

PUBLIC

**IDB COUNTRY STRATEGY
WITH
THE REPUBLIC OF SURINAME
2011–2015**

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ABBREVIATIONS

ABS	General Bureau of Statistics
AFD	French Development Agency
CBvS	Central Bank of Suriname
CCT	Conditional Cash Transfer
COF	Country Office
ConSoc	Civil Society Consulting Group
CS	Country Strategy
CSU	Country Office in Suriname
EBS	Suriname Energy Company
EU	European Union
GDP	Gross Domestic Product
GoS	Government of Suriname
IDB	Inter-American Development Bank
IMF	International Monetary Fund
IsDB	Islamic Development Bank
KCP	Knowledge and Capacity Product
LAC	Latin America and the Caribbean
MC	Mega Combinatie
MDG	Millennium Development Goals
MOECD	Ministry of Education
MNH	Ministry of Natural Resources
MOA	Ministry of Agriculture
MOF	Ministry of Finance
NGO	Non-Governmental Organization
OVE	Office of Evaluation and Oversight
NSG	Non-Sovereign Guaranteed
PEFA	Public Expenditure and Financial Accountability
PFM	Public Financial Management
ROA	Return on Asset
ROE	Return on Equity
RMMS	Routine Maintenance Management System
SG	Sovereign Guaranteed
SME	Small and Medium-Sized Enterprise
SOZAVO	Ministry of Social Affairs and Public Housing
TC	Technical Cooperation
TFFP	Trade Finance Facilitation Program
UN	United Nations
WB	World Bank
WEF	World Economic Forum

EXECUTIVE SUMMARY¹

Suriname has grown steadily over the last decade. The country now enjoys social and economic stability, and boasts the lowest public debt in the region. This result is due to its significant endowment of natural resources, substantial development aid, and conservative fiscal management. However, important development challenges remain. Thirty five years after independence, export earnings remain concentrated on mining, agricultural productivity and output (as a share of GDP) has fallen, the public sector remains large (employing 60 percent of the active work-force), and the overall governance and most specific sectoral frameworks are outdated. In 2006, real GDP per capita recovered to the level of 1988, after declining during the 1980s and 1990s. Importantly, the substantial budget support from the Dutch Development Fund (\$1.6 billion) is now fully committed and will soon expire.

In August 2010, a new coalition Administration led by the Mega Combinatie announced its strategic priorities to: (a) transition from relying on external grants to a modern, transparent, and efficient governance structure, (b) continue macroeconomic stability, and (c) augment private sector led growth. The new Administration specifically stresses: making growth more equitable, mitigating the downside risks of falling commodity prices with economic diversification, and ensuring the social safety net is effective. These objectives shape the Government's reform agenda, which it is expediting to take advantage of the country's favorable terms of trade.

The effectiveness of the last Country Strategy was compromised by limited country knowledge and weak dialogue with the Authorities. The CS period ended without identifying a significant strategic niche. The new CS is based on close collaboration with the Authorities and careful work by IDB's technical units to identify the priority areas in which the Bank has a clear comparative advantage and are pivotal to Suriname's development. This is a unique opportunity to enhance the Bank's engagement as the main multilateral development partner that is ready and able to provide technical and financial support for the reform agenda.

This CS proposes a notable increase in lending, from \$103m in the previous CS, to about \$300m. The main focus is on supporting the transition to modern public governance structures, diversifying the economy, and expanding social benefits. The priority areas include: (i) agriculture, (ii) energy, (iii) education, (iv) financial sector development, (v) public investment management, (vi) social protection, and (vii) transport. Dialogue will continue to be strengthened in water and sanitation, disaster risk management, tax administration, health, private sector development, and natural resources and environmental management with a view to possible additional lending support.

Risks to the reform agenda from entrenched groups and limited implementation capacity will be mitigated by strong Government ownership, its proven political capital, and commitment to the reform process. These risks will be further mollified through intensified knowledge products, consultation with stakeholders, institutional strengthening, and careful timing of the interventions. Debt dynamics are sound and fully consistent with the proposed lending envelope.

¹ The current Country Strategy will be in effect from November 2011 to December 2015.

IDB COUNTRY STRATEGY WITH SURINAME 2011–2015

RESULTS MATRIX

Priority Area	National Development Objectives ²	IDB Strategic Objectives	Expected Outcomes Strategy	Indicators	Baseline (Year, Source)	Indicative Target ³ 2015	Frequency of Measurement
Agriculture	Formalize small scale agricultural businesses.	Increase and diversify agricultural export.	Increased food security by increasing productivity among agricultural producers.	Percentage of farms with access to improved agricultural services and rural infrastructure.	0 (out of 6,886 farms: 2011, MOA)	50	Biennial
				Percentage of traditional and non-traditional agricultural exports value as a share of agricultural value added.	12 (2004–2007, FAO)	15	Yearly
Education	Improve access to education of desirable quality.	Improve quality of primary level education.	Improved efficiency and performance of the education system.	Repetition rates (percentage) for grades 3 to 5.	Grade 3: 19 Grade 4: 17 Grade 5: 17 (2009, MOECD Yearbook of Statistics)	Grade 3: 15 Grade 4: 13 Grade 5: 13	2014
				Dropout rates (percentage) for grades 3 to 5.	Grade 3: 7 Grade 4: 7 Grade 5: 8 (2009, MOECD Yearbook of Statistics)	Grade 3: 5 Grade 4: 5 Grade 5: 6	2014
		Improve the quality of curricula and teaching at the primary level.	Increased share of trained teachers implementing the revised curriculum in accordance with the new pedagogical standards.	Percent of trained teachers implementing the new curriculum.	0 (2009, MOECD)	80	Yearly

² Largely based on the MC Election Manifesto and speeches of the President of Suriname at the occasion of the Inauguration in August 2010 and at the National Assembly in October, 2010.

³ These aspirational targets will be revised, and/or replaced, on a case by case basis, through the programming documents elaborated throughout the country strategy period.

Priority Area	National Development Objectives ²	IDB Strategic Objectives	Expected Outcomes Strategy	Indicators	Baseline (Year, Source)	Indicative Target ³ 2015	Frequency of Measurement
Energy	Energy sector operates sustainably and uses cost-effective technologies for supporting economic growth.	Create a financially sustainable energy sector to facilitate the adequate supply of energy and improve access to electricity.	Increased electricity coverage.	Percentage of the population with access to electricity.	85 (2010, EBS)	90	Yearly
			Increased financial sustainability of power supply for interior locations.	Percentage of cost recovery for electricity supply in interior locations.	0 (2011 MNH)	40 (To be confirmed based on Tariff Study)	Biennial
			Improved institutional and policy setting environment for energy in Suriname.	Independent Energy Authority regulating sector established.	0 (2010, EBS)	1	N/A
			Improved financial sustainability and governance of EBS.	Percentage decrease in EBS operational costs.	0 (US\$0.20 per kWh, 2010 EBS)	45 (US\$0.11 per kWh)	Yearly
				EBS Cash Recovery Index (percent). ⁴	75 (2011, EBS).	85	Yearly
Financial Sector Development	Enhance private sector competitiveness to provide economic opportunities for reducing poverty.	Improve access to finance by the private sector and households.	Increased access to finance by firms.	Percentage of private sector credit as a share of GDP.	30 (2010, IMF/CBvS)	40	Yearly
				Ranking in World Economic Forum Access to Finance Indicator.	15 th percentile (2010 WEF)	40 th percentile	Yearly

$$4 \text{ CRI} = \left[\frac{\text{Total energy billed by the Utility (MWh)}}{\text{Total generation supplied in the distribution system (MWh)}} \right] \left[\frac{\text{Total amount of energy paid by consumers (US\$)}}{\text{Total amount of energy billed by the Utility (US\$)}} \right]$$

