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THE INTER-AMERICAN INVESTMENT CORPORATION

## **SURINAME**

# **IDBG COUNTRY STRATEGY WITH THE REPUBLIC OF SURINAME 2016–2020**

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[2012-2016 Suriname Development Plan](#)

## ABBREVIATIONS

CDB	Caribbean Development Bank
CDC	Country Development Challenges
CLAD	Central Audit Office
CS	Country Strategy
CUS	Competitiveness Unit Suriname
EBS	NV Energiebedrijven Suriname
EU	European Union
FDI	Foreign Direct Investment
GEF	Global Environment Facility
GOS	Government of Suriname
GUS	Public Financial Management Systems
IBRD	International Bank for Reconstruction and Development
IDBG	Inter-American Development Bank Group
ICT	Information and Communication Technology
IIC	Inter-American Investment Corporation
IFI	International Financial Institution
IFMIS	Integrated Financial Management Information System
IMF	International Monetary Fund
IsDB	Islamic Development Bank
LAC	Latin America and the Caribbean
LVV	Ministry of Agriculture, Animal Husbandry and Fisheries
MIF	Multilateral Investment Fund
MOF	Ministry of Finance
MOESC	Ministry of Education, Science and Culture
MSME	Micro, Small, and Medium Enterprises
NCDs	Non-communicable diseases
NSG	Non-Sovereign Guaranteed
OFID	OPEC Fund for International Development
OVE	Office of Evaluation and Oversight
PEFA	Public Expenditure and Financial Accountability
PFM	Public Financial Management
PBL	Policy-Based Loan
PM4R	Project Management for Development Results
PML	Project Management Leadership
SBA	Stand-By Arrangement
SG	Sovereign Guaranteed
SOE	State-owned Enterprise
SMEs	Small and Medium-sized Enterprises
TSA	Treasury Single Account
UIS	IDB's Update to the Institutional Strategy 2010-2020
UNDP	United Nations Development Programme
UNESCO	United Nations Educational, Scientific and Cultural Organization
VAT	Value-Added Tax
WBG	World Bank Group
WEF	World Economic Forum

## EXECUTIVE SUMMARY\*

<b>Socioeconomic Context</b>	Suriname is a small, open, commodity-based economy that is vulnerable to external shocks. Exports are concentrated in the extractive sector (mainly gold, oil) that generates approximately 90% of foreign exchange earnings and 45% of government revenues. Suriname relies on imports (more than 80% of consumption) to satisfy most domestic demand for goods. The transmission mechanism of the wealth generated in the extractive sector relies highly on public spending, which drives aggregate demand. The domestic private sector is small, and expands or contracts to changes in public spending. Suriname's robust growth performance from 2001 to mid-2014, when real GDP per capita expanded over 65%, came to an abrupt end when international prices of gold and oil dropped. Macroeconomic imbalances rapidly accumulated when export earnings fell and correcting these imbalances is costly as it will entail a reduction in real purchasing power. The Government responded to the crisis with a plan that focuses on stabilizing the economy. The plan includes support from the International Monetary Fund, the Inter-American Development Bank Group (IDBG) and other development partners. In addition, the Government is implementing reforms to modernize the country by modifying incentives frameworks that added to the current, and previous, crises.
<b>The IDBG in Suriname</b>	The IDBG is Suriname's most important development partner with average annual approvals of US\$73.34 million from 2011 to 2015. During this period, IDBG financial support accounted for about 15% of external financing and around 90% of the country's total multilateral financing. The IDBG's activities spanned more than ten sectors with investment and policy-based lending, investment grants and technical co-operation projects, and it is progressively focusing on core public sector reforms and institutional strengthening.
<b>Strategic Areas 2016-2020</b>	The Country Strategy will support economic stabilization, complemented by a longer-term view on modernization of the public and private sectors. Support for an economic stabilization program is linked to specific policy reforms, including introducing VAT, reducing subsidies, and lowering public spending while protecting the social safety net, and strengthening public administration. The longer-term priorities focus on modernization of the state, private sector development and strengthened human capital. The IDBG will emphasize the coordinated use of policy and investment instruments to support the reform processes and provide technical and financial resources geared towards knowledge generation for developing consensus around evidence based policies.
<b>Indicative Lending Framework</b>	In a scenario steered by the stabilization plan, the IDBG estimates average approvals of US\$78 million of SG loans each year, totaling US\$320 million over the 4-year period. This would result in average annual disbursement of US\$68.6 million and average net cash flow of US\$32.9 million. Given the participation of other development partners, IDBG debt as a share of total multilateral debt would decrease to 68.4% compared to 92% in 2015. The share of IDBG debt to GDP would average about 12.3% and IDBG debt to external debt would decrease between 2015 and 2020 from 51% to 37.9%. An alternative scenario consistent with macroeconomic instability would trigger lower SG approvals of about US\$190 million.
<b>Risks</b>	The Strategy is exposed to three main sources of risk. The first is related to the influence of macroeconomic factors on the time it would take to stabilize the economy. The longer that process takes, the higher the risk that Government would not be able to implement long-term programs designed to modernize institutions and prevent the recurrence of economic crises. The second source of risk is related to the implicit political difficulties of introducing reforms where long-standing business and political arrangements need to evolve or to be transformed. The third source of risk is related to the institutional challenges faced by Government and the private sector to implement the modernization agenda. The Country Strategy anticipates a proactive approach accompanying Government and the private sector with technical assistance to lower all sources of risk, including others related to portfolio execution and natural disasters.

\* This Country Strategy will be valid from the date of its approval by the Boards of Executive Directors of the IDB and the IIC, through December 2020.

## I. SOCIOECONOMIC CONTEXT

- 1.1 **Suriname is a small, open, commodity-based economy that is vulnerable to external shocks.**<sup>1</sup> On the back of high international commodity prices, Suriname grew at a high average yearly rate (3.8% or a total real per capita income growth of 65%) over the past decade.<sup>2</sup> Growth is driven by exports from the extractive sector (gold, oil, and bauxite<sup>3</sup>), which generate 90% of foreign exchange earnings<sup>4</sup> and 45% of government revenues. Suriname (in common with other small economies) relies on imports to satisfy most domestic demand for goods (imports account for more than 80% of consumption) while total trade has averaged around 145% of GDP over the past five years. The transmission mechanism of the wealth generated in the extractive sector to the rest of the economy relies highly on public spending on goods and services, infrastructure and, importantly, wages and salaries of employees in the public sector and in public enterprises. The domestic private sector, limited by the small size of the economy, is geared towards satisfying domestic demand mainly with imports. As a consequence, the private sector expands or contracts responding to changes in public spending that drive aggregate demand. In this context Suriname is characterized by high vulnerability to external shocks,<sup>5</sup> Dutch Disease (resource misallocation effects) and resource curse (unproductive rent seeking effects).
- 1.2 **The outset of this Country Strategy period is characterized by severe macroeconomic disequilibrium, stemming from the end of the international commodity boom combined with inadequate policy buffers.** Before the decline in commodity prices, the fiscal deficit averaged 0.8% of GDP with an average current account to GDP surplus of 1.2%. However, when oil and gold prices fell in mid-2014, the economy faltered, and GDP growth rates slowed to 1.8% in 2014 and 0.1% in 2015, with macroeconomic imbalances emerging (the fiscal and current account balances to GDP deteriorated to -8.8% and -16%, respectively, in 2015).<sup>6</sup> In the second half of 2015, the re-elected administration implemented stabilization measures (both fiscal revenue enhancing and exchange rate devaluation); and, in May 2016, the Executive Board of the International Monetary Fund (IMF) approved a two-year Stand-By Arrangement (SBA) for US\$478 million to support the Government's economic reform program.<sup>7</sup> The first quarter performance under the SBA has been described as mixed by the IMF. The IMF indicated that discussions will continue with the GOS once further progress on the program has been made.<sup>8</sup>
- 1.3 **Large investments in the extractive sector added to high export revenues, positive macroeconomic balances and economic growth during most of the past decade, but hid structural problems.** Suriname did not build up adequate policy buffers and was not successful in diversifying towards non-extractive sectors, and in achieving higher levels of productivity with

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<sup>1</sup> The analytical background of this Country Strategy is summarized in the report: *Suriname Country Development Challenges*, March 2016. This comprehensive report provides detailed analysis with references for all the development challenges pointed out in the strategic areas prioritized in this Country Strategy. To facilitate reading the Country Strategy, the most important references are included within the document.

<sup>2</sup> GDP per capita, PPP (constant 2011 international \$) increased from US\$9,615 in 2000 to US\$15,862 in 2014 according to the World Bank World Development Indicators (Last Updated: 05/02/2016). At this pace, Suriname would have doubled per capita income in 19 years.

<sup>3</sup> At the end of November 2015, production in the bauxite industry ceased with the closure of Suralco.

<sup>4</sup> Rice, bananas, and fisheries account for most of the remaining 10% of exports

<sup>5</sup> Projected declines in gold and oil prices tend to dampen the outlook for growth and adversely affect the fiscal and external positions. For instance, under a severe shock scenario (involving a sudden drop in gold prices to \$1000/ounce and cancellation of large gold mining projects), GDP growth and the fiscal and external balances could weaken by about 2 percentage points. The impact on international reserves would also be large (a loss of 1.5 months of import cover).

<sup>6</sup> World Economic Outlook (April 2016). Gold prices, in US\$/toz, grew from 271.45 in December 2000 to 1,772.1 in September 2009, and then dropped to 1,200.6 in December 2014. Oil prices, WTI US\$/bbl, grew from 28.40 in December 2000 to 133.93 in June 2008, and then dropped to 59.26 in December 2014. Large price increases, especially in gold, led to large investments in exploration and exploitation. Subsequent drop in prices hurt the economy by reducing the revenues generated by exports, and lowering investments in mining. Source: Global Economic Monitor (GEM) Commodities, last updated 06/30/2015.

<sup>7</sup> <https://www.imf.org/external/np/sec/pr/2016/pr16251.htm>

<sup>8</sup> IMF. 2016. Press Release No. 16/378. IMF Mission Visits Suriname for First Review of Stand By Arrangement. <https://www.imf.org/en/News/Articles/2016/08/19/PR16378-Suriname-IMF-Mission-Visits-Suriname-for-First-Review-of-Stand-By-Arrangement>

improved social indicators. The robust economic growth rates between 2001 and 2013 can be attributed to investments in the mining sector rather than to total factor productivity growth.<sup>9</sup> Low total factor productivity appears to be due to low appropriability, low social returns, and to a lesser extent to the high cost of finance.<sup>10</sup>

**1.4 Growth in Suriname's per capita income has not translated into a significant improvement in social indicators.** Suriname has a literacy rate of 94.7% and life expectancy of 71 years. The country ranks 103rd out of 186 countries in the 2015 Human Development Indicator (HDI),<sup>11</sup> with slight improvements over the previous years.<sup>12</sup> The country's HDI rank is mostly due to improvements made in income levels over the past decade, however, both the education and health indicators fall below comparable countries categorized with a high HDI.<sup>13</sup> Only 45.9% of the population has a secondary education compared to 66.6% for comparable countries while there is only 9.1 physicians per 1,000 population in Suriname compared to 20 in other high HDI countries. Data on poverty and inequality are scarce<sup>14</sup> but offer indications that Suriname is somewhat in line with regional averages. Conventional income-based poverty and inequality indicators are fairly outdated, while a recent household survey of the General Bureau of Statistics did not produce any new estimates due to low response rates. Although robust growth in income per capita over most of the past decade may have reduced absolute poverty, its impact on inequality in recent years is more uncertain. A 2013 United Nations inequality-adjusted human development indicator (HDI) estimated that the loss in human development due to inequality in 2006 was broadly in line with the regional average.<sup>15</sup> The 2015 Human Development Report published by the United Nations Development Program indicated that about 7.4% of the population lived in multidimensional poverty at end-2010, which is below the regional average of 12%. The unemployment rate in Suriname is estimated at 8.9% in 2015.<sup>16</sup> It has fluctuated since 2001, but has been on an upward trend since 2010.<sup>17</sup> Female unemployment is higher than male (about 4 percentage points), and youth unemployment is significantly higher (above 20% in 2013).<sup>18</sup>

**1.5 There is low appropriability due to both government and market failures such that the size, practices and policy of the public sector are not conducive to the country's overall development.** Suriname's public sector, though large (there are about 144 registered state-owned enterprises and about 60% of the formal workforce is employed in the public sector) has significant gaps in the capacity of its institutional and regulatory frameworks, which encumbers government effectiveness, rule of law, and control of corruption.<sup>19</sup> Additionally, Surinamese

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<sup>9</sup> TFP is important for understanding trends in long-term sustainable growth. With no available statistics on TFP, an internal IDBG study estimated TFP for Suriname and other LAC countries using Data Envelopment Analysis (DEA). The study showed that average estimated TFP in Suriname exhibited a general downward trend over the 1982-2010 period. Suriname's performance also fell behind other countries in the region and the rest of the small economies. See Figures 2.12 and 2.13 with a reference to the Suriname Country Development Challenges Report (Chapter I, Section II).

<sup>10</sup> This qualitative conclusion, as others in this document, is the consequence of the elusiveness of evidence-based diagnosis given a lack of basic information and data. See diagnostics developed in Chapter II of the Country Development Challenges (CDC) in Appendix I.

<sup>11</sup> The Human Development Indicator (HDI) combines income, education, and health indicators and is a good measure of both individual well-being and the capacity to innovate and create knowledge in order to enhance efficiency and productivity.

<sup>12</sup> Suriname's HDI value moved from 0.711 in 2012 to 0.714 in 2014.

<sup>13</sup> Suriname at 103 ranks below Dominican Republic, Belize, Tonga and Jamaica but above Maldives and Samoa. Suriname ranks 70<sup>th</sup> in terms of per capita income while it ranks 108 in terms of life expectancy and mean year of schooling and 103<sup>rd</sup> in terms of expected years of schooling.

<sup>14</sup> A lack of social data and public access to data (such as anonymized micro-level data for household surveys and labor force surveys) hinders appropriate analysis and limits the ability to make informed policy recommendations. In particular, where anonymized micro-level data is not made public or used by the government, as in the case of Suriname, no concrete conclusions can be drawn regarding the conditions in which citizens are living, their standard of living, or their quality of life, among other things.

<sup>15</sup> International Monetary Fund. 2014. "Suriname Selected Issues Paper." IMF Country Report No. 14/317. October. Washington. DC.

<sup>16</sup> IMF. 2016. World Economic Outlook. April 2016.

<sup>17</sup> Suriname General Bureau of Statistics, and IMF 2014. Article IV.

<sup>18</sup> Authors' calculation based on World Development Indicators.

<sup>19</sup> As outlined below, Suriname scores low in several measures of competitiveness, ease of doing business and productivity.

private companies are small and relatively isolated, because of history, language, and business practices. The non-extractive private sector is small and substantially limited to selling goods and services to the government, and also to importing goods and services that are demanded but not produced in Suriname.

- 1.6 **Low social returns can be traced to low human capital availability, and weak infrastructure.** Suriname's improvements in governance, doing business, competitiveness or human development as evidenced by cross-country comparisons are small.<sup>20</sup> There are gaps in education, health, and labor market indicators, which affect human capital accumulation and subsequently innovation and productive levels.<sup>21</sup> The quality of infrastructure at an aggregate level is also below the benchmark for countries with similar income. The gaps are more severe in terms of air transport infrastructure and electricity supply.<sup>22</sup>
- 1.7 **The policy framework and fiscal space in the country will be driven by a macroeconomic stabilization program over the first half of the Country Strategy period.** The end of the international commodity boom has resulted in unsustainable fiscal and external balances and has highlighted the costs of failure to build policy buffers or diversify the economy. Suriname will require key decisions and policies in many areas from education to public investment.<sup>23</sup> The Government program, launched with support from an IMF Stand-By Arrangement, is designed to restore stability by returning investor confidence in the near-term. Macroeconomic stability entails fiscal consolidation, reforms to the exchange rate regime allowing for market-determined rates, and monetary policy reforms designed to build international reserves in the Central Bank.<sup>24</sup> Government, with IDBG support, is also implementing structural reforms to facilitate private-sector led growth and improve fiscal efficiency to protect the social safety net.<sup>25</sup> Government's stabilization program counts on the technical and financial support of the IMF, the IDBG, the Caribbean Development Bank, the World Bank and the Islamic Development Bank.
- 1.8 **In this context the Government is focused on restoring macroeconomic stability while pursuing a long-term goal of modernizing legal and institutional frameworks.** Modernization is related to: (i) the governance structure; (ii) private sector development; and (iii) human capital, with emphasis on improving education and health. The crosscutting issues of gender, climate change and institutional capacity are key pillars in the long-term agenda of Government and the IDBG, as well as the need to remedy critical gaps in availability of current and reliable data and information.

## II. THE IDBG IN SURINAME

- 2.1 **The IDBG is Suriname's principal external financing partner with average annual approvals of US\$73.34 million from 2011 to 2015.** During this period, IDBG financial support accounted for about 15% of external financing and around 90% of the country's total multilateral financing. The IDBG's activities spanned more than ten sectors with investment and policy-based lending, as well as investment grants and technical cooperation projects, and it has progressively focused on core public sector reforms and institutional strengthening. The role of the IDB as the leading development partner resulted in a portfolio that evolved over the years.

