



COUNTRY OFFICE SURINAME

Peter Bruneslaan 2-4
P.O. box 1885, Paramaribo, Suriname
Telephone: 597-462903, 597-465972
Fax: 597-465665
Email: cof/csu@iadb.org
Homepage: WWW.IADB.ORG

COF/CSU/2005/399-L/O
Paramaribo, May 5, 2005

H.E. Mr. H. Hildenberg
Minister of Finance
Onafhankelijkheidsplein 3
Paramaribo


Dear Minister Hildenberg,

As per our conversation of 28 April 2005, attached you will find the initial profile of a non-reimbursable technical cooperation (TC) that will complement our combined efforts to identify the challenges that Suriname is facing in a series of strategic sectors.

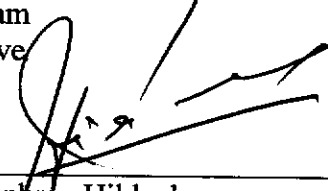
The TC will be complemented with the Banks own resources, as we expect it to feed into the process of preparing a country strategy for Suriname. To expedite its completion, the Bank will execute the preparation of the planned studies, and will carry out a consultation process in conjunction with your Ministry.

If you agree with the proposed TC project, please indicate your concurrence by signing in the space provided below.

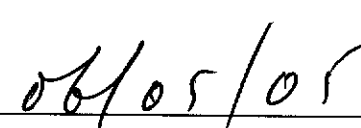
Sincerely,


Pablo E. Adam
Representative

Concur:


Humphrey Hildenberg
Minister of Finance

Date:



**SURINAME
PLAN OF OPERATIONS
JUNE 15, 2005**

I. EXECUTIVE SUMMARY

Project name:	Policy Dialogue in Suriname: Identification of Development Challenges and Policy Options.		
Project number:	SU-T1016		
Team members:	Carlos Elias, Project Team Leader; Marguerite Berger and Daniela Quinones (RE3/OD6); Gador Manzano (EXR); Juan Carlos Perez-Segnini (LEG), Silvano Tjong Ahin (COF/CSU), and Bernhard Fritz-Krockow and Mariana Torres (IMF).		
Beneficiary:	Suriname		
Executing agency:	Ministry of Finance (MOF)		
Target Beneficiaries:	Civil society, private sector representatives, academia representatives, indigenous and maroon groups, think tanks, and Government officials.		
Financing:	IDB (FSO):	US\$144,190	
	Local:	<u>US\$10,000</u>	
	Total:	US\$154,190	
Objectives:	The goal of this program is to contribute to the process of building national consensus on the identification and prioritization of the development challenges of Suriname, including recommendations of policy actions designed to address these challenges. This TC funds the following two components: (i) preparation of a set of Policy Notes addressing the issues of the pre-identified development challenges of Suriname; and, (ii) design and implementation of a consultative process with stakeholders in the country with the objective of defining priorities among these development challenges, validating and fine tuning the recommendations presented in the Policy Notes.		
Execution timetable:	Execution Period:	6 months	
	Disbursement Period:	12 months	
Special contractual conditions:	There are no special contractual conditions for this TC.		
Exceptions to Bank policies and procedures:	There are no proposed exceptions to Bank policies or procedures.		

Environmental and social review:

There are no foreseeable environmental or negative social impacts occurring from the implementation of this TC.

Coordination with other official development finance institutions:

The Bank is the leading international development institution in Suriname. The IMF, EU, and bilateral donors will provide comments and suggestions during the preparation of the Policy Notes, and will participate in the subsequent consultation process. The World Bank does not have a work program in Suriname, however, the Bank will invite WB staff to the process of reviewing the Policy Notes.

II. BACKGROUND AND JUSTIFICATION

A. Main issues

- 2.1 Suriname's parliamentary elections were held on May 25th, 2005, and now the National Assembly is in the process of selecting the President for a new 5-year term. President Ronald Venetiaan's New Front (NF) coalition lost its majority in Parliament, and needs alliances to reach the required two-thirds majority to elect a new president. Even though there are many political parties, most of which represent ethnic groups, the political environment is positive: it is conducive to honest negotiations between many actors in the context of tolerance and political stability. For example, the NF coalition that won the election in 2000 remained unchanged until 2005, and most Ministers stayed in their positions for the period, providing remarkable stability to Government.
- 2.2 However, in this diverse ethnical and political environment it takes time to build consensus on how to address the many urgent needs of the country. The Cabinet's agenda is unnecessarily long because Ministers, and their staff, are reluctant to make decisions. Staff fear that a decision that does not consider all the competing interests, regardless of the relevance of the issue at hand, could break the carefully maintained balance of power between the members of the governing coalition. As a consequence, many issues that should have been decided by staff in individual Ministries, are relayed to higher levels in the bureaucracy, and therefore decisions are delayed, until they eventually reach the Cabinet.

