

AGRICULTURE AND TRADE POLICY REFORM LOAN

ATPL

(SU-0016)

EXECUTIVE SUMMARY

BORROWER AND GUARANTOR: The Republic of Suriname

EXECUTING AGENCY: Ministry of Finance, with participation from the Ministry of Agriculture, Animal Husbandry and Fisheries; Ministry of Trade and Industry; and Ministry of Natural Resources

AMOUNT AND SOURCE: IDB fast-disbursing sector loan: US\$30 million (IFF). First tranche US\$18 million. Second tranche US\$12 million.

FINANCIAL TERMS AND CONDITIONS:

Amortization period:	20 years
Disbursement period:	3 years
Interest rate:	variable (IFF conditions)
Inspection and supervision:	1%
Credit fee:	0.75%
Currency:	US dollars, under the Single Currency Facility

OBJECTIVES: The objective is to promote sustainable economic development by improving the economic policy and institutional framework. To achieve the objective, the GoS is undertaking policy reforms that are already in place in most countries in the region. Sustainable market-driven resource allocation will be enhanced by achieving the following specific objectives: (i) *in external trade*, to eliminate unnecessary and non-transparent administrative controls; (ii) *in the rice subsector*, to eliminate administrative market controls and reduce pricing and export-taxation distortions; and (iii) *on environmental issues*, to protect human health through improved food safety and management of toxic agrochemicals; and to define and implement a participatory policy for sustainable forest management.

The reforms will facilitate private sector diversification of export products and markets. The

rice subsector receives particular attention because it is the major agricultural product and export, it is mostly a private sector activity, and it is experiencing grave difficulties.

DESCRIPTION:

The loan will be disbursed in two tranches in support of the ATPL program. The ATPL program of reforms is based on a supportive macroeconomic environment, with particular emphasis on fiscal equilibrium and realistic exchange rate.

The specific ATPL sectoral components are: (i) elimination of *trade licenses and quantitative import restrictions*. Replace the current system of licenses, ex-ante reviews and pre-approval of transactions, import quotas, and import prohibitions (by a transparent and modern system); (ii) *foreign exchange surrender for non-mineral products*. Eliminate, according to a schedule consistent with macroeconomic stability, the requirement to surrender foreign exchange for non-mining products, and the need to deposit a letter of credit before exporting; (iii) *institutions, export taxation and pricing of services for rice production and exports*. Eliminate unnecessary institutions and inefficient government services, price controls, and retention quotas. Improve the pricing of land and irrigation services; and (iv) *forest management*. Define a policy, complete regulations and start implementation of effective monitoring, control and efficiency pricing of forest resources.

Technical support. The program includes technical support to develop a list of constraints to trade due to environmental, health or similar acceptable reasons (i.e. a pre-announced negative list), and legislation supportive of a modern and transparent trade system. Institutional strengthening will take place for agencies responsible to set and implement policy on customs; export promotion; trade negotiation; agricultural health, as well as food-safety and the use of toxic agricultural inputs. The technical cooperation package also includes the preparation of an investment project for land-use planning and the administration of public agricultural land.

Actions taken prior to Board presentation. During the ATPL negotiations, the GoS committed itself to float the foreign exchange rate as a weighted average of operations in banks and cambios, prior to first tranche. All over the region, macroeconomic stability and a free market for the foreign exchange

have proven to be the most effective incentives to agricultural growth and prerequisites for the sectoral reforms supported by the ATPL.

The GoS has also started implementing the sectoral ATPL program of reforms. All taxes and levies on rice exports have been eliminated de facto, including the US\$1/ton previously collected for the Rice Fund, which used to be administered by SUREXCO, and the US\$3/ton collected for rice research. These taxes will not be levied any more, and no new charges will be imposed on rice exports.

In addition to the elimination of taxes and levies on rice-exports, the Council of Ministers has passed a resolution to repeal all trade licenses and import-quotas; to withdraw price and quota controls on rice exports; and to abolish an agency that was an instrument for government intervention in rice markets (the state corporation SUREXCO). Agreement with the Bank was reached to eliminate before second tranche the requirement for exporters of non-mineral products to surrender foreign exchange. The requirement for confirmed letter of credit or prior-deposit of export values has been eliminated. The Government withdrew its participation from the Rice Institute of Suriname (RIS), a quasi-governmental organization responsible for promoting the rice subsector. Rents on public agricultural land were increased and first steps were taken toward establishing water control boards, with strong water user participation in operation and maintenance. Sustainability has also been enhanced with the establishment of the National Institute for Environment and Development in Suriname (NIMOS), and the definition of a mechanism with stakeholder participation to define a forestry policy.

**ENVIRONMENTAL
AND SOCIAL REVIEW:**

The most relevant potential negative impacts identified could arise, directly or indirectly, from an expanded area cultivated with rice. While the expansion in rice surface as a consequence of the ATPL is far from being a certainty, the expansion could be a consequence of the program. The ATPL includes provision to reduce the main resulting risks, which are related to uncontrolled use of pesticides; deficient administration of public land; and ineffective land-use planning.

The CESI/TRG agreed that positive environmental and social impacts should be expected from the ATPL (see 3.12).

BENEFITS:

Stimulation of economic growth through reduced transaction and administrative costs, market-induced resource allocation and increased stakeholder participation.

Governance will be improved by reducing burdens on the government and strengthening it in necessary tasks, such as food-safety. It will also reduce incentives for rent-seeking behavior, increasing transparency and automaticity in the system of trade controls, and shift from a discretionary to a modern rule-based system.

Agriculture is expected to be the primary beneficiary sector, because some measures are specifically targeted to the rice subsector, and because the resource base, as well as the experience and potential to diversify or expand production and trade, are in place. The ATPL facilitates addressing a major problem in the rice subsector: loss of European tariff preferences, and the consequent need for improving competitiveness and finding new markets.

A long-delayed forestry policy and regulatory framework for forestry will be completed, and implementation of new sustainable forest policies will begin.

RISKS:

The main risk is non-compliance with commitments to change policy. This risk is present because: Suriname and the Bank have had little experience in working together; government controls are ingrained in Suriname; and the Ministry most engaged in trade controls is also the most important agency for the implementation of ATPL-supported Government policies. It is expected that the ATPL will establish the Bank as a partner in policy dialogue, and will reduce risks of non-compliance by supporting sectors favoring change.

A specific risk derives from the emergence in late 1997 of fiscal, quasi-fiscal and external sector disequilibria. Macroeconomic disequilibria could undermine the ATPL reforms and, whatever their causes, could be used as a justification to maintain a very tightly controlled trade and production system.

Macroeconomic disequilibria have already caused difficulties that resulted in price controls, some of which have already been eliminated as part of the ATPL negotiations. Price controls were reinstated at

the end of 1997, affecting products for domestic consumption, including rice. In addition to the usual negative incentives associated with price controls, the introduction of maximum prices at the end of 1997 reflects backtracking in the GoS's own policies and limited faith in monetary stability and in the ATPL market-oriented strategy. Further controls were introduced in 1998 (minimum per-bag paddy prices, minimum "indicative" rice-export prices, and a subsidy to rice exporters). Reflecting the undesirability of this set of controlled prices and subsidies, the GoS informed the Bank that these new controls were removed in early October, 1998. However, the macroeconomic situation will have to be closely monitored, based on pre-established indicators and periodic missions from the IMF and the Bank.

Limited institutional technical or contract-management capability may delay the implementation of technical support activities, thus delaying achieving specific ATPL objectives. The GoS will finance the required technical and contract-management support, and will retain specialized multilateral agencies to implement the action plans.

**RELATIONSHIP OF
PROJECT IN BANK'S
COUNTRY AND
SECTOR STRATEGY:**

The strategy underlines improving the framework for private sector development and revitalizing the productive sectors, as well as improving natural resource management and environmental protection. The strategy designates agriculture as a key sector for Bank support, and asserts that Suriname's economic decline and poor long-term agricultural performance were caused primarily by inefficiencies in the allocation and use of resources rather than by a shortage of resources. These inefficiencies, in turn, were generated by inappropriate policies. In consequence, the strategy stipulates that initial support in the agricultural sector should concentrate on reforming the overall policy framework.

The ATPL was identified and designed as a direct consequence of the strategy, supporting policy changes to revitalize the productive sectors, improve natural resource management and environmental protection. While a more modern and transparent framework favors the entire economy, agriculture, forestry and non-traditional exports will derive the most benefits from the ATPL.

**POVERTY
TARGETING:**

The program is not poverty-targeted or oriented toward social equity or poverty reduction.

**SPECIAL
CONTRACTUAL
CONDITIONS:**

Funds will be disbursed upon request by the borrower and presentation of evidence of compliance with policy conditions as set forth in Chapter III-D.

**STATUS OF
COMPLIANCE WITH
FIRST TRANCHE
CONDITIONALITY:**

The GoS is currently in compliance with the macroeconomic condition (a). Compliance with the benchmarks will be monitored jointly with the IMF. Conditions (b), (c), and (d) are the only conditions pending before first tranche compliance. A technical cooperation is currently being executed to support the GoS in implementing the required trade policy reforms. Therefore, it is expected that conditions (b), (c), and (d) will be complied with before February 1999.

I. FRAME OF REFERENCE

A. Export-led growth and new policies

- 1.1 Suriname is a resource-rich and sparsely-populated country, with a small domestic market and need for export-led growth, which can only take place under new economic policies. The potential for production and export growth has been limited by interventionist economic policies designed mainly to distribute rents generated from three sources: mining, transfers from the Netherlands and tariff preferences in the European markets for a few agricultural products.
- 1.2 The need for more market-friendly policies and export-led growth is acute, because the interventionist approach has produced poor results, aid from the Netherlands has declined, and tariff-free access to the European rice market has been severely reduced. Limited foreign aid and eroded European preferences are indicative of changes leading toward a less benign external environment for Suriname. In addition, the drought brought on by El Niño affected rice production and exports, underlining drainage and irrigation, research and extension problems that would better be addressed by farmers, millers and exporters rather than by a control-oriented government.

B. Country description

1. Land area, economic activities, agriculture and forestry

- 1.3 Suriname has a land area of 163,820 square kilometers and a population of 416,000. Manufacturing and commercial agricultural activities are confined to the coast, which is inhabited by 95% of the total population although it accounts for only 10% of the total land area.
- 1.4 Mining dominates the economy, and alumina and aluminum account for 70% of export earnings and 60% of income tax revenues. Informal and small-scale gold mining activities have proliferated in the interior, and unrecorded gold exports and production may be comparable in magnitude to the bauxite sector. Manufacturing -- aside from bauxite refining and alumina smelting -- accounts for only 5 percent of gross domestic product (GDP).
- 1.5 Agriculture, and fisheries is the second largest sector of the economy, contributing 12% of GDP (excluding forestry). The sector contributes 25% of export earnings (second in importance only to mining), and 12,000 jobs, second in importance in jobs only to the government sector. The major agricultural products are rice -- which is produced on large public and private estates and by approximately 10,000 smallholders -- bananas, vegetables, citrus, milk and livestock. Shrimp and fisheries production are also significant.

- 1.6 Registered forest production accounts for only 2% of GDP, although Suriname has one of the highest ratios of forest land to total land area in the world. Tropical forests are State property and they cover 16.4 million ha (more than 90% the country). Deforestation has been kept to a minimum and there is a rich variety of species, although it is estimated that only 30 species are currently marketable. About 1.6 million ha of forests have been recently put on reserve, supported by a US\$1 million trust fund to help manage the reserve, as agreed with Conservation International. Logging is further limited by inaccessibility and restrictions imposed by local community rights.
- 1.7 Almost the entirety of the exploitable forest is located in a 10 to 40 kilometers wide belt that runs east-west between the coastal northern lowland and the thin soils of the fragile hilly uplands to the south. This forestry belt has a well developed road network, and covers 1.4 million hectares, of which 600,000 are suitable for commercial logging. The belt is also considered an environmentally ideal region for intensive management programs, since it has relatively little hydrological or nature conservation vulnerability.

