, the NRPB indicates that discussions are currently being prepared regarding extension of the deadline.<sup>14</sup>

<sup>10</sup> Reaction of the NRPB of April 24th, 2020.

<sup>11</sup> Minutes of the meeting of March 12th, 2020, between the General Audit Chamber and a member of the Steering Committee.

<sup>12</sup> Article 5.2 of the Administration Arrangement.

<sup>13</sup> Article 5.1 of the Administration Arrangement.

<sup>14</sup> Reaction of the NRPB of April 24th, 2020.

### 2.1.6 The National Reconstruction Program Bureau (NRPB)

In December 2018, the Country established the National Program Bureau for Reconstruction (hereafter: NRPB) by enacting a [temporary national ordinance](#). The NRPB is an [independent administrative body](#) and does not fall within the regular government organization. The main task of the NRPB is to ensure the preparation, coordination, implementation and evaluation of projects financed by the Fund.

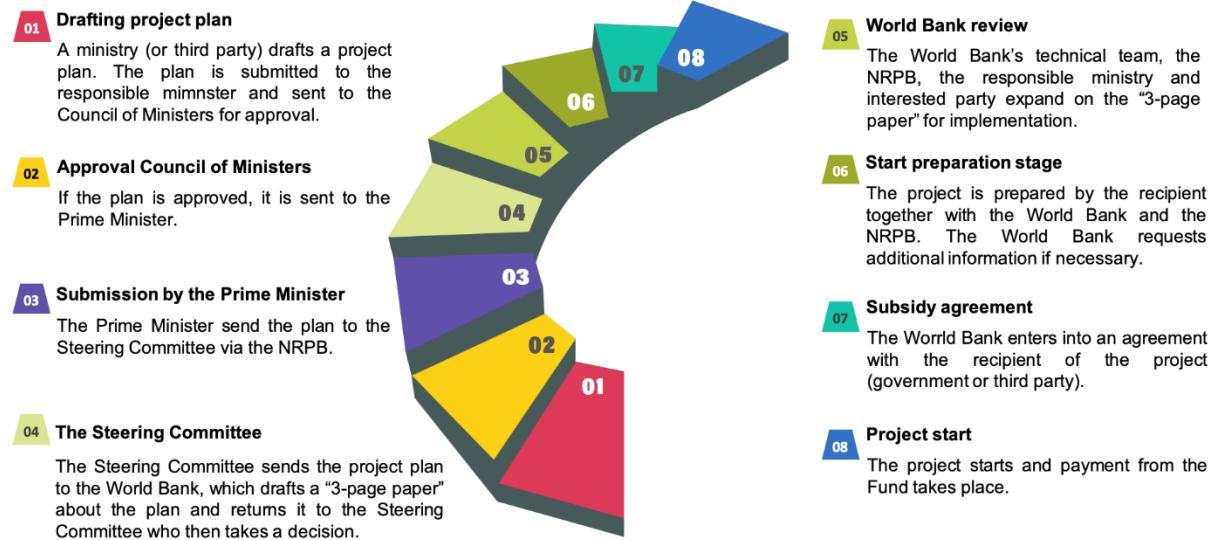
In its reaction, the NRPB indicates that the bureau is not responsible for the implementation of all the Fund's projects. Some, such as the Hospital project, are not implemented by the NRPB and thus fall outside the bureau's responsibility. Other projects are carried out in partnership with others, such as the airport project.<sup>15</sup>

The NRPB employs 10 persons and works with 10 consultants. They expect that in January 2020 they will require a workforce of at least 46 persons for the coming years. This is related to the number and scope of forthcoming projects.<sup>16</sup>

## 2.2 Process for granting reconstruction funds

Figure 4 presents the process for approval of a project and receiving money from the Fund.

**Figure 4: Steps for granting reconstruction funds**



### 2.2.1 Deviating from the process

The first four projects<sup>17</sup> were all emergency projects. For these projects, there was deviation from the standard World Bank procedures. These projects were also approved by the World Bank prior to the establishment of the Steering Committee.

The turnaround time of the preparation stage (steps 5 and 6) varies by project. The duration depends on the quality of government's preparation. In the case of lesser quality, the World Bank has to do more work.<sup>18</sup>

<sup>15</sup> Reaction of the NRPB of April 24th, 2020.

<sup>16</sup> Idem.

<sup>17</sup> Emergency Recovery Project I, Emergency Debris Management Project, Emergency Income Support and Training Project and the Hospital Resiliency & Preparedness Project.

<sup>18</sup> Minutes of the March 12th, 2020 meeting between the General Audit Chamber and a Steering Committee member.

### 3 THE RECONSTRUCTION FUND

This chapter describes the reconstruction plans that have been drafted along with the status of each plan. We also provide an overview of allocated and disbursed money from the Fund.

#### 3.1 Reconstruction plans

##### 3.1.1 *The National Recovery and Resilience Plan*

In June 2018, Government drafted the National Recovery and Resilience Plan (hereinafter: NRRP). Parliament approved the plan in August 2018. The NRRP is comprised of three main topics which are listed in Figure 5.

