OFFICIAL USE ONLY

FISCAL AFFAIRS DEPARTMENT

Kingdom of the Netherlands-Aruba

Strengthening Fiscal Planning

Laura Doherty, Guohua Huang, Bruce Stacey, Marco Cangiano, and Dana Frey

Technical Report | January 2021

INTERNATIONAL MONETARY FUND

F I S C A L A F F A I R S D E P A R T M E N T

FOR OFFICIAL USE ONLY

Kingdom of the Netherlands-Aruba
Strengthening Fiscal Planning

Laura Doherty, Guohua Huang, Bruce Stacey, Marco Cangiano, and Dana Frey

Technical Report

January 2021

CONTENTS

TABLES

ABBREVIATIONS AND ACRONYMS

Afl	Aruban Florin
CAFT	Board of Financial Supervision of Aruba
CARTAC	Caribbean Region Technical Assistance Centre
CoM	Council of Ministers
DEZHI	Directorate of Economic Affairs, Trade and Industry
FAD	IMF Fiscal Affairs Department
FSP	Fiscal Strategy Paper
LAFT	2015 National Regulation for Aruba Temporary Financial Supervision
MoF	Ministry of Finance
MTBF	Medium-term Budget Framework
MTFF	Medium-term Fiscal Framework
PFM	Public Financial Management
RvA	Raad van Advies (Council of Advice)
SOE	State-owned Enterprise

PREFACE

At the request of the Minister of Finance of Aruba, Mrs. Xiomara Maduro, a capacity development mission from the Fiscal Affairs Department (FAD) was conducted remotely during the period August 24-October 6, 2020. The team was led by Ms. Laura Doherty (FAD) and comprised Mr. Guohua Huang (also FAD), Mr. Bruce Stacey (CARTAC), Mr. Marco Cangiano, and Mr. Dana Frey (both FAD experts).

The team conducted virtual meetings with the Minister of Finance, and her chief advisor Mr. Nilo Swaen; and the Central Bank President Ms. Jane Semeleer. The team also met with the Director and staff of the Ministry of Finance (MoF) Finance Directorate; and staff from various other departments of MoF (Treasury, Legal, Financial Controller); the Directorate of Taxation and the Directorate of Economic Affairs, Trade and Industry; the Central Bureau of Statistics; the Central Bureau of Subsidies; the General Health Insurance (UO AZV) and the Central Bank of Aruba; and representatives from the Aruba Civil Service Pension Fund, the Social Insurance Bank; Serlimar; WEB Aruba; Utilities NV; Arubus; and the Wit Gele Kruis. The team also met with board members and staff of the Raad van Advies (Council of Advice RvA); the Court of Audit; and the Board of Financial Supervision of Aruba (CAFT).

The team would like to thank officials of Aruba for their warm reception and candid and constructive discussions. The team would like to thank especially Mr. Derrick Werleman and Ms. Jo-Ann Kock, head of the MoF Finance Directorate and Budget Department, respectively, for their kind and competent support during this mission.

EXECUTIVE SUMMARY

Faced with a deteriorating fiscal position, in 2018 the Government of Aruba developed a reform agenda with fiscal consolidation as a key pillar. The reform plan served as the basis of a new agreement with the Netherlands, "the 2018 Protocol", that set out fiscal targets for 2019 and the medium term. It also resulted in Aruba adopting a medium-term budget framework (MTBF). The recent reforms demonstrate a commitment to achieving fiscal sustainability, however, the global pandemic is exerting significant pressure on public finances. Aruba is being affected through two key channels: disruption to domestic activity from voluntary and mandatory social distancing and a sharp decline in tourism.

In recognition that the fiscal targets of the 2018 Protocol are no longer appropriate in the current challenging and uncertain context, Aruba is considering elements for a revised agreement, including formalized fiscal rules. While a permanent fiscal rule may signal the authorities' commitment to, and build their credibility towards, fiscal consolidation, it may be premature to adopt such a regimen. In particular, given the current levels of high economic uncertainty and without having first developed the institutional arrangements for prioritizing, presenting, and managing revenue and expenditure for the annual budget, as well as in a multi-year framework and the associated accountability and reporting frameworks.

The authorities should first strengthen fiscal planning frameworks and the annual budget process to achieve multi-year fiscal discipline. The Government needs to overhaul the budget process to emphasize the strategic phase and key macroeconomic objectives, cast in a medium-term framework, before adopting a more formalized numerical fiscal rule. It should also progressively broaden the coverage of fiscal policy to gain a better understanding of the underlying fiscal position of public entities outside the budget perimeter and associated risks.

Medium-term Fiscal Planning

Despite having adopted an initial MTBF, the framework lacks strategic focus and clear prioritization mechanisms for achieving medium-term fiscal objectives. The current MTBF provides a multi-year projection of fiscal aggregates (accompanied with limited qualitative risk analysis), however, it does not identify policy priorities to guide upcoming budget preparations, nor does it identify the strategy for achieving outer-year targets. MTBFs are not solely projections of multi-year revenue and expenditure but refer to the complex system of rules, processes, and procedures that ensure the government's fiscal plans are developed with a view of their medium-term impact over several years and executed accordingly.

MTBFs require different roles and responsibilities for the Council of Ministers (CoM) and the Ministry of Finance (MoF). CoM has to embrace its new role in identifying medium-term priorities and financial constraints early in the budget process and setting macroeconomic and fiscal objectives and fiscal policies to achieve them. Likewise, the MoF Finance Directorate should transition from focusing on a compliance-oriented, detailed line-item review of budget submissions from Ministries to a more strategic and advisory role in the budget preparation process.

Integrating the Annual Budget Process within the Medium-term Budget Framework

The current approach to budgeting presents challenges for the sustainability of public finances. Despite some recent improvements, the annual budget preparation process is fragmented and excessively decentralized. Ministries' budget submissions almost exclusively focus on the budget year, with no medium-term perspective, and on inputs and in practice following a bottom-up, incremental approach. Further, there is no standardization of budget submissions or expenditure ceilings by either sector or ministries reflecting the government's available resources and priorities. Ex post supplementary appropriations are a routine annual occurrence, potentially undermining the credibility of the budget and fiscal discipline.

An effective budget process is a key prerequisite for setting and pursuing medium-term fiscal objectives. This requires setting clear priorities and financial constraints at the beginning of the annual budget process; medium to long-term macro-fiscal objectives and targets coherently defined within those priorities and constraints; and that all budget entities are responsible for submitting their medium-term plans and budget requests accordingly. The budget process should commence with the development of a strategy document providing the macroeconomic outlook and setting the key priorities and fiscal objectives for the medium-term and, most notably, an aggregate expenditure ceiling to drive the budget preparation. Such a document should be agreed upon within CoM early in the budget calendar to engage support and build a common understanding of the budget context, rather than to debate the key constraints/bottlenecks at the end of the process, as it is currently the case.

Strengthening the Fiscal Risk Framework

The government should take a more proactive role in identifying and managing potential fiscal risks arising from entities outside the budget perimeter but carrying out essential public functions. While the largest state-owned enterprises (SOEs) are currently profitable and may pose low financial risks, because of the ongoing pandemic, many may start relying on the government for financial support to avoid disruption in the provision of public goods and services. The government should revisit MoF's oversight role over all SOEs, jointly with the responsible line ministry, by strengthening reporting requirements. It should also ensure that foundations and other entities relying on budgetary transfers and subsidies are operating within their mandate and government's priorities and objectives in an efficient and effective manner.

This report analyzes the current context in Aruba of medium-term fiscal planning, the annual budget process, and the fiscal risk framework and presents key findings. The report consolidates key recommendations (see next page) and details a suggested way forward to strengthening fiscal planning in Aruba.

KEY RECOMMENDATIONS

	Budget 2021	Budget 2022	Budget 2023 & beyond
Medium-term Focus and Strategic Approach to Fiscal Policy			
As early as feasible in the budget calendar, update macroeconomic forecasts based on current policies and revenue projections		X	X
Prepare a strategic document, which could be titled Fiscal Strategy Paper (FSP), to identify government's priorities and drive a top-down budget process		X	X
Submit the draft FSP to Cabinet for formal approval, including of binding aggregate expenditure ceilings for the budget year, and indicative ceilings for the outer three years		X	X
Consider revising legal framework to embed the MTBF process in fiscal responsibility legislation.			X
Integrating the Budget Process within the MTBF			
Time permitting, improve documentation accompanying the 2021 Budget proposal tabled in Parliament, for example, adding a Pre-Budget Statement, clarifying budget and medium-term objectives and priorities with summary financial tables and including the potential fiscal risks and different scenarios.	X		
Recognizing the likelihood of a supplementary budget in FY21, make it clear that only requests that are urgent and unforeseen will be recommended to be included in a supplementary budget for parliamentary approval by CoM	X		
Prepare a briefing for CoM on the revised 2022 Budget process and 2022-25 MTBF to ensure understanding of their roles and upcoming changes		X	
Update expenditure baselines in light of updated macroeconomic and revenue projections.		X	X
Following CoM approval of the FSP, issue a Budget Call Circular with revised budget calendar, macro-fiscal outlook, spending priorities for the upcoming budget year, and budget and medium-term ceilings by sector/ministry within standard templates for submission		X	
Require ministries to prepare a consolidated budget submission for all departments and foundations under their responsibility, to be approved by the respective minister		X	
Improve Finance Directorate's analysis of budget submissions to focus on policy implications instead of a review of line items		X	

Strengthening the Fiscal Risk Framework			
Start developing a fiscal risk statement that identifies the potential risks that may emerge outside the budget perimeter, such as contingent obligations and liabilities associated with off-budget entities and enterprises, whether owned or controlled by the government		X	X
Ensure all SOEs submit their plans (statements of corporate intent) for the following budget year plus three to their parent ministry in line with the budget preparation calendar issued by the Ministry of Finance		X	X
Enforce and clarify the reporting requirements envisaged by the 1989 Financial Administration Act and Regulations to ensure joint responsibility of parent and finance ministries		X	
Establish a small SOE oversight and monitoring unit within the MoF Finance Directorate with the mandate to design quarterly and annual reporting templates and analyze the financial performance of individual SOEs as well as their performance as group to identify potential risks to the budget			X
Consider developing separate SOE legislation standardizing and regulating governance arrangements, responsibility lines, and reporting requirements			X
Review the mandate and operations of existing foundations to reduce overlap and duplication through merging redundant administrative units, and ensure they are still delivering on government priorities		X	
Continue the implementation of the Ministry of Education's five-part transformation plan to move from a cost administration and grant funds credit monitoring organization to a more results-based financial management center of the education sector's budget	X	X	X
MoF to develop oversight function for financial operations of foundations		X	X

I. INTRODUCTION

1. **Prior to the global pandemic, the Aruban authorities were embarking on an ambitious fiscal adjustment program, aiming to place public debt on a firm downward trend.** The financial balance was 0.1 percent of GDP in 2019[1], 2.5 percentage points tighter than the 2018 outcome and was budgeted to be 0.5 percent of GDP in 2020 pre-COVID-19. However, the COVID-19 pandemic is weighing heavily on Aruba. The island is one of the most tourism-dependent countries in the world and in 2020 it has faced a travel ban, a halt in tourism, and a domestic lockdown to restrain the spread of the virus. The authorities now estimate a financial deficit of 6.7 percent of GDP in 2020, and that government debt will rise to 116.9 percent of GDP (from an estimate of 80.6 percent at budget time), as shown in Figures 1 and 2 respectively.

Figure 1. Primary & Financial Balance (percent of GDP)

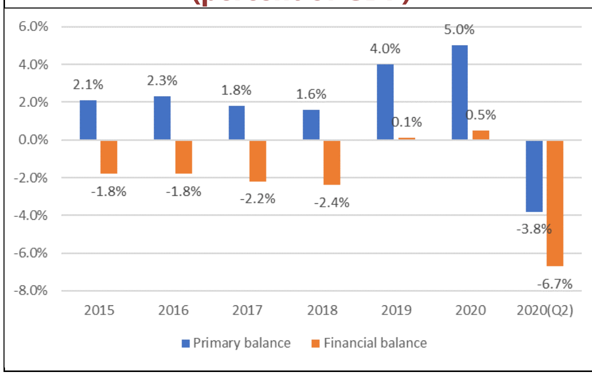
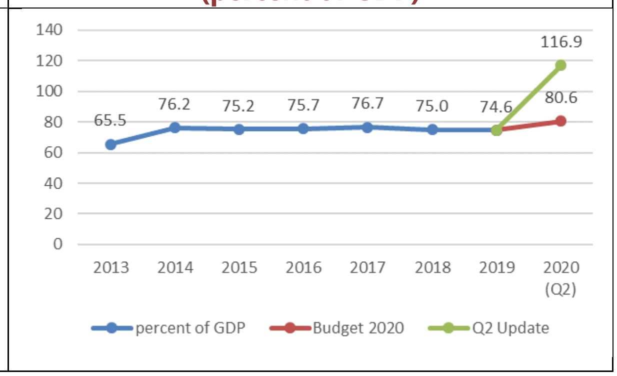


Figure 2. Government Debt (percent of GDP)



Source: Government of Aruba, Implementation Report 2nd Quarter 2020.

2. **The fiscal adjustment program was developed in 2018, as the new government faced a deteriorating fiscal position and developed a reform agenda with fiscal consolidation as a key pillar.** The program focused on temporarily increasing the turnover tax rate while devising a medium-term fiscal consolidation plan—the Financial Economic Memorandum. The plan served as the basis of a new agreement with the Netherlands ('the 2018 Protocol') agreed in November 2018.

3. **The 2018 Protocol determined new fiscal targets for 2019-2021.** The Netherlands and Aruba had adopted a protocol in 2015 with the aim of making Aruba's public finances more sustainable and agreed the 2015 National Regulation for Aruba Temporary Financial Supervision (LAFT). The LAFT fiscal targets however were not met in 2017 and 2018, hence the 2018 Protocol established new fiscal targets, with the objective to set public debt on a sustainable path. The financial balance was set at -0.5 percent in 2019, 0.5 percent in 2020, and 1 percent for 2021 and beyond. The 2018 Protocol saw these targets as consistent with a reduction of public debt to 70 percent of GDP by 2027, and 50 percent of GDP by 2039. The Protocol also includes specific fiscal

[1] The financial balance is defined in Aruba as the overall fiscal balance plus net acquisition of financial assets.

measures, such as reducing government staff costs, using revenue windfalls to reduce deficit, no new public private partnerships (PPPs) until 2021. The Board of Financial Supervision of Aruba (CAFT), appointed jointly by the Netherlands and Aruba, monitors compliance with the fiscal targets and reports to the Council of Ministers of the Kingdom of the Netherlands[2] at least until the 2018 Protocol lapses in 2021.

4. **While Aruba targets the financial balance every year under the 2018 Protocol, at this stage, it would be unwise to implement a formal fiscal rule, especially given the current context.** There are some obvious weaknesses in Aruba's existing public financial management (PFM) system which need to be addressed before such a move. Furthermore, the COVID pandemic has caused huge uncertainties to economic growth prospects and fiscal projections. Rules, which have characteristics of permanence and stability, should not be implemented at this time.

5. **Considering Aruba's context, focus should first be placed on strengthening the MTBF as a guide to fiscal policy and the annual budget process, before seeking to formalize medium-term (or longer) fiscal targets.** The MTBF consists of a financial framework covering the current fiscal year, the next budget year, and three additional years. Regardless of whether Aruba has formal fiscal rules, or continues to pursue fiscal targets such as those in the 2018 Protocol, it is difficult for fiscal objectives to be achieved without the institutional arrangements for prioritizing, presenting, and managing revenue and expenditure in a multi-year framework. These are dependent upon: strengthening medium-term fiscal planning (as discussed in Chapter II); developing credible annual budgets (Chapter III); and understanding the public sector financial position and associated risks (Chapter IV). Chapter V then consolidates the recommendations made in each of these chapters to outline a way forward to strengthen fiscal planning in Aruba. It should be noted that further work should be done to review other key PFM processes that are necessary for sustainable progress towards fiscal objectives. The authorities would benefit from a detailed examination of the PFM cycle, in particular budget execution and expenditure control processes. This was however beyond the scope of this mission.

II. A MEDIUM-TERM FOCUS AND STRATEGIC APPROACH TO FISCAL POLICY

A. Current Situation

6. **Since 2018, Aruba has formally adopted an MTBF in the context of the 2015 LAFT**. The MTBF consists of a financial framework covering the current fiscal year, the next budget year, and three additional years. It is articulated on an economic classification of both revenues and

[2] Aruba is one of the four countries that form the Kingdom of the Netherlands, along with the Netherlands, Curacao and Sint Maarten.

expenditures for the central government entities included in the budget. It also includes a number of entities that constitute the so-called "collective" sector, an ad hoc sub-aggregate of the general government (excluding five entities), as per Table 1.[3] There is no further disaggregation by ministry and/or economic sector.

Table 1. Classification of Collective Sector and General Government

Name	Collective Sector	General Government
Land Aruba	Yes	Yes
AZV (General Health Insurance)	Yes	Yes
SVB (Social Insurance Bank)	Yes	Yes
Waste Collection and Management Entity (Serlimar)	Yes	Yes
Aruba Tourism Authority	Yes	Yes
University of Aruba	Yes	Yes
Foundation for Basic Professional Education	Yes	Yes
Fundashon Parlamento Hubenil Aruba	No	Yes
Fundacion Arubano pa Maneho di Facilidadnan Deportivo	No	Yes
Fundacion Union di Organisacionnan Cultural Arubano (UNOCA)	No	Yes
Stichting Consumidornan Arubano Solidario (CAS)	No	Yes
Fundacion Facilidadnan Deportivo	No	Yes

Source: Aruba, Central Bureau of Statistics.

7. As currently articulated, the MTBF does not inform the preparation of the annual budget. The annual budget process starts afresh every year without acknowledging the indicative objectives set in the previous year's MTBF. The yearly Budget Rules issued by the MoF Finance Directorate each year provides a "multi-year financial framework" against which entities should prepare their budget submissions. But since this is cast at an aggregate economic level for the budget and the entities included in the "collective" sector, it does not provide any indication either on a sectoral or ministerial basis.[4] Moreover, the MTBF is not part of the Budget Document submitted to Parliament for their approval.

[3] The collective sector includes seven legal entities responsible for carrying out public functions that rely for more than 50 percent of their income on the public resources, in line with the UN System of National Accounts, and are controlled by the government. In October 2019, the list of entities included in the collective sector to be included under the MTBF for the 2019-21 financial years was agreed upon between the State Secretary for Home Affairs and the Kingdom Relations. Besides the central government, the other entities are the General Health Insurance (AZV), the Social Insurance Bank (SVB), Aruba Tourism Authority (ATA), the University of Aruba, the Waste Collection and Management Entity (Serlimar), and the Foundation for Basic Professional Education (SEPB); they account for about 50 percent of the central government budget.

