

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

**SURINAME**

**FISCAL SUSTAINABILITY PROGRAM FOR ECONOMIC DEVELOPMENT I**

**(SU-L1065)**

**PROJECT PROFILE**

This document was prepared by the project team consisting of: Gerardo Reyes-Tagle, Project Team Leader (IFD/FMM); Luis Alejandro Alejos, Alternate Project Team Leader (IFD/FMM); Jeetendra Khadan (CCB/CSU); Lenin Balza (INE/INE); Leslie Harper, Susana Román Sánchez and Mariana Canillas (IFD/FMM); José Martínez (SPD/SDV); Mónica Centeno and Horacio Mendoza (LEG/SGO); Steven Collins (VPS/ESG); Mariska Tjon A Loi (VPC/FMP); and Lucas Hoepel (CCB/CSU).

Under the Access to Information Policy, this document is subject to Public Disclosure.

## PROJECT PROFILE

### COUNTRY

#### I. BASIC DATA

<b>Project Name:</b>	Fiscal Sustainability Program for Economic Development I		
<b>Project Number:</b>	SU-L1065		
<b>Project Team:</b>	Gerardo Reyes-Tagle, Project Team Leader; (IFD/FMM); Luis Alejandro Alejos, Alternate Project Team Leader (IFD/FMM); Jeetendra Khadan (CCB/CSU); Lenin Balza (INE/INE); Leslie Harper, Susana Román Sánchez and Mariana Canillas (IFD/FMM); José Martínez (SPD/SDV); Mónica Centeno and Horacio Mendoza (LEG/SGO); Steven Collins (VPS/ESG); Mariska Tjon A Loi (VPC/FMP); and Lucas Hoepel (CCB/CSU).		
<b>Borrower:</b>	Republic of Suriname		
<b>Executing Agency:</b>	Ministry of Finance and Planning		
<b>Financial Plan:</b>	IDB (fund):	US\$	100,000,000
	Total:	US\$	100,000,000
<b>Safeguards:</b>	Policies triggered: OP-102 and OP-703 (B.1, B.3, B.7, B.13, B.17)		
	Classification: B.13		

#### II. GENERAL JUSTIFICATION AND OBJECTIVES

- 2.1 **Macroeconomic and fiscal background.** Suriname faces a severe macroeconomic crisis that is taking a big toll on the fiscal, external, and financial sectors. It stems from an overhang of the shock in commodity prices,<sup>1</sup> exacerbated by the ongoing COVID-19 pandemic. Economic growth remains bogged down by large twin deficits, double-digit inflation, and a public debt spiral.
- 2.2 The economy was already under serious difficulties before the pandemic, reporting negative growth rates in 2015 (-3.4%) and 2016 (-4.9%) followed by a mild recovery in 2017-2019. In 2020, the economy contracted by 13.5%, with the recession deepening in 2021.<sup>2</sup> Large parallel market exchange rate premiums, bouts of monetary financing, and a large devaluation of the exchange rate contributed to a spiral inflation (from 4.2% to 61% between 2019 and 2020). The International Monetary Fund (IMF) estimates a slow economic recovery in 2021 and 2022 (-3% and 1.3%, respectively).<sup>3</sup>
- 2.3 The country faces the following fiscal challenges,<sup>4</sup> including:

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<sup>1</sup> Suriname's economy is dominated by the extractives industry, making it highly vulnerable to volatility in commodity prices. In 2019, exports of oil and gold accounted for 82% of total exports and 30% of government revenues.

<sup>2</sup> IMF WEO Database April 2021.

<sup>3</sup> *Idem*.

<sup>4</sup> These challenges were identified using the following sources: PEFA review (2015), IMF (2018), IMF (2019), IMF (2021), La Cruz, T. (2020).