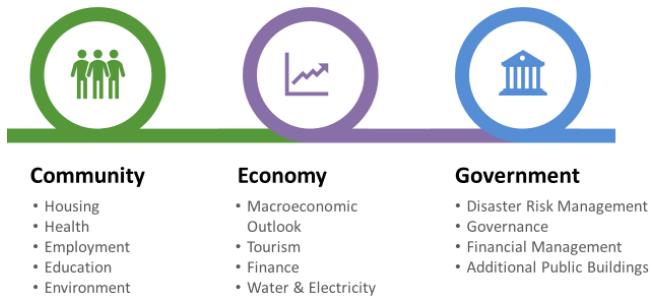
##### 3.1.2 *The Strategic Framework*

On August 1<sup>st</sup>, 2019, the World Bank drafted a *Strategic Framework*. The Framework was adopted by the Steering Committee and includes the planned cooperation between the World Bank and Government. The Strategic Framework is based on the NRRP, the Governing Program 2018-2022<sup>19</sup> and the *Administration Arrangement*. The Strategic Framework also outlines the Fund's objective and its focal points. The Framework will be evaluated at the end of June 2021, and if needed, focal points and objectives will be amended.

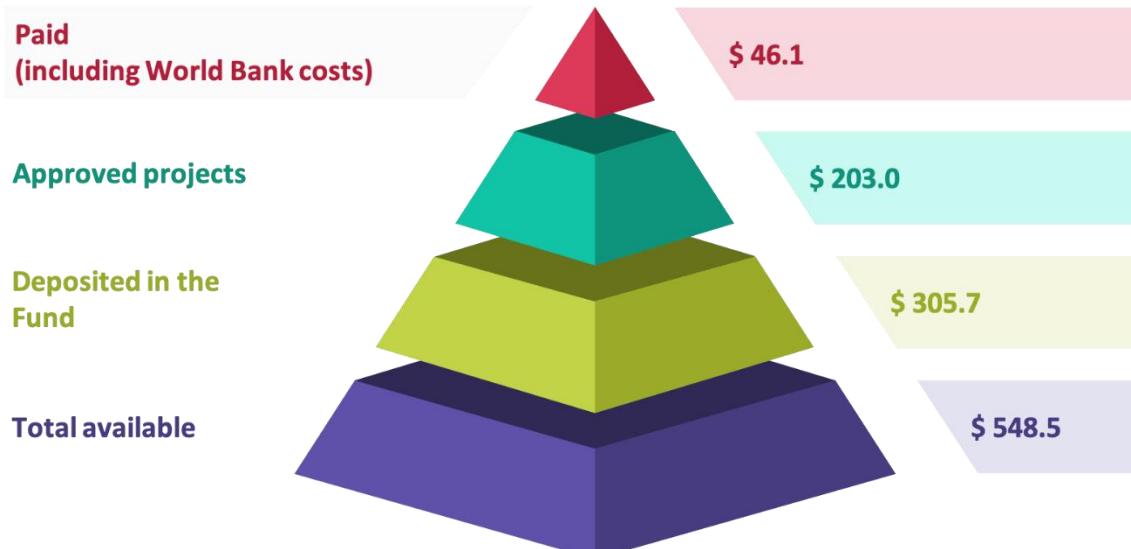
#### 3.2 Projects financed by the Reconstruction

As of December 31<sup>st</sup>, 2019, the Netherlands transferred \$305.7 million (of \$548.5 million) to the Fund. At the end of 2019, \$10.9 million was earned in interest on the amount transferred (total \$316.6 million). Approved projects represent \$203 million. As of December 31<sup>st</sup>, 2019, money actually paid from the fund totaled \$46.1 million. Figure 6 provides an overview of the income and expenditure of the Fund.

**Figure 5: the three main topics of the NRRP**

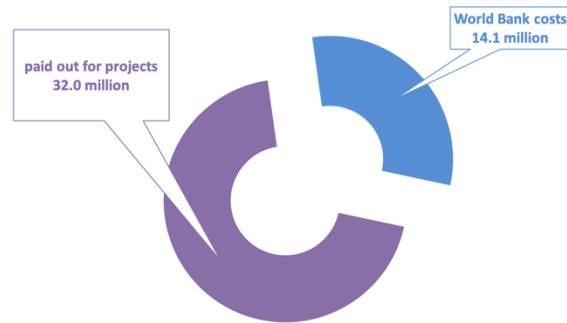


**Figure 6: Income and expenditure of the Fund as of December 31, 2019 (in USD millions)**



<sup>19</sup> During the drafting of this report, a new government took office (cabinet Jacobs II). With a new government comes a new governing program. We were not able to take note of this program.

