

**DECENTRALIZATION AND LOCAL GOVERNMENT
STRENGTHENING PROGRAM (DLGP)**

(SU-0019)

EXECUTIVE SUMMARY

Borrower:	Republic of Suriname		
Guarantor:	Republic of Suriname		
Executing agency:	Ministry of Regional Development (MRD)		
Amount and source:	IDB: (OC/IFF)	US\$	4.9 million
	Local:	US\$	2.1 million
	Total:	US\$	7.0 million
Financial terms and conditions:	Amortization Period:	25	Years
	Grace Period:	3	Years
	Disbursement Period:	3	Years
	Interest Rate:	Variable	(IFF)
	Supervision and Inspection:	1	%
	Credit Fee:	0.75	%
	Currency:	US dollars from the Single Facility Currency	
Objectives:	The broad goal of the program is to empower local governments in Suriname with the core legal framework and institutional capacity necessary for fiscal self management. More specifically, the Program aims at: (i) promulgating new enabling legislation for autonomous revenue generation and budget management by District authorities; (ii) putting in place a core package of basic municipal management systems in each of the Districts; (iii) improving the capacity of key central government stakeholders, particularly in Ministry of Regional Development; and (iv) undertaking preinvestment activities in preparation for an expanded follow-up effort by the Government.		
Description:	Suriname has traditionally depended on a centralized government structure for delivery of basic services. Frustrated by the lack of responsiveness of this system to local demands, as well as its general ineffectiveness in meeting local needs, Surinamese society has begun to pressure for the creation of a local level of government. In 1989 a first attempt was made with the passage of the Law of Regional Bodies (LRB), aimed at enabling local (District) governments to begin managing their own revenues and budgets as well as deliver simple public services, such as secondary		

and tertiary roads, drainage, public markets, and solid waste collection. However, over the last ten years, little progress has been made in the implementation of the Law, in part because of weaknesses in the structure of the legislation – particularly as regards the creation of fiscal instruments for local governments, in part because of the limited capacity of central government to support a systematic capacity building process with the Districts.

The purpose of the proposed program is to begin effective implementation of the decentralization strategy initiated twelve years ago. Autonomous local government entities, capable of managing themselves within preestablished mandates, will be built around the local District offices currently run by the Ministry of Regional Development. Building on important local government resources already in place – legal functional mandates; substantial District staff (albeit under central government payroll); and electorally accountable District Councils -- the Program will focus on a critical missing ingredient for local governance: the creation of autonomous financial management and revenue generation mechanisms. Through a new legislative reform initiative, the Program will amend the Law of Regional Bodies to allow for effective fiscal decentralization to the Districts. It will also develop basic self-management skills and tools for the Districts, through a comprehensive capacity building package. These and other complementary activities will be accomplished through five components:

1. **Intergovernmental reforms (US\$0.6 million).** This component will support the formulation and implementation of a set of core legislative reforms and related technical studies to provide Districts with authority for basic fiscal self management, in the areas of budgeting, cash management, and own-source revenue generation. On the revenue side, this will include:
 - (i) Updating and partial devolution of the **property tax system**;
 - (ii) devolution of other taxes and fees, including: **public entertainment tax, business permit fees, liquor license fees and public market rental fees**;
 - (iii) formulation and implementation of a **local betterment tax and/or special assessment tax** mechanism;
 - (iv) study to explore a **possible revenue sharing system**.

On the expenditure side, the partial or transitional **budget authority** granted by current legislation will be converted into permanent legislation, including new regulatory guidelines and procedures.

