

# The Suriname economy: experiences of the 1990s and challenges ahead

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## Preface

This text has been prepared on the occasion of the seminar The Suriname Economy: Challenges Ahead, organized by the Centre for Latin American Research and Documentation (CEDLA) at the University of Amsterdam and the Institute of Social Studies (ISS) in The Hague on November 7, 2000 in The Hague.

Essentially, this text is a compilation of selected sections taken from contributions made to two book volumes on Suriname that are to be released soon.

Section 1 on structural characteristics of the Suriname economy by Pitou van Dijck is taken from 'Continuity and Change in a Small Open Economy' in Rosemarijn Hoefte and Peter Geel (eds), *Twentieth-Century Suriname: Continuities and Discontinuities in a New World Society* (Ian Randle Publishers, Kingston and Markus Wiener, Princeton).

All other sections are taken from Pitou van Dijck (ed.), *The Suriname Economy: Experiences of the 1990s and Challenges Ahead* (Ian Randle Publishers, Kingston and Markus Wiener, Princeton).

Section 2 on the impact of alumina cycles on the economy and Section 3 on macroeconomic developments during the 1990s are by Dougal Martin at the Inter-American Development Bank (IDB).

Section 4 on employment, poverty and income distribution and Section 5 on equity, effectiveness and efficiency of social policies are by Rob Vos and Niek de Jong at the ISS, and Geske Dijkstra at Erasmus University, Rotterdam.

The book volume referred to above includes several more chapters on recent economic developments in Suriname among which the study by Benedikt Braumann and Sukhdev Shah at the IMF, Suriname: *A Case Study of High Inflation*. This study is also available at the IMF website.

Finally, I like to thank Marinella Wallis for her support in the editorial process.

Pitou van Dijck

*This text is not for distribution and only available for participants at the seminar.*

## 1. Structural characteristics of the Suriname economy

Suriname is a rather extreme case of a small open economy well endowed with natural resources, highly dependent on international markets and vulnerable to external shocks. As compared to most other countries the economy of Suriname and its society at large have been shaped to a high degree by external forces and this process has continued throughout the larger part of this century.

Three factors may be distinguished that underlie this peculiar type of development. First, the staple export economy was created in a virtually uninhabited stretch of land on the basis of imported factors of production, including capital, skilled and unskilled labour. Second, the country was colonized for nearly its entire history from 1667 onwards until the final quarter of the 20th century. Third, the economy has always been dependent on a highly specialized export sector dominated by only one or two commodities. By way of introduction some general observations will be made on these structural characteristics of the Suriname economy which provide the context for change and development in the 20th century.

At the start of this century no more than 85,000 people lived in this territory, most of whom were involved in agricultural production in a narrow zone bordered by the Atlantic Ocean and the Amazon forest. Most of the country's surface of 163,000 square kilometres was hardly inhabited and contributed only marginally to the economy. By the end of the century most of the country's 433,000 inhabitants still lived concentrated in a stretch of land bordering the ocean. The growth of the economy during the 20th century had mainly been based on the exploitation of the abundant natural resources in the area, but nevertheless vast parts of the interior are still scarcely populated and have only been integrated marginally in the national economy.

The model of a primary-export economy has been introduced and extended since the introduction of the plantation economy and its expansion in the 18th and 19th century. After the abolition of slavery and the subsequent demise of the plantation system in the early stages of the 20th century, the economic significance of large-scale agricultural

production was overtaken by small-scale production, mainly orientated towards the domestic market.

The economic structure of the economy changed fundamentally with the rapid expansion of exploitation and processing of the large bauxite reserves since the outbreak of Second World War. During the second half of the 20th century, bauxite mining and processing became a new centre of gravity in this small economy and contributed increasingly to production, exports and income. More recently, the exploitation of gold in the forests and of the oil resources in the coastal areas have become additional major economic activities that have contributed to the diversification of the primary-export economy.

The agricultural and mining sectors were heavily dependent on imported factors of production and intermediate inputs, thus contributing to the deep integration of the economy in international markets and its dependence on the 'motherland'. Moreover, the importation by the colonizer of large flows of unskilled labour from British India, the Dutch East Indies and China to support the plantation system after the abolition of slavery created a heterogeneous society and has been one of the root causes of a complex social, cultural and political context for economic policy-making, particularly during the stage of independence. At the same time, the specific skills, habits and consumer preferences of these migrants contributed to the diversification of the economy throughout the 20th century.

After the Second World War the government started to establish and support large-scale units for the production and export of rice, bananas and oil palm. While most of the small-scale production units involved in rice production were concentrated in previously reclaimed land areas - the so-called old polders - most of the modern, large-scale production units were concentrated in the new polders in the district of Nickerie such as the Prins Bernhard polder and Wageningen. Modern production technologies were introduced in these polders, using new rice varieties and mechanized production methods and in the 1960s aeroplanes were introduced for sowing, fertilizing, pest control and killing weed. Wageningen became by far the largest agricultural production unit of Suriname with a cultivated land area of nearly 10,000 hectares and was a stimulus for improvement in technology

and productivity in rice production for the entire rice area of some 50,000 hectares in the district. Moreover, large-scale mechanized banana growing for export markets was introduced in the district and elsewhere in the colony in the 1960s.

The discovery, exploitation and processing of bauxite transformed the Suriname economy from a predominantly agrarian production structure into a mining economy.

In the decades following the Second World War large-scale investment in mining and processing facilities and in infrastructural works in support of the bauxite sector contributed to the further transformation of the Suriname economy and had a significant impact on the overall rate of growth of the economy during that period.

Bauxite mining and processing had become by far the largest sector in the Suriname economy when measured according to its contribution to gross domestic product (GDP) in the post Second World War period up to independence, generating normally between 30 and 33 per cent of GDP, significantly more than agriculture, cattle-husbandry and fishery which contributed only between 10 and 15 per cent to GDP during most years in this period. However, in more recent times, the contribution of the bauxite sector declined in relative terms and the public sector became the largest sector of the economy in terms of income and employment. By the end of the 20th century the bauxite sector generated only about 15 per cent of GDP.

The bauxite sector has also dominated the export performance from the 1930s onwards. From the 1930s until the 1960s bauxite was the most important export product, replaced by alumina and aluminium after the construction of the hydro-electric Brokopondo complex. All together, the contribution of the integrated sector to overall export earnings fluctuated between 70-80 per cent of the value of merchandise exports from the beginning of the Second World War until the end of the 20th century.

Moreover, the sector contributed significantly to government revenues through taxation and other transfers. Because of the capital-intensive nature of the mining and processing activities, the contribution of the sector to employment creation was much more limited and in the first year of independence (1976) only 9,250 out of

a total labour force of 126,400 were engaged in mining, hydro-electric power and bauxite processing, be it that the overall wage level in the sector exceeded by far the average wage level in the rest of the economy. By the end of the 20th century the contribution of the sector to employment was limited to about 3,300 employees, less than 4 per cent of the labour force.

The impact of the sector on the overall performance of the Suriname economy goes well beyond its direct contributions to production, foreign-exchange earnings, government revenues and employment. In an economy which is strongly dominated by a commodity export sector, price volatility in the international market may generate substantial fluctuations in the value of production and foreign-exchange revenues which, in turn, affect the government sector directly through changes in government revenues and affect all the rest of the economy through fluctuations in the exchange rate and in domestic spending. Such volatility in prices and income may complicate sustainable longer-term development planning and contribute to disequilibria in the balance of payments and the government budget. As the theory of so-called Dutch-disease economics shows, not only drops in the international prices of a major export commodity may jeopardize a balanced development, but unexpected, large price hikes may as well have a disruptive effect on the overall economy. A booming export sector may cause upward pressures in the domestic labour market and contribute to an overvaluation of the domestic currency, thus reducing the competitiveness of other economic sectors involved in export production and import substitution. An additional complication may incur when increased government revenues during a boom result in structurally higher financial commitments of the government that are hard to adjust downward when the boom has come to its end.

Suriname's transformation towards a mining economy has been pushed further by the dynamics of two other mining sectors - gold and oil - during the last decade of the 20th century. After the first gold rush, which started at the very beginning of the 20th century with a pre-war production peak between 1905-1910, a second gold rush was initiated at the very end of the century. Production is organized in small-scale poorly controlled operations which presumably cause

substantial environmental damage to Suriname's forests and rivers. Official data on the sector's size and dynamics are not available but it has been estimated that by the mid 1990s gold production may have reached a level of about 25,000 to 30,000 kilogrammes valued at 300 to 400 million US dollars which would be comparable with export earnings from the bauxite sector. Assuming that the value of inputs is about half the value of gold production, value added in the gold sector would be the equivalent of 13-15 per cent of GDP, exceeding the combined contributions of the bauxite and oil sectors to GDP. Standard and Poor's (2000) estimate the share of the gold sector at 20 per cent of GDP<sup>1</sup>. Probably about 15,000-25,000 people are estimated to be directly involved in small-scale gold production and over half of them are *garimpeiros* from Brazil. This implies not only that the Suriname economy is substantially larger and income per capita higher than official data indicate but also that its production and export structure is dominated even more by mining than appears from the official statistics. To expand the gold sector and increase government revenues, exploration licenses have been issued involving the North American mining company Gold Star Resources Ltd.

Exploitation of the oil deposits in the Tambaredjo field in the coastal zone by the state oil company (Staatsolie) started in 1982. During the 1990s the production of crude oil has grown steadily from a level of about half a million barrels in the early years of the decade to over three million barrels in 1996 and nearly 4.4 million barrels in 2000. In 1995 started the construction of a refinery which became operational in 1997. Production was for the domestic market and for export but so far the contribution of this sector to overall production and foreign-exchange earnings has been limited. However, oil may become the largest mining sector of the economy in the early decades of the 21st century with the expansion of onshore and offshore exploration. By August 1999 Staatsolie signed an agreement with a consortium of international oil companies to conduct seismic studies for offshore exploration.

As shown, the structure of the Suriname economy has shifted significantly during the 20th century from an agro-based economy towards an economy based on agriculture and mining and particularly

dependent on the bauxite sector for its foreign-exchange revenues. Table 1 shows some stylized facts of the structure of the Suriname economy in 1990s. Clearly, by the end of the 20th century the sector of mining and quarrying, combined with mining-related manufacturing activities, is the largest productive sector of the economy, while government contributed nearly 19 per cent of GDP by the end of the 1990s.

## 2. Alumina cycles

### *The impact of alumina cycles on the economy*

The international price of alumina is a major determinant of Suriname's foreign exchange supply and of government income. Consequently, variations in that price have a significant impact on macroeconomic developments in Suriname. Under an agreement between the government and the alumina companies, the companies transfer a significant portion of their export earnings to the central bank in order to pay their taxes and local operating costs. These transfers are by far the largest source of foreign exchange for the Central Bank of Suriname (CBvS), which sells the foreign exchange either to the government for its needs or to the commercial banks for onward sale to importers. The alumina sector is also a big source of income for the government. In the 1990s, the alumina companies' profit taxes accounted for 30 per cent of direct tax revenues on an average. In addition, the alumina sector also contributes to government revenues indirectly, by providing the foreign exchange for a substantial portion of imports. Taxes on imports accounted for 30 per cent of government revenues in the 1990s.

