

# Assessing Good Governance Through Financial Execution: A Comparative Analysis of the Financial Supervision Board (Cft)'s Comments on the Island Budget Execution Reports of the Public Entity of Bonaire (2018-2024)

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## ABSTRACT

This study explores the intersection between financial execution and governance quality in the Public Entity of Bonaire, analyzing the Financial Supervision Board's (Cft) evaluations of budget execution reports from 2018 to 2024. Through a mixed-method approach integrating quantitative and qualitative analyses, the research identifies patterns in fiscal management, governance performance, and budget deviations, assessing their implications for administrative stability and financial oversight. A Pearson correlation analysis reveals a strong and statistically significant relationship ( $r = 0.879$ ,  $p = 0.009$ ) between budgetary discipline and governance effectiveness, highlighting that reduced financial deviations align with better governance outcomes. However, political instability in 2023—marked by an Island Council election in March and an Executive Council restructuring in October—exacerbated governance disruptions, leading to financial oversight failures in 2024. A comparative review of execution reports (UR1, UR2, UR3) from 2023 and 2024 further demonstrates persistent deficiencies in commitment management, administrative efficiency, and fiscal transparency. Findings confirm that governance deterioration directly correlates with financial mismanagement. Without urgent fiscal reforms and strengthened oversight mechanisms, Bonaire risks continued governance instability. The study recommends enhancing budgetary discipline, reinforcing financial reporting, stabilizing governance structures, and ensuring adherence to Cft recommendations to restore financial integrity and institutional credibility in Bonaire's public administration.

**Keywords:** good governance, public finance, transparency, accountability, financial oversight, budget deviations, fiscal discipline, policy compliance.

## INTRODUCTION

The Caribbean islands of Bonaire, St. Eustatius, and Saba (BES-islands) have been part of the Netherlands' constitutional structure since October 10th, 2010 (Cecilia, 2022). The island's new status is regulated in the Charter for the Kingdom of the Netherlands. The islands have the status of public entities in the sense of article 134 of the Dutch Constitution. This provides for a special form of decentralized administration within the Netherlands which is comparable to municipalities. The administrative structure of these public bodies is based on the Dutch Municipalities Act.

In 2017 through a new article 132a of the Constitution, the BES-islands were given a special form of local government which is not subdivided into provincial authorities and for which different rules can be given regarding tasks and powers. The anchoring in the Constitution formalized the 'Caribbean public entities' among other things and ensured that the votes of all Dutch citizens on the islands will count for the elections to the Senate and the House of Representatives in the Netherlands. Before October 10th, 2010, the BES-islands together with Aruba, Curacao, and St. Maarten, were part of the Netherlands Antilles. The administrative structure of these islands was governed by the 'Island Regulation Netherlands Antilles'(IRNA) based on the political monistic system. The Netherlands Antilles was a constituent country of the Kingdom of the Netherlands. The country came into being in 1954 as the autonomous successor of the Dutch colony of Curacao and Dependencies. The Antilles was dissolved in 2010 and the islands of Curacao and St. Maarten became constituent countries of the Kingdom. The island of Aruba on the other hand had been granted this status since 1986.

### **THE BOARD OF FINANCIAL SUPERVISION**

The board of Financial Supervision, in Dutch the 'College financieel toezicht (Cft)', was introduced in Bonaire (as well as in Sint Eustatius and Saba) following the constitutional reform of the Kingdom of the Netherlands on October 10, 2010 (Dutch Ministry of Interior, 2019). This reform resulted in the dissolution of the Netherlands Antilles and the integration of Bonaire, Sint Eustatius, and Saba as special municipalities of the Netherlands. The introduction of the Cft was part of a broader framework to ensure sound financial management and stability in these newly integrated entities.

### **Historical Context and Constitutional Reform**

- Prior to 2010, Bonaire was part of the Netherlands Antilles, a semi-autonomous country within the Kingdom of the Netherlands. The Netherlands Antilles faced chronic financial mismanagement, high public debt, and economic instability.
- The dissolution of the Netherlands Antilles and the integration of Bonaire, Sint Eustatius, and Saba into the Netherlands as special municipalities required a mechanism to ensure that these smaller islands could achieve and maintain financial stability.

### **Need for Financial Oversight**

- Bonaire, as a small island with limited economic resources, faced challenges in managing its public finances effectively. These challenges included:
  - Limited revenue-generating capacity due to a small population and economy.
  - High dependency on Dutch financial support.
  - Risks of budget deficits and unsustainable public debt.
- The Cft was introduced to provide oversight and ensure that Bonaire's public finances were managed prudently, in line with Dutch standards of good governance.

### **Legal Framework**

- The Cft was established under the Financial Supervision Act for Bonaire, Sint Eustatius, and Saba (in Dutch: Wet financieel toezicht BES [FinBES]). This act mandates the Cft to monitor and supervise the financial management of the public entities of Bonaire, Sint Eustatius, and Saba.

- The Cft operates independently but reports to the Dutch Ministry of the Interior and Kingdom Relations.

### **Objective of the Cft**

The primary objective of the Cft is to ensure sound financial management and sustainable public finances in Bonaire. This includes:

- Preventing budget deficits and excessive public debt.
- Promoting transparency and accountability in public spending.
- Ensuring compliance with Dutch financial regulations and standards.

### **TASK OF THE BOARD FINANCIAL SUPERVISION**

The Cft has several key tasks and responsibilities in relation to Bonaire:

#### **1. Budget Supervision**

- The Cft reviews and assesses Bonaire's annual budget to ensure it is balanced, realistic, and in line with financial regulations.
- It provides recommendations or imposes corrective measures if the budget does not meet the required standards.

