

Suriname: A Macro-environmental Analysis

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Executive Summary

REDD+ is a large scale initiative to combat climate change through: reducing emissions from deforestation and forest degradation; conserving and enhancing carbon stocks; and practicing sustainable forest management. Due to the disproportionate distribution of world's remaining forests, most of these efforts will be made in developing nations. Thus, in order for REDD+ to succeed, it is imperative that strategies be developed that allow these nations to grow without following the same footsteps as the developed nations that preceded them, and causing irreparable harm to the environment.

This report provides a brief snapshot of the Surinamese economy followed by a study of positive and negative (structural) factors that will likely influence the nation's development. It is intended as a background study to support investigations of possible economic opportunities that can be included in a climate compatible development strategy for Suriname.

Factors that were highlighted as inhibiting growth include:

- Poor (transport) infrastructure
- Lax laws, monitoring and enforcement
- Poor education and skills mismatch
- Lack of coordination (among key stakeholders)
- Austerity
- Overreliance on extractives
- Poor access to credit
- Bloated public sector

Factors that give reason for optimism include:

- Large stock of natural resources
- Openness to change (in light of recession)
- Prudent fiscal and monetary authorities
- Proven potential to be a net exporter (favourable population-resource ratio)
- Location and large port
- Underutilised arable land
- Underutilised multilingual population (Dutch and English)
- Large renewable energy potential

As the lists above suggest, while Suriname faces many challenges it also has many positive structural factors that point towards a positive future. Furthermore, if the land rights issues are resolved and the constraints above overcome, many avenues exist to drive the country down an environmentally sustainable growth path.

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Introduction

Suriname is classed as an upper middle-income country, with a GDP of US\$5.8 billion distributed amongst a population of 541,638.¹ This represents a GDP per capita of US\$10,337 (US\$10,465 – 2015)² but fails to recognise the stark differences between reasonably developed coastal areas and the largely untouched interior – predominantly populated by indigenous and maroon people. The rural urban divide has led to large discrepancies in development indicators between urban areas and their rural counterparts, which are markedly worse off in terms of education, water sanitation, nutrition, health etc.³ The relative exclusion of the latter portion of the population from wider economic participation is a hindrance to both development and a stable political environment. Whilst the incorporation of this segment (20%) of the population and its long standing land rights issue is integral for long-term growth, especially because of the economy's dependence on extractive industries, this study will mainly give an overview of the country's macroeconomic situation without fixating on the aforementioned issue.

That being said, it should be noted that the resolution of the land rights issue will likely have tremendous ramifications for the social structure of villages, particularly in relation to its effect on vulnerable groups like women and children. Power is currently localised in the hands of community chiefs who are: predominantly male within indigenous communities, and exclusively so in maroon communities. In dealing with the land rights issue it is thus vital to ensure that if land rights are given to individuals instead of communities, minority groups are not disadvantaged by the changes, cultivating a system of dependency and exacerbating existing power imbalances.

This report will begin by providing a brief overview of the macroeconomic environment, before giving a more detailed breakdown of selected positive and negative components of the economy. Finally, a brief section will explore the structural issues most pertinent to business operations in the country.

¹ *Central Bank of Suriname, Statistics Department – “Suriname Country Profile, Economic and Financial Data”, May 2015*

² *Centrale Bank van Suriname – “Investment Guide”, August 2015*

³ *United Nations Children's Fund, Ministry of Social Affairs and Housing, General Bureau of Statistics, Institute for Social Research - University of Suriname – “Suriname - Multiple Indicator Cluster Survey 2010”, January 2014*

Macroeconomic Environment - Overview

Suriname's economy is concentrated on enclave-based extractive industries, with minimal spillovers to the local economy. This has hampered wider development and is further exacerbated by a poor transport infrastructure that has led to mineral processing facilities being located in close proximity to their source materials. Limited positive spillovers from mines are thus also geographically concentrated, leading to higher inequalities between the general population and parties involved in extractive activities. The extractives sector is dominated by oil, bauxite and gold, which are together responsible for nearly 90% of Suriname's export revenue, with gold alone contributing over 50% of export revenue in 2014.⁴

Over the past decade Suriname has enjoyed strong and stable growth, comparable only to Guyana in the 'Caribbean' region. Real GDP growth has varied between 1.8 – 5.8% and the country was even able to weather the 2008/9 global financial crisis (GFC) relatively unscathed. This was due in large part to the fact that Suriname was the only country in the region with a favourable balance of trade (up until 2012) – predominantly due to exploitation of rich natural resource stocks. However, the economy slowed down dramatically in 2015 amid a presidential election that saw the incumbent being re-elected to a new five-year term – with a different coalition. This saw real GDP growth drop to 0.1% in 2015 and is blamed alongside falling/fluctuating commodity prices, and the closure of Suralco's (the sole) alumina refinery in late 2015, with prompting an economic recession, as the economy is set to contract by 2% in 2016.⁵

Downward pressures on gold and oil prices since 2012 have adversely affected output, and consequently, fiscal and external accounts; a situation worsened by the drying up of previously ever present development funds from Suriname's former colonists. This has highlighted the over-reliance of the economy on extractives, which has not been adequately addressed since the 1980s when diversification was first included in development plans. Furthermore, current plans to reinvigorate the economy are contingent on the rallying of commodity prices and expansion of the extractives sector; with SURGOLD set to start commercial gold mining operations in the last quarter of 2016, and state-owned Staatsolie to ramp up its new oil refinery production in 2017. While this may stimulate short-term growth it will likely come at the cost of economic volatility due to increased exposure to commodity price fluctuations; a factor made more relevant by the cessation of all bauxite production, which has further reduced mining sector diversification.⁶

Authorities responded to the economic downturn by tightening fiscal and monetary policies to cope with the reduction in export and fiscal revenues, managing to maintain the fiscal deficit in 2014 despite falling nominal revenue.

⁴ See 1.

⁵ IMF – "IMF Executive Board Approves US\$478 Million Stand-By Arrangement for Suriname" Press Release No. 16/251, May 27, 2016

⁶ It should be noted that the Government of Suriname (GoS) is in talks with foreign mining companies to restart bauxite mining.

The tighter policy stance and minimal international price pressures benefitted inflation, which remained low. However, the shaky base of the economy started to tell in 2015 as the Government of Suriname (GoS), short on funds due to the drop in mining revenues, looked to increase taxes to stem a swelling fiscal deficit. This was received poorly and led to a loss of public confidence in the ability of the current government to run the economy and deliver on their promises. Anecdotal evidence suggests this was predominantly due to a public perception of widespread corruption; a problem exacerbated in a country accustomed to utility subsidies and lax enforcement of regulations that permit sizeable swathes of the population to avoid paying taxes and utility fees. Concurrently, a fixed exchange rate regime meant that foreign reserves at the central bank were being whittled down by the balance of payments deficit to maintain the peg to the US dollar. Speculative hoarding of foreign currency to mitigate currency risk caused further harm by limiting reserves available to businesses importing products or supplies, and eventually led to a break in the currency peg and the floating of the Surinamese dollar. The combined action of the depreciation and utility hikes drastically increased inflation, which was as high as 37% in March 2016.⁷

The GoS has since agreed to a US\$478 million, 24-month Stand-By Arrangement (SBA) with the IMF to support its economic reform program. The agreement is set to open the path for additional sources of funding from the IDB (US\$160 million), Islamic Development Bank and Caribbean Development Bank. Proposed reforms primarily aim to restore macroeconomic stability and confidence, and pave the way to economic recovery while protecting the most vulnerable during the adjustment process. This includes financial consolidation (austerity) through the elimination of electricity subsidies and introduction of value added tax, as well as a strengthening of the social safety net to shield the poor who are worst affected by the hikes in living costs. Measures are also anticipated to reduce the surplus cash available to members of the population who indulge in speculative hoarding of foreign currencies, and thus stem the pressure on the Surinamese dollar. Finally, structural reforms to improve the business environment and promote FDI are also anticipated.

