

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

SURINAME

FISCAL SUSTAINABILITY PROGRAM FOR ECONOMIC DEVELOPMENT I

(SU-L1065)

LOAN PROPOSAL

This document was prepared by the project team consisting of: Gerardo Reyes-Tagle, Project Team Leader; Luis Alejandro Alejos, Alternate Project Team Leader (IFD/FMM); Leslie Harper, Maria Lorena Kevish, and Mariana Canillas (IFD/FMM); Jose Alejandro Martinez Carrasco (SPD/SDV); Mónica Centeno and Horacio Mendoza (LEG/SGO); Cleide Berlanda Custodio da Silva (VPC/FMP); Zachary Daniel Hurwitz (VPS/ESG); Gisele Teixeira Braun and Steven Hofwijks (CCB/CSU).

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ABBREVIATIONS	
CBvS	Central Bank of Suriname
COVID-19	Coronavirus Disease 2019
DOTC	Directorate of Taxes and Customs
EFF	Extended Fund Facility
EPP	Electronic Procurement Platform
GDP	Gross Domestic Product
IDB	Inter-American Development Bank
IMF	International Monetary Fund
MEP	Monitoring and Evaluation Plan
MFP	Ministry of Finance and Planning
MTFF	Medium-Term Fiscal Framework
PBP	Programmatic Policy-Based Loan
SARA	Semi-Autonomous Revenue Agency
SDL	Special Development Lending
SSF	Savings and Stability Fund
SOEs	State-Owned Enterprises
TC	Technical Cooperation
VAT	Value-Added Tax

PROJECT SUMMARY
SURINAME
FISCAL SUSTAINABILITY PROGRAM FOR ECONOMIC DEVELOPMENT I
(SU-L1065)

Financial Terms and Conditions				
Borrower:			Flexible Financing Facility ^(a)	
Republic of Suriname			Amortization period:	20 years
Executing agency:			Disbursement period:	1 year
Ministry of Finance and Planning (MFP)			Grace period:	5.5 years ^(b)
Source	Amount (US\$)	%	Interest rate:	SOFR Based
IDB (Ordinary Capital):	150,000,000	100	Credit fee:	(c)
			Inspection and supervision fee:	(c)
Total:	150,000,000	100	Weighted average life:	12.75 years
			Currency of approval:	Dollars of the United States of America
Project at a Glance				
<p>Project objective/description: The general development objective of the program is to restore fiscal sustainability and promote higher economic growth. This will be done through: (i) strengthening the tax revenue system and administration; (ii) increasing control and efficiency of public expenditure; (iii) improving macro-fiscal planning and management; and (iv) reducing fiscal risks and increasing transparency of State-Owned Enterprises (SOEs).</p> <p>This operation has been structured as a Programmatic Policy-Based Loan (PBP) and is the first of three contractually independent but technically linked operations, in line with the guidelines for the preparation and implementation of PBPs (CS-3633-2).</p>				
<p>Special contractual condition prior to the first and sole disbursement of the first operation under the PBP: The first and sole disbursement of loan resources will be subject to the borrower’s fulfilment of the policy reform conditions of the first operation under the PBP established in the Policy Matrix (Annex II), the Policy Letter, and any other conditions set forth in the corresponding loan contract (¶3.2).</p>				
Exceptions to Bank policies: None.				
Strategic Alignment				
Challenges ^(d) :	SI <input type="checkbox"/>		PI <input type="checkbox"/>	EI <input type="checkbox"/>
Cross-Cutting Issues ^(e) :	GE <input type="checkbox"/> and DI <input checked="" type="checkbox"/>		CC <input checked="" type="checkbox"/> and ES <input type="checkbox"/>	IC <input checked="" type="checkbox"/>

^(a) Under the Flexible Financing Facility (FN-655-1), the borrower has the option to request modifications to the amortization schedule, as well as currency, interest rate, commodity, and catastrophe protection conversions. In considering such requests, the Bank will take into account operational and risk management considerations.

^(b) Under the flexible repayment options of the Flexible Financing Facility (FFF), changes in the grace period are possible as long the Original Weighted Average Life (WAL) and the last payment date, as documented in the loan agreement, are not exceeded.

^(c) The credit fee and inspection and supervision fee will be established periodically by the Board of Executive Directors during its review of the Bank's lending charges, in accordance with the relevant policies.

^(d) SI (Social Inclusion and Equality); PI (Productivity and Innovation); and EI (Economic Integration).

^(e) GE (Gender Equality) and DI (Diversity); CC (Climate Change) and ES (Environmental Sustainability); and IC (Institutional Capacity and Rule of Law).

I. PROJECT DESCRIPTION AND RESULTS MONITORING

A. Background, problem addressed, and justification

- 1.1 **Macroeconomic background.** Suriname faces a severe macroeconomic crisis that is taking a significant toll on the real, fiscal, external, and financial sectors. It stems from chronic fiscal imbalances and an overhang of commodity price shocks¹ exacerbated by the ongoing Coronavirus disease 2019 (COVID-19) pandemic. Economic growth remains bogged down by large twin deficits, a double-digit inflation, and a public debt crisis.
- 1.2 The economy was already under severe pressure before the pandemic, reporting negative growth rates in 2015 (-3.4%) and 2016 (-4.9%), followed by a mild recovery in 2017-2019.² The current account deficit averaged 6.5% of the Gross Domestic Product (GDP) for the period 2015-2019, and unencumbered international reserves at the end of September 2020 amounted to merely US\$106 million (equivalent to roughly 0.9 months of imports of goods and services).³
- 1.3 The COVID-19 pandemic aggravated the deterioration in macroeconomic performance. In 2020 and 2021, the economy contracted by 15.9% and 3.5% of GDP, respectively.⁴ Significant parallel market exchange rate premiums, bouts of monetary financing, and a large exchange rate devaluation contributed to spiraling inflation (rising from 4.2% to 60.6% between 2019 and 2021).^{5,6}
- 1.4 Suriname has faced a period of high fiscal deficits and rising public debt⁷ (¶1.9). The lack of sources of financing led to a default on US\$675 million bonds due in 2023 and 2026,⁸ as the government is presently unable to pay its public debt obligations and continues to accumulate external and domestic arrears.⁹ A debt restructuring plan has been negotiated with creditors. An agreement with the Paris Club for debt restructuring was achieved in June 2022, while it has entered into a non-disclosure agreement with the Euronote Creditors Committee for the terms of a restructuring of the two outstanding Eurobonds.^{10,11} The negotiation with China is pending and a completion of the debt restructuring by end-2022 is mandatory for the sustainability of the debt over the medium-term.

¹ Suriname's economy is dominated by extractive industries, making it highly vulnerable to volatility in commodity prices. In 2021, exports of oil and gold accounted for 87% of total exports and 47% of government revenues.

² IMF WEO Database April 2022.

³ IMF (2021).

⁴ IMF WEO Database April 2022.

⁵ Idem.

⁶ On June 7, 2021, the Central Bank of Suriname (CBvS) decided to float its currency as part of the government's economic reforms oriented to stabilize the economy.

⁷ Public debt reached 147.7% of GDP in 2020.

⁸ As a result, the dollar debt due in 2026 was trading at about 69 cents on the dollar (as of April 2021). ([Bloomberg 2020](#)).

⁹ The IMF estimates arrears that are equivalent to 10.1 percent of GDP to external creditors, and 10.7 percent of the GDP to domestic debt holders and suppliers (IMF 2022).

¹⁰ MFP announced the conclusion of negotiations with the members of the Paris Club for the debt restructuring of approximately US\$100 million in debt with the Netherlands, Italy, France, Sweden and Israel ([June 2022](#)).

¹¹ MFP published a Press Release describing the potential terms ([July 2022](#)).

- 1.5 For 2022 and 2023, the International Monetary Fund (IMF) estimates a slow recovery in the economic growth (1.8% and 2.1%, respectively).¹² Table 1 summarizes the main macroeconomic indicators:

Table 1. Selected economic indicators, 2016-2023*

	2016	2017	2018	2019	2020	2021	2022	2023
Real GDP growth (%)	-4.9	1.6	4.9	1.1	-15.9	-3.5	1.8	2.1
Unemployment (% of econ active pop)	10.0	7.0	9.0	8.8	11.1	11.2	10.9	10.6
Inflation (% eop)	52.4	9.3	5.4	4.2	60.7	60.6	25.8	17.6
Government revenue (% GDP)	17.7	20.1	20.9	20.4	19.1	28.5	26.6	27.0
Tax revenue (% GDP)	12.4	13.3	14.6	15.0	13.9	19.7	18.8	19.9
Government expenditure (% GDP)	27.1	27.2	26.2	42.3	32.9	26.9	30.2	26.6
Primary balance (% GDP)	-6.8	-4.6	-2.5	-19.0	-10.0	3.8	1.7	3.4
Overall balance (% GDP)	-9.3	-7.1	-5.2	-21.9	-13.9	1.6	-3.6	0.4
National currency (per U.S. dollar, eop)	7.4	7.5	7.5	8.3	17.3	20.8	30.2	31.9
Central government debt (% GDP)	74.8	71.5	66.1	85.2	147.7	125.3	132.2	116.2

* Sources: IMF (2022), World Economic Outlook (April 2022), and the CBvS.