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<sup>20</sup> Different measures available to assess the business environment and competitiveness show the huge challenge ahead for broadening Suriname's productive structure, for example, Suriname is ranked 156 out of 189 economies in the World Bank 2016 Doing Business Index, and it is placed 110 out of 144 economies in the World Economic Forum Global Competitiveness Index 2014–2015.

<sup>21</sup> Country Development Challenges Chapter II, Section III.B. Existing indicators show the need for greater development of higher education, elimination of the skills gap, and improved access to health care.

<sup>22</sup> Country Development Challenges Chapter II, Section III.A. See Footnote 1 with a reference to the Suriname Country Development Challenges Report. Suriname has the lowest air connectivity index in the region, and also one of the lowest ranks when compared to other Caribbean countries. The World Bank's 2008 Doing Business report shows that electricity supply in Paramaribo and its surroundings (EPAR) has a high System Average Interruption Duration Index (SAIDI): currently 18.5 hours in comparison to a LAC average of less than 12.

<sup>23</sup> See Suriname's Country Development Challenges (CDC) 2016.

<sup>24</sup> IMF press release of May 27 2016 announcing the approval of the Stand-By Arrangement for Suriname. <https://www.imf.org/external/np/sec/pr/2016/pr16251.htm>

<sup>25</sup> SU-L1043: Business climate and innovation program.



Suriname reaches out to the IDBG when seeking support in priority areas as the outcome of a successful partnership that has evolved over several decades. As new development partners get involved, especially the World Bank and the Islamic Development Bank, the IDB will be able to narrow and focus its diversified portfolio, as an effort to be more effective in the selected pillars, as presented in this document. The IDBG will balance this with the need to implement the current portfolio, which includes projects and reforms in execution.

- 2.2 **The 2011–2015 Country Strategy, approved in November 2011, concentrated on structural, institutional, and governance reforms.** It comprised seven priority sectors for intervention: (i) Agriculture; (ii) Energy; (iii) Financial Sector Development; (iv) Social Protection; (v) Public Investment Management; (vi) Transport; and (vii) Education. In addition, Natural Disaster and Climate Change Management, and Institutional and Absorption Capacity were included as cross-cutting themes. The dialogue areas of tax administration, and private sector development were incorporated into the strategic areas of intervention during implementation. The total amount approved in SG and NSG loans and grant financing during the CS period was US\$442.75 million. From 2011 to 2015, the IDBG approved US\$366.7 million through 16 SG loans with Ordinary Capital resources, about US\$14 million in private sector loans and grants, US\$7.65 million in technical cooperation (TCs), and another US\$4.4 million in investment grants, as well as US\$50 million from the China Co-Financing Fund for Latin America and the Caribbean.
- 2.3 During the Country Strategy’s transition year of 2016, US\$70 million has been approved for a Policy-Based Loan in the Energy Sector. This operation responds to Government reform and investment priorities in the context of the 2016 IMF Stand-By Arrangement for Suriname.
- 2.4 **The IDBG focused mostly on financial sector development and energy during the 2011–2015 Country Strategy.** SG loans accounted for 96% of total OC financing, of which about 56% (equivalent to US\$205 million) was in the form of budget support (PBPs). Overall, lending was distributed as follows: 25.6% in financial sector development, 25% in energy, 12.8% in public investment management, 11.4% in transport, 9.6% in education, 5.7% in private sector development, 5.7% in tax administration, and 4.2% in agriculture. Further, recognizing that a key constraint was institutional capacity, resources from operations in education, energy, transport and public investment management were specifically allocated to strengthening institutional capacity of the public sector, which constituted approximately 7.6% of total lending. MIF has active operations for a total of US\$3.65 million of which \$1.3 million has been disbursed. Those projects address: (i) distance learning; (ii) community-based rural energy; (iii) the development of SMEs in the Interior through a micro-franchising mechanism; (iv) agricultural production; and (v) market access for indigenous communities. Over the CS period, one IIC private sector loan (US\$10 million) was approved.
- 2.5 **Main results of the 2011 – 2015 Country Strategy:** as the principal external financing partner for Suriname, the IDB’s support has led to the strengthening and consolidation of main institutions for good governance in the country as well as the beginning of transformation in key productive and social sectors. The following paragraphs highlight the key results in the main sectors of intervention.
- 2.6 With regard, to **Transportation**, the IDBG improved the connection of Paramaribo to the border of French Guiana with the construction of the main east-west corridor (“The Meerzorg-Albina Integration Corridor”), in collaboration with other parallel funding from the EU, OFID and AFD<sup>26</sup>. In the sector of **Energy**<sup>27</sup>, the IDBG supported a comprehensive program of energy policy

<sup>26</sup> The new road allowed for a reduction from 4 hours to 2.5 hours of total travel time between Meerzorg and Albina. Refer SU-L1021, *Meerzorg - Albina Integration Corridor Rehabilitation Project - Sup. Financing* (INV).

<sup>27</sup> The main outcomes included the approval of the power sector policy, the implementation of a tariff which allows for cost recovery and the creation of the legal and institutional framework by the approval of two sector laws. In combination, these will increase the technical capacity of the power utility company to implement a sustainable power sector framework within the country, within a more financially sound and

reforms, which complemented infrastructural, corporate governance and operational developments. These activities include: (i) development of modern legislation to govern the sector, (ii) implementation of a revised tariff structure focused on cost-recovery, to contribute to the sector financial sustainability and to the reduction of untargeted subsidies; (iii) the development of Power Purchase Agreements (PPA) contract models; (iv) an assessment of the current tariff structure and the development of tools to evaluate revised tariff schedules; (v) an assessment of EBS's generation and transmission expansion scenarios; (vi) a feasibility study for the introduction of natural gas in the Caribbean, including an action plan for implementation in Suriname; (vii) support on rural electrification and the introduction of renewable energy technologies; (viii) enhancing corporate capabilities of the power utility by the introduction of specialized IT systems; and (ix) support to the modernization of power infrastructure.

- 2.7 In the sector of **Public Financial Management**,<sup>28</sup> the IDBG has contributed to the improvement of revenue and public expenditure management by supporting important reforms on tax policy, tax administration and customs modernization, as well as public procurement, public financial management and audit, beyond others. With regards to **Financial Sector development**<sup>29</sup>, the IDBG helped improve the legislative and regulatory framework for the operation of financial institutions and the supervision of financial markets. Achievements included the enactment of The Banking and Credit System Supervision Act (2011), The Banking Act Amendment (2011): Regulations (2012-2015), and The Capital Markets Act (2014). The institutional capacity of the Central Bank of Suriname to effectively carry out its responsibilities was also supported.
- 2.8 In the sector of **Private Sector Development**,<sup>30</sup> the IDBG has contributed to the improvement of the business climate by addressing a number of structural challenges in the country, including: (i) promoting a productive policy for sustainable growth and diversification; (ii) improving the business climate, legal and institutional framework; (iii) maintaining and supporting public-private dialogue; and, (iv) strengthening the institutional capacity of the Competitiveness Unit of Suriname's (CUS) to facilitate the growth of micro, small and medium enterprises.
- 2.9 In **Education**<sup>31</sup>, the IDBG is contributing to increase learning outcomes and the efficiency of the education system with the redesign of the curriculum for primary education and a strategy to reform junior secondary education. It is also improving access to schools in the interior. With regards to **Social Protection and Health**, the IDBG has improved the Ministry of Health's capacity to address malaria<sup>32</sup> and non-communicable diseases (created a registry and provided training in its use). Support was provided to the "Presidential Taskforce on Early Childhood Development" (testing of baby products, training and materials on infant stimulation) and to launch and carry out public information campaign on health lifestyles.
- 2.10 In **Agriculture**,<sup>33</sup> the IDBG supported the improvement of internal coordination with the establishment of Inter-Ministerial collaborative mechanisms such as the Inter-Ministerial

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operationally efficient institution. Refer SU-L1009, *Support to Improve Sustainability of the Electricity Service (INV)*; SU-L1039, *Support for the Implementation of the EBS Investment Plan (INV)*; and the PBPs SU-L1022 and SU-L1035, *Support to the Institutional Strengthening of the Energy Sector I and II respectively*. A substantial investment grant, SU-G1001, *Development of Renewable Energy, Energy Efficiency and Electrification*, for US\$4.4 million was approved in 2013.

<sup>28</sup> Refer PBP SU-L1037, *Revenue Policy and Administration I*.

<sup>29</sup> A significant outcome of the Bank support relates to non-performing loans as a percent of financial sector capital has been reduced from 44.6% in 2010 to 32.2% at the end of 2014. Additionally, domestic credit from the financial sector to the private sector has increased from 26.9% in 2010 to 38.9% in 2014. Refer PBPs SU-L1023 and SU-L1034, *Financial Sector Strengthening I and II, respectively*.

<sup>30</sup> Refer SU-L1043, *Business Climate and Innovation Program I (SUBCIP-I)*, which combined a PBP and a reimbursable TC.

<sup>31</sup> One of the main outcomes achieved related to teacher training. By the end of the program in 2016, it was expected that 85% of the teachers in the primary school level would have been trained in participatory approaches, moving from a baseline of 0% in 2012. By the end of 2015, 70% of teachers had already been trained. Refer SU-L1019, *Second Basic Education Improvement Program (2nd BEIP)* and SU-L1038, *Second Basic Education Improvement Program (2nd BEIP) Phase II*.

<sup>32</sup> The supported the training of 2000 Malaria Service Deliverers who have access to remote, at-risk miner communities; distributed 15,000 treated bed nets; and reached 20,000 people with malaria prevention and health promotion messages.

<sup>33</sup> Refer SU-L1033, *Modernization of Agricultural Public Services -I*

Working Group for drainage and irrigation (Ministry of Regional Development, Ministry of Agriculture, Animal Husbandry and Fisheries and the Ministry of Public Works); the Inter-Ministerial Working Group on Food Safety (Ministry of Health, Ministry of Trade and Industry, the Ministry of Agriculture, etc.). The IDB also contributed to the creation of the National Agricultural Innovation Board, enabling various research institutions in the sector to improve their coordination. Additionally, the IDBG has provided support for modernizing the provision of agricultural public services such as animal health, plant health, agricultural information and fishery management.

- 2.11 **Available Portfolio.** As of June 30, 2016, the active loan portfolio comprised eight SG operations for an approved amount of US\$158.7 million. The undisbursed balance is US\$79.90 million. The average age of the portfolio is 2.6 years. PMR ratings have generally been satisfactory. In 2015, loan disbursements totaled US\$40.45 million, of which US\$25.45 million related to investment loans (87% of original projections for investment loans). There are fourteen technical cooperation projects in execution, with an available balance of US\$1.872 million.
- 2.12 **The Office of Evaluation and Oversight (OVE) review.** The Country Program Evaluation (CPE) 2011-2015 analyzed program effectiveness against the strategic objectives set by the IDBG. Among the findings, the CPE observed that the intended reforms were robust, but underestimated the likely risks associated with the lengthy, complex, consensus-based legislative process and the significant inter-ministerial coordination requirements. The political cycle extended to periods both pre and post elections during which decisions on long-term policy were virtually unaddressed, therefore reducing the effective timeframe to implement reforms. The CPE also observed that the extensiveness of the agenda seemed to exceed local resources. In parallel, the CPE highlighted that the dialogue between the GOS and the IDBG has helped to identify obstacles and define strong reform agendas for the medium term in many important areas. Thus, going forward the reform agenda will have the advantage of drawing upon the progress and products already developed.
- 2.13 **Lessons learned.** The reform agenda was comprehensive and extensive but progress, in practically all areas of the reforms advanced to the point of draft legislation. Approximately 27 laws were drafted -including procurement, insurance, income tax, agriculture, financial sector- and thereafter waned or were approved or completed beyond the strategy period (e.g., energy, agriculture). The support provided through TCs, contributed to the analytical stage as well as to the drafting of documents, but the review paths and consensus building processes were undermined as the country was benefiting from a super commodity boom. The lesson learned is that going forward, addressing the identified development challenges requires a clear temporally nested profile where macroeconomic stabilization and public sector reform, along with institutional strengthening, have to dominate upfront and gradually extend outwards towards alleviating supply-side bottlenecks. Going forward, the political economy of reform has changed in two senses: the country is in economic crisis, when the probability of reform increases; and the time-bound macroeconomic stabilization measures are intended to be supported by an IMF program that includes key reforms as structural benchmarks. Fundamental groundwork has already been done during the 2011-2015 IDB strategy.

### III. STRATEGIC AREAS

- 3.1 **The 2016-2020 Country Strategy will support the government's macroeconomic stabilization plan, address constraints to economic growth and aim to contribute to poverty reduction.** To this extent, the Country Strategy identifies the need for two highly interrelated phases: in the near-term it focuses on supporting efforts to stabilize the economy and mitigate the negative impacts; while a longer-term view is focused on modernization and

elimination of bottlenecks. In line with this, the focus is on three overarching strategic objectives: (i) modernize the public sector; (ii) private sector development; and (iii) strengthen human capital. In addition, the IDBG will fully integrate resilience to climate change, gender and inequality, and institutional capacity as cross-cutting areas while implementing its support to the Surinamese Government in attaining the three CS overarching strategic objectives. Strengthened collaboration on data generation, transparency, and dissemination is an outstanding factor to improve institutional capacity. The strategic priorities are based on the growth and development challenges identified in the Country Development Challenges (CDC) report, in-depth dialogues with the Government of Suriname and civil society. These strategic areas provide continuity to reforms started in the previous Country Strategy. The proposed strategic objectives are also consistent with Suriname's National Development Plan (NDP)<sup>34</sup> and are fully aligned with the IDB Update to the Institutional Strategy 2010-2020 (UIS), covering several structural and emerging development challenges and addressing several objectives of the UIS.

**3.2 Interventions to tackle developmental constraints need to complement fiscal consolidation efforts.** In a period of strong efforts to implement reforms some key factors will be considered when prioritizing interventions: (i) public investments that include growth-enhancing effects; (ii) mitigation of intertemporal trade-offs, when reforms could worsen the fiscal balance and have a negative shock to growth and employment in the near term, even though they may be growth and productivity enhancing in the medium-term; and (iii) policies and programs that minimize reform fatigue. Short-term growth and employment through investment by the private sector or in areas that complement private sector investment could satisfy many of these criteria. The temporal profile of the structural reforms, supported by programmatic policy-based loans, will in addition use two filters to prioritize the reforms: (i) give priority to those included in the SBA; and (ii) give priority to those that have reforms included in outstanding programmatic policy-based loans (in the areas of financial sector, revenue management and agriculture all with some institutional reform components). The latter filter follows the recommendations of OVE.

#### **A. Modernization of the Public Sector**

**3.3 Suriname suffers recurrent imbalances due to the combination of volatile revenues with rigid and growing public expenditures, in a context of strong dependence on commodities.** More specifically, the combination of revenue sensitivity to mineral sector developments, absence of fiscal buffers and budget rigidity<sup>35</sup> has generated a large long run fiscal sustainability gap. The IMF estimates, based on a conservative valuation approach,<sup>36</sup> a long run fiscal sustainability gap of 12½ percent of GDP (IMF, 2014).<sup>37</sup> Given the large fiscal sustainability gap (and recent deterioration in macro performance) fiscal consolidation is necessary. Successful fiscal consolidation will require revenue and expenditure measures and

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<sup>34</sup> The current National Development Plan for 2012-2016 is being updated for the period 2016-2020 and is expected to be completed by 2016. Suriname long-term plans offer continuity between planning cycles. Informal meetings with Plan Bureau, which is in charge of the preparation of the 2016-2020 plan, indicate that the main goals and approaches of the previous plan will be maintained from the 2012-2016 period to the 2016-2020 period.

<sup>35</sup> About 60% of budgeted current expenditure is earmarked for non-discretionary spending (wages and salaries, interest payments, and non-discretionary goods and services). Based on IDBG calculation.

<sup>36</sup> It assumes a considerable uncertainty in measuring mineral wealth because total mineral deposits are unknown, and their long run price outlook is volatile.

<sup>37</sup> Fiscal sustainability is defined as the ability of a government to sustain its current spending, tax and other policies in the long run without threatening government solvency or defaulting on some of its liabilities or promised expenditures. The fiscal sustainability gap is the total amount of fiscal measures that (if immediately implemented) would assure a non-explosive path for government debt over the long run. IMF. 2014. IMF Country Report No. 14/316.

an appropriate fiscal framework.<sup>38</sup> In this context, the IMF recommends: “...*establishing a revenue enhancing VAT ... the modernization of customs and the entire tax structure*”.<sup>39</sup>

**3.4 Commodity prices, in particular gold and oil, affect the overall macroeconomic framework, with direct impacts on GDP, the current account, international reserves, and government revenues.**<sup>40</sup> Declines in gold and oil prices tend to dampen the outlook for growth and adversely affect the fiscal and external positions.<sup>41</sup> Policy tightening to mitigate such losses would imply an even larger downturn in output. The Surinamese economy benefited from high international prices of gold and oil from 2001 to mid-2014 and as a result income per capita expanded by 65%.<sup>42</sup> The general upward trend in international gold and oil prices from the early 2000s onward encouraged investment in the extractive industry, with a favorable impact on economic activity and growth. However, the recent drop in international prices of oil and gold reduced GDP growth to less than 1% in the past 2 years. When the country's value of exports falls, it triggers an economic contraction as macroeconomic imbalances (fiscal and external) accumulate.<sup>43</sup>

**3.5 Suriname's dependence on mineral exports affects the stability of tax revenue.** Since independence, grants from the Netherlands (Dutch Treaty Funds), made a substantial contribution to the country's revenues, but these grants ceased in 2010.<sup>44</sup> Suriname's tax revenue is now highly dependent on the price of its mineral exports.<sup>45</sup> Fiscal exposure to oil and gold is high, as they accounted for 29% and 13% of fiscal revenues respectively in 2013.<sup>46</sup> On the other hand, taxes on salaries contribute approximately 25% of total revenues, while taxes on self-employed workers and the General Sales Tax contribute only 2% and 5% of total revenues.<sup>47</sup> Over the past decade, Suriname's tax revenue fluctuated as a result of the rise and fall in the prices of minerals.<sup>48</sup> Revenues as a share of GDP from 2011-2015 were on average 24.7%, ranging from 21% in 2015 to 26.7% in 2011. At the same time, expenditures have been increasing from under 25% of GDP before 2011 to a peak of 33.6% of GDP in 2013. Tackling revenue volatility implies diversifying the tax structure away from commodities. The large revenue declines had particularly harsh effects, contributing to major structural budget deficits in 2015, rapid increases in state debt (debt grew by 10% between 2013 and 2015), credit downgrades,<sup>49</sup> and general budget and economic uncertainty in the state. Lower revenues reduced Government's fiscal space and slowed the progress of the reform agenda envisioned in the 2011-2015 CS.

