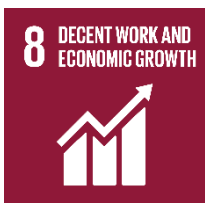


National Program for Formalizing the Shadow Economy in Aruba



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Contents

1. INTRODUCTION	3
Benefits for consumers	3
The national program	4
2. SITUATION ANALYSIS.....	5
2.1 Size and Scope.....	5
2.2 Enforcement agencies and the shadow economy.....	5
2.3 Tax policy, fiscal obligations, non-tax charges, and administrative burdens	9
2.4 Tax culture and awareness among citizens and businesses	16
2.5 Causes and effects of shadow economy	24
2.6 Conclusion.....	25
3. STRATEGIC, INSTITUTIONAL AND LEGAL FRAMEWORK FOR DEVELOPING THE NATIONAL PROGRAM 26	
3.1 Strategic framework.....	26
3.2 Institutional and Legal Framework for Developing the National Program	27
4. SUMMARY OF PRE-NATIONAL PROGRAM EFFORTS IN COMBATING THE SHADOW ECONOMY	27
5. OBJECTIVES OF THE NATIONAL PROGRAM	30
5.1 Primary objective	30
5.2 Special Objectives.....	30
5.3 Guiding principles.....	31
6. IMPLEMENTATION MEASURES FOR THE NATIONAL PROGRAM	31
6.1 Special Objective 1: Enhancing the Monitoring of Shadow Economy Activities.....	31
6.2 Special Objective 2: Enhancing the Efficiency of the Fiscal System.....	32
6.3 Special Objective 3: Reducing Administrative and Non-Tax Burdens on Businesses and Citizens. 32	
6.4 Special Objective 4: Promoting Awareness among Citizens and Businesses about the Importance of Curbing the Shadow Economy and Encouraging Compliance with Regulations.	32
7. IMPLEMENTATION AND MONITORING OF THE NATIONAL PROGRAM	33
8. ACTION PLAN FOR IMPLEMENTING THE NATIONAL PROGRAM.....	36
9. CONCLUSION.....	36

1. INTRODUCTION

Aruba, like many countries around the world, faces a persistent challenge in the form of the shadow economy¹. Recognizing the detrimental impact of this underground economic activity on its society and sustainable growth, Aruba has taken a bold step forward with the launch of the National Program for Formalizing the Shadow Economy.

The shadow economy encompasses all illicit and unregulated economic activities that operate outside the purview of legal frameworks, such as undeclared work, tax evasion, money laundering, and smuggling. This hidden economy poses significant threats to Aruba's economy, including revenue loss, unfair competition, weakened public finances, and compromised consumer safety. Furthermore, it hampers the country's efforts to foster a transparent and accountable business environment.

Understanding the urgency to address these challenges, the Aruban government has spearheaded the National Program for Formalizing the Shadow Economy as a comprehensive and multi-faceted approach. This program is rooted in the principles of transparency, accountability, and collaboration, with the aim of creating a fair and inclusive economy for all citizens and residents of Aruba.

The National Program for Formalizing the Shadow Economy leverages a range of strategies to tackle this complex issue head-on. It focuses on strengthening inspection capabilities, enhancing regulatory frameworks, promoting tax compliance, fostering public awareness, and fostering cooperation between government agencies, businesses, and civil society organizations. By adopting a holistic approach, Aruba aims to dismantle the foundations of the shadow economy and establish a robust and sustainable economic ecosystem.

Through this program, Aruba aims primarily to significantly reduce the size and impact of the shadow economy by facilitating formalization, and thereby recover lost tax revenues and redirecting them towards vital public services and infrastructure development. The program endeavors to create a level playing field for businesses, ensuring fair competition and fostering an environment that encourages entrepreneurship and innovation. Recognizing the challenges faced by workers in the informal sector, the program also aims to extend legal protections, benefits, and opportunities to these individuals by providing avenues for formalization and thereby ensuring that, individuals engaged in the informal economy gain access to fair wages, safe working conditions, and social protections that contribute to their overall well-being and economic security.

Moreover, the National Program for Formalizing the Shadow Economy places a strong emphasis on public awareness and education. By empowering individuals with knowledge about the detrimental effects of the shadow economy, the program seeks to mobilize a collective effort in promoting legal and ethical economic practices. Through campaigns, workshops, and educational initiatives, Aruba aims to instill a culture of compliance and responsibility among its citizens and businesses.

Benefits for consumers

The National Program for Formalizing the Shadow Economy in Aruba also aims to create a more secure, regulated, and consumer-friendly economic environment, providing various direct and indirect benefits to consumers. For example, bringing informal businesses into the regulatory framework can result in improved product and service quality as these businesses adhere to established standards and

¹ In this paper the terms shadow economy and informal economy are used interchangeably.

regulations. Consumers can also gain increased protection, as formal enterprises are more likely to follow fair business practices, provide warranties, and adhere to consumer protection laws. Another benefit for consumers is the ability to seek redress through established legal channels in case of disputes, resulting from the legal frameworks governing formal businesses.

Increased formalization can also benefit consumers indirectly, as increased formalization often leads to improved social services because taxes collected from more formal businesses can be utilized to fund public services such as education, healthcare, infrastructure and other projects and initiatives that benefit the entire population. Further, a formal economy tends to be more dynamic and contributes more significantly to overall economic growth. This growth can create employment opportunities, increasing the purchasing power of consumers. Another way consumers might benefit is by ensuring that consumers pay fair and transparent prices, as it reduces additional, unregulated or hidden fees. Finally, formalization also enhances the reputation of businesses, leading to increased consumer trust in the products and services offered.

The national program

Building upon the foundation laid by previous Shadow Economy Policy Documents (DEACI, 2021 and 2023)²³, which was informed by the in-depth study conducted by Lejuez & Schneider in February (2022)⁴, this process reflects a refined and strategic approach to reducing and formalizing the shadow economy. In line with this commitment, a dedicated commission was established by ministerial decree⁵. This Commission for Countering the Informal Economy (Comissie voor bestrijding van de informele economie, CBIE), entrusted with a crucial role in guiding this initiative, is responsible for crafting, presenting and implementing the Draft National Program and Draft Action Plan for Countering the Shadow Economy.

The CBIE is a collaborative effort, and it brings together key entities that play vital roles in addressing the shadow economy, including the Tax Department (DIMP), the Department of Labor and Research (DAO), the Social Security Bank (SVB), the Department of Economic Affairs, Commerce, and Industry (DEACI), and the Aruba Trade and Industry Association (ATIA). The synergy of these participants ensures that the National Program is well-rounded, drawing upon diverse expertise and perspectives to develop comprehensive strategies for combating the shadow economy effectively.

² Department of Economic Affairs, Industry and Commerce (DEACI). 2021. *The Aruban Shadow Economy: Policy Paper*. November. Oranjestad, Aruba. https://www.deaci.aw/wp-content/uploads/2022/03/SE-Aruba_policy-paper_finalversion-2021.pdf

³ Department of Economic Affairs, Industry and Commerce (DEACI). 2023. *Reducing the Aruban Shadow Economy: Outline of measures for an Action Plan*. February. Oranjestad, Aruba.

⁴ Lejuez, J and Schneider, F. (2022). *Tourism and the Aruban Shadow Economy*, Discussion Paper, Johannes Kepler University of Linz, Research Institute for Banking and Finance, 2022/3.

⁵ Besluit van de ministerraad van 25 april 2023 (BE-25/23)

2. SITUATION ANALYSIS

In order to gain a comprehensive understanding of the shadow economy in Aruba and develop effective countermeasures, it is important to analyze various aspects. First, the size and scope of the shadow economy need to be examined to assess its extent and impact. Next, an evaluation of the enforcement agencies' sanctioning capabilities is necessary to determine their effectiveness in addressing informal economic activities. Additionally, an assessment of the fiscal and administrative burden on businesses and citizens is crucial to identify areas where improvements can be made. Furthermore, understanding citizens' tax morale and opinions is essential in shaping strategies to foster compliance. Lastly, exploring the causes and effects of the shadow economy in Aruba will provide insights into the root factors driving its existence. Together, these analyses will contribute to a comprehensive understanding of the shadow economy and guide the development of targeted interventions.

While the current chapter provides an in-depth situation analysis, the reader is referred to chapter four for the discussion of both direct and indirect measures that are already actively contributing to the reduction of the shadow economy. This interplay of chapters ensures a comprehensive perspective, dispelling any misconceptions about the absence of existing efforts in this vital domain. Chapter four offers a comprehensive summary of the pre-national program initiatives aimed at combatting the shadow economy in Aruba. These efforts encompass a wide array of measures that were already in motion prior to the introduction of the national program. This contextual information, detailed in chapter four, is pivotal in understanding the landscape of measures already in place.

2.1 Size and Scope

The shadow economy in Aruba encompasses a range of informal activities, including undeclared work, tax evasion, money laundering, smuggling, and informal economic transactions. Estimating the exact size of the shadow economy is challenging, but based on a recent study a first estimation was achieved using the MIMIC methodology. This study estimates the Aruban shadow economy on average to be equivalent to about 20% of the GDP, representing a substantial portion of the overall economic activity in the country.

However, relying solely on a single estimation method, such as the MIMIC methodology, carries certain potential dangers and limitations. Therefore, using multiple estimation methods for measuring the size of the shadow economy in Aruba is crucial to ensure a more comprehensive, reliable, and accurate assessment.

2.2 Enforcement agencies and the shadow economy

The following section provides an overview of the needed information regarding the sanctioning capabilities for the shadow economy in Aruba. This overview emphasizes the lack of available data and the importance of conducting a comprehensive analysis. By examining the existing information gaps, it becomes evident that further research and data collection are necessary to enhance our understanding of the sanctioning capabilities. This analysis is crucial for Aruba to develop evidence-based strategies and measures to effectively address the challenges posed by the shadow economy and ensure a more transparent and compliant business environment.

Overlapping competencies and unclear designations

There may be instances where overlapping competencies and unclear designations of inspection authorities can lead to challenges and potential negative impacts on the work of inspections as well as on the subjects being controlled. While efforts are made to clearly define the responsibilities and jurisdictions of different inspections, there can still be situations where overlaps occur, resulting in confusion and inefficiencies. However, the available information on the extent of overlapping competencies and unclear designations of inspection authorities in Aruba is limited. Further research and analysis are necessary to gain a comprehensive understanding of the specific instances and potential negative impacts caused by such situations. The impacts of overlapping competencies can manifest in several ways such as duplication of inspections, inconsistent interpretations, delays and inefficiencies or lack of clarity and accountability.

Unnecessary restrictions in the regulatory framework for performing inspections

The regulatory framework for performing inspections in combating the shadow economy aims to ensure effective enforcement and compliance with laws and regulations. However, it is important to continually review and improve the regulatory framework to streamline the inspectors' conduct and remove any unnecessary restrictions that may hinder their effectiveness. Currently there is no such review available in Aruba. Therefore, it is necessary to conduct an analysis of the current situation to identify which potential restrictions could be considered for elimination such as limited scope of inspection powers, cumbersome administrative procedures, lack of information sharing and coordination, insufficient penalties and sanctions or limited resources and training.

Limitations or constraints in the regulatory framework for performing inspections

Another area in which more information is needed regards the limitations or constraints that inspectors face in the area of countering the shadow economy. These limitations can vary based on the specific regulations and legislation governing inspection oversight. By addressing these potential limitations that may exist such as limited investigative powers, lack of collaboration and information sharing, insufficient resources and staffing, inadequate legal framework or lack of training and expertise, the effectiveness of inspection oversight in countering the shadow economy in Aruba can be enhanced.

Situations where the jurisdictional boundaries are not clearly defined

While efforts are made to establish clear jurisdiction and ensure that controlled subjects have access to relevant authorities, there may be situations where the jurisdictional boundaries are not clearly defined, leading to confusion for controlled subjects. In some cases, there may be overlapping or shared responsibilities between different inspection bodies or regulatory agencies. This can create uncertainty for controlled subjects who are unsure about which authority to contact or seek guidance from regarding specific issues or compliance matters. The absence of clear jurisdictional boundaries can result in delays or confusion in resolving certain issues related to the shadow economy.

