

FIDUCIARY ARRANGEMENTS

Country: Suriname

Project: SU-L1021: Supplementary Financing for Meerzorg – Albina Integration Corridor Rehabilitation Project (SFMAICRP)

Executing Agencies (EA): Ministry of Finance (MOF) and Ministry of Public Works (MPW)

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I. Executive Summary

- 1.1 The original Meerzorg - Albina Corridor Rehabilitation Project (MACRP) - Loans 2062/BL-SU and 2063/OC-SU) - was approved in 2008 for 62.5 million USD financed by the Bank and with 64.4 million USD as counterpart from the Government of Suriname (GOS). A supplementary loan of 40 million USD from the Bank and 13.8 million USD from the GOS is proposed with the objective to meet the financial gap and to effectively complete the remaining road construction activities of the project in order to ensure that the project achieves its developmental objective.
- 1.2 The existing Executing Agencies (EA) responsible for management of the current MACRP will be used to execute the supplementary financing. The current EA arrangement was established on the basis of a Memorandum of Understanding agreed upon between the Ministry of Public Works (MPW), Ministry of Finance (MOF) and the Ministry of Labor, Technical Development and Environment (MLTDE). The MOF has financial recording and reporting responsibilities as well as signing of all contracts and managing the IDB and AFD accounts at the Central Bank van Suriname therefore having authorized signatories. The MPW has been allocated the responsibilities for the contract management, directing the execution of the works and being in charge of the technical coordination of the supervision. An Institutional Capacity Assessment (ICASS) has been performed for the MACRP at its inception and it has been updated in March 2012 to assess the financial management capacities and therefore the current fiduciary risk level. This has been evaluated as medium risk. In order to mitigate the fiduciary risk level assessed, certain mitigating actions have been identified and developed. Some of these have been fully implemented already for the MACRP, such as the deployment of an accounting system for the recording and reporting processes. Staff of the EA have been trained in the management of the system. An operational, Financial and Administrative Manual that describes measures to strengthen the internal control environment was prepared by the end of June 2012. Considering that the project management capacities and financial capacities are split into two different government institutions, it is important and expected that the communication and coordination among these two institutions is strengthened by the measures that are currently under implementation in the MACRP. In addition, the fiduciary arrangements will include continuous formal and informal training

processes for the executing agency staff in charge of the fiduciary activities in understanding and applying IDB's procedures and requirements. Finally, within one year of implementation of the supplementary financing project, an updated exercise of the ICASS will take place to confirm that the strengthening actions to mitigate the project fiduciary risk are effective.

- 1.3. The assessed medium risk on the MACRP fiduciary capacities is consistent with the country's public sector fiduciary context that was conducted in April 2011, through Public Expenditure and Financial Accountability (PEFA) exercise. The PEFA review found that Public Financial Management (PFM) systems in Suriname face structural, institutional and regulatory challenges. These challenges constitute a limitation to the efficiency, effectiveness and transparency needed for the management of public resources, including foreign contributions. The Bank policies for procurement will apply in accordance with the country thresholds referred to under Section V and VI "Procurement Execution".

II. Executing Agency's Fiduciary Context

- 2.1 The fiduciary context of the EA is documented in the PEFA review. The relevant finding indicates that the legal framework for PFM is outdated and not consistent with best practices. The GoS has committed to improving the PFM and procurement systems with IDB support through the implementation of a modern legal framework and the establishment of effective mechanisms to perform these functions. The IDB Country Strategy 2011–2015 addresses the GoS priorities on streamlining (i) public investment management system; (ii) public procurement; and (iii) public financial management and audit through a three tier PBL - Strengthening of Public Capital Expenditure Management. The approach of the GoS points to the need of improved management tools to more effective projects implementation and execution. This includes a procurement system, which is competitive, effective, fair, efficient, non-obstructive, and transparent; a financial management system, which enables effective allocation of resources; and, a comprehensive and effective audit system, which will facilitate transparency and provide feedback regarding the quality of decision making and efficacy of the management process.
- 2.2 Until these interventions have taken root, country systems relating to accounting and financial reporting, internal control, external auditing, and procurement will not be used. In consequence, the portfolio of the Bank in Suriname is managed through the establishment of special project execution units set up within the line ministries and/or semi-autonomous institutions called parastatals. This is also in accordance with the GOS objective to build sustainable capacity within the government. The Bank provides and conducts close fiduciary support and supervision on these institutional arrangements and it provides continuous training and advice as needed on Bank's policies and procedures.
- 2.3 In regards to the Supplementary Financing project, the executing unit responsible for financial management of the MACRP project will be responsible for the fiduciary functions of the project. These functions were established on the basis of a Memorandum of Understanding signed on September 5, 2011 and agreed upon between the Ministry of Public Works (MPW), Ministry of Finance (MOF) and the Ministry of Labor, Technical Development and Environment (MLTDE).