2. **District capacity building (US\$3.0 million).** Starting with a pilot group of five Districts, a set of core institution building systems will be put in place in all the Districts, covering: (i) administration and planning; (ii) budget and financial management; (iii) local revenue generation; and (iv) citizen participation. Once a District has been certified by the program, with respect to its capacity to manage the above systems, it will be eligible to receive support from the program in capital investment projects. Specifically, the first five Districts to obtain certification will be eligible for funding to develop public works management systems, as well as to formulate and implement training projects in road rehabilitation and maintenance.
3. **Institutional strengthening of sector (US\$0.5 million).** The program will support the organizational strengthening of the Ministry of Regional Development (MRD) as the government's lead agency for the sector. This includes the formulation of a strategic development plan and organizational assessment for MRD, as well as the provision of institutional strengthening to other key stakeholders in the sector.
4. **Preinvestment (US\$0.5 million).** In view of the government's commitment to a long term, stepped-up approach to local government empowerment, the program will include preinvestment activities in support of expanded sector development actions contemplated by the government after the program is completed. Accordingly, funds will be provided for the preparation of a pipeline of follow up District capacity building and capital investment/service delivery projects. Similarly, at the end of the program, operating procedures at the national level will be reviewed and enhanced, to accommodate the evolving demands and needs of the Districts as they become more self sufficient.
5. **Program support (US\$1.3 million).** Program funds will be used to finance the Program Implementation Unit (PIU) that will be created in the Ministry of Regional Development to execute the program. Given the country's limited professional experience in program management and local government capacity building, program resources will also be used to fund a full time international Resident Advisor (RA) to assist the PIU in the execution of the program. A comprehensive marketing and public outreach campaign will also be funded through this component, as well as the design and start up of a performance monitoring and program evaluation system.

**Bank's country
and sector
strategy:**

The Bank's country strategy in Suriname, as defined in the February, 2000, Country Paper, defines five priority development areas: (i) private sector development; (ii) governance and modernization of the state; (iii) human resource development and social inclusion; (iv) environmental management; and (v) macro-economic management. In the area of governance and modernization of the state, the Country Paper calls attention to the critical need for improvement in the efficiency and effectiveness of government in Suriname. Specific priority areas recommended for Bank activity include: the strengthening of local governments, as a means of improving the responsiveness and allocative efficiency of government; and the initiation of a dialogue on civil service reform.

The Bank has had no previous direct experience in Suriname working with local governments. In related areas, however, the Bank is currently providing technical in national tax policy and administration, aimed at streamlining national taxation instruments. In addition, last year the Bank approved a Community Development Fund Program – CDFS (SU-0020), the purpose of which is to provide funding through NGOs and CBOs for small community-based poverty alleviation projects in the Districts. As a means of complementing with the current program, the CDFS was designed to allow for the participation of District governments as eligible project intermediaries, thus constituting a potential source of project financing for the District governments. The DLGP, in turn, will support this effort by building local government capacity in strategic development planning, community consultation, as well as design and execution of investment projects.

**Environmental/
social review:**

The principal activities of the DLGP are in policy reform and institutional capacity building, for which few environmental or social risks are anticipated. However, the program will also support capacity building activities in the Districts related to their planning and service delivery functions, both of which could have more significant social and environmental impacts. Specifically, the program will assist Districts in preparing strategic development plans and capital investment budgets. It will also finance training projects in secondary and tertiary road rehabilitation and maintenance, as well as the development of a modest pipeline (preinvestment) of small local public works projects for future financing outside the program. Accordingly, the capacity building systems offered by the program will include specific procedures for social/environmental assessment and screening of local investment projects.

Potential social and environmental consequences from the implementation of DLGP are mainly positive, since a number of benefits may be expected through the improvement of public

services by district administration. Moreover, the training and public participation activities will provide the opportunity to improve environmental awareness and institutional capability at the local level. For example, specific environmental assessment provisions have been incorporated into the guidelines for preparation of strategic development plans by the Districts.

Minor negative impacts could occur in the case of the road rehabilitation training projects funded by the program, including noise and dust from construction; minor erosion; and vegetative waste accumulation from cleaning of roadside drains. To address the latter, assessment and review procedures have been formulated in the program operating regulations for District civil works projects.