However, no analysis is available regarding this issue. Therefore more information is needed on this question to be able to determine where Aruban authorities must provide clarity on jurisdictional responsibilities and ensure controlled subjects have access to the appropriate authorities in order to enhance the efficiency and effectiveness of its inspection oversight processes, ultimately contributing to a more transparent and compliant business environment.

Need for a Coordinating body

Forming a Coordination Body can be a proactive step in initiating the process of establishing systemic coordination of inspections in Aruba. The establishment of such a body can help ensure permanent coordination among inspection services, leading to a reduction in conflicts, shortcomings, and overlapping competencies of individual inspections. It can also facilitate more efficient work in combating the shadow economy by promoting collaboration and streamlining efforts among different inspection bodies.

The Coordination body can serve as a central authority responsible for facilitating communication, cooperation, and information sharing among the various inspection services in Aruba. Its role would be to promote collaboration, harmonize inspection procedures, exchange best practices, and address any challenges or conflicts that arise during the inspection process.

By bringing together representatives from different inspection bodies, the Coordination Body can provide a platform for discussion, coordination, and decision-making. It can help identify areas of common interest and establish protocols or guidelines to ensure consistency in inspection activities related to combating the shadow economy.

The body can also play a crucial role in fostering a culture of collaboration and knowledge sharing among inspectors. It can organize regular meetings, training sessions, and workshops to enhance their understanding of the shadow economy, update them on emerging trends and techniques used by informal actors, and facilitate the exchange of experiences and expertise.

Moreover, the Coordination Body can serve as a point of contact for controlled subjects, providing them with clear guidance on which inspection body to approach for specific issues or concerns related to the shadow economy. This can help address the problem of controlled subjects being unsure whom to contact and ensure they receive accurate and consistent information.

Overall, establishing a Coordination Body can be a valuable mechanism to enhance coordination, cooperation, and efficiency in combating the shadow economy in Aruba. It can help streamline inspection efforts, reduce conflicts and shortcomings, and promote a more effective and unified approach in countering informal activities.

Areas of inspection oversight lacking regulatory framework elaborated through legislation

It is possible that certain areas of inspection oversight may not have a detailed regulatory framework elaborated through legislation. This can occur due to various reasons, such as emerging sectors or industries that have not yet been addressed in existing legislation or evolving challenges that require specific regulations to be developed. The absence of a detailed regulatory framework through legislation in certain areas of inspection oversight can create challenges for inspectors and controlled subjects. Without clear guidelines and specific regulations, there may be ambiguity regarding the scope of inspections, the powers and obligations of inspectors, and the rights and responsibilities of controlled subjects.

To address this issue, an evaluation of the regulatory landscape is needed to identify areas where legislative action is needed in order to provide a comprehensive framework for inspection oversight. This may involve conducting thorough assessments of emerging sectors, industries, or issues that require specific regulations to ensure effective inspection practices and compliance with laws and regulations.

Gaps in cooperation between inspection bodies and law enforcement

The identifying of specific gaps in cooperation between inspection bodies in Aruba, as well as between the police, prosecutors, and courts, would require a detailed analysis of the existing systems and practices in place. This will help identify the challenges (such as communication and information sharing, legal framework and jurisdictional issues, coordination mechanisms, training and capacity building or data integration and analysis) that can impact the degree of sanctioning of criminal offenses in areas under the control of inspectors. By improving cooperation between inspection bodies, police, prosecutors, and courts, Aruba can enhance the degree of sanctioning of criminal offense perpetrators in areas under the control of inspectors and ensure a more effective response to illegal activities

The level of training for inspectors in legal practices

The level of training for inspectors in legal practices can vary in Aruba. A comprehensive analysis is needed to assess the current level of training for inspectors in legal practices in Aruba, as there is currently limited available information on this important aspect.

While some inspectors may receive adequate training in legal procedures and practices, others may require additional training and support to effectively handle tasks such as filing criminal charges, initiating misdemeanor proceedings, reporting on commercial offenses, and engaging in court proceedings.

Completed misdemeanor procedures and their average duration

Information on the percentage of completed misdemeanor procedures regarding informality and their average duration in Aruba is not available. An overview needed with the accurate and up-to-date information on the completion rates and average duration of misdemeanor procedures in the country.

Collection rate of fines

There is no specific data on the percentage of fines collected in Aruba. The collection rate of fines can vary depending on various factors, including the effectiveness of the enforcement mechanisms, the cooperation of the individuals or entities involved, and the overall legal and administrative processes in place.

To obtain accurate information on the collection rate of fines in Aruba, an analysis should be performed of the available data from relevant authorities, such as the judiciary, law enforcement agencies, or government financial departments. These sources should provide detailed information on the collection rates and related statistics specific to Aruba.

Suitable conditions for the shadow economy when importing goods across the border

Suitable conditions for the shadow economy can exist when importing goods across the border if certain factors are present. These factors may include weak border controls, lack of effective customs procedures, insufficient collaboration between customs authorities and other relevant agencies, corruption, and inadequate enforcement of import regulations.

When these conditions exist, it becomes easier for individuals and businesses to engage in illicit activities such as smuggling, underreporting the value of imported goods, or avoiding customs duties and taxes. This can contribute to the growth of the shadow economy by enabling the illegal movement of goods and the evasion of legitimate taxes and regulatory requirements.

To address the issue of informal businesses in the import sector, Aruba implemented a border tax⁶ on imported goods that aims to encourage informal businesses to formalize their operations. By formalizing their businesses, these entities will be eligible to receive restitution of the border tax, incentivizing them to operate within the formal economy. This approach aims to promote transparency, fairness, and compliance within the import sector, ultimately reducing the prevalence of the shadow economy.

A further analysis on this area should make clear what other measures could be implemented such as strengthening border controls, implementing advanced customs procedures and technologies, enhancing collaboration between customs authorities and other law enforcement agencies, promoting transparency and accountability, and conducting regular risk assessments to identify potential areas of vulnerability.

Coordination of border management

In Aruba, there is no coordination body or mechanism in place to facilitate the coordination and cooperation among various agencies involved in border management. Typically, a coordination body responsible for border management would aim to enhance the effectiveness and efficiency of border control operations by promoting collaboration and information sharing among relevant agencies. This coordination body may involve representatives from different entities, such as immigration authorities, customs departments, police, coast guard, and other relevant stakeholders.

The coordination body's responsibilities may include establishing joint strategies and policies, coordinating operational activities, sharing intelligence and information, conducting joint training and capacity-building programs, and addressing cross-border challenges and issues.

Systemic deficiencies in inspection supervision

Insufficient real-time information and specific examples of systemic deficiencies in inspection supervision in Aruba make it challenging to identify and address potential issues. It is common for inspection systems to encounter challenges and deficiencies, which can be influenced by factors such as the regulatory framework, institutional arrangements, and resource allocation. Therefore, further information is required to gain a comprehensive understanding of these deficiencies and develop effective solutions.

2.3 Tax policy, fiscal obligations, non-tax charges, and administrative burdens

Tax policy, fiscal measures, non-tax charges, and administrative burdens play a significant role in the context of the shadow economy. The tax policy of a country can have a direct impact on the size and prevalence of the shadow economy. High tax rates, complex tax regulations, and a lack of tax incentives can create incentives for businesses and individuals to engage in informal economic activities to evade taxes. Therefore, a fair and well-designed tax policy that promotes compliance and reduces tax avoidance can contribute to reducing the shadow economy. Fiscal measures refer to various actions taken by the government to manage its revenue and expenditure. In relation to the shadow economy, effective fiscal measures involve measures to improve tax collection, reduce tax evasion, and enhance overall fiscal discipline. This can include measures such as strengthening tax enforcement, implementing robust auditing mechanisms, and adopting technology-driven solutions for tax administration. Non-tax charges are additional charges or fees imposed by the government on specific activities or sectors. These charges

⁶ The restitution of the border tax is only applicable to trading goods and not for goods for own consumption.

can include licensing fees, permits, and other regulatory costs. Excessive or burdensome non-tax charges can contribute to the growth of the shadow economy as businesses may seek to evade or avoid these charges by operating informally. Therefore, it is crucial to ensure that non-tax charges are reasonable, transparent, and aligned with the overall objective of promoting formal economic activities.

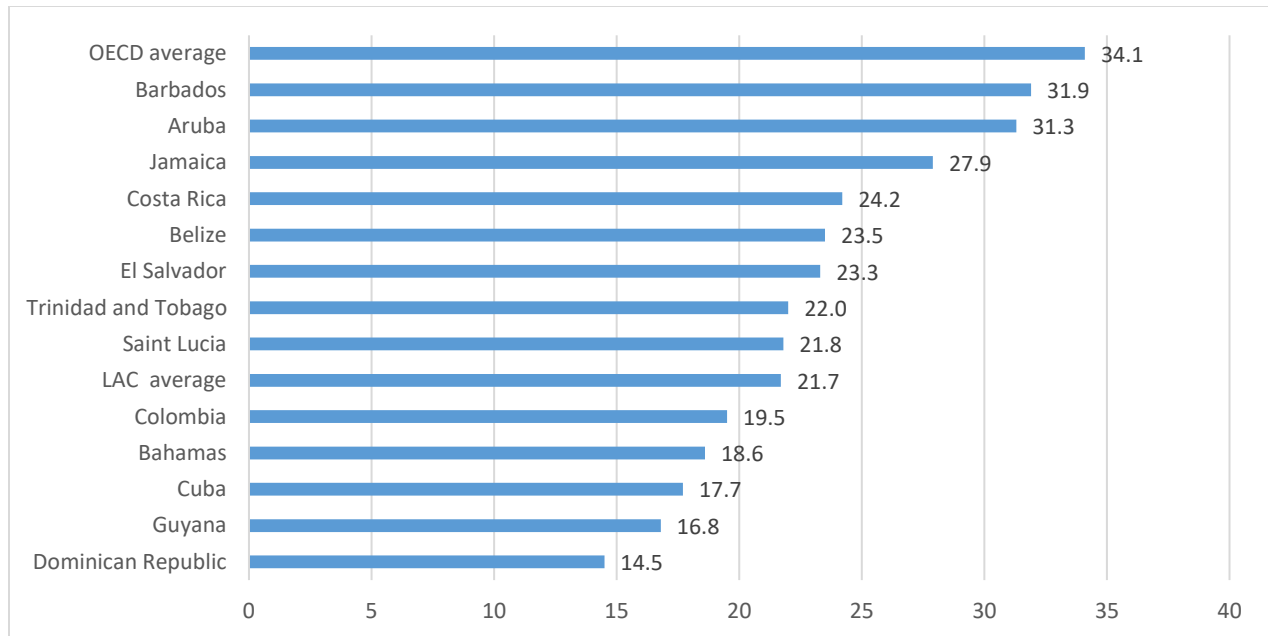
Administrative burdens refer to the bureaucratic procedures, paperwork, and compliance requirements that businesses and individuals have to navigate to fulfill their legal obligations. Complex and time-consuming administrative processes can act as barriers to formalization and incentivize engagement in the shadow economy. Simplifying administrative procedures, reducing red tape, and implementing user-friendly systems can help reduce administrative burdens and encourage compliance with regulations.

Overall, a conducive tax policy, effective fiscal measures, reasonable non-tax charges, and streamlined administrative processes can collectively contribute to reducing the shadow economy in Aruba. By creating an environment that supports formal economic activities, minimizes tax evasion, and reduces regulatory burdens, the government can foster sustainable economic growth, enhance tax revenues, and ensure a level playing field for businesses

Tax burden

Aruba's tax burden in 2021, measured by the tax-to-GDP ratio, stands at 31.3, which is slightly below the OECD average of 34.1 and significantly higher than the Latin American and Caribbean (LAC) average of 21.7. When comparing Aruba's tax burden to other countries in the region, we can observe that the tax burden in Aruba is amongst the highest in the region. For instance, only Barbados has a higher tax burden of 31.9 while other Caribbean countries have lower tax burdens such as Jamaica at 27.9, the Dominican Republic at 14.5, and the Bahamas at 18.6. Comparing the tax burdens among these countries offers valuable insights into the fiscal landscape and its potential implications for the shadow economy. A higher tax burden in Aruba, compared to other countries in the region, could have an impact on the size of the shadow economy. The attractiveness of engaging in informal activities typically increases when individuals and businesses face relatively higher tax obligations. When tax burdens are high, individuals and businesses may find it more appealing to participate in the shadow economy to avoid or evade taxes as lower tax obligations in the informal sector can lead to increased profitability and reduced regulatory burdens. However, a better understanding of the relationship between tax burden and the shadow economy in Aruba is essential in formulating effective strategies to address informal economic activities and promote compliance within the formal sector. Figure 1 compares Aruba's tax burden with other countries in the region for the year 2021.