** IMF estimate. Includes the expected benefits from the reforms proposed in the Extended Fund Facility (EFF) program.

- 1.6 Regarding social conditions, in 2017 the poverty rate was estimated at 26.2%, with 13% of households at risk of poverty, and a Gini coefficient of 0.44.^{13,14} COVID-19 is having a disproportionate impact on vulnerable groups. In 2020, Bank study¹⁵ found that low-and-middle-income households reported the highest employment loss rate (21% and 22%, respectively) compared to high-income households (13%).¹⁶ These trends can lead to higher poverty levels and exacerbate pre-existing inequalities.
- 1.7 In addition, the incidence of poverty is large among indigenous households. Multidimensional vulnerability among this group is estimated at 79.2% and at 29.1% for severe vulnerability.¹⁷ Similarly, according to figures from the 6th Multiple Indicator Cluster Survey (MICS) 2018, the indigenous tribal and maroon communities in the interior are among the poorest groups in Suriname. Estimates of material poverty for these groups are high: for the maroon population it is 74.2% and for the indigenous population 65.4%.¹⁸ Furthermore, the country has not complied with judgments of the Inter-American Court of Human Rights, which oblige it to recognize collective rights in favor of indigenous

¹² IMF WEO Database April 2022.

¹³ [Suriname's Survey of Living Conditions \(2017\)](#).

¹⁴ The lack of availability and comparability of historical poverty and inequality data in Suriname is an important limitation. Alternative estimates of consumption-based poverty put the household poverty rate at 47% ([World Bank 2012](#)).

¹⁵ [The Consequences of COVID-19 on Livelihoods in Suriname: Evidence from a Telephone Survey](#). Beuermann et al (2021).

¹⁶ Multidimensional vulnerability is measured by grouping fourteen indicators to construct a specific vulnerability profile for each household, and to identify vulnerability according to the combined deprivations ([UNDP 2021](#)).

¹⁸ [Baseline Report of the Situation of Indigenous Peoples in Suriname, 2020](#).

peoples, thus improve their living conditions.¹⁹

- 1.8 Suriname faces structural fiscal challenges that need to be addressed in order to return to a sustainable fiscal path.²⁰ These include:
- 1.9 **Weak macro-fiscal planning and management.** After a truncated IMF program²¹ in 2017, the authorities were unable to undertake much-needed macro-fiscal reforms. A persistent mismatch between government revenues and expenditure fueled fiscal deficits that averaged 10.9% of GDP in the period 2016-2019. The COVID-19 pandemic weakened even more the fiscal stance in 2020, with a budget deficit of 13.9% of GDP and public debt rising to 147.7% of GDP (from 74.8% in 2016). In 2021, the fiscal position improved to a surplus 1.6% of the GDP, while the public debt shrunk by 22.4 percentage points with respect to 2020. That is partially explained by depreciation in the official exchange rate during 2021, given that half of the government revenue is in foreign currency, while only a small share of expenditure is in foreign currency. Moreover, the feedthrough of inflation also played a role, given that a sizable share of spending was fixed in nominal terms. Ongoing and planned fiscal reforms under the IMF program is expected to bring the primary balance to a surplus of 1.7 percent of GDP in 2022.
- 1.10 On the institutional side, in 2019 Suriname's National Assembly amended the State Debt Act in order to raise the government's debt ceiling from 60% of GDP to 95% of GDP.²² However, debt levels have already surpassed this limit, with the country currently working on a debt restructuring plan (§1.4). Additionally, the country often has significant differences between actual and budgeted primary expenditures (around 15% of originally budgeted expenditure).²³ In 2020, the planned budget deficit was 8.9% of GDP, but the realized budget deficit reached 14.2% of GDP.²⁴ Furthermore, the country does not take into account in their medium-term fiscal planning the risks arising from climate change.²⁵ In this context, there is a need to enhance macro-fiscal planning and management through the adoption of a fiscal rule and the implementation of a credible medium-term fiscal framework, which also includes the identification of the main risks arising from climate change.²⁶
- 1.11 The government also enacted legislation in 2017 to establish the Savings and

¹⁹ The Inter-American Court of Human Rights in the Case of the Kaliña and Lokono Peoples vs. Suriname, judgment of November 25, 2015, taking into account the obligations arising from the Inter-American Convention on Human Rights to which Suriname has been a signatory since 1987, ordered (para. 305) that "the State adopt all legislative, administrative or other measures necessary to grant the indigenous and tribal peoples of Suriname the legal recognition of collective legal personality in order to ensure them the exercise and full enjoyment of their right to property in accordance with their customs and traditions. These measures were to be implemented by the country within a maximum period of 2 years (Inter American Court of Human Rights, 2015).

²⁰ The main determinants to fiscal instability and low economic growth were identified by IMF (2021). Other sources where key determinants are identified include IMF (2018), IMF (2019), La Cruz (2020) and PEFA (2015).

²¹ In 2016, the IMF approved a 24-month Stand-By Arrangement (SBA) program for US\$478 million. On the fiscal side, the program included introducing Value-Added Tax (VAT) and cutting subsidies for fuel, electricity, and water. Suriname cancelled the program in 2017, after the first and second reviews of the SBA did not take place. Since then, the Bank has been supporting Suriname to strengthen fiscal policy, including actions in preparation for the VAT reform (§1.23, §1.26- §1.28).
²² [United States Department of State \(2021\)](#).

²³ PEFA (2015).

²⁴ IMF (2019, 2021).

²⁵ [Solaun et al \(2021\)](#).

²⁶ [Khadan and Chotelal \(2021\)](#).

Stabilization Fund (SSF) with the aim of managing volatility in fiscal revenues and saving for future generations. However, some design issues with the SSF are likely to limit its effectiveness. For instance, the accumulation rule could mandate deposits in a context of budget deficits and/or when government debt is rising. Given the country's debt levels, the marginal cost of the additional debt necessary to finance the transfers to the fund could be considerably higher than the returns on the fund's assets. Additionally, the rule for withdrawals has a strong bias towards the accumulation of resources, restricting the fund's use for stability purposes.²⁷ A review and strengthening of the SSF, particularly with regards to the accumulation and withdrawal rules, would contribute to safeguard fiscal sustainability and prevent procyclicality.²⁸

- 1.12 **Insufficient government revenue.** In the period 2016-2021, the government revenues stalled at around 21% of GDP following the cessation of the alumina mining (2015) and the fall of gold and oil prices (2018-2020) (see Table 1). Mining royalties dropped from 3.9% of GDP in 2017 to 3% in 2020.²⁹ The pandemic also had a negative impact in tax revenues, which fell from 15% in 2019 to 13.9% of GDP in 2020, mainly due to a fall in indirect taxes.³⁰ In 2021, an increase in the mining revenues during 2021 contributed largely for the tax revenues to reach 28.5% of the GDP, an increase of 9.4 percentage points from the last year.
- 1.13 The tax system is highly distorted due to the presence of numerous tax expenditures. In the period 2015-2017, tax expenditures averaged 7.2% of GDP in the period 2015-17, with import duties and the sales tax reporting the highest amount (3.5% and 3.2% of GDP, respectively).³¹ The system comprises 22 taxes (second largest in the Caribbean), which are costly to administer and do not broaden the tax base.³²
- 1.14 In addition, challenges in revenue administration have resulted in low compliance rates and, therefore, revenue collection. In the period 2013-2016, non-filing of income tax returns averaged 25% and 54% for large taxpayers and other taxpayers, respectively. For the sales tax, the average non-filing rate for all taxpayers during the period was 62%. Tax arrears averaged 73% of the domestic revenue collection.³³ Sustained higher revenues in the post-pandemic period will depend not only on economic recovery, but also on the ability of the government to implement important reforms to remove tax distortions and strengthen tax administration.³⁴
- 1.15 **Increasing and inefficient public expenditure.** Government expenditures increased from 27.1% to 32.9% of GDP between 2016 and 2020, with a historic high of 42.3% in 2019. This trend was driven primarily by significant increases in wages (from 7.8% to 10.3% of GDP) and other primary current expenditure (13.2% to 16.3% of GDP),³⁵ as well as interest payments (2.5% to 3.7% of GDP).³⁶

²⁷ [Ossowski 2021](#).