Benefits:

The Program will produce interrelated benefits in two areas: at the local level, within the Districts; and for the local government sector as a whole, including the implementing agency, the Ministry of Regional Development.

At the District level, for the first time in Surinamese history, citizens will be empowered to exercise fiscal self management with a view to delivering basic local services. Autonomous financial systems will be established, including a fiscal base for own-source revenue generation, and independent budgeting and financial management systems. Basic planning, administration and citizen participation methods will also be set up in each District, as well as simple public works management systems. Once certified in the above systems, Districts will be eligible as well to undertake training investment projects in basic public works projects.

Sector wide, the Program will support a legal reform process aimed at eliminating ambiguities in the current enabling framework for District governments, particularly in the area of intergovernmental fiscal responsibilities and authority. An institutional support system for the sector will be created, including: a pool of local experts capable of sustaining the District capacity building process in the future; a central government support system, through the Ministry of Regional Development, and its Project Implementation Unit; and the Ministry of Finance. Finally, a preliminary network of local government officials will be created, to further support long term institution building in the sector.

Risks:

Program management capacity. Like most central government institutions in Suriname today, the Ministry of Regional Development does not have the institutional capacity to manage a program like the DLGP with in-house staff. Program management will therefore have to depend on an external PIU, composed of full time local consultants. Moreover, since program management experience is relatively limited in the country, and few local

professionals know about local government capacity building, even a moderately well trained local PIU team will require outside technical support to efficiently manage the program. For this reason, the program will rely strongly on external consultants to assist in (i) overall program management; (ii) the training of local trainers; and (iii) the operational design and initial implementation of DLGP activities. As a longer run program management objective, MRD will receive institutional strengthening support to enable it assume direct responsibility for some of the functions initially borne by the PIU.

Political support for legislative reforms. The political climate in Suriname is presently very supportive of the decentralization reforms proposed by the program. During the recent national elections, all major political parties explicitly supported decentralization and local government empowerment agendas in their election platforms. Nevertheless, potential resistance to the specific legislative proposals, once drafted, must always be considered a potential risk. This can include resistance from central government agencies not willing to give up influence; or the reluctance of some local governments to levy taxes on their constituents. To reduce this risk, a broad based information campaign was initiated during the formulation of the program. This will be further expanded during implementation through a marketing and consensus-building action plan that periodically feeds back with all major stakeholders as legislation is drafted – National Assembly, national Ministries, representatives of local elected officials, and local NGOs. This will be reinforced by the Bank's periodic monitoring of program benchmarks, especially during midterm review.

**Special
contractual
clauses:**

Conditions precedent to first disbursement:

1. Establishment of special bank account for the resources of the financing (see paragraphs 3.1 and 3.37).
2. International Resident Advisor of program is contracted (see paragraph 3.6).
3. Program implementation unit (PIU) established and its director and financial program administrator are contracted (see paragraph 3.7).
4. Interinstitutional agreements, or other legal instruments, committing services of OTA, CLAD, and NIMOS (see paragraphs 3.13 and 4.14).
5. Presentation of final text of program's operating regulations (see paragraph 3.16).

Condition during execution:

Midterm review of benchmarks, prior to executing trial capital investment projects (see paragraph 3.45).

