



CENTRALE BANK VAN ARUBA

Digital transformation and the future of governance

CBA Innovation Conference

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Opening Speech by

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Excellencies,
Distinguished guests,
Designers & Innovators,
Ladies & Gentlemen,

'Bon dia y bon bini' to the Centrale Bank van Aruba's Third Annual Innovation Conference 2018. We are very pleased to welcome you all to our annual gathering of innovative minds and spirits. We are deeply honored with your presence, especially those who have attended the previous conferences. It is very nice to see you all again.

Time flies. We are already at our third Innovation Conference, mostly thanks to the dynamic leadership of Mr. Ryan Peterson, the motor behind the organization of this important gathering. Let's give Ryan and everyone who has helped with this conference: a big round of applause.

1. Introduction

Ladies and gentlemen, what started in 2016 as "FinTech and the Future of Money", today has evolved into "Digital Transformation & the Future of Governance". Some digital natives would suggest "hashtag DXG." (#DXG).

But what is digital transformation and how is it shaping the future of governance?

Everywhere you look and read, it seems that the whole world has become enchanted with digital transformation and the future of "everything". We read about the revolution of FinTECH, RegTECH, SupTECH, and yes, even GovTECH! That is surely a lot of TECH!

I think that this development is what we have been waiting for in the past years. I am personally fascinated by the possibilities of new technologies and the potential solutions that digitization holds.

At the Annual Meetings of the IMF and the World Bank last October, the 'Bali FinTech Agenda' was presented, which provides a 12-policy elements framework for successfully harnessing FinTech's benefits and opportunities, while at the same time managing the inherent risks.

This framework recognizes the "rapid pace of Fintech development and the wide ranging possibilities in strengthening financial systems, broadening access to financial services, and supporting broader economic development and inclusive growth".

However, in terms of governance, the presented framework also “acknowledged the potential risks posed by rapid technological changes to financial systems and the need for coordination by national authorities, including the strengthening of institutional capacity, building up knowledge, improving communication with stakeholders, and expanding consumer education.”

2. In Search of Digital Transformation

In search of digital transformation, oftentimes, charmed by the magic of digital technologies, we imagine new business models and rethink complete industries. We use words and acronyms like AI (Artificial Intelligence), RPA (Robotic Process Automation), DLT (Distributed Ledger Technology), IoT (Internet of Things), IP (Instant Payments), and yes, DXG. We hash and hype away in search of the “digital grail”.

But are we so captivated by the “digital” that we have lost sight of transformation and the true meaning thereof? Perhaps we assume there’s ‘TECH fix’ for everything? Or could it be that the digital exuberance has eclipsed some of the tougher questions and challenges of organizational change and industry inertia? Or what about the “softer” institutional behaviors, assumptions, and hidden beliefs?

Perhaps we should venture beyond Adam Smiths’ “Wealth of Nations” (1776) towards his lesser known publication on “Moral Sentiments” (1759) to ask slightly different questions regarding the role of innovation and institutions in our society.

To quote the founding father of Quality Thinking, Mr. William Edwards Deming: if you do not know how to ask the right question, you discover nothing.

So, in my opinion, within the tech jungle that is surrounding us now, the real challenge is to raise right questions rather than provide old answers, for the former is far more likely to lead to new insights, breakthroughs, and true progress. I am fully convinced that it is the “inquisitive spirit” that is best prepared to lead the future, and I am sure many of you would agree with me on that.

While we may not have all the right answers immediately, we need to dare to ask some of these ‘tougher-than-tech’ questions. Questions of transformation and governing the future; questions of values, behaviors, ethics, and integrity.

No matter how digital our society is or becomes, these are fundamental elements of humanity that no technology can simply replace. Yes, technology may facilitate and enable new digital worlds and ways of working, but ultimately we are the stewards of our own transformation. The more digital our lives become, the more, not less, important qualities of ethics, empathy, conduct, critical thinking, and creativity become.

Allow me to ask you this question:

Can you imagine a healthy economy without innovative industries, strong institutions, policy integrity, and social inclusion?

Beyond the classical components of economic growth and gross domestic production, you would be hard-struck to build economic resilience in the absence of these elements. In this respect, there are four pillars that form a metaphorical compass for the future of governance. They are (1) innovation, (2) institutions, (3) integrity, and (4) inclusion.