Table 1 – Suriname: Selected Economic Indicators.

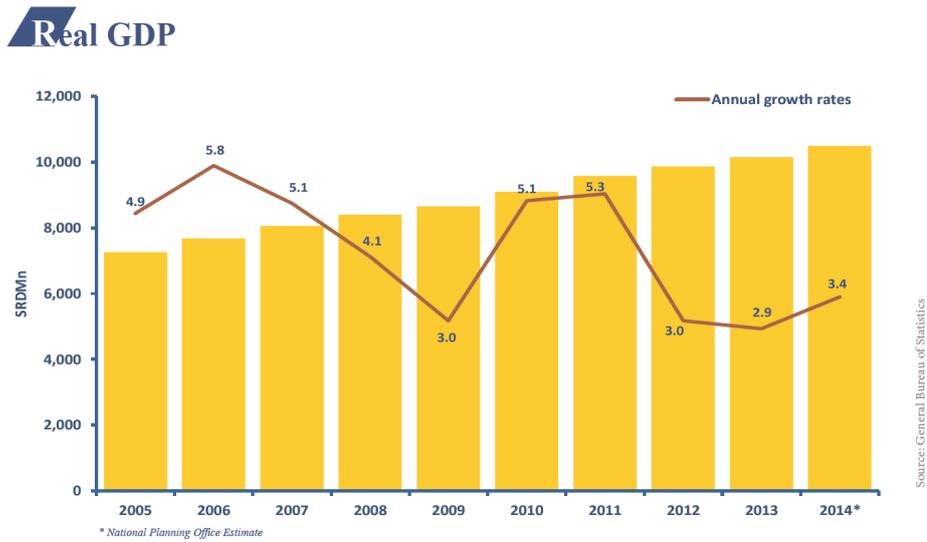
				Prel.	Proj.	
	2012	2013	2014	2015	2016	2017
(Annual percentage change, unless otherwise indicated)						
Real sector						
GDP at current prices (SRD billions)	16.4	16.9	17.2	17.6	22.8	25.8
Real GDP growth	3.1	2.8	1.8	0.1	-2	2.5
GDP deflator	10.3	0.2	-0.3	2.2	32.3	10.4
Consumer prices (end of period)	4.4	0.6	3.9	25	24.1	8.9
Consumer prices (period average)	5	1.9	3.4	6.9	36.8	12.5
Money and credit						

⁷ See 5.

Banking system net foreign assets	17.5	-11.3	-16.3	-22	48.3	21.6
Broad money	19.6	14.1	8	10.2	19.9	5.7
Private sector credit (devaluation adjusted)	16.7	18.4	9	7.3	5.3	7.7
Public sector credit (increase in percent of M2)	0.4	8.4	10.1	12.6	1	-0.5
(In percent of GDP, unless otherwise indicated)						
Savings and investment						
Private sector balance (saving-investment)	7.7	0.5	-1	-8.5	-1	3.9
Public sector balance	-4.5	-4.4	-7	-7	-7.7	-3.4
Saving	0	0.1	-1.8	-4.6	-4.9	0.3
Investment	4.4	4.5	5.2	2.5	2.8	3.7
Foreign saving	-3.3	3.8	8	15.6	8.7	-0.5
Central government						
Revenue and grants	25.7	25.9	24.2	21	20.6	23.6
Total expenditure 1/	29.6	33.6	32.1	29.7	27	27
Primary expenditure	28.6	32.2	31.3	28.3	25	25.3
Overall balance (net lending/borrowing)	-3.9	-7.7	-7.9	-8.8	-6.4	-3.4
Primary balance	-2.9	-6.4	-7	-7.4	-4.4	-1.7
Net acquisition of financial assets	0	0	0	0	-1.3	0
Net incurrence of liabilities	3.9	7.7	7.9	8.8	7.7	3.4
Net domestic financing	1.8	4.5	6.4	7.2	-0.3	0.4
Net external financing	2.1	3.3	1.5	1.5	8.1	3
Central government debt						
Domestic	21.7	31.7	29.4	43.5	46.2	44
External	10.1	16.8	13.1	22.8	17.3	15.4
	11.6	14.9	16.2	20.6	28.9	28.6
External sector						
Current account balance	3.3	-3.8	-8	-15.6	-8.7	0.5
Capital and financial account	9.6	8.4	13.2	13.4	0.4	1
Gross international reserves (US\$ millions)						
In months of imports	1,008	779	625	355	538	837
	4.4	3.4	2.8	1.9	2.8	4.2
Sources: Suriname authorities; and Fund staff estimates and projections.						
1/ Includes statistical discrepancy.						

Source: IMF - "IMF Executive Board Approves US\$478 Million Stand-By Arrangement for Suriname" Press Release No. 16/251, May 27, 2016

Figure 1: Real GDP and Annual Growth Rates



Source: CBvS – Central Bank of Suriname, Statistics Department – “Suriname Country Profile, Economic and Financial Data”, May 2015. Note that there are minor discrepancies with IMF data, due to optimistic forecasts for 2014.

Opportunities and Positive Structural factors

Despite the gloomy picture of the current economy, and numerous risks and challenges, a number of factors provide sparks of optimism for the future:

- **Large Stock of Natural Resources**

This is both an asset and a curse. As many economies endowed with abundant natural resource reserves, there is a tendency for the extractives sector to lead to the detriment of other sectors through absorbing a disproportionate amount of investment, labour and other inputs. The heavily export oriented nature of mining is also partly responsible for an inflated currency that makes exports from other sectors less competitive; a phenomenon commonly referred to as 'Dutch Disease'. Nonetheless, it is obviously still an advantage to have these resources, and Suriname has many.

The country possesses kaolin, bauxite, gold, and small amounts of nickel, copper, platinum and iron ore, as well as oil – which has large potential reserves yet to be discovered.⁸⁹ Suriname also has large quantities of renewable resources including fish, shrimp, timber and fresh-water. The country is especially rich in timber and fresh-water as it boasts the highest forest cover in the world, 94%, and the globe's third largest reserves of fresh-water, 228,000 m³ per capita.¹⁰ These have led to a great amount of biodiversity, which can be an obvious boon to a tourism industry that is sorely underdeveloped. The forest cover also has the capacity to become a major export through the climate control service it provides, as its carbon sequestration capacity can be used to enter carbon markets – an initiative already initiated through the on-going work of the UN REDD+ programme. A sectoral breakdown provides a more informative picture of each of these resources.