A rise in the international price of alumina causes a boom in Suriname's economy. It increases export revenues and - temporarily - the trade surplus. The growth of export earnings increases the alumina companies' transfers of foreign exchange to the central bank and boosts the central bank's stock of international reserves. With larger access to foreign exchange the central bank can supply more foreign exchange to the private sector for imports. The larger supply of foreign exchange relative to Suriname guilders leads to an appreciation of the exchange

Table 1. Gross domestic product by sector of origin, at factor costs, 1989-99.

	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
<i>(in millions of 1980 Suriname guilder)</i>											
Agriculture, forestry and fishing	129.1	130.2	152.1	152.7	149.7	137.1	136.8	135.4	138.1	111.1	124.3
Mining and quarrying	131.2	128.7	130.5	137.7	150.2	178.9	189.1	197.6	230.0	241.7	263.7
Manufacturing	181.0	182.6	176.8	156.8	131.6	135.9	128.7	134.9	133.1	136.2	127.2
Construction	68.1	58.7	57.4	68.3	49.8	30.8	81.7	113.0	122.6	97.6	85.8
Electricity, gas and water	110.6	123.6	125.7	132.0	118.9	105.3	120.9	144.2	165.7	179.5	175.3
Distribution	182.9	170.6	168.3	179.4	112.7	98.4	113.4	121.8	141.0	137.2	140.4
Transport and communication	76.9	75.6	83.0	88.7	93.1	84.3	85.9	100.6	108.9	136.8	120.1
Financial services	131.8	134.7	140.7	150.8	143.8	126.1	142.8	150.8	166.4	184.0	146.2
Government	375.5	382.1	396.8	279.4	260.6	245.6	236.9	250.3	259.4	276.7	276.5
Other services	19.0	20.0	16.2	15.6	13.8	15.0	16.1	11.2	11.4	12.0	11.8
GDP in constant prices at factor cost	1,406.1	1,406.9	1,447.6	1,361.4	1,224.1	1,157.5	1,252.4	1,359.8	1,476.5	1,512.8	1,471.2

Source: IDB data

rate in real terms, which causes a decline in the real costs of imported goods and tends to stimulate a consumption and import boom.

The increase in the alumina price also increases the profits of the alumina companies - by a much larger proportion than the price increase - and consequently increases the corporate taxes they pay the government. The increase in government revenue reduces the fiscal deficit and allows the government to increase its expenditures. Often the government will spend a substantial fraction of its increased income on generous salary awards to civil servants. Moreover, the government often increases its expenditures on transfers and subsidies as well as on goods and services.

The combination of increased foreign-exchange availability and government revenues feeds through to lower inflation, higher real wages and higher output. The appreciation of the exchange rate reduces inflation directly as Suriname's economy is small and very open. Inflation also tends to decline as the reduction in the government's fiscal deficit reduces monetary financing and inflationary expansion of the money supply. Real wages tend to increase significantly when the alumina price rises. Rising profitability allows the alumina companies to raise their employees' salaries and alumina sector unions are generally quick to maintain or increase their share of bauxite rents. Rising revenue allows the government to increase civil servants' salaries and, as the boom spreads to other sectors of the economy, real wages tend to rise in other non-tradable sectors. Rapidly rising real wages boost consumers' disposable income and generate consumption and import booms. These booms increase the demand for the output of the non-tradable sectors, which, given their predominance in the economy, causes rapid economic growth.

During alumina slumps, the above processes go into reverse. A decline in the international price of alumina lowers export revenues and increases the trade deficit. Moreover, it reduces the foreign-exchange transfers of the alumina companies to the CBvS, which reduces its ability to supply foreign exchange to private sector importers and tends to put pressure on its stock of international reserves. The decreased supply of foreign exchange causes the exchange rate to depreciate in both nominal and real terms. The depreciation increases the domestic

price of imports, which tends to choke off import demand and re-establish external equilibrium at a lower level of imports.

The decline in the alumina price also lowers alumina company profits and hence government tax revenues. The decline in government revenues expands the fiscal deficit and pressures the government to rein back expenditures. Second-round effects reinforce the decline in government revenues. Import taxes, the largest source of government revenues, fall as the volume of imports declines, and taxes from non-alumina companies tend to decline in real terms as the rest of the economy goes into recession.

Given the government's limited ability to finance fiscal deficits, the widening fiscal deficit is generally magnetized. This causes a rapid increase in the domestic money supply just at a time when the supply of foreign exchange is diminishing, thereby reinforcing the depreciation of the exchange rate. If the depreciation of the parallel exchange rate is particularly sharp, it can trigger a loss of confidence in the Suriname guilder, a flight into foreign exchange, and demagnetization. This accentuates the depreciation of the exchange rate and exacerbates inflationary pressures. As the economy demonetizes, the public, firms and banks reduce their money balances in real terms, thereby reducing the base for the inflation tax. This implies that a higher inflation rate is needed to finance a given fiscal deficit through the inflation tax.

The depreciation of the exchange rate raises the price of imported goods, which form a large share of Suriname's total consumption, and raises the domestic price level. Nominal wage increases tend to lag inflation and real wages decline across the economy. Government employees normally suffer the largest declines in real wages as the government is no longer able to afford large nominal salary increases. Consumption and the demand for imports fall in real terms to the economy's new, lower capacity to support consumption and imports.

The decline in aggregate demand reduces the output of the non-tradable sectors and causes a recession. The impact on the tradable sectors is mixed. Agricultural value added may actually rise during an alumina slump as the sector becomes more competitive with the decline in the real exchange rate, a lessening of Dutch-Disease effects. The effect of an alumina slump on the manufacturing sector is ambiguous.

On the one hand, the sector is more able to compete against imported manufactures. On the other hand, aggregate demand declines in the sector's principal market. Paradoxically, the mineral sector itself is the sector least affected by alumina slumps. Because the sector's output is entirely exported, the recession in the domestic economy has no effect on demand for the sector's output. Output may actually rise depending on production factors. The alumina companies cut output only if the decline in the world alumina price is so severe that they cannot cover their variable costs.

These adjustments are painful but re-establish internal and external balance. Unlike many developing countries, Suriname's fiscal balance improves when the exchange rate depreciates. Most of Suriname's government revenues (especially alumina company profits and import taxes) increase in terms of the domestic currency, when the exchange rate depreciates. A smaller share of government expenditures increase when the exchange rate depreciates. Interest payments on external debt have been a small share of total expenditures hitherto, and wage and salary expenditures, which do not automatically increase when the exchange rate depreciates, account for a large share of total government expenditures. Therefore, fiscal balance is generally restored in an alumina slump by cutting the real value of government expenditures on wages and salaries. The exchange-rate depreciation and reduction of aggregate demand also serve to cut imports, which restores external equilibrium. At the end of all the adjustments, the economy has adjusted to the new, lower price of alumina. Real wages, private and public consumption, and imports are lower. Output in the non-tradable sectors and overall GDP are lower. The price level is higher and the real exchange rate is more depreciated.

As the economy reacts to changes in the alumina price with a lag, certain variables increase or decrease temporarily. When an alumina boom starts, exports in the first year of the boom increase much more than imports, and this divergence boosts the trade- and current-account surpluses. In the second and third year of a boom, imports adjust fully to the new export level and the trade and current-account surpluses decline. Similarly, typically current-account deficits are larger in the year of transition to an alumina slump than during the slump itself.

On the fiscal side, government revenues typically increase much faster than expenditures in the first year of an alumina boom, causing a sharp reduction in the fiscal deficit. In the second and third year of the boom, government expenditures rise to adjust fully to the new revenue level and the deficit may widen again. Similarly, typically fiscal deficits are larger in the year of transition to an alumina slump than during the slump itself as revenues fall away more quickly than the government or inflation can reduce real expenditures.

Economic policy must operate within the framework broadly established by alumina cycles. However, within that framework government policies can have a substantial impact, as they influence the timing, manner and extent of the adjustment to positive and negative external shocks.

This notwithstanding, several factors have impeded effective policy-making in Suriname. Budgetary management is weak due to organizational and procedural weaknesses as well as the political difficulties involved in forming a consensus on policy in a fragmented political environment. Budgetary weakness severely retards the government's use of fiscal policy as an active tool of macroeconomic management. Furthermore, as the government has little ability to issue government debt domestically, it generally has to resort heavily to magnetization and seigniorage in order to finance fiscal deficits. Similarly, the absence of a significant market for government debt precludes open market monetary management. Thus, in practice monetary policy has generally been passive. The most significant aspect of monetary policy in the 1990s was decisions about accumulating international reserves and gold.

The authorities - government and central bank - have had significant control over the nominal official exchange rate, which they have set by fiat. However, they have had only indirect influence on the parallel exchange rate, which has been determined by the market.

### **3. Macroeconomic developments during the 1990s**

During the 1990s, Suriname experienced two complete cycles from alumina boom to bust as illustrated in Table 2. The economy broadly

followed changes in the international price of alumina, although government policies modified the course of macroeconomic developments within the broad boom-bust cycles. Generally, government policies magnified the boom-bust cycles. For instance, in both of the transition years of 1991 and 1998, the government embarked on highly expansionary fiscal policies, which not only accentuated the internal and external imbalances caused by declining alumina prices, but also meant that the ensuing slump was more severe. Also, arguably the authorities over-adjusted to the alumina slump in 1994, causing higher inflation and greater declines in real wages than were strictly necessary for restoring external and internal balance. The remaining part of this section focuses on the second cycle of the 1990s, starting with the boom of 1995-97.

### *1995-97: Boom*

During 1995-97, the economy stabilized and boomed. The alumina price rose from 156 US dollars per ton during the 1992-94 slump to 193 US dollars during 1995-97, as shown in Table 3. Consequently, alumina foreign-exchange transfers increased from 78 million US dollars per year to 144 million US dollars per year in 1995-97 and government revenues increased from 36.5 million US dollars per year in the slump to 47 million US dollars per year in 1995-97. The exchange rate appreciated significantly in real terms and imports grew substantially during the boom, but the current account remained in surplus. Government expenditures on wages and salaries increased significantly during the boom but the fiscal deficit averaged only 0.6 per cent of GDP compared with 11.2 per cent during the slump. Inflation fell from 228 per cent during the slump to only 18 per cent during the boom. Real wages almost doubled and GDP increased by 8.5 per cent per year in real terms. The non-tradable sectors led the boom, growing by over 11 per cent per year and mining also grew briskly. By contrast, the non-mining tradable sectors - agriculture and manufacturing - were left out of the boom and stagnated.

In 1995, the authorities managed to stabilize the economy very effectively. The stabilization was based on underlying improvements in the economy and the use of the exchange rate as an anchor for

Table 2. Alumina boom-bust cycles in the 1990s.

	<i>1989-90</i>	<i>1991</i>	<i>1992-94</i>	<i>1995-97</i>	<i>1998</i>	<i>1999</i>
	<i>Boom</i>	<i>Transition</i>	<i>Slump</i>	<i>Boom</i>	<i>Transition</i>	<i>Slump</i>
Alumina price (US\$ per ton)	272.8	182.2	156.4	192.5	172.0	159.8
Imports of goods (millions of US\$)	517.6	580.2	449.8	445.1	501.0	524.9
GDP growth (annual average)	2.1	2.9	-7.2	8.5	2.5	-2.8
Current-account balance (% of GDP)	24.7	-20.0	4.8	9.7	-12.0	-13.5
Fiscal balance (% of GDP)	-10.2	-17.4	-11.2	-0.6	-13.4	-4.5
Inflation (%; December to December)	15.9	30.0	227.5	17.6	22.9	112.7
Real wage index (1980=100)	59.7	51.8	35.5	67.2	106.8	82.2
Real effective exchange rate index (1990=100)	100.0	81.7	106.3	74.0	57.3	60.7

Table 3. The role of alumina in the 1995 stabilization.

