

PUBLIC

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

SURINAME

PUBLIC CAPITAL EXPENDITURE MANAGEMENT PROGRAM

(SU-L1026)

LOAN PROPOSAL

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Electronic Links
MANDATORY
1. Policy Letter http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=36421837
2. Means of Verification Matrix http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=36414721
3. Results Matrix http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=36368840
OPTIONAL
1. Suriname Report on Public Expenditure and Financial Accountability (PEFA) http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=36275158
2. Suriname Governance Study Update http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=36275173
3. Act on the Suriname Audit Office http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=36418533
4. Republic of Suriname: Country Procurement Assessment Report –CPAR http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=36275164
5. Needs Assessment for the Directorate of Finance http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=36275722
6. Economic Analysis http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=36483481
7. Monitoring and Evaluation Plan http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=36413446
8. Operational Input (SU-T1060) http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=36270099

Abbreviations

BPI	Bureau of Public Investment
BPP	Bureau of Public Procurement
CLAD	<i>Centrale Landsaccountantdienst</i>
COM	Council of Ministers
CS	Country Strategy
GDP	Gross Domestic Product
GOS	Government of the Republic of Suriname
IMF	International Monetary Fund
FMIS	Financial Management Information System
MOF	Ministry of Finance
MTFF	Medium-Term Fiscal Frameworks
PBL	Policy-Based Loan
PEFA	Public Expenditure and Financial Accountability
PSIP	Public Sector Investment Program
PFM	Public Financial Management
PC	Program Coordinator
PI	Performance Indicator of the PEFA
SAI	Supreme Audit Institution

PROJECT SUMMARY
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Financial Terms and Conditions				
Borrower: The Republic of Suriname (GOS) Executing Agency: Ministry of Finance (MOF)			Amortization Period:	20 years
			Grace Period:	5 years
			Disbursement Period:	12 months
Source	Amount US\$	%	Supervision and Inspection Fee:	*
IDB (Ordinary Capital)	20,000,000	100		
Other/Co financing	-	0	Interest Rate:	LIBOR-Based
Local	-	0	Credit Fee:	*
Total	20,000,000	100	Currency:	US dollars Single Currency Facility
Project at a Glance				
Project Objective/Description: The objective of the program is to support the Government of the Republic of Suriname's (GOS) reform effort to enhance public capital expenditure management. The reforms combine policy initiatives and government actions in three areas: (i) public investment management; (ii) public procurement; and (iii) public financial management and audit. The first area addresses issues related to policies, practices, and mechanisms for improved project cycle management, including better strategic vision in the pre-investment stage. The second and third areas are considered to be key pillars to enhance project implementation. For each area of intervention, the program will establish targets related to changes in the relevant legal framework, as well as procedures and/or instruments necessary to achieve the desired objectives.				
Components: 1. Public investment management; 2. Public procurement; and 3. Public financial management and audit.				
Special contractual conditions: This loan will be disbursed in one installment once the operation is eligible for disbursement and the Borrower has provided the Bank, to its satisfaction, with documentation verifying that the policy conditions described in the Policy Matrix (see annex II) have been duly fulfilled (see paragraphs 1.28, 1.31 and 1.34).				
Exceptions to Bank policies: None				
Project qualifies for: SEQ[] PTI[] Sector [] Geographic[] Headcount []				

(*) The credit fee and inspection and supervision fee will be established periodically by the Board of Executive Directors as part of its review of the Bank's lending charges, in accordance with the applicable provision of the Bank's policy on lending rate methodology for ordinary capital loans. In no case will the credit fee exceed 0.75% or the inspection and supervision fee exceed, in a given six-month period, the amount that would result from applying 1% to the loan amount divided by the number of six-month periods included in the original disbursement period.

I. DESCRIPTION AND RESULTS MONITORING

A. Introduction

- 1.1 The 2010 elected Government of the Republic of Suriname (GOS) laid out an ambitious development program. This strategy foresees the implementation of a number of public sector investment projects to diversify the economy, sustain growth, and alleviate poverty.¹ However, faced with the near-end depletion of its main source of foreign grants and a deteriorated fiscal situation, financing for public investment will likely become more costly, requiring higher return on projects to justify investment decisions.² The GOS recognizes the need to revamp its capital expenditure management in order to avoid selection of poor projects and poor implementation of good ones. For this purpose, the GOS has requested the Bank's support to design and implement a set of policies geared towards enhancing capital expenditure management.

B. Background, Problems Addressed, and Justification

- 1.2 **Macroeconomic context.** Since 2008, Suriname continued to consolidate its economic progress and averaged growth of 4.4 percent despite global turmoil.³ The country's unique mixture of bauxite, gold, and oil deposits explain partially this result. For 2011, growth is expected to be about 5 percent. On account of stronger export performance, Suriname's current account balance has improved from a deficit of 1 percent of Gross Domestic Product (GDP) in 2009, to a surplus of 1 percent of the GDP in 2010 and will remain positive at around 0.4 percent of GDP in 2011. By the end of 2010, gross international reserves also increased to US\$785 million or equal to 4.4 months of imports and will grow to approximately US\$966 million by the end of 2011, thus providing an adequate buffer.
- 1.3 The GOS also addressed the disparity between the unofficial and official exchange rates by devaluing the local currency by 20 percent against the U.S. dollar in the official market, bringing it in line with that in the parallel market and discontinuing its longstanding multiple exchange rate practices. The International Monetary Fund (IMF) computes that the new official exchange rate appears to be in line with macroeconomic fundamentals. Following the devaluation and increases in fuel prices, 12-month inflation rose from 10.3 percent in December 2010 to 22.6 percent in April 2011; but declined to 17.9 percent by July 2011. Inflation is anticipated to decline further over the next twelve months.
- 1.4 The fiscal situation further deteriorated slightly in 2010, shifting from an average surplus of 2.2 percent of GDP for 2007-2008 to an average deficit of 3.3 percent of GDP during 2009-2010. The deterioration was spurred by increases in public wage and current and capital expenditure. During 2009 and the first half of 2010, the deficit was partly driven by a build-up of domestic payments arrears, while public debt rose from 18 percent of GDP in 2008 to 21½ percent in 2010. In

¹ "Cross Roads: Together towards better times". Statement of Government Policy 2010-2015, delivered in the National Assembly on October 1st, 2010, by the President of the Republic of Suriname.