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<sup>38</sup> Canavire-Bacarrea, G., Martínez-Vázquez, J., & Vulovic, J. (2013). Taxation and Economic Growth in Latin America, Working Paper Series No. IDB-WP-431. Washington, DC: Inter-American Development Bank.

<sup>39</sup> IMF. 2016. Suriname: Request for Stand-By Arrangement—Press Release; Staff Report; and Statement by the Executive Director for Suriname. <https://www.imf.org/external/pubs/cat/longres.aspx?sk=43937.0>.

<sup>40</sup> The correlation between GDP and commodity prices is very high for the period 1990-2014: 0.93 for gold, 0.95 for oil, and 0.38 for aluminum. GDP is measured in GDP per capita, PPP (constant 2011 international \$); gold in Gold, \$/toz, constant 2000\$; crude oil, WTI, \$/bbl, constant 2000\$; and aluminum in Aluminum, \$/mt, constant 2000\$. Sources: for GDP is World Development Indicators last updated July 22, 2016 and for commodities Global Economic Monitor (GEM) Commodities, last updated June 30, 2016; both World Bank DataBank.

<sup>41</sup> For reference on magnitude of impact see footnote 4.

<sup>42</sup> Compared to other small economies, Suriname's average economic growth rate of about 4% has been amongst the highest over the past decade. It also contrasted with zero growth in Suriname over the preceding ten years. Consistently high growth rates and an almost three-fold increase in per capita income caused Suriname to be reclassified as an upper middle-income country in 2005. Suriname's non-financial public sector and current account balances were also favorable between 2001 and 2012, averaging -1.0% and 1.2% of GDP, respectively.

<sup>43</sup> Export revenue (goods and services) fell by 22% to US\$1.9 billion between 2014 and 2015 (CBvS online statistics).

<sup>44</sup> In 1975 the Netherlands made the Treaty Funds available to support Suriname as an independent state. These funds averaged at one point 7.7% of GDP and 25.7% of total revenues and grants. IDB. (2013). Suriname Revenue Policy and Administration I, Loan Proposal (SU-L1037). Washington, DC: Inter-American Development Bank.

<sup>45</sup> Mineral exports accounted for 40% and 15% of total tax and non-tax revenues in 2011 and 2015, respectively (WEO, April 2016).

<sup>46</sup> IMF. (2014). 2014 Article IV Consultation - Staff Report, Country Report No. 14/316. Washington, DC: International Monetary Fund.

<sup>47</sup> IDB. (2013). Suriname Revenue Policy and Administration I, Loan Proposal (SU-L1037). Washington, DC: Inter-American Development Bank.

<sup>48</sup> In 2013, tax revenues was 19.7% of GDP, while in 2014 and 2015, tax revenues fell by 1.9 and 1.4 percentage points, respectively, over the previous year.

<sup>49</sup> Since the end of the super commodity cycle, Suriname's credit rating has been downgraded by Fitch Ratings and Standard and Poor's from 'non-investment' or 'speculative' grade (BB-) to 'highly speculative' grade (B+). The outlook was revised from stable to negative. The decisions were based on a weakened external position driven by a shock to commodity export prices.

- 3.6 Non-mineral revenue collection is hampered by inadequate tax policy and weak tax administration.** The legal framework for tax policy is not clearly and concisely legislated, and is also hampered by an outdated tax system. Tax-collection legislation, for example, dates from the 19th century and the corporate income tax was approved in 1922. Both fail to include what is considered a good practice in a modern tax system which constrains the government's capacity to collect taxes.<sup>50</sup> The structure of the Directorate of Taxes and Customs (DOTC) is inadequate and fragmented by tax and by function. Although it is responsible for collecting revenues amounting to approximately 15% of GDP, the agency has limited spending autonomy. These challenges have resulted in political pressures and an inability to hire and retain qualified staff, pay adequate salaries and benefits, and purchase goods and services (CARTAC 2005). The wage tax places an over-reliance on wage earners, as compliance by the self-employed portion of the population is low.<sup>51</sup> About 83,000 salaried workers contribute about 18% to 23% of total tax revenues, while about 35,000 self-employed workers contribute only about 2% of the total. Customs legislation is outdated (1908), ambiguous and not aligned with the World Customs Organization (WCO), SAFE Framework of Standards practices, and Caribbean Community and Common Market (CARICOM) agreements.<sup>52</sup> The government has undertaken some reforms to update tax policy and increase the effectiveness of its tax and customs administration.<sup>53</sup> However, revenue diversification through the implementation of a value-added tax (VAT) and creation of a Sovereign Wealth and Stabilization Fund is yet to be implemented.
- 3.7 Public spending is rigid and hinders the capacity of GOS to undertake the necessary investments to diversify the economy.** In the past 5 years, current expenditures is about 82% of total spending of which, roughly, wages make 34%, and good and services and subsidies 24% and 20%, respectively. Since Suriname's public sector employment represents 60% of the formal economically active population, reducing the wage bill is especially difficult. Moreover, credibility of the budget is affected by high variance between levels of budgeted expenditure and actual expenditure.<sup>54</sup> In addition, variance in expenditure composition between the budget and actual expenditure is also generally high (PEFA 2011). There is limited data and monitoring in relation to expenditure arrears. As for state-owned enterprises (SOEs), there is no information on their overall expenditures, except when reporting to the MOF for subsidies. The budgetary central government has limited control of the economic activities of these parastatals.<sup>55</sup> The absence of a Treasury implies that treasury functions are carried out by several entities: the Budget and Finance Department, the Compatibility Department, the Paymaster, and the Central Bank (CBvS).
- 3.8 The absence of fiscal buffers limits the Government's ability to undertake countercyclical policy.** For commodity dependent economies, it is good practice to maintain prudent fiscal policies that would allow governments to save surplus mineral revenues in boom years, for instance through a stabilization fund, that can be used in the event of negative shocks. However, fiscal buffers appear limited, as accumulated savings from mineral revenues during the commodity price upswing are small.<sup>56</sup>

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<sup>50</sup> For instance, collections legislation, dating from the 19th century, inhibits modernization of the tax collections process demanding paper processes, manual signatures, and preventing merging collection activity across various revenue types (See IDB, Project Profile for SU-L1037 for detailed discussion of current weaknesses of Suriname's tax system).

<sup>51</sup> The wage tax accounts for between 18 percent and 23 percent of total tax revenue. Low compliance by the self-employed is explained by factors such as weak tax administration, poor record keeping (which makes it difficult to determine how much is owed to the government), and paper-based filing (which complicates tracking).

<sup>52</sup> IDB. (2013). Suriname Revenue Policy and Administration I, Loan Proposal (SU-L1037). Washington, DC: Inter-American Development Bank.

<sup>53</sup> The IDB is supporting the government in the area of revenue reform through a series of policy-based loans (operations SU-L1037, SU-L1040, and SU-L1041).

<sup>54</sup> Variance in the composition of expenditure exceeded 15 percent in two of the last 3 fiscal years (2011/12 through 2013/14).

<sup>55</sup> IMF. 2016. IMF Country Report No. 16/141.

<sup>56</sup> IMF. (2013). 2013 Article IV Consultation, Country Report No. 13/340. Washington, DC: International Monetary Fund.

- 3.9 **Suriname's public sector suffers from structural and institutional weakness** that had been aggravated by the large increases in public sector wages granted during 2009–11.<sup>57</sup> The inefficient management of some state-owned enterprises (SOEs) also place pressure on government's financial situation as they are predominantly dependent on transfers from the annual budget.<sup>58</sup> Many of the 144 registered SOEs make losses and pose fiscal risks to the country.<sup>59</sup> Monitoring and reporting of these entities, which vary in size and are spread across various Ministries and sectors, are relatively weak and not routinely undertaken.<sup>60</sup> Furthermore, the system of direct and indirect subsidies to these entities is non-transparent and the extent of possible misappropriation of resources is unknown. As such, the overall fiscal implications of the state-owned enterprises are uncertain.
- 3.10 **The overall performance of Suriname's public financial management systems, processes, and institutions is weak, with several key areas in need of improvement.** As a result of these deficiencies, Suriname obtained the lowest rating (D) in the following categories of the 2011 Public Expenditure and Financial Accountability (PEFA) assessment: deviations in composition of expenditure outturns compared to the original approved budget; budgetary classification; public access to key fiscal information; and availability of information on resources received by service delivery units. Among the most important weaknesses that limit the effectiveness of the *public financial management* system are the following: (i) an outdated and incomplete legal framework for budget preparation and execution that limits the credibility, transparency, and comprehensiveness of the budget (PEFA 2011) and (ii) at the operational level, (a) the system does not generate data on expenditure arrears; (b) public funds raised by autonomous government agencies are not included in the budget or in any other fiscal reports; (c) the budget classification system does not meet international standards; (d) the lack of predictability in the availability of funds for expenditure commitments affects efficiency in the strategic allocation of resources; (e) reporting on in-year budget execution is weak and cash flow planning and monitoring are not undertaken; and (f) the current financial management information system is limited, as it merely automates existing manual processes without any prior reengineering.
- 3.11 **Public sector modernization will help to mitigate Suriname's commodity dependence.** Modernization implies the implementation of an adequate tax structure; the design, execution and monitoring of a budget; and the implementation of effective policy buffers, together with the development of the suitable institutional capacity. Reforms for both revenues and expenditures are required in order to avoid commodity price swings to translate into macroeconomic imbalances. Tackling revenue volatility implies diversifying the tax structure away from commodities while stronger expenditure management will improve the efficiency and effectiveness of public expenditure and increase the government's ability to align expenditures to revenues.
- 3.12 **Strengthening the public sector and promoting evidence-based policymaking is important for modernization.** The weakness of the public sector, both in terms of resources as well as governance, limits the government's ability to influence positive change in the country.<sup>61</sup>

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<sup>57</sup> IMF. 2012. Suriname 2012 Article IV Consultation. IMF Country Report No. 12/281.

<sup>58</sup> Subsidies increased from 22% of total current expenditure in 2010 to 27% in 2015 (CBvS 2016 online statistics). According to the IMF (2012) in its staff report, support to state-owned utility companies is a *complicated web of cross subsidies and transfers* (most of these payments are made to the electricity company and, to a lesser extent, the water companies) that are reflected explicitly in the central government budget.

<sup>59</sup> World Bank Group. 2015. Country Partnership Strategy for Suriname for the period 2015-19.

<sup>60</sup> CDC March 2016.

<sup>61</sup> Suriname exhibits significant weaknesses in terms of institutional quality. The country's governance indicators for 2014 improved in three categories (voice and accountability, political stability, and regulatory quality), but worsened in relation to government effectiveness, rule of law, and control of corruption. Gaps are significant in the dimensions of corruption, regulatory quality, and government effectiveness when compared with the average for LAC countries. Corruption is identified by Surinamese firms as a key constraint to doing business (51.1 percent of firms, compared with 44.9 percent for LAC countries).

Furthermore, inefficiencies in the civil service,<sup>62</sup> and the lack of data for effective policy making contribute to the country's poor standing relative to other LAC countries.<sup>63</sup> From a development perspective, it is of particular relevance for Suriname to strengthen evidence-based policymaking, and public investment management. A better and more efficient public sector could foster private sector initiatives through reforms to reduce public sector size, improve tax collection, and modernize the public sector to create a better incentive framework.

- 3.13 **The Government's near-term and longer-term plans to implement reform programs to modernize the public sector offer opportunities for IDBG support.** The reaction of Government in designing a stabilization and reform plan and its implementation since August 2015 should reduce the negative impact of the macroeconomic correction. The Government plan focuses on public sector reform in the context of fiscal consolidation. The plan will help smooth the impact of the fall in commodity prices and provide a bridge to 2017, when new productive capacity in the oil and mining sectors are expected to be fully operational. The SBA with the IMF provides an adequate context to integrate the support of other development partners, besides the IDBG.
- 3.14 In order to address the macroeconomic and public sector challenges, **the IDBG proposes to continue the governance reform programs initiated during the 2011-2015 CS**, with a view to supporting macroeconomic stabilization by promoting efficiency in public spending as well transparency in the provision of government services. Specifically, the IDBG proposes to continue supporting the Government's reform program to strengthen the fiscal policy framework in the areas of: (i) institutional fiscal reforms, through the creation and implementation of an action plan for public sector transformation; (ii) tax policy; (iii) tax administration; (iv) expenditure management; and (v) state-owned enterprise reform to improve transparency of the sector, which would allow identification of ways to improve performance of selected entities, reduce subsidies and address potential private sector crowding out.
- 3.15 **As part of these reforms, the IDBG proposes to take a close view of those public services (including state-owned enterprises) that require improvement in governance, regulatory framework, operational efficiency, restructuring, and greater accountability and transparency.** Government services, such as the issuance of licenses and permits, necessary for private sector development need to improve efficiency, and are stymieing business creation and development, thus negatively affecting productivity and competitiveness. Movement towards simplification and e-government would improve access to public services, transparency, and accountability. In order to address the challenges mentioned, the IDBG proposes to continue the governance reform programs initiated during the 2011-2015 Country Strategy promoting greater efficiency in public spending as well as efficiency and transparency in the provision of government services. The IIC can play a complementary role in these efforts, providing financing and advisory services to public enterprises that do not have sovereign guarantee and are financially sustainable. The analysis of corporate governance structures and environmental plans and procedures that the IIC will conduct as part of the due diligence process will be leveraged to improve SOE business practices.
- 3.16 **The actions in this strategic area would result in a more distributive fiscal policy and strengthening the capacity of the public sector as aligned with the IDB's Update to the Institutional Strategy 2010-2020 (UIS) and the IIC Business Plan (2016-2019).** In addition, this area tackles the structural and emerging development challenge of limited capacity of the public sector to deliver services, and enforce the rule of law that the UIS 2010-2020 identified as priorities. This area also follows the IDBG's Office of Evaluation and Oversight's (OVE) recommendation to focus on revenue administration and policy as well as public expenditure

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<sup>62</sup> See CDC Chapter II section C.

<sup>63</sup> WB gives a score of 62 to Suriname when the LAC average is 76.



management (see Annex VI). Furthermore, it also contributes to Suriname's National Development Plan (NDP) of fiscal management to improve aspects related to budget management processes, enabling greater transparency, efficiency and effectiveness of public sector institutions. The IDBG will partner with Government and stakeholders to fill knowledge gaps. These gaps will be prioritized with the authorities and will result in a work program designed to collect primary data, and promote transparency and accountability.

## **B. Private Sector Development**

**3.17 Suriname's economic growth depends on a dynamic, innovating and exporting private sector.** More so in the coming years of macroeconomic stabilization and fiscal retrenchment. However, excluding the extractive sector that is dominated by few large foreign companies, private sector performance has been poor. The Enterprise Survey (2010) reveals that sales growth has been -0.27% compared to 9.9% in other small economies.<sup>64</sup> Efficiency, (sales to employment ratio) is lower, 11.4 compared to 12.7. Innovation is at par with small economies, 33.1% of new products and 7.24% of new processes compared to of 33.6% of new products and 5.13% of new processes in small economies, with expenditure on research and development as a percent of sales being 6.07% compared to 6.4% in small economies<sup>65</sup>. The private sector is composed of firms that are characterized by being smaller (43% vs 38%), not engaged in exports 11% vs 13% and dominated by domestic single ownership 47% vs 22% comparing Suriname with LAC.<sup>66</sup> In addition, the weakness of the domestic private sector and its poor export performance, exporting only about 9% of total exports, limits diversification options.