Priority Area	National Development Objectives ²	IDB Strategic Objectives	Expected Outcomes Strategy	Indicators	Baseline (Year, Source)	Indicative Target ³ 2015	Frequency of Measurement	
		Improve financial position and functioning of public banks.	Improved financial position and functioning of public banks.	Regulatory capital to risk weighted assets of public banks (percent).	5.5 (2010, CBvS)	12	Yearly	
Public Investment Management	Strengthen national institutions and increase the capacity for policy decision making and the proper functioning of the country's economy.	Improve policy making and associated use of economic and social data.	Updated national data for policy making, especially for poverty targeting.	Updated population data (2012) available.	0 (2010, ABS)	1	2013	
				Updated social and poverty data (2013) available.	0 (2010, ABS)	1	2014	
		Improve national systems to facilitate planning and public investment functions and ensure proper control over public spending.	Improved credibility of the budget.	PEFA Score PI-2.	D (2010, PEFA 2011)	C	2014	
				Enhanced procurement management.	PEFA Score PI-19 (iii).	D (2010, PEFA 2011)	C	2014
				Improved effectiveness of internal controls function.	PEFA Score PI-20.	D+ (2010, PEFA 2011)	C	2014
Social Protection	Protect the poor and vulnerable.	Improve the efficiency of social spending for protecting the poor and vulnerable.	Improved efficiency and effectiveness of social spending for enhancing human capital.	Percentage of households in the bottom 2 quintiles of consumption distribution receiving targeted non-contributory cash transfers (Coverage).	17 (2007, PMT)	29 (New household survey, Administrative data)	2015	
				Percentage of pregnant women making 4 or more prenatal care visits	66.8 (2010, UNICEF Estimate)	90 (UNICEF MICS, WHO WHS Annual Report or administrative data)	Biennial	

Priority Area	National Development Objectives ²	IDB Strategic Objectives	Expected Outcomes Strategy	Indicators	Baseline (Year, Source)	Indicative Target ³ 2015	Frequency of Measurement
				Measles immunization coverage (percentage of children aged 12–23 months receiving measles vaccine before their first birthday).	88 (2011, WHO WHR and administrative data)	98	Biennial
Transport	Support regional integration.	Support internal and regional integration through the rehabilitation and enhancement of the sustainability of the transport infrastructure.	Reduction in travel time on the primary network.	Average travel time between Meerzorg (Paramaribo) and Albina (French Guiana border).	4.0 hours (2010, Ministry of Transport, Communication and Tourism: Road Authority Database)	2.5 hours	2014
			Improved sustainability of transport infrastructure.	Percentage of the primary road network under either routine or periodic maintenance.	40 (2010, Ministry of Transport, Communication and Tourism: Road Authority Database)	50	Biennial

I. COUNTRY CONTEXT

- 1.1 Suriname continued to grow at an average of 4.4 percent throughout the international economic downturn that started in 2008.⁵ This was due mainly to the optimal exploitation of its mineral deposits. When bauxite prices and production fell, there were compensating increases in oil and gold prices. Suriname took advantage of increased revenues and its strong economic situation to repay debts and clear up longstanding international arrears. Due to these fiscally progressive actions and its adherence to constitutional limits on borrowing, Suriname enjoys the strongest debt profile in the region.⁶ Despite these successes, Suriname faces development challenges particularly related to its outdated governance framework and productive structure that have not evolved significantly since Independence in 1975.
- 1.2 A significant share of economic activity is directly or indirectly tied to the extractive industry (oil, bauxite, and gold), which accounted for about 90 percent of export revenue in 2009. Recent growth in the services sector is also linked to mining and oil. Other fast growing sectors remain relatively small in nominal terms.⁷ The sustained rise in mineral commodity prices has acted as a disincentive to economic diversification. Agricultural production has fallen steadily since the early 1980s and Suriname now exports fewer agricultural products. Some structural barriers to agricultural productivity have important implications for food security resulting in an elevated dependence on imports to supply domestic markets. There are also social implications from the limited regulation of the extractive sector and its geographic and structural separation from the rest of the economy. Although still debated nationally, recent statistics indicate an incidence of poverty and inequality that is among the highest in Latin America and the Caribbean (LAC).⁸ Boosting human capital by enhancing educational quality will augment overall output and reduce the vulnerability among the poorest quintiles of the population.
- 1.3 Overall, the efficiency of the economy is affected by the governance framework, which is not current and needs to be strengthened across several sectors including energy, agriculture, and public sector management.⁹ Entrepreneurs face excessive red tape and limited access to credit. The legal framework for supervising the financial sector does not meet international standards. Property rights are not clearly defined and have led to legal conflicts over land. This has affected the Indigenous and Maroon populations whose land rights remain largely unspecified. Suriname also remains relatively isolated¹⁰ from geographically proximate markets.
- 1.4 In its election manifesto, the new administration presented an ambitious agenda of structural reforms and capital investment stressing the importance of (a) making investment more productive and growth more equitable, (b) mitigating the risks of falling commodity prices by pursuing economic diversification and reducing natural disaster risks, and (c) bolstering the

⁵ The average growth rate for LAC between 2008 and 2010 was 3.4 percent.

⁶ Total debt as a share of GDP is equal to 21 percent. External debt as a share of GDP is around 10 percent. Suriname has strong debt laws that restrict total debt from exceeding 60 percent of GDP. External and domestic debt cannot surpass 35 and 25 percent, respectively.

⁷ For example, tourism and construction are relatively rapidly growing sectors.

⁸ The last 2010 MDG Report, prepared with national data, indicates that the incidence of poverty around Wanica and Paramaribo is 50 percent whereas the Gini coefficient is 0.52.

⁹ Based on the Kauffman Index, Suriname's performance in government effectiveness and regulatory quality has improved marginally; whereas, investment versus political stability has show an outright decline over the last 5 years.

¹⁰ Only 25 percent of its imports and 5 percent of exports come from or go to its LAC neighbors. Suriname's top five export destinations are Canada, US, Belgium, UAE, and The Netherlands.

social safety net to improve social inclusion and enhance access to social services for vulnerable groups. The propitious economic outlook offers a solid basis to expedite these reforms.

- 1.5 The Government of Suriname (GoS) has made explicit its goal of adjusting to the expiration of high aid flows from The Netherlands (once reaching a peak of about 20 percent of the public sector budget). Some observers posit that the prolonged duration of these support flows, the undemanding procedures to access them, and their relative importance served to expand public expenditure but also fostered dependence that created a disincentive to modernizing governance structures and compromised the effectiveness of the investments. Suriname now has to rely on its own revenue collection, borrowing from the market, and financial support from development partners.

II. IDB IN SURINAME

- 2.1 The role of multilateral development partners, including the IDB, has been relatively limited as Suriname received sizable grants from The Netherlands since Independence. Nevertheless, the IDB has maintained a continuous presence since 1980 and is the main source of development finance, averaging 80 percent of total multilateral financing and 20 percent of total public external debt. Over the last 10 years, IDB technical and financial contribution to Suriname's development agenda is noteworthy especially with regard to decentralization, low and middle income housing solutions, and the production of social data. More recently, IDB has been called on in supporting the upgrade of key economic and social infrastructure in the transport, and water and sanitation sectors.¹¹ Notwithstanding, as noted by OVE, the Bank's modus operandi in Suriname was not efficient, and thereby affected the delivery and evaluability of its actions in the country.
- 2.2 As Dutch bilateral aid decreases and the need for structural, economic, and social reforms arise, the Bank is well positioned to support GoS's efforts technically and financially. To increase its efficacy, the Bank will strengthen its technical and managerial presence while fostering practices of gathering and disseminating of primary data.

III. PRIORITY AREAS FOR IDB 2011–2015

- 3.1 GoS has turned to its largest multilateral partner, the IDB, to provide financial and technical support for reinforcing its ambitious reform agenda. This CS reflects the areas in which the Bank has an advantage¹² to assist Suriname with transitioning to a more structurally sustainable economic model that includes better governance, strong growth rates, increased living standards, improved human capital and equity. The Bank will also continue working in some important priority areas to ensure the sustainability of prior interventions and consolidating the associated achievements. Seven priority areas are included: Agriculture, Education, Energy, Financial Sector Development, Public Investment Management, Social Protection, and Transport. These areas, informed by Bank experience and diagnostic studies, have been

¹¹ As of August 2011, the Bank's active portfolio was distributed among six sectors and consisted of seven sovereign guaranteed operations totaling US\$125 million. The technical cooperation portfolio comprised 19 operations in the areas of transport, water, energy, natural disasters risk management, institutional capacity strengthening, and decentralization. The Non-Sovereign Guarantee window expanded with the operation of the Trade Facilitation Facility Program (TFFP) and approved a line for US\$3.5 million in 2010.

¹² The priority areas include those in which the IDB has implemented well-established good practices in LAC.

identified in collaboration with GoS and support its medium term development vision.¹³ The CS is aligned with the Bank’s approval targets and priorities of the Ninth General Capital Increase (GCI-9). The interventions envisioned are consistent with supporting “small and vulnerable countries.” At a more specific level, increased agricultural output, investments in human capital (education and social protection) for social development, better-targeted public investment, and an enhanced financial sector all promote equity and reduce poverty. Energy management and conservation will further the mitigation and adaptation to climate change. Transport will contribute to regional integration.