Table 1: Suriname Key Economic Indicators

	1999	2000	2001	2002	2003	2004
GDP real growth (%)	-0.9	-0.1	4.5	3.0	5.3	4.6
Consumer prices (e.o.p., %)	112.8	77.1	4.9	28.4	13.1	9.1
Exchange rate (e.o.p., SRD/US\$)	1.25	1.94	2.18	2.52	2.63	2.74

Source: IMF Article IV Staff Report 2003 y 2004

- 2.3 In this political context, the economic environment is positive, characterized by economic growth and somewhat stable inflation. The key to this outcome has been better fiscal, monetary, and exchange rate policies implemented since 2000, when the current administration took action to address the economy's severe imbalances of the past. These actions included devaluing the official exchange rate, strengthening control on Central Government borrowing from the Central Bank, eliminating subsidies on petroleum products, and substantially raising electricity and water tariffs. A sign of concern is that as a result of previous episodes of price instability and regulatory changes, financial dollarization has increased in recent years. Nevertheless, good economic results have been achieved and need to be consolidated by designing a policy mix that ensures macroeconomic stability and provides incentives for private sector development,

while at the same time facilitating social development. These short term policy decisions should be complemented by long term actions that address the development challenges of the country.

- 2.4 To achieve these objectives, a preliminary review of existing analytical work for Suriname suggests that the following development challenges should be addressed: (i) maintaining a stable macroeconomic environment – including among other objectives to strengthen the financial sector and resolve the issues related to the state-owned banks; (ii) reforming and modernizing the state; (iii) improving competitiveness -- through private sector development, trade and integration, better transportation and reliable energy, and a flexible labor market; (iv) furthering social development; and, (v) enhancing environmental sustainability. Moreover, two crosscutting issues should also be considered: gender equality and inclusion of indigenous peoples and maroons. Finally, the analysis should address development management issues: donor coordination and management for results.

B. Program rationale and consistency with Bank strategies

- 2.5 The timing is good to provide information, analysis, and sound recommendations to address the development challenges of Suriname because the new administration, which will probably be in office by October, and other stakeholders will benefit from the outputs resulting from this TC.
- 2.6 This Technical Cooperation is also consistent with the Bank's Country Strategy with Suriname (GN-2080-1), which supports policy and institutional reforms in order to improve institutional and incentive frameworks. The Bank is in the process of preparing a new Country Strategy with Suriname, which should be ready by the first quarter of 2006.

C. Other Bank initiatives complementary to this program

- 2.7 This TC complements Bank efforts to prepare a new Country Strategy with Suriname. In particular, Bank staff is also preparing Policy Notes for sector issues. Table 2 shows the complete list of Policy Notes to be prepared.
- 2.8 The Bank is executing the TC SU-T1001 - Support for the Public Sector Investment System, which is designed to support the Ministry of PLOS in strengthening its capacity to manage the public investment program and improve the allocation of public sector investment resources. As such, this operation will provide key insights as to how priorities are defined in the budget process, and how long term planning is developed in Suriname.
- 2.9 Finally, this TC also complements TC 0112007 - Institutional Strengthening of Debt Management, which financed the creation of a Debt Management Office in Suriname. Preliminary results are good: the Debt Management Office is fully staffed, and back office functions are anchored by the use of the Commonwealth Secretariat's Debt Recording and Management System (CS-DRMS) installed with

the support of Crown Agents, the consulting firm hired to help set up the office and provide training. This operation has concluded, and the Bank is considering how to provide additional support to Government in this important area. Government still needs support to consolidate the Debt Management Office by improving the technical capacity of the office and its institutional role with respect to other functions in the Ministry of Finance, the Ministry of Planning, and the Central Bank.

