



**MINISTERIE
VAN
FINANCIËN**

Tamarindelaan # 03
Onafhankelijkheidsplein
Paramaribo-Suriname
T: 597 472610 / F: 597 476314
E: secmin@finance.gov.sr

LAF.No 9586

Paramaribo, 6 November 2013

Mr. Luis Alberto Moreno
President
Inter-American Development Bank
1300 New York Ave, N.W.
Washington, D.C. 20577

Subject: Support for Suriname's modernization of agricultural public services

Dear President Moreno,

On behalf of the Republic of Suriname, the Government of Suriname (GOS) requests support from the Inter-American Development Bank to enhance policies and institutions that provide key public services to the agricultural sector. The overall IDB support envisioned would be in the form of three individual interventions, jointly defined as policy-based programmatic operations. This policy letter describes Suriname's respective strategy and affirms GOS's commitment to implement all activities agreed with the IDB.

The modernization of agricultural public services program will set the framework for better sector performance, higher farm incomes, food safety, and food security, when in place, the updated institutional structure will also facilitate much-needed sector investments, which are unlikely to come to fruition and be sustainable without modernizing the complementary public services.

Within the context of a stable macroeconomic environment, Suriname's program to modernize public agricultural services addresses the following key issues: (a) agricultural statistics and information; (b) animal health and plant protection; (c) agricultural technical innovation; (d) irrigation and drainage; and (e) sustainable fisheries.

The macroeconomic framework

Suriname is among the fastest growing countries in the region, even in the wake of lower gold prices and uncertain global outlook. The economy registered 4.75 percent growth in 2012 and we share IMF's projection that real GDP growth for 2013 will be similar, due to the substantial public investment program, and strong performance in several sectors, including services. The immediate outlook continues to be positive, albeit in the context of uncertain commodity prices and economic developments in our major trading partners: the Euro-zone, the United States and

the Caribbean. IMF projects a medium term average growth rate of 4.4 percent, especially as Suriname's oil refinery capacity will expand by 2015. To support growth of the non-mineral sector, GoS is tackling long-standing obstacles to doing business, primarily with the ambit of the Competitiveness Unit Suriname, which is also supported by the IDB.

Even while GoS is focusing on improving the institutions and framework for public finances, we are mindful of the need to boost public capital investment, which has been sub-optimal for some time. Through higher absorptive capacity, GoS is now able to improve its public capital stock at a sustainable rate. Nominal revenues grew over the last two years, as the alcohol, tobacco and fuel taxes were increased. Public debt remains low and sustainable. The national focus is emphasizing even more the institutionalization of fiscal management for sustaining efforts to reverse recent fiscal slippages, which were mainly due to institutional constraints. The annual budgeting process is now supported by a solid medium term fiscal framework that envisages an overall balance of around -3 percent of GDP through to 2018.

Combined with more robust capital imports, lower export revenues will contribute to a lowering of the current account balance to -3.5 percent of GDP in 2013. This trend will continue until long term capital projects come to an end around 2017. Gross international reserves have recovered to US\$903.8 million after having declined somewhat to US\$861.4 million earlier in 2013. Reserves are around 4.3 months of imports and are expected to grow over the medium term to US\$1.2 billion or 5.6 months of imports by 2018. International reserves also equal about 20 percent of GDP and are more than adequate for servicing short- and long-term debts coming due within the next 12 months. Sound monetary policy facilitates Suriname's exchange rate remaining in line with fundamentals and on-par with the parallel market rate. Furthermore, the financial sector exhibits similar characteristics of soundness as it continues to remain small and relatively insulated from contagion.

Overall, despite the downside risks and challenges, Suriname is enjoying macroeconomic stability and this is well recognized by external and independent parties. The recent IMF Article IV Report 2013 corroborates this perspective while taking note of similar risks and challenges cited in this policy letter. In August 2012, the credit rating firms of Standard and Poor, Fitch and Moody's upgraded Suriname's long-term foreign-currency rating to BB-, BB-, and Ba3, respectively. S&P again raised Suriname's outlook from stable to positive in April 2013.

