

Emsley D Tromp: The importance of integrity for the development of a country

Speech by Dr Emsley D Tromp, President of the Bank of the Netherlands Antilles, at the conference “Integrity – the foundation of good government”, Willemstad, 31 October 2010.

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Ladies and gentlemen, good afternoon.

It was with pleasure that I accepted the invitation to address you during the Sixth Biennial Conference of the Caribbean Ombudsman Association (CAROA). I am pleased to participate in this forum, not only because of the importance of transparency and good governance, but also because it gives me the opportunity to express my appreciation for the work you are doing in the Caribbean. By helping to enhance public sector accountability and transparency and developing greater public awareness of the requirements for and the importance of good governance, your organization is performing a vital service to individual countries and to the Caribbean economy in general.

That Curaçao was chosen to host this conference provides us with a platform for discussing the importance of integrity for this newly formed country. As the theme of the conference correctly indicates, integrity should be the foundation of good governance. As President of the Central bank, my address will focus first on the issue of integrity in the context of the work we have been doing in this field and second on the importance of good governance as a foundation for macroeconomic stability.

The Bank’s role in governance issues has been evolving over the years, and good governance has taken on increasing importance in our primary function of promoting the stability of the guilder and our supervisory tasks. The Bank, as well as the institutions under its supervision, have awakened to this concern, although with varying degrees of enthusiasm. Indeed, as recently as a few years ago, there was little support for the Central Bank becoming more actively involved in governance issues. Some people feared that in taking on such issues, the institution would become politicized and lose its effectiveness. Others attached higher priority to other issues. Today, however, governance issues have moved to the forefront of our policy agenda. This shift in focus is the result of the growing perception of what constitutes sound economic policy.

More and more evidence has emerged concerning the adverse consequences of bad governance on economic performance – among them, losses in government revenue, lower quality public investment and public services, reduced private investment, and the loss of public confidence in government. With such evidence has come a broader consensus on the central importance of transparency and good governance in achieving economic success.

Numerous studies have shown that where governance is poor, domestic investment and growth suffer. In a world in which private capital has become more mobile, mounting evidence suggests that corruption undermines the confidence of investors and adversely affects private capital inflows, an important source of economic growth.

Going back to the theme of this conference, I want to reiterate that accountable and transparent government is an important milestone on the path to creating the most prosperous and productive economies – economies that allow individuals, businesses, and governments to create the highest possible standard of living for the largest possible number of people.

Ladies and gentlemen, there is now universal consensus that promoting good governance is essential to creating an environment in which countries can achieve lasting prosperity. As I will discuss below, important aspects of good governance include insuring the rule of law, improving the efficiency and accountability of the public sector, and tackling corruption.

Please allow me to share with you five conditions essential to good governance.

1. The first condition necessary for economic efficiency and the eradication of corruption is strong management of public resources and establishment of a stable and transparent regulatory environment for private sector activity. The lack of transparency about underlying economic and financial conditions can feed market uncertainty and trigger large capital outflows that can, in turn, threaten macroeconomic stability.

2. The second condition is transparent government financial operations. Maximizing this transparency can be achieved by creating systems that limit the opportunities for making decisions on an ad hoc basis and for giving preferential treatment to individuals and organizations. For example, we have to simplify our tax systems, labor laws, and business legislation and strengthen tax and customs administration by eliminating special exemptions that apply to a privileged few; this is the best way to ensure that adequate revenues are received to finance essential public services and that such services are accessible to the general population.

3. The third condition for good government is transparent budgetary procedures. We have to strengthen and increase the transparency of budgetary procedures to ensure that government revenues are fully accounted for and used as agreed in the budget. We also have to improve the quality of government expenditures by reducing outlays for unproductive purposes. The savings that result will make room for spending on primary health care, basic education, vocational training, and essential infrastructure. In this regard, the recently achieved fiscal consolidation in the context of the debt forgiveness program should not mask the vulnerabilities of our fiscal situation.

4. The fourth condition needed is more effective and accountable economic and financial institutions. To this end, the adoption of the “Harmonisatie wetgeving”, which has been submitted to parliament, is essential to improving the quality of financial sector regulation and supervision and enhancing the transparency of financial sector operations.

5. The final requirement is to have better data available to the public on domestic economic and financial policies and performance. I cannot overemphasize the importance of high quality statistical data; such data are an important factor in improving economic policy and an essential aid to potential investors in evaluating countries’ economic policies and performance.