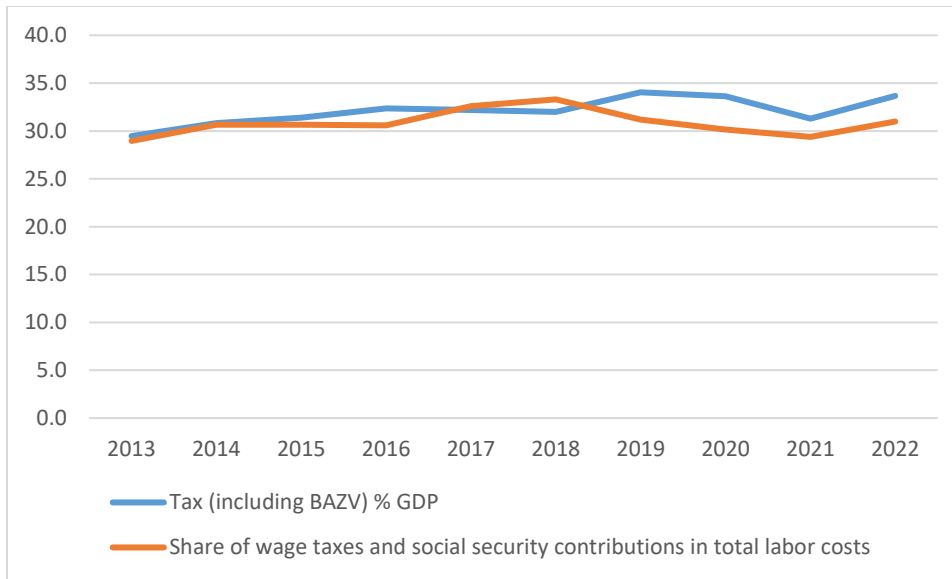
Figure 1 Tax-to-GDP ratios in the LAC region, 2021



Source: OECD et al. (2023), Revenue Statistics in Latin America and the Caribbean 2023 and DEACI MARUBA Model

Figure 2 illustrates the trends in the tax burden and fiscal burden of labor in Aruba from 2013 to 2022. The tax burden, represented by the tax-to-GDP ratio, shows a slight increase from 29.5% to 33.7% over this period. This indicates a rise in the overall tax obligations borne by individuals and businesses in relation to the size of the economy. On the other hand, the fiscal burden of labor, which measures the share of wage taxes and social security contributions in total labor costs, remains relatively stable at around 30%. This suggests that the portion of labor costs attributable to taxes and social security contributions has remained consistent. These figures provide valuable insights into the fiscal landscape and can aid in assessing the relationship between tax obligations, labor costs, and the potential impact on the shadow economy.

Figure 2 Tax burden and share of wage taxes and social security contributions in total labor costs for Aruba, 2013-2022



Source: DEACI MARUBA model

Sudden changes in tax policies

Sudden changes in tax policies can have an impact on business predictability and the ability of businesses, especially small and medium enterprises (SMEs), to meet their adopted business plans and ensure sustainability. Changes in tax rates, tax regulations, or tax incentives can affect the financial planning and operations of businesses, potentially leading to increased costs or reduced profitability.

In general, stable and predictable tax policies are important for businesses as they provide a conducive environment for long-term planning, investment, and growth. When tax changes occur frequently or without sufficient notice, businesses may find it challenging to adapt their strategies, budgets, and operations accordingly. This is particularly true for SMEs, which often have limited resources and may face greater difficulties in adjusting to abrupt tax changes.

This year witnessed notable shifts in tax policies, including a 1% increase in the turnover tax (BBO) in January 2023. Moreover, the introduction of the border tax (BBO aan de grens) in August 2023 added another layer of complexity. These sudden changes have the potential to adversely impact businesses, necessitating a strategic response to adapt to the evolving fiscal landscape.

To foster business predictability and support the sustainability of businesses, including SMEs, it is beneficial for tax policies to be designed in a transparent and consultative manner. This allows businesses to have a clear understanding of the tax system, anticipate potential changes, and adjust their plans accordingly. Additionally, providing a reasonable transition period for implementing tax changes can help businesses mitigate any sudden disruptions and adapt to the new requirements.

Striking a balance between ensuring adequate tax revenues for public finances and providing a stable and supportive tax environment for businesses requires regular dialogue and engagement with businesses

and relevant stakeholders. This ongoing dialogue can help in identifying potential concerns and minimizing the negative impacts of tax changes on business predictability and sustainability.

Strategic documents that outline long-term tax plans

Aruba has implemented strategic documents that outline long-term tax plans. One such document is the Fiscal Reform Agenda⁷, which provides a roadmap for the reform and modernization of the tax system in Aruba. The Fiscal Reform Agenda aims to enhance the efficiency and effectiveness of the tax system, improve taxpayer compliance, and promote sustainable economic growth.

The Fiscal Reform Agenda sets forth specific objectives and measures to achieve these goals. It includes initiatives to simplify tax regulations, streamline tax administration processes, and enhance the capacity of the tax authority. Additionally, the agenda focuses on improving taxpayer services, promoting electronic tax filing and payment systems, and strengthening cooperation and information exchange with international tax authorities. Nonetheless, the fiscal reform agenda has faced difficulties in its implementation, prompting adjustments to the agenda itself.

By establishing long-term tax plans through strategic documents like the Fiscal Reform Agenda, Aruba demonstrates its commitment to maintaining a robust and sustainable tax system. These documents provide a framework for implementing necessary reforms, addressing emerging challenges, and promoting a fair and efficient tax environment that supports economic growth and development.

The penalties system for tax evasion in Aruba

The penalties system for tax evasion in Aruba is well defined and aims to deter and punish individuals or entities that engage in tax evasion. The Tax Ordinance of Aruba sets out the provisions regarding penalties for tax offenses. The specific types of fines and their amounts depend on the nature and severity of the offense committed.

The Tax Ordinance provides a range of penalties for different types of tax offenses, including tax evasion. The fines can vary based on factors such as the amount of tax evaded, the frequency of the offense, and the presence of aggravating circumstances. The determination of fines is generally based on a percentage of the tax evaded or a fixed amount specified in the legislation.

Additionally, the Tax Ordinance may prescribe administrative penalties, surcharges, or interest on outstanding tax liabilities to encourage timely compliance with tax obligations. These penalties are designed to promote voluntary compliance and deter non-compliance.

It's important to note that the specific details and provisions of the penalties system for tax evasion in Aruba may be outlined in the Tax Ordinance and related regulations. Individuals and businesses should refer to the relevant legal documents and consult with tax professionals or authorities to ensure compliance and understanding of the applicable penalties.

⁷ Departamento di Impuesto (DIMP). 2022. *Belastingplan 2023*. Formally established in *Landsverordening Belastingplan 2023*.

https://www.overheid.aw/actueel/afkondigingsbladen_46859/item/ab2022no161_61274.html

Application of penalty mechanisms

There is no information regarding whether there is inappropriate and inconsistent application of penalty mechanisms and, if so, how much it contributes to the growth of the shadow economy in Aruba. When there is a lack of consistent enforcement and varying application of penalties for tax evasion or other related offenses, it can create an environment of uncertainty and leniency. This inconsistency may lead some individuals or businesses to perceive a lower risk of being caught and penalized for engaging in shadow economy activities.

In such cases, the perception of weak enforcement and inconsistent application of penalties can undermine the effectiveness of deterrence measures. It may embolden those involved in the shadow economy to continue their informal activities, as they perceive a lower probability of facing significant consequences for their actions. This can hinder the efforts to reduce the shadow economy and promote fair competition in the formal sector.

To effectively counter the growth of the shadow economy, it is crucial to establish a consistent and robust enforcement system that ensures the proper application of penalties. This includes implementing clear guidelines and criteria for penalties, training and equipping relevant authorities with the necessary resources, and promoting transparency and accountability in the enforcement process. By doing so, it becomes more challenging for individuals and businesses to engage in shadow economy activities without the fear of appropriate penalties and consequences.

Complexity of the tax system

The complexity of the tax system can potentially have an impact on the size of the shadow economy. When the tax system is overly complex, with a large number of tax forms and intricate rules for tax calculations, it can create challenges for individuals and businesses to understand and comply with their tax obligations.

A complex tax system may lead to confusion, errors, and difficulties in accurately reporting and paying taxes. This can result in unintentional non-compliance or even intentional attempts to evade taxes by exploiting loopholes or taking advantage of the complexity to hide income or engage in other informal activities.

Additionally, the complexity extends beyond individual taxes to non-tax forms such as fees and other charges. When the rules and requirements for these non-tax forms are convoluted, it can add to the burden and administrative challenges faced by businesses, especially small and medium enterprises. This complexity may divert their attention and resources away from compliance and towards navigating the intricacies of the system.

The Aruban tax authority aims at simplifying the tax system as reducing the number of forms, and providing clearer guidelines for tax calculations and non-tax obligations to help alleviate the burden and improve compliance. By making the tax system more user-friendly and transparent, it becomes easier for individuals and businesses to understand and meet their obligations, reducing the likelihood of engaging in shadow economy activities. The digitalization of most tax forms and the launch of the “Bo Impuesto (BOI)” online portal for tax payers are concrete steps already taken by the DIMP in this direction.

Non-tax levies in Aruba

The non-tax levies in Aruba include various fees, charges, mandatory membership fees, payments, costs, and other financial obligations imposed on legal entities and individuals by state authorities, government institutions, independent agencies and regulatory bodies, directorates, commissions, chambers, certification bodies, public enterprises, and other public and non-public entities. The specific non-tax levies can vary depending on the nature of the entity and the services it provides.

The yearly budget revenues generated from non-tax levies depends on the volume and types of levies imposed, as well as the level of economic activity and compliance with the obligations. The characteristics of the existing system of non-tax charges in Aruba can vary depending on the specific charges and the entities responsible for their collection. To date there is no research nor inventory done on the characteristics of the existing system.

A comprehensive investigation into the system should encompass several key aspects. Firstly, it should provide an overview of the charges, fees, and levies imposed on legal entities and individuals for specific services, permits, licenses, or activities, highlighting the entities, regulatory bodies, or public and non-public organizations responsible for setting these charges. Secondly, as these non-tax charges primarily aim to generate revenue for the government or specific entities, an analysis of the revenue generated and its contribution to the overall budget of the respective entities is essential. Thirdly, understanding how the revenue from non-tax charges is allocated to fund specific activities, projects, or investments, such as infrastructure development, public services, regulatory activities, sector-specific initiatives, or other determined purposes by the relevant entities, is crucial. Lastly, examining the mechanisms for ensuring compliance and enforcement within the non-tax charge system, including the responsible entities, their authority in enforcing payment, penalties for non-compliance, and measures undertaken to ensure proper collection, provides a holistic understanding of the system's functioning.

To obtain detailed information on the characteristics of the existing system of non-tax charges in Aruba, as well as the specific goals and activities funded by the revenue, it is advisable to conduct the mentioned study. This will help to in the establishment of a public registry of non-tax charges and in determining the reduction of number of non-tax charges.

Timely delivery of tax decisions

Currently there is no data available regarding the degree to which (Aruban entrepreneurs think that) timely tax decision by the tax department contributes to shadow economy in Aruba. Entrepreneurs may face difficulties in doing business if their tax decisions are not delivered in a timely manner. The Tax Department is currently addressing delays in handling objections by temporarily increasing personnel dedicated to this task. This proactive step aims to enhance efficiency and ensure timely resolution of tax decisions, reinforcing a more streamlined fiscal system in Aruba.