²⁸ [Khadan and Chotelal \(2021\)](#).

²⁹ IMF (2021).

³⁰ Indirect taxes accounted for 6.2% of GDP in 2020 (IMF 2021). The introduction of the VAT instead of the sales tax is expected to strengthen tax collection (¶1.34- ¶1.35).

³¹ IDB (2018). Tax Reform Proposal.

³² [Schwartz, M. and Beuermann \(2020\)](#).

³³ Directorate of Taxes and Customs (DOTC) (2017).

³⁴ For a detailed account of the institutional challenges faced by the DOTC. Howell, H. (2017). Institutional Capacity Assessment. IDB.

³⁵ This includes a rise in untargeted subsidies. Electricity subsidies doubled from 1.2% to 2.5% of GDP.

³⁶ IMF (2021).

- 1.16 Actions to rationalize public expenditure remain essential to return to fiscal sustainability and will require reviewing and improving the public procurement and public investment systems. For instance, public procurement is carried out by the line ministries and there is no regulatory entity to oversee procurement processes.³⁷ Competition, value for money and controls in procurement are weak. Information on procurement legislation and regulations is not systematically provided to the public nor is it made freely accessible. Circulars, decrees, letters of information and regulations within each ministry, department, or other government entity, are essentially an internal set of rules for financial control of the government administration.
- 1.17 In terms of public investment, there is a lack of regulations, procedures, and routines to guide the project cycle. Procedures to monitor public investments are the responsibility of line ministries and/or project implementation units.³⁸ Moreover, climate change represents an important fiscal risk. Since more than 90% of the population and economic activities are located along the low coastal strip, the country's infrastructure is at risk of suffering significant impacts from the expected sea level rise and changing precipitation patterns due to climate change.³⁹ Integrating resilience in public investment management, in addition to improving its effectiveness, is one of the priorities of Suriname National Adaptation Plan.⁴⁰ An update to the procurement and public investment framework is required to address these issues.⁴¹
- 1.18 Additionally, a significant part of government expenditure has been on non-transparent or not well targeted transfers and subsidies, including electricity subsidies.⁴² The lack of updated population surveys contributes to the poor targeting of subsidies and social programs. The budget formulation, execution, and reporting are based on administrative and economic classification. However, neither functional/sub-functional classification, using Classification of the Functions of Government (COFOG) standards, nor a programmatic budget classification are available.⁴³
- 1.19 **Fiscal risks from State-Owned Enterprises (SOEs).** SOEs play an important role in fulfilling the country's social policy, physical infrastructure, government revenues and general economic activity. Central government subsidies and transfers to SOEs amounted to 5.7% of GDP.⁴⁴ In 2019, there were 120 SOEs in Suriname, of which nearly 60% were subsidized.⁴⁵ Between 2012 and 2018 the government incurred in about US\$490 million of foreign debt to support SOEs. [Staatsolie](#), the state oil company, accounted for over 77% of this liability.⁴⁶
- 1.20 These issues highlight the need for improving regulations and financial monitoring of SOEs, as well as rationalizing government support to reduce fiscal

³⁷ There are no line ministries that have implemented a plan to adopt the electronic procurement platform to advertise bidding processes (MFP 2021).

³⁸ Howell (2017) and PEFA (2018).

³⁹ [Nationally Determined Contribution of the Republic of Suriname 2020-2030](#).

⁴⁰ [Suriname National Adaptation Plan \(NAP\) 2019-2020](#).

⁴¹ There are no line ministries that have integrated climate change resilience guidelines in the design of public infrastructure projects (MFP 2021).

⁴² [Khadan and Chotelal \(2021\)](#).

⁴³ PEFA (2018).

⁴⁴ MFP (2019).

⁴⁵ Over the period 2013-2017, total subsidies and government transfers fluctuated between 31% and 35% of total expenditures (La Cruz, 2020).

⁴⁶ Assessment on the Corporate Governance and Monitoring and Evaluation System of SOEs in Suriname. IDB. (La Cruz, 2020).

risks and improve transparency. Currently, there are important shortcomings in the capability of the Ministry of Finance and Planning (MFP) to oversee SOEs, with only a limited number of companies consistently providing financial information to the ministry.⁴⁷

- 1.21 **Justification.** Against this somber economic background, the Government of Suriname has embarked in a comprehensive recovery plan (Herstel Plan, 2020-2022) that includes support from the IMF through a three-year EFF program in the amount of US\$688 million.⁴⁸ The IMF financial arrangement will support Suriname's authorities' homegrown economic plan aiming to restore fiscal sustainability, while protecting the vulnerable by expanding social safety net programs. It will also help bring public debt down to sustainable levels, upgrade the monetary and exchange rate policy framework, stabilize the financial system, and strengthen institutional capacity to tackle corruption and money laundering and improve governance, complemented by financial support from the Bank and other multilateral institutions (§1.28). The government cements its plan in four pillars: (i) prudent fiscal package in line with the EFF; (ii) a debt restructuring of the government's obligations; (iii) a system of reserve money targeting, that unifies the parallel and official exchange rates; and (iv) stronger financial supervision of the largest banks in Suriname.
- 1.22 The authorities requested support from the Bank to assist in the economic recovery plan, particularly with regards to the fiscal pillar, and agreed to carry out a series of policy measures that will contribute to their goals by solidifying the fiscal stance in the short and medium term.
- 1.23 **Bank's operational work and technical support in the country.** Since 2011, the Bank has supported the authorities through two fiscal Policy Based Loans, the Revenue Policy and Administration Program ([3105/OC-SU](#), approved in 2013, for US\$20 million, fully disbursed), the Public Capital Expenditure Management Program and the Strengthening of Public Expenditure Management II ([2666/OC-SU](#), approved in 2011, for US\$20 million, fully disbursed and [2862/OC-SU](#), approved in 2012, for US\$20 million, fully disbursed respectively), as well as an investment loan, the Fiscal Strengthening to Support Economic Growth Program ([4112/OC-SU](#), approved in 2020, for US\$40 million, disbursed at 16.58%).^{49, 50} The latter was reformulated to support the country's efforts during the COVID-19 pandemic (see footnote 52 in §1.27). The most important lesson learned from these operations is that the Bank needs to work with the country on the institutional strengthening of the units involved in the structural reforms. In that sense, it is advisable to implement a comprehensive program that includes technical cooperation, investment loans and policy-based programs in the areas that the Bank would like to work with the country.
- 1.24 **Bank's experience in the region and lessons learned.** The Bank has ample experience assisting Latin American and Caribbean countries in overcoming

⁴⁷ Idem. In 2019, only 10% of SOEs submitted their annual reports to the MFP.

⁴⁸ The first review of the extended arrangement under the EFF was completed in March 2022. All quantitative targets were met, except for the performance criterion for net international reserves, which was missed by a small margin. A staff-level agreement on the second review was reached in May 2022, in which it is highlighted that Suriname's economic program remains on track albeit with delays in some policy reforms ([IMF 2022](#)).

⁴⁹ Also, [ATN/FI-13102-SU](#), approved in 2011, for US\$250,000 and [ATN/FI-14581-SU](#), approved in 2014, for US\$470,000) have been supporting the fiscal area.

⁵⁰ [3105/SU-OC](#), approved in 2014, for US\$20 million; [2862/OC-SU](#), approved in 2012, for US\$20 million; and [4112/OC-SU](#), approved in 2017, for US\$40 million.

macroeconomic crises and fiscal imbalances similar to those faced by Suriname. In Barbados ([4656/OC-BA](#), approved in 2018, for US\$100 million, fully disbursed) the Bank supported: (i) the restoration of macroeconomic stability; (ii) fiscal adjustments to promote fiscal sustainability in the short and medium term; and (iii) protection of social spending to preserve social gains. In Ecuador ([4771/OC-EC](#), approved in 2019, for US\$500 million, fully disbursed) the Bank supported: (i) macroeconomic stability; (ii) the restoration of fiscal sustainability; and (iii) safeguarding of social spending to support the most vulnerable population. Other examples include Programmatic Policy-Based Loans (PBPs) such as the Fiscal Consolidation Support Program in Honduras ([3590/BL-HO](#), approved in 2015, for US\$60 million, fully disbursed), the Public Finance Strengthening Program in Mexico ([3201/OC-ME](#), approved in 2014, for US\$800 million, fully disbursed and [3676/OC-ME](#), approved in 2016, for US\$600 million, fully disbursed), the Program to Deepen Fiscal Reform in Colombia ([4552/OC-CO](#), approved in 2018, for US\$600 million, fully disbursed), and the Fiscal Strengthening Program for Inclusive Growth in El Salvador ([4542/OC-ES](#), approved in 2018, for US\$350 million, fully disbursed). Additionally, during the COVID-19 pandemic the Bank supported government efforts to address the health and economic crisis through PBPs in Dominican Republic ([5062/OC-DR](#), approved in 2020, for US\$250 million, fully disbursed), El Salvador ([5046/OC-ES](#), approved in 2020, for US\$250 million, fully disbursed), Paraguay ([5028/OC-PR](#), approved in 2020, for US\$20 million, fully disbursed and [5029/KI-PR](#), approved in 2011, for US\$210 million, fully disbursed), Trinidad and Tobago ([5064/OC-TT](#), approved in 2020, for US\$100 million, fully disbursed), and Uruguay ([5034/OC-UR](#), approved in 2020, for US\$350 million, fully disbursed).