With the exception of bauxite, which is undergoing a temporary dip due to a price slump and renegotiation of mining rights, **non-gold and non-oil mineral products** have not been fully explored. A considerable amount of scepticism surrounds the mining sector due to gold mining practices that often use harmful components like mercury (traditional) and cyanide (IAMGOLD) capable of causing long-term damage to the ecosystem. This has led to public perception being in stark opposition to mining activities. Mining has thus become a divisive issue; seen as incompatible with Suriname's climate conscious growth path by conservation enthusiasts, and integral to development by large-scale businesses and trade professionals. Both views tend to undervalue the compromise that can be reached through improved mining practices and policies, as well as greater transparency.

⁸ CIA – World Factbook 'Natural Resources', <https://www.cia.gov/library/publications/the-world-factbook/fields/2111.html>

⁹ In 2000, the United States Geological Survey (USGS) concluded that Suriname's part of the Guiana sedimentary basin could contain 15 billion dollars of undiscovered oil reserves.

¹⁰ Conservation International – Sheila Marhe, "Green Growth", Presentation at 'Promoting Industry Foresight in Suriname' workshop, 20-22 June 2016

Mining activities involving mercury are especially bad as build-up of the metal in soils and water streams near mine sites can have severe consequences for plant and animal life. This contamination is most profound in its effects on the indigenous and maroon communities downstream of mines. Exposure and ingestion of high levels of mercury through water, plants and animals adversely affects the health of these communities and is especially harmful to pregnant women and children.

In the case of transparency it would be beneficial to inform the public that, beyond its creation of alkaline water (ph 8/9), cyanide is not harmful once combined with water and exposed to sunlight. In fact the alkaline water that drains into the eco-system often works to neutralise the acidic water (ph 4) in the brackish streams of Suriname; caused by large quantities of dissolved leaves and responsible for the iconic kola coloured water of the tourist creek by the same name. Non-mercury gold mining thus has the potential to bridge the divide, as it would reduce the toxins retained in mining areas, and thus, quicken the rehabilitation of mine sites after operations cease. It can also be more efficient than its less eco-friendly alternatives by allowing a greater portion of gold ore to be extracted.¹¹

More eco-friendly mining practices are essential as the industry's position at the centre of Suriname's economy is unlikely to change 'overnight'. Mining is responsible for US\$1.75 billion in revenues each year, before taking into account revenues from support activities, such as vendors etc. who rely on the industry.¹² Perhaps even more significantly, it is also responsible for the employment of 50,000 people - 20,000 directly and 30,000 indirectly.¹³ This includes supporting the livelihood of many individuals from interior communities. Serious efforts to steer the economy thus have to account for the fact that any shift away from mining will have to be gradual and replace both the revenue and livelihood support provided by the sector.

Creating markets for Suriname's other minerals and the waste products of its primary mining activities could also alleviate the overreliance of the economy on gold and oil, which currently comprise 80% exports.¹⁴ For example, the mining company Grassalco processes the gravel left over in gold mines to provide cement for the construction industry, and is working on a way to export the *Patamaco* granite prevalent in Suriname.

The **Timber** industry presents another area ripe for development. Only 560 000 m3 of timber was harvested in 2015, which represents just over 50% of

¹¹ Grassalco – Sergio Akiemboto, "Experts' Inputs for Future Repositioning: Mining", Presentation at 'Promoting Industry Foresight in Suriname' workshop, 20-22 June 2016

¹² Revenue figures calculated from WB estimates of GDP and mining sector contribution (30% of GDP)

¹³ UNCTAD – Mr. Glen Gemerts, "The Mineral Sector of Suriname: Employment Creation and Capacity Building", April 2014

¹⁴ See 11.

Suriname's sustainable quota.¹⁵ However, it should be noted that the industry has witnessed a large expansion in recent years, with current production approximately double the 240,000 m³ recorded in 2010. Nonetheless, ample room still exists for expansion of the sector, although care must be taken to ensure that expansion does not cascade out of control.

The timber industry is in a precarious position due to its geographic concentration. Poor transport infrastructure has precluded access to the interior – comprising nearly two-thirds of Suriname by area, and the bulk of its forests. Consequently, timber production is heavily concentrated in a green belt wedged between this effective border and heavily populated coastal areas. Furthermore, only a few tree species are used for export, increasing the unit cost of infrastructure required for harvesting (as fewer trees can be harvested in each concession) and causing a disproportionate reduction in Suriname's most valuable tree species. Moreover, 95% of logs are exported with no added value and sell at a 20-40% discount from what they could through a process as simple as sawing to create dimension wood.¹⁶ Broadening production to include alternative tree species and non-green belt production is thus essential for sustainable expansion; while timber processing is necessary to make the most of the nation's resources.

The well developed monitoring and evaluation procedures of SBB, which are FSC certified, further improve the attractiveness of this sector by providing access to all major timber markets and a ready-made mechanism to ensure the sustainability of harvesting activities.¹⁷

Plentiful waste materials from harvesting activities could also be used as inputs in biofuel facilities (see energy section below). Initial results of a study by SBB and Hamburg University suggest that only around half the content of standing trees is currently being utilised in the timber industry, with the remainder (leafy branches and roots) being left to decompose in the forest.¹⁸

This grossly understates total waste, as sawmills only process 40% of the lumber they use, a number that drops as low as 25% for the production of high quality export products. All in all, less than 25% of a harvested tree is sold on as a finished product. To put this into perspective, a 10% increase in efficiency would be worth US\$7.7-13.2m annually.¹⁹ This is before taking into account the

¹⁵ SBB - Suriname Forestry Sector 2015, Stichting voor Bosbeheer en Bostoezicht, August 2016

¹⁶ Winston Ramautarsingh – “Only production will stop the economic recession”, Presentation at ‘Promoting Industry Foresight in Suriname’ workshop, 20-22 June 2016

¹⁷ SBB – Foundation for Forest Management and Production Control
FSC – Forest Stewardship Council

¹⁸ SBB and Hamburg University – Study on improving efficiency of sawmilling, Romeo Jagessar (SBB Economist SBB) – Meeting: 23 June 2016

¹⁹ At current sawmill processing of 300K, 10% efficiency improvement = 30000m³*((\$275 Basa semi-processed or \$442 Wana planed sawn bottom and top

fact that current processing of 300,000m³ is only around a third of the installed processing capacity of Suriname's sawmill industry at 857,500m³.

It is nonetheless important to remember that some constraints will likely remain binding. A tropical climate means trees in Suriname often have far more cracks in them than their equivalents in countries such as Sweden that have sawmill efficiencies in the high 90s.²⁰ Consequently, it is unreasonable to believe the domestic industry could scale the same heights, although 50% should be the minimum expected. It should also be noted that full use of the installed sawmill capacity would crowd out many of the timber companies that have made a business of exporting round wood and is likely to encounter stiff resistance.