A. Agriculture

- 3.2 About 10 percent of Suriname’s total land area¹⁴ has agricultural potential, of which 85 percent is located in the coastal plains. Agricultural production systems include annual crops (rice and vegetables) and some perennials—the main ones being banana, plantain, coconut, and citrus. In addition, the fishery industry includes industrial, coastal, brackish-water and fresh water fisheries, and aquaculture (shrimp), altogether employing about 15,000 people.¹⁵ Agricultural exports are concentrated in rice and banana, both of which benefitted from protected domestic¹⁶ and external markets,¹⁷ contributing to low diversification and hampering private sector investment to enhance productivity. As a result, Suriname is vulnerable to price and yield volatility, and this threatens its food security and diminishes market access. GoS notes that a revitalized, more productive, and diversified agricultural sector will contribute to reducing macroeconomic uncertainty by insuring against downside risks and external shocks, improve food security,¹⁸ and provide opportunities for employment and SME development.
- 3.3 As external market protection for Suriname’s crops wanes, agricultural competitiveness requires the elimination of domestic barriers to open trade and distortionary market interventions. Further, productivity should be increased and access to new international markets expanded. In this regard, GoS has been unable to provide adequately public goods such as R&D, technological transfer, plant and animal health, and rural information. Drainage, irrigation, and transport infrastructure require improvement. Private investment in agriculture is also constrained by an outdated land tenure system. Decision making is centralized and there is excessive state involvement in private economic activity in the primary production chain, marketing, and agricultural production (e.g., parastatal companies are engaged in banana production), and this distorts the market. There are no institutions dedicated to support innovation, private investment in the sector, or linkages with external markets. Active farmers’ associations are few and affect the transfer and adoption of technologies.
- 3.4 The main focus of the interventions in this sector will be to increase agricultural competitiveness by tackling market concentration and low productivity. The specific

¹³ Based on the MC Election Manifesto 2010, the President’s Speech in October 2010 and the Governor’s Speech to the Board of Governors, March 2011. The Multi-Annual Development Plan 2012-2016 is still being developed and will be ready by the end of 2011.

¹⁴ 16.4 million hectares.

¹⁵ Annual Report 2009, Ministry of Agriculture.

¹⁶ High agricultural tariffs, import licensing system and state intervention on markets create sector distortions.

¹⁷ Suriname benefits from special commodity arrangements with the EU under the Lome Convention and Cotonu Agreement.

¹⁸ Based on the 1996 World Food Summit definition of food security in which “all people at all times have access to sufficient, safe, nutritious food to maintain a healthy and active life.” See <http://www.who.int/trade/glossary/story028/en/>; accessed April 1, 2011.

interventions will include: (i) reforming sector policies, with emphasis on agricultural trade barriers and distortive public interventions; (ii) modernizing public agricultural services, which include improving the quality of agricultural health, agricultural R&D and extension systems; and encouraging the use and dissemination of information and adoption of new technologies among farmers; and (iii) capital investments in infrastructure in rural areas, especially in drainage and irrigation systems.

- 3.5 The main risk to the sector is its vulnerability to flooding of the coastal areas where the majority of the agricultural activities take place. This could affect the effectiveness of certain Bank interventions. Three activities to accompany all sectoral interventions include: (a) improved availability and quality of climate risk data; (b) augmented preparedness for floods; and (c) hazard prevention and mitigation included in infrastructural investments.

B. Education

- 3.6 Schooling¹⁹ is compulsory for ages 7 to 12 years and approximately 90 percent of this cohort is enrolled in the primary education cycle. Nevertheless, only 50 percent of these students receive a school leaver's completion certificate, which allows enrollment in the academic track in junior secondary schools. Access to primary and junior secondary has increased by 12 percent since 2004; however, high repetition and dropout rates at both levels affect progression and persistence to the last school grade. Furthermore, low performance in primary education also has an impact on students' ability to perform well in junior secondary school. Consequently, there is a need for emphasizing basic skills development. There is a strong inequality against males at all educational levels as enrollment rates of females are universally higher.

- 3.7 GoS's commitment to education is reflected in its high level of investment in the sector. About 20 percent of Suriname's budget (5 percent of GDP) is spent on education—relatively more than other countries in the region.²⁰ Yet, for Suriname, the high expenditure does not yield educational results that meet the Authorities' performance or quality targets. Over the last ten years, the examination results at the junior and senior secondary levels have remained low²¹—a reflection of the challenges students encounter at the primary level. The issues of education quality and delivery are exacerbated in the interior communities where access is even lower and more complex cultural and language elements emerge. Educational instruction is in Dutch, which is scarcely spoken in the interior.²² Institutional challenges such as poor internal efficiency at the Ministry of Education and Community Development (MOECD), shortage of classrooms for pre-primary and junior secondary, school overcrowding, language barriers, the multicultural environment, limited resources, outdated curricula, and inadequately qualified teachers in subject areas are critical contributing factors.

- 3.8 During the CS period, interventions in the sector will focus on enhancing educational quality and access, especially in the interior and marginalized areas: (i) Strengthening the quality of education, which includes updating curricula in primary, advancing teacher professional development, supporting teacher training colleges and fostering accountability at the school

¹⁹ The formal education system in Suriname consists four levels: pre-primary for 4 to 5 year olds; primary for 6 to 12 year olds (grades 1 to 6); junior secondary (grades 7 to 10), and senior secondary (grades 11 to 13).

²⁰ Chile and Barbados dedicate 16 percent and 18 percent of public expenditures to education. High educational spending is driven by the relatively large number of schools operating in the interior, for which delivery is expensive.

²¹ 50 percent of students do not pass these examinations.

²² While 86 percent of urban children between the ages of 12–17 attend school, only 56 percent do in the interior.

level. Within specific interior and marginalized areas, interventions may include applying relevant education frameworks (including pedagogy, curricula, etc.) to respond to students' needs, addressing language and other social barriers that exist; (ii) Expanding access to relevant education services, especially in the interior and marginalized areas by addressing infrastructure needs in schools and teachers' housing; and (iii) Institutional strengthening and capacity building of the MOECD to improve the delivery of quality education services. Given the country's extensive investments in the sector, the Bank will support program and impact evaluations and studies, such as analysis of secondary education, alignment of education with labor market needs, youth challenges, and school-to-work transitions. These initiatives will support policy decisions and the design of future interventions.

- 3.9 The implementation capacity of MOECD, particularly in serving the interior, will be the main risk to achieving the intended results. The key mitigating actions include: (i) provision of strong institutional strengthening activities for the Ministry and supporting agencies; (ii) extension of accountability to the school level; (iii) formation of a MOECD Advisory Committee to involve technical staff in the design and implementation of agreed initiatives; and (iv) extensive consensus building nationwide.

C. Energy

- 3.10 With the exception of a colonial legislation regulating electricity concessions²³ and a technical regulation for the supply of power,²⁴ there is no regulatory sector framework. The Ministry of Natural Resources (MNH) has the primary responsibility for the sector but has limited technical and financial resources and insufficient autonomy. The Energy Advies Commissie (EAC) only provides advice for setting electricity tariffs. The power utility, Energie Bedrijven Suriname (EBS), is a statutory corporation under the policy direction of the MNH and enjoys a monopoly for the transmission and distribution of electricity. EBS shares its responsibility for rural electrification with the Department of Rural Energy of the Ministry of Natural Resources (DEV) that operates small power systems in the interior. The supply of rural electrification using conventional fuel is free of charge and fully subsidized by GoS at an estimated cost of US\$0.63/kWh. Tariffs only cover a third of operating costs.²⁵ EBS therefore faces severe financial stress requiring fiscal transfers from the central government. EBS is implementing a management restructuring process and an efficiency drive for generation, transmission, and distribution with a view to reducing its operating costs for keeping future tariff adjustments to acceptable levels. Therefore, EBS's long term business plan includes: (i) reducing operational costs from US\$0.20/kWh to US\$0.11/kWh; (ii) reviewing the tariff structure; (iii) enhancing the power purchase model; and (iv) improving its financial indicators including Cash Recovery Index (CRI) and an adequate Free Cash Flow (FCF).
- 3.11 The total installed capacity is 355 MW,²⁶ including self-generation for the mining sector. Peak demand is 230 MW. Due to an ongoing increase in residential demand and production, power demand growth in Suriname is among the highest in the region and electricity demand is

²³ Landsverordening "Concessieverordering" G.B. 1907 n°34.

²⁴ Terms of use for connection and/or delivery of electric energy by EBS, other than by special contract, adopted by Decision of January 11, 1973, and approved by resolution dated September 7, 1973 No. 9277.

