

## WHY FINANCIAL SUPERVISION?

SHTA LECTURE BY AGE BAKKER  
SINT MAARTEN, DECEMBER 4, 2014

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## OVERVIEW

- Why financial supervision ?
- How does supervision work?
- How did it help Sint Maarten?
- The challenges ahead
- Looking into the future

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## WHY FINANCIAL SUPERVISION?

- Constitutional change on 10-10-10
- Financial supervision in return for debt relief
  - Kingdom Law for Curaçao and Sint Maarten
- Main purpose: restrain new debt build up and improve financial management of government
- Healthy financial position and accountability of government and related entities helps improve confidence

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## FUNCTIONS OF CFT

- Cft advises Governments and Parliament on budget and monitors implementation in accordance with the agreed norms
  - The Board: one representative of each country and a chairman
  - Board members act independently and take no instructions
- Cft advises the Kingdom Council of Ministers, which is ultimately responsible for financial supervision
- Cft works in an independent and transparent way
  - All advises are made available to the public: [www.cft.cw](http://www.cft.cw)
  - Secretariat has offices in Curaçao and Sint Maarten

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## THE CFT BOARD




Chairman  
Age Bakker

Netherlands  
Sybilla Dekker

BES  
Hyden Gittens

Curaçao  
Alberto Romero

Sint Maarten  
Richard Gibson

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## HOW DOES SUPERVISION WORK?

- Kingdom Law has 3 norms:
  1. no deficit on current budget
  2. borrowing only for capital expenditures
  3. limit on size of debt: interest payments < 5% income
- Budgetary outcomes and present and future budgets must comply with these norms
  - Government is free in its own policies regarding revenues and expenditures
- Key documents on which Cft advises:
  - > Budgets and budgetary amendments
  - > Quarterly reports on budget execution
  - > Financial statements of past years

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## FINANCIAL MANAGEMENT

- Ex post deficits must be compensated by surpluses in future budgets, so that national wealth is preserved
  - 2010/11 ANG - 6.8 million
  - 2012 ANG - 0.5 million
  - 2013 ANG + 0.5 million (pending audit)
- Improvement in financial management is monitored with Public Expenditure and Financial Accountability method:
  - Annual assessment of public expenditure, procurement and financial accountability systems
  - Some progress but still lacking in quality

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## WHAT IF?

- What if there is a negative Cft advise?
  - Country cannot borrow for capital expenditures
  - Escalation procedures provided by Kingdom Law may be initiated by Cft, including consultation with Government
  - As a last resort, Cft can advise Kingdom Council of Ministers to give instruction
- Comparable to financial supervision in Europe where Commission can give instructions and, as a last resort, financial sanctions
  - Fits in more general trend of supervision: financial sector, competition, health care, energy, telecommunication

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## BRIDGING THE GAP

- At the start of financial supervision there was a substantial gap between:
  - the way the island was running it's financial affairs
  - and the way the Kingdom Law requires things to be done
- So far, efforts to bridge this gap have focused mainly on:
  - Balancing the budget
    - This has proven to be an enormous challenge for all governments since 10-10-10 as country needed to build up its own institutions
  - On-time performance
    - Timely delivery of key documents is still an issue although things improved visibly in 2014
  - Financial management
    - Some progress but still lacking in quality

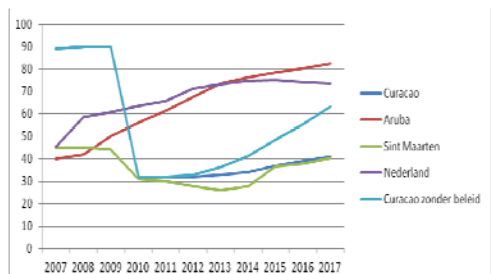
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## HOW DID IT HELP SINT MAARTEN?

1. Country has been able to borrow at low interest rate
    - ANG 176 million for infrastructure projects, government building, etc.
    - Debt 10-10-10: 32 % of GDP, debt 31-12-14: 30 % of GDP
  2. National wealth has been preserved
    - Limited cumulative deficit of ANG 6.8 million since 10-10-10
  3. Economy has been recovering somewhat since 10-10-10
    - Real GDP -1.5 % (2011), 1.5 % (2012), 0.9 % (2013), 1.4 % (2014)
- *This is a relative good performance within the Kingdom ...  
.. and by and large, Sint Maarten is bridging the gap...  
.. although progress is slow and a more structural solution is needed*

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## GOVERNMENT DEBT IN KINGDOM



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## THE CHALLENGES AHEAD

1. Balancing the budget
  - Running a country is expensive and aspirations are high
  - Urgent need to contain growth of personnel and health-related costs
2. Raising Government revenues
  - Income has basically been flat while economy grew 10% since 10-10-10
  - Tax compliance? Capacity at tax authority?
3. Improving Government liquidity
  - Payment arrears of ANG 250 mln to APS and SVZ
4. Strengthening financial management
  - Up until now no approved audited financial statements

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## THE FUTURE

- Financial supervision has helped Sint Maarten to steer clear of financial distress ...  
... and thus has contributed to investor's confidence and economic growth
- Discussion in society on merits and demerits of supervision and its link to economic growth
  - Has it been a hindrance or a blessing in disguise?
- Evaluation of Kingdom Law in 2015
  - How can continued supervision benefit Sint Maarten?

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## A LONG-TERM VISION

- Muddling through or planning for the future?
  - Sint Maarten coped relatively well despite difficulties and constraints ...
  - ... but there has been more muddling through and crisis management than planning for the future
  - Should there be more of the latter and less of the former?
- A structural approach is needed, which would enable the government to focus on the appropriate level of Government services, address social issues and eradicate poverty
  - Promote economic growth
  - Strengthen tax authority
  - Develop a dividend policy for Government entities
  - Streamline Government and enhance efficiency

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## BEING PART OF THE SOLUTION

- Financial supervision can be part of the solution
  - A balanced budget puts pressure on Government on setting priorities and increasing efficiency ...
  - ... enables Sint Maarten to borrow at favorable terms for investment in the infrastructure of the economy and raising its growth potential
  - ... strengthens process of checks and balances and increases transparency
- New government should set clear multi-annual agenda
  - Cft is willing to play its part

College Finance Board

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