

ASSESSMENT

Sint Maarten Public Expenditure Review (October 2020)



Overview

The Sint Maarten Public Expenditure Review (PER), dated October 20, 2020, assesses how the government raises and spends public resources, with a focus on macro-fiscal trends and the health, social protection, and education sectors. The report's purpose is to identify actionable policy options to enhance revenue mobilization and rationalize expenditures to support fiscal consolidation and resilience—especially in the wake of Hurricanes Irma and Maria (2017–2018) and the economic shock from COVID-19. It aims to inform a medium-term reform agenda that promotes inclusive, sustainable, and resilient growth in a small, tourism-dependent island economy.

Context

St. Maarten suffered a cumulative economic contraction of about 12% across 2017–2018 due to hurricane damage. The COVID-19 pandemic then led to an unprecedented collapse in tourism, with GDP projected to fall by more than 20% in 2020 and to recover to pre-pandemic levels only by 2024–2025. Public debt and deficits rose due to revenue shortfalls and emergency liquidity support. At the same time, structural pressures—including population aging, high health costs, and weaknesses in data systems and public investment execution—constrain fiscal space and the government's ability to deliver services efficiently.

Key Findings

1. Macro-fiscal developments and public financial management

- Growth and debt dynamics: The debt-to-GDP ratio was expected to exceed the 40% threshold in 2020, with COVID-19–related liquidity support potentially adding about 25 percentage points to debt

ratios. Fiscal deficits persisted after the 2017 hurricanes under an escape clause, financed largely by Dutch liquidity support.

- Revenue mobilization: Tax and social contribution revenues (25.7% of GDP in 2016) lag comparable benchmarks (OECD average 34.4%), reflecting widespread tax evasion/avoidance.
- Expenditure control and structure: Current spending was contained in part via staff reductions. Compensation of employees—including healthcare and pension contributions—accounts for over a third of total compensation. Public investment averaged only ~1% of GDP in 2011–2019 (versus an OECD average of ~3.3%), due to financing and capacity constraints and political instability. Much post-Irma reconstruction occurred off-budget via the SXM Trust Fund.
- Budget rules and arrears: St. Maarten struggled to comply with its balanced budget rule since 2010. Arrears accumulated with independent administrative organizations (notably SZV and APS), used in practice to bridge recurrent financing gaps.

2. Health

- Spending levels and growth: Health spending neared 12% of GDP in 2018—well above regional peers and the OECD average (8.8%). The growth cannot be fully explained by small-island cost structures or overseas referrals alone.
- Systemic inefficiencies: The system is fragmented, inequitable, and financially unsustainable amid rapid demographic and epidemiological transitions (aging and NCDs).
- Insurance fragmentation and deficits: Six public sub-schemes, administered by SZV, cover around 70% of the population, with overlapping eligibility, varying contribution rates, and benefit designs. Key funds (ZV, OV, FZOG) turned negative by 2017 and are projected to remain in deficit, with a cumulative funding gap potentially reaching 12% of GDP by 2030 absent reform.
- Cost drivers: Referrals abroad (29% of SZV expenditures) and pharmaceuticals (15%) were the largest spending categories in 2017–2018. A new hospital and a push for systematic generic medicine use aim to curb costs.
- Underfunded primary and preventive care: Per capita primary care spending was only about US\$26.9 in 2018 despite its potential to improve equity and reduce higher-cost acute care.

3. Social protection

- Spending trend: Social protection spending rose from 4.6% of GDP (2014) to 7.0% (2018), driven mainly by increased social insurance benefits.
- Pensions under pressure: The AOV (basic) and APS (public-sector supplementary) schemes face long-run sustainability challenges due to increased life expectancy and population aging. Reforms in 2015 raised the retirement age to 62 and increased AOV benefits; further steps to increase the retirement age to 65 are under preparation.
- Contributions and administration: Social insurance contributions are comparatively high (about 14% of covered wages vs. a regional average near 10.5%). Administrative costs have escalated (around 12% for SZV-managed AOV/AWW pensions; 13–14% for APS), suggesting efficiency opportunities.
- Social assistance: Cash transfer spending is modest (~0.2% of GDP in 2015), broadly in line with regional comparators.