Ladies and gentlemen, good governance is essential for countries at all stages of development – from the recently autonomous Curaçao and Sint Maarten, which are still in the process of building up domestic institutions and undertaking the basic reforms needed to accelerate economic growth, to advanced countries such as the Netherlands.

In the past few months, the world has been shocked to see how quickly countries renowned for outstanding economic performance have been engulfed in crisis.

Although the causes of the crisis are varied and complex, many of the problems that lie at the heart of the difficulties are lack of transparency about government, corporate and financial sector operations. Therefore, the issue of good governance is not limited to the public sector. Just as activities in the public sector must be more open and transparent, so too must those in the private sector.

Private sector governance should include measures to improve the transparency of corporate balance sheets through independent external audits, disclosure, and publication of consolidated statements for businesses so that markets can monitor corporate performance. At the same time, a more level playing field is needed for private sector activity.

CAROA’s initiative in organizing this conference could not have been more timely. Integrity is essential to a country’s success and development. Integrity is the foundation of good governance, protecting a country from debilitating behavior such as corruption, while at the same time helping the country achieve its goals. The topics that will be discussed here, will

provide valuable lessons especially for the new countries of Curaçao and St. Maarten in building strong and prosperous societies.

Ladies and gentlemen, turning to the institution for which I am responsible, the Central Bank has long recognized integrity and compliance as fundamental to the soundness of the financial institutions subject to its supervision. Indeed, integrity is the core value in our vision. We strive to instill integrity in our staff and ensure that it becomes the guiding principle in all our operations and actions.

To make integrity the norm rather than the exception, the Bank has introduced and implemented various measures. We have been very active in promoting good corporate governance in the financial sector of the Netherlands Antilles since 1994. In August 1996, the Bank issued Guidance Notes for the Board of Directors of Supervised Financial Institutions on Corporate Governance and a Summary of Best Practice Guidelines on Corporate Governance, which were revised in October 2001 and November 2006, respectively. The guidance notes describe, among other things, the general responsibilities of the Board, the legal obligations of directors, and the role of auditors.

To encourage the practical implementation of the guidelines, the Bank requires the Board of Directors of all supervised financial institutions to provide to the Bank annually a “Statement of Compliance” with the Bank’s Summary of Best Practice Guidelines. These statements are reviewed by an external auditor.

The Bank also has institutionalized periodic integrity tests of policymakers and qualified holders of institutions subject to its supervision.

These guidelines have significantly increased awareness of the importance of sound governance and integrity by the supervised financial institutions, some of which are government-owned.

Concerning the Bank itself, the appointment procedures of the board of directors are clearly specified in the Bank’s charter. Needless to say, appointees should meet certain requirements, including professional and personal qualifications. Furthermore, the members of the board of directors should abstain from activities that would create conflicts of interest with their role as central bankers. Additionally, an independent and expert supervisory board is part of the governance structure of the central bank. The supervisory board plays a crucial role in ensuring the effective administration of the Bank. The supervisory board is responsible for approving the institution’s operational budget, reviewing and approving the annual accounts, and overseeing the audit process. In addition, the supervisory board promotes the use of structured planning and management frameworks.

Last, but not least in importance, the Bank has institutionalized a recruitment program that enables it to hire highly qualified and professional staff. The program also provides for periodic integrity testing of personnel.

Ladies and gentlemen, the goal of my remarks today was to focus our attention on some of the key issues that relate to integrity and good governance – both in the public and the private sectors. While much progress has been achieved in the area of integrity and good governance, we should not forget that integrity is a fluid concept. What may seem harmless today may not be acceptable tomorrow.

Given the high and lasting cost that lack of good governance can inflict on a nation, we have to be unrelenting in our efforts to make further advances in this area. Therefore, let me close with a renewed call to continue to establish clear guidelines for strengthening integrity and to strictly adhere to these guidelines. While we may sometimes be constrained by our limited resources, we should intensify cooperative efforts both in the kingdom and in the region to continue to meet and promote the best internationally accepted practices. Given our track record in this area as the Netherlands Antilles, I am convinced that Curacao will continue to meet those challenges as an autonomous country.

Let me once again express my support for and admiration to our Ombudsman for the organization of this seminar, and thank you all for your attention. I wish you a very fruitful conference.