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Aruba as an International Financial Center? A diversification strategy for the economy of Aruba



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Executive Summary

The purpose of this study was to investigate the extent to which Aruba meets the key factors of an international financial center (IFC). The attempt of diversifying Aruba's economy by becoming an IFC is not a new one; in fact this has been an attempt of more than two decades.

However from early stages of this assignment it became clear that becoming an IFC in the traditional sense would not be a possible option for Aruba. The literature review made distinctions between IFCs and offshore financial centers (OFCs), indicating that Aruba's efforts should be directed in the latter category.

Therefore this assignment's objective is an effort to understand the shortcomings of Aruba's current situation, by assessing it against key factors of OFCs. To fully comprehend the reasons for the shortcomings a deductive approach was taken. The first step was to identify key factors through a literature study, which resulted in the identification of five key factors. These were consequently assessed against Aruba's current situation, resulting in the detection of Aruba's shortcomings with regard to the key factors. To gain further insight into these shortcomings, a cause and effect analysis was executed. The analysis revealed common denominators present in Aruba's current situation which result from several faulty mechanisms present that prevent Aruba from meeting all the key factors of an OFC today.

The analysis revealed common denominators which frequently presented themselves throughout the analysis of each shortcoming. The frequency in which these appear confirm their role in the shortcomings and represent problems that exist in Aruba's current situation.

The common denominators identified were namely, government agencies that mainly focus on own objectives, shortage of qualified personnel on various fields, a lack of knowledge when it comes to future developments due to a lack of planning. In turn these point towards a combination of Aruba's history and culture which resulted in the way things are done today. However, the scope of the assignment only permits and offers solutions regarding Aruba's OFC. Therefore, remedies suggested focus on meeting the key factors of an OFC, instead of attempting to solve all problems in Aruba's current situation. With its existing products and services in combination with stakeholders taking part of the existing process, Aruba already has a basis for its further development as an OFC. Therefore the first step would be to develop and execute a strategic plan, focusing on objectives considered to be important. These objectives include, increase the availability of professionals to fulfill the need on various fields, enhance the communication and collaboration between stakeholders to avoid the loss of information and other essential resources and transparency with regards to objectives to minimize trust issues between stakeholders. These objectives are considered essential in addressing the shortcomings identified in order to fulfill all the key factors of an OFC.

The limitations that presented themselves during the assignment were the lack of data concerning some aspects of the key factors in Aruba's current situation. Therefore some of the aspects that initially formed part of the key factors could not be assessed. However the remaining aspects of the key factors give sufficient depth to represent Aruba's shortcomings.

Overall the thesis offers remedies which can be utilized to improve Aruba's current situation towards the key factors of OFCs. Additionally recommendations are made for the future development of Aruba's OFC industry. These remedies and recommendations can be useful for the stakeholders involved, shedding light on their particular role in the industry's further development.

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List of Abbreviations

AEC	Aruba Exempt Corporation
AFC	Aruba Financial Center
AFCA	Aruba Financial Center Association
ATE	Aruban Transparency Entity
AVV	Aruba Exempt Corporation
BNA	Aruba's National Library
CBA	Central Bank Aruba
CBS	Central Bureau of Statistics Aruba
CIFA	Curacao International Financial Services Association
DAO	Department of Labor and Research Aruba
DBB	Department of Foreign Affairs Aruba
DEACI	Department of Economic Affairs, Commerce and Industry Aruba
DONDW	Department of Education Aruba
DSZ	Department of Social Affairs Aruba
DVGH	Department of Public Health Aruba
DWJZ	Department of Legislation and Legal Affairs Aruba
EPI	Professional Intermediate Education
EU	European Union
FATF	Financial Action Task Force
FIAS	Foreign Investment Advisory Service
IBC	International Business Corporations
IFC	International Financial Center
IPC	Imputation Payment Companies
KVK	Chamber of Commerce and Industry Aruba
NA	Netherlands' Antilles
NAf	Netherlands' Antilles' florins
NFF	New Fiscal Framework
NV	Public Limited Company
LLC	Limited Liability Company
LTT	State Ordinance Surveillance Trust companies
MOT	Financial Intelligence Unit Aruba
OECD	Organization for Economic Cooperation and Development
OFC	Offshore Financial Center
SER	Social Economic Council
SIAD	Tax Authorities Aruba
TIEA	Transparency Information Exchange Agreement
UNA	University of the Netherlands' Antilles
UNDP	United Nations Development Program
UVA	University of Aruba
VBA	Limited Liability Company

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1. Introduction

1.1 Background

The Department of Economic Affairs, Commerce and Industry of Aruba (DEACI), is a government agency with the objective:

- To advise the Minister of Finance and Economic Affairs on domestic macro- and microeconomic policy and on international trade issues.
- To promote investments and exports.

The division of Foreign Economic Relations within this department promotes and safeguards Aruban interests in the international trade area. Their responsibility is to keep up with the latest developments in this area and to advise and assist the Aruban government and the Aruban private sector in order to promote trade and investments. One of the main concerns of DEACI is that Aruba's economy and wellbeing has been relying too much on the tourism industry, and therefore this department has been exploring different options for the diversification of Aruba's economy. One of the options for Aruba is to establish itself as an international financial center (IFC). Generally a financial center is a metropolitan area that has a high concentration of financial institutions and where the financial transactions of a given country or region are centralized. "It exists for the purpose of efficiency: by centralizing major financial institutions in a specific metropolis, communications are improved and a variety of cost savings can be realized through specialization of economies of scale" (Dufey, 1997). Even though Aruba has some services and vehicles currently available, it has never reached its full potential as to refer to Aruba as an IFC.

1.2 Objective

The objective of this research is to assist the process of Aruba developing into an IFC, to investigate what is currently lacking, the reasons for its shortcomings and the actions necessary in order to bring Aruba closer to this prospective goal.

1.3 Problem Statement

The department of DEACI is interested in a diversification strategy for the economy of Aruba to reduce risks, and to create high-quality employment and income opportunities. Therefore, in 2005 DEACI requested the assistance of FIAS (Foreign Investment Advisory Service), a joint service of the International Finance Corporation and The World Bank, to analyze Aruba's business climate and possibilities of future growth. In their findings one of the possibilities identified was the development of Aruba as an offshore financial center, although categorized as an interesting but problematic idea. Given the interest shown of various actors in Aruba, further research of this strategy has been requested. A further study to research the viability of this is also relevant to the division of Foreign Economic Relations, in that if proven viable it will give them a direction for investment promotion for Aruba.

A national Integrated Strategic Plan called "Nos Aruba 2025" is a project directed by DEACI. This project refers to sustainable development in Aruba and the search for balance between the social, economic and ecological development of the island. Within this project several commissions have been formed, including the IFC commission. This commission will go deeper into the development of an IFC. Consequently the commission will use this report as additional information.

The following aspects are considered in order to come to a well defined problem formulation:

1. DEACI is considering an IFC as a strategy for diversification of Aruba's economy.
2. The viability of such a strategy is of great importance.

The resulting problem formulation is:

"To what extent does Aruba qualify for becoming an international financial center?"

The output of this research is a clear representation of what is currently lacking to reach the goal of becoming an international financial center, and it will also determine the reasons for its shortcomings and recommend actions to be taken to reach such a diversification strategy.

1.4 Research Strategy

This research is considered to be an applied research, undertaken to solve a practical problem (Saunders, 2006). The purpose of the research is to contribute knowledge that will help people understand the nature of a problem so that human beings can more effectively control their environment (Patton, 1990). A deductive approach will be used to solve the problem formulated above, by moving from general to specific (Babbie, 2007). Based on literature review and specific research requirements a framework is developed, followed by the methodology to be applied in the in the realization of this assignment. The information attained is assessed and further analyzed. These findings are then used to draw conclusions, after which remedies and recommendations will be offered.

The research can also be classified as an explanatory study which attempts to explain the reasons for the phenomenon, through qualitative research methods, to help understand motivations and actions (Myers, 2009).

2. Literature Review

2.1 Introduction

Searching for an approach to tackle the problem above it is necessary to first carry out a literature study on the topic of IFCs. This will give clarification on the topic which will consequently be a basis for the research questions. These research questions are intended as guidance to reach a solution to the main problem.

2.2 International Financial Centers

First of all it is of utmost importance to clarify what is meant with an international financial center (IFC), since the literature has shown various definitions of this, it is crucial for the purpose of this study to arrive at a clear understanding.

According to the literature regarding this subject the term international financial center has been interchangeably used with the term offshore financial center. To get clarification on this, let us first clearly define the term financial center. In its broadest definition “a financial center is a place where providers of and customers for financial services meet to transact business” (Reed, 1998). This definition includes both domestic financial centers and international financial centers. Domestic financial centers work mostly in their domestic currency and the participants are all resident individuals and businesses, and international financial centers allow both domestic and non-resident foreign individuals, businesses and governments to participate as providers and users (Reed, 1998).

In an international financial market besides resident lenders and borrowers providing funds to domestic borrowers/issuers, three additional types of transactions may occur: (1) between foreign lenders/investors and domestic borrowers/issuers, (2) between domestic lenders/investors and foreign borrowers/issuers, and (3) between foreign lenders/investors and foreign borrowers/issuers (Dufey, 1997).

Types of IFCs

Following the literature (Dufey, 1997) international financial centers can be further classified into traditional IFCs and offshore financial centers (OFCs).

A traditional international financial center principally offers the services, also called *entrepôt* services, of their domestic financial institutions, money markets, and securities markets to both domestic and foreign residents. These centers may or may not be net capital exporters; their characteristic feature, however, is based on the fact that they not only permit but often encourage foreign borrowers and lenders to participate in domestic financial markets. Foreign residents are usually attracted to these centers by the extensive and sophisticated financial markets and services they provide, which may not be available elsewhere. This type of international financial center includes all three types of transactions mentioned above, although the third type of transaction may or may not be present at times, this will depend on its demand.

An offshore financial center offers financial intermediation performed primarily for nonresident borrowers and depositors. It can be thought of as a legal, administrative and accounting platform for assets which are received by and administrative intermediary in its accounts at institutions off the platform and applied in loans, deposits and investments off the platform, on behalf of foreigners

(Reed, 1998). The principal attraction of an offshore banking center, for banks as well as participants, is simply the absence of intrusive and expensive regulation, including taxation and controls over the portfolio decision of the banking community. Although occasionally there can be some domestic resident participation in an offshore center, typically the domestic financial market is often well insulated from offshore banking activities by policies that may comprise an array of capital and exchange controls (Dufey, 1997). This type of international financial center includes the third type of transaction which is concerned with the transaction between foreign borrowers and lenders, and excludes the domestic participation.

From the literature above it can be deduced that an international financial center can offer a full array of services to residents and non-residents but it could also be concluded that an international financial center can also be a center which offers offshore services, in the form of financial intermediation, primarily to non-residents. In the following section OFCs will be further explored to clarify this type of international financial center.

Services and Vehicles of OFCs

According to the literature, OFCs offer a number of services; Higgins (2000) places them broadly into three main categories, namely private investments, asset protection and estate planning.

Private investments deal with the management of investments for the purpose of the minimization of potential tax liabilities and maximization of protection granted under statutory confidentiality provisions. *Asset protection* is concerned with the use of an international jurisdiction separate from the client's residence which allows for the protection of income and assets from political, fiscal and legal risks. *Estate planning* deals with the administration of assets done in the most favorable legal and fiscal jurisdiction (Higgins, 2000).

The predominant financial institutions and/or vehicles through which OFCs can provide the above mentioned services, by no means meant to be exhaustive are (Forum, 2000):

- *Offshore banking*: Corporations or banks may open offshore banks to handle foreign exchange operations or financing needs; an individual may open an account in an offshore bank. The advantages of the offshore bank include no capital, corporate capital gains, dividend or interest taxes, no exchange controls, and lighter supervision and reporting requirements.
- *International Business Corporations (IBCs)*: IBCs are limited liability companies that may be used to operate businesses, or raise capital through issuing shares, bonds or other instruments. In many OFCs the cost of setting up an IBC is minimal and they are exempt from all taxes.
- *Insurance companies*: Commercial operations may establish an insurance company in an OFC to manage risk and minimize taxes, or onshore insurance companies may establish an offshore company to reinsure certain risks in order to reduce reserve and capital requirements for the onshore company. The advantages of the OFC are favorable income/withholding/capital tax regimes and low (or weakly enforced) reserve requirements and capital standards.
- *Asset management and protection*: Individuals and corporations in countries with weak economies and/or fragile banking systems may want to keep assets abroad to protect them against the possible collapse of the domestic currencies and banks, and free from any exchange controls; when confidentiality is desired, then an OFC is the choice for placing the assets.

Individuals who face unlimited liability in the home jurisdiction may restructure the ownership of their assets through offshore trusts to protect those assets from domestic lawsuits.

- *Tax planning:* Multinational firms may route transactions through OFCs to minimize total taxes through transfer pricing. Individuals can make use of favorable tax regimes in, and tax treaties with, OFCs often in the form of trusts and foundations.
- *Money laundering:* Proceeds from illegal activities, such as drug trafficking, are processed through offshore centers to conceal the true source of funds.

Coinciding with the overall literature of IFCs, Forum (2000) presents the above list of the main vehicles which can be provided through offshore financial services. Although they are meant to be used for legitimate purposes, unfortunately as can be seen from the list above, other less honorable purposes exist. The misuse of these centers is what gives offshore financial centers a bad reputation, labeling them as money laundering countries/centers or tax havens. Fortunately, a group of existing participants on the field composed of tax collectors, legislators, exchange control and police authorities, securities market supervisors and central bankers of many countries monitor offshore activities closely. Their concerns are direct loss of tax revenues, the erosion of their tax bases, the criminal immunity of owners of illicitly obtained wealth, the protection from seizure or legal attachment of that wealth, the deviation of their country's foreign exchange income and the possible bilking of their citizens (Reed, 1998).

This section has clarified the meaning of IFCs, by explaining their activities by types of transactions executed and has further classified IFCs into traditional IFCs and OFCs. From the literature above it could also be deduced that Aruba does not have the ability to become an IFC in the traditional sense, since it does not have the ability to offer characteristic features of this type of IFC mentioned above. Centers which fit the description as traditional IFCs are such centers where money is collected, stored and distributed; examples of such centers are New York, London, Tokyo and Zurich. Additionally the lack of a capital market and the non-convertibility¹ of the Aruban Florin are aspects that obstruct Aruba's ability to become a full service, traditional IFC. Therefore we will explore becoming an IFC in the form of an OFC; however, as seen in the last part of the above section, challenges also arise in becoming an OFC, due to illicit activities connected to OFCs. Monitoring of these centers by local supervisory participants is considered essential for the reputation of OFCs, nevertheless, international supervisory organizations are also present; these international bodies with regard to OFCs are mostly concerned with the fight against money laundering, the financing of terrorism, and with the promotion of transparency and the exchange of information. The main organizations working in these areas are the Financial Action Task Force (FATF), the International Monetary Fund (IMF), and the Organization of Economic Cooperation and Development (OECD). Seeing that Aruba aspires to become a reputable OFC it is crucial that the international organizations concerned are taken into close consideration.

2.3 IFCs' Relevance

Even though a great deal of negativity exists around financial centers, there are also important reasons for their existence. According to earlier literature from Kindleberger (Kindleberger, 1974) "financial centers are needed not only to balance through time the savings and investments of individual entrepreneurs and to transfer financial capital from savers to investors, but also to effect payments and to transfer savings between places, hereby playing a significant role in international

¹ The Aruban Florin is the currency for Aruba, which has been pegged to the US dollar. This currency has been deemed non-convertible seeing that the Aruban Florin can only be converted into US dollars, a transaction which can only be carried out on Aruban soil.

financial markets.” Dufey and Bartram (Dufey, 1997) more recently added to this, that OFCs are just one of the factors that, together with increased technology and perhaps a different philosophy and ideology of regulation, have increased the fluidity of international capital.

Apart from the significance of OFCs on the international financial markets, the possible impact of establishing a financial center and its role in the development of the country and or region establishing the center, should also be considered. Most of the literature more or less agrees with each other.

Following the literature (Dufey, 1997), it is stated that OFCs provide relatively well-paying jobs. It is mentioned that most offshore centers have positive effects on local employment in banking and related financial institutions, and on the legal, accounting, printing and air transportation sectors. This is beneficial for a big part of the employment market since job opportunities not only broaden for professional workers but also for clerical workers (Park, 2001).

According to Park (2001), the location of an offshore center in a developing country stimulates the growth of financial infrastructure for a local capital market, and it also stimulates development of related industries as demand for airport facilities, hotels, telephone and telex facilities, and office buildings increases. Furthermore, positive stimulus to employment and infrastructure in the offshore center create additional effects; benefits to the immediately affected sectors cascade down toward other segments of the economy. Offshore centers also provide additional tax revenues to host governments in the form of personal income tax on local employees, registration fees on foreign financial institutions, stamp duties and transfer taxes on securities being traded.

Following the literature of Park (2001), one of the most significant contributions of offshore centers is their stimulus to internationalization of the local economy. He states that offshore centers attract not only foreign investment funds but flows of valuable financial, commercial and industrial intelligence from all over the world. They indirectly promote foreign direct investments in the host country and joint ventures with local partners helping local industries become more internationally competitive.

It is important to mention that the financial services industry is considered a non-polluting industry; this is especially true if the location already enjoys a reasonable infrastructure and good communications facilities (Dufey, 1997).

Overall it could be concluded from the literature above that establishing an IFC can bring positive developments for a country. It can provide employment opportunities for both professionals and the less educated workforce and considering the spillover effect it might have it can also contribute to the development of other industries. Moreover it can stimulate the economy to become more internationally competitive, and all of this with little additional strain on the environment.

2.4 Research Questions

The above literature review serves as an introduction to clarify and to understand the meaning of IFCs and OFCs. Additionally it can be deduced from the sections above that their complexity requires further study in order to comprehend the requirements and restrictions considered to be important for their existence. Accordingly to solve the problem presented in section 1.3, research questions have to be formed to reach a solution to the main question. Given that Aruba aspires to become a successful reputable OFC, further exploration will be necessary on OFCs. Consequently the identification of key factors which are essential for their existence will be the first step in reaching a solution to the main problem.

In order to take this first step a literature study will be carried out, which will be the method in which key factors will be identified. As mentioned in the conclusion of section 2.2 Aruba intends to become an IFC in the form of an OFC, consequently, to keep these factors relevant for Aruba it is essential to select literature that focuses on OFCs. From this point on we will only refer to IFCs as OFCs which is the relevant type of financial center for the purpose of this study. Therefore, literature concerning offshore financial centers and their key factors will be taken into consideration.

In line with the method described above we can now develop a strategy to tackle the main problem, which leads us to the following research questions.

Research Questions:

1. What are the key factors of OFCs?
2. What is Aruba's current status?
3. What are the major shortcomings, their causes and how can they be remedied?

With the research approach in place the different steps are now elaborated in order to provide a theoretical basis for the collection of data and their analysis.