- 2.4 The MOF has the responsibilities for financial recording and reporting as well as the signing of all contracts and managing the IDB and AFD bank accounts at the Central Bank of Suriname therefore constituting the authorized signatories. The MOF has assigned a Financial Expert and a Financial Assistant to the executing agency. The Minister of Finance and the Head of the Joint Desk¹ are the authorized signatories for the operation.
- 2.5 The MPW has the technical responsibilities for, contract management, directing the execution of the works and being in charge of the technical coordination of the supervision. The MPW has assigned a Contracts Manager and Assistant Contracts Manager to the project on a part time basis.
- 2.6 Based on the arrangement previously described, an ICASS was performed for the PEU and assessed the fiduciary risk level as having a medium fiduciary risk for financial management and external audit, similarly the risk level for internal control is considered medium. The risk level for procurement is medium. Through, the mitigating actions discussed in Section III the current level of risk can be leveraged to medium/low.

III. Fiduciary Risk Evaluation and Mitigation Action.

- 3.1 For the current operation the overall financial management risk rating of the EA can be leveraged to medium/low with the full functioning of the mitigation actions mentioned below that are currently in progress and will be completed by the start of the SFMAICP.:

| Risks Identified | Risk | Mitigating Measures |
|--|--------|--|
| Financial management structure : – Absence of Operations manual describing roles, functions and processes. – Inadequate monitoring by project management | Medium | Formalization and implementation of an Operational, Financial and Administrative manual which includes the description of the policies, procedures and internal control requirements, for adequate operational and financial project management. Financial planning activities clearly designed and implemented, to facilitate the adequate cash flow needs for the execution of project. Improved preparation of the project execution plan (PEP), Annual operation plan (AOP), procurement plan (PP) and financial plan (FP) to facilitate effective and efficient project management |
| – Proficiency in IDB procurement, disbursements and financial reporting procedures | Medium | Staff formally assigned to fiduciary duties will be trained continuously on Bank's financial management and procurement procedures on a continuous basis. |
| Poor internal communication and coordination among project management team members that is comprised of officials representing the MoF, the MoPW, MATM, | Medium | Operations manual formalizes the following: information and documentation flow as well as roles, authority level and frequency of communication among different ministries involved in project execution. |
| Monitoring and control activities. Major current activities are currently supervised by a -consultant –nonmember of the EA | Low | Strengthening of the monitoring capacities within the EA. on the execution of major contracts. |

¹ Special Unit created by the MoF and the Central Bank for the coordination and monitoring of external cooperation

| | | |
|---|--------|--|
| Slow execution of project's activities due to lack of full commitment of the executing unit | Medium | Bank fiduciary staff will maintain its inspection visits on a quarterly-annual basis to ascertain that the formal arrangements in the operations manual and other governing documents are being implemented and functioning: accounting systems, internal controls system. Core PEU staff (project coordinator, financial expert and contracts manager) formally assigned responsibility for project implementation, planning, coordination and –financial- administration are dedicated full time to the project. |
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IV. Aspects to be considered in the Special Conditions of Contract: N/A

V. Requirements and Agreements for Execution of Procurement

- 5.1 All records and files will be maintained by the Executing Agencies, according to accepted best practices, and be kept for up to three (3) years beyond the end of the operation's execution period. Application of procurement policies for goods, works and non-consulting services: For applicable procurement policies for goods, works and non-consulting services please refer to document "Policies for the procurement of Goods and Works and Non-consulting Services Financed by the Inter-American Development Bank, GN-2349-9". Application of policies for the selection of consulting services: For applicable procurement policies relating to the selection of consultants, refer to document "Policies for the Selection and Contracting of Consultants Financed by the Inter-American Development Bank, GN-2350-9".
- 5.2 Methods and threshold amounts to be applied to works, goods, non-consulting services and consulting services: The IDB thresholds table for Suriname will apply.