#### **2. Financial Reporting and Monitoring**

- The Cft monitors Bonaire's financial performance throughout the year, including revenue collection, expenditures, and debt levels.
- It reviews periodic financial reports submitted by the public entity of Bonaire.

#### **3. Debt Control**

- The Cft ensures that Bonaire's public debt remains within sustainable limits and complies with legal thresholds.
- It advises on borrowing and debt management practices.

#### **4. Advisory Role**

- The Cft provides advice to the public entity of Bonaire on financial matters, including budget preparation, financial planning, and policy implementation.
- It also advises the Dutch government on financial issues related to Bonaire.

#### **5. Enforcement of Financial Discipline**

- If Bonaire fails to comply with financial regulations or faces significant financial risks, the Cft can impose measures to enforce fiscal discipline. This may include requiring budget adjustments or restricting certain expenditures.

#### **6. Promoting Good Governance**

- The Cft promotes transparency, accountability, and efficiency in public financial management.
- It encourages the adoption of best practices in governance and financial administration.

The introduction of the Cft on Bonaire was a response to the need for robust financial oversight following the island's integration into the Netherlands as a special municipality. The Cft plays a critical role in ensuring that Bonaire's public finances are managed responsibly, sustainably, and in accordance with Dutch standards. By supervising budgets, monitoring financial performance, and providing expert advice, the Cft contributes to the long-term economic stability and good governance of Bonaire.

### RESEARCH OBJECTIVES

This study aims to conduct a comprehensive analysis of financial execution and governance trends in the Public Entity of Bonaire, focusing on the comments of the Financial Supervision Board (Cft) on the Island Budget Execution Reports (UR) of the local government from 2018 to 2024. The research will assess these findings in the context of good governance principles, such as transparency, accountability, efficiency, fiscal discipline, and public sector integrity. Specifically, this study seeks to:

1. Evaluate the financial execution of the island budget in relation to good governance principles, identifying patterns in budget realization, expenditure control, and revenue management that reflect the degree of transparency and accountability in financial administration.
2. Assess governance trends and fiscal discipline by examining how the local government of Bonaire adheres to budgetary compliance, administrative accountability, and responsible financial management as monitored by the Cft.
3. Compare and contrast Cft's comments on execution reports to determine recurring governance weaknesses, such as policy inconsistencies, lack of financial discipline, and transparency gaps, as well as improvements in fiscal oversight and institutional performance.
4. Analyze the relationship between financial execution and governance quality, particularly how budget deviations, administrative inefficiencies, and fiscal mismanagement correlate with governance performance and the extent to which financial oversight enhances institutional credibility.
5. Investigate the impact of Cft's interventions and recommendations on strengthening governance structures, promoting effective decision-making, and ensuring adherence to internationally recognized good governance standards in public finance management.
6. Identify key governance challenges and structural deficiencies within Bonaire's public administration, such as weak internal controls, lack of financial forecasting, and political influence on financial decision-making, which hinder the effective implementation of good governance frameworks.
7. Propose policy recommendations that align with the principles of good governance, including greater financial transparency, enhanced public accountability, improved fiscal discipline, and institutional reforms to strengthen budget execution and government integrity.

By integrating good governance principles into the evaluation of financial execution, this study will provide a critical assessment of the effectiveness of financial oversight, the quality of public sector governance, and the sustainability of Bonaire's fiscal and administrative framework.

### LITERATURE REVIEW AND HYPOTHESES DEVELOPMENT

Good governance is a fundamental principle in public administration, ensuring transparency, accountability, and efficiency in financial management (World Bank, 2021). This literature review explores the intersection of financial execution and governance quality, focusing on fiscal oversight, budget execution, and institutional accountability. The role of financial supervisory bodies, such as the Financial Supervision Board (Cft) for Bonaire, is examined within the context of public sector governance and financial discipline. The review draws upon

existing theoretical frameworks, comparative case studies, and empirical research to evaluate whether budget execution reports reflect good governance in the Public Entity of Bonaire.

### **Definition and Principles of Good Governance in Public Financial Management**

Good governance in public financial management is defined by international organizations, including the United Nations Development Programme (UNDP, 2025), (World Bank, 2021), and Organisation for Economic Co-operation and Development (OECD, 2025). According to the (UNDP, 2016), governance in the public sector should be measured by:

- Transparency: Ensuring financial information is publicly accessible.
- Accountability: Holding public officials responsible for financial decisions.
- Efficiency: Ensuring optimal allocation of public resources.
- Rule of Law: Enforcing legal frameworks for financial management.
- Participation: Engaging stakeholders in budgetary decision-making.

The International Monetary Fund (IMF) Fiscal Transparency Code (IMF, 2018) emphasizes the need for independent fiscal oversight to ensure good governance. The IMF Fiscal Transparency Code serves as a practical instrument for advancing good governance in public financial management by promoting transparency, accountability, and effective fiscal policies. The Code helps governments build stronger institutions and foster public trust. According to the IMF, fiscal transparency provides legislatures, markets, and citizens with the information they need to hold governments accountable for their fiscal performance and use of public resources.

### **The Role of Budget Execution in Good Governance**

Budget execution is a key indicator of governance quality (Schick, 1998). According to Allen and Tommasi (2001), well-executed budgets ensure that allocated resources align with policy priorities, and unapproved spending is avoided. Andrews, Pritchett, and Woolcock (2013) argue that frequent budget deviations weaken governance, increase policy unpredictability, and reduce public trust in institutions. The World Bank (2021) outlines three key aspects of budget execution affecting governance:

1. Revenue Collection – Accuracy in forecasting and actual revenue generation.
2. Expenditure Control – Adherence to approved budgets.
3. Fiscal Oversight – The role of independent financial bodies in ensuring transparency.