2.5 Research Framework

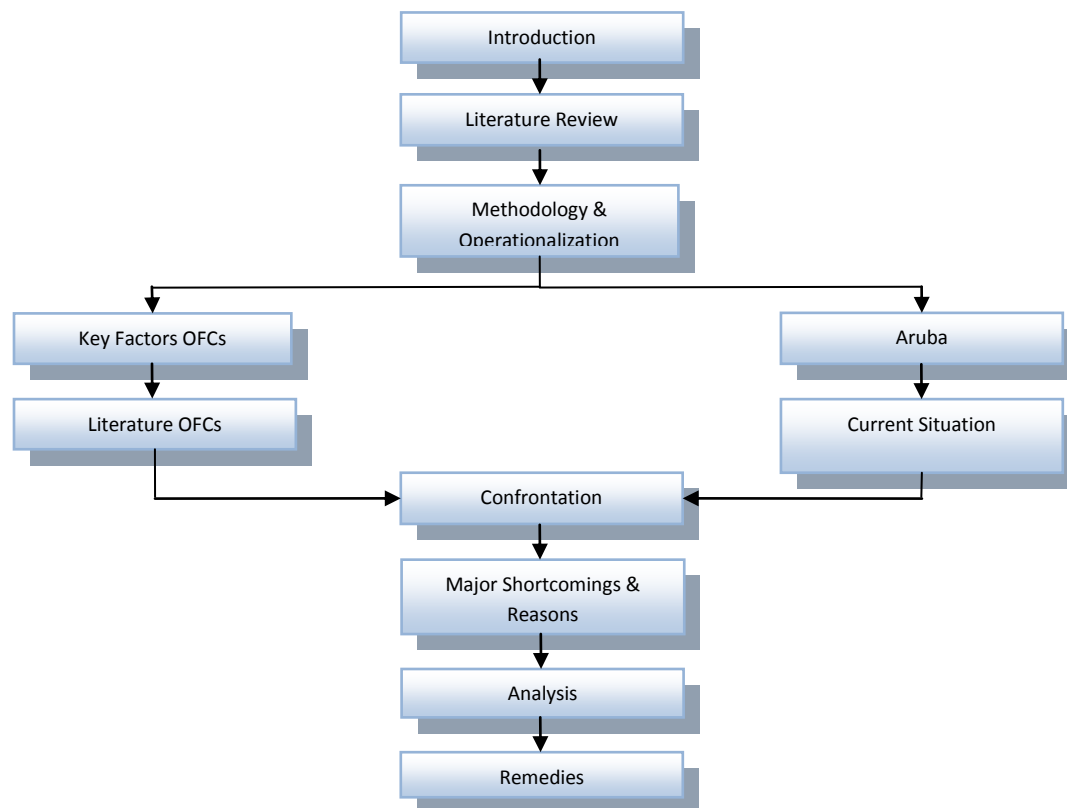


Figure 1. Research framework

3. Methodology & Operationalization

The research used various sources; the information sources used included primary data as well as secondary data. The following list constitutes the main sources of information for this research:

- Department of Economic Affairs, Commerce and Industry (DEACI)
- IFC commission “Nos Aruba 2025”
- Aruba Financial Center (AFC)
- Aruba Financial Center Association (AFCA)
- Financial bureaus and Administration companies in Aruba
- Universiteit van Aruba (UVA)
- Universiteit van Nederlandse Antillen (UNA)
- Curacao International Financial Services Association (CIFA)
- “Biblioteca Nacional” Aruba (BNA)
- State Secretary Finance Nederland’s Antilles

The main research methods employed were: literature study, interviews and observations. With the research framework in mind, the steps to reaching a solution for the problem will be explained in detail.

To give an answer to the first research question, a literature study was selected as the method to identify the key factors. Since it is the purpose to find out if Aruba is able to become an OFC, it was important to know its current situation, therefore to answer the second question exploration of Aruba’s history including past successes and failures regarding this subject was necessary. Additionally its current products, stakeholders and process were also studied, to ultimately assess its status concerning the key factors, providing a clear picture of its feasibility at the moment. The third question offers possible solutions to the main causes of the shortcomings identified.

Step 1: Literature study OFCs

In this initial step the literature regarding International Financial Centers in the form of an OFC was chosen to shed light on important factors that give a comprehensible representation of these types of centers. Literature on OFCs was reviewed gradually from earlier studies to more recent ones, this way presenting a clear picture of this industry’s development with regards to the key factors.

For this step literature on OFCs has been studied, found through various means. Sources for this literature were, first of all the University of Aruba, which allowed the use of the university’s search engine, namely Ebsco Host, and the use of their library. The University of Curacao was also an important source of information in regard to the literature about OFCs.

Step 2: Research Aruba

To understand Aruba’s current situation regarding Aruba as an OFC, a literature study about this subject was carried out. Seeing that the literature about this subject regarding Aruba was very limited, several informal conversations and observations e.g. meetings, were also carried out to get the whole picture of Aruba’s history with its past successes, failures and current situation. It was also important to identify the stakeholders and their role in the industry to get a complete understanding of Aruba’s current situation.

The main source of literature was provided by the BNA, where the developments of Aruba's financial services have been archived. The library of the University of Curacao (UNA) was also utilized to find literature. Earlier reports, documents and speeches regarding this subject were also found through various means. Additional information was acquired by means of informal conversations and observation at the meetings of "Nos Aruba 2025". The identification of the stakeholders was realized by the identification of the current activities in the financial services sector in Aruba; these were checked by the department AFC.

The additional information acquired through, informal conversations and observation were mainly to fill in the gaps due to a lack of documentation concerning the history and development of Aruba as an OFC. Even though some reports, news articles and documents were accessible, reports made by several commissions were not found or were difficult to find due to official procedures and limited available time. A list of the persons consulted and meetings attended are available in the literature and sources section of this report.

Step 3: Confrontation

Aruba's current situation was confronted against the key factors identified through the literature study of OFCs. The assessment resulted in the identification of shortcomings currently present. Consequently the findings were further analyzed to depict the main causes for these shortcomings. After the identification of several common denominators as a result of faulty mechanisms present in Aruba's current situation, remedies were suggested in the form of action points engaging the essential stakeholders for implementation. Some recommendations for the future development of Aruba as an OFC were also offered.

With a longer history and more success in the field of financial services, Curacao's experience and achievements have been considered and offered some recommendations for the further development of Aruba as an OFC. The similarities of these islands allow for the adoption of these recommendations, to Aruba's situation.

4. Key Factors of OFCs

4.1 Introduction

This chapter will identify the key factors of international financial centers. The first section will review the literature, in this way identifying important factors mentioned in earlier studies. The identified key factors will be used to assess the current situation in Aruba.

4.2 Literature OFCs

The findings from the literature study with regard to the key factors of an OFC will be considered in this chapter. The chosen literature was reviewed gradually from earlier studies to more recent ones, this way presenting a clear picture of this industry's development with regard to the key factors. Significant developments might be of importance when reviewing Aruba's history and current situation and might even offer some clarification. The main sources for these findings were from the literature of Hagen (1990), Dufey and Bartram (1997), Reed (1998) and Amediku (2006).

The literature of OFCs taken into consideration to identify key factors considered to be important in the past were from various authors, including, Kindleberger (1974), Hagen (1990), Dufey (1997) and Reed (1998). The reviewed literature, from 1974 to 1998, revealed several important factors for an OFC at that time. In this earlier period the literature coincides and focuses on the importance of having no or low taxes, flexible laws and regulations, and high confidentiality of records in order to be competitive in this area. Other factors considered important then were political stability, advantageous geographical location and excellent infrastructure.

As we progressed into more recent literature, developments in the industry have shifted the focus mainly on the questionable activities of OFCs. These activities were brought to the attention to the rest of the world and its main international bodies, which in turn took it a step further in labeling and classifying OFCs as tax havens and considered them to be involved in illicit activities. The main points these international bodies tried to make was, that in order to be considered a tax haven several factors would have to be in place, which are basically the same factors considered to be most important for the existence of an OFC. Consequently the major change that came with this development was the intensification of the regulatory system towards OFCs. These OFCs are now regulated against harmful tax competition, money laundering and terrorist financing by several international bodies including the OECD and the FATF. Therefore, an OFC that wants to be considered reputable and trustworthy needs to comply with the set international standards. As a result of these developments the factors considered important before, were no longer permitted if to be considered compliant to the outside world.

Literature of various authors has been reviewed in order to identify more recent key factors, which include Higgins (2000), Park (2001), and Amediku (2006). The recent literature identifies factors which are not in conflict with the set international standards and are considered important for the existence of an OFC, these are also factors which have been identified earlier but were then considered of less importance (Amediku, 2006). Nevertheless, the factors which importance have been made obvious throughout recent literature are, the presence of political stability, advantageous geographical location, excellent infrastructure, well educated workforce and a flexible regulatory system. Furthermore recent literature also refers to the importance compliance with international regulations regarding OFCs and is therefore also considered to be an important factor.

Identified key factors:

- Political stability
- Advantageous geographical location
- Excellent infrastructure
- Well educated workforce
- Flexible regulatory system
- Compliance with international regulations

Additionally a study regarding global financial centers has identified key factors to be competitive in this area. The Global Financial Center Index is based on instrumental factors identified through previous research and a survey of Z/Yen Group assessing the global financial centers against these factors. The index is updated twice a year due to constant developments and the changing priorities and concerns of surveyed financial services providers, this is also the case for the factors which is reevaluated by questionnaires. The instrumental factors identified reflect on fourteen competitive factors and these are grouped into five main areas of competitiveness namely, people, business environment, infrastructure, market access and general competitiveness (Z/Yen Group, 2009).

- People: includes the availability of good personnel, the flexibility of the labor market, business education and the development of human capital.
- Business environment: covers regulation, tax rates, levels of corruption,
- Market Access: covers the clustering effect of having many firms involved in the financial services sector in one center and geographical location.
- The Infrastructure: includes infrastructure factors such as transport and telecommunications.
- The General Competitiveness: includes geographical location and how centers are perceived as places to live in.

The above described factors are meant to assess global financial centers, which includes both traditional IFCs and OFCs around the world. In the table below it can be seen that the GFCI main competitive areas mainly coincide and cover the findings from the literature study of OFCs.

Identified Key Factors for OFCs	GFCI Competitiveness Areas
Political Stability	Business environment
Advantageous geographical location	General competitiveness and Market access
Excellent infrastructure	Infrastructure
Well educated workforce	People
Flexible regulatory system	Business environment
Compliance with International regulations	Business environment

Table 1. Key factors mapped to GFCI competitive areas

Seeing that the GFCI main competitive areas include all the factors identified as key factors for OFCs, the five GFCI competitiveness areas will represent the main key factors of OFCs. These key factors will give more depth for the assessment against Aruba's current situation in Chapter 6.

4.3 Conclusion

Based on the literature study above it can be concluded that several factors which were considered essential for an OFC in the past are now considered to be damaging to an OFCs reputation. This development in the industry has changed how OFCs want to be perceived since they are held accountable to international regulations. The findings of this literature study have identified several key factors for the existence of an OFC including key competitiveness areas for OFCs. As a result a list of the main key factors is presented below

- **People**
 - Availability of good personnel
 - Flexibility of Labor market
 - Availability of Business Education
 - Human capital development
- **Business Environment**
 - Political Stability
 - Supportive Regulatory context
 - Supportive Tax context
 - Levels of corruption
- **Market Access**
 - Clustering effect
 - Advantageous Geographical location
- **Infrastructure**
 - Good Transport facilities
 - Good Telecommunications services
- **General Competitiveness**
 - As a place to live in
 - Advantageous Geographical location

5. Aruba

5.1 Introduction

This chapter will give a description of the past and the current situation of Aruba regarding the financial services industry. Aruba's past attempts including its successes and failures, but also Aruba's current attempts and developments will be highlighted to get a clear view of the current situation. Appendix V gives a more detailed description of Aruba's history regarding the OFC industry.

5.2 History of Aruba

The history of Aruba regarding the OFC industry starts simultaneously with the Netherlands Antilles' history of this. Table 2 illustrates the highlights from the beginning of the OFC industry.

Timeline	Event	Reason	Result
WW II	Limited liability corporations (NVs) relocated to the Netherlands Antilles	These corporations were seeking for a free non-enemy territory during the second world war	This was its first experience with this industry
1948	Treaty signed in Washington between the Dutch Kingdom and the United States of America, which exempted companies from paying taxes to both countries	To prevent double taxation and tax avoidance	Breakthrough for the development of the offshore industry in the Netherlands Antilles since this treaty gave space for extending it to include the Netherlands Antilles with lower tax tariffs
1955	The extension of the treaty including the Netherlands Antilles was final and put into effect	To prevent double taxation and tax avoidance	The lower tax tariffs meant a major grow in the Netherlands Antilles' offshore business
1960s	The United States expressed their concerns regarding the treaty and made it clear that it wanted to be relieved of this	Concern about dubious activities taking place in South America where suspicions arose that relief funds supplied to the continent were being fraudulently used by governments through offshore activities within the Antilles	Reassurance from the N.A. and proof that there were no significant activities between south America and the N.A.
1960s	The United States expressed their unhappiness with the extension of the treaty	Concern about extension of the treaty to other countries which were not the land with which the agreement was reached	Compromise was reached stating that for companies wanting to make use of the treaty and therefore to be exempted from the taxes in United States a higher tax tariff was to be set in the N.A.
1988	The United States eliminated the withholding tax; the 30% demanded by the American Government was removed. The treaty between USA and NA and Aruba was terminated.	The government of the United States was losing too much fiscal income due to this treaty	This meant the decline of the offshore industry for the NA

Source: Smeets (1984)

Table 2. The history of the Netherlands' Antilles' OFC outlined

With the Second World War taking place in Europe, companies in the Netherlands were looking for a free, non-enemy territory to relocate and found this, principally in Curacao. Since no fiscal background was available at the time, taxes were not paid to the Netherlands Antilles but to the Netherlands instead. Even though most companies returned to the Netherlands after the war, this was the Netherlands Antilles' introduction to the offshore industry. The breakthrough for this sector in the Netherlands Antilles came with a treaty between the Netherlands and the United States which gave space to extend it to the Netherlands Antilles. The treaty's purpose was to avoid

double taxation and tax avoidance, which for the Netherlands Antilles meant that companies from the United States that wanted to make use of its offshore services would be exempted from the usual 30% tax paid to the US government on unearned income abroad, and could also benefit from the low tax tariffs present in the Netherlands Antilles. What followed after this treaty was put into effect in 1955, were the thriving decades for the offshore business in the Netherlands Antilles. However in 1988 after years of expressed concerns from the United States, this treaty between the Netherlands Antilles and by then also Aruba was terminated by eliminating the withholding tax of 30% which companies usually paid to the United States' Government. With this important event came the decline in the offshore business of the Netherlands Antilles (Smeets, 1984).

Timeline	Event	Reason	Result
1983	An attempt to establish an Aruba financial center association	In an attempt to develop the offshore sector in Aruba	Due to a lack of expertise in this area this attempt failed
1985	Closing of the Oil refinery	The outdated refinery was causing the company continuous losses	Aruba lost its major source of income and was facing unemployment and economic downturn
1986	Aruba received a Status Aparte under the Dutch Kingdom	To become independent from the Netherlands Antilles	An independent Government with the ability to make its own decisions
1986	Decision to further develop the Tourism Industry	To come out of the economic downturn by using Aruba's natural resources	The boom of Aruba's tourism industry and the economic revival with almost no unemployment
1987	Unstable situation in Panama	Political instability due to heavy government criticism resulting in strives	Damaged Panama's economy creating an unstable environment for businesses
1988	Official establishment of the AFCA	To promote and stimulate Aruba as an OFC	A united front protecting the interest of its members
1988	Introduction of the Aruba Exempt Corporation	Development of the offshore sector while taking over business from the unstable situation in Panama	Due to delay and vagueness of the AEC, service providers chose to take their business elsewhere

Source: *Gemengde Commissie (1997) and various news articles*

Table 3. The history of Aruba's OFC outlined

The developments in Aruba's history as can be seen in the table above have led to the thought of diversifying Aruba's economy to make sure that history would not repeat itself. Therefore when the opportunity arose for the development of the offshore industry due to the unstable situation in Panama, interest was shown by both the private sector and Aruba's government. The idea was to develop a vehicle that would allow companies to incorporate themselves in Aruba and be exempted from paying taxes, in other words a zero tax vehicle, the Aruba Exempt Corporation (AEC). Even though the government was on board with this new development, caution was exercised on their part in the introduction of this type of vehicle. The government's concerns were the harmful effects such a vehicle would have later on, seeing that it required important changes in law (Amigoe, 1988). This delay to the private sector was aggravating seeing that it was taking quite long to introduce and the opportunity to take over business from Panama was slipping away (Amigoe, 1988). Finally in 1988 the AEC was introduced after several procedures which included taking the advice of the Netherlands and USA into account. However, the delay and the vagueness of the vehicle led that the service providers had preferred to reestablish in the British Virgin Islands instead. This was considered as the main reason for the failure of the AEC at the time (Gemengde Commissie, 1997).

Throughout the years various commissions were established to promote and to further develop the industry. However the relation between the private sector and the government had its straining moments, where AFCA thought that some type of collaboration between the two would be essential.

The government was concerned that the private sector would be too eager for business and was therefore more likely to make hasty decisions, consequently damaging Aruba's reputation. Nevertheless, the reputation of Aruba as an OFC has come under intense scrutiny; the moments in history are highlighted and illustrated below in Table 4.

Timeline	Event	Reason	Result
Mid 90s	Allegations from the US	Claiming that Aruba was developing its economy fast through money laundering	To avoid damaging Aruba's reputation changes in the AEC were required
1996	Appointment of a High Commissioner office also known as the Aruba Financial Center	For efficiency purposes, seeing that the regular procedures for incorporation were taking too long	Acceleration of the incorporation process
1997	Asian Financial Crisis	Lack of transparency	OECDs initiation of project against harmful tax competition
1997	New Fiscal Framework (NFF) for Aruba to improve image and to offer better quality to clients	The former fiscal framework copied from NA was outdated	Decrease in Aruba's Financial activities (anonymity was no longer protected)
2000	Aruba was blacklisted in the progress report of the OECD	Identified as a tax haven	Damaging to Aruba's reputation
2000	Offshore regime of Aruba was put on Primarolo's (EU) ² blacklist	The zero tax vehicle was considered harmful	Damaging to Aruba's reputation
2001	Commitment letter to the OECD by the Minister of Finance of Aruba	Agreement on amendment of legislation and on removal of elements which were deemed harmful in its tax legislation and practice. Agreement on becoming a party to the Tax Information and Tax agreement	Removal from the OECD's blacklist
2003	Abolishment of the offshore NV as the 1 st phase of the NFF	Result of continuous pressure from the international bodies including the FATF and the EU	Same tax tariffs for both resident and non-resident NVs
2006	Adjustment of the AEC as the 2 nd phase of the NFF	Result of continuous pressure from the international bodies including the FATF and the EU	This meant the end of the zero-tax regime for Aruba. AEC was made available to both residents and non residents

Source: *Gemengde Commissie (1997), Bellingwout (2006) and various news articles*

Table 4. Events that affected Aruba as an OFC

As can be seen from the above history regarding the Aruba's offshore sector, it has been a rocky road, seeing that the lack of expertise and understanding at the beginning led to missed opportunities. It could also be noticed that the private and public sector has had difficulties working together. The private sector felt that they were not consulted enough while possessing the expertise and field experience and the government was hesitant about their objectivity, all of which in turn influenced the development of the industry in a negative way. The government has also been accused of being more committed to the tourism industry. Finally in the mid nineties when there were new expectations with the introduction of the High Commissioner office, representing commitment on the government side, international bodies became more active combating money laundering and harmful tax competition. This is the moment in history where Aruba started reacting to these accusations and which it has been reacting to up to now.

5.3 Current Products

The previous section described Aruba's history regarding its development as an OFC, giving a picture of its constant struggle. Nevertheless, the interest in this sector still exists and this section will describe the current products of Aruba's financial center.

² The Code of Conduct for Business Taxation was an initiative of the EU's own harmful tax competition project back in 1997. On the basis of this political document the Code of Conduct working group, also known as the Primarolo Group, published a blacklist in 1999.

The products that Aruba currently offers are vehicles that are legal platforms in which companies can establish themselves. These vehicles offer various alternatives for the incorporation of different types of businesses and are usually used for tax planning purposes. Aruba offers three vehicles in the form of legal entities³, the oldest is the N.V. which has been inherited from the Netherlands, the second being the Aruba Exempt Corporation (AEC) which earlier version was set for development of the Aruba's offshore industry but which now has been modified to comply with international standards, and the most recent vehicle is the LLC which is a modern version of the N.V., offering more organizational flexibility. Appendix III illustrates the vehicles with their respective requirements.