	<i>1994</i>				<i>1995</i>			
	<i>Q1</i>	<i>Q2</i>	<i>Q3</i>	<i>Q4</i>	<i>Q1</i>	<i>Q2</i>	<i>Q3</i>	<i>Q4</i>
Alumina price (US\$ per ton)	141.0	149.0	156.0	179.0	187.0	200.0	193.0	203.0
Alumina companies transfers (in millions of US\$)								
foreign exchange transfers	18.5	16.8	15.6	16.8	20.6	16.7	26.5	32.0
government revenues	13.0	11.7	7.9	8.7	12.4	10.2	15.7	15.5
Change in parallel exchange rate (%)	54.0	26.0	24.7	99.6	9.5	6.4	-20.0	-9.5
Change in CPI (%)	49.9	56.4	32.0	121.8	22.2	28.8	-4.2	-8.7

Notes: Q = quarter;

CPI = consumer price index

prices. The underlying balance-of-payments and fiscal positions improved in 1995. The increase in alumina prices lifted export revenues, and as exports grew more quickly than imports, the current account surplus expanded significantly. Moreover, the growing export receipts caused a large increase in net international reserves and substantially strengthened the central bank's ability to supply the private sector with foreign exchange. The central bank was even able to utilize some international reserves to reduce Suriname's external arrears and boost the country's creditworthiness. The fiscal situation continued to improve, and the government ran a surplus of 1.1 per cent of GDP

during 1995. This was the first fiscal surplus since 1980. Revenues and grants grew strongly, from 33.5 per cent of GDP in 1994 to 41 per cent of GDP in 1995. Import and alumina company profit tax revenues were boosted by the higher official exchange rate, a larger volume of imports, and increased profitability of the alumina companies. Non-alumina income taxes also increased as the economic recovery spread.

The improvement was structural as well as cyclical. The government improved the tax-administration system by introducing a self-assessment system for income taxes, which would henceforth be paid on a quarterly basis. This system ensured much prompter payment of taxes and sharply reduced the losses in real value from the combination of inflation and payment delays. The self-assessment system became operational in the second quarter of 1995 and led to a sharp increase in personal income and corporation tax revenues. Government expenditures also increased sharply, rising 10 per cent of GDP. The bulk of the increased expenditure was allocated to expenditures on goods and services, partly to reduce government arrears. The government increased expenditures on wages and salaries moderately in real terms but cut subsidy and transfer expenditures by removing subsidies on gasoline, cooking gas, bread and milk. Central bank exchange-rate losses, carried over from the previous year, fell to only 0.4 per cent of GDP.

Even at the outset of 1995, the underlying improvements in the economy were noticeable. The depreciation of the parallel exchange rate slowed to 8 per cent in January, was broadly stable in February and March, and depreciated by 10 per cent per month in April and early May. But the decisive point in the stabilization occurred in mid-May when the central bank intervened in the foreign-exchange market by sharply increasing its foreign-exchange sales to banks. At that point, the central bank had a large stock of international reserves (70 million US dollars compared with a monetary base that was equivalent to 48 million US dollars). The intervention caused the parallel exchange rate to appreciate moderately, which triggered a major rebound in confidence. The demand for guilders surged, causing the parallel rate to appreciate further in a virtuous circle. By July, the parallel rate had

converged with the official rate. In the third quarter of 1995, the process received a further boost from significant short-term capital inflows, as the private sector repatriated some of its assets held abroad in order to take advantage of the boom. The central bank orchestrated a steady nominal appreciation of both the parallel and official exchange rates until the end of the year. The exchange-rate appreciation fed through to the price level immediately and the CPI fell every month from July to December. Thus, inflation fell from 587 per cent in 1994 to 37 per cent in 1995. Increased nominal wages, combined with sharply declining inflation, caused real wages to recover swiftly and boosted consumption. Business confidence revived and private investment rebounded.

The trends established in 1995 continued in 1996. Inflation came to a complete halt and the economy continued to grow rapidly. The fiscal situation was broadly similar to that of 1995. However, the balance-of-payments position weakened somewhat after the exceptionally strong position in 1995. Although exports levelled off, imports continued to grow, thereby reducing the trade and current-account surpluses. Agriculture and manufacturing continued to stagnate despite a boom in the economy. While the macroeconomic environment had improved greatly in terms of stability, the business environment for agriculture and manufacturing enterprises had deteriorated in several respects. In the two years since 1994, the business environment had shifted abruptly from a competitive exchange rate, low real wages, modest tariff protection, and highly negative real interest rates to an appreciated real exchange rate, rapid growth of real wages, zero tariffs on goods imported from CARICOM, and very high and positive real interest rates.

In 1997, the economic boom continued but started to go beyond that warranted or supported by the earlier increase in alumina prices. As a result, stresses began to emerge in the economy. The government adopted expansionary fiscal and credit policies, which boosted domestic demand. This sustained the momentum of the boom but started to create macroeconomic imbalances. The government awarded a very large wage increase to civil servants, which caused the government's wage and salary expenditures to rise from 8.7 per cent of GDP in

1996 to 13 per cent in 1997. The government also embarked on an ambitious capital expenditure programme. But, as the exchange rate continued to appreciate in real terms, the domestic currency value of profit-tax revenues and import-tax revenues from alumina companies began to decline. As a result, the fiscal position swung into a deficit of 5.1 per cent of GDP, which was financed by central bank credit. Credit to the private sector also grew strongly, in part because of the establishment of two funds at the central bank for channelling funds to the tradable sectors. The narrow money supply grew by 20 per cent and the parallel exchange rate started to depreciate again. Inflation accelerated to 18 per cent. By the end of 1997, the economy had slightly over-adjusted to the increased alumina prices of 1995-97. Real wages were almost three times the level of 1994. The real exchange rate was 43 points more appreciated than in 1994, and imports were growing fast.

### *1998: Transition*

In 1998, the economy made the transition from an alumina boom to a slump. In many respects, 1998 bore marked similarities with 1991, the year of transition from boom to slump in the first alumina cycle of the decade. Just as in 1991, the economy was hit not only by an external shock in the form of lower alumina prices but also by an internal shock in the form of expansionary policies. As in 1991, the combination of an alumina downturn and expansionary economic policies produced massive imbalances in the economy.

In 1998, the alumina price dropped from 193 US dollars per ton during the 1995-97 boom to 172 US dollars. Consequently, alumina company foreign-exchange transfers fell from 144 million US dollars per year to 114 million US dollars and government alumina revenue from 47 million US dollars per year to 30 million US dollars in 1998. A decline in the price of Suriname's crude oil exports, the volume of which had started to become significant, reinforced the export revenue loss. Moreover, unlike 1991, when the weather improved from the previous year, in 1998 a further external shock in the form of the El Niño weather phenomenon hit Suriname. El Niño cut the output of shrimp, bananas, and rice severely. Overall, export revenues fell by

over 100 million US dollars, i.e. by about one-fifth. On the fiscal side, company tax revenues were nearly halved.

As in 1991, rather than begin to adjust to the external shock, the government adopted highly expansionary fiscal policies. It increased its expenditures on wages and salaries by 79 per cent and on goods and services by 68 per cent. It also increased capital expenditures and expenditures on transfers and subsidies. The government did offset some of the increased expenditure by introducing a sales tax in February 1998, which increased indirect tax revenues significantly. Friction in the relationship between the governments of Suriname and the Netherlands led to a reduction in official transfers and grant revenues. However, the reduction had little net impact on the government's fiscal balance or the balance of payments as the assistance consisted almost exclusively of project aid. Overall, the massive expansion of expenditures and the decline in company-profit revenues produced a fiscal deficit of 13 per cent of GDP in 1998. This deficit was far larger than the 0.6 per cent average deficit during the 1995-97 boom and since it was financed partially by central bank credit, M1 expanded by roughly 40 per cent.

The combination of declining export receipts and strong domestic demand caused massive external imbalances, which were reflected in a rapid and substantial deterioration of the current account, a loss of international reserves, and growing exchange rate disequilibrium. Although exports declined by one-fifth, imports did not decline. Consequently, the current account swung into a deficit to the tune of 115 million US dollars. The authorities financed the current account deficit by significant external borrowing and by drawing on international reserves.

Under the pressure of such a massive external disequilibrium and the rapid growth of the domestic money supply, the parallel exchange rate depreciated further. However, the central bank kept the official exchange rate fixed at 401 Suriname guilder per US dollar. This caused the economy-wide average exchange rate to keep appreciating in real terms and prevented exchange rate-induced adjustments in the economy. It kept the lid on inflation, which increased only slightly from 18 per cent in 1997 to 23 per cent in 1998, and enabled real

wages to increase further. However, the level of real wages and the real effective exchange rate had gone far beyond what the economy could support and were not sustainable.

GDP growth slowed abruptly in 1998, declining from 8.5 per cent in the boom to 2.5 per cent. The bulk of the slowdown was caused by a deceleration in the growth of the non-tradable sectors. In effect, the economic boom had exhausted itself and the stimulus effect of government-induced expansions of domestic demand was waning. El Niño also contributed to the slowdown by reducing agricultural value added by nearly one-fifth.

### *1999: Slump*

In 1999, the economy went into a slump and Suriname experienced a macroeconomic crisis. Economic developments in 1999 bore marked similarities with 1992, the first year of slump in the first alumina cycle of the decade. Alumina prices continued to fall in 1999 and averaged 160 US dollars per ton for the year. This price was almost as low as during the 1992-94 slump. The closure of the aluminium smelter in April 1999 reinforced the price decline. Foreign-exchange transfers of alumina companies declined from 114 million US dollars in 1998 to 89 million US dollars in 1999 and government alumina revenues declined from 30 million US dollars to 28 million US dollars. As the slump spread to the whole economy, non-alumina revenues declined too. Total government revenues fell from 28.6 per cent of GDP in 1998 to 21.9 per cent in 1999, a level almost identical to that of 1992.

The authorities belatedly began to adjust exchange rate, fiscal and monetary policies. They devalued the official exchange rate from 401 Suriname guilder per US dollar to 705 Suriname guilder on January 1, 1999 and adopted an unspecified crawling-peg regime for the official rate. The devaluation reduced the differential between the parallel and official rates from 84 per cent at the end of 1998 to less than 5 per cent in early January 1999. Thereafter, however, the parallel rate depreciated faster than the official rate crawled, so the exchange-rate differential widened again. In May, the parallel exchange rate abruptly depreciated by 27 per cent. The exchange-rate crisis provoked political unrest and

large-scale demonstrations against the government. In order to prevent further exchange-rate difficulties, the government tightened fiscal and monetary policies for the rest of the year. Moreover, government expenditures were slashed on a cash basis from 46.2 per cent of GDP in 1998 to 28.9 per cent in 1999. Government expenditures on goods and services, public investment and interest payments were cut most sharply. Part of this reduction resulted from a decline in government expenditure commitments. However, the bulk of the reduction was achieved by postponing payments - either unilaterally or, as in the case of a large bridge construction project, by agreeing with the supplier to convert current payments into a loan. Domestic and external payments arrears increased from 20 million US dollars at the end of 1998 to roughly 65 million US dollars at the end of 1999. Thus, the government's fiscal policies were successful in reducing the fiscal deficit in 1999 to only 4.5 per cent of GDP, but this success came at the expense of larger obligations in the future. The authorities also tightened monetary policies after May. The central bank took several steps to constrain the growth of credit, which represented the first time the central bank had used an activist monetary policy during the decade.