### **The Purpose of Financial Supervision in Public Governance**

Public finance is subject to external oversight mechanisms to prevent financial mismanagement (OECD, 2024). According to Fritz, Verhoeven, and Avenia (2017), strong financial oversight reduces fiscal risks and improves governance outcomes.

The Cft, which oversees financial management in the Dutch Caribbean, plays a crucial role in:

- Ensuring compliance with balanced budgets (Cft, 2023).
- Evaluating fiscal risks and issuing recommendations.
- Monitoring the financial execution of island budgets.

According to Schick (1998), effective financial supervision leads to better governance outcomes, but weak enforcement or political resistance can hinder reform implementation.

### **Cft's Role in Bonaire's Fiscal Oversight**

Since its integration into the Netherlands, Bonaire has been subject to Cft supervision under BES financial regulations. Key governance issues highlighted in Cft reports (2018-2024) include:

- Persistent budget deviations affecting fiscal stability.
- Lack of financial planning for unexpected fiscal shocks.
- Administrative inefficiencies leading to delayed reporting (Cft, 2023).

Studies on fiscal oversight in small island economies (Haque, Knight, & Jayasuriya, 2012) suggest that smaller public entities struggle with financial discipline due to limited administrative capacity and external dependencies.

### **Challenges in Public Financial Management in Small Island Developing States (SIDS)**

Research on public finance in SIDS highlights common governance challenges, including:

- Weak tax collection mechanisms (Moore, 2013).
- Frequent budget overruns and poor fiscal forecasting (Jensen, 2019).
- Political influence on budget execution (Nguyen, 2023).

Ferguson (2018) found that Caribbean governments frequently underreport budgetary shortfalls, over-rely on external supervision, and delay implementing necessary reforms due to political pressures.

### **Comparative case studies: Sint Eustatius and the Impact of Financial Oversight**

Sint Eustatius faced severe governance and budget execution failures, resulting in direct Dutch intervention in 2018 due to:

- Chronic budget mismanagement.
- Failure to comply with financial oversight recommendations.
- Inadequate financial accountability.

Following the constitutional transition of October 10, 2010, concerns regarding potential financial mismanagement emerged. In November 2011, with the enactment of the law '*Wet Financiën Openbare Lichamen BES*' (FinBES), a system of prior financial supervision was introduced for the budget of St. Eustatius. This regulatory framework mandated that nearly all public expenditures required prior approval from the Minister of the Interior and Kingdom Relations (BZK). In 2015, based on the recommendation of the Cft, the government of St. Eustatius received a formal directive aimed at improving financial management. The authority conferred by FinBES to implement prior budgetary supervision was reaffirmed for the fiscal years 2016 and 2017. However, these financial oversight measures appear to have been largely ineffective, as the government of St. Eustatius systematically disregarded the financial regulations established under FinBES (Bakhuis, 2020). The persistent and concerning situation prompted the Minister of the Interior and Kingdom Relations (BZK) to establish a '*commissie van wijzen*' (committee of experts) following consultations with the Island Council and the Executive Council. The mandate of this committee was to conduct a comprehensive investigation into the functioning of the public entity, encompassing all aspects of governance and its implementation (BZK, 2025). The government concurred with the assessment of the committee of experts that there was a case of gross negligence in the performance of duties by

the administration of St. Eustatius. It further recognized that intervention under Article 132a of the Dutch Constitution was necessary, as no alternative measures were available to restore administrative order (BZK, 2025).

This serves as a cautionary example for Bonaire, demonstrating the risks of failing to align financial execution with good governance standards.

### **Lessons from Other Dutch Caribbean Islands**

Aruba and Curaçao have similar fiscal oversight mechanisms. The decision to establish a new constitutional status for Curaçao and Sint Maarten necessitated agreements at the Kingdom level concerning the public finances of the Caribbean countries and the associated financial implications for both the Netherlands and the Kingdom as a whole. The debt positions of the Netherlands Antilles, as well as those of the former island territories of Curaçao and Sint Maarten, were highly problematic. The national debt of the Netherlands Antilles had escalated to several billion Antillean guilders (ANG). For Curaçao and Sint Maarten, it was of critical importance to attain a financially sound starting position as of October 10, 2010 (10-10-'10) (Bakhuis, 2020). To preserve the financially stable starting position facilitated by the Netherlands and to prevent the emergence of new financial difficulties, agreements were established regarding the financial management of Curaçao and Sint Maarten. These agreements encompass the implementation of sound budgetary policies, the establishment and maintenance of proper financial management, the development of an effective supervisory framework, and the prevention of further debt accumulation. These provisions have been codified in the Kingdom Act on Financial Supervision of Curaçao and Sint Maarten.

Bonaire can derive key financial lessons from the experiences of Aruba, Curaçao, and Sint Maarten. First, sound fiscal governance is essential to ensure transparency, accountability, and long-term financial stability. Second, preventing unsustainable debt accumulation is crucial, as evidenced by the financial difficulties of the former Netherlands Antilles. Third, robust financial supervision, as implemented through the Kingdom Act on Financial Supervision of Curaçao en Sint Maarten, is necessary to prevent mismanagement. With the Cft the island already has this in place. Fourth, proactive long-term financial planning can mitigate future economic uncertainties. Finally, clear financial agreements with the government of the Netherlands (Central Government) are essential for maintaining fiscal sustainability and economic resilience.

### **Political Transitions and Financial Decision-Making**

Political transitions—such as elections, government reshuffling, and policy shifts—can have a significant impact on financial decision-making, particularly in small island jurisdictions where governance structures are often fragile (Brautigam, 2008). Changes in political leadership frequently lead to shifts in budget priorities, fiscal policies, and financial oversight mechanisms, affecting budget execution, public spending, and fiscal discipline (Alesina & Tabellini, 2007), (Brender & Drazen, 2005), (Milesi-Ferretti, Perotti, & Rostagno, 2002).