An N.V. is a limited liability corporation which is available to residents and non-residents alike. An N.V. operated by non-residents and trading outside Aruba is an offshore N.V. whereas an N.V. controlled by residents and trading inside Aruba is an onshore N.V. Until the introduction of the New Fiscal Framework (NFF), a more favorable fiscal regime applied to an offshore N.V. than to an onshore N.V. (AFC, 2005-2009).

The AEC formerly only available to non-residents, used to be the preferred option for offshore business since it offered a zero tax rate. This was later modified to prevent the misuse of this vehicle for illicit purposes thereby complying with international standards. (Belingwout, 2006) After the New fiscal framework (NFF) was introduced in 1997, the AEC became available to both residents and non-residents offering the same tax rate. The revised tax regime for the Aruba Exempt Corporation (AEC), the second phase of the NFF, has now made this vehicle fully subjected to Aruba taxation. However specific activities still remain exempted from taxation, which income is derived from the following activities; finance activities, holding activities, portfolio investment activities and intellectual properties licensing activities. AECs that do not qualify for this exemption regime are taxed, as any other taxable entity (AFC, 2005-2009).

The LLC is a limited liability company and is the most recent vehicle introduced in 2009. An LLC is available to both residents and non-residents. This vehicle offers more options and more flexibility than its predecessors in terms of organizational structure (AFC, 2005-2009).

With the abolishment of the low tax offshore regime in 2006, Aruba has instead developed other alternatives to further develop the financial services sector. With the NFF's first phase consisting of the general income tax becoming a flat rate of 35%, a regular dividend withholding tax was also enacted with a general tax rate of 10%, but 5% for quoted companies. Consequently, an imputation regime (IPC-regime), also known as the imputation payment corporation (IPC), was introduced, this after consultation and approval of the OECD (Belingwout, 2006).

The IPC regime was introduced to stimulate domestic enterprises as well as to attract foreign investment preferably of a nature that combines well with Aruba's fully developed tourism industry (Belingwout, 2006). A company that qualifies for the IPC regime will pay the standard 35% in corporate income taxes; nevertheless its shareholders are entitled to an imputation payment by the government of Aruba, if and when the company distributes its earnings, which is equal to 33/65 of the dividend distribution. The IPC regime is open for NVs engaged in qualifying activities, which were approved by the Primarolo Group. These activities are hotel business, oil refinery operations, airline and shipping operations, holding activities, research and development, exploitation of intellectual property, passive investment (real estate excluded), captive insurance, and finance or

³ A legal entity is an association, corporation, partnership, proprietorship, etc., that has legal standing in the eyes of law. A legal entity has legal capacity to enter into agreements or contracts, assume obligations, incur and pay debts, sue and be sued in its own right, and to be held responsible for its actions.

group finance activities. It is important to mention that in order to opt for an IPC status it should meet various formal requirements, such as, at least one Board Member should be a resident individual, the accounts of the NV should be audited by an external auditor, the issue of bearer shares is not allowed and the NV should have an accurate shareholders' register. This type of incorporation is advantageous since it could legally result in lower tax rates when attaining to the permitted activities and requirements (AFC, 2005-2009).

The revised tax regime for the Aruba Exempt Corporation (AEC), the second phase of the NFF, has now made this vehicle fully subjected to Aruba taxation. However specific activities still remain exempted from taxation, which income is derived from the following activities; finance activities, holding activities, portfolio investment activities and intellectual properties licensing activities. Any dividend income earned by the AEC should be paid by a subsidiary company that is subject to tax in its country of residence. The tax exemption of the AEC applies for corporate income tax and for dividend withholding tax purposes. AECs that do not qualify for this exemption regime are taxed, as any other taxable entity (Belingwout, 2006).

Fiscal Transparency regime was introduced as a possibility for companies to opt for fiscal transparency, which was also a part of the NFF. The Aruban Transparent Entity (ATE), for corporate income tax, dividend withholding tax and personal income tax purposes, is treated as a partnership. This means that the liabilities and assets and the income of the ATE are directly attributed to the shareholders of the ATE for tax purposes, as a result the Aruba tax authorities will disregard the existence of the entity for tax purposes in Aruba.

To opt for the transparent status the company should file a notification with the Aruba tax authorities, also within a month after the incorporation of an N.V. or AEC the decision should be made to become an ATE. This decision cannot be undone, and the entity will remain an ATE during its entire existence. Foreign investors who use the transparency regime will be taxed in Aruba if the activities of the ATE constitute a permanent establishment or the foreign investor in Aruba, or if the ATE owns real property in Aruba. Permanent establishment is decided along the lines of the OECD model convention and the OECD commentary to the model convention (AFC, 2005-2009).

Vehicles available:

- NV
- AEC
- LLC

As can be seen above three vehicles are currently available in Aruba, two of which have gone through major adjustments over time due to the international concerns of money laundering, harmful tax competition and terrorism financing. These adjustments have been necessary not only to preserve a good reputation but also to offer high quality products to clients. While attempting to comply with international standards Aruba also still tries to develop its OFC by offering new alternatives instead of zero taxation vehicles. Even though the option of tax exemption still exists, it is now bound to specific financial activities and will have to meet formal requirements. Other alternatives which give the option to lower taxes are also bound to specific activities and formal requirements.

5.4 Stakeholders and Process

Aruba's stakeholders have been identified in order to get a better understanding of the current situation. In this manner important roles and actions are also identified as well as their influences and struggles. The most important actors have been classified in three groups namely, the public sector, the private sector and the international bodies. All of which play a role in the offshore financial sector.

The public sector has as a group great influence on this sector, as can be seen in Appendix IV, ten departments have been identified as playing a role in the current situation of Aruba.

First of all, it is important to mention that the Government stays in office for a period of four years which it plans for and allocates its resources to. Since Aruba's main source of income derives from the tourism industry, this industry gets a great amount of attention and therefore also a great part of the resources. Consequently, the OFC sector if not given the relevant importance will remain an insignificant industry and will not reach its full potential. The further development of this industry will require a long term commitment seeing that it will take time to see the results, therefore this commitment should be passed on from government to government.

The government is responsible for communicating its objectives to its agencies this way all the public departments can work towards common goals. In the case of Aruba's OFC the public sector plays a great role as a whole, seeing that the departments involved are responsible for the existence and the further development of this industry. These stakeholders are responsible, among other things, for the development and adjustment of vehicles, screening of clients, supervision of service providers, and adjustment of laws, the maintenance of international relations and the efficiency of the day to day activities. Those are only the main tasks they perform with regards to the OFC sector; in Appendix IV a description of various other activities per stakeholder can be viewed. Even though some roles are more important than others it is essential to work together therefore understanding each other's concerns and needs.

In an earlier attempt by Aruba's government to develop the industry, the department of the Aruba Financial Center (AFC), also known as the High Commissioners office, was established. The importance of this department lays in that they are fully dedicated to Aruba's OFC, their main tasks facilitates the day to day activities of the sector. The AFC in the name of the Minister of Justice has the authority to deny or grant the declaration of no objection needed for the incorporation procedure, making this a more efficient procedure. Additionally, the AFC offers expert advice and assists in the development of new vehicles and the adjustments of existing ones. Therefore the department has to have the necessary expertise and knowledge on current developments in the industry and in the international community. This department also has the important task to represent Aruba's OFC when it is scrutinized by the international bodies, this being another reason why its staff should be fully aware of every development in this industry (AFC, 2005-2009).

The Tax authorities department (SIAD) is important in the sense that it is responsible for the tax policy. Therefore it is essential for this department to have a good understanding of the importance of certain aspects for the sector. Clearly the tax policy is not based on the attractiveness of the Aruba's OFC industry but it might be beneficial for the sector if the department has a thorough perception of its influence on it. Tax Information Exchange Agreements (TIEAs)⁴ are also an

⁴ The Organization for Economic Cooperation and Development's harmful tax competition project focusses on an effective exchange of information, therefore Tax Information Exchange Agreements (TIEAs) between countries are considered obligatory in order to be excluded from the OECD blacklist.

important task of this department, since TIEAs require full disclosure of data to other countries, it is important for this department to be involved when negotiating TIEAs. As a result it plays an important role when striving to comply with the OECD's standards, therefore with Aruba's reputation as an OFC (SIAD, 2010).

The Central Bank of Aruba recently became even more important for the OFC sector. It principally plays a major role in the supervision of the financial system of Aruba, but additionally it now also supervises the service providers of Aruba's OFC. The service providers which are in this case identified as trust companies are required to apply for a license of the CBA and attain themselves to the laws and regulations of the newly introduced LTT (Landsverordering Toezicht Trustkantoren) (CBA, 2010). Even though supervision is necessary, the severity of these rules and regulations can prevent the regular flow of business for the service providers. It can put a strain on these companies' available workforce by making it difficult to serve their clients properly while being overburdened by redundant laws and regulations. Thus with the right knowledge, expertise and cooperation between the CBA and the service providers a compromise could be reached that would be beneficial for Aruba's OFC sector.

The Department of Economic Affairs, Commerce and Industry (DEACI) which falls under the Minister of Economic Affairs and Finance, is more concerned with the economic policy, therefore if considered possible the OFC could be included in the economic policy for its further development. Thus DEACI's relevance for this sector is related to the government's commitment towards Aruba's OFC sector if considered important.

The Chamber of Commerce (KVK) serves mainly as an information point and for record keeping. Therefore its role in the development of the sector is less direct, but still important seeing that this department is able to attract clients through information.

The Department of Finance handles the budget for all public departments; therefore these stakeholders all depend on this department. This department has to plan according to priorities for this industry, such as promotional activities, in the form of road shows, publication of articles and also for negotiation activities regarding TIEAs. Additionally, it should also plan for necessary actions with regards to allegations from the international bodies. Thus if the budget is set too low these very important actions cannot take place making it difficult for OFC sector to grow (Government Aruba, 2009).

The Aruba Foreign Affairs Department (DBB) is responsible for the international relations which are important for Aruba in general; it is essential that Aruba's relations and reputation remain good for this industry and others. The DBB has the ability to negotiate treaties on behalf of Aruba; however, it does not have the authority to sign a treaty. This is the reason why it is important to maintain good relations with the Dutch Kingdom, seeing that only they have the right to sign treaties. TIEAs are required to remain off the OECD blacklist, making treaty negotiations essential.

The Department of Legislative and Legal Affairs (DWJZ) is responsible for the creation and adaptations of laws. Seeing that laws are an important part of the OFC industry it is imperative that the department has knowledge and expertise when it comes to this industry.

Aruba's Financial Intelligence Unit (MOT) was established as a direct recommendation of the FATF; it supports the detection and prevention of illicit activities, and is therefore considered important for the reputation of Aruba's OFC.

The private sector as stakeholders of Aruba's OFC also plays an important role, seeing that without these stakeholders its existence would not be deemed possible. This sector in the form of notaries, trust companies, tax lawyers, law firms and accounting agencies come in direct contact with the clients and offer their services and expert advice. As can be seen from the previous section the products offered have specific procedures and requirements, and as a result each service provider plays a role in the incorporation process.

Trust companies are required for the representation of all incorporated companies except when it has an Aruban resident as director. These service providers are also responsible for giving expert advice and accurate information to clients, consequently deciding on a suitable incorporation vehicle and structure. Trust companies mainly offer management services but some additionally offer tax and auditing services if present in house. Efficiency of the incorporation process results in the satisfied customers which in turn may result in more business for the Aruba's OFC. Therefore it is necessary to have the adequate experts and industry knowledge present. As mentioned earlier the trust services providers were recently put under the supervision of the CBA. The severity of the LTT can result in the loss of business, seeing that a larger and stricter load of requirements will put a strain on the available workforce which in turn can lead to less time for potential clients. This can have a negative effect on the development of Aruba's OFC sector since its inefficiency will lead to unsatisfied clients (Solognier, 2009).

Tax Lawyers can be present in trust companies as well as in independent firms such as law firms and accounting agencies, and have the expertise in the field of tax planning and advising. Their expertise is valuable when it comes to the adjustment of existing vehicles and to the creation of new ones. Tax lawyers can also be very important when promoting the OFC, since they have the ability to create attractive products for clients they also have the capability to show the outside world the options that exists with certain vehicles, especially to other experts in this field (Croes E. , 2009).

Law Firms can assist in the incorporation process when these are not available in the trust company chosen or when additional expert advice is needed. These experts can also work in cooperation with tax lawyers in the tax planning process by advising possibilities in compliance with the Aruban law. These lawyers' expertise is also needed when adjustments to vehicles and the creation of new vehicles are necessary (Croes E. , 2009).

Accounting Agencies are required when stipulated by the bylaws of the incorporation deeds. Even though the appointment of an auditor is optional, these agencies still remain important to the OFC, seeing that they are not only experts in accounting but also offer fiscal expertise. Therefore these agencies play an important role when tax planning is required since they are able to create attractive options for their clients (Croes E. , 2009).

Notaries are an essential part of the process seeing that all articles of incorporation must be executed before a notary. As stipulated by law there can only be four notaries on Aruba, which can be a problem seeing that this can slow down the incorporation process (Croes E. , 2009).

International bodies as stakeholders are important actors. As could be noted from the history section Aruba has had several experiences with these stakeholders. They act mainly as supervisors and regulators towards OFCs, and therefore are essential in the further development of Aruba as an OFC.

First and foremost there is the Dutch Government which certain laws and regulations should also be attained to by its offshore territories. In relation to Aruba's OFC, the Dutch Government plays an

central role with regards to treaties. As mentioned before Aruba is only in a position to negotiate treaties but not to sign them, this could only be realized by the Dutch Government and becomes therefore a very important stakeholder. The treaties are a necessary requirement to be in compliance with the OECD standards, consequently maintaining a good reputation for Aruba's OFC (Aruba Buitenlandse Betrekkingen).

US Government being one of the most influential countries in the world has been opposed to OFCs, since these encourage the out flow of money from the US. Being a member of the G20 it also has its influence in setting international standards. The relationship between Aruba and the US is extremely important not only in relation to the OFC but more importantly for Aruba's tourism industry seeing that the US has been and still remains Aruba's biggest market. Statistics published by the CBS Aruba, show 74.5% of the total visitors in Aruba in 1986 were American tourists and 69.1% in 2008 (CBS Aruba, 2009).

The European Union also plays a role in Aruba's OFC, even though Aruba is not a direct member, as a third party country it should comply with the rules and regulations of this international body. In the previous section it could be seen how much of an influence this organization has had in Aruba's OFC history especially after appearing on Primarolo's blacklist in 2000. The New Fiscal Framework was a direct result of this organization's regulations, and therefore Aruba has had to reform its entire offshore regime.

The Organization of Economic Cooperation and Development has been a constant regulating body since it started to promote fiscal transparency in the late nineties. This organization is important to Aruba's OFC, seeing that being on its blacklist is damaging to a country's reputation. It also gives an idea of being uncooperative towards the common goal of tax transparency. Aruba was grey listed in April of 2009 but has recently been elevated to the white list. Now Aruba has signed TIEAs with Australia, Bermuda, British Virgin Islands, Cayman Islands, Denmark, Faroe Islands, Finland, Greenland, Iceland, Netherlands Antilles, Norway, Spain, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, Sweden, United States (OECD, 2010). "Aruba is currently in negotiations with nine additional countries: Canada, Germany, France, Belgium, United Kingdom, Argentina, Antigua and Barbuda, Bahamas and Belize" (Croes, 2010).

The Financial Action Task Force in its efforts to combat money laundering and terrorist financing is also an important organization since it supervises and regulates OFCs in relation to the aforementioned illicit activities. Aruba like any other OFC has had to apply its recommendations, this has posed major challenges seeing that there are 40+9 recommendations⁵ to comply with. The amount of work needed to be compliant has been difficult to achieve with only a small specialized work force dedicated to this. Recent evaluation report of the FATF has deemed Aruba to be on most core recommendations partially compliant but also non-compliant; this has as consequence an action plan which is expected by February 2010 (Amigoe, 2009).

An FATF plenary meeting held in February of 2010, discussed this follow up report and has accepted and encourages the implementation of this ambitious action plan. Aruba's status will be determined in the next plenary meeting in June 2010 (Ministerie van Financien Nederland, 2010). The results of this meeting have yet to be published.

⁵ In April 1990, less than one year after its creation, the FATF issued a report containing a set of *Forty Recommendations*, which provide a comprehensive plan of action needed to fight against money laundering. In 2001, the development of standards in the fight against terrorist financing was added to the mission of the FATF. In October 2004 the FATF published a Ninth Special Recommendations, further strengthening the agreed international standards for combating money laundering and terrorist financing - the *40+9 Recommendations*.

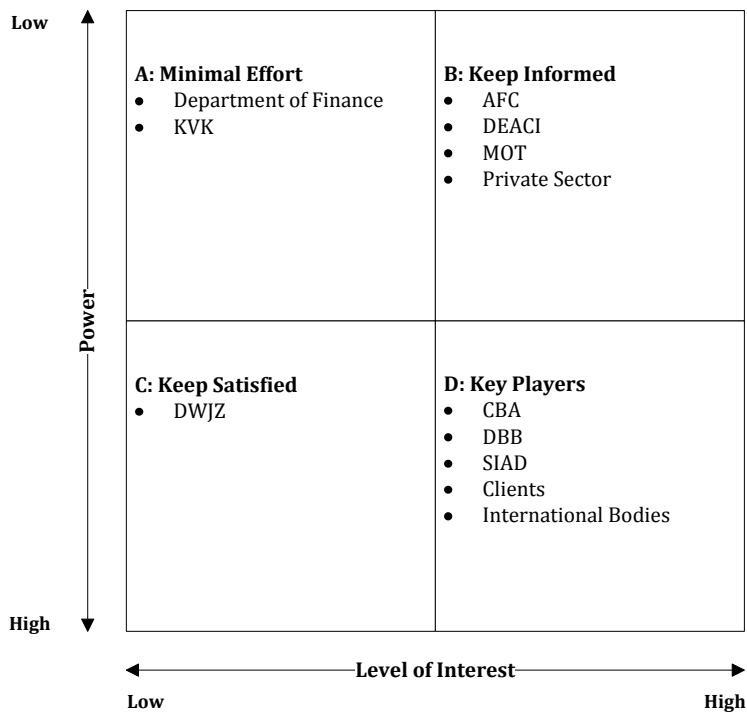


Figure 2. Power/Interest matrix applied to Aruba's OFC industry

5.5 Appraisal

This section will review the elements described above that form Aruba's current situation regarding its OFC. In order to assess the current situation the important aspects of this chapter will be highlighted and reviewed.

From the history section it can be concluded that many struggles have interrupted the development of Aruba as an OFC. Early problems stemmed from the lack of knowledge and expertise regarding the industry, which led to the industry's slow start. Other struggles that followed were the constant accusations of illicit activities related to Aruba's OFC from international bodies. Nevertheless, Aruba was still able to form a basis, with its products and stakeholders.

Explicit developments that have obstructed Aruba as an OFC were:

- The termination of the treaty between the United States and Aruba
- Lack of knowledge and expertise delaying the introduction of the Aruba Exempt Corporation as a zero tax vehicle
- Allegations of money laundering
- The identification of Aruba as a tax haven by the OECD

The products offered today have gone through adjustments to comply with international standards and have therefore demanded major legislative adjustments. However, requirements are constantly changing, presenting a challenge for Aruba, seeing that the shortage in qualified personnel and financial resources slows down the process of adjusting to the requirements.