But these steps were insufficient to restore external balance. Imports continued to grow slightly, so the trade and current account deficits also widened slightly. The authorities financed the current account deficit by further external borrowing, by accumulating external payments arrears (as in the 1991-93 period), and by drawing on international reserves. Over the year as a whole, the parallel exchange rate was 125 per cent more depreciated in nominal terms than in 1998 and the official rate was 114 per cent more depreciated. The economywide average exchange rate depreciated slightly in real terms. Given the rapid exchange-rate depreciations, inflation accelerated to 113 per cent by the end of 1999. Real wages fell by 23 per cent in 1999, which depressed consumption and caused a recession in the non-tradable sectors. Value added in manufacturing declined by 6.6 per cent because of the closure of the aluminium smelter. However, agricultural value added rebounded by 12 per cent, following a resumption of normal weather and modernization of the banana plantations. Overall, GDP declined by 2.5 per cent.

### *Macroeconomic outlook*

The prospects for the second half of 2000 and early 2001 are not favourable. Suriname is in the midst of an alumina slump and the economy remains deeply imbalanced despite rising alumina prices in early 2000. Although the fiscal deficit was 'only' 4.5 per cent of GDP in 1999 on a cash basis, the structural fiscal position was weaker. On an accruals basis, the deficit was more in the order of 8.5 per cent of GDP. The fiscal deficit for 2000 may well amount to over 12 per cent of GDP.

As if it were not enough that the government has to rein in those imbalances, it will also have to resolve the payments arrears problem and an external debt crisis. A huge stock of domestic payment arrears, of roughly 28 million US dollars at the end of 1999, is damaging government credibility, threatening the financing system of public health care, and damaging the businesses of the private sector suppliers who have not been paid yet. External payments arrears amounted to 37 million US dollars at the end of 1999 and these probably increased in the first half of 2000. Suriname is also facing an external debt-servicing crisis for the first time since independence. Traditionally, Suriname has had a very low external debt because of substantial development assistance, prudent debt-management policies, and a lack of creditworthiness. However, between 1997 and 1999, the government borrowed significant amounts, often at very short-term maturities. Amortization of much of that debt is due in the 1999-2001 period. Thus, Suriname's debt-service obligations are rising to unprecedented levels - around 60 million US dollars per year. The debt-servicing will have a similar economic impact as an alumina slump it will represent a drain on the country's foreign-exchange availability and on the government budget. The government will have to cut its expenditures and allow imports to be compressed in order to free the resources for debt-servicing. In sum, Suriname is facing a threefold adjustment: adjustment to eliminate the fiscal deficit, to free resources to pay off arrears, and to free resources to service external debt.

This means that the scale of the adjustment required will be enormous. The government will have to strengthen the underlying fiscal position by about 10-15 per cent of GDP. This implies a very

sizeable compression of domestic expenditures. The adjustment mechanism will likely be the exchange-rate adjustments, high inflation, and fiscal discipline, as in the past.

Three factors could ease the adjustment. First, balance-of-payments assistance from donors could support both the balance of payments and the budget. Such assistance would reduce the amount by which the government has to cut its expenditures and to compress imports. Obviously, balance-of-payments assistance in the form of grants from bilateral donors would be most favourable for the government. But balance-of-payments loans from multilateral agencies would also help by allowing the government to overcome the short-term debt-servicing hump and, in effect, to exchange short-term, high-costs debt for long-term, low-costs debt. To the extent that multilateral agencies provide balance-of-payments loans with policy conditions, two further benefits could emerge. First, in complying with the policy conditionalities, the government would improve microeconomic and structural policies, thus laying the foundations for long-term growth. Second, by committing itself to reform policies in a certain sequence and approximate timetable, the government would provide a strong signal about its policy intentions to private investors. By contrast, project aid would be of little assistance to the macroeconomic adjustment process.

The second factor that could ease the external adjustment would be a boost in the volume of Suriname's exports. Export growth would lessen the amount by which imports would have to fall in order to restore external balance. Unfortunately, mineral exports that form the bulk of Suriname's exports are price inelastic and do not depend on domestic economic conditions. But non-mineral exports might grow relatively quickly if policy obstacles, such as foreign exchange surrender requirements, are removed.

Third, if alumina prices were to rise significantly, this would help both the balance of payments and budget positions. But that depends on luck.

In the medium term, the gradual improvement in Suriname's structural and microeconomic policies should pay off in the form of an improved development performance. Alumina cycles will probably

not be so pronounced in the future, particularly if alumina's share of exports declines. In particular, crude oil exports may become a very important source of foreign exchange and government income, if significant quantities of oil are discovered. But, given that commodity prices tend to rise and fall in tandem, the increasing share of crude oil exports in Suriname's total exports may not do much to dampen commodity-driven economic cycles. It is conceivable that the government may be able to significantly raise its revenues from gold mining in the medium term. The Office of Tax Administration has already begun a programme to register gold producers in the interior and the government's ability to raise its share of the rents from gold production would increase significantly if large and hence monitorable companies start to produce gold. However, notwithstanding the potential for oil and gold production, it cannot be discounted that alumina will remain the predominant export, especially given that the government has been exploring the possibilities for exploiting the bauxite reserves at Bakhuis, in western Suriname.

Nevertheless, it is unlikely that mineral exports alone will be sufficient to generate sustainable long-term economic development. This implies that agricultural and agro-industrial exports will have to grow significantly in order to lessen Suriname's dependence on mineral exports and to generate a path towards sustainable national income growth.

It is probable that the government will improve economic management over the medium term. The central bank has recently started to implement an activist monetary policy and its ability to conduct monetary policy may grow as it improves monetary management methods. But there are limits to what monetary policy alone can do. The largest improvements in economic management will have to come from improved budgetary and exchange-rate management. Such improvements will be essential to promote the macroeconomic stability that Suriname needs if it is to sustain long-term economic development.

#### **4. Employment, poverty and income distribution.**

Suriname faces recurrent problems of insufficient generation of productive employment, periods of high inflation and an unequal distribution of income, resulting in high prevalence of poverty among its population. These problems are closely associated with the overall performance of the Suriname economy and the way in which adjustment policies are implemented.

Macroeconomic adjustment policies are critical to employment and poverty for at least two reasons. First, negative external shocks such as drops in aid flows or falling bauxite prices have typically been responded by monetary financing of widening fiscal deficits. This has typically resulted in accelerating inflation, with most of the adjustment costs being borne by workers, as real wages decline. This way, macroeconomic shocks tend to work their way through in income distribution and household welfare. Income conditions of households tend to be as volatile as the economy as a whole. Remittances (both monetary and in kind) by relatives in the Netherlands provide some income protection and help keep an important number of Surinamese families out of poverty conditions. Second, the public sector dominates much of domestic economic activity as well as employment. Although public sector employment declined slightly during the 1990s, the government still employs almost half of the non-agricultural labour force. Downsizing the civil service would ease fiscal and hence macroeconomic adjustment, but at the same time it would cause a major unemployment problem due to the limited absorptive capacity of other sectors. The other major economic sector, mining, only employs a small share of the labour force (4 per cent), while agriculture, manufacturing and other services mainly rely on domestic demand, which in turn is currently strongly dependent on the public sector wage bill. Such concerns may explain part of the problems underlying civil service reform. In addition, a high degree of unionization is a further characteristic of the strongly segmented labour market. Partial wage indexation and indefinite labour contracts imply a high degree of rigidity in a major share of government expenditures.

The predominance of public sector employment is a central feature of the labour market in Suriname. Obviously, in rural areas the agricultural sector is a more important source of employment than in Greater Paramaribo (where some 70 per cent of the country's population is concentrated), although availability of data on this sector is limited. The agricultural sector consists of subsistence farming and more large-scale activities such as export-oriented banana and rice cultivation, which also employ labour from abroad. In Greater Paramaribo, the structure of non-agricultural employment is clearly dominated by employment in public administration, although, Trade, Hotels and Restaurants also account for a sizeable proportion (nearly 20 per cent) of total employment as shown in Table 4. In comparison, the combined share of mining and manufacturing is less than 15 per cent. Employment in mining has increased in the 1990s, mainly due to the expansion of small-scale operations in new, largely informal mining activities, mainly gold mining.

Employment in the other key sector of the economy, bauxite, has decreased throughout the 1980s. In the 1990s the employment level in this large-scale mining activity stabilized at just above half the 1980 level. After considering measurement errors and differences in coverage, the growth of employment in mining and quarrying as shown by the household survey data may be seen as the growth of employment in small-scale gold mining.

On the whole, mining has never been a major source of direct employment generation. More importantly, it has provided government revenue to finance public sector employment. Employment in public administration and defence increased by 25 per cent during the 1980s, but this trend was reversed in 1990. The share of this sector in total non-agricultural employment fell somewhat during 1993-1996, but increased again in 1997.

Labour market trends of the 1980s and 1990s have been strongly influenced by macroeconomic conditions. Overall employment in Greater Paramaribo increased with the temporary recovery of the economy in the late 1980s, fell during the 1993-1994 crisis and expanded again as the economy recovered in 1995-1997, as shown in Figure 1. Unemployment decreased in the 1990s, both in absolute

Table 4. Employment by sector in Paramaribo and Wanica, number of employees and percentage shares, 1993-98.

<i>Sector of activity</i> <i>number of employees</i>	<i>Household survey estimates</i>					<i>Enterprise statistics (large enterprises)</i>						
	<i>1993</i>	<i>1994</i>	<i>1995</i>	<i>1996</i>	<i>1997</i>	<i>1998</i>	<i>1993</i>	<i>1994</i>	<i>1995</i>	<i>1996</i>	<i>1997</i>	<i>1998</i>
	<i>Q1</i>						<i>Q1</i>					
Mining and quarrying	2,570	3,382	3,020	4,191	4,081	..	3,242	3,242	3,364	3,487	3,336	3,242
Manufacturing	7,473	6,422	6,388	7,267	5,481	..	5,983	5,466	5,836	6,057	7,162	7,239
Electricity, gas and water	691	1,271	954	1,319	1,300	..	1,205	1,218	1,255	1,292	1,323	1,353
Construction	4,004	4,090	7,104	7,761	6,821	..	1,926	1,656	**	**	**	**
Wholesale and retail trade, restaurants and hotels	12,533	11,924	12,901	14,863	15,287	..	3,825	4,383	5,658	6,056	6,104	5,260
Transport, storage and communication	5,127	5,131	3,901	6,792	5,322	..	2,072	2,112	2,133	2,112	2,082	2,092
Financial institutions and insurance	3,435	3,286	4,939	3,874	4,208	..	1,875	1,942	1,962	1,886	1,769	1,873
Community, social- and personal services (incl. govt.)	37,035	34,383	33,589	31,963	32,858	..	42,829	40,650	39,040	38,662	39,051	39,665
Of which: government (public admin. and defence)	..	..	..	..	..	..	40,652	38,552	37,160	36,663	36,757	37,369
Total*	74,862	71,883	74,791	80,026	75,358	..	62,958	60,669	59,247	59,573	60,827	60,723
<i>in percentages</i>												
Mining and quarrying	3.5	4.8	4.1	5.4	5.4	..	5.1	5.3	5.7	5.9	5.5	5.3
Manufacturing	10.3	9.2	8.8	9.3	7.3	..	9.5	9.0	9.8	10.2	11.8	11.9
Electricity, gas and water	0.9	1.8	1.3	1.7	1.7	..	1.9	2.0	2.1	2.2	2.2	2.2
Construction	5.5	5.9	9.8	9.9	9.0	..	3.1	2.7	..	..	..	..
Wholesale and retail trade, restaurants and hotels	17.2	17.1	17.7	19.0	20.3	..	6.1	7.2	9.5	10.2	10.0	8.7
Transport, storage and communication	7.0	7.3	5.4	8.7	7.1	..	3.3	3.5	3.6	3.6	3.4	3.4
Financial institutions and insurance	4.7	4.7	6.8	5.0	5.6	..	3.0	3.2	3.3	3.2	2.9	3.1
Community, social- and personal services (incl. govt.)	50.8	49.2	46.1	41.0	43.5	..	68.0	67.0	65.9	64.9	64.2	65.3
Of which: government (public admin. and defence)	..	..	..	..	..	..	64.6	63.5	62.7	61.5	60.4	61.5
Total**	100.0	100.0	100.0	100.0	100.0	..	100.0	100.0	100.0	100.0	100.0	100.0

*Notes:* \* Household Survey estimates of employment in Agriculture, Forestry, Hunting and Fishery and in Unknown sector are not included; Agriculture is also not included in the Enterprise Statistics.