### **The Impact of Political Transitions on Budget Execution**

According to Keefer (2007), political transitions often result in delays in budget execution due to:

- Administrative disruptions as new officials take office.
- Policy realignment, where financial priorities shift based on political agendas.
- Institutional weaknesses that reduce financial oversight and accountability.

In small island economies, Moore (2013) found that political instability weakens fiscal discipline, as incoming governments tend to revise budgets to accommodate their policy objectives, sometimes leading to excessive public spending or misallocation of resources.

### **Political Cycles and Financial Management**

The concept of political budget cycles (PBC) suggests that governments may engage in opportunistic fiscal behavior before elections, increasing public spending to gain voter support (Schuknecht, 1998). In many cases, these pre-election expenditures lead to budget deficits and financial instability post-election, requiring fiscal adjustments by new administrations (Brender & Drazen, 2005). Empirical studies in Caribbean economies (Jensen, 2019) show that political transitions often result in weakened financial oversight, as governments attempt to delay financial accountability measures or reallocate funds to politically favorable projects.

### **Governance and Fiscal Stability in Small Island States**

Public financial management in small island states is particularly vulnerable to political transitions, as these governments often lack the administrative capacity to ensure fiscal stability (Fritz, Verhoeven, & Avenia, 2017). Studies on governance in the Dutch Caribbean indicate that frequent political changes disrupt financial planning, leading to delayed budget reporting and weakened compliance with oversight institutions like the Cft (Bakhuis, 2020). For example, the governance crisis in Sint Eustatius (2018) demonstrated how political instability led to financial mismanagement, ultimately requiring Dutch government intervention to restore fiscal order (BZK, 2025).

### **Conclusion**

Political transitions directly influence financial decision-making, particularly in small jurisdictions where governance frameworks may be less resilient. The literature suggests that policy continuity, strong institutional oversight, and independent fiscal monitoring are critical for maintaining financial stability during political changes. Without these safeguards, budget deviations, mismanagement, and fiscal crises are likely to occur, as seen in several Caribbean and Dutch overseas territories.

### **Summary of Findings**

The literature review highlights the critical role of financial execution in good governance, emphasizing:

- Fiscal oversight strengthens governance transparency and accountability (World Bank, 2021).
- Budget execution reports are key governance indicators (IMF, 2018).
- Cft's financial supervision is necessary but faces enforcement challenge (Cft, 2023).

The literature confirms that good governance in financial management is directly linked to fiscal discipline, effective budget execution, and strong oversight mechanisms. Political instability and administrative inefficiencies weaken financial management, leading to budget



deviations, misallocation of resources, and governance crises. For small island jurisdictions like Bonaire, maintaining policy continuity, reinforcing independent financial oversight, and preventing political interference in fiscal decision-making are essential for ensuring long-term governance stability and economic resilience.

### **Identified Research Gap**

Despite research on budget execution and governance in small island states, there is limited empirical analysis of Bonaire's financial execution trends. This study fills the gap by:

- Conducting a comparative analysis of Cft comments on budget execution reports (2018-2024).
- Evaluating whether Cft oversight has improved governance outcomes in Bonaire.
- Identifying persistent financial challenges and necessary policy reforms.

### **Contribution to the Field**

This research contributes to public governance studies by providing a case study on financial oversight in small island jurisdictions, offering policy insights applicable to other BES islands and Caribbean territories.

## **METHODOLOGY**

This study employs a mixed-method approach, integrating both qualitative and quantitative analyses to assess good governance through financial execution by comparing the comments of the Financial Supervision Board (Cft) on the 'Island Budget Execution Reports' (UR) of the Public Entity of Bonaire (2018-2024). The research follows a systematic comparative analysis of financial oversight and governance trends, incorporating both statistical correlations and content analysis.

### **Research Design**

The study is structured around two main components:

#### **1. Quantitative Analysis**

- Financial data from budget execution reports (2018-2024) is collected, focusing on revenues, expenditures, budget deviations, and financial corrections.
- A correlation matrix will be constructed to identify statistical relationships between key financial execution indicators and governance trends.
- A Pearson correlation analysis will be performed using PSPP software to measure the strength and direction of relationships between budget execution variables and governance indicators.

#### **2. Qualitative Analysis**

- A content analysis of Cft's assessments, official reports, and governmental responses will be conducted.
- The study examines the language and themes in Cft's reports related to financial oversight, transparency, and accountability.
- Governance challenges and reform measures are identified based on Cft's interventions, recommendations, and the response of local authorities.

### **Key Indicators and Variables**

The quantitative analysis will be based on the following core governance and financial management indicators, derived from good governance principles and financial supervision frameworks.

**Table 1: governance and financial management indicators**

<b>Indicator</b>	<b>Definition</b>
<b>Tijdigheid</b> (Timeliness)	Was the budget execution report submitted on time? (Yes/No)
<b>Volledigheid</b> (Completeness)	Did the report contain all legally required elements according to <b>Wet FinBES</b> and <b>BBV BES</b> ?
<b>Transparantie</b> (Transparency)	Is the report sufficiently detailed and understandable?
<b>Afwijkingen van de begroting</b> (Budget Deviations)	What is the difference between budgeted and actual revenues/expenditures?
<b>Correctie op fouten</b> (Error Corrections)	Were structural accounting corrections required?
<b>Toezietsmaatregelen</b> (Supervisory Measures)	Did Cft issue warnings, interventions, or judgment suspensions?
<b>Verbetermaatregelen</b> (Improvement Measures)	Were structural financial management improvements implemented?

### Data Collection

This study utilizes official budget execution reports (UR) from 2018 to 2024, along with Cft's annual reports and financial oversight assessments, as well as government policy documents related to financial management to analyze financial execution and governance trends.