The three types of stakeholders, classified as the public sector, the private sector and the international bodies, are not only important for the current situation of Aruba as an OFC but also for its further development as a financial center. When it comes to the public - and private sector as stakeholders, struggles mainly stem from the need of resources and the lack of communication. Appropriate budgeting for the public departments are necessary as well as qualified and expert personnel, the latter is also necessary for the private sector. Not only do these sectors require experts in their fields but also specific knowledge about the industry which includes a thorough understanding of the sector's restrictions and its flexibilities to make the industry work. This is especially the case when dealing with international bodies since these stakeholders require extra attention due to their major influence on the industry. Relations between stakeholders are also important; therefore communication between these is a necessary requirement. It can be concluded from this section that the current situation presents a basis for Aruba as an OFC. With its products and stakeholders in place it has been made clear that expertise and knowledge are currently present but might not be enough for Aruba to reach its full potential as an OFC.

5.6 Conclusion

From the sections above it can be concluded that, even though some progress has been made through the years a view of the current products, - stakeholders and the -process, several factors stand out that might be indicative of reasons for its current situation. One of the factors is the need for qualified staff which is knowledgeable of this particular sector. Another factor that stands out is the commitment of the government towards this industry. Additionally the development of the industry is also dependent on the continuous compliance with the international standards, which affects the financial services sector but also affect other important industries. These international standards also affect the laws and regulations which have become less flexible due the requirements and restrictions of the aforementioned standards, consequently making it more difficult for Aruba's OFC to attract business, this being essential for its existence.

6. Confrontation

In this chapter the findings of chapter 4 will be compared with the current situation of Aruba, in this manner we will try to pin point the shortcomings, analyze them and then come up with remedies to help the situation. The purpose of this report was to find out if Aruba can become an international financial center, yet to answer this question it is important to know why it has not been able to become successful over years of trying, therefore key factors have been identified to pin point its shortcomings.

6.1 Assessment

As mentioned earlier this section will be assessing the results of chapter 4 against the current situation in Aruba. It must be noted that only aspects of the key factors which information was available will be assessed against. Let us first recap on the key factors found in chapter 4 which will be the points we will base our assessment on. According to the literature study in chapter 4 the following are the key factors for an OFC;

- **People:** includes the availability of good personnel, the flexibility of the labor market, business education and the development of human capital.
- **Business Environment:** covers political stability, regulation, tax rates, and levels of corruption.
- **Market Access:** covers the clustering effect of having many firms involved in the financial services sector in one center and an advantageous geographical location.
- **The Infrastructure:** mainly concerns infrastructure factors such as transport and telecommunication.
- **The General Competitiveness:** covers the how centers are perceived as places to live in and also advantageous geographical location.

People:

The following table assesses the people factor. This factor refers to the available qualified workforce present in Aruba in addition to its future workforce and the possibilities for it to develop further.

Key Factor: People	Description	Aruba	Assessment	Score
Availability of good personnel	- Graduates tertiary education	- 11% of Aruba's population, according to census of 2000, has finalized a tertiary education (CBS Aruba, 2000)	- 27% is considered to be the average in 2000 by the OECD (OECD, 2003). As can be seen Aruba scores well below average in this area	--
Flexibility of the labor market	-Admission policies	- Based primarily on limiting the possibilities of acquiring residence in Aruba, and acquiring Dutch citizenship afterwards (KVK Aruba, 2007)	- The government enforces its policy with the application of the rule of maximum three years of residence with exception of some professionals. However professionals needed for the OFC do not fall under this exception rule (KVK Aruba, 2007)	-
Availability of Business education	- Graduates in social science, business and law -Business & law education opportunities	-Information not available -EPI-Business Education -UA-School of Business Administration -UA- School of Law -Financial support for tertiary	-The percentage of students enrolled in a tertiary education in business and law in 2008/2009 was 31% (CBS Aruba, 2009) -27% of students with a Aruban loan in the Netherlands are enrolled in business and law programs (Arubahuis, 2009). However	+

		education and or specialization abroad (CBS Aruba, 2005)	students not registered at the Arubahuis are not included in this percentage. Nonetheless these numbers show that the opportunity does exist to acquire a tertiary degree in these fields	
Human capital development	-Long healthy live, knowledge and decent standard of living, relevant for the current and future workforce	-Limitations of national health, education, and equal development opportunities exist (Sociaal Economische Raad, 2007)	-Based on the United Nations' Human Development Index the results indicate limitations that have a negative effect on Aruba's current and future workforce availability and quality (Sociaal Economische Raad, 2007)	-

Table 5. Assessment Key factor: People

Business Environment:

Table 6 presents the assessment of the business environment factor. This factor assesses Aruba as a place to do business with, by evaluating several elements important to an OFC.

Key Factor: Business Environment	Description	Aruba	Assessment	Score
Political Stability	Level of political stability	<p>-According to the Department of Aruba Foreign Affairs, six indicators contribute to and guarantee the political stability in Aruba (Aruba Buitenlandse Betrekkingen, 2002)</p> <p>-The World bank indicates Aruba's level of political stability in their Governance Matters report of 2009, in which Aruba scores 97.6 percent (World Bank, 2009)</p>	<p>- Indicators of political stability:</p> <ol style="list-style-type: none"> 1. The formal and the close ties between Aruba and the Netherlands. 2. The Aruban political system is a parliamentary democracy. 3. Aruba's legal system warrants equality before the law and legal security. 4. Aruba is a democratic country where all basic human rights are respected by the authorities. 5. Aruba has a high standard of living and a reasonable distribution of income 6. The political culture of Aruba (Aruba Buitenlandse Betrekkingen, 2002) <p>-Aruba's 97.6 score indicates a high level of political stability (World Bank, 2009)</p>	+
Supportive regulatory context	<p>-Regulatory Quality</p> <p>-Regulatory flexibility</p> <p>-Compliance with</p>	<p>-The World bank indicates Aruba's regulatory quality in their Governance Matters report of 2009, in which Aruba scores 76.5 percent (World Bank, 2009)</p> <p>-With civil law jurisdiction which has drawn its law from the Netherlands, experts are required to quickly adjust laws and regulations to better fit the demands of an OFC</p> <p>-Government has issued decrees of money laundering CBA has been appointed to supervise the service providers The Primarolo commission's requests have been complied with OECD's required amount of TIEAs</p>	<p>-Aruba's 76.5 score indicates an above average level of regulatory quality (World Bank, 2009)</p> <p>-The limited amount of experts obstructs the ability to be flexible in combination with the high international standards which impede too much flexibility due to strict regulations</p> <p>-The high international standards are difficult to keep up with, and even though some progress has been made Aruba has yet to be compliant with all of the requirements</p>	-

	International regulations	has recently been completed FATF remains unsatisfied with the progress so far		
Supportive tax context	Tax rates compliant with international standards	-The zero tax regime was abolished through the implementation of the NFF	-All the available OFC products are fully subject to Aruba taxation, yet some qualifying exempt activities remain	+
Levels of corruption	-Control of corruption level	-The World bank indicates Aruba's control of corruption in their Governance Matters report of 2009, in which Aruba scores 87.4 percent (World Bank, 2009)	-Aruba's 87.4 score indicates a high level of corruption control (World Bank, 2009) Although it does not indicate the level of corruption it points out that it is well controlled	+

Table 6. Key factor: Business Environment

Market Access:

This factor refers to the accessibility of Aruba to do business with combined with the attractiveness of the market as an OFC, with numerous service providers that make business transactions easier.

Key Factor: Market Access	Description	Aruba	Assessment	Score
Clustering effect	-Firms involved in the financial service sector -The presence of the Big Four	-The Aruba Financial Center Association has currently 36 companies as members (AFCA, 2010) - Price Waterhouse Coopers, Deloitte Touche Tohmatsu, Ernst & Young and KPMG are all present and offering their services in Aruba	- To qualify for a regular membership one must be a lawyer, civil-law notary, tax-advisor, accountant or a legal entity, established in Aruba. This indicates the presence of service providers for this sector, including, law firms, banks, accountancy agencies trust companies, etc. (AFCA, 2010) -The Big Four firms, offer accountancy-, tax- and legal services to the OFC industry	+
Advantageous Geographical location	-Proximity to major markets -Time zone	-Aruba is close to major markets such as North-, Middle- and South America -Aruba is located in a time zone that coincides well with that of major markets	-With close proximity to major markets and located within a good business time zone, Aruba enjoys an advantageous geographical location	+

Table 7. Key factor: Market Access

Great Infrastructure:

The infrastructure as a key factor refers to the facilities present that make Aruba physically accessible. Additionally the accessibility through telecommunications solutions should prevent physical barriers.

Key Factor: Great Infrastructure	Description	Aruba	Assessment	Score
Good Transport facilities	-Air transportation -Land transportation	-Numerous options to travel to and from Aruba (Aruba Tourism Authority, 2009) -Public transportation is available -Car rental services is available	-Aruba is easily accessible through a number of airlines and charters. In addition to this Aruba's Airport "Reina Beatrix" has a strategic co-operation agreement with Schiphol International, which focuses on making the maximum use and on	++

			developing it into one of the leading airports in the Caribbean (Aruba Airport Authority, 2005-2009). -Many options are also available to get from one place to another once in Aruba	
Good Telecommunications solutions	Competitive telecommunications market	-Several providers offer solutions for fixed line, mobile, internet and data	-The privatization of SETAR, previously known as the only telecommunications company, has had as consequence increased competition and innovation in this area	++

Table 8. Key factor: Great Infrastructure

General Competitiveness:

This factor represents the overall competitiveness of Aruba as a place to do business with or to live in. Aruba's accessibility regarding this factor is also an important element.

Key Factor: General Competitiveness	Description	Aruba	Assessment	Score
As a place to live in	-Good Infrastructure -Communication -Residency and work requirements	-Aruba is easy to access by air transportation, and getting from one place to another is also easy. Aruba also offers great telecommunications services -Population speaks at least three languages -Immigration policy is strict and has very specific requirements for residency and work permits.	-In order to attract business and professionals from abroad, it is important to offer certain incentives, such as easy accessibility, communication options. Additionally the languages spoken are also an incentive, which offers more options. However the strict requirements for residency and work can be an disadvantage in order to attract more foreign professionals if needed.	+
Advantageous geographical location	-Easily accessible	-Air transportation and modern telecommunications available	-Aruba has physical proximity to several markets, and even though modern telecommunications have removed physical barriers the easy accessibility from and to the center is still important	++

Table 9. Key factor: General Competitiveness

Assessment results:

Key Factors of OFCs	Assessment of Aruba on key factors: -- /-/+ /++
People:	
Availability of good personnel	--
Flexibility of Labor market	-
Availability of Business Education	+
Human capital development	-
Business Environment:	
Political Stability	+
Supportive regulatory context	-
Supportive tax context	+
Levels of corruption	+
Market Access:	
Clustering effect	+
Advantageous Geographical location	++
Infrastructure:	
Good Transport facilities	++
Good Telecommunications solutions	++

General Competitiveness:	
As a place to live in	+
Advantageous Geographical location	++

Table 10. Aruba's current situation assessed against OFC's key factors

From the assessment points seen above it can be concluded that Aruba has several shortcomings with regards to different aspects of the key factors of OFCs. These shortcomings are listed below.

- Availability of good personnel
- Flexibility of Labor market
- Human capital development
- Regulations

6.2 Shortcomings

The previous section identified various aspects which represent shortcomings Aruba has with regards to the key factors of OFCs. This section will describe in more detail Aruba's limitations on the four points that scored negatively.

People:

Availability of good personnel

Aruba's workforce in general is limited and needs to import labor from other countries to fulfill the local demand. The majority of the workforce works directly in the tourism sector or in the services sector related to the tourism industry. Due to developments in Aruba the construction - and the oil refinery sector's labor demand also increased.

To pin point exactly the total educated workforce in Aruba is difficult since no data is currently available. On top of this it is also difficult to know how many of the educated workforce has the needed qualifications. However the Central Bureau of Statistics labor per sector indicates that a 3.6 of the total population in 2007 was working in the sector of financial intermediary, but is not an indication of the available qualified workforce.

From the history section of 2.5, it was made clear that the lack of the industry expertise was one of the factors that slowed down the development of Aruba as an OFC. Currently there are firms present that work in this field offering their services as intermediaries. Therefore it is safe to say that the expertise is present, however, as the OFC industry is not of great significance; interest for further specialization in this area might be limited.

Flexibility of Labor market

The flexibility of the Labor market greatly depends on the labor policy, since Aruba does not possess the supply of workers to cope with the local demand. As mentioned before, developments throughout the years have led to fulfillment of the growing demand for workers by importing them. Nonetheless, to protect the local workforce a stricter residency and working policy has been put in place. However, for professionals there are some exceptions that are bound to specific requirements. They should be in demand for some selected sectors, namely, the petrochemical sector, the hotel sector, the education sector, the (technical) medical sector and the technical sector. They should also have a minimum of five years of experience and their expertise should be scarce on a national- and international level. These requirements could increase the allowed residency years from the usual maximum of three years to a maximum five years. As can be seen these requirements do not give room for professionals in the OFC sector.

Human capital development

The SER has identified Aruba's national health as a negative aspect of the human development based on a lower life expectancy level than comparative countries. It is suggested that the main causes for this are the many cases of obesity and diabetes on the island. These conditions are both major causes of heart disease and heart failure.

Education is also cause for major concern seeing that problems start from early on with a big age spread between first and secondary school. Language deficiency also seems to be a problem, due to the big influx of foreign workers and their families in the nineties. For the case of the OFC the biggest problem stems from the low enrolments into tertiary educational programs, therefore representing a restriction to the human capital development. Another source of human capital is expatriates, including students that have graduated but choose to live and work abroad, either due to a low job prospective or a high student loan. These factors restrain the influx of new professionals to the local workforce consequently affecting the human capital development in a negative way.

Inequality between men and women is also a negative aspect reflecting on development opportunities, with lower wages, women seem to be unequal to men. This is also an indication of a big income gap between low- and high earners, women being the majority in the low earners classification. However, women with a higher education are relatively increasing, which could narrow the income gap in the future (Sociaal Economische Raad, 2007).

Business Environment:

Regulations

In the previous chapter the constant struggle to comply with the ever changing international regulations and standards has been made clear. Aruba's failures in this area stem mainly from its inability to react as quickly as expected. Aruba deals with various limitations when it comes to changing laws and changing the regulatory system. Seeing that these alternations are not to be taken lightly, extensive research is necessary. With the limited amount of qualified personnel available the process is extended for too long and has as consequence the failure of meeting the necessary requirements on time. Another limitation that presents itself is the lack of influence Aruba has as a country when new regulations and requirements are set by the international bodies. Assessed in the same manner as all other countries, as a small country with limited resources, Aruba and other small economies are often found to be non-compliant.

From the current situation it can be seen that severity of set regulations has had an overburdening effect for most local stakeholders. The inflexibility of regulations and requirements puts a strain on the limited resources available.

6.3 Analysis

As can be seen from the previous sections aspects of key factors have been identified which represent limitations in Aruba's current situation. This section will further analyze the situation to better understand why Aruba does not meet the key factors of an OFC. The four main problems were analyzed separately through a cause and effect diagram, also known as the fishbone diagram. This process also identified additional stakeholders considered important for each problem, and therefore considered essential for their solutions. Figure 3 illustrates the first fishbone diagram; the remaining diagrams can be viewed in the Appendix section.

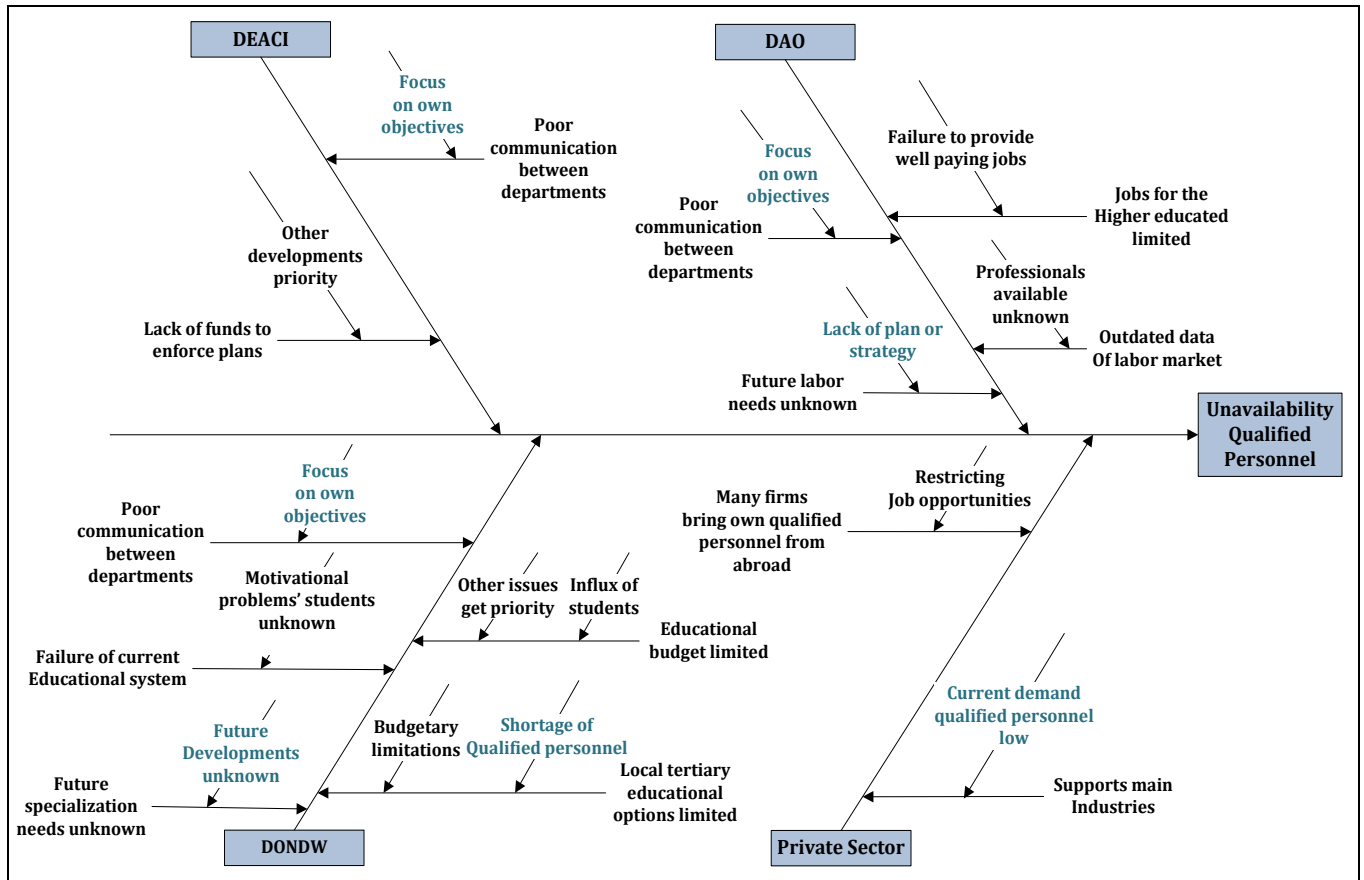


Figure 3. Fishbone diagram: Unavailability Qualified Personnel

From the fishbone diagrams it can be concluded that common denominators are present and have surfaced from the analysis. The frequency in which these appear in each diagram confirms their role in the four shortcomings identified in section 6.1.

Common denominators:

- Unwillingness to cooperate
- Shortage of qualified personnel
- Future developments unknown/ lack of plan or strategy

These common denominators as listed above are considered to play a major role in Aruba's inability to meet the key factors as an OFC. Their origin stem from several faulty mechanisms present in Aruba's current situation.

Aruba's history, including its past struggles and achievements have contributed to the way things are done today. With industries that developed by chance, where extensive planning was not required, the exploitation of the available resources has been the common method of gaining or regaining economic stability. Therefore a long term plan for Aruba has never been considered necessary, and is still not considered important.