- (a) **Macro-fiscal.** After a truncated IMF program 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 12.6% of Gross Domestic Product (GDP) in the period 2015-2019. In 2020, the COVID-19 pandemic deteriorated even more the fiscal stance, with a budget deficit of 14.2% of GDP and public debt rising to 159.1% of GDP (from 74.8% in 2016).<sup>5</sup> The fiscal deficit and public debt estimates for 2021 are 9.5% and 147.6% of GDP, respectively.<sup>6</sup>
- (b) **Government revenue.** In the period 2016-2020, government revenues stalled at around 20% of GDP following the cessation of the alumina mining (2015) and the fall of gold and oil prices (2018-2020). Mining royalties dropped from 3.9% of GDP in 2017 to 3% in 2020. Additionally, the pandemic had a negative impact in tax revenues, which fell from 15% in 2019 to 14.4% of GDP in 2020, mainly due to a fall in indirect taxes. 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<sup>7</sup> and strengthen tax administration.<sup>8</sup>
- (c) **Public expenditure.** Government expenditures increased from 27.2% to 33.9% 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 11.3% of GDP) and other primary current expenditure (13.2% to 16.3% of GDP),<sup>9</sup> as well as interest payments (2.5% to 3.9% of GDP).<sup>10</sup> 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.
- (d) **State-Owned Enterprises (SOEs).** SOEs play an important role in fulfilling the country's social policy, physical infrastructure, government revenues and general economic activity. In 2019, there were 120 SOEs in Suriname, of which nearly 60% were subsidized. 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.<sup>11</sup> These issues highlight the need for improving regulations and financial monitoring of SOEs, and rationalizing government support to reduce fiscal risks.

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<sup>5</sup> The debt crisis forced the government to temporarily default on its debt obligations. Currently, debt restructuring negotiations are taking place between the government and creditors.

<sup>6</sup> These figures already assume the implementation of government reforms (Source: IMF, 2021).

<sup>7</sup> Suriname remains one of the few countries in the region that has not implemented the Value-Added Tax (VAT).

<sup>8</sup> For a detailed account of the institutional challenges faced by the Directorate of Taxes and Customs (DOTC), see: [Howell, H. \(2017\). Institutional Capacity Assessment. IDB.](#)

<sup>9</sup> This includes a rise in untargeted subsidies, particularly electricity subsidies (which doubled from 1.2% to 2.5% of GDP).

<sup>10</sup> IMF (2021).

<sup>11</sup> See: La Cruz, T. (2020). Assessment on the Corporate Governance and Monitoring and Evaluation System of State-owned Enterprises in Suriname. IDB.

- 2.4 **Social outcomes.** Macroeconomic conditions are affecting the citizen's quality of life. In 2017, poverty was estimated at 26.2% while 13% of households were at risk of poverty.<sup>12</sup> Income inequality (Gini coefficient) was estimated at 0.44. Moreover, the ongoing COVID-19 pandemic is having a disproportionate impact on vulnerable groups. A telephone survey financed by the Bank<sup>13</sup> found that low-and-middle-income households reported the highest employment loss rate in 2020 (21% and 22%, respectively) compared to high-income households (13%).<sup>14</sup> It also showed that small businesses were more severely impacted by the pandemic. These trends can lead to higher poverty levels and exacerbate pre-existing inequalities.
- 2.5 **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 an Extended Fund Facility (EFF), complemented by financial support from the Bank and other multilateral institutions. 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.<sup>15</sup>
- 2.6 The Surinamese authorities have requested support from the Bank to assist in the economic recovery and have agreed to focus on a series of policy measures that will contribute to their plan by solidifying the fiscal stance in the short and medium term.
- 2.7 **Objective.** The general objective of the program is to support the authorities' efforts to achieve a sustainable fiscal path and higher economic growth.<sup>16</sup> The specific objectives are: (i) strengthening the tax system through the introduction of the VAT and the reduction of tax distortions which hinder private investment, employment and competitiveness; (ii) enhancing the programming and execution of budgetary expenditure; (iii) improving the macro-fiscal institutional and policy framework; and (iv) strengthening the fiscal framework of the SOEs. These will be accomplished through implementing the following components:
- 2.8 **Component I. Macroeconomic stability.** Maintain an economic framework consistent with the program's objectives and the guidelines set forth in the sector Policy Letter.
- 2.9 **Component II. Strengthen the tax system.** Includes the following policy actions for the first operation: (i) the Government of Suriname prepares a draft of the

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<sup>12</sup> [Suriname's Survey of Living Conditions \(2017\)](#).

<sup>13</sup> SU-P1120.

<sup>14</sup> [Beuermann et al \(2021\)](#).

<sup>15</sup> The components of this operation complement the policy actions of the IMF's EFF and the Bank's SDL (in preparation). The measures in this support package are fully aligned with the pillars of the government's recovery plan.

<sup>16</sup> This operation focuses on the fiscal sustainability challenge, while complementary multilateral support will provide financial assistance in other macroeconomic areas. The expected results are higher tax revenues, an improved control on public expenditure and SOEs transfers, and a strengthened macro-fiscal framework, which will contribute to a decrease in the fiscal deficit and, thus, fiscal sustainability.