The **fish** industry is also underdeveloped. If anecdotal evidence is to be believed, illicit fishing activities may already be occurring in Suriname's waters to supply neighbouring regions. The largely untapped interior again presents opportunities to enhance fishing activities, while the country's many waterways are well suited to fish farms – and contain species such as Anyumara and Trapoen that are hard to find elsewhere. Suriname is also home to a species of large shrimp *Macrobrachium Rosenbergii* that can be better harvested or farmed. The GoS has highlighted agriculture and aquaculture as key focus areas in its new long term plans and is thus likely to provide support to enterprises in this sector. A crucial factor in sectors famed for exorbitant set-up costs.

The forests also house a variety of **non-timber forest products (NTFP)** with significant commercial potential. These include agricultural products, natural remedies and the arts and crafts of indigenous communities that call the forest home. The agricultural products in these communities are particularly valuable due to their completely natural production, which is ideal for the growing premium market for organic produce.²¹ However, the most eye-catching opportunities come from the natural products of the forest's many plants. These have various medicinal and nutritious properties, and are available in sizeable quantities. For example, the area surrounding the village of Alalapadu has the potential to become the 6th largest Brazil nut exporter in the world at 31.5t, which presents an enormous opportunity at current prices of US\$ 36/liter – US\$1.2m.²²

Due to the Suriname's rich biodiversity, **tourism** is often touted one of the ways to diversify the economy, with Costa Rica highlighted as an example to follow. While tourism is indeed an interesting avenue to explore, the idea that the industry could be a panacea for the nation's problems is far fetched.

of range)=US\$ 7,714,285 – 13,285,714. Based on SBB report by R.Matai – “Sawmill Industry In Suriname”, June 2012.

²⁰ R.Matai, SBB – “Sawmill Industry In Suriname”, June 2012

²¹ *Negotiations are already underway between a European company and a number of villages to create a steady supply chain for organic peppers.*

²² *Conservation International – Sheila Marhe, “Green Growth”, Presentation at ‘Promoting Industry Foresight in Suriname’ workshop, 20-22 June 2016*

Suriname's 510 million SRD tourism industry currently appeals to a small segment with minimal comfort needs.²³ In stark contrast Costa Rica massive 2.6 billion USD eco-tourism industry benefits from two crucial advantages:²⁴

1. Close proximity to North America, which comprises 20% of tourists worldwide and 50% of tourists in Costa Rica
2. A high level of development and good infrastructure mean Costa Rica is able to cater for a wide range of interests and provide the comfort levels to fit. This includes the oft undervalued quality of providing a shielded/safe 'wild' experience; both from danger and the poverty prevalent in similar tourist spots

It is thus unlikely that Suriname will be able to imitate Costa Rica's success anytime soon. That being said the current size of Suriname's tourism industry means there is still plenty of room for it to grow.

Suriname's bountiful **fresh water** reserves are also far in excess of what its population requires and are currently being left to flow into the Atlantic Ocean. Whilst a portion of this flow is necessary to stop the encroachment of salt-water, there is likely a sizeable surplus going unused. This is an inexcusable waste when one considers the many regions undergoing droughts and the dearth of water in the Caribbean region in particular, where countries spend as much as US \$6 to sanitise each cubic metre of water.²⁵ However, any extraction of fresh-water should be contingent on a study to establish the sustainable quota of water that can be extracted without disrupting the delicate balance of the ecosystem.

The importance of adequate due diligence is evident in the widespread backlash observed at the announcement of a recent deal to export fresh water. Despite the president's office having signed off on the deal, the GoS was forced to backtrack on its commitments after a fractious public reception. Unanimous scepticism surrounded the wider effects the removal of large amounts of the nation's water could have on the eco-system and even more so at the lack of research on it. The ministry of natural resources thus rescinded the initial deal, adding a requirement for adequate due diligence in all future negotiations.

The aforementioned opportunities have many additional benefits they can offer in the way of increased employment and enhancement of the livelihood of largely ostracised communities. However, many of the renewable resources

²³ World Travel and Tourism Council – "Travel & Tourism: Economic Impact 2015 Suriname". http://www.caribbeanhotelandtourism.com/wp-content/uploads/data_center/destinations/Suriname-WTTC-EconomicImpact2015.pdf

²⁴ The Tico Times – L.Arias, "Upbeat outlook for Costa Rica tourism, as visitors, revenue up in 2014", January 2015
<http://www.ticotimes.net/2015/01/22/upbeat-outlook-for-costa-rica-tourism-as-visitors-revenue-up-in-2014>

²⁵ Conservation International – Sheila Marhe, "Green Growth", Presentation at 'Promoting Industry Foresight in Suriname' workshop, 20-22 June 2016

listed are contingent on sustainable levels of exploitation. Large-scale operations in most of these areas are also dependent on the resolution of the long standing land rights issues of the indigenous and maroon people living in Suriname's interior.

Challenges with the current concession scheme are a good illustration of problems that can arise because of unresolved land rights. Repeated complaints by indigenous people about excessive forestry being caused by individuals granted concessions are a consequence of the incompatibility of commercial and community forests. This is because concessions cannot be given to a village but only a village head. This affects the power dynamics of and between villages by concentrating power and causing a conflict of interests for the holders of concessions, who are often tempted to lease/sell their concessions (or part of them) for a profit. Furthermore, as concessions can span the overlapping areas of numerous villages and are not given to all villages, non-permit holders are at a disadvantage, as they cannot control forestry activities 'in their own backyards'.

- **Openness to Change**

While it is unfortunate for Suriname to find itself in a recession, the economic crisis has highlighted the need to implement long overdue reforms. As is often the case during a boom, 'irrational exuberance' limits the scope of changes that can be made. The biggest beneficiaries in such situations seldom think beyond short-term gains and are hesitant to make/allow any changes that may negatively impact them. This is the cause of the many boom and bust cycles exhibited in most economies and the reason why Suriname was so badly affected by the downturn in commodity prices. In the face of high commodity prices, there was obstinate pressure against reforms of the government's tax collection and unsustainable utility subsidies – of electricity in particular. This left the country exceedingly vulnerable to the drop in commodity prices, as bloated government expenditure and workforce could not be easily trimmed to accommodate the steep decline in government income. However, the crisis has meant that long overdue reforms have finally been implemented, with some being a requirement of Suriname's access to foreign capital from the IMF, IDB etc.

The devaluation of Suriname's currency is great opportunity to substitute away from costly imports and use local products where possible. Although this has long been on the agenda of the Ministry of Trade and Industry, it has so far been prevented by the aspirational lifestyles prevalent in the country. Close ties to the developed Western world, particularly through a sizeable diaspora population, have further led to the appropriation of brand culture. This has been detrimental to domestic products that are often assumed to be inferior to their foreign counterparts. The influx and wide availability of competitively priced Chinese products has not helped this situation either.

The advent of the crisis has also enabled players from multiple sectors and governments entities to agree on the need for change and come together, a previously impractical proposition given the lack of coordination among the ministries and perceived inefficiency of some public entities. This was evident in the broad attendance of a workshop hosted by the Ministry of Trade and

Industry, on 20-22nd June 2016, looking into foresight and priority areas for the rehabilitation of the Surinamese economy.