Timely tax decisions are crucial for businesses to effectively plan their financial resources, comply with tax obligations, and make informed business decisions. Delays or uncertainties in receiving tax decisions can create challenges and uncertainties for entrepreneurs regarding issues such as financial planning, compliance management, business decisions (i.e. investments, expansion or hiring), and legal certainty (potentially exposing businesses to legal risks or disputes with tax authorities).

To facilitate a favorable business environment, tax authorities should strive to deliver tax decisions in a timely manner. This includes providing clear guidance, prompt responses to taxpayer inquiries, efficient processing of tax filings, and timely issuance of tax assessments or rulings. Clear and transparent communication between tax authorities and entrepreneurs is crucial to minimize the difficulties faced by businesses due to delays in tax decisions and thereby minimize the incentive for businesses opting to engage in shadow economy activities.

Effectiveness of physical control

There is no specific data available for Aruba regarding whether the current physical control on the field produces the desired results in Aruba. To determine this, a comprehensive assessment of the effectiveness of field inspections, the coverage of fiscal cash registers, and the ratio of inspectors to taxpayers would be required. This analysis would provide insights into the adequacy of the current approach and identify potential areas for improvement, such as increasing the number of inspectors, enhancing training programs, and leveraging technology for more efficient monitoring and control.

2.4 Tax culture and awareness among citizens and businesses

Promoting a tax culture and raising awareness among citizens and businesses about the negative impact of the shadow economy is crucial for its effective countering. By informing and engaging stakeholders, a shift can be made towards a culture of compliance and responsible economic practices. By fostering a tax culture that emphasizes the importance of countering the shadow economy, informing citizens and businesses about its negative impact, and actively engaging stakeholders, Aruba can create an environment where compliance and responsible economic practices are valued and supported.

However, no real-time data or surveys specific to Aruba are available to provide insights in to the tax culture, tax morale and attitudes of citizens as well as businesses/entrepreneurs towards the shadow economy. Conducting such a yearly survey could pinpoint a baseline, provide evidence of the effectiveness of measures aimed at improving the tax culture, tax morale and attitudes of citizens as well as businesses/entrepreneurs and track the level of success of the national program.

In the following section, the needed indicators, to be gathered with the above mentioned survey, are presented. These indicators will provide insights into the tax morale of citizens and businesses/entrepreneurs in Aruba, as well as to their opinions on various aspects of the shadow economy. These indicators aim to shed light on the attitudes and perceptions towards tax compliance, the justification of the shadow economy, and the motivations behind engaging in informal economic activities. By examining these indicators, a better understanding can be gained of the underlying factors that influence tax morale and opinions regarding the shadow economy in Aruba. This understanding aids in designing effective awareness campaigns for the future.

2.4.1 Tax culture and awareness among citizens

Level of support for countering of the shadow economy

Currently, no data are available regarding percentage of Aruban citizens who personally support the countering of the shadow economy. Public opinion can vary, and it would require conducting surveys or studies to accurately determine the level of support among Aruban citizens. The percentage of Aruban citizens who do not justify the existence of the shadow economy is also not known. Public opinion on this

matter can vary among individuals and may be influenced by various factors such as personal experiences, socio-economic conditions, and cultural perspectives. By measuring this the progress in achieving a society increasingly less tolerant of shadow economy activities can be tracked.

View that informal business violates workers' rights

There is also no data on percentage of Aruban citizens who view that informal business violates workers' rights. Information is needed in their awareness of how informal businesses may exploit workers by paying lower wages, denying them social security benefits, failing to provide safe working conditions, or violating labor laws. Also on their level of understanding of how these practices undermine workers' rights, such as fair wages, job security, and access to social protections. Given the importance of labor rights and worker protection, it is important that Aruban citizens increasingly view informal business as a violation of workers' rights.

View that informal business reduces revenues of both the state and businesses

There is neither data on the percentage of Aruban citizens who view that informal business reduces revenues of both the state and businesses. Given the economic consequences of informal business activities, it is important that Aruban citizens increasingly understand the negative impact of such activities on both the state and legitimate businesses.

Given the potential negative impact on law-abiding companies, it is necessary for Aruban citizens to recognize the threat posed by informal business activities. However, more information is needed on percentage of Aruban citizens who view that informal businesses threaten companies operating in accordance with the law. Thus, that those informal businesses that often operate outside the boundaries of legal regulations and requirements have an unfair advantage over law-abiding companies. In addition, more information is needed on the level of awareness among Aruban citizens that these companies may engage in practices such as tax evasion, underpayment of wages, lack of proper licensing, or substandard product or service quality and that practices can undermine the competitiveness of legitimate businesses and create an uneven playing field in the market.

Level of understanding of the different aspects of the shadow economy

Specific survey data or research studies are needed to determine the actual level of understanding of the different aspects of the shadow economy among Aruban citizens. There is no data available on percentages of Aruban citizens' views on aspects of the shadow economy such as unregistered work, tax avoidance and obligations towards the state, selling goods on the black market, Illegal business activities, Smuggling, theft, survival, or illegal enrichment

Awareness direct role in suppressing the shadow economy

Data is also needed on the percentage of Aruban citizens who are aware of their direct role in suppressing the shadow economy. Raising awareness among citizens about the negative impacts of the shadow economy and their role in countering it is an important aspect of addressing the issue. By educating citizens about the consequences of engaging in informal or illegal economic activities and promoting compliance with regulations, it is possible to foster a greater understanding of the need to suppress the shadow economy. Studies can provide valuable insights into the level of awareness and understanding

among the population, as well as identify areas where further awareness campaigns or educational initiatives may be needed.

Ability to define the shadow economy

It is important to determine the percentage of Aruban citizens who can define what the shadow economy represents. The concept of the shadow economy can be multifaceted, encompassing various forms of informal economic activities, tax evasion, undeclared work, and unregistered businesses. Some individuals may have a clear understanding of the term, while others may have limited knowledge or misconceptions about it. The level of understanding and knowledge about the shadow economy can vary among individuals, and it would require survey data or research studies to determine the specific percentages. This can provide valuable insights into the level of awareness and comprehension among the population, which can further inform efforts to raise awareness and educate citizens about the shadow economy and its implications.

Opinions about the growth of the shadow economy

It is necessary to track the percentages of Aruban citizens who believe the shadow economy size has increased or decreased compared to the previous year. Public perceptions about the size and trends of the shadow economy can vary based on individual experiences, observations, and awareness of economic conditions. Studies can provide valuable insights into the public's perception of the shadow economy and its dynamics over time and serve as a gage for tracking progress of the National program.

Willingness to report an employer who hires them or their colleague informally

Another important measurement is the percentage of Aruban citizens who would not report an employer who hires them or their colleague informally. The willingness to report such activities can vary among individuals and can be influenced by various factors such as personal circumstances, cultural norms, fear of retaliation, and lack of trust in authorities. This would help determine the specific percentages and reasons why individuals may choose not to report informal employment.

Willingness to report a business that does not issue receipts

Lastly, data is needed on the percentage of Aruban citizens who would not report a business that does not issue receipts. The willingness to report such instances can vary among individuals and can be influenced by various factors such as personal values, perception of risk, perceived benefits, and trust in authorities. The reasons why individuals may choose not to report a business that does not issue receipts can vary and might include fear of retaliation, lack of awareness, perceived inconvenience, lack of trust in authorities. Therefore, it is important to determine the specific percentages and reasons for why individuals may choose not to report businesses that do not issue receipts in order to develop targeted measures.

2.4.2 Tax culture and awareness among businesses

Opinion on the decrease of the shadow economy

To track the success of the national program it is important to obtain accurate and up-to-date data on the percentage of businesses in Aruba that believe the shadow economy has decreased. The perception of the shadow economy's size can vary among businesses based on their individual experiences, industries,

and interactions within the business environment. Factors such as changes in government policies, enforcement efforts, economic conditions, and sector-specific dynamics can influence businesses' perceptions of the shadow economy.

Estimations on the operation of businesses in the shadow economy

Another important necessary indicator that is lacking in Aruba is the percentage of companies in different sectors estimating the operation of businesses in the informal economy in Aruba. This will provide an indication of the extent of the shadow economy across sectors and industries which can vary based on factors such as regulatory environment, enforcement efforts, market dynamics, and specific characteristics of each sector. To obtain accurate and reliable data on the percentage of businesses in different sectors estimating the presence of shadow economy operations, it would be necessary to conduct in-depth research or surveys specifically designed to address this aspect and collect responses from a representative sample of businesses in each sector.

Businesses' perceptions of effects and causes of the shadow economy

It is also valuable, for the development of adequate policies and targeted measures, to determine what, according to businesses, are the most important effects and what are some of the main causes of the shadow economy across industries and sectors in Aruba. Currently this information is missing. The shadow economy can have several significant effects, including decline of product prices, decreased turnover, uneven playing field, reduced trust and credibility (customers may become skeptical about the legitimacy and quality of products or services offered by businesses, leading to a negative impact on the reputation and credibility of the formal sector). The effects of the shadow economy can vary across industries and sectors. The specific impact on product prices, turnover, and other aspects may differ depending on the nature of the business and the market dynamics. It is important to note that the specific causes and perceptions may vary among different businesses. Factors that businesses may identify as causes of the shadow economy could include high salary taxes and contributions, high non-tax charges, complex regulatory frameworks, bureaucratic procedures, inadequate access to financing, limited market opportunities, and lack of trust in the effectiveness and fairness of the formal system.

Businesses that admit to making cash transactions

Cash transactions are frequently used as a means to conduct unreported or underreported economic activities that contribute to the shadow economy. The anonymity and lack of traceability associated with cash transactions make them attractive for individuals and businesses seeking to avoid detection or taxation. The prevalence of cash transactions may vary depending on the industry, size of the business, and individual practices but a decreasing percentage is a relevant indicator for tracking progress of the national program. Therefore, insights on the percentage of businesses in Aruba that admit to making cash transactions is also necessary.

Businesses that fully or partially avoid paying employees' contributions

There is also limited information on the percentage of businesses in Aruba that fully or partially avoid paying employees' contributions. Having this information is important because it provides insights into the extent of non-compliance with labor regulations and the impact on social security systems. Understanding the magnitude of this issue will help in developing effective strategies to address it and ensure fair treatment of workers. Additionally, having this information will enable the assessment of the

financial implications and potential risks associated with non-payment of employee contributions, helping to protect the stability and sustainability of social security programs.

Dissatisfaction with the efficiency of the penalty system for businesses operating in the shadow economy

There is also no information on percentage of businesses in Aruba that are dissatisfied with the efficiency of the penalty system for businesses operating in the shadow economy. The level of satisfaction may vary among different businesses based on their individual experiences and perspectives. This data could serve as a good indicator for measuring improvement in the penalty system.

Perception of businesses regarding penalties and their likelihood of being charged

Currently no data is available on the perception of businesses regarding penalties and their likelihood of being charged. This indicator can have implications for the shadow economy because if businesses believe that the penalty system is ineffective or that the chances of being penalized are low, it may create a perception of impunity and encourage non-compliant behavior, including engaging in shadow economic activities.

To effectively address the shadow economy, it is crucial to have a penalty system that is perceived as fair, consistent, and capable of deterring non-compliant behavior. This includes ensuring that penalties are appropriately enforced, and businesses have a clear understanding of the consequences they may face for engaging in shadow economic activities.

The primary institutions to whom businesses would typically report

More investigation is also needed to determine what are the primary institutions to whom businesses would typically report cases of the shadow economy. This indicator is important for determining how businesses have familiarized themselves with the reporting mechanisms and if they possess the contact information of these institutions to effectively report cases related to the shadow economy. The primary institutions to whom businesses would typically report such cases include tax administration, labor department, chamber of commerce, law enforcement agencies. Additionally, seeking legal advice or consulting with industry associations can also provide guidance on the appropriate institutions to contact in specific situations.

