



CENTRALE BANK VAN ARUBA

**Good governance in the public sector management: why it is so important from a  
central banker's perspective**

Symposium: The road to good governance II

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Speech by

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Excellencies, members of Parliament, other special guests, colleagues, ladies and gentlemen, a very good evening to all of you.

## **1. Introduction**

First of all, allow me to thank the “Fundacion Gobernacion di Calidad Aruba” for inviting me to be one of the speakers tonight. Secondly, I sincerely congratulate its founders for organizing this important symposium, the second one on the topic of (the road to) good governance.

In my opinion, this is a huge accomplishment. I know it is very challenging to organize a symposium on good governance, even though it is a topic we talk about everyday as it impacts the quality of our daily life and the decisions we make.

Good governance and public sector management seem to be a “contradictio in terminis” in our country, and at the moment it appears to remain an illusionary goal and something of the far future. It looks like a long and difficult road, ladies and gentlemen.

So Armand, I don't know how many more symposia you need to organize before ‘the rubber hits the road’ that not only you but many others so much have written about and spoken of.

Hopefully through these types of forums, by facilitating public discussions and possible solutions, fresh aspirations and new convictions for a better Aruba would lead to concrete actions to bring public sector management in alignment with international best practices in the area of good governance and fighting corruption.

## **2. The importance of sustainable government finances from a monetary perspective**

One of the main concerns of central banks is the accomplishment and maintenance of sustainable government finances. This is also the case for the Central Bank of Aruba (CBA). Why are we worried about the Government of Aruba's financial position, and whether it is sustainable or not? The answer is simple. It impacts the sustainability of the florin fixed exchange rate regime, as well as the government's position as a credible borrower.

To maintain confidence in the florin, the CBA targets levels of the foreign exchange reserves that are at any time available for covering transactions with nonresidents.

It is quite a complex issue, but I will try to explain it in a very simple way. Besides the CBA and the commercial banks (via credit), the GoA has the ability to create florins via the issuance of debt. Excessive government spending pushes up domestic expenditures, which on their turn lead to higher consumption and imports, ultimately adversely affecting the level of foreign exchange reserves.

Because of the relatively high level of imports due to the structure of our economy, the outflow of hard-earned foreign exchange is huge. The higher the spending by GoA, the higher the pressure on our international reserves, as well as on the domestic price level. The latter impacts the internal value of the florin and, thereby, the purchasing power of the consumers.

As the guardian of the florin, the CBA has and will always duly act to protect the fixed peg of the florin with the US dollar. To this end, the CBA has sufficient tools at hand to pursue a credible monetary policy. While many governments tested the effectiveness of CBA's monetary policy, it would have been easier if our founding fathers had also put in place an effective legal framework that is conducive to prudent fiscal policies. Those that are more in harmony with frugal monetary policies.

While in recent years, legal frameworks have been established to bring back government finances to a sustainable path, it is very sad to note that an external party, i.e., the Dutch government, needed to exert extreme pressure to have these in place through the enactment of the "Landsverordening Aruba tijdelijk financieel toezicht" (LAft).

Through the LAft the Government of the Kingdom has also become the ultimate supervisor of the GoA. The prime supervisor of the GoA, being the Aruban parliament, was not the initiator of these laws.

What causes the failure of timely and decisive actions by our parliament to bring and maintain government finances on a sustainable path? That is a topic in itself, which I will not address on this occasion.

### **3. Good governance a precondition to sustainable finances**

Having the LAft in place, which for the first time introduced fiscal rules to reach the goal of a balanced budget, is a good start towards sustainable government finances, but does not guarantee good governance. However, in my opinion, a necessary precondition to reach sustainable government finances is to legally anchor good governance in public sector management.

How can we further improve good governance in the public sector in a structural and effective way?