**3.18 Performance of private firms is hindered by unfavorable business environment, limited access to finance, and low international competitiveness.** An unfavorable business environment stems from existing laws and regulations that were enacted under the economic paradigm of a closed economy, many prior to independence, where state intervention through subsidies and protection, played a central role. As a result, much of the legislative framework has become obsolete, an impediment to Suriname's private sector performance.<sup>67</sup> Inadequate legal framework is compounded by institutional weakness. In terms of institutions, Suriname ranks 95th in the WEF global competitiveness indicator with weak performance on property rights, ethics and corruption, government efficiency, and accountability. The other side of the coin is an unfriendly business environment that is captured by the World Bank's 2015 Doing Business Report. It takes on average 150.3 days to obtain a construction-related permit (compared to an average of 88.3 days for Latin American and Caribbean countries); 84 days to start a business (29.4 in LAC); and 1,715 days to enforce a contract (736.9 days in LAC).<sup>68</sup> Suriname scores 186th on enforcing contracts and 183th on the ease of starting a business. These restrictions to the business environment translate into a wide gap when comparing Suriname's doing business frontier<sup>69</sup> with the LAC region. Suriname's score stands at 47 (on a scale of 0-100, where 100 represents best practices in doing business).

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<sup>64</sup> Ruprah et al. 2014, introduced as a benchmark small, non-Caribbean countries, referring to them as Rest of Small Economies, ROSE. See Ruprah, Inder J., Karl Alexander Melgarejo, and Ricardo Sierra. "Is There a Caribbean Sclerosis? Stagnating Economic Growth in the Caribbean." (2014). For an application to the private sector see Ruprah and Sierra's *The Caribbean Private Sector*, 2016, unpublished

<sup>65</sup> No comparable data of R&D as a percent of GDP is available in WB's WDI.

<sup>66</sup> IDB Staff using Enterprise Survey (2010)

<sup>67</sup> Anzola Marcela (2014) *Business Climate and Innovation in Suriname*.

<sup>68</sup> In terms of ranks.

<sup>69</sup> The distance to frontier score aids in assessing the absolute level of regulatory performance and how it improves over time. This measure shows the distance of each economy to the "frontier," which represents the best performance observed on each of the indicators across all economies in the *Doing Business* sample since 2005. This allows users both to see the gap between a particular economy's performance and the best performance at any point in time and to assess the absolute change in the economy's regulatory environment over time as measured by *Doing Business*. An economy's distance to frontier is reflected on a scale from 0 to 100, where 0 represents the lowest performance and 100 represent the frontier. See World Bank Doing Business webpage for more information: <http://www.doingbusiness.org/data/distance-to-frontier>.

- 3.19 **In addition, the business environment includes labor and goods markets inefficiency that hinder business sector performance.** 65.6% of respondents in a 2010 firm level survey identified an inadequately educated workforce as the most significant problem for business operations. The WEF labor market index further reveals that Suriname does poorly with respect to small economies. There is a shortage of skilled labor in Suriname. The country's capacity to retain talent is low; 74% of labor with secondary education has migrated to OECD countries, labor-employer relations are deficient, and pay is not well aligned to productivity.<sup>70</sup> The WEF goods market index shows that Suriname has low domestic competition. The goods market is dominated by a few business groups, the effectiveness of anti-monopoly policy is low, the tax structure does not encourage investment, agricultural policy is excessively burdensome, and there is no significant business impact of rules on foreign direct investment.<sup>71</sup>
- 3.20 **Limited access to finance hinders private sector development.**<sup>72</sup> Limited access to finance is revealed by 36.2% of firms that identified it as a major constraint in the 2010 World Bank Enterprise Survey, while the World Bank's 2016 Doing Business Report ranks Suriname 174th for getting credit. The financial sector has low penetration, is highly concentrated, and operates under information asymmetry and with an inadequate regulatory and oversight framework. Credit as a share of GDP is low at around one third compared to LAC (55.2%) or Caribbean (41.0%). Small and Medium enterprises (SMEs) with credit is 44% compared to similar sized firms in small economies of 52.9%. Higher interest rates in addition to collateral requirements of 200% of loan amounts for SMEs make access to finance one of the main constraints to start and to grow a business. Assets of the three largest banks as a share of total commercial banking assets is almost 100%, compared to Latin America (60.39%). Information asymmetry underlies these features<sup>73</sup>, WB's Enterprise Surveys reveal that only 51.97% of firms in Suriname have their financial statements checked and certified by an external auditor compared to 63.7% in the Caribbean and 62.5% in small economies. Suriname's credit registry coverage and credit bureau, (% of adults), is 0% compared to 12.4% for the Caribbean, and 0% compared to 23.4% for the Caribbean respectively. Also, the strength of legal rights index (0=weak to 12=strong) from Doing Business, WB, that measures the degree to which collateral and bankruptcy laws protect the rights of borrowers and lenders and thus facilitate lending is low; 2 compared to 4.7 for Caribbean and 5.4 for LAC. Moreover, weak land tenure rights create challenges for firms to qualify for loans given the inability to provide adequate proof of collateral. The latter indicates inadequate regulatory and oversight of the financial sector.
- 3.21 **Low international competitiveness and diversification is derived from the resource curse,**<sup>74</sup> **costly cross-border transactions and logistics.** The Global Competitiveness Index of the World Economic Forum (WEF), Suriname ranks 110 out of 144 countries analyzed. Diversification as measured by the Herfindahl-Hirschman (HHI) index is for products 0.68 and for markets 0.12 for Suriname compared to 0.15 and 0.06 for small commodity exporting economies.<sup>75</sup> Trading across borders is also a challenge in Suriname. The World Bank Doing Business report notes that exporting, comparing Suriname with LAC, one container requires an average of 8 documents vs 6, and takes 22 days vs 17. The current Investment Law passed in

<sup>70</sup> World Bank. 2014. Enterprise Survey. <http://www.enterprisesurveys.org/>.

<sup>71</sup> Ibid.

<sup>72</sup> For example, in the case of Latin America, Beck et al. (2000) showed that if the region's average financial depth (31 percent) were to increase to the levels of East Asia (70 percent), annual productivity growth in the region would increase by one percentage point, reducing the differences in productivity growth between the two regions by 60 percent. Greenwood et al. (2013) estimated that if the countries of Latin America were to reach Luxembourg's level of financial development, their TFP would increase by 17 percent and their GDP by 85 percent. Arizala et al. (2013) found that, depending on industries' financing requirements, annual TFP growth could accelerate by 0.6 percent if the development of the financial system increased by one standard deviation.

<sup>73</sup> Suriname's depth of credit information index, credit registry coverage and credit bureau coverage are all assessed at zero, while the strength of the legal rights index scores 2 out of 12.

<sup>74</sup> See Magueb and R. Rennhach "When and Why Worry about Real Exchange Rate Appreciation: The Missing Link between Dutch Disease and Growth", IMF, WP/10/21, 2010.

<sup>75</sup> IDB Staff Using data from the United Nations Comtrade database.

2001 does not provide equal access to investment in the country, is strongly biased against foreign direct investment (FDI) and focuses almost exclusively on the use of ad hoc fiscal incentives for private sector development.<sup>76</sup> Regarding logistics, the Suriname River is the principal transportation route for goods imports and exports, as well as the domestic transportation of bulk cargoes. Overseas ships enter and cross the Suriname River but face severe limitations as the on the main port terminals are located along the Suriname River, where a bar at the entrance of the river channel imposes a draft restriction of 6.5 meters; this restricts the size of export shipments and raises transportation costs above normal levels for the use of such vessels.<sup>77</sup> In addition, capacity and safety needs in the urban and main road network and limited domestic connectivity (only 11% of firms have their own website)—land, water and air transportation with the Interior—are a hindrance to investments in the Interior. In rural communities, low penetration, as well as unreliable and high-cost electricity services present an ongoing challenge to the private sector.

**3.22 The agricultural sector illustrates many of the problems identified previously in addition to facing changes in the EU's preferential treatment of bananas and the need to absorb export shortfall due the fallout derived from the closure of the Bauxite industry.**<sup>78</sup> Under the SBA with the IMF structural reforms to improve the business environment has a particular focus on enhancing productivity and competitiveness hence diversification of the agricultural sector. The sector accounts for 7% of total export earnings, and employed about 17% of the workforce, although less than 10% of suitable land for agricultural production is used for crop cultivation and pastures.<sup>79</sup> Simultaneously, the agriculture sector has low (zero percent growth) productivity<sup>80</sup> and low level of diversification. Diversification of agricultural export products measured by the HHI index is 0.43 for Suriname compared to 0.11 for small economies. The sector has performed under its potential because of an inadequate business environment, lack of financing and insufficient logistics. In terms of business environment, i.e., agricultural policies, support to several agricultural subsectors is dominated by producer support, which leads to distortions, low incentives for productivity gains as well as higher prices for consumers. Conversely, the sector lacks sufficient support from general public services, including through infrastructure and irrigation development and support for animal and plant health and improve land tenure issues. Limited access to credit to small farmers also hinders production and trade.<sup>81</sup> Regarding competitiveness, limited logistics and reduced domestic connectivity—land, water and air transportation with the Interior—are also a hindrance as is the under-provision —of 250 rural villages 120 are without electricity service- of electricity to rural areas combined with a high cost to extend provision through the national grid given the low density of the rural areas thus suggesting renewable energy sources and mini-grids as solutions.<sup>82</sup>

**3.23 Given these challenges, the IDBG will support private sector development through the following actions:**<sup>83</sup>

- a. First, the **reform of the business climate** with the modernization of the legal framework for private sector expansion and the interface between public and private sectors. Improving the business climate will involve preparing assessments and reforms in rule of law,

<sup>76</sup> In 2003, a new investment law was drafted, providing a clear set of rules that would apply to all private-sector investment in the country but has not been passed by parliament. See C. Elias "Private Sector Assessment: Suriname" 2012 Compete Caribbean.

<sup>77</sup> See CDC March 2016. Chapter 2, part IV and Chapter 3.

<sup>78</sup> Closed in November 2015. Alumunium exports were, in 2014, 19% of total exports.

<sup>79</sup> Central Bank of Suriname online statistics. <https://www.cbvs.sr/statistics/macroeconomic-statistics/macro-economic-tables>

<sup>80</sup> Nin-Pratt et al. IDB Working Paper, Productivity and the Performance of Agriculture in Latin America and the Caribbean: From the Lost Decade to the Commodity Boom - See more at: <https://publications.iadb.org/handle/11319/7306#sthash.cEQJeykT.dpuf>. TFP for the same period was 1.2% for LAC, 1.3% for Guyana and 0.9% for Jamaica

<sup>81</sup> Derlagen et al. 2013. Agricultural Sector Support in Suriname. IDB/FAO, Rome, Italy and Washington, DC.

<sup>82</sup> See "Hurdles and Opportunities in Renewables and Smart Grids in Rural Areas" by O. Olmberg. <https://www.nist.gov/sites/default/files/documents/iaao/OrlandoOlmberg.pdf>

<sup>83</sup> Ongoing projects in the portfolio that complement the proposed interventions include SU-L1049, *Business Climate and Innovation*.

transparency, contract enforcement, protection of intellectual property rights, and processes to start business and building capacity to complement these efforts with economic analysis of initiatives, and monitoring and evaluation. Improving the business climate also includes creating greater space for the private sector. The pervasive presence of the public sector in the economy -discussed above- constrains private sector growth,<sup>84</sup> thus improving the business environment includes redefining the public private space through identifying ways to improve the performance of state-owned enterprises and public service provision. The Bank's private sector lending arms (IIC and MIF) will seek opportunities to work directly with private sector clients to enhance capacity and take advantage of growth opportunities, supporting the country's transition to higher levels of private participation in the economy. The IIC can provide advisory services for the development of the private sector.

- b. Second, support **financial sector reforms**.<sup>85</sup> Reforms to improve access to credit that will guide operations in the financial sector through improvements in financial regulatory framework including strengthening its authority's oversight functions, and the reduction of information asymmetry and financial literacy. This will entail the implementation of the Banking Act and Capital Markets Law, the Secured Transactions Act and its regulations, and the approval of the Insurance Act. Also, reforms include the regulatory framework for a credit bureau. These reforms will enhance financial inclusion through better access to financial services for households and SMEs. The IIC can support these efforts, through financial institutions that promote new lending for SMEs, green investments, and other segments that are currently underserved by the market. The IIC will also look for opportunities to promote the development of local capital markets, which will increase the supply of long-term financing and provide for more savings instruments. Finally, the IIC will explore opportunities to promote trade finance.
  - c. Third, support enhanced competitiveness, specifically through the agriculture sector. This will entail continuing to support the modernization of the agricultural policy framework, the provision of agricultural public services and the sustainable management of natural resources, improving trade logistics and related infrastructure, encouraging innovation and technology to boost export diversification, and facilitating trade through the modernization of an export development strategy. The IIC will look for opportunities in this sector that increase agricultural productivity and export competitiveness. Particular attention will be given to interventions to reach small-scale producers. Additionally, the IIC will search for investments that promote climate smart agriculture, helping to build climate change resilience in the sector, and support transportation, logistics, energy efficiency, and renewable energy generation.
- 3.24 Improving productivity and diversification of the economy such as in the agricultural sector by strengthening business climate, international competitiveness, and access to finance should contribute to increase access to credit, improve logistics to connectedness to domestic and international markets, and increase access to renewables as a basis for electricity provision.
- 3.25 **The cross-cutting areas of resilience to climate shocks, and gender have important linkages with the business environment and competitiveness.** Gender equality in the work force increases economic growth. Elborgh-Woytek et al. (2013) revealed that closing gender gaps in the labor market would raise GDP in all countries, by between 5% (in the United States) and 34% (in Egypt). Suriname has a Gender Inequality Index (GII) value of 0.463, placing it in 100th position out of 155 countries in the 2015 index. The country's GI value is to the lower end of the range occupied by other LAC countries (UNDP 2015).<sup>86</sup> Barriers to women entrepreneurs

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<sup>84</sup> Suriname's National Development Plan (2012-2016)

<sup>85</sup> See IMF 2008 "Structural Reforms and Economic Performance in Advanced and Developing Countries" for the growth effect of financial sector reform.

<sup>86</sup> The average 2015 GI value for LAC countries is 0.415, while that for high human development countries (which include Suriname) is 0.31.

represent a lost opportunity to improve the country's competitiveness. Linkages also exist with the other priority areas as the private sector depends on macroeconomic stability, a modern and efficient public sector and a healthy and skilled population. While the deterioration of infrastructure due to past climate shocks adds directly to the cost of doing business, potential future shocks pose a risk to the private sector and imply higher cost for resilient private and public infrastructure as well as insurance. At the same time, both climate change adaptation and mitigation also represent opportunities for the private sector to support environmentally sustainable business models and promote the adoption of innovative technologies. The IIC can support this process by working directly with private sector entities to adopt business practices that are resilient to climate change pressures and gender-specific initiatives. Additionally, the IIC can support mechanisms that reduce greenhouse emissions and energy consumption.

- 3.26 The proposed focus contributes to the National Development Plan (NDP) objectives of promoting private sector-led economic diversification by enhancing business climate, improving access to credit and infrastructure. It contributes to the IDBG's UIS objectives of increasing productivity, including segments of the population in financial markets, providing inclusive infrastructure, and reducing inequality while fostering a more inclusive and prosperous society. It also contributes to the IIC's Business Plan 2016-2019 objectives to improve MSME access to finance, promote infrastructure for development and enhance private provision of basic goods and services, income generating opportunities and social mobility for vulnerable populations. There is also alignment with the MIF's new focus areas, in particular: (a) Climate Smart Agriculture - promoting increased productivity and climate resilience through environmentally sustainable practices and use of technology, while supporting various actors in the agriculture value chain; and (b) Inclusive Cities - promoting access to excluded urban populations to basic services via various approaches such as the circular economy.

### C. Strengthening Human Capital

- 3.27 **Differences in the quality and access to basic health and education services contribute to inequality and poverty and hinder efforts to modernize both the public and private sectors.** Following a deterioration of social indicators between 1990 and 2000, Suriname has made progress from a low base in key social outcomes in the past 15 years. Life expectancy increased from 68 years in 2000 to 71 years in 2012, though it still remains below the average for LAC of 75.<sup>87</sup> Similarly, maternal mortality (per 100 000 live births) declined from 257 to 155 between 2000 and 2015. Progress is also visible in the under-5 mortality, which declined from 48 to 23 between 1990 and 2013. However, these values remain high in international comparison as maternal mortality in LAC stood at 52 in 2015 and under-5 mortality at 18.<sup>88</sup> In terms of education, adult literacy rate of 94.7% is above the regional average of 92. Moreover, gross enrollment rates for primary school (120.2%) is above comparable countries (109.6%), but lower for secondary school (85% compared to 92%). In addition, boys have lower enrollment and attendance rates than girls at the secondary level.<sup>89</sup>
- 3.28 **Human capital development in Suriname faces challenges in quality and access to basic education and health.**<sup>90</sup> As countries grow, human capital as measured by education and health tends to improve. However, growth in Suriname's per capita income did not translate into

<sup>87</sup> Life expectancy remains below the average for Latin America & Caribbean and Upper middle income countries, which increased between 1990 and 2013 from 68 to 75 and 68 to 74, respectively. See WHO Global Health Observatory database.

<sup>88</sup> WHO Global Health Observatory database.