² At independence, Suriname and the Netherlands signed a treaty, which included grants for a significant amount. After 35 years of independence, the funds are almost depleted.

³ The average growth rate for Latin America and the Caribbean between 2008 and 2010 was 3.4 percent.

2011, the GOS introduced a few new fiscal measures, including an increase in the fuel levy, as well as luxury taxes on alcohol, cigarettes, and casino activities. For 2011, the IMF projects a smaller fiscal deficit equivalent to 1.7 percent of GDP. Suriname capital investment needs will help generate a financing gap (fiscal deficit and repayments), for which international financing is required. For 2011, the financing gap is estimated to be US\$ 155.3 million. This Policy-Based Loan (PBL) represents approximately 13 percent of the government's gross financing needs for the current fiscal year.⁴ Based on the Independent Macroeconomic Assessment, the financing assumptions discussed in this document are fully consistent with maintaining debt sustainability over the medium and long term.

- 1.5 **Medium-term economic outlook.** Growth is expected to average 5.8 percent between 2011 and 2015, supported by continued buoyant commodity prices and activity in the mining sector. The fiscal balance is expected to remain negative but not exceed 2 percent of GDP. Suriname will continue to enjoy the strongest debt profile in the Caribbean region, while the GOS's main priority in the near term is to ensure that inflation expectations return to single digit levels.

1. The Government's Development Approach and Public Sector Investment:

- 1.6 Suriname is a small and open economy that depends heavily on natural resources. In 2008, alumina, gold, and oil exports amounted to 55 percent of GDP and accounted for 95 percent of total exports of goods, while total tax and nontax revenues from the three major mining companies accounted for 36 percent of total fiscal revenues.⁵ The economy is also dominated by public sector participation. In the last 20 years, Suriname's public sector employment has remained stable at 60% of the economically active population.⁶ The combination of these two factors results in extreme exposure to changes in external prices of mining and energy commodities and internal changes in the public sector wage bill. The economy's diversification is necessary to mitigate the risk posed by the high concentration of economic activity in mining and public sector employment.
- 1.7 The new administration intends to scale up public investment by enhancing vital infrastructure, such as roads and port facilities to raise the country's growth potential and diversify its economic base in the medium term. Diversification would help steer the economy away from over-reliance on the mining sector and toward new growth and employment opportunities. However, weaknesses in public investment management limit the GOS's ability to achieve this goal. Capital spending is constrained by low implementation capacity. Differences between approved and realized capital expenditure is large, reflecting systematic overestimation of implementation capacities by the executing agencies.⁷
- 1.8 There is a pressing need to enhance the GOS's capacity to maximize the use of public resources for public investment by addressing legal, technical, and institutional constraints. The GOS plans to address these issues by strengthening

⁴ The IDB Country Strategy with Suriname (2007-2010) is currently based upon the medium scenario.

⁵ IMF "2009 Article IV Consultation – Staff Report." IMF Country Report No. 10/44, February 2010.

⁶ IDB, "Country Strategy with Suriname 2007-2010." Inter-American Development Bank, Washington DC (2007).

⁷ Suriname: Needs Assessment for the Directorate of Finance (IMF 2007).

the institutional framework and capabilities for public sector investment programming and implementation management.

2. Challenges for a more effective and transparent Public Capital Expenditure Management:

- 1.9 Suriname's capital spending has been broadly stable at around 5 percent of GDP, with the exception of 2009 and 2010, which rose significantly averaging 6.3 percent of GDP, reflecting elevated spending prior to the elections. For 2011 and 2012, capital spending is projected to gradually return to its historical level averaging 5.25 percent of GDP.⁸ Due to the highly discretionary nature of capital spending, as the sharp increases registered in the last two years indicate, managing public investment is one of the most challenging aspects of public finance. A weak public investment system can reduce a country's growth by reducing the efficiency and productivity of public investment, thus leaving a trail of poorly executed and ineffective projects. Large cost overruns, benefit shortfalls, and waste and low completion rates in major infrastructure projects can be attributed to their poor selection, monitoring, and evaluation. As a result, growth contribution of capital spending is diminished by the low efficiency of public investment.
- 1.10 For public investment to play an important role in sustaining economic growth, alleviating poverty, and fostering development, sound technical and institutional capacities are required to ensure the prioritization and selection of investment projects with the highest economic and social rate of return. At the same time, a government needs improved management tools to better implement those projects once selected. This includes: (i) a procurement system, which is effective, fair, efficient, and transparent; (ii) a financial management system, which enables effective allocation of resources; and (iii) a comprehensive and effective audit system, which facilitates transparency and provides feedback regarding the quality of decision making and management process.
- 1.11 The institutional context within which investment decisions are undertaken and project selection and implementation quality play a crucial role in determining the return on investment and its growth dividends. This highlights the importance of going beyond discussions of spending levels and addressing issues of the broader institutional framework underpinning the provision of investment. In that regard, the assessment of Suriname's public financial management system indicates that the GOS's capacity to maximize the use of resources available for capital spending is constrained by the following weaknesses:
- 1.12 **In public investment management:**
- a. A weak institutional framework for public investment management with limited integration of the stages of pre-investment, design, execution, and evaluation. The public investment process is not supported by appropriate regulation that establishes roles and responsibilities for the different actors and governs the different stages of the investment cycle;

⁸ IMF, "2011 Article IV Consultation – Staff Report." IMF Country Report No. 11/256, August 2011.

