Public-Private Partnerships in the Dutch Caribbean

Making Collaboration Work for Better Development

Working paper

15-10-2025

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Amsterdam, Economisch Bureau Amsterdam, October 2025

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Conclusions

Estimate the current infrastructure gap to enable better Public Private Partnerships funding and long-term public planning

Accurately assessing public investment needs to design, build, finance, operate, maintain, and expand infrastructure and related public services is essential. The Dutch Caribbean islands currently face an infrastructure gap that calls for a medium to long-term investment planning. International approaches to estimate the gap have been found to be biased, and there is a need for a more practical approach. Without this preliminary condition, a realistic initial evaluation, the performance of a Public Private Partnership (PPP) cannot be properly assessed. Yet, the islands still struggle to accurately report their partnership commitments when engaging with a private partner. The direct consequence is therefore a difficulty in accessing innovative funding tools. The key developments to overcome the infrastructure gap include:

- Evaluate the current public infrastructure task: Field-based estimation to then be able to apply standard international stock estimation like the Perpetual Inventory Method.
- Enhance public financial reporting methods: The islands face a lack in details when looking at their financial statements, which prevents a long-term planning process.
- Use the current funding scheme at its full potential: Infrastructure investment complemented by private financing is possible on the islands (e.g., Bonaire's energy projects and Curaçao's recent preferential Dutch loan), and when properly coordinated, existing public funding tools can prove to be effective.

When the current stock of infrastructure, traditional procurements and PPPs combined as a portfolio, is assessed, central government and third parties will be able to accurately propose long-term reforms and planning. This will enable the islands to comply with international standards to improve reporting of capital stock and associated assumptions. If initial assumptions were more reliable, the islands could apply a perpetual inventory method in the future to reduce the burden of on the field approach, while keeping medium-term estimates accurate. Associated with rigorous public financial reporting, the islands will get access to broader PPP innovative funding schemes. However, there is no evidence that the current funding schemes sets the islands back for their funding investments. For example, in August 2025, Cft issued a favourable opinion on a preferential interest loan for capital investment in Curaçao.

Overall, assessing the infrastructure gap and strengthening financial reporting will allow the Caribbean countries part of the Kingdom of the Netherlands to unlock greater access to innovative PPP financing schemes and improve the medium-term efficiency of public investment planning.

Build better governance for better partnerships

While the adoption of the PPP model is not driven by political ideology, empirical findings suggest that the electoral calendar is a strong determinant which biases the preparation of contract terms. This political timing often affects not only project selection but also governance standards. The interviews conducted raise concerns about transparency, particularly regarding the disclosure of contingent liabilities. Evidence shows that some motivations to adopt the PPP model diverge from the overall prioritisation of social welfare. Furthermore, the islands seem to deal with a lot of unsolicited proposals, which may also bias the contract terms. Literature findings also highlight the downward potential of hold-up situations that these proposals could lead to in the coming years. Many screening and monitoring tools have been proven efficient around the world to mitigate PPP litigation, and governance assessment indicates room for improvement in the planning and implementation phase of PPPs. Findings of this working paper on governance improvement suggest the following recommendations:

- **Do not operate behind closed doors:** In general, the islands' decisions on PPP contract terms are not transparent enough. Operating behind closed doors reduces competition.
- **Publish ex-ante Cost-Benefit Analyses:** Publishing ex-ante Cost-Benefit Analyses constitutes a gold standard in the PPP model and enables to assess the potential performance of a project.
- **Get ahead of time and prepare ex-post evaluation:** There are no reasons to not learn from mistakes and conduct after project analysis to lead the way in the Caribbean region.

Overall, the Dutch Caribbean performs relatively well in the implementation phase of PPPs, but weaknesses remain in ensuring transparency and accountability. They need to improve overall governance phases by using tools and mechanisms such as proper reintroduction of competition dialogue, as is done in Aruba. They should also desynchronise their motivations with the political calendar and use appropriate monitoring to prioritise the common good. Finally, there is no reasons to not get ahead of the region standards and learn from mistakes by conducting ex-post evaluation of upcoming PPP contract expirations.

Effective risk allocation is key to ensuring resilience in a region vulnerable to exogenous shocks.

A risk should be borne by the party that is best able to manage it. Fortunately, the currencies of the islands are either pegged to the US dollar or they use the dollar directly, which eliminates exchange rate risk for contracts written in this currency. However, this monetary stability does not eliminate other sources of financial exposure. It is common for the public body to act as the ultimate guarantor of a PPP project. However, meetings conducted in the context of this paper suggest that the public actor always retains a disproportionate share of implicit risks to attract a private partner. From the perspective of external macro-economic shocks in a region that is highly dependent on tourism, this has consequences for the public budget. A negative shock in demand could trigger the minimum revenue guarantee threshold and directly impact the tight public budget. As experienced in Aruba[1], PPPs are not a budgetary panacea and require a longstanding overview to mitigate fiscal implication. To ensure continuation of sustainable partnerships:

- **Prioritise disclosure of contingent liabilities:** Explicit and implicit liabilities reflect on the government's budget. It is important to transmit them to the supervision body.
- **Build collective knowledge on standardised PPP risk-sharing model:** In the islands' context, the public actor may bear slightly more risk. However, international standards should remain the reference.
- **Transition to accrual accounting:** Cash accounting prevents long-term planning, whereas accrual public accounting would enable this.

Overall, the islands need to integrate the risks associated with PPP liabilities into their medium-term budget planning. At the same time, they should align their risk allocation practices with international standards, in order to improve absorb exogenous shocks. Furthermore, the validation of PPP projects through a dedicated unit with veto power would help mitigate fiscal implications. Finally, transitioning to accrual accounting would greatly enhance long-term fiscal planning.

[1] Caft 201800072 complemented by interview statement.

1. Introduction

The infrastructure gap may be smaller than we think

Measuring the opportunity costs of public investment is essential to enable islands to approximate their investment demand schedule. High opportunity cost on the islands means that inhabitants would benefit a lot from public investments. Indeed, reliable infrastructure is a cornerstone of economic development, especially for small island economies. Assessing the needs for public infrastructure and related services is therefore essential to guide medium to long-term planning. Yet, international estimation methods often overlook the Caribbean's specific characteristics, calling for a more operational and context-based approach.

While the private actor is generally in charge of financing in a PPP framework, the islands need access to funding to compensate for the new infrastructure in order to fill a potential infrastructure gap. It is important to assess the current funding schemes available for the islands and optimise them in order to develop more innovative financial tools and mechanisms.

Governance is at the heart of a win-win scenario

At the same time, enhancing good governance practices is a necessary condition on the islands. It encourages PPPs to prioritise social welfare while ensuring that the collaboration also meets international private sector expectations. Many tools to achieve this goal are available and could potentially help the islands to align their motivation while safeguarding themselves from potentially disagreements and litigations. This increases not only living standards, but also economic development opportunities.

Understanding risk allocation for a sustainable public private cooperation

The main determinant of a resilient and sustainable partnership is the way risk is allocated when public infrastructure and related public services are delivered. Some islands in the Caribbean region are considered as geographically isolated and highly dependent on the tourism sector, which makes them vulnerable to specific risks. On the other hand, developing countries use PPP mainly as a way to escape budget constraints. But ultimately, the infrastructure provided under the model is still a public asset and needs to be funded. Since gaining independence, the Dutch Caribbean has been under tight fiscal supervision, and if not accounted for properly, PPPs could pose a shadow fiscal risk for the islands.