Table 2 Country strategic issues and related Policy Notes		
Country strategic issue	Note	Resources
Macroeconomic Environment	Macroeconomic Assessment	TC
	Debt Sustainability	TC and Bank
Governance	Modernization of the State	Bank
Competitiveness	Private Sector Development*	TC and Bank
	Trade and Integration	Bank
	Transportation	Bank
	Energy	Bank
	Labor Markets	Bank
Social Development	Social Development Overview	Bank
	Social Expenditure Analysis	TC
	Gender Issues	Bank
	Indigenous Peoples	Bank
Environment	Environmental Sustainability	Bank
Development Management	Donor Coordination	Bank
	Management for Results	Bank

*Analytical work funded by this TC about small and medium enterprises, described in paragraphs 3.12 and 3.13, is an input to the preparation of this Note.

D. Value added of this Program

- 2.10 The outputs of the TC focus on the knowledge gaps that the Bank has identified in Suriname. As such, the information obtained by this TC complements the Bank's work program, and provides information in areas in which the Bank and other donors have not been directly involved, therefore avoiding unnecessary duplication. Moreover, the Bank is partnering with the IMF--IMF staff are members of the team that prepared this TC--to supervise the preparation of the notes about macroeconomic assessment and debt sustainability, which will provide policy recommendations in these areas to be considered by the new administration. All these notes, shown in Table 2, will provide the next administration and stakeholders timely information, analysis, and suggestions about priorities among the many pressing needs in Suriname, as well as sequencing of actions to address those needs.

- 2.11 The program will also add value to the political process of the country by providing information about key issues, and may help to narrow the political agenda of the country from many relevant issues to only the more important ones in the short to medium term.
- 2.12 Finally, the consultative process, designed around development challenges of Suriname, will support the consensus building process among stakeholders.

III. PROGRAM DESCRIPTION

A. Program goal and purpose

- 3.1 The goal of this program is to contribute to the process of building national consensus on the identification and prioritization of the development challenges of Suriname, including recommendations of policy actions designed to address these challenges.

B. Components

- 3.2 This TC has two components: (i) the preparation of a set of Policy Notes addressing the issues of macroeconomic stability and vulnerabilities, debt sustainability, social spending, and a mapping of small and medium enterprises in Suriname; and, (ii) the preparation and implementation of a consultative process with key stakeholders to discuss, set priorities, and validate the recommendations of the Policy Notes, including sector Policy Notes to be prepared by Bank staff.

1. Component 1. Preparation of Policy Notes (US\$89,190)

- 3.3 This component is designed to provide an analysis of the macroeconomic framework, and a mapping of small businesses in Suriname. To consolidate the favorable economic results obtained to date, the country needs to strengthen the design and coordination of macroeconomic policies. In addition to fiscal, exchange rate, and monetary policies, the area debt sustainability is of particular interest because the country still exhibits large amounts of external arrears, which hurt credit ratings, increase borrowing costs, and dampen private investment. Another complementary area of interest is social spending, as the public sector does not satisfy the demand for public services, even though Government employs over 60% of formal employees. Finally, there is also an information gap about the characteristics and the constraints faced by small and medium enterprises.
- 3.4 **Macroeconomic assessment.** The Policy Note will present an assessment of Suriname's economy. In particular, this document will address policy issues that arise for small and isolated economies, including the fact that because the economy is so small, production activities lack critical mass unless they are export-oriented.