VI. Special agreements regarding procurement: None.

- 6.1 Use of electronic on-line systems for the publication and management of the procurement plans: The on-line Electronic Procurement Execution System (known by its Spanish acronym as SEPA) introduced in Suriname in 2010 will be used for the publication and updates of the procurement plan. It is expected that the executing agency will use the SEPA program for management of its procurement activities.
- 6.2 Use of national or other documents than the Bank standard documents for competitive bidding: None.
- 6.3 Procurement Execution: Procurements for the proposed project will be carried out in accordance with the Policies for the Procurement of Works and Goods Financed by the Inter-American Development Bank (GN-2349-9), of March 2011; and the Policies for the Selection and Contracting of Consultants Financed by the Inter-American Development Bank (GN-2350-9), of March 2011, and with the provisions established in the procurement plan. In addition, for all projects, the Borrower is required to prepare and submit to the Bank a draft General Procurement Notice.
- 6.4 Procurement of Goods, Works, and Non-Consulting Services: The procurement plan for the Program, covering the duration of project execution is summarized in Electronic link #5, and indicates the procedure to be used for the procurement of goods, the contracting of works or non-consulting services. The review of technical specifications in all cases,

during the process of selection is the responsibility of the sector specialist of the operation.

- 6.5 Procurement of IT systems: None.
- 6.6 Procurement of Consulting Services: The procurement plan for the operation, covering the duration of project execution is summarized in Electronic link #5, and indicates the procedure to be used for the procurement of consultancy services, and the method of selecting consultants. The Borrower is responsible for preparing and implementing the project, and therefore for preparing the TORs, shortlists, selecting the consultants, and awarding and subsequently administering the contract.
- 6.7 Sole Source Selection and/or Direct Contracting: to be used only in exceptional circumstances and is based on the Bank's no objection to the justification.
- 6.8 Selection of Individual Consultants: Individual consultants are employed on assignments for which: (a) teams of personnel are not required; (b) no additional outside (home office) professional support is required; and (c) the experience and qualifications of the individual are the paramount requirement. Individual consultants are selected on the basis of their qualifications for the assignment. Advertisement is not required and consultants do not need to submit proposals.
- 6.9 Consultants shall be selected through comparison of qualifications of at least three candidates among those who have expressed interest in the assignment or have been approached directly by the Borrower. Individual consultants may be selected on a sole-source basis with due justification in exceptional cases. This is to be carried out in accordance with Section V (Selection of Individual Consultants) of GN-2350-9 paragraphs 5.1-5.4.
- 6.10 Training: The detailed procurement plan indicates to which consultancy services training and workshops are applicable. As per GN-2350-9 if the assignment includes an important component for training or transfer of knowledge to Borrower staff or national consultants, the TOR shall indicate the objectives, nature, scope, and goals of the training program, including details on trainers and trainees, skills to be transferred, time frame, and monitoring and evaluation arrangements. The cost for the training program shall be included in the consultant's contract and in the budget for the assignment.
- 6.11 Recurring Expenses: Include payment of utilities and other office operating expenses of the PEU, if any.
- 6.12 Advance Contracting/Retroactive Financing: Section 1.9 of the procurement policies allows for retroactive financing and advance contracting where the procurement procedures, including advertising, are in accordance with the procurement policies in order for the eventual contracts to be eligible for Bank financing. The Bank shall review the process used by the Borrower. A Borrower undertakes such advance contracting at its own risk.
- 6.13 Domestic Preference: Determining whether it is appropriate and necessary to use domestic preference in the evaluation of bids should be guided by Appendix 2 of GN-2349-9 par. 1-6.
- 6.14 Other Requirements: Use of national or other documents than the Bank standard documents for competitive bidding: None

- 6.15 Procurement Plan and supervision (PP): The procurement plan for the operation covering the duration of project execution is summarized in Appendix IV. It indicates the procedures to be used for the procurement of goods, the contracting of works or services, and the method of selecting consultants, for each contract or group of contracts. It also indicates cases requiring prequalification; the estimated cost of each contract or group of contracts; the requirement for prior or post review by the Bank. The procurement plan will be updated annually or whenever necessary, or as required by the Bank.
- 6.16 Country Threshold: Table (US\$ Thousands) www.iadb.org/procurement

| THRESHOLDS ('000) | | | | | | |
|-----------------------------------|------------------------------|----------|-----------------------------------|------------------------------|----------|--------------------------------|
| WORKS | | | GOODS | | | CONSULTING SERVICES |
| International Competitive Bidding | National Competitive Bidding | Shopping | International Competitive Bidding | National Competitive Bidding | Shopping | Short list solely by Nationals |
| ≥1,000 | 100 – 1,000 | <100 | ≥100 | 25 - 100 | <25 | <100 |

VII. Fiduciary Arrangements for Financial Management

- A. Programming and Budget.** For the purposes of the program, - the EA and the Bank are currently in the process of preparing a Program Execution Plan, AOP, which will include the budget plan, procurement plan and a financial plan, consistent with a 12-month financial plan that will be required from the EA on an annual basis.
- B. Treasury: Disbursements and flow of Funds.** The EA will open the necessary bank accounts in Surinamese Dollars (SRD) and in US Dollars (USD) at the Centrale Bank van Suriname for the management of the program resources and a listing of authorized signatures will be provided to the Bank.