<sup>89</sup> UNESCO Institute for Statistics. <http://www.uis.unesco.org/Education/Pages/default.aspx>

<sup>90</sup> Factors such as education and health strongly influence the performance of human capital (Wilson et al. 2004; Veenstra et al. 2005). Accumulated human capital in individuals, results in a more productive labor force since the accumulation of knowledge leads to innovation and technological progress. Higher productivity results in a rise of national income, ceteris paribus. Ooft and Eckhorst (2013) measured the impact of human capital on economic growth through education indicators for Suriname. They found that human capital affects long-run macroeconomic growth through primary and secondary education. Education indicators for primary and secondary levels were somewhat comparable with countries with similar income levels, with the exception of dropout rates.

a significant improvement in social indicators. As a result, Suriname's education and health indicators are below most countries in the same HDI group as only two other countries with similar income indices had a lower HDI ranking.<sup>91</sup> Although government expenditure on education and health is of a similar level to the other countries in the high HDI category,<sup>92</sup> this has not been reflected in a large percentage of the population having a secondary degree, lower dropout rates, or a health system with adequate numbers of physicians.<sup>93</sup> These indicators suggest that development in Suriname is happening at a much slower pace than in other comparable countries, and that human capital indicators may be restraining economic growth.

- 3.29 **An inadequately educated workforce affects productivity and private sector development (as noted in Paragraph 3.19 above)**<sup>94</sup>. An inadequately educated workforce is cited as one of the most significant obstacles to doing business, with 65.6% of firms listing it as a constraint. This compares with 40% for the other countries belonging to the IDBG's Caribbean Country Department (CCB),<sup>95</sup> and a LAC average of 35.9%. Simultaneously, in Suriname offer little formal training (2% of Surinamese firms, compared with 44.3% for LAC as a whole) and have a lower average number of years of managerial experience compared with LAC countries (10.6 years versus 18.9). The migration of Suriname's skilled labor also affects the quality of the labor market.<sup>96</sup>
- 3.30 **Suriname's education system has made relevant progress in terms of access to education and is close to achieving the Millennium Development Goal of universalizing primary schooling.** Primary completion rate for girls is 100% and 87.4% for boys; however, completion drops quickly for lower secondary to 62.6% for girls and 33.1% for males.<sup>97</sup> 95.4% of children of primary school age are enrolled in primary or secondary school, compared to 78% in 1999.<sup>98</sup> Additionally, Suriname invests 5% of GDP in education, which represents one of the highest levels of public spending on the sector in the region. In terms of progress to improve education quality, in 2006, the Government initiated a curriculum reform to raise student learning with support from the IDBG.<sup>99</sup>
- 3.31 **The problems in the education system stem from: (i) limited access to preschool and secondary education; and (ii) low education quality.** As for access, only 37% of children aged 3-5 attend early childhood development programs<sup>100</sup> compared to 88% and 74% gross enrollment ratio for preschool education in developed countries and LAC, respectively.<sup>101</sup> Conversely, only 59% of secondary school-aged youth attends secondary school in any of the different streams (academic, technical, vocational).<sup>102</sup> In secondary education, dropout rates are

<sup>91</sup> In Suriname, only 45.9% of the population has a secondary education compared to 66.6% for other high HDI countries. As for health, there is 9.1 physicians per 1,000 population in Suriname compared to 20 in other high HDI countries.

<sup>92</sup> In Suriname, expenditure is about 5% of GDP for health and education compared to 6% for other high HDI countries.

<sup>93</sup> See CDC March 2016. Specifically, Table 2.1 and Chapter III, Section IV.A for additional information and analysis.

<sup>94</sup> Suriname's labor productivity growth was among the lowest in the region over the 2002-2011 period: -1.3% on average compared to 1.4% in LAC. World Bank. 2010. Enterprise Survey. <http://www.enterprisesurveys.org/data/exploreeconomies/2010/suriname>.

<sup>95</sup> These countries include: Jamaica, The Bahamas, Barbados, Trinidad and Tobago, and Guyana.

<sup>96</sup> Suriname's diaspora living in the Netherlands is about 60% of its population. Estimates by Hausmann et al. (2011) measure Suriname's losses due to emigration (including estimated education expenditure) at 7.8 % of GDP per year. With remittances representing on average 3% of GDP per annum over the past five years, the net migration effect is substantially negative Suriname.

<sup>97</sup> Progress is visible for instance lower secondary completion rate for both sexes increased from 25.5% in 1985 to 47.6% in 2014. World Bank WDI database.

<sup>98</sup> UNICEF and Government of Suriname 2010. Multiple Indicator Survey (MICS). Paramaribo, Suriname.

<sup>99</sup> This reform has already covered grades 3, 4, 5 and 6, and will continue to pursue grades 7 and 8 and later on it will move to secondary education. The Surinamese education system is comprised of 12 grades and three main levels: preprimary, including grades 1 and 2; primary, including grades 3-8, which are compulsory; and secondary, from grades 9 to 12. The IDBG project is SU-L1038.

<sup>100</sup> It is important to mention that in Suriname the official (formal) preschool starts at the age of four, when dividing the data by age we see that the attendance figure for three-year-olds is 25% and then substantially increases to 46% for four-year-olds, leading to 76% of children attending at least one year of preschool before entering first grade at age six. [Ministry of Social Affairs and Housing and General Bureau of Statistics, 2012. Suriname Multiple Indicator Cluster Survey 2010. Final Report: Paramaribo, Suriname.](#)

<sup>101</sup> IDB. 2016. Education and Early Childhood Development Sector Framework Document. Education Division, June 2016.

<sup>102</sup> Of the remaining 41%, some are out of school (15%) and others attend primary school (26%), with higher chances of dropping out for being over-age at the time of entering secondary education (UNICEF et al 2010). These figures signal inefficiencies across the entire education system. As for other comparable countries, the average gross enrollment rate for secondary education is 92%.

very high, reaching 15% per grade, and as a consequence graduation from this level is very low.<sup>103</sup> With regard to quality of education, student achievement is low, unequal and inadequate, with students from the main urban areas (Paramaribo) performing better than those in the interior or rural areas of the country. Results of the 2014 national exam at the end of primary education (GLO 6) show that only 24% of the students had satisfactory grades in Math and only 62% did so in Language.<sup>104</sup> Moreover, teacher training is low at all levels of education: 7.2% in preprimary, 5.9% in primary education, and 13.9% in secondary education.<sup>105</sup> The challenges posed to access and education quality stem from four main causes: (i) an outdated curriculum for secondary education and lack of qualified teachers; (ii) lack of access to adequate schools and qualified teachers in remote areas; and (iv) low capacity within the Ministry of Education, Science and Culture (MOESC) to monitor and support schools.

- 3.32 **The last curriculum reform in Suriname took place in the 1970s making the current curriculum outdated and not relevant for today's learning needs.**<sup>106 107</sup> At the same time, the learning assessments are outdated. The exams currently in place are aligned with the old curriculum, and therefore the new curriculum should be accompanied by a revision of the examination framework. The MOESC developed and adopted in 2014 an Information and Communication Technology (ICT) Policy with clear guidelines on how the use of technology can complement the delivery of the curriculum. A diagnostic that accompanied the policy reveals that, at the time of the survey: (i) 48% of schools had access to computers, and only a few of the schools surveyed were using the computers in the classroom (4 out of 200); (ii) Only 7% of school in Suriname has access to any form of digital content or educational software; and (iii) competencies of teachers in ICT are low (the schools rated the average competencies of their teachers in ICT skills as low as 4.75 out of 10). The implementation of this ICT policy requires, among other things, the development of electronic content that is aligned with the new curriculum and training of teachers for the use of technology in the classrooms to be delivered in any technological infrastructure in place in the country, as well as the strengthening of the ICT unit within the MOESC to coordinate these efforts.
- 3.33 **Regarding access to adequate schools, many schools in the interior, both public and private, have been inadequately maintained, deteriorated or had a deficient infrastructure from the beginning.** Sanitary systems are lacking or in poor condition, and often do not have adequate access to water. For instance, by 2010, in the East of the country, 79.4% of primary schools did not have access to electricity, and 8.8% did not have a toilet at all.<sup>108</sup> Many students usually have to walk long distances to attend school or use canoes as forms of transportation.<sup>109</sup> There isn't a systematic approach to improve school infrastructure<sup>110</sup> and the deficient school infrastructure, especially in the interior of Suriname, shows that students in these regions have fewer classrooms and teachers than in the rest of Suriname: these areas have the highest student-teacher ratio of the country.<sup>111</sup>
- 3.34 **The quality and accessibility of health care are limited in Suriname, contributing to greater inequality.** Health plays an essential role in both human capital itself and as an input to producing other forms of human capital. Suriname achieved important health improvements in

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<sup>103</sup> MOESC data 2015.

<sup>104</sup> MOESC statistics 2015.

<sup>105</sup> World Bank World Development Indicators. Latest year available was 2014.

<sup>106</sup> [SLO \(2011\). Evidence-based Curriculum in Suriname.](#)

<sup>107</sup> The MOESC, with support from the IDB and the international community has carried out a system-wide reform that entailed the development of learning strands and a curriculum framework at the preschool and primary level, the distribution of learning materials to schools, and the provision of teacher training and coaching in the new methods. The curriculum reform began in 2006 and has gradually covered preschool grades 1 and 2 and primary grades 3, 4, 5 and 6, the remaining grades of primary education (7 and 8) will be part of its BEIP II project.

<sup>108</sup> Increasing Access to Water, Sanitation and Hygiene in Suriname' Interior, Ministry of Natural Resource and UNICEF, 2014

<sup>109</sup> In fact, also in the east of the country, 29.4% of the schools are only reachable by boat. [MINOV/VVOB/UNICEF \(2010\). School Mapping.](#)

<sup>110</sup> The joints effort made by the IDBG and the GOS through Phase I of this multiphase Education program are addressing these issues at the primary level.

<sup>111</sup> IDB 2015.

the past decade,<sup>112</sup> however, health indicators in Suriname are below the benchmarks of other small economies belonging to the high human development category. Suriname has proportionately fewer health personnel than most countries in the region. There are only 10.3 physicians in hospital and 18.6 nurses per 10,000 population, and there is an acute shortage of doctors in disciplines that are highly required in the country.<sup>113</sup> Another challenge is the geographical distribution of health personnel: the majority of general physicians and nurses are located in the city of Paramaribo, and are scarce in the country's interior (PAHO 2014). In addition, gender inequalities have been documented in accessing and receiving health services, especially with respect to communicable and non-communicable diseases and sexual and reproductive health,<sup>114</sup> which suggest that the nation's policies and programs do not systematically include a gender perspective in their development, implementation, and evaluation (PAHO 2014).

- 3.35 **The rise in non-communicable diseases (NCDs) places a high financial burden on Suriname's health system.** About 68% of all deaths in Suriname can be attributed to NCDs, half of which are related to cardiovascular diseases, diabetes and cancers. The costs for kidney dialysis and heart surgery procedures, as well as medication to control NCDs, have increased significantly in recent years.<sup>115</sup> Given that likely half the population is affected by poverty, there is significant concern that NCDs will not only cause even deeper poverty and worse health outcomes (Ministry of Health 2012), but that people may develop NCDs at a younger age and possibly suffer longer from preventable complications. Like its Caribbean neighbors, the impact of NCDs on the labor force in Suriname is particularly worrying as a significant portion of the burden of NCDs falls on the working-age population (Theodore 2011). In addition, elevated childhood obesity rates have both immediate and long-term effects on health and well-being, including a heightened risk for cardiovascular diseases, cancers, and diabetes.<sup>116</sup> The impact of NCDs on the labor force in Suriname is particularly worrying as a significant portion of the burden of NCDs takes place among the working-age population. Men are also particularly at risk, with men between the ages of 20 and 40 twice as likely to have heart disease as women in the same age range (Ministry of Health 2014). Communicable diseases also remain a challenge. Dengue and Tuberculosis are prevalent, while the country faces increasing cases of people infected by the Zika virus. In terms of quality and access to health services, most primary Health Centers were constructed in the late 1960's and have not been renovated since then. As a result, most function at 25% capacity and are characterized by old infrastructure and obsolete medical equipment that is poorly maintained. This in turn has led to 60%-70% of the population seeking assistance directly at hospitals for ambulatory care conditions that could be managed at the primary level. This pattern contributes to inefficient use of secondary and tertiary care resources, adding strain to a system that already is resource-constrained.<sup>117</sup>
- 3.36 **To improve human capital, a life-cycle approach is suggested, beginning with the youngest ages (early childhood), continues through the school years, and culminates in programs that facilitate labor market insertion and lifelong healthy learning (IDB 2011).**

<sup>112</sup> Life expectancy at birth for both sexes increased by 3 years; the infant mortality rate decreased from 28.94 (per 1,000 live births) in 2012 to 27.07 in 2014; deaths due to HIV/AIDS also decreased from 30.1 (per 100,000 population) in 2000 to 16.1 in 2013; and deaths from malaria decreased from 10.9 (per 100,000 population) in 2000 to 0.1 in 2013.

<sup>113</sup> These ratios are much higher for LAC (17.6 physicians and 13.8 nurses per 10,000 population) and the Caribbean (33.7 physicians and 29.8 nurses per 10,000 population). Source: PAHO 2015.

<sup>114</sup> Women's access to adequate maternal health care is limited, particularly in the interior, and mothers also have little knowledge regarding giving birth. Men in Suriname are also less prone to seek preventative health services and are therefore less likely to be screened or treated for NCDs. This suggests a need to explore whether there are gender-based barriers to the uptake of NCD prevention and management services (National Bureau for Gender Policy 2011).

<sup>115</sup> National Action Plan for the Prevention and Control of NCDs 2012 - 2016, Ministry of Health, Suriname. A conservative cost estimate of cardiovascular disease, including diabetes indicates hospitalization costs of SRD 3,466,400 (per year based on 2476 patients) and dialysis costs of SRD 7,488,00 (per year based on 240 patients). A cost estimation of hemodialysis, due to kidney failure caused by diabetes, is SRD 79,200 per patient per year, depending on the frequency of dialysis.

<sup>116</sup> 26% of children aged 13-15 years either overweight or obese (WHO, 2009; UNICEF, 2006), almost 6 percent of children under age five are moderately or severely underweight and 1.3 percent is classified as severely underweight.

<sup>117</sup> Suriname, National Health Sector Plan, 2011-2018.



The life-cycle approach combines various social sectors, including education, labor, and health. It also involves efforts to decrease social inequalities among individuals of different ethnicity, geographic origin, and socioeconomic status. It should be noted that one of the main challenges in producing an assessment of the main social sectors is the lack of reliable data. This lack of data also hinders the design and implementation of appropriate policies. Planning and investment are needed to improve its capacity to collect, analyze, and use data as part of a comprehensive strategy to fill the information gap, as well as producing sound technical analysis to provide better support for decision-making processes.

- 3.37 **The IDBG proposes to support human capital accumulation, with a focus on education through the existing program<sup>118</sup>, as well as the capitalization of the generated knowledge and experience in health in coordination with other donors.** Specifically the IDBG proposes (i) to continue support to the improvement of access and the quality of primary education through operations already underway in the existing portfolio; (ii) reform of secondary education, through enhancing curriculum, teacher training and learning assessments.
- 3.38 **Dialogue area.** Knowledge products and coordination with other donors would contribute to an efficient flow of information to support the health sector, including the enhancement of the surveillance and response capacity at the Ministry of Health to address International Health Regulations issues to prevent and control infectious diseases such as Zika and Chikungunya, as well as non-communicable diseases (NCDs).
- 3.39 **The cross-cutting areas of gender, resilience to climate shocks and institutions also have important linkages with this priority area. Significant gender gaps exist in educational enrollment rates.** The female to male enrollment ratio in primary education has remained constant over the past decade, favoring boys at a rate of 0.96 (compared to 0.98 in the LAC region). At higher education levels, however, boys' enrollment rates decrease faster than girls (in common with the LAC region). In 2013, the female to male enrollment ratio for secondary education was 1.29 in Suriname, compared to 1.06 in the LAC region. Boys have higher repetition rates than girls at the primary level: 19% and 13%, respectively, in 2013, compared to 5% and 6% in the LAC region.
- 3.40 **The low income segments of the population are disproportionately affected by climate risks.** This is mainly due to poorer quality housing in environmentally sensitive areas and generally lower coping mechanisms in the case of hazard events. Lower income households often work in agriculture or informal activities that depend on the climate and are more exposed to communicable diseases that could become more prevalent as climate changes.<sup>119</sup> Expected temperature increases of 2 to 3°C, coupled with changes in rainfall patterns, will have significant impacts on human health through potential increases in the incidence of parasitic and infectious diseases (including a possible increase of vector diseases such as malaria in the interior and dengue in the coastal zone) (Government of Suriname 2013). Of note in relation to these vulnerabilities is the expected disparity in impact among certain groups in society, such as women in the country's interior and farming communities (UNDP 2009). Similarly, critical social infrastructure is also highly vulnerable to the effects of climate change. As for institutions, the Ministry of Education, Science, and Culture exhibits low management capacity in key units (curriculum, research, planning, and ICT). These units are understaffed and require training and equipment to perform their activities more efficiently. Furthermore, the ministry has limited capacity to support schools and teachers and to collect information for monitoring schools (Jabbar 2014; Arcia 2014). This ongoing strategic area continues the support to this sector initiated with the 2011-2015 Country Strategy and will contribute to basic conditions in the

<sup>118</sup>See paragraph 2.7 on SU-L1038 "Second Basic Education Improvement Program, Phase II and Memorandum of Evaluation of Phase I"

<sup>119</sup> The rate of occurrence of new diseases could increase with climate change. See USGCRP, 2016: The Impacts of Climate Change on Human Health in the United States: A Scientific Assessment. Crimmins, A., J. Balbus, J.L. Gamble, C.B. Beard, J.E. Bell, D. Dodgen, R.J. Eisen, N. Fann, M.D. Hawkins, S.C. Herring, L. Jantarasami, D.M. Mills, S. Saha, M.C. Sarofim, J. Trtanj, and L. Ziska, Eds. U.S. Global Change Research Program, Washington, DC, 312 pp.

objectives of the National Development Plan (NDP) of providing a general basic standard of living including access to education for everyone and accessibility and affordability of medical provisions for everyone, with the intention of increasing the standard of living or as the case may be the level of existence of human beings. Moreover, the IDBG's interventions contribute to the IDB Institutional Strategy Update 2010-2020 goals of reducing extreme poverty and developing quality human development. Also, the interventions are aligned to improving the policy objective of social inclusion and equality in the IDB's UIS.