Poverty-targeting and social sector classification:	<p>This operation qualifies as a social equity enhancing project, as described in the indicative targets mandated by the Bank's Eighth Replenishment – due to the concentration of program activities in Districts outside the capital city, where average household incomes are, on average, well below the national median. However, the program does not qualify as a poverty-targeted investment (PTI) (see paragraph 4.7).</p>
Exceptions to Bank policy:	<p>Exceptions to Bank policy governing the use of International Competitive Bidding for the procurement of consulting services.</p> <ol style="list-style-type: none">1. The Association of Netherlands Municipalities (VNG) has been selected as sole source specialized agency responsible for international technical assistance in program management and District capacity building, based on the agency's high level of specialization and regional experience in this area and its current ongoing technical advisory role in the area of local governance with the Government of Suriname (see paragraph 3.49).2. For the international technical assistance required by the program in the area of local taxation and revenue generation, another specialized agency, the Interamerican Center for Tax Administrators (CIAT) will be contracted on the basis of a continuation of services contract. The new contract extends work already successfully under way through a PPF contract. CIAT, a highly specialized regional agency in the area of tax administration, plays a key technical advisory role with Suriname's Office of Tax Administration, who will co-execute the revenue generation component of the program (see paragraph 3.50).
Procurement:	<p>The procurement of works, goods and consulting services will take place in accordance with Bank policy, as set out in Annexes B and C to the loan contract. In the case of civil works, since the maximum cost of projects in the program does not exceed US\$170,000, no procurement will be carried out under International Competitive Bidding (ICB) procedures; national procurement procedures will be followed instead. Consulting services will also be contracted according to Bank procedures, with two exceptions (see above). A procurement table is attached as Annex II.</p>

I. FRAME OF REFERENCE

A. Overview

- 1.1 Suriname currently has a centralized structure of government, with national ministries and parastatals effectively in charge of the delivery of most basic local services. Because of Suriname's small population – 425,000 inhabitants in 10 Districts, half of whom live in the capital District of Paramaribo – the logic of this centralized structure has only begun to be questioned in recent years. A strong tradition of regional identity among the country's ethnic communities, coupled with the ineffectiveness of central government delivery of services, has gradually led to demands for increased local self-management. In the early 80s government responded by creating elected Councils in each of the country's Districts. This was formalized and given greater standing with the passage of the 1987 Constitution which focused several chapters on principals of regional governance and, for the first time, defined Districts as an official level of government.
- 1.2 This was followed in 1989 by more specific enabling legislation, the Law of Regional Bodies (LRB), which defined the functions and responsibilities of District governments as well as some preliminary mechanisms for local revenue generation and financial management. As an enabling framework, however, the LRB has proven to have serious shortcomings, most especially as regards intergovernmental fiscal responsibility and authority. Provisions for local sources of revenue are weakly defined, leaving Districts with service delivery mandates that have little effective means of funding. Furthermore, the provisions for autonomous District budgets are subject to such cumbersome legal approval procedures that no District government has yet been able to avail itself of the authority provided by the Law.
- 1.3 As a result, the District governments today continue to function largely in the same manner they did prior to the 1987 Constitution – as branch offices of the Ministry of Regional Development (MRD). Although the Law of Regional Bodies and the 1987 Constitution put in place some important building blocks of local governance-- legally approved service delivery mandates, and electorally accountable District Councils – the basic elements of *fiscal* self management are still absent: autonomous budgeting and own-source revenue mechanisms. Accordingly, the Government of Suriname (GOS) has asked for Bank assistance to remedy this situation. Through this Program, it would like to enhance and amend the enabling legislative framework for District governments and, at the same time, create in them a core institutional capacity that will allow them to begin to implement their newly mandated functions. In short, to effectively implement the decentralization provisions announced in the 1987 Constitution.

