

POLICY DIALOGUE IN SURINAME: IDENTIFICATION OF DEVELOPMENT CHALLENGES AND POLICY OPTIONS
ANNEX 1 – LOGICAL FRAMEWORK

LOGICAL FRAMEWORK			
OBJECTIVES	INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
GOAL			
Contribute to national consensus building on development priorities to be tackled during the mandate of the new government of Suriname	<ul style="list-style-type: none"> National development priorities are identified and actions to address them are articulated A broad range of stakeholders is satisfied that its views were taken into account in the formulation of national development priorities and actions 	<ul style="list-style-type: none"> Government Reports Newspaper Reports 	<ul style="list-style-type: none"> Continued political stability and smooth transition to new administration Continued macroeconomic stability
PURPOSE/OUTCOMES			
Based on technical analysis and stakeholder consultations, GOSU has established development priorities in key areas to form the basis of a program of support with the IDB over the period 2006-2010	<ul style="list-style-type: none"> Bank Country Strategy is agreed with new authorities (by first quarter 2006) Country priorities are reflected the implementation of the Bank Country Strategy with Suriname for 2006-2010 (by mid 2008) 	<ul style="list-style-type: none"> IDB-GOSU correspondence and records of meetings Technical cooperation monitoring reports and final report Suriname CSP Mid term review of the strategy in 2008 	<ul style="list-style-type: none"> Continued political stability and smooth transition to new administration Continued macroeconomic stability GOSU continues dialogue with private sector and CSOs Continued good rapport between IDB and GOSU

LOGICAL FRAMEWORK			
OBJECTIVES	INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
COMPONENTS/OUTPUTS			
I. Policy Notes on key development challenges produced.	<ul style="list-style-type: none"> • 4 policy notes on: macroeconomic management, debt sustainability, analysis of social spending, and mapping SMEs • 1 policy dialogue paper (providing overview of challenges and recommendations) 	<ul style="list-style-type: none"> • Contracts • Written reports 	<ul style="list-style-type: none"> • Availability of appropriate qualified consultants • Complementary IDB sector policy notes are completed in timely fashion to provide additional inputs to policy dialogue paper
II. Stakeholders consulted on key development challenges and options for addressing them.	<ul style="list-style-type: none"> • Consultations with Stakeholders from civil society, the private sector, academia, government and parliament • Stakeholder views incorporated into policy dialogue paper 	<ul style="list-style-type: none"> • Meeting agendas and list of participants • Written reports • Revised policy dialogue paper 	<ul style="list-style-type: none"> • Availability of appropriate qualified consultants • Key stakeholders willing to participate in consultations

LOGICAL FRAMEWORK			
OBJECTIVES	INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
ACTIVITIES			
1. <u>Policy Notes</u> 1.1 Organization of Team 1.2 Review of existing analytical work 1.3 Interviews with key informants 1.4 Drafting Policy Notes 1.5 Technical Review of Policy Notes by Experts 1.6 Finalization and publication of policy notes 1.7 Preparation of Policy Dialogue Paper reflecting inputs of Policy Notes and Stakeholders Consultation	1.1 <i>Terms of Reference</i> prepared and <i>Consultants</i> hired 1.2 – 1.3 Annotated consultant reports on existing analytical work and results of interviews 1.4 3 Draft Policy Notes 1.5 Technical comments received from experts and technical workshop concluded 1.6 4 Policy notes revised and submitted for publication 1.7 <i>1 Policy Dialogue Paper drafted.</i>	1.1 Terms of Reference, Contracts 1.2 – 1.3 Written Report 1.4 Draft Policy Notes 1.5 Technical Workshop Report 1.6 Final Report/Policy Notes 1.7 Policy Dialogue Paper	<ul style="list-style-type: none"> • Availability of appropriate qualified consultants • Complementary IDB sector work completed in timely fashion to provide additional inputs to policy dialogue paper
2. <u>Stakeholder Consultations</u> 2.1 Organization of Team to conduct stakeholder consultations 2.2 Identification of stakeholders to participate in consultations 2.3 Definition of agenda for workshops 2.4 Execution of Workshops 2.5 Preparation of Report on results of workshops 2.6 Incorporation of stakeholder views into policy dialogue paper	2.1 <i>Terms of Reference</i> prepared, <i>Consultants</i> hired 2.2 List of Participants 2.3 Workshop Agenda 2.4 – 2.5 Workshop Report 2.6 Policy Dialogue paper reflects incorporation of stakeholder views	2.1 Terms of Reference, Contracts 2.2 – 2.5 Workshop Report 2.6 Policy Dialogue Paper	<ul style="list-style-type: none"> • Availability of appropriate qualified consultants • Key stakeholders willing to participate in consultations with IDB and GOSU