#### **D. Cross-Cutting Themes<sup>120</sup>**

- 3.41 **The complexities and multi-sectoral linkages in the areas of gender, resilience to climate shocks and institutional capacity suggest a cross-sectoral approach.** While the particular linkages to each strategic area were described before, this section provides the main country specific aspects of these cross cutting themes.
- 3.42 **Resilience to climate change.** Sea level rise (SLR) presents a significant threat to Suriname given its extensive low-lying coastal zone and the concentration of socioeconomic activities within this area. In a comparative analysis of the impacts of SLR on land, population, GDP, urban and agricultural extent, and wetlands in 84 developing countries, Suriname was ranked highest in Latin America and the Caribbean in terms of population and GDP impact, and was second only to Guyana and the Bahamas in terms of urban and agricultural extent (World Bank 2007). At the global level, Suriname ranks among the top most affected countries overall. Suriname's entire economic zone is located within its coastal areas. Estimates of impacts of 1meter SLR and storm surge in CARICOM member states, including Suriname, show that nearly 1,300 km<sup>2</sup> of land will be lost, over 110,000 people will be displaced, at least 149 multimillion dollar tourism resorts (including beaches) will be damaged or lost together with over 550 km of roads lost<sup>121</sup>. Other expected impacts include loss and damages to the agriculture, forestry and fisheries sectors as a result of increase ambient temperatures. Adaptation remains insufficient and the continued impacts of climate change could further intensify the country's vulnerabilities, negatively affecting key sectors such as agriculture, water, energy, health and tourism.
- 3.43 Areas of focus on resilience to climate change will include: (i) increased availability of climate-relevant information; (ii) capacity building in both the public and private sector; (iii) improved information dissemination and education; and (iv) analysis of potential impacts and identification of actions to increase resilience through the Emerging and Sustainable Cities Initiative.
- 3.44 **Gender and Cultural Equality.** Gender disparity in the labor force restricts business continuity and productivity. Gender equality and women's economic empowerment remain behind much of the rest of the region. Women's labor force participation in Suriname is lower than that of men, with a ratio of two males to each female.<sup>122</sup> Women often tend to work in the informal sector and are either not paid for their work or face significant wage gaps. There have been clear setbacks with respect to the maternal mortality ratio (MMR) in recent decades.<sup>123</sup> Suriname lacks a national gender action policy. Additionally, Suriname's population faces development challenges that are in part due to their location. Some communities on the Coast and in the Interior feature prominently within Suriname's lowest income bracket.<sup>124</sup> Large inequalities in public health, access to key infrastructure, and income levels are evident across cultural lines throughout the country. Although the majority of the population resides in Suriname's coastal areas, many of

<sup>120</sup> See section III.4 in the CDC for details.

<sup>121</sup> Quantification and Magnitude of Losses and Damages Resulting from the Impacts of Climate Change: Modeling the transformational Impacts and Costs of Sea Level Rise in the Caribbean, prepared by The CARIBSAVE Partnership for UNDP Barbados and the OECS for CARICOM Member States

<sup>122</sup> Labor force participation in 2015 was 45 and 74 percent for females and males, respectively.

<sup>123</sup> Maternal mortality was 127 in 1990 but increased to 259 in 2000. In 2015 it was at 155, still above 1990 levels.

<sup>124</sup> Refer Figure 2.54 in Suriname: Country Development Challenges, March 2016.

the nation's indigenous and Maroon communities reside in the interior. Travel to the interior of the country is particularly difficult, with few roadways extending beyond the coastal areas. Income inequalities<sup>125</sup> and limited access to common infrastructure services such as piped water and electricity can limit economic activity. Given the existence of these inequalities, strategies to close these gaps may help unlock the long-term economic growth potential of the country. The government has acknowledged that many challenges remain in relation to the promotion of gender equality and the empowerment of women. Indicators in a variety of fields including health, labor, entrepreneurship and violence against women reveal that Suriname experiences some of the highest levels of gender inequality in the region.

- 3.45 **Suriname's diverse populations face development challenges that are in part due to the location of these populations.** Large inequalities in public health, access to key infrastructure, and income levels are evident across ethno racial lines throughout the country. While the majority of the population lives in the coastal areas, many of the nation's indigenous and Maroon communities reside in the interior. Travel to the interior of the country is difficult, with few roadways extending beyond the coastal areas. In addition to lower per capita earnings, Suriname's indigenous and Maroon communities have little access to common infrastructure services such as piped water and electricity. While these gaps in access to services are largely due to differences in urbanization rates, ethno racial gaps persist even when one looks at access to services within rural areas. Lack of access to key infrastructure services has been shown to lead to fewer opportunities later in life, which can lead to a vicious cycle of lower incomes and fewer opportunities for Suriname's indigenous peoples and Maroon communities relative to the rest of society.
- 3.46 **Actions to address gender and cultural inequality issues need a view on poverty reduction and income-generation.** The IDBG will support: (i) prioritization of gender issues both as part of women-specific gender policy as well as in policies developed in the health and social protection areas; (ii) incorporation of gender based perspectives into education to address issues of educational attainment and performance; (iii) improvement in the quality and quantity of gender disaggregated data collection in the areas of poverty, intimate partner violence, sexual violence against women, men and children; (iv) establishment of child- and elder-care services and quality early childhood education programs and school feeding programs to reduce the impacts of women's disproportionate burden of child- and elder-care on income-generating activities; and (v) the creation of one-stop-shop service and information centers for both vulnerable and middle-class women. In addition, IIC operations can help create viable economic opportunities for disadvantaged population groups, prioritizing the improvement of Suriname's business climate for both women and men.
- 3.47 **Institutional Capacity.** The lack of adequate institutions, good rules of the game, impact all aspects of the implementation of the development agenda in Suriname, including public sector efficiency and effectiveness, transparency and accountability, investor confidence, private sector activity and subsequently growth. The country's governance indicators deteriorated in relation to government effectiveness, rule of law, and control of corruption. Gaps are significant in the dimensions of corruption, regulatory quality, and government effectiveness when compared with the average for LAC countries. Corruption is identified by Surinamese firms as a key constraint to doing business (51.1 percent of firms, compared with 44.9 percent for LAC countries). The bloated and inefficient civil service,<sup>126</sup> and the lack of data for effective policy making contribute to the country's poor standing relative to other LAC countries.

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<sup>125</sup> About 43 indigenous groups and maroon communities account for only 3.8% and 21.7% of the population, respectively, however, they represent 9.4% and 66.3% of the bottom quintile of the income distribution. Refer to Country Development Challenges, March 2016.

<sup>126</sup> There are about 144 registered state-owned enterprises, of which one-third are inactive. Some of these entities suffer from structural and institutional weaknesses and are totally dependent on allocations from the annual budget.

- 3.48 **Lack of proper governance undermines public sector efficiency and overall economic progress.** There is no centralized source of information on the size of the public sector in terms of output, turnover, employees, or budget coverage. Reports on SOE (e.g., annual and audit reports, and management letters) are not readily available in most cases, nor is information on performance in terms of the main industrial functions or the quality and extent of service delivery. More importantly, there is no standardized governance procedure dealing with sector operations and oversight. Regarding oversight functions, there is no institutional architecture to carry them out. A major bottleneck in public sector productivity could be attributed to a relatively low automation, which may hinder transparency and accountability and contribute to inefficiency.<sup>127</sup> A comprehensive but coordinated investment in data generation towards evidence-based policy and government accountability is also needed. Efforts in this area during the previous strategy were addressed within sector initiatives where a data generation component was incorporated in some projects.<sup>128</sup> Going forward, a consolidated approach is recommended to ensure that this type of component is included in upcoming projects where there is a dearth of information.

#### IV. ESTIMATED LENDING FRAMEWORK

- 4.1 **The financing needs over the country strategy period, according to the IMF SBA program, would be around US\$2.4 billion, equivalent to 55% of 2015's GDP.** Funding would come from external sources, about 84% and from the domestic debt market, about 16%. The IDBG would contribute 18.3% and 21.8% of total and external financing respectively for 2016 to 2020. These ratios are significantly lower than the 2011-2015 strategy period when the IDBG proposed providing 52% of the country's gross medium-term financing requirement. To date, IDBG represents approximately 41% of government financing.<sup>129</sup> The SBA program facilitates the inclusion of other development partners such as the International Bank for Reconstruction and Development (IBRD), the Caribbean Development Bank (CDB) and the Islamic Development Bank.<sup>130</sup> The recent engagement of the CDB and the IBRD in Suriname would reduce the IDBG's relative exposure to Suriname. There is a low risk that the participation of these multilateral partners could affect the IDB's engagement and programming, on the contrary, there is high potential for collaboration (including co-financing/parallel financing and leveraging incremental grant resources) given established consultative arrangements, including monthly donor coordination meetings. The latter is complemented by discussions of donors with the IMF regarding financing and reform areas.
- 4.2 **Under the SBA scenario, it is estimated average approvals of US\$78 million of SG loans each year, totaling US\$320 million over the 4-year period.**<sup>131</sup> This would result in an average annual disbursement of US\$68.6 million and average net cash flow of US\$32.9 million. Because of the participation of other development partners, IDBG debt as a share of total multilateral debt would decrease to 68.4% by 2020 compared to 92% in 2015. The share of IDBG debt to GDP would average about 12.3% and IDBG debt to external debt would decrease between 2015 and 2020 from 51% to 37.9%. An alternative scenario consistent with macroeconomic instability and a stalemate in the achievement of reform goals would trigger lower SG estimated approvals of about US\$190 million during the CS period (see Annex IV), under this scenario, the lending to Suriname would be restricted to investment loans in areas such as agriculture,

<sup>127</sup> In 2014, Suriname was ranked 115th out of 193 countries on the United Nations E-Government Development Index. This was higher, in the Americas, than in Belize (120th), Paraguay (122nd), Guyana (124th), Guatemala (133rd), Nicaragua (147th), and Haiti (176th).

<sup>128</sup> For example, SU-L1032, "Modernization of Agricultural Public Services II".

<sup>129</sup> The indicative envelope was US\$300 million. To date, financing over the strategy period was US\$442.75 million, of which US\$366.7 million financed 16 SG loans with Ordinary Capital resources. Refer para. 2.2 for details.

<sup>130</sup> The Bank has been a key facilitator in donor coordination; refer to paragraph 5.4 in this document.

<sup>131</sup> The Public Debt Sustainability Analysis (DSA) indicates that Suriname's public debt is sustainable under the baseline (program) scenario but subject to a number of vulnerabilities. Public debt levels, having increased substantially over the last few years, are expected to decline gradually, based on a sizable fiscal consolidation and low effective interest rates due mainly to the concessional borrowing expected from IFIs (IMF 2016).

financial sector, fiscal sector, health.<sup>132</sup> In both scenarios, the indicative lending framework would involve coordinated support among multilateral agencies, in particular the IMF.

- 4.3 **The profile of the proposed financing plan would reflect the timing of structural reforms and the availability of fiscal space for investment lending.** Given that the political feasibility of structural reforms is often highest at the outset of the mandate of a new administration, it is anticipated that budget support could be concentrated at the start of the strategy period, coinciding with the IMF SBA, thereby resulting in some degree of frontloading of policy-based loans.
- 4.4 **Technical Assistance and Investment Grants will play a crucial role over the country strategy period.** Suriname's institutional capacity to design and manage the complex reform program is hindered by an inadequately skilled workforce and will require technical support from the IDBG for strengthening these areas.<sup>133</sup> Furthermore, there is considerable scope to leverage incremental grant support from other IFIs and bilateral donors given the donor coordination mechanism that is established in Suriname.<sup>134</sup>

## V. STRATEGY IMPLEMENTATION

- 5.1 **For the first half of the Strategy, dominated by macroeconomic stabilization and structural reforms, an assembly of financial instruments focused on ongoing reform programs, will prevail gradually giving way, in the latter years, to mainly investment projects as macroeconomic stability and greater fiscal space is created.** Thus, over at least the first half of the Country Strategy period, new investment allocations will focus on high-priority support with clear and positive effects on either fiscal savings or economic growth. In addition, IDBG support will be predicated on Government's commitment to complete the envisioned reform agenda, which is consistent with the GOS-IMF SBA and the participation of other donors. The need for fiscal support to improve macroeconomic stability would be addressed through financial products that focus on key reforms targeting priority sectors (such as fiscal and finance management, agriculture and business climate) providing continuity to ongoing programs that were also supported by the CS 2011-2015. These reform agendas will then have the contribution of financial and non-financial instruments to ensure that reform related investment are supplied in a timely manner, and as needed complementary reforms. Capitalizing on the experience and knowledge accumulated during the current CS, the IDBG will also facilitate the use of non-financial products, and access to grant resources and co-financing, to support other priorities in a scenario of restricted financial allocations. Cross-cutting sectors such as institutional capacity will need to be embedded in most proposed operations in order to contribute to better outcomes and sustainability. Additionally, IDBG successful role as facilitator among Donors, its experience in bringing in other donors' resources (such as the EU and the WBG's GEF Program) and comparative advantage of being the only one with in-country presence, will contribute to leverage and mobilize additional resources to implement the proposed priorities.
- 5.2 Alongside this framework, the IDBG will continue to monitor the portfolio, provide strengthening to local execution capacity and country systems, and assess where non-performing projects could be reformulated or cancelled. Additionally, given the challenges with building research capacity for the purpose of informing policy, collaboration with authorities to support data generation efforts and to grant access to primary data will form an integral part of strategy implementation.

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<sup>132</sup> Macroeconomic instability will restrict budgetary support lending of the Bank to Suriname.

<sup>133</sup> Already, the Bank is financing short-term and immediate support from consultants through rapid response and C&D resources in the areas of economics, banking, tax, procurement and state-owned enterprises. Further support for efforts to implement procurement processes has also been discussed. Medium-term support will require a more structured solution that could be provided via a large technical cooperation and/or a loan.

<sup>134</sup> Refer to paragraph 5.4.

## **A. Portfolio Execution**

5.3 Suriname has demonstrated strong portfolio performance in the IDBG<sup>135</sup>, however, the challenges of institutional capacity within the Executing Agencies and Project Executing Units remain of critical importance for project success. The IDBG proposes to adopt an approach that strengthens the capacity of Financial Management and Procurement skills, methods and tools, via specialized training and deployment of expert advice from IDB staff and consultants. A focus on the project management approach will continue, focusing on project planning (in such areas as risk, communications, stakeholder management and quality management to improve development outcomes) and monitoring and control. Initiatives to strengthen and expand the use of country systems in the area of Financial Management will continue, as in the Treasury Sub-System.

## **B. Coordination with Other Development Partners**

5.4 **Coordination mechanisms exist and will be strengthened with other multilateral and official donors.** There is an established network for donor coordination in Suriname that meets formally monthly and is self-coordinating. The IDBG works closely with other development partners, in particular, the World Bank, the International Monetary Fund (IMF), the Caribbean Development Bank (CDB), the French Development Agency, the European Union (EU) and the OPEC Fund for International Development (OFID). There is potential for a partnership to develop with the Islamic Development Bank (IsDB). The IsDB has been working in education<sup>136</sup> and health, among others, and is open to exploring and initiating new business and investment opportunities in both the public and private sectors. The IDB works closely with the IMF, under the Stand-By Arrangement (SBA) that is currently being implemented. Already US\$70 million has been provided by the IDB and US\$50 million disbursed by the CDB within the Energy Sector Program, which supports the SBA. Additionally, the CDB is engaged in technical and vocational education and training at the lower secondary school level. The EU's Caribbean Investment Facility (CIF) approved €5 million for Suriname in March 2015 for an Energy project, which will be implemented under the IDB's fiduciary policies. The country team will continue to identify opportunities to leverage resources from co-financing and parallel financing partners, under the current Country Strategy.

## **C. Use and Strengthening of Country Systems**

5.5 **In line with international mandates, the development and use of national country systems in project execution is a priority, however, country systems remain inadequate.** Modernization did not take place over the 2011-2015 Country Strategy period. The following results were achieved under the framework of the action plan for strengthening country systems, which is a work in progress and is not yet complete: (i) implementation of a new Integrated Financial Management Information System (IFMIS) for expenditure management, pending deployment over all line Ministries; (ii) introduction of the Treasury Single Account (TSA) for bank-financed projects leading to increased use of the treasury sub-system; (iii) adoption of a new international public accounts classification; (iv) partial implementation of the Central Audit Office (CLAD) strategic plan entailing strengthening of the regulatory framework for internal audit through development of a common manual for internal audit and capacity building through knowledge sharing of internal audit best practices with the Audit office of Curacao; (v) partial implementation of the strategic plan of the Rekenkamer (SAI) entailing knowledge sharing exchange with the Guyana SAI audit office and a Good Governance

<sup>135</sup> As a percentage of the country's portfolio, Suriname has the second highest PMR rating (78%) among CCB countries for satisfactory project performance and is higher than the Bank's average of 66.54%. Over the past three years, SU's portfolio performance has in terms of satisfactory vs problem projects and projects in alert improved consistently. Execution levels are reflected in the positive pace of disbursements for Suriname loan operations relative to age for the majority of operations.