Level of awareness among business people about their role in suppressing non-compliant business practices

Another indicator for which there is no data regards the level of awareness among business people about their role in suppressing non-compliant business practices. The absence of this data limits our understanding of the extent to which businesses are aware of their responsibility to operate in a compliant manner and actively contribute to the suppression of non-compliant practices. Obtaining data on this aspect would provide valuable insights and serve as an indication of the level of awareness among businesses.

While some business people may be highly aware of their responsibility to operate in a compliant manner and actively work towards suppressing non-compliant practices, others may have a limited understanding of the impact of non-compliance on the overall economy.

Stimulating businesses in becoming increasingly aware of their role in promoting a fair and level playing field, contributing to the overall economic development, and maintaining a positive business environment, will help them recognize that non-compliance can lead to unfair competition, reduced consumer trust, loss of tax revenue for public services, and a distorted market. This awareness will induce them to actively strive to operate in a transparent, lawful, and ethical manner, and encouraging others to do the same.

Degree of reporting cases of unfair competition due to informal business activities and the reasons why

The percentage of businesses and entrepreneurs in Aruba who would (not) report cases of unfair competition due to informality and the reasons why are also necessary indicators. This percentage can vary depending on various factors such as the industry, individual beliefs, and the specific circumstances involved. However, some businesses and entrepreneurs may hesitate to report cases of unfair competition for several reasons. These reasons can include fear of retaliation or negative consequences from competitors, concerns about legal processes and the time and effort required to make a report, lack of confidence in the effectiveness of reporting mechanisms, or a perception that reporting may not lead to significant changes. Additionally, some businesses may choose not to report unfair competition because they prefer to focus on their own operations and growth rather than engaging in external disputes. Others may be unaware of the available reporting channels or may not fully understand the concept of unfair competition.

This indicator will also help measure progress in encouraging businesses and entrepreneurs to report unfair competition. Crucial measures such as establishing effective reporting mechanisms that ensure confidentiality, provide protection against retaliation, and offer streamlined processes, coupled with public awareness campaigns educating businesses about the importance of reporting unfair competition and the potential benefits for the overall business environment and fair market competition, can help increase the level of reporting.

Belief in the country's determination to tackle the shadow economy

Another desirable indicator is the percentage of businesses and entrepreneurs in Aruba who do not doubt the country's determination to tackle the shadow economy. Businesses and entrepreneurs' perceptions and confidence in the government's determination to address the shadow economy can be influenced by various factors such as their personal experiences, observations of government initiatives and actions, and overall trust in the effectiveness of government policies.

Some businesses and entrepreneurs may have a high level of confidence in the Aruba's determination to tackle the shadow economy based on visible efforts, proactive measures, and successful outcomes achieved by the government in combating informal activities. These businesses may feel reassured by the government's commitment to creating a level playing field and promoting fair competition.

On the other hand, some businesses and entrepreneurs may have doubts or concerns about the country's determination to tackle the shadow economy due to perceived gaps in enforcement, inconsistent implementation of regulations, or a lack of visible progress in reducing informal activities. These businesses may feel that more robust measures and stronger enforcement actions are needed to effectively address the shadow economy.

This indicator will help track the level of success in enhancing the confidence of businesses and entrepreneurs in Aruba's determination to tackle the shadow economy. It will indicate how successful the government is in demonstrating transparency, consistency, and effectiveness in its enforcement efforts. Regular communication, engagement with stakeholders, and showcasing the results achieved in combating the shadow economy can help build trust and foster a positive perception among businesses and entrepreneurs.

Justification of the shadow economy

Data regarding the opinions of businesses and entrepreneurs in Aruba who oppose the justification of the shadow economy is currently unavailable. Specifically the percentage of businesses and entrepreneurs that would view the shadow economy as unjustified.

This indicator will help measure how successful the government is in addressing the shadow economy and fostering a culture of compliance. Also on the level of success in raising awareness among businesses and entrepreneurs about the negative impacts of the shadow economy, in promoting the importance of fair competition, legal practices, and ethical business conduct and thereby in cultivating a mindset where the majority of businesses and entrepreneurs view the shadow economy as unjustified and actively support efforts to counter it.

The state's capacity to deal with the shadow economy

Another indicator that is missing is the percentage of businesses and entrepreneurs in Aruba who believe that the state does not have the capacities to deal with the problem of informal economic activities. The perception of the state's capacities can vary among businesses and entrepreneurs based on their personal experiences, interactions with government agencies, and overall confidence in the effectiveness of regulatory measures.

Businesses and entrepreneurs may express concerns about the state's capacities to effectively address the issue of unregistered or informal businesses. They may identify factors such as limited resources, inadequate enforcement mechanisms, bureaucratic inefficiencies, and complex regulatory processes that can contribute to their perception. Identifying the challenges that make it difficult for businesses and entrepreneurs to have confidence in the state's ability to tackle the problem of informal economic activities comprehensively is essential to be able to address their concerns.

Addressing these concerns and improving the capacities of the state to deal with unregistered businesses require coordinated efforts, including strengthening regulatory frameworks, enhancing enforcement mechanisms, providing support and resources to regulatory agencies, and promoting collaboration between the government and the business community. By demonstrating a commitment to addressing the issue and implementing effective measures, the state can work towards gaining the trust and confidence of businesses and entrepreneurs in its ability to tackle informal economic activities.

Belief in political protection

The percentage of businesses and entrepreneurs in Aruba who believe that individuals involved in the shadow economy enjoy political protection is another missing indicator. The perception of political protection can vary among businesses and entrepreneurs based on their personal experiences, observations, and beliefs. Perceptions of political protection in relation to the shadow economy can exist

in some contexts. In certain situations, businesses and entrepreneurs may perceive that individuals involved in the shadow economy receive some form of protection or leniency from political entities, which can undermine the fairness and competitiveness of the business environment.

Belief in corrupt inspectors

The percentage of businesses and entrepreneurs in Aruba who believe that the main problem lies with corrupt inspectors is also a helpful indicator that needs to be obtained. The perception of corrupt inspectors can vary among businesses and entrepreneurs based on their personal experiences, interactions with inspection authorities, and their overall trust in the regulatory system. While corrupt inspectors can indeed pose a challenge to effective inspection oversight and contribute to the persistence of the shadow economy, it is important to note that not all inspectors are corrupt, and generalizations should be avoided. It is crucial for the government to prioritize integrity, transparency, and accountability within their inspection bodies to address any instances of corruption and maintain public trust.

If the data shows that there is a problem of corrupt inspectors that needs tackling, the government can implement measures such as stringent recruitment and vetting processes, regular training and capacity building for inspectors, anonymous reporting mechanisms, and strong disciplinary actions against those found engaged in corruption. By fostering a culture of professionalism, ethics, and integrity within inspection authorities, governments can help mitigate the perception of corrupt inspectors and enhance the effectiveness of inspection oversight in countering the shadow economy.

Level of faith in the system for sanctioning non-compliant business entities

No data is available on the percentage of businesses and entrepreneurs in Aruba who do not have faith in the system for sanctioning non-compliant business entities. The level of trust in the sanctioning system can vary among businesses and entrepreneurs based on their experiences with the enforcement of regulations and the perceived effectiveness of penalties. Some businesses and entrepreneurs tend to express concerns about the effectiveness of the sanctioning system, particularly if they perceive it to be lenient or inconsistent. These concerns may arise from a perceived lack of timely and appropriate penalties for non-compliant entities, delays in the legal process, or insufficient enforcement actions.

To address these concerns and increase faith in the system for sanctioning non-compliant business entities, the government can consider measures such as streamlining administrative processes, enhancing cooperation and information sharing between relevant authorities, ensuring sufficient resources for inspection and enforcement activities, and regularly reviewing and updating penalties to ensure they are proportionate and act as a deterrent.

Share of non-cash payments

Currently there is no data available on the share of non-cash payments in Aruba. The share of non-cash payments in the total volume of transactions can have an indirect relationship with the shadow economy. Encouraging non-cash payments can contribute to greater transparency, accountability, and traceability of financial transactions, which can help reduce the opportunities for engaging in informal activities associated with the shadow economy, such as tax evasion, undeclared employment, and unreported business transactions.

By promoting non-cash payments, businesses and individuals are more likely to leave a digital trail of their transactions, making it harder to conceal income or engage in informal activities. Non-cash payments, especially electronic ones, often involve recording and reporting mechanisms that can be monitored and audited by relevant authorities, enhancing compliance with tax and regulatory requirements.

However, it is important to note that the relationship between non-cash payments and the shadow economy is complex, and other factors, such as the effectiveness of enforcement measures, public awareness, and the overall economic environment can play significant roles in tackling the shadow economy. It requires a comprehensive approach that includes not only promoting non-cash payments but also addressing underlying issues such as high tax burdens, informal employment practices, and limited institutional capacities.

2.5 Causes and effects of shadow economy

Understanding the causes and effects of the shadow economy in Aruba is essential for developing effective strategies to combat it. While the study conducted by Lejuez & Schneider (2022) provides some insights into this complex issue, there is still limited information available. Therefore, further analyses are needed to gain a more comprehensive and nuanced understanding of the specific factors driving the shadow economy in Aruba. Conducting these suggested analyses will provide valuable insights and contribute to formulating targeted measures to address the challenges posed by the shadow economy.

2.5.1 Causes and contributing factors of shadow economy

The above-mentioned study identified several factors contributing to the persistence of the shadow economy in Aruba:

- a) High Tax Burden: The tax burden on individuals and businesses, including income tax and indirect tax, can create incentives for tax evasion and informality.
- b) Unemployment: When individuals are unable to find formal employment opportunities, they may turn to informal activities as a means of generating income.
- c) High dependence on tourism sector: In tourism-driven economies, employment opportunities often fluctuate with seasonal demand and the overall performance of the tourism sector. During peak tourist seasons or lower performing years, formal employment may not be sufficient to accommodate the workforce, leading to a higher prevalence of informal and undeclared work.
- d) Insufficient institutional capacity: Insufficient institutional capacity, such as a lack of personnel, resources, and technological infrastructure, can hinder effective enforcement and monitoring of regulations. This creates loopholes and opportunities for businesses and individuals to engage in informal or illegal activities, leading to the growth of the shadow economy. Limited capacity to conduct regular inspections, audits, and investigations makes it challenging to detect and address non-compliance effectively.

While the identified factors provide valuable insights into the persistence of the shadow economy in Aruba, further research is necessary to uncover additional contributing factors. The factors identified in the study might not capture the full range of dynamics and intricacies that contribute to the persistence of the shadow economy in Aruba. Each country has its unique socio-economic and cultural context, which may shape the behavior and drivers of the shadow economy differently. Conducting more research tailored to Aruba's specific circumstances can reveal additional factors that are crucial for understanding

and addressing the issue effectively. Further research can also delve deeper into each factor to uncover underlying causes and interactions. For instance, exploring the root causes of high tax burden or investigating the specific mechanisms through which insufficient institutional capacity affects the shadow economy can provide valuable insights for designing targeted interventions.

2.5.2 Effects of shadow economy

The shadow economy has several detrimental effects on Aruba's economy:

- a) Revenue Loss: The government faces substantial revenue losses due to tax evasion and undeclared economic activity, impacting public finances and hindering investments in essential public services and infrastructure.
- b) Unfair Competition: Businesses operating in the shadow economy enjoy cost advantages, such as lower labor and regulatory compliance costs, creating unfair competition for law-abiding businesses.
- c) Distorted Market Dynamics: The prevalence of the shadow economy distorts market dynamics, undermining trust, consumer safety, and market efficiency.
- d) Lack of Social Protection: Individuals engaged in the shadow economy may face limited access to social security benefits, putting them at risk of economic vulnerability.

2.6 Conclusion

The reduction of the shadow economy is pivotal in establishing a predictable and stable business environment, as well as fostering fair competition within the market. Achieving this objective requires coordinated efforts from both the public administration and market participants. While repressive measures may yield short-term results, they are inadequate in the long run. The implementation of systemic solutions through effective planning and execution is the key to influencing the sustained reduction of the shadow economy and mitigating its effects. Consequently, it is imperative to cultivate public interest with the goal of improving transparency and fostering interactions not only between public authorities and taxpayers but also among taxpayers themselves. By nurturing a culture of transparency and collaboration, we can foster an environment that promotes compliance, discourages informal activities, and facilitates the long-term reduction of the shadow economy.