- b. Lack of a central authority to coordinate, guide, and oversee the public investment process. The recent abolition of the Ministry of Planning exacerbates the need for an institution to play the important role of managing the public investment process, setting out norms, procedures and project management guidelines, assuring their use by executing agencies, and monitoring project implementation;
- c. Lack of objective criteria for the prioritization of public investment projects. The political judgment on the national investment priorities and the public investment decisions should be guided by a comprehensive assessment of the key barriers that limit the economy's growth potential and by the rate of return of projects, calculated by cost-benefit analysis;
- d. Limited multi-year perspective in fiscal planning and budgeting that precludes the government's capacity to evaluate the sustainability of the public investment program while ensuring aggregate fiscal discipline. Building major new capital assets such as schools, hospitals, and roads has important implications for future current expenditure, whether on staff and supplies to run the facilities concerned, or on the maintenance of those assets. Suriname has prepared Medium-Term Fiscal Frameworks (MTFF) since 2008, but its use for assessing the sustainability of capital spending has been limited because it was not submitted with the budget proposal. The weak link between investment budgets and future expenditure estimates is reflected in the low score (D) received by Suriname in the 2011 Public Expenditure and Financial Accountability (PEFA) assessment on multi-year perspective in fiscal planning, expenditure policy and budgeting;⁹
- e. Lack of standardized methodologies to prepare and evaluate public investment projects. Suriname has no systematic process for appraising proposed projects. This deficiency seriously limits the GOS's ability to prepare and assess projects from a coherent and homogeneous socio-economic perspective, including a specified set of shadow prices and a social discount rate;
- f. Lack of rules for quality control at the initial stage of the public investment project. A comprehensive review carried out by the Ministry of Finance (MOF) before project inclusion in the budget should be the norm for quality assurance. The examination should include legal, environmental, and technical issues, alignment with policy priorities, as well as socio-economic analysis. Current arrangements allow for the inclusion of projects in the budget without such prior review from the MOF;
- g. Lack of a monitoring system to assess the efficiency of project implementation. The absence of a system to compare project progress relative to implementation does not allow the GOS to capture changes in project costs, schedule, or expected benefits. Information about budget execution on individual projects is not readily available. The financial management of some donor-funded projects is carried out outside of the budget process;¹⁰

⁹ Performance Indicator (PI) 12 (iv) - PEFA Report (2011).

¹⁰ Suriname: Needs Assessment for the Directorate of Finance (IMF, 2007).

- h. Inadequate regulations to ensure budgeting for proper maintenance of infrastructure projects. Recurrent expenditure for “operation and maintenance”, required to keep the existing physical infrastructure in good working condition, is generally underestimated in budget estimates.¹¹ Low funding for maintenance accelerates deterioration of a country’s existing infrastructure reducing the life span and productive value of assets, thereby, undermining their growth benefits, and;
 - i. Lack of an ex-post evaluation mechanism of completed projects that can be used to improve future project design and implementation.
- 1.13 **In public procurement.** This area has significant fiscal and economic relevance as it represents an important share of total public expenditure. Over the last seven years, annual public procurement averaged 11.5 percent of GDP.¹² It also plays a critical role in the execution of public investments. For these reasons, public procurement is a central pillar in the GOS’s ongoing efforts to improve governance.¹³ The following weaknesses constrained Suriname’s public procurement system:
- a. Outdated, disperse, and incomplete legal framework. A multiplicity of legal instruments, dating back to 1952, constitutes a source of confusion; with the risk of overlapping jurisdiction and a lack of clarity in important policy and procedural requirements. Basic principles and policies governing public procurement are not anchored at a sufficiently high juridical level of the law; with a negative effect on the level of transparency and clarity of the regulations, which has made enforcement difficult. In the current legislation there is no explicit requirement that open competitive bidding be the preferred or the default method of procurement.
 - b. Lack of general oversight and standardization of processes and procedures. First, there is no agency in charge with the responsibility for policy formulation and systemic monitoring compliance in relation to public procurement. Second, there is a lack of uniformity of procedures across agencies, leading to an absence of necessary standardization on procurement documentation and practice;
 - c. Lack of a government procurement policy manual and handbook of government procurement procedures, which causes widespread inconsistencies in the procurement process;
 - d. Absence of a procurement complaints mechanism to provide adequate checks and balances in the process;
 - e. Weak procurement capacity due to the absence of a cadre of procurement practitioners and of a career stream in the civil service for procurement management. As a result, the capacity of various procuring agencies to carry

¹¹ PEFA Report (2011).

¹² Sources: Suriname authorities and IMF estimates and projections: Comprises Goods and Services and Capital expenditure from 2005 to 2011.

¹³ Address by the Governor for Suriname, at the Annual Meeting of the Board of Governors of the IDB, Calgary Canada, 28 March 2011.

out procurement, with due considerations of the economy, competition, and transparency, varies significantly, and;

- f. Absence of a framework for the reporting, collection, and maintenance of procurement information. Readily accessible statistical data on government procurement is not available. Procurement advertising, especially for small and medium value contracts, is inadequate. Procurement legislation is not easily accessible because it is disorderly, dispersed (refer to item (a) and only the staff dealing with procurement is familiarized with the legislation. This information asymmetry limits participation in public procurement.
- 1.14 As a result of these deficiencies, compliance with existing procurement rules and procedures is weak, facilitated by the lack of an oversight and enforcement mechanism. These weaknesses also delay project implementation, increase costs leading to poor project performance, and delay the delivery of benefits to the project's beneficiaries. The weak procurement practices in Suriname are reflected in the low score (D) received in the 2011 PEFA assessment on competition, value for money, and controls in procurements.¹⁴
- 1.15 **In public financial management (PFM).** Effective and transparent execution of public investments requires, first and foremost, an effective public financial management system. The existing PFM system suffers from a number of weaknesses that limit its effectiveness in the planning, execution, and control of the GOS's budget and finances. Among the most important are:
- a. Outdated and incomplete legal framework for budget preparation and execution that limit the credibility, transparency, and comprehensiveness of the budget. The Budget Act of 1952 complemented by the Accounting Act of 1927 form the basis of the budgetary process. The present Budget law does not conform to current best practices. It ignores the importance of macro-fiscal framework, as well as other modern aspects of budget management. The introduction of a new organic budget law incorporating increased importance of macro-fiscal policy and modern practices in the budget process is necessary to address these weaknesses.
 - b. At the operational level, the PFM system registers the following shortcomings: (i) it doesn't generate data on expenditure arrears. As a result, it is not possible to estimate the level of arrears; (ii) the budget and all other fiscal reports do not include public funds raised by autonomous government agencies. Lack of accurate information conspires against establishing the size of these extra-budgetary funds in relation to total spending; (iii) the budget classification system does not meet international standards; (iv) the lack of predictability in the availability of funds for commitment of expenditures affects the efficiency in the strategic allocation of resources; (v) the reporting on in-year budget execution is weak and cash flow planning and monitoring are not undertaken; and (vi) the financial management information system was designed to automate the existing manual processes without a previous review