²⁵ EBS operating costs are about US\$0.20/kWh; however, tariffs average US\$0.70/kWh.

²⁶ This installed capacity connected to the system considers generation from EBS (82MW), Staatsoile (15MW), hydro power (180MW), and Suralco (78MW).

expected to increase by 548 MW by 2020²⁷. This outlook puts additional pressure on EBS to cope over the short and medium term, thus requiring additional capacity for the transmission and distribution networks. The level of electrification is estimated at 85 percent with high coverage along the coast. About 15 percent of the population in the interior lacks access to electricity.

- 3.12 The CS will focus on: (i) revamping the current regulatory framework by creating an independent energy authority, revising regulations, and introducing a new tariff structure that includes a regime for rural electrification; (ii) strengthening the operational efficiency of EBS, including updating the corporate governance structure; and, at a second stage, (iii) modernizing and expanding the generation (introducing lower carbon intensity technology, including hydro, solar photovoltaic, and co-generation); (iv) improving the capacity of the transmission and distribution network to reduce operational costs and improve reliability in the delivery of power; and (v) increasing the use of efficient technologies for conventional fuel. This will contribute to load reliability and reduced dependence on traditional fuels, while expanding coverage of isolated locations where extending the current transmission network is not cost effective. In relation to non-sovereign lending, the Bank will explore possibilities to sustain the increased demand by supporting independent power providers.
- 3.13 Risks include: (i) public resistance to revising the tariff structure that will be mitigated by supporting the authorities in implementing a communication strategy focusing on the need for a cost structure consistent with the long term sustainability of the sector; and (ii) social, environmental, and land rights issues, predominantly related to Indigenous and Maroon peoples, when implementing alternative energy sources (especially hydropower) in the Interior for which the Bank will expand the level of consultation and promote effective consensus building among the affected communities.

D. Financial Sector Development

Field Code C

- 3.14 Although the financial sector, particularly banking, has been growing quite rapidly, it is still a shallow and narrow system. Private sector credit only totals 30 percent of GDP and Suriname ranked in the 15th percentile in terms of access to finance in the World Economic Forum Competitiveness Indicators. Important factors that contribute to this situation include: (i) an outdated legal and regulatory framework that does not provide the Central Bank of Suriname (CBvS) with sufficient legal authority to regulate and supervise financial institutions and financial markets (taking into account anti-money laundering and counter-terrorism financing measures) in a manner consistent with international standards. The banking legislation dates back to 1968 and there is no specific legislation for the insurance sector or capital markets. There are (ii) institutional capacity gaps in the CBvS for it to execute its functions; (iii) public banks are weak financially; (iv) inter-bank and securities market are incipient, which not only limits private sector investment opportunities and access to finance, but also affects the ability of the CBvS to develop and utilize more efficient market based monetary instruments; (v) banks' cost to obtain information to assess credit risks is high; and (vi) only a limited range of assets (primarily real estate) are accepted as loan guarantees.
- 3.15 GoS has developed and is implementing a comprehensive financial sector reform program to address all of these factors. The Bank's intervention will support this reform program, which

²⁷ EBS, August 2011.

will include: (i) establishing and implementing an updated and more effective legal and regulatory framework for the operation and supervision of all regulated financial institutions, including anti-money laundering and counter-terrorism financing; (ii) strengthening the supervisory capacities of the CBvS; (iii) enhancing CBvS policies and procedures for human resources and business operations, including interbank payment systems, data management, and dissemination; (iii) implementing public bank reforms to ensure that they have clear social or economic policy goals, use financing mechanisms that address market failures, and inculcate corporate governance and business strategies that assure financial sustainability; (iv) incorporating measures that will accelerate the development of inter-bank and securities markets; and (v) setting up a credit bureau and a property registry for non-real estate assets. NSG support will continue through the TFFP program as opportunities for collaborating on SME financing and affordable housing lending through financial institutions are explored.

- 3.16 The main risk is the limited public sector implementation capacity. This risk would be mitigated through the provision of technical assistance to the CBvS for designing and implementing the reform program. CBvS will also receive support from other multilateral institutions and central banks in the region.

E. Social Protection

- 3.17 GOS has built an ambitious social protection system that comprises more than 20 programs, mostly administered by the Ministry of Social Affairs and Public Housing (SOZAVO). However, the system is fragmented and is characterized by overlapping services in some areas and under-coverage in others. There is currently no reliable data system in place to provide information for effective targeting²⁸ and the cost of administering each of these programs and their respective impacts are unknown. However, to improve targeting, a proxy means test was designed in 2007.²⁹ No structured coordination between SOZAVO and other social ministries to enhance the efficiency, effectiveness, and the quality of service delivery is in place. Last, implementing social protection programs in small remote interior villages, where highly vulnerable populations live, remains a challenge.³⁰
- 3.18 IDB and GOS will partner to: (i) strengthen the capacity of SOZAVO to implement social protection programs (information/data systems and procedures, targeting and impact evaluation systems, personnel training); (ii) review and rationalize the existing social assistance programs with a view to reducing duplication and optimizing social spending while expanding coverage to the poorest; (iii) support the establishment of an institutional conditional cash transfer mechanism aligned with the educational and epidemiological profile of the poorest with clear eligibility criteria, benefit levels, payment mechanisms, monitoring and information system arrangements, and case management procedures; (iv) improve coordination with other social ministries (especially in health and education) for enhancing supply and quality. In this last area, the Bank may support partnerships with private sector providers of reliable and quality services.

²⁸ According to SOZAVO, approximately 40 percent of the budget allocated to the social safety net programs is earmarked for the non-contributory universal old age pension with a transfer of US\$ 90 per month to all senior citizens irrespective of poverty level.

²⁹ With support from the IDB under loan 1537/OC-SU.

³⁰ According to SOZAVO, in the interior of Suriname, four out of 10 children do not complete primary education; for pregnant women, the first prenatal visit to the health centers occurs between weeks 17 to 21, although it should occur by week 13. Also, mobilizing and retaining teachers for the interior is difficult.

- 3.19 Bank interventions in this sector face two important implementation risks: (i) the limited execution capacity of SOZAVO and (ii) the inter-ministerial coordination required in the sector. To mollify these risks, the Bank will support comprehensive institutional strengthening of SOZAVO and the Steering Committee to ensure an effective coordination mechanism.

F. Public Investment Management

- 3.20 The effectiveness and efficiency of public investment management is constrained by an inadequate institutional framework mainly typified by: (i) the absence of a central authority to guide and oversee the public investment process; (ii) the lack of objective criteria for prioritizing public investment, including methodologies to prepare and evaluate them; (iii) limited multi-year perspective in fiscal planning and budgeting, thereby impairing GoS's capacity to appraise the sustainability of public investment and ensure aggregate fiscal discipline;³¹ and (iv) the need for regulations to ensure proper budget allocation for the maintenance of infrastructure projects. Challenges in public financial management and audit relate to: (i) the quality of the current financial management information system, designed and implemented to automate manual processes that are obsolete and inconsistent with best practices; and (ii) an incomplete and outdated legal framework³² for budget preparation and execution affecting the credibility, transparency, and comprehensiveness of the budget. This situation compromises the financial management information function³³ and the autonomy, coordination, and cooperation among the internal and external audit institutions. In relation to public procurement, the regulatory framework is outdated³⁴, dispersed, incomplete, and is characterized by: (i) the absence of a designated authority for monitoring the public procurement function; (ii) a limited public information systems; and (iii) the lack of procurement tools such as standardized bidding documents and updated guidelines and manuals.³⁵
- 3.21 The effective allocation of resources to public investment requires a comprehensive public expenditure framework, and the curtailing of external aid flows makes reform in this area a high priority. GoS therefore seeks to strike a balance between financing initiatives to foster growth while optimizing public capital expenditures. Accordingly, the CS will focus on improving public expenditure management, with particular emphasis on capital expenditure. Specifically, support will focus on: (i) establishing and implementing a framework with a clear mechanism for identification, selection, budget allocation, dissemination, and monitoring and evaluation of public investments; (ii) implementing an institutional mechanism for public procurement, including the necessary tools and public dissemination system; and (iii) modernizing the legal framework, processes, and financial management system and providing the necessary authority and tools to the internal and external control institutions to fulfill their mandates. Also, to enhance decision making in the allocation of resources, the Bank will support the production of social and economic data.

³¹ The link between investment budgets and future expenditure estimates is highlighted by the score (D) received on the 2011 Public Expenditure and Financial Accountability (PEFA) assessment PI-12 (iv).