4. Education

- Spending levels and structure: Education spending accounted for 24.5% of total government expenditure and 5.1% of GDP (2015)—higher than both OECS (4.1%) and OECD (4.5%) averages. Provision largely follows the Dutch model, with compulsory schooling from ages 4 to 18. Subsidized non-profit schools account for about 80% of enrollments.
- Efficiency and equity: Despite relatively lower per-capita unit costs than OECS and OECD averages, the system exhibits efficiency challenges—high repetition and social promotion, teacher absenteeism (especially in public schools), and potentially inefficient school bus services. Public

education spending is broadly equitable given universal compulsory attendance and active truancy monitoring.

- Data constraints: Gaps in financing and learning outcomes data—and non-participation in international learning assessments—limit rigorous analysis and targeting of reforms.

Lessons Learned and Policy Implications

Urgent fiscal consolidation must be growth-friendly, focusing on stronger revenue administration, broader tax bases, and reduced exemptions while protecting productive capital investment by rebalancing away from rigid current spending. Introducing a functional budget classification can better align spending with policy priorities. Rising health and pension pressures highlight the need for structural reforms, including a unified General Health Insurance with stronger cost containment and parametric pension reforms aligned with demographic trends. Improved governance and purchasing are critical to containing long-term fiscal risks and improving equity and efficiency.

Service delivery reforms should prioritize efficiency and results, particularly in education, by reducing internal inefficiencies, strengthening attendance and performance management, and using data and learning assessments to drive quality and equity. Disaster risk financing lessons emphasize a risk-layered approach that combines fiscal buffers with insurance and other risk transfer instruments to protect fiscal space in a hazard-prone context. Across sectors, stronger data systems and transparency remain foundational for targeting, monitoring, and sustaining public trust in reforms.

Methodology

- Sector-focused PER framework: Applied World Bank PER guidelines to assess allocative and technical efficiency across macro-fiscal, health, social protection, and education.
- Financial modeling: Projected health insurance and pension fund balances under status quo and reform scenarios (e.g., GHI transition; parametric pension reforms), benchmarking fiscal and distributional implications.
- Efficiency analysis: Examined student–teacher/input ratios, time-on-task, repetition/social promotion, absenteeism, and specific cost centers (notably school buses).
- Disaster risk finance approach: Employed a risk-layered framework combining risk retention and transfer instruments to inform fiscal resilience strategy.
- Collaborative validation: Iterated with government counterparts (Finance; VSA; MECYS), statutory bodies (SZV, APS), oversight institutions (Cft, General Audit Chamber), and national stakeholders (CBCS, NRPB) to refine assumptions and validate findings.

The analysis draws on a comprehensive set of administrative, statistical, and analytical data sources spanning government, national institutions, international databases, and consultants. Government inputs include annual financial statements, quarterly fiscal reports, draft budgets and policy documents, and education sector reports from MECYS, while national institutions provided administrative, actuarial, audit, labor, household, and population data from SZV, APS, the General Audit Chamber, CBCS, and Statistics Sint Maarten. These were complemented by international benchmarks and methodologies from the IMF, WHO, OECD, UNESCO, and World Bank, covering fiscal, health, education, revenue, and social protection indicators. Consultant analyses further informed the assessment, including Willis Towers Watson’s work on the General Health Insurance proposal and Grant Thornton’s review of medical referral costs.

Limitations

- *Data availability and timeliness:* Significant gaps in macroeconomic, population, budget execution, and sectoral datasets constrain analysis precision.
- *Classification constraints:* The absence of a functional classification in budget formulation/execution impedes assessment of allocative efficiency and policy-to-spending linkages.
- *Household and equity analysis:* Limited household expenditure data by income quintile precludes robust benefit-incidence analysis in education and social programs.
- *COVID-19 uncertainty:* Much baseline data predate the pandemic; medium-term economic and social impacts remain uncertain, affecting projections and policy prioritization.
- *Cross-country comparability:* Benchmarking against OECS/OECD is informative but constrained by methodological differences and small-island specificities.

This summary was produced with the assistance of an AI language model based on the original report. The full report is available at sintmaartenrecovery.org/analytical-studies