This lack of long term planning reflects on the governments' actions, which plan according to their time in office, disregarding long term strategic planning. The government's short term vision

therefore disrupts rather than unifies the public departments with interruptions at the end of every term. The absence of a long term strategic plan and coordination between departments has had as effect that the public departments focus mainly on their own objectives as department, and become unwilling to cooperate. Unsure of each department's future direction and necessary cooperation between each, current tasks and problems get priority. Therefore when objectives should overlap the lack of coordination and communication, results in the departments becoming ineffective and therefore wasteful of valuable resources. Seeing that it is unclear what each department's objectives are, trust issues between these become a problem.

The lack of communication transcends further into the public and private relationship which also suffers from a lack of trust. Without a clear future plan, the public sectors' objectives remain unclear to the private sector and when politics are involved these also become distrustful. On the other hand the public sector is also apprehensive of the objectives of the private sector seeing that these are perceived as only being interested in the maximization of profit, which might not always be in the best interest of Aruba's well being.

Politics are of major influence on various mechanisms and therefore pose a threat to the future development of Aruba. Political parties on the island are known for their inability to work together due to constant disagreements and animosity towards each other. This has had as consequence that future plans are rarely taken from one government term to another, hindering long term plans. Political disagreements and animosity are also present amongst the public departments and their agents especially when political favoritism and protection exists, and changes with every term. This brings with it a sense of insecurity and distrust which is already present having a negative effect on the motivation and efficiency of the public departments. Furthermore, newly elected governments habitually place their political friends in leading positions, therefore forcing the public officials in these positions to renounce. This especially is considered a problem when the newly positioned public officials are not qualified for these leading positions. This has a negative effect on the qualified personnel that is present, and on the motivation of the future workforce, by giving the idea that qualifications are neither appreciated nor necessary.

Additionally the shortage of qualified personnel, a common denominator identified through the analysis, affects both private and public sector. A lack of long term planning and future direction have contributed to a limited supply of personnel on different specialized areas considered important for the development of Aruba. Consequently, this shortage has had negative effects on key areas, e.g. delays in the legislative and regulatory process.

It can be deduced from this section that the lack of long term strategic planning has led to problems faced today, but cannot be considered as the sole cause for these problems. Historical events together with the national culture play a major part on the way things are done today. However history cannot be changed and culture will only change with time. Therefore solutions should tackle problems that can be remedied; in this case it would mean to create a future vision for further strategic planning focusing on important objectives.

Important objectives:

- Increase availability of professionals to fulfill the need on various fields
- Enhance communication and collaboration between stakeholders to avoid the loss of information and other essential resources
- Transparency with regard to objectives to minimize trust issues between stakeholders

6.4 Remedies

The previous section included the analysis of the four main problems preventing Aruba in meeting the key factors of an OFC. As a result common denominators present in Aruba's current situation were identified. This section will suggest remedies for the future development of Aruba in general which will support Aruba's development as an offshore financial center as well.

As could be seen in the previous sections, events and developments in the past have been of great influence on how actions are taken today. It has become clear that these have become part of the culture and are therefore difficult to change. However with a strategic plan set in place, visualizing the future and planning towards it, can be a revealing procedure. Nevertheless, tackling the major obstacles will require planning, action and the commitment of all parties involved.

The lack of direction and clear future objectives has made it difficult to coordinate actions and stakeholders. Therefore a national strategic plan is the necessary first step in coordinating actions directed towards improving or eliminating faulty mechanisms present today. Keeping in mind the three common denominators identified in section 6.3, this section prescribes the formation and the execution of a strategic plan as a remedy, which steps can be seen below. The following framework is an adaptation from Chakravarthy (1991) framework for a multi-business firm. This framework focuses on avoiding loss of information between stakeholders and pursue of different goals by these stakeholders. For these reasons it identifies the need of collaboration and it encourages interaction and cooperation between the stakeholders.

- **Vision creation;** to direct efforts to a common purpose.
- **Objectives setting;** to determine strategic direction in the long run.
 - Engage all stakeholders
 - Assess environments
 - Agree on specific short-term goals and the necessary strategies to achieve these
- **Strategic programming;** to develop strategies for the short-term goals.
 - Identify necessary collaboration
 - Agree on strategic programs
 - Estimate the necessary resources
 - Reassess goals and their strategic programs
 - Draw a long-term financial plan
 - Communicate approved strategic programs
- **Budgeting;** to define both strategic and operating budgets.
 - Identify the contributions expected to be made in a given year in support of the approved strategic programs
 - Project short-term activity levels, given past trends to provide the necessary operating resources
- **Monitoring, Control, and Learning Systems;** to ensure that strategies are implemented as planned and to validate and change from time to time the assumptions on which these strategies are based.
 - Devise a system that monitors progress against, operating budgets, strategic budgets, strategic programs and objectives

- **Incentives and Staffing Systems;** to minimize goal incongruence and information asymmetry.
 - Develop an incentive system that encourages the pursued of the same goals at different levels and that also encourages the exchange of full and valid information
 - Develop a staffing system that matches experience and personality with the overall mission and reward strategic challenges

The strategy process as described above provides steps for the development and implementation of a strategic plan. It has as purpose to give direction, encourage cooperation and coordination resulting in small steps towards the pursued of the long-term objectives.

6.5 Action Plan

According to the results of the four fishbone diagrams it has been made clear that the common denominators that exist pose as problems and have resulted in the shortcomings to meet all the key factors of an OFC. Therefore it is important to keep in mind that the remedy suggested in section 6.4 should focus on important goals in order to meet all factors. The idea to develop and implement a strategic plan is therefore suggested to support meeting all key factors of an OFC.

To tackle the main problems immediate action is necessary, therefore it is important to know, who should do what and when. In the case of Aruba's OFC the analysis has identified additional stakeholders from whom action will be required in order to remedy the current situation. An adjusted Power/Interest matrix based on Figure 2 in section 5.4, with the additional stakeholders identified in section 6.4 can be viewed below.

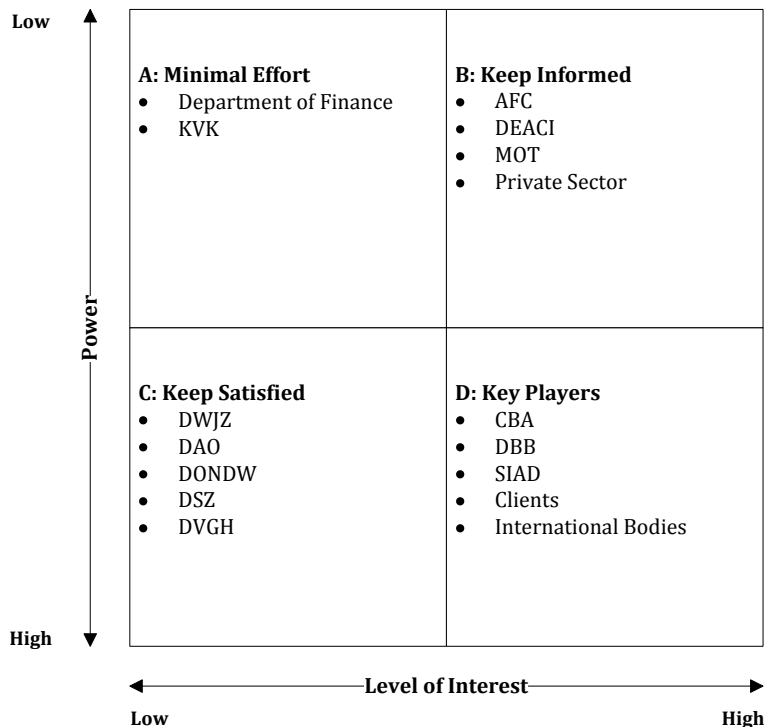


Figure 4. Adjusted Power/Interest Matrix applied to the OFC industry of Aruba

The importance of the stakeholders is highlighted through this matrix by their power and interest in Aruba's OFC. Consequently to remedy the problems that have been identified in this chapter it is essential to coordinate each stakeholder's actions to implement the aforementioned strategic plan.

Action Plan

The goals as can be seen above are essential in meeting the key factors of an OFC, and should therefore be incorporated in the strategic plan. However in order to develop and implement this plan some action points should be executed in preparation of this remedy. Keeping in mind the relevant stakeholders required to take action to successfully improve the current situation.

- The key players in figure 11, CBA, DBB, SIAD should carry out additional studies, assuring itself of the benefits and the challenges of the OFC industry for Aruba in order to gain commitment of all relevant governmental agencies and other relevant stakeholders.
- The relevant government agencies and the private sector should form an official association responsible for the organization and implementation of the strategic plan to become an OFC. Consequently, this association will be responsible for the allocation of funds, where private and public contributions are expected.
- Communicate the research results and future plans to all relevant stakeholders, including direct and indirect stakeholders, to emphasize the importance of this industry and request their commitment and cooperation in moving forward.
- Recognize key collaboration between stakeholders, in order to develop a system that enhances and encourages communication between all parties, to avoid trust issues and the loss information between the stakeholders.
- Communicate key concerns and requirements within the association to gain a better understanding of each others' constraints and capabilities.
- Elect board members in order to have order and within the organization.
- Execute steps 1 and 2 of the strategic framework presented in section 6.4.
- Execute step 3 of the strategic framework presented in section 6.4 and form task groups which will be responsible for certain short-term goals depending on their abilities as members.
- Plan step 4 of the strategic framework presented in section 6.4.
- Develop systems that support steps 4 and 6 of the strategic framework presented in section 6.4.
- Execute strategic programs in order to reach the short-term goals
- Monitor against budgets, strategic programs and objectives to see if the plan is being correctly executed and to see if objectives and strategies are still relevant.

Phase	Action	Stakeholders responsible
1. Initial phase	Action 1.1 Additional studies	The key players: CBA, DBB and SIAD
	Action 1.2 Form association	AFC, DEACI, MOT, CBA, DBB, SIAD, DWJZ, Private sector including AFCA, DAO, DONDW, DSZ, DVGH, JVA and the Department of Finance
	Action 1.3 Communicate results of studies	All ministries concerned
	Action 1.4 Recognize key collaboration	The association
	Action 1.5 Communicate key concerns and requirements	The association
2. Preparation phase	Action 2.1 Elect board members	The association
	Action 2.2 Create a Vision	Board members
	Action 2.3 Engage stakeholders with the results from phase 1	Board members
	Action 2.4 Assess environment	Independent firm
	Action 2.5 Agree on short term goals and	The association

	strategies	
3. Planning phase	Action 3.1 Identify necessary collaboration	The association
	Action 3.2 Form task groups	The association
	Action 3.3 Agree on strategic programs	Task groups
	Action 3.4 Estimate the necessary resources	Task groups
	Action 3.5 Reassess goals and their strategic programs	The association
	Action 3.6 Draw long-term financial plan	The association's financial task group
	Action 3.7 Communicate approved strategic programs	Each member of the association is responsible to communicate the strategic programs to their departments
	Action 3.8 Budgeting	Financial task group
	Action 3.9 Develop monitoring, control and learning systems	Financial task group for budgets and a special task group for the strategic programs and the objectives
	Action 3.10 Develop incentive and staffing system, that each department represented in the association can execute	The government and the association
4. Execution phase	Action 4.1 Execute strategic programs	The association's task groups responsible to execute short term goals
5. Progress monitoring phase	Action 5.1 Monitor against budgets	Financial task group
	Action 5.2 Monitor against strategic programs and objectives	Special task group assigned for this together with the association

Table 11. Action plan

6.6 Conclusion

This chapter has assessed the identified key factors against Aruba's current situation as an OFC and as a result the identification of Aruba's shortcomings as such.

Shortcomings:

- Unavailability of good personnel
- Inflexibility of the labor market
- Restricted human capital development
- Failure to meet regulations

Consequently these the four main problems were analyzed separately through a fishbone diagram, and has resulted common denominators playing a big role in the four shortcomings surfaced from the analysis.

Common denominators:

- Unwillingness to cooperate
- Shortage of qualified personnel
- Future developments unknown/ lack of plan or strategy

These common denominators as listed above are considered to play a major role in Aruba's inability to meet the key factors as an OFC. As can be seen from the four fishbone diagrams only relevant stakeholders have been taken into account to get a deeper understanding of the problems at hand. As a result faulty mechanisms that exist in Aruba's current situation have surfaced, providing a bigger picture of Aruba's situation as a whole. Therefore it can be concluded that these are the underlying reasons for the slow development of Aruba as an OFC.

As could be seen in the previous section history and culture have played a major role in the current situation making it difficult for future change. However, a long term plan as a guide for future actions can be a positive tool to coordinate stakeholders toward common objectives. A long term

strategic plan should result in the goals and strategic programs worth pursuing, seeing these will require great commitment from all parties involved in addition to essential resources.

The efforts of the DEACI with the project of “Nos Aruba” 2025 aim to the development and execution of a national strategic plan in order to coordinate actions and stakeholders towards the further development or improvement of several industries and sectors. As a result of this project a committee of IFC has been established. This can be considered to be a big step towards the right direction, to start changing the way it is thought about planning and stepping into the future with more certainty.

7. Conclusions & Recommendations

This final chapter will include the conclusions drawn from the assignment, it will reflect on the assignment and consequently it will offer some recommendations. Additionally the research questions will be revisited together with the main question of the assignment.

7.1 Conclusions

The aim of this thesis was to investigate the extent to which Aruba meets the key factors of an international financial center. A closer look at the different types of financial centers made it clear that Aruba could become an IFC in the form of an OFC. Therefore OFCs were further investigated through literature where the key factors were identified. Consequently an assessment of these key factors against Aruba's current situation resulted in the shortcomings present in the current situation.

To answer the main question Aruba scored positive on ten of the fourteen aspects it was assessed on, resulting in Aruba meeting three of the five key factors of an OFC on all aspects. The people factor scored negative on three of the four aspects representing it, and the business environment factor scored negative on only one of the four aspects representing it. From these results it can be deduced that Aruba's major shortcomings to which it does not meet all the key factors of an OFC mainly stem from the people factor. Nevertheless, three out of five represent a basis for improvement.

The shortcomings identified by the assessment were, unavailability of qualified personnel, inflexibility of the labor market, restricted human capital development and failure to meet regulations. These were further analyzed and resulted in the further identification of common denominators present in the Aruba's current situation and represent faulty mechanisms due to a mix of history and culture.

The common denominators which have presented themselves consistently throughout the analysis are namely, government agencies that mainly focus on own objectives, shortage of qualified personnel on various fields, a lack of knowledge when it comes to future developments due to a lack of planning. These common denominators have shed light on faulty mechanisms that are present in Aruba's current situation in general; however the remedies suggested only focus on the problem at hand. Therefore it attempts to solve the problems which represent the shortcomings present today in order to meet all the key factors of an OFC and for the future development of Aruba as an OFC. As shown in chapter five, Aruba already has a basis for further development, with its existing products and services in combination with stakeholders taking part of the existing process, improvement is possible. However, it cannot be overemphasized that commitment from all concerning parties will be an essential requirement if the problems are to be remedied.

7.2 Reflections

The Department of Economic Affairs, Commerce and Industry, for its future investment policy is exploring the possibility of Aruba becoming an international financial center. Therefore the objective of this assignment was to assess its current situation against IFCs key factors to identify main problems and their solutions. However these set of factors were not readily available, and were therefore identified through a literature study of OFCs. These were assessed against the current situation which resulted in the identification of shortcomings and their main problems. The results of the assignment are suggested remedies in the form of a strategic plan and an action plan that have to be executed in order to meet all the key factors and improve Aruba's chances in

further developing into an OFC. The assignment's results suggest that it is possible for Aruba to become an OFC, but that its current situation demands immediate action to secure its viability. The process of this assignment has been a long one, with the exploration of several methods to best achieve its main objective. It also required extensive research on the topic of international financial centers, since previous personal knowledge of this was limited. Other limitations came in the form of lack of data and information or difficulties of access. These were either not available or their accessibility was restricted by bureaucratic procedures that took long or had negative results. As I reflect on the process, time management comes to mind. Even though some aspects of the assignment required a lengthy process other aspects could have been handled in less time. More time could have provided the opportunity to perform a country comparison that could have resulted in additional current information of OFCs. These would have been helpful in identifying key factors of OFCs but also might have suggested additional recommendations. Nonetheless I feel confident that the methods used have given the results needed for the scope of this assignment. Additionally this assignment identifies the problems that exist from an insight gained only by experiencing them and observing them from a close up look. The internship has given me the opportunity to acquire information through meetings, conversations and the unique personal knowledge of my mentors. Therefore, I was able to foresee the results posing both an advantage and a problem when it came to writing. Despite the limitations and difficulties encountered, I am satisfied with the assignment results as I present them in this report.

7.3 Recommendations

This section will offer some recommendations that can serve as guidance for further research and or for actions to be taken. These recommendations are based on the findings and outcomes of the previous chapters and can be viewed as suggestions to the different actors that have an interest in the further development of Aruba's OFC. In some cases the island of Curacao will be taken as an example, seeing that these two islands are very similar on various aspects, and also since Curacao's OFC has had more success and has more knowledge and experience it might offer some great ideas to Aruba's OFC.

- The plan of "Nos Aruba" 2025 as a step forward to support the further development of Aruba in general will also greatly support the further development of Aruba as an OFC, therefore it is highly recommended to pass the plan on from government to government, and refrain from making this a political issue. The process from the development to the execution, is if anything else a start in the right direction not only with regards to the actions required but also as a mind set, encouraging change in the way things are done today.
- For the purpose of future strategic planning it is recommended that a more extensive research is executed keeping in mind the environment both external and internal to have a clear picture of Aruba's opportunities and threats, its strengths and weaknesses in order to choose the best strategic approach for its future development.
- For the allocation of funds, private and public cooperation is recommended. Seeing that the service providers also gain from its success they should also contribute to its future development.

This is the case in Curacao, where CIFA, as the service providers' association, has collected NAf. 1.000.000 from their members, to be made available for the industry's promotional efforts and negotiating procedures (Houten van den, 2009) (Rosaria, 2009). Seeing that Aruba's private sector of this industry is significantly smaller, the above mentioned amount might be difficult to reach. Nevertheless, it will contribute to the further development as an OFC, even if it is a small amount and it will additionally show commitment from the private sector's part.

- A recommendation to departments responsible for the collection of statistical data would be updating the available data and adding data concerning professionals or graduates available, to have a better view of Aruba's current situation.
- As stated before Aruba as small country stands alone when it comes to defending its OFC against accusations from International Organizations. Therefore, another example of Curacao would be to join efforts with other small economies, so to present a more united front to the outside world (Rosaria, 2009). This way as a group the smaller OFCs might be considered more important and could possibly even have more influence on the outcomes. A joined effort with Curacao, seeing their extensive experience and knowledge, is worthy of consideration.

These recommendations should be taken as suggestions on different areas that have presented as problems for the further development of Aruba as an OFC.

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"Nos Aruba" 2025: IFC commission members

Ellen Croes Kuster, High Commissioner Aruba
Richard Flanegin, High Commissioners Office
Marielle Arends Croes, Aruba Investment Bank
Mandy Steenken Wever, Aruba Investment Bank
Edsel Lopez, Price Waterhouse Cooper
Hans Ruiters, Price Waterhouse Cooper
Ritza Hernandez, Tax Authorities Aruba
Milena Solognier, Aruba Financial Center Association

Appendix I

FATF members & observers

The following list shows the countries, territories, and organizations that make up the membership of the FATF. The FATF membership is currently made up of 32 countries and territories and 2 regional organizations. The FATF also works in close co-operation with a number of international and regional bodies involved in combating money laundering and terrorist financing.