C. Macroeconomic context

- 1.8 Since 1981, Suriname has experienced significant macroeconomic volatility, which has had a detrimental impact on the agriculture and manufacturing sectors over the long run (see Annex I-1 for details on long-run macroeconomic developments). However, the macroeconomic situation improved greatly in 1995 and 1996, because of a recovery in international prices of alumina and policy changes in 1994.
- 1.9 Economic conditions remained favorable in 1997, although a slowdown from the alumina-led recovery of 1995-96 and more expansionary fiscal and credit policies exposed signs of macroeconomic stress. The government's financial situation deteriorated from a slight surplus in 1996 to a consolidated deficit of 4% in 1997. The narrow money supply (M1) expanded by 22% in 1997, contributing to an upward drift in the parallel exchange rate and an acceleration of inflation from -1% in 1996 to 7% in 1997. In an effort to

contain price increases, in October 1997 the government introduced price controls on 40 basic consumer goods. 1/

- 1.10 In 1998, two factors have caused concern that the macroeconomic situation could deteriorate further. First, early indications suggested that fiscal and monetary policies were set on an expansionary course. Second, the international economic environment has turned much less favorable for many developing countries, including Suriname. The prices of Suriname's principal exports -- alumina, aluminum, gold, crude oil and rice -- have declined and rice output has diminished because of the El Niño-induced drought.
- 1.11 In view of these factors, in February 1998 IMF and IDB were concerned that: the fiscal deficit could rise in 1998; central bank financing of the deficit could increase sharply; the current account of the balance of payments could weaken significantly; inflation could accelerate to 25%; and pressures on the parallel exchange rate could mount. The IMF and the IDB recommended measures to bring the macroeconomic policy framework back on track, including: a reduction in the fiscal deficit to a level that could be financed externally; submission of a budget amendment with revised targets for 1998; and a halt to quasi-fiscal/on-lending operations.
- 1.12 In August 1998, the National Assembly approved an amended 1998 budget. Although the amended budget projected a deficit of roughly 8.9% of GDP on the International Monetary Fund (IMF) budget definition, 2/ it is likely that the actual deficit will be lower. Since February 1998, there has been success in increasing tax revenues in order to offset increased expenditures on items like wages and salaries. As a result, the target of zero domestic financing of the deficit (which implies a deficit of less than 5.2% on the IMF definition and 0.0% on the Suriname definition) is

1/ Decree 3310 from the Ministry of Trade and Industry (MTI), issued September 19th, 1997 and published on December 16th, 1997. Maximum prices and penalties were established effective as of October 1st, 1997. The decree was based on article 2, paragraph 1 of the Wet Prijszetting en Prijbewakin law (Price setting and price control), issued in 1984 and modified in 1996. As a response to the overvalued local currency, further controls were introduced in 1998: minimum per-bag paddy prices to be paid by rice millers, minimum ("indicative") rice-export prices, and a subsidy to rice exporters equivalent to 20 or 25% of the rice-price per metric ton. Reflecting the undesirability of this set of controlled ("indicative") prices and subsidies, the GoS informed the Bank that these new controls were removed in early October, 1998.

2/ This is equivalent to 3.7% of GDP on the Suriname budget definition, which includes external borrowing as a revenue and debt amortization as an expenditure.

within reach. Moreover, on-lending operations have been halted in 1998.

- 1.13 Of increasing concern is the continued deterioration in external conditions. A prolonged period of low export prices would reduce tax revenues and weaken the balance of payments. In the past, low alumina prices usually have also led to a depreciation of the real effective exchange rate, an acceleration of inflation and declining real wages. A bigger potential threat to the ATPL reforms would be a period of exchange rate overvaluation. However, this risk will be minimized because the authorities are committed to moving to a freely floating exchange rate (see Annex I-1 for details on current exchange rate arrangements and the evolution of structural reforms).
- 1.14 Suriname has never had a formal program with the IMF, and it is highly unlikely that it would request a program in the near to medium term. However, in addition to normal Article IV consultations, during the preparation of this project the GOS agreed to receive a special joint IMF/IDB mission in February 1998 to assess the macroeconomic framework. The ATPL has thus been developed in close coordination with the IMF, which is strongly supportive of the program's goals and structural reforms. In the absence of a formal IMF monitoring arrangement, the IDB and GoS have agreed upon simple macroeconomic benchmarks by which macroeconomic performance can be judged (see Annex I-2 Policy Letter). These benchmarks will be monitored jointly with the IMF.

D. Bank and other donor operations

- 1.15 Suriname has not received any financial support for policy reforms, nor has the Bank financed any previous agricultural or trade projects in the country. A policy operation for the financial sector (SU-0015) is under preparation.
- 1.16 The Environmental Management Technical Cooperation (ATN/SF-5941-SU) was approved May 1998 for establishing a national institutional framework for environmental policy and management. The Bank is addressing social and gender concerns through technical cooperations in preparation or already under execution in the health, housing and community development areas.
- 1.17 A large number of investment projects in a wide range of agricultural subjects have been identified for financing by the Netherlands, which is the major donor in Suriname. The focus of the projects is on investment and technical assistance, rather than on policy changes. However, a major proposal under consideration would rehabilitate the drainage and irrigation (D&I) infrastructure, while providing a modern policy framework and technical assistance to develop water user associations and divesting operation and maintenance to users. Such a D&I project would reinstate the approach to water user participation in operation and maintenance that prevailed before the government

fully took over the services. The policy focus of the ATPL and the investment focussed agricultural support from the Netherlands are complementary, since an improved and sustainable policy framework will raise the return on investments, while the investments cover areas in need of improvement for the long-run expansion of agricultural production and agricultural trade.

E. Bank strategy

- 1.18 The Bank's country strategy for Suriname underlines improving the policy framework for private sector development and revitalizing the productive sectors. It also focusses on improving the management of natural resources and protecting the environment. The strategy considers the agricultural sector as a key sector for Bank support.
- 1.19 The strategy argues that Suriname's economic decline and poor long-term development performance were caused primarily by inefficiencies in the allocation and use of resources rather than by a shortage of resources. These inefficiencies, in turn, were generated by inappropriate policies. In consequence, the strategy stipulates that support in the agricultural sector should at first be concentrated on reforming the policy framework.
- 1.20 The ATPL was identified and designed as a consequence of the Bank strategy in Suriname: it is a sector policy loan, enhances the policy framework for private sector participation, underlines a few specific measures for improving agriculture, and includes a forestry component to deal with the issue of sustainable exploitation of natural resources.

II. AGRICULTURAL AND TRADE POLICY REFORM PROGRAM

A. Objective

- 2.1 The objective is to promote sustainable economic development by improving the economic policy and institutional framework for private sector participation. In order to achieve this objective, the GoS must undertake policy reforms that are already in place in most countries in the region. Sustainable market-driven resource allocation will be enhanced by the following specific objectives: (i) *in external trade*, to eliminate unnecessary and non-transparent administrative controls; (ii) *in the rice subsector*, to eliminate administrative market controls and reduce pricing and export-taxation distortions; and (iii) *in relation to environmental issues*, to improve food-safety, protection for human health and the environment, and to define and begin implementation of a participatory policy for the sustainable management of tropical forests.

B. Program rationale

- 2.2 The program rationale is to facilitate market-driven diversification of products and markets, with a major role for agriculture. Agriculture is a key sector, urgently needing to improve competitiveness and with the potential to respond quickly to an improved policy framework.
- 2.3 Agricultural trade is closely tied to access to preferential markets, in particular to rice and banana markets in the European Union (EU). ^{3/} EU market-access through OCT has been reduced drastically, and combined rice exports from Guyana and Suriname exceed the total of the European quota (ACP plus OCT routes). ^{4/}

^{3/} The European Union (EU) provides direct access with 35% of the most favored nation tariffs under the Lomé Convention for Asia-Caribbean-Pacific (ACP) countries, and a limited but tariff-free access through overseas countries and territories (OCT).

^{4/} The direct ACP route to the EU is subject to a joint (Guyana and Suriname) annual quota of 125,000 tons of husked rice, plus 20,000 of broken rice. The EU now also requires orderly access to its market, distributing the annual quota into three four-month periods, thus adding an additional constraint to the flow of exports from Suriname and Guyana. The OCT route is even more attractive than the direct ACP route, since its access is tariff-free. The joint exports of Guyana and Suriname via OCT during 1996 thus reached about 270,000 tons. However, a quota for tariff-free access to OCT was imposed by the EU in 1997. This quota has been reduced further, and the OCT route for 1998 is limited to 35,000 tons equivalent of brown rice annually. Exporters from Guyana and

This situation depressed rice prices 25% in one year (about US\$110/ton). The limit on non-competitive rice exports will become increasingly binding as European tariff preferences are further eroded.

- 2.4 Given the small size of the internal market and likely reductions in European preferential access for the main agricultural exports, a market-driven vigorous process of agricultural and non-agricultural product and market diversification must take place in Suriname. Agriculture is the obvious first candidate, because the resource base, potential and experience are in place to quickly improve competitiveness. However, the ATPL-improved policy framework for external trade is not limited to agriculture, since the purpose is to create a favorable environment for the private sector to identify new products and markets.
- 2.5 The main obstacles for the private sector to improve overall competitiveness and identify new export products and markets result from extensive government controls, based on a heavy and outdated interventionist legal framework, enforced by weak and under equipped institutions. The system currently in place favors a few rent seeking public and private agents, while it discourages the efficient allocation of resources and does not effectively protect human health, food-safety, the tropical forests or the environment in general.

C. Description of program policy components

- 2.6 The ATPL comprises four policy components: (i) trade licenses and quantitative import restrictions; (ii) foreign exchange surrender for non-mineral products; (iii) institutions, exports taxation and pricing of services for rice production and exports; and (iv) forest management.
- 2.7 Technical support is included to support a modern and transparent trade system, including customs modernization; and to address equipment, budgetary, staffing and training needs in institutions responsible for trade promotion, trade negotiations, and monitoring product standards; as well as for the Ministry of Agriculture, Animal Husbandry and Fisheries (MAAHF) to improve agricultural health, food-safety and the use of toxic chemical agricultural inputs. Technical activities to prepare a feasibility study on the administration of public agricultural land are also included, in order to advance the possible implementation of an investment project that should address over time crucial issues of land markets, land rights and land use planning.

Suriname have lost around US\$100 per metric ton, or about 25% of the export price that prevailed before this reduced access to OCT, with the consequent reduction in farm prices.

- 2.8 As is always the case with sector policy loans, the maintenance of a macroeconomic framework that is supportive of the program's objectives and goals is a pre-requisite. Since Suriname does not have an IMF agreement in place, specific macroeconomic indicators are included in the policy matrix. Progress on these indicators will be monitored by the IMF and the Bank.

D. Component I: Trade licenses, and quantitative import restrictions

1. Issues

- 2.9 An extensive system of trade licensing and quantitative import restrictions is in effect, although it is not always or consistently applied. Exports and imports are subject to cumbersome ex-ante reviews and licenses. Exporters and importers must obtain a general operator's license, and a license for each individual shipment. 5/ The licensing procedures create unnecessary transactions costs, and act as a disincentive to trade and barrier to entry for new small traders. Moreover, the system is less than fully transparent, and places a great amount of discretionary power in the hands of public officials with limited accountability. This creates uncertainties for producers and exporters, and incentives for agents to capture the economic rents created by the licenses.
- 2.10 Many imports are subject to quotas or outright prohibitions, which are not permitted by international agreements signed by Suriname. These quantitative restrictions to trade are mostly designed to protect domestic producers from external competition, and actual application of the restrictions is variable and arbitrary. The quantitative import restrictions raise consumption and production costs, distort incentives, and create an anti-export bias.
- 2.11 Suriname's current licensing system does not effectively address the few constraints to trade that may be legitimate. Some type of trade controls are necessary and are in effect in most countries. Legitimate controls could be put in place for trade that could affect human health, the environment or national security, or when regulating the preferential access to specific markets. 6/ However, these exceptions to free trade are better handled by pre-announced, modern and transparent mechanisms.