- 1.25 Lessons learned from this experience include the following: (i) the PBP instrument main value-added, other than financial, is that it leverages and strengthens the country's economic recovery plan (¶1.21), while adding a layer of technical support to help the government meet its agreed commitments (¶1.26- ¶1.27); (ii) it also is an effective vehicle for channeling budgetary support resources, particularly in cases when the reform agenda spans for multiple years (¶1.21); and (iii) this type of instrument yields better results when it is part of a multilateral budget support package that addresses the structural causes of fiscal imbalances and programs to help in the implementation of specific policy measures (including investment loans and Technical Cooperation (TC) (¶1.28- ¶1.29). These lessons, which have been taken incorporated in the design of this operation, confirm the appropriateness of the PBP instrument as part of the Bank's support package offered to Suriname.
- 1.26 **Complementarity with other Bank operations.** In addition to this PBP, this operation complements the Special Development Lending (SDL) ([5500/OC-SU](#), approved in 2022, for US\$50 million, fully disbursed), which is in line with the EFF program of the IMF and supports policies to restore fiscal sustainability and bring debt back to sustainable levels;⁵¹ strengthen the social safety net to better-protect the most vulnerable; upgrade the monetary policy framework; recapitalize the financial system; and tackle corruption. The components of this

⁵¹ The fiscal policy actions included in the SDL are: (i) enactment by the National Assembly of a 2021 budget that is consistent with the parameters of the program; and (ii) enactment by the National Assembly of the following key fiscal measures: (a) raising the sales tax to 12%; (b) raising the royalty rate on small gold miners to 7.5%; and (c) a timeline to phase out electricity subsidies. These policy actions are independent from and complementary to the ones included in this operation.

PBP complement the policy actions of the EFF program and the SDL. The measures in this support package are fully aligned with the pillars of the government's recovery plan (¶1.21).

- 1.27 The Bank is also supporting the government through two complementary interventions. First, the fiscal reform agenda, particularly the implementation of the Value-Added Tax (VAT) and the restructuring of the DOTC, will be financed through an investment loan currently under preparation⁵². Second, the Bank will provide technical assistance to strengthen the Medium-term Fiscal Framework (MTFF), evaluate public expenditure efficiency and enhance the fiscal management of the extractive industries, through a TC for the Caribbean region.⁵³
- 1.28 **IDB added value.** As part of the Bank's support package, the operation adds value as follow: (i) it builds on the continuous technical assistance (¶1.23) provided by the Bank to support the government's reforms agenda, which has included inputs for the preparation of the VAT law, the Procurement Bill, and the design of the Semi-Autonomous Revenue Agency (SARA), and more recently, through a public investment management assessment, an evaluation of the PFM framework, a review of the SSF, and a review of SOEs; and (ii) it contributes to the continuous policy dialogue with the country on fiscal issues. In addition, this PBP supports the financing assurance given by the IDB for the three-year recovery program that has been implemented in Suriname under the IMF assistance. In particular, the IDB has committed to provide US\$200 million during the first 12 months of the program and US\$500 million in total over the course of the program.
- 1.29 **Coordination with other donors.** The Bank is actively coordinating with the IMF and other donors, including the World Bank (which is assisting in the area of debt management) and the Netherlands Development Cooperation (which is supporting the creation of a Large Taxpayer Unit and the Fraud Anti-Money Laundering Unit).⁵⁴ The IMF is supporting the Republic of Suriname through an EFF for Special Drawing Rights of 472.8 million (about US\$690 million) with a duration of 36 months.⁵⁵

⁵² As a result, of the COVID-19, the investment operation (4112/OC-SU) was reformulated, and part of the funds redirected to attend the social aspects of the pandemic. As such, the Bank is preparing a new investment loan which will continue to support Suriname's fiscal reform agenda, including the implementation of the VAT and the plan to restructure the DOTC (¶1.26). In both cases, the Bank has supported the country in the design of these reforms, which will play an important role in developing the tools and framework critical to strengthen the revenue system.

⁵³ [ATN/OC-18057 RG](#) approved in June 2020 for US\$625,000, fully disbursed.

⁵⁴ During the program, efforts will be coordinated with multilateral institutions and donors through ad hoc coordination roundtables and senior management meetings. The Bank will share its progress in program implementation with the IMF and the other donors.

⁵⁵ The EFF contains a series of prior actions and structural benchmarks, which focus on fiscal sustainability, exchange rate and monetary stability, financial stability, and governance. It allows for an immediate disbursement of US\$57.5 million, with further disbursements subject to the achievement of the structural benchmarks of the program during the 2021-2024 period.

Table 2. Identified financing 2022

Source	Amount (US\$ millions)	Status
International Monetary Fund (IMF)	205	Approved*
Inter-American Development Bank (IDB) (SDL)	50	Approved
IDB (First operation of PBP)	150	In preparation
Financing from debt restructuring**	167	In negotiation
Total	572	19.8% GDP

Source: Compiled by the team, based on IMF, 2022. First Review of the Extended Funded Facility Arrangement. March.

* This is equivalent to four tranches of 39.4 million special drawing rights purchases (SDR). As of 9 September 2022, each tranche is equivalent to US\$51.3 million. The first was disbursed in March 2022 and the second one, that was projected to be disbursed in June 2022, was postponed due to delays in policy reforms. Nevertheless, the three remaining tranches are still to be disbursed in 2022, according to the Ministry of Finance.

** The government of Suriname is restructuring its external debt. While an agreement has been reached with the Paris Club creditors in June 2022, the government is still in negotiation with the remaining official and with the private creditors (bondholders) to conclude the debt restructuring. Those include the bilateral debts to China and India, in addition to the Eurobonds.

- 1.30 **Strategic alignment.** This program is consistent with the Second Update to the Institutional Strategy (UIS) (AB-3190-2) and aligned with the cross-cutting issues of: (i) Institutional Capacity and Rule of Law, through the strengthening of the fiscal policy and institutional framework to achieve fiscal sustainability, as well as through greater transparency in the management of public resources; (ii) Diversity, through the support for the Indigenous Peoples and Tribal Peoples Collective Rights Bill submitted to the National Assembly; and (iii) Climate Change, by integrating resilience to climate change into public investment management and taking into account the main fiscal risks of climate change in the MTFF. According to the [joint MDB approach to climate finance](#), 20% of total IDB funding for this operation results in climate change adaptation due to policy conditions 3.2 and 4.1. These resources contribute to the IDB's climate finance goal of 30% of annual approvals. The program will also contribute to the Corporate Results Framework (CRF) 2020-2023 (GN-2727-12) through the indicators: (i) countries with strengthened tax and expenditure policy and management; and (ii) countries with strengthened gender equality and diversity policy frameworks. It is aligned with the public sector management and financing and macro-fiscal management areas of the Sector Strategy: Institutions for Growth and Social Welfare (GN-2587-2) and is consistent with the Fiscal Policy and Management Sector Framework Document (GN-2831-8), which emphasizes the importance of institution-strengthening to improve the quality of public expenditure, as well as fiscal equity and social inclusion. It is also consistent with the Gender and Diversity Sectoral Framework (GN-2800-8) by promoting the development with identity among indigenous peoples, through the legal recognition of their collective rights, and with the Extractive Industries Sector Framework Document (GN-3028-2), through the development of fiscal institutions that help to manage revenue volatility arising from the oil, gas, and mining sectors. This program is aligned with the IDB Group Country Strategy with The Republic of Suriname 2021-2025 (GN-3065) under the strategic area of restoring macroeconomic sustainability, by contributing to the strategic objective of attaining fiscal sustainability in the medium term. Also, it will be focus on revenue collection, compliance management, taxpayer services, human resource management, and administrative costs. Lessons learned suggest that giving tax administrations more autonomy is associated with higher levels of

performance.⁵⁶ Finally, the operation is included in the Update of the Annex III of the 2022 Operational Program Report (GN-3087-2).