- 3.5 Moreover, because Suriname depends on the mining industry, fiscal revenues are exposed to international price volatility of gold, bauxite and alumina. In this context, Government may want to explore other countries' experiences using macro-fiscal policy rules that, for example, define upper bounds to real current spending growth; protect social spending and public sector investment; and create saving and revenue smoothing funds using fiscal revenues from the exploitation of non-renewable resources.
- 3.6 Finally, the Policy Note will include an analysis of the external accounts, with an emphasis on current account sustainability, FDI, and reserve accumulation; and monetary and exchange rate policy in the context of high financial dollarization, focusing on how to maintain a competitive and stable real exchange rate, and the coordination with fiscal policy.
- 3.7 **Debt sustainability analysis.** The Debt Management Policy Note will address two sets of issues: (i) debt sustainability; and (ii) a diagnostic of the current status of the Debt Management Office and recommendations to strengthen back and middle office functions.
- 3.8 The debt sustainability analysis will address fiscal and debt sustainability issues using a set of macroeconomic scenarios. These scenarios will provide information about domestic and external debt growth, in particular the effect of current roll over practices of Government bonds with Central Bank financing. The exercise should estimate the range of the primary fiscal surplus that maintains constant the current debt to GDP debt stock. The analysis will also include an estimation of the envelope of sustainable debt for Suriname in the short-run. The Policy Note will explore alternatives for reducing and eliminating arrears, including the option of debt-for-nature and similar debt reduction options, to improve the country's credit ratings and reduce borrowing costs. Staff of the Debt Management Office (DMO) will participate in this exercise as part of their training work program, with the objective that in the future they will be able to update the results, and perform similar tasks.
- 3.9 The second set of issues to include in this Policy Note are related to an analysis of how the Debt Management Office (DMO) is functioning. This project has concluded and now the Bank is preparing an evaluation of the work done to date, and the Policy Note will complement the evaluation by analyzing options to strengthen back office functions, and options to establish middle office functions. The analysis will also include the issue of the inter institutional set up of the DMO with respect to the Ministry of Finance, the Ministry of Planning, the Central Bank, and the National Congress. Finally, the Policy Note will provide recommendations for additional Bank support to improve the work of the DMO of Suriname.
- 3.10 **Social spending analysis.** The third Policy Note to be financed by this TC is designed to address fiscal issues, with emphasis on social spending. The Policy Note will provide a diagnostic and analysis of fiscal trends. The analysis of fiscal

revenues will include the composition of revenues, the analysis of direct and indirect taxes, and revenue volatility related to the dependence on the mining sector's taxes. The analysis of spending will include current and capital spending, pro/counter cyclicalities, and the wage bill. The document will include a section analyzing how the public sector's deficits have been financed over the years, including the effect of Dutch development assistance in relaxing spending constraints. Moreover, the analysis will also include a calculation of the primary balance and the external current account balance assuming the Dutch development assistance would have been provided as loans and not as grants. From this perspective, the work will include a preliminary estimation of a national balance sheet. The balance sheet should include as many historical years as possible, and should provide for a 20-year projection. The assumptions to build this preliminary balance sheet should be clearly specified in the document.

- 3.11 The second part of the analysis concentrates on social spending. In particular the section will quantify the level of social spending separating current spending, in particular wages, and capital spending. The analysis will also include a characterization of social programs, and will attempt to address efficiency issues in social programs. Of interest in this section is to address the following question: Is the public sector a de facto social safety net?
- 3.12 **Mapping of small and medium enterprises.** The fourth analytical piece provides an important input to the preparation of the Private Sector Development Policy Note. This piece fills an important gap in the knowledge about the private sector by providing a good description and analysis of small and medium enterprises (SMEs) in the country. This will complement the analysis that the Bank has developed in Suriname about the private sector, which identifies an urgent need for building a competitive economy. Moreover, the analysis suggests three pillars of the new growth impetus: expanding the business sector, changes in the legal framework and the administration of justice, and strengthening the national infrastructure.
- 3.13 The analytical piece addresses the issues related to the first pillar, which seeks to expand the business sector, and concentrates on providing a snap shot of SME activities, with emphasis on the business environment they face, capital constraints, the enterprise support services available in Suriname, and an analysis of information sources and asymmetries. Based on this information, the report will provide a gap analysis and recommendations of initiatives to address the priority problems. The report will address financial issues, however, it will concentrate on the less explored areas of suppliers' credit and information sources for SMEs.

2. Component 2 – Preparation and Implementation of a Consultative Process with Key Stakeholders (US\$35,000)

- 3.14 **Consultation process.** Key to the success of this TC is the design and implementation of a consultative process among key stakeholders, which will be

facilitated by the Bank in coordination with Government and civil society. The process should be designed to achieve the following objectives: (i) define the priorities among the many important issues in Suriname for different constituencies; (ii) discuss and validate, where appropriate, the recommendations presented in the Policy Notes; (iii) prepare an action plan designed to continue, in a sustainable way, the consultative process to discuss key development challenges in Suriname and how to address them.