This working paper explores the PPP framework for the Caribbean countries part of the Kingdom of the Netherlands

The year 2010 marked an important shift for the islands, as their institutional autonomy has since been governed by a Kingdom Act. Since then, we see a rise of the usage of the PPP model not covered by any specific laws.

The opportunities brought by public private partnerships model for the Caribbean region should be further investigated. For this reason, Economic Bureau Amsterdam (EBA) has conducted an initial study resulting in this working paper on the current framework and conditions for its development in the Dutch Caribbean.

The central research question that we aim to answer with this analysis is: *What conditions are necessary to develop a sustainable and resilient Public-Private Partnership framework in the Dutch Caribbean?*

The following sub-questions form the basis for answering this main question:

- *What is the effort in investment needed?*
- *What are the good practices around governance?*
- *What is the ideal risk allocation between parties?*

This working paper first provides the infrastructure and funding context related to PPPs (Chapter 2). Chapter 3 then outlines the risks and consequences for the islands. Chapter 4 analyses the general governance prerequisites for the sustainable and resilient development of the PPP framework in the island part of the Dutch Kingdom.

2. Funding the Infrastructure Gap

Infrastructure Gap

Recommendations on infrastructure planning

Overall, evidence shows that the islands need more infrastructure and related public services. This gap could be filled through either traditional public procurement or PPPs. First, it needs to be estimated independently on each one of them, but current estimation methods are inaccurate and unapplicable given unrealistic assumptions. Infrastructure planning on the islands still leaves significant room for improvement. Based on the analysis, three main recommendations can be drawn to improve the situation:

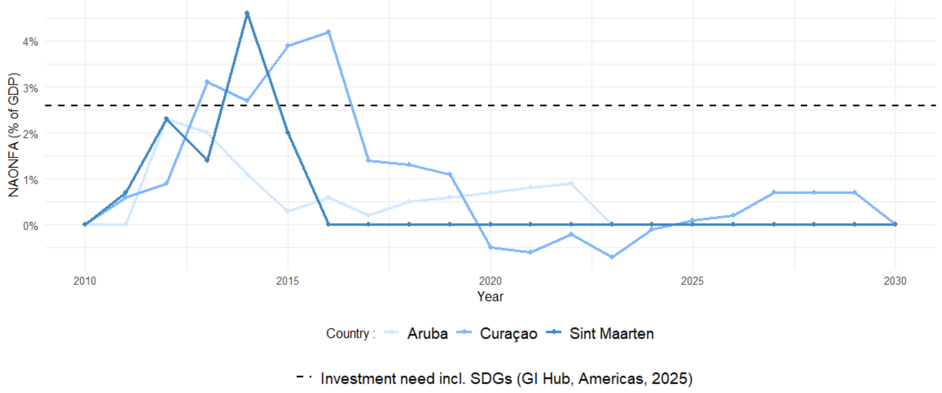
- Conduct a comprehensive assessment of existing infrastructure: This constitutes a necessary first step toward identifying actual needs in terms of public infrastructure and services. Without a robust baseline assessment, meaningful stable measures cannot be discussed. Most islands in the Dutch Caribbean currently operate on annual budget planning cycles, which limits long-term infrastructure programming.
- Develop a more transparent medium-term public investment plan: The islands express a strong willingness to attract private financing. Transparency and budget accountability are key to engaging private investors, yet the current budgetary statement on the existing stock of infrastructure and public services is insufficient to provide a clear operational sight. Greater investment planning would help reduce risks of biased estimation, enhance competition by limiting the dominance of incumbents, and ultimately reduce the medium to long-term exposure.
- Collaboration under small-island contexts through stronger coordination with the Netherlands and multilateral partners: This is particularly pertinent for the small island economies, given their limited economic scale and structurally higher costs of implementation. Therefore, closing the investment gap should be based on specific operational infrastructure requirements. This adjustment requires close coordination with existing and potential new partners. For Sint Maarten, for example, this coordination approach with the World Bank, European Investment Bank, and the Netherlands acts as a safeguard and implements good practices simultaneously.

Accurate infrastructure planning requires improved public finance reporting

Many international organizations attempt to estimate the investment required for infrastructure and related public services by world region. However, the Caribbean is often overlooked when infrastructure investment needs are assessed, being considered part of Latin America rather than a distinct region in its own. For instance, the Global Infrastructure Hub website[2] provides a global overview of investment forecasts. One disadvantage of their approach is that the Americas region is aggregated. The Caribbean is therefore included in an overly broad framework that does not reflect its specific characteristics. Following their recommendations to achieve resilient public infrastructure aligned with Sustainable Development Goals (SDGs), the Dutch Caribbean should invest an average of 2.59% of their GDP annually. And based on current trends, this would result in an average infrastructure gap of 0.85% of their GDP. Another recent report by Andersson Elffers Felix examines the investment needs in physical infrastructure for the islands of Bonaire, Sint Eustatius, and Saba. The report looks into the depreciation and maintenance costs of existing infrastructure, and the additional required investment. The BES's expenditure effort is described as large, given that the islands are in some extent geographically isolated and their small scale. This results in higher construction and importation costs for the materials needed to build new physical infrastructure.

[2] Americas - Global Infrastructure Outlook

Figure 1 Public investment in Fixed Assets, measured as NAONFA with Capex fallback.



Source: Economic Bureau Amsterdam (2025).

As shown in Figure 1, couple years after the Kingdom act capital expenditures increases. Key observations include:

- In 2013, on average the three autonomous countries invest 2.166 percent of their GDP in Net Acquisition of Non-Financial Assets (NAONFA)
- Limited budget details make it difficult to attribute observed peaks to specific projects.
- Since Hurricane Irma hit on 6 September 2017, Sint Maarten has been benefiting from a special recovery programme administered by the World Bank, which explains the reporting gap.
- Curaçao is characterized by a negative NAONFA. This is hard to believe and does not coincide with information on recently signed partnerships for infrastructure.

Nevertheless, even though public financial statements do not provide a precise view of the final public assets, evidence shows that the islands remain far from the investment target required to close the infrastructure gap.

Table 1 AEF estimation of needed investment as of 2024 prices and reported as % of GDP.

Island	Needed investment (mln USD/year)	As percent of GDP
Bonaire	41	5.8
Sint Eustatius	17	18.0
Saba	10	18.8

Source: AEF (2024)

Now looking at Table 1, AEF provides an interesting image on needed investment. When reported as percentage of GDP, values can be seen as high, this lays in the fact that the BES islands have a smaller GDP value. Through a conversation with an AEF consultant, the main lesson drawn is that expenditures in maintenance and new formed physical capital are mandatory for them to enhance development. The islands are public entities with municipal status. Therefore, the level of investment required should not be linked to GDP, but in a certain extend implemented according to their needs, as is the case for all municipalities in the Netherlands.

The international approaches to estimate current infrastructure stocks

The needed investment in infrastructure and related public services for the coming years in the Dutch Caribbean is most likely based on estimation methods that differ greatly from one another. Before determining needs, the current situation must first be assessed. There is no international consensus around the correct approach to employ, but it is necessary to acknowledge the bias they involve.

- System of National Account: It consists of using Gross Fixed Capital Formation (GFCF) as a proxy to estimate infrastructure investment flow[3]. This approach has its downsides. First, GFCF includes the share of private capital investment in addition to the public one. Second, it includes government's

[3] ICSD

investments in non-infrastructure related assets.[4] In our context, this approach overestimates infrastructure and implies strong assumptions on initial stock.