³² The Budget Act of 1952, complemented by the Accounting Act of 1927, form the basis of the budgetary process. The present Budget Law does not conform to current best practices. It does not take into consideration the importance of macro-fiscal framework as well as other modern aspect of budget management.

³³ In the 2011 PEFA assessment, Suriname scored C on timeliness and regularity of accounts reconciliation (PI-22) and D on availability of information on resources received by service delivery units (PI-23).

³⁴ There is a multiplicity of legal instruments dating back to 1952.

³⁵ As a result, Suriname's public procurement system scored below average (D) PI-19, Suriname 2011 PEFA Report.

- 3.22 The main risk comes from ineffective inter-agency coordination. The establishment of a Steering Committee including the MOF and its sub-agencies, and the supreme audit institution will mitigate this risk by building consensus and ensuring timely action from the respective parties.

G. Transport

- 3.23 Suriname is heavily dependent on roads for internal and intra-regional transportation, with river and air travel playing a supporting role to service areas difficult to access overland. The road network comprises 4,500 km, of which 1,300 km are mainly inter-regional, primary paved roads. The East-West linkage (connecting Paramaribo with Guyana and French Guyana) together with the Paramaribo to Afokaba Road (connecting the capital to the main hydropower facility or serving as an alternative route to the international airport) are the two most important and trafficked road corridors in Suriname. The East-West corridor allows for regional integration with ferry linkages to neighboring countries, and serves economic activities of the coastal zones and the south (agriculture and extractive industries) through feeder roads. Due to the fast urbanization rate, the network in Paramaribo has become congested. The physical state of the road network is uneven with important sections deteriorating, thus reflecting the need for a more structured approach to routine road maintenance and its financing. The European Union (EU), the French Development Agency (AFD), and IDB are currently financing the upgrading of the eastern linkage to French Guyana. The policy framework and the Transport Master Plan are being updated with the support of the EU. This plan will clarify the role of the Road Authority vis-à-vis the Ministry of Public Works and introduce a more effective and structured road maintenance system and financial mechanism for the sustainability of the primary network. It will also address the issue of the enforcement of road regulations.
- 3.24 GoS has given priority to the rehabilitation of the main network. The CS will therefore focus on: (i) the establishment of a structured Routine Maintenance Management System (RMMS) as complementary support to the EU ongoing institutional efforts; (ii) the rehabilitation of important deteriorated sections of the primary road network; and (iii) feasibility studies to enhance regional integration.
- 3.25 The main risks are the: (i) timely completion and subsequent implementation of an updated Policy Framework and Transport Master Plan to ensure the sustainability of future investments; (ii) institutional capacity of the line ministries to implement complex projects and studies is limited; and (iii) effect of climate change for road infrastructure located in coastal areas prone to flooding. To mitigate these risks, the Bank, in coordination with other donors, will provide complementary support to complete the framework and the Master Plan. In addition, the GoS will ensure that interventions are supported by adequate allocation of staff, while the Bank will include institutional strengthening components in all new investment operations. Last, adaptation measures will be factored into all final designs of IDB-financed investments.

H. Cross-Cutting Themes

1. Natural Disaster and Climate Change Management

- 3.26 The effects of climate change are becoming more evident with the increasing incidence of natural hazard events, including flooding and drought. Among Caribbean countries, Suriname is one of the most vulnerable to climate change impacts particularly from sea level rise (SLR), as 80 percent of its population lives along the coast. The effect of rising sea levels is exacerbating

disaster risk by increasing coastal erosion, land degradation, coastal and inland flooding, salinization of fresh water resources, and destruction of fragile ecosystems. Climate change poses a threat to fiscal sustainability, continued sustainable development, and social equity, particularly as interior and marginalized communities and groups are most vulnerable.

- 3.27 GoS and IDB therefore agree that critical mitigating steps must be taken to address the adverse impacts of climate change and promote climate resilience on the coast and in the interior and country as a whole. IDB has been supporting activities³⁶ to augment the country's institutional framework for managing disaster risks effectively and designing a financial strategy for coping with disaster recovery. Throughout the new CS, IDB and GoS will mainstream disaster risk management and climate resilience standards in strategic infrastructure investments.

2. Institutional and Absorption Capacity

- 3.28 The size of the projected IDB financial envelope over the CS period is unprecedented. As mentioned under the different priority areas, the envisioned interventions naturally imply institutional capacity constraints. With the establishment of the Joint Desk and hiring of new operational staff, GoS has shown a concrete commitment to improving execution and monitoring capacity. In addition the Bank will: (i) provide technical assistance to accompany the implementation process of reforms and selected investments; (ii) pace and size investments to match the progressive growth in respective agencies' implementation capacity; and (iii) support efforts to improve procurement and financial management practices.

I. Other Areas for Continued Strategic Dialogue

- 3.29 Complementing the agreed priority areas for intervention, the Bank will seek to strengthen the strategic dialogue on: (i) Water and Sanitation (potable water, drainage, and solid waste); (ii) Disaster Risk Management;³⁷ (iii) Health (to supplement the impact of the CCT initiative by improving access to and the efficiency and effectiveness of basic services); (iv) Private Sector Development (streamline regulations, reduce red tape, and the cost of doing business);³⁸ (v) Tax Administration; and (vi) Natural Resources and Environmental Management (for which GoS and IDB are exploring opportunities to improve sector policies, enhance fiscal contributions, and reduce environmental impact).

IV. THE LENDING FRAMEWORK

- 4.1 To maintain its current rate of growth and ensure it is balanced, Suriname requires a significant level of public investment. With the expiration of traditional external aid flows,³⁹ the IDB has a strategic opportunity to provide technical and operational support not available from other sources. While GoS reduces the size of the public sector and stimulates balanced private sector growth, it must contend with: (i) higher commitments regarding its wage bill and outstanding

³⁶ SU-T1054 (Support for the Implementation of Integrated Disaster Risk Management for Climate Resilient Development) was approved in 2010 and signed in 2011.

³⁷ The Bank will expand sector knowledge and continue dialogue with the Government on natural disaster risk management. In the meantime, emphasis will be placed on ensuring new interventions are resilient to natural disasters and climate change effects.

³⁸ The Administration has already initiated a series of reforms to streamline procedures for critical business transactions. Initially and with the support of the Compete Caribbean program, IDB will support GoS agenda of reducing trade transactions time.

³⁹ The Dutch Development Fund, which was established at independence, is now expiring.

liabilities; and (ii) the need to boost public investment following a prolonged period of underinvestment. The fiscal balance will be around -2.0 percent of GDP by the end of the medium term.⁴⁰ Consistent with GoS's desire to maintain fiscal stability while embarking on a robust public investment program, gross medium-term financing requirements (fiscal deficit plus debt repayments) are estimated at around US\$580 million. As domestic debt is about 58 percent of total debt, GoS is expected to finance its investment program primarily from external sources. IDB is likely to be the most significant multilateral lender while bilateral sources are being considered.⁴¹ Given growth projections⁴² and indicative financing demands, total debt to GDP will average 19.1 percent throughout the period.

4.2 Sovereign-guaranteed lending. Based on the volume of expected support to the priority sectors previously identified, the Bank estimates a total sovereign-guaranteed lending envelope of US\$300 million for the strategy period—averaging US\$60 million per year in approvals. This envelope exceeds those of previous strategies, including 2007–2010, which had a base envelope of US\$75 million. Under this lending scenario, accumulated net cash flow will reach US\$224.5 million, representing an eight-fold increase over the previous period. IDB debt as a share of GDP will remain below 5 percent (see Table 1). The IDB's portion of multilateral debt could increase to 89 percent in the final year. This increase is not a reason for concern because the stock of debt is well below standard benchmarks. Furthermore, the Bank's relatively high share of total multilateral debt is explained by the fact that the IDB has the single largest portfolio of all multilateral lending agencies active in Suriname. Given Suriname's strong debt profile, this lending scenario is not expected to present any challenges to debt sustainability.