- 3.15 The consultative process includes three major activities: (i) to engage the Country Office's Civil Society Advisory Group in dialogue with the objective of fine tuning the consultation process, and the continuation of the process beyond 2005; (ii) the organization of a series of meetings with key stakeholders to gauge their interests, receive comments and understand their priorities with respect to the development challenges and the recommendations on how to address them; (iii) the organization of a workshop in Paramaribo to present the major results of the Policy Notes to a broad group of stakeholders. The following paragraphs expand on these three activities.
- 3.16 The Bank's Country Office Civil Society Advisory Group provides an appropriate channel to reach out to many stakeholders with the objective of sharing both the main results of the analytical work and the main issues related to the consultation process. In the context of this TC, the role of this group is to advise the Country Office on the preparation of the consultation process, the definition of the appropriate communication tools to use for each meeting, and to systematically record the process. This TC will provide funding to hire a Process Coordinator, a local consultant, who will facilitate the consultation process, provide logistical support to the process, and keep records of meetings. The Process Coordinator will also prepare an Action Plan for continuing dialogue, consultation with Civil Society, and consensus building on how to address the development challenges in Suriname. The Action Plan will address the issue of sustainability of the process.
- 3.17 The TC will also fund a series of meetings with key stakeholders, in Paramaribo and in other locations in Suriname. For each of these meetings the Process Coordinator, with the support of the Country Office and Bank headquarters, will prepare tailor made agendas depending on the characteristics of the audience. Issues to address in preparing the agendas include, among others, the following: language, setting, issues, and facilitating style. The budget for these activities includes funding for the following five meetings: (i) private sector and academia representatives in Paramaribo; (ii) union representatives in Paramaribo; (iii) civil society in Paramaribo; (iv) indigenous groups in the interior; and (v) maroons in the interior. Some flexibility is needed for the preparation of these meetings, and the Country Office will review the process and assess the need for changes during the implementation of the TC.
- 3.18 Finally, the TC will fund a one-day workshop designed to reach out to a broad audience in Paramaribo. The objective of this workshop is to present the major recommendations of the Policy Notes, including the results of the consultative

process to that date. The Process Coordinator, Country Office staff and Bank headquarters staff will prepare an agenda and list of participants. The agenda will include the most relevant issues discussed in the process and the key recommendations of the Policy Notes. The list of participants will be carefully screened to ensure broad representation of all sectors of society, including representatives of Government, which will play an important role during this workshop.

IV. COST AND FINANCING

A. Summary cost table

4.1 Table 3 presents the program's summary cost table.

Table 3: Budget			
Concept	IDB	GOS	Total
Component 1: Preparing Policy Notes	89,190		89,190
Consultancy Fees	76,470		
Travel	7,200		
Per diem	5,520		
Component 2: Action Plan	35,000		35,000
Consultancy Fees	8,000		
Meetings in Paramaribo (3)	6,300		
Meetings in the interior (2)	9,200		
Workshop in Paramaribo	11,500		
Counterpart Team (in kind)		10,000	10,000
Evaluation	5,000		5,000
Contingencies	15,000		15,000
GRAND TOTAL	144,190	10,000	154,190

B. Description and composition of financing

4.2 The total cost of the program is US\$154,190. The Bank would finance up to US\$144,190 of the costs of the project on a non-reimbursable basis from the net income of the Fund for Special Operations (FSO). The local counterpart of US\$10,000 represents in kind contributions related to the local costs for personnel and logistical support for project implementation.

C. Sustainability

4.3 Funding from this TC will strengthen the knowledge base of Suriname especially by providing concrete policy recommendations to address the development challenges of the country. As such, the information gathered and analyzed will be

available to everyone, as the Policy Notes, including those prepared by Bank staff, will be published in the Bank's Web Page. Moreover, the consultative process will provide a venue for stakeholders to discuss the most important issues for them, and the Civil Society Advisory Group will provide inputs to an Action Plan to continue dialogue and the consensus building process about policy issues.

V. EXECUTING AGENCY AND MECHANISM

A. Executing agency

- 5.1 The executing agency will be the Ministry of Finance.

B. Executing mechanism

- 5.2 Because of the insufficient institutional and organizational capacity, Government has requested the Bank to execute this program on its behalf to facilitate the smooth execution of this TC. In response to this request, COF/CSU will have basic responsibility and RE3/OD6 technical responsibility for the Program's execution.

C. Program implementation readiness

- 5.3 The Minister of Finance has sent a letter to the Bank requesting support for this process. The TORs have been drafted, and are attached to this Plan of Operations, for the preparation of the Policy Notes and for the Process Coordinator. They will be contracted as soon as the TC is approved.