### Quantitative Analysis (Statistical Evaluation using PSPP)

- A correlation matrix will be created to assess relationships between budget deviations, transparency, timeliness, and Cft's interventions.
- Pearson correlation analysis in PSPP will determine whether significant statistical relationships exist between financial execution and governance performance.
- Descriptive statistics (mean, standard deviation, and trends) will be calculated to track financial performance and governance shifts over time.

### Qualitative Analysis (Content Evaluation of Cft's Reports)

- Thematic coding will be applied to categorize Cft's comments and government responses.
- Trends in oversight effectiveness will be analyzed by tracking repeated governance concerns in the reports.
- Comparative assessment across years (2018-2024) will be conducted to identify patterns of financial mismanagement or improvements.

### Role of ChatGPT in Data Processing

To enhance data processing efficiency and ensure comprehensive analysis, ChatGPT was used to cross-reference Cft's reports, financial statements, and governance literature. Additionally, ChatGPT assisted in generating and structuring various comparative tables, facilitating a systematic evaluation of trends in financial execution and governance performance. The tool

also supported content classification for qualitative analysis, enabling a more structured approach in coding Cft's comments and government responses.

### **Validity and Reliability**

- **Data Triangulation:** Cross-referencing Cft reports with financial statements, governance literature, and policy documents to ensure consistency and verify financial oversight trends.
- **Reproducibility:** The study follows standardized coding frameworks for qualitative analysis and employs PSPP for statistical validation, ensuring objective assessment and replicability.

### **Expected Contributions**

This methodology enables a comprehensive assessment of the effectiveness of financial execution as an indicator of good governance, integrating quantitative statistical correlations with qualitative oversight evaluations. The findings will provide empirical insights into fiscal discipline, governance efficiency, and transparency in Bonaire's public sector.

## **FINDINGS AND DISCUSSION OF RESULTS**

Table 2 presents a comparative analysis of financial execution and governance trends in the Public Entity of Bonaire from 2018 to 2024, based on key governance and financial management indicators.

### **Key Observations**

- **Timeliness and Transparency**
- The timeliness of report submission fluctuated, with delays in 2019 and 2023.
- Transparency improved in 2021 and 2022 but declined in 2023 and 2024, where reports were deemed unclear or not representative.

### **Budget Deviations and Corrections**

- Significant budget deviations were observed in 2018, 2019, 2023, and 2024, with 2024 showing extreme discrepancies (USD 9.9 million error). Corrections were frequently needed, particularly in years with major budget deviations.

### **Cft Intervention and Governance Trends**

- Years of stable financial execution (2020-2022) saw no intervention from the Cft and showed progress in governance trends. 2018, 2019, 2023, and 2024 faced warnings, withheld judgments, or financial mismanagement criticisms, leading to deteriorating governance conditions. 2024 marks a governance crisis, with extreme financial discrepancies and Cft's judgment withholding.

**Table 2: Comparison of Execution Reports (2018-2024).**

Year	Timeliness	Transparency	Budget Deviations	Corrections Needed?	Cft Intervention?	Governance Trend
2018	✅ On time	❌ Insufficient explanation	▲ Large deviations	✅ Yes	⚠️ Warning	🔥 Weak governance
2019	❌ Late	❌ Insufficient	▲ Large deviations	✅ Yes	⚠️ Judgment withheld	🔥 Deterioration
2020	✅ On time	⚠️ Partially complete	◆ Smaller deviations	✅ Yes	✅ No intervention	📈 Improvement
2021	✅ On time	✅ Complete	◆ Small deviations	❌ No	✅ No intervention	📈 Positive development
2022	✅ On time	✅ Complete	◆ Small deviations	❌ No	✅ No intervention	📈 Good governance in sight
2023	❌ Late	❌ Unclear explanation	▲ Large deviations	✅ Yes	⚠️ Financial mismanagement criticism	🔥 Regression
2024	✅ On time	❌ Not representative	▲ Extremely large deviations	✅ Yes (USD 9.9M error)	⚠️ Judgment withheld	🔥 Governance crisis

### Preliminary Findings

- The table indicates that good governance correlates with budget discipline and transparency, as seen in 2021-2022. However, years of financial mismanagement (2018-2019, 2023-2024) saw governance regress, highlighting the need for stronger fiscal oversight and policy reforms.

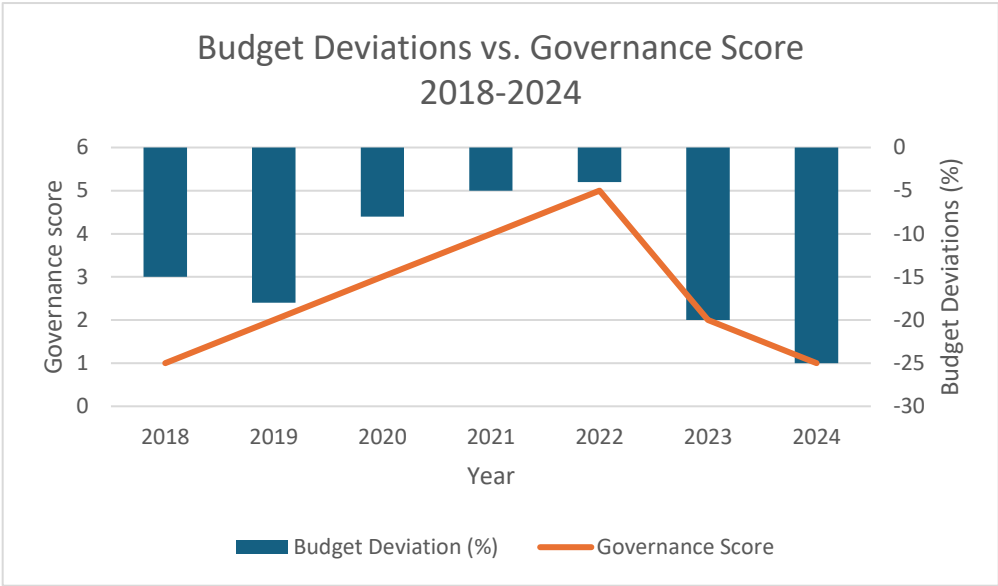
Figure 1 illustrates the relationship between Budget Deviations (%) and Governance Score (1-5) from 2018 to 2024.