- **Public Finance and Government Budget:** This approach is derived from executed government's budget in Net Acquisition of Non-Financial Assets. When public finances are well detailed it provides a view at the sector and project level. The downside of this methodology occurs when public finances are weakly reported and ignores infrastructure investments conducted by subnational entities, State-Owned Entreprises (SOEs), and through long-term contracts (PPPs).[3] In our context, SOEs are often responsible to conduct major investments in infrastructure and related public services. This approach underestimates infrastructure.

The approach chosen is one that uses the public finance and government budget, NAONFA are expressed in percent of gross domestic product and when missing is replaced by reported government capital expenditures. This measures a flow, to be able to retrieve the current stock in infrastructure investment, further research is needed to build strong initial assumptions and apply the perpetual inventory method at the national level. Public finances in the Dutch Caribbean are overviewed by the Colleges financieel toezicht (Cft). In their last semi-annual report[5], the board highlights that the overall economic situation of the islands is positive, which gives budgets a more favourable outlook. Overall, the board emphasizes that sound public finances are essential to preserve investment capacity. In the report Bonaire is being criticized for deterioration in the quality of its budget documents in 2024. This does not reflect the overall situation in the Dutch Caribbean, but it does show that the islands' budget documents have significant room for improvement. In the context of this article, the budget documents are retrieved from the yearly IMF Article IV Consultation Staff Reports for Aruba, Curaçao and Sint Maarten, Capex is used as fallback when NAONFA are missing.

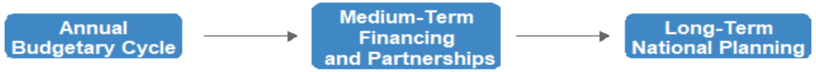
Conclusion

Many countries in the Caribbean are already committed to estimate their infrastructure gap apart from the neighbouring continent. The gap does not apply to developing countries only and independently estimating it represents a crucial step toward resilience and own sustainability. Forecasting the level of investment required provides better clarity for policymakers and multilateral investors.

The conclusion remains the same across the literature: the Caribbean faces an urgent need for maintenance, renewal, and additional investment in public infrastructure and related services. Different estimation methodologies provide different figures, yet all point toward a persistent lack relative to international benchmarks.

Overall, the evidence highlights that infrastructure planning in the Caribbean islands part of the Kingdom of Netherlands is not only a question of financial space but also a question of institutional capacity and good governance. Closing the investment gap is essential for long-term resilience and sustainable development.

Illustration 1 From annual planning to long-term National Development.



Source: Economic Bureau Amsterdam (2025).

[4] Serebrisky et al., 2018

[5] Boards of Financial Supervision. (2025)

Funding access

Recommendations on funding access

To close the infrastructure gap, greenfield and brownfield projects[6] must be funded and financed. These can be either user-funded, mostly relying on revenues generated from service users, or government-funded, supported through public transfers. Contrary to popular belief, the latter is not without budgetary consequences, and therefore the current funding mechanisms and access to finance in the Caribbean countries part of the Kingdom need to be assessed. For the Dutch Caribbean, where fiscal space is structurally constrained, the challenge is not only to mobilize sufficient financing but also to ensure sustainable funding over the project's lifetime. Addressing this requires innovative approaches which can help close affordability gaps, reduce fiscal risks, and make projects bankable without overburdening government budgets. One concern raised by the Cft is that funding costs are not transparent in the budget cycle. PPPs are not a budget panacea and private finance does not remove public funding obligations. Incorporating the funding capacity of state-owned enterprises into the budget or in parallel to the System of National Accounts is therefore mandatory to strengthen private partners' confidence. Looking at the current funding scheme available in the region (Table 2), the following recommendations arise from the analysis:

- **Implement a Viability Gap Fund for large-scale projects:** Viability Gap Funds can be a useful tool to close the revenue gap and enhance funding capacity to make projects bankable.
- **Institutionalize blended finance:** Many innovative financing schemes are already present in the Caribbean region. Blended finance, for instance, could significantly contribute to attract private partners while allocating risks in a way that makes projects viable.
- **Strengthen public financial management and adherence to the budget cycle:** This is essential to access financing for long-needed investments from external sources. The islands' financial statements still have room for improvement and improving them remains the main task to achieve intended goals and demonstrate reliability to private partners.

> Box 1: Financing versus Funding
> *Financing* is the money raised up-front to build infrastructure (borrowing, budget surpluses, or private debt and equity in PPPs). The financing task is most likely borne by the private body.
> *Funding* is the money used over the long term to pay for investments, operations, and maintenance (typically taxes in government-pays PPPs, user charges in user-pays PPPs, or other sources such as land value capture) The funding task is most likely borne by the public body.
> Source: APMG International guide

The current funding scheme is sufficient and could be improved, although ad hoc implementation reduces its efficiency

Due to their size, the islands suffer from a lack of financing capacity. Indeed, the islands face diseconomies of scale[7], where fixed costs are high relative to population size. Consequently, private investors are not sufficiently attracted to undertake large-scale projects on the islands. One possible solution to this issue in the Dutch Caribbean would be to use their current funding scheme to cover the shortfall. In the context of the Dutch Caribbean, as can be seen in Table 2, three tools are available to fund large-scale projects on the islands: local taxes, Dutch preferential

[6] A greenfield project involves brand new infrastructure delivered by a private partner. A brownfield project involves the rehabilitation, extension or management of existing infrastructure, where the private partner takes over all or part of the operations under a defined contract. Paraphrased from PPI World Bank definition

[7] Tauxe (2024)

loans and special grants. The issue with these tools is that they are used mostly ad hoc. In a medium to long-term infrastructure planning framework, a dedicated fund would be more beneficial and give the islands more decision-making autonomy. Some stakeholders may view Cft supervision as too restrictive, this is because the supervision focuses on debt sustainability, but demand for infrastructure on the islands keep growing. The access to public debt market is currently very restrained for the islands by the Cft but if sustainability allows it, a fund for infrastructure could help the islands with long-term planning.

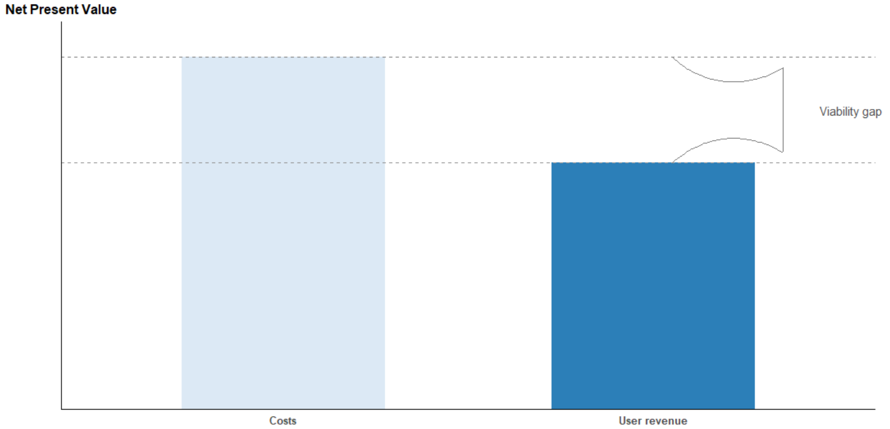
Table 2 Financial and funding framework in the Dutch Caribbean