¹⁴ PI-19 PEFA Report (2011).

and improvement of these processes, preventing the availability of timely and reliable information on public finances.

- 1.16 The overall performance of Suriname's PFM systems, processes, and institutions are weak and there are several key areas to be improved. As a result of these deficiencies, in the 2011 PEFA assessment Suriname scored the lowest (D) on deviations in composition of expenditure out-turns compared to the original approved budget (PI-2), budgetary classification (PI-5), public access to key fiscal information (PI-10), and availability of information on resources received by service delivery units (PI-23). The definition and implementation of a comprehensive PFM reform strategy will make it possible to gradually strengthen the country's PFM system and enhance the budgetary process.
- 1.17 **In the internal and external audit functions.** The function of internal audit in the GOS is carried out within each of the 17 ministries. Each ministry has a unit in place for this purpose. In addition to the ministries' audit units, the government has created the *Centrale Landsaccountantdienst* (CLAD), an autonomous agency that reports to the MOF on the internal auditing of the 17 ministries and about 30 parastatals (both autonomous agencies and small corporations).¹⁵
- 1.18 The external audit is carried out by the *Rekenkamer*, the Supreme Audit Institution (SAI) in Suriname. The *Rekenkamer* is in charge of the supervision of the utilization of funds under the budget, and the approval of the accounts of revenue and expenditure, as well as of the control of the financial management of the government. The *Rekenkamer* has a broad scope which includes ministries and parastatals (74 autonomous government agencies and 20 public corporations). The legal framework, comprised by the Constitution and Audit Act (1953), calls for the SAI to present to the National Assembly, once a year, a detailed report on its audit activities covering the preceding year.
- 1.19 To reinforce the drive for efficiency and enhance accountability in project implementation, having appropriate internal controls in relevant ministries as well as credible internal and external audit functions in place are important. However, the effectiveness of internal and external audit functions are constrained by:
- Weak internal control at the ministry level, due to a lack of appropriate legislation and a low capacity to carry out control activities and internal audit;
 - Absence of a structured channel of communication between the CLAD and the ministry audit units. As a result, audit activities between the internal ministry units and the CLAD are only partially coordinated;
 - Poor coordination and cooperation between the internal and external audit institutions;
 - Limited autonomy of the audit institutions. The CLAD lacks organizational independence while the *Rekenkamer's* financial autonomy is constrained since its operational budget is part of a separate ministry budget;
 - Lack of a formal mechanism to follow up on audit recommendations; and,

¹⁵ A Special Law created the CLAD in 1972.

- f. Need for modern accounting and internal auditing manuals and approaches.
- 1.20 These deficiencies undermine the audit institutions capacity to fulfill their watchdog role and explain the low scores (D+) received by Suriname in the sections of the PEFA on effectiveness of internal controls on non-salary expenditure and scope, nature and follow-up of external audit.¹⁶

3. Strategy for the programmatic series:

- 1.21 The present operation, which is the first of the programmatic series, represents the initial step towards the achievement of the overall program objectives, laying the foundation for the rest of the program. The program outlines a comprehensive reform of the whole cycle of publicly funded projects, covering key aspects for the preparation, selection, execution, monitoring, and evaluation. The program design follows a vertical logic, where each intervention logically contributes to the next higher level. The proposal for the first loan constitutes the framework document for the programmatic series. For the first operation, the program will focus on the formal approval of the content and structure of the policies and reforms in each area as well as the establishment of key institutions to lead the implementation of policy reform in the areas of public investment and public procurement. For the second operation, the program foresees the drafting of legislation, issuance of regulations and tools, as well as the approval of action plans. Finally for the third operation, the program will seek initial outputs indicating that the reforms are being implemented.
- 1.22 **The Bank Strategy with Suriname and the GCI-9.** The program is aligned with the 2007-2010 IDB Country Strategy (CS) with Suriname (GN-2459). The latest CS calls for an improvement in the quality of public spending. This program will directly contribute to this goal by supporting the GOS in the reform of its systems to improve public expenditure in general and specifically in capital expenditure. In addition, the program is consistent with the “Lending to small and vulnerable countries” target of the GCI-9 as well as the Bank Output Contribution to Regional Development Goals 2012-2015 of implementing or upgrading public financial systems.
- 1.23 **Bank’s interventions in Suriname.** Over the last eight years, the Bank has provided the GOS with technical and financial assistance in areas related with this program through one investment loan and three non-reimbursable technical cooperations (TCs). The loan operation, “Strengthening of Public Sector Management Program” (1547/OC-SU), approved in 2004, included one component on public procurement. The TC “Road Map for Public Sector Reform” (ATN/SF-8664-SU), approved in March 2004, generated a study with strategic initiatives to improve public management. The TC “Public Financial Management Assessment” (ATN/SF-10319-SU), approved in 2007, carried out a comprehensive PFM assessment, while the PRODEV TC “Strengthening Management for Results” (ATN/OC-12149-SU), approved in 2010, promotes the introduction of management by results in the public sector. A project completion

¹⁶ Performance Indicators 20 and 26 respectively. PEFA Report (2011).

report, under preparation, will assess the results achieved by the loan operation, and include lessons learned. The first two TCs identified key areas for reform in public management, while the PRODEV TC will provide technical assistance to comply with this program's conditions. The Bank also provided technical assistance in 2010 through the preparation of a governance study and a PEFA.