SURINAME - Investment Law and Action Plan
Budget Details (IDB ONLY)

	Cost per day/trip	# of days/trips	Total
Component 1: Preparation of Policy Notes			89,190
Consultancy Fees			76,470
PN: Macroeconomic assessment/Int. Economist	650	50	32,500
PN: Debt Sustainability Analysis/Int. Economist	650	31	20,150
PN: Social Spending Analysis/Int. Economist	333	40	13,320
Mapping SMEs	350	30	10,500
Travel			7,200
PN: Macroeconomic assessment/Int. Economist	1,200	2	2,400
PN: Debt Sustainability Analysis/Int. Economist	1,200	2	2,400
PN: Social Spending Analysis/Int. Economist	1,200	2	2,400
Per diem			5,520
PN: Macroeconomic assessment/Int. Economist	184	10	1,840
PN: Debt Sustainability Analysis/Int. Economist	184	10	1,840
PN: Social Spending Analysis/Int. Economist	184	10	1,840
Component 2: Consultative Process with Key Stakeholders			35,000
Consultancy Fees			8,000
Process Coordinator/Local administrator	200	40	8,000
Meetings with stakeholders			15,500
3 meetings in Paramaribo			6,300
2 meetings in the interior			9,200
Workshop in Paramaribo			11,500
Other			20,000
Evaluation			5,000
Contingencies			15,000
TOTAL IDB financing			144,190
Local counterpart			10,000
TOTAL Project			154,190

SURINAME**Debt Management Policy Note****TERMS OF REFERENCE****I. BACKGROUND**

- 1.1 Suriname's 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. The political and economic environments are positive, favoring an open process of dialogue about the most pressing needs of the country. The Bank, with TC resources, is contributing to this process by providing useful information, analysis, and sound recommendations to address the development challenges of Suriname.
- 1.2 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 favorable macroeconomic environment; (ii) reforming and modernizing the state; (iii) improving competitiveness -- through private sector development, trade and integration, better transportation and reliable energy; (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. To facilitate dialogue with the stakeholders, these issues will be summarized in Policy Dialogue Paper, a document that puts together the information gathered and the recommendations. This consultancy will prepare a Debt Sustainability Policy Note. The macroeconomic situation has improved significantly since 2000, however it remains fragile.
- 1.3 Suriname has suffered from periodic macroeconomic instability, typically fluctuating in a cyclical manner between short periods of stability and growth followed by periods of macroeconomic crisis and instability. The sources of volatility were related to poor economic diversification due to dependence on the production of commodities, mostly bauxite and gold. Unfortunately this is a characteristic of countries, such as Suriname, that are small, open, and depending to a large extent on exporting commodities which exhibit volatile prices.
- 1.4 During the last economic cycle, starting around 2000, the Government had great success in stabilizing the economy and de-linking economic performance from commodity price volatility. The actions that explain this outcome are related to better fiscal, monetary, and exchange rate policies. According to the IMF¹ the current administration took action to address the economy's severe imbalances early on by, among other actions taken in 2000, devaluing the official exchange

¹ Public Information Notice (PIN) No. 01/54. May 24, 2001.