5/ Licenses are granted by the MTI, which requires previous signature from several other Ministries and public agencies on forms E.82 (for imports) and F (for exports).

6/ The MTI issues certificates of origin for exports to Caribbean Community and Common Market (CARICOM) and for other markets with preferential access (Form EUR-1 for the EU, and Form A for the Generalized System of Preferences). Export licenses would also be necessary to allocate Suriname specific quotas (such as in bananas) among potential exporters.

- 2.12 In addition, administration of the system diverts civil servants time, limiting the MTI's ability to carry out important functions, such as liaison with the World Trade Organization (WTO), CARICOM and other trade bodies; promotion of exports and market diversification; supporting compliance with international trade standards on product quality and food-safety; administration of anti-dumping mechanisms; and negotiations conducive to post-Lomé IV trade arrangements with the EU.
- 2.13 The introduction of the Automated System of Customs Data (ASYCUDA) system at customs in 1996 has rendered the MTI licensing system irrelevant for statistical and registration purposes. This opens up the possibility of removing the licensing system for all but a handful of products, and allows for the participation of a modernized Customs in a more creative, efficient and effective ex-post auditing of self-declared data.

2. Actions taken

- 2.14 On February 4, 1998, the Council of Ministers approved a resolution to: (i) repeal the existing system of trade licenses when a new trade system is implemented in the context of the ATPL; (ii) establish a pre-announced negative list of prohibited imports; and (iii) repeal import quotas. Terms of reference have been agreed with the Bank to establish the negative list for trade, develop new trade legislation and update the customs' computerized systems.

3. Proposed policy changes

- 2.15 The ATPL will: (i) eliminate unnecessary trade licensing and review procedures; and (ii) improve the efficiency of procedures that must be retained and modernized for legitimate reasons, such as human health, food-safety or environmental protection, or orderly access to tariff-free external markets with country-specific quotas. Simplified, modern, transparent and pre-announced trade control procedures will be established via the development of the negative list for imports and new legislation.

E. Component II: Foreign exchange surrender for non-mineral exports

1. Issue

- 2.16 Exporters of non-mineral products are legally obliged to surrender their foreign exchange receipts to the central bank. They are reimbursed in domestic currency at the official exchange rate, which is determined by the central bank. In addition, export shipment licenses are only issued if the export shipment is covered by a letter of credit opened by buyers abroad, or by prior deposit in a domestic commercial bank of the export value of the shipment.
- 2.17 The foreign exchange surrender requirement and the control mechanisms in place to enforce it increase the cost of exporting.

When the official exchange rate is lower than the freely-determined parallel exchange rate, this requirement also reduces revenues from exporting. Since bauxite derivatives are subject to their own foreign exchange regime, the burden falls mainly on agricultural products. Moreover, application of the requirement disadvantages non-traditional exports and, even within agriculture, discriminates against the rice subsector. 7/

2. Actions taken

- 2.18 The GoS and the IDB agreed that foreign exchange surrender requirements for non-mining exports will be eliminated before second tranche 8/, thus benefiting mainly rice-exports and facilitating non-traditional exports. The requirement for letter of credit or prior deposit of export values has been eliminated.

3. Policy changes

- 2.19 Under the ATPL, the surrender requirement for agricultural and manufacturing products must be phased out prior to second tranche.

F. Component III: Rice market interventions, pricing and unnecessary institutions

1. Issues

- 2.20 The prevailing practice in the rice market has been to control prices and impose retention quotas for the domestic market whenever production falters. Exports were taxed, irrigation and land services heavily subsidized, and public institutions implemented the controls or provided unnecessary services. Production and exports are discouraged, efficient use of land and water services is not promoted, a few private sector participants share the rents generated by the system, and the institutions and infrastructure to provide essential services has deteriorated. The rice subsector is ill prepared to deal with eroding European tariff preferences.

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- 7/ Shrimp exporters are permitted to surrender only the foreign exchange receipts over and above their needs for foreign currency and the banana company does not have to surrender bonus payments.
- 8/ Although the legal requirement to surrender foreign exchange will be unnecessary once the foreign exchange rate is freely floated, the Central Bank (CBvS) is not prepared to eliminate this requirement at the same time that it frees the exchange rate. Foreign exchange surrendered by non-mineral activities constitutes about 30% of the total foreign exchange available to the CBvS. The agreement to postpone elimination of the requirement until second tranche satisfies concerns of the CBvS about access to foreign exchange during the transition period.

- 2.21 Rice price controls and retention quotas. The requirement to surrender foreign exchange (see 2.16 and 2.17) is supported by "rice trade orders" that also set minimum "indicative" prices, periodically issued by the MTI for rice-exports, even while the Central Bank of Suriname underlines that "indicative" prices cannot be justified based on the requirement to surrender foreign exchange. These prices help define the amount of foreign exchange to be surrendered by exporters as part of the complex system of ex-ante controls. Although defined as merely an information system, exporters must surrender foreign exchange at this price, and cannot pay paddy farmers less than an associated minimum farm price. Market clearing possibilities are thus constrained.
- 2.22 The same decrees that are used for minimum rice-export prices have been used from time to time to impose retention quotas expressed as percentages of rice exports that have to be allocated for supplying the local market. This can affect adversely the opportunities to obtain high prices for Suriname's rice in preferential markets, thus potentially reducing incomes for exporters and rice farmers. Forced allocation of production to the internal market prevents market arbitrage between exports and imports of different price and quality.
- 2.23 Levies on rice exports. At the time that preparation of the ATPL was begun, rice exports were subject to a US\$10/ton export tax (MTI Decree No. 557) and to an additional US\$ 1/ton tax to finance the Rice Fund (Decree E-64). The taxes represented a burden to exporters and producers additional to the one already introduced by an overvalued local currency. The export tax was imposed to capture part of the rent generated by tariff advantages gained on exports to Europe. The export tax helped finance research on rice, since three dollars out of the US\$10 tax were allocated to this specific purpose. However, it discriminated against rice exports at a particularly critical period in the access to international markets, and it was declared illegal by the Courts, because it was imposed by the Executive Branch of government rather than by Parliament. During ATPL negotiations, this situation has been changed, as explained in paragraph 2.27.
- 2.24 Subsidies on land and water services. A better framework to manage water and land services, including improved user participation in D&I systems and more secure and environmentally sound use of agricultural land is required for collection of market-based land rents and D&I fees. New organizational schemes are thus needed to improve resource allocation and fiscal sustainability. However, designing new organizational schemes requires preparation and implementation over time of projects designed to improve the administration and operational capabilities of the systems providing water and land services.
- 2.25 The GoS is starting to improve the legal framework to enhance user participation in D&I and collection of fees. Policies to update rental values on public agricultural land are also under

consideration. However, land use policies which work in conjunction with the public land administration systems as suggested in the previous paragraph have not yet been designed. A comprehensive land administration project is required to address over time broad issues in land administration.

- 2.26 One unnecessary rice-related agency. The Suriname Rice Export Corporation (SUREXCO) coexists with the Rice Institute of Suriname (RIS). The RIS was created, with strong government participation, to promote the rice sub-sector, with participation from rice-farm associations, rice millers and exporters. The RIS is legally entitled to perform functions that were previously performed by SUREXCO, which is now unnecessary and dormant but still exists legally. SUREXCO collected the US\$1 tax per ton of rice exported, under the authority of Decree E-64 (1987), in addition to a SF 50/ton (about US\$0.1/ton) "fee" for determining export values for export-licensing, analyzing sector development, and grading on export consignments. 9/

2. Actions taken

- 2.27 In the context of ATPL negotiations, the GoS took the first steps toward the efficient pricing of land as well as D&I services: land rents were increased and two Water Districts have been created. All taxes and levies on rice exports have been eliminated de facto, including the US\$1/ton previously collected for the Rice Fund, which used to be administered by SUREXCO, and the US\$3/ton collected for rice research 10/. These taxes will not be levied any more, and no new charges will be imposed on rice exports. The GoS has withdrawn its participation from the RIS.

3. Proposed policy changes

- 2.28 The ATPL will terminate the practice of setting "indicative" minimum export prices for rice, and mandatory quotas to ensure supplies for the local market. The GoS will repeal all outstanding "Rice Decisions" issued by the MTI. To satisfy any justifiable GoS need to confirm actual prices received by exporters, as declared by exporters themselves in the ASYCUDA form, the GoS will switch from ex-ante control to ex-post auditing of export prices, in cooperation with Customs. Under the ATPL, the GoS must certify that no official or semi-official mechanisms is in effect to set minimum rice prices, and complete the dismantling of SUREXCO.

9/ SUREXCO administers a fund for the development of the rice subsector, including funding for scientific research on the rice sector at the SNRI. At times it has also been in charge of ensuring the availability of rice for the domestic market.

10/ Budget funding to the research institute (SNRI) will still be ensured, at least until the private sector can take over this function.

G. Component IV: Forestry

1. Approach and limitations of a forestry component

- 2.29 Forestry policy issues differ from those of coastal economic activities. While rent seeking behavior and less than full transparency are also present in forestry, the main issues in forestry are lack of a sustainable policy and effective controls. Unsustainable concessions and economic activities in the hinterland have been growing precisely because of the lack of effective regulation. The ATPL presents an opportunity to address some issues related to sustainable forest management.
- 2.30 Land rights of amerindian and maroon communities constitute a very delicate policy issue related to forestry. With respect to this delicate issue, the ATPL requires definition of a policy supported by the national communities and addresses basic information needs to facilitate a policy dialogue between the GoS and affected communities (Action Plan on Land Administration). Since the ATPL is a policy program, it cannot address issues that require long-term political negotiations and investment activities on land information and administration systems.

2. Issues

a. Absence of a policy

- 2.31 The absence of a formal policy creates a major void. Basic information for defining the policy, including inventories of species and surveys of actual forest exploitation, is being completed with support from the international community, and a draft for such a policy is available. However, a fully articulated forestry policy has not yet been formally defined and established by the GoS.
- 2.32 There is urgency to define a policy which satisfies national goals and reflects inputs from various interest groups in the country. Participatory definition of a forestry policy is not easy, because sufficient information is not available and, mainly, because competing views have been advanced, ranging from sustainable logging to pure preservation of the tropical forest. An informed policy, constructed with strong participation from all sectors of the national community, is required to address complex forestry issues.

b. Ineffective monitoring and control

- 2.33 The surface area actually logged is not known, since a large number of concessions are not really utilized, while some exploitation takes place illegally. Reported annual logging is slightly over 100,000 m³, although it is estimated to really be about 200,000 m³, since timber exports have increased six-fold, even without counting some smuggling, without any increase in reported logging. Without

adequate control and proper management, an annual production of over 150,000 m³ in the 600,000 ha. available for profitable exploitation within the forestry belt may be unsustainable. Such a production would exceed the natural growth rate of 0,2 m³/ha/year, even if average growth is increased within the limited (6%) area that can be properly managed with control from the Forest Service.

- 2.34 The Forest Management Act was approved in 1992, providing a comprehensive legal framework for sustainable forest management, effective monitoring and control on public land, although regulations needed to implement the Act are not yet in place, and the Forest Service is not equipped to effectively control harvests and collect fees. The small Forest Service has an annual budget of about US\$560,000, and collects about US\$50,000 a year.

c. Inconvenient export taxation

- 2.35 Exports of forest products are subject to ex-ante review and licensing, pre-deposit of export value, requirement to surrender 100% of foreign exchange and export taxation. The export tax is 1.5% of FOB value, discriminating against exports and the search for better markets. While the issue has no immediate practical relevance until production is actually registered, levies on production and exports should be replaced by reasonable logging fees to promote efficiency and exports.

d. Deficient pricing

- 2.36 While timber exports are taxed, exceptionally low logging fees and royalties are in place and, most important, they are based on "actual" production taken to the market (rather than on potential production). The situation is very similar to the one prevailing in the pricing of water and land services used for rice production. Until 1996, stumpage fees and royalties were less than US\$0.2 per cubic meter, about 40 times lower than in neighboring Guyana and hundreds of times lower than in other countries in the region. Fees have been increased, although there is no evidence of actual levying. From the point of view of efficiency pricing and sustainable exploitation, the pricing issue is to levy based on potential production per hectare.