[4] *Budget Rules for 2020-21*, page 2 in the English translation.

8. **The MTBF and the annual budget preparation appear to be guided by the 2018 Protocol on the one hand and characterized by pure incrementalism on the other**.[5] There is no initial strategic phase setting broad objectives and priorities. In practice each year budget entities base their requests on previous year's budget plus expansion of activities and/or new initiatives focused almost exclusively on inputs—scarce consideration is given to outputs/outcomes. Further, budget submission requests issued by MoF to line ministries, departments, and other entities that use budget resources, focus on next year's budget, although entities are required to submit estimates for the next four years (next budget year plus three).[6]

9. **Having established a high-level indicative MTBF is a welcome initial step but requires further development.** Typically, countries develop an MTBF after having met a set of pre-conditions that are briefly outlined in the next chapter, most notably having developed and implemented a credible top-down strategic approach to fiscal policy within which the annual budget is prepared. This requires that priorities and financial constraints are clearly set at the beginning of the annual budget process; medium to long-term macro fiscal objectives and targets are coherently defined within those priorities and constraints; and all budget entities are responsible for submitting their medium-term plans and budget requests accordingly. The current annual budget process is discussed in the following chapter.

B. What is a Medium-term Budget Framework?

10. **An MTBF is a set of institutional arrangements for prioritizing, presenting, and managing revenue and expenditure in a multi-year (usually 3 to 5 year) perspective**. [7] They typically constitute part of a set of medium-term planning frameworks.[8] Such frameworks enable governments to show the impact of current and proposed policies over the course of several years, signal and/or set future budget objectives and priorities, and ultimately achieve better

---

[5] "In accordance with Article 3 of the Other Financial Administrations Scheme [AB 1991 No. 115], all policy intentions and desirability budgets should be submitted to the Finance Department by 1 March." *Budget Rules for 2020-21*, page 3 in the English translation.

[6] The current annual budget process is discussed in detail in Chapter III of this report.

[7] See Jason Harris, Richard Hughes, Gösta Ljungman, and Carla Sateriale, "Medium-Term Budget Frameworks In Advanced Countries: Objectives, Design, And Performance," Chapter 4 in Cangiano, Marco, Michele Lazare, and Teresa Curristine (eds.), 2013, Public Financial Management and its Emerging Architecture, IMF, Washington DC; and Diamond, Jack, "Policy Formulation and the Budget Process," Chapter 9 in Allen, Richard, Richard Hemming, and Barry Potter (eds.), 2013, The International Handbook of Public Financial Management, Palgrave Macmillan.

[8] The terminology may at times be confusing. The literature makes a distinction between medium-term fiscal frameworks (MTFF) and budgetary frameworks (MTBFs). The former refer to the general government or other macro fiscal aggregate relevant for setting fiscal objectives compatible with other macroeconomic objectives and targets, such as growth, inflation, exchange rate, and external current account; the latter focus on the fiscal aggregates covered by the budget, which is in turn subject to parliamentary approval and oversight. In the Aruba context, the current MTBF is more akin to an MTFF as it covers the collective sector described below. There is also a medium-term expenditure framework (MTEF) whereby the overall budgetary framework is broken down in sectoral or ministerial expenditure ceilings, as discussed in the remainder of this chapter. At times the expression MTEF is used to cover all these frameworks, causing confusion even in the most advanced countries and budget systems.

control over public expenditure. An MTBF, therefore, does not refer solely to numerical multi-year revenue and expenditure projections and restrictions but encompasses all the systems, rules, and procedures that ensure the government's fiscal plans are drawn up with a view to their impact over several years. It must however be clarified that while MTBFs provide an administrative mechanism for multi-year planning of expenditure, the time horizon for the legal appropriation of expenditure by the legislature remains strictly annual in virtually all countries that have developed and adopted an MTBF.

11. An MTBF is not a technical device but a fundamental change in designing and managing fiscal policy, the ultimate purpose of which is strengthening multi-year fiscal discipline and resource allocation. This is achieved in three ways: "exposing to the government and parliament the impact over the medium term of *new policies* before their adoption; giving the government an early warning about the sustainability of *existing policies*; and, establishing *expenditure limits* that can contain the total room for expenditure in subsequent budgets."[9] As noted, MTBFs require well-articulated visions to allocate scarce resources according to priorities to ensure their most efficient and effective utilization towards achieving the stated objectives

12. Key lessons that emerged from international experience with MTBF over the last three decades is that while sharing common approach and key features, there are not two MTBFs that look alike. Each country had to develop their own MTBF to reflect their political and institutional context. Capacity/capability constraints had to be addressed everywhere, even in what are now seen as "best practice" champions in this area, such as Australia, New Zealand, the Netherlands, and Sweden. Key features, constituent elements, and preconditions for successful MTBFs are summarized in Box 1. Appendix I provides further rationale for MTBFs along with additional technical considerations for their design, such as level of detail, type of ceiling, and legal standing.

13. Aruba should first place priority on strengthening the current MTBF and annual budget process, before considering a more permanent fiscal rule.

14. Aruba should consider developing a medium-term strategic document presenting its MTBF and key priorities. The purpose of this document, which could be titled Fiscal Strategy paper (FSP), would be setting the medium-term fiscal objectives and identifying spending priorities along with new policy initiatives early on in the budget calendar. Such a document would have to be formally approved by CoM. An illustrative outline of such a document, which is also discussed in the following chapter, is provided in Appendix III. The FSP and the MTBF should be mandated, preferably within a fiscal responsibility-type of legislation.

[9] See Harris et al, 2013.

Box 1. Medium-term Budget Framework: Key Features, Constituent Elements, and Pre-Conditions

A fully developed MTBF normally has the following key features:

- Construction of a realistic medium-term macroeconomic scenario within which the annual and medium-term fiscal aggregates are prepared, and establishment of a fiscal policy strategy that enables MoF to set a path for the consolidated budget revenue, spending, debt and deficit.
- A formal requirement for ministries and agencies covered by the budget to maintain rolling estimates of expenditure covering at least three years beyond the current budget year, the so-called baseline. In many systems, these estimates are formally updated twice a year, but do not provide legal authorization beyond the budget year.
- Designation of an equal status to the estimates for the budget year and all future years, both of which should be approved by cabinet before budget circulars are issued to spending units.
- Annual budget legislation that is consistent with the provisions of the MTBF. Specifically, revenue and expenditure projections and priorities should become the basis of budget preparation for the following year. Technically, this requires development of measures to track policy and non-policy changes (such as price changes) in order to allow for updating of the published estimates from one round to the next.
- The budget year figures for the individual spending ministries and agencies are, preferably, hard budget constraints.

Establishing an MTBF requires the following four key constituent elements:

- casting annual budget formulation and execution within a macroeconomic framework;
- lengthening the time horizon of fiscal policy to include longer-term objectives;
- multi-year costing of existing policy commitments; and
- implementing a disciplined and accountable process for new policies.

These, in turn, require that a set of preconditions be in place:

- a comprehensive, credible, unified, top-down process whereby macroeconomic constraints, objectives, and priorities inform the budget strategic formulation and preparation;
- un-biased, possibly independently validated, projections of macroeconomic variables as well as main expenditure and revenue drivers (e.g., demographics developments, likely beneficiaries for entitlement programs);
- clear procedures for setting fiscal objectives and rules;
- realistic bottom-up budget estimates consistent with the underlying macroeconomic projections and macro fiscal objectives along with capacity for separating the cost of policy changes from that of continuing policies or baselines;
- timely, reliable, and comprehensive reporting on budget execution, possibly based on internationally accepted standards and practices; and, last but not least,
- strong political support and commitment.

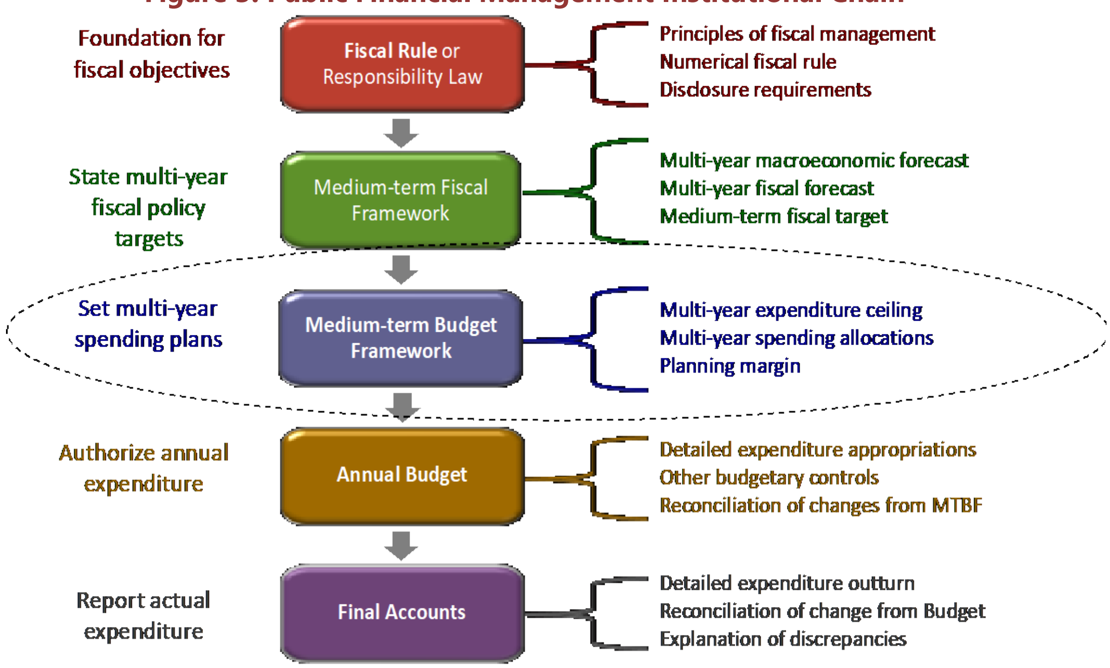
Source: IMF Team

15. **Political commitment and new roles and responsibilities among the key stakeholders are critical to the success of an MTBF.** Countries often overlook that MTBFs require different roles and responsibilities for Cabinet and MoF. Cabinet has to embrace their new role for identifying early on in the budget preparation calendar medium-term priorities and

financial constraints, and accordingly setting macroeconomic and fiscal objectives and the fiscal policies to achieve them. In parallel, as responsibility for budget preparation is increasingly shifted to budget entities and users, MoF functions also have to change from a traditional compliance-oriented role to a more strategic and advisory take on the budget process.[10] Over time, an MTBF should help facilitate a transition from MoF's focus on inputs, to managing the overall budget system and fiscal policy, outputs and outcomes. Moreover, and as discussed in Chapter IV, MoF should become the focal point for collecting and analyzing information from all relevant public entities so to exercise a new oversight role on public finances and identify changes, risks, but also opportunities.

16. **Finally, an MTBF is a key link in a chain of institutions that allow a government to manage public finances and set coherent fiscal policy objectives while being held accountable to its citizens.** This chain can be summarized visually as in Figure 3. Two elements seem to be missing in Aruba: fiscal responsibility legislation, which enshrines fiscal principles and foundations and may include procedures along with reporting requirements for setting fiscal objectives within overarching principles or numerical rules; and a broader medium-term fiscal framework that encompasses the general government and also focuses on key public entities (e.g., state-owned enterprises foundations) that may represent potential risks to the budget, as discussed in the remainder of this chapter and more in detail in Chapter IV.

Figure 3. Public Financial Management Institutional Chain



Source: IMF Team

[10] On the changing role of the budget office, see Allen Schick, 2001, The changing role of the central budget office, OECD Journal on Budgeting, 1(1), 9-26.

C. Recommendations

For the 2022 Budget:

- As early in 2021 as feasible, update unconstrained macroeconomic forecasts based on current policies and update revenue projections.
- Prepare a strategic document, which could be titled Fiscal Strategy Paper (FSP), to identify government's priorities and drive a top-down budget process.
- Submit the draft FSP to CoM for formal approval, including of binding ceilings for budget year, and indicative ceilings for outer years.

Beyond the 2022 Budget:

- Consider revising legal framework to embed principles for the MTBF process in fiscal responsibility legislation.

III. INTEGRATING THE BUDGET PROCESS WITH THE MTBF

A. Current Situation

17. Despite some recent improvements, the current annual budget presents challenges in its clarity, comprehensiveness and unity. As noted, the government uses a traditional bottom-up approach to prepare the annual budget, one in which individual departments submit budget requests directly to the MoF Finance Directorate. This process is not conducive to implementing fiscal policy as set in an MTBF, as there is no means of implementing an overall expenditure ceiling other than arbitrarily, as is at present the case.[11]

18. The current budget preparation process is also fragmented and excessively decentralized. The legal framework assigns the initial task of budget preparation to the department head.[12] Although the law requires budget requests to be submitted to the respective minister with a copy to the MoF Finance Directorate, that department assumes responsibility for development of the budget, not the respective ministry. Budget analysts must review approximately 150 department or agency budgets, most of which are simple incremental

[11] The 2020 budget call circular specified only that personnel costs be equal to, or less than, the previous year, that other costs remain the same or decrease nominally, and that policy will have to be directed to increase resources without any further elaboration.

[12] AB 1991 no. 115, the Other Financial Administration Law, requires each department head to submit a draft budget to their respective minister on or before March 1, with a copy to the Finance Department

projections by economic classification. As organizational units, ministries have little role in budget preparation. Many ministries have budget coordinators, but these are typically political appointees who do not necessarily have a background in public finance and have no tenure beyond that of the current minister. MoF's public financial management reform plan calls for greater involvement of the ministry budget coordinators in budget preparation, but that has yet to occur. [13]

19. As noted in the preceding chapter, the annual budget process itself is input-focused, with no links to outputs or outcomes. There is little or no performance information provided, and no information is included as to the desired results or objectives by department. The 2020 budget documentation provides only a largely narrative description of objectives by ministry. Therefore, prioritization is difficult, and the link between policy and budgeting is largely absent. No information is provided that would allow the identification of inefficient or ineffective activities. In absence of output and outcome information, the provision of highly detailed description of changes in line items reinforces a reported tendency of Parliament to focus on marginal changes in inputs rather than the underlying objective and performance. The 2018 Subsidy Regulation does mandate a change to performance grants, and the Subsidy Handbook provides a good example of outcomes-based funding, but subsidies have largely been frozen since 2016, implying that this has not yet been implemented.

20. The budget documentation does not provide a clear picture of government finances or fiscal policy. Only a few summary tables are provided; the bulk of the explanatory memo accompanying the budget is a detailed discussion of changes by department by line item. Fiscal policy is not expressly described in the documentation, nor are tables provided that show progress against previous year's objectives, assumptions and scenarios. Further, foundations and schools do not submit complete budgets as part of their submissions, making it difficult to determine fiscal needs. A recent analysis prepared by the Department of Education indicated that several school districts work with two budgets, an internal budget including contributions and fee revenues, and an external budget incorporating the government's contributions.[14]

21. The articulation of government policy priorities is limited. Despite some improvements in the 2020 budget documentation, there is limited response to policy priorities in the budget submission. Direct submission of department budgets to the Finance Directorate by default assigns the role of policy prioritization to budget analysts who have limited knowledge of government priorities. First steps have been taken to address this issue, with 2020 budget documentation providing some linkage to Sustainable Development Goals. Further, prior to the

[13] As incorporated in quarterly financial reports since the 2nd quarter of 2016; suspended beginning the 2nd quarter of 2020

[14] Department of Education. (2019). Report & Recommendations for the Translation of Education Policy into Measurable Indicators. See also Chapter IV of this report.

current crisis, there was some coordination among departments in plan preparation. Improvement in this area is part of MoF’s public financial management reform plan.

22. There is no standardization in budget submissions. It is difficult to identify new initiatives, change in cost from prior year budgets, or potential savings opportunities. Late submissions are reportedly commonplace. If there is a request for additional resources, the burden of proof falls on MoF budget analysts to show that these resources are not needed, rather than on the requesting department to show that they are. The 2021 budget call circular (issued in March 2020) required that budgets for personnel and goods and services be held at their 2020 level, but departments reportedly did not always follow this requirement and there is no formal appeal process should this prove unworkable.

23. Supplementary appropriations are a routine annual occurrence, and care should be taken that they are not used to undermine the credibility of the budget and fiscal discipline. Furthermore, the legislation to authorize these overruns and transfers is prepared very late in the year, well after the potential shortfall is known and gives Parliament no choice but to approve. Although overall budgetary impact is limited, the RvA has consistently called for a revision to this policy, to address overruns when they become known and, by so doing, provide Parliament a real choice whether to approve them.[15]

B. Characteristics of More Advanced Budgeting Systems

24. More advanced budget systems follow a top-down approach, in Aruba, this would require a greater role for CoM to govern overall budget preparation. As Figure 4 illustrates, the process should begin with CoM setting strategy and budget ceilings (see Chapter II), followed by a ministry response to those ceilings. By so doing, CoM is able to establish and enforce fiscal policy through budget ceilings and a review and approval of any adjustments to those ceilings.

[15] RvA opinions 157-19 (December 5, 2019), 195-18 (November 29, 2018), 193-17 (December 1, 2017).

Figure 4. Annual Budget Preparation Process Stages

1. Strategy setting
- Resource envelope and expenditure limits
- Policy priorities
- Ministry budget ceilings

2. Budget preparation
- Budget call circular and templates
- Ministry budget preparation and submission

3. Budget negotiation
- MoF reviews submissions with ministries
- Prepares recommendations to Cabinet
- Cabinet modifies and approves revised ceilings

4. Submission to Parliament
- Prepare budget documentation
- Submit to Parliament

Source: IMF Team

25. The top-down approach is then reconciled with the bottom-up costing of policy. Ministries play an important role to confirm the current cost of government policy and activities (otherwise known as baselines, see Box 2), and to identify new policy options that align with government priorities. Selection of an appropriate baseline is critical to identify potential fiscal issues or opportunities well in advance, in time to adjust policy accordingly.

Box 2. What is a Baseline?

Baselines are estimates of government expenditure and/or revenues assuming continuation of existing government policies. Baselines can be calculated for the next budget year, over the medium-term, or even the long-term. While the definition of the baseline seems simple, it needs further clarification on how the estimation is done in practice. When aggregated across a government, baselines are the projected estimates of the cost of continued operation of that government under a no-policy change scenario or current services; when consolidated with baseline revenue estimates, the result is a measure of either the fiscal gap a government faces or of the fiscal space available.