B. Macroeconomic context

- 1.4 Over the last two decades, Suriname's economy has performed poorly. Gross Domestic Product (GDP) grew only 0.4% in real terms between 1975 and 2000. Per capita GDP declined slightly during this period, and was estimated at US\$844 (1990 prices) in 1997. The civil disturbances in the interior in the mid 1980s disrupted agricultural production, and forced many from the countryside and small towns into Greater Paramaribo, which now accounts for over 55% of total population. The early 1990s were particularly difficult. The economy went into a slump and inflation rose to above 300% by 1994.
- 1.5 The macroeconomic situation improved greatly from 1995 to 1997, but deteriorated again in 1998-2000. In 2000, GDP shrank by 7.4% in real terms, inflation was 71% and the fiscal deficit was equivalent to 12% of GDP.
- 1.6 This economic crisis was mirrored by a major political crisis that began in 1999, prompting a call for general elections one year ahead of schedule. In May 2000, the New Front coalition was swept into power with 34 of the 51 seats in the National Assembly. Unlike the outgoing administration, which in 1996 was built on a post-election coalition of often competing and conflicting interests, the new administration entered and contested the elections with a united front. A general consensus has emerged that this arrangement offers an escape from the political turmoil and strife that marked the preceding years and holds the possibility of greater political and economic stability.
- 1.7 The new Government inherited a very difficult macroeconomic situation, with the economy slumping and deeply unbalanced. Government finances were especially weak, following three years of fiscal deficits in excess of 10% of GDP, significant external borrowing at short-term maturities, and the accrual of payments arrears. The Government initiated stabilization measures in late 2000, including a substantial devaluation of the official exchange rate, cutbacks in subsidies, and an increase in the price of gasoline and electricity. These measures have stabilized the economy in the short term and have started to lessen disequilibria. An IMF Article IV mission in February 2001 projected a moderately positive outcome in 2001 – a resumption of growth, a fiscal deficit of less than 3% of GDP and annual inflation declining to 50% – if the Government could maintain fiscal discipline, especially regarding civil service wage increases, and refinance external debt with the assistance of the Government of the Netherlands.

C. Local government in Suriname

1. Structure and mandate

- 1.8 Suriname is divided into 10 districts: Marowijne, Commewijne, Paramaribo (subdivided into South-West and North-East), Para, Wanica, Coronie, Saramacca, Nickerie, Brokopondo and Sipaliwini. The first eight districts are located in the northern and coastal zone and contain 92% of the population. The small districts

of Paramaribo and Wanica have more than two-thirds of the population. Brokopondo and Sipaliwini are the two most southern and interior districts with 8% of the population. Sipaliwini is the largest district with almost 80% of the total area of Suriname and only 5% of the population. This interior area is characterized by dense forests and hills and is only accessible by a few roads and mostly by boats.

- 1.9 The administrative structure of the District governments is rudimentary. As at the national level, District government is broken into representative and executive branches. The district councils form the representative branch and the district administrations form the executive branch. The President appoints a District Commissioner for each District (two for Paramaribo), who performs both as chair of the district council and chief executive of the district administration.

Table I-1

District	Population
Brokopondo	6,649
Commewijne	20,298
Coronie	2,808
Marowijne	12,931
Nickerie	32,647
Para	13,329
Paramaribo	213,578
Saramaca	12,349
Sipaliwini	21,272
Wanica	68,892
TOTAL	404,753

- 1.10 It should be noted that within each District, the 1987 Constitution also established 62 subdistrict jurisdictions, known as *Ressorts*, each with its own popularly elected representative body, the Ressort Council. In most jurisdictions, however, due to the small population and economic base of most ressort jurisdictions, the system of ressort council system has not functioned very effectively, and is currently under study for possible elimination.
- 1.11 As defined in the Law of Regional Bodies, the Districts have a relatively limited mandate: (i) maintenance of secondary and tertiary infrastructure (roads, drainage, irrigation)¹, public parks and open spaces; (ii) management of public markets; (iii) solid waste collection and disposal; (iv) provision of trucked-in potable water; (v) fire prevention and control; (vi) local planning and budgeting; (vii) maintenance of public order; and (viii) supervision of public health (including cemeteries).
- 1.12 Under current practice, staff of the district administration is organized into three generic units or departments: (i) Superintendents, responsible for overlooking the needs of ressort jurisdictions; (ii) a clerk's office, dealing with archives, book keeping and secretarial support; and (iii) a technical area comprising infrastructure maintenance.
- 1.13 Although generally overstaffed, District personnel are for the most part low skilled and under-paid. Many of these, even after undergoing a training process, will have difficulty executing some of the new and more complex functions the Districts will begin to assume through this program. New staff members, with distinct qualifications will probably be needed to take over some of the new

¹ Except for Paramaribo, where the Ministry of Public Works retains this responsibility.

responsibilities. The cost of this new personnel, as well as that of existing District staff, will initially have to be borne by the Ministry of Regional Development, as District governments consolidate their own source revenues, financial management, and personnel contracting systems with the assistance of this program.