- rate, limiting Central Government borrowing from the Central Bank², eliminating subsidies on petroleum products, and substantially raising electricity and water tariffs.
- 1.5 Although economic management has improved in the last years, debt mismanagement is a serious problem for Suriname, and as a result the country is constantly incurring in arrears with all its creditors, including to the Bank. In addition to the recurrent problem of missing payments' due dates, Suriname also holds a large stock of debt in permanent arrears with bilateral donors. The attached debt table was prepared by the IMF mission and shows that 43% of the country's total debt is in arrears, with Brazil holding the majority of it—by the end of 2003 Suriname's total external debt amounted to US\$404 million, of which US\$174 million is in arrears, and total arrears to the Government of Brazil adds to US\$101 million. Poor debt management significantly affects the country's credit ratings.
- 1.6 Government recognizes this situation and requested Bank support in 2002 to strengthen public sector's debt management. The Bank approved TC Institutional Strengthening of Debt Management—TC-O 1 - 12-00-7—with the objective of strengthening the Government of Suriname's capacity to manage public external and domestic debt. The specific objective of the project was to install and activate a computer-based debt recording and management system.
- 1.7 The TC is in the final stage of execution. The Debt Management Office is fully staffed, and back office functions are anchored by the use of 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 to provide training. Government still needs support to consolidate the Debt Management Office by improving the technical capacity of the office and the institutional role of the office with respect to other functions in the Ministry of Finance, the Ministry of Planning, and the Central Bank.

II. CONSULTANCY OBJECTIVES

- 2.1 The consultant will: write a Debt Management Policy Note addressing the key issues in debt management, both technical and institutional.

III. CHARACTERISTICS OF THE CONSULTANCY

- 3.1 Type of consultancy: International.
- 3.2 Starting date and duration: June 10, 2004 for 31 days.
- 3.3 Place of work: Washington DC and Paramaribo, Suriname.

² Current laws limit annual Government borrowing from the Central Bank to 10% of budgeted current revenues. The laws also set debt/GDP upper bounds: 15% for domestic debt and 45% for external debt.

- 3.4 Missions: 2 for a total of 10 days.
- 3.5 Qualifications: expert in debt management with ample experience in supporting Debt Management Offices and analyzing debt issues throughout the world.

IV. ACTIVITIES

- 4.1 The consultant will review background papers and collect primary information to prepare the Debt Management Policy Note.
- 4.2 The 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.
- 4.3 The consultant will work closely with the Country Economist in the first set of activities. More specifically, the Country Economist will provide the set of macroeconomic projections to use in the analysis of scenarios required for the sustainability analysis. These projections will be produced using the RMSM-X. These activities will involve staff of the Surinamese Debt Management Office, so that future updates and new analysis can be performed in house.

V. REPORTS

- 5.1 The consultant will prepare the Debt Management Policy Note. The document will address the following issues:
- i. Debt sustainability analysis. Fiscal and external sustainability using a set of macroeconomic scenarios. These scenarios will include consideration to domestic and external debt in particular current roll over practices of Government 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.
 - ii. Estimation of the envelope of sustainable debt for Suriname.
 - iii. Alternatives for reducing and eliminating arrears.
 - iv. Debt Management. An analysis of the status of the Debt Management Office, including back and middle office functions and the inter institutional set up with respect to the Ministry of Finance, the Ministry of Planning, the Central Bank, and the National Congress.
 - v. Recommendations for additional Bank support to improve the work of the Debt Management Office of Suriname.

VI. COORDINATION

- 6.1 The consultant will report to the SU Country Economist and the OD6 Chief.