FATF Members

FATF Associate Members

FATF Observer Bodies and Organizations (*FATF Style Regional Bodies and Other International Organizations*)

FATF Membership Policy

FATF Policy on Observers

FATF Members

1. Argentina
2. Australia
3. Austria
4. Belgium
5. Brazil
6. Canada
7. China
8. Denmark
9. European Commission (Member States list)
10. Finland
11. France
12. Germany
13. Greece
14. Gulf Co-operation Council
15. Hong Kong, China
16. Iceland
17. Ireland
18. Italy
19. Japan
20. Kingdom of the Netherlands*
21. Luxembourg
22. Mexico
23. New Zealand
24. Norway
25. Portugal
26. Russian Federation
27. Singapore
28. South Africa
29. Spain
30. Sweden
31. Switzerland
32. Turkey
33. United Kingdom
34. United States

* *The Kingdom of the Netherlands: the Netherlands, the Netherlands Antilles and Aruba.*

Countries with observer status

India

Republic of Korea

FATF Associate Members

The Asia/Pacific Group on Money Laundering (APG)

Caribbean Financial Action Task Force (CFATF)

The Council of Europe Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism (MONEYVAL) - formerly PC-R-EV

The Financial Action Task Force on Money Laundering in South America (GAFISUD)

Middle East and North Africa Financial Action Task Force (MENAFATF)

FATF Observer Bodies and Organizations

The following international bodies and organizations have observer status with the FATF. The regional FATF-style bodies have similar form and functions to those of the FATF, and some FATF members are also members of these bodies. The international organizations listed are those which have, among other functions, a specific anti-money laundering mission or function.

FATF Style Regional Bodies

Eurasian Group (EAG)

Eastern and Southern Africa Anti-Money Laundering Group (ESAAMLG)

Intergovernmental Action Group against Money-Laundering in Africa (GIABA)

Other International Organizations

African Development Bank

Asian Development Bank

Basel Committee on Banking Supervision (BCBS)

Commonwealth Secretariat

Egmont Group of Financial Intelligence Units

European Bank for Reconstruction and Development (EBRD)

European Central Bank (ECB)

Europol

Inter-American Development Bank (IDB)

International Association of Insurance Supervisors (IAIS)

International Monetary Fund (IMF)

International Organization of Securities Commissions (IOSCO)

Interpol

Interpol/Money Laundering *[English]*

Organization of American States / Inter-American Committee Against Terrorism (OAS/CICTE)

Organization of American States / Inter-American Drug Abuse Control Commission (OAS/CICAD)

Organization for Economic Co-operation and Development (OECD)

Offshore Group of Banking Supervisors (OGBS)

United Nations - Office on Drugs and Crime (UNODC)

Counter-Terrorism Committee of the Security Council

World Bank

World Customs Organization (WCO)

Appendix II

A PROGRESS REPORT ON THE JURISDICTIONS SURVEYED BY THE OECD GLOBAL FORUM IN IMPLEMENTING THE INTERNATIONALLY AGREED TAX STANDARD

Progress made as at 23th June 2009 (Original Progress Report 2nd April)

Jurisdictions that have substantially implemented the internationally agreed tax standard			
Argentina	Germany	Korea	Seychelles
Australia	Greece	Malta	Slovak Republic
Barbados	Guernsey	Mauritius	South Africa
Bermuda	Hungary	Mexico	Spain
Canada	Iceland	Netherlands	Sweden
China 2	Ireland	New Zealand Norway	Turkey
Cyprus	Isle of Man	Poland	United Arab Emirates
Czech Republic	Italy	Portugal	United Kingdom
Denmark	Japan	Russian Federation	United States
Finland	Jersey		US Virgin Islands
France			

Jurisdictions that have committed to the internationally agreed tax standard, but have not yet substantially implemented					
Jurisdiction	Year of Commitment	Number of Agreements	Jurisdiction	Year of Commitment	Number of Agreements
Tax Havens³					
Andorra	2009	(0)	Marshall Islands	2007	(1)
Anguilla	2002	(0)	Monaco	2009	(1)
Antigua and Barbuda	2002	(7)	Montserrat	2002	(0)
Aruba	2002	(4)	Nauru	2003	(0)
Bahamas	2002	(1)	Neth. Antilles	2000	(7)
Bahrain	2001	(9)	Niue	2002	(0)
Belize	2002	(0)	Panama	2002	(0)
British Virgin Islands	2002	(11)	St Kitts and Nevis	2002	(0)
Cayman Islands 4	2000	(10)	St Lucia	2002	(0)
Cook Islands	2002	(0)	St Vincent and the Grenadines	2002	(0)
Dominica	2002	(1)	Samoa	2002	(0)
Gibraltar	2002	(1)	San Marino	2000	(0)
Grenada	2002	(1)	Turks and Caicos Islands	2002	(0)
Liberia	2007	(0)	Vanuatu	2003	(0)
Liechtenstein	2009	(1)			
Other Financial Centers					
Austria 5	2009	(0)	Luxembourg 5	2009	(6)
Belgium 5	2009	(1)	Malaysia	2009	(0)
Brunei	2009	(5)	Philippines	2009	(0)
Chile	2009	(0)	Singapore	2009	(0)
Costa Rica	2009	(0)	Switzerland ⁵	2009	(0)
Guatemala	2009	(0)	Uruguay	2009	(0)

Jurisdictions that have not committed to the internationally agreed tax standard			
Jurisdiction	Number of Agreements	Jurisdiction	Number of Agreements
All jurisdictions surveyed by the Global Forum have now committed			

1. The internationally agreed tax standard, which was developed by the OECD in co-operation with non-OECD countries and which was endorsed by G20 Finance Ministers at their Berlin Meeting in 2004 and by the UN Committee of Experts on International Cooperation in Tax Matters at its October 2008 Meeting, requires exchange of information on request in all tax matters for the administration and enforcement of domestic tax law without regard to a domestic tax interest requirement or bank secrecy for tax purposes. It also provides for extensive safeguards to protect the confidentiality of the information exchanged.

2. Excluding the Special Administrative Regions, which have committed to implement the internationally agreed tax standard.

3. These jurisdictions were identified in 2000 as meeting the tax haven criteria as described in the 1998 OECD report.

4. The Cayman Islands have enacted legislation that allows them to exchange information unilaterally and have identified 12 countries with which they are prepared to do so. This approach is being reviewed by the OECD.

5. Austria, Belgium, Luxembourg and Switzerland withdrew their reservations to Article 26 of the OECD Model Tax Convention. Belgium has already written to 48 countries to propose the conclusion of protocols to update Article 26 of their existing treaties. Austria, Luxembourg and Switzerland announced that they have started to write to their treaty partners to indicate that they are now willing to enter into renegotiations of their treaties to include the new Article 26.

Appendix III

Aruba's Vehicles & Requirements		
Aruba offers 3 vehicles in the form of legal entities, the oldest is the NV which has been inherited from the Netherlands, the second being the AEC which earlier version was set for development of the offshore industry but which now has been modified to comply with international standards, and the most recent vehicle the LLC which is a modern version of the NV, offering more organizational flexibility.		
NV (limited liability corporation)	AVV (AEC)	VBA (LLC)
The NV is a limited liability corporation which is available to residents and non-residents alike. An NV operated by non-residents and trading outside Aruba is an offshore NV, whereas an NV controlled by residents and trading inside Aruba is an onshore NV. Until the introduction of the NFF, a more favorable fiscal regime applied to an offshore NV than to an onshore NV.	Formerly only available to non-residents, the AEC used to be the most preferred option for offshore business since it offered a zero tax rate. This was later modified to prevent the misuse of this vehicle for illicit purposes thereby complying with international standards. After the NFF was introduced the AEC became available to both residents and non-residents with the same tax rate.	The LLC is a limited liability company and is the most recent vehicle introduced in 2009. An LLC is available to both residents and non-residents. This vehicle offers more options and more flexibility than its predecessors.
<p>Legal entity</p> <ul style="list-style-type: none"> - Incorporated by at least two founders - Other legal entities can act as founders <p>Requirements:</p> <ol style="list-style-type: none"> Articles of incorporation <ul style="list-style-type: none"> - Must be drawn up in Dutch and must contain bylaws - Must be executed before a civil law notary public - Must contain the name, the statutory seat, the object, the duration, the authorized capital and the par value of the stock of the incorporation - Must contain number of shares each of the founders has subscribe and amount to be paid on to these shares and names of initial managing directors 	<p>Legal entity</p> <ul style="list-style-type: none"> - Incorporated by one or more founders - Other legal entities can act as founders <p>Requirements:</p> <ol style="list-style-type: none"> Articles of incorporation <ul style="list-style-type: none"> - Must be drawn up in Dutch and must contain bylaws - Must be executed before a civil law notary public - Must contain the name, the statutory seat, the object, the duration, the authorized capital and the par value of the stock of the incorporation - Must contain number of shares each of the founders has subscribe and amount to be paid on to these shares and names of initial managing directors 	<p>Legal entity</p> <ul style="list-style-type: none"> - Incorporated by one or more incorporators - Other legal entities can act as incorporators <p>Requirements:</p> <ol style="list-style-type: none"> Articles of incorporation <ul style="list-style-type: none"> - Must be drawn up in any language understood by the notary public - Must be executed before a civil law notary public - Must contain the name, the statutory seat, the object, the limitations in the representation authority of the directors must be explicitly mentioned - Must contain the number and types of shares and the amount paid on the shares at the time of incorporation - Must contain names of initial managing directors - Incorporator does not have to participate in

<p>2. Authorized capital</p> <ul style="list-style-type: none"> - Authorized capital of AFL 50.000,= - AFL 10.000,= must be issued and paid up <p>3. Shares</p> <ul style="list-style-type: none"> - Both bearer shares and registered shares can be issued <p>4. Declaration of no objection</p> <ul style="list-style-type: none"> - This has to be granted by the Minister of Justice through the Aruba Financial Center <p>5. Reporting</p> <ul style="list-style-type: none"> - Obligatory annual financial statement - Obligatory filling of the annual statements - Appointment of an auditor is optional (unless stipulated by the bylaws) 	<p>2. Authorized capital</p> <ul style="list-style-type: none"> - Authorized capital of AFL 10.000,= - AFL 1,= should be issued and paid up <p>3. Shares</p> <ul style="list-style-type: none"> - Both bearer shares and registered shares can be issued <p>4. Declaration of no objection</p> <ul style="list-style-type: none"> - This has to be granted by the Minister of Justice through the AFC <p>5. Reporting</p> <ul style="list-style-type: none"> - Annual financial statement, the appointment of an auditor and the filling of an annual statement are all optional (will change in the future) <p>6. Local Registered agent</p> <ul style="list-style-type: none"> - AEC must be represented at all times by a Management/Trust company incorporated under Aruban law with the specific corporate purpose of being the licensed, local registered agent of Aruba exempt corporations 	<p>the capital</p> <ul style="list-style-type: none"> - All other matters can be arranged in a regulation, which does not have to be made public <p>2. Authorized capital</p> <ul style="list-style-type: none"> - No minimal authorized capital, but it must be positive at all times <p>3. Shares</p> <ul style="list-style-type: none"> - Issued with or without nominal value - Issued with or without or with very limited voting rights - Issued with or without profit rights - Stipulated reimbursement is laid down in the act of incorporation <p>4. Declaration of no objection</p> <ul style="list-style-type: none"> - This has to be granted by the Minister of Justice through the AFC <p>5. Reporting</p> <ul style="list-style-type: none"> - Board of directors should submit yearly accounting containing a balance sheet and profit & loss statement plus explanation within 8 months after closing fiscal year for approval by general shareholders meeting - Appointment of an auditor is optional unless stipulated by the articles of incorporation - Annual statements and their filing is obligatory, appointment of auditor remains optional <p>6. Local Registered Agent</p> <ul style="list-style-type: none"> - Must be represented at all times by a management/trust company incorporated under Aruban law with the specific corporate purpose of being the licensed, local registered agent of AECs or limited liability companies - Legal representative must be in possession of a license granted by the Central Bank of Aruba
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	<p>7. Board of managing directors</p> <ul style="list-style-type: none"> - Must consist of at least one managing director, being natural persons or legal entities <p>8. Annual fee</p> <ul style="list-style-type: none"> - Fixed annual fee AFL 500,= 	<ul style="list-style-type: none"> - LLC which a Aruban resident as a director does not have to be represented by a management/trust company <p>7. Board of managing directors</p> <ul style="list-style-type: none"> - Must consist of at least one managing director, either natural persons or legal entities, construed according to the one tier or the two tier model - One tier model: operational and supervisory board is one and the same - Two tier: separate supervisory board and separate operational board of directors - Possibility of shareholders to be given the supervisory role over the normal board
	<p>After the NFF the AEC has become a company which is fully subject to Aruba taxation yet it still has its advantages for tax planning purposes. The following activities are considered qualifying exempt activities:</p> <ul style="list-style-type: none"> - Finance activities - Holding activities - Portfolio Investment - IP licensing activities 	
<p><u>Imputation Payment Company Regime NVs & LLCs</u></p> <p>A part of the NFF, the IPC regime was introduced to stimulate domestic enterprises as well as to attract foreign investment. An IPC is a company which is subject to Aruba's profit tax; however, shareholders of a qualifying IPC are entitled to an imputation payment by the Aruban government equal to 33/65 of the dividend distribution. In order to opt for an IPC status it should meet various formal requirements, such as, at least one Board Member should be a resident individual, the accounts of the NV should be audited by an external auditor, the issue of bearer shares is not allowed and the NV should have an accurate shareholders' register. This type of incorporation is advantageous since it could legally result in lower tax rates when attaining to the permitted activities and requirements. Qualifying activities are: hotel business, airline and shipping operations, holding activities, research and development, exploitation of intellectual property, passive investment (real estate excluded) captive insurance, and finance of group finance activities.</p>		
<p><u>Fiscal Transparency Regime (check-the-box) NVs +AVVs +LLCs</u></p> <p>Introduced as a possibility for companies to opt for fiscal transparency, which was also a part of the NFF. The Aruban Transparent Entity (ATE), for corporate income tax, dividend withholding tax and personal income tax purposes, will be treated as a partnership. This means that the liabilities and assets and the income of the ATE are directly attributed to the shareholders of the ATE for tax purposes, as a result the Aruba tax authorities will disregard the existence of the entity for</p>		

tax purposes in Aruba. To opt for the transparent status the company should file a notification with the Aruba tax authorities, also within a month after the incorporation of an NV or AEC the choice should be made to become an ATE. This choice cannot be undone, and the entity will remain ATE during its entire existence. Foreign investors who use the transparency regime will be taxed in Aruba if the activities of the ATE constitute a permanent establishment or the foreign investor in Aruba, or if the ATE owns real property in Aruba. Permanent establishment is decided along the lines of the OECD model convention and the OECD commentary to the model convention.

Appendix IV

Stakeholders' Analysis

Type: Government Agencies

Ministry of Finance and Economic Affairs	
Role in OFC	This ministry led by the minister of Finance and Economic Affairs is in charge of the economic development of Aruba. All the departments that fall under this ministry work together towards this common goal.
Importance	This ministry is important since it is their responsibility to stimulate new economic activities for Aruba. In the case of an OFC it could fulfill the Government's commitment towards a future diversified economy.
Relation to other Stakeholders	This ministry has direct relation to all the stakeholders that fall under the ministry of Finance and Economic Affairs.

Aruba Financial Center (AFC)	
Role in OFC	Checks and approves names for the N.V.s, the VBAs and the AVVs that want to be incorporated in Aruba. This department has the authority to grant the declaration of no objection in the name of the Minister of Justice.
Importance	This department is considered important due to the fact that it comes into direct contact with clients when it provides information, and the AFC also facilitates the incorporation procedure so that they are executed more efficiently. The AFC also has a supervisory role, in which it is responsible granting licenses to aforementioned companies. Additionally they have an important role in the creation of new vehicles, in which the department provides expert advice.
Relation to other Stakeholders	The AFC's relation with other stakeholders seeing that they have to approve of the companies/corporations before they can be incorporated, without the declaration of no objection or with delay in the process, other stakeholders might lose business. The AFC has a relation with the international bodies, in the sense that they are responsible for vehicles' adaptation when it is required to comply with the international standards. Also as a member of the FATF commission of Aruba, they are the ones interviewed when the island is being assessed.

Tax Authorities Aruba (SIAD)	
Role in OFC	This department is responsible for the tax policy and legislation of Aruba. Levying, collecting and controlling taxes are also the primary tasks of this department.
Importance	This department is important since it is responsible for Aruba's tax policy and legislation. TIEAs are also part of their responsibilities, which is very important since Aruba's reputation as an OFC depends on these agreements.
Relation to other Stakeholders	Since this department determines on issues concerning tax policy and legislation, it can be of influence to the majority of stakeholders in the development of an OFC.

Central Bank Aruba (CBA)	
Role in OFC	One of CBA's main tasks is to supervise the financial system, including maintaining the stability and integrity of the financial system. This entails the monitoring of banks, money transfer companies, insurance companies, and company pension funds and most recently the trust service providers, all of which need a license issued by the CBA to be able to provide their services.
Importance	The CBA is important since it issues the licenses of the service providers of the OFC,

	which in turn can determine the volume of business that is possible on Aruba. Also the strictness of the rules and regulations (LTT) imposed by the CBA can also make it more difficult for the service providers since these can put a strain on the workforce available and can therefore, again, limit the volume of business. The LTT was introduced as a direct requirement of the FATE.
Relation to other Stakeholders	The CBA has a relation with the international bodies since they are responsible for acquiring financial data that proves that Aruba complies with the implementation of the Standardized Report Forms developed by the IMF to be publicized later. Also the CBA has entered into a memorandum of understanding with RCUT to exchange general information on AML/CFT issues, as the result of the FATF recommendations and standards. This is where the CBA also has a relation to MOT, where they monitor and report illicit activities. The CBA has a relation with all the stakeholders which it supervises and which it grants the required licenses.

Department of Economic Affairs and Industry (DEACI)	
Role in OFC	DEACI is in charge of the formulation of economic policy and development cooperation policy as well as the execution. Promotes investments, and is the issuer of permits relative to the business license ordinance regarding Aruba limited liability corporations and other type of business whenever that is stipulated by law.
Importance	If proven viable this department will take this diversification strategy directly into their policy.
Relation to other Stakeholders	Since it immediately follows the objectives of the Minister of Finance and Economic affairs, it has an important relation to this Minister. Consequently all stakeholders involved in one way or the other in the policy developed and executed by DEACI will also have a relation to this department.

Chamber of Commerce (KVK)	
Role in OFC	It is officially designated the advisory body to the Minister of Economic Affairs on all applications for permits relative to the Business License Ordinance. This department is also responsible for maintenance of a public record of all companies incorporated in Aruba, and of the annual financial statements of limited liability companies incorporated in Aruba, which by the Commercial Code are required to file complete copies of these statements at the office of the Commercial Register.
Importance	This department can be important when looking for information for incorporation in Aruba or as support and assistance when filing registrations.
Relation to other Stakeholders	Offers information to all stakeholders if necessary.

Department of Finance	
Role in OFC	Prepares, controls and advices on the budget for Aruba.
Importance	Very important since it is responsible for the approval of the budget and expenses of each government department.
Relation to other Stakeholders	In the case of an OFC each stakeholder (government) which needs funding for certain activities (e.g. promotional activities) needs their approval, thus it is essential that this department can work efficiently so that activities/projects can run smoothly. This Department has a relation with all the public departments.