Fiscal Incentives Bill;<sup>17</sup> (ii) submits the VAT Bill to the National Assembly; (iii) submits a Bill to the National Assembly to modernize the DOTC through the establishment of a Semi-Autonomous Revenue Agency with emphasis in the necessary arrangements for the establishment of the VAT; and (iv) prepares specific tax regulations to strengthen the tax management of extractive industries (oil, gas and mining).

- 2.10 **Component III. Rationalize public expenditures.**<sup>18</sup> The Government of Suriname commits in the first operation to: (i) prepare an action plan to review and update the expenditure budget classifications; (ii) prepare an action plan to improve the public investment system and the resilience of public infrastructure to climate change; (iii) prepare a plan to conduct a national survey of living conditions;<sup>19</sup> (iv) conduct a diagnostic of the public procurement system across all line ministries; (v) update the draft of the Procurement Bill with aim at making their processes more transparent and establish an action plan for its implementation; and (vi) conduct a public investment management assessment.
- 2.11 **Component IV. Improve the macro-fiscal institutional and policy framework.** In the first operation, the government commits to: (i) prepare a plan to strengthen the Medium-term Fiscal Framework (MTFF); (ii) draft legislation to introduce a fiscal responsibility law; and (iii) review the Savings and Stability Fund (SFF) design and operational framework.
- 2.12 **Component V. Strengthen the fiscal framework of the SOEs.** For the first operation, the government prepares: (i) an action plan and framework to regulate SOEs; and (ii) preparation of new legislation that improves governance and ensures strong representation of all genders on the board of SOEs.
- 2.13 **Beneficiaries.** The program will benefit the Government of Suriname, as this operation will ensure the availability of resources to mitigate the negative effects of the macroeconomic crisis on the fiscal accounts and to restore macroeconomic and fiscal stability in the medium term. It will also benefit vulnerable households through two channels: (i) by increasing public financial resources to ensure the sustainability of income-protection programs; and (ii) through the Survey of Living Conditions, which will contribute the targeting of such programs. In addition, the Electronic Procurement Platform will benefit central and regional public procurement offices in line ministries. The actions to strengthen the fiscal framework of SOEs will benefit them by improving their governance and sustainability.
- 2.14 **Multilateral Support.** 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

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<sup>17</sup> The bill aims to rationalize fiscal incentives.

<sup>18</sup> These policy actions complement measures to contain public sector wages and reduce electricity subsidies included in the EFF and the IDB's Special Development Loan (SDL) (SU-L1064 currently in preparation).

<sup>19</sup> This will contribute to improve targeting of subsidies and social programs.

supporting the creation of a Large Taxpayer Unit).<sup>20</sup> The IMF is supporting the Republic of Suriname through an EFF for SDR472.8 million (about US\$690 million) with a duration of 36 months. Table 2 shows the expected financing for 2021:

**Table 2. Identified financing 2021**

Source	Amount (US\$ millions)	Status
IMF	94	In preparation
IDB (SDL)	50	In preparation
IDB (PBP)	100	In preparation
Other IFIs	94	In preparation
Financing from debt restructuring	222	In negotiation
<b>Total</b>	<b>550</b>	

- 2.15 **Strategic alignment.** The program is consistent with the Update to the Institutional Strategy (document AB-3190-2) and aligned with the crosscutting areas of institutional capacity and rule of law, through the strengthening of the fiscal policy and institutional framework to achieve fiscal sustainability; and gender equality and diversity, through ensuring strong representation of all genders on the boards of SOEs. The program will also contribute to the Corporate Results Framework 2020-2023 (document GN-2727-12) through the indicator "countries with strengthened tax and expenditure policy and management." 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 (document GN-2587-2) and is consistent with the Fiscal Policy and Management Sector Framework Document (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 aligned with the Extractive Industries Sector Framework Document (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 Bank's country strategy with Suriname 2016-2020 (GN-2873) under the modernization of the public sector strategic area, as it helps to strengthen public finance.<sup>21</sup>
- 2.16 **Complementarity with other Bank operations.** In addition to this PBP, the Government of Suriname requested a SDL for \$50 million. The SDL is in line with the EFF program of the IMF and supports policies to restore fiscal sustainability; bring debt back to sustainable levels; strengthen the social safety net to better-protect the most vulnerable; upgrade the monetary policy framework; recapitalize the financial system; and tackle corruption.
- 2.17 The Bank is also supporting the government through two complementary interventions. First, the fiscal reform agenda, particularly the introduction of the VAT and the restructuring of the DOTC, will be financed through an investment

<sup>20</sup> 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.