However, limited information is currently available regarding the shadow economy in Aruba, including its causes, effects, sanctioning capabilities, and the perceptions of citizens and businesses towards it, as well as on the burden of non-tax charges. This lack of information poses challenges in understanding the scale and dynamics of the shadow economy, hindering the development of targeted interventions and policies. Conducting comprehensive analyses on sanctioning capabilities can help identify gaps and areas for improvement in enforcing regulations. Additionally, conducting an inventory of non-tax charges is essential to assess their impact on businesses and individuals. Furthermore, conducting opinion polls with citizens and businesses can provide valuable insights into their attitudes and behaviors towards the shadow economy, aiding in the development of targeted awareness campaigns and compliance measures. By conducting these analyses and surveys, Aruba can gain a better understanding of the shadow economy, enhance sanctioning capabilities, address non-tax charges, and foster a more transparent and compliant business environment.

Thus, these forthcoming analyses will serve to provide more comprehensive guidelines for formulating fundamental principles and measures that must be integrated into the National Program and Action Plan. By leveraging these insights, Aruba can enhance its efforts to address the root causes of the shadow economy, thereby fostering a more transparent, accountable, and effective approach in countering it.

3. STRATEGIC, INSTITUTIONAL AND LEGAL FRAMEWORK FOR DEVELOPING THE NATIONAL PROGRAM

This section explores the strategic, institutional, and legal framework that forms the basis for developing the national program aimed at formalizing the shadow economy. A comprehensive and well-defined framework is essential to ensure the effective implementation of measures and initiatives to address the challenges posed by informal economic activities. This framework encompasses the strategic direction, institutional arrangements, and legal mechanisms necessary for the successful development and execution of the national program. It establishes a solid foundation and lays the groundwork for a coordinated and systematic approach to tackle the shadow economy and promote a more transparent and compliant business environment.

3.1 Strategic framework

The National Program in Aruba serves as a strategic framework designed to effectively reduce the size and impact of the shadow economy. It is a comprehensive and coordinated approach that addresses various aspects crucial to combating the shadow economy, making it an essential complement to previously adopted documents that focus on specific segments.

The National Program takes into account the valuable insights and recommendations provided by these prior documents, which have explored specific areas such as tax policy, fiscal regulations, administrative burdens, and other related aspects. By incorporating and building upon the foundations laid by these documents, the National Program ensures a cohesive and integrated strategy for tackling the shadow economy.

One of the key strengths of the National Program is its ability to identify and address any gaps or limitations in the existing framework. It recognizes the need for a comprehensive and holistic approach, considering the interdependencies and interconnectedness of various segments. By doing so, it strengthens the effectiveness of previously adopted documents by bridging the gaps and introducing new measures and initiatives that fill any identified shortcomings.

Additionally, the National Program goes beyond the specific segments covered by previous documents and encompasses a broader range of factors that contribute to the persistence of the shadow economy. It emphasizes the importance of tax culture, awareness, and engagement among citizens and businesses. By fostering a deeper understanding of the negative impact of the shadow economy, the National Program encourages active participation in countering its growth.

Furthermore, the National Program promotes collaboration and cooperation among relevant stakeholders, such as government agencies, law enforcement, and business associations. It recognizes that addressing the shadow economy requires a collective effort and synergy between different entities.

By facilitating coordination and information sharing, the National Program ensures that efforts to combat the shadow economy are integrated and aligned.

In summary, the National Program represents a strategic framework that complements previously adopted documents by providing a comprehensive and coordinated approach to reducing the shadow economy. It builds upon the insights and recommendations of existing documents, addresses any gaps or limitations, and encompasses a broader range of factors. By fostering tax culture, awareness, and cooperation, the National Program paves the way for a more effective and unified effort in tackling the shadow economy in Aruba.

3.2 Institutional and Legal Framework for Developing the National Program

The establishment of the Commission (CBIE) through the Government's Decision has paved the way for effective coordination among various public administration bodies involved in combating the shadow economy. The Commission, as part of its responsibilities, is tasked with preparing and presenting the Draft National Program and Draft Action Plan for Countering the Shadow Economy to the Coordination.

The participating entities in the Commission include the Tax Department (DIMP), the Department of Labor and Research (DAO), the Social Security Bank (SVB), the Department of Economic Affairs, Commerce, and Industry (DEACI), and the Aruba Trade and Industry Association (ATIA). The objective is to take a collaborative approach by ensuring throughout this process the active involvement of key governmental bodies responsible for addressing various aspects of the shadow economy, along with representatives from the business sector and civil society. It demonstrates that countering the shadow economy is a shared objective of the government, the business community, and all citizens.

Moreover, this coordinated effort allows the responsible institutions, who originally proposed regulations to reduce the informal sector, to effectively synchronize their activities and work towards achieving common goals.

4. SUMMARY OF PRE-NATIONAL PROGRAM EFFORTS IN COMBATING THE SHADOW ECONOMY

The following section provides a summary of the pre-national program efforts in combating the shadow economy in Aruba. These efforts encompass a range of initiatives and measures that have been implemented prior to the introduction of the national program. By reviewing and understanding these previous endeavors, valuable insights can be gained into the challenges faced, the effectiveness of the implemented measures, and areas that require further attention. This summary serves as a foundation for evaluating the progress made thus far and identifying opportunities for improvement as the national program continues to address the issue of the shadow economy in Aruba.

Ongoing measures

Aruba is currently implementing a series of ongoing measures that although primarily designed to promote economic progress and create a more favorable business environment in the country, address various aspects of the shadow economy.

The Department of Economic Affairs, Commerce, and Industry (DEACI) through its two units The Initiative for the Development of Aruban Enterprise (IDEA) and the Exprodesk provides valuable assistance,

guidance and support for the formalization of entrepreneurs. IDEA offers assistance and information on basic entrepreneurial skills, business registration, regulations, financing, taxes, and marketing. Targeted workshops and courses are also organized to address specific sectors, such as agriculture, youth entrepreneurship, silver entrepreneurship, and women entrepreneurship. The Exprodesk, on the other hand, focuses on facilitating SMEs and potential exporters, equipping them with the necessary export information and assistance to succeed in the international market.

Another significant measure is the Qredits program, which provides microcredit and mentoring to small and medium-sized businesses. By offering financial support and valuable guidance, Qredits helps entrepreneurs start or invest in their businesses, enabling them to enter the formal sector with confidence.

To simplify procedures and reduce bureaucracy, new guidelines regarding the Business Establishment Ordinance have been introduced and as well as digital forms for the submission of business license requests. These aim to make it easier to do business in Aruba by streamlining processes and minimizing unnecessary hurdles. By creating a more favorable business environment, Aruba aims to attract investments, stimulate economic activity, and ultimately reduce the prevalence of the shadow economy.

The establishment of the Aruba Fair Trade Authority (AFTA) is another important step in combating unfair competition and promoting fair business practices. AFTA is responsible for enforcing competition laws and ensuring a level playing field for all businesses. By addressing unfair competition practices, AFTA contributes to reducing the shadow economy and improving the overall business climate in Aruba.

Furthermore, the Bureau Integriteit Aruba (BIA) plays a crucial role in promoting integrity within the government and associated institutions. The BIA focuses on raising awareness and preventing corruption, which enhances tax morale and encourages greater tax compliance. By fostering a culture of integrity, the BIA helps create an environment where taxpayers trust that their contributions are being used judiciously and encourages businesses to operate within the formal sector.

By expanding and intensifying these ongoing measures, Aruba aims to reduce the shadow economy and promote economic progress. These efforts are essential for creating a more robust and transparent business environment, attracting investments, and ensuring a level playing field for all businesses in the country.

[Country package \(Landspakket\)⁸](#)

Aruba is actively implementing a series of measures as part of the 'Country Package' to foster economic development and resilience that also can contribute to tackling the shadow economy. These initiatives encompass various areas to address the challenges posed by informal economic activities.

One significant measure focuses on the reform of the fiscal system, aiming to increase revenue, simplify processes, and enhance control by tax authorities. A comprehensive review of the tax system, including income tax, is currently underway to ensure a robust and fair distribution of income, stimulate economic growth, and improve the feasibility and oversight of tax-related matters.

⁸ The 'Country Package' entails a series of policies regarding different policy areas agreed upon by countries members of the Kingdom of the Netherlands as part of an aid package aimed at making the Caribbean countries (Aruba, Curacao and St. Maarten) more resilient to future (economic) shocks after the experience with the COVID-19 pandemic clearly exposed the vulnerabilities of these countries.

In addition, the introduction of a Value-Added Tax (VAT) system (temporarily postponed due to uncertainty resulting from high inflationary economic conditions) is expected to have a positive impact on reducing the shadow economy. By implementing a VAT regime, incentives for businesses to register and qualify for VAT refunds will be strengthened. This measure will help create a level playing field by imposing taxes on informal firms that do not qualify for refunds but source from formal businesses. The recently border tax on imported goods that aims to encourage informal businesses to formalize their operations can be seen as a precursor to the implementation of the VAT system.

Furthermore, the digitization of government services through e-government initiatives is set to play a crucial role in reducing costs and improving tax morale. By making it easier for citizens to access government services and promoting a more efficient and effective administrative process, Aruba aims to enhance compliance and decrease the incentives for engaging in shadow economy activities.

Efforts are also underway to improve the quality and effectiveness of the public sector. Proposals are being developed to enhance the government's organizational structure, including ministerial staff, to ensure better service delivery and responsiveness. A well-functioning government inspires confidence and trust, leading to increased tax morale among citizens and businesses.

Labor market reforms are another integral part of the measures being implemented. An analysis of current labor market policies and regulations has resulted in updates and modernization efforts. These reforms aim to address challenges such as illegal employment and youth unemployment, creating a more inclusive and dynamic labor market environment.

Moreover, investigations into illegal employment of foreign workers are ongoing, with the goal of developing and implementing proposals based on the findings. This comprehensive approach seeks to tackle issues related to illegal employment and ensure compliance with labor market regulations.

Lastly, the social security system is being redesigned to strike a balance between activating individuals and providing a safety net. By incentivizing individuals to actively participate in the workforce and ensuring adequate social support, Aruba aims to promote economic independence while also providing necessary assistance to those in need.

By implementing these reforms and fostering a more transparent and compliant business environment, Aruba aims to enhance economic stability and pave the way for sustainable growth. These ongoing measures can contribute to the addressing of the shadow economy comprehensively.

Research and policy papers

Aruba has made some advances in understanding and addressing the shadow economy through various research and policy initiatives. The Department of Economic Affairs, Commerce, and Industry (DEACI) has published a comprehensive SE policy paper⁹, which provides in-depth analysis and recommendations to tackle the challenges posed by the shadow economy. In addition to the DEACI's policy paper, the Social Economic Council (SER)¹⁰ has contributed to the discourse by providing an advisory note that highlights key recommendations to address the shadow economy. The SER's expertise and analysis shed light on the

⁹ See id 2

¹⁰ Sociaal Economische Raad (SER). 2021. *Advies: Informele Economie op Aruba*. November. Oranjestad, Aruba. <https://www.ser.aw/pages/wp-content/uploads/2021/12/Advies-Informele-economie-op-Aruba-Nov-2021.pdf>

importance of formal economic activities and offer valuable suggestions for policy interventions. Furthermore, the research conducted by Lejuez & Schneider¹¹ represents a significant milestone as it provides the first-ever estimates of the size of the shadow economy in Aruba. Their study delves into the exploration of various underlying factors that contribute to the existence and growth of the shadow economy. By shedding light on these factors, the research offers valuable insights into the dynamics and complexities of informal economic activities in Aruba.

These efforts collectively form a solid foundation for further developing evidence-based policies and interventions to address the shadow economy in Aruba. By leveraging these insights, Aruba can strengthen enforcement measures, enhance collaboration among stakeholders, and implement targeted strategies to promote formal economic activities and combat the shadow economy.

