

Productivity and Economic Growth: The Case of Suriname by the Governor of the Central Bank of Suriname

Drs. Glenn H. Gersie

August 30th, 2017

Some remarks on the report: Productivity estimates for Suriname

The Central Bank applauds the recent initiative of the Ministry of Trade Industry and Tourism to measure the level of productivity in Suriname. Against the background of the efforts of the public sector to improve our economic performance, this is a very important study as it helps to identify the areas where there is much room for improvements. As we all know, productivity measures the level or growth of output produced by companies, sectors, and countries as a whole relative to the inputs required to produce that output. It therefore provides a simple but powerful indicator of economic efficiency.

The approach in this study is based on a growth accounting framework for Suriname. An important residual for economy which is thereby calculated concerns the total factor productivity (TFP), which indicates the growth in output after taking into account contributions from inputs. TFP growth also represents so-called spillovers or externalities, which arise from returns on inputs that go beyond those that can be internalized by the investor. Those spillovers mostly result from societal benefits that arise from technological progress and innovation. TFP is therefore not only the business of corporations, but also an area of intense interest to public policy makers.

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The present measurement of the TFP is at the macro-level and assesses the relative importance of labor, capital and intermediate inputs to growth. The Bank agrees with the recommendation to also measure TFP at the micro level. TFP measured at the micro level (sector or industry level) includes the effects of reallocation of market shares across firms, which is an important area for competition policy. Since the Bank underscores the importance of productivity measurement for Suriname, it has already expressed its willingness to provide technical support where possible. We are eager to learn and very much interested to find what is troubling rapid improvement of our economic performance:

Do we have structural problems?

Are there cyclical challenges?

Is there simply a lack of initiatives? Or,

Is there a lack of an enabling environment?

Any effort that is made to determine what we have to do to recover and again reach a state of sustainable growth in Suriname has my interest and will be supported to the best of our capacity!

It is acknowledged that we have an issue with regard to the quality and the availability of data to measure TPS in Suriname. The author has used data from Penn World Table. The calculation of TFP on which to base policy presupposes

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the availability of reliable data. So I must draw the conclusion that a lot of work has to be done in terms of availability and quality of data to measure TPS in Suriname. This study therefore triggers us to increase our efforts and should be seen as a starting point in measuring productivity in Suriname.

Some remarks on the report: Enhancing Productivity and Growth in the Caribbean by the Caribbean Development Bank (CDB)

The report of the CDB is well written. This study consists of accumulated insights about economic modernization and developments over the past two decades. It should be noted that it is not the first report to indicate what the Caribbean countries can do to cope with major challenges they face. The difference with previous documents is however that this one is written for the Caribbean of the 21st century with challenges that we have not faced before. Against this background we should question ourselves if our business models are still appropriate and if the answer is no, which it most probably is, then we are almost late in making adjustments. There are solid reasons to argue that future earning models will have to be based on "brain products", which do require a different focus, a different approach and a different type of management. The report must be studied with a sense of urgency and be embraced by think tanks and

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policy makers in the countries of our region. Reluctance or denial is not an option in this regard; our determination will define whether our societies will be winners or losers in the global arena.

With respect to FDI's and its effect on economic growth the following can be said: If we reflect and evaluate our undertakings over decades, we will find that Suriname has had just a few number of major foreign direct investments and moreover that all of them involve investments in the mining sector. Investments in the bauxite sector in the last century have been done by Alcoa and Billiton. More recently, we have had investments in the gold sector, by Cambior (later acquired by IAMgold) and by Newmont. All these major investments have provided for jobs, have resulted in utilization of natural resources, have contributed and promoted infrastructure construction. Skills of our labor force have been enhanced, the government earned revenues, transfer of know-how has taken place. Linkages with the domestic economy in the form of domestic contractors and supply companies were established. It thus should undeniably be concluded that these FDI's have had very beneficial effects resulting in an increase in productivity and in increased efficiency of the Surinamese economy. In addition to major FDI's in the mining sector, we also have FDI's in forestry, fisheries, telecommunication, port services

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and processing industry and so on. Nevertheless the questions remain:

Do we continue in this manner?

Do we have the right business models for future prosperity?

What changes are needed in the business models of our country and the attached enabling environment?

Of course there have also been some disadvantages with FDI's. In this connection, we have in mind serious environmental issues that have arisen and still need to be addressed.

We should bear in mind that the world is undergoing major changes, this will have repercussions for nations all over the world. These changes need to be understood in order to not only know how to respond to them, but also how to turn them to our benefits.