- 1.24 **Lessons learned from related operations in Suriname and other PBLs.** In June 2011, the GOS requested the cancellation of the Public Sector Management Strengthening Program (1547/OC-SU), which included one component on public procurement reform. The overall program disbursed only 25% of the investment loan, while the procurement component was not executed at all. Relevant causes for the program's poor performance were: (i) weak governance arrangements; (ii) inadequate strategic approach to address a policy reform; and (iii) eroded political support and program ownership overtime.¹⁷ The lessons learned from this operation are: (i) inter-agency coordination in Suriname requires greater and deliberate attention and support; (ii) policy reform programs should be designed and implemented under the same administration to guarantee program ownership and political support; and (iii) policy-based modality is a more appropriate financing instrument to support policy reforms. Another important lesson learned from recent similar PBL programs in Caribbean countries is that it is critical to support the authorities in the formulation and implementation of the reforms associated with institutional development. To address this challenge, resources from the PRODEV TC and the Operational Input ([SU-T1060](#)), associated with this operation, will be used to provide technical assistance for the formulation, consensus building, and implementation of the reform envisaged.

C. Objective and Components

- 1.25 The objective of the program is to support the GOS's reform effort to enhance public capital expenditure management. The reforms combine policy initiatives and government actions in three areas: (i) public investment management; (ii) public procurement; and (iii) public financial management and audit. The first area addresses issues related to policies, practices, and mechanisms for improved project cycle management, including better strategic vision in the pre-investment stage. The second and third areas are considered to be key pillars to enhance project implementation. For each area of intervention, the program will establish targets related to changes in the relevant legal framework, as well as procedures and/or instruments necessary to achieve the desired objectives.
- 1.26 The conditions prior to disbursement of the loan for each component are detailed in the program's Policy Matrix (see annex II). Successful implementation of the reforms included in this program presupposes a stable macroeconomic environment that is compatible with the program's objectives. As a condition to the only disbursement of Bank resources, the Borrower shall maintain a macroeconomic policy framework consistent with the program's objectives.

¹⁷ The program was designed by one administration but executed by the subsequent administration. As a result, the program's objectives were not aligned with the executing administration's priorities.

Component I. Public investment management:

- 1.27 The objective of this component is to enhance the public investment management system. Under this component, the GOS will improve the project formulation and evaluation process and establish a system to screen and prioritize proposed public investment projects. The program includes the design and implementation of a framework to enhance the management of public investment projects and the introduction of methodologies, procedures, training, and systems to address weaknesses in the identification, preparation, selection, monitoring, evaluation, and maintenance of public investment projects. The program supports the establishment of a Bureau of Public Investment (BPI), which will be responsible for public investment policy and oversight. It is expected that this Bureau will play an important role in promoting the alignment of projects with the country's long-term development priorities as well as providing strategic guidance for prioritizing and optimizing the government's investment program. The BPI, responsible for public policy and oversight, will be established within the MOF and will report to the MOF Permanent Secretary or the Minister.
- 1.28 For the first operation the program conditions are: (i) the approval by the Council of Ministers (COM) of a framework to enhance the management of public investment projects. The framework will establish the foundation for a modern public investment system to ensure that projects are: (a) selected based on development policy priorities; (b) evaluated for their social and economic value, and; (c) properly monitored and maintained; (ii) the establishment of a BPI within the MOF and the appointment of the head of the BPI, who will report to the Minister or the MOF's Permanent Secretary. The BPI will be responsible for public investment policy and oversight; (iii) the approval by the COM of criteria for the prioritization of public investment projects; (iv) the approval by the COM of an instruction mandating that all donor funding for public investment is coordinated and prioritized by the MOF; and (v) the submission to the National Assembly with the budget presentation of a MTFF that evaluates the sustainability of the public investment program while ensuring aggregate fiscal discipline.

Component II. Public procurement:

- 1.29 The objective of this component is to improve transparency and efficiency in public procurement. The reform aims to promote enhanced competition and to generate savings in public procurement. To achieve this objective, the GOS will adopt a new institutional framework in accordance with best international practices and improved public procurement tools. The program supports the establishment of a Bureau of Public Procurement (BPP) within the MOF, which will be responsible for public procurement policy and oversight. The head of the BPP will report to the MOF's Permanent Secretary.
- 1.30 Standardized procurement process and procedures will be developed in implementing instruments, including regulations, guidelines, and a handbook. As a corollary of the program, a procurement legislation proposal will be submitted to the National Assembly to unify and consolidate in a law the principles and key

regulations developed during the program. Under this component, the program foresees the introduction of practices to ensure timely public access to relevant procurement information, aimed at enhancing transparency and accountability, and permanent training to build a professional capacity to carry out procurement with due considerations to economy, competition, and transparency.

- 1.31 For the first operation, the conditions prior for disbursement are: (i) the approval by the COM of an Action Plan to strengthen public procurement; and (ii) the establishment of a BPP within the MOF to lead the implementation of the Action Plan and the appointment of the head of the BPP, who will report to the MOF's Permanent Secretary. The BPP will be responsible for public procurement policy and oversight.