- **Prudent Fiscal and Monetary Authorities**

Despite prolonged resistance to fiscal changes stemming from pandering to public opinion, recent evidence suggests fiscal and monetary authorities are willing to take the necessary steps to rehabilitate the economy. Although inflation has soared, the tight policy stance of monetary authorities and austerity measures of the government have restricted the economy from spiralling out of control and eased international price pressures.

Authorities have also recognised Suriname's poor business environment, and placed the promotion of a conducive environment for private sector development at the forefront of the country's economic diversification agenda. However, work to implement changes has so far been slow and the country is still ranked 156th in the latest ease of doing business reports.²⁶

- **Proven Potential to be a net exporter**

An abundance of natural resources and small population led Suriname to enjoy a trade surplus over the decade or so leading up to 2012. It was the only country in the Caribbean region to do so consistently, and this despite an economy highly concentrated in extractives and rules and regulations that made the country languish near the bottom of favourable places to do business. With the implementation of long delayed structural reforms taking place, and the pressure of a recession as motivation, it seems plausible that the country will exceed its previous trade performance once the worst of the crisis has passed. Alongside favourable population-resource ratios, ample arable lands, water reserves and (renewable) energy potential also mean that the country has the ability to become largely self-sufficient, and use trade proceeds to build up foreign reserves for a national safety net.

- **Location and Large Port**

Suriname is bordered by the largest economy in South America to the south and the Atlantic Ocean to the north. In **Paranam Port** it also has the largest port in the Northeast region of South America; capable of accommodating 4 large vessels at a time. This is an inimitable edge in a region dominated by shallow waters and narrow waterways that limit port sizes. Even in the absence of adequate transport infrastructure, enquires by Brazil and Guyana about the likelihood of establishing trade zones in close proximity to the port indicate its sizeable potential.

- **Underutilised Arable Land**

Only about half of Suriname's 60,000 Ha of rice paddies are currently in use. This presents an obvious waste and is indicative of a highly underutilised agricultural sector. This despite large water reserves and a favourable climate that mean Suriname has the ability to cultivate a large variety of crops and have multiple harvests each year. However, Suriname's general credit tightness is

²⁶ World Bank – "Economy Profile 2016: Suriname", 'Doing Business 2016, Measuring Regulatory Quality and Efficiency'

especially poignant in an agricultural sector that receives less than 6% of all credit.²⁷ This is woefully inadequate given agriculture's high upfront costs and high degree of uncertainty – due to being at the mercy of increasingly volatile weather.

Agriculture is unique in its ability to drive development as it is often the primary profession of a large part of the population in developing nations and is disproportionately beneficial to the poorest – who often engage in subsistence farming. A boost in the sector thus leads to better: food security, employment, and an improvement of the general livelihoods of the rural communities who rely on it. It is therefore not surprising that the GoS has recognised the importance of the Agricultural sector, naming it as the top priority of the development agenda and aiming to become a supplier to the region and beyond.

In the National Master Plan for Agriculture the GoS states that it will:

- Modernise farming practices and incentives to promote farming, through training, tax breaks etc.
- Attempt to incorporate more cash crops and use predominantly non-forest land
- Renew the deserted rice paddies across Nickerie

However, Suriname should be careful to avoid investing too heavily in exports of crops dominated by large-scale western producers as many tend to be subsidised. Suriname's small size means it is unlikely to be able to viably compete in such markets (the premium organic segment being an obvious exception) and should focus instead on crops where its tropical climate presents an inimitable advantage, e.g. bananas and coconuts. This is even more apparent when one considers that trade agreements have already subjected local markets to heavy import competition.

Plans to modernise farming practices may also prove harder to implement than expected due to the cultural underpinnings of agriculture in various communities. For example, farming is often an activity carried out by men and women together in the Amerindian community, while it is predominantly the purview of women in the Maroon community. In both cases proposed modernisations of farming practices may be untenable due to the loss of cultural bonding among Amerindians, or resistance of Maroons to engage in full-time farming due to competing family commitments. In the case of the Maroons there is the additional concern that increasing commercialisation of agricultural products can work to disenfranchise women by taking away an empowering activity – as history has shown that there is a high probability of men sneaking into sectors once they become more lucrative.

Traditional (slash and burn) land preparation for farming may also prove problematic to change due to easy implementation and the follow on benefit of

²⁷ *Winston Ramautarsingh – “Only production will stop the economic recession”, Presentation at ‘Promoting Industry Foresight in Suriname’ workshop, 20-22 June 2016*

increased pastoral land. Efforts to focus agricultural activities on disused land may also prove difficult to effect. Disused land is largely ex-mined land. However, fluctuations in commodity prices mean previously abandoned mines can become profitable once more. This can lead to the undermining of agricultural activities to accommodate renewed mineral exploitation activities, as seen in All the more challenging because of the high cost of rehabilitating previously excavated land until it can reasonably support agricultural activities.

Rice production initially dropped due to the perception that poor quality rice was cultivated in Nickerie.²⁸ This meant most of Suriname's rice became unsuitable for export, which slowly pushed farmers out of business due to the contraction of the market. It may thus prove beneficial to investigate mainstream rice species that may be viable in existing rice fields in order to ensure that past mistakes are not repeated.

- **Underutilised Dutch and English Speaking population**

Services contingent on human capital are the foundation of the rapid growth that India has experienced in recent times. Nowadays it is just as likely for the call centres of businesses across the globe to house call centres in the South Asian powerhouse, or within their own borders. There are nonetheless many call centres and other service provision facilities still based in advanced economies, where wages tend to be far higher than their developing counterparts; presenting an opportunity to export services in the latter.

While Suriname's population may generally not be as skilled as those of modern-day service heavyweights like India and China, it has the benefit of a largely multilingual population fluent in two European languages. This ability gives the country a competitive advantage that is difficult to imitate, and in the Netherlands, a ready-made market it can service for a fraction of the costs.

- **Energy**

The government of Suriname has long subsidised electricity, providing steady supply to most regions excluding the interior. Most of the country's energy supply currently comes from the Hydroelectric power plant at Brokopondo which is owned and managed by Suralco and sells the government its excess supply. Small thermal plants located close to other large cities supply the rest, except for a couple of small biofuel plants.

While the removal of electricity subsidies was a necessary step to promoting more efficient energy usage, ample room exists to improve this sector further. Suriname is particularly well endowed with renewable energy stocks, as its 4000Mw Hydro capacity is 8/9 times more than current energy requirements.²⁹ Thus far, less than 200Mw of this capacity has been tapped into despite 2100Mw being relatively easy to develop.³⁰

²⁸ Roepesh Hari (Lecturer at FHR Business School) – Meeting: 14 June 2016

²⁹ Danny Lachmaan – “Innovation in the Energy sector”, Presentation at ‘Promoting Industry Foresight in Suriname’ workshop, 20-22 June 2016

³⁰ Government of Suriname, 2005.

It is nonetheless important to note how concentrated Suriname's energy resources are. There is too much diffuse energy to allow large-scale solar energy production, although solar boilers could be promising. Long-term exploration of offshore oil has so far proved unsuccessful despite large potential reserves as part of the Guiana sedimentary basin. A muddy sea floor makes prospective wind farms unstable. Tidal energy has not been adequately explored and could potentially be harmful to the wildlife, particularly the turtle population that regularly visits the country.