Country group	BES	Aruba	Curaçao	Sint Maarten
Applicable restrictive financial law	Wet financiën openbare lichamen & Wet openbare lichamen	Landsverordening Aruba Tijdelijk Financieel Toezicht (LAft)	Rijkswet financieel toezicht Curaçao en Sint Maarten	Rijkswet financieel toezicht Curaçao en Sint Maarten
Major amendment	WolBES and FinBES Revision Act (not applicable yet)	Wijziging LAft	FALSE	FALSE
Supervision	Ministerie van Financiën & Colleges financieel toezicht	Colleges financieel toezicht	Colleges financieel toezicht	Colleges financieel toezicht
Free Allowance (ruled by law)	TRUE	FALSE	FALSE	FALSE
Local Tax	TRUE	TRUE	TRUE	TRUE
Dutch preferential loan	TRUE (0% interest rate for public investment tasks)	TRUE (>0%)	TRUE (>0%)	TRUE (>0%)
Special grants	TRUE	Ad hoc (Covid-19 shock)	Ad hoc	Ad hoc (Irma 2017)
Access to public debt market	FALSE	TRUE (under supervision)	TRUE (under supervision)	TRUE (under supervision)

Source: Economic Bureau Amsterdam (2025), based on wetten.overheid.nl

A Viability Gap Fund (VGF) is a public financing mechanism designed to make economically important but financially unviable projects attractive to private investors. In a Small Islands Developing States (SIDS) context, where project revenues are often too limited to attract private investment, a VGF can help bridge the gap between financial feasibility and social necessity. Illustration 2 provides a visualisation of this methodology, which is used by many countries to attract the private sector while prioritising socially necessary infrastructure. We can think of water or waste management, for example, which can be very costly for the islands. This type of fund would reduce the islands' dependency on ad hoc special grants and help them to finance the necessary infrastructure and related public services. It could be operated at the Kingdom or regional level, while the fund could still be managed by the Netherlands, given that they usually provide special grants and preferential loans for public investment tasks.

Illustration 2 Financial and funding framework in the Dutch Caribbean



Source: Economic Bureau Amsterdam (2025)

Furthermore, loans from the Dutch government to the islands are traditionally granted at below-market interest rates and could support the financing of PPP projects. The current situation regarding large-scale project financing in the Dutch Caribbean is highly heterogeneous. From what can be founded, PPPs on Aruba and

Curaçao are mostly financed by the private partner. Since Irma in 2017, Saint Maarten has been financed by inter-governmental organisations and is still involved in a non-PPP reconstruction projects in collaboration with the Netherlands. This is an exception, since the Dutch Caribbean countries have a middle-to-high income status and are therefore ineligible for official development aid. On the other hand, blended finance is used on Bonaire while Saba and Statia are fully dependent on the Dutch free allowance given their scale. In the context of this analysis, the major energy project described by Bonaire Bon Transition is a PPP with a blended finance scheme. Indeed, in a meeting, Bonaire Bon Transition stated that half of the project was financed by the private partner and half by a zero-interest loan from the Dutch government. This enables the private company to generate revenue on half of the project cost, while the public sector breaks even. This reduces the perceived risk for the private sector, but it is applied on a case-by-case basis without any clear institutionalisation. If the islands struggle to attract private investors because of high perceived risks from scale, costs, and geography, blended finance[8] could be institutionalized under a dedicated unit to lower funding costs. A dedicated facility could coordinate donors, private investors, and local governments under unified governance standards.

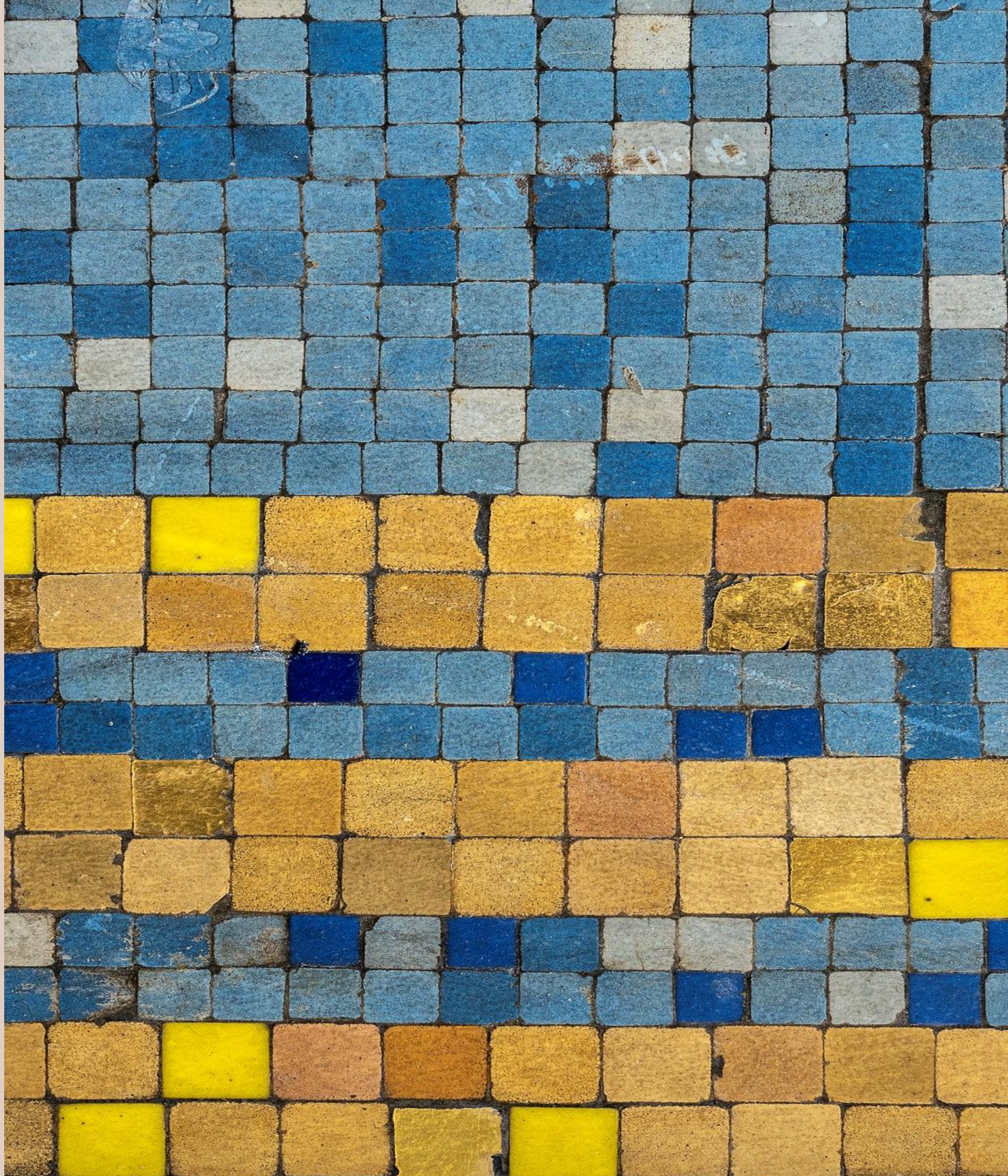
In the context of this analysis, the interviews conducted suggest that funding access is lacking behind on the islands. This directly impacts publicly owned enterprises in charge of implementing projects. To overcome this constraint, there is a need to maintain the pace of improvement in financial reporting that the islands have shown over the past years. A recent example is Curaçao's 2025 preferential interest loan request to the Dutch government, for which the Cft issued a positive opinion on ANG 147.7 million intended to finance capital investments. The Cft emphasized that these expenditures meet the System of National Accounts (SNA) criteria. This case illustrates that access to concessional Dutch loans remain possible when budget standards are met. Strengthening public finance reporting is therefore a mandatory step if the islands aim to enhance competition, attract private partners, and develop more funding mechanisms.