D. Execution period and disbursement schedule

- 5.4 The execution period for this TC will be 6 months, with a disbursement period of 12 months.

E. Procurement

- 5.5 As requested by the Government, the Bank will conduct the process of hiring and payment of the consulting firms.

VI. MONITORING AND EVALUATION

A. Monitoring

- 6.1 The Bank will monitor the implementation of this TC through the Country Office, supported by Bank staff. The IMF will provide comments to the Policy Notes, serving the purpose of peer reviewers, and will participate in the process according to their own rules of dialogue with authorities.

B. Progress and final reports

- 6.2 The Policy Notes, to be prepared with TC funding and those to be prepared by Bank staff, will be disseminated in the context of the consultation process described in this document. The Process Coordinator will prepare two reports: (i) a report of the consultation process, with a description of the meetings held, its participants, the main results of the meetings, and an overview of the process and results, including recommendations and lessons learned; and, (ii) an Action Plan describing future steps to continue the dialogue and consultation process about key policy areas in Suriname.

C. Proposed Evaluations

- 6.3 The TC will fund an evaluation of the program. This evaluation will be contracted to a local consultant. The evaluation will use the log frame prepared for this TC to analyze the results, and will describe the outputs of each component, outcomes of proposed actions, and lessons learned from the process.

D. Other auditing, financial management and reporting procedures

- 6.4 Standard Bank procedures for auditing, financial management of the resources and reporting will be followed.

VII. PROGRAM BENEFITS AND RISKS

A. Program benefits and developmental impact

- 7.1 This TC supports the consensus building process in Suriname about how to address the development challenges of Suriname. As such, it facilitates the process to define the policy agenda, especially by addressing the difficult issue of setting priorities among many urgent demands. The development impact of the TC could be large if the consultation process can be continued, and if the Action Plan resulting from this TC can be implemented.

B. Target beneficiaries


- 7.2 The outputs of this TC will benefit society in general, as it would support the process of defining the policy agenda, with clear priorities towards addressing the development challenges of the country. Additionally, the information provided by the consultation process will help civil society, private sector representatives, academia representatives, indigenous and maroon groups, think tanks, and Government officials, among others, to increase their knowledge about key issues in the country.

C. Risks

- 7.3 This TC aims at facilitating dialogue among key stakeholders in Suriname. As such, there is the risk that this process needs more time and resources than those allocated in this TC. Moreover, stakeholders may perceive that outsiders are interfering in local affairs by providing recommendations on sensitive issues that should be addressed by Surinamese nationals alone. The TC is designed to address both issues. For the first one, the process is only the first step of more that are required to reach consensus on how to address the development challenges. Moreover, the objective of the process is to define priorities and to discuss the proposals of Policy Notes, which results in a well-defined set of issues making it clear that more dialogue and discussions are needed. This is the reason why an output of the exercise is to prepare an Action Plan on how to continue the process. With respect to the second risk, the Bank, as the only international development institution active in Suriname, is well respected and it is perceived as an honest partner in the development of the country. The team will be careful to preserve this perception, and in particular will use expert advice from Bank staff for the communications and consultation process.

VIII. RECOMMENDATION AND CERTIFICATION

- 8.1 The Country Division 6 certifies that US\$144,190 from the net income of the Fund for Special Operations is available for the financing of the project proposed in this Plan of Operations, and recommends that the Manager of Regional Operations Department 3 authorize the use of resources from the net income of the Fund for Special Operations to finance the project proposed in this Plan of Operations.



Dora Currea, Chief
Country Division 6



Date

IX. APPROVAL

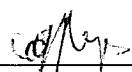
- 9.1 According to Document CC-5290, approved by the Coordination Committee on August 2, 1995 and the corresponding simplification memorandum (Simplification of Procedures and Delegation of Authority to Approve Non-Reimbursable Technical Cooperation) of September 12, 1995, this Technical Cooperation is presented for the approval of the Manager of Regional Operations Department 3.



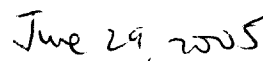
Ciro De Falco, Manager
Regional Operations Department 3



Date

Concur: 

Camille Gaskin-Reyes, Deputy Manager
Regional Operations Department 3



Date