### Key Observations

- Inverse Relationship Between Budget Deviations and Governance Score.
- From 2018 to 2022, as budget deviations decreased, governance scores improved, indicating better financial management and more effective governance.
- From 2022 onward, budget deviations increased significantly, leading to a sharp decline in governance score, suggesting deteriorating financial oversight.

### Period of Stability (2020-2022)

During this period, budget deviations remained low, and governance scores peaked at 5, reflecting good governance practices and effective fiscal discipline.



**Figure 1: Budget deviations vs. Governance score (2018-2024)**

Governance score (1-5) 1) weak governance/governance crisis 2) deteriorating/regression 3) Improvement 4) Positive development 5) Good governance in sight

**Financial Deterioration (2023-2024)**

Budget deviations spiked (-20% in 2023 and -25% in 2024), correlating with a rapid decline in governance scores. This suggests major financial mismanagement, lack of oversight, and policy failures, leading to a governance crisis in 2024.

**Preliminary Findings**

The data reinforces that budget discipline is a key determinant of good governance. Periods of low budget deviations correspond with higher governance scores, whereas high deviations lead to governance failures. This trend suggests that financial mismanagement directly undermines governance quality, emphasizing the need for stricter fiscal oversight and policy reforms to restore financial stability in Bonaire.

Due to the rapid deterioration of financial execution and governance in 2023 and 2024, an additional in-depth analysis was conducted by examining the first, second, and third execution reports for both years (see table 3). This was necessary to identify the root causes of the financial and governance decline.

**Key Observations from the Extra Analysis**

Lack of Progress in Financial Execution.

Across all reports, there was no improvement in commitment management, financial explanations, error corrections, or administrative efficiency.

**Table 3: Cft's comments on the First, Second, and Third Execution Reports (UR) for 2023 and 2024.**

Year	Report Type	Commitment Management	Explanation of Financial Situation	Accounting Errors	Administrative Backlogs	Realization Percentage Revenues	Realization Percentage Expenses
2023	First UR	1 (No Progress)	1 (No Progress)	1 (No Progress)	1 (No Progress)	2 (Partial)	2 (Partial)
2023	Second UR	1 (No Progress)	1 (No Progress)	1 (No Progress)	1 (No Progress)	2 (Partial)	2 (Partial)
2023	Third UR	1 (No Progress)	2 (Partial Improvement)	1 (No Progress)	1 (No Progress)	2 (Partial)	2 (Partial)
2024	First UR	1 (No Progress)	1 (No Progress)	1 (No Progress)	1 (No Progress)	1 (No Progress)	1 (No Progress)
2024	Second UR	1 (No Progress)	1 (No Progress)	1 (No Progress)	1 (No Progress)	1 (No Progress)	1 (No Progress)
2024	Third UR	1 (No Progress)	1 (No Progress)	1 (No Progress)	1 (No Progress)	1 (No Progress)	1 (No Progress)

The third UR of 2023 showed a slight improvement in the explanation of the financial situation, but this did not translate into meaningful progress in other areas.

### Severe Decline in 2024

Unlike 2023, where some financial execution indicators showed partial progress, in 2024, all indicators regressed to "No Progress" across all three reports. This indicates a complete failure in financial management, budgeting accuracy, and administrative oversight.

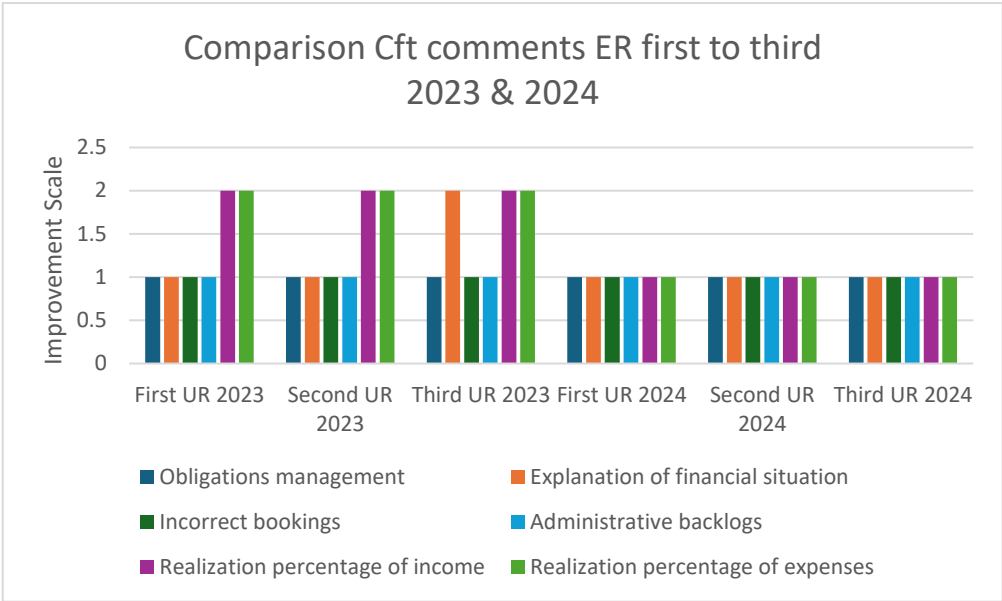
### Realization of Revenues and Expenses

In 2023, there was still partial progress in revenue and expense realization, suggesting some level of budget execution. However, in 2024, realization percentages dropped to the lowest level, reinforcing concerns about budget inefficiencies and potential financial mismanagement.