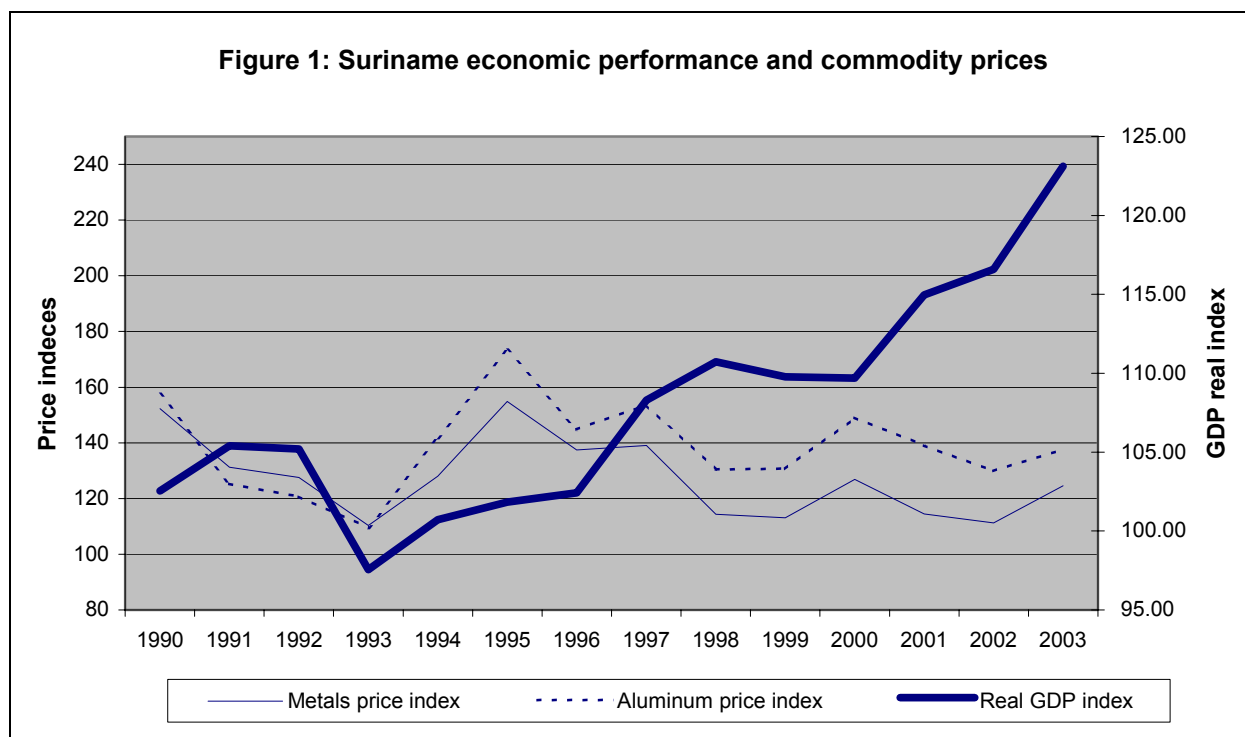
SURINAME**Macroeconomic Assessment Policy Note****TERMS OF REFERENCE****I. BACKGROUND**

- 1.1 Suriname's 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. The political and economic environments are positive, favoring an open process of dialogue about the most pressing needs of the country. The Bank, with TC resources, is contributing to this process by providing useful information, analysis, and sound recommendations to address the development challenges of Suriname.
- 1.2 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 favorable macroeconomic environment; (ii) reforming and modernizing the state; (iii) improving competitiveness -- through private sector development, trade and integration, better transportation and reliable energy; (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. To facilitate dialogue with the stakeholders, these issues will be summarized in Policy Dialogue Paper, a document that puts together the information gathered and the recommendations. This consultancy will prepare a Macroeconomic Assessment Policy Note, and will provide inputs to the Policy Dialogue Paper. The macroeconomic situation has improved significantly since 2000, however it remains fragile.
- 1.3 Suriname has suffered from periodic macroeconomic instability, typically fluctuating in a cyclical manner between short periods of stability and growth followed by periods of macroeconomic crisis and instability. The sources of volatility were related to poor economic diversification due to dependence on the production of commodities, mostly bauxite and gold. Unfortunately this is a characteristic of countries, such as Suriname, that are small, open, and depending to a large extent on exporting commodities which exhibit volatile prices.
- 1.4 During the last economic cycle, starting around 2000, the Government had great success in stabilizing the economy and de-linking economic performance from commodity price volatility see Figure 1. The key to this outcome has been better fiscal, monetary, and exchange rate policies. According to the IMF¹ the current administration took action to address the economy's severe imbalances early on by, among other actions taken in 2000, devaluing the official exchange rate,

¹ Public Information Notice (PIN) No. 01/54. May 24, 2001.

limiting Central Government borrowing from the Central Bank², eliminating subsidies on petroleum products, and substantially raising electricity and water tariffs.

- 1.5 These actions have been followed up by prudent fiscal policy, and as a result the economy has been growing since 2001—4.8% in 2001, 1.4% in 2002, and 5.6% in 2003—and real economic growth should continue in the near term. In 2004, the fiscal position remained stationary at the 2003 level because wage increases during that year have been in line with inflation—nominal wages increased 10% whereas inflation dropped to about 7-8%. Wage increases have been compensated by new tax revenues from a large gold mine (Gross Rosebel) that is just coming on stream and the completion of payments for the two large bridges built between 1997-2000, which had been a drain on the budget for six years. Nevertheless, in light of past experience, maintaining fiscal prudence during the pre-electoral period presents a challenge, even though the Government has publicly stated its intention to maintain fiscal discipline in 2005.