B. Objectives, components, and cost

- 1.31 **Objective.** The general development objective of the program is to restore fiscal sustainability and promote higher economic growth. The specific development objectives of the program are: (i) strengthening the tax revenue system and administration; (ii) increasing control and efficiency of public expenditure; (iii) improving macro-fiscal planning and management; and (iv) reducing fiscal risks and increasing transparency of SOEs.
- 1.32 To meet these objectives, the Bank has structured a PBP series consisting of three technically related and contractually independent operations, which reinforce and complement the Bank's financial and technical support package for Suriname (¶1.26). This first operation focuses on the submission of key fiscal measures to the National Assembly, as well as the design and preparation of draft legislation and action plans, to strengthen the efficiency of the tax, procurement, and public investment systems; improve medium-term fiscal planning; and enhance the monitoring and transparency of SOEs. The second operation in the series comprises the approval of fiscal measures and the submission of the draft legislation supported in the first operation, as well as the implementation of the action plans. Finally, the third operation will support the full implementation of the approved fiscal measures and the launch of an electronic procurement platform, among other measures. These will be accomplished through implementing the following components:⁵⁷
- 1.33 **Component 1. Macroeconomic stability.** Maintain an economic framework consistent with the program's objectives and in accordance with the provisions set forth in the [Policy Letter](#).
- 1.34 **Component 2. Strengthening the tax system.** This component aims to strengthen the tax revenue system and administration.⁵⁸ It includes the following policy actions for the first operation: the Government of Suriname will: (i) prepares a draft of the Fiscal Incentives Regulations, which reduces tax expenditures by eliminating discretionary waivers and some preferential rates;⁵⁹ (ii) the VAT Act is approved by the National Assembly⁶⁰; (iii) submits a Bill to the National Assembly to modernize the DOTC through the establishment of a SARA with emphasis in the necessary arrangements for the establishment of the VAT; and (iv) prepares specific tax regulations to strengthen the tax management of

⁵⁶ See: Talierico, R. [Designing performance: The Semi-autonomous Revenue Authority Model in Africa and Latin America. World Bank 2004.](#)

⁵⁷ The mechanisms through which these components will lead to achieve fiscal sustainability are the following: (i) the expansion of the tax base and strengthening of tax administration will lead to higher fiscal revenues; (ii) the improvement in budget planning, procurement and investment, as well as the better targeting of social spending, will help contain public expenditure; (iii) the enhancing of macro fiscal instruments will improve the monitoring and management of fiscal goals; and (iv) the strengthening of SOEs management will help improve their efficiency and reduce their fiscal cost.

⁵⁸ VAT introduction strengthens the tax revenue system by reducing distortions and broadening the tax base; moreover, its implementation in the Caribbean has yielded positive results (Beuermann and Schwartz 2018; IMF 2016; Peters and Bristol 2006). SARAs contribute to strengthen tax administration by decreasing political interference, providing more responsibility and accountability, and enhancing management capacity (Taliercio 2004; World Bank 2019).

⁵⁹ The bill aims to rationalize fiscal incentives.

⁶⁰ Suriname's recent economic changes include the implementation of VAT. The benefit of this type of taxation is that it encourages consumers to pay taxes on their purchases. As a result, the informal sector is becoming increasingly involved in VAT collection.

extractive industries (oil, gas and mining).

- 1.35 For the second and third operations, the program focuses on: (i) the submission, approval, and implementation of the Fiscal Incentives Regulations; (ii) the VAT Act is made effective and its implementation is maintained; (iii) the approval and implementation of the SARA; and (iv) the approval and implementation of the specific tax regulations to strengthen the tax management of extractive industries.
- 1.36 **Component 3. Rationalization of public expenditure.**⁶¹ This component aims to increase control and efficiency of public expenditure.⁶² The Government of Suriname commits in the first operation to: (i) prepare an action plan to review and update the expenditure budget classifications in line with international best practices; (ii) prepare an action plan to improve the public investment system and the resilience of public infrastructure to climate change and sustainability of public infrastructure; (iii) prepare a plan to conduct a national survey of living conditions;⁶³ (iv) submit the Indigenous Peoples and Tribal Peoples Collective Rights Bill to the National Assembly;⁶⁴ (v) conduct a diagnostic report of the public procurement system across all line ministries;⁶⁵ (vi) update the draft of the Aanbestedingswet Bill (Procurement Bill) including new regulations to make their processes more transparent and establish an action plan for its implementation; and (vii) conduct a Public Investment Management Assessment report.
- 1.37 For the second and third operations, the program supports measures to: (i) implement the updated expenditure budget classifications and develop a tagging methodology for reporting climate change expenditure in the Central Government Expenditure Budget; (ii) prepare, approve and implement guidelines for a new public investment system including the resilience public infrastructure to climate change and sustainability of public infrastructure; (iii) conduct a national survey of living conditions; elaborate a public expenditure review; and prepare a plan to rationalize expenditure; (iv) the approval by the National Assembly and implementation of the Indigenous Peoples and Tribal Peoples Collective Rights Act including the approval of the operational regulations; (v) the approval by the National Assembly and implementation of the Equality of Opportunity Act including the approval of the operational regulations; (vi) prepare a roadmap and launch an Electronic Procurement Platform (EPP) to advertise bidding processes; (vii) submission to the National Assembly and implementation of the Aanbestedingswet Bill (Procurement Bill) including the approval of the operational regulations; and (viii) prepare a bill to revamp the public investment system including a Public-Private Partnerships framework and submit it to the National Assembly.

⁶¹ These policy actions complement measures to contain public sector wages and reduce electricity subsidies included in the EFF and the IDB's SDL in Suriname (currently in preparation).

⁶² The estimated gains in LAC from increasing the efficiency of procurement and investment systems are considerable (Izquierdo, Pessino and Vuletin 2018). In the European Union, it is estimated that implementing of a full e-procurement system could reduce the costs of corruption in procurement by about 20% of current costs (Hafner et al. 2016).

⁶³ This will contribute to improve targeting of subsidies and social programs.

⁶⁴ This bill recognizes the collective rights of indigenous peoples, such as the right to land, self-governance and participation, key aspects to advance in development with identity and better living conditions.

⁶⁵ This diagnostic will include the background analysis necessary for the design and launching of an EPP (as proposed for the second and third operations of this PBP series).

- 1.38 **Component 4. Improving the macro-fiscal institutional framework.** This component aims to improve macro-fiscal planning and management.⁶⁶ In the first operation, the Government of Suriname commits to: (i) prepare a plan to strengthen the MTFF with revenue and expenditure forecasts for a 5-year period and an identification of the main fiscal risks arising from climate change; (ii) prepares an evaluation to determine an appropriate type of fiscal rule for Suriname; and (iii) review the SSF design and operational framework.
- 1.39 For the second and third operations, the program includes the following: (i) prepare an analysis of fiscal risks, including those arising from extractive revenues (oil, gas and mining), incorporate it in the MTFF, and implement a plan to mitigate the main fiscal risks; (ii) submit the Fiscal Responsibility Bill to the National Assembly and obtain its approval; and (iii) prepare draft legislation to update the SSF and make it effective.
- 1.40 **Component 5. Strengthening the fiscal framework and transparency of SOEs.** This component aims to reduce the fiscal risks and increase the transparency of SOEs.⁶⁷ For the first operation, the Government of Suriname prepares an action plan to regulate SOEs. The plan includes the mapping, categorization, and rationalization of all SOEs.
- 1.41 For the second and third operations, the program will support: (i) the submission and approval of a Bill to rationalize the SOEs; and (ii) the enforcement of measures to strengthen the accountability and transparency of SOE by: (a) reporting to the Attorney General's Chambers of those self-financing SOEs that have not complied with the statutory requirement for submission of annual reports and requesting that enforcement proceedings be considered; and (b) ensuring presentation of annual reports (including audited financial statements) of self-financing public bodies to Portfolio Ministries within the statutory time period after the end of the financial year to which the reports pertain.
- C. Key results indicators**
- 1.42 As indicated in the Results Matrix (Annex III), the programme is expected to contribute to a reduction in central government debt and an increase in real GDP growth. The outcome indicators are: (i) indirect taxes (% of GDP); (ii) line ministries that have adopted the EPP to advertise bidding processes; (iii) line ministries that have adopted guidelines to enhance the resilience of public infrastructure to climate change; (iv) material poverty of indigenous peoples; (v) difference between executed and planned central budget deficit (% of GDP); (vi) central government subsidies and transfers to SOEs (% of GDP); and (vii) annual reports submitted by SOEs (% of total SOEs). The target values for these indicators are expected to be achieved in 2025 and are conditional on the full implementation of the PBP series.
- 1.43 **Beneficiaries.** The program will benefit the citizens of Suriname, as this operation will ensure the availability of resources to mitigate the negative effects

⁶⁶ Fiscal rules contribute to maintain fiscal discipline through commitment and signaling mechanisms (Barreix and Corrales 2019). Sovereign wealth funds play an important role in natural-resource-exporting countries that face volatile commodity prices and a finite endowment of resources (Schmidt-Hebbel 2018).