### Preliminary Findings

The detailed comparison of the three execution reports per year (UR1, UR2, and UR3) provides a clear picture of financial decline. The findings confirm that 2023 marked the beginning of the regression, while 2024 saw a total collapse of financial discipline and governance effectiveness. This raises serious concerns about financial stability and the need for urgent reforms in budget management and oversight mechanisms.

The bar chart below visualizes the evaluation of key financial governance indicators across the first, second, and third execution reports (UR) of 2023 and 2024, based on Cft's comments. The y-axis represents an improvement scale, where higher values indicate better financial execution and governance performance.



**Figure 2: Comparison Cft's comments first to third Executive Report (UR) 2023 & 2024**

**Key Observation**

Slight Improvement in the Third UR of 2023. "Explanation of Financial Situation" and "Realization of Income & Expenses" show a slight increase in the third execution report of 2023, indicating some attempts at financial clarification. Other indicators, including Obligations Management, Incorrect Bookings, and Administrative Backlogs, remained stagnant at a low level across all reports in 2023.

**Deterioration Across All Indicators in 2024**

Unlike in 2023, where some partial progress was seen in the third report, all indicators in 2024 remain flat and low across the first, second, and third URs. This confirms a total collapse in financial execution and governance performance, as there were no improvements across financial accountability metrics.

**Key Areas of Concern**

Obligations Management & Administrative Backlogs. No progress in addressing commitment management issues and delayed financial reporting.

**Incorrect Bookings**

No correction of accounting errors, leading to unreliable budget execution figures.

**Realization Percentage of Income & Expenses**

In 2023, some revenue and expenditure execution were achieved, but in 2024, all progress disappeared, suggesting severe mismanagement.

**Preliminary Findings**

The graph highlights that 2023 marked a period of financial instability with minimal improvements in the third UR, but 2024 saw a complete governance and financial management failure, with no signs of recovery across all key indicators. This reinforces concerns about the

urgent need for administrative and financial reforms to restore fiscal discipline and accountability in the Public Entity of Bonaire.

### **Impact of the 2023 Political Changes on Financial Management in Bonaire**

The political shifts in 2023, particularly the Island Council elections on March 15, 2023 (Electoral Council, 2025) and the installation of a new Executive Council with a new Commissioner of Finance on April 19, 2023 (AD, 2025), followed by a political crisis in October 2023 (CN, 2025), had significant consequences for financial management in Bonaire. These events disrupted fiscal stability, policy continuity, and administrative oversight, contributing to the financial deterioration observed in 2023 and 2024.

### **Disruptions in Fiscal Governance Due to Political Turnover**

#### **Transition Period and Administrative Delays (April 2023)**

A new Executive Council and Commissioner of Finance meant changes in financial priorities, policies, and administrative personnel. During the transition, financial management was likely affected by delays in decision-making, adjustments to governance structures, and reallocation of budgetary focus. Such changes often result in temporary governance gaps, where budget execution slows down, and financial oversight weakens.

### **Impact on the 2023 Execution Reports**

The first, second, and third Execution Reports (UR1, UR2, UR3) of 2023 were still the responsibility of the old administration. The new Executive Council, installed in April 2023, had to work with financial policies and obligations inherited from the previous government. This may have led to budget reallocation conflicts and misalignment between planned and actual expenditures, as the new administration sought to adjust financial priorities.

### **Political Crisis and Instability (October 2023)**

In October 2023, a political crisis led to a reshuffling of the Executive Council, bringing in a new coalition with a different approach to financial governance. Political instability typically delays critical financial decisions, as focus shifts to political negotiations instead of governance efficiency. This instability may have disrupted budget execution and administrative operations, leading to weakened financial control and increased deviations from the budget. The Cft's criticism of financial mismanagement in the second half of 2023 may be directly linked to the lack of consistent leadership and policy continuity.

### **Long-Term Consequences for 2024**

The financial instability in 2023 carried over into 2024, where budget deviations reached extreme levels. Financial mismanagement worsened, as seen in the 9.9 million USD accounting error, suggesting a lack of financial oversight and weakened fiscal discipline. The political changes may have contributed to a governance financial crisis in 2024, where budget execution was at its lowest, and fiscal oversight collapsed.

### **Preliminary Findings**

The elections, change of administration, and political crisis in 2023 significantly impacted financial management by causing:

1. Transition delays, affecting budget execution and oversight.



- 2. Policy uncertainty, leading to administrative inefficiencies and reallocation struggles.
- 3. Political instability, reducing governance effectiveness and fiscal control.

These disruptions weakened financial governance, leading to the poor budget execution and governance failures observed in 2024. The Cft’s increasing criticism and the judgment withheld on financial reports confirm that political instability played a crucial role in deteriorating financial discipline.

**Expected Correlation Between Budget Deviation and Governance Score**

The table below shows how larger budget deviations (negative values) correlate with lower governance scores, indicating that financial mismanagement weakens governance.

**Table 4: Budget deviations and governance score**

Year	Budget Deviation (%)	Governance Score
2018	-15	1 (Weak Governance)
2019	-18	2 (Deterioration)
2020	-8	3 (Improvement)
2021	-5	4 (Positive Development)
2022	-4	5 (Good Governance in Sight)
2023	-20	2 (Regression)
2024	-25	1 (Governance Crisis)

To examine the relationship between budget realization (deviations from the budget) and governance quality, we perform a Pearson correlation test.