In practice, as a first step baseline expenditure estimates can be based with the prior year budget (2021 for the 2022 budget), subtract any one-time or expiring expenditures in that year and add any new binding commitments scheduled for the coming year, e.g. the cost of completing a capital project. At a more sophisticated level these estimates may include inflation, volume adjustments (e.g., an increase in school enrollment), and be based on a more detailed evaluation of programs to identify efficiency savings.

Important to note is that a baseline calculation should be a technical calculation. It should be developed using a methodology defined by MoF and revised economic parameters, but it should not involve any negotiation. Adjusting the baseline to the expenditure ceiling through saving options or adding of new expenditure should be separated from determination of the baseline. In many countries, the baseline determination is a separate exercise done at the very start of the budget process. Only by separating baselines from new expenditure proposals, policy changes, or savings options can they fulfil their role.

Source: IMF Team

26. A unified and comprehensive budget is one where all decisions that affect the fiscal position are taken through the sequential process and clearly presented. The purpose of the budget documentation is to provide information for Parliament and the public as to priorities and funding decisions in a clear and transparent manner. Information contained in the documentation should be complete enough to hold the government accountable for those decisions and consequent results. In Aruba, MoF should review budget documentation to ensure it is comprehensive, incorporating all publicly-funded activities, compilation of foundation budgets, SOEs, and other public agencies, and demonstrate how the budget links to policy and fiscal goals. The budget proposal tabled in Parliament should be accompanied by a detailed explanatory memorandum (i.e. a Pre-Budget Statement) to provide overview of proposed government spending by high-level organizational, economic, and functional classifications and accompanying narrative explaining how the allocations will be utilized in support of government priorities. In practice, this would be an updated version of the FSP approved in the Spring to reflect possible changes intervened through the budget negotiations and/or in the underlying macroeconomic framework.

C. Key Roles and Responsibilities in Budget Preparation

27. As noted in the preceding chapter, a shift toward a strategic, top-down, and medium-term focused fiscal policy requires new relative roles and responsibilities for CoM and ministries. When it comes to the annual budget, Figure 5 outlines what can be seen as a responsibility chain in preparing the annual budget. The formulation of the annual budget within an MTBF makes these roles even more critical form a strategic viewpoint.

CoM

28. CoM has ultimate authority over the budget and budget process. As shown in Figure 5, it is not an exaggeration to say that almost every activity in a well-designed budget preparation process is intended to improve the information available to CoM, including options, and to ensure that the final budget approved by CoM meets its fiscal and policy goals.[16] For that to happen, CoM must be central to the entire budget process.

29. CoM's initial responsibility is to establish budget ceilings that will support achievement of these medium-term fiscal policy objectives and to set policy priorities. Budget submissions should follow these objectives and priorities to provide CoM with the information it needs, including options, to make decisions regarding expenditures and revenue. To ensure this is the case, CoM must exercise oversight of the budget process through regular reports and take corrective action as needed.

[16] With a complementary benefit of improving the quality of information available to the public and Parliament.

Figure 5. Budget Preparation Process Roles and Responsibilities

CoM	
Directs budget process	Sets policy and ceilings
Ministry of Finance	
Advises CoM on Ceilings	Consults with ministries
Reviews budget submissions	Advises CoM on final budget
Ministries	
Confirm baseline estimates	Allocate ceilings to departments
Prioritize new spending requests	Prepare savings and new revenue options
Departments	
Assist baseline estimates	Prepare new spending requests
Prepare business plans	
RvA and CAFT[17]	
Informed of policy recommendations	Recommend adjustments to budget
Parliament	
Informed of policy recommendations	Adopt the annual budget

Source: IMF Team

30. CoM's final responsiblity is to approve the budget for submission to Parliament. If the budget process is designed to facilitate these decisions and CoM has exercised control of the process from the very beginning, it is much more likely that comprehensive information will be available to consider options and ensure the final budget recommendation is in alignment with the initial CoM direction.

MoF

31. MoF facilitates CoM's decision making through, initially, developing baseline estimates and advising CoM on budget ceilings. These estimates are prepared with the assistance of departments and ministries and represent the cost of continuing existing policy in

[17] The RvA is the advice body for the Governor of Aruba, providing advice to the Governor and the Parliament on drafts of state ordinances, state decrees, and general administrative orders. The CAFT was established as part of the agreement with the Netherlands, and has a monitoring and advisory role, it evaluates the budget against the standards of the Protocol and provides advice to both governments if necessary.

the budget year, as described in Box 3. CoM's support and adoption of these ceilings is critical to their ability to meet fiscal policy objectives.

32. MoF is responsible for the overseeing the budget submission and review process and making final recommendations to CoM. This includes the issuance of budget circulars, assistance with budget preparation at the department and ministry level, and review of budget submissions. All are designed to improve the quality and amount of information to CoM to facilitate decision-making and consideration of options. MoF role is to provide CoM with options to meet its fiscal and policy goals, including an analysis of the impact of CoM decisions.

Ministries and Departments

33. The role of ministries and departments is to prepare materials for CoM decision-making. Once ceilings are set by CoM, ministries allocate those ceilings among departments to address CoM policy priorities. Ministries also prioritize new spending requests from departments, who develop them, and prepare savings and revenue. This information, developed with the assistance of MoF, provides a menu of options for consideration by CoM. In addition, basic department business plans include a list of actions that departments propose to take to advance CoM policy priorities.

34. Ministries will require permanent staff resources in the future to meet this responsibility, now often exercised by political appointees. Although MoF budget analysts can assist with the transition to a top-down budget process, their subject knowledge of ministry services is limited and consequently of little help in the prioritization needed to meet ministry-level ceilings. For the longer term, these prioritization and other budget preparation tasks should be done internally within the ministry by permanent civil service staff as recommended by the RvA.[18] MoF budget analysts would have the role of challenging proposals from the ministry and, by so doing, improving them.

D. Recommendations

For Budget 2021

- Time permitting, improve documentation accompanying the 2021 Budget proposal tabled in Parliament, for example, a Pre-Budget Statement, with summary financial tables.
- Recognizing the likelihood of a supplementary budget in FY21, make it clear that only requests that are urgent and unforeseen will be recommended for approval by CoM, occurring once the shortfall is known but allowing Parliament the option to deny.

[18] RvA 71-20 (June 10, 2020) p. 5

For Budget 2022

- Prepare a briefing for CoM on the revised 2022 Budget process and the 2022-25 MTBF to ensure understanding of their roles and upcoming changes.

- Each year, update expenditure baselines in light of updated relevant macroeconomic and revenue projections.

- Following CoM approval of the draft FSP, issue Budget Call Circular with revised budget calendar, macrofiscal outlook, spending priorities for the upcoming budget, budget ceilings by ministry and standard templates for submission.

- Require ministries to prepare a consolidated budget submission for all departments and foundations under their responsibility, to be approved by the respective minister.

- Improve Finance Directorate's analysis of budget submissions to focus on policy implications instead of a review of line items

IV. STRENGTHENING THE FISCAL RISK FRAMEWORK

35. Fiscal risks are factors that can cause a government's fiscal performance to deviate from expectations or pose a threat to fiscal policy sustainability over the long-term.[19] Fiscal risks can be grouped under the following three broad categories:

- **General risks** due to deviations in macroeconomic variables (e.g., rate of growth, exchange and interest rates, terms of trade) that underlie fiscal forecasts and that are outside the government's control. Natural disasters fall under this category.

- **Specific risks** due to probability of realization of contingent liabilities such as calls on guarantees and legal claims or implicit contingent liabilities (e.g., bail out of public or even private sector companies to ensure their long-term viability while minimizing impact on economy and employment levels).

- **Institutional risks** that undermine budget credibility (e.g., over-optimistic revenue projections) and constrain its execution (e.g., ineffective expenditure controls, inadequate cash management).

[19] Fiscal risks are thus are different from "policy risks" arising from changes in government policies.

A. Current Situation

36. The authorities are familiar with fiscal risks' basic concepts and have already considered developing a fiscal risk management framework. In 2018, the MoF Finance Directorate drafted a regulation establishing a risk management function and requiring each ministry to submit a "risk paragraph." It does however focus exclusively on the budget and does not address potential risks that may emerge outside its perimeters, such as contingent obligations and liabilities associated with off-budget entities and enterprises, whether owned or controlled by the government. The remainder of this chapter focuses on SOEs and foundations.

37. The debt of state-owned enterprises (SOEs) presents a very low fiscal risk to the central government. The three largest SOEs (Aruba Airport Authority, Aruba Port Authority, and Utilities Aruba) are profitable companies and have a good credit standing. There are no explicit contingent liabilities or guarantees. There is also low fiscal risk from public private partnerships (PPPs): there are no explicit guarantees, most existing projects are at stages where central government exposure is limited and, as per the 2018 Protocol with the Netherlands, Aruba will not enter into any new PPP commitments through 2021.[20]

38. That said, given the fragmented and decentralized nature of budget planning there is little information available to warn government if significant risks were to materialize as a comprehensive risk identification and management framework is not yet in place. The authorities have already prepared draft regulation to require each line ministry to identify their risks. This appears however a somewhat reductive approach as it does not address broader potential fiscal risks emanating from relatively poor coverage of the budget and the collective sector. A number of entities carrying out key public functions like foundations are outside the general government statistical perimeter and, with the exception of Serlimar[21], all SOEs appear off the government radar screen because of the lack of oversight mechanisms; private-public partnerships also lack proper legislative backing, although the Court of Audit has recently conducted a study of two of them pointing to the potential risks to Aruba's public finances.[22] While potential legal claims and a number of contingent liabilities (including those related to

[20] IMF 2019 Article IV Staff Report for Aruba

[21] Serlimar is the government's waste management company which is facing financial difficulties.

[22] *Public Private Partnership. An Investigation into Contract Management and Information in the Green Corridor And Watty Fox Boulevard Projects*, Aruba Court of Audits, November 19, 2019. The report concludes that, *inter alia,* "while the contract management of the projects is in order," "hardly any information is provided about long-term (financial) risks and mitigating measures." The report also raises an issue of fiscal transparency by pointing out that "due to the off-balance financing of the projects, the country's debt position has not deteriorated at the outset…, but the costs…will weigh…on the National Budget over the next 18 to 20 years that will have to be covered by additional income and/or savings."

PPPs) are reported but not summarized in the annual financial statements,[23] macroeconomic risks remain to be fully analyzed.

39. **MoF should consider developing a fiscal risk statement as part of its MTBF and annual budget documentation**. This could be a stand-alone document or a chapter to be prepared as part of the MTBF and budget documents. Box 3 illustrates possible content of a fiscal risk statement.[24]

Box 3. Statement of Fiscal Risks

Fiscal risk statements vary in content and structure but tend to cover the following risks:

Macroeconomic Risks and Budget Sensitivity

Discussion of the macroeconomic forecasting record in recent years, comparing the assumptions used in budget forecasts against actual outcomes.

Sensitivity of aggregate revenues and expenditures to variations in key economic assumptions on which the budget is based (e.g., impact of exchange rates and interest rates), with explanation of underlying mechanisms. Possible methods and presentational devices include alternative scenarios or fan charts.

Public Debt

Sensitivity of public debt levels and debt servicing costs to variations in assumptions regarding e.g., exchange rates and interest rates. Impact of debt management strategy on the government's risk exposure.

Policy and institutional framework for government borrowing and on-lending: projected statement of inflows, outflows, and balances; disposition of loan repayments and nonperforming loans.

Contingent Central Government Expenditure

Contingent Liabilities: Expected value and government's gross exposure to contingent liabilities— especially to public enterprises and other entities outside the budget; rationale and criteria for the provision of guarantees.

Banking sector: Deposit insurance scheme and—to the extent that the authorities feel this does not generate moral hazard—risks from the banking sector. Information on costs of past bailouts/recapitalizations/preemptive financial support.

Legal action against the central government: Past claims (including amounts) and the face value of current claims, including a disclaimer that reporting the risk does not indicate government acknowledgement of liability.

Natural Disasters: Fiscal impact of disasters in recent years. Level and operation of possible contingency reserve for natural disasters (if applicable).

---

[23] Although the 2018 Financial Statements do not consolidate the following all public legal entities, they report their financial relationship with the budget, their main assets and liabilities, as well as number of contingent liabilities. These include participations, capital transfers and loans, contingent claims (e.g., taxes due), accounts payables and receivables, and off-balance sheet assets and liabilities. This last category reports guarantees, legal claims against the government, pension liabilities, obligations vis-à-vis the Social Insurance Bank (SVB) and the General Health Insurance Fund (AZV), and financial liabilities arising from lease and service agreements.

[24] The draft regulation refers to an "orderly list of quantified risks and management measures included in the budgetary process." It further clarifies management measures as "a system of measures and procedures taken to identify and quantify and identify emerging risks and limit the impact of it.

Public Private Partnerships (PPPs) Summary of the PPP program; infrastructure needs; policy framework and rationale for PPPs. Cumulative overall exposure from government's current announced PPP program. Features of some signed PPPs, and gross exposure from guarantees and similar instruments, forecasts of the government's payments and receipts over the life of the PPP contracts should also be published. **State-Owned Enterprises** Policy framework for SOEs (pricing policy, dividend policy). Financial performance and position of SOEs (including transactions with the government and any quasi-fiscal activities undertaken). Financial performance and position of state-owned banks.

Source: Adapted from IMF, Fiscal Affairs Department, 2009, Fiscal Risks. Sources, Disclosure, and Management.

State-Owned Enterprises (SOEs)

40. There are 16 non-financial SOEs, according to the 2016 National Account, ranging from energy and transportation to communications and water supply.[25] Most of them have a dominant position in their respective sector, in a few cases acting as monopolies. They were established as limited liability companies under the Civil Code and are classified as "market producers" according to the 2008 version of the System of National Account (SNA).[26] For this reason, entities like Serlimar are classified as non-market producers and thus included under the collective sector definition discussed in Chapter II.[27] According to the MoF Finance Directorate, besides Serlimar and Arubus, all other SOEs have not received any subsidies or transfers from the budget in quite some time.

41. Governance arrangements are decentralized, with the government owning and/or controlling all SOEs but exercising very little in-year monitoring and supervision. These arrangements envisage an independent supervisory board, which in turn appoints senior management. In only one case, a holding company was established in between the government and the SOEs.[28] SOEs report routinely on quarterly and annual bases to their respective boards. Reporting to responsible parent ministries appears to be annual; there is no practice to submit the reports to MoF.[29] Their plans are submitted to the parent ministry ahead of the budget

[25] As the Central Bureau of Statistics is prevented by law from providing individual information on individual entities, it is not possible to provide an indicative estimate of the share of SOEs value added and employment in the economy as a whole or by economic sector.

[26] An institution is classified as market producer if at least half of its production costs are covered by proceeds from sales of goods and services over a number of years (SNA, paragraph 22.29).

[27] Such entities are deemed *sui generis*, although legally are limited liability companies.

[28] This is the case of Utilities Aruba N.V., which holds in its portfolio N.V. Elmar, the sole provider of electricity in Aruba, and W.E.B. Aruba, responsible for power generation, water distribution and decarbonization.

[29] This practice seems to contradict the 1989 Financial Administration Act (AB 198 No 72), Chapter V, Art. 34, stating joint responsibility of both parent and finance ministries.

submission to Parliament, but not all SOEs comply with this requirement. Boards are usually appointed on an open-ended basis (in some cases renewable four-year terms) although in practice each government adopts a *spoil system* whereby boards are systematically reviewed and often replaced with each new government.

42. The lack of in-year oversight and monitoring on the part of the government, and specifically MoF, is an anomaly that need to be corrected swiftly. The MoF Finance Directorate should develop this monitoring function by becoming a focal point to collect and analyze information provided by individual SOEs as well as by their parent ministries. Within parent ministries, such a function could also be played by their respective policy units, which should be staffed by civil servants and not solely by political appointees. Looking ahead, authorities are drafting a separate SOE umbrella legislation, along the lines of those adopted in a number of countries within the region, to avoid dealing with a number of separate legislative acts or trying to homogenize them. Such an act would clarify the relative roles and responsibilities between SOEs, their parent ministries (typically responsible for the policy objectives), and MoF (responsible for the financial impact and potential risks to the budget). In the meantime, a more timely and appropriate reporting framework could be developed and implemented along the lines indicated in the following Table 2, which summarizes Australia's approach to SOE oversight. In Aruba, the MoF Finance Directorate, and in particular its Control Department, which is responsible among others for preparing the annual financial statements, appears to have all the required skills.[30]

[30] Financial indicators will have to reflect local context and capacity. They could also be combined, as in Altman Z Score, for liquidity, profitability, efficiency of resource use and solvency indicators where each is assigned a weighting (coefficient) based on past history of defaults. As with the financial ratio approach, the index score can be linked to letter credit ratings and used to infer default probabilities. See Altman, E., 2000, "Predicting Financial Distress of Companies: Revisiting the Z-Score and Zeta Models." Working Paper, Department of Finance, New York University.

Table 2. State-owned Enterprises Oversight Financial Indicators

Measure	Key Performance Indicator	Definition
Financial Performance	Total shareholder return	(Commercial value[31] at end, less commercial value at start plus dividends paid less equity injected)/commercial value at start
	Dividend yield	Dividends paid/average commercial value
	Dividend payout ratio	Dividends/net profit after tax (NPAT)
	EBIT	Earnings before net interest and tax
	EBITDA	Earnings before net interest, tax, depreciation, amortization and fair value adjustments *tor* financial instruments
	Return on equity (RoE)	Net profit after tax/average equity
	Net profit after tax (NPAT)	The bottom line of the Income Statement
	Underlying net profit after tax	The bottom line of the Income Statement adjusted tor one-off items and fair value movements
Business Efficiency	Operating margin	EBITDA/operating revenue
	Return on capital employed	EBIT adjusted tor fair value movements (net of tax)/ average capita! employed (defined as total assets less current liabilities)
	Debtors age (days)	(Debtors/revenue) x 365
Leverage/Solvency	Gearing Ratio	Net interest bearing debt/net interest bearing debt plus Equity
	Interest Cover	EBITDA/interest paid
	Current ratio	Current assets/current liabilities
	Liquidity Ratio	Cash and equivalents/current liabilities
Customers and Stakeholders	Customer Satisfaction	Percentage of customers rating the SOE very good or excellent as determined by survey
	Meeting Community Service obligations	Adherence to specific government directives, which cause SOEs to depart from otherwise commercial decisions, regarding the conditions of supply of goods or services
Staff	Staff retention and turnover rates	Number of staff replaced/average number of staff for the period
	Staff satisfaction	Percentage of staff very/extremely satisfied as determined by survey
	Lost time injury frequency rates and OHS incident rate	Lost time injuries per million hours worked
	Wages expense ratio	Cost of wages and salaries/operating revenue

Source: Australian Government (2015), "Commonwealth Government Business Enterprise Governance and Oversight Guidelines", Ministry of Finance Resource Management Guide No. 126.