Given the characteristics of the executing arrangements, the current medium risk level of the EA , the Bank will apply during the first year of implementation two main disbursement modalities:

- Quarterly Advance of Funds to cover the program's minor and recurrent administrative needs.
- Direct payments to major suppliers (Works Component) according schedule of works

The EA will be responsible for the maintenance of adequate and original documentation to support disbursement requests.

After an updated ICASS is performed the frequency of the advance of funds could be increased as well to include in the AOF modality major components, therefore relying on strengthened financial management capacities.

- C. Accounting and Information Systems.** The EA utilizes an off the shelf accounting and financial management system for the accounting and financial reporting of the IDB funded project, that is adapted to the program's needs. The cash basis of accounting will be used for reporting purposes.
- D. Internal Control and Audit.** The internal control system established by the EA should provide reasonable assurance that: (i) the project funds are used for their intended purpose; (ii) project assets are properly safeguarded; (iii) project transactions, decisions and activities are properly authorized and documented; and (iv) project transactions are executed in accordance with the established policies and procedures delineated in the legal agreements. In addition proper segregation of duties, approval authority levels for signature of contracts, commitment of funds, reception of goods and services and payment to suppliers and beneficiaries should be arranged adequately.
- F. External Control and Reporting.** The external audit of the Program will be performed by an independent audit firm acceptable to the Bank. Audits will be performed in accordance with Bank's Guidelines for Financial Reporting and Audit Guide.
- G. Financial Supervision Plan.** Bank fiduciary staff will conduct inspection visits on a quarterly basis to ascertain the proper functioning of the accounting systems, and the adequacy of the internal controls system.
- H. Execution Mechanism.** The project executing mechanism, of the MACRP, managed by the Ministry of Planning and Development Cooperation (PLOS) and the MPW was changed in 2011 by the new government that came into office in August 2010 whereby PLOS has been incorporated in the Ministry of Finance (MOF), requiring an adjustment of the organization structure and execution of the MACRP. As a result an MOU was signed on September 5, 2011 between the MOF, the MPW and the MATM, establishing a new EA for the execution, monitoring and supervision of the project.

Under the new execution mechanism the Ministry of Public Works (MPW) is responsible for: (i) contract management and technical project implementation; (ii) joint coordination with the MOF the cooperation and negotiation with the IDB, the European Commission (EC) and the AFD; (iii) is the state legal person responsible for directing the execution of the work; (iv) is in charge of the technical coordination of the supervision; and (v) assigning the following EA staff members: the General Coordinator, Assistant Coordinator; the Contract Manager Assistant Contract Manager, the Sector Coordinator; the Highway Engineer and Assistant Highway Engineer to the EA.

The MOF is responsible for (i) all financial aspects within the project and is also the state legal person who signs all contracts ; (ii) joint coordination with the MPW, the cooperation and negotiation with the IDB, the EU and the AFD; (iii) signing the loan contract with the IDB and the AFD; (iv) sign and manage as National Authorizing Officer (NAO) the contracts with EU; (v) managing the IDB and AFD accounts at the Centrale Bank van Suriname; (vi) for communication with the Suriname Debt Management Office, concerning the status of the loan, the disbursements and the loan payments; (vii) assigning the Financial Expert and Assistant Financial Expert; (viii) provide signatories for payments with regard to the implementation of the project. The Minister of Finance and the Head of the Joint Desk are the authorized signatories.

The MOF has assigned a Financial Expert on a full time basis and a part time Financial Assistant to the EA.²

The Ministry of Labor, Technological Development and Environment (MATM/NIMOS (National Institute for Environmental Development Suriname) is responsible for (i) reviewing the environmental and social impact assessment reports of the operation; and (ii) monitoring the contractors and the supervisor responsible for environmental management of the project. MATM is also responsible for assigning the environmental experts from NIMOS for the PEU. This part-time position is in place.

These executing arrangements will remain in place for execution of the Supplementary Financing for MACRP.

² The Financial Expert manages the AFD and IDB account and the Financial Assistant manages the EC account, both on a full time basis. With the measures proposed in Section III for strengthening of the fiduciary capacity of the PEU, the current staffing arrangement is deemed adequate.