2. Local and intergovernmental finances

a) Financial management

- 1.14 One the greatest weaknesses of the Law of Regional Bodies is that it did not define effective mechanisms for implementing the local budgeting and financial management mechanisms proposed by the legislation. As a result the Districts currently continue to function as budgetary dependencies of the Ministry of Regional Development (MRD), the equivalent of administrative departments, with limited expenditure responsibilities and no authority to handle cash or make payments.
- 1.15 Under MRD control, the District budget, both from the preparation and execution standpoints, is formally under the responsibility of the District Commissioner. (The formally elected District Councils play only a consultative role under this MRD driven budget process.) In practice, the budget requests produced on a yearly basis, particularly as regards non-recurrent obligations, is an empty exercise, largely ignored by the budget review authorities in MRD. What is allocated to the Commissioner corresponds mainly to personnel expenses – representing, on average, 90% of the District budget – and basic operating costs (transportation, rent, electricity and telephone). Very little is left for discretionary use by the District Commissioner.
- 1.16 To present an order of magnitude of consolidated District finances, the GOS year 2000 ordinary (current) budget totaled the equivalent of US\$156 million (SF265.6 billion). MRD's share of this annual budget was US\$2.4 million – i.e., 1.6%, of which US\$2.2 million (1.4%) was allocated to the 10 Districts.
- 1.17 Since Districts currently have no financial autonomy and function as mere departments of MRD, any acquisition, contracting or hiring is submitted to a complex process of authorization and verification managed centrally by MRD and the Ministry of Finance, both in the capital city of Paramaribo. That rule is applied even to simple acquisitions, such as office supplies.

b) Revenue sources

- 1.18 On the revenue side the story is the same. Despite declarations to the contrary in the LRB, in practice Districts exercise no organized authority for own-source resource mobilization. Informally, some Districts have been reported to occasionally raise funds through non-official local user fees, licensing charges or other forms of contributions. These initiatives involve a significant moral and

legal risk, but result from the eagerness of certain District Commissioners to address local service demands by circumventing the present legal limitations.

- 1.19 Under the Law of Regional Bodies, district councils can, in theory, impose "special purpose taxes," if approved by the National Assembly, as well as establish district accounts (*districts fonds*) for the administration of these revenues, as well as fines collected for violation of district ordinances, confiscated properties, and other income that may be allocated to them. In practice this has never occurred.
- 1.20 The District Commissioner is usually well informed about what goes on in his or her district, but has much of his authority limited by the fact that most of the local affairs have to be decided elsewhere, usually by some other ministerial agency in Paramaribo. He/She has the bureaucratic task of conveying requests upwards, is frequently consulted about them, but very rarely makes a final decision.
- 1.21 Table I-2 presents the average budget, during 1999 and 2000, for a sample of four Districts. Salaries and wages comprise, on average, 80% of expenditures, and personnel allowances another 10%, leaving only the remaining 10% to cover all other operation and maintenance expenditures. When funds are not available, the practice of District Commissioners is to simply forego operation and maintenance requirements – i.e., roads are not maintained, and garbage is not collected. This is not true of payroll obligations for personnel.