3. Actions taken

- 2.37 The Food and Agriculture Organization of the United Nations (FAO) completed a project on strengthening national capacity for sustainable development of forests on public land. Several reports were produced, including a draft forestry policy. During 1997, follow-up projects have been started to assist the Forest Service control harvesting, capture royalties and fees, improve statistics, and build-up capabilities to develop and execute a forestry policy.
- 2.38 The establishment of a Foundation for Forest Management and Control was announced in Parliament on August 27, 1998. The proposal to

establish this Foundation resulted from stakeholder meetings, as an intermediate participatory forest management authority in charge of updating policies and institutions dealing with forestry. The foundation will include participation from the Ministry of Natural Resources, the Bank supported environmental agency National Institute for Environment and Development in Suriname (NIMOS), representatives from the private sector and hinterland communities. Stakeholders have also been convened to start discussions on the regulations required to operationalize the 1992 Forest Management Act.

4. Proposed policy changes

- 2.39 Under the ATPL, the GoS must define and begin implementing a long-term forest policy, which has to be subject to comments and participation of the national community. The GoS must also: complete the legal-regulatory framework needed to implement the 1992 Forest Management Act, and establish the organization for effective monitoring and control of forest exploitation. Procedures will be established to determine, update and collect royalties and concession fees in forestry, ensuring that the monitoring and control organization more than covers its operational costs.

H. Technical action plans supporting the ATPL 11/

1. Development and implementation of new trade regulations

- 2.40 The GoS requires technical support to develop and implement a well-focused, transparent and internationally acceptable negative list of prohibitions to import or export, designed to effectively protect human health, the environment and national security without being a trade-barrier. Definition of the negative list requires assessing the human health, phyto-sanitary, food-safety, environmental, or national security risks, and then determining products that will be subject to: no control, inspection and/or treatment at point of embarkment or arrival, or total or geographically-limited prohibition. At the same time, a longer process has to be implemented for reviewing and updating trade laws, replacing the legal structure that supported a cumbersome and outdated system of quotas, prohibitions, and ex-ante review and control.

2. Strengthening trade-related institutions

- 2.41 Under the ATPL, the GoS will modernize trade-related institutions. This goal requires implementing an action plan to identify and equip as necessary labs to protect the health of local consumers and support compliance with international standards for product

11/ See Annex V for a matrix presentation of the built-in technical cooperations.

quality and allowable residual toxic contents. Modernizing the institutions also requires support for the MTI to improve its liaison with the WTO CARICOM and other trade bodies; promote exports and diversify markets; and engage in negotiations conducive to post-Lomé IV trade arrangements with the EU.

3. Agricultural health, food-safety and toxic chemical agricultural inputs

- 2.42 The ATPL will review and update legislation and regulations that (i) support import-export controls motivated by human health, food-safety or environmental concerns, both at the national level and for complying with requirements imposed by external markets; and (ii) those specifically ruling the trade, handling, storage and application of agricultural toxic chemical inputs. The support built into the ATPL has been programmed also to: (i) develop regulations for import controls, handling and application of agro-chemicals, including the review and modification of a negative list of banned chemicals; (ii) establish and provide initial support for a Pesticides Bureau at the MAAHF; (iii) develop a comprehensive awareness campaign and program to train personnel that handle the products, farmers and extension agents, with proper consideration to production systems and needs of women engaged in farming; and (iv) increase the supply of alternative inputs, through expanded research and extension on low-intensity inputs and integrated pest management, including resistant varieties and beneficial insects.

4. Updating customs computerized systems

- 2.43 As indicated in paragraph 2.13, Customs can provide a very efficient alternative to the auditing needs currently served, at least in theory, by the current cumbersome system of ex-ante reviews and approvals. However, Customs operates an automated management system which will soon become obsolete, because it is not up to the most modern standards and it is no longer supported by its developers (the United Nations Conference on Trade and Development, UNCTAD). The system may be soon be unable to fully support ex-post audits of declared exported values, quantities and qualities. A technical cooperation has been agreed to finance CARICOM's support to ensure efficiency and sustainability of the automated system to register trade statistics. Specifically, to assess needs, improve software and hardware, and provide training of the system.

5. Preparation of a project on public land administration

- 2.44 Under the ATPL, the MNR must prepare a feasibility study to be implemented over time to achieve sustainable and modern land administration policies, security of tenure, environmental controls and efficiency oriented pricing of agricultural public-land leases. The feasibility study will thus address public land management, registration of land rights and cadastral records management,

including institutional, environmental, legal and administrative transparency improvements.

I. Dimension of the loan

- 2.45 The proposed financing is well within projected balance-of-payments requirements. At the initiation of the preparation of the program, the GOS intended that a large share of the funds would finance increased agricultural inputs. However, as 1998 has progressed it has become apparent that there are more pressing financing needs. In part, these needs are related to an external shock (from the Asian economic crisis and El Niño weather phenomenon) that is estimated to have cost Suriname US\$58 million in lost exports in 1998. In part, they are due to policy variables, such as a delay in adjusting the official exchange rate. The current account has swung from a small surplus in 1997 to a deficit estimated at roughly US\$50 million in 1998. A deficit of similar magnitude is likely to persist into 1999, unless alumina prices recover significantly or there are significant policy changes. In addition, Suriname has already accrued arrears on payments of imports (mainly oil) valued at US\$40 million. (The latter will be reduced by a US\$10 million loan from the Islamic Development Bank to finance oil imports). Furthermore, Suriname will face a bunching of short-term external debt repayments in 1999, estimated at around US\$54 million. In total, therefore, Suriname's external financing requirements could be as high as US\$134 million in 1999. The ATPL will make a significant but not unduly large contribution towards this.
- 2.46 Estimates of financing requirements for 2000 are not available and, in any case, would be highly dependent on international alumina prices. Nevertheless, financing requirements should subside after 1999. The exchange rate and trade licensing reforms envisaged in the ATPL should prevent a recurrence of the build-up of import payment arrears. And the exchange rate reform should lead to greater consistency between import and export levels. Furthermore, the whole thrust of the ATPL is to facilitate and encourage non-mineral exports.
- 2.47 The proposed financing would cover balance-of-payments needs rather than fiscal needs, because the program is not expected to have an adverse impact on the government's fiscal position. On the contrary, the conversion of quotas into tariffs would outweigh reductions in central bank income deriving from the foreign exchange surrender requirements on non-mineral exports and the loss of revenue from reductions in export taxes or license fees, which would be minor.

III. FINANCING AND EXECUTION

A. Financing

- 3.1 The IDB loan will be for a total of US\$30 million, to be disbursed in a US\$18 million first tranche, and a US\$12 million second tranche, upon compliance with special conditions. Financing will be in US dollars, under the single currency facility. The operation will be financed under IFF conditions, with a 20 year amortization period and 3 year maximum disbursement period. The interest rate will be variable, and the borrower will pay 1% of the total loan for inspection and vigilance. The credit fee will be 0.75% of undisbursed funds.

B. Borrower and executing agency

- 3.2 The borrower is the Republic of Suriname and the executing agency is the Ministry of Finance. An ATPL coordination unit has been established within the Ministry of Finance, reporting directly to the Minister and with responsibilities for coordinating a committee with representatives from the MAAHF, MTI, and Ministry of Natural Resources (MNR). The MAAHF, MTI and MNR will directly execute some ATPL action plans. However, they will report to the Minister of Finance, who assumes full responsibility before the GoS for general program coordination and compliance with all ATPL conditions.

C. Program implementation

- 3.3 Implementation of the ATPL program of policy reforms will take the following legal forms: revocation of existing decrees, issuance of new affirmative decrees, revocation or amendment of existing legislation, and enactment of new legislation. Most of the reforms will be put into effect by first tranche through amendment or nullification of regulations and decrees, because such changes require only Ministerial or Cabinet decisions, and can thus be implemented relatively quickly.
- 3.4 Where appropriate, the ATPL supported reforms will be enshrined in new legislation and/or by revocation of existing interventionist legislation. These legislative changes are sought in order to effect a greater degree of legal permanency to the policy reforms, and modernize legislation currently based on an interventionist outlook of the economy. Of equal importance, changes in legislation will require debate in the National Assembly and, if consensus is reached, reforms will then be more politically durable. However, timing considerations make it impractical to condition first tranche disbursement on the approval of legislation by the National Assembly.
- 3.5 Consulting services to implement action plans, including those to draft legislation, are either already in place, with financing from

the GoS and the international community, or will be procured under ATPL action plans. ATPL action plans will be financed by the GoS. A dollar-denominated special account containing not less than US\$1 million has been opened at the Central Bank of Suriname for financing agreed-upon supporting technical activities (see Annex III-1 for a summary of the technical cooperation).

D. Conditions for disbursements

- 3.6 The loan will be disbursed in two tranches (US\$18 and US\$12 million). The conditions for approval of disbursements in two tranches are summarized in the policy matrix (Annex III-2). Detailed conditions are included in the following paragraphs.

1. First tranche (US\$18 million)

- 3.7 Prior to first tranche disbursement, decrees will be issued by the Ministries implementing the policy changes in the areas of licensing and ex-ante review for exports and imports; quantitative import restrictions; and elimination of the setting of rice prices and retention quotas for the domestic market. Where relevant, affirmative decrees issued prior to first tranche disbursement will specifically revoke relevant decrees that are currently in force and whose effect conflict with the purposes of ATPL supported reforms.
- 3.8 As special conditions precedent to disbursement of the first tranche, the Ministry of Finance shall present evidence satisfactory to the Bank of the following:
- a. key macroeconomic benchmarks set forth in the Policy Letter/detailed Policy Matrix have been met;
 - b. implementation of a negative list previously agreed upon with the Bank of exports and imports that are subject to prohibitions, restrictions or ex-ante review;
 - c. satisfactory development of an action plan to draft legislation and/or other necessary measures to revoke the requirement for export/import operating licenses and export/import shipping licenses, other than for agreed-upon exceptions, as well as legislation needed to eliminate import quotas and prohibitions;
 - d. elimination of all import quotas and prohibitions for all products not included in the agreed-upon negative list for imports;
 - e. certification that no official or semi-official mechanisms exist to impose minimum rice prices, and that pricing information needed for auditing purposes is obtained on an ex-post basis in cooperation with Customs;

- f. SUREXCO is not functioning and the process of its legal dissolution is progressing to the Bank's satisfaction;
- g. eliminate all rice-export taxes and levies, including the US\$1/ton levy collected for the Rice Fund and the US\$3/ton for rice research, while ensuring budgetary support for rice research;
- h. drafting of the National Forest Policy is proceeding to the Bank's satisfaction;
- i. development of an action plan to implement the Forest Management Act, including the establishment of a monitoring and collection unit, is proceeding to the Bank's satisfaction;
- j. dollar-denominated special account containing not less than US\$1 million has been opened at the Central Bank of Suriname for financing agreed-upon supporting technical activities.