The agricultural sector

From a 20-year perspective, the relative importance of agriculture in Suriname's economy has declined. While agricultural output showed strong fluctuations, the dominant fact is that economic growth was boosted by development in the mining and services sectors. However, agriculture is of significant socio-economic relevance: it accounts for 10% of total export earnings, being second to mining; 17% of the labor force; and almost 10% of the GDP in 2011 (Central Bank of Suriname, 2012). Moreover, the sector is a key contributor to food security through the production of rice, the population's main staple food.

The Government of Suriname has repeatedly recognized the importance of developing the agricultural sector by increasing its productivity and competitiveness. In its 2010 statement

"Crossroads – to better times together", the GoS states that it gives *"high priority to a set of programs that aims to fulfill 85% of Suriname's domestic food needs, and of which at least 40% of production is for export."*

Despite signs of sector recovery since 2003, EU preferences for Suriname's bananas and rice exports are waning, and a more competitive economy puts pressure on modernizing the structure of public services needed to improve agricultural productivity. Food security, in turn, suggests the convenience of, at least, a non-declining per capita food production

While important issues such as privatization of state-owned enterprises and land governance are part of the GoS's agriculture-related broader agenda of reforms, the focus of the proposed programmatic policy loan is to improve the performance of public agricultural services, which comprise most of the government's investments in the sector (more than 90% of total investment resources in the 2009-2011 period).

Central issues in the supply of public agricultural services

Agricultural Statistics and Information. With assistance from FAO, the Ministry of Agriculture (LVV) has identified areas in dire need of reinforcement to improve the quality of statistical information. In brief, those areas are: (i) data collection methods and processes; (ii) improved analytical skills; and (iii) timely dissemination of information. Four years after the Fifth Agricultural Census of Suriname was conducted in 2009, official results remain to be released. In addition, replacing the qualified informant method by probabilistic surveys will be a first step in modernizing the Agricultural Information System (AIS). Additionally, the GOS has not built a monitoring and analytical capacity to assess how its agricultural policy instruments translate into efficient support for producers, failing to objectively understand the contribution of such policy instruments vis-à-vis the Government's objectives.

Animal Health, Plant Protection and Food Safety. Suriname's agriculture and livestock are currently free of well-known economic pests. However, the current status is vulnerable because the norms and regulations needed to enforce a scientific risk-based surveillance and control system are not in effect. According to the International Organization for Animal Health (OIE) and the Inter American Institute for Agriculture (IICA) assessments of the Surinamese Veterinary and Phytosanitary Services (OIE, 2012 and IICA, 2012), the performance scores are among the lowest in the LAC region. Suriname lacks modern institutional and legal framework to support a technically-sound agricultural health system. In the case of food safety, FAO indicates that there is: (i) lack of a legal framework and protocols to support an integrated food safety system with animal health and plant protection; (ii) a fragmentation food safety programs across government departments, with minimal coordination; (iii) no clear and formal delimitation of competencies among the government agencies; and (iv) no human resources and infrastructure plan for an integrated food safety system.

Deficiency in these services puts at risk the health of Surinamese consumers as well as that of consumers of trading partners. They may also result in significant economic losses: rice blasts could represent an economic loss of around US\$ 10 million annually; an outbreak of foot mouth

disease would lead to a contraction of the livestock sector at an estimated loss of US\$ 8.0 million in a 15-year time; and agrochemical and contamination of food exports puts in jeopardy US\$ 30 million of annual exports of fruits, vegetables and fish products, as evidenced by 15 alert notifications received by Suriname exports of such products to the European Union because of exceeding maximum residue level between 2008- 2011.

Agricultural innovation system. While there is in Suriname a history of a solid plant breeding program in rice, the system as a whole does not have a good record of collaborative research and extension activities, with limited linkages across national research entities and with international research centers. Moreover, apart from some past success in the rice breeding program, there are no records of recent publicly-funded widespread transfer of any technology. In addition, a significant proportion (40%) of Ministry of Agriculture, Animal Husbandry and Fisheries' (LVV) research budget is allocated to ancillary laboratory services, which are relevant for monitoring and control purposes, but are not designed to provide short term technological results.