Table 1: Estimated lending and net flows⁴³

	2011	2012	2013	2014	2015	Total	Avg.
	US\$ millions						
IDB Approvals	80.0	72.0	85.0	48.0	15.0	300.0	60.0
IDB Disbursements	88.9	47.5	38.0	53.9	46.8	275.0	55.0
Repayments to IDB Principal	(9.2)	(9.6)	(9.2)	(10.2)	(12.4)	(31.3)	(6.3)
Interest	(5.5)	(5.5)	(5.2)	(6.3)	(8.8)	(19.3)	(3.9)
Net Cash Flow	79.7	37.9	28.8	43.7	34.4	224.5	44.9
	Percent						
Disbursements/Gross Financing Needs	57.2	44.0	51.6	46.8	37.4		47.4
IDB Public Debt/External Public Debt	35.4	39.7	39.5	41.1	42.1		39.6
IDB Public Debt/Multilateral Debt	87.6	88.0	87.9	88.6	89.0		88.2
IDB Public Debt/Total Public Debt	22.3	24.4	24.2	25.4	26.2		24.5
Multilateral Debt/Total Public Debt	25.5	27.7	27.5	28.7	29.5		27.8
Multilateral Debt/GDP	5.0	5.2	5.2	5.4	5.5		5.3
IDB Public Debt/GDP	4.4	4.5	4.6	4.8	4.9		4.6
Public Debt/GDP	20.6	18.7	19.0	18.9	18.6		19.1
External Debt/GDP	12.3	11.5	11.6	11.7	11.6		11.7

4.3 Non-reimbursable operations. Approximately US\$10 million from IDB is projected to be approved in grant financing over the CS period.

⁴⁰ See [Public Debt and Fiscal Sustainability Analysis](#).

⁴¹ This scenario does not take into account new bilateral borrowing from China and India as there is no definitive position in this regard. The World Bank does not anticipate significant lending to Suriname over the medium term. Financing from other multilaterals will be comparatively small, if realized. The forthcoming Development Plan (MOP) will clarify further GoS's plans and sources for closing the financing gap.

⁴² As set out in the [Public Debt and Fiscal Sustainability Analysis](#).

⁴³ IDB approvals as represented in this table are indicative and subject to the availability of Bank resources.

V. STRATEGY IMPLEMENTATION

A. Country Systems

- 5.1 **Financial management:** Based on the findings of a Public Expenditure and Financial Accountability (PEFA) assessment of 2011, the legal framework for public financial management (PFM) is outdated and not consistent with best practices. With few exceptions, such as the new law on public debt of 2002, it has remained unchanged since Independence. The PEFA report highlights important gaps in the areas of investment, budget planning and execution, financial management, internal controls, and external audit (see diagnostic for Public Investment Management).
- 5.2 **Public procurement management:** The regulatory and legal framework is also inconsistent with accepted best practices and there is no information system to produce and disseminate procurement information. There is no designated authority for monitoring this function.
- 5.3 The Administration is committed to improving the PFM and procurement systems with IDB support through the implementation of a modern legal framework and the establishment of effective mechanisms to perform these functions. Until these interventions have taken root, country systems relating to accounting and financial reporting, internal control, external auditing, and procurement will not be used. Progress will be evaluated through an Integrated Fiduciary Assessment (IFA) in 2014, which will inform Bank's actions regarding the future use of national systems.
- 5.4 **Environmental management:** Suriname currently does not have an overarching environmental law that promotes sustainable economic development or governs the systematic application of environmental management tools, such as environmental impact assessments, environmental management plans, and pollution control measures. The current framework does not allow for IDB to rely on the national systems in the application of environmental safeguards. The Bank and GoS will advance their policy dialogue in this area for addressing systemic environmental issues related to natural resources management.

B. Coordination with Development Partners

- 5.5 Although there is still some financial support from the Netherlands, it is limited in comparison with other bilateral aid such as that from China and India. AFD and EU play an important role in transport infrastructure. With its increased engagement, IDB has become Suriname's principal multilateral counterpart, followed by the EC and the UN System. The World Bank and the Islamic Development Bank (IsDB) are exploring additional financing possibilities.
- 5.6 IDB is supporting the consolidation of a Government-led coordinating mechanism for development agencies under the leadership of the Joint Desk.⁴⁴ The Bank will encourage a more structured collaboration with donors through the establishment of four *sector tables*: public financial management (IDB, EU, WB, The Netherlands), transportation (IDB, AFD, EU, IsDB), social sector (IDB, The Netherlands, IsDB, UN), and natural resources management (IDB, WB). Leveraging resources through co-financing with non-traditional donors will be important for delivering key infrastructural investments while ensuring adequate safeguards and

⁴⁴ The Joint Desk comprises officials from MOF and CBvS. Its main responsibilities include the coordination of development aid and implementation and monitoring of public investments funded with external resources.

international technical standards are applied. Bank support for strengthening capital investment planning and management in Suriname will augment GoS's efforts to coordinate donor inputs for enhanced development results. IDB will support the collection, analysis, and dissemination of data in coordination with other donor agencies. Specifically, IDB and UNDP are supporting GoS with the 2012 population census and the household budget survey in 2013/14.

VI. RISKS AND OTHER CONSIDERATIONS

A. Macroeconomic Risks

- 6.1 Although Suriname escaped relatively unscathed from the recent economic crisis, it faces some important downside macroeconomic risks. Just as rising commodity prices have delivered strong growth and a relatively comfortable fiscal position, a decline potentially threatens the country's growth outlook and future fiscal sustainability. Suriname has a history of high inflation, averaging 16.7 percent between 2000 and 2010 (compared with LAC average of 7.0 percent). This risk could compromise the GoS's efforts to improve the business climate and achieve social improvement and equity. It could also hamper the country's development plans, and GoS will have to adopt careful approaches to revenue generation policy to reduce consumer uncertainty and foster greater price stability. Over the medium term, GoS will be undertaking important reforms to enhance the monetary, fiscal, and financial frameworks of the country while reducing external vulnerability. The Bank may provide countercyclical support in a macro-sustaining manner to bolster public investments when necessary. Further, IDB will deepen country knowledge on key macroeconomic issues⁴⁵, including Suriname's external vulnerability to commodity price shocks and the related effects on its growth prospects.

B. Socio-Political Considerations

- 6.2 The multi-ethnic nature of Suriname's society is equally a strength and weakness as its social and political dynamics are partially driven by the composition of its population. Both Government and opposition comprise complex coalitions and rely on consensus building. This means that virtually all policy decisions require extensive negotiations among various groups, including the Indigenous and Maroon peoples. The rights of the latter group have been the subject of litigation and policy discussion and require careful consideration in all national interventions. Unresolved issues pertaining to land rights, especially in geographical areas that overlap with timber and mineral resources, will affect virtually all of the Bank's interventions benefitting the Interior. As a result, the delivery of this CS, which includes important structural reforms and strategic investments, may be delayed and its effectiveness affected.
- 6.3 Given these considerations, the Bank recognizes that GoS's high level of commitment, and its comfortable majority in the National Assembly reinforces the certainty with which the reforms contemplated in the CS will go forward. In addition, envisioned interventions will be timed carefully for allowing adequate implementation and consolidation within the political cycle, thus reducing the likelihood of discontinuity. IDB will support effective consensus building and explore the possibility of integrating and mainstreaming mitigation actions related to these socio-political aspects in the design of IDB interventions.

⁴⁵ There are plans mandated within the framework of the Report on the Ninth General Increase in the Resources of the Inter-American Development Bank to produce analyses of the macroeconomic sustainability of the borrowing member countries (including annual reviews), but the corresponding process and implications of this activity have yet to be defined by the Bank's Board of Executive Directors.

Selected Macroeconomic and Development Indicators

	2007	2008	2009	2010
(Annual percentage changes, unless otherwise indicated)				
Real Sector				
Real GDP	5.1	4.7	3.1	4.4
Nominal GDP	13.5	26.7	6.1	13.2
Consumer Price Index (end of period)	8.4	9.3	1.3	10.3
Exchange Rates (end of period)	2.75	2.75	2.75	2.75
(In percent of GDP, unless otherwise indicated, on a calendar year basis)				
External Sector				
Exports of goods and services	59.4	53.4	68.2	54.3
Imports of goods and services	59.4	62.2	60.7	62.7
Current Account Balance	10.7	9.6	-1.1	1.0
Stock of Gross International Reserves (US\$ Millions)	433	666	763	785
Savings and Investment				
Private Sector Balance	8.0	7.8	0.9	4.6
Public Sector Balance	2.6	1.8	-2.0	-3.6
<i>Savings</i>	7.6	6.9	4.8	2.2
<i>Investment</i>	5	5	6.8	5.8
Central Government				
Revenue and Grants	30.6	27.5	29.9	26.2
Total Expenditure	28.9	25.7	31.4	29.7
Primary Balance	4.2	2.5	-1.6	-2.6
Overall Balance	2.6	1.8	-3.0	-3.6
Consolidate NFPS balance	2.6	1.8	-3.0	-3.6
Debt Indicators				
Total Public Debt	21.2	18.0	18.5	21.6
Public Debt over Revenues	69.3	65.6	61.9	82.4
External Debt (end of period)	12.4	10.4	8.3	8.7
Domestic Debt (end of period)	8.8	7.6	10.3	12.8
External debt service as percent of exports of goods and services	9.3	1.0	5.8	1.1

Source: IMF Article IV Country Report 2010..