Totals of Enterprise Statistics estimates in 1995, 1996, 1997 and 1998 are excluding employment in construction.

\*\* Percentages in 1995, 1996, 1997, 1998 are based on totals excluding employment in construction.

Q = quarter

*Sources:* based on ABS data.

terms and as a percentage of the economically active population, as shown in Figures 1 and 2.

This can be explained by the volatile economic situation during the 1990s, which seems to have had a negative impact on labour market participation in registered economic activities. The rate of labour participation is here defined as the proportion of the population at working age that is either employed or openly unemployed.

Lower participation rates are associated with a discouraged worker effect, greater reliance on activities in the underground economy and private transfers from family abroad, as well as migration to The Netherlands. Labour participation rates had increased during the 1980s, particularly as more women entered the labour market. In the 1990s, the decline in labour participation had a dampening effect on unemployment rates during years of economic crisis. At the same time, total employment and real wages decreased most steeply during the economic recession of 1993 and 1994. In fact, real wages suffered from stronger fluctuations during the 1990s than during the previous decade. This may be an important factor underlying the aforementioned discouraged worker effect and possibly also the growth of employment in the underground economy for which there are no reliable estimates.

Migration and remittances could be further explanations of the drop in labour participation. Both the records of the civil administration (CBB) and Dutch CBS statistics show that emigration to the Netherlands was high in the first half of the 1990s, reaching a total of more than 7 thousand according to the CBS statistics. Despite conflicting empirical evidence, private transfers from The Netherlands, either in cash or in kind in the form of so-called 'parcel imports', are generally perceived to have increased during this period and hence may have further discouraged labour participation.

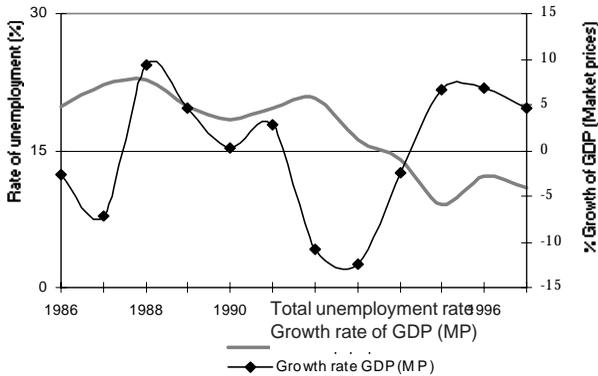
Real wages in the public sector have also been subject to strong volatility despite collective wage bargaining. A characteristic of the Suriname economy is that the wage bill of civil servants accounts for a large share of public expenditures. The adjustment to deal with the problem of huge fiscal deficits in the early 1990s largely took place through cuts in the civil servants' real wage bill. These cuts were typically achieved through slow and/or incomplete adjustment of nominal wages

Figure 1. Employment and unemployment, Paramaribo and Wanica, 1986-97.



Source: based on ABS data.

Figure 2. Growth of GDP and unemployment rate.



Source: based on IDB and ABS data.

to inflation, thereby lowering real wages, rather than through reductions in the number of civil servants. Only the attempts at more serious fiscal adjustment during the crisis of 1993-94 also led to some reduction in the employment in public administration and defence.

The economic recovery in 1995-97 brought an improvement of the labour market situation, evidenced by growth of employment,

increased economic participation and an increase of the real level of wages. Although there are no recent data available, the general perception is that the labour market situation has deteriorated since 1998, both in terms of real wages and employment.

### *Trends in real wages*

Real wages increased on an average between 1980 and 1985 as shown in Figure 3. The drop in real wages in 1986-87 took place during the period of the war in the interior, when nominal wage increases did not catch up with high inflation. The second drop occurred in the first half of the 1990s. The real wages followed to some extent the trend in productivity, but there are also other determinants of real wages.

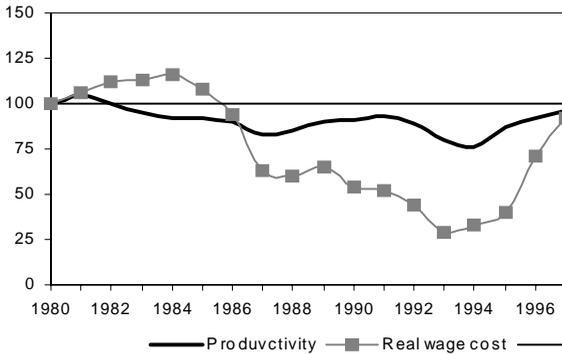
The Suriname labour force is characterized by a rather high degree of unionization. Ever since the Law on Collective Labour Agreements came into force in 1966, the wage setting process has been an institutional process of collective wage bargaining. Various political and societal considerations play a role in this process, apart from those regarding the development of prices and unemployment. Wage demands by the labour unions were for instance very modest in 1986 and 1987, despite rapid increases of consumer prices.

Wages initially recovered somewhat in real terms in 1988 and 1989, but by 1993 they had dropped to about 30 per cent of the 1980 level. The large drops in real wages that took place in the early 1990s can be explained by similar factors as those mentioned above. The demands for nominal wage increases were again modest in the light of the high rate of inflation. The fact that one of coalition parties in the New Front government (1991-96) was closely associated with one of the labour unions is said to have played a role.

Real wages increased strongly in 1995-97, thanks to the economic recovery, several rounds of nominal wage hikes and the reduction of inflation. After 1998 this trend reverted again. Although nominal wages further increased in 1998, partly in response to strikes, accelerating inflation due to deficit financing eroded purchasing power.

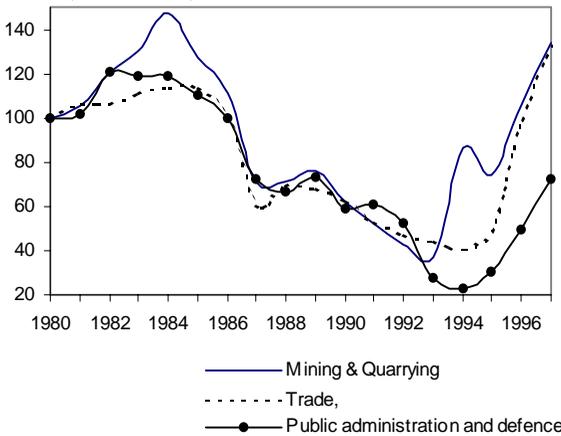
The overall trend in real wages discussed above hides differences between sectors. Wages in mining developed in general more favourably

Figure 3. Non-agricultural real wages and value added per employee, index numbers (1980=100), 1980-97.



Sources based on ABS, IMF and IDB data.

Figure 4. Real wages in selected sectors, index numbers (1980=100), 1980-97.



Sources: based on ABS data.

than in other sectors, but also showed larger drops during recessions in the mining sector. Wages in public administration and defence recovered slower than on average after 1993, while the opposite was the case for wages in trade, restaurants and hotels as shown in Figures

3 and 4. Wages in manufacturing largely followed the trend of those in public administration and defence.

### *Poverty and income distribution*

The analysis of the previous section has shown that wage earners form the majority of the labour force and that real wages showed a steep fall between 1985 and 1994, but recovered in 1995-97. We also found that labour force participation decreased as a consequence of the crisis in the early 1990s. These outcomes suggest that also real household incomes have fallen and poverty has risen in the 1990s.

Since we have no good and comparative poverty estimates for the whole period of the 1990s, we need to make some inferences from the static, momentary information that is available and the macroeconomic and labour market trends discussed in the preceding sections. A simple analytical framework could help set the stage for this discussion.

Household income is, by definition, a function of the average real wage (or real non-wage labour income) per worker times the number of paid workers in the family, plus non-labour income and transfers such as pensions and remittances from abroad. The number of workers in the household is in turn a function of the size of the household, labour force participation and the degree of unemployment in the family. Labour force participation can be higher among larger families, but lower among families with young children. As we have seen, real wages are volatile and strongly influenced by macroeconomic conditions. Unemployment rates showed less sensitivity to macroeconomic fluctuations as labour force participation dropped during crisis years, particularly in the early 1990s. We associated the decline in labour force participation with a discouraged worker effect, migration to the Netherlands and the possible effect of rising remittances from abroad.

The trend of falling real wages for most of the 1990s hence suggests a rise in the poverty incidence, that is a larger share of the population can be expected to have a per capita income below the poverty line. Falling participation rates would equally suggest a rise in poverty. Unemployment fell somewhat during 1993-97 and hence could have counteracted the suggested trend, but as we have seen the drop in

unemployment is largely related to the drop in the participation rate. We have also suggested that workers remittances may have increased and that part of the drop in the participation rate could be related to higher transfer incomes. To the extent this is true, this may have offset, at least in part, the mentioned factors hinting at a rise in poverty.

These aggregate trends may, of course, affect groups of households differently. Hence, to study poverty we also need to look at trends in inequality. It is often found that inequality rises in a context of high and variable inflation. Hence, this may have been another factor contributing to rising poverty in Suriname.

Available evidence shows a high incidence of poverty. Existing studies indicate that somewhere between 50 and 70 per cent of the population would be living below the poverty line. Unfortunately, poverty estimates for Suriname are not very reliable. Available data relate to the situation in the first half of the 1990s. Poverty estimates of different studies vary widely and are in most cases not comparable, as shown in Table 5. Reasons for that are, for example, use of different poverty lines, identification of households versus individuals as analytical units, use of income versus expenditure as basis, and inclusion/exclusion of certain income/expenditure components. Furthermore, most studies are limited to urban areas. The incidence of poverty in rural areas, and especially in the interior, is said to be higher than in urban areas. While likely true, there is no good comparable evidence to corroborate this.

Menke (1998)<sup>2</sup> estimated poverty on the basis of data from a survey conducted in September 1993 among 400 households in Greater Paramaribo. In his study the poverty indices relate to poverty at the level of households, using standardized adult equivalent number of household members. Neri and Menke (1999)<sup>3</sup> present estimates for individuals, based on the same household survey data, but using the non-standardized number of household members. In the case of the income method to measure poverty, they estimate the incidence of poverty at 59.7 per cent, the poverty gap ratio at 28.5 per cent and the severity of poverty at 17.5 per cent.

Menke acknowledges that the estimated poverty incidence of 69.5 per cent in September 1993 might be an overestimation because of underreporting of incomes. The poverty estimates for 1993 are based

Table 5. Estimates of the incidence of poverty in Suriname.