Component III. Public financial management and audit:

- 1.32 The objective of this component is to enhance public financial management and control systems. Under this component, the program will support the modernization of the legal framework, processes, and information system for a more transparent and effective public financial management. In addition, this component will address reforms to enhance integrity in government by strengthening the institutional capacity of the internal and external audit institutions to perform their watchdog role.
- 1.33 Under this component, the programmatic series will support the design and implementation of a comprehensive strategy with a detailed action plan to address the main weaknesses in PFM. The program will support the preparation and consensus building process to approve a modern budget legislation proposal for its submission to the National Assembly and the improvement of the GOS's Financial Management Information System (FMIS). The program will also support the implementation of critical actions to address the weaknesses identified in the area of internal and external audit. These actions will be reflected in a policy note approved by the COM and the design and implementation of strategic plans for the institutional strengthening of the CLAD and the *Rekenkamer*.
- 1.34 For the first operation, the conditions prior for disbursement of the loan funds are: (i) the approval by the COM of a PFM reform strategy. The strategy sets out the road map to enhance public financial management. It includes clear objectives, critical milestones, main activities, implementation methodology, risk assessment, sequencing, timeframe and estimated costs; and (ii) the approval by the COM of a Policy Note setting out the core actions to enhance the internal and external audit functions in the government (the CLAD and *Rekenkamer*). The note includes a definition of their core responsibilities, the identification of measures to improve their autonomy, and guidelines to develop medium-term strategic plans for their institutional strengthening.

D. Expected Impact, Key Results, and Beneficiaries

- 1.35 The expected impact of the program is improved quality of public investment. This will be achieved by the successful implementation of a system that allows selecting projects according to national development priorities, technical,

financial and socio-economic feasibility, and provides for efficient and transparent project execution and maintenance. The expected outcomes of the program are: (i) enhanced public investment management system; (ii) improved transparency and efficiency in public procurement; and (iii) enhanced public financial management and control systems. Result indicators for each program component are included in the Results Matrix (see [electronic mandatory link #3](#)).

- 1.36 The program's direct beneficiaries will be project managers, and procurement, audit and budget officers of the 17 Ministries from the Central Government. The ultimate beneficiaries will be the local private sector, which will benefit from more competitive and streamlined public procurement processes, government agencies, which will benefit from more efficient and effective processes and the general population, which will benefit from higher quality and better targeted public sector investment programs.

II. FINANCING STRUCTURE AND MAIN RISKS

A. Financing Instruments

- 2.1 Given its depth and breadth, the program will be structured in three independent but technically related operations of US\$20 million each under the programmatic policy-based modality. The structure of the loan operation is consistent with the provisions set forth in document GN-2200-13¹⁸ and in document CS-3633.¹⁹ The financing arrangement is considered the most appropriate because it is a flexible and effective mechanism to support complex and long term reforms that require sequenced actions for implementation and broader dialogue. The amounts and number of operations under the program reflect: (i) the government's projected financial needs; (ii) the required timeframe to sequence the reform; and (iii) the level of political effort needed to implement the reforms.
- 2.2 This first operation, to be financed from the Ordinary Capital resources of the Bank, consists of a series of policy and operational reforms whose compliance will be precedent for a sole disbursement of US\$20 million. The first operation is expected to disburse before the end of 2011, while the second and third operations under the program are expected to disburse in 2012 and in 2014, respectively. The financing of the following two operations will be subject to the achievement by the GOS of the triggers for the second and third operations, respectively, referred to in the Policy Matrix (see annex II).

B. Environmental and Social Safeguard (ESS) Risks

- 2.3 According to the Environment and Safeguards Compliance Policy (OP-703), the program is classified as "C."

C. Other Key Issues and Risks

- 2.4 The conditions for the disbursement of the operation represent the GOS's long-term commitment to a reform agenda to improve effectiveness and transparency

¹⁸ New Lending Framework.

¹⁹ Policy-based loans: Guidelines for preparation and implementation.

in public expenditure management. The program takes into account the recommendations that were put forth in the PFM needs assessment, prepared by the Bank and the IMF in 2007, and the PEFA report, which was prepared by the Bank in 2011. Some conditions include submission of key documents to the National Assembly, while others involve the drafting of policy and regulatory frameworks that will require further legislative drafting and enactment in the medium term. It is expected that these efforts will be supported by the subsequent operations. The programmatic structure of the operation allows for flexibility in the design of the details of the second and third operations while maintaining the overall objectives.

- 2.5 The implementation of a number of visible reforms under this program requires high level of persistent political support. In the absence of such support, the program may not deliver the expected results. This risk is mitigated by: (i) building the program on the government's reform agenda; and (ii) supporting the authorities with realistic solutions that can be applied in the Suriname context. These actions enhance the GOS's commitment and ownership of the program as reflected in the Policy Letter (see [electronic mandatory link # 1](#)).
- 2.6 The reforms will significantly transform the traditional way of conducting business within the government. This could generate resistance to change the institutional culture in the public administration. In addition, a significant training effort will be required to build the necessary capacity for the successful implementation of these reforms. These risks will be mitigated through a coordinated effort in the following actions: (i) preparation and implementation of a change management strategy; (ii) raising public awareness of the need for reform; (iii) maintaining a continuous dialogue with the GOS; and (iv) providing valuable technical assistance for capacity building.²⁰
- 2.7 Given the ambitious scope of the program, simultaneously addressing a wide range of legal and technical issues in several areas, weak coordination may jeopardize program success. This risk is mitigated by the MOF's strong commitment to the reform program as indicated in the Policy Letter (see [Electronic Mandatory Link #1](#)) and by the establishment of a program SC to facilitate inter-agency coordination, as well as provide program guidance and oversight. In addition, the MOF appointed a Program Coordinator (PC).

III. IMPLEMENTATION AND MANAGEMENT PLAN

A. Summary Implementation Arrangements

- 3.1 **Special contractual clauses. This loan will be disbursed in one installment once the operation is eligible for disbursements and the Borrower has provided the Bank, to its satisfaction, with documentation verifying that the policy conditions described in the Policy Matrix (see annex II) have been duly fulfilled (see paragraphs 1.28, 1.31 and 1.34).**
- 3.2 The executing agency will be the MOF which will provide the evidence of compliance with the program's conditions (and for the subsequent individual

²⁰ Operational Input (SU-T1060) and ATN/OC-12149-SU.

operations). The MOF established a program SC with the responsibility to provide overall program guidance and oversight and facilitate inter-agency coordination. The SC reviews the progress on the execution of the policy reforms and interface with other institutional actors to facilitate the implementation of the program. The MOF's Permanent Secretary or his/her designate chairs the SC, and its membership includes representatives of the institutions with specific responsibilities in the implementation of the reforms.