Source: On-line World Bank World Development Indicators <http://devdata.worldbank.org/dataonline/> and IMF.

- 1.6 Medium-term prospects for growth and development are more promising than they have been for many years. Foreign investors are seriously considering large projects in palm oil production in eastern Suriname and in bauxite mining, refining and smelting in western Suriname. The business environment, however, needs to improve in order to further attract private sector investment beyond the mining sector.

² Current laws limit annual Government borrowing from the Central Bank to 10% of budgeted current revenues. The laws also set debt/GDP upper bounds: 15% for domestic debt and 45% for external debt.

- 1.7 Notwithstanding the macroeconomic improvements noted above, the country's underlying fiscal fragility—due to strong dependence on taxes from the mining sector, poor yields on other direct and indirect taxes, and inelastic public spending; the wage bill of the Central Government alone exceeds 12% of GDP.

II. CONSULTANCY OBJECTIVES

- 2.1 This consultancy will: (i) prepare a Macroeconomic Assessment Policy Note; and, (ii) provide inputs to the preparation of Policy Dialogue Paper.

III. CHARACTERISTICS OF THE CONSULTANCY

- 3.1 Type of consultancy: International.
- 3.2 Starting date and duration: June 10, 2004 for 50 days, 35 allocated to the preparation of the Macroeconomic Assessment Policy Note, and 15 to provide inputs to the preparation of the Policy Dialogue Paper.
- 3.3 Place of work: Washington DC and Paramaribo, Suriname.
- 3.4 Missions: 2 for a total of 10 days.
- 3.5 Qualifications: postgraduate training and research in economics and practical and extensive experience in macroeconomic analysis and policy analysis.

IV. ACTIVITIES

- 4.1 The consultant will review background papers and collect primary information to prepare the Macroeconomic Assessment Policy Note.
- 4.2 The consultant will review the set of policy notes, and provide comments and suggestions to improve the quality of these notes. Based on the review, the consultant will provide inputs to the preparation of the Policy Dialogue Paper.

V. REPORTS

- 5.1 The consultant will prepare the Macroeconomic Assessment Policy Note. The document will address the following issues:
- i. Small economy constrains—the challenge of lack of critical mass; the challenge of isolation; the geographic challenge; the challenge and opportunities of a multi-ethnic society; the challenge of depending on

mining; the challenge of money laundering. Fiscal Policy—caps to real current spending growth; protecting social spending and investment; use of saving and revenue smoothing funds; tax policy; public sector financing and the role of the Central Bank.

- ii. Balance of Payments—current account sustainability, FDI, and reserve accumulation.
- iii. Monetary and exchange rate policy—real exchange rate; reserve requirements and objective of monetary policy.
- iv. Macro fiscal rules and creation of saving/stabilization funds. The document will address, preliminarily, the macro fiscal policy rules that could apply to Suriname, including limits to primary spending, elimination of Central Bank financing, limits to the wage bill, protection to social spending and public sector investment. The document will also present criteria for the creation of, and use of, saving and stabilization funds for Suriname.
- v. Macroeconomic assessment and recommendations.

5.2 Using the Policy Notes prepared by Bank staff and those financed by the TC Policy Dialogue in Suriname: Identification of Development Challenges and Policy Options, the consultant will provide inputs to the preparation of the Policy Dialogue Paper. The inputs refer to the following issues:

- i. Setting priorities for the PDP.
- ii. Criteria to define clusters of Policy Notes.
- iii. Role of the public sector in Suriname and private sector development.
- iv. Role of the Bank.
- v. The Dutch issue.

VI. COORDINATION

6.1 The consultant will report to the SU Country Economist and the OD6 Chief.

SURINAME**Process Consultation Coordinator****TERMS OF REFERENCE****I. BACKGROUND**

- 1.1 Suriname's 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. 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.
- 1.2 However, in this environment it takes time to build consensus on how to address the many urgent needs of the country. For example, the Cabinet's agenda is unnecessarily long because Ministers, and their staff, are reluctant to make decisions. This results from the fear that by not considering all the many competing interests, regardless of the relevance of the issue at hand, a poor decision 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 sent up in the hierarchy, and therefore delayed, until they eventually reach the Cabinet.