<i>Source/reference</i>	<i>Year</i>	<i>Poverty Incidence (%)</i>	<i>Comments</i>
IDB (1996) - Table III-7	1990	41.0	Extreme poverty, remittance income excluded; computed from household survey data, estimate probably for urban areas only
	1993	89.0	Ibid.
Menke (1998)	1993	69.5	Income poverty (based on household income and standardized adult equivalent scales)
	1993	52.5	Food income poverty (extreme poverty); share of food in total household expenditure estimated to be 62.8%
Neri and Menke (1999)	1993	59.7	Income poverty (based on non-standardized per capita household income)

*Source:* IDB, *The Social Sectors*, Washington, D.C., 1996a. For Menke, and Neri and Menke (1999), see notes 2 and 3.

on an estimated cost of the basic food basket of 1045 Suriname guilders in September 1993. Incomes from secondary and tertiary jobs are not included in the analysis, whereas incomes from the main economic activity - as well as non-labour incomes - may have been underreported.

The incidence of extreme poverty increased significantly between 1990 and 1993. Excluding remittances, the estimate for 1990 is 41 per cent (which would be lower if remittances were to be included). This 41 per cent is not only lower than the estimate of 89 per cent in 1993, but also lower than Menke's estimate of 52.5 per cent. Another indication that extreme poverty worsened is the rise in the share of household heads with no labour income from 21 per cent in 1990 to 33 per cent in 1993.

Since households do not and cannot spend their entire income on food, the percentage of households that spend less on food than the cost of the basic food basket is higher than that identified as the extreme poor. Defined this way, food poverty is estimated at 72.3 per cent in 1993.

The aforementioned estimates of the poverty incidence are sensitive to the inclusion or exclusion of particular income components. If foreign income were to be excluded, the poverty incidence would rise

to almost 80 per cent. For the category B of households that receive both local and foreign income, the exclusion of the foreign income component would mean a doubling of the poverty incidence. If one would leave out local non-labour income from the incomes of the households receiving such local benefits, the poverty incidence would increase by 9 percentage points. This effect is much smaller than the effect of excluding remittances from abroad.

### *Income distribution*

In the first half of the 1990s, real incomes of a majority of the population declined, while a minority was able to make large gains in among others the foreign exchange business. Income distribution thus worsened. Horowitz and Weinhold (1998)<sup>4</sup> have examined the distributional consequences of high inflation on the basis of household survey data. According to the data of various waves of household surveys conducted in Paramaribo and Wanica during 1990-94, the Gini coefficient of labour income increased dramatically from 0.42 in 1990 to 0.61 in 1993, before it declined to around 0.52. The results of tests conducted by the authors indicate that the observed change in the labour income distribution was statistically significant. The period of a marked increase in income inequality coincided with that of high and variable inflation.

Horowitz and Weinhold also constructed a variable for households' relative position in the labour income distribution. Pooling the data of the various survey waves, this variable was regressed on a measure of educational attainment in the household and a series of control variables (such as age, gender, ethnicity and hours worked). The results of the analysis suggest that education - as a proxy for the ability to forecast and adapt to price changes - was important in determining the relative income position of households. In other words, higher educational attainment in the household allowed for better knowledge of and better adaptation to price increases. Based on the findings of their analysis, Horowitz and Weinhold suggest some useful policy options, in addition to more effective fiscal and monetary policy:

- improving the dissemination of information on price increases;
- targeting assistance to ameliorate the negative distributional

- consequences of inflation of those most affected; and
- for the long run, improving educational attainment.

The Gini coefficient of 0.61 for inequality in the distribution of labour income in 1993 is somewhat lower than that estimated by Neri and Menke's (1999) on the basis on data from a sample of 400 household conducted in the same year, as shown in Table 6. Neri and Menke also provide Gini coefficients for some other income/expenditure concepts, as well as Theil coefficients for most of them. In addition, they have decomposed the Theil coefficient for three concepts of income/expenditure, as shown in Table 7.

The results confirm the finding of Horowitz and Weinhold that schooling is an important factor underlying inequality. However, if one looks at the distribution of labour income among the working population, the type of occupational category one belongs to is an even more determinant. That is, almost 40 per cent of the between-group inequality can be explained by income differentials between occupational categories (among others, civil servants, other wage earners, professionals, self-employed, micro entrepreneurs, and other employers).

Estimates of income inequality for more recent years are not available. The general impression is that inequality reduced during 1995-97 when both employment and real wages recovered, but that it has increased since 1998.

Rural areas and the interior are not covered by the household surveys. If one accepts the general perception that poverty is more severe in rural areas and in the interior than in Paramaribo and Wanica then - other things being equal - one should expect income inequality for the country as a whole to be higher than in urban areas.

## **5. Equity, effectiveness and efficiency of social policies**

Although Suriname historically had relatively good social policies and a relatively extensive social welfare system, some crucial social indicators such as infant mortality rates, literacy rates and primary school enrolment rates appear to have fallen during the 1990s. Furthermore, we found that Suriname's social policies suffer from some 'standard'

Latin American weaknesses such as high costs, low quality - particularly in education - , and equity problems. Whilst most of these weaknesses have been identified by consecutive Governments of Suriname in the 1990s, it proved impossible to introduce substantial changes. As shown, that the failure to implement these changes is linked to broader problems of governance in Suriname: the lack of transparency and accountability of government actions, and the lack of an effective civil service. In our suggestions we therefore not only pay attention to the technical side of the weaknesses in social policies, but also to these broader governance issues.

This section analyses the equity, effectiveness and efficiency of social policies in Suriname as we found them by the end of the 1990s. For reasons of space, we focus on education, health and welfare policies.

In general, social indicators in Suriname were reasonably good in the 1990s. However, there were also some problems. In education, quality was the overwhelming problem, while in health, both equity and efficiency were problematic. With respect to social welfare policies, the targeting can be improved. We discuss these three policy areas in turn.

### *Education*

The education system of Suriname comprises of pre-school, primary, junior secondary, senior secondary, vocational and tertiary schooling. About half of all primary and junior secondary schools are religious schools. Religious schools offer the same curricula as public schools, but teachers are hired by religious organizations, although the Ministry of Education (indirectly) pays them.

Primary school enrolment was nearly universal in the second half of the 1980s, but there is evidence that it dropped slightly in the first half of the 1990s. Secondary school enrolment rate was at 45 per cent in 1990. This is a bit lower than in many Caribbean countries, but comparable to that of Latin American middle income countries such as Colombia, Mexico, and Peru. The combined enrolment rate for primary, secondary and tertiary education was 69 per cent in 1990.

In 1993/94, about 49 per cent of the students enrolled in junior secondary education were in the stream with the highest status. The

Table 6. Indices of inequality among individuals, Greater Paramaribo, 1993.

	<i>Theil</i>	<i>Gini</i>
All Population Expenditure per capita	0.640	0.535
All Population Earnings per capita	0.872	0.607
Economically Active Population Expenditure per capita	0.697	0.553
Economically Active Population Earnings per capita	0.888	0.608
Occupied population Labour Earnings	0.650	-
Occupied population Labour Earnings (normalized for hours worked)	0.621	-

*Source:* INDEST (1993) presented in Neri and Menke (1999), see note 3.

Table 7. Percentage of inequality explained, Greater Paramaribo, 1993.

<i>Per cent of inequality (Theil index) Explained by each factor:</i>	<i>Labour income (occupied persons)</i>	<i>Per capita earnings (working age population)</i>	<i>Per capita expenditure (working age population)</i>
Race	2.5	2.5	3.2
Gender	1.4	1.4	0.1
Age	3.3	3.3	0.5
Schooling	22.6	22.6	18.0
Occupational category	39.9	39.9	12.8
Sector of activity	13.9	13.9	4.1

*Source:* INDEST (1993) presented in Neri and Menke (1999), see note 3.

other students were enrolled in general vocational schools (32 per cent) or in terminal vocational and technical options. Of students enrolled in senior secondary education in 1993/94, 41 per cent were in the pre-university stream.

The adult literacy rate was 93 per cent in 1995 as shown in Table 8. However, this figure seems to hold only for urban areas. When we consulted the Ministry of Education, an 85 per cent overall literacy figure was mentioned. Among older people, illiteracy rates are probably (much) higher, given that the mean years of schooling of the population of 25 years and older was only 4.4 in 1992.

From Table 8 it appears that the literacy rate declined slightly between 1990 and 1995. This may be due to the fact that many primary schools

in the interior were destroyed during the civil war. Although many of them have been rebuilt during the 1990s, this does not hold for all so that access to primary education is still a problem for some children in the interior. In addition, no post-primary education is available in the interior. In rural coastal areas, access to senior secondary education is limited to Nickerie, the provincial capital in the west of the country.

There is also some evidence that not all poor children had access to primary education. Although education is free in principle, in practice small fees are levied and there are possibly other financial barriers to access. While there is subsidized transport, and there are subsidies for clothing (school uniforms) and books etc. for children of poor households, it appears that in practice there are poor children who cannot attend school. In the interior this may also have to do with the limited number of schools and distance to schools. If men have migrated to other parts of the interior or to Paramaribo, and the women have to cultivate land far away from the village, they sometimes take their children with them, so that the children cannot attend school. It may also be necessary that children help in agricultural activities.

Apart from these access and equity problems, the educational system suffers from a low quality. This low quality is related to the schools lacking adequate supplies, to a lack of motivation of teachers, and to the fact that a large number of teachers is not qualified for the job. Many primary and secondary schools are in a poor physical condition, due to the small budget share allocated to maintenance. Tertiary education facilities (universities) are in a better shape since they have benefited from international assistance that has traditionally been directed to these institutions. The IDB also reports that schools suffer from lacks of furniture, textbooks and other instruction materials. These shortages are associated with a lack of funds allocated in the budget, an inadequate distribution system and theft of materials after having been delivered to the schools. The vocational and technical schools face shortages of materials and supplies and problems of broken and not yet repaired specialized equipment. As a result, students cannot sufficiently practice their vocational trades.

Less than two-thirds of primary school teachers were qualified in 1991/92. In the interior, it seems to be a particular problem to attract

Table 8. Adult literacy, as percentages of population of 15 years and older, 1985-95.

<i>Year</i>	<i>1985</i>	<i>1990</i>	<i>1995</i>
Total	94.7	94.9	93.0
Female	92.4	94.7	91.0
Male	93.1	95.1	95.1

*Sources:* The World Bank, *World Development Indicators*, Washington, D.C., 1998, and based on figures of the Ministry of Education.

and retain teachers. Moreover, the motivation for teaching in general is affected by the low salaries and the lack of teaching materials and good educational facilities. Many better-qualified persons choose another job or move abroad.

The quality problems are reflected in high repetition and dropout rates. In primary schools repetition rates were at 22 per cent in all grades, which is higher than in several other countries of the region. Dropout rates were also high. In 1993/94, 19 per cent of pupils dropped out from grade 1, and 22 per cent from grade 6 of primary school. In junior secondary education, repetition and dropout rates are at similar levels or higher. This means that the internal efficiency of the education system is low. There are also complaints about the external efficiency, especially in technical and vocational education, and in teacher colleges. Students are assigned to these streams on the basis of a single exam result at the end of the previous cycle. As a consequence, the school type is not always in line with their interests and skills, and they are often less motivated. In addition, the schools themselves appear not always to teach the skills that are required in the labour market.