[31] Commercial value is equivalent to business or market value, that is the sum of the market value of the owners' equity, plus total debt, less cash and cash equivalents.

Foundations

43. The *Subsidy Regulation for Public Benefit Institutions* (AB 1990 no. GT 34) is the legal basis for granting subsidies from the budget to entities outside its perimeter. It sets out the conditions that a foundation must meet in order to obtain public subsidies.

Article 1(2) of the Subsidy Regulation, a subsidy shall be granted to:

> "a. having legal personality institutions which, according to their statutes, seek a public interest. b. to the extent that a national regulation establishing the country's budget for the year of service in which the grant is to be granted has been authorized by a Minister"

It also sets out under Article 1(3) "no subsidy shall be granted to an institution which, according to its statutes, deals exclusively or largely with benevolence, education or public transport."[32]

44. There are two types of subsidies designated in Article 5 in particular: (a) subsidy to cover a detrimental operating balance (general subsidy); (b) subsidy for a particularly detailed purpose (special grant).

45. The roles and responsibilities are outlined under the same regulation as follows:

- The Minister in charge of finance shall have a supervisory role in the granting of subsidies;
- The Minister of the Responsible Ministry is responsible for policy and shall also have a supervisory role in the granting of subsidies. The Minister is also responsible for setting the program of requirements and the policy objectives to achieve certain performance and results. For this purpose, the Minister provides grants to the institutions;
- The Policy Management Unit of the Responsible Ministry, are to provide policy support, monitoring and evaluation to ensure the policy objectives of the Minister are achieved;
- The Government Subsidy Coordination Office shall ensure the continuity of the new subsidy policy by advising and supporting the ministries, policy directorates and institutions in general output subsidy policy. With the publication of the Government's Subsidies Handbook of Aruba 2016-17, it also takes care of the (co-) development, initiation, identification, monitoring and evaluation of output-oriented standard financing.
- The finance department of the responsible ministry shall ensure that grants are paid to the institutions in accordance with the approved budget and national decisions

[32] There is a separate legal basis for subsidized education.

- The Central Audit Office has the role of financial controller in the granting of subsidies. Pursuant to Article 9 of the Accounting Regulation 1989 (AB 1989 no.72), the Central Audit Office shall ensure that the granting of subsidies in the National Administration and procedural compliance with the Subsidy Regulation are monitored;

- The Aruba General Court of Auditors, on behalf of the Parliament of Aruba, checks the grant funds provided under the General Court of Auditors (AB 1998 no. GT 20). In accordance with Article IV.5 of the State Scheme of Aruba, the General Court of Auditors Aruba is responsible for investigating the effectiveness and legality of the revenue and expenditure of national funds. In this case, the grant funds awarded by the government and

- The subsidized institutions have the role of policy executor in the subsidy process.

46. Even though the roles and responsibilities are clearly outlined in the regulation, implementation is deficient and there was concern for a lack of accountability amongst foundations. As a result of recommendations from the CAFT and similar concerns from the Council of Ministers, a subsidy handbook was produced in 2016 to be implemented over a two-year period and coming into force in FY 2018. The manual lays out very specific guidelines for foundations for their budget requests that will link the resources requested with ministerial objectives. In effect the handbook attempted to implement performance budgeting within foundations with requirements for output and outcome performance measures far more demanding than that of ministries. However, it appears policy management units were not equipped to provide advice on how foundation initiatives should link to ministerial priorities thus foundations still function under input-based budgeting.

47. There are 44 foundations currently operating under Article 1(2) in Aruba with a budget ceiling of 60 Million Afl. The budget ceiling was established in 2016 and has remained in force at the same level since. The majority of the resources are dedicated to salaries which are in line with public service wages. Foundations are permitted to solicit funds from outside sources to deliver certain projects which was always the intention of government. However, this is not uniform across the 44 foundations. Given the budget ceiling, foundations are struggling to implement their existing programs, particularly with capital expenditures as wages and costs have increased since 2016. In addition to the foundations, the education sector finances schools and the university in a similar way (see Box 4).

48. Foundations perform public services which in other governments within the region would be housed within the government ministries. In effect there is the potential for resources being needlessly spent on overhead costs and, on occasion, differing views within foundations have caused splits resulting in two foundations delivering similar outcomes but at twice the overhead.

49. Although foundations are required by regulations to produce audited financial statements most are behind in their preparation thus there is little or no oversight of

financial operations. This results from a lack of resources to pay for the audit. Also, given the absence of reporting on outputs and outcomes there is potential for foundations operating outside their mandate or not delivering on the government's priorities.

50. Given the above, the government should review the oversight of foundations and have MoF play a more active role in financial oversight.[33] As the Central Bureau of Subsidies' role has diminished somewhat with the production of the handbook perhaps they could move to become more of a center of excellence for foundations assisting with budget preparations and annual reporting.

Box 4. Financing of Schools in Aruba

The education sector in Aruba includes 85 schools in 10 school boards and the University of Aruba. School Boards are specifically excluded from the subsidy regulations under Article 1(3).

Funding is provided through the Ministry of Education and resources are allocate to each individual school and separately to the boards. In 2020 the Ministry of Education budgeted 144,476,400 Afl, which is broken down to 14,051,400 Afl as an education subsidy and 130,425,000 Afl for salaries. By law, school boards must provide annual audited financial statements but not all are complying.

As part of the Aruba's National Education Policy Aruba 2030 (Plan Educacion Nacional 2030), which aims to provide vision and direction for an education of quality that is future-proof, a gap analysis was completed in July 2019. The analysis found there were weaknesses in the legal underpinnings for granting, in governance between the Ministry, Department and school boards, no timely or nonexistent accountability for delivery on mandate, little or no communication between the Ministry and school boards, conflicts between financial and administrative functions and no verifiable digital processes.

The goals established in the Gap analysis are:

- to comply with laws and regulations, tying the specific grant to the corresponding land regulation including the audit protocol;
- to improve governance ensuring that the competent authorities of the school boards understands the competencies required for the functions of both the supervisor and the executive board;
- establish Key Performance Indicators to ensure the quality of education in line with the OECD guidelines which should be reflected in the Grant Policy and Quality of Education
- that the management of education finance to move away from cost administration to the management of finances to deliver results-orientated funding is measured and tested;
- to create a synergy in the education platform improving the lines of communication between the Ministry, Education Directorate, Education Inspectorate and the school boards for the compliance with the relevant laws, regulations and policy provisions; and
- establish education support mechanisms that will assist with the delivery of the previous dot point above, through data collection and management for its use to provide information for better decision making.

As part of the GAP Analysis the way forward has been mapped out in a 5-step plan to address each of the above stated goals.

Source: Report & Recommendations for the Translation of Education Policy into Measurable Indicators: Departamento di Enseñansa 2019

[33] For example, the Government of Curacao commissioned a study of their foundations entitled "Final report of the sub-working group on subsidies for non-profit institutions" produced by Mollenconsult in September 2014. Which provides some 30 recommendations that are relevant and could easily be applied in Aruba. One of the main recommendations was for the creation of a centralized oversight function.

B. Recommendations

Fiscal Risks General

- Start developing a fiscal risk statement that identifies the potential risks that may emerge outside the budget perimeter, such as contingent obligations and liabilities associated with off-budget entities and enterprises, whether owned or controlled by the government

State-owned Enterprises

- Ensure all SOEs submit their plans (statements of corporate intent) for the following budget year plus three to their parent ministry in line with the budget preparation calendar issued by MoF each year.

- Enforce and clarify the reporting requirements envisaged by the 1989 Financial Administration Act and Regulations to ensure joint responsibility of parent and finance ministries.

- Establish a small SOE oversight and monitoring unit with the mandate to design quarterly and annual reporting templates and analyze the financial performance of individual SOEs as well as their performance as group to identify potential risks to the budget.

- In due course, consider developing separate SOE legislation standardizing and regulating governance arrangements, responsibility lines, and reporting requirements.

Foundations and Schools

- Review the mandate and operations of existing foundations to reduce overlap and duplication through merging redundant management units and ensure that foundations are still delivering on government priorities.

- Continue the implementation of the Ministry of Education's five-part transformation plan to move from a cost administration and grant funds credit monitoring organization to a more results-based financial management center of the education sector's budget.

- MoF to develop oversight function for financial operations of foundations.

V. THE WAY FORWARD

51. Aruba has started shifting the focus of its fiscal policy over the medium term by developing an MTBF that, at the moment, does not seem supported by the proper preconditions. It is therefore essential at this point that the government shifts its attention on ensuring preconditions are in place to further refine and strengthen the MTBF.

52. In the current circumstances, strengthening the annual budget process is the first order of priority. As part of that, the relative roles and responsibilities of the all the public entities involved, most notably CoM and ministries, and clear responsibility and accountability lines and reporting requirements will also have to be re-defined.

A. Budget 2021

53. Time permitting, documentation accompanying the 2021 budget should be expanded and clarified. The 2020 explanatory memorandum is an improvement over the 2019 memorandum as it links to the Sustainable Development Goals. This should continue and be expanded to help focus the Parliamentary debate on policy initiatives instead of change in line-items. In addition, the information submitted alongside the budget should include:

- The macro-fiscal forecast that underpins the budget recommendation along with assumptions and alternative scenarios;
- A budget summary, including a listing of major initiatives and how they are incorporated in the budget;
- Summary tables showing expenditures by broad economic classification (personnel, employer contributions, goods and services) by ministry and including 2019 actual, 2020 estimated, and 2021 budget;
- Expenditure by economic classification by department and by foundation for each of the three years listed (three summary tables by ministry); and
- A listing of expenditures by broad functional classification, following first, or division, level COFOG.[34] For purposes of this document this year, a simple aggregation of department expenditures using this classification would suffice.

54. It is strongly recommended that MoF propose a new procedure and timetable for CoM and Parliament approval of supplementary estimates. A transition to top-down budgeting will place greater strain on department budgets, but past practice in responding to budgetary overruns has been to compile and submit supplementary appropriations all together late in the year, leaving little choice but to approve. A credible budget requires that all known expenditures be funded, a small annual contingency reserve is appropriated but not allocated to face unforeseeable events such as natural disasters, and that all other requests, including reallocations beyond certain limits, be subject to funding through a supplementary estimate. Consequently, financing limits in the 2021 (and beyond) should be binding, and policymakers should have the choice of providing additional funding should overruns occur. If adopted by CoM, this procedure would stipulate that only those requests that were urgent and unforeseen

[34] Classification of the Functions of Government, published by the United Nations.

would be recommended for approval by CoM and departments would be so notified. Samples of a memo and form are attached as Appendix IV.

B. Budget 2022

55. There should be four distinct phases of annual budget preparation as shown in Table 3. This chapter of the report steps through each phase, and how it should guide the 2022 Budget process starting in early 2021.

Table 3. Budget 2022: Stages of Budget Process

Stage 1: Strategy Setting	• CoM approves budget ceilings • MoF issues Budget Call Circular No. 1 with budget ceilings
Stage 2: Budget Preparation	• Ministries prepare budget requests and submit to MoF • Ministries submit budget requests
Stage 3: Budget Negotiation	• MoF budget review and hearings • MoF presents recommendations to CoM • CoM finalizes ceilings • MoF issues Budget Call Circular No. 2 • Ministries submit revised estimates • Budget submitted to CAFT/RvA • CoM revises ceilings to reflect CAFT/RvA recommendations • Ministries revise estimates as needed
Stage 4: Submission to Parliament	• Budget documentation prepared • Budget tabled in Parliament

Source: IMF Team

Stage 1: Strategy Setting

56. As soon as feasible in the new calendar year of 2021, prepare for the first time medium-term unconstrained macroeconomic forecasts based on current policies and revenue projections. This would provide the underlying baseline on available resources given previous year's objectives in terms of overall spending, deficit, and debt ratio.

57. For Budget 2022, the MTBF should be issued early in the budget process (e.g., Spring) along with a preliminary macroeconomic outlook and fiscal objectives. It should be presented as part of the strategic document, the FSP that was discussed in Chapter II, to identify the government's priorities and drive in a top-down fashion the budget requests from line ministries and other relevant entities. As this will be the first time that the government assembles and issues such a document, some preparatory work will be needed. Box 5 outlines the important role of macro-fiscal projections in the process.

Box 5. Role of Macrofiscal Projections

A consistent set of macroeconomic forecasts and assumptions needs to underpin budget estimates and the medium-term projections. Currently, macroeconomic forecasts are produced by the Directorate of Economic Affairs, Trade and Industry (DEZHI). The MARUBA model uses an expenditure-based approach to forecast GDP for the current and next year. From early 2021, DEZHI plans for the MARUBA model to provide more reliable macrofiscal forecasts for the annual budget process by expanding the forecast horizon to four years (current plus three), and introducing a fiscal module to provide more accurate forecasts of revenue and expenditure.[35] The estimates will be revised twice a year (April and August) and published annually in the Economic Outlook (October).

Macrofiscal projections play a critical role in tracking progress and forecasting the fiscal trajectory over the medium-term. These projections should be formally updated and published twice per year, and limit production of forecasts undertaken on an *ad hoc* basis. A baseline projection should be prepared independently by the DEZHI to reflect its best professional estimate of the macroeconomic and fiscal outlook on a 'no policy change' basis. A policy scenario should then be prepared jointly by DEZHI and DF which would capture the estimated net impact of any explicit measures and policy decisions taken by the government through the budget or mid-year review processes.

A clear distinction must be maintained between the government's fiscal objectives, the baseline scenario, and the policy scenario. If the baseline scenario is deliberately optimistic, or the impact of policy is overstated, it is unlikely that the effort required to deliver fiscal sustainability in the medium term will materialize. Calibrated in the right way, an MTBF can become a tool to support the economic reform narrative, helping to underline the sustained policy efforts that are required over the medium-term to achieve fiscal sustainability. Calibrated in the wrong way, it will simply fail to achieve its potential.

DEZHI plans to reconcile GDP forecast vintages and explain underlying factors. As part of the reforms to the macroeconomic forecasting approach, the difference between new and old estimates will be specified and explained. This will then be used in the interim reports of May and August. If the National Accounts are available for a specific year, their GDP outcomes will be used in the comparison.

The reconciliation is essential to drive continuous improvement for the MARUBA model to underpin the MTBF, and to maintain the overall credibility of the framework. It is also closely linked to the need to build a better understanding of fiscal risks, and how unanticipated developments in the economy affect the fiscal aggregates. This would usually focus on the recent and historical forecast errors for GDP, revenue, expenditure and the budget balance and seek to differentiate the effect of economic developments and policy on the fiscal aggregates. It would be good practice to publish the results of this performance evaluation (i.e. reconciliation) alongside the budget.

Source: IMF Team

58. The FSP will contain medium-term objectives for the budget and the collective sector in line with the revised 2020 Protocol. Since the revised Protocol (discussed and agreed in 2020) focuses on the collective sector, the MTBF will have to maintain that coverage, but it would be desirable to revisit its definition and coverage at a later stage to include all general government entities. However, it would be advisable to focus first on the budget and then expand the coverage to relevant public entities, for some of which a review of their activity and mandate would be highly recommended as discussed in Chapter IV. It must however be clear

[35] The MARUBA model was reviewed by CARTAC in January 2020, and support was provided to improve forecasting methodologies and to ensure consistency between the real, fiscal and external sectors as presented in the model. [A follow up mission is planned to take place in late October].

that given the unique prevailing uncertainty only the ceiling(s) for budget year will be binding while those for the outer years will be indicative.

59. The draft FSP will have to analyze, summarize, and propose policy options so that CoM can deliberate in light its priorities for the years to come, with particular focus on the next budget. The draft FSP will have to be submitted by the Minister of Finance to the CoM. Combining the unconstrained top down availability of resources with emerging bottom-up pressure determines whether the government may have fiscal space to introduce new policy initiatives and/or whether needs to revise its macro-fiscal objectives and/or introduce new policy to close the gap or to create space for new initiative. Realistically, a combination of all these considerations is likely to emerge and detriment the new top-down availability of resources. Given the uncertain economic outlook and fiscal shock from the pandemic, MoF should ensure the draft FSP (1) takes stock of the (still uncertain) impact of the COVID crisis on the economy and the government's fiscal position; (2) evaluate the fiscal space for continued priority crisis spending and recovery measures; (3) assess the government's financing needs; and (4) enhance transparency and accountability by providing a proper presentation and accounting of COVID-19-related fiscal responses, including off-budget measures.[36] It would be advisable for MoF to set aside contingencies and policy reserves discussed in Chapter II, making clear that these will not be allocated in the course of the annual budget negotiations.

60. Until and unless the ministries' and the ministers' responsibilities are clarified and their internal capacity strengthened, it would be unwise introducing more detailed expenditure ceilings. This should realistically happen in 2022, in the preparation of the 2023-26 MTBF and 2023 budget. It will be however critical to develop a bridge table linking this year MTBF to the next one as well as analyzing whether past macroeconomic and fiscal forecasts (mainly revenue) suffered from some bias (see Appendix I, Figure 6).

61. MoF, and particularly the Finance Directorate will have to coordinate the effort to produce the FSP. This will require close coordination with the Economic Affairs Department (DEZHI), the Central Bureau of Statistics, and the Central Bank to organize the policy discussions and the setting of macro-fiscal objectives consistent with the 2018 Protocol[37] and Aruba's other macroeconomic objectives. Some tensions among these objectives will be inevitable but the trade-offs should be clearly identified, and their pros and cons weighed carefully so that the government can decide a course of action.

62. The FSP will need to have political, if not legal, standing by having the CoM formally approve it. Ideally the document should also be shared and debated in Parliament,

[36] Further guidance of key issues in budget preparation cycle have been addressed in an IMF Special Series Note: Budgeting in a Crisis: Guidance for Preparing the 2021 Budget (June, 2020) which can be found at https://www.imf.org/en/Publications/SPROLLs/covid19-special-notes

[37] And/or any future renegotiation of the Protocol

though without seeking Parliament's formal endorsement or vote. In the longer term, the FSP should be made publicly available each year.

Stage 2: Budget Preparation

63. Ministries must manage the preparation of budget submissions for their component departments and foundations. A top-down budget process requires that ceilings be set by ministry, permitting the reallocation of funding among departments to allow for operational savings, efficiencies, and shifting priorities to affect funding. This requires decision making at the ministry level. Further, should the ministry deem the budget ceilings too restrictive to fund either continuing operations or new policy initiatives, new spending requests are also prepared at the ministry level and prioritized at that level. Finally, both revenue measures and savings options are submitted at the ministry level.