2. Second tranche (US\$12 million)

3.9 As special conditions precedent to disbursement of the second tranche, the Ministry of Finance shall present evidence satisfactory to the Bank of the following:

- a. continued compliance with key macroeconomic benchmarks;
- b. legislation and/or other necessary measures to revoke the requirement for export/import operating licenses and export/import shipping licenses, other than for agreed-upon exceptions, are in effect;
- c. foreign exchange surrender requirements for non-mineral products (rice, bananas, shrimp, lumber and other non-mineral exports) have been eliminated;
- d. certification by the Ministry of Trade and Industry that no official or semi-official mechanisms exist to impose minimum rice prices, and that pricing information needed for auditing purposes is obtained on an ex-post basis in cooperation with Customs;
- e. SUREXCO has been fully dissolved and all its liabilities, including contingent liabilities from pending lawsuits, have been assumed by the Republic of Suriname;
- f. no taxes or levies have been charged on rice exports;
- g. the National Forest Policy has been approved by the Council of Ministers, in form and substance satisfactory to the Bank;

- h. the Forest Management Act is legally in effect and all corresponding regulations have been implemented, as agreed upon with the Bank;
- i. the monitoring and collection unit related to the Forest Management Act is staffed and fully functional;
- j. procedures for effective forest management are in place, according to agreed benchmarks for their implementation, as evidenced by (1) reasonable and periodically updated royalties and concession fees and (2) substantially improved collection of such royalties and fees; and
- k. implementation of supporting technical activities according to agreed benchmarks.

E. Environmental and social impacts

- 3.10 A special report was approved at the CESI/TRG August 28th meeting (TRG32/98).

1. Negative impacts and amelioration measures

- 3.11 The most relevant potential negative impacts identified could arise, directly or indirectly, from an expanded area cultivated with rice. While the expansion in rice surface as a consequence of the ATPL is far from being a certainty, the expansion could be a consequence of the program. The ATPL includes provision to reduce main resulting risks, which are related to uncontrolled use of pesticides; deficient administration of public land; and ineffective land-use planning.

2. Positive impacts

- 3.12 The positive environmental and social impacts expected from the program are:
- a. non-transparent arbitrary decisions will be replaced with enhanced private sector participation. This should help in diversifying products and markets, resulting in higher and more stable incomes. Furthermore, more objective and adequately priced resources should avoid in the future the repetition of resource allocations that have increased environmental risks, such as extremely high use of pesticides, unjustified expansion of irrigation infrastructure, and encroachment of rice production on aquaculture areas;
 - b. small farmers and rural labor will benefit from reforms on foreign exchange regulations and licensing, eliminating transaction costs and informal barriers that affect mostly small farmers and, when limiting productivity and production, reduce farm incomes, farm employment and wages;

- c. consumers will derive better food-safety from effective regulation, monitor and control of pesticides. Poor farmers, farm women and rural laborers take all the risks at the farm level, and will thus benefit the most from better use and control of pesticides;
- d. participation of farmers, exporters and millers in rice-export taxation is enhanced by eliminating government agencies and obtaining agreement for an export levy to fund the development of the subsector (including research). Participation of water users in the administration, operation and pricing of drainage and irrigation services, in turn, is enhanced with the creation of water user regional Boards. Pre-announced rules for imports and exports, as well as less government control in pricing rice, allocating a quota of rice production for the local market, and pre-reviewing all import or export permits, all promote stakeholder participation. In forestry, a strategy and mechanisms to ensure stakeholder participation in the definition of a policy is a condition for first-tranche disbursement;
- e. a sustainable forestry policy and its regulatory framework will be completed, and implementation of adequate pricing and control mechanisms will begin; and
- f. the preparation of a land administration and land-use planning project will advance the possibilities of implementing effective land use planning.

F. Disbursement procedure

- 3.13 Fast-disbursing resources from the Program will be used to finance the total cost in hard currency of eligible imports from the Bank's member countries. The Bank's new simplified procedures for sector loans will apply in this case as established in document GN-2001-2. Funds will be disbursed upon request by the borrower and presentation of evidence of compliance with all policy conditions.
- 3.14 The borrower will maintain a segregated account for deposit of amounts disbursed under the loan. The Ministry of Finance is responsible for keeping accounting records and for preparing and presenting disbursement requests. The Bank will require the borrower to maintain appropriate records of funds disbursed from the loan, and reserves the right to require the borrower to furnish an audited report of disbursed funds.

G. Inspection and supervision

- 3.15 The Bank will establish such inspection procedures as it deems necessary to ensure satisfactory execution of the program. The borrower will cooperate fully in providing all assistance and information required for this purpose.

H. Monitoring

- 3.16 The GoS is currently in compliance with the key macroeconomic benchmarks [condition (a)], other than reform of the exchange rate regime. Prior to first tranche disbursement, compliance with the benchmarks will be monitored jointly with the IMF. The GoS has complied with all the other policy conditions for first tranche, except those for the implementation of a negative list for trade and the associated action plan, and the removal of import quotas [conditions (b), (c) and (d)]. A technical cooperation is currently being executed to support the GoS in implementing the required trade policy reforms. Therefore, it is expected that conditions (b), (c) and (d) will be complied with before February 1999.
- 3.17 Monitoring, technical support and evaluation of progress, including the implementation of action plans for technical support, will be performed by the project team in coordination with the Country Office.

IV. BENEFITS AND RISKS

A. ATPL benefits

- 4.1 The major benefit from the ATPL is to stimulate economic growth, through better resource allocation and increased production, particularly in agriculture. The ATPL will stimulate the role of the private sector.
- 4.2 The ATPL will improve governance by reducing unnecessary and counterproductive burdens on the government and strengthening it in necessary tasks. It will also reduce incentives to rent-seeking behavior, increasing transparency and automaticity in the system of trade controls, shifting from a discretionary to a modern rule-based system. This change and the corresponding action plan will facilitate: effectively addressing public health, food-safety, environmental and national security concerns; compliance with WTO commitments; diversification of markets and products, by means of lower hidden costs and private sector trade activities free of unnecessary controls; increased competition in international trade; and supporting the public sector role in policy formulation and compliance with requirements of international markets.
- 4.3 The ATPL also facilitates addressing a major economic problem in the rice subsector, which is currently compounded by adverse weather conditions. The major problem is the loss of European tariff preferences, and the consequent need for improving competitiveness and find new markets. Long-term sustainable improvements in the rice subsector will be facilitated by eliminating taxation and pricing distortions; eliminating price controls, retention quotas and outmoded institutions; shifting the responsibility for financing activities to improve competitiveness to farmers, millers and exports; and advancing the efficiency pricing and financial sustainability of land and water services.
- 4.4 Long-delayed forestry policy and regulatory framework for the 1992 Forestry Management Act will be completed, and implementation of new sustainable forest policies will begin. Policy changes and supporting technical activities included in the ATPL will improve food-safety and the handling and application of toxic agro-chemical inputs, improve forestry management and contribute to better agricultural land use planning.
- 4.5 The ATPL will advance in Suriname the first round of economic policy reforms that are already in place in most countries in the region, establishing for the first time a policy presence of the Bank.

B. ATPL risks

1. Insufficient policy commitment

- 4.6 A risk of non-compliance due to insufficient commitment with policy changes is present because: Suriname and the Bank have had little experience in working together; government controls are very ingrained in Suriname; and the ministry most engaged in trade controls is also the most important agency for the implementation of new government policies.
- 4.7 The risk was borne out during preparation of the ATPL, when the GoS reapplied price controls (maximum retail prices) on "essential consumer products", and underlined the corresponding penalties and legal sanctions for non compliance 12/, thus trying to eliminate inflationary tendencies that result from macroeconomic disequilibria and lack of competition in importing with controls. It is expected that the ATPL will establish the Bank as a partner in policy dialogue, and that the risk of non-compliance will be reduced by supporting the sectors favoring change.

2. Macroeconomic disequilibria

- 4.8 Risks derived from macroeconomic disequilibria are also present. Without a supportive macroeconomic framework, proposed reforms could be diluted and may be difficult to implement or subject to quick reversal. Macroeconomic disequilibria, whatever their causes, could be used as a justification to maintain a very tightly controlled trade and production system. This would affect, in particular, the conditions on the elimination of trade licensing, quotas and foreign exchange surrender requirements, which are fundamental to the policy reform program.
- 4.9 Although considerable progress in stabilizing the economy was achieved in 1995/96, 13/ the reliance on improved terms of trade rather than on structural reform measures has left the

12/ Decree 3310, issued by the Minister of Trade and Industry on September 19, 1997, published December 16th, 1997, establishing maximum retail prices for 40 items. Further controls were introduced in 1998: minimum per-bag paddy prices to be paid by rice millers, minimum ("indicative") rice-export prices, and a subsidy to rice exporters equivalent to 20 or 25% of the rice-price per metric ton. Reflecting the undesirability of this set of controlled ("indicative") prices and subsidies, the GoS informed the Bank that these new controls were removed in early October, 1998.

13/ In 1995 and 1996 a fiscal surplus was generated; gross international reserves increased from 1.6 months of imports at the end of 1994 to 2.8 months at the end of 1996; inflation declined from 587% in 1994 to 1% in 1996.

macroeconomic situation vulnerable to external or internal (policy) shocks. In late 1998, declines in prices of Suriname's major export products have reversed some of the terms-of-trade gains in 1994-96.

- 4.10 The domestic policy framework has also caused concern. The government has an ambitious development agenda and in 1997 and early 1998 embarked on an expansionary macroeconomic course. This has caused pressure on the exchange rate and domestic prices. Fiscal and monetary policies appear to have become more disciplined since March 1998, but the risk of further policy slippage is ever-present.
- 4.11 Prior to each tranche disbursement, the consistency of the macroeconomic framework with ATPL-supported reforms will be assessed using the data and analysis resulting from IDB and IMF missions. The macroeconomic situation will be monitored, based on pre-established indicators, as indicated in the policy letter.

3. Limited institutional capability for implementation

- 4.12 Limited institutional technical or contract-management capability may delay the implementation of technical support activities needed to comply with second tranche conditions or to achieve specific ATPL objectives on agricultural health and administration of public land. The GoS will finance the required technical and contract-management support. Additional support during implementation will be provided by the Bank as needed.

**LONG-RUN MACROECONOMIC DEVELOPMENTS AND
THE EVOLUTION OF STRUCTURAL REFORMS**

A. Long-run Macroeconomic Developments, 1981-96

1. Suriname endured a long economic decline between 1981 and 1994, which was accompanied by a weak performance of the agricultural and manufacturing sectors. A decline in international alumina prices after 1982 and a suspension of Dutch aid between 1982 and 1988 caused large reductions in external income and fiscal revenues. The policy response was limited to increasing expenditures, mainly to finance an expansion in civil service employment. The results were large fiscal and balance of payments deficits, a rapid elimination of international reserves and the emergence of a parallel exchange rate.
2. As macroeconomic disequilibria worsened, the government resorted to price controls to suppress inflation and controls on trade and international payments to cope with chronic balance of payment deficits. Scarcities of foreign exchange, consumer goods and spare parts developed, which hampered productive activities, particularly in agriculture and manufacturing. Moreover, the measures created a strong, anti-export bias and favored the development of inefficient, rent-seeking and import-substitution activities.
3. In 1987 armed internal conflicts destroyed economic infrastructure in the interior, including palm oil plantations. By then, foreign exchange scarcities had become acute and the spread between the parallel exchange rate and the official exchange rate exceeded 900%. The maintenance of a chronically overvalued official exchange rate discouraged exports, promoted smuggling and encouraged food imports at the expense of domestic agricultural production. Price controls in the domestic market lessened the incentives for agricultural production, and the expansion of the government payroll crowded-out funding for the maintenance of agricultural infrastructure, which had been fully taken over by government.
4. From 1988 to 1990, macroeconomic disequilibria diminished, due to a boom in alumina prices and a resumption of Dutch aid. But by then agricultural output had stagnated for a decade, and the volume of rice exported in 1990 was only two-thirds of the 1980 level.
5. Macroeconomic conditions deteriorated again between 1991 and 1994, mainly because of declining alumina prices. In addition, the introduction of a complex multiple exchange rate system in 1992 caused heavy central bank losses and further distorted incentives for non-mineral exporters. Growing fiscal deficits and central bank losses led to an acceleration of inflation and an erosion of the tax base. In mid-1994, the multiple exchange rate system was

replaced with a single, depreciated official exchange rate. However, in the short term, the devaluation plus rapid monetary expansion (stemming from previous foreign exchange losses, central bank gold purchases and an accumulation of international reserves) led to a further acceleration of inflation. In the 12 months to December 1994, inflation reached 587%.