A general problem of the school system in Suriname is that schools have little incentives to use inputs efficiently. Schools have little or no autonomy, and their funding is based on historical data. There is no relationship with the number of students attending or the number of teachers actually performing. For this reason, schools have no interest in attracting and retaining students, or in attracting and retaining high-quality teachers. Another problem is that almost half of the total staff paid by the Ministry of Education was working at the Ministry itself,

rather than in schools or colleges. This points to a top-heavy structure, and probably to the existence of many ghost workers in the Ministry.

### *Health*

The larger part of the health services is either provided or subsidized by the State. Primary care services in the coastal region are provided by independent General Practitioners and by the Regional Health Service, which manages some 35 health posts. In the sparsely populated interior, primary care is provided through a network of health posts managed by the Medical Mission – an umbrella group of Christian Non Governmental Organizations (NGOs). Other primary care services are provided through government-run vertical programmes for the entire population, for example, for family planning, youth dental care, programmes against leprosy and sexually transmitted diseases (Dermatological Service), immunizations (Bureau of Public Health and the Regional Health Service), and programmes against contagious diseases such as malaria. Secondary care is provided by the country's three public and two private general hospitals. Furthermore, there is one Government-owned and -operated Psychiatric Hospital, located in Paramaribo. For more complex services, Suriname's citizens are referred to hospitals in the Netherlands. This used to be covered by Dutch Treaty funds.

Most people have access to some kind of collective health insurance. Health care for the approximately 14 per cent of the population that resides in the interior region is directly financed by the State. In 1996, approximately 35 per cent of the population were affiliated to the State Health Insurance Fund (SZF), which covers a practically unlimited package of services. This Fund is meant for civil servants and their families, but there are also voluntary enrolees. About 42 per cent of the population had access to health care through the Medical Card supplied by the Ministry of Social Affairs and Housing (MSAH). These Cards are meant for the poor and near poor, and allocation is based on a means test. The majority of the remainder of the population obtained health care insurance through their employers. According to other sources, however, the share of MSAH patients was about one-third in 1996.

In spite of this almost complete coverage of the population and relatively good availability of health care services, there are some concerns about both horizontal and vertical equity. First, access for some people in the interior has deteriorated by the destruction of health facilities during the civil war. Secondly, MSAH patients are charged co-payments for visits to general practitioners, specialists, for medicines and for hospital care, while SZF patients are only charged a - smaller - co-payment for medicines and get all other services free. Since MSAH patients are on average poorer than SZF patients are, one can wonder whether this group still had access to all health services. On average, health care spending for SZF patients proved to be about double that for MSAH patients (94 US dollars versus 46 US dollars), so MSAH patients effectively use fewer or less costly services.

Vertical equity may also be less optimal. Although SZF patients pay 4 per cent of their salaries as health insurance while MSAH patients do not, with declining real wages in the 1990s the real value of these premiums decreased relative to the costs of health care. The Ministry of Finance formally pays a contribution of 5 per cent of wages to SZF, but in practice the state's contribution was higher. There are also doubts about the effectiveness of targeting of free health care and the Medical Card. Although all people in the interior have access to free health care, not all of them are poor. Second, there seem to be some problems with the means test for the MSAH card. The means test is based on self-reported income which tends to be underestimated.

Total annual per capita spending on health care was 101 US dollars in 1996, and total health spending amounted to 6.6 per cent of GDP. This value is slightly below the average value for Latin America and the Caribbean of 7.3 per cent. However, a regional comparison of public health expenditure as a percentage of GDP shows that the share for Suriname of 4.6 per cent in 1995 was higher than the average value for Latin America and the Caribbean of 3 per cent in that year.

The Bureau of Public Health and the Regional Health Service are responsible for the supervision and implementation of immunization programmes. Immunization coverage increased in the mid-1980s but then declined as a result of the civil war. The rates increased again in the second half of the 1990s as shown in Table 2. Malaria control

activities in the interior suffered a similar fate: they stagnated as of the mid-1980s but were resumed in 1993. However, pre-war levels have not yet been attained by 1997.

The possibly deteriorating health conditions have not translated into declining life expectancy at birth. It has increased from 69.9 to 71.6 years of age between 1992 and 1998. The 1998 figure is lower than the Caribbean average of 74 but higher than the Latin American average of 70 years of age. For infant and child mortality, different figures are reported by different sources. However, most sources point to an increase in the early 1990s. Child malnutrition also seems to have increased in the 1980s and early 1990s. The incidence of communicable diseases such as malaria and dengue is reported to be rising during the 1990s.

Another problem is a lack of efficiency in the provision of health services. The system leads to excessive use of hospital services, of the services of medical specialists and of medicines. For example, general practitioners are not paid by patient treated, but receive a fixed salary and a fixed monthly payment for each SZF patient registered with them. This leads to more referrals to specialists than necessary, because there is not much incentive for general practitioners to treat patients. They may even gain if they easily refer to a specialist. Also with respect to drug prescriptions there is no incentive for cost containment. SZF patients get 10 drugs prescribed annually, on average. This is high, and is probably due to the fact that doctors can write three prescriptions per visit. Patients often ask for more prescriptions than needed. Medicines are also overly expensive, since they can only be imported, and only from a restricted list of eleven countries.

### *Social welfare*

Traditionally, the protection of socially vulnerable persons had a high priority in the policy of successive governments in Suriname. The social welfare system is more extensive than that of most neighbouring countries. This is partly due to historical factors, such as Dutch influence and the availability of Dutch foreign aid to partially finance it. On the other hand, welfare systems have been popular to

Table 9. Immunization coverage, as percentage share of children under 12 months.

	1980-1982	1983-1986	1987-1994	1995-1997
DPT	38	82	74	85
Measles	28	75	71	78

*Source:* based on World Development Indicators 1998 and PAHO.

governments in Suriname since they provide them with an instrument to favour their electorates.

The Ministry of Social Affairs and Housing distinguishes between two types of welfare policy, General Social Care and Categorical Social Work. The latter includes activities to promote the welfare of specific groups, such as elderly, handicapped and youth. Within General Social Care, several financial benefits are given to targeted groups:

- old age pensions (AOV): a cash allowance to all persons of 60 years and older residing in Suriname.
- general child allowance (AKB): a monthly benefit given to parents who do not receive child benefits from their employer. The benefit is given for a maximum of four children.
- financial support (FB): an income supplement for persons with an income below the lowest civil service rank.
- the medical card, which gives access to health care, is also part of the welfare system. Persons receiving FB are always also entitled to the Medical Card. Other persons may be entitled.

MSAH also provides other material and immaterial benefits, such as subsidies for school uniforms, meals, transport for elderly and handicapped, and loans and grants in acute emergency cases for those eligible for welfare. For each of these schemes, different criteria apply.

The real value of AOV, AKB and FB has eroded by inflation during the 1990s. When Suriname introduced a stabilization and structural adjustment programme in 1994, the Dutch government attempted to soften its social consequences by introducing and financing a 'social safety net'. This comprised of packages of basic goods to be distributed to the poor in the interior and in the coastal areas, and of financial resources for the topping up of other (already existing) benefits such

as AOV and FB. Although this topping up prevented real value of benefits from decreasing further during the period of high inflation in 1994, the total value of social benefits as a percentage share of government expenditure fell in 1994 and even more in 1995, as shown in Table 10. The distribution of the packages suffered from many logistic problems, so that they hardly reached the poor in the interior. When these packages were abolished, nobody seems to have noticed it.

The welfare system is not always well targeted, nor is it always effective and efficient. Targeting errors have several causes. First, means tests are in general unreliable because of underreporting and underregistration of incomes: incomes from informal (and illegal) activities and from remittances are usually not registered. Secondly, the means test are carried out at the nuclear family level and not at the household level, which may lead to less equitable outcomes per person. Thirdly, targeting is in practice sometimes used for political patronage.

Effectiveness and efficiency of welfare provisions are hampered by the complicated system with many different criteria and types of benefits. The institutional capacity of the MSAH does not match this complicated system, and problems were exacerbated with the introduction of the 'social safety net', especially the packages of basic goods. For the distribution of these packages, a complicated division of tasks was established involving three Institutions: apart from MSAH, the Ministry of Trade and Industry, and the Ministry of Planning and Development Cooperation were involved. It was estimated that administrative costs amounted to 30 per cent of total costs of the provision of these packages.

This review shows that social policies in Suriname are relatively good, as are social indicators. But some of these indicators, especially regarding primary education and health care, deteriorated in the 1990s. There are some problems of coverage of education and health services, especially in the interior where facilities have been damaged or destroyed during the civil war. There are also problems with the quality of social services delivery and with its efficiency. In addition, the targeting of the welfare system can be improved.

Table 10. Expenditures on social benefits, in millions of Suriname guilder, 1990-97.

	1990	1991	1992	1993	1994	1995	1996	1997
A.O.V	33.9	71.2	112.5	178.0	348.1	896.0	1836.0	2778.6
A.K.B.	5.0	6.3	6.2	16.2	14.0	19.9	40.0	40.0
F.B.	5.3	12.0	15.0	25.0	41.9	50.0	136.0	166.6
Medical card	22.3	35.1	29.8	40.5	234.5	1274.0	1740.0	2399.3
School uniforms etc.			2.3	10.1	42.4	133.2	160.0	181.5
Total	66.5	124.6	165.8	269.7	681.0	2373.2	3912.0	5566.1
As a share of government expenditures	5.2	7.2	8.3	6.1	3.6	2.8	3.2	4.6

*Source:* based on MSAH (Department of Financial Affairs). Figures for AOV (1990) and AKB (1991) are from the National Planning Office.

### *Recommendations*

The preceding sections have identified some problems of equity, effectiveness and efficiency in social service delivery systems and social protection programmes during the 1990s. At the same time, the design and implementation of concrete policy reforms proved to be difficult. Although diagnoses have been set and policy goals have been formulated time and again during the first 25 years of Suriname's independence, very few changes have come about.

#### 1) Civil service reform and information systems

An important condition for improving social policies is a civil service reform. This can be expected to lead to less government workers but to a higher quality of the remaining civil servants, thus bringing about a more effective and more efficient social service delivery. A plan can be elaborated that specifies the tasks of each ministry and each department, and the number and level of required staff to carry out these tasks. Extensive staff reductions can be expected: (a) there was a large number of ghost workers and 'underemployed workers', so there is excessive staff for essential tasks; (b) there was staff for non-essential tasks. Many observers estimate that with a better organization, about 40 per cent of the civil servants can become redundant. At the same

time, it appears to be important that remaining staff be better paid so that shortages of high quality and highly motivated personnel can be reduced.

Where possible, budgets should also be decentralized to local governments and specific institutions. Local governments, for example, could be made responsible for the provision and maintenance of basic infrastructure like roads, drainage and solid waste management. This requires a reform of fiscal policies, as well as an improvement of local administrative capacities.

Although many benefits can be obtained in the medium term from this civil service reform, such as a reduction of budget deficits and a higher quality and more motivated work force, there are also costs, especially in the short term. These costs include financial, social and political costs. Financial costs arise because the reduction in salary payments will be less than proportional to the reduction in staff, since remaining staff will be paid higher wages. Social costs will probably follow from the substantial reduction in the number of civil servants. They lose their fixed incomes, however low, and they lose access to cheap health care and pensions. The introduction of a general health insurance may alleviate these costs, as people will continue to have access to basic health care, irrespective of their employment situation. Given the composition of the civil service by the end of the 1990s, women will be particularly affected by the loss of jobs, and special re-schooling programmes targeted to women are appropriate. Political costs will also be extensive, since the hiring of civil servants has traditionally been an important instrument of political patronage. These political costs can be reduced by aiming at a large degree of consensus on the design of the plan, in particular with the labour unions.