Table 1: Suriname Key Economic Indicators

	1999	2000	2001	2002	2003	2004
GDP real growth (%)	-4.8	-5.7	4.5	3	5.3	4.6
Consumer prices (e.o.p., %)	116.5	77.3	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

- 1.3 The economic environment is positive, characterized by 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, prohibiting Central Government borrowing from the Central Bank, eliminating subsidies on petroleum products, and substantially raising electricity and water tariffs. Good economic results achieved to date 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 facilitates social development.
- 1.4 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 favorable macroeconomic environment; (ii) reforming and modernizing the state; (iii) improving competitiveness -- through private sector development, trade and integration, better transportation and reliable energy; (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.
- 1.5 The Bank is supporting this process by providing staff time and TC financing to identify and prioritize the development challenges of Suriname, and to recommend policy actions designed to address these challenges. The purpose of the TC is to: (i) prepare a set of Policy Notes addressing the issues of the pre-identified development challenges of Suriname; and, (ii) design a consultative process with stakeholders in the country with the objective of defining priorities among these development challenges, and validating and fine tuning the recommendations presented in the Policy Notes.
- 1.6 Key to the success of this TC is the design and implementation of a consultative process among key stakeholders, which will be led by the Country Office in Paramaribo with support from Bank staff in headquarters. The process should be designed to achieve the following objectives: (i) have a good definition of the priorities among the many important issues in Suriname; (ii) discuss and validate, where appropriate, the recommendations presented in the Policy Notes; (iii) to 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.
- 1.7 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.

II. CONSULTANCY OBJECTIVES

- 2.1 The Bank's Country Office Civil Society Advisory Group provides an appropriate channel to reach out to many stakeholders with the objective of sharing the main results of the analytical work and the main issues related to the consultation process. In the context of the TC Policy Dialogue in Suriname: Identification of Development Challenges and Policy Options, 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. The Process Coordinator main role is to facilitate and provide logistical support to the process, including keeping records, and providing a final report. The Process Coordinator, in coordination with the Bank's Country Office and Bank headquarters staff, 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.

III. CHARACTERISTICS OF THE CONSULTANCY

- 3.1 Type of consultancy: Local.
- 3.2 Starting date and duration: July 1, 2005 for 40 days.
- 3.3 Place of work: Suriname.
- 3.4 Qualifications: professional with some experience in administration and communications/consultation processes.

IV. ACTIVITIES

- 4.1 The Process Coordinator will prepare a work program for the Bank's Country Office Civil Society Advisory Group. The work program's objective is to receive guidance from the group for the preparation of the consultation process, the definition of the appropriate communication tools to use for the different meetings of the process, and to systematically record the process. The Process Coordinator will prepare minutes of all the meetings of the Civil Society Advisory Group, and will prepare a brief document summarizing the main results of these meetings.
- 4.2 The Process Coordinator will also provide support to the preparation of 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. Initially the process includes 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. The Process Coordinator will prepare minutes of these five meetings, and a brief document summarizing the main results of the process.
- 4.3 Finally, the TC will fund a one-day workshop designed to reach out to a broad audience in Paramaribo. The objective of this meeting 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. The Process Coordinator will prepare minutes of the one-day workshop, and a brief document summarizing the main results of the process.

- 4.4 Finally, the Process Coordinator, Country Office staff and Bank headquarters staff will 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.

V. REPORTS

- 5.1 The consultant will prepare the following reports:
- i. Minutes of all the meetings of the Civil Society Advisory Group, and a brief document summarizing the main results of these meetings.
 - ii. Minutes of these five meetings, with key stakeholders in Paramaribo and in other locations in Suriname, and a brief document summarizing the main results of the process.
 - iii. Minutes of the one-day workshop, and a brief document summarizing the main results of the process.
 - iv. Action Plan for continuing dialogue and consultation about how to address the development challenges of Suriname.

VI. COORDINATION

- 6.1 The consultant will report to the SU Country Economist and the OD6 Chief.