6. By 1994, real GDP was nine percent lower than in 1981, agricultural output was 19% lower, and manufacturing output was 48% lower. Real wages had declined to a third of their 1981 level. Per capita income had fallen to \$765 (in 1990 prices), making Suriname the fifth poorest Bank member country.
7. The macroeconomic situation improved significantly in 1995 because of a recovery in international prices of alumina and because the benefits from policies implemented in 1994 began to emerge. The abolition of the multiple exchange rate system in 1994 cut central bank losses, increased the profitability of exports, and magnified tax payments from bauxite companies in local currency. The fiscal position, which benefitted also from significant improvements in tax administration and reduced expenditures on subsidies, shifted from a deficit equal to 8.5% of GDP in 1994 to a surplus of 4.3% in 1995.
8. The balance of payments also strengthened in 1995, causing a sizeable accumulation of international reserves. Sales of foreign exchange and a slower growth of the money supply (because of the improved fiscal position), caused the parallel and the official exchange rates to appreciate in nominal terms. Because Suriname has a small, open economy, the exchange rate appreciation reduced inflation from 587% in 1994 to -1% in 1996. ^{1/} Stabilization plus adjustment to a new (terms-of-trade boosted) level of national income led to a rapid recovery of real wages, consumption and investment, and caused a boom in the non-tradable sectors. GDP grew 7.1% in 1995 and 6.7% in 1996.

B. The Evolution of Structural Reforms

9. Suriname's economic reform process has lagged other countries in the Latin America and Caribbean region by a number of years. Nevertheless, and notwithstanding that progress has generally been slow, since 1989 important structural reforms have been undertaken and the reforms proposed in the ATPL build on those reforms and represent a next logical step in the reform process.
10. A key reform, particularly for the agricultural sector, has been the liberalization of prices on domestic goods. The prices of many agricultural commodities, including rice, sugar, palm oil, milk, meat, eggs and timber were controlled between 1984 and 1993. However, in 1993-94 minimum farmgate and retail control prices were

^{1/} On a December to December basis.

lifted on sugar, meat, palm oil and other products. In 1995 the price of milk was liberalized too. These reforms were partially reversed when price controls were reintroduced on 40 goods in December 1997.

11. Since the mid-1990s, Suriname has also liberalized external trade in several phases. In 1994 the government greatly simplified the tariff structure and lowered effective protection. Until then, tariffs had been applied in many levels between 0 and 100 percent under the Brussels Tariff Nomenclature. In 1994 the government adopted the Harmonized System and reduced the number of tariff categories to four: 5 percent for raw materials, 10 percent for intermediate goods, 20 percent for final goods, and 40 percent for luxury goods. In 1995 Suriname joined CARICOM and, as a consequence, then implemented CARICOM's trade agreement in January 1996. Under the agreement, trade with other CARICOM members became free of duty while trade with the rest of the world became subject to CARICOM's common external tariff (CET). In 1996 the CET was 5-25 percent for most goods and 40 percent for luxury goods (except for a few restricted consumer items). In April 1997 Suriname removed the 5 percent tariff on raw materials and in January 1998 the maximum CET was reduced to 20 percent.
12. Exchange rate policy has also undergone significant reform, particularly in 1994. From 1971 until October 1992, Suriname had a single official exchange rate which was fixed at a rate of Sfl.785 per U.S. dollar. However, as this rate steadily became overvalued, a parallel exchange rate emerged which diverged from the official rate significantly in the late 1980s and in the early 1990s. As a response to these pressures, in October 1992 the central bank introduced a system of multiple exchange rates consisting of seven major rates, which was slightly modified in 1993.
13. In July 1994, as part of the Surinamese Structural Adjustment Program, the multiple exchange rate system was abolished and replaced by a single, unified official rate at a much depreciated level. It was originally intended that the unified official exchange rate would reflect market forces and would represent the average exchange rate quotes in licensed banks and cambios of the previous day. In practice, however, the official exchange rate has been set by fiat and has been fixed since mid-1996. As a result, the parallel exchange rate -- which is mostly, although not exclusively, determined by market forces -- has remained in existence. Hence the present system of exchange rates consists of the unified official rate, a parallel exchange rate quoted by exchange houses, and a black market rate.
14. Closely linked to exchange rate developments, more market forces have gradually been introduced into the foreign exchange market since 1984. Tight state control over foreign exchange transactions dates back to 1947 when exchange control regulations were enacted. However, these controls were tightened in the early 1980s as the fixed official exchange rate became overvalued and a mechanism

became necessary for rationing underpriced official foreign exchange. Under the controls, exporters were obliged to surrender their foreign exchange proceeds to the central bank and foreign exchange was allocated to importers through a system of import licenses.

15. In 1984 the government authorized so-called "own-funds imports". Under this scheme import licenses were granted much more liberally if the importer did not require access to official foreign exchange. This had the advantage of allowing an increased supply of imports and, since most of the "own-funds" were obtained in the parallel market, allowed at least partial market determination of import levels and composition.
16. In 1992 more direct market determination in foreign exchange pricing was introduced by auctioning foreign exchange provided by the Government of the Netherlands as balance-of-payments support. Ten auctions of a total value of US\$36.4 million took place between October 1992 and July 1993. This allowed the price of foreign exchange to be endogenously determined through an interaction of supply and demand. Moreover, the rate determined by the auctions was designated as the "auction rate" and was utilized for additional transactions. However, the full impact of market forces was muted by the nature of the auctions and a limitation that bidders could only buy foreign exchange in order to import goods on a "positive list" i.e. inputs for the "productive" sectors.
17. In 1993 the government took a further important step towards exchange market liberalization by licensing exchange houses ("cambios") to trade foreign exchange. This introduced a simple and less costly procedure for allowing partial market determination of the exchange rate. It also brought back into the formal economy many small transactions, particularly private remittances from abroad, that had been in the informal economy. Nevertheless, because exporters hitherto have not been permitted to surrender their foreign exchange proceeds to cambios, cambios have been restricted to one segment of the foreign exchange market.
18. The trade, foreign exchange surrender and exchange rate regime reforms envisaged in the ATPL, therefore, represent the next logical step in this gradual process of liberalization.

Washington, DC. October 8, 1998

LETTER OF POLICY

Mr. Enrique Iglesias,
President,
Inter-American Development Bank,
Washington, D.C., USA.

Dear Mr. Iglesias,

The Government of the Republic of Suriname is seeking the support of the Inter-American Development Bank in carrying out a reform program that will improve the economic policy and institutional environment for sustainable agricultural development. The Policy Matrix presented in the project document of the Agriculture and Trade Reform Program (ATPL) specifies the relevant macro-economic and sectoral policy measures to be implemented.

Agriculture is a key sector in Suriname's economy, accounting for approximately 11 percent of GDP and close to 18 percent of exports, with strong potential for sustained growth. Agriculture is the second largest source of employment (after the central government), and a major sector in our efforts to diversify exports, guarantee food security, and reduce poverty. Moreover, the reform measures that our government intends to undertake, particularly in the area of trade policy, will have additional benefits for other non-mineral sectors of the economy, such as forestry and manufacturing. The reform program will also help to modernize public administration. The ATPL will be complemented by other programs, such as the Financial Sector Reform Program and actions of the recently established National Council for Environmental Management (NIMOS), which also will be formulated in cooperation with the IDB. Finally, the ATPL should be regarded as part of the wider Program for Economic Reconstruction (ERP) covering the period 1999-2004.

I. Background

Following parliamentary and presidential elections in May and September 1996, the current administration took office in October 1996. The new government inherited an economy that had experienced a long period of decline (1984-1995), with severely deteriorated infrastructure. The financial sector was in disarray, with extremely high real interest rates, and disruptive monetary operations such as rent seeking instead of investment, through so-called "near banking and pyramid

schemes" that had developed during 1992-96. In 1995, substantial progress was made in working towards macroeconomic stability, especially regarding fiscal and exchange rate policies. However, this was done in an ad hoc fashion, and insufficient attention was paid to structural sector reforms.

Moreover by the end of 1996, extremely high inflation of 144 percent in 1993, 369 percent in 1994, and 236 percent in 1995 had severely eroded real personal incomes, causing widespread poverty. A deterioration of public health and educational facilities and a lack of affordable housing for the poor had further worsened the living conditions for the majority of the population. The incoming government, therefore, has felt obliged to improve the purchasing power of the deprived, especially civil servants and the elderly. Civil servants salaries and the real value of transfers to the elderly were substantially increased by our government, low cost housing is strongly promoted, and interest rates were reduced to promote investments. The increased public expenditures thereof, and a shortfall in bilateral grant funding of public expenditures, caused the fiscal deficit to widen in 1997.

After independence in 1975, bilateral grants have financed not only the public investment program, but increasingly also current expenditures. Grant funding of current expenditures involves income transfers to the elderly and other poor, education and health care. The Government of Suriname (GOS) recognizes that the reliance on external funding of current public expenditures needs to be changed, in part because the bilateral grant funds may only be available for some current expenditures during another four to six years. Furthermore, the fiscal deficit widens whenever reductions or interruptions in the disbursement of such grant funds coincide with substantially lower foreign exchange earnings from exports (largely caused by falling alumina prices). Foreign exchange reserves then also come under pressure, and the parallel exchange rate depreciates, followed by the official exchange rate.

II. The Government's Economic Recovery Program (ERP)

Our government started an action program for reconstruction and social relief by end 1996, and is presently formulating a five year development plan (ERP) for the period 1999-2004, with a major objective to achieve real GDP growth of at least five percent per annum. Sectors identified with strong growth potential are gold, bauxite and petroleum mining, forestry, marine fisheries, rice and aquaculture. In those sectors Suriname has some dynamic comparative advantages in natural resource endowment, skilled labor, and taxation. To achieve the five percent minimum growth target, our government will promote private investments. Consequently, the government is fully committed to the restructuring and privatization of several state-owned enterprises in mining (2), forestry (2), agriculture (6), manufacturing (3) and the banking sector (5).

The main policy measures of the *Economic Recovery Program 1999-2004* are:

(1) **a stable macroeconomic environment and private sector-led growth.** Our government is well aware of the need for macroeconomic and sectoral policy measures that would help to create an enabling environment for private investors.

- (2) **sectoral reforms in agriculture, trade, banking, housing, health, and education sectors**, to stimulate national savings and investments for growth, while sectoral productivity and efficiency are enhanced. The Bank has been working to support all of these sectoral reforms. Legal and institutional reforms are also planned for the mining and forestry sectors.
- (3) **diversification and expansion of external financing**, in order to meet the shortfall in domestic savings through increased direct foreign investment in export sectors, and through multilateral financing and bilateral aid to cover public and private sector investment needs. In this regard Suriname has recently joined the Islamic Development Bank, the Multilateral Investment Guarantee Agency, the Inter-American Investment Corporation, and the Caribbean Development Bank, while involvement of the IDB has increased.
- (4) **improvement of infrastructure:** transport, drainage and irrigation, utilities. Farmer organizations will be involved in operation and maintenance of secondary and tertiary agricultural infrastructure.
- (5) **improvement in the living conditions of the population** by low cost housing programs, community development programs targeting the poorest, improved primary health care, and increased transfers of income to the aged. The IDB is involved in most of these programs.

III. Macroeconomic framework

The GOS is committed to ensuring macroeconomic stability, both as a sine qua non for sustainable development and as the basis for the successful implementation of the sectoral reforms undertaken in this program. Our government can draw on the lessons learned from the disastrous macroeconomic developments during 1992-95, when the economy was characterized by a contraction of output, high inflation, widening fiscal deficits, and the use of multiple exchange rates. We do not want to return to such poor macroeconomic management. Therefore, the GOS will undertake the appropriate fiscal, monetary and exchange rate policies to ensure that the goal of macroeconomic stability is met.