The World Bank manages the Fund. For each signed grant agreement, the World Bank receives 3% of the amount granted.<sup>20</sup> The World Bank also provides support for the preparation and implementation of the projects, for consultancy- and analysis activities. As of the end of 2019, the associated costs amounted to \$14.1 million.<sup>21</sup> The World Bank's expenses are paid by the Fund. Table 1 lists the six projects currently in progress, the amount disbursed and the status of each project

**Figure 7: Payments from the Fund****Table 1: Projects in execution, including money committed and paid, as of December 31, 2019**

<b>Projects in execution</b>		<b>Committed (\$ million)</b>	<b>Disbursed (\$ million)</b>
<b>1</b>	Emergency Recovery Project I	55.2	11.46
<b>2</b>	Emergency Income Support and Training	22.5	14.10
<b>3</b>	St. Maarten Hospital Resiliency & Preparedness	25	2.84
<b>4</b>	Emergency Debris Management Project	25	3.64
<b>5</b>	Airport Terminal Reconstruction	72	0
<b>6</b>	Red Cross Roof Repair Project	3.6	0
<b>Total</b>		<b>203.3</b>	<b>32.04</b>

Eight projects were in preparation at the end of 2019 and for which no subsidy agreement had yet been signed. The estimated total amount for these projects is \$177.0 million. Table 2 shows the status of these projects at the end of 2019:<sup>22</sup>

**Table 2: Projects in preparation, including estimates, approval and expected start dates as of December 31, 2019**

<b>Projects in preparation</b>		<b>Estimate (\$ million)</b>	<b>Approval Steering Group (S) or World Bank (W)</b>	<b>Expected World Bank approval (in 2020)</b>
<b>1</b>	Enterprise Support Project	35	April 2019 (W)	Q1
<b>2</b>	Civil Society Partnership Facility for Resilience Project	7	May 2019 (S)	Q1
<b>3</b>	Child Protection and Development Project	5	July 2019 (S)	Q1
<b>4</b>	Digital Government Transformation Project	15	unknown	Q3
<b>5</b>	Resilient Schools Project	30	July 2019 (S)	Q3
<b>6</b>	Road Connectivity and Resilience Improvement Project	20	April 2019 (S)	end 2020
<b>7</b>	Solid Waste Management and Environmental Improvement Project	35	unknown	unknown
<b>8</b>	Public Finance, Social Insurance and Resilience Development Policy Operation	30	unknown (S)	unknown**
<b>Total</b>		<b>177</b>		

\*Excluding \$ 5 million towards a UNICEF program for the youth, schools and the library.

\*\*Government must comply with policy actions in order to qualify for two installments of \$15 million each.

<sup>20</sup> Article 9.1 of the Administration Arrangement.

<sup>21</sup> Annual Report Sint Maarten Recovery, Reconstruction and Resilience Trust Fund, 2019, table 1, page 15.

<sup>22</sup> Annual Report 2019 Sint Maarten, Reconstruction and Resilience Trust Fund.

## 4 CHALLENGES

1. Of the \$548.5 million available to the Fund since 2017, \$ 32 million (5.83%) was actually disbursed (paid out) as of the end of 2019 towards projects. The parties involved have indicated that the challenge will be to accelerate this disbursement going forward.<sup>23</sup> Proper preparation by Government, in cooperation with the World Bank, can lead to quicker starting/funding of projects. Coordination of this will be the challenge for the future. In the event there is money in the Fund after 2025, and the Fund ceases to exist (in accordance with the Administration Arrangement), the World Bank will return the remaining funds to the Netherlands.<sup>24</sup>
2. The Emergency Recovery Project I was approved on July 10<sup>th</sup>, 2018. The project contributes to the reconstruction of basic facilities, including public buildings, houses, schools and shelters. Of the \$55.2 million available for that project, an amount of \$ 11.46 million has been disbursed. We expect an above-average active hurricane season this year. The current COVID-19 crisis requires clear prioritization: what should be done first given scarcity of resources? The upcoming hurricane season, together with the COVID-19 crisis, will pose an even greater challenge in terms of the timely hurricane-readiness of homes, schools and shelters, if this has not already been achieved.
3. Increasing capacity is another major challenge. This is related to number and scope of upcoming projects. Insufficient capacity means that schedules will not be met; from drafting of project plans (and transferring installments), to actually executing projects. Developing a plan that describes *how* to achieve additional capacity, is a challenge.

Attracting businesses to execute urgent works is a test for the reconstruction program: the local market is limited, many businesses are small, and there is competition for labor due to post-Irma activities.

4. Reaching and involving companies in reconstruction efforts is challenging. Companies are often unfamiliar with World Bank (tendering) procedures, which slows down the execution of projects. The parties involved will have to confront the need to continue the effort to inform local companies and other stakeholders about these procedures, and to provide support where needed.

For more information on St. Maarten's reconstruction, click on the following:



<sup>23</sup> Minutes of the February 20<sup>th</sup>, 2020 meeting between the General Audit Chamber and the NRPB

<sup>24</sup> In its April 20th, 2020, reaction, the NRPB indicates that discussions are being prepared regarding extending the deadline.

## 5 REACTIONS FROM PARTIES

### 5.1 Reaction from the NRPB

In its reaction dated April 24<sup>th</sup>, 2020, the NRPB notes that the report provides a high-level overview of the trust fund, applicable procedures, ongoing projects, and key challenges.

The NRPB expresses its appreciation to the General Audit Chamber for putting this report together and hopes the report will contribute to a greater public understanding of the recovery process and the role of the Trust Fund and the NRPB.



General Audit Chamber  

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Algemene Rekenkamer