The World Bank defines good governance as the manner in which power is exercised in the management of a country's economic and social resources for development. It is described as "epitomized by predictable, open and enlightened policy making; a bureaucracy imbued with a professional ethos; an executive arm of government accountable for its actions; and a strong civil society participating in public affairs; and all behaving under the rule of law".

Based upon this definition, we note that there are many aspects related to good governance. However, in this presentation I will limit myself on the need for fiscal governance, Open Government Data, and a national anti-corruption strategy.

### **4. The need for an institutional framework for planning and implementing a credible fiscal strategy**

Fiscal governance comprises those rules, regulations and procedures that influence how budgetary policy is planned, approved, carried out, and monitored. Consequently, fiscal governance has many dimensions, such as numerical fiscal rules, fiscal reporting, macroeconomic and fiscal forecasting, independent fiscal institutions, medium-term budgetary frameworks, performance-based budgeting, and budgeting procedures.

In our 2017-report "Sustainable government policies: recommendations to the Government of Aruba for the period 2017-2021", we have suggested different pathways for strengthening fiscal rules and fiscal institutions with the ultimate aim of achieving and maintaining sustainable public finances.

Specifically, we proposed the government to consider introducing a balanced budget rule. Therefore, we welcome the new fiscal norms agreed between the Government of Aruba and the Government of the Netherlands for the period 2019-2021.

Moreover, we recommended the government to consider introducing additional fiscal rules, such as a maximum debt to GDP ratio, a golden rule for capital expenditures, and a minimum expenditure rule for education.

In addition, to safeguard appropriate coverage, going forward, fiscal rules also should include off-budget fiscal activity by imposing a limit on PPP projects. Great care should also be exercised to ensure that the fiscal rules are comprehensive to prevent shifting the source of fiscal indiscipline to areas not covered.

The aforementioned report, as well as the 2013 report “A Roadmap to Fiscal Sustainability in Aruba; policy recommendations to the Government of Aruba for the period 2013-2017”, are now available on the website of the CBA.

## **5. Open government data**

In pursuing good governance, we advise the Government of Aruba to fully adopt the concept of Open Government Data. This implies that government data should be made available to the public with a view to improve transparency and accountability.

Open Data is grounded in the recognition that government data is produced with public funds and, therefore, it should, with a few exceptions, be treated as public goods. The benefits of making public sector information data freely available outweigh the costs.

Ladies and gentlemen,

By making government data available, public institutions become more transparent and accountable to citizens. Open data support public oversight of governments and help reduce corruption by enabling greater transparency.

In practice, achieving this condition proves particularly challenging given that government data are collected by numerous (public) entities in Aruba with their own mandates, standards, frameworks, and processes to collect and disseminate information.

Furthermore, depending on the institution, the dissemination of data can be subject to approval by a ministry in charge of the domain in which the entity operates. Such an environment could give rise to principal-agent problems when data releases don't align with the incentives of their respective ministries.

Legal constraints currently also restrict data sharing across institutions and government departments. The statistics ordinance does not explicitly authorize the Central Bureau of Statistics (CBS) to demand data from other government entities or institutions. These partners are, therefore, less compelled to share their data, often citing the need to uphold confidentiality.

Internationally, on the other hand, we have made an important step on data sharing last year, as Aruba is now included in the databanks of international institutions, such as the IMF and the World Bank, and has become a member of the IMF's enhanced general data dissemination system (e-GDDS). However, the number of available data series and their timeliness should be improved.

## **6. A national anti-corruption strategy**

To promote good governance in the public sector, we have advised the Government of Aruba to adopt a national anti-corruption strategy. After all, corruption is the antithesis of good governance. High levels of corruption could have many negative repercussions.

Corruption debilitates public finances, thereby undermining desired outcomes in, for instance, education and health care as a result of less available resources.

Furthermore, corruption weakens government's ability to provide inclusive economic growth in a number of different areas. Therefore, the Government of Aruba should embrace, in close collaboration with relevant stakeholders, a holistic national anti-corruption strategy that meets international standards.