64. The role of the ministry budget coordinator should be enhanced. Operational decisions affecting budget departments must be made at the level of the ministry; to do so requires the capacity to review budgets and funding requests on behalf of the minister. Initially, this review can be facilitated by Finance Directorate staff, for the longer term, ministries should develop their own capacity to oversee both budget preparation and budget execution. The RvA has recommended the establishment of a high-level civil service position in key ministries, a secretary general, along with necessary staff.[38] Foundation budgets should be prepared with the assistance of the Central Bureau of Subsidies and follow the Subsidy Regulation 2018 in providing outcomes-based funding, and should submit complete budgets reflecting all revenues and expenditures, as should those budgets submitted by schools.

65. Completion of a new spending requests template should be mandatory for consideration of any increase in the budget ceiling. The criteria for evaluation should also be widely available, and steps considered to limit the total number of requests. It is not uncommon for ministries to submit dozens of new spending requests in response to hard budget ceilings; to facilitate processing by budget analysts it is helpful to provide ministries the evaluation criteria in advance. Similarly, if ministries are aware of a limitation on submissions, it is more likely that low priority initiatives will be screened out. At a minimum, the ministry should prioritize all requests

66. It is recommended that as part of its budget submission each department complete a plan identifying key outputs and indicators against which to assess performance and that these plans be approved and signed by the Minister Smaller departments will likely require assistance, but this requirement should encompass every agency that receives public funding. As part of the compilation, the ministry should summarize major objectives and initiatives for the coming budget year for the ministry as a whole, organized by policy objecting set by CoM as summarized in the budget call circular. Every new spending request, other than those "top-up"

[38] RvA 71-20 (June 10, 2020) p. 5

requests to address shortfalls in current funding, should be linked to one of initiatives identified in the ministry business plan.

67. CoM should also require Ministries to submit savings options at the same time as consideration of new spending requests. All ministries would be required to submit expenditure savings options equivalent to some uniform percentage of their budget ceiling, e.g. five percent. Savings options could include service reductions or improved efficiency. This process must be mandatory for all ministries even though it is unlikely that most savings options will be adopted. The intent is to provide CoM with options to meet fiscal targets and, as desired, fund higher priority programs through savings from lower priority services. As this is a new feature of the budget process, it is advisable that this review begin with MoF assistance early in 2021.

68. Ministries that collect fees and charges from the public should also be required to submit proposal to increase collections. This review should consider the full cost of providing services including overhead costs, any arrears (e.g. rent) and a strategy to collect them, or other means to increase resources. These options are also provided CoM at the same time as consideration of new spending requests. As this is also a new feature of the budget process, it would be beneficial for this review to begin early in 2021, with MoF assistance.

69. The entire budget submission must be approved by the respective minister. The submission represents a proposal for the operation of the ministry in the coming year; signature by the minister indicates top-down support for this proposal within the ministry.

Stage 3: Budget Negotiation

70. Budget submissions from ministries should be screened for completeness and returned if incomplete. A simple checklist can be used for this process; a copy of an example is attached as Appendix V. Similarly, late submissions should not be tolerated; a report on the process, including submissions, should be routinely provided CoM.

71. In reviewing budget submissions, and in line with its new role, MoF should focus on policy implications instead of a review of line-items. Analysis of new spending requests should be based primarily on their impact on service delivery and consistency with CoM policy. In addition, accuracy of costs or savings should be verified, availability of budget resources including offsetting savings identified, whether there are more efficient means of meeting the same need, and any risks or adverse consequences have been identified.

72. By the summer of 2022, MoF should present a full set of budget recommendations to CoM. These recommendations should encompass all new spending requests, savings options, and ministry revenue options as well as the business plan for each ministry. On conclusion, CoM should decide on all new spending requests, savings and revenue options in a single, or sequential set of meetings so as to allow options to compete against one another. It is strongly recommended that CoM not authorize any expenditures outside of these budget sessions (other than urgent supplementary estimates) and that all new spending requests follow the regular process. A simple tool to track CoM decisions is attached as Appendix VI.

73. Prior to submitting the draft budget to CoM, the underlying macroeconomic framework should be updated. This will ensure that the budget is still based on sound and realistic macroeconomic outlook. Minor revision to the framework may require modifications to the aggregate fiscal objectives which should be accommodated within the overall budget envelope—this also supports MoF retaining a small reserve out of the aggregate expenditure ceiling. More substantive revisions may trigger additional changes that may in certain cases require reopening bilateral budget negotiations.

74. On CoM approval of the draft budget, including revised ceilings, MoF should issue budget call circular no. 2, a request for ministries to update their budget documentation if needed, including their business plans to reflect whether initiatives were funded. On return, the draft budget documentation is compiled and may be transmitted for outside review by the RvA and CAFT. Following their reviews, CoM may further amend ceilings, again considering all at the same time as well as any remaining savings options or new revenue options not adopted earlier. As needed, a third budget call circular may need to be issued to update ministry budget documentation. A sample of a budget call circular no. 2 is attached as Appendix VII.

Stage 4: Submission to Parliament

75. It is recommended that the budget submission to Parliament be expanded and focus on policy objectives rather than line-items. Summary tables should be improved, as noted in the recommendations for the 2021 budget, and a full section included on the macro-fiscal framework and fiscal policy. Further, a full set of ministry business plans should be provided along with the budget submission. It would be useful to brief Parliament on the budget process well in advance of the budget submission as possible.

APPENDIX I: MTBF: RATIONALE AND GENERAL DESIGN CONSIDERATIONS

Why should fiscal policy focus on the medium term?

Countries operate indefinitely whereas budgeting is a convenient way to break down in manageable time portions what is, in essence, an ongoing concern. Most fiscal policy functions (e.g., providing defense, health, and education services) never change, although can be modified over time. Within a one-year horizon, there is a risk that the impact of ongoing as well as new policies will be felt only several years after the budget year. In many cases, however, the problem is one of *short-term rigidities* preventing expenditure from being reduced—the distinction between discretionary and non-discretionary expenditure. A planning period of three years may open opportunities for revisiting spending programs, some countries have adopted mechanisms such a spending reviews to do so. Further, giving an advance warning of a future change can also help budget managers prepare for the forthcoming adjustment. The added time-dimensions in the budget negotiations is also valuable in dealing with excessive proposals for new spending, whereas within an annual budget horizon a particular proposal can only be met with a binary yes or no.

Countries are usually not short of medium to long-term regional, national, and sectoral strategies and plans, with the caveat that these are rarely fully costed. Tensions thus arise as these plans have to fit a budget envelope that covers only 12 months. An MTBF is a way to force the consistency between those plans and available resources over a manageable time period (typically 3 to 5 years). The choice of the period is usually dictated by the political reality and the length of the legislature in any given country.

Much as budgeting, MTBFs are quintessential political processes whereby scarce resources are allocated to meet socially desirable objectives—a means to an end.[39] This relatively simple definition hides a complexity and multidimensionality that need to be disentangled to understand its various phases, components, key functions, and actors. This is way budgeting and even more so MTBF have to reflect the political and institutional context, which while fixed in the short term is bound to evolve along with society. Fiscal policy objectives à la Musgrave—a sustainable fiscal position; an effective allocation of resources (redistribution); an efficient (value for money) delivery of goods and services—can be conflicting as different actors and stakeholders may have different priorities, time preferences, and objectives. MTBFs are therefore a tool to help disentangle the complexity by clarifying who is responsible for what, when, and

[39] Allen Schick defines budgeting as "a set of processes and procedures that relate the expenditure of funds to the accomplishment of planned objectives." Aaron Wildavski used to speak of "attempts to allocate financial resources through political processes to serve different human purposes."

how, and accountable to whom. The added time dimension facilitates the allocative process while dealing to some extent with the inherent uncertainty.

By focusing on future developments, MTBFs have therefore to be dynamic and contextual. This means that successive vintages have to be transparently linked to each other-this year's MTBF has to be based on last year's. Changes or revisions from one MTBFs to the next have to follow clear and transparent procedures, highlighting whether revisions are due to changed economic outlook or government's priorities. Whether the MTBF is of a binding or indicative nature, its main objectives risk being undermined if it is not credible. Bridge tables linking successive MTBFs and explaining the rationale for the main changes or revisions typically address these concerns, but they take a few years to develop the proper skills and confidence. They are however the linchpin to building credibility and providing much desired stability. Figure 6 provides an example of a bridge table produced in Sweden.

Figure 6. Medium-term Budget Framework Bridget Table: Sweden

Changes in Expenditure since 2007 Budget Billions of kronor	2008	2009	2010
Total expenditure in Budget 2007	**952.3**	**970.2**	**1,006.5**
Discretionary increases	4.0	5.6	5.5
Discretionary cuts	-8.6	-12.0	-12.4
Recalculation of wages and prices	0.0	1.0	2.1
Other macroeconomic changes	1.8	3.5	4.0
Accounting adjustments	-13.7	-14.2	-14.9
Other	-4.6	-3.9	-4.5
Net drawdown of carryovers	-2.4	-0.3	-0.4
Volume changes in entitlements	-0.8	-1.3	-1.8
Total change in expenditure	**-24.3**	**-21.6**	**-22.3**
Total expenditure in Budget 2008	**928.0**	**948.6**	**984.1**

Discretionary Changes Millions of kronor	2008	2009	2010
Defence and Security	**-356**	**-627**	**-987**
Integrated emergency radio	147	206	211
Crisis preparedness	-74	-103	-105
Procurement & operational efficiencies	-435	-723	-1,085
Environment	**-60**	**-20**	**40**
Sustainable cities & climate investment	32	172	232
Safeguarding biodiversity	-50	-200	-200
Clean-up of polluted areas	-50		
Etc...			
Total discretionary changes	**-4,579**	**-6,463**	**-6,853**

Entitlement Volumes (change since 2007 Budget)	2008	2009	2010
Number of asylum seekers	30,200 (3,200)	29,500 (-500)	27.700 (-2,300)
Number of child allowances	1,664,400 (10,000)	1,653,000 (11,000)	1,646,000 (14,000)
Number of illness compensation days	53.4 (-4.1)	53.2 (-4.3)	53.2 (-4.3)
Number of parental benefit days	46.1 (0.3)	47.1 (0.3)	48.0 (0.3)
Etc…			

Design considerations

As noted in Chapter II, **MTBFs are complex institutional arrangements that have to reflect political realities—the so-called context**. MTBFs vary greatly in their design depending on their degree of success or the problem(s) they try to address. Many considerations have to be reflected in designing their key characteristics. The key trade-off is between their rigidity, which may enhance the credibility of the fiscal objectives, and built-in flexibility, which may in turn ensure weathering through uncertainty and excessive volatility.[40] All MTBFs try to strike a balance between these tensions and often see their basic design revisited in light of experience. Some of the key choices are discussed below. These are the so-called baseline, the coverage and nature of the expenditure ceilings, revision mechanisms, and their legal status. Last but not least, MTBFs require different roles for CoM and between MoF and line ministries.

Coverage of overall ceiling—While there is an agreement that MTBFs should, as a minimum, set medium-term objectives on the broadest possible fiscal aggregate—typically general government—the issue is then how to distribute such ceiling between central governments, local administration, and other relevant entities. For instance, should social security institutions and certain public entities outside the budget perimeter be included under the overall ceiling? Further, should ceilings be applied to whole spending categories or should there be exclusions, such as debt service payments?

Types of ceilings--Another aspect is the type of the ceiling, which could be set in nominal or real terms, binding or indicative, rolling (i.e., each year one year is added to the period covered by the MTBF) or limited to the legislature.

Sub-ceilings—Countries allocate the overall ceiling according to administrative (i.e., ministerial), economic, or functional and/or program classification remains an open question, much as the level of detail. Countries also identify sub-ceilings for groups of functions (e.g., social vs economic functions). Each of the above options comes with pros and cons.[41]

Baseline—Setting the baseline is the first step in building an MTBF as well as for the annual budget. Baseline reflect the ongoing costs of carrying out unchanged amounts of service delivery.[42] The assumptions is that the ongoing allocation of resources is optimal, which is seldom the case. This way countries increasingly adopt way to scrutinize their baselines via spending reviews or similar initiatives.[43]

---

[40] Here lies the MTBFs dilemma: overly detailed and binding MTBFs score well on credibility grounds but tend to break particularly in small and volatile economies; built-in flexibilities can then go a long way to dampen such volatilities but, if excessive, risk undermining credibility. This is the reason why most MTBFs have these days some elements of built-in credibility by making their ceilings more indicative targets than binding constraints and/or allowing in an open manner for increasing margins or contingencies over the future years.

[41] Relatedly, the nature of these sub-ceilings is relevant for annual budget submissions. "Hard" ceilings would imply, for instance, that budget submissions exceeding them would simply be rejected or some upward flexibility—say, 10 percent—could be allowed and resolved in the course of the bilateral budget negotiations.

[42] Baselines are also referred to as ongoing or current policies, current service or no-policy change or constant policy scenarios.

[43] Spending reviews have been defined by the OECD as systematic and in-depth scrutiny of baseline expenditure with the objective to detect: i) opportunities for cutting low-priority or ineffective expenditures, and ii) efficiency savings. See Robinson, Marc, "Spending Reviews", OECD Journal on Budgeting, 2014, vol. 13, issue 2, 81-122.

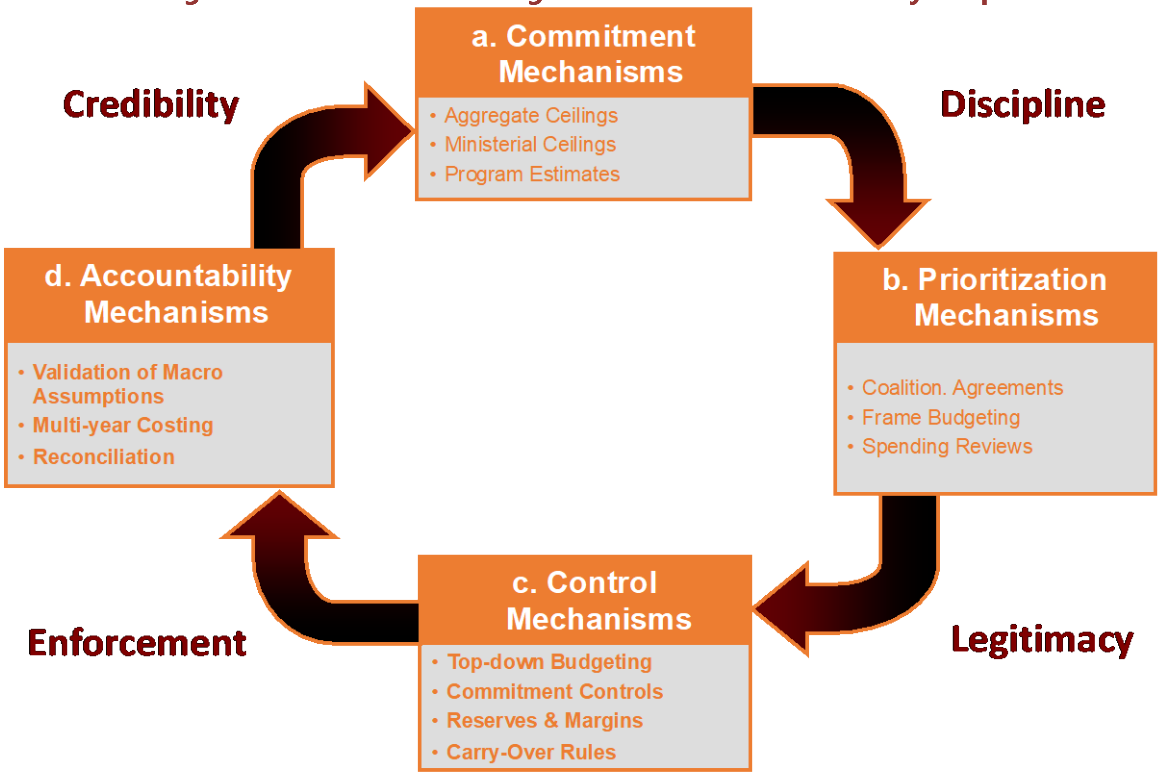
Revision mechanisms—Fiscal objectives may have to be revised if changed economic developments and/or priorities cannot be accommodated within its framework and built-in flexibility. It is therefore essential to ensure MTBF credibility that such revision follow clear and transparent procedural rules so as to avoid ad hoc and sudden changes.

Legal standing—An MTBF is a tool whereby governments manifest their fiscal policy intentions, costs, and funding. They thus require some form of endorsement by the executive in charge—depending on the country, they can take the form of a cabinet resolution or decree. Their legal standing should also be stated in legislation, whether fiscal responsibility or public financial management organic-type of legislation. Being an executive document, an MTBF is usually not subject to parliamentary approval but is often debated in parliament and at times endorsed but not formally approved. The government may then reflect some of parliament's consideration emerged in such a debate. Parliament retains in any event the prerogative of approving or else the annual budget which is developed within the MTBF policies, and objectives.

The Medium-term Budget Framework accountability loop

Reflecting their above-noted complexity and dynamics, MTBFs comes in different shapes and forms but share a number of constituent elements. These elements, summarized in Figure 7, provides a loop that very closely parallel the annual budget process. They are essential in establishing an MTBF capable of delivering on its objectives—most notably fiscal discipline—while building its own legitimacy, self-enforcing capacity, and ultimately its credibility. They thus require commitment devices—setting ceilings at various level from aggregate to sectoral levels—and prioritization mechanisms as part of designing a fiscal plan. They also require mechanism to ensure the fiscal policy is executed as close as possible to the pan so as to achieve stated objectives. The loop is closed by institutionalizing accountability mechanisms including independent evaluation of underlying macroeconomic forecast and mandatory reconciliation among successive MTBFs and objectives therein contained.

Figure 7. Medium-term Budget Framework Accountability Loop



APPENDIX II: FISCAL RULES: CALIBRATION AND DESIGN

Once the annual budget process and the MTBF are strengthened, Aruba may wish to consider adopting numerical fiscal rules. There are four main types of fiscal rules: debt rules, budget balance rules, expenditure rules, and revenue rules. These rules have different properties with respect to debt sustainability, economic stabilization, operational guidance for fiscal policy, and transparency (Table 4). Given the debt sustainability concerns in Aruba, it seems appropriate to consider a debt rule or anchor. In addition, one (or few) operational limit(s) (e.g. overall balance and/or expenditures) could also be considered to guide fiscal policy over the short run, as the debt rule could only guide fiscal policy over the medium to long term. The debt and operational limits would need to be carefully calibrated. Box 6 provides an illustrative example for Aruba on debt and overall balance rules.