Aruba Foreign Affairs Department (DBB)	
Role in OFC	It's main task is to assist the Prime Minister in formulating foreign policy and to design programs to implement this policy. The department's main focus is always to enhance the recognition of Aruba in the international community and maintain Aruba's positive image. This department plays a key role the advisory process leading to the decision of whether a treaty should be extended to Aruba or not.
Importance	In the case of Aruba as an OFC this department is considered important since they advice the Prime minister and the Council of ministers on a continuous basis in areas such as; international relations; bilateral relations; international relations, treaties and instruments etc.. These tasks are especially important when it comes to lobbying and/or negotiating treaties.
Relation to other	The department of foreign affairs' relation to the Dutch Kingdom is considered of

Stakeholders	outmost importance in the case of developing a respectable OFC, because despite the fact that Aruba is allowed to negotiate treaties by itself, only the Kingdom has the authority to sign a treaty.
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Department of Legislation and Legal Affairs (DWJZ)	
Role in OFC	The DWJZ offers solicited and unsolicited advice on aspects of the legal process and its results. On the one hand the department has a researching and supervising role, while on the other hand they have an advisory and supportive role for implementation.
Importance	This department is important because it is responsible for regulations that can have a direct influence, this includes laws regarding legal entities which fall under the minister of Justice and can therefore be a direct influence on the industry of OFC. An OFC will depend on this department for the adaptations of certain laws and the creation of new ones. The efficiency with which this is done increases the possibilities of the products offered as an OFC which can also increase the volume of business.
Relation to other Stakeholders	All stakeholders that depend on laws concerning the attractiveness of Aruba as an OFC will have a relation with this department. Whether it's the creation of a new law or the adaptation of older ones, the attractiveness and the efficiency with which this occurs is of interest to all stakeholders. If this department fails to work efficiently the center might lose business to other centers that can react faster to the demand.

Aruba's Financial Intelligence Unit (MOT)	
Role in OFC	Formed as a direct result of an FATF recommendation. This department gathers, registers, processes and analyzes information, to prevent and detect illicit activities.
Importance	For the reputation of an OFC, it is important to comply with the international standards; in this case the department of MOT supports this common goal by screening and detecting unusual transactions.
Relation to other Stakeholders	This department works together with the CBA against money laundering and terrorism financing activities, which if detected will be reported to the CBA.

Type: Service Providers

AFCA / Trust Companies	
Role in OFC	These companies can assist with company formation, management and fiduciary services. They can act as local directors or registered agent of offshore corporations. A trust company may or may not offer audit-, tax- consulting and investment advisory services, when this is not the case, these services are offered by experts in these fields.
Importance	Trust services providers are important in the sense that they have direct contact with clients and are responsible for an efficient incorporation procedure. The efficiency with which they work can result in higher or lower volume of business.
Relation to other Stakeholders	The trust service sector has recently been put under the supervision of the CBA, requiring all service providers to obtain a license from the CBA if they want to continue with their activities. To get this license they have to comply with a number of requirements imposed by the CBA called the LTT (Landsverordering Toezicht Trust) which is a new State Ordinance regarding the supervision of Trust service providers. The strictness of these requirements might put a strain on the workforce of these service providers, seeing that more work has to be done with the same amount of people, which might in turn lead to loss of business. AFC also has influence since they issue permits for companies they manage, and they also fall under the supervision of AFC in which the 'know your client' policy is emphasized. Since AFC has to grant the declaration of no objection and has to give their name approval for incorporation procedures, the trust service providers depend on this department and others to work as efficiently as possible to speed up the process, to avoid loss of business. These companies may need the expertise of tax lawyers, lawyers and accountants when these are not present in the company itself.

Tax Lawyers	
Role in OFC	Tax lawyers can provide their services to companies that want to form in Aruba, by assisting in the tax-planning process.
Importance	These are important stakeholders seeing that they do tax planning for their clients,

	which can make the incorporation of a company on the island as attractive as possible.
Relation to other Stakeholders	They work together with other service providers such as law firms in which they consult with each other on the best tax planning permitted within Aruban laws. These tax lawyers can work within other firms or independently. They have a relation with the trust company which represents the company they might be advising.

Law Firms	
Role in OFC	Law firms can give advice on company formation, management and fiduciary services. They also submit possible names for approval to the AFC.
Importance	Law firms are important since they have direct contact with clients where they play an advisory role. They are also of importance when working together with tax lawyers and trust companies, offering their expert advice on the possibilities within the Aruban law.
Relation to other Stakeholders	Since AFC has to grant the declaration of no objection and has to give their name approval for incorporation procedures, the law firms depend on this department. They have a relation with the tax lawyers they work with and with the trust company which represents the company they might be advising.

Accounting Agencies	
Role in OFC	As a requirement annual financial statements are obligatory, and although the appointment of an auditor might be optional, accounting agencies sometimes are hired to assume this role and task. The presence of tax lawyers in these companies can also make them part of the tax planning process for their clients. When not present independent tax lawyers or law firms may be hired for expert advice.
Importance	These agencies are important since they offer their expertise in the area of auditing. They are also important in that they not only offer tax planning advice but in that they are also part of making existing vehicles attractive for their clients.
Relation to other Stakeholders	They have a relation to lawyers they might be working with for the best tax-package possible. And since all incorporated companies must be represented by a trust services provider they have a relation also.

Notaries	
Role in OFC	Notaries are part of the incorporation process, seeing that the articles of incorporation must be executed before a civil law notary public. After name approval by the AFC, the incorporation act is submitted by a notary public and the decree of no objection is granted. The notaries' deed containing the incorporation act is then passed before notary public. Notaries are also authorized to submit names to AFC for approval
Importance	Again this is important in the sense that it could speed up or slow down the process. Seeing that the law states that there could only be 4 notaries on Aruba, this could be a cause that slows down the incorporation process.
Relation to other Stakeholders	Since notaries hold a key role in the incorporation process, they have a relation with AFC, the trust service providers. Also with the tax department since they have to pay tax per company incorporated.

Type: International Bodies

Dutch Government	
Role in OFC	Since Aruba is part of the Dutch Kingdom, it has to attain itself to certain rules. In the case of Aruba as an OFC, when dealing with treaties they will have the final word seeing that it could only be signed by them.
Importance	This is an important role because the reputation of Aruba as an OFC depends on the amount of TIEAs that are signed.
Relation to other Stakeholders	For the existence of the OFC a good reputation is of the outmost importance, so for all the stakeholders that depend on this industry the actions of the Dutch Government regarding treaties for the OFC is of great influence on their business. The relation between the Dutch Government and the Aruban Government is thus of outmost importance, as is the relation with the Department of Foreign Affairs.

American Government	
Role in OFC	As one of the most influential industrialized countries in the world the USA poses a

	major threat to OFCs in general. Since a lot of money that the American Government could be collecting in taxes is 'paid' somewhere else, they have been looking for ways to retain this money inside the US.
Importance	This is without a doubt an important stakeholder since Aruba depends on the USA for its business, it wants to remain on good terms with USA. Also seeing that USA forms part of the industrialized countries and was part of the latest G-20 meeting they have great influence on the international standards that were set and that will be set in the future.
Relation to other Stakeholders	This relationship is important for all the stakeholders, seeing that they depend on the good reputation of Aruba as an OFC for their business.

European Union (EU)	
Role in OFC	The EU has been targeting at tax havens activity through the EU Code of Conduct on Business Taxation and with the EU Savings Tax Directive. Since Aruba is considered a third party country, it is also required to comply with these standards.
Importance	This organization is important since it will influence how Aruba's OFC is seen to the outside world. This can damage the reputation of the OFC and cause loss of business.
Relation to other Stakeholders	This relationship is important for all the stakeholders, seeing that they depend on the good reputation of Aruba as an OFC for their business.

Organization of Economic Cooperation & Development (OECD)	
Role in OFC	The OECD monitors tax haven activities and following the latest G-20 meeting this organization decided to name and shame these OFCs by presenting a grey and black lists. In this way forcing IFCs to attain themselves to the required amount of TIEAs necessary to be on the white list, in other words reputable in the eyes of the international community.
Importance	This organization is important since it will influence how Aruba's OFC is seen to the outside world. This can damage the reputation of the OFC and cause loss of business.
Relation to other Stakeholders	This relationship is important for all the stakeholders, seeing that they depend on the good reputation of Aruba as an OFC for their business.

Financial Action Task Force (FATF)	
Role in OFC	The FATF on their quest to fight money laundering and terrorist financing concentrate their efforts on those centers that lack regulation and transparency. As a direct result they have created 40+9 recommendations, either a country is found compliant or non-compliant with these recommendations.
Importance	This organization is also important because of its influence on the reputation of Aruba as an OFC. As Aruba wants to be seen as a respectable OFC it has to comply with all these recommendations, which can be difficult for the small specialized workforce available on the island.
Relation to other Stakeholders	The recommendations certainly require joint efforts from all the stakeholders, either for supervision or for compliance. Even though a bad reputation can damage business prospective for all the stakeholders involved in the OFC, the recommendations are also seen as a way to take the competitive advantage away from the smaller OFCs.

Clients	
Role in OFC	These are the companies and individuals that make use of such centers for various purposes. Including the attractiveness of the products offered by the host country and/or the stability present in these countries.
Importance	Since an OFC cannot exist without clients one can say that this is the most important stakeholder of them all.
Relation to other Stakeholders	Relation to all stakeholders, some more direct than others.

Indirect Stakeholders

Department of Labor and Research (DAO)	
Role in OFC	DAO is responsible for the promotion of a balanced and strong labor market by stimulating employment for Aruba's residents and to match demand and supply, to promote quality of labor by stimulating healthy labor conditions and the upgrading of

	the labor market. In the case of an OFC, this department is responsible for identifying and communicating the need for qualified personnel. Additionally it is also responsible for the stimulation of employment in this industry as a result of proper research towards this need.
Importance	This department with the plan of the future development of Aruba as an OFC can research the future needs and communicate this to the other departments who are responsible for professional development of the population.
Relation to other Stakeholders	This stakeholder will have to communicate the needs with several departments in order to prepare for the current and future labor requirements of Aruba's OFC.

Department of Education (DONW)

Role in OFC	The DONDW is responsible for Aruba's educational planning and policy, in addition to research. Monitoring of the educational system is also included as one of the responsibilities that this department holds. Educational facilities and personnel are managed by this department. This department's role in the OFC is mostly to prepare and form students into future professionals.
Importance	DONWD through its educational policies is able to focus resources in the improvement of the educational system, consequently improving the chances of an increase in the professional workforce. Communication of current and future labor needs of the OFC to students can encourage further specialization.
Relation to other Stakeholders	This department will need to communicate with other departments in order to know the needs of the labor market but also the struggles of the students.

Department of Social Affairs (DSZ)

Role in OFC	The department of DSZ is responsible for the constant social development of Aruba's population by promoting social welfare through its policies. In the case of the development of Aruba as an OFC it can further promote education as a form of human development to increase more well paying jobs consequently increasing the higher educated work pool.
Importance	This department can identify the struggles the population of Aruba is faced with and can plan according to these social struggles. Motivational problems students deal with are important to understand, in order to encourage further specialization.
Relation to other Stakeholders	This department has to communicate with others stakeholders in order to come to one central plan for the development of Aruba's OFC, in matters relating to the social issues.

Department of Public Health (DVGH)

Role in OFC	The DVGH is responsible for the promotion of the public wellbeing based on their health policies. This department is also concerned with the human development in that it promotes the population's health and therefore contributing to the overall workforce.
Importance	This department indirectly benefits the OFC, in that it contributes to the wellbeing of the population and therefore also to the local workforce.
Relation to other Stakeholders	Relates to other stakeholders for a general plan for the social well being of the population.

University of Aruba (UVA)

Role in OFC	The University of Aruba offers various programs, but it is especially the faculty of law and the faculty for financial economic studies that might provide future workforce for an OFC.
Importance	This is an important stakeholder in the sense that it is responsible for shaping knowledgeable professionals that can be the future workforce behind Aruba's OFC.
Relation to other Stakeholders	All the local stakeholders could benefit from this specialized local work pool.

Appendix V

Detailed history of Aruba as an OFC

The history of Aruba as an offshore financial center began during World War II, then still a part of the Netherlands Antilles and as such a part of the Dutch Kingdom. During the war Dutch limited liability corporations (N.V.) relocated to the Netherlands Antilles especially to Curacao seeking for a free, non-enemy territory. Given that Curacao at the time had no fiscal background, N.V. s were responsible, according to the law, to pay taxes to the Netherlands instead of to the Netherlands Antilles. This law was later changed, which then stated that taxes should be paid to the country of relocation. However, by the time the war ended all these corporations that had relocated in the Antilles returned to the Netherlands. Nevertheless this would have been the first experience the Antilles would have with the offshore industry (Smeets, 1984).

What was considered as the breakthrough for the development of the offshore industry for the Dutch Antilles was a treaty signed in Washington on the 29th of April 1948, between the Dutch Kingdom and the United States of America. This treaty was created in regard to the prevention of double taxation and tax avoidance, and gave space for extending this treaty further to include the Netherlands Antilles with lower tax tariffs. These tariffs were consequently adjusted in the profit tax State Ordinance and included 2.4% of the net income up to NAf. 100.000, - and 3% of the surplus, which were guaranteed in combination with certain offshore activities until the year 2000. Even though some financial centers were offering no taxes, it seemed that many companies, Dutch companies in particular, were prepared to pay taxes in the Antilles in exchange for the good reputation it offered, and the political stability present.

The extension of the treaty which included the Netherlands Antilles was final and was put into effect in 1955. Interest- and royalty payments from the U.S.A. to N.A. would have been exempted from the usual 30% tax on unearned income abroad, whereas the tax on dividends was 15%, although in some cases it could have been lowered to 5% when meeting certain requirements, including intense scrutiny by the IRS. The net dividend-, royalty- and interest income were as mentioned above at the set tariffs of 2.4% - 3%, capital gains would remain non-taxable. With everything set in place this was the time when the offshore business picked up and started booming for the Netherlands Antilles (Smeets, 1984).

However, during the sixties, the United States started expressing their concerns regarding this treaty and made it clear that it wanted to be relieved of this agreement. Their main concern at the time were dubious activities taking place in South America, where it was suspected that relief funds supplied to the continent were being fraudulently used by the governments through offshore activities within the Antilles. After some reassurance from the N.A. and proof that there were no significant activities between South America and N.A. the air had cleared, at least for a moment. Subsequently the Americans were unhappy that the treaty was extended to other countries that were not originally the land with which the agreement was reached, and additionally they did not consider the 2.4% - 3% as a significant amount of tax. Since the success of this industry relied on this treaty, N.A. was more than prepared to compromise on these concerns. Consequently they reached the agreement stating that for companies to be able to make use of the treaty and be exempted of the 30% demanded by the USA, companies had to choose a higher tariff that included 24 - 30% on the net income (Smeets, 1984).

During the mid eighties the US started thinking towards the elimination of the withholding tax; this meant that the 30% demanded by the American Government would be removed. In the year 1988 this was exactly the case, which became the motive for the decline at that time of the offshore industry in the Netherlands Antilles (Corant, 1988).

As could be seen above Aruba's history as an OFC began simultaneously with the other islands of the Netherlands Antilles, although it is also clear that the financial center activities was predominantly present on the island of Curacao, which was consistent with its position in the Netherlands Antilles. Curacao was the governmental center as well as the financial and the commercial center of the Antilles. They were much more active in marketing their international financial center taking advantage of the treaty available between USA, than Aruba ever was. All of these were factors which made Curacao much more dynamic in the area of financial services sector (Corant, 1988). In 1983, the Aruba Financial Center Association made an attempt to establish as an effort to develop the financial sector, which would have as members, trust companies, banks, lawyers and notaries. However, very soon it became apparent that the offshore business expertise on Aruba was very limited, and therefore was not able to grow as intended, the association was officially established in 1988 (Solognier, 2009). In 1985, Aruba lost its major source of income with the closing of the LAGO Oil Refinery. In 1986 the Status Aparte was reached and Aruba became independent from the Netherlands Antilles and therefore had its own government and with this the ability to make its own decisions⁶. The new government at the time was faced with a serious situation of unemployment and economic downturn, and with assistance of the Netherlands and other international instances they decided on the further development of the tourism industry. The result as we all know today was the immediate boom of

⁶ Status Aparte was reached in 1986 when Aruba became an independent country separate from the Netherlands Antilles but remained within the Dutch Kingdom. It was agreed that in 1996 Aruba would be ready to become completely independent and would no longer be a part of the Dutch Kingdom.

this industry, which brought Aruba's economy back to life with almost no unemployment. However, since this period the idea and interest in developing a second pillar for Aruba's economy was already being considered. Thus, the concept of economic diversification is not a new one, with an early on realization that the tourism industry was a very fragile one it was clear that it would not be wise to solely rely on this industry (Bongers, 2007).

AFCA's earlier attempt of developing Aruba's financial services sector as mentioned earlier did not succeed, as there was a lack of understanding of the industry. But with new opportunities in sight in early 1988, AFCA wanted to develop a vehicle that could take advantage of Panama's⁷ unstable situation at the time; Panama⁸ was one of the most significant OFCs at the time (Amigoe, 1988). Seeing as the treaty between the US and Aruba had expired, the proposal was to introduce a zero tax vehicle called the AEC (Aruba Exempt Corporation) in Dutch known as AVV (Arubaanse Vrijgestelde Venootschap). With this vehicle set in place it would have been a great opportunity to accommodate business leaving Panama due to the unstable situation. This would also have been in direct competition with Curacao seeing that they too no longer enjoyed the advantages of the treaty with the US, and also did not offer anything like this (Corant, 1988). Moreover, the government also started to show interest in this type of economic diversification, seeing the possible positive outcomes it would bring to Aruba, such as, better paid employment opportunities which in turn would lead to an increase in income taxes received; furthermore each AEC was expected to pay a yearly contribution to the government (Amigoe, 1988).

The government at the time wanted to be very careful in introducing this type of vehicle, since it would have been something entirely new that had to be thoroughly studied in order to change the laws in such a way that it would not be harmful in anyway later on, this to the nuisance of the financial service providers who were more than ready to cease the before mentioned opportunities (Amigoe, 1988). In 1988, after several procedures, where even the Netherlands and USA were approached for advice, the AEC was introduced. The AEC which had required radical changes in the commercial laws of Aruba, gave companies the opportunity to incorporate in Aruba, and permitted non-applicability of the state ordinance regarding income taxes, and flexibility towards reporting and liquidation. However, the AEC activities was to be kept completely separate from the local economic activities, in other words the AEC was only available to non-residents (Corant, 1989). Nevertheless, the delays of the introduction of the AEC, due to lack of laws for offshore activities and the vagueness regarding the exact design of the vehicle led to trust service providers leaving Panama, instead of coming to Aruba they relocated to BVI (British Virgin Islands) which already had this vehicle in place. This is considered one of the main reasons for the failure of the AEC at the time. (Gemengde Commissie, 1997)

AECs at the time were established through a notary deed by a civil notary public who made it legal. A trust company would elaborate on the bylaws and would send these to the notary public and then to the Minister of Justice who would grant the declaration of no objection. The trust company chosen by the client against a management fee would be responsible for reporting their financial activities and would also be responsible for their bookkeeping (Corant, 1989). With this new vehicle in place Aruba started acquiring more and more offshore financial services activity, but was far from reaching its goal of becoming a financial center, promotion was needed to make the world know that this product existed. Therefore a commission for the financial center was installed; they were to advise the government on the requirements needed to become successful in the financial services industry. Additionally they also attended financial conventions to promote Aruba in this area (Extra, 1989). It was noted by critics of the commission that there were no representatives of the private sector as member of the commission, only public departments were represented. Seeing that the private sector was working directly in the field of offshore, it would have been helpful to have that type of insight and expertise in the commission. Nevertheless, the commission consisted of members who were capable having their respective experience in this field (Diario, 1989). However there was definite difference in opinions when it came to private and government cooperation, while AFCA thought it was essential for some type of collaboration between the two, the government wanted to keep the team as objective as possible. Concerns of the government were, that private sector might have been too eager for business therefore they were more likely to make hasty decisions, consequently damaging Aruba's reputation (Corant, 1988).