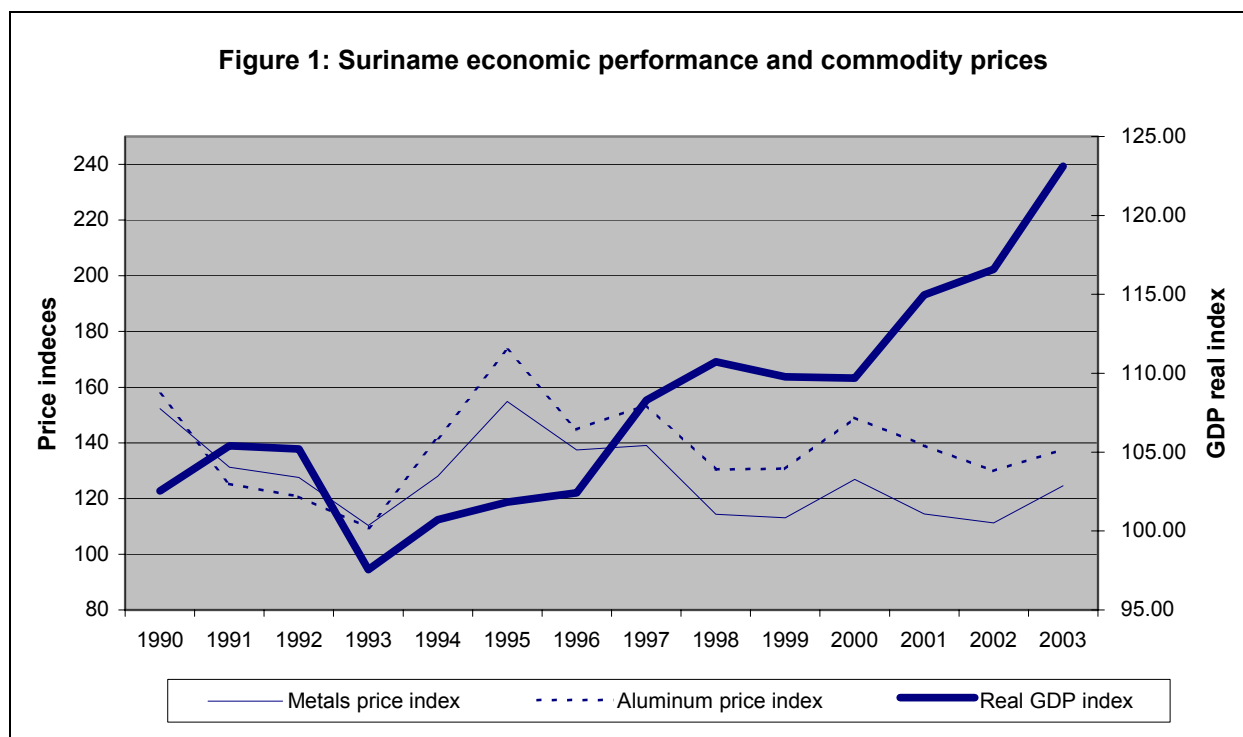
SURINAME**Social Spending Analysis Policy Note****TERMS OF REFERENCE****I. BACKGROUND**

- 1.1 Suriname's 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. The political and economic environments are positive, favoring an open process of dialogue about the most pressing needs of the country. The Bank, with TC resources, is contributing to this process by providing useful information, analysis, and sound recommendations to address the development challenges of Suriname.
- 1.2 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 favorable macroeconomic environment; (ii) reforming and modernizing the state; (iii) improving competitiveness -- through private sector development, trade and integration, better transportation and reliable energy; (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. To facilitate dialogue with the stakeholders, these issues will be summarized in Policy Dialogue Paper, a document that puts together the information gathered and the recommendations. This consultancy will prepare a Social Spending Policy Note, and will provide inputs to the Policy Dialogue Paper. The macroeconomic situation has improved significantly since 2000, however it remains fragile.
- 1.3 Suriname has suffered from periodic macroeconomic instability, typically fluctuating in a cyclical manner between short periods of stability and growth followed by periods of macroeconomic crisis and instability. The sources of volatility were related to poor economic diversification due to dependence on the production of commodities, mostly bauxite and gold. Unfortunately this is a characteristic of countries, such as Suriname, that are small, open, and depending to a large extent on exporting commodities which exhibit volatile prices.
- 1.4 During the last economic cycle, starting around 2000, the Government had great success in stabilizing the economy and de-linking economic performance from commodity price volatility see Figure 1. The key to this outcome has been better fiscal, monetary, and exchange rate policies. According to the IMF¹ the current administration took action to address the economy's severe imbalances early on by, among other actions taken in 2000, devaluing the official exchange rate,

¹ Public Information Notice (PIN) No. 01/54. May 24, 2001.

limiting Central Government borrowing from the Central Bank², eliminating subsidies on petroleum products, and substantially raising electricity and water tariffs.