Table I-2
Average Budgeted Expenditures for the Sample Districts, 1999-2000
(Amount in US\$)

Expenditures	Nickerie	%	Saramacca	%	Para	%	Wanica	%
PERSONNEL	90,900	84	146,500	94	67,800	89	156,100	93
Salaries	69,400	64	107,100	68	50,700	66	141,400	84
Allowances	21,500	20	39,400	26	17,100	23	14,700	9
OTHER EXPENDITURES	17,800	16	10,100	6	8,800	11	12,800	7
Offices and utilities	1,700	2	1,700	1	2,400	3	1,800	1
Transport and vehicles	2,800	3	4,800	3	3,100	4	5,200	3
Oper/Maint local services	13,200	11	2,900	2	2,500	3	5,400	3
Miscellaneous	100	0	700	0	800	1	400	0
TOTAL	108,700	100	156,600	100	76,600	100	168,900	100

- 1.22 It is reasonable to assume that, as Districts are made more fully accountable for delivery of local services, the amounts necessary to meet basic operation and maintenance obligations will be considerably larger than appears in current District budgets.

- 1.23 Since Districts still exercise little or no revenue generation activity, the central government until recently has maintained authority for the administration of revenue sources that, in most other countries, are considered local in nature, including: property taxes (known as *rental value tax* in Suriname), business and liquor permits, public market rentals, public entertainment tax. As a result of the proposed Program, these revenue sources will be devolved to the Districts. Table I-3 below presents an estimate of the potential revenue flows that the same four sample Districts could expect to receive if these revenue sources were devolved to them today or soon thereafter.

Table I-3
Potential Start Up Revenues in the Sample Districts
Amount in US\$

		Nickerie	Saramacca	Para	Wanica
<i><u>Tax:</u></i>	Rental Value Tax*	45,563	23,851	16,738	116,280
	Public Entertainment tax**	25,914	3,712	29,181	6,709
<i><u>Non-tax</u></i>	Business Permit **	7,750	2,807	2,510	30,244
	Liquor License Fee **	171	77	10	278
	Use of Market Space **	10,022	234	-	7
	TOTAL REVENUES	89,420	30,680	48,438	153,517

* Rental value tax estimates were estimated conservatively at 60% of the current assessed rental value

** Other revenue estimates are based on the average collection observed in years 1998 and 1999

- 1.24 Although these values fall short of current total expenditure levels of the Districts (as noted in Table 1.2), it should be noted that transitionally – during the life of the program – the Districts will not have to assume personnel expenditure obligations. Current District staff are under national civil service contract, protected by legislation, and – in the absence of a new civil service regime for local governments – will continue to be paid through the Ministry of Regional Development. Accordingly, during this transition period, own source revenues generated by the Districts will only be applied to non-personnel expenditure obligations. It is important to point out, moreover, that the revenue projections in Table 1.3 are expected to increase over time, as the Districts take ownership of the revenue sources and collection systems are improved. This, in turn, will permit the Districts to begin taking over funding responsibility for personnel costs, after the program, once an autonomous personnel policy for local governments has been defined (with assistance from the Program).

3. Interim Fiscal Decentralization Decree

- 1.25 Given the ambiguity and rigidities in the Law of Regional Bodies, the Government of Suriname passed an Interim Fiscal Decentralization Decree in May of last year (State Decree No. 53), aimed at providing the Districts with transitional authority over the local revenue sources noted above, until more permanent legislation could be processed through the National Assembly by the Program. With a view to equipping the Districts with minimum fiscal tools to start

up the capacity building process, the Decree also authorized the creation of interim budgeting and financial management mechanisms in each of the Districts.

