

Narrative Report on Aruba

Aruba is ranked at 55th position on the 2013 Financial Secrecy Index. This ranking is based on a combination of its secrecy score and a scale weighting based on its share of the global market for offshore financial services.

Aruba has been assessed with 71 secrecy points out of a potential 100, which places it towards the top end of the secrecy scale (see chart 1).

Aruba accounts for less than 1 per cent of the global market for offshore financial services, making it a tiny player compared with other secrecy jurisdictions (see chart 2).

Part 1: Telling the Story

2 August, 2013

A Caribbean secrecy jurisdiction

General

Aruba is a part of the Kingdom of the Netherlands. Since constitutional changes in October 2010, this Kingdom has consisted of the Netherlands in Europe, plus six islands in the Caribbean, three of which are countries: Aruba, Curaçao and St. Maarten. The other three -- Bonaire, St. Eustatius and Saba -- are special municipalities of the Netherlands. (The 2010 changes involved the dissolution of the Netherlands Antilles, which then consisted of Curaçao, Bonaire, St. Maarten, St. Eustatius and Saba.¹) Aruba lies 23 km north of the coast of Venezuela, has about 108,000 inhabitants and is fully autonomous in internal affairs. External affairs and defence are managed by the Netherlands.

History

The Spanish came to Aruba around 1500 and deported the indigenous population to work in copper mines in Santo Domingo, in what is now the Dominican Republic. The Dutch gained

Chart 1 - How Secretive?

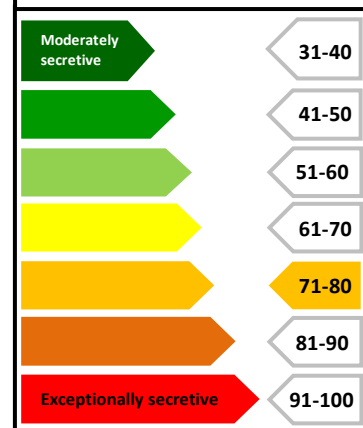


Chart 2 - How Big?



¹ To make it even more confusing, Aruba was also part of the Netherlands Antilles until 1986 when it became a separate country in the Dutch Kingdom.

control in 1636, and the economic development of Aruba remained limited compared with Curaçao, with some cattle breeding and phosphate mining Aruba remained an economic subsidiary of Curaçao. In 1924 the economy was transformed when the Standard Oil Company of New Jersey built oil storage tanks and a refinery for oil from nearby Venezuela; in the 2nd World War the Aruba refinery and Shell refinery in Curaçao produced some 85% of Allied aviation fuel. When the refinery closed in 1985, Aruba was transformed into a tourism-based economy.

The Offshore Sector

In fact the origins of Aruba's OFC come not from its history, but lie in developments in Curaçao. Until 1986 (when Aruba became a separate country in the Dutch Kingdom), Aruba's tiny offshore sector was fully connected with that of Curaçao, where the central government and most offshore professionals – lawyers, notaries and accountants -- resided. Another factor was that the Aruban tax-inspector was not authorised to issue a tax-ruling.

When Aruba obtained its autonomy in 1986 the government wanted to develop the island as a financial centre. It was boosted by favourable tax legislation and the *Belastingregeling voor het Koninkrijk (BRK) 2* with the Netherlands (which has the same effect as a tax treaty).

New zero-tax legislation was approved in 1988, giving rise to rapid offshore sector growth: by the end of that year there were already an estimated 600 active Aruban holding, finance and royalty companies. Even so, these companies were mostly managed from Curaçao (mailing address, bank accounts, bookkeeping) so the linkages to the Aruban economy were minimal. The direct and indirect revenues from the offshore sector on Aruba (including tax revenues) were estimated at somewhere between 0.5 and 0.7 % GDP (IMF report June 2002). According to international standards the offshore banking sector is very small: in 2010 there were only two offshore banks on Aruba, both affiliated to Citibank, with assets equivalent to around 12 percent of GDP (IMF, Oct 2010). According to the IMF in September 2008,

“The offshore banks essentially operate as shell banks . . . one is mainly engaged in intra-group financing and the financing of sovereign bonds, while the other's activities relate to the trading and financing of Latin American sovereign risk bonds and loans, underwriting of bonds and shares for customers and other general banking services. There is no physical presence in Aruba. The management and administration is conducted by Citibank,

² Effectively the equivalent to a DTA, but only applied to transfers from one part of the Kingdom of the Netherlands to another; as with a DTA it can be used by third parties for treaty shopping. A new BRK came into effect in 1997.