Table 4. Properties of Different Types of Fiscal Rules

Type of Rule	Pros	Cons
Debt rule	• Direct link to debt sustainability • Easy to communicate and monitor	• No clear operational guidance in the short run as policy impact on debt ratio is not immediate and limited • No economic stabilization feature (can be pro-cyclical) • Rule could be met via temporary measures (e.g., below-the-line transactions) • Debt could be affected by developments outside the control of the government
Budget balance rule	• Clear operational guidance • Close link to debt sustainability • Easy to communicate and monitor	• No economic stabilization feature (can be pro-cyclical) • Headline balance could be affected by developments outside the control of the government (e.g. a major economic downturn)
Structural budget balance rule	• Relatively clear operational guidance • Close link to debt sustainability • Economic stabilization function (i.e., accounts for economic shocks) • Allows to account for other one-off and temporary factors	• Correction for cycle is complicated, especially for countries undergoing structural changes • Need to pre-define one-off and temporary factors to avoid their discretionary use • Complexity makes it more difficult to communicate and monitor
Expenditure rule	• Clear operational guidance • Allows for economic stabilization • Steers the size of government • Relatively easy to communicate and monitor	• Not directly linked to debt sustainability since no constraint on revenue side • Could lead to unwanted changes in the distribution of spending if, to meet the ceiling, shift to spending categories occurs that are not covered by the rule

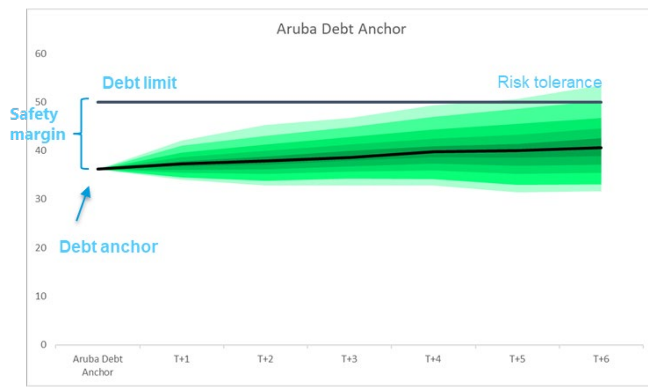
Revenue rule	• Steers the size of government • Can improve revenue policy and administration • Can prevent pro-cyclical spending (rules constraining use of windfall revenue)	• Not directly linked to debt sustainability since no constraint on expenditure side (except rules constraining use of windfall revenue) • No economic stabilization feature (can be pro-cyclical)

Box 6. Illustrative Example for Aruba on Fiscal Rule Calibration

Debt anchor calibration

A prudent approach in setting a debt anchor is based on two concepts: (i) A maximum debt limit. This is the level above which, in no circumstances, debt should go. (ii) A safety buffer. Keeping debt too close to the limit would not be prudent, as even a minor shock to the debt dynamics could quickly push debt above the limit. Prudence suggests that debt should be kept, on average and under normal conditions, at or around a level sufficiently below the limit to leave a safety buffer.

Specific debt limits can vary significantly across countries, but frequently range between 40 and 70 percent of GDP[44]. For the purpose of this illustrative exercises, we assume the debt limit is 50 percent of GDP (the 2039 debt target defined in the 2018 Protocol). We then estimated the distribution of macroeconomic and fiscal shocks facing Aruba using historical economic and fiscal data. Stochastic simulations were performed to estimate the future debt trajectories which are presented in a fan chart. We assumed economic growth would be at steady state 1.1 percent of GDP and primary balance consistently stands at historical maximum 2.7 percent of GDP (5 year moving average).



The calibration results show that the debt anchor for Aruba would be around 34 to 41 percent of GDP. If the authorities would accept a ten percent probability (risk tolerance) of breaching the norm of 50 percent of GDP debt limit established in the 2018 Protocol in the medium-term (six years), the debt anchor would be 41 percent of GDP leaving a safety buffer of 9 percent of GDP. However, if the contingent liabilities are considered, the fiscal buffer should also be increased to accommodate such fiscal risks. with the assumption of 6 percent of contingent liabilities realized over the six-year simulation period, the debt anchor with ten percent of risk tolerance would then become 36 percent of GDP. Alternatively, if authorities would only accept a five percent probability of breaching the norm, the debt anchor will be 39 percent of GDP or 34 percent of GDP considering the additional fiscal buffer of contingent liabilities assumed above.

[44] According to IMF Fiscal Rules Database.

	Scenarios			
Parameters				
Likelihood exceeding debt limit	10	10	5	5
Contingent liabilities	0	6	0	6
Calibration results				
Debt anchor	**41**	**36**	**39**	**34**
The range of the fan chart				
Interquartile range p75-p25	10	9	9	8
p95-p5	23	22	22	20

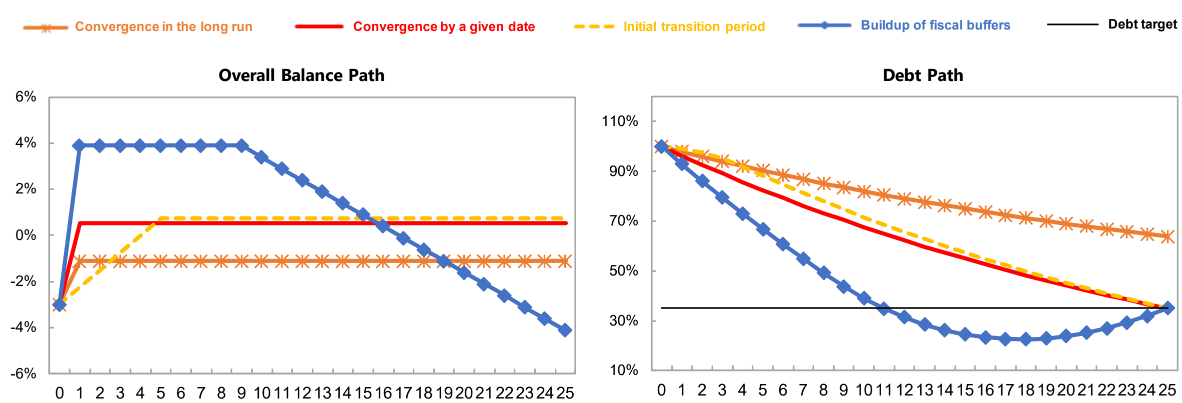
Overall fiscal balance calibration

A standard debt dynamics equation can be used to determine the overall fiscal balance that would allow debt to converge from its current level to a desired debt anchor. The overall balance floor that would reduce debt to or near its anchor depends on the expected long-term growth and interest rates.

The calibration of the overall balance floor depends also on the desired pace of convergence to the debt anchor, and to the deficit required to reach the debt anchor. We assumed the debt starts with 100 percent of GDP and debt anchor is 35 percent of GDP; long-term nominal interest rate is 4.5 percent and long-term nominal growth rate is 3.3 percent; the starting overall balance is -3 percent of GDP; aging related costs will rise in 10 years with incremental costs of 0.5 percent of GDP.

To converge to debt anchor in 25 years, a consistent overall balance of 0.5 percent of GDP is needed. If an adjustment period of 5 years is allowed (gradually increasing overall balance over these years), a consistent overall balance of 0.7 percent of GDP would be needed after the transition period. However, to create fiscal space for future increase in age-related spending, the overall balance would need to be as high as 3.9 percent of GDP for about 10 years before the incremental aging costs kick in. If the target is to converge to debt anchor in the long run (beyond 25 years), overall balance would only need to be about -1.1 percent of GDP.

Debt and Deficit Paths Under Alternative Calibration Approaches



Note: Please see Luc Eyraud, 2018, How to Calibrate Fiscal Rules: A Primer, for more details on fiscal rule calibration.

Source: IMF Team

Further to the selection of a fiscal rule, other key design aspects will need to be considered, some of which closely resemble those discussed above in the case of MTBFs. These include the fiscal rules' institutional coverage, monitoring, escape clauses, and accountability and enforcement mechanisms.

- **Institutional coverage.** Country experiences show that successful rules generally have broad institutional coverage. As of 2015, about two-thirds of countries with a debt anchor use a coverage of general government or wider. Fiscal or quasi-fiscal activities taking place outside fiscal rules can potentially weaken the public sector's balance sheet and threaten fiscal sustainability eventually. In Aruba, many entities exercising public policies are outside budget which may significantly impact fiscal sustainability (Chapter IV). A more comprehensive coverage than the budgetary central government seems to be needed. The Central Bureau of Statistics, supported by FD and other government agencies, has been collecting the financial information of those extra-budgetary entities and SOEs. This lays a good foundation for preparing fiscal reports for general government sector and eventually public sector. As fiscal reports are the base of fiscal rule monitoring, the coverage of fiscal reports and the timeliness of preparing those reports will likely constrain the coverage of fiscal rules.

- **Monitoring function.** Internationally, this function has been increasingly assigned to fiscal councils which are independent from governments or political parties. Fiscal councils monitor how fiscal targets constrained by fiscal rules are trending. They should produce frequent, timely, and good quality monitoring reports and make them publicly available. Aruba has committed to the Dutch Government to establish its own fiscal council however, there are already several institutions monitoring fiscal issues in Aruba. Aruba should consider if this monitoring function should be performed by a new institution or can be performed by any of the existing monitoring institutions, with necessary governance adaptation and capacity enhancement, to avoid overcomplicating the fiscal monitoring structure. In case that any of the existing institutions will play such an official watchdog function, it should have proper forecasting capacity and timely access to the requisite economic and fiscal data and any information necessary for this assessment.

- **Escape clauses.** Well-designed and limited escape clauses provide flexibility to deal with exceptional events, without undermining the credibility of fiscal rules. Escape clauses should clearly specify:

  - Events under which fiscal rules can be relaxed or suspended, such as large natural disasters, severe economic recessions, and stage of emergencies.

  - The authority to activate and monitor the escape clauses, including voting rules.

  - The procedures for returning to rule compliance, including the predefined timeframe for re-instating rule compliance and correcting for the cumulative deviation attained during the rule suspension.

- **Accountability and enforcement.** While sanctions could be useful to strengthen enforcement of fiscal rules, for national rules at the central level, sanctions are rarely used given the need for a third-party enforcer. Formal procedures that maximize reputational cost and mandate corrective actions of ex post deviations from the rules can raise their enforceability. The roles and responsibilities of relevant politicians and organizations need to be clearly defined to enhance the accountability. For example, a finance minister should be directly accountable for explaining to their legislative body (e.g. parliament) the deviations between the budget and final outcomes or seeking formal parliamentary approval for any temporary deviations under an escape clause. Error-correction procedures, such as "debt brakes" charting the adjustment path after a breach[45] would also help enhance fiscal rules' credibility.

- **Legal basis.** Fiscal rules that are enshrined in binding legislation can, in principle, be less easily modified even with a change of government and would thus provide longer-term general constraint for policy making. In addition to the numerical rules, the procedural rules, statement of main objectives for fiscal policy, and the key design elements discussed above (e.g. institutional coverage, monitoring function, escape clauses, accountability and enforcement), should also be defined in fiscal responsibility legislation, recognizing that the consultation process of new legislation will take time.

[45] For instance, in Switzerland, spending overruns are recorded in a notional account that must be rebalanced through subsequent expenditure adjustments once cumulative slippages exceed a certain level.

APPENDIX III: FISCAL STRATEGY PAPER OUTLINE

This Appendix provides a possible outline for a Fiscal Strategy Paper (FSP). It must be clarified that there are no international standards for such a document. Its content and structure may vary reflecting the institutional and political contexts. What follows is an illustration that is not based on a specific country. The main purpose of such a document, an updated version of which should be submitted along with the budget to Parliament, is to set and communicate the government key objectives and priorities cast within a macroeconomic and fiscal framework. As discussed in the main text of this report, the FSP should be issued early in the budget formulation and preparation calendar and then updated prior to submitting the draft budget to CoM in late August/September.

Chapter 1. Overview

- The fiscal strategy paper is a strategic document which sets out the main objective of budget policy. It outlines the medium-term fiscal prospects and priorities for the budget and the collective sector over the period 2022-2025, provides the assumptions and forecasts of the main economic parameters that form the basis of the budget projections for the next fiscal year and projection period, and sets out the main parameters of the state budget.

- Main fiscal policy objectives over the medium-term (examples below):

    - Maintaining sustainable fiscal policy consistent with the government's fiscal targets, maintaining certain social protections and providing for COVID related additional health spending

    - Delivering high quality public services through further improvements to the quality of education institutions, improving health care services etc.

    - Promoting economic development by diversifying away from tourism through quality investments in public infrastructure, education and health care, and promoting innovation in selected industries

    - Creating a more efficient tax system that increases competitiveness and creates incentives to promote economic activity;

    - Others could include ensuring security of state, fighting corruption, looking after the most vulnerable citizens etc. – linked to the key initiatives underway and to be developed for the budget.

- For 2022 the consolidated budget deficit is estimated to be X Afl (X percent of GDP), with the deficit projected to remain as stated under the recent Protocol. Public debt is forecast to be x Afl (X percent of GDP), rising/falling to X percent of GDP by 2022.

Table: Summary of Consolidated Fiscal Aggregates

	2021	2022	2023	2024	2025
	Actual	Preliminary Budget	Objectives	Objectives	Objectives
Budget Revenue					
Budget Expenditure					
Budget Balance					
Collective sector Revenue					
Collective sector Expenditure					
Other General Government Entities					
Revenues					
Expenditures					
Consolidated General Government Balance					
Percent of GDP					
General Government Debt					
Percent of GDP					

Chapter 2. Projections of Macroeconomic Indicators for the State Budget

2.1 Current Situation - Economic Conditions in 2020 and expected outcomes for 2021

- Describe recent developments in the global economy and domestic economy, including outcomes for GDP and prices.

- Detail expected outcomes for 2021 and how the situation and forecasts may have changed from the 2020 Budget, with particular reference to the impacts of the COVID-19 pandemic and necessary health responses on the domestic economy

2.2 Macroeconomic projections for 2022-2025

- Global economic outlook (discussion of global GDP projections and developments in major trading partners, can be useful to include a table with World GDP projections and those of MTPs either based on IMF, WB, Caribbean Development Bank, or your own).

- GDP growth forecasts for the budget year, with particular reference to recovery assumptions from the COVID-19 pandemic, as well as trend forecasts over the medium term
- Discussion on the main components of GDP growth to explain what is driving the forecasts (often this is by household consumption, business investment, public sector, exports, but you could do this by sector if you do not have the expenditure side).
- Discussion of employment expectations
- Discussion of inflation and wages forecasts.

Table: Key Macroeconomic Indicators and Projections for 2021-2025

	2019 actual	2020 Actual	2021 Proj.	2022 Proj.	2023 Proj.	2024 Proj.	2025 Proj.
Nominal GDP Growth (percent on previous year)							
Gross Domestic Prices (nominal value)							
Real GDP Growth (percent on previous year)							
Components of GDP Growth							
Tourism arrivals							
Consumer Price Index (Change from previous year)							
Unemployment Rate							
Employment growth							
Private Sector Wage Growth							

Assumptions: These can either be a note to the table, included in the table, or discussed in the text (e.g., what is assumed for the exchange rate and interest rates?).

Chapter 3. Fiscal Strategy

- Statement of medium-term fiscal policy targets (limits on debt and the deficit).
- If they have changed from the previous Budget and/or Protocol explain why.
- Note whether expected outcomes for 2020 and medium term are consistent with these targets. If not, it should explain why not, and provide explanation of how the government intends to re-instore compliance with objectives.

Chapter 4. Fiscal Results for 2020 and Expected Outcomes for 2021

3.1 Outcomes for the Consolidated Budget

- The consolidated budget deficit was X Florin (X percent of GDP) in 2019 which is higher/lower than in the approved budget. This reflects (higher/lower) revenues and expenditures.

- For 2020, the consolidated budget deficit is expected to be X Florin (X percent of GDP) in 2020, which is higher or lower than the approved budget due to…

Table: Balance as at 2020 budget, collective sector, and consolidated general government.

3.2 Fiscal outcomes for 2020 compared with the approved budget

Outcomes for Revenue

Outcomes for Expenditure

3.3 Expected outcomes for 2021 compared with the approved budget

- Revenue performance and comparison to forecast in 2021 Budget

  - Main policies introduced after the Budget that impact revenue

  - Economic developments that impact revenues

3.3 Expenditure Outcomes

- Expenditure performance and comparison to approved levels in 2021 Budget

  - Main policies introduced after the Budget that impact expenditures

Chapter 5: Medium-term Fiscal Projections and Spending Priorities for 2022-2025

5.1 Spending Priorities

- Spending priorities by key spending areas (subheadings for each sector)

5.2 Medium-term Expenditure Plans

- Aggregate expenditure ceilings

Expenditure ceilings

	2019 actual	2020 actual	2021 Outlook	2022 objective	2023 objective	2024 objective	2025 objective
Budget Expenditure							
By ministry							
By economic classification							
Collective Sector							
By entity							
General government							
By entity							
Consolidated General Government Expenditure							

- Expenditure ceilings for the budget year by administrative units (for discussion)
- Table on expenditure by function (COFOG)

5.3 Tax Policy and Revenue Projections

- Summary of revenue projections
  - Policy measures that have been announced and are being introduced as per FSP draft
  - Factors driving forecasts (stronger than expected growth etc.)
- Tax rates on which forecasts based (if need agreement)
- Revenue shares state and local

Revised revenue table (short version)

	2019 actual	2020 actual	2021 outlook	2022 objective	2023 objective	2024 objective	2025 objective
Budget Revenue							
Tax Revenue							
Non Tax Revenue							
Of which: repayment of policy lending							
Collective Sector Revenue							
Consolidated GG Budget Revenue							

State Budget Revenue by Detailed Component (Economic classification)

	2019 actual	2020 actual	2021 outlook	2022 objective	2023 objective	2024 objective	2025 objective
Total Revenues							
Tax Revenues							
Taxes on income and profits							
Personal Income Tax							
Company Income Tax							
Taxes on goods and services and trade							
Exercise Tax							
Customs duties							
Other							
Taxes on property and resources							
Other taxes							
Non-tax revenues							
Grants							
Interest							
Dividends							
Sale of goods and services							
Other							

Chapter 6. Deficit Financing and Debt Management Strategy

- Financing sources 2022-2025 (e.g. drawing on bilateral loans or market)
- Debt projections
- Guarantees (maximum ceiling?)
- Debt Management Strategy (high level objectives for managing debt portfolio)

Chapter 8. Fiscal Risks

- Discussion of how alternative macroeconomic parameters would impact the fiscal projections (possible table with sensitivity analysis)
- Information on government guarantees outstanding and by entity
- Discussion of fiscal risks related to the state-owned enterprise sector and foundations, with brief reference to any reform plans to strengthen oversight

Chapter 9. Public Financial Management Reforms

- Reference to medium term PFM reform strategy and brief summary of some of the major elements

APPENDIX IV: TEMPLATE – SUPPLEMENTARY ESTIMATES MEMO & FORM

DRAFT MINISTRY OF FINANCE MEMORANDUM

SUBJECT: NEW GUIDELINES FOR THE SUBMISSION OF SUPPLEMENTARY ESTIMATES

Date: XX XX, 2020

PURPOSE

The purpose of this circular is to advise ministries and departments of new guidelines for the submission and approval of supplementary estimates.