Another aspect of the reform is to make transparent and policy related budgets. The idea is that a link be established between expenditure and activities. Where possible, a beginning can also be made with output-oriented budgeting, i.e. budgeting in function of some measurable performance indicators. Furthermore, it is important that computerized systems be developed to monitor budget execution more closely. Policy design and execution will also benefit from better information systems in general. Conducting a countrywide living

standards survey appears to be indispensable to improve targeting of welfare policies.

## 2) Improving effectiveness, equity and efficiency in the delivery of health and education

A reform of the civil service can be expected to have several beneficial effects for the effectiveness and efficiency of social service delivery. In education, in particular, the dismissal of ghost workers from the Ministry and ghost teachers from the payroll, and the higher remuneration of remaining workers and teachers will probably improve the motivation of the workers and the quality of the service they provide. A rationalization can also be achieved within the Ministry of Health and its specialized institutions. In addition, the higher remuneration of teachers and nurses who actually work will improve the attractiveness of the profession. The enrolment in training institutes for teachers will increase and standards for entrance into teaching trainer colleges can be raised. These measures will also reduce the number of non-qualified teachers. Qualified nurses will have more incentives to stay and work within the country, thus reducing the brain drain. The setting up of more detailed and more transparent budgets, linking budgets to expenditure, can also be expected to enhance effectiveness and efficiency of social service delivery.

In addition to this general civil service reform, more specific measures are needed to improve effectiveness and efficiency. The most important of these is a decentralization of budgets. In education, budgets for material supplies can be decentralized to the schools and the size can be determined on the basis of number of pupils. This will imply more responsibility at the local (school) level for these supplies, and will increase their availability. In this system, the number of teachers in a school also depends on the number of pupils. This implies a great change from current practice, where teacher salaries are paid on the basis of historical files. The two measures together will foster competition between schools in order to attract students. This decentralization of decision making to the school level will also open up possibilities for parents' participation. The government could

actively encourage the setting up of parent participation in school decision making, for example in parent teacher associations.

In health, services of health workers can be financed according to standardized and agreed tariffs. For general practitioners this implies an end to the practice of lump-sum financing according to number of patients. The number of referrals to specialists will then decline. For specialists, activity financing was already in place by the end of the 1990s but new tariffs will have to be agreed upon. Budgets for material supplies can be decentralized to practitioners, health centres and hospitals, and be determined in relation to number of activities.

In both health and education, horizontal equity can be improved by increasing the availability of services and material provisions, especially in the interior. Reconstruction plans for schools and health centres in the interior and in the rural coastal areas were under way in the 1990s and will hopefully be continued. In education, universal access is sometimes also hampered by the opportunity costs for the poor in sending their children to school. The better targeting of social protection measures (see below), including an increase in child allowances and better targeting in the provision of school meals and uniforms, can help solving this problem.

Horizontal equity in health can also be improved by giving more attention to preventive and primary health care. The Bureau of Public Health has already been strengthened. Management of this institution has improved and better information systems on infectious diseases have become available. It would be good if more means also become available to expand coverage of immunization programmes. Part of these measures were also among the government's priorities during the 1990s.

Vertical equity is a concern in health, in particular. Holders of a Medical Card (who generally are among the poorest) had to co-pay for medical services, while these services were free for SZF patients (who are less poor, in general). Government expenditure for SZF patients was about double that for MSAH patients. Some kind of general health insurance (AZV) can overcome this problem, since access to basic health services will then be the same and financing will be

according to income. In education, vertical equity can be improved by introducing some cost recovery in tertiary education, by raising fees.

Many more specific measures can be carried out in order to improve effectiveness, efficiency, and equity. For example, in education, the single-test exam system for entrance into secondary education could be replaced by more frequent tests. In order to get insight into the existing capacity in education, conducting a census of school infrastructure seems desirable. In health, changes would be helpful in the rules and laws for medicine provision (opening up of import regime and allowing local production), and prescription. Hospital capacity can also be reduced.

### 3) Improving the targeting of welfare

Given the paucity of reliable data on poverty, effective targeting of the social safety net is far from easy in Suriname. As noted earlier, poverty figures are based on incomplete surveys since the interior and most of the rural coastal areas are not covered. In addition, there was widespread underreporting of incomes, especially of incomes earned in the informal or illegal economy, and from remittances. Although it is generally true that people living on a low wage or pension are among the poor, and that inflation has eroded the real value of these incomes, not all these persons are equally vulnerable and equally in need of targeted social benefits. Some of them may be able to work and may have a second or third job in the informal or (semi-) illegal economy. Similarly, the unemployed may also have a job in the underground economy. There may also be risk-spreading at the household level: one person has a regular wage income with accompanying social security benefits, and another person earns an income in the underground economy.

Another problem is that the welfare system of the 1990s is a complicated system with many different benefits, allocated according to different criteria. This creates administrative problems, but may also give way to political abuse. For these reasons, it is important to simplify the social welfare system, to avoid targeting on the basis of means tests as much as possible, and to give these social benefits only to the real vulnerables, i.e. to those who are not able to earn an income

themselves. Instead of applying means tests, targeting for social benefits can be done on the basis of characteristics that are easily measurable and create little incentive effects (i.e. changes in behaviour in order to qualify for the transfer).

The real vulnerables, those who are not able to earn an income themselves, include the elderly, the disabled and handicapped, and single mothers living on their own who cannot engage in (several) jobs since they also have to take care of their children. However, for reasons explained below, the group of single mothers should not be targeted as such; instead, the children should be targeted. Another group in need of special government support are people living in poor neighbourhoods and in the interior. Since studies show that basic physical infrastructure like water, health posts, electricity etc. was lacking in the interior and in some poor neighbourhoods in the coastal area, while it was relatively good in the rest of the country, geographical targeting can be applied with respect to providing this basic infrastructure. In sum, we suggest to target these four groups, in particular, implying a combination of targeting by characteristic, geographical targeting, and self-targeting, as shown in Table 11. In addition, as will be further elaborated below, we suggest to (still) target the poor for free medical services.

The elderly should continue to receive general pensions. However, the system of pensions (AOV) in place in the 1990s is not fiscally sustainable. The government paid the lion's share of pensions, amounting to 2 per cent of GDP. The whole population benefited, while only workers in the public and private formal sector contributed, and with only 2 per cent of their pre-tax salaries. A pension reform leading to higher private contributions is therefore desirable. This recommendation is in conformity with a government proposal made in the 1990s. Another group clearly in need of income transfers are the (physically) disabled and handicapped, while it is also desirable that more money be assigned to the psychiatric hospital in order to take care of the mentally disabled.

Single mothers with young children are also a vulnerable group. However, it is difficult to target these mothers, since it is hard to establish who is 'single': absent men may still provide for their children, while men living with their families may not. In addition, targeting single mothers or 'female headed households' may create incentives

Table 11. Targeting the social safety net.

<i>Group</i>	<i>Type of benefit</i>	<i>Type of targeting</i>
1) People living in interior	Infrastructure	Geographical
2) Elderly	Money transfer	Characteristic: age
3) Disabled and handicapped	Money transfer	Characteristic
4) Children	Money transfer; Transfers in kind	Characteristic: age Age plus geographical targeting
5) Poor	Free medical services	Indicator: self reported income

Table 12. Expenditures on social benefits, in per cent of total.

	1990	1991	1992	1993	1994	1995	1996	1997
AOV	51	57	68	66	51	38	47	50
AKB	8	5	4	6	2	1	1	1
FB	8	10	9	9	6	2	3	3
Medical Card	34	28	18	15	34	54	44	43
School uniforms etc.	0	0	1	4	6	6	4	3
Total	100	100	100	100	100	100	100	100

for living apart or even for men to reduce their contribution to household income. For these reasons, it is better to target the children. An additional reason for targeting the children is to prevent that poverty will be transferred intergenerationally: to the extent possible, all children should have a chance to be healthy and to benefit from (primary) education.

We are of the opinion that the General Child Allowance (AKB) should be maintained, and that the earlier government proposal to integrate child allowances by employers with the general system is a good idea. Furthermore, it would be good if the level of child allowances would be adjusted to inflation, and if transfers would be made to the mothers. It is also desirable that the rule that only four children may benefit be abolished. Apart from this financial transfer, children can also be reached by transfers in kind. School meals and uniforms were already provided to the poor, but eligibility was based on a means test. The allocation of these transfers in kind can be simplified and made

less sensitive to underreporting of incomes by applying geographical targeting. Schools in poor neighbourhoods and in poor villages can be provided with extra money with which to supply school meals, and children attending these schools should have access to free school uniforms. The financial support that is given to the poor on the basis of a means test should be reconsidered for the reasons mentioned above. The categorical support to institutions for handicapped, elderly, orphans, etc. can be maintained. Childcare could also be targeted to poor villages or neighbourhoods.

In 1997, about 43 per cent of MSAH social benefits were spent on free medical service for the poor as shown in Table 12. It is important that the very poor (families below a certain income level) do not have to pay health premiums, and continue to receive a basic package of medical services. It is also important that more equity in government spending be achieved. The introduction of general health insurance (AZV) would be one way of enhancing equity in the financing of health care. According to the existing proposal, all persons above a certain income would pay 8 per cent of their salaries on health insurance and not 4 per cent, as is now the case for civil servants. Persons with an income between the threshold and a minimum income would pay 4 per cent of their incomes, and people below this minimum income would still receive free basic health services. The government would spend less on health care for the non-poor, and thus there would be more room for financing health care for the very poor. In this proposal, subsidies for medical services for the poor would be targeted on the basis of a means test, and so would be the exception to the rule of avoiding means tests.

Although the suggested simplification will hardly reduce government expenditure for benefits, it will reduce administrative costs and will lead to better targeting, so greater effectiveness. In addition, more people should contribute to the pension system via paying premiums.

This section has suggested policy reforms in social service delivery and in social welfare systems in order to deal with the weaknesses in Suriname's social policies as identified earlier in the chapter. Most of these recommendations for reforms are based on intentions and policy objectives as already formulated by Suriname's governments of the

1990s or even before. But they carry several of these ideas and proposals further, and they attempt to deal with them in a more coherent way by emphasizing the broader governance issues that lay behind them. So the recommendations include suggestions for establishing more transparent budgets and improved public accountability, as well as for a civil service reform. However, the most important condition for making the implementation of these reforms politically feasible, seems to be that a nation-wide social consensus is built around these issues.

## Notes

- <sup>1</sup> Standard and Poor's, *Standard and Poor's Ratings Direct, Suriname (The Republic of)*, www.standard-poors.com, 2000.
- <sup>2</sup> Menke, J., *Restructuring Urban Employment and Poverty, The Case of Suriname*, Paramaribo: SWI Press, 1998.
- <sup>3</sup> Neri, M., and J. Menke (1999), *Poverty in Suriname: Assessment, Monitoring and Capital Enhancing Policies*, Document prepared in the framework of the UNDP project SUR/96/001 'Assistance in Economic Planning, Preparatory Assistance to the Social and Economic Monitoring System,' Paramaribo, September 1999.
- <sup>4</sup> Horowitz, A.W., and D. Weinhold (1998), "Household Characteristics and Income Inequality during Inflationary Periods: Recent Evidence from Suriname", *World Development* 26(2): 297-306.