Conclusion

Improving funding access in the Dutch Caribbean requires institutional efforts. While existing tools such as preferential Dutch loans, and special grants remain essential, their ad hoc use prevents long-term planning. Mechanisms such as a Viability Gap Fund or an institutionalized blended finance facility would help to derisk private participation and make major projects viable. These measures would also reduce the dependence on Dutch preferential loans and enhance the countries' autonomy. To facilitate sustainable long-term planning and encourage greater involvement of international private partners, the island governments must continue to improve the quality of their public account reports.

[8] Blended finance refers to the strategic use of public, development, and philanthropic funds to mobilize private investment for projects that deliver both financial and social returns.

3. Governance



Governance

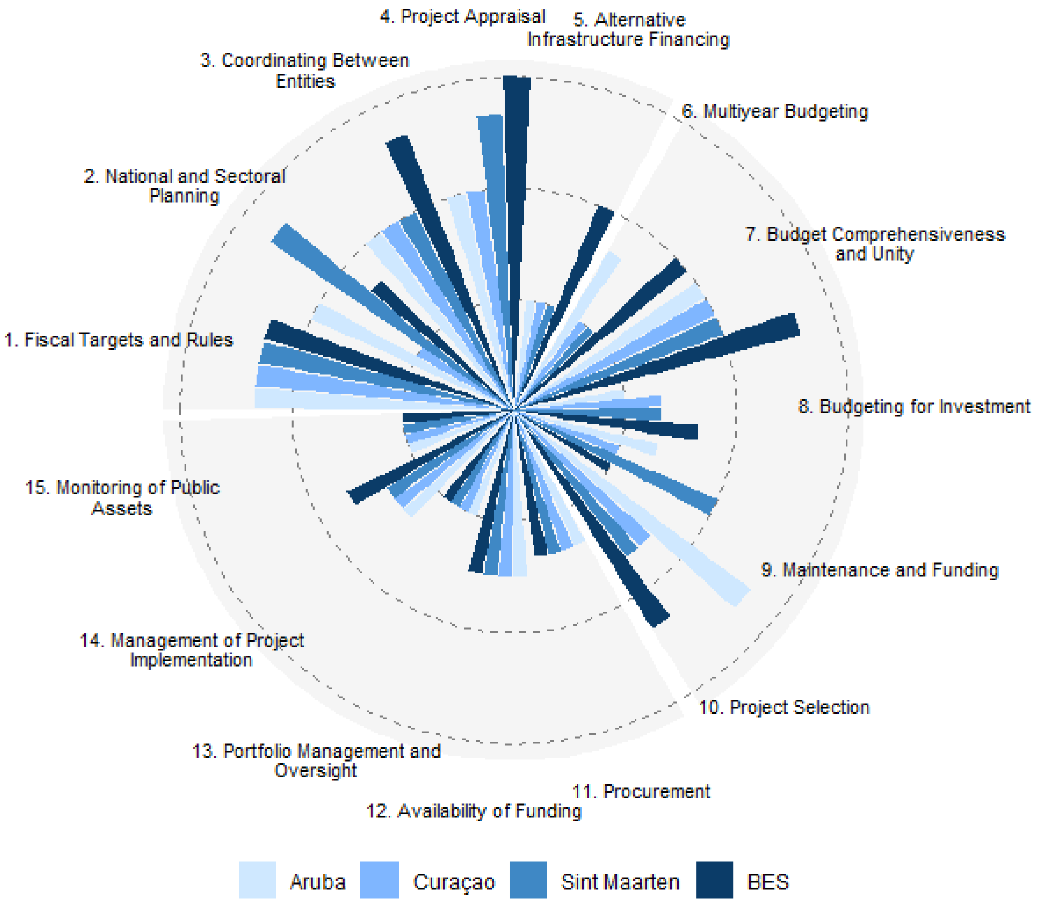
The independent islands of Aruba, Curaçao, and Sint Maarten do not clearly define a set of rules and processes around the PPP framework. A key concern regarding PPP adoption in the region is on transparency and accountability of those large-scale project. The model is broadly implemented and decisions are made, but new public governance reforms are needed.

Based on the meetings held and the context of this research, the following recommendations regarding governance arise:

- Align infrastructure investment models with the right motivations: This is the first necessary step towards achieving broader welfare in the country's economic context. Without robust alignment of motivational purposes, contract designs will result in terms that favour fast delivery over country needs. Moreover, the literature demonstrates that political opportunism could distort proper contract development.
- Ensure transparency and prioritize projects that enhance overall social welfare, not only financial returns: One of the most concerning point raised during meetings regarding the islands were on transparency of project documents. Without a proper disclosure unbiased third party cannot monitor and ensure Value for Money (VfM) is achieved.
- Publish ex-ante Cost–Benefit Analyses (CBA): In a PPP framework, the partnership provides its inhabitants with public infrastructure and services that improve their quality of life. To ensure Value for Money of a project an ex-ante CBA is the international gold standard.

Interviews held in the context of this research suggest that governance performance of Caribbean countries within the Kingdom have plenty of room for improvement. While Bonaire, Sint Eustatius and Saba follow Dutch legislation, the others can improve in many areas.

Illustration 3 Public Investment Management Assessment Scores by Island



Source: Economic Bureau Amsterdam (2025), based on PIMA tool

Illustration 3 assesses the performance of governance across the implementation (1–5), planning (6–10), and allocation (11–15) phases of public investment. It represents the Public Investment Management scores for Aruba, Curaçao, Sint Maarten, and the BES islands (Bonaire, Statia, and Saba together). The scores are derived from the IMF's PIMA detailed questionnaire, which assesses institutional strength across 15 dimensions of public investment management. They range from 1 to 3, with 1 being the lowest and 3 the highest. The length of each bar indicates the degree of performance in a given dimension. The longer the bar, the stronger the governance capacity in that area. This enables visualisation of both strengths and weaknesses across islands, but also enables comparison. For instance, in dimension 7, Budget comprehensiveness and unity, the BES islands perform better than the others because their budget framework is directly aligned with the European Netherlands. On the other hand, Curaçao's budget unity is less detailed regarding specific infrastructure investments, and therefore has a lower score.

The adoption of PPP may be influenced more by political aspects than by welfare objectives

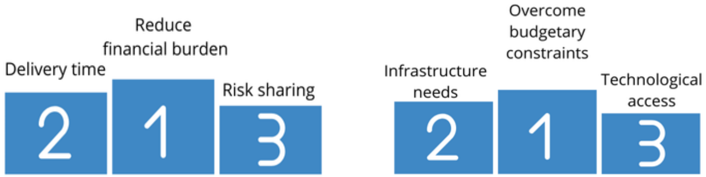
While PPPs are often presented as collaborative tools to improve infrastructure and service delivery, their adoption is sometimes shaped by political considerations rather than general welfare objectives.

There are three key stages in a public-private process initiative: consultation, publication of the notice, and signing the contract. In those stages, political ideology is insignificant in determining PPP adoption. However, election cycles appear to be a strong determinant. This reflects what literature describes as political opportunism, the strategic use of PPP initiatives to gain electoral advantage rather than address genuine infrastructure needs. This behavior can bias the contracting process by influencing project selection, procurement timing, or private partner selection. Adoption should be motivated by the complementary expertise that the private sector brings. Recent empirical work investigates the relationship between political ideology and the electoral cycle on different PPP project phases in Brazil[9]. The study shows that, in Brazil, from 2005 to 2022, political ideology was insignificant in determining contract signature. However, the electoral cycle appears to be a strong determinant in the three initial stages. The electoral calendar's influence on PPP initiatives could "jeopardize the objective of achieving greater efficiency and effectiveness"[6]. Beyond the findings from Brazil, a comparative analysis of Ghana and Hong Kong has been conducted[10], identifying the strategic motivations behind PPP adoption in different economic settings. The authors show that the main reason for adopting PPP in Ghana is to promote the quick delivery of public infrastructure projects and to avoid the government's financial burden. These two studies highlight the importance of aligning decision-makers' motivations with the greater good rather than using PPPs as means to claim electoral legitimacy and pass on financial consequences to future incumbents.