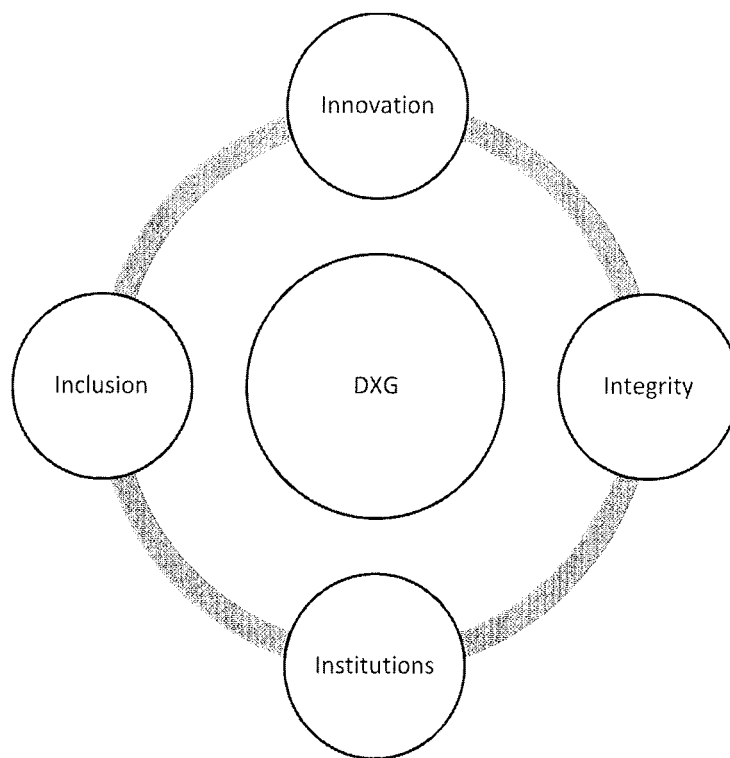


Figure 1. Metaphorical Compass of Digital Transformation and the Future of Governance.

Today, our distinguished speakers will explore and elaborate on each of these pillars. Permit me to share some initial thoughts.

3. Innovation to the North

“You see things and you say ‘why?’ But I dream things that never were and I say ‘why not?’ – George Bernard Shaw

The first pillar: *What is innovation? And is our society fit for the future?* Two deceptively simple questions, which continue to boggle policy makers and economists alike. While definitions of innovation usually center on something ‘new’ and ‘different’ that solves a problem or adds value, it must be recognized that ‘value’ lies in the eye of the beholder.

My point is that the value of innovation is shaped by the social, political, and economic context, in which change unfolds and meaning is constructed.

Bring the public sector into this equation, and the meaning and value of innovation shifts towards, for instance, improving the quality of public services, enhancing the investment climate, engendering trust and transparency, and responding more reliably to the needs of our society, particularly, those most in need.

I sometimes get the question why innovate or what is the purpose of innovation? Let me turn this around and ask:

What are the opportunity costs of not innovating? What if business models remained the same and did not change in an increasingly dynamic world? What if we governed like it was 1984? What if our economy did more of the same and expected to produce more and progress further?

Yes, there are costs and risks in innovation, but have you ever considered the costs and productivity losses of not innovating, and doing the same thing over again for over twenty years?

4. Institutional Foundations in the South

Now let’s turn to Pillar 2: institutions. Unlike market forces that continuously shape the private sector, unfortunately public sector innovation does not occur naturally. As study after study has demonstrated, the forces that maintain status quo and reinforce existing institutional regimes endure across generations, until something big happens.

I know for some of you the concept of ‘public sector innovation’ seems like science fiction. Yet it is perhaps the single most important science fact at the moment for safeguarding economic stability, security, and sustainability.

Today, the public sector is confronted by increasing demands of an aging population, dynamic next-generation, and how to respond to the diverse needs of its society.

At the same time, public institutions are operating under tight fiscal constraint, making it necessary to deliver better outcomes at lower costs. Slowly but surely, the old saying of “doing more with less” is calling into question old models and structures. Public sector innovation may no longer be a luxury, but an essential ingredient for the future of governance

Having said that, public sector innovation does require a huge shift in vision, leadership, and governance. A shift that emphasizes agility beyond stability, lean beyond linear, and exploration over exploitation.

To do so, public sector organizations must develop, without delay, process innovation, skills, and institutional capabilities that foster and accelerate innovation and digital transformation.

As an example, let’s take blockchain. The OECD recently organized a policy workshop on “blockchain in public services”. It concluded that without a clear understanding of blockchain, its potential public sector impact is oftentimes misunderstood or ignored. Questions related to its applicability, technical complexity, and cybersecurity are usually obstacles for stakeholders to truly engage and think-through this emerging digital technology.

Lack of understanding, knowledge, and competence, rather than technology per se, is thus frequently the underlying factor that inhibit economic innovation and the transformation of government. A shared understanding of what digital technologies and transformation are, and are not, is thus fundamental in helping institutions and markets to look past the ‘digital grail’ in order to advance innovation, integrity, and inclusion.