BACKGROUND

Aruba continues to face serious fiscal challenges that reinforce the need for continued budget restraint. This means it is imperative that the Government adheres to its budget balance target set out in the 2021 Budget and Forward Estimates.

Against this background, Cabinet has approved new processes and criteria for the submission and approval of supplementary estimates. Commencing immediately, supplementary estimates will not be approved unless such expenditure is considered by Cabinet to be both **urgent** and was **unforeseen.** 'Urgent' in this context is defined as expenditure that is essential and cannot be deferred until the next budget cycle without serious consequences to services and clients. 'Unforeseen' means that the expenditure was not and could not be predicted at the time the budget was finalized. Requests that do not meet these criteria will require full offsetting savings from within existing budget of the ministry or department submitting the request.

It is therefore very important that ministries and departments ensure their work plans and activities are consistent with their final budget ceilings. Where additional resources were not approved by Cabinet during the 2021 budget process, ministries and departments should ensure their work programs are adapted to fit within the available budget ceiling rather than anticipating supplementary 'top-up' estimates to meet potential shortfalls.

Any requests for supplementary estimates, for example, 'due to insufficient budget allocation', will not be deemed 'unforeseen' and therefore will not be considered for additional resources unless full offsetting savings from within the ministry's existing budget ceiling are provided. Similarly, any requests for additional resources as a result of estimates being 'omitted in error' will also require full offsetting savings.

Please note, that expenditure commitments entered into prior without budget appropriation or approval of the Minister of Finance under the Public Finance Act is illegal. Any such commitments may incur personal liability for the expenses and/or financial penalties or other sanctions.

A revised supplementary estimates spreadsheet form (**Annex 1**) is being distributed to ministries and departments. All requests for supplementary estimates must be submitted using this form. The new form will also require ministries and departments to provide detailed information on the additional outputs and outcomes (and/or other benefits) to be achieved from the additional resources. It is important that all the questions in this form are fully completed. Forms that are not completed and/or do not meet the relevant criteria will be rejected and returned.

VI. DRAFT TEMPLATE FOR 2021 SUPPLEMENTARY ESTIMATES REQUEST

MINISTRY: **DEPARTMENT:**	
SHORT DESCRIPTION/TITLE OF REQUEST: **TYPE OF REQUEST (Virement, New Spending etc.)**	

FINANCIAL IMPLICATIONS (SUMMARY)	**2021**	**Est. 2022 cost of request**	**Est. 2023 cost of request**
AMOUNT REQUESTED			
PROPOSED OFFSETTING SAVINGS			
NET FINANCIAL IMPACT (including loans)			

EXPLANATION AND JUSTIFICATION

1. **What urgent need is being addressed by this request? What additional outputs and outcomes will be achieved?**

2. **State why the proposed additional expenditure was not anticipated during budget preparation?**

3. **If the need for this expenditure was foreseen, but resources were not approved by Government in the budget, explain why the Ministry has not adjusted its work programme to reflect actual budget ceiling?**

4. **Explain why the request cannot be deferred for consideration until the next budget cycle?**

FINANCIAL IMPLICATIONS (DETAILS)				
ADDITIONAL EXPENDITURE				
Programme:	**Insert Name of Programme**	**2022**	**Est. 2023**	**Est. 2024**
Code	**Description**			
	Recurrent Expenditure			
	Personnel costs			
	Goods and Services			
	Etc,			
TOTAL RECURRENT EXPENDITURE				
	Capital Expenditure			
Government Funded				
xxx	Specify			
xxx	Specify			
TOTAL CAPITAL EXPENDITURE				
TOTAL COST OF SUPPLEMENTARY ESTIMATES REQUEST				

OFFSETTING SAVINGS				
Programme:	**Insert Name of Programme**	**2022**	**Est. 2023**	**Est. 2024**
Code	**Description**			
	Recurrent Savings			
	Personnel costs			
	Goods and Services			
	Etc,			
TOTAL RECURRENT SAVINGS				
	Government Funded Capital Savings			
	Specify			
TOTAL CAPITAL SAVINGS				
TOTAL OFFSETTING SAVINGS				

NET FINANCIAL IMPACT

CERTIFICATION BY MINISTRY REQUESTING SUPPLEMENTARY WARRANT

I certify that the request is urgent and unavoidable and was not foreseen at the time the budget prepared.

Signature of Department Head **Date**

I recommend that Cabinet/Minister of Finance/Financial Secretary approves the above request for supplementary estimates. **Date**

Signature of Minister

REVIEW BY MINISTRY OF FINANCE:

- Assess whether the request is urgent, unavoidable and unforeseen.
- Assess the financial and policy Implications of the request.

Signature of Finance Director **Date**

The above request is APPROVED/REJECTED

Signature of Minister of Finance/Cabinet (as appropriate) **Date**

APPENDIX V: TEMPLATE – BUDGET SUBMISSION CHECKLIST

Budget Submission Checklist		
Instructions to budget analyst: Complete this section for each budget submission. Answer each question yes or no; if the answer is no, explain in the line below the question and return to the ministry for clarification.		
Ministry:		
Compliance		
1	Are all of the required forms complete and submitted?	Y/N
	If no, explain:	
2	Have all forms been signed by the minister where required?	Y/N
3	Have all of the new spending requests been prioritized by ministry?	Y/N
4	Do the savings options equal or exceed the required amount?	Y/N

APPENDIX VI: TEMPLATE – CABINET SUMMARY DECISION TABLE

CABINET DECISION SUMMARY TABLE							
	MINISTRY PROPOSAL			BUDGET DEPARTMENT RECOMMENDATION			
	2022 Budget	2023 Forward Estimate	Ministry Justification	Analysis and Recommendation	2022 Budget	2023 Forward Estimates	Cabinet Decision
XX: MINISTRY OF XXX							
New Spending Request 1							
New Spending Request 2							
New Spending Request 3							
Sub-total							
XX: MINISTRY OF XXX							
New Spending Request 1							
New Spending Request 2							
New Spending Request 3							
Sub-total							
XX: MINISTRY OF XXX							
New Spending Request 1							
New Spending Request 2							
New Spending Request 3							
Sub-total							
XX: MINISTRY OF XXX							
New Spending Request 1							
New Spending Request 2							
New Spending Request 3							
Sub-total							
TOTAL NEW SPENNDING REQUESTS PROPOSED/RECOMMENDED							

APPENDIX VII: TEMPLATE – BUDGET CALL CIRCULARS

2022 BUDGET FINANCE CIRCULAR No. 1

FROM: **DIRECTOR OF FINANCE**

TO: **Ministry Budget Coordinators**
Department and Foundation Heads
Central Bureau of Subsidies
Budget Officers

REF No.:

DATE:

SUBJECT: **BUDGET CALL CIRCULAR No. 1: DRAFT 2022 BUDGET**

Purpose

The purpose of this circular is to provide instructions to ministries and departments for the preparation and submission of their:

i. 2022 budget estimates;
ii. new high priority spending proposals and proposed new revenue measures;
iii. business plans for 2022; and
iv. <u>mandatory</u> savings options.

for the consideration of the CoM.

Background

As part of the process of strengthening the budget planning and preparation processes, the CoM has introduced formal budget ceilings and a new planning process commencing with the 2022 budget cycle. This is a standard used around the world and is designed to help the country achieve is fiscal and policy goals, including a predictable, stable, and sustainable system of public finances.

Changes to the budget process

Unlike past years, the 2022 budget process will begin with budget ceilings for each ministry. These ceilings were determined based on 2021 budgets and actual 2020 expenditures and approved by CoM. They are designed to reflect the cost of current services within the fiscal limits approved by CoM. These ceilings are attached as Table 1. Each ministry will allocate those ceilings by department; for initial guidance, we have allocated this amount based on 2021 budgets, attached as Table 2. Ministries are instructed to complete the second column of Table 2, ministry ceiling, for each department, and distribute these ceilings to the individual departments. Note that the total of the second column may not exceed the total of the first column, the ministry ceiling.

Unlike in the past, departments will not prepare traditional budget requests for submission to the Finance Directorate. Rather, each department (including a foundation governed by the ministry) should review the budget ceiling set by the ministry and determine whether to request additional funding above that ceiling. It is understood that there will be the need for adjustments to these ceilings in some cases, both due to unanticipated cost increases for existing services and due to new initiatives planned by the CoM. If the department wishes to request additional funding, they must submit a new spending request to the ministry. The request format is described in detail, below. The respective Minister will make the decision whether to recommend that a request be submitted to CoM for approval; the Minister may also submit a new spending request on behalf of a department. The decision of the Minster on whether to submit a new spending request is final. Please note that the **new spending requests should not be submitted for price increases or approved salary adjustments**; CoM will adjust ceilings for inflation and salary adjustments.

There are three other changes to budget submissions. One, ministries will also be required to identify potential savings from improved efficiencies or eliminating low priority or poor performing programs; two, departments will be asked to review all revenues they receive from fees or charges and recommend whether they can be increased or arrears repaid; and three, each department or foundation will be asked to submit a basic budget

By separating the consideration of proposed adjustments (new spending and savings) from the baseline, the new budget processes are intended to strengthen fiscal discipline by eliminating 'budget creep', i.e. the tendency for budget allocations to increase incrementally without such increases being subject to a rigorous assessment of need and priority. The process also aims to ensure that future year financial impacts are considered when making budget policy decisions enabling Government to plan its fiscal strategy and expenditure priorities more effectively.

Macroeconomic outlook for 2022

Aruba continues to face severe fiscal constraints due to the worldwide pandemic. [BRIEFLY DISCUSS CURRENT MACRO-FISCAL OUTLOOK, INCLUDE FORECAST]

CoM policy priorities

The following table lists CoM policy priorities for the preparation of the 2022 budget. New spending requests and key strategies should link to these priorities wherever possible.
[CoM POLICY PRIORITIES, LINK TO NATIONAL DEVELOPMENT PLAN]

New Spending Proposals and Savings Options

As noted, Aruba continues to face severe fiscal constraints due to the worldwide pandemic. Despite the introduction of new measures to correct the fiscal imbalance, the scope of new or additional spending continues to be limited.

The CoM has set an aggregate spending target in accordance with its Medium Term Budget Framework of Afl. XX.XXm in 2022; Afl. XX.XXm in 2023 (XX% of GDP); and Afl. XX.MM in 2024 (XX% of GDP).

Against this background, the CoM has approved the following processes for new spending and savings options.

Format for New Spending Proposal

One of the major factors that lead to unsustainable budgets is the approval of new or additional budget spending outside the preparation of the annual budget. Making decisions in this way is not an effective mechanism for prioritising the allocation of scarce budget resources and can seriously undermine fiscal discipline.

Good budget practice requires that, as far as possible, all proposals for new or additional resources, whether for an existing program, or a new program, (and whether recurrent or capital) be considered at the same point in time during the annual budget preparation cycle. Such a process facilitates more effective prioritisation of the various competing demands for resources considering affordability, social and economic needs, planned results, and value for money.

The format and instructions for preparing 2022 new spending requests are set out at **Form 2(a) and 2(b)**. Separate forms should be completed for (a) recurrent and minor capital[46] expenditure and (b) major capital investment. No new or additional spending will be considered by the CoM unless these forms have been fully completed and submitted by the ministry in accordance with the instructions and deadline set out below.

In addition to setting out the additional resources required for new spending (disaggregated by economic item), the new format requires ministries and departments to provide detailed justification for each proposal including information about the objectives of the additional spending, the urgent need being addressed and how the expenditure will contribute to the achievement of CoM priorities. It also requires line ministries and departments to specify how the additional resources will contribute to improved program delivery, in particular what additional outputs[47] and outcomes[48] will be achieved as a result of the additional spending. Where multiple proposals are submitted, the Ministries are also required to rank their requests in order of priority.

The CoM will evaluate all new spending proposals, **both recurrent and capital**, following the deadline for submission. Proposals will be approved or rejected based on the availability of resources (i.e. with

[46] This includes minor acquisitions of office equipment and furniture and fittings.
[47] What additional will be produced or what additional services will be delivered as a result of the additional resources.
[48] What will be the impact of the additional resources in terms of achieving or making progress towards achieving the program's objectives.

reference to the fiscal target), the relative priority of the proposal (in terms of social and economic impact), planned results (outputs and outcome) and overall value for money.

Following the approval of the budget, and as noted in the budget memo dated XXX,XXX, the CoM intends to restrict any within-year requests for additional spending beyond that in the approved budget to **urgent and unforeseen** expenditures only. In addition, any such requests will have to be funded from offsetting savings.

Notwithstanding these guidelines, Ministries and Departments should be aware that the scope for allocating additional resources in 2022 is extremely limited. Ministries and Departments should only submit requests for additional resources for new spending that is considered urgent and essential.

Savings Options

In parallel with the annual new spending round, the CoM requires **all** ministries to identify potential savings options equivalent to X% of the 2022 budget allocation. There will be no exceptions to this requirement.

The purpose of the savings options is to create space for the CoM to meet new urgent priorities as well as to meet its fiscal balance targets. Savings options can include efficiency measures as well as possible reductions in program size or coverage, reduction in service level, abolishing programs and/or outsourcing of services. Ministries and Departments should use the opportunity of the savings round to thoroughly review all aspects of their programs and expenditures particularly targeting savings from low priority and poor performing programs and efficiency improvements.

While the submission of such savings will be mandatory for all Ministries, not all savings will be implemented. Rather, the aim is to provide the CoM with a 'menu' of savings options from which it can choose (based on its social and economic priorities) to meet its fiscal objectives, including if necessary to fund new high priority spending proposals.

The use of targeted savings is intended to avoid the application of 'across of the board' reductions in budget allocations which can lead to critical programs being underfunded and unable to deliver the high priority services. It is intended to avoid situations where reductions must occur but without an understanding of the effect on services.

The format and instructions for completing the savings options form is provided at **Form 3**. Please note that all requests for new spending and savings must be approved by the relevant Minister.

Revenue Measures

Ministries and Departments are requested to examine options for improving the effectiveness and efficiency of the collection of revenues. All departments that collect revenue (other than …) are requested to submit their revenue proposals for 2022 in accordance with the format set out at **Form 4**. Proposals should include both recommended changes to existing revenues (e.g. rates and coverage) and proposed new revenue measures, including those previously agreed by CoM.

As far as possible, Ministries should consider options to recover the full costs of providing services under the 'user pays' principles e.g. recovering the full costs of issuing passports or driving licences. This full cost includes indirect cost, i.e. the cost carried by other agencies. Unless this cost amount is known, please assume that it is equal to XX percent of the department's cost. Ministries are required to provide detail explanations as to how the increased revenues were calculated e.g. increased fees, rates, coverage etc. and the expected impact on the client group

Business plans

As part of the transition to a more developed and transparent system of budgeting, CoM has directed that every department prepare a basic business plan for 2022. This plan should state the mission of each department, the reason for its existence and goals of its operations, its clients, which may be the general public, specific groups of people, businesses, or another department within government. The plan should then state what goods or services are provided to these clients and, as possible, a count of those goods or services. Finally, the plan should list the major initiatives that the department is planning for 2022, wherever possible linked to the priorities set by CoM. The form of these statements are what you intend to achieve, how you intend to do so, e.g. increase or improvement in the goods or services you provide, and an approximation of by when you expect that to be completed. You will be asked to report on actual achievements at the end of the year.

Budget Timetable

Details of the budget timetable are included in **Appendix 1**.

Following approval of the initial baseline budget estimates, new spending initiatives, new revenue measures and approved adjustments for prices and salaries, the CoM will approve the final budget ceilings. These will be distributed in **Budget Instructions No. 2** along with instructions for completing your final estimates later in the budget cycle.

Budget Deadlines

Key deadlines for line ministries and departments are as follows:

XXX XX, 2021:	Distribution of 2022 Budget Call Circular No. 1
XXX XX, 2021:	**Deadline for submission of baseline budget estimates, new spending proposals, savings options and proposed revenue measures**
XXX XX, 2021:	Meeting of CoM to agree to new spending proposals, new revenues, and savings options and finalize budget ceilings
XXX XX, 2011:	Distribution of Budget Call Circular 2022 No.2 setting out details of line Ministry budget ceilings and approved new spending proposals and savings options
XXX XX, 2012:	**Deadline for submission of final estimates in accordance with budget ceilings and setting out enhanced program and performance information**

Action Required

The templates for the submission of the budget and forward estimates, new spending proposals and savings options will be distributed electronically to each ministry and department.

Ministries will be required to submit the following information electronically **by no later than XX XXX, 2021**:

- potential savings options equal to X% of their draft 2022 budget ceiling. These savings options will be presented and considered separately and should not be reflected in the base. This requirement is mandatory for all ministries;
- proposals for urgent and unavoidable new spending for 2022;
- review of revenues; and
- compilation of department business plans.

As Aruba continues to face an extremely difficult fiscal environment, I thank you for your cooperation and adherence to the instructions set out in this circular.