⁶⁷ The underperformance of SOEs often translates into a fiscal burden and a source of fiscal risk for governments. Measures to strengthen the corporate governance of SOEs, such as board composition, corporatization, and transparency and disclosure of financial results are positively related to their performance (Heo 2018).

of the macroeconomic crisis on the fiscal accounts and to restore macroeconomic and fiscal stability in the medium term.⁶⁸ The main users associated with each specific objective are: (i) The DOTC; (ii) The Line Ministries; (iii) The MFP; and (iv) SOEs.

II. FINANCING STRUCTURE AND MAIN RISKS

A. Financing instruments

- 2.1 This operation has been structured as a PBP and is the first of three contractually independent but technically linked operations, in line with the guidelines for the preparation and implementation of PBPs (CS-3633-2). This modality was chosen, consistently with the lessons learned from similar operations (¶1.25), because: (i) it promotes continuous policy dialogue between the Bank and the country during the full period of implementation of the government's macroeconomic and fiscal reforms; (ii) it facilitates the provision of financial and technical support for key policy measures of the government's recovery plan; and (iii) it reinforces complementarity with other Bank operations (¶1.23) and facilitates the evaluation of results, which allows for any necessary adjustments to the program in the medium term.
- 2.2 **Dimensioning.** The amount of this operation is US\$150 million (one disbursement), financed from the Bank's Ordinary Capital, and was determined based on the government's gross financial needs (US\$572 million, 19.8% GDP see Table 2), in accordance with document CS-3633-2 paragraph 3.27 (b). The amount of this program also considers the SDL approved in 2022, for US\$50 million, fully disbursed by the Bank, as well as other expected multilateral support (¶1.28).

B. Environmental and social safeguard risks

- 2.3 According to Directive B.13 of the Environmental and Safeguards Compliance Policy (OP-703), this program does not require ex ante impact classification. This operation supports the definition of policies, norms, management instruments and other institutional strengthening actions for which no significant direct effects on the environment and natural resources are expected.

C. Fiduciary risks

- 2.4 No fiduciary risks have been identified for this program. The loan proceeds will be disbursed directly to the account designated by the MFP and used to cover financing needs. The executing agency has the necessary financial management instruments and control systems for such purpose. The resources will be disbursed once all the conditions set in the Loan Contract are met.

D. Other risks

- 2.5 **Economic and financial risks (high).** If negative macroeconomic conditions resulting from the COVID-19 pandemic and the Russian invasion of Ukraine extend longer than anticipated, the economic recovery could take longer than expected and have a stronger negative impact on public finances, if this scenario materializes, the Bank will continue to offer technical assistance to

⁶⁸ Indirectly, the program will also benefit vulnerable households through two channels: (i) by increasing public financial resources, which contributes to ensure the sustainability of income-protection programs; and (ii) through improved targeting of such programs by using updated socioeconomic data from the Survey of Living Conditions.

identify additional measures for restoring fiscal sustainability while protecting the most vulnerable populations. (¶1.25).

- 2.6 **Political environment risks (high).** The extent of the macroeconomic and fiscal crisis in the country could jeopardize the political ability of the government to pass crucial economic reforms.⁶⁹ If this risk materializes, there could be further deterioration of the fiscal balance and the public debt crisis. The government is implementing a communication strategy which includes the publication of information regarding the main reforms, as well as meeting with relevant stakeholders. The Bank will contribute to partially mitigate this risk by supporting these efforts through the activities listed under the technical cooperation [ATN/OC-19442-SU](#), approved in 2022, for US\$150,000 and through its regional pandemic response TC operations in priority areas for the fiscal adjustment and improvement of public expenditure (¶1.25).
- 2.7 **Institutional risks (high).** The success of this program will require the ability to approve and implement the expected reforms and also to maintain the fiscal variables in line with the estimates of the program in order to ensure fiscal sustainability. In the latter case, if the institutional capabilities of the Ministry of Finance to monitor these variables is not strengthened, this could result in unanticipated deviations that may be hard to correct in the short and medium-term. To mitigate these issues, the Bank is putting together an integral support package (¶1.26), including budget support from this operation and a SDL ([5500/OC-SU](#), approved in 2022, for US\$50 million, fully disbursed), as well as a technical cooperation [ATN/OC-19442-SU](#), approved in August 2022, for US\$150,000 that supports the preparation of this PBL as well as complementary actions to strengthen the institutional capacity of the Ministry of Finance (¶1.27).⁷⁰

III. IMPLEMENTATION AND MANAGEMENT PLAN

A. Summary of implementation arrangements

- 3.1 **Borrower and executing agency.** The borrower will be the Republic of Suriname. The executing agency will be the MFP, which will be responsible for: (i) providing evidence that the commitments for disbursement of the loan, as agreed between the government and the Bank, have been fulfilled; (ii) promoting measures to achieve the program objectives; and (iii) compiling, storing, and providing to the Bank the necessary information, indicators, and parameters for monitoring and evaluation of the program's results.
- 3.2 **Special contractual condition prior to the first and sole disbursement of the first operation under the PBP: The first and sole disbursement of loan resources will be subject to the borrower's fulfilment of the policy reform conditions of the first operation under the PBP established in the Policy Matrix (Annex II), the [Policy Letter](#), and any other conditions set forth in the corresponding loan contract.**

⁶⁹ This risk is particularly important for reforms that require submission to the National Assembly for their approval. For the first operation, the key policy measures that might be affected include the establishment of a SARA.

⁷⁰ These actions are a continuation of the technical assistance (¶1.23) that the Bank has been providing the country to support the government's reforms agenda.

B. Summary of arrangements for monitoring results

- 3.3 **Monitoring.** Programme monitoring consists of verification of the agreed policy measures [Monitoring and Evaluation Plan \(MEP\)](#). The executing agency and the Bank will meet regularly to monitor the operation's results and anticipate and resolve technical difficulties related to the operation's execution. The executing agency will submit to the Bank all information required for measuring fulfilment of programme targets and will provide timely information on progress toward those targets.
- 3.4 **Evaluation.** The evaluation strategy will consist of: (i) a "before and after" analysis of the outcome and impact indicators included in the Results Matrix; (ii) a review of the intervention's theory of change; (iii) a literature review of evidence on the effectiveness of similar interventions in comparable contexts; and (iv) a qualitative evaluation that provides complementary information on how the achieved results can be attributed to the program. The evaluation's main questions will address whether the policies implemented helped achieve the program objectives ([MEP](#)). Additionally, a program completion report will be prepared. Both the ex post evaluation and the program completion report will be conducted at the end of execution of the programmatic series.

IV. POLICY LETTER

- 4.1 The [Policy Letter](#) of the Government of Suriname, reaffirming its commitment to the macroeconomic measures agreed upon with the Bank, is aligned with the program's Policy Matrix and Results Matrix.

Development Effectiveness Matrix		
Summary		SU-L1065
I. Corporate and Country Priorities		
Section 1. IDB Group Strategic Priorities and CRF Indicators		
Development Challenges & Cross-cutting Issues	-Gender Equality and Diversity -Climate Change -Institutional Capacity and the Rule of Law	
CRF Level 2 Indicators: IDB Group Contributions to Development Results	-Countries with strengthened gender equality and diversity policy frameworks (#) -Countries with strengthened tax and expenditure policy and management (#)	
2. Country Development Objectives		
Country Strategy Results Matrix	GN-3065	Attain fiscal sustainability in the medium term.
Country Program Results Matrix	GN-3087-2	The intervention is included in the 2022 Operational Program.
Relevance of this project to country development challenges (If not aligned to country strategy or country program)		
II. Development Outcomes - Evaluability		Evaluable
3. Evidence-based Assessment & Solution		8.1
3.1 Program Diagnosis		2.5
3.2 Proposed Interventions or Solutions		3.2
3.3 Results Matrix Quality		2.5
4. Ex ante Economic Analysis		N/A
5. Monitoring and Evaluation		8.3
5.1 Monitoring Mechanisms		4.0
5.2 Evaluation Plan		4.3
III. Risks & Mitigation Monitoring Matrix		
Overall risks rate = magnitude of risks*likelihood		High
Environmental & social risk classification		B.13
IV. IDB's Role - Additionality		
The project relies on the use of country systems		
Fiduciary (VPC/FMP Criteria)	Yes	Financial Management: Budget, Treasury, Accounting and Reporting, External Control.
Non-Fiduciary		
The IDB's involvement promotes additional improvements of the intended beneficiaries and/or public sector entity in the following dimensions:		
Additional (to project preparation) technical assistance was provided to the public sector entity prior to approval to increase the likelihood of success of the project		

Evaluability Assessment Note:

This is the first operation under a PBP with three stages. The general development objective of the program is to restore fiscal sustainability and promote higher economic growth. The specific objectives of the program are: (i) strengthening the tax revenue system and administration; (ii) increasing control and efficiency of public expenditure; (iii) improving macro-fiscal planning and management; and (iv) reducing fiscal risks and increasing transparency of State-Owned Enterprises (SOEs). Suriname faces a severe economic crisis, and the fiscal team at the IADB is supporting the country to recover sustainability with a package of projects. This operation follows a SDL loan approved in March 2022 and it will be complemented with a fiscal specific investment project which is under preparation. The current account deficit is 6.5% of the GDP. The diagnosis identifies four determinants to work on: weak macro-fiscal planning, insufficient revenue collection, inefficient public expenditure, and lack of transparency in state-owned enterprise (SOE) management.