<sup>21</sup> The current CS is valid until December 13, 2021.

loan currently under preparation. which will continue to support Suriname's fiscal reform agenda, including the introduction of the VAT and the plan to restructure the DOTC. Second, the Bank will provide technical assistance to strengthen the MTFF, evaluate public expenditure efficiency and enhance the fiscal management of the extractive industries, through a Technical Cooperation for the Caribbean region (ATN/OC-18057-RG; RG-T3695).

### III. TECHNICAL ISSUES AND SECTOR KNOWLEDGE

- 3.1 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). The amount of this operation is US\$100 million (one disbursement), financed from the Bank's Ordinary Capital, and was determined based on the government's gross financial needs (US\$549 million). This modality was chosen because: (i) it promotes continuous policy dialogue between the Bank and the country during the implementation of the government's macroeconomic and fiscal reforms; and (ii) it facilitates the evaluation of results and allows for any necessary adjustments to the program in the medium term.
- 3.2 **The 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; SU-L1037) and the Public Expenditure Management Program (operations 2666/OC-SU; SU-L1026 and 2862/OC-SU; SU-L1028), as well as an investment loan, the Fiscal Strengthening to Support Economic Growth (FISEG) Program (4112/OC-SU; SU-L1050).<sup>22</sup> The latter was reformulated to support the country's efforts during the COVID-19 pandemic. As a result, the Bank is preparing a new investment loan (SU-L1060) which will continue to support Suriname's fiscal reform agenda, including the introduction of the VAT and the plan to restructure the DOTC. These reforms will play an important role in developing the tools and framework critical to strengthen the revenue system.
- 3.3 **The Bank's experience in the Region.** The Bank has ample experience assisting the countries of the region in overcoming macroeconomic crises and fiscal imbalances similar to those faced by Suriname. In Barbados (4656/OC-BA; BA-L1045) 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; EC-L1255) the Bank supported: (i) macroeconomic stability; (ii) the restoration of fiscal sustainability; and (iii) safeguarding of social spending to support the most vulnerable population. Additionally, during the COVID-19 pandemic the Bank supported government efforts to address the health and economic crisis through SDLs in Dominican Republic, Honduras, and Panama.
- 3.4 **Lessons learned.** The Bank's PBP loan instrument is an effective vehicle for channeling budgetary support resources, particularly in cases when the reform

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<sup>22</sup> Also, ATN/FI-13102-SU (Public Procurement Strengthening) and ATN/FI-14581-SU (Revenue and Expenditure Administration) have been supporting the fiscal area.

agenda spans for multiple years. Its main value-added, other than financial, is that it leverages and strengthens the country's economic recovery plan, while adding a layer of technical support to help the government meet its agreed commitments. 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 TCs).

#### **IV. ENVIRONMENTAL SAFEGUARDS AND FIDUCIARY SCREENING**

- 4.1 Under Directive B.13 of the IDB's Environment and Safeguards Compliance Policy (Operational Policy OP-703), no *ex ante* impact classification is required for this program. The operation supports the development of policies, regulations, management instruments, and other institutional strengthening actions, so no significant direct impacts on the environment or natural resources are foreseen.

#### **V. OTHER ISSUES**

- 5.1 **Risks.** Three high level risks have been pre-identified: If the COVID-19 pandemic lingers longer than expected, the economic recovery could be slower than anticipated, negatively impacting on the recovery of the public finances.
- 5.2 If the extent of the macroeconomic and fiscal crisis in the country jeopardizes the political ability of the government to pass crucial economic reforms, there could be further deterioration of the fiscal balance and the public debt crisis.
- 5.3 If the institutional capabilities of the Ministry of Finance to maintain key macroeconomic and fiscal aggregates in line with their sustainability program is not strengthened, there could be unanticipated deviations that may be hard to correct in the short and medium-term, putting sustainability at risk.

#### **VI. RESOURCES AND TIMETABLE**

- 6.1 Annex V describes the expected preparation timeline that includes: (i) distribution of the Proposal for Operation Development to the QRR by October 4<sup>th</sup>, 2021; (ii) distribution of the Draft Loan Proposal to the Operation Policy Committee by November 1<sup>st</sup>, 2021; and (iii) presentation to the Board of Directors by December 15<sup>th</sup>, 2021. The estimated amount for mission travel and consultancy is US\$95,000.