Fiscal Policy

The GOS is committed to a fiscal policy framework that is sustainable and consistent with macroeconomic stability. The maintenance of a sound fiscal position is seen as key to ensuring overall macroeconomic stability. In particular, major targets of fiscal policy are the elimination of the fiscal deficit on the current account and neutral financing of public capital expenditures. The GOS has committed itself to a target of a small surplus on the current account, on a cash basis. Because Suriname's domestic financial market is underdeveloped and there is little opportunity for the government to float debt domestically, the GOS is committed to ensuring that whatever fiscal deficits arise are financed externally. This will obviate the need for central bank financing of the government.

Unfortunately, in 1998 government expenditures have grown considerably, largely because of higher wage and salary payments to civil servants. However, the GOS has taken several measures to minimize the impact on the budget. First, it has launched a successful drive to increase revenues, through collecting a backlog of taxes, enhancing compliance, and introducing a sales tax. Second, capital expenditures, particularly on regional development and housing, have been much lower than anticipated. Overall, the GOS expects that the budget deficit for 1998 will be Sf 15.8 billions or 4.9 percent of GDP.

The 1999 Budget submitted to parliament shows a current account surplus of Sf 5.7 billions and a global deficit of Sf 8.4 billions (2.1 percent of GDP). Capital expenditures are estimated at Sf 97.6 billions against Sf 83.5 billions in related grants, causing the deficit Sf 14.1 billions in the capital account. The global deficit will therefore be Sf 8.4 billions which will be entirely financed by external loans. Public capital expenditures will be reduced and slowed down in case of a shortfall in grants or in the current account surplus. The 1999 budget has a moderate 2.5 percent increase in personnel costs, due to modest salary increases and a reduction in the number of civil servants through the removal of ghost workers from the payroll. Reductions in subsidies and personal transfers, and lower expenditures for goods and services will reduce the 1999 current account expenditures by 4 percent under the 1998 projected realizations.

Quasi-fiscal operations

The Central Bank of Suriname is committed to refraining from all quasi-fiscal activities. In particular, on-lending operations of the Central Bank were terminated after March 1998 and the liabilities of the existing operations have been transferred to the Government. The Central Bank will not undertake on-lending operations in the future.

Monetary Policy

The focus of monetary policy will narrow to that of promoting a low inflation environment and a stable exchange rate, in keeping with the now widely accepted view that this is the most effective contribution a central bank could make to the growth and development of a country in the medium and long term. The Central Bank is committed to substantially improving the framework for monetary policy. It wishes to develop the ability to carry out financial programming on an on-going basis, and concomitantly improve data generation capacity. This will lead to a more informed monetary policy. The Central Bank also wishes to enhance its ability to conduct monetary policy by switching from a system of credit restrictions to reserve requirements and eventually to open market operations. In this context, the Central Bank and GOS has asked the IMF and IDB to provide technical assistance in the following areas:

- (I) the design and application of a financial programming framework;
- (II) improving the balance of payments and money and banking statistics;
- (III) the development of the infrastructure required for the conduct of open market operations.

Exchange rate policy

The government regards it as desirable to reform the exchange rate regime by eliminating the disparity between parallel markets rates and the official exchange rate. In order to eliminate the disparity between the two rates, the GOS will move to a market-determined floating exchange rate system shortly before the first tranche disbursement. The new foreign exchange rate will be a floating weighted average rate, determined by the supply of and demand for foreign exchange in the commercial banks and "cambios". This move is important as a macroeconomic measure in its own right and for the benefits that it will bring to the tradable sectors, including agriculture. It will eliminate a major distortion in the economy, improve the incentive framework, and facilitate future real exchange rate adjustments with less adverse output and employment consequences than would be encountered under a fixed exchange rate.

Exchange rate management is complicated by the development of a backlog of payments for imports equivalent to US\$40 million. Since this could put pressure on the newly floated exchange rate, the addition of the first tranche resources to the international reserves will bring confidence in this measure.

Concrete macroeconomic commitments during the sectoral reform program

In summary, the GOS commits itself to the following concrete macroeconomic targets during the execution of the ATPL:

1. The central government fiscal deficit (using the IMF definition and estimated by the IMF and the IDB) will be no higher than 5.2% of GDP (as estimated by the IDB and IMF, in consultation with the General Bureau of Statistics [GBS]) during 1998 and no higher than 3% of GDP in subsequent years of the program;
2. The annual inflation rate (as estimated by Consumer Price Index of the GBS) will be no higher than 30% before or during the program;
3. The GOS will introduce a freely floating market-determined exchange rate before the first tranche and will maintain the system for the life of the program. The exchange rate will be determined as the weighted average exchange rate used by commercial banks and cambios on the previous working day;
4. The GOS and Central Bank of Suriname will not undertake quasi-fiscal operations. In particular, no new on-lending operations will be established.

IV. Trade and Agricultural Sector Policies

a) The Incentive and Institutional Framework

Distortions in the incentive framework have often been the unintended by-products of inadequate policies (export licensing and other restrictions to free trade; export taxes; the foreign exchange regime; land tenure), that are counterproductive to agricultural and other non-mineral sector growth. The Agriculture and Trade Policy Reform Program will focus on improving the incentive framework for agriculture, including institutional reform.

The main factor behind the poor performance of the agricultural sector over the past decades has been a deficient incentive framework, particularly inadequate trade and exchange rate policies, as well as high real interest rates. Those deficiencies are complicated by export quota constraints for rice and bananas, and the anticipated loss of preferential export markets by the year 2002. Those constraints may hamper agricultural development, together with inadequate Drainage and Irrigation (D&I) infrastructure and support services, such as credit, marketing, land titling, research and extension. Contrary to agriculture, the extraction export sectors (bauxite, petroleum and gold mining, forestry, and marine shrimping) are not affected by deficient trade policies, or by marketing constraints. The extraction sectors operate as export enclaves without foreign exchange surrender obligations, and are financed externally.

Improved incentives for agricultural production will involve reforms in trade policy and the foreign exchange regime that will reduce and eliminate dis-incentives to agricultural development. This is consistent with the government's desire to let the economy align more closely with Suriname's comparative advantage and improve the framework for private sector investment in agriculture. Agricultural exports are seen as a key element of non-mineral sector growth. The reforms that the GOS will undertake will continue a process of trade liberalization that started in 1994. Since then the tariff structure has been greatly simplified and the effective rate of protection reduced. Following Suriname's entry into CARICOM, the CARICOM common external tariff was adopted in January 1996. In April 1997 our government removed a 5 percent tariff on raw materials in order to reduce the burden on manufacturers who depend on imported raw materials. In January 1998 the maximum common external tariff was reduced to 20 percent.

The GOS will remove the requirement to obtain operating and shipment licenses on exports and imports for all products other than those on an agreed negative list. In place of the cumbersome licensing system, which has operated as a disincentive for all non-mineral exports, and also raised costs for consumers, the government will establish simple, transparent and pre-announced procedures for the purpose of regulating trade for health, environmental or national security reasons. Quotas and prohibitions on imports that exist for economic reasons will be terminated and these imports will become subject to the CARICOM common external tariff. This policy is expected to eliminate unwanted protection for import substitution, which is a hidden anti-export bias in trade policy. Substantial increases in agricultural and manufacturing exports, and subsequently lower costs for domestic consumers, can be achieved by economies of scale and higher efficiency. At the same time domestic policies can be brought into line with Suriname's commitments to the World Trade Organization (WTO). In addition to reducing the transaction costs of exporting and the cost of imported inputs, the government intends to strengthen the incentive to export by ensuring that exporters are not disadvantaged by exchange rate policies.

To this end, the government will reform the foreign exchange regime, eliminating the disparity between the official and parallel exchange rates, and phasing out foreign exchange surrender requirements for non-mineral exports. The GOS has agreed a schedule for removing the surrender requirements with the Bank.

The GOS will also improve the incentives for rice production and exports by eliminating the practice of setting minimum prices for rice exports and mandatory retention quotas for the domestic market. In particular, the Suriname Rice Institute (RIS), which has strong private sector

participation, has been established to replace the state owned Suriname Rice Export Corporation (SUREXCO) that previously controlled rice exports. In addition, as a first step the government has reduced the rice levy from US\$ 10 per ton to US\$ 6 per ton (or less than 2 percent of rice export prices). Moreover, since September 1998 the GOS has stopped collecting the US\$6 per ton levy on rice exports. The reduction in the rice export levy was made possible by the Government's efforts to streamline the institutional framework governing the rice sector and to include farmer organizations. Those rice levy revenues will be used by the RIS for research in rice and to cover maintenance and operation costs of rice infrastructure. Under the reform program, the GOS will participate marginally within the RIS, leaving management of the RIS to the private sector. At the same time, SUREXCO will be formally dissolved to reduce redundancy and to clarify the legal and institutional framework for the rice sector.

The GOS is committed to allowing the price mechanism to work freely in the agricultural sector. However, as an exception to this general principle, in September 1997 price controls were temporarily introduced on 40 basic consumption products in order to protect the purchasing power of the poorest and minimize the inflationary impact of the introduction of a turnover tax. To complement this measure, the government exempted 50 basic goods from import duties and the turnover tax. The government intends to phase out the price controls.

b) Land and Water Use Management

Given the importance of land and water to the agricultural sector, the government attaches great importance to improving the efficiency of land and water allocation and their use. Agricultural development suffered from insufficient resource allocation for agricultural infrastructure, and research and other support services. Key requirements also include improving the security of tenure, and the provision of agricultural support services to indigenous peoples in the interior areas. The pricing of publicly issued agricultural leases needs to be corrected. Public land leases have previously been issued for such low prices that arable land is underutilized. An important first step was taken in May 1997 when land rents were increased from US\$ 0.01 to US\$ 0.25 per acre. The basic information on land and water resources, existing land lease and water management, the operation and maintenance (O&M) of drainage and irrigation infrastructure, and the related enforcement systems, are all deficient in many respects. Also, strengthening the Ministries of Agriculture, Finance, and Natural Resources is of critical importance to successful implementation of such measures. In view of this, the GOS requests that the Reform Program include a technical assistance component to strengthen those Ministries, to prepare a study for improving the administration and use of land & water resources, notably improved O&M of agricultural infrastructure through farmer organizations (water boards) and user fees.

c) Privatization of State-Owned Enterprises

The GOS will complement improvements in the incentive framework with changes in the role of the state in agriculture. In particular, the government intends to restructure and privatize four of the seven large agricultural state-owned enterprises. The government's privatization program is, as yet, not clearly defined to be included in the ATPL. It is, however, important to bear in mind that the government's policies on agricultural state enterprises comprise an important component within the overall policy framework for the sector. Our government has already issued long term leases to private investors that have started to develop part of the uncultivated lands of the largest state enterprise Wageningen for rice cultivation. The GOS has also decided to privatize and convert the state owned sugar estate, where external legal ownership claims remain to be settled. The GOS intends to restructure and privatize its largest agricultural enterprises in rice, sugar, and oilpalm, and several medium and small agricultural SOE's. SURLAND (bananas), SAIL (marine shrimp), and SEL (rice, cattle) are the remaining three large agricultural SOE's not included in the privatization program.

d) Infrastructure

The government's efforts to improve the policy environment for agriculture will be supplemented by a program to upgrade infrastructure in the sector. Most notably, the governments of Suriname and the Netherlands have been working to develop a major investment project to rehabilitate irrigation and drainage infrastructure in north-western Suriname, the main area for rice cultivation. This project is estimated to cost US\$ 40 millions and is planned to be financed by Dutch grant funds. An important component of the project is the establishment of water boards by farmers, to ensure that D&I infrastructure is well operated and maintained. The GOS expects that the combination of improvements in the policy framework for agriculture and infrastructure provision will stimulate a significant output and export response from private sector agricultural producers.

e) Environmental Management

The GOS is ever mindful that economic and social development must not come at the expense of the natural environment, and takes pride in our national policy to conserve a large part of our forest lands by excluding those from extractive exploitation. Improved environmental management, however, will become more important when agriculture and forest logging will expand as a result of privatizations and direct foreign investment. The government will continue to take measures that will ensure that increased agricultural and timber production does not result in extra health risks, environmental degradation, a reduction in Suriname's rich natural inheritance, or a loss of biodiversity. With the aim of securing an improvement in the long term sustainable management of natural resources, the GOS has moved to develop a national environmental legal and institutional framework, with a special focus on the forestry and mining sectors. The IDB supports the recently appointed National Environmental Council, which is a policy-making body located in the Office of the President, and an Environmental Management Agency, that is the Council's operational arm. Other international agencies are also supporting sectoral ministries dealing with environmental issues. The GOS is aware of international concerns about the management of our forestry resources and is taking a rational approach to the difficult issues involved in meeting sometimes conflicting objectives. The government is receiving support from the Food and Agriculture Organization and

others, to upgrade legislation governing the sector and review the procedures for determining and collecting royalties and concession fees.