The Ministry underlines the need for closer interaction among the actors of the system, creating mechanisms to finance results-based innovation, and generating linkages with other national and international research institutions.

As part of its commitment to the innovation strategy, the GOS envisions increasing the level of financing to the agricultural research to 2% of the Agricultural GDP. This increase in the level of investment must be complemented by an effective and efficient use of resources, including proper planning, and monitoring and evaluation systems. Finally, an increased financing will need to be complemented with improved human resources and infrastructure capacities, both in research and extension.

Irrigation and Drainage (I&D). In Suriname, agricultural productivity is very much related to an efficient management of the I&D systems, basic for rice production. Due to poorly leveled plots, peak flow demands exceed standard levels by 25%. The GOS allocates almost 80% of total agricultural budget to I&D systems. Bottom-up and top-down approaches are needed to improve the efficiency of this expenditure, addressing issues such as: (i) suboptimal coordination at the Ministerial level, both in running the systems, and planning and executing investments; (ii) low capacity in users' institutions (Water Boards); (iii) inadequate financial contributions by water users, and consequent heavy reliance on Governments' budget for operation, maintenance and investments; (iv) within water perimeters, inefficient coordination in water supply and drainage operations, resulting in insufficient supply during periods of peak demand and wasted resources; and (v) insufficient training and commitment of Water Boards representatives and farmers. While it is expected that the private sector will take on more responsibilities in managing and operating the systems, the current GOS strategy is to maintain and reinforce a coordinating role, leading and supporting a process of devolution of water management responsibilities to growers and their Water Boards, with the ultimate goal of turning them into self-managed and self-financed organizations.

Sustainable Fisheries Management. In Suriname, fisheries account for 2% of GDP and 60% of agricultural exports. Data trends in catch per unit of effort (CPUE) for the species accounting for

85% of the export value suggest that some of the commercial fish stocks might be being harvested beyond sustainable levels. Access rights are established in the Annual Decree issued by the LVV. The complexities associated with sharing shrimp and fish stocks with countries fishing in the Brazil-Guianas ecosystem call for more robust mechanisms to mitigate the presence of Illegal Unregulated and Unreported (IUU) fishing. Many of the marine resources of commercial value in Suriname, are comprised within the highly productive North Brazil Shelf Large Marine Ecosystem. Its responsible use requires fisheries management based on ecosystem considerations.

The most pressing issues affecting the Suriname's fisheries sustainability include: (i) lack of recent stock assessment of main Suriname fisheries including trans-boundary resources (particularly shrimp and groundfish); (ii) absence of a Fisheries Information System (FIS); (iii) IUU fishing; and (iv) piracy in fishing areas within Suriname Exclusive Economic Zone. To attend these issues, the Fisheries Management Plan (FMP) for Suriname is currently being updated, and there are efforts underway to establish a Coast Guard system to mitigate enforcement and compliance issues. Additionally, Suriname has the potential to increase its aquaculture production of shrimp and fish, thus the GOS is embarking into the development of a National Aquaculture Plan that will help guide policies to achieve a competitive and environmentally sustainable aquaculture sub-sector.

Conditions prior to approval

The GOS commitment to this program is detailed in the agreements reached with the IDB staff, as indicated in jointly developed policy matrix and its means of verification. Furthermore, the Ministry of Agriculture, Animal Husbandry and Fisheries and the Ministry of Finance are implementing a series of measures agreed with the IDB to be ready before the Loan proposal is submitted to the IDB Board.

Based on the reasons and justification provided in this policy letter, the Government of Suriname requests the approval of the loan "*Modernization of agricultural public services*".

Thanking you in advance for the consideration that you may give to this request,

Sincerely Yours,



H.E. Steven Belyveld
Minister of Finance a.i.
Suriname

Cc: Governor of Central Bank of Suriname, Mr. G. Hoefdraad
Minister Agriculture, Animal Husbandry and Fishery, Mr. H. Setrowidjojo