Biomass thus presents the only other major contribution to renewable energy resources. Large algae, wood and rice reserves make fuel easy to find and a number of pilot projects are currently ongoing to see the viability of biofuels. For example, a study by SBB found that the current 'waste' from timber and sawmill sectors can produce 37Mw of energy; a figure that rises to 88.5Mw if Suriname's sustainable timber quota is all directed towards biofuels.³¹ However, many issues need to be addressed before biomass become a serious contributor to the nation's grid as recent experiences have witnessed farmers preferring to burn their rice crop instead of selling it for a discount as biofuel.

Risks and Challenges

Oversight of crucial areas due to flowing extractive proceeds has played a large part in containing Suriname's broader development. Thus, while GDP per capita has increased steadily, the living standards of a population governed by dated laws and a creaking infrastructure have not seen the same progress. These and other obstacles that still pose a risk to the recovery and continued development of Suriname are explored below:

- **Transport Infrastructure**

A limited and poorly developed transport infrastructure poses what is perhaps the main obstacle to the development of Suriname. The pivotal role transport plays in enabling other economic activities is highlighted by the effective exclusion of the interior regions south of the lowland rainforest zone (the 4-degree line) from the country's economy. While on-going land rights issues should not be forgotten, the inaccessibility of the resources and people of the interior has played a significant part in the marginalisation of this segment of the country – comprising a fifth of Suriname's population and nearly two-thirds of its land area.

The potential of relatively simple developments in this sector is staggering. Many of the opportunities listed in the previous section cannot be realised until air, land and water transportation networks are improved. These have not only inhibited other sectors, but also led to the frequent bypassing of Suriname in regional trade. The ramifications are huge. The long planned, but

<http://blogs.iadb.org/caribbean-dev-trends/2013/11/20/surinames-energy-market/>

³¹ *Biofuels – R.Matai, S.R. Jagessar BSc., L. Egerton, "WOOD ENERGY IN SURINAME: Contribution of Forest Sector to the Energy Supply", February 2015*

never implemented, North-South road alone has the potential to slash US\$ 800/900 from the shipping costs of Brazilian cargo by providing road access to Paranam port and overcoming the need to ship everything around the continent.³² As many of the large indigenous communities are located along a Southwest path from Brokopondo Reservoir, they could be made accessible through minor amendments to initial plans, or the addition of a road to connect Brokopondo and the Brazilian border.³³ However, such a connection would have to come with stricter mining laws and regulations given the concentration of minerals along this corridor and the increased incentive for illegal mining activities. The tourism sector would also stand to benefit from easier manoeuvrability around Brokopondo.

Similar, though diminished, benefits can be realised through a North-East road that would allow access to Paranam Port via French-Guiana; or an East-West road that would also allow access through Guyana.

The country's non-existent railway system is also a cause for concern. This not only presents an obvious deterrent to the use of public transport but also limits the scope for an integrated economy and leads to overly concentrated population clusters – placing undue pressure on heavily burdened city infrastructure. The half finished railway line between Nickerie (Bouchurst) and Suralco that is almost covered in forest from decades of standing idle is a tragic waste.³⁴ The prevalence of which is evident in the underutilisation of existing infrastructure from the old industries in Moengo and Paranam.

The development of a more structured water ferry system could also offer a less capital-intensive solution to the economic integration of a larger portion of the population – by making use of Suriname's broad network of waterways. However, the disorderly sprawl and uneven profile of waterways in the largely mountainous interior limit the scope of what a water transport system can achieve.

• **Lax Laws, Monitoring and Enforcement**

Underlying many of the problems highlighted in this report are the archaic laws that govern the country. It is telling that land rights issues have yet to be resolved since Suriname's independence nearly half a century ago. Although these are the laws most in need of reformation, much work has already focussed on them and so this report will explore the various additional laws impeding development.

Despite Suriname's heavy reliance on extractives, it has not been able to properly police a gold industry largely (60%) comprised of small- to medium-

³² *Most ports in NE S.America too small to accommodate large shipping vessels – see Location and Port above.*

³³ *Danny Lachmaan – “Sustainable Competitive Advantage”, Presentation at ‘Promoting Industry Foresight in Suriname’ workshop, 20-22 June 2016*

³⁴ *Roepesh Hari (Lecturer at FHR Business School) – Meeting: 14 June 2016*

scale mining operations, most of which operate in the informal sector (no tax).³⁵ This is a by-product of the aforementioned land rights issues as the majority of these small-scale farmers are from indigenous and maroon communities that rely on gold proceeds for their livelihoods. Furthermore, the danger and complexity of cyanide mining means that most mining is done using mercury; the build-up of which causes more damage to forest eco-systems and people. The need to formalise this segment of the economy and ramp-up monitoring and enforcement procedures is thus blatantly apparent, not least of all because of its ability to change public disillusionment with a key economic sector.

However, of greater importance is the enclave-based nature of the extractives industry. That is to say, the presence of a post-colonial structure designed to extract maximal value from Suriname's mineral resources; where foreign firms dominate an export oriented industry that receives favourable terms but has limited follow on benefits for its host economy. This is evident in out-dated mining laws, from the Mining Act of 1986, which include:³⁶

- Royalties below 5% for gold, and lower still for bauxite
- A tax rate below a dollar for each cubic metre of bauxite, and an increased but similarly paltry figure for gold
- The government buying electricity from Suralco at market price but selling it back to IAMGOLD at prices fixed over a decade ago

All this has led to a situation where mining constitutes 30% of GDP but only 21% of government revenue, as the government benefits predominantly from tax on profits as opposed to the minerals themselves.³⁷ However, the ability to influence profits through measures such as reinvestment reserves make this a questionable strategy. That being said, mining companies have still made a positive impact through employment and infrastructure, although the latter is often limited to the immediate surroundings of mines and solitary access roads. Furthermore, men dominate employment in the sector, with women largely limited to support roles that provide a fraction of the benefit and a structure that promotes sex work and the abuse of vulnerable groups, including the children of neighbouring (village) communities and victims of human trafficking. A rethink of the laws governing the sector would thus not only serve to enhance monetary benefits but also facilitate broader development through the breakdown of oppressive social structures and the empowerment of vulnerable groups.

It is worth noting that many of Suriname's easy to reach reserves of bauxite, in current concession areas, have now been exhausted. The closure of bauxite production by Suralco is thus not only due to price drops but also increasing costs. While this may not be an immediate concern with gold, care should be taken to ensure that wider development occurs while mutual interests

³⁵ MOODY'S Investor Service – “Credit Analysis: Suriname, Government of”, <http://www.sdmo.org/cms/images/ratings/moodys.pdf>, April 2015

³⁶ Roepesh Hari (Lecturer at FHR Business School) – Meeting: 14 June 2016

³⁷ Central Bank of Suriname, Statistics Department – “Suriname Country Profile, Economic and Financial Data”, May 2015; World Bank – “Country Partnership Strategy for Suriname for the Period FY15-19”, April 2015

can still illicit support from the mining sector. The longer reforms take the less likely this becomes and the less the country will stand to gain through its mining sector before mining companies follow the same steps as Suralco.