This anti-corruption strategy should be founded on the principles of integrity, transparency, and accountability. As I mentioned before, policy on openness of information, such as Open Government Data, could be one element of a possible anticorruption strategy to improve transparency and accountability.

Another important pillar of the anti-corruption strategy should be institution capacity building. Addressing corruption requires effective institutions. In this context, integrity in the public sector should be enforced, by developing a cadre of competent public officials who are independent of both private influence and political interference.

Moreover, the Government of Aruba should strengthen public institutions that control or advise the government, such as the Centrale Accountantsdienst, Algemene Rekenkamer, and Raad van Advies.

This could be achieved by ensuring their budgetary independence and securing professional staffing and leadership, as well as the necessary authorities to perform their tasks.

In addition, a dedicated institution should be established in charge with good governance.

Furthermore, the government should strengthen and introduce relevant anti-corruption laws and regulations and the strict enforcement hereof. An important measure is, for instance, the introduction of a policy for dealing with conflict of interest and legislation with regard to the financing of political parties.

People empowerment should be another pillar of this anti-corruption strategy. The civil society should act as a watchdog that monitors and scrutinizes the government's actions and measures in fighting corruption.

A whole-of-society culture of integrity should be fostered, and education programs should be implemented especially for the youth to stimulate integrity and raise awareness of the risks of corruption, as well as to actively support actions to be undertaken by citizens to, e.g., report corruption when detected.

Last but not least, the Parliament of Aruba should be strengthened to be able to effectively perform its duty of supervising the work of the government.

Although anti-corruption reforms can be adopted quickly, we know that time is needed to build effective institutions to implement and to strictly enforce the anti-corruption rules and regulations set in place.

Therefore, it is prudent to adopt a multi-year anti-corruption strategy, comprising a number of mutually supporting programs.

To be able to formulate and execute an anti-corruption strategy successfully, we also need information on the experience and perception of our citizens with regard to corruption.

Therefore, in the last months of 2018, we have conducted a corruption perception survey in our community based largely upon the methodology applied by Transparency International.

The survey included questions about the perceived level of corruption, the experience with corruption when using services particularly in the public sector, the experience when reporting corruption, and the need for additional anti-corruption measures.

Preliminary results indicate that above 70 percent of those surveyed think that the problem of corruption is widespread in Aruba, while a marginal percent think there is no corruption.

Also, almost 70 percent agree that there is corruption in public institutions in Aruba; only close to 20 percent disagree.

Another important result among those interviewed indicate that more than 50 percent agree that the current parliamentary system contributes to corruption in Aruba.

Another finding shows that about 60 percent perceive corruption as part of the business culture in Aruba. Also, more than 70 percent agree that favoritism and corruption hamper business competition.



On possible actions to mitigate corruption, above 80 percent agree on the introduction of an Integrity Chamber in charge with advising on integrity policy, above 85 percent agree on the introduction of legislation with regard to the financing of political parties, and more than 60 percent agree on the use of referendum for important decisions.

The preliminary results of this survey are telling, and underline the need to take swift and decisive actions to counter any efforts that may be conducive to corruption in the public sector.

## **7. Final thoughts**

Ladies and gentlemen,

In concluding, I would like to stress the importance of a sound public governance framework not only for the GoA, but also for public institutions to ensure that they are well managed and supervised.

I know in the past the government took concrete actions to introduce a corporate governance code for public NV's, however it may have not been fully and adequately implemented.

Therefore, the CBA is working on a draft state ordinance related to corporate governance as part of its advisory role to the government. In this way, the government can promote good governance on a public sector level, which is, as I stated in my earlier remarks, a prerequisite for achieving and maintaining sustainable government finances.

The gap in complying with international standards on good governance seems big and discouraging. Good governance is a common good, it is not a privilege, and it transcends generations. So, we are all in the same boat, let's work hard on the badly needed road, and perhaps during the next symposium we can report on the progress we have made.

I thank you for your attention.