

## ASSESSMENT

# Sint Maarten Housing Development Foundation Assessment (2019)



## Context

The report evaluates the Sint Maarten Housing Development Foundation (SMHDF)—a non-profit established in 1996 to provide affordable social housing for lower-income groups—following the significant operational and financial disruptions caused by Hurricane Irma. It diagnoses organizational, financial, and operational performance; clarifies governance and stakeholder roles; and proposes a sustainable business model and sequenced actions to stabilize SMHDF in the near term and position it for long-term viability.

The audience includes the World Bank client team and SMHDF leadership. Key stakeholders include the Government of Sint Maarten (notably VROMI and NRPB); pension funds and financiers and commercial banks; civil society and social service organizations relevant to housing and vulnerable groups (e.g., Caneye, White and Yellow Cross Care Foundations); and construction sector actors and development partners.

## Key Findings

### Organizational model and portfolio

- SMHDF manages a diverse and fragmented portfolio of 769 units under varying ownership and management arrangements, adding administrative complexity.
- Organizational structure is broadly sound but under-resourced in finance and asset management; dependency on government transfers is high and irregular Financial health and drivers
- Solvency and liquidity:
  - FY2017 solvency ratio was 43.5%, within norms for social housing institutions.

- Working capital was negative; current assets were insufficient to cover short-term liabilities, signaling near-term liquidity pressures.
- Revenue and arrears:
  - Core rent income was stable pre-Irma but constrained by contract terms and service quality (maintenance backlog).
  - Rent arrears rose sharply post-Irma; in some estates arrears also reflect affordability constraints unrelated to storm damage.
- Debt service and cost structure:
  - Two long-term FCIB loans carry annual interest and principal payments of ANG 2.4 million—about 43% of annual charged rental income.
  - Overhead is high for SMHDF’s small scale; maintenance has been ad hoc with significant backlog; insurance costs increased substantially after Irma.
- SMHFF and asset sales:
  - The SMHFF (created 1998 for mortgage lending) has been dormant since 2012, lacks administration post-2011, and is not consolidated.
  - Past unit sales (e.g., 23 duplexes in Belvedere, 2006–2008) were often driven by short-term liquidity needs and sometimes yielded losses.

### **Housing need and affordability context**

- Estimated social housing need was 3,250 units for 2012–2020.
- The post-Irma waiting list peaked near 9,000 households and fell to about 1,750 by January 2019.
- Households with incomes below US\$2,400 face acute affordability constraints, with limited access to market solutions.

### **Sector and market conditions**

- The construction sector is concentrated among a few large firms with reliance on imported materials, driving high construction costs.
- SMHDF operates in a bifurcated housing market: lower-income affordable segment versus higher-end expatriate/tourist-oriented market, with limited cross-subsidy potential without policy support.

### **Illustrative project feasibility**

- A model 100-unit social housing project (25% each of studios, 1-, 2-, and 3-bedroom units) at an “all-in” construction price of US\$1,300 per square meter yields total cost of about US\$9.4 million.
- Under commercial financing (15-year term, 7.1%–8% interest), the project faces an operating gap of roughly US\$300,000 per year.
- With concessional terms (30-year, ~4% interest), the same project generates a surplus—highlighting financing terms as decisive for viability.

## **Recommendations**

### **Immediate stabilization (3–6 months)**

1. Finance and governance:
  - Reconstruct and close SMHFF administration; consider liquidation and settlement of dues; clarify group structure.
  - Strengthen the finance function: complete current administration, address auditors’ management letter items, select a housing-suitable accounting/ERP system, and build in-house financial capacity.
  - Complete pending financial statements (e.g., FY2018) to restore transparency and credibility.