Venezuela. They function as administrative booking offices. . . To date, the CBA [Central Bank of Aruba] has not conducted on-site examinations of the offshore banks.”

According to the CBA, these two offshore banks were still functioning in December 2012.

Read More

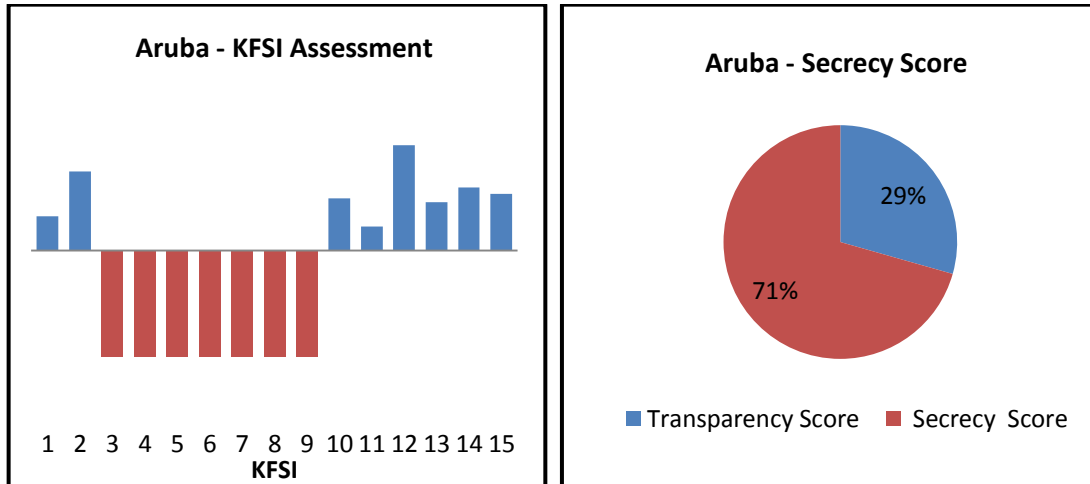
- Hoogenkamp, D.A.J., *The development of Aruba as a Tax-haven* (Oranjestad 1988).
- IMF Aruba Offshore Financial Centre Assessment. Volume 1 June 2002.
- IMF Country report September 2008. No 08/316. Aruba Assessment.
- IMF Country report October 2010. No. 10/334. Aruba Article IV Consultation.
- IMF Kingdom of the Netherlands—Aruba: Detailed Assessment of Compliance with the Basel Core Principles for Effective Banking Supervision, IMF Country Report No. 08/316, Sept 2008
- List of financial institutions under the supervision of the CBA as of December 31, 2012, Central Bank of Aruba, www.cbaruba.org

Next steps for Aruba

Aruba’s 71 per cent secrecy score shows that it must still make major progress in offering satisfactory financial transparency. If it wishes to play a full part in the modern financial community and to impede and deter illicit financial flows, including flows originating from tax evasion, aggressive tax avoidance practices, corrupt practices and criminal activities, it should take action on the points noted where it falls short of acceptable international standards. See part 2 below for details of Aruba’s shortcomings on transparency. See this link <http://www.financialsecrecyindex.com/kfsi> for an overview of how each of these shortcomings can be fixed.

Part 2: Secrecy Scores

The secrecy score of 71 per cent for Aruba has been computed by assessing the jurisdiction’s performance on the 15 Key Financial Secrecy Indicators, listed below.



The numbers on the horizontal axis of the bar chart on the left refer to the Key Financial Secrecy Indicators (KFSI). The presence of a **blue** bar indicates a positive answer, as does **blue** text in the KFSI list below. The presence of a **red** bar indicates a negative answer as does **red** text in the KFSI list. Where the jurisdiction's performance partly, but not fully complies with a Key Financial Secrecy Indicator, the text is coloured **violet** in the list below (combination of red and blue).