<sup>136</sup> For example, in 2014 and 2015, the IsDB supported reforms in technical and vocational education and training projects, and is financing a new medical center in Paramaribo to improve and modernize healthcare.

workshop for parliamentarians to increase awareness of oversight functions of the Rekenkamer and Parliament. In sum, the level of development of national systems that was required to promote use was not achieved. Nevertheless, as a result of the policy-based programmatic series started in the 2011-2015 CS period, the IDBG will continue to support ongoing implementation of the action plan for a Public Financial Management (PFM) reform strategy.

- 5.6 **There have been two PFM assessments using the Public Expenditure and Financial Accountability (PEFA) performance measurement framework (2011 and 2014).** Alongside the 2014 PEFA assessment, an assessment of the PFM subsystems of budget, treasury, internal audit, external audit and accounting and reporting was carried out using the IDB's Tool for Determining the Level of Development and Use of Public Financial Management Systems (GUS). The findings of the PEFA and GUS coincide in key areas. Both recommend opportunities for improvement in all areas of the public financial management system. After formal acceptance of the PEFA findings and recommendations, an updated action plan will need to be developed with a view to continuing the PFM reform agenda during the new country strategy period. At present, there is no adequate country procurement system in use. Operation triggers for the procurement component under the policy-based loan SU-L1029 that were targeted for 2014 remain pending.
- 5.7 **At present, none of the country's PFM systems is used in operations executed by Project Executing Units (PEUs) except for the Treasury Single Account mechanism established by the Government for projects in line ministries.** This mechanism is at present in use in 73% of loan operations. With full implementation of the new Integrated Financial Management Information System (IFMIS), the IDBG will ascertain whether it could be used for the financial administration of IDB-financed projects, including facilitating project accounting and reporting.
- 5.8 Thus, over the new CS period, the IDBG will continue the dialogue and support to the government with policy-based programmatic operations (SU-L1026, SU-L1028 and SU-L1029), which will entail follow-up on the implementation of the PFM reform strategy and the Budget Law. Activities will further include support for the full implementation of the new IFMIS, modernization of Public Procurement legislation, and ongoing implementation of the action plans of the *Centrale Landsaccountantsdiens* (the internal audit institution, Central Audit Office – CLAD) and *Rekenkamer* (the external audit institution, Supreme Audit Institution), as well as advances in the area of public investment management. Specifically, the IDBG will support the Rekenkamer in conducting a SAI-PMF diagnostic assessing its performance *vis-à-vis* the International Standards for Supreme Audit Institutions as well implementing the International Standards for Supreme Audit Institutions (ISSAIs). In addition to the policy-based programmatic operations, the IDBG will support the Government's structural reform plan through a program on fiscal strengthening for economic growth with the overall objective to achieve fiscal sustainability and economic growth by strengthening the Ministry of Finance's institutional capacity to effectively: (a) collect tax revenue by strengthening tax administration; and (b) improve quality of expenditure through strengthening critical PFM procedures, processes and subsystems of (i) budget preparation and execution; (ii) public investment and public private partnerships, and (iii) monitoring and evaluation of State Owned Enterprises. Furthermore, the IDBG will support the Government with the implementation of International Public Sector Accounting Standards (IPSAS).
- 5.9 The establishment of a sound and transparent public fiduciary structure will increase the confidence of donors to execute projects through the same PFM mechanisms from which government funds are being executed.

- 5.10 The IDBG will continue efforts to strengthen the procurement capacity in PEUs by providing continuous procurement training, while at the same time taking advantage of opportunities to advance procurement knowledge and expertise in PEUs through procurement certification programs. In line with the recommendations in the 2011-2015 Country Program Evaluation, the IDBG will continue dialogue with the GOS to jointly explore solutions to address key procurement constraints, including solutions to optimize the use of the current limited availability of procurement and financial specialists. Hence, with a view to defining suitable approaches and strategies to mitigate procurement risks during project execution, the structure of existing project execution units will be considered along with pilot structures for new loans in preparation to determine the most efficient execution mechanisms.
- 5.11 The use of procurement country systems is not envisaged during this country strategy period. Table 1 below summarizes the status and expectations for the use of fiduciary systems during the CS period.

**Table 1: Use of Country Systems**

Use of Country Systems	Baseline 2016	Estimated Use 2020	Expected actions during the CS period
Budget	0%	50%	Support the government in developing the Action Plan following the PEFA and the assessment of fiduciary systems based on the Bank's guidelines. Maintain dialogue and follow up with the GOS on implementation of the core actions of the IFMIS which will be deployed in 17 Ministries.
Treasury	0%	50%	Support the government in developing the Action Plan following the PEFA and the assessment of fiduciary systems based on the Bank's guidelines. Maintain dialogue and follow up with the GOS on implementation of the core actions of the IFMIS which will be deployed in 17 Ministries. Validation of the TSA system that is currently implemented in 73% of the loan portfolio. To gradually move to the use of the Treasury sub-system for Donor funded projects. Support the government with implementation of IPSAS.
Accounting and Reporting	0%	25%	Support the government in developing the Action Plan following the PEFA and the assessment of fiduciary systems based on the Bank's guidelines. Maintain dialogue and follow up with the GOS on implementation of the core actions of the IFMIS which will be deployed in 17 Ministries.
Internal Audit	0%	10%	Support the government in developing the Action Plan following the PEFA and the assessment of fiduciary systems based on the Bank's guidelines. Maintain dialogue and follow up with the GOS on implementation of the core actions of the IFMIS now that it has been deployed in 17 Ministries.
External Audit	0%	10%	Support the government in developing the Action Plan following the PEFA and the assessment of fiduciary systems based on the Bank's guidelines. Conduct SAI-PFM diagnostic and ISSAI Implementation. Strengthen the Rekenkamer with knowledge sharing activities to improve processes.

## D. Private Sector Engagement

- 5.12 **IIC and MIF contribution.** There have been limited opportunities for the private windows of the IDBG in Suriname. Nevertheless, close collaboration between the public and private windows of the IDBG has identified a few areas of interest, one of which materialized as an IIC operation approved in December 2015 in the food and beverage sector.<sup>137</sup> The IIC will follow up with clients to identify lessons learned and increase knowledge and penetration of the Surinamese market. As the contours of a preponderant public structure shift towards the private, market opportunities are expected to arise that are aligned with IDB private sector business lines

<sup>137</sup> Through the operation, *Fernandes Bakkerij N.V.* for US\$10M, the IIC is supporting a Surinamese company with a long-term production expansion project that will help to improve environmental management and quality standards and facilitate regional integration of Caribbean companies through expected future exports.



including possible public divestitures and public-private partnerships. IIC intervention is envisaged in the following areas: affordable credit to SMEs, and support to agribusiness, energy, transport/logistics in order to improve productivity and competitiveness.

- 5.13 **Close collaboration between the IDB, IIC and MIF is needed to promote private sector opportunities.** Given the small size of the economy and its underdeveloped private sector, it is important for the IIC and MIF, in order to identify SG-NSG operational synergies, to work closely with the IDB to develop nascent opportunities in order to make them more bankable. This type of collaboration includes: (i) working with government authorities to create a regulatory environment that is favorable to private investment and improvement of business climate related legislation; (ii) participating in identification missions and with project preparation work; (iii) participating in sectorial dialogue and portfolio review; and/or (iv) supporting private ventures that can access IIC funding at a later stage.

## VI. RISKS

- 6.1 **Macroeconomic.** The first source of risk is related to the time it would take the economy to stabilize, the longer that process takes, the higher the risk that Government would not implement the long-term programs designed to modernize Suriname. The near-term focus of Government is on macroeconomic stabilization. This is appropriate and as it has been noted in the Country Strategy it is also the priority of the IDBG. However, the longer the delay in implementation of structural reforms necessary to mitigate future crises, the longer it will take for economic recovery to begin. Government cannot determine how long it will take for international prices to recover and for the near-term measures implemented by Government to have an impact, but it can plan for the contingency that it will take longer than expected--as of mid-June 2016 it is expected a recovery by the end of 2017, however, the SBA is in hiatus since the first review in August 2016. Given that it is unknown when there will be a resumption of the SBA, it is uncertain the calendar timing corresponding to the envisaged two-stage strategy of stabilization followed by development with stability.
- 6.2 Considerable risks remain, as the sustained drop in the prices of gold and oil has caused substantial external and fiscal deficits, and a significant loss of international reserves. Suriname faces a period requiring fiscal and external sectors to adapt to the sharp fall in revenues from commodity exports. Setbacks to the start of the new productive capacity in the mining and oil sectors can also hinder the macroeconomic recovery process. Another relevant risk materializes if the Government is unable to successfully implement the stabilization plan. No stabilization cum reform scenario would lead to substantial fiscal deficits and increased debt levels hindering the ability of the IDBG to provide budgetary support. Macroeconomic risks will be mitigated and monitored by close supervision of economic performance and policies in order to support corrective measures as well as through support in key areas for macroeconomic stability in the priority area of public sector management.
- 6.3 **Governance.** The second source of risk is related to the implicit political difficulties of modernizing Suriname in which long-standing business and political arrangements would be modified or replaced. The reforms planned by Government in their modernization efforts demand significant realignment of long-standing incentives frameworks. For example, modernizing institutions within the public sector that change governance of public enterprises opening them up for scrutiny and holding them accountable radically changes business practices. The IDBG will support modernization efforts and will offer its expertise to mitigate the risks involved in the implementation of the reforms. These risks may also be mitigated by gathering political support for the reform of governance in public sector through dissemination and awareness on the role that efficient institutions play and the contribution to the development

of the country. The Bank will continue to monitor the progress of these reform efforts in its interactions with the authorities, including in the stage of project design and execution.

- 6.4 **Institutional Capacity.** The third source of risk is related to the institutional capacity of Government and the private sector to implement the reform agenda. The timely implementation of the reforms, both in the public and private sectors, is an important contributor to the stabilization plan. However, weak institutions (as identified in Section III) can hinder the efficiency of these sectors in implementing the reforms. The lessons learned from the 2011-2015 Country Strategy period will inform the design of future IDBG programs and projects and thus mitigate inherent risks. Going forward, addressing the development challenges would involve a clear temporally nested profile where macroeconomic stabilization and public sector reform, along with institutional strengthening, have to dominate upfront and gradually extend outwards towards alleviating supply-side bottlenecks. The Bank will continue to monitor these risks in its interactions with the authorities, especially in the stage of project design and preparation.
- 6.5 **Natural Disasters.** A heavy concentration of population and economic activity in the coastal regions renders Suriname susceptible to natural and climate change-related disasters such as hurricanes. Climate change presents clear danger going forward, with projected sea level rise (SLR) implying a loss of land, agricultural facilities, and domestic output, as well as population displacement. For example, in May 2006 floods affected over 13,000 households and caused damage and loss valued at approximately US\$40 million across the housing, health, education, energy, transport, communications, agriculture, tourism, commerce and trade sectors (Buitelaar et al. 2007). Scientific analysis projects that temperatures will increase, sea level will rise, and the proportion of total rainfall that falls in heavy events will increase (though average rainfall will decrease). Moreover, the impact of 1 meter and 3 meter SLR on Suriname is expected to reach approximately 5% and 20% of GDP, respectively (Dasgupta et al. 2007). The Bank will continue to support climate change adaptation and mitigation initiatives in keeping with cross-cutting climate resilience efforts that will be further complemented by disaster risk management measures in the public and private sectors. The same factors could also affect the priorities of the government and the implementation of the country strategy. While these risks cannot be completely mitigated, the IDBG will continue close collaboration and discussion with the authorities for mitigation measures going forward, including programs to promote climate resilient and disaster risk management measures. In addition, the IDBG support that involves construction of assets will emphasize the incorporation of climate-resilient infrastructure and the agriculture related support will include climate smart practices and policies.
- 6.6 **Portfolio execution.** Measures to improve portfolio execution and mitigate associated risks would prioritize strengthening the capacity of Project Executing Units and Executing Agencies, within the growing trend of Government seeking to fully integrate project execution within Line Ministries and Government Departments/Agencies, as compared with the establishment of specialist Executing Units. Training in project management for results, specifically the IDBG's Project Management for Development Results (PM4R) and Project Management Leadership (PML) programs will continue to be offered to executing agencies for new projects. This will be complemented with proactive IDBG support to address challenges in the existing portfolio, specifically in the areas of project planning, procurement and financial management. Dedicated supervision and engagement with stakeholders will include assessments of loans that are not meeting milestones and development of action plans to address these challenges, with the use of resources for portfolio supervision strategically utilized to address portfolio-wide challenges. Additionally, the IDBG will intensify and strengthen collaborative monitoring oversight of the portfolio with the Joint Desk using portfolio review meetings, Portfolio Monitoring Reports and close collaboration with relevant Ministries and executing agencies.

### Annex I: Results Matrix

Government Priorities	Strategic Areas	IDB Strategic Objectives	Expected Results	Indicators	Baseline (Source)
A Stable Macroeconomy	<b>1. Modernize the Public Sector</b>	1.1 Attain fiscal sustainability in the medium term	Increase tax revenues	Total tax revenues/GDP	21% (IMF, 2015)
			Increase of indirect tax revenues	Indirect tax revenues/GDP	9.1% (IMF, 2015)
			Improve central Government overall fiscal balance	Central Government overall fiscal balance/GDP	-8.8% (IMF, 2015)
			Reduction of central government debt-to-GDP	Debt-to-GDP	43.5 (CBvS, 2015)
		1.2 Strengthening public financial management system	Increase credibility of the budget	Absolute deviations of budgetary expenditure in comparison with original approved budget	12% (MOF, 2015)
				Absolute deviations of budgetary revenues in comparison with original approved budget	9% (MOF, 2015)
		1.3 Reduce Central Government Wage bill as a percentage of Gross Domestic Product	Reduce the wage bill as a percentage of GDP	Wage Bill (% of GDP)	9.3% (CBvS, 2015)
1.4 Reduce central government financing by state-owned enterprises	Reduce central government subsidies to SOEs	Government subsidies to SOEs (% of GDP)	6.9% (CBvS, 2015)		
An Enabling Business Environment	<b>2. Private Sector Development</b>	2.1 Improve the regulatory framework for doing business	Shorten distance to the frontier (DTF) – Doing Business <sup>1</sup>	DTF	47.69 (Doing Business Report 2016)
		2.2 Facilitate access to finance for private firms	Increase private sector credit penetration	Private sector credit as a percent of GDP	33% WDI WB
			Increase access to credit for SMEs	Percent of SMEs with financing from a financial institution.	41.7% (Compete Caribbean Enterprise survey 2013)

<sup>1</sup> The distance to frontier shows the distance of each economy to the “frontier,” which represents the best performance observed on each of the indicators across all economies in the *Doing Business* sample since 2005. This allows users both to see the gap between a particular economy’s performance and the best performance at any point in time and to assess the absolute change in the economy’s regulatory environment over time as measured by *Doing Business*. An economy’s distance to frontier is reflected on a scale from 0 (lowest) to 100 (frontier).

Government Priorities	Strategic Areas	IDB Strategic Objectives	Expected Results	Indicators	Baseline (Source)		
		2.3 Increase agriculture productivity	Increased total factor productivity in agriculture and accelerate the agriculture sector's growth rate.	Average Agricultural Total Factor Productivity Annual Growth	1981-2012: -0.1% (Nin Pratt et al. 2015, IDB Working Paper, Productivity and the Performance of Agriculture in Latin America and the Caribbean: From the Lost Decade to the Commodity Boom <sup>2</sup> )		
				Growth rate of Agricultural GDP	8.6% (CBvS, Average 2011-2015)		
			Increase the number of rural population with electricity <sup>3</sup>	% of rural population with electricity from renewable sources	0% Suriname Electricity Company, EBS 2016		
			Increased number of farmers adopting new climate change adaptation measures on farms.	Number of farmers adopting new climate change adaptation measures on farms.	0 (Roseboom, 2016)		
		2.4 Increase agricultural exports and their diversification	Increase in exports of agricultural goods in US\$ and as a proportion of total nonfactor exports and increase intra-agricultural export diversification	Agricultural exports in US\$	US\$238 million (FAOSTAT, 2014)		
				Ratio of Agricultural exports/total non-factor exports multiplied by Herfindahl-Hirschman Index of agricultural exports	0.7*(0.43)= 0.31 UN COMTRADE trade data base		
			Increase the quality of transport infrastructure	Quality of Road and Port Infrastructure indices	4.0,4.4 (WEF, 2014)		
				Road density	2.6 km per 100 km <sup>2</sup> (Knoema's World Atlas, 2003)		
		Development and Protection of Human Capital	<b>3. Strengthen Human Capital</b>	3.1 Improvements in learning outcomes	Increased participation in Early Childhood Development programs	Net enrolment ratio, pre-primary, both sexes (%)	92% (2014, WDI)
					Increased primary school completion rates	Primary completion rate, (% of relevant age group)	100% (female) 87.4% (male) (WDI, 2014)
Increased lower secondary completion rates	Lower secondary completion rate, (% of relevant age group)				62.6% (female) 33.1 % (boys) (WDI, 2014)		

<sup>2</sup> See more at: <https://publications.iadb.org/handle/11319/7306#sthash.cEQJeykT.dpuf>

<sup>3</sup> Given the country's low population density, and given climate change considerations, this expected result would mainly be achieved through the development and proliferation of new electricity generation infrastructure from renewable energy sources. Please see CDC for details.