The report of the CDB discusses the fourth industrial revolution that is already under way and with a profound impact on the world. Clearly, we do not intend to be at the losing end! Hence, it requires from us that we develop strategies on how to move forward. In other words: we have to redefine our business models to be able to take advantage of the new opportunities and create the enabling

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environment that is needed in that regard. In the area of FDI's it is therefore of utmost importance that we prioritize policy measures that support the development of a resilient economy.

The 2017 – 2021 development plan of our administration, which was recently approved by Parliament, provides insights on how the government intends to shape our economic development in the near future. Some key words in this plan are “sustainable and inclusive growth”, “innovation”, “productivity”, “FDI's”, “institutions” and “knowledge economy”. This shows that the main objectives of the development policies of the government are to create a better economy and to enhance the living standards of the population through efficient utilization of natural resources.

Our authorities are aware of the direction where the world economy is going and the profound impact that it might have on the Surinamese society. We know that Suriname cannot handle the challenges alone and that strategic partnerships with foreign partners are necessary. These partnerships have to be accommodated and must contribute to inward capital flows for investments (FDI's), to research and development (R&D), to innovation in technology and to knowledge transfer. In the development plan, information technology and ICT are key priorities that must serve a knowledge

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economy. The development of a competitive and innovative economy must be able to meet international standards.

Well, ladies and gentlemen,

I must admit that it took me some time before arriving at the focus of my presentation. The long introduction was necessary though, as I wanted to stress how important it is to increase our productivity. Access to finance is instrumental for entrepreneurship and that is where we find the link with the Central Bank. The question to be asked is:

What is the role of the Central Bank of Suriname in enhancing access to finance?

Allow me to reiterate that the Central Bank of Suriname (the Bank) contributes to macroeconomic policy making, primarily through monetary policy aimed at price and financial stability. Within this policy framework, regulation and bank supervision, have to ensure a sound development of the financial system and promote strong financial institutions. These are important conditions for providing appropriate services to local and international investors in order to foster

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economic growth. Our monitoring of the system with all of its innovations and institutional arrangements will enhance confidence in the financial system and widen the ambit of financial inclusion.

With respect to access to finance, the following can be said:

The Bank is fully aware of the merits of enhancing access to finance within the right prudential environment for economic growth, and will support initiatives in this regard.

In general, the key categories of loan-takers, small and medium-sized entrepreneurs (SMEs), large companies and the Government, benefit from finance through increasing their operations and their investments. Price stability and competitive interest rates, both for savings and for borrowing, are extremely crucial! Households who have access to finance can increase spending, and in so doing, can positively influence economic growth and the creation of jobs; in particular, when it regards local production.

Production for exports contribute to foreign reserves, which seems to be the life line of small economies.

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Finance should be accessible, affordable and available to all; my thoughts are going particularly in the direction of SME's, who in most societies provide for the majority of jobs. But we have some challenges that we need to address:

Underdeveloped financial market: A main characteristic of the underdeveloped financial market in Suriname is the lack of instruments and the lack of trading among institutions. There is a small pool of finance-suppliers and a stock market that is in need of reform. Access to finance has been ranked as the third highest obstacle for entrepreneurs in Suriname by the World Bank (enterprise survey, 2010).

Limited Financial products: commercial bank loans are difficult to secure due to collateral requirements and there is an absence of venture capital while private equity activities are very limited.

Rules and regulations: Bank-based financial markets contain many rules and regulations that are not very encouraging to newcomers (e.g. small- and medium enterprises, start-up firms).

What is the Bank's role in enhancing access to finance?

The Bank conducts regular meetings with commercial banks and representatives of the business community to find out where the bottlenecks are and how to address them. An

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outreach program was executed in the past few years aimed at enhancing the knowledge & skills regarding fundamental financial topics across different organizations within the financial sector, keeping the interests of clients in mind, in order to improve financial services and encourage well-informed decision-making. Over the years, the Bank has offered workshops that focused on improving financial education at schools and in SME's. Legislation has been adjusted and expanded; all with the aim of improving the safeness and the efficiency of the financial system. I can already also announce that the establishment of a credit bureau will soon take place. The objective of this institution is to mitigate asymmetric market information and monitor debt levels of borrowers.

The Bank is also in support of the development of financial technology aimed at making payments (digital financing). This is crucial for providing services to remote areas and to give those areas also a fair chance to contribute to production and growth.

Studies are being made and digital financing will be a key aspect in our dialogues with financial institutions in the near future.

I thank you for your attention.