- 3.3 The MOF appointed a PC responsible for: (i) providing support to the entities involved in the implementation of the program's initiatives; (ii) coordinating program execution in technical matters; (iii) revising and presenting the work plans and progress reports to the SC; (iv) monitoring the timely compliance of targets and performance benchmarks set out in the policy matrix as agreed between the GOS and the Bank; (v) collecting evidence of compliance with the program's targets; (vi) collecting the information needed for the indicators specified in the results matrix; and (vii) assisting the procurement and processing of the contracts required for the implementation of the agreed program interventions. The GOS indicated that part of the resources to be disbursed under the first operation will be set aside for program management purposes and additional support activities.²¹

B. Arrangements for Monitoring Results and Program Evaluation²²

- 3.4 The implementation of the reform program will be monitored by the GOS through the MOF and the SC with technical support from the project team. The Borrower and the Bank will hold semiannual meetings in order to review the progress achieved in implementing the program and on the fulfillment of the conditions defined as triggers for the subsequent operations, as reflected in the policy matrix. For these meetings, the Borrower will furnish, prior to each meeting, information and documentation requested by the Bank regarding the program's advancement.
- 3.5 The team will evaluate the achievement of the program's objectives. A reflective evaluation method will be applied, using as a reference the targets and indicators set in the policy and results matrixes and input from an independent consultant. At the end of the programmatic series, the Bank will prepare a project completion report to assess results achieved by the program, its long-term sustainability and lessons learned to improve the design and execution of future operations.

C. Complementary Bank interventions and technical support activities

- 3.6 Most of the activities to achieve the commitment for the first operation are in an advanced stage of completion and it is expected that all commitments will be achieved before the end of the year. Some of the activities for achieving the goals of the second and third operations will be supported with technical assistance provided by the PRODEV TC and donor funds administered by GOS. In addition, an Operational Input ([SU-T1060](#)), for the amount of US\$250,000 will be required to support the public procurement component (see [electronic optional link #8](#)).

²¹ Orientation Mission Aide Memoire (August 5th 2011).

²² See [Electronic Optional Link #7](#)

Development Effectiveness Matrix			
Summary			
I. Strategic Alignment			
1. IDB Strategic Development Objectives	Aligned		
Lending Program	The intervention contributes to the lending program (i) to small and vulnerable countries, and (ii) to support regional cooperation and integration.		
Regional Development Goals			
Bank Output Contribution (as defined in Results Framework of IDB-9)	The intervention contributes to the Bank outputs: (i) Public financial systems implemented or upgraded (budgeted, treasury, accounting, debt, and revenues) and (ii) Municipal or other sub-national governments supported.		
2. Country Strategy Development Objectives	Aligned		
Country Strategy Results Matrix	GN-2459	The operation contributes to the improvement in the quality of public spending.	
Country Program Results Matrix	GN-2617	The project is not included in the 2011 Country Program Document.	
Relevance of this project to country development challenges (If not aligned to country strategy or country program)			
II. Development Outcomes - Evaluability	Highly Evaluable	Weight	Maximum Score
	7.8		10
3. Evidence-based Assessment & Solution	8.0	25%	10
4. Ex ante Economic Analysis	7.0	25%	10
5. Monitoring and Evaluation	6.1	25%	10
6. Risks & Mitigation Monitoring Matrix	10.0	25%	10
Overall risks rate = magnitude of risks*likelihood	Medium		
Environmental & social risk classification	C		
III. IDB's Role - Additionality			
The project relies on the use of country systems (VPC/PDP criteria)			
The project uses another country system different from the ones above for implementing the program			
The IDB's involvement promotes improvements of the intended beneficiaries and/or public sector entity in the following dimensions:			
Gender Equality			
Labor			
Environment			
Additional (to project preparation) technical assistance was provided to the public sector entity prior to approval to increase the likelihood of success of the project	Yes	An operational input was prepared that will provide technical assistance to support the country in the area of procurement and change management.	
The ex-post impact evaluation of the project will produce evidence to close knowledge gaps in the sector that were identified in the project document and/or in the evaluation plan.	Yes	From the ex-post evaluation some lessons about the strengthening of public capital expenditure management in Suriname	

This is a programmatic policy-based loan (PPBL) for the government of Suriname (GOS). It will be entirely financed with resources from the Bank's ordinary capital by US\$ 20 millions. The objective of the program is to support the GOS reform effort to enhance public capital expenditure management. The reforms combine policy initiatives and government actions in three areas: (i) public investment management; (ii) public procurement; and (iii) public financial management and audit.

The project has a good diagnostic that identifies the main deficiencies and quantifies them. The justification for the effectiveness of the intervention in other or similar contexts and the size of the intervention are acceptable. Results are correctly defined and all indicators are SMART. Outputs are also defined in a clear way and enables an acceptable vertical logic. General mechanisms of monitoring have been defined and there is a budget for this activity. The program has a reflexive evaluation and there is an evaluation plan with the main activities to do. There is an economic analysis for some of its components with costs correctly quantified. Still some assumptions are not clearly spelled out. The program has identified risks, as well as all the required mitigation measures. Furthermore, there are indicators for all of the mitigation measures identified.

POLICY MATRIX

The objective of the program is to support the Government of the Republic of Suriname's (GOS) reform effort to enhance public capital expenditure management.