2. Operations and cash flow:
  - Improve rent collection: enforce long-outstanding court-ordered evictions, streamline rental contract terms, and deploy targeted payment plans.
  - Quantify and prioritize maintenance backlog realistically; align service levels with rent policy.
  - Ensure adequate insurance coverage and address underinsurance risks.
  - Engage Government to settle outstanding financial issues and clarify roles (e.g., transfer of government-owned units, resolution of mobile homes on private land).
  - Restructure FCIB loans to ease near-term cash pressures.
  - Complete critical Irma-related repairs (e.g., five Belvedere Estate towers) to intermediate recovery (18–36 months)
3. Institutional strengthening:
  - Implement comprehensive capacity building in financial planning, asset and maintenance management, and project development.
  - Standardize policies and procedures (rents, arrears management, procurement, maintenance planning).
4. Demonstration project:
  - Deliver a new, modest-scale social housing project as a proof of concept, utilizing soft financing and targeted subsidies to achieve affordability and operational sustainability.

#### **Long-term sustainability (beyond 36 months)**

5. Business model evolution:
  - Pursue mixed-income and selective commercial developments, where feasible, to generate surpluses that cross-subsidize low-income housing.
  - Reduce structural reliance on ad hoc government transfers by creating predictable internal revenue streams and strengthening balance sheet resilience (SMHDF\_Evaluation\_and\_Business\_Plan.pdf).

### **Policy and Partnership Implications**

The Government–SMHDF compact requires updating the 1997 Performance Agreement to clarify mutual obligations, including delivery targets, affordable land provisioning, and access to guarantees or soft financing consistent with the social mandate. Financial viability depends on concessional, longer-tenor financing, as commercial terms at current costs generate persistent operating gaps, and pension fund participation would require stronger financial administration, audited statements, and risk mitigation. Housing policy should better align rents with income tiers and service levels, complemented by targeted demand-side support like vouchers for the most vulnerable households. Market development efforts should focus on reducing construction costs and increasing competition through measures like standardized designs, framework contracts, and bulk procurement, while preserving quality and resilience standards.

### **Risks and Constraints**

Political interference has impeded the enforcement of lawful evictions, with some cases pending for over five years, undermining rent discipline and cash flow. Legacy data gaps—particularly within the Sint Maarten Housing Finance Foundation—and non-specialized accounting systems increase operational risk and constrain effective performance management. Elevated insurance costs and climate exposure in a small-island context necessitate stronger risk transfer mechanisms and proactive asset maintenance. Weak financial administration and uncertain governance have eroded credibility with financiers, making timely audited accounts and loan restructuring essential to restoring confidence among institutional investors and lenders.

## Methodology

### Timeframe and missions:

- The assessment was conducted from May to September 2019, including field missions to Sint Maarten.

### Data sources:

- SMHDF financial statements (FY2017 finalized; 2013–2017 used for analysis).
- Internal accounting (Exact) records and ledgers.
- Governance documents: Articles of Association; 1997 Performance Agreement with Government.
- Prior evaluations and scans: KPMG (2009 quick scan); RIGO Research en Advies BV (2000 evaluation).
- Administrative records for rental contracts, maintenance, arrears, and insurance.

### Analytical approach:

- Financial statement analysis (income/expenditure trends; solvency and liquidity ratios; working capital).
- Portfolio and asset review (unit counts by ownership/management model; maintenance backlog; insurance coverage).
- Governance and operating model assessment (roles, processes, performance management).
- Stressors and external context assessment (post-Irma damage, construction market characteristics, political and legal enforcement environment).

### Limitations and caveats:

- FY2017 was the latest final set of statements available at the time; some figures could not be independently validated.
- Sint Maarten Housing Finance Foundation records absent after 2011; consolidation not possible.
- The Exact accounting system is not tailored to social housing, causing manual workarounds and higher error risk.
- Post-disaster volatility (Irma) affected both revenue (arrears) and costs (repairs, insurance).

## Conclusion

The report concludes that SMHDF's mission remains vital in a market that does not meet low-income housing needs, but its sustainability hinges on immediate financial and operational stabilization, a renewed compact with the government, concessional financing for new development, and phased capacity building to enable a cross-subsidizing, mixed-income model over time.

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](https://sintmaartenrecovery.org/analytical-studies)