A National Forest Policy will be developed and submitted for consideration of the Council of Ministers. This document will define a long-term forest policy and institutional strengthening that is in accordance with national economic, social and environmental goals and which reflects to the greatest extent possible the views of the entire population and all stakeholders. Furthermore, the GOS will seek to complete the legal and regulatory framework that is needed to implement the Forest Management Act of 1992, together with institutional strengthening. Support from the IDB in the study and discussion of policy alternatives is welcomed by our government.

The GOS also requests that technical assistance to strengthen the management of toxic agricultural chemicals be included as part of the Agriculture and Trade Reform Program (ATPL). The principal needs are: (i) to review and update legislation and regulations that govern the trade, handling, storage and application of agro-chemical inputs; (ii) to make the recently-established Pesticides Bureau effective; (iii) to develop a comprehensive awareness campaign and program to train personnel to handle the products; and (iv) increase the supply of alternative environmentally neutral inputs and/or the development of alternative agricultural practices for weed, pest, and disease control.

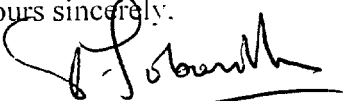
IV. Final Considerations

The Ministry of Finance will be the focal point in executing the Agriculture and Trade Reform Program Loan (ATPL), and will coordinate the execution of specific measures and activities with the Ministry of Agriculture, the Ministry of Trade and Industry, and the Ministry of Natural Resources. These Ministries must be strengthened to efficiently implement the ATPL. The GOS intends to finance a large part of the institutional strengthening and the technical assistance components of the ATPL by setting aside some of the loan proceeds in a special government fund at the Central Bank of Suriname designated for that purpose.

The GOS hopes that the Bank's lending to Suriname will increase substantially, in view of the fact that net loan disbursements from the IDB to Suriname have been very low and even negative during several years, while Suriname's indebtedness and debt service obligations to the IDB and to the other financing institutions are at a relatively low level.

In view of the important benefits that this Agriculture and Trade Reform Program will have for Suriname's overall economic and social development, the government of Suriname is committed to its timely and efficient implementation.

Yours sincerely,



Tjandrikapersad Gobardhan,
Minister of Finance

DETAIL OF SUPPORTING TECHNICAL ACTIVITIES		
ISSUE	OBJECTIVE	ESTIMATED COMPLETION BY SECOND TRANCHE
<p>1. DEVELOPMENT OF NEGATIVE LISTS FOR TRADE AND NEW TRADE LAWS</p> <p>Negative list for trade and new trade laws are required for increased transparency, efficiency and automaticity of trading system, and for shifting from discretionary to rule-based system.</p>	<p>Technical requirements for compliance with ATPL conditions: negative list for first tranche and laws for second tranche.</p>	<p>Satisfactory completion of new trade laws.</p>
<p>2. MODERNIZATION OF TRADE-RELATED INSTITUTIONS</p> <p>Staff and equipment not ready to promote trade, negotiate with multilateral trade organizations, protect human health under open trade, or comply with international standards on product quality.</p>	<p>Facilitate modernization of trade-related institutions.</p>	<p>Satisfactory implementation of action plan to strengthen MTI's external trade liaison and promotion functions, and the country's capacity to monitor product standards.</p>
<p>3. INSTITUTIONAL IMPROVEMENT FOR AGRICULTURAL HEALTH AND USE OF TOXIC CHEMICAL INPUTS</p> <p>Trade-related animal health and plant protection capabilities of the MAAHF not supportive of integration into a modern trade system.</p> <p>There are no cost-effective environmentally-sound farm alternatives to control or replace toxic agro-chemicals.</p>	<p>Reduce health risks to local consumers, handlers and users of toxic agro-chemical inputs; effectively support health and environmentally justified import regulations, and compliance with standards required to access external markets; and develop and extend to farmers efficient alternatives to the intensive use of toxic chemical agricultural inputs.</p>	<p>Satisfactory implementation of action plan for agricultural health and agro-chemical inputs.</p>
<p>4. UPDATING CUSTOMS COMPUTERIZED SYSTEMS</p> <p>Customs operates an automated management system which will soon become obsolete, because it is not up to the most modern standards and it is no longer supported by its developers. The system may be soon be unable to fully and timely support ex-post audits of declared exported values, quantities and qualities.</p>	<p>Insure efficiency and sustainability of the automated system to register trade statistics. Specifically: (i) improve software and hardware; and (ii) provide training in the use of the system.</p>	<p>Satisfactory implementation of action plan to assess capabilities and limitations of current system, update software and hardware.</p>
<p>5. FEASIBILITY STUDY FOR THE ADMINISTRATION OF PUBLIC AGRICULTURAL LAND</p> <p>Sustainable improvement of resource allocation in agriculture requires security of tenure, efficiency pricing and actual collection of rents on public agricultural land; as well as environmental monitoring. Basic information, lease-management and enforcement systems are not in place and will take time to develop.</p>	<p>Contribute to security of tenure, environmental controls and pricing of agricultural public-land leases.</p>	<p>Satisfactory completion of the feasibility study. Terms of reference for the land administration feasibility study.</p>

AGRICULTURE AND TRADE POLICY REFORM LOAN (ATPL) (SU-0016)
SUMMARIZED POLICY MATRIX

(October 9, 1998)

POLICY AREA		ACTIONS TO BE TAKEN PRIOR TO	
ISSUES		FIRST TRANCHE	SECOND TRANCHE

I. MACROECONOMIC FRAMEWORK	A supportive macroeconomic framework is essential for agricultural growth.	Provide supportive and enabling policy framework for agricultural growth.	Maintain a stable macroeconomic framework consistent with the objectives of the program; the foreign exchange rate floated freely.	Maintain a stable macroeconomic framework consistent with the objectives of the program, and the free-floating exchange regime for the exchange has been maintained.

II. TRADE LICENSES AND QUANTITATIVE IMPORT RESTRICTIONS	The system of trade licenses implemented by the MTI has been streamlined during ATPL negotiations. However, it still reduces incentives to agricultural and manufacturing exports; creates fiscal costs; and does not effectively protect human health or the environment.	Eliminate unnecessary, costly and outdated constraints on trade; increase transparency, efficiency and automaticity of trading system; bring Suriname into line with WTO commitments; effectively protect human health, the environment and national security.	An agreed list of products requiring prior-licensing or ex-ante review is in effect.	Implement law revoking legal requirement of: (i) operating, and subject to quotas for preferential trade agreements, except for products subject to quotas for preferential trade agreements, and other a upon exceptions.
	Import prohibitions and quotas cause welfare losses, distort incentives and are inconsistent with WTO commitments.	Reduce welfare losses and incentive distortions. Bring Suriname into line with WTO commitments.	Import quotas and prohibitions have been removed for products not included in an agreed negative list for imports.	Entry into force of modernized legislation, as above.

POLICY AREA		ACTIONS TO BE TAKEN PRIOR TO	
ISSUES		FIRST TRANCHE	SECOND TRANCHE

III. FOREIGN EXCHANGE SURRENDER FOR NON-MINING PRODUCTS

Foreign exchange surrender requirements and control mechanisms increase the cost of exporting and reduce the reward from exporting.	Increase export gross incomes, reduce transaction costs and support the more liberal regime for the exchange rate, by liberalizing the foreign exchange market.	The IDB and GoS have agreed to eliminate foreign exchange surrender requirements	The requirement to surrender exchange for non-mineral exports has been eliminated.
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IV. RICE MARKET INTERVENTIONS AND INSTITUTIONS

Minimum rice prices are imposed on rice exports to support foreign exchange surrender policies. The GoS can also impose retention quotas to supply the local rice market.	Eliminating artificial obstacles to rice exports and optimize sales to preferential external markets.	No official or semi-official mechanisms is in effect to set minimum rice price data needed for auditing is obtained ex-post from Customs.	
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Despite the establishment of RIS, which is now fully private, SUREXCO still exists and is legally entitled to collect service charges and levies.	Simplify the institutional framework for the rice sector and reduce public intervention in the sector.	SUREXCO is not functioning and the process of legal dissolution is progressing satisfactorily.	SUREXCO legally dissolved and the liabilities assumed by the Republic
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V. SUSTAINABLE FOREST MANAGEMENT

NATIONAL FOREST POLICY A fully articulated forest policy has not yet been defined.	Define a long-term forest policy that takes into account national stakeholders' views and meets national economic, social and environmental goals.	A mechanism to ensure participation of national stakeholders has been agreed with the Bank, and drafting of the national forest policy is proceeding satisfactorily.	Council of Ministers approval of National Forest Policy, previously agreed with the Bank.
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POLICY AREA		ACTIONS TO BE TAKEN PRIOR TO	
ISSUES	OBJECTIVES	FIRST TRANCHE	SECOND TRANCHE
<p>FOREST MANAGEMENT ACT Regulations are needed to implement the Forest Management Act of 1992.</p> <p>The Forest Service is not able to ensure rational and sustainable forest exploitation, and collection of fees and royalties. The GoS is implementing an action plan to implement the Act and establish an effective forest management unit.</p>	<p>Complete required legal and regulatory framework</p> <p>Establish procedures to determine, update and collect royalties and concession fees. Establish monitoring and collecting unit.</p>	<p>Satisfactory development of action plan to implement Forest Management Act, and establish a monitoring and collecting unit.</p>	<p>The Forest Management Act and corresponding regulations are to be implemented, according to previous agreement with the Bank.</p> <p>Royalties and concession fees to be collected periodically, according to procedures determined in the regulations to the Forest Management Act. Collect fees and royalties to ensure cost recovery for the monitoring and collecting unit.</p>

PROPOSED RESOLUTION

SURINAME. LOAN /OC-SU TO THE REPUBLIC OF SURINAME

(Agricultural and Trade Policy Reform Loan)

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 the latter a financing to cooperate in the execution of an Agricultural and Trade Policy Reform Loan. Such financing will be for the amount of up to US\$30,000,000 from the Single Currency Facility of the ordinary capital resources of the Bank, and it will be subject to the "Special Contractual Conditions" and the "Terms and Financial Conditions" set forth in the Executive Summary of the Loan Proposal.

PROPOSED RESOLUTION

SURINAME. PARTIAL PAYMENT OF INTEREST ON LOAN /OC-SU
TO THE REPUBLIC OF SURINAME

Agricultural and Trade Policy Reform Loan

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 as administrator of the Intermediate Financing Facility Account (the "Account"), to enter into such contract or contracts as may be necessary with the Republic of Suriname, as Borrower, and to adopt other pertinent measures to use the resources of the Account to pay a portion of the interest due by the borrower on outstanding balances of the loan authorized by Resolution DE-[]/98, in accordance with the provisions set forth in Document FN-263-2, as amended, approved by the Board of Executive Directors on December 21, 1983.