Interviews suggest that the adoption of PPPs in the islands that are part of the Kingdom of the Netherlands is linked to three main factors: the urge to meet infrastructure needs, access technological innovations to achieve the SDGs, and overcome budgetary constraints[11]. Residents are primarily concerned with improved access to services rather than the identity of the private partner, according to the interviews. From a broader perspective, Beuve (2019) from a dataset of French public contracts, finds that public contracts tend to be more rigid, particularly in politically contested environments. The authors argue that public managers strategically employ this rigidity to make it more difficult for potential political opponents to alter contractual terms if they come into power. This insight can inform PPP practitioners by emphasizing the potential use of contract rigidity to manage political risk.

[9] Luisa (2024)
[10] Robert (2018)
[11] PPP Knowledge Center Aruba, "About" section

Illustration 4 Main strategic reasons to engage in partnerships: Developing versus Dutch Caribbean context.



Source: Robert (2018) and Economic Bureau Amsterdam (2025).

While PPPs can address critical infrastructure and service delivery challenges, their adoption may also reflect political opportunism. For large scale projects to truly serve the public interest, they must be deployed to increase total welfare rather than to achieve short-term electoral strategy. These findings highlight the importance of implementing strong governance mechanisms to prevent the inefficiencies that may arise from political interference.

Unsolicited proposals threaten transparency and competition

Transparency and improved competition are particularly important when dealing with unsolicited proposals (USPs), a topic that has frequently raised concerns in the literature. According to a paper by the World Bank (2007), unsolicited proposals from private companies to develop infrastructure without public tendering lead to a lack of transparency and give the first mover an advantage. While they can bring innovation, they are often negotiated behind closed doors, creating an inherent asymmetry of information and sometimes lead to corrupt practices. In many contexts, unsolicited proposals are therefore subject to stricter regulation or processed in a way that restores effective competition, this is particularly important where institutional capacity for evaluation is limited. Three mechanisms are commonly observed internationally to overcome potential inefficiencies arising from USPs: the Bonus System, the Swiss Challenge System, and the Best and Final Offer approach.

Overall, enhancing proper tendering process is necessary to mitigate inefficiencies through projects life cycle. Aruba is a great example for its neighboring countries[12]. They follow a procedure called 'concurrentiegerichte dialoog', which is used in Europe and the Netherlands. Previous findings suggest that win-win scenarios are achieved when the competitive system is fair and transparent. This is generally supported by a specialized independent unit complemented by law to protect public interests through continuous accountability and evaluation of future contractual obligations. The goal is to improve the country's legitimacy, trust, and capacity in order to achieve the public service target through the fast-growing PPP model.

Screening

Given the structural long duration of partnerships, achieving intended outcomes requires careful project screening before the start of a project. Appropriate preselection mechanisms act as safeguards, align interests, mitigate risks, ensure transparency, and set accountability. Partnerships between public and private is seen as part of New Public Governance (NPG). A paradigm defined by Casady et al. (2020) in which the state acts as an organizer in an increasingly complex network and uncertain environment. Authors emphasize that PPPs are not self-administering and require strong institutional capabilities in order to facilitate implementation of a cooperative behaviour. This institutional maturity includes three foundations, legitimacy, trust and capacity, they are essential components of project success. Creating standardize legal procedures is not a panacea to ensure that all projects run smoothly, but it provides assurance that deviations will not be too significant. Strong screening processes can be seen as a signal sent by government officials showing their institutional maturity, preferably conducted by a dedicated agency. In the absence of such framework, issues of adverse selection during project development will arise. Beyond this, Eshun et al. (2020) conceptualizes what constitutes a win-win scenario in PPPs by methodologically analysing the literature on the subject. The authors identify six key components necessary to achieve such a scenario: equal

[12] PPP Knowledge Center Aruba, "Tender Procedure" section

coordination and participation, strategic negotiation, optimal assessment and fair risk allocation, a reasonable concession period, and flexible contracting.

Monitoring

Due to the long-term nature of partnerships, continuous monitoring and coordinated implementation are required throughout the project lifecycle to ensure commitments are met. From the procurement and development stages to construction, operation and the eventual transfer of assets, partners may fail to meet the predefined requirements. In the NPG described by Casady et al. (2020), the public sector has the role of regulator. As it will be mentioned in the risk section, an asymmetric allocation of risk towards the public actor is observed. In consequence, a situation of moral hazard could arise after the transactional phase, this is defined as a situation in which the private partner tends to expose the project to higher risk because they are not bearing the ultimate cost of it. Monitoring is therefore a key component of project success and should be outsourced to an independent third party to avoid any bias in the evaluation. In a water desalination distribution PPP, for instance, this could take the form of a random inspection by an independent body to verify the quality, continuity, and geographic coverage of the water supply.

PPPs are ultimately a public asset and transparency is key to achieve value for money

In the PPP framework, value for money (VfM) is not defined by the lowest cost, but by achieving the best equilibrium between cost, quality and risk throughout the project lifecycle. Beyond good governance VfM can be achieved by:

- Ex-ante CBA: This enables public sector to assess pros and cons between a traditional versus a PPP procurement. Unfortunately, in the countries part of the Dutch kingdom, not enough public reports on CBA are published. It is an international gold standard for transparency toward inhabitants and a minimum in the case of large-scale project.
- Discount rates employed: PPPs involve extended payments. These are predefined in the contract agreements and, on an accountability basis, need to be discounted in order to calculate their net present value. The right discount rate to employ is complex and there are many uncertainties around, so choosing the appropriate one is challenging, especially in the context of the Caribbean. Extended studies on the appropriate discount rate are needed to project the potential VfM of a project.

Ex-post evaluation should not be overlooked in the Caribbean

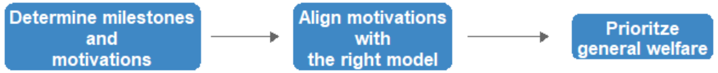
Overall, ex-post evaluation of large-scale projects is lacking globally. Too little research has been conducted on this topic[13]. In the Dutch Caribbean, the majority of large partnerships haven't reached the end of their contracts. In the coming decade, an ex-post evaluation of these PPPs should be conducted after termination or renegotiation to learn from mistakes and improve the framework around the model. This is particularly important in the region where PPPs are being used more and more to support development. The Dutch islands should take advantage of this to ensure the success of future projects and become a reference in the context of SIDS with their specific characteristics.

Conclusion

Even if the public sector does not bear the short-term financing burden, the three reasons to engage in PPP do not mitigate the risk of higher public costs and unexpected fiscal burdens. They also do not prevent delivery failures. Illustration 5 below summarizes the main motivational steps that typically guide governments when engaging in PPP projects.

[13] Sukasuka et al. (2022)

Illustration 5 From aligning motivations to general welfare: A planning Sequence.



Source: Economic Bureau Amsterdam (2025).

First, decision makers determine milestones of their countries asset portfolio and resulting motivations. As for instance, the urgency to develop and deliver new public transport infrastructure. Second, they align these motivations with the appropriate contractual model, often under comparative scenarios to demonstrate efficiency gains. Finally, the heart of the process should prioritize maximisation of general welfare by seeking for VfM. PPP adoption is not an easy task and good governance is necessary. To ensure the viability and performance of project many tools have been describe. The planner should reintroduce competition in presence of unsolicited proposals to not end up in hold-up situation and build country's legitimacy by showing transparency and accountability.