This paper draws on key data collected on Aruba. Our data sources include regulatory reports, legislation, regulation and news available at 31.12.2012¹. The full data set is available [here](#)². Our assessment is based on the 15 Key Financial Secrecy Indicators (KFSIs, below), reflecting the legal and financial arrangements of Aruba. Details of these indicators are noted in the following table and all background data can be found on the [Financial Secrecy Index website](#)³.

The Key Financial Secrecy Indicators and the performance of Aruba are:

TRANSPARENCY OF BENEFICIAL OWNERSHIP – Aruba	
1.	Banking Secrecy: Does the jurisdiction have banking secrecy? Aruba does not adequately curtail banking secrecy
2.	Trust and Foundations Register: Is there a public register of trusts/foundations, or are trusts/foundations prevented? Aruba partly discloses or prevents trusts and private foundations
3.	Recorded Company Ownership: Does the relevant authority obtain and keep updated details of the beneficial ownership of companies? Aruba does not maintain company ownership details in official records

KEY ASPECTS OF CORPORATE TRANSPARENCY REGULATION – Aruba	
4.	<p>Public Company Ownership: Does the relevant authority make details of ownership of companies available on public record online for less than US\$10/€10?</p> <p>Aruba does not require that company ownership details are publicly available online</p>
5.	<p>Public Company Accounts: Does the relevant authority require that company accounts are made available for inspection by anyone for a fee of less than US\$10/€10?</p> <p>Aruba does not require that company accounts be available on public record</p>
6.	<p>Country-by-Country Reporting: Are all companies required to comply with country-by-country financial reporting?</p> <p>Aruba does not require country-by-country financial reporting by all companies</p>
EFFICIENCY OF TAX AND FINANCIAL REGULATION – Aruba	
7.	<p>Fit for Information Exchange: Are resident paying agents required to report to the domestic tax administration information on payments to non-residents?</p> <p>Aruba does not require resident paying agents to tell the domestic tax authorities about payments to non-residents</p>
8.	<p>Efficiency of Tax Administration: Does the tax administration use taxpayer identifiers for analysing information efficiently, and is there a large taxpayer unit?</p> <p>Aruba does not use appropriate tools for efficiently analysing tax related information</p>
9.	<p>Avoids Promoting Tax Evasion: Does the jurisdiction grant unilateral tax credits for foreign tax payments?</p> <p>Aruba does not avoid promoting tax evasion via a tax credit system</p>
10.	<p>Harmful Legal Vehicles: Does the jurisdiction allow cell companies and trusts with flee clauses?</p> <p>Aruba partly allows harmful legal vehicles</p>
INTERNATIONAL STANDARDS AND COOPERATION – Aruba	
11.	<p>Anti-Money Laundering: Does the jurisdiction comply with the FATF recommendations?</p> <p>Aruba does not comply with international anti-money laundering standards</p>
12.	<p>Automatic Information Exchange: Does the jurisdiction participate fully in Automatic Information Exchange such as the European Savings Tax Directive?</p> <p>Aruba participates fully in Automatic Information Exchange</p>

13.	Bilateral Treaties: Does the jurisdiction have at least 46 bilateral treaties providing for information exchange upon request, or is it part of the European Council/OECD convention? As of 31 May, 2012, Aruba had less than 46 tax information sharing agreements complying with basic OECD requirements
14.	International Transparency Commitments: Has the jurisdiction ratified the five most relevant international treaties relating to financial transparency? Aruba has partly ratified relevant international treaties relating to financial transparency
15.	International Judicial Cooperation: Does the jurisdiction cooperate with other states on money laundering and other criminal issues? Aruba partly cooperates with other states on money laundering and other criminal issues

¹ With the exception of KFSI 13 for which the cut-off date is 31.05.2013. For more details, look at the endnote number 2 in the corresponding KFSI-paper here:

<http://www.financialsecrecyindex.com/PDF/13-Bilateral-Treaties.pdf>.

² That data is available here: <http://www.financialsecrecyindex.com/database/menu.xml>.

³ <http://www.financialsecrecyindex.com>.