- 1.5 These actions have been followed up by prudent fiscal policy, and as a result the economy has been growing since 2001—4.8% in 2001, 1.4% in 2002, and 5.6% in 2003—and real economic growth should continue in the near term. In 2004, the fiscal position remained stationary at the 2003 level because wage increases during that year have been in line with inflation—nominal wages increased 10% whereas inflation dropped to about 7-8%. Wage increases have been compensated by new tax revenues from a large gold mine (Gross Rosebel) that is just coming on stream and the completion of payments for the two large bridges built between 1997-2000, which had been a drain on the budget for six years. Nevertheless, in light of past experience, maintaining fiscal prudence during the pre-electoral period presents a challenge, even though the Government has publicly stated its intention to maintain fiscal discipline in 2005.



Source: On-line World Bank World Development Indicators <http://devdata.worldbank.org/dataonline/> and IMF.

- 1.6 Medium-term prospects for growth and development are more promising than they have been for many years. Foreign investors are seriously considering large projects in palm oil production in eastern Suriname and in bauxite mining, refining and smelting in western Suriname. The business environment, however, needs to improve in order to further attract private sector investment beyond the mining sector.

² Current laws limit annual Government borrowing from the Central Bank to 10% of budgeted current revenues. The laws also set debt/GDP upper bounds: 15% for domestic debt and 45% for external debt.

- 1.7 Notwithstanding the macroeconomic improvements noted above, the country's underlying fiscal fragility—due to strong dependence on taxes from the mining sector, poor yields on other direct and indirect taxes, and inelastic public spending; the wage bill of the Central Government alone exceeds 12% of GDP.
- 1.8 The critical component of the policy mix is therefore fiscal policy. Even though Government has come a long way in providing stability through prudent government spending, there is a large amount of pressure to increase spending during an elections year. The law establishes severe penalties to the Minister of Finance if domestic and external debt ceilings are breached—15% and 45% of GDP respectively. The implementation of the law, however, allows for some flexibility. Moreover, there is anecdotal evidence that public spending is inefficient because of the large number of programs in place, with gross overlapping and duplication. On the revenue side the issues relate to dependence on taxes to the mining sector, which exhibits volatile prices and exhaustible resources. In this context, the core of this study is to assess fiscal sustainability because if achieved, then it will translate into macroeconomic stability.

II. CONSULTANCY OBJECTIVES

- 2.1 This consultancy will prepare a fiscal assessment of Suriname.

III. CHARACTERISTICS OF THE CONSULTANCY

- 3.1 Type of consultancy: International.
- 3.2 Starting date and duration: June 10, 2004 for 45 days.
- 3.3 Place of work: Washington DC and Paramaribo, Suriname.
- 3.4 Missions: 2 for a total of 10 days.
- 3.5 Qualifications: postgraduate training and research in economics and practical experience in fiscal analysis, with emphasis on social spending.

IV. ACTIVITIES

- 4.1 The consultant will review background papers and collect primary information to prepare the fiscal assessment and analysis of trends.

V. REPORTS

5.1 The consultant will include the following issues in the final report:

- i. Description, diagnostic and analysis of fiscal trends. The analysis of fiscal revenues will include the composition of revenues, the analysis of direct and indirect taxes, the dependence on the mining sector. The analysis of spending will include current and capital spending, pro/counter cyclicalities, and the wage bill.
- ii. Analysis of social spending. The document will include a section describing and analyzing 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.
- iii. Public sector financing and the effect of Dutch development assistance. 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. 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.
- iv. 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.
- v. Finally, based on (i), (ii), (iii), and (iv) the consultant will elaborate answers to the following questions: Is the public sector a de facto social safety net?; Does public spending affect non-tradable prices and the real exchange rate?; What are the key issues to address when considering the sustainability of Government spending in Suriname?

VI. COORDINATION

6.1 The consultant will report to the SU Country Economist and the OD6 Chief.