To avoid adverse selection and moral hazard issues during operational phases, serious screening and monitoring processes should be implemented. Achieving a win-win scenario and VfM for a project involves all the previously described steps. To further advance in their PPP adoption, the islands could already plan a future ex-post evaluation of the projects to learn from their mistakes and establish themselves as a PPP model for the Caribbean region.

While these steps represent the intended rationale behaviour in PPP adoption, operational realities might diverge. In the Dutch Caribbean, the urgency of infrastructure needs and strict budgetary constraints can distort this sequence. Nevertheless, the choices of all stakeholders should ultimately converge on the goal of improving the performance of global governance to prioritise broad social utility.

4. Risks

Risk allocation

A critical aspect of PPP success lies in how risks are allocated between stakeholders. In our context a risk is associated to occurring event that could increase, cost or operational efficiency of a project. Poorly designed risk-sharing can lead to financial losses, project delays, renegotiation, or even early termination. This makes a clear and balanced allocation of risk essential.

> Box 2: The golden rule in PPP risk allocation
>
> The principle of efficient risk allocation in PPPs is often summarized by the notion that "risks should be borne by the party best able to manage them"
>
> Paraphrased from the World Bank PPP Reference Guide (2017)

Risk allocation in PPPs is context-dependent and varies significantly across countries and projects. As highlighted in the PPP Reference Guide Version 3, differences in legal frameworks, institutional capacity, and project-specific risks require tailored approaches to risk-sharing. For example, environmental and climate related risks are higher in the Caribbean, meaning that their allocation must be adapted to local vulnerabilities. Moreover, some risks, such as political or regulatory risks may not be transferable in certain jurisdictions, reinforcing the need for careful, project-by-project assessment.

In the context of this research and meeting held with PPP stakeholders for this article, the following recommendations arise from the analysis:

- Enhance transparency and report contingent liabilities to the financial supervision board.
- Pool expertise with countries experienced in standardized PPP risk allocation.
- Scale-up PPP initiatives thanks to a dedicated entity to achieve more balanced and efficient risk sharing.

No exchange rate risk for the countries part of the Dutch kingdom

Bonaire has used the dollar since 2010. This means that PPPs using the dollar are not exposed to exchange rate risk. By contrast, the neighboring islands of Aruba, Curaçao and Sint Maarten have their own currencies. However, these currencies are pegged to the dollar, which eliminates exchange rate risk for these countries as well[14]. Therefore, any partnership involving transactions in a currency directly linked to the dollar eliminates exchange risk.

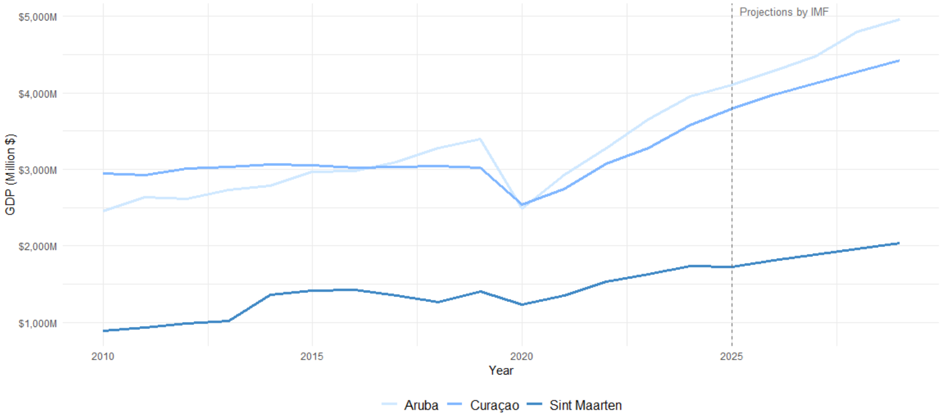
Vulnerability to exogenous shocks increases demand risks

An inherent characteristic of the region is the vulnerability to exogenous shocks, notably due to their high dependency on the tourism sector, which represents well above 50 percent of GDP in some cases[15]. The Cft Board stresses the importance in strengthening financial management with standards in order to ensure debt sustainability and resilience to shocks. As shown in Figure 2, since 2020, the countries of Aruba, Curaçao and Sint Maarten have experienced an upward trend in GDP growth, most likely driven by a recovery in tourism following the Covid-19 crisis[16]. This dependency makes the islands less attractive to private partners and could increase

[14] Van Buiren, Mak, & Nagelmaker, 2025
[15] Houpier, Nanne, van Buiren, Gradus, & Mak, 2025
[16] IMF Country Report No. 21/186

the insurance premium for a project. In consequence, bankability of a project is threatened by uncontrollable external shocks and the public body retains most of the demand risk.

Figure 2 Nominal GDP in USD with IMF projection



Source: EBA, Caribbean Analytical Statistical tool (2025), based on data from WB and IMF

Box 3: Illustrative example of demand risk transmission in Caribbean countries that depend on tourism

Tourism shock ↓ → Energy demand ↓ → Private operator revenues ↓ → Public sector compensation ↑

For instance, in the context of a SOE operating under a PPP framework for electricity production. A negative tourism shock reduces significantly energy demand, leading to lower revenues for private operators under purchasing power agreement contracts. Most often contracts include a minimum revenue guarantee, this shortfall triggers public compensation payments, shifting the burden toward the public sector.

Demand forecast in such contexts is not an easy task. Tourism flows are volatile, and any misjudgement can lead to important losses. The demand risk linked to PPP contracts, especially when minimum-revenue guarantees are involved, can turn to be very costly.

PPP engagements create fiscal risks, particularly when the public sector bears most contingent liabilities

The countries part of the Dutch Caribbean are constrained by limited fiscal space and to a certain extent under a careful Cft supervision. Table 3 categorises risks across the different PPP phases, it shows whether they should likely be borne by the public or private partner[17]. In any case, governments often remain implicitly exposed to fiscal risk.

[17] Fouad et al., 2021 IMF publication

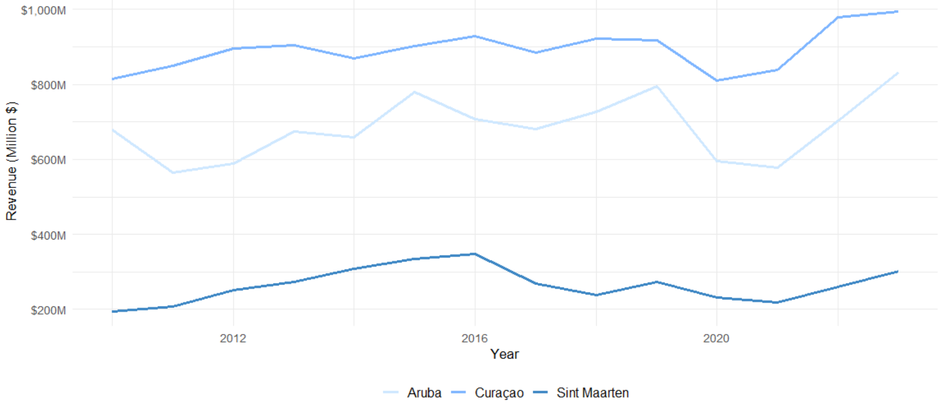
Table 3 From project risks to fiscal risks