The vertical logic of the project is suitable to achieve the specific objectives of the project. Note that the three operations of the PBP are needed to achieve the expected results of the operation. Policies and activities in the program are organized into four key components: (i) strengthening the tax system, (ii) rationalization of public expenditure, (iii) improving the macro-fiscal institutional framework, and (iv) strengthening the fiscal framework and transparency of SOEs.

The results matrix presents appropriate outcomes indicators for each program specific objective. The project included a poverty reduction indicator associated to specific objective 2. The project will benefit from including fiscal policies to contribute to poverty reduction in the next stages of the PBP. The project appropriately addresses monitoring and evaluation requirements for a PBP. The MEP indicates that the achievement of results will be evaluated with a before and after methodology.

POLICY MATRIX

Objective: The general development objective of the program is to restore fiscal sustainability and promote higher economic growth. This will be done through: (i) strengthening the tax revenue system and administration; (ii) increasing control and efficiency of public expenditure; (iii) improving macro-fiscal planning and management; and (iv) reducing fiscal risks and increasing transparency of State-Owned Enterprises (SOEs).

Components Policy Objectives	Policy Conditions Programmatic I	State of Compliance with Policy Conditions Programmatic I ¹	Policy Conditions Programmatic II	Policy Conditions Programmatic III
Component 1. Macroeconomic stability				
Maintain a stable macroeconomic context	1.1 Maintain an economic framework consistent with the program's objectives and in accordance with the provisions set forth in the Policy Letter	Fulfilled	1.1 Maintain an economic framework consistent with the program's objectives and in accordance with the provisions set forth in the Policy Letter	1.1 Maintain an economic framework consistent with the program's objectives and in accordance with the provisions established in the Policy Letter
Component 2. Strengthening the tax system				
Strengthen the tax revenue system and administration	2.1 The Government of Suriname prepares a draft of the Fiscal Incentives Regulations, which reduces tax expenditures by eliminating discretionary waivers and some preferential rates	Fulfilled (3 rd trimester 2022)	2.1 The Government of Suriname approves the Fiscal Incentives Regulations	2.1 The Government of Suriname makes effective the Fiscal Incentives Regulations
	2.2 The VAT Act is approved by the National Assembly	Fulfilled (3 rd trimester 2022)	2.2 The Government of Suriname makes effective the VAT Act	2.2 The Government of Suriname maintains the implementation of the VAT as approved in the second operation

¹ This information is merely indicative as of the date of this document. As set forth in document CS-3633-2 (Policy-Based Loans: Guidelines for Preparation and Implementation), compliance with all the conditions specified for disbursement, including the maintenance of an appropriate macroeconomic policy framework, will be verified by the Bank at the time of the request for the corresponding disbursement made by the Borrower and duly reflected in the Disbursement Eligibility Memorandum.

Components Policy Objectives	Policy Conditions Programmatic I	State of Compliance with Policy Conditions Programmatic I ¹	Policy Conditions Programmatic II	Policy Conditions Programmatic III
	2.3 The Government of Suriname submits a Bill to the National Assembly to modernize the DOTC through the establishment of a Semi-Autonomous Revenue Agency (SARA) with emphasis in the necessary arrangements for the establishment of the VAT	Fulfilled (3 rd trimester 2022)	2.3 The legislation establishing the SARA is approved and ready to be implemented (beginning of the transition period)	2.3 Fully operational functional revenue Authority
	2.4 The Government of Suriname prepares specific tax regulations to strengthen the tax management of extractive industries (oil, gas and mining)	Fulfilled (3 rd trimester 2022)	2.4 The specific tax regulations to strengthen the tax management of extractive industries are approved	2.4 The specific tax regulations to strengthen the tax management of extractive industries are fully implemented
Component 3. Rationalization of public expenditure				
Increase control and efficiency of public expenditure	3.1 The Government of Suriname prepares an action plan for reviewing and updating expenditure budget classifications in line with international best practices ²	Fulfilled (3 rd trimester 2022)	3.1 The Government of Suriname implements the updated expenditure budget classifications	3.1 The Government of Suriname develops a tagging methodology for reporting climate change expenditure in the Central Government Expenditure Budget
	3.2 The Government of Suriname prepares an action plan for the improvement of the public investment system and the resilience to climate	Fulfilled (3 rd trimester 2022)	3.2 The Government of Suriname prepares and approves guidelines to enhance the resilience to climate change and sustainability of public infrastructure	3.2 The Government of Suriname implements the new public investment system including the resilience and sustainability of public infrastructure

² This policy action is part of the government's broader effort to strengthen public financial management (PFM) by developing a comprehensive action plan for PFM and establishing a mechanism within the MFP to implement these activities.

Components Policy Objectives	Policy Conditions Programmatic I	State of Compliance with Policy Conditions Programmatic I ¹	Policy Conditions Programmatic II	Policy Conditions Programmatic III
	change and sustainability of public infrastructure			
	3.3 The Government of Suriname prepares a plan to conduct a national survey of living conditions	Fulfilled (3 rd trimester 2022)	3.3 The Government of Suriname conducts a national survey of living conditions	3.3 The Government of Suriname elaborates a public expenditure review and prepares a plan to rationalize expenditure
	3.4 The Government of Suriname submits the Indigenous Peoples and Tribal Peoples Collective Rights Bill to the National Assembly	Fulfilled (3 rd trimester 2022)	3.4.1 The Indigenous Peoples and Tribal Peoples Collective Rights Act is approved by the National Assembly	3.4.1 The Government of Suriname implements the Law on Collective Rights of Indigenous and Tribal Peoples, including the approval of the operational regulations.
			3.4.2 The Equality of Opportunity Act is approved by the National Assembly	3.4.2 The Government of Suriname implements the Equality of Opportunity Act, including the approval of the operational regulations.
	3.5 The Government of Suriname conducts a diagnostic report of the public procurement system across all line ministries	Fulfilled (3 rd trimester 2022)	3.5 The Government of Suriname prepares a roadmap for the launching of an electronic procurement platform (EPP) to advertise bidding processes	3.5 The Government of Suriname launches the EPP
	3.6 The Government of Suriname updates the draft of the Aanbestedingswet Bill (Procurement Bill) including new regulations	Fulfilled (3 rd trimester 2022)	3.6 The Government of Suriname submits the Aanbestedingswet Bill (Procurement Bill) to the National Assembly	3.6 The Government of Suriname continues the implementation of the Aanbestedingswet Bill (Procurement Bill) and

Components Policy Objectives	Policy Conditions Programmatic I	State of Compliance with Policy Conditions Programmatic I ¹	Policy Conditions Programmatic II	Policy Conditions Programmatic III
	to make their processes more transparent and establish an action plan for its implementation			approves the operational regulations of such Bill
	3.7 The Government of Suriname conducts a Public Investment Management Assessment	Fulfilled (3 rd trimester 2022)	3.7 Prepares a bill to revamp the public investment system including a Public-Private Partnerships framework	3.7 Submits the Public Investment Bill, which includes a Public-Private Partnership framework, to the National Assembly
Component 4. Improving the macro-fiscal institutional framework.				
Improve macro-fiscal planning and management	4.1 The Government of Suriname prepares a plan to strengthen the MTFF with revenue and expenditure forecasts for a 5-year period and an identification of the main fiscal risks arising from climate change	Fulfilled (3 rd trimester 2022)	4.1 The Government of Suriname prepares an analysis of fiscal risks, including those arising from extractive revenues (oil, gas and mining), and incorporates it in the MTFF	4.1 The Government of Suriname implements a plan to mitigate the main fiscal risks
	4.2 The Government of Suriname prepares an evaluation to determine an appropriate type of fiscal rule for Suriname	Fulfilled (3 rd trimester 2022)	4.2 The Government of Suriname submits to the National Assembly a Fiscal Responsibility Bill	4.2 The National Assembly approves the Fiscal Responsibility Act
	4.3 The Government of Suriname reviews the Savings and Stability Fund (SSF) design and operational framework	Fulfilled (3 rd trimester 2022)	4.3 The Government of Suriname prepares draft legislation to update the SSF	4.3 The SSF becomes effective