5. OBJECTIVES OF THE NATIONAL PROGRAM

The following section outlines the primary objective, special objectives, and guiding principles of the national program aimed at formalizing the shadow economy in Aruba. The primary objective of the program is to reduce the size and impact of the shadow economy. The special objectives further refine this goal by targeting specific areas. These objectives are guided by key principles such as integrity, transparency, shared responsibility, and evidence-based decision-making. By aligning efforts with these objectives and principles, the national program aims to achieve sustainable and long-term results in formalizing the shadow economy.

5.1 Primary objective

The primary goal of the National Program for Combating the Shadow Economy is to effectively decrease the proportion of the shadow economy in Aruba's GDP, specifically aiming to reduce it with 5 percentage points according to the MIMIC method. This objective will be pursued through the implementation of a comprehensive set of measures outlined in the National Program, spanning the period from 2024 to 2027.

5.2 Special Objectives

Simultaneously, the General Objective serves as the overarching strategic vision of the National Program, guiding its implementation. To accomplish this General Objective, the National Program identifies several specific objectives, namely:

1. Special Objective 1: Enhancing the Monitoring of Shadow Economy Activities.
2. Special Objective 2: Enhancing the Efficiency of the Fiscal System.
3. Special Objective 3: Reducing Administrative and Non-Tax Burdens on Businesses and Citizens.
4. Special Objective 4: Promoting Awareness among Citizens and Businesses about the Importance of Reducing the Shadow Economy and Encouraging Compliance with Regulations.

These Special Objectives work in tandem to address various aspects of the shadow economy, contributing to the overall goal of the National Program.

¹¹ See id. 4

The proposed measures aim to address the underlying causes of the shadow economy, resulting in the following outcomes:

1. Enhanced the clarity of jurisdiction and improved coordination and effectiveness among public administration bodies involved in combating the shadow economy, supported by a fair and balanced penalty system.
2. Raised public awareness about the negative consequences of the shadow economy, including its impact on ethical business practices, labor rights, and consumer rights. This will encourage increased citizen engagement in efforts to combat the shadow economy.
3. Decreased the size of the shadow economy through the implementation of comprehensive tax, administrative, and public procurement policies, as well as recognizing and promoting responsible business practices at the institutional level.

5.3 Guiding principles

The National Program's implementation and achievement of its established objectives are guided by the following principles:

1. Integrity: Upholding integrity builds trust and encourages ethical behavior, fostering positive engagement and compliance in formalization efforts.
2. Transparency: Clear communication and openness reduce uncertainties, ensuring stakeholders are well-informed, and enhancing trust for effective participation.
3. Shared Responsibility: Recognizing formalization as a collective effort encourages active participation from businesses, citizens, and government entities, fostering a sustainable approach.
4. Evidence-based decision-making: Using data for decision-making ensures well-informed strategies, enabling targeted measures and adaptive approaches based on real-time insights.
5. Accountability: Holding all parties accountable promotes fairness, discouraging practices that contribute to the shadow economy and ensuring compliance with regulations.
6. Improvement of Business Conditions: Streamlining processes, reducing hurdles, and offering incentives for compliance create a favorable environment, encouraging businesses to operate within the formal sector willingly.

6. IMPLEMENTATION MEASURES FOR THE NATIONAL PROGRAM

This section outlines the measures to be implemented for each of the special objectives outlined in the national program aimed at combating the shadow economy in Aruba. These measures have been carefully designed to address specific areas of concern and contribute to the overall objective of reducing informal economic activities. By implementing targeted initiatives and strategies the national program aims to create a formalized and transparent business environment.

6.1 Special Objective 1: Enhancing the Monitoring of Shadow Economy Activities.

Insufficient information is currently available regarding the necessary steps for enhancing the monitoring of shadow economy activities in Aruba. To address this, it is crucial to conduct an analysis of the

capabilities of inspection bodies. This analysis will help identify the existing gaps and challenges in effectively monitoring and addressing the shadow economy. By assessing the strengths and weaknesses of the inspection bodies, appropriate measures can be implemented to improve their capacity for detecting and combating informal economic activities. This analysis will serve as a foundation for developing targeted strategies and initiatives that can enhance the monitoring efforts and contribute to reducing the shadow economy in Aruba.

6.2 Special Objective 2: Enhancing the Efficiency of the Fiscal System.

Adequate information is available regarding the necessary steps to enhance the efficiency of the fiscal system in Aruba. The tax department is committed to continuous improvement and has identified areas that require attention. However, there has been a significant delay in handling "bezwaren" (objections), which is being addressed through a temporary increase in personnel specifically allocated to this task. By addressing the staffing issue and implementing additional resources, the tax department aims to alleviate the delay and improve the efficiency of handling objections. This proactive approach demonstrates their commitment to enhancing the fiscal system and ensuring that objections are addressed in a timely manner, ultimately contributing to a more effective and efficient fiscal environment in Aruba.

6.3 Special Objective 3: Reducing Administrative and Non-Tax Burdens on Businesses and Citizens.

Insufficient information is currently available regarding the specific measures required for reducing administrative and non-tax burdens on businesses and citizens in Aruba. To address this gap, an inventory or assessment of the existing administrative and non-tax burdens needs to be conducted. This process will involve a comprehensive review and analysis of the burdens imposed on businesses and citizens, including the administrative procedures, regulations, and associated costs. Conducting such an inventory will contribute to gaining a clearer understanding of the burdens faced by businesses and citizens, enable the identification of areas for improvement and implement targeted measures to reduce these burdens.

6.4 Special Objective 4: Promoting Awareness among Citizens and Businesses about the Importance of Curbing the Shadow Economy and Encouraging Compliance with Regulations.

Currently, there is insufficient information available regarding the level of awareness among citizens and businesses in Aruba about the importance of curbing the shadow economy, as well as their attitudes towards the shadow economy itself, its justification, and tax morale. To address this knowledge gap, it is necessary to conduct an opinion poll or survey that aims to establish a baseline understanding of these factors. This poll will help gauge the existing levels of awareness and attitudes, providing valuable insights into the effectiveness of awareness-raising campaigns and initiatives. By periodically repeating this poll, policymakers and stakeholders can track the progress and impact of these awareness campaigns over time. This data-driven approach will enable the implementation of targeted strategies to improve awareness, enhance tax morale, and foster a stronger culture of compliance with regulations in Aruba.

7. IMPLEMENTATION AND MONITORING OF THE NATIONAL PROGRAM

The implementation of the National Program will be a collaborative effort involving all relevant public administration bodies, along with active engagement from the private sector and civil society. To ensure comprehensive and inclusive action, annual Action Plans will be developed through a participatory process, fostering dialogue and cooperation among stakeholders. This approach will facilitate the alignment of goals, strategies, and resources, leading to a coordinated and effective implementation of the National Program for Formalizing the Shadow Economy in Aruba.

The Commission has the objective of coordinating the activities of public administration bodies and guiding initiatives to combat the shadow economy and oversees and manages the implementation of the National Program. The ministry of economic affairs, communication and sustainable development (MinEZCDO) handles the administrative and technical requirements of the Commission. In line with this, the designated ministry takes on the responsibility of technically coordinating the execution of the National Program in collaboration with the Commission. Together, they work towards achieving the objectives outlined in the National Program and promoting effective collaboration among various stakeholders.

The Commission will provide semi-annual implementation reports on the implementation progress of the National Program, particularly regarding the accomplishment of the yearly Action Plan. Furthermore, the Commission will annually report to the Government on the progress made in implementing the National Program.

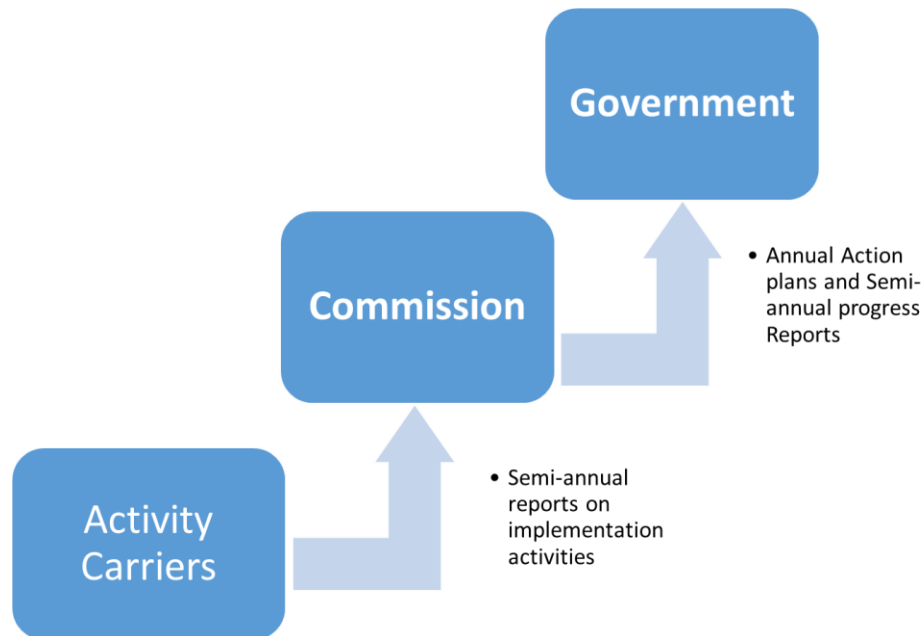


Figure 3 Coordination of Implementation Strategy

In 2026, or earlier if deemed necessary, a midterm (external) evaluation of the National Program will be conducted to assess its progress and inform the implementation of corrective measures, if required.

The funding for the measures and activities outlined in the Action Plans for implementing the National Program will be allocated from the budget of Aruba, as well as other potential sources. These financial allocations will be in accordance with budgetary limitations. The Commission and the Ministry responsible, in collaboration with the Ministry of Finance, will compile an annual overview of financial resources and their respective sources intended for the implementation of the Action Plan for the upcoming year. This overview will be based on information provided by relevant public administration bodies and activity stakeholders responsible for implementing specific measures and activities. The preparation of annual financial overviews will coincide with the development of Aruba's budget for the following year.

One of the key risks identified in the implementation of the National Program is the potential lack of financial resources and inadequate cooperation and coordination among relevant public administration bodies. To mitigate these risks, the Commission plays a crucial role as the primary mechanism for fostering cooperation among the involved bodies. Additionally, measures are in place to address the risk of insufficient funding, including effective project planning and the resources. By actively managing these risks, the National Program aims to ensure sufficient financial means and enhance collaboration among public administration bodies.

The Commission will collaborate with stakeholders to establish a comprehensive monitoring system for evaluating the impact of the National Program. This system will utilize objective and measurable indicators of success, supported by reliable and validated data, to effectively assess the outcomes of the program's implementation.

Table 1 Indicators for Monitoring Realization of Strategic Objectives

Overview of the most significant indicators for monitoring strategic objective realization	Most recent figures	2027	Source
General Indicators			
Shadow economy participation in the GDP of Aruba MIMIC	20%	15%	Study on the Shadow Economy
Share of informal employees in total employment	TBD	TBD	Labor force survey

Table 2 National Program Implementation Cycle

Year	Activities before the designated period	Activities during and after the designated period
2023	– Preparation Action Plan for 2024	– Annual implementation report for 2023 (Jan 2024)
	- Develop the National Program for the purpose of its adoption for the following period (2023-2027)	– Updating the indicators
2024	– Implementation of the Action Plan for 2024;	– Mid-year implementation reports (July 2024)
	– Preparation of the Action Plan for 2025 and (projected) 2026	– Annual implementation report for 2024 (Jan 2025)
		– Updating the indicators
2025	– Implementation of the Action Plan for 2025;	– Mid-year implementation reports (July 2025)
	– Revision of the National Program for the purpose of its adoption for the remaining period (if necessary)	– Annual implementation report for 2025 (Jan 2026)
	– Preparation of the Action Plan for 2026 and (projected) 2027	– Updating the indicators
2026	– Implementation of the Action Plan for 2026;	– Mid-year implementation reports (July 2026)
	– Preparation of the Action Plan for 2027	– Annual implementation report for 2026 (Jan 2027)
	– Revision of the National Program for the purpose of its adoption for the remaining period	– Updating the indicators
		– Initiating a procedure for developing a new strategic document
2027	– Implementation of the Action Plan for 2027;	– Mid-year implementation reports (July 2027)
	– Develop the National Program for the purpose of its adoption for the following period (2028-2031)	– Annual implementation report for 2027 (Jan 2028)
	– Preparation of the Action Plan for 2028 and (projected) 2029	– Updating the indicators
		-Assessment of the implementation results of the National Program 2023-2027 (Final external evaluation)

8. ACTION PLAN FOR IMPLEMENTING THE NATIONAL PROGRAM

The annual Action Plans, formulated by the Government, will outline the specific activities, responsible bodies and organizations, timelines, financial needs, and performance indicators for monitoring the implementation of measures within the National Program. The Action Plan for the year 2024, along with future projections, is published alongside the National Program as an integral component.