Project phase	Type of project risk	Explicit fiscal risk, through contractual allocation?	Can implicit fiscal risks arise?
Risks during construction	Land issues and resettlement	Risk typically shared or fully allocated to public partner	Yes, when private partner cannot cope with risk
	Urban and other local licensing	Risk typically allocated to private partner	Yes, when private partner cannot cope with risk
	Environmental risks	Risk typically shared or fully allocated to one or the other partner	Yes, when private partner cannot cope with risk
	Geology and other construction risks	Risks typically allocated to private partner	Yes, when private partner cannot cope with risk
	Project design errors	Allocated to private partner	Yes, when private partner cannot cope with risk
	Cost of inputs	Risks typically allocated to private partner	Yes, when private partner cannot cope with risk
	Force majeure	Risk typically shared or fully allocated to public partner	Yes, when private partner cannot cope with risk
Risks during operation	Demand issues	Varies widely; allocated to one party or the other, or shared	Yes, when private partner cannot cope with risk
	Regulation of user fees	Allocated to public partner	Yes, when public partner is under pressure
	Maintenance and operational costs	Allocated to private partner	Yes, when private partner cannot cope with risk
	Policy change	Allocated to public partner	(not applicable)
	Changes in law	Allocated to one or the other partner, depending on change type	Yes, when public partner cannot cope with risk
	Force majeure	Risk typically shared or fully allocated to public partner	Yes, when private partner cannot cope with risk
Renegotiation			Yes, public partner tends to accept higher costs and risks

Source: IMF (2021) Mastering the Risky Business of Public-Private Partnerships in Infrastructure

In addition to implicit fiscal risks of PPPs, government revenues are procyclical with business cycles and therefore vulnerable to exogenous shocks. Revenue variability, Figure 3, combined with a shock in demand would have serious consequences for the public sector and their funding engagements. The Coefficient of Variation (CV) of revenues are respectively: 12.1 for Aruba; 6.11 for Curaçao; and 17.5 for Sint Maarten. A high CV of government revenues reflects greater exposure to shocks.

Figure 3 Government revenue in Dutch Caribbean countries



Source: Economic Bureau Amsterdam (2025), based on WB and IMF consultation IV data

A 2019 IMF report on fiscal risks in the Caribbean linked to PPPs states that fewer than 15% of the countries studied use accrual accounting[18]. Therefore, most states do not take into account the real long term fiscal impact of engaging in a PPP framework. This is based on the fact that most budget are prepared based on cash accounting which looks at expenses on a short term financial year basis.

As stated in a previous chapter, overcoming public budget constraint and stretch infrastructure investment as long term expenses is the principal reason for the use of PPPs in developing economies. The choice to implement large-scale projects as PPPs rather than through traditional Public Investment Management procurement is

[18] Queyranne, M., Daal, W., & Funke, K. (2019)

also highly driven by budget tightness in the Caribbean states part of the Kingdom of Netherlands.

Box 4: Accounting principles, accrual versus cash

Under the cash basis, transactions are recorded only when money is received or paid. In contrast, the accrual method records revenues and expenses when they are earned or incurred, providing a more accurate and long-term view of financial engagements.

Wikipedia cash method accounting paraphrased definition

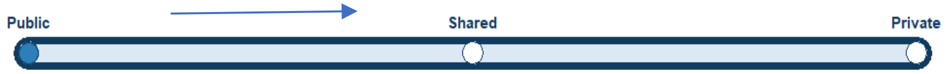
The challenge is to build a sustainable, long term fiscal management of PPPs and limit the buildup of risks and deferred cost[19]. Irwin et al. identify two different forms of Contingent Liabilities (CLs), explicit and implicit ones. The former are defined as legal obligations that the government must fulfil, the latter are not contractually stated, but arise from public expectations, political pressures, and overall state's role as society understands it. When liabilities materialize in a PPP project, either explicit or implicit ones, the associated costs can have a substantial impact on long-term fiscal management. In a government funded framework, future payments are considered as debt like and in theory should appear in balance sheets or in associated documents. Majority of Caribbean states are already in the process of adopting the International Public Sector Accounting Standards (IPSAS). Adoption will strengthen their long-term fiscal management plans and incentivize compliance and transparency in general, but particularly with regard to PPP-related liabilities recognized on the balance sheet. Aruba and Curaçao are in the process of applying accrual accounting[20] but still face reporting challenges on debt like PPP engagements.

Additionally, Caribbean countries part of the Kingdom of Netherlands are known for SOEs as contracting vehicles in PPP projects, e.g. Aqualectra, Aruba Utilities, and BBT. As they are directly involved in the contracting process, the question of accountability and transparency regarding the disclosure of main specific risks and the implications of the fiscal forecast report arises. Under accrual accounting practices, a CL must be referred both as provision and corresponding expense when there is a probability of more than 50% that it will occur and its amount can be reliably estimated[21]. The IMF's Fiscal Transparency Code provides a normative framework for identifying, quantifying and regularly disclosing all explicit commitments and major implicit risks. These should be accompanied by estimates of their magnitude and, if possible, their probability[22]. This is important, when multiple large-scale operations are ongoing or in the pipeline and risks are not monitored, in a realization scenario they will contribute to an increase in hidden and real deficits.

The issue of implicit CLs is particularly relevant in the Caribbean Netherlands and interviews suggest that SOEs are implicitly guaranteed by local governments, as insurer of last resort. This implies that any financial shortfall, service disruption, or project failure would be absorbed by public finances, reinforcing a practice of asymmetric risk allocation. While this assures continuity of public service, it poses serious long-term fiscal implications.

[19] Irwin (2018)
[20] Queyranne, M., Daal, W., & Funke, K. (2019)
[21] Bova (2016)
[22] IMF (2019) Fiscal Transparency Principle number 3.2.4

Illustration 6 Risks should tend to be more shared



Source: Economic Bureau Amsterdam (2025), lesson drawn based on conducted meetings

Queyranne et al. take the example of the UK PPP payments obligations up to 2040 and show that there is a sharp increase in total payments until 2018, followed by a relatively high and constant payment phase, and then a decline. Such patterns can occur when many contracts are signed around the same time and reflect the importance of managing PPPs from all sectors as a portfolio within public finances. Otherwise, a peak in obligations would occur around the same period, leaving less room for policy responses if an exogenous shock occurs and budget exceptions are needed. Moreover, clauses like price indexation are common practice in long term contracts, improper forecasting can lead to expensive renegotiation, refinancing needs or early termination. Authors highlight the importance of integrating PPP agreements with Public Investment Management process, or at least unify the process under a medium-term strategy for public investment. Subsequently, the private partner may find itself in a natural monopoly position, the regulated tariff structure requires a certain level of technicality to strike the right balance between cost recovery and rent extraction, while not placing too much pressure on the government budget. They also discuss the need for an exit process. For example, the right to veto a PPP agreement should be linked to budget affordability and debt sustainability within the Ministry of Finance, which should have an overview of the situation. This role should differ from that of the PPP local unit or public investment planner, who acts as a center of excellence.

Conclusion

Overall, managing risks from PPPs requires a proactive and transparent approach. Governments must strengthen ex-ante project screening, explicitly quantify and report potential liabilities, and align accountability to international standards. Without these safeguards, non-accrual accounting practices can compromise public finances, particularly in small economies with limited fiscal space. PPPs only represent a method of investing in public services and goods by extended payment terms. Risk sharing should be a priority on the islands, and this is well acknowledged, but operational reality shows that the urge of new public infrastructure and current strict budgetary constraints prevent this. They need to be integrated into a medium-term public investment strategy and process, so all contingent liabilities and associated risks are known ex-ante and mitigated.

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