SUMMARY MACROECONOMIC RISK ANALYSIS

Suriname will continue to grow robustly over the medium term as bauxite production expands and investments increase on account of strong commodity prices. In 2010, GDP growth registered at 4.4 percent, higher than 2009 (3 percent). For similar reasons, the country's external current account has improved to a surplus of 1 percent from a deficit of 1 percent in 2009. Strong performance of Suriname's commodities has contributed to sustainable and stabilized current account. The country's international reserve position has been strengthened and will continue to act as an important buffer. Gross international reserve cover improved to US\$785 million, or equal to 4.4 months of imports, by end of 2010.

Although it faced some challenges, Suriname's performance on the fiscal side remains modest. Following elevated spending including some investments and increasing public wages, the fiscal balance deteriorated, from -3 percent 2009 to -3.6 percent of GDP in 2010. The latter (increased government expenditures) partially contributed to inflation, rebounding to 10.3 percent in 2010 after it had fallen to 1.3 percent in 2009 when domestic demand declined. Higher than currently estimated expenditures may be expected when the new Multi-Annual Development Plan is released later in 2011. However, Suriname country capacity for capital investment and its current debt profile do not suggest that fiscal instability is a reasonable risk— debt sustainability should continue.

GoS has taken strong action to unify the exchange rate and reduce the trading differential with the parallel market. Authorities have also announced that they will move toward a floating exchange rate regime over the medium term.

Price stability appears to be the greatest risk, mostly fuelled by global trends in food (and fuel) prices and one time fiscal and exchange rate measures taken by the new administration to improve revenues and correct long standing inconsistencies in the foreign exchange market. However, after spiking to 22.6 percent in April 2011, the price level is already falling. Appropriate pacing and calibration of future economic policy measures can mitigate any possible spiraling effect on prices. Consumer confidence will need to be continually strengthened for providing GoS the room to implement additional revenue-generating policies. Therefore, careful management in the implementation of further tax policies is necessary to protect against higher consumer price levels.

The financial sector remains unsophisticated but is relatively well-shielded from contagion risks.

LENDING FRAMEWORK OF IDB COUNTRY STRATEGY WITH SURINAME 2011–2015

Fiscal situation. Starting in 2010 and continuing into 2011, GoS implemented a wage increase, which resulted in an overall growth of the wage bill by about 50 percent. Additional higher spending and the liquidation of some outstanding arrears led to a widening of the fiscal deficit. In sum, Suriname's fiscal balance declined from a surplus of 2.0 percent of GDP in 2008 to a deficit of 3.6 percent of GDP in 2010. Although the Multi-Annual Development Plan, which will sketch out medium term investment priorities, is pending, GoS has signaled that it will engage in a more ambitious program of investments and reforms than historical indicators suggest. In addition, grant resources, especially from the Netherlands are falling. Already, GoS has taken steps to reduce the potential further widening of the fiscal deficit by introducing an array of new measures while exploring the feasibility of incorporating a VAT in a manner that is consistent with sustaining key macroeconomic fundamentals. The underlying macroeconomic assumptions are consistent with debt and fiscal sustainability (see electronic link on [Public Debt and Fiscal Sustainability Analysis](#)).

Medium-term financing requirements. Consistent with GoS's desire to maintain fiscal stability while embarking on a robust public investment program, IDB estimates the gross medium-term financing requirements at around US\$580 million. As domestic debt is a relatively higher share of total debt (about 58 percent), GoS is seeking to finance its investment program primarily from external sources. IDB is likely to be the most significant multilateral lender while bilateral sources are being considered seriously, which are not modeled to grow significantly in these estimations. The Bank estimates that the country's borrowing as a share of GDP will increase to 4.9 percent by 2015.

Lending framework. The Bank proposes an SG envelope of US\$300 million for the strategy period, thus exceeding those of previous strategies, including 2007–2010, which had a base envelope of US\$75 million. The IDB's portion of multilateral debt could increase to 89 percent in the final year. This increase is not a reason for concern since the stock of debt is well below standard benchmarks. Furthermore, the Bank's relatively high share of total multilateral debt is explained by the fact that the IDB has the single largest portfolio of all multilateral lending agencies active in Suriname. Given Suriname's strong debt profile this lending scenario is not expected to present any challenges to the national debt framework or sustainability.

The technical cooperation and knowledge programs will be structured simultaneously with the country program dialogue and operational development. This modus will ensure greater consistency between these products, their outcomes, and the country strategy while taking the dynamic changes in the development landscape into consideration. In particular, the Bank will agree with GoS on an annual basis the respective technical cooperation program with an explicit focus on the main sectoral areas elaborated in the CS. This program will be updated annually to ensure the timeliness of its interventions and adaptation to the cycle of operational work in the country.

Table 1: Suriname Indicative Disbursements and Net Cash Flow Estimations

		Projected Net Cash Flow Analysis						
		2010	2011	2012	2013	2014	2015	Totals
Disbursements		27.7	88.9	47.5	38.0	53.9	46.8	275.0
Repayments		(7.5)	(9.2)	(9.6)	(9.2)	(10.2)	(12.4)	(50.6)
	<i>Principal</i>	(4.2)	(5.5)	(5.5)	(5.2)	(6.3)	(8.8)	(31.3)
	<i>Income</i>	(3.3)	(3.7)	(4.1)	(4.0)	(3.9)	(3.6)	(19.3)
Net Cash Flow		20.2	79.7	37.9	28.8	43.7	34.4	224.5

RECOMMENDATIONS OF THE COUNTRY PROGRAM EVALUATION (OVE)

Recommendations of the Country Strategy Evaluation (OVE)	Incorporation in the Country Strategy 2011–2015
<p style="text-align: center;">RECOMMENDATION 1</p> <p>First, reconsider its <i>modus operandi</i>.</p> <p>a. Increase funding towards COF and change the skill mix of its staff in the country as it originally intended to do. It should push more forcefully its donor coordination agenda, with the country in lead role. The Bank should use the Paris Declaration’s principles to guide not only coordination with other donors but also the Bank’s own strategic <i>modus operandi</i>.</p>	<p>This recommendation is being addressed by VPC and VPS. Strengthening of the Country Office has been ongoing.</p> <p>The CS treats the issue of donor coordination explicitly under “Strategy Implementation.” Given the small size of the development community and GoS’s efforts at donor coordination under the leadership of the Joint Desk, the IDB proposes a more structured collaboration process with donors through the establishment of four “sector tables:” namely: public financial management (IDB, EU, WB, The Netherlands), transportation (IDB, AFD, EU), social sector (IDB, The Netherlands, UN), and natural resources management (IDB, WB). Leveraging resources through co-financing with non-traditional donors will be important for delivering key infrastructure investments while ensuring adequate safeguards and international technical standards are applied. (Annex 5 summarizes the areas in which various development partners work in Suriname.)</p>
<p>b. Place the gathering of primary data (administrative in key government agencies and surveys by the country’s statistical entity) as a central theme, while facilitating the transparent dissemination of information of both the data and its analysis. This should be within a broad strategy of transparency in general, for an informed public debate about policy and the generalized use of evidence based decision making in the country and in the relation between the country and the Bank. The Bank could start by demonstrating the development effectiveness of its operations.</p>	<p>Strategically, CSU is ensuring (through the operational processing, beginning with ERM) that all new operations include activities for data gathering, analysis, and dissemination. In addition, under the sectoral area “Public Sector Management,” the Bank will continue its dialogue to support data gathering and analysis.</p>
<p>c. Define, deliver, measure, and report on the strategic use of its large TC portfolio. It should create a local system, embedded in a government entity, which reports on progress (activities and outputs) and is easily accessible to third parties. The system should also include the Bank’s analytical work (through TCs, operations, and stand alone studies).</p>	<p>The programming of TC resources will parallel that of the lending program, especially to augment national capacity in delivering the objectives of the Strategy. This modus will ensure greater consistency between these products, their outcomes, and the CS, while taking the dynamic changes in the development landscape into consideration. In particular, the Bank will agree with GoS on an annual basis the respective technical cooperation program with an explicit focus on the main sectoral areas elaborated in the CS in addition to water and sanitation where the bank will be strengthening its dialogue with the country. This program will be updated annually to ensure the timeliness of its interventions and adaptation to the cycle of operational work in the country. Each TC will include monitoring and evaluation requirements, with regular reporting mandates, so that information on outcomes and development impact can be verified.</p> <p>Under the “Public Sector Management” area, the Bank will support the enhancement of the public investment system, which will also enhance monitoring and reporting on grant-funded activities.</p>

