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Paramaribo, 26 September 2013

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

Subject: ***Support to the Institutional and Operational Strengthening of the Energy Sector II***

Dear President Moreno,

The purpose of this letter is to reaffirm the commitment of the Government of the Republic of Suriname (GOS) to strengthen the electricity sector in order to promote the supply of sustainable energy in the country, taking into consideration technical, environmental, economic and social aspects and, as part of its political commitment to the development of the country.

In this context, the GOS, with the support of the Inter-American Development Bank (IDB), has been working on the development of the "Support to the Institutional and Operational Strengthening of the Energy Sector Program" (The Program) which includes reform actions and commitments, during the period 2012 to 2014, and consists of policy based borrowing operations.

The main objective of the Program is to support Suriname's efforts towards a more efficient, transparent and sustainable power sector. In order to do this, the Program will implement the following technical components:

- a. Development of a Sustainable Power Sector Framework.
- b. Strengthen Sector Corporate Capabilities.

This letter presents a description of the macroeconomic context, the strategy and objectives of the Program for which this support is requested, as well as the main results from the first operation of the Program SU-L1022.

A. Macroeconomic Context

Suriname's macroeconomic performance has improved even further over the last year. We have made concerted efforts to advance our data collection and dissemination practices, as they are essential for producing fiscally effective policies. Specifically, the national accounts have been rebased to 2007 (from 1990), using improved and updated methodologies. As a result, Suriname's nominal GDP is approximately 19 percent higher on average for the period 2007-2010¹. The rebasing did not affect real growth rates significantly, which averaged 4.0 percent over the same period. However, with the improved measurements, the stronger role that the services sector plays in the economy became evident, notwithstanding the presence of a strong contribution from the mining and quarrying sector.

All these improvements provide a sounder basis for tracking the development of the macroeconomic framework and thus enhance policy making capacity considerably.

With continued favorable prices of its main export commodities, Suriname has been able to attract investments that will continue to support positive real sector growth. In addition, the newly established investment selection criteria and revamped procurement framework will strengthen the growing capacity to implement public investment that complements this outlook. Consequently, the GOS projects real GDP growth of more than 4 percent in 2012 (similar to 2011). As bauxite production expands and additional investments (in oil and gold) comes online, the medium term real GDP growth trajectory will tend towards 5 percent per annum on average.

Our tight fiscal and monetary policies, since late 2010, have contributed to a more stable macroeconomic framework. Suriname was able to reverse a deterioration of the fiscal balance, clear all outstanding arrears with creditors, and begin to put in place counter-cyclical policies for addressing Suriname's longstanding vulnerability to fluctuations in world prices for its main commodities. We are engaged in preparations to implement stronger revenue management policies, which include the establishment of a Revenue Authority and the implementation of a value-added tax. These actions will complement our engagement with the IDB on public capital expenditure. These collective improvements of the macroeconomic framework are duly noted by the International Monetary Fund during its Article IV consultation in 2012. In addition, based on the country recent macroeconomic performance and positive outlook, Moody's, Fitch and S&P have all elevated Suriname's rating several times between 2011 and 2012, reaching Ba3, BB- and BB-, respectively by July 2012.

When the current administration took office in August 2010, a comprehensive development program which seeks to diversify the economy, sustain growth, and alleviate poverty was laid out. To achieve these ambitious goals, a number of public sector investment projects including several major infrastructure projects are expected to be implemented.

¹ Nominal GDP for 2010 increased from SRD\$9,913 to SRD\$11,944.

B. Reforms associated with the Support to the Institutional and Operational Strengthening of the Energy Sector.

The Government of Suriname has concluded that there is a need to strengthen the electricity sector and has established a path to design and implement this strengthening as part of a Sustainable Energy Framework for Suriname (SEFS), with support from the IDB. The objective of this framework is to organize the sector, and shape the conditions for its sustainability in economic, financial, and environmental terms.

Based on the institutional and regulatory nature of the identified challenges, the GOS and the IDB agreed on a Policy Based Programmatic (PBP) "Support to the Institutional and Operational Strengthening of the Energy Sector Program" (The Program) to succeed in the accomplishment of the sector reform goals and improve the utility's strategic capacities to fulfill its duties efficiently.

The Program consists of three lending operations (SU-L1022, SU-L1035 and SU-L1036) which are independent of one another but are technically coherent and contribute to specific institutional and policy goals to be met in 2012, 2013, and 2014.

The purpose of this second operation is to continue supporting the ambitious sector reform and institutional structure strategy through the following components.

a. Development of a Sustainable Power Sector Framework.

This component will continue to support the development of a sector framework by promoting the progressive evolution from preliminary draft policy papers for public discussion to the establishment of basic regulatory norms and an institutional structure, including sector legal instruments and institutions.

In this regard, the GOS has prepared the "Suriname Electrical Power Sector Final Draft Policy Green Paper" where the main sector issues are identified and proposes orientations for sector reform. The Draft Green Paper outlines the priorities regarding the safeguarding of energy security in Suriname on the short, medium and long term, as well as covers judicial, institutional and conceptual aspects of the energy sector. These aspects will constitute the foundations upon which effective and efficient strategizing, policy-making, planning and execution will be consolidated in a structured manner. Among other issues, the Draft Green Paper also includes the main guidelines to draft an Electricity Act and addresses the need to define the roles and responsibilities of various stakeholders in the electrical power sector and to assign responsibilities and mandates to an Energy Authority.

In addition, the GOS has already designed a Business Plan that proposes a tariff structure for EBS, to be implemented until the year 2016. In this context, EBS has adopted a set of basic principles that include the concepts of cost recovery, economic costs of energy according to demand segments, utility profit allowance, energy efficiency and environmental impacts.

b. Strengthen Sector Corporate Capabilities.

The objective of this component is to support efforts in strengthening EBS' corporate governance, transparency and accountability.

In order to accomplish the above mentioned objective, the GOS has conducted a corporate assessment that addresses several technical, operational and institutional challenges to respond to the increasing demand in an efficient and economic manner. The recommendations from this assessments includes: (i) the need to define an organizational strategy and policy objectives; (ii) review of the current complex organizational structure; (iii) establish a link between human resources policy objectives and the organizational strategy; (iv) clarify roles of the board and management; (v) improve transparency in cost estimates and resource allocations; (vi) review existing supplier contracts; (vii) improve productivity; (viii) increase the degree of automation of its information management; and (ix) improve monitoring practices of corporate performance.

Conclusion

As stated above, the Government of Suriname reaffirms its commitment to moving forward with the reforms proposed by the Program. Therefore, through this communication, the Ministry of Finance, on behalf of the Government of the Republic of Suriname, requests the Inter-American Development Banks's financing for up US\$10 million to be disbursed in 2013 to Support the Institutional and Operational Strengthening of the Energy Sector.

We look forward to continue successfully working with the Bank to attain the objectives of this Program.

Yours sincerely,



Drs. Adelen Wijnerman
Minister of Finance
Suriname

Cc:

Governor of the Central Bank of Suriname, Mr. G. Hoefdraad
Minister of Natural Resources, Mr. J. Hok