The obvious question then is: *How can public institutions create an environment that is conducive to digital transformation, responsible innovation, and good governance?*

Increasingly, countries are experimenting with different approaches at the national level to foster public sector innovation. They range from developing whole-of-government innovation strategies that address the role of the public sector as lead innovator, to creating structures to support individual organizations.

In this regard, dedicated strategies and action plans for innovation in public services have been developed, such as the leading work by the Government of Estonia on enabling digital governance. I look forward to listening and learning from our distinguished speaker and Chief Technology Officer, Mr. Andres Kutt, on the journey of the Government of Estonia.

In her recent doctoral thesis, our colleague Mrs. Edwina Pereira clearly articulates the role and relevance of monetary and fiscal institutions in small island economies. Titled “Smart and Small”, her extensive investigation demonstrates that the economic success of small island economies, such as Aruba, depends more, not less, on the quality of their public and private sector institutions. I will not venture too much into the theoretical depths of

institutions and economic development, but needless to say, there is a rich body of research on the significant contribution of institutions to growth.

In your ‘innovation conference bag’, you will find a recent publication by the World Bank on the “innovation paradox” and developing innovation capabilities. According to this insightful report, effective innovation policy requires choosing the appropriate combination of policy instruments within the context of available governance and institutional capabilities.

I would like to welcome Mrs. Jane Treadwell of the World Bank to our conference, and I anticipate a very stimulating presentation and discussion.

5. To the East for Integrity

Now the third pillar: Integrity. To break through the so-called paradox of innovation and small islands, we need to turn towards the quality of our institutions, specifically the rules, roles, and relationships that design the game, in which trust and integrity are essential.

Thus, laws, rules, procedures, compliance, and conducts are crucial and fundamental to nation building and sustainable development. Governance and integrity are the foundation of an ethical and inclusive society. The actions we take, and the procedures and policies we follow, become the sum of our efforts to achieve the highest standards for ethical behavior and integrity. In the absence of systemic integrity, economic systems and societies collapse and break down.

At its source, the Global Financial Crisis was a crisis in integrity and ethics. The Gulf oil spill was a crisis in integrity. The collapse of BlackBerry was a crisis in integrity. Fake news is a crisis in integrity. Yes, I could go on and on with different examples. Yet, at the very root of all these, lies a question of integrity and ethical behaviors.

According to the World Economic Forum (2016), the lack of integrity and the failure of the rule of law rank amongst the most important of global risks. The lack of systemic integrity is costly, with global estimates ranging up to 5 percent of GDP. Beyond financial and economic costs, society carries most of the burden as social, educational, and health care programs suffer. Ladies and gentlemen, it is the weak and the most vulnerable ones in our society who carry this weight.

The absence of integrity breeds public distrust in government and weakens the state’s capacity to perform its core functions. Fiscal sustainability, macro-financial stability, public and private investments, national education, and productivity all become victims. Ultimately, it destroys the moral fabric of society.

We are thus excited and honored to once more have our Aruban financial expert, Mr. Dustin Ling from CitiBank, discuss the role of technology for integrity, and the groundbreaking work that he has been doing globally.

Ladies and Gentlemen, you would agree with me that we cannot have an 'isla innovativo' without an 'isla integro'. The Central Bank of Aruba is thus pleased with the recent developments to establish a National Bureau for Integrity under the temporary expert guidance of our colleague Mrs. Amalin Flanegin. Congratulations to the Government of Aruba on this important endeavor.

6. Conclusion: Inclusion from the West

Distinguished guests, let me conclude my thoughts with the final pillar, being inclusion, in our quest for digital transformation and the future of governance.

Innovation, institutions, and integrity mean little without the involvement of citizens. The future of governance is inclusive. It is about finding new ways to impact the lives of citizens, and new approaches of engaging them as partners to shape the future together. It involves overcoming old structures and modes of thinking, and embracing new technologies and ideas, with respect and dignity.

Some questions we need to ask ourselves are:

- *How can we use technology most efficiently and effectively to improve government accountability, social inclusiveness, and foster resilience?*
- *How can we create a data-driven culture in the public sector to have evidence-based policies in place?*
- *How can we strengthen our legal and regulatory frameworks to allow digital opportunities to be seized?*
- *How can we safeguard digital security and privacy issues?*

In summary, how can we capture the true value of digital technologies for more innovative, open and inclusive institutions and society?

We are truly honored with the participation of HE Prime-Minister of Aruba, Mrs. Evelyn Wever-Croes, who will provide us with an insight on the hard works of the Government of Aruba to become digitally transformed. Madame Prime- Minister, we look forward to your presentation.

Since we are in the high-tech spirit, I believe it is high-time for me to stop talking.

I thank you all for your attention. I trust you will have an outstanding conference.

MASHA MASHA DANKI!

"Learn avidly. Question repeatedly what you have learned. Analyze it carefully. Then put what you have learned into practice intelligently."

Edward Cocker