Recommendations of the Country Strategy Evaluation (OVE)	Incorporation in the Country Strategy 2011–2015
<p style="text-align: center;">RECOMMENDATION 2</p> <p>Revise the Bank’s strategic niche and the corresponding operations. The strategic challenges and niche remain essentially what the Bank identified through its analytical work:</p> <ul style="list-style-type: none"> a. Pervasive intervention of the public sector in the economy; b. Lack of critical mass of private sector activities; and c. Poor social integration 	<p>The Bank’s approach to supporting GoS in surmounting these development challenges is thoroughly revamped. The GoS in partnership with IDB has agreed on a development agenda that in parallel fosters economic diversification, integrating private sector participation in the economic cycle, and a public sector that invest in its human capital in a comprehensive manner. The development challenges are addressed in the CS in the following specific ways:</p> <ul style="list-style-type: none"> a. <i>Pervasive intervention of the public sector in the economy:</i> Addressed with the “Private Sector Development” area of intervention and the investment in agriculture diversification efforts. b. <i>Lack of critical mass of private sector activities:</i> Fundamental to improving the effectiveness and efficiency of the public sector is facilitating private sector growth, which will be encouraged through interventions in several priority areas discussed in this CS (specifically, Agriculture, Energy, Financial Sector Development, and Transport). c. <i>Poor social integration:</i> addressed within the Protection and Promotion of Human Capital area. Bank programs will aim to broaden the delivery of basic services to the interior through programs such as the CCT and strengthen the capacity of the Ministry of Social Affairs and Public Housing (SOZAVO) to increase its ability to diagnose, analyze and design programs to support marginalized groups.
<p style="text-align: center;">RECOMMENDATION 3</p> <p>The increasing possibility of an intensifying Dutch-disease resource curse must be added. However, the implementation of the previous country strategy analyzed in this paper shows that the Bank should be careful in ensuring that the mapping of the proposed strategy onto proposed operations and technical assistance has a high country ownership. Elements in the Bank’s proposed strategic intent and the corresponding set of operations not taken up by the country should be reported in the next country strategy.</p>	<p>The implications of Dutch-disease resource curse is emphasized in the “Country Context” and linked to the main development challenges. This Strategy actively seeks to foster greater export diversification and improved productivity in non-mineral sectors. Country ownership is high with this Strategy.</p> <p>All priority sectors, informed by Bank experience and diagnostic studies, have been identified in collaboration with the GoS and support its medium term development vision. In addition, the Suriname CONSOC has played an important consultative role in the development of the Strategy.</p> <p>Management is careful to highlight that there should not be confusion between capacity and lack of Country Ownership.</p>

DONOR COORDINATION

Suriname has been historically oriented toward bilateral support, of which the Netherlands play the most important role. The main bilateral support comes from The Netherlands, China, and India. AFD plays an important role in the transport sector. However, with IDB's increased engagement, it has become Suriname's principal multilateral counterpart, followed by the European Union, and the United Nations (System). The World Bank is exploring the possibility of providing lending.

IDB is supporting the consolidation of a Government-led coordinating mechanism for development agencies at the Ministry of Finance. Under the leadership of the Joint Desk,⁴⁶ the IDB will support a more structured collaboration with donors through the establishments of four "sector tables:" public financial management (IDB, EU, WB, The Netherlands), transportation (IDB, AFD, EU, IsDB), social sector (IDB, The Netherlands, UN, IsDB), and natural resources management (IDB, WB). Leveraging resources through co-financing with non-traditional donors will be important for delivering key infrastructural investments while ensuring adequate safeguards and international technical standards are applied. Bank support for strengthening capital investment planning and management in Suriname will augment GoS's efforts to coordinate donor inputs (not only financial flows) in a manner to enhance development results.

Coordinating in the area of knowledge has emerged an important priority for donors. Reliable data are necessary for measuring and demonstrating the effectiveness of donor interventions, and supporting effective policy making. As a result and based on GoS guidance, the Bank has engaged partners in identifying and sharing country and sector knowledge, mapping gaps, and discussing an agenda for addressing this constraint. IDB will support the collection, analysis and dissemination of data throughout the CS period in coordination with other donor agencies. IDB and UNDP are collaborating in supporting GoS in the elaboration of the 2012 population census and the household budget survey in 2013/14.

Key inputs from PAHO regarding mercury contamination and water quality inform IDB dialogue on natural resources management, and water and sanitation. As part of the priority areas on protection and promotion of human capital, and private sector development, IDB will coordinate with USAID to target youth at risk issues.

The Government's medium term plan related to donor coordination is to foster efficiencies and knowledge sharing conducive to intervention complementarities. The main areas of collaboration are as follows:

⁴⁶ The Joint Desk comprises officials from MOF and CBvS. Its main responsibilities include the coordination of development aid and implementation and monitoring of public investments funded with external resources.

MULTILATERAL DONOR COORDINATION MATRIX

Area	IDB	IMF	WB	IFC	EU	UNICEF	OAS	ECLAC	IsDB	ILO	PAHO	CARTAC	USAID	UNDP
Energy	X		X											
Protection & Promotion of Human Capital	X					X			X		X		X	X
Private Sector Development	X	X	X											
Public Sector Investment Management	X		X									X		X
Natural Resources Management and Environment	X		X											X
Agriculture	X				X				X					
Water and Sanitation	X								X					
Education	X					X								
Transport	X				X				X					
Data Generation and Dissemination	X													X
Legislative Function Consolidation														X

Source: IDB

DEVELOPMENT EFFECTIVENESS MATRIX

COUNTRY STRATEGY: DEVELOPMENT EFFECTIVENESS MATRIX

In August 2008, the Board of Directors approved the Development Effectiveness Framework (GN-2489) to increase the evaluability of all Bank development products. 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."

COUNTRY STRATEGY: SURINAME 2011-2015

STRATEGIC ALIGNMENT - measures two dimensions: (i) the extent to which the objectives of the strategy are consistent with the country's development challenges and with the government's priorities and plans; and (ii) use of a mix of products (financial, knowledge, technical assistance) to attain the objectives, and identification of other cooperation agencies and their areas of action

Consistency of strategic objectives: The strategy identifies the following areas of work: (i) agriculture, (ii) energy, (iii) education, (iv) financial sector development, (v) public investment management, (vi) social protection, and (vii) transport. All areas selected for Bank intervention tackle key development challenges, are consistent with the government's priorities and result from the dialogue between the country and the Bank.

Mix of products and participation by other donors: The strategy proposes to use different Bank instruments; it takes into consideration coordination with and interventions by other multilateral donors.

EFFECTIVENESS - measures whether the country strategy is likely to achieve its intended objectives, through an examination of four 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; and (iv) the analysis of the lending framework.

Effectiveness dimensions	%
I. Sector diagnostics	
- Sector diagnostics (includes an analysis of the entire sector)	71
- if not above, then the sector note diagnostic targets the proposed areas of intervention	29
- Identifies the main problems based on empirical evidence	71
- Identifies the main beneficiaries	100
- Identifies and measures the factors that contribute to the problems identified	100
- Presents the policy framework and a sequence for Bank intervention	100
- The diagnostic corresponds to the objectives presented in the strategy	83
II. Results matrix	
- The expected outcomes are clearly defined	100
- The indicators are outcome indicators and are SMART	100
- The indicators have baselines	100

Seven sector notes were presented to support the strategy; all are validated.

- 71% of the notes clearly identify the main sector problems based on empirical evidence.
- 100% of the notes identify the potential beneficiaries in each area of intervention.
- 100% of the notes identify or measure the factors that contribute to the problems identified.
- 100% of the notes identify the policy framework and a sequence for Bank actions.
- In 83% of the notes, there is consistency between the note and the proposed strategic objectives.

Results matrix: The results matrix contains 10 strategic objectives for Bank action and 24 indicators to measure progress.

- 100% of the strategic objectives clearly identify expected outcomes.
- 100% of the indicators used are SMART.
- 100% of the indicators have baselines.

Country Systems: National financial management and procurement systems have been assessed. The Bank will support the strengthening of the budget, procurement management and internal controls sub-systems.

Lending framework: The strategy contains an analysis of the country's financing requirements and provides an estimate of the amount required from the Bank during the strategy period.

RISKS - 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 the risks associated with Bank participation in each of the strategic sectors and identifies mitigation measures. It also discusses more general risks that will be monitored during the country strategy period.