Sure enough by the mid 90s allegations rose from the US State Department, claiming that Aruba was developing its economy fast through money laundering activities (Gemengde Commissie, 1997). To avoid further damaging the island's reputation changes in the law regarding the AEC were required. It was very clear that damaging statements like this would be terrible for the further development of the industry, making it a top priority for everyone involved to work towards a solution. AFCA started requiring its members to make use of the Statement of Principles stemming from the Basel Committee⁹, which offered guidelines regarding new client relationships, screening of clients, cooperating with judicial authorities and effective procedures to execute all of these requirements into the business organization (Amigoe,

⁷ In 1987 Panama was experiencing political instability due to heavy government criticism resulting in civil strives, this instability greatly damaged Panama's economy creating an unstable environment for businesses. In 1988 the political instability had as result the imposition of sanctions by the US, followed by more instability throughout the country and a failed military coup.

⁸ Panama offered a zero-tax vehicle that was popular for its simplicity, which was fast and easy to incorporate with few requirements for incorporation and function. Other jurisdictions copied this Panamanian model to fit their own jurisdiction, which is how the International Business Corporation was born.

⁹ Since 1988, the Basel Committee, which is part if the Bank for International Settlements, has continued to issue best practices for financial institutions in the areas of money laundering and terrorist financing, including 'Customer Due Diligence for Banks'.

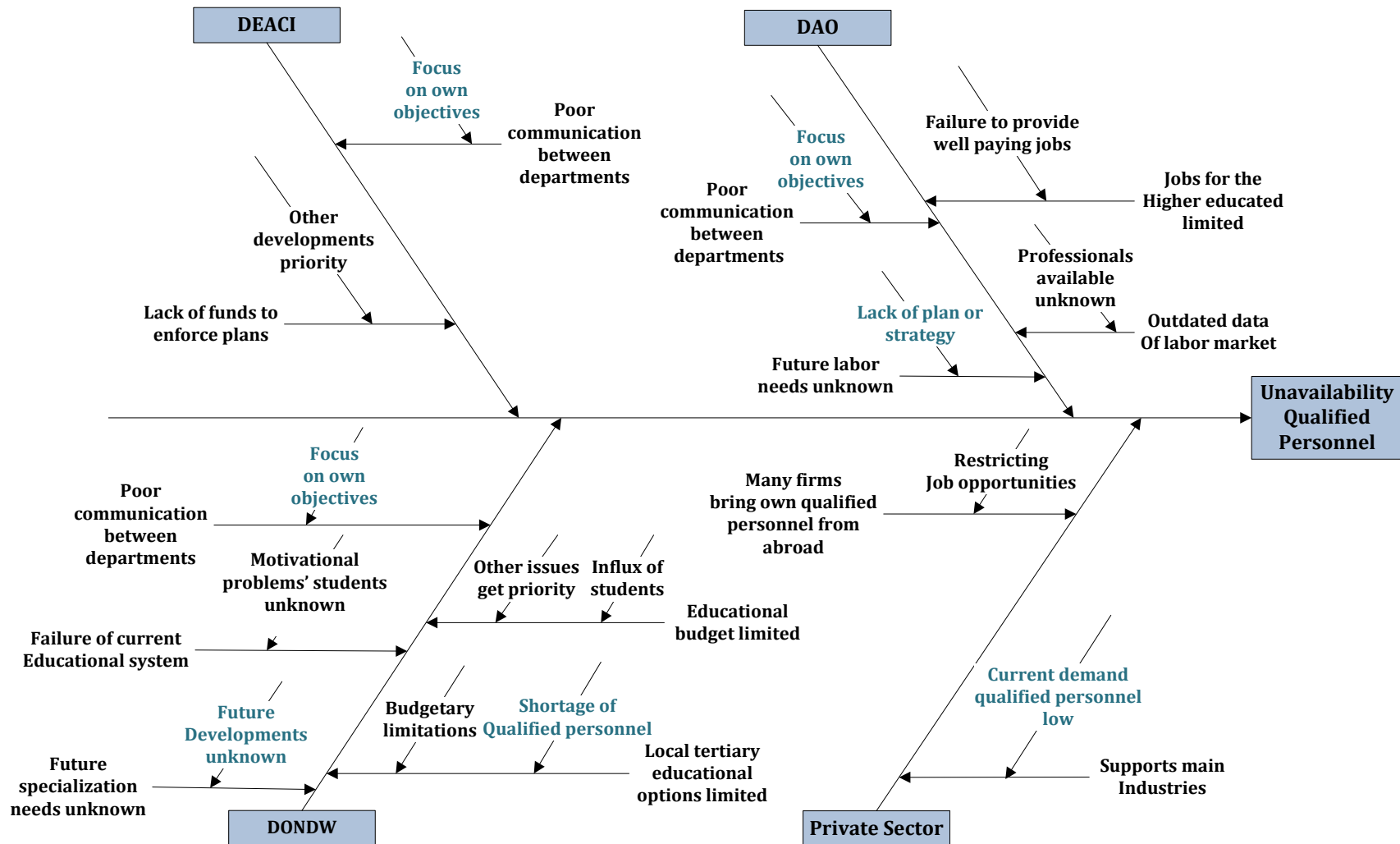
1991). In an attempt of the government to assure further development and the future of the financial center, they installed two new commissions, the first was a government commission and the second was a mix of 3 government officials and 3 AFCA members, this way getting the private sector's input also. They were responsible in assisting and advising the government on the further development and on adjustments that had to be made (Diario, 1991). This attempt showed a little more cooperation between private sector and the government, but still AFCA felt that not enough attention was granted to the industry. It was their opinion that the government's priority laid solely on the tourism industry instead of giving more attention to what had potential to become a second pillar to the economy (Diario, 1993). Nevertheless concerns about the industry's reputation remained constant on the issue of money laundering. They mainly arose from the fact that no supervision was executed towards the trust companies. These companies according to the AEC laws are the representation of the AECs incorporated companies which means that all companies should be represented by a trust company. But without supervision or official regulations there would be no control, giving space for speculations of money laundering activities. Since it is usually not stated in the bylaws of incorporation who the direct individual behind a company might be, which is supposed to be the whole basis of a trust company, it was more likely to raise suspicions. Even though trust companies were required as members of AFCA to attain themselves to the Basel Principles, not all companies were interested in this membership anymore. This meant that more trust companies were establishing themselves without becoming AFCA members, enjoying a piece of the pie without major constraints (Diario, 1993). AFCA and its members in an attempt to keep Aruba's integrity and reputation as a financial center undamaged were looking for assistance from the department of Law and Regulations. All members of AFCA had signed an agreement in which they asked to be officially regulated. Shortly after this proposal a new friction between the private sector and government arose with threat of losing the offshore business. An agreement between the Government of Aruba and the Netherlands was in progress which would change laws and regulations of the Kingdom's fiscal system. This would have direct consequence on the AEC, in that it would mean that zero taxation would no longer be permitted. In reaction to this agreement AFCA was completely opposed and taken aback seeing that the government of Aruba was closing the doors on the offshore business for Aruba. Their biggest criticism against the government was that they were really too eager to comply with the Netherlands wishes, in exchange for keeping Aruba's Status Aparte, which was suppose to expire by 1996. AFCA also criticized the Dutch Kingdom for not defending its former colonies against international criticism, as opposed to the United Kingdom who protects their former colonies having an appreciation for the importance of the financial services industry on these islands. This would not only mean the end of the offshore industry for Aruba due to changes in law but it could also damage its reputation, portraying Aruba as an unreliable country to both companies already established through the AEC and companies wanting to make use of the AEC (Diario, 1993). These discussions about the adjustments to the laws and regulations to the Kingdom's fiscal system went on for two additional years, but the government at the time joined forces with the Netherlands Antilles and took the position of signing the protocol that would attend the problem of double taxation and address the problems of fraud and misuse of existing regulations. A mixed commission was installed consisting of Aruban and Dutch members with the assignment to investigate the current system of incorporation and registration and the control on the vehicles, and consequently to advice on the matter and possibly propose laws which would improve the whole process. (Gemengde Commissie, 1997) However, the AEC would not be influenced since it was never a part of the Kingdom's fiscal system in the first place. The government started to involve the private sector more and with this, the commitment to increase the quality of product by improving the existing legislation, more coordinated supervision and keeping the existing ethical standards (Gemengde Commissie, 1997).

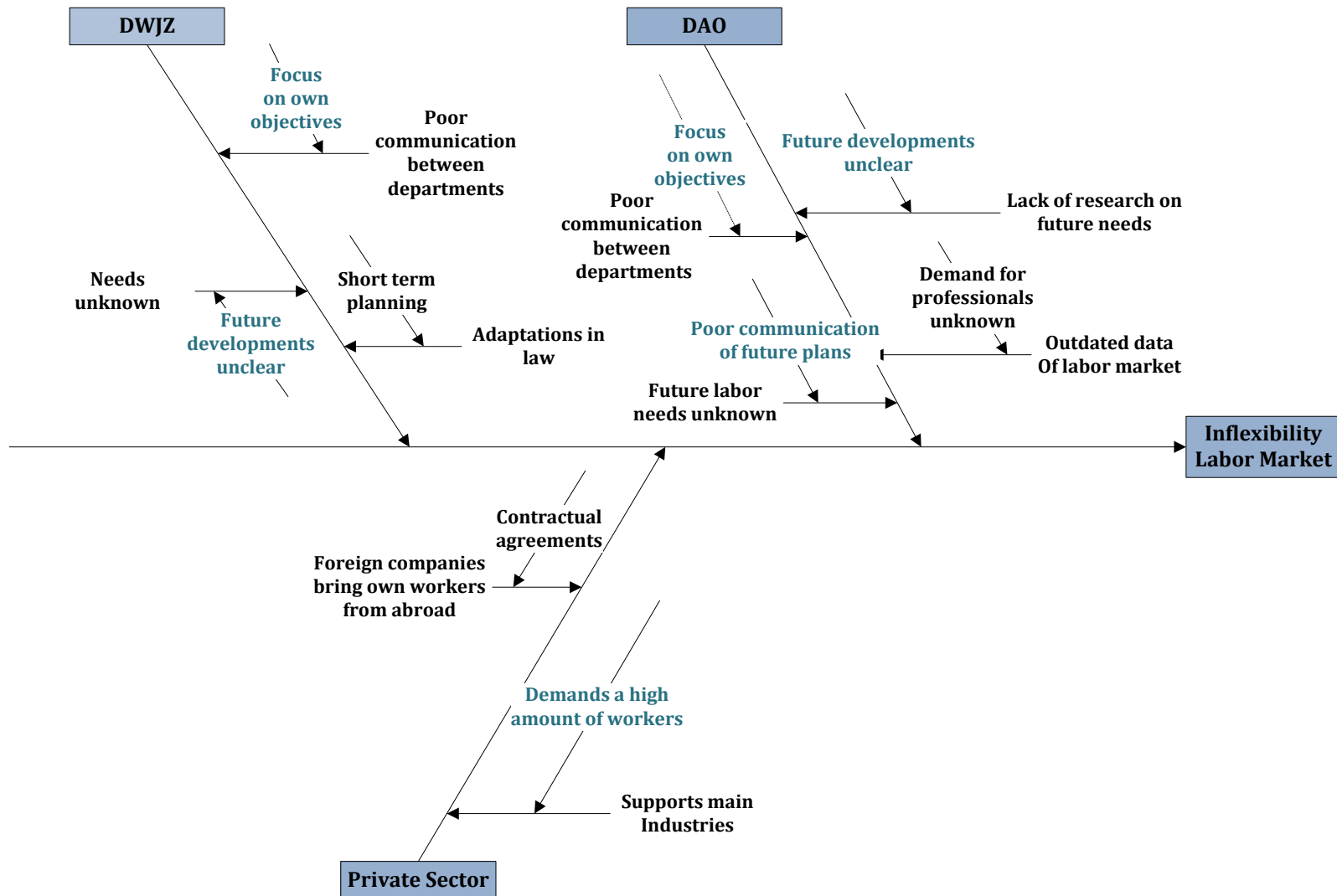
The idea of establishing a High commissioner was brought forward; this public department would be efficient in the sense that it would accelerate the incorporation process, which would be its' main focus. In 1996 a High Commissioner was appointed, making Aruba more competitive by making a major part of the process of incorporation the main task of this department. This new department was meant to be a fresh new start for the sector to be able to develop at last (La Prensa, 1995). However, the Asian financial crisis in 1997¹⁰ had brought forward the importance of international transparency, by the OECD (Ball, 2006). This initiated the OECDs project on harmful tax competition which had as purpose to set out criteria for identifying tax havens. Between 1997 and 1998 the OECD and the Economic Finance minister started their programs against harmful tax competition simultaneously and about the same time Aruba started working on a New Fiscal Framework (NFF), since the offshore laws copied from the NA system in 1986 did not deliver a booming offshore sector as was expected (Bellingwout, 2006). Consequently, Aruba started to re-establish itself in line with international standards, not only to improve its image to the outside world but also to offer better quality to its clients. A decrease in Aruba's financial activities in 1998 was believed to be consequence of the laws introduced where e.g. the anonymity of the clients were no longer protected (Bondia, 1998). Regardless of all the efforts, in the progress report of early 2000 of OECD, Aruba was blacklisted and thus identified as a tax haven together with other 34 jurisdictions, and additionally four fiscal regimes of Aruba appeared on Primarolo's (EU) blacklist (Bellingwout, 2006). Seeing that a bad reputation in the international community would be damaging to the sector which was just in its starting phase, Aruba started negotiating with OECD to

¹⁰ Private sector expenditure and financing decisions led to the crisis, but it was made worse by governance issues, notably government involvement in the private sector and lack of transparency in corporate and fiscal accounting and the provision of financial and economic data. Developments in the advanced economies, such as weak growth in Europe and Japan that left a shortage of attractive investment opportunities and kept interest rates low in those economies, also contributed to the buildup of the crisis

clear its name. On 31st of May 2001 an OECD commitment was signed by the Minister of Finance Dr. Robertico R. Croes, for and on behalf of the Government of Aruba, in which Aruba agreed to amend its legislation and to remove elements of its tax legislation and tax practice that were deemed to be harmful. Aruba also agreed on becoming a party to the Tax Information Exchange Agreement (TIEA), and as a result of these commitments Aruba was removed from the OECD blacklist. Since this point in time the OECD's main focus shifted towards the effective exchange of information, which Aruba needed to comply with and therefore changed its legislation to permit this (Belingwout, 2006). As a result of continuous pressure from international bodies including the FATF and the EU, Aruba decided to abolish the offshore regime, by means of the major tax reform mentioned before called the NFF, which first phase would become effective on January first 2003. The offshore NV (Naamloze Vennootschap) which was the vehicle inherited from the Netherlands originating from the 19th century, offering low taxes, was eliminated seeing that these same taxes were not offered to the onshore NVs. Onshore and offshore NVs were now offering the same tax rates to both residents and non-residents. Now it would be the turn of the AEC to be adjusted which was the second phase of the NFF and so was the case in 2006 where the new tax reform consisting of two acts was introduced, one act related to the adjustments of the AEC and the other related to the introduction of a check the-box-regime aimed at fiscal transparency. The AEC which was known to be available only to non-residents, also known as ring fencing, was to become available to residents too; meaning that the AEC's economic activities would no longer remain separate from the local economic activities. This was the end of the zero tax-regime for Aruba, and therefore to further develop the OFC sector alternative actions were necessary.

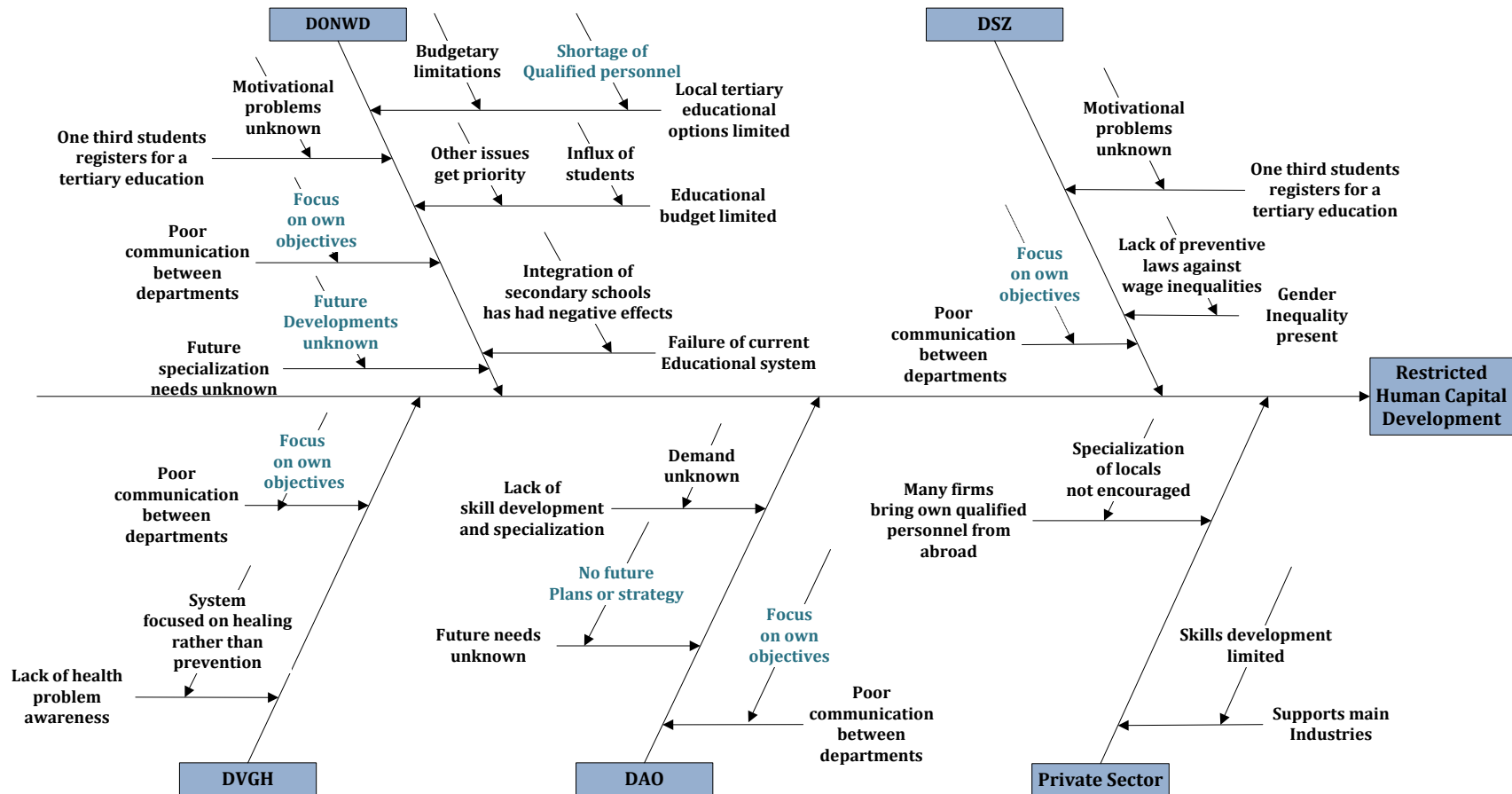
As can be seen from the above history regarding the Aruba's offshore sector, it has been a rocky road for this sector, seeing that the lack of expertise and understanding at the beginning led to missed opportunities. It could also be noticed that the private and public sector has had difficulties working together, where the private sector felt that they were not consulted enough seeing that they possessed the expertise and the government was hesitant about their objectivity, all of which in turn influenced the sector in a negative way. The government has also been accused of being more committed to the tourism industry, and when finally in the mid nineties when there were new expectations with the introduction of the High Commissioner office which represented commitment on the government side, international bodies became more active combating money laundering and harmful tax competition. This is the moment in history where Aruba started reacting to these accusations and which it has been reacting to up to now.

Appendix VI**Fishbone Diagram: Unavailability Qualified Personnel**

Appendix VII**Fishbone Diagram: Inflexibility Labor Market**

Appendix VIII

Fishbone Diagram: Restricted Human Capital



Appendix IX

Fishbone Diagram: Failure to meet Regulations