**Hypothesis Testing**

Null Hypothesis ( $H_0$ ): There is no significant relationship between budget deviations and governance score. Alternative Hypothesis ( $H_1$ ): There is a significant relationship between budget deviations and governance score. If  $P < 0.05$ , we reject  $H_0 \rightarrow$  Budget discipline affects governance. If  $P > 0.05$ , we fail to reject  $H_0 \rightarrow$  No strong evidence of correlation.

**Table 4: Variables = year Budget\_Deviation vs Governance\_Score.**

Variable Comparison	Correlation (r)	p-value
Year vs. Budget Deviations	-0.287	0.532
Year vs. Governance Score	0.102	0.828
Budget Deviations vs. Governance Score	0.879	0.009

The table shows Pearson correlations between the variables.

**Year & Budget Deviations**

$r = -0.287$ ,  $p = 0.532$

This indicates a weak negative correlation between the year and budget deviations. The p-value of 0.532 is greater than 0.05, meaning that this correlation is not statistically significant. This suggests that there is no systematic trend where budget deviations significantly decrease or increase over the years.

### **Year & Governance Score**

$r = 0.102$ ,  $p = 0.828$

This indicates an almost negligible positive correlation between time (year) and governance score. The p-value of 0.828 is much greater than 0.05, meaning that there is no statistically significant relationship between governance scores and the year. This suggests that governance scores do not show a clear improvement or deterioration over time in a statistically significant way.

### **Budget Deviations & Governance Score**

$r = 0.879$ ,  $p = 0.009$

This indicates a very strong positive correlation between budget deviations and governance scores. The p-value of 0.009 is less than 0.05, meaning that this correlation is statistically significant. This suggests that fewer budget deviations are associated with better governance scores, meaning: the smaller the financial deviations, the better the governance. This is an important and robust result, as it demonstrates a direct link between financial management and good governance.

This correlation analysis shows that the level of budgetary discipline has a direct and significant impact on good governance. This means that improvements in financial management can lead to a more stable and transparent administration in Bonaire.

## **CONCLUSION**

This study has demonstrated that budgetary discipline plays a crucial role in ensuring good governance in the Public Entity of Bonaire. Through quantitative and qualitative analysis, a strong correlation was found between budget deviations and governance performance, with high financial mismanagement leading to governance deterioration. The Pearson correlation analysis confirmed a statistically significant relationship between fiscal discipline and governance effectiveness, reinforcing the argument that sound financial management contributes to administrative stability and transparency.

The political instability in 2023, marked by an Island Council election in March and an Executive Council restructuring in October, further compounded financial mismanagement issues. The lack of consistent fiscal policies and governance oversight led to an extreme financial deviation in 2024, accompanied by Cft's judgment withholding on the budget execution report nr. 4. The review of execution reports (UR1, UR2, and UR3) from 2023 and 2024 revealed that no structural improvements were made in key financial management areas, such as commitment management, transparency, and administrative efficiency.

Overall, the findings indicate that a deterioration in financial execution directly correlates with weakened governance structures. The absence of timely budget execution, persistent administrative backlogs, and increased political uncertainty have significantly contributed to

Bonaire's financial crisis. Without urgent reforms, the public administration risks further governance failures and potential external intervention.

## **Recommendations**

To restore financial stability and governance integrity, the following policy recommendations are proposed:

### **Strengthen Budgetary Discipline and Fiscal Oversight**

- Implement stricter financial planning mechanisms to prevent extreme budget deviations.
- Establish mandatory compliance measures for timely and transparent budget execution.
- Introduce real-time financial monitoring systems to track expenditures and prevent misallocations.

### **Enhance Financial Reporting and Transparency**

- Ensure that budget execution reports are submitted on time and include all necessary financial details, in line with Wet FinBES and BBV BES regulations.
- Require independent audits of financial statements to enhance accountability and credibility.
- Implement standardized reporting templates to ensure comparability and transparency in financial data.

### **Improve Governance Stability and Administrative Capacity**

- Establish clear financial management protocols to ensure continuity during political transitions.
- Strengthen the role of the Island Council in financial oversight, ensuring that governance decisions align with fiscal responsibility.
- Provide capacity-building programs for financial administrators, enhancing skills in budget execution, financial forecasting, and risk management.

### **Address Political Instability and Governance Gaps**

- Develop a governance framework that ensures financial continuity regardless of political changes.
- Promote institutional independence in financial decision-making to prevent political interference.
- Implement governance performance reviews, linking political accountability to financial execution outcomes.

### **Implement Corrective Actions Based on Cft's Recommendations**

- Address Cft's concerns on budget mismanagement by ensuring timely corrective actions on financial discrepancies.
- Establish a formal response mechanism where the Executive Council must justify financial decisions and report on improvements made.
- Introduce sanctions or corrective measures for repeated failures in budget execution compliance.

## Final Thought

Without immediate financial governance reforms, Bonaire risks further fiscal instability and governance deterioration. By implementing strict fiscal discipline, improving transparency, and ensuring governance stability, the Public Entity of Bonaire can work towards restoring confidence in its financial management practices and ensuring long-term administrative resilience.

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► Correlaties

CORRELATION

/VARIABLES = Year Budget\_Deviation Governance\_Score

/PRINT = TWOTAIL NOSIG.

**Correlaties**

		Year	Budget_Deviation	Governance_Score
Year	Pearson correlatie	1,000	-,287	,102
	Sign. (tweezijdig)		,532	,828
	N	7	7	7
Budget_Deviation	Pearson correlatie	-,287	1,000	,879 <sup>a</sup>
	Sign. (tweezijdig)	,532		,009
	N	7	7	7
Governance_Score	Pearson correlatie	,102	,879 <sup>a</sup>	1,000
	Sign. (tweezijdig)	,828	,009	
	N	7	7	7

a. Significant op .05-niveau