Similar stories can be told of: lax income tax laws, that require self registration and are thus easy to avoid; grandfathered accounting regulations, that allow government ministries to disperse designated project funds to cover expenses and other project dues, leading to a mass of half finished projects; a non-existent regulatory framework for the energy sector; the growing market for concessions in the forestry sector. All but the last of these obstacles are beyond the scope of this report and will not be explored further, although they represent key concerns for broader development.

In the case of forestry, concessions are currently granted to individuals at a cost of \$5/Ha/year.³⁸ However, these are normally granted to individuals of indigenous decent who often go on to sell them to commercial logging companies. In the event that no buyers are found, concessions can go to 'sleep' and be held without being harvested. This reduces the productivity of the timber sector and adds undue pressure on 'active' concessions where forestry is taking place. Stricter laws on concession use and enforcement of said laws could prevent such problems and lead to an improved sustainable forestry programme. This would also help to mitigate the community forest issues highlighted earlier – under the natural resources heading of the opportunities segment.

A major challenge that has been seen with previous amendments is the interrelatedness of the different laws. These make it difficult to initiate reforms, as a plethora of interrelated laws must first be reviewed to ensure that they are not in conflict with proposed changes. Furthermore, only a handful of the population knows enough about Suriname's laws to be able to carry out this task effectively and is thus over-worked, as the same individuals are required to draft almost all documents. This skills mismatch is highlighted again in the education segment below.

- **Education and Skills Mismatch**

The education sector is a major cause for concern. A reasonable performance in the United Nation's Human Development Report, 94.68% literacy rate and 0.59 education index, masks the gulf in education levels between men and women, interior and coastal areas, and a shortage of sought after qualifications. The HDR also highlighted that only 6% of teachers have received the minimum organised teacher training required by the GoS. This is 82% lower than the world median and no doubt at least partially responsible for high dropout rates.³⁹

Teaching aside, a disturbingly high dropout rate of 18.1% at junior high school level is attributed to teenage pregnancies, housing shortages and the

³⁸ *Romeo Jagessar (SBB Economist SBB) – Meeting: 23 June 2016*

³⁹ *U.N. Human Development Report - <http://country-facts.findthedata.com/l/166/Suriname>*

prevalence of single headed households with lots of children.⁴⁰ This disproportionately affects girls who are often forced out of school when pregnant, and women who are more likely to have child-rearing responsibilities thrust upon them due to cultural norms. All of these issues pose economic challenges that force children to enter the labour market early to aid their parent(s). Cultural norms also mean that male children are often the first to take up this mantle, which has resulted in a far greater dropout rate among boys than girls. This has caused further social problems by exacerbating existing gender biases as women are marginalised in the labour market and predominantly earn less than their male counterparts despite being more educated.

The interplay of cultural biases and power balances in homes where females are often more qualified than their partners has also been blamed with leading to more violence and separations, reinforcing the negative cycle. While there is no evidence of this, frequent mention of the issue in conversations highlights the stigma surrounding educated and professional women and the attachment to traditional gender roles.

Meanwhile, the informal sector has absorbed this overflow of labour, pushing down the wages of entry-level positions and increasing the portion of the labour force vulnerable to exploitation and effectively exempt from taxes.

More generally, few individuals are educated beyond high school level, and only one university provides education up to masters level.⁴¹ Furthermore, the prominence of the public sector as a job destination has led to the excessive education of lawyers, sociologists etc. who aspire to get into parliament. This has led to a dire lack of employment in technical sectors – farming in particular. Incentives are thus required to promote technical qualifications; like the preferential forgiveness of student loans for example. This is indicative of the need for plans to consider a longer time horizon in order to realise fundamental reformations of the economy.

- **Lack of Coordination**

Another concern is the lack of coordination between different ministries. It is not surprising to hear conflicting/duplicated work assignments as the current siloed approach of most ministries means they cannot take other ministries' actions into account. This is no doubt a contributing factor for why it is so difficult to conduct business in Suriname, as well as the stilted progress towards the development of a coherent strategy for the nation's recovery.

The planning framework currently used by ministries is also in need of an overhaul. Current law stipulates that government ministries are required to produce repeated annual work plans as well as a multi-year development plan

⁴⁰ WB Databank – 38.4% Cumulative drop-out rate to the last grade of lower secondary general education, male (%) (UIS.DR.2.GPV.M); 18.1% Cumulative drop-out rate to the last grade of primary education, male (%) (SE.PRM.DROP.MA.ZS). Source: UNESCO Institute for Statistics

⁴¹ *Some specialised technical schools like IGSR, FHR, and IBMS do exist.*

(OP). However, the continued build up of plans and the self-reported nature of progress reviews (against sometimes non-existent milestones) means that planning is wasting a considerable amount of time and resources. Furthermore, the ad hoc nature, and lack of targets of some of these plans fuels weak execution and compromises access to finance. The fact that plans are often created simply to fulfil a legal requirement also means administration and implementation staff pay little attention to these plans at best, and may even use other plans at worst.

An improvement in coordination levels would also mean that the copious amounts of research compiled through separate entities does not go to waste or needlessly get repeated. For example, the Caribbean competitiveness forum has apparently done work to indicate different development areas in order to stem the self-sabotaging specialisation in competitive goods that has long depressed the region. Work is also underway by the Chamber of Commerce under the 'Made in Suriname' banner to carve out a competitive edge for export products. Despite obvious potential for collaboration, the results of these studies do not appear to have been distributed to many (primarily public) entities also looking into ways to boost Suriname's economy.

- **Austerity**

Although still regarded by some experts as the best way to re-stabilise economies, evidence from the GFC has brought the merits of austerity into question. Belt-tightening requirements placed on the lines of credit given to Greece (by the IMF) have thus far not shown any indication of leading to a recovery. On the other hand, compensatory spending in the form of quantitative easing by the likes of the USA and the UK has prompted faster recoveries.

While the long-term costs/benefits of austerity measures are still in contention, the detrimental effects of erroneous implementation are not. Not only is negative public sentiment magnified, but the heightened contraction caused by hasty implementation can also cause a worsening of the depression austerity is meant to correct. This is of some concern in Suriname given the inflationary pressures already appearing, with additional subsidy cuts still to come and VAT to soon be introduced. The protests witnessed in early June 2016 pay testament to already high levels of public discontent, which could quickly lead to social unrest if plans to ramp up austerity proceed as planned. Thus, a balanced approach to recovery is required despite what international pressures might dictate – as strict fiscal measures can just as easily stifle industry and lead to public backlash.

Beyond the immediate ramifications of austerity lies an even more pernicious aspect. Evidence suggests women are more susceptible to the negative side effects of fiscal cuts than their male counterparts. This is illustrated in the reduction in social care that often accompanies fiscal tightening. Due to their traditional gender role as child-carers, women are more likely to have to carve out time to take care of kids who may no longer have access to day care centres. Support services for women and children who have been abused or assaulted are also often reduced, further harming the vulnerable groups most in need of assistance. It is thus important to ensure that the increased social safety

net, designed to help with reformation adjustments, takes the disparate effects on different groups into account – not forgetting the interior communities currently excluded from the social system altogether.