Components Policy Objectives	Policy Conditions Programmatic I	State of Compliance with Policy Conditions Programmatic I ¹	Policy Conditions Programmatic II	Policy Conditions Programmatic III
Component 5. Strengthening the fiscal framework and transparency of SOEs.				
Reduce the fiscal risks and increase the transparency of SOEs	5.1 The Government of Suriname prepares an action plan to regulate the SOEs. The plan includes the mapping, categorization and rationalization of all SOEs	Fulfilled (3 rd trimester 2022)	5.1 The Government of Suriname submits to the National Assembly a Bill to rationalize the SOEs	5.1 The National Assembly approves the Bill to rationalize the SOEs
			5.2 The Government of Suriname enforces measures to strengthen the accountability and transparency of SOEs by reporting to the Attorney General's Chambers those self-financing SOEs that have not complied with the statutory requirement for submission of annual reports and requesting that enforcement proceedings be considered	5.2 The Government of Suriname enforces measures to strengthen the accountability and transparency of SOEs by ensuring presentation of annual reports (including audited financial statements) of self-financing public bodies to Portfolio Ministries within the statutory time period after the end of the financial year to which the reports pertain

RESULTS MATRIX

Objective: The specific development objectives of the program are: (i) strengthening the tax revenue system and administration; (ii) increasing control and efficiency of public expenditure; (iii) improving macro-fiscal planning and management; and (iv) reducing fiscal risks and increasing transparency of State-Owned Enterprises (SOEs). The general development objective of the program is to restore fiscal sustainability and promote higher economic growth.

GENERAL DEVELOPMENT OBJECTIVE

Indicators	Unit of Measurement	Baseline Value	Baseline Year	2022	2023	2024	Target 2025	Means of Verification
General objective: Restore fiscal sustainability and promote higher economic growth								
Central government debt (% of GDP)	%	148.2	2020	132	116	115	105	IMF report
Real GDP (annual % change)	%	-3.5	2021	1.8	2.1	2.7	3.0	IMF report

SPECIFIC DEVELOPMENT OBJECTIVES

Indicators	Unit of Measurement	Baseline Value	Baseline Year	2022	2023	2024	Target 2025	Means of Verification
Specific development objective 1: Strengthen the tax revenue system and administration								
Indirect taxes ¹ (% of GDP)	%	6.2	2020	8.1 ²	8.9	9.1	9.5	IMF report
Specific development objective 2: Increase control and efficiency of public expenditure								
Line ministries that have adopted the electronic procurement platform (EPP) to advertise bidding processes	Number of ministries	0	2020	0	0	5	8	MFP report
Line ministries that have adopted guidelines to enhance the resilience of public infrastructure to climate change	Number of ministries	0	2020	0	1	3	5	MFP report

¹ This indicator includes the collection of sales tax and the value-added tax.

² The rise in this indicator in 2021 is expected to arise from an increase in the rate of the sales tax. Results from the introduction of the VAT will be visible from 2022 onwards as the VAT is expected to replace the sales tax in this year.

Indicators	Unit of Measurement	Baseline Value	Baseline Year	2022	2023	2024	Target 2025	Means of Verification
Material poverty of indigenous peoples	Percentage	65.4	2018	65.4	65.4	64.4	63.4	Pro- Gender Indicator. Multiple Indicator Cluster Survey (MICS)
Specific development objective 3: Improve macro-fiscal planning and management								
Difference between executed and planned central budget deficit (% of GDP)	%	5.3	2020	5.3	2.5	1.1	0.5	MFP report
Specific development objective 4: Reduce fiscal risks and increase transparency of SOEs								
Central government subsidies and transfers to SOEs (% of GDP)	%	5.7	2018	5.7	5.7	4.0	3.0	MFP report
Annual reports submitted by SOEs (% of total SOEs)	%	10	2019	10	20	35	40	MFP report

OUTPUTS

Indicators	Unit of Measure	Baseline Value	Baseline Year	Target 2022	Means of Verification	Responsible
Component 2. Strengthening the tax system						
2.1 Draft Fiscal Incentives Regulations, prepared	Draft Regulations	0	2021	1	Letter to the IDB providing the draft of the Fiscal Incentives Regulations.	MFP
2.2 VAT Act approved by the National Assembly	Bill	0	2021	1	Letter to the IDB confirming the approval of the VAT Act by the National Assembly and providing the corresponding supporting documents.	MFP
2.3 Bill to establish a Semi-Autonomous Revenue Agency (SARA) submitted to the National Assembly	Bill	0	2021	1	Letter to the IDB confirming the submission of the Bill to establish a SARA to the National Assembly and providing the corresponding supporting documents.	MFP

Indicators	Unit of Measure	Baseline Value	Baseline Year	Target 2022	Means of Verification	Responsible
2.4 Plan with specific tax regulations to strengthen the tax management of extractive industries, prepared	Plan	0	2021	1	Letter to the IDB providing a copy of the specific tax regulations prepared to strengthen the tax management of extractive industries.	MFP
Component 3. Rationalization of public expenditure						
3.1 Action plan for reviewing and updating expenditure budget classifications in line with international best practices, prepared	Plan	0	2021	1	Letter to the IDB providing a copy of the action plan for reviewing and updating expenditure budget classifications.	MFP
3.2 Action plan for the improvement of the public investment system and the resilience of public infrastructure to climate change and sustainability of public infrastructure, prepared	Plan	0	2021	1	Letter to the IDB providing a copy of the action plan for the improvement of the public investment system and the resilience of public infrastructure to climate change and sustainability of public infrastructure.	MFP
3.3 Plan to conduct a national survey of living conditions, prepared	Plan	0	2021	1	Letter to the IDB providing a copy of the plan to conduct a national survey of living conditions.	MFP
3.4 Indigenous Peoples and Tribal Peoples Collective Rights Bill submitted to the National Assembly	Bill	0	2021	1	Letter to the IDB providing a copy of the Indigenous Peoples and Tribal Peoples Collective Rights Bill and supporting documentation of its submission to the National Assembly.	MFP
3.5 Diagnostic report of the public procurement system across all line ministries, conducted	Report	0	2021	1	Letter to the IDB providing a copy of the diagnostic of the public procurement system across all line ministries.	MFP

Indicators		Unit of Measure	Baseline Value	Baseline Year	Target 2022	Means of Verification	Responsible
3.6	Draft of the Aanbestedingswet Bill (Procurement Bill) updated, and an action plan for its implementation established.	Draft Bill	0	2021	1	Letter to the IDB providing a copy of the draft of the Procurement Bill and an action plan for its implementation.	MFP
3.7	Public Investment Management Assessment Report, conducted	Report	0	2021	1	Letter to the IDB providing a copy of the public investment management assessment report.	MFP
Component 4. Improving the macro-fiscal institutional framework							
4.1	Plan to strengthen the Medium-Term Fiscal Framework (MTFF), including the identification of the main fiscal risks arising from climate change, prepared	Plan	0	2021	1	Letter to the IDB providing a copy of the plan to strengthen the MTFF including the identification of the main fiscal risks arising from climate change.	MFP
4.2	Evaluation Report to determine an appropriate type of fiscal rule for Suriname, prepared	Report	0	2021	1	Letter to the IDB providing a copy of the report to determine an appropriate type of fiscal rule for Suriname.	MFP
4.3	Savings and Stability Fund (SSF) design and operational framework report, reviewed	Report	0	2021	1	Letter to the IDB providing a copy of the report that reviews the SSF design and operational framework.	MFP
Component 5. Strengthening the fiscal framework and transparency of SOEs							
5.1	Action plan to regulate the SOEs, prepared	Plan	0	2021	1	Letter to the IDB providing a copy of the action plan to regulate the SOEs.	MFP

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-___/22

Suriname. Loan ____/OC-SU to the Republic of Suriname. Fiscal Sustainability
Program for Economic Development I

The Board of Executive Directors

RESOLVES:

That the President of the Bank, or such representative as he shall designate, is authorized, in the name and on behalf of the Bank, to enter into such contract or contracts as may be necessary with the Republic of Suriname, as borrower, for the purpose of granting it a financing aimed at cooperating in the execution of the Fiscal Sustainability Program for Economic Development I. Such financing will be for the amount of up to US\$150,000,000, from the resources of the Bank's Ordinary Capital, and will be subject to the Financial Terms and Conditions and the Special Contractual Conditions of the Project Summary of the Loan Proposal.

(Adopted on ____ 2022)