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# Safeguard Policy Filter Report

## Operation Information

Operation		
SU-L1065    Fiscal Sustainability Program for Economic Development I		
Environmental and Social Impact Category	High Risk Rating	
B13		
Country	Executing Agency	
SURINAME	SU-MOF - MINISTRY OF FINANCE	
Organizational Unit	IDB Sector/Subsector	
Fiscal Management Division	FISCAL POLICY FOR SUSTAINABILITY AND GROWTH	
Team Leader	ESG Primary Team Member	
GERARDO REYES-TAGLE		
Type of Operation	Original IDB Amount	% Disbursed
Loan Operation	\$100,000,000	0.000 %
Assessment Date	Author	
24 Jun 2021	susanar Project Assistant	
Operation Cycle Stage	Completion Date	
ERM (Estimated)	28 Jul 2021	
QRR (Estimated)	4 Oct 2021	
Board Approval (Estimated)	15 Dec 2021	
Safeguard Performance Rating		
Rationale		



# Safeguard Policy Filter Report

## Potential Safeguard Policy Items

[No potential issues identified]

## Safeguard Policy Items Identified

### [B.1 Bank Policies \(Access to Information Policy– OP-102\)](#)

The Bank will make the relevant project documents available to the public.

### [B.3 Screening and Classification](#)

The operation (including [associated facilities](#)) is screened and classified according to its potential environmental impacts.

### [B.7 Supervision and Compliance](#)

The Bank is expected to monitor the executing agency/borrower's compliance with all safeguard requirements stipulated in the loan agreement and project operating or credit regulations.

### [B.13. Noninvestment Lending and Flexible Lending Instruments](#)

Ex-ante impact classification may not be feasible for this type of operation. This includes: policy-based loans, Financial Intermediaries (FIs) or loans that are based on performance criteria, sector-based approaches, and conditional credit lines for investment operations.

### [B.17. Procurement](#)

Suitable safeguard provisions for the procurement of goods and services in Bank financed operations may be incorporated into project-specific loan agreements, operating regulations and bidding documents, as appropriate, to ensure environmentally responsible procurement.

## Recommended Actions

Operation has triggered 1 or more Policy Directives; please refer to appropriate Directive(s). Complete Project Classification Tool. Submit Safeguard Policy Filter Report, PP (or equivalent) and Safeguard Screening Form to ESR.

## Additional Comments

It is a PBL

## **SOCIAL AND ENVIRONMENTAL STRATEGY**

This programme has been classified as a Category B13, and in accordance with the Bank's Environmental and Safeguards Compliance Policy, no ex-ante environmental impact classification is required. The activities financed will not have direct or significant impacts on the environment or on the country's natural resources.

## INDEX OF COMPLETED AND PROPOSED SECTOR WORK

Studies	Description	Progress	References
Diagnostics	Suriname Tax and Customs Administration Diagnostic.	Completed in 2005.	IDB/CARTAC (2005). “Suriname Tax and Customs Diagnostic Study Report Version 2.0”.
	Suriname – Report on Public Expenditure and Financial Accountability (PEFA)	Completed in 2015	Not publicly available
	Suriname Survey of Living Conditions: 2016-2017. IDB.	Completed in 2018	<a href="#">Electronic Link</a>
	2018 Article IV Consultation. IMF Country Report No. 18/376.	Completed in 2018	<a href="#">Electronic Link</a>
	Suriname: Selected Issues. IMF Country Report No. 18/377.	Completed in 2018	<a href="#">Electronic Link</a>
	Institutional capacity of the MOF to execute the investment program	Completed in 2018	<a href="#">Electronic Link.</a>
	2019 Article IV Consultation. IMF Country Report No. 18/376.	Completed in 2019	<a href="#">Electronic Link</a>
	Suriname: Selected Issues. IMF Country Report No. 19/392.	Completed in 2019	<a href="#">Electronic Link</a>
	Assessment on the Corporate Governance and Monitoring and Evaluation System of State-owned Enterprises in Suriname	Completed in 2020	La Cruz, T. (2020). “Assessment on the Corporate Governance and Monitoring and Evaluation System of State-owned Enterprises in Suriname”. Fiscal Management Division, IDB.
	Suriname COVID-19 Survey. IDB.	Completed in 2021	<a href="#">Electronic Link</a>
	Memorandum of Economic and Financial Policies. IMF.	Completed in 2021	Not publicly available

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