9. CONCLUSION

In conclusion, the National Program for Formalizing the Shadow Economy in Aruba marks a significant milestone in addressing this complex issue. Recognizing the limited information available, it is imperative to enhance our understanding of the shadow economy to ensure the implementation of more effective measures. By having a well-defined program in place, supported by yearly action plans, the government can allocate resources optimally and target key areas for improvement. This strategic approach will result in resource optimization, enhanced governance, and a thriving economy, maximizing the benefits for all stakeholders in Aruba.

ACTION PLAN FOR IMPLEMENTING THE NATIONAL PROGRAM FOR FORMALIZING THE SHADOW ECONOMY FOR 2023 WITH PROJECTIONS FOR 2024

Overall Objective:		Reduce Shadow Economy from 20% to 15% of GDP in 2027							
		Overall Objective Indicator – Effect Indicator: Reduction of Shadow Economy (as part of GDP)							
		MEASURES OF THE NATIONAL PROGRAM FOR FORMALIZING THE SHADOW ECONOMY							
Special Objective 1:		Enhancing the Monitoring of Shadow Economy Activities							
Measure 1.1.:		Indicator of Measure Results - Initial Value				Indicator of Measure Results - Target Value			
Improving the Inspection Oversight System		Caribbean Investment Climate Index (CICI) – Quality of Institutions TBD				Improved Inspection Oversight: Caribbean Investment Climate Index (CICI) – Quality of Institutions (by end of 2024) TBD			
Activities	Activity Implementation Period/Deadline for realization/realization period	Result Indicators	Verification Source	Regulation / Law Governing Activity Implementation	Estimated Financial Requirements		Institution or Body Responsible for Implementation	Implementation Partner	Previous and/or Related Documents
					Program Budget Line	Other Financing Sources			
1.1.1	Conducting an analysis of the inspection capabilities	Q1 & Q2 2024	Formulated and published report with recommendations for improving capabilities of inspections	Report with recommendations for measures for Improving Inspection Capabilities		Regular Expenditure	N/A	CBIE, All inspections	MB Establishing the Coordination Body for Directing Activities for Countering the Shadow Economy (CBIE)

1.1.2	Establishing a Steering Committee responsible for Inspection Oversight	Q3 2024	Government Act passed, establishing a Steering Committee	Government Act		Regular Expenditure	N/A	CBIE, All inspections, Relevant Ministries		MB Establishing the CBIE
1.1.3	Analysis of regulation compatibility in the inspection oversight area	Q1 2025	Formulated and published Steering Committee Report with recommendations for amending regulations and measures for improving coordination of inspections	Steering Committee Report with Recommendations for Amending/Adding Regulations and Measures for Improving Inspection Coordination		Regular Expenditure	N/A	Steering Committee		MB Establishing the Steering Committee responsible for Inspection Oversight
Measure 1.2.:		Indicator of Measure Results - Initial Value			Indicator of Measure Results - Target Value					
Countering online advertising and sale of goods and services by non-registered entities		Number of identified entities engaging in advertising and illegal sale of goods online : Unknown			Number of identified entities engaging in advertising and illegal sale of goods online: X entities TBD					
		Number of identified entities engaging in advertising and illegal sale of goods online registered as sellers/entrepreneurs for the applicable taxes			Number of identified entities engaging in advertising and illegal sale of goods online registered as sellers/entrepreneurs for the applicable taxes					
Activities		Activity Implementation Period/Deadline for	Result Indicators	Verification Source	Regulation / Law Governing	Estimated Financial Requirements Program Budget Line Other Financing Sources		Institution or Body Responsible for	Implementation Partner	Previous and/or Related Documents

		realization/realization period			Activity Implementation			Implementation		
1.2.1	Online 'scraping', of frequent sellers	Q4 2023 2024		Report DIMP		Regular Expenditure	N/A	DIMP		
1.2.1	Accommodation-platform 'scraping'	Q4 2023 2024		Report DIMP		Regular Expenditure	N/A	DIMP	ATA	
Special Objective 2:		Enhancing the Efficiency of the Fiscal System								
Measure 2.1.:		Indicator of Measure Results - Initial Value				Indicator of Measure Results - Target Value				
Stimulation of Regulation Compliance		To be determined by DIMP				To be determined by DIMP				
Activities		Activity Implementation Period/Deadline for realization/realization period	Result Indicators	Verification Source	Regulation / Law Governing Activity Implementation	Estimated Financial Requirements		Institution or Body Responsible for Implementation	Implementation Partner	Previous and/or Related Documents
						Program Budget Line	Other Financing Sources			
2.1.1	Temporary increase in personnel dedicated to addressing tax objections	Q1 2024		Report DIMP		Regular Expenditure	N/A	Ministry of Finance, DIMP		

Measure 2.2.:		Indicator of Measure Results - Initial Value				Indicator of Measure Results - Target Value				
Creation of Incentives for Transferring Shadow Economy Operations to Formal Economy		New registrations for turnover taxes, before introduction of the BBO at the border in 2023				New registrations for turnover taxes, after introduction of the BBO at the border 2024:% (by mid of 2024)				
Activities										
		Activity Implementation Period/Deadline for realization/realization period	Result Indicators	Verification Source	Regulation / Law Governing Activity Implementation	Estimated Financial Requirements		Institution or Body Responsible for Implementation	Implementation Partner	Previous and/or Related Documents
2.1.2	Tracking results of introduction of BBO at the border	Q4 2023 Full 2024	New registrations for turnover taxes, after introduction of the BBO at the border	Report DIMP		Regular Expenditure	N/A	DIMP	Customs	
Special Objective 3:		Reducing Administrative and non-tax Burdens on Businesses and Citizens.								
Measure 3.1.:		Indicator of Measure Results - Initial Value				Indicator of Measure Results - Target Value				
Establishment of Public Registry of non-tax Charges		Lack of public registry of non-tax charges; Caribbean Investment Climate Index (CICI) – Transparency of Government Policy Making... TBD				Establishment of public registry of non-tax charges with all such charges to be recorded by the end of 2024; Caribbean Investment Climate Index (CICI) – Transparency of Government Policy Making .. TBD (by end of 2024)				

Activities		Activity Implementation Period/Deadline for realization/realization period	Result Indicators	Verification Source	Regulation / Law Governing Activity Implementation	Estimated Financial Requirements		Institution or Body Responsible for Implementation	Implementation Partner	Previous and/or Related Documents
						Program Budget Line	Other Financing Sources			
3.1.1	Analysis of non-tax charges and their categorization	Q1 & Q2 2024	Completed list of all taxes, fees and other charges, according to their categorization	CBIE progress Report		Regular Expenditure	N/A	CBIE, Ministry of Economic Affairs and Ministry of Finance	DEACI	MB Establishing the CBIE
3.1.2	Reduction of number of non-tax charges	Q3 2024	Government Act passed, prescribing the repeal of non-tax charges deemed unjustified by the analysis	Government Act		Regular Expenditure	N/A	CBIE, Ministry of Economic Affairs, Ministry of Finance		MB Establishing the CBIE
3.1.3	Establishment of more efficient payment system and distribution system for non-tax income	TBD	Analysis of calculation methodology and distribution of non-tax income	CBIE progress Report		Regular Expenditure	N/A	CBIE, Ministry of Economic Affairs, Ministry of Finance		
Special Objective 4:		Promoting Awareness among Citizens and Businesses about the Importance of Reducing the Shadow Economy and Encouraging Compliance with Regulations.								

Measure 4.1.: Increasing Awareness About the Nature of the Shadow Economy Through Informative and Educational Campaigns.		Indicator of Measure Results - Initial Value				Indicator of Measure Results - Target Value				
		% of citizens do not justify the existence of the shadow economy, and are aware of its negative consequences. TBD				Increased percentage of citizens who do not justify the existence of the shadow economy, and are aware of its negative consequences to % and more by the end of 2025. TBD				
Activities		Activity Implementation Period/Deadline for realization/realization period	Result Indicators	Verification Source	Regulation / Law Governing Activity Implementation	Estimated Financial Requirements		Institution or Body Responsible for Implementation	Implementation Partner	Previous and/or Related Documents
						Program Budget Line	Other Financing Sources			
4.1.1	Conducting annual citizens' and businesses' opinion surveys on shadow economy and Government measures for its reduction and promote the results in the public.	Q1 2024 Q1 2025	Conducted opinion poll about the informal sector and Government measures for its reduction	Report with recommendation for targeted Educational/ Informational Campaigns		Regular Expenditure	N/A	CBIE, Ministry of Economic Affairs	DEACI	MB Establishing the CBIE
4.1.2	Declaration of 2024 and 2025 as the 'Years of formalizing the Shadow Economy'	Q1 2024	Government Act passed, declares 2024 and 2025 as the 'Years of formalizing the Shadow Economy'	Government Act		Regular Expenditure	N/A	CBIE, Ministry of Economic Affairs		MB Establishing the CBIE

4.1.3	Increasing the visibility of Government's effort for tackling the shadow economy through a national campaign for promoting 2024 and 2025 as the 'Years of formalizing the Shadow Economy'	2024/ 2025	Created and executed a national campaign for promoting 2024/2025 as the years dedicated to formalizing the shadow economy.	CBIE Progress Report		Regular Expenditure	N/A	CBIE, Ministry of Economic Affairs	DEACI	MB Establishing the CBIE
Measure 4.2.:		Indicator of Measure Results - Initial Value				Indicator of Measure Results - Target Value				
Educational campaign about the forms of shadow economy and importance of its countering		Higher awareness and support among citizens in countering shadow economy				Higher awareness and support among citizens in countering shadow economy				
Activities	Activity Implementation Period/Deadline for realization/realization period	Result Indicators	Verification Source	Regulation / Law Governing Activity Implementation	Estimated Financial Requirements		Institution or Body Responsible for Implementation	Implementation Partner	Previous and/or Related Documents	
					Program Budget Line	Other Financing Sources				

4.2.1	Designing short educational videos and jingles about the shadow economy to be used for promotion on traditional and social media, government and partner institutions websites, in government buildings and public enterprises, etc.	Q2 2024	Designed and launched promotional materials, including jingles, short clips, Ensured widespread visibility through the broadcast of ads, jingles, and clips across all media outlets involved in the anti-shadow economy efforts.	CBIE progress Report		Regular Expenditure	N/A	CBIE, Ministry of Economic Affairs	Social Partners	MB Establishing the CBIE
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4.2.2	Designing and displaying educational posters (about the negative impact / forms of shadow economy, importance of paying taxes and information on how to report cases of shadow economy) in government buildings, public enterprises, hospitals and other institutions financed from taxes, the public transport, retail shops of responsible businesses etc.	Q2 2024	Designed posters, brochures, and billboards and implemented strategic placement of billboards and posters for even distribution.	CBIE progress Report		Regular Expenditure	N/A	CBIE, Ministry of Economic Affairs	DEACI, DIMP, Social Partners	MB Establishing the CBIE
4.2.3	Development and maintenance of the national web portal incorporating all information about the shadow economy issues	Q3 2024	Launched national web portal.	CBIE progress Report		Regular Expenditure	N/A	CBIE, Ministry of Economic Affairs	DEACI, DIMP, Social Partners	MB Establishing the CBIE