### Annex II: Country Systems Matrix

IDB Strategic Objective	Expected Results	Indicator	Baseline (2016)	Indicative Target	Timing
Strengthening and use of country systems	Budget sub- System strengthened: budget preparation and execution capacity strengthened  (i) IFMIS fully deployed in 17 ministries	(i) budget law applied by all ministries  (ii) IFMIS applied fully used. Improved MTFE and MTEF fully implemented.	0%	50%	At the end of CS period
	Treasury Sub-system strengthened: improved quality of expenditure	New Cash-management Model fully applied for expenditures and treasury functions rationalized and integrated	0%	50%	At the end of CS period
	Accounting and Reporting	IFMIS fully used and IPSAS adopted	0%	25%	At the end of CS period
	Internal Audit	IFMIS fully used and IPSAS adopted	0%	10%	At the end of CS period
	External Audit	IFMIS fully used; ISSAI and IPSAS adopted	0%	10%	At the end of CS period

### Annex III: Main Economic and Social Indicators

Population (in thousands, 2014)	558.8	Unemployment rate (2015)	8.9					
GDP per capita (current US\$, 2014)	9324.6	Adult literacy (percent of population ages 15 and above, 2012)	94.7					
Rank in UNDP Human Development Index (out of 187, 2012)	105.0							
Life expectancy at birth (years, 2014)	71.0							
	2008	2009	2010	2011	2012	2013	2014	2015 (p)
(Annual percentage changes, unless otherwise indicated)								
<b>Real sector</b>								
Real GDP	4.1	3.0	5.1	5.3	3.1	2.8	1.8	0.1
Nominal GDP	20.3	9.7	12.7	20.5	13.7	3.0	1.5	2.3
Inflation (end of period)	9.4	1.3	10.3	17.0	4.4	0.6	3.9	25.0
Exchange rates (end of period)	2.8	2.8	2.8	3.3	3.3	3.3	3.3	3.4
(In percent of GDP, unless otherwise indicated, on a calendar year basis)								
<b>External sector</b>								
Exports of goods and services	53.4	68.2	54.3	60.3	57.7	50.6	45.2	35.8
Imports of goods and services	62.2	60.7	62.7	50.7	52.0	53.1	53.2	52.0
Current account	9.6	2.8	6.4	5.7	3.3	-3.8	-8.0	-15.6
Gross international reserves (US\$ millions)	602.5	657.0	690.8	816.9	1008.4	775.4	621.8	330.2
<b>Central government</b>								
Revenue and grants	31.0	36.4	22.7	26.7	25.7	25.9	24.2	21.0
Commodity-related revenues				10.8	10.1	9.0	7.0	3.1
Total expenditure	29.1	35.3	25.9	26.1	29.6	33.6	32.1	29.7
Primary balance	2.2	-1.2	-2.3	1.5	-2.9	-6.4	-7.0	-7.4
Overall balance	1.5	0.8	-2.9	0.5	-3.9	-7.7	-7.9	-8.8
<b>Debt indicators***</b>								
Total government debt				19.9	21.4	31.4	29.2	43.3
Government debt over revenues	65.7	61.4	81.3	74.8	83.1	121.4	120.3	206.7
External debt	9.2	7.0	7.8	10.5	11.3	14.7	16.0	21.5
Domestic debt	6.6	8.6	10.8	9.4	10.1	16.8	13.1	21.8
External debt as percent of exports of goods and services	15.7	27.4	23.5	17.4	19.6	29.0	35.4	60.1
<p><i>Sources:</i> Central Bank of Suriname; General Bureau of Statistics; World Economic Outlook, IMF (April 2016); IDB.</p> <p><i>Notes:</i> (p) denotes provisional figures.</p> <p>* Data as at May 4, 2016. On March 22, 2016, Suriname adopted a flexible exchange rate regime.</p> <p>** Data as at the end of March 2016.</p>								

**ANNEX IV: INDICATIVE LENDING FRAMEWORK**

	2013	2014	2015	2016	2017	2018	2019	2020
Approvals	125.0	38.0	20.0	70.0	115.0	90.0	70.0	45.0
Disbursements	110.1	48.7	40.5	85.1	138.1	78.8	34.1	23.5
Repayments (principal)	6.1	5.9	8.4	10.9	15.7	21.5	25.8	26.9
Net loan flow (IDB)	104.0	42.8	32.1	74.2	122.4	57.3	8.3	-3.4
Subscriptions and contributions	0.3	0.3	0.0	0.0	0.0	0.0	0.0	0.0
Net capital flow	103.7	42.5	32.1	74.2	122.4	57.3	8.3	-3.4
Interest and charges	4.3	5.2	6.7	8.6	11.8	13.4	13.9	13.9
Net cash flow	99.4	37.3	25.4	65.6	110.6	44.0	-5.6	-17.3
IDB debt (US\$ million)	377.0	419.9	451.9	516.0	622.8	680.1	688.4	685.0
IDB debt/GDP (%)	7.5%	8.2%	10.4%	11.7%	12.8%	12.9%	12.3%	11.4%
IDB debt/public external debt (%)	50.9%	51.3%	50.7%	42.8%	41.3%	41.2%	40.0%	37.9%
IDB debt/multilateral external debt (%)	92.0%	91.7%	91.8%	77.2%	74.4%	74.3%	72.1%	68.4%

Source: IMF and own calculations.

Notes: For 2016-2018, exact timing of projected approvals and disbursement will depend on the proposed reform agenda and public sector investment.

**Alternate Scenario: No macroeconomic stability**

	2013	2014	2015	2016	2017	2018	2019	2020
Approvals	125.0	38.0	20.0	70.0	35.0	40.0	70.0	45.0
Disbursements	110.1	48.7	40.5	85.1	58.1	28.8	34.1	23.5
Repayments (principal)	6.1	5.9	8.4	10.9	15.7	21.5	25.8	26.9
Net loan flow (IDB)	104.0	42.8	32.1	74.2	42.4	7.3	8.3	-3.4
Subscriptions and contributions	0.3	0.3	0.0	0.0	0.0	0.0	0.0	0.0
Net capital flow	103.7	42.5	32.1	74.2	42.4	7.3	8.3	-3.4
Interest and charges	4.3	5.2	6.7	8.6	10.9	11.2	11.3	11.3
Net cash flow	99.4	37.3	25.4	65.6	31.5	-3.9	-3.0	-14.6
IDB debt (US\$ million)	377.0	419.9	451.9	516.0	542.8	550.1	558.4	555.0
IDB debt/GDP (%)	7.5%	8.2%	10.4%	11.7%	11.1%	10.5%	9.9%	9.2%
IDB debt/public external debt (%)	50.9%	51.3%	50.7%	42.8%	36.0%	33.4%	32.4%	30.7%
IDB debt/multilateral external debt (%)	92.0%	91.7%	91.8%	77.2%	64.8%	60.1%	58.5%	55.4%

Source: IMF and own calculations.

## ANNEX V: Development Effectiveness Matrix

COUNTRY STRATEGY: DEVELOPMENT EFFECTIVENESS MATRIX	
<p>In August 2008, the Board of Directors approved the Development Effectiveness Framework (GN-2489) to increase the evaluability of all Bank development products.</p> <p>The Development Effectiveness Matrix for Country Strategies (DEM-CS) is a checklist of the elements that are necessary to evaluate a country strategy. It is based on the evaluation criteria developed by the Evaluation Cooperation Group of the Multilateral Development Banks in the "Good Practice Standards for Country Strategy and Program Evaluation."</p>	

### COUNTRY STRATEGY: SURINAME 2016-2020

#### STRATEGIC ALIGNMENT

*Refers to the degree to which the design and objectives of the CS are consistent with the country development challenges and with the government's development plans and priorities.*

#### EFFECTIVENESS

*This measures whether the country strategy is likely to achieve its intended objectives, through an examination of three dimensions: (i) the quality of the diagnostics on which Bank action is based in each area of work; (ii) the quality of the results matrix for the strategy; (iii) the use and build up of country systems.*

Effectiveness dimensions	
I. Country Diagnosis - Country Development Challenges (CDC)	Yes/No
- The CDC is comprehensive / holistic / complete	Yes
- The CDC clearly identifies the main development challenges	Yes
- The CDC presents magnitudes of the main development challenges that are based on empirical evidence	Yes
II. Priority Areas Diagnostics	%
- That clearly identify and dimension, based on empirical evidence, the <b>priority area's</b> specific constraints and challenges	100%
- That clearly identify and dimension, based on empirical evidence, the <b>main factors</b> or causes contributing to the specific constraints and challenges	86%
- That provide corresponding <b>policy recommendations</b>	86%
III. Results matrix**	%
- The strategic objectives are clearly defined	100%
- The expected outcomes are clearly defined	100%
- The strategic objectives and expected results that are directly related to the main constraints identified in the Diagnosis	100%
- The indicators are outcome indicators and are SMART	95%
- The indicators have baselines	100%
IV. Vertical logic	Yes/No
- The CS has vertical logic	Yes

\*\* The Results Matrix is composed by indicators that are meaningful to, and capture progress towards, the expected results. The expected results stem from the strategic objectives.



**CS Diagnostic:**As part of the Country Strategy 2016-2020 a country development challenges diagnostic was presented, under the title "Suriname: Country Development Challenges". The CS diagnostic is comprehensive and based on empirical evidence. The diagnostic identifies **3 priority areas** for Bank intervention: **(i) modernization of the public sector; (ii) private sector development; and (iii) strengthening human capital.**

- The diagnostic clearly identifies and dimensions, based on empirical evidence, 100% priority area's specific constraints and challenges.
- The diagnostic clearly identifies and dimensions, based on empirical evidence, the main factors or causes contributing to the specific constraints and challenges for 86% of the priority areas.
- The diagnostic provides corresponding policy recommendations for Bank actions, which are based on empirical evidence, for 86% of the priority areas.

**Results matrix:** The section of the Results Matrix corresponding to the new strategic area includes **9 strategic objectives for Bank action, 18 expected results and 22 indicators to measure progress.**

- 100% of the strategic objectives are clearly defined. - 100% of the expected outcomes are clearly defined.
- 100% CS Objectives are directly related to the main constraints identified in the Diagnosis.
- 100% of the indicators used are SMART.
- 95% of the indicators have baselines.

**Country Systems:** Thus, over the new CS period, the IDBG will continue the dialogue and support to the government with policy-based programmatic operations (SU-L1026, SU-L1028 and SU-L1029), which will entail follow-up on the implementation of the PFM reform strategy and the Budget Law. Activities will further include support for the full implementation of the new IFMIS, modernization of Public Procurement legislation, and ongoing implementation of the action plans of the Centrale Landsaccountantsdienst (the internal audit institution, Central Audit Office – CLAD) and Rekenkamer (the external audit institution, Supreme Audit Institution), as well as advances in the area of public investment management.

**Vertical logic.** *The CS has vertical logic.*

***RISKS.*** *This measures three dimensions: (i) identification of factors that actually do or might affect attainment of the proposed objectives; (ii) definition of mitigation measures; and (iii) monitoring mechanisms.*

*The Strategy identifies four risks: (i) macroeconomic; (ii) governance; (iii) institutional capacity; and (iv) portfolio execution. Mitigation and monitoring measures have been identified for all the risks.*

**ANNEX VI: Management Response to  
2011-2015 Country Program Evaluation Recommendations**

Recommendation	Management's Response
<p><b>1. Strengthen the strategic focus of the Bank's support.</b></p> <p>(a) <b>Invest in fewer sectors.</b> Adopt a narrower and more strategic focus on a few sectors where the Bank can truly add value and where there is a consensus to move forward in the country.</p> <p>(b) <b>Continue to focus on core public sector reforms and institutional strengthening.</b> One cross-cutting theme that will underpin progress across the entire public sector and for which the Bank is providing very useful support is public financial management.</p> <p>(c) <b>Be more realistic in setting program objectives and less ambitious in project design, better taking into account political and capacity constraints in the public sector.</b> Careful up-front institutional analysis and more and better risk analysis can help in this regard. Programming and design should take into account the consensus-based decision-making process in the country.</p>	<p><b><u>Partially Agree.</u></b></p> <p>(a) While in retrospect Management agrees that the CS 2011-2015 was ambitious, fundamental building blocks in Suriname's reform agenda has been established and as mentioned in the report is contributing to the framework of the Stand-By Arrangement (SBA) with the IMF. As such, the Bank will work toward completing a strategic combination of fundamental reforms initiated under the previous CS that will not necessarily entail fewer sectors.</p> <p>(b) &amp; (c) Going forward, given capacity constraints, the Bank will embark on a temporally nested program cognizant of the need to: (i) frontload deep reforms in the first two years of the CS period that also covers the IMF's program; (ii) strengthen upfront the Ministry of Finance's technical and coordinating capacity and gradually expand to other key Ministries; and (iii) phase the pace of reforms in an effort to streamline objectives and overall design while cognizant of temporal considerations.</p>
<p><b>2. Adopt a more effective instrument mix that combines policy reforms with implementation support.</b></p> <p>(a) <b>Complete the policy-based programs already in progress, and do fewer PBPs going forward.</b> Once current PBPs are completed, limit the number of programmatic policy-based loans to at most two at any time.</p> <p>(b) <b>Pair PBP's with investment loans and TCs.</b> This instrument mix has been successful, for example, in the energy sector, where PBLs provided a financial stimulus to move reforms forward while investment loans helped provide the necessary resources and technical support.</p> <p>(c) <b>In PBPs, include fewer conditions and deeper policy content up-front and disburse only on the achievement of meaningful reforms.</b> Focusing on a smaller number of critical conditions will have a higher probability of catalyzing reforms.</p>	<p><b><u>Partially Agree.</u></b></p> <p>(a) Management agrees with completing policy based programs already in progress but disagrees with arbitrarily limiting the PBPs to at most two at a time. Given that the IDB's policy agenda has been largely incorporated into the SBA, repetition of non-implementation risk is reduced. Further, institutional strengthening coordinated among the multilaterals should reduce the institutional capacity constraints that are integral to the SBA framework. Most of the reforms underway are partially or totally reflected in the GOS stability plan and in the agreements with the IMF.</p> <p>Management is also mindful that a self-imposed restriction could bring reputational risks to the Bank, since investing in fewer PBPs, after the ongoing PBPs are completed, could have the effect of curtailing the overall reform agenda. Bearing in mind the lessons learned from the last CS, addressing the identified development challenges during the next CS requires a clear temporally nested profile where macroeconomic stabilization and public sector reform, along with institutional strengthening, have to dominate upfront and gradually extend outwards towards alleviating supply-side bottlenecks.</p> <p>(b) Management will continue to pair PBPs with TCs. Like the package of instruments that supported successful reforms in the Energy sector, an effective mix of instruments especially to support capacity development will be used to achieve the objectives of the new CS.</p> <p>(c) Consistent with the IMF Stand-By Arrangement and coordination with other donors under that arrangement, IDB support will be predicated on Government's</p>

Recommendation	Management's Response
	commitment to complete the envisioned reform agenda.
<p><b>3. Enhance fiduciary oversight of investment loans, in particular procurement</b></p> <p>(a) <b>Consider working with the GOS to set up a centralized PEU for fiduciary matters, with centralized procurement and financial management for multiple projects.</b> This approach could make better use of the small number of procurement and financial management specialists in the country and facilitate training and institution-building.</p> <p>(b) <b>Ensure that the country office has sufficient fiduciary resources, with international expert staff available either in the Suriname country office or in a nearby country office.</b></p>	<p><b><u>Partially Agree.</u></b></p> <p>(a) Management agrees that this recommendation to set up a centralized project executing unit (PEU) for fiduciary matters, with centralized procurement and financial management for multiple projects will be offered to the Government for consideration in the context of the dialogue for the new CS.</p> <p>That said, Management perceives that there may be reservations with such an approach given initiatives to build institutional capacity. Increasing the number of units and staff capable of project management and fiduciary expertise is a significant value added by Bank-financed projects, which has recorded success in Suriname. Intensive training has been provided to project executing units with satisfactory results, thus also facilitating training for a large number of PEU staff. Procurement has improved in volume and quality of submissions by the PEUs, e.g., requests and preparation of documents for procurement non-objections, in energy, water, education and housing.</p> <p>(b) There is agreement on the importance for the IDB to have strong fiduciary resources at the country level in order to address execution challenges. Steps are already being taken to reinforce staffing and improve internal oversight mechanisms of the fiduciary process.</p>
<p><b>4. Support GOS in strengthening statistical systems for generating data, planning, evaluating, and monitoring policy, and make the availability and dissemination of census and other statistical data a contractual condition for loan disbursements.</b></p>	<p><b><u>Agree.</u></b></p> <p>This recommendation will be explored further under the new CS to promote transparency and public access to information.</p> <p>Already, data generation components are being included in some pipeline projects, e.g., SU-L1032, "Modernization of Agricultural Public Services II". Going forward, the aim is to promote data generation and dissemination in projects where there is a dearth of information.</p>