Signed by ______________________________
FINANCE DIRECTOR

<u>LIST OF FORMS AND APPENDICES</u>

Table 1:	Initial budget ceilings by Ministry
Table 2:	Allocation of budget ceilings by department (specific to each Ministry**)**
Form 1:	Template for Business Planning
Form 2(a):	Template for the Submission of New Spending Proposals (Recurrent and Minor Capital)
Form 2(b):	Template for the Submission of New Spending Proposals Major Capital Investment
Form 3:	Template for Submission of Savings Options
Form 4:	Template for New Revenue Measures
Appendix 1:	2022 Budget Preparation Timetable

Table 1
Derivation of Initial Budget Celling

Ministry of ____________________

		2021 Recurrent Budget	Plus/minus: One-time adjustments	Less: Adjustments by CoM	Initial budget ceiling for 2022	Explanation of adjustments
4100	Staffing					
4200	Employer contributions					
4300	Goods & services					
4361	Expert advice[49]					
4500	Interest					
4600	Grants					
4700	Contributions and Depreciation					
	Total					

[49] Example of a ring-fenced expenditure, i.e. one subject to special virement rules

Table 2
Department Budget Ceilings

Ministry of ____________________

Department:		________________		________________		________________		________________		Totals from Table 1	Total Ministry Ceiling[50]
Code		Initial ceiling	Ministry ceiling	Initial ceiling	Ministry ceiling	Initial ceiling	Ministry ceiling	Initial ceiling	Ministry ceiling		
4100	Staffing										
4200	Employer contributions										
4300	Goods & services										
4361	Expert advice										
4500	Interest										
4600	Grants										
4700	Contributions and Depreciation										
	Total										

[50] NOTE: Each row of the total ministry ceiling must equal the rows from Table 1(d)

<table>
<tr><th colspan="4">2022 DEPARTMENT OR FOUNDATION BUSINESS PLAN TEMPLATE</th></tr>
<tr><td>Department or Foundation Name:</td><td colspan="3"></td></tr>
<tr><td colspan="4">MISSION: List your mission statement below, or the overall major goals you are working to achieve on behalf of the government, the problem(s) you are working to solve.</td></tr>
<tr><td colspan="4"></td></tr>
<tr><td colspan="4">CLIENTS: List those who directly receive the goods and/or services you produce, i.e. training, licenses and permits, forms and reports, funding. It may be the general public, it may be those who need a specific service, it may be another agency.</td></tr>
<tr><td colspan="4"></td></tr>
<tr><td rowspan="2">PRODUCTS: List what your agency produces, goods or services provided to your clients, e.g. people trained, permits issued or repairs made</td><td colspan="3">Amount of product produced</td></tr>
<tr><td>2020 Actual</td><td>2021 Estimated</td><td>2022 Planned</td></tr>
<tr><td>•</td><td></td><td></td><td></td></tr>
<tr><td>•</td><td></td><td></td><td></td></tr>
<tr><td>•</td><td></td><td></td><td></td></tr>
<tr><td colspan="4">KEY STRATEGIES: List the specific actions you propose to take in 2022 to improve the provision of these goods or services, how these actions will advance Cabinet priorities or, if not relevant, your mission, and what you intend to achieve and how you will measure success. If you will be requesting additional funding to implement, note that here.</td></tr>
<tr><td colspan="4">•</td></tr>
<tr><td colspan="4">•</td></tr>
<tr><td colspan="4">•</td></tr>
</table>

*

BUDGET FORM 2(a)

NEW HIGH PRIORITY SPENDING PROPOSALS (RECURRENT) – 2022 BUDGET

NAME OF MINISTRY:	**DEPARTMENT:**
PRIORITY RANKING:________OF: ______	
TITLE OF NEW PROPOSAL:	

RESOURCE REQUIREMENTS (Additional Resources Required to implement Request)				
	Description	**Budget Estimates 2022**	**Forward Estimates 2023**	
FINANCIAL RESOURCES				
RECURRENT EXPENDITURE				
410	Personnel costs			
411	Allowances			
413	Pensions and Gratuities			
Services				
420	Supplies and Materials			
422	Purchase of Furniture and Equipment			
430	Maintenance Services			
440	Training			
450	Fees and Rewards (including advisers)			
460	Minor Capital (individual computer, equipment)			
TOTAL RECURRENT COST OFNEW SPENDING REQUEST				
OFFSETTING SAVINGS (describe below)				

BRIEF DESCRIPTION: What is requested, and is this a cost of continuing a current program or of a new program or expansion?

JUSTIFICATION: What is the urgent need this request is to address? Why is it not possible to address this need from existing resources? What would be the impact if this request was not approved or delayed? If this is a new or expanded program, how does it tie to the policy directives from Cabinet?

FINANCIAL CASE: Explain how the cost of the new spending request has been calculated, e.g. number of staff hours times compensation, cost of goods. Have reasonable offsetting savings been identified, and what are they?

PLANNED RESULTS: Specify the additional outputs and outcomes expected to be achieved from the additional resources, e.g. what additional services or products will be produced from the additional spending (including a loss in outputs or outcomes were it not approved)? Explain any risks in implementation and how they would be mitigated.

CERTIFICATION BY MINISTER PROPOSING NEW SPENDING REQUEST	
Request prepared by: **Signature of Department Head**	**Date**
I recommend that Cabinet approves the above new spending request. **Signature of Minister:**	**Date**

BUDGET FORM 2(b)

2022 NEW SPENDING REQUEST (MAJOR CAPITAL INVESTMENT)

NAME OF MINISTRY: **DEPARTMENT:**

TITLE OF PROJECT AND FUNDING (Govt./Donor/Joint):

PROJECT TYPE (e.g. Feasibility, Design, Implementation) **EXISTING OR NEW:**

FUNDING SOURCE:

START/COMPLETION DATES: **PRIORITY RANKING (If more than one request):**

RESOURCES REQUIRED (Additional Costs of New Capital Spending Request and Funding Source)													
Expenditure by Economic Classification		Total Cost of Project			2022 Budget Estimates			2023 Forward Estimates			2024 Forward Estimates		
	Description	GoA	Grant	Loan	GoA	Grant	Loan	GoA	Grant	Loan	GoA	Grant	Loan
COSTS OF PROPOSED PROJECT/CAPITAL													
	Contract Personnel Costs												
	Purchase of Equipment												
	Furniture and Fittings												
	Other Costs												
	Etc.												
CAPITAL COST NEW SPENDING REQUEST													

ADDITIONAL RECURRENT COST IMPLICATIONS OF THE CAPITAL INVESTMENT					
	DESCRIPTION	Full Year Operational Costs (on completion)	2022 Budget Estimate	2023 Forward Estimate	2024 Forward Estimate
	Personnel costs				
	Allowances				
	Pensions and Gratuities				
Services					
	Local Travel				
	Communication Expenses				
	Supplies and Materials				
	Furniture and Equipment				
	Maintenance Services				
	Rental of Assets				
	Training				
RECURRENT COST OF NEW SPENDING REQUEST					

BUDGET FORM 2(b) Major Capital Investment Narrative Section

DETAILS OF PROJECT EXPENDITURE AND FUNDING SOURCE • Explain how the cost of new spending has been calculated e.g. cost of design, equipment, furniture and fixtures, construction etc. • Explain recurrent expenditure implications (e.g. Personnel costs, IT, Utilities, Supplies and Materials etc. • Explain funding source (e.g. donor or GoA, donor grant and/or loan)

OBJECTIVES AND JUSTIFICATION OF PROPOSED CAPITAL PROJECT:
Project Objective and Justification (Describe the urgent need being addressed by the project, the expected economic and social impact, consistency with government policy priorities, cost-benefit analysis, other options for meeting need, impact of deferral to following fiscal year etc.)
Project Activities (Outline broad schedule of activities e.g. planning and implementation schedule and, for existing projects, achievements to date.)

PROJECT BENEFITS (OUTPUTS AND OUTCOMES
Statement of Project Benefits (Describe main physical and non-physical results of the project eg economic and social benefits, potential revenues)
PROJECT MANAGEMENT (eg Project Steering Committee membership, Contract Awards, Supervision, Monitoring and Inspection etc.)

MONITORING AND EVALUATION
Reporting Procedures (including against performance targets) (Format, frequency and distribution of reporting eg financial reports, progress and technical reports on construction, end of project evaluation)

CERTIFICATION BY MINISTER PROPOSING NEW SPENDING PROPOSAL(CAPITAL)	
Proposal prepared by: **Signature of Department Head**	**Date**
I recommend that Cabinet approves the above new capital spending proposal **Signature of Minister**	**Date**

BUDGET FORM 3

2022 SAVINGS OPTION

NAME OF MINISTRY:	
DEPARTMENT:	
NAME/DESCRIPTION OF SAVINGS OPTION:	
PERCENTAGE OF MINISTRY BUDGET CEILING:	

RECURRENT SAVINGS (Proposed Reduction in Budget Allocation due to Savings Option)				
Account	**Description**	**2022 Budget Estimate**	**2023 Forward Estimate**	
TOTAL RECURRENT SAVINGS				

PROPOSED REDUCTION IN NUMBER OF STAFF			

DETAILS OF PROPOSED SAVINGS What is proposed to be changed and how have the savings have been calculated e.g. reduction in personnel costs, utilities and supplies, overhead or other costs. Include only savings that are feasible, i.e. if adopted could be implemented such as a reduction in service levels or an increase in processing time.

EXPECTED IMPACT OF PROPOSED SAVINGS Describe the type of savings proposed such as a reduction in service level, an improvement in efficiency, reduction or elimination of a program or activity. Describe the expected impact of the savings on services, clients, outputs, and outcomes

CERTICIATION BY PERMANENT SECRETARY AND MINISTER	
Signature of Budget Coordinator	**Date**
Signature of Minister	**Date**

BUDGET FORM 4

2022 REVENUE PROJECTIONS AND PROPOSED REVENUE MEASURES

	MINISTRY/DEPARTMENT:					
		2020 Actual	2021 Revised Estimate	2022 Budget Estimate	2023 Forward Estimate	Description
REVENUE CODE: XXX		NAME OF TAX, FEE OR CHARGE:				
REVENUE PROJECTIONS						
1	Baseline Revenue Projection (for existing revenue sources)					Explain significant year over year changes in baseline projections.
2	Proposed Revenue Measure (New revenue source or increase to existing revenue)					Explain any proposed changes to rates and coverage of the revenue
	Revised Revenue Projections 2022 and Forward Estimate					
RECOVERY OF REVENUE ARREARS						
3	Estimated Amount of Outstanding Arrears as at 30 June					Specify the main causes of arrears.
4	Proposed Recovery of Arrears					Explain proposed actions to recover arrears. Explain basis of estimated recovery.
TOTAL, REVENUE CODE XXX:						
REVENUE CODE: YYY		NAME OF TAX, FEE OR CHARGE:				
REVENUE PROJECTIONS						
5	Baseline Revenue Projection (for existing revenue sources)					Explain significant year over year changes in baseline projections.
6	Proposed Revenue Measure (New revenue source or increase to existing revenue)					Explain any proposed changes to rates and coverage of the revenue
	Revised Revenue Projections 2016 and Forward Estimates					
RECOVERY OF REVENUE ARREARS						
7	Estimated Amount of Outstanding Arrears as at 30 June					Specify the main causes of arrears.
8	Proposed Recovery of Arrears					Explain proposed actions to recover arrears. Explain basis of estimated recovery.
TOTAL, REVENUE CODE XXX:						
Explanation from above (list line number):						

APPENDIX 1

PROPOSED BUDGET TIMETABLE 2022 (Based on proposed amendments to procedures)
SCHEDULE OF ACTIVITIES

Key Task	Activities	Target Completion Date	Responsibility
Preparation of Macroeconomic and Fiscal Framework	Initial Medium-Term Fiscal Framework submitted to CoM		MoF
Preparation of the Policy Framework Document	Draft Fiscal Strategy Paper prepared by MoF and submitted to CoM		MoF
	Fiscal Strategy Paper approved by CoM		CoM
Establishing Policy Priorities (New Spending Proposals and Savings Options)	**Budget Circular No. 1: Requests for High Priority Additional Spending Proposals, Savings Options, Revenue Measures and Business Plans**		**MoF**
	Budget Briefing for Line Ministries		MoF/Line Ministries
	Line Ministries allocate ceilings to departments		Line Ministries
	Departments prepare new spending requests, revenue measures, and business plans		Departments and Foundations
	Ministries review new spending requests and revenue measures, prepare savings options		Line Ministries
	Submission of New Spending Proposals, Savings Options Revenue Measures and Business Plans		**Line Ministries**
	Analysis of new spending proposals, savings options and revenue measures		MoF
	Budget hearings and negotiation on recommendations by Line Ministries		MoF/Line Ministries
	Updated macrofiscal forecast prepared for presentation to CoM		MoF
	Presentation of macrofiscal forecast and Budget Framework to CoM (including recommendations on new spending proposals, savings options, revenue measures and line Ministry budget ceilings)		MoF
	CoM approves draft budget		CoM
Preparation of Final Draft Estimates	**Budget Circular No. 2: Final Budget Ceilings and Preparation of Budget**		**MoF**
	Submission of final estimates by line Ministries (in accordance with ceilings)		**Line Ministries**
Review by CAFT and RvA	RvA and CAFT review draft budget		RvA and CAFT
CoM finalization and approval	MoF prepares summary and recommendations based on CAFT and RvA review		MoF
	CoM reviews and finalizes draft budget		CoM
	MoF prepares formal estimates document		MoF
Parliamentary debate and approval	Budget submitted to Parliament		MoF
	Parliament debate and amendment		Parliament
	Budget approved		Parliament
Fiscal year begins		1 January	

DRAFT 2022 BUDGET CALL CIRCULAR

No. 2

2022 BUDGET FINANCE CIRCULAR No. 2

FROM: **DIRECTOR OF FINANCE**

TO: **Departmental Heads**
Foundation Heads
Ministry Budget Coordinators
Budget Officers

REF No.:

DATE:

SUBJECT: **BUDGET CALL CIRCULAR No. 2: 2022 APPROVED BUDGET CEILINGS**

Purpose

The purpose of this circular is to provide:

i. Advice to Ministries of their approved recurrent expenditure ceilings (including new spending initiatives and savings options) and approved allocations for capital projects for the 2022 budget estimates; and

ii. Instructions for the preparation of each Ministry's detailed budget by economic classification (in accordance with the expenditure ceilings).

Background

As you are aware the CoM has decided to introduce a formal set of budget ceilings for Aruba, commencing with the 2022 budget cycle.

Under the budget ceiling approach, ministries and departments were required to prepare, in response to Budget Call Circular No. 1, any proposals for additional spending and savings options equal to XX% of their baseline 2022 budget as well as a review of revenues.

The CoM has now examined all budget requests, new spending proposals and savings options. It has also reviewed the latest revenue forecasts, taking into account all new revenue measures proposed for introduction in 2022, It has approved the aggregate expenditure of Afl. XX.Xm for 2022 (equivalent to XX% of GDP. It has also approved preliminary targets for 2023 of Afl. XX.Xm and for 2024 of Afl. XX.Xm.

2022 Budget Ceilings

Based on that fiscal target and prioritised needs, the CoM has approved the budget ceilings, and new spending proposals and savings for your Ministry/Department as follows:

Table: Derivation of 2022 Budget Ceiling: Ministry of (INSERT NAME)

	2022 Approved Budget
Ministry/Department Baseline Recurrent Estimates	
Approved New Spending Proposals	
• Specify	
Approved Savings	
• Specify	
Other Approved Adjustments	
• Specify (approved wage increases, approved cost adjustments)	
2022 Recurrent Budget Ceiling	
Approved Capital Expenditure	
• Capital Project 1	
• Capital Project 2 etc.	
Proposed 2022 Budget Allocation	

Ministries and Departments are expected to manage their operations and delivery of programs and services within the approved budget ceiling. No additional resources will be provided for supplementary funding in 2022 unless both **urgent** and **unforeseen** at the time the budget was prepared and offsetting savings are provided. Please note that no adjustments will be approved on the basis of insufficient resources.

Enhanced Budget Information

As foreshadowed in Budget Call Circular No. 1, the format for budget estimates has been updated to capture greater information about strategies and activities as well as information about outputs (what is produced or delivered by the program). For 2022, line ministries and departments are required to provide detailed information about the key activities and strategies for each department as well as identify relevant output indicators for each program.

The template and instructions for the preparation of detailed 2022 budget and forward estimates is presented at **Form 1**. It has also been distributed electronically. Ministries and Departments are required to update the electronic forms and submit to the Ministry of Finance in accordance with the timetable set out below.

Given the current pressures on Government spending and the need to adhere to the Government's fiscal balance targets, line Ministries should be aware the Government will only approve supplementary estimates in the most exceptional circumstances and in all cases will such requests will require full offsetting savings (or identified revenue source).

Department heads will be expected to manage resources **within** their approved budget allocation without recourse to supplementary estimates. Supplementary estimates will only be considered if both **urgent and unforeseen**.

If Ministries consider that their final budget allocations are inadequate to meet their forward work program, they must adjust their work plans accordingly. It is essential that line Ministries manage their programs within approved budget resources.

Action Required

Ministries and Departments are required to prepare their detailed budget estimates in accordance with the template at **Attachment 1**.

Ministries and Departments are also required to complete the new sections (providing information related to key strategies and activities for each major department.

Ministries and Departments are required to submit their final estimates, using the forms that have been distributed electronically and in accordance with budget ceilings, by no later than **XX, 2022**.

Any questions related to these instructions should be directed to xxxxx xxxxx

As Aruba continues to face an extremely difficult fiscal environment, I thank you for your cooperation and adherence to the instructions set out in this circular.

FINANCE DIRECTOR

LIST OF ATTACHED APPENDICES

Attachment 1: Template for the Submission of Final Budget Estimates in Accordance with Budget Ceilings

Attachment 2: Template for the Submission of Final Budget Estimates for Departments including change from initial budget ceiling

Form 1

TEMPLATE FOR SUBMISSION OF BUDGET

MINISTRY OF

MISSION:

POLICY PRIORITIES:

RECURRENT EXPENDITURE				
Details of Expenditure	**2020 Actual Exp**	**2021 Approved Budget**	**2021 Revised Estimate**	**2022 Budget Estimates**
PERSONNEL COSTS				
Personnel costs				
Wages				
Allowances				
Total Personnel costs				
GOODS AND SERVICES				
Utilities				
Communication Expenses				
Supplies and Materials				
Training				
Subventions				
Total Goods and Services				
TOTAL RECURRENT ESTIMATES				

CAPITAL EXPENDITURE	
Donor	**Description**

STAFFING RESOURCES
Executive/Managerial
TOTAL APPROVED POSITIONS

SUMMARY OF PERFORMANCE INFOMATION	
DEPARTMENT	**KEY STRATEGY**
	•
	•
	•
	•

KEY PERFORMANCE INDICATOR – OUTPUT (Specify what is produced or delivered by the department)		**2020 (If known)**	**2021 Estimated**	**2022 Target**
DEPARTMENT	INDICATOR			

DEPARTMENT BUDGET SUMMARY				
Department		**2020 Actual Exp**	**2021 Approved Budget**	**2022 Budget Estimates**
Department name 1	Recurrent			
	Capital			
	Total			
Department name 2	Recurrent			
	Capital			
	Total			
Department name 3	Recurrent			
	Capital			
	Total			
Department name 4	Recurrent			
	Capital			
	Total			
Department name 5	Recurrent			
	Capital			
	Total			
Department name 6	Recurrent			
	Capital			
	Total			
Department name 7	Recurrent			
	Capital			
	Total			
Department name 8	Recurrent			
	Capital			
	Total			

Form 2

Final Department Budget Ceilings

Ministry of ____________________

Department	Recurrent Expenditures		Capital Expenditure
	Initial Ceiling	Final Ceiling	
TOTAL			

This form is to track changes from initial ceilings set by the Ministry of Finance. It is to provide an audit trail only, and is not part of the budget documentation.

Fiscal Affairs Department

International Monetary Fund
700 19th Street NW
Washington, DC 20431
USA
http://www.imf.org/capacitydevelopment