- **Overreliance on Mining Exports**

This has been expanded on previously and is included primarily for completeness. However, a brief summary of some of the proposed recovery plans helps illustrate how mining has implicitly been assumed as the de facto driver of the recovery. This is evident from:⁴²

- Proposed recovery projects only beginning in late 2016 which contain no viable source of short-term revenue. For example, only the basic infrastructure of a Paranam Industrial and Commerce Park was included, so no factory production will start until 2019/20
- Selected production projects and crops that all have long preparation times. For example, Coconut and Cacao (two of the proposed ‘crops’) are productive after approximately 5 years, so no commercial production will be realised till 2021
- A swimming pool and a brain centre being the only projects included that can generate immediate benefits, and while the latter takes advantage of Suriname’s comparatively well developed neurology sector, the former is largely inconsequential.
- Inclusion of inadequate measures to address existing weaknesses in the economy. For example, productions of rice, oranges and vegetables have all fallen in the last decade or so.

- **Poor Access to Credit**

Although the financial sector, particularly banking, had been growing quite rapidly before the recent downturn, it is still a shallow and narrow system. Private sector credit is only 30% of GDP and Suriname ranked in the 15th percentile in terms of access to finance in the World Economic Forum Competitiveness Indicators.⁴³

An overly conservative banking sector is buffeted by limited informational databases that exacerbate the principal-agent problem, increasing adverse selection and moral hazard problems. This leads to high costs for screening, monitoring and enforcement of credit risks, and consequently, prohibitively high collateral costs. Furthermore, flimsy labour laws that mean only government and high-level private sector employees can use their salaries to guarantee loans. The conservative nature of the banking system also means that only a limited range of assets (primarily real estate) can be used as collateral; a factor compounded by the structure of land ownership in the country, in which the majority of the population does not own land but rents it

⁴² *Winston Ramautarsingh – “Only production will stop the economic recession”, Presentation at ‘Promoting Industry Foresight in Suriname’ workshop, 20-22 June 2016*

⁴³ *Inter-American Development Bank – “IDB Country Strategy With The Republic Of Suriname: 2011–2015”*

from the government. Consequently this segment of the economy is largely excluded from the credit market.

It should however be noted that the land ownership structure is not necessarily bad as it guarantees land for any Surinamese citizen who applies for it. This is often done through cheap (US\$1/yr.) 10-year rental contracts that are easy to renew.⁴⁴ Nonetheless, use of land distribution facilities as a political chip during the last elections has led to a 40000-person backlog at the Ministry of Spatial Planning and Forest Management (ROGB).⁴⁵ An updating of land distribution procedures and banking policies is thus necessary to remedy the negative effect land distribution is having on credit access.

The hesitancy of the financial sector to hedge risks is also problematic. In most cases Surinamese dollar denominated loans are only granted for small loans, with loans above 20,000 SRD denominated in US\$. While this may make sense for a bank trying to minimise its risk exposure, it also means individuals or businesses are forced to assume foreign exchange risks they are ill equipped to hedge. The FX market knowledge and industry specific skills of banking employees thus go to waste, while loan demand among individuals is depressed due to risk aversion. These factors negatively affect investment and thus inhibit economic development. An obvious example of this is the saw-milling sector. Saw mills are currently less than 50% efficient in terms of their conversion of rough timber to processed products, i.e. they lose more than half of tree mass during milling activities. This is leagues below cutting edge technologies that sees efficiency levels around 96% in countries like Sweden. Nonetheless, the large upfront investment necessary to obtain the new technologies and the lack of credit to facilitate them has thus far limited the industry's development. This is painfully apparent in rough timber exports that dwarf processed timber production despite a 5-20% export tax on the former but a 0% tax for the latter.⁴⁶

The excessive risk aversion of the banks is also evident in the downfall of the rice industry, especially vulnerable due to its high capital requirements. During the downscaling of rice production, the Ministry of Trade frequently received complaints of equipment being repossessed by banks after farmers were unable to repay loans due to poor harvests, or the aforementioned contraction of the export market. This ultimately led to farmers going out of business and the pitiful decline of output in the sector.

Many of the issues discussed above also reveal serious equity concerns created by the current banking system. The fact that only the well off (landed, entrepreneurs and top-earners) can access credit results in a situation whereby the gap between the haves and have-nots is constantly expanding. This will

⁴⁴ Roepesh Hari (*Lecturer at FHR Business School*) – Meeting: 14 June 2016

⁴⁵ Anita Forst-Cumberbatch (*Deputy Director at the Ministry of Trade and Industry*) – Meeting: 29 June 2016

⁴⁶ Romeo Jagessar (*SBB Economist SBB*) – Meeting: 23 June 2016

obviously need to be addressed if economic development is to benefit the entire population instead of a privileged elite.

- **Bloated Public Sector**

As alluded to earlier, the public sector is the employer of choice due to its favourable public perception that includes: a reasonable workload, comparatively strong labour laws and improved access to credit. The sector's pull is detrimental to private businesses as only a few major firms are able to offer terms sufficiently attractive to prise away talented individuals. This reduces the breadth and depth of the labour pool available to entrepreneurs already stifled by limited access to credit, resulting in the skills mismatch mentioned earlier.

The GoS employs 60% of the workforce and parastatals are involved in numerous activities including mining, transport and telecommunications.⁴⁷ This over involvement of government officials in the private sector is problematic as it incentivises corruption. Transparency International measured Suriname's control of corruption as 42%, reflecting significant public opinion of elite capture and the exercise of public power for private gain.⁴⁸

The government's bloated workforce has also become more apparent in the face of the recent crisis, with the divergence of government income and expenditure due in no small part to an inflexible wage budget that comprised 38% of government spending on average between 2000-05.⁴⁹ This represents a 7% surplus of the LAC region average over the same time, which is concerning considering the multiple wage hikes that have occurred since.

Business Concerns

- Major obstacles as seen by firms:
 - Inadequate workforce education
 - Customs and trade reg.
 - Access to Finance
 - Corruption (particularly construction permits and tax)
- Most firms domestically owned (private domestic)
- Good electricity supply but water shortages do occur – predominantly affecting interior communities
- Delays on water and electricity connections
- Problematic customs and regulations procedures contribute to a low percentage of exporters
- Slow construction permit process

⁴⁷ IDB – “Suriname Country Report”, <https://www.american.edu/sis/practica/upload/S15-IDB-Suriname-Country-Report-Final.pdf>

⁴⁸ See 36.

⁴⁹ IMF (Western Hemisphere Department) – “Suriname: Toward Stability and Growth”, Bernhard FritzKrockow et al.—Washington, D.C, 2009

- Low external financing due to high collateral costs

Conclusion

While Suriname faces many challenges it also has many positive structural factors that point towards a positive future. Furthermore, if the land rights issues are resolved and negative structural factors are overcome, many avenues exist to drive the country down an environmentally sustainable growth path.