Objective	First-Operation Conditions	Triggers Second PBL	Triggers Third PBL
Enhanced Macroeconomic Stability	The macroeconomic framework of the borrower is consistent with the objectives of the program.	The macroeconomic framework of the borrower is consistent with the objectives of the program.	The macroeconomic framework of the borrower is consistent with the objectives of the program.
Component 1: Public Investment Management			
1. Enhanced public investment management system.	<p>(1.1) Framework to enhance the management of public investment projects, approved by the Council of Ministers (COM). The Framework will establish the foundation for a modern public investment system that ensures that projects are: (a) selected based on development policy priorities; (b) have been evaluated for their social and economic value, and; (c) are properly monitored and maintained.</p> <p>(1.2) Bureau of Public Investment (BPI) within the MOF, established. Head of the BPI, who will report to the MOF Permanent Secretary or the Minister, appointed. The BPI will be responsible for public investment policy and oversight.</p> <p>(1.3) Criteria for the prioritization of public investment projects, approved by the COM.</p> <p>(1.4) Instruction mandating that all donor funding for public investment is coordinated and prioritized by the MOF,</p>	<p>(1. 6) Regulatory framework establishing a mechanism for identification, selection, budget allocation, monitoring and evaluation of public investment projects, approved by the COM.</p> <p>(1. 7) Methodologies for the formulation, evaluation and selection of public investment projects, approved by the MOF.</p> <p>(1. 8) Procedures manual issued by the MOF and its use made mandatory.</p> <p>(1.9) Formal training program for the formulation, evaluation and selection</p>	<p>(1.11) Regulatory framework establishing a mechanism for identification, selection, budget allocation, monitoring and evaluation of public investment projects, approved by MOF and legally in effect.</p> <p>(1. 12) All new investment projects that are submitted for MOF approval (i) are in accordance to the strategic selection criteria and (ii) have a previous economic evaluation.</p> <p>(1.13) Budget circular that provides instructions on allocating funds to maintain infrastructure, issued by the MOF.</p>

Objective	First-Operation Conditions	Triggers Second PBL	Triggers Third PBL
	<p>approved by the COM.</p> <p>(1.5) Medium-Term Fiscal Framework (MTFF) that evaluates the sustainability of the public investment program while ensuring aggregate fiscal discipline, submitted to the National Assembly with the budget presentation.</p>	<p>of public investment projects, approved by the MOF.¹</p> <p>(1. 10) System to register public investment projects and monitor their implementation, designed and approved by the MOF.</p>	<p>(1. 14) Instruction mandating the publication in the MOF web site of reports on individual project progress relative to its implementation plan, issued by the MOF.</p>
Component 2: Public Procurement			
2. Improved transparency and efficiency in public procurement.	<p>(2.1) Action Plan to strengthen public procurement, approved by the COM.</p> <p>(2.2) Bureau of Public Procurement (BPP) within the MOF to lead the implementation of the Action Plan, established. Head of the BPP, who will report to the MOF Permanent Secretary, appointed. The BPP will be responsible for public procurement policy and oversight.</p>	<p>(2.3) Operating regulations for public procurement, issued by the MOF.</p> <p>(2.4) Procurement handbook, issued by the MOF.</p> <p>(2.5) Standard bidding documents, issued by the MOF.</p> <p>(2.6) Formal training program for public procurement officers initiated.</p> <p>(2.7) Public procurement portal with information on business opportunities, invitations to tenders, contract awards, minutes of tender openings, regulations, and standard bidding documents, fully functioning and publicly available.</p>	<p>(2.8) Legislative proposal for Public Procurement, submitted to the National Assembly.</p> <p>(2.9) Financial instruction establishing that all contracts above the established threshold use standard bidding documents for their procurement processes, issued by the MOF.</p> <p>(2.10) All public entities are complying with the posting of information in the public procurement portal.</p>

¹ Training will be given to the Bureau of Public Investment's staff as well as to the program managers of the 17 ministries from the Central Government.

Objective	First-Operation Conditions	Triggers Second PBL	Triggers Third PBL
Component 3: Public Financial Management and Audit			
3. Enhanced public financial management and control systems.	<p>(3.1) PFM Reform Strategy, approved by the COM. The Strategy sets out the road map to enhance public financial management. It includes clear objectives, critical milestones, main activities, implementation methodology, risk assessment, sequencing, timeframe and estimated cost.</p> <p>(3.2) Policy Note setting out the core actions to enhance the internal and external audit functions in Government (Centrale Landsaccountantdienst -CLAD, and Rekenkamer), approved by the COM. The note includes a definition of their core responsibilities, the identification of measures to improve their autonomy, and guidelines to develop medium-term strategic plans for their institutional strengthening.</p>	<p>(3.3) Action plan for the implementation of PFM reform strategy, approved by the MOF.</p> <p>(3.4) White Paper for a new Budget Law, approved by the COM.</p> <p>(3.5) Financial Management Information System (FMIS) conceptual design, approved by the MOF.</p> <p>(3.6) Strategic plans for the institutional strengthening of CLAD and Rekenkamer approved by their respective authorities.</p>	<p>(3.7) Core actions defined in the PFM reform strategy under implementation. The actions will address main weaknesses in the areas of budgeting, cash management, accounting, and reporting, amongst others.</p> <p>(3.8) Budget Act proposal, submitted to the National Assembly.</p> <p>(3.9) Implementation of an improved FMIS, initiated.</p> <p>(3.10) Core actions defined in the strategic plans of the CLAD and Rekenkamer, under implementation.</p> <p>(3.11) Formal mechanism to follow up audit recommendations, issued by the CLAD. The mechanism includes the establishment of: (i) a communication channel between CLAD and the ministries' internal audit units; and, (ii) procedures to inform CLAD on actions taken by ministries to address recommendations contained in audit reports.</p>

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

RESOLUTION DE-199/11

Suriname. Loan 2666/OC-SU to the Republic of Suriname
Public Capital Expenditure Management Program

The Board of Executive Directors

RESOLVES:

That the President of the Bank, or such representative as he shall designate, is authorized, in the name and on behalf of the Bank, to enter into such contract or contracts as may be necessary with the Republic of Suriname, as Borrower, for the purpose of granting it a financing to cooperate in the execution of a public capital expenditure management program. Such financing will be for an amount of up to US\$20,000,000 from the Single Currency Facility of the Ordinary Capital resources of the Bank, and will be subject to the Financial Terms and Conditions and the Special Contractual Conditions of the Project Summary of the Loan Proposal.

(Adopted on 7 December 2011)