D. Bank strategy for country and related program activity

- 1.26 The Bank's country strategy in Suriname, as defined in the February 2000, Country Paper, defines five priority development areas: (i) private sector development; (ii) governance and modernization of the state; (iii) human resource development and social inclusion; (iv) environmental management; and (v) macroeconomic management. In the area of governance and modernization of the state, the Country Paper calls attention to the critical need for improvement in the efficiency and effectiveness of government in Suriname. Specific priority areas recommended for Bank activity include: the strengthening of local governments, as a means of improving the responsiveness and allocative efficiency of government; and the initiation of a dialogue on civil service reform.
- 1.27 The Bank has had no previous experience in Suriname working with local governments. The same holds true of other international donor agencies, with the partial exception of the Dutch government who, through the Netherland Association of Municipalities (VNG), has periodically provided important technical assistance to the country in this area.
- 1.28 In related areas, the Bank is currently providing important technical support to the Surinamese government in the area of national tax policy and administration, aimed at streamlining national taxation instruments and strengthening the capacity of the Suriname's tax agency. Currently in its second phase of execution, the project provides a valuable institutional and policy framework for the intergovernmental fiscal policy reforms proposed in the current program. Furthermore, the Bank has just completed a country study on Governance in Suriname which, among other things, reviews the situation of local governments and the prospects for an expanded decentralization effort in the country. Both the diagnostic information as well as the policy and strategy recommendations of this study have served as inputs to the present project report.
- 1.29 The Bank recently approved a Community Development Fund Program - CDFS (SU-0020), the purpose of which is to provide funding through NGOs and CBOs for small community-based poverty alleviation projects. As a means of complementing with the current program, the CDFS was designed to allow for the participation of District governments as eligible project intermediaries. Thus, the CDFS will be a potential source of project financing for the District governments. The Decentralization and Local Government Strengthening Program (DLGP), in turn, will support this effort by building local government capacity in strategic development planning, community consultation, as well as design and execution of investment projects.

E. Lessons learned

- 1.30 As noted in the Bank's proposed Subnational Development Strategy, recently approved by the Board of Directors, the Bank has been actively supporting the process of decentralization and development of subnational governments for the last twenty years. While recognizing the important allocative efficiencies² that accompany the devolution of service responsibilities to local and regional governments, the strategy document nevertheless calls attention to the institutional fragility of many of the decentralized systems of government currently in place in the region. Frameworks for intergovernmental relations are weakly defined, and the institutional capacity of local governments to manage their mandated responsibilities remains low in the majority of jurisdictions. Unfortunately, early Bank operations in municipal or local development did little to correct this situation, having focused excessively on the financing of physical investment projects, without giving adequate attention to the development of the institutional framework for the sector. Future Bank operations, according to the strategy document, need to give greater priority to (i) the strengthening of the legal and regulatory framework for intergovernmental relations; and (ii) building up institutional capacity of subnational entities, particularly in the areas of financial management and fiscal transparency. These two areas constitute the core of the government's decentralization strategy and the current program.

F. Rationale and strategy for the program

- 1.31 Suriname's geographically dispersed and ethnically diversified settlement pattern, coupled with the central government's very limited capacity to deliver local services, has resulted in widespread demand among the country's population for greater local self management. Accordingly, the government of Suriname would like to empower local authorities sufficiently for them to assume direct initiative and accountability for very basic fiscal functions (budgeting, planning and revenue generation) as well as the delivery of a few core public services. However, given the low level of fiscal initiative and institutional capacity that currently exists at the local level, coupled with the government's limited experience in support of institution building at the local level, it is understood that this objective can only be reached gradually, in stages. In particular, before the Districts can actively engage in the delivery of services and investment projects, a set of start-up institution building actions must first be put in place, including: (i) necessary amendments and improvements to the existing legal framework for local governance, especially the Law of Regional Bodies; and (ii) development of basic management systems for each of the Districts, in planning, financial management, personnel administration, citizen participation, and public works management. At the same time the central government must also develop effective techniques and systems to continue to support the institutional development of the Districts over the medium and long run.

² In principal, local and regional governments are better able than central government to match the supply of public goods and services to the preferences of their users,.

- 1.32 With this sequence in mind, the government is proposing a first stage, start-up operation for Bank financing. Limited to a three- year execution period, the program will focus on putting in place the core institution building actions noted above, with a view to preparing District governments to assume service delivery and project investment functions as a follow up to the current program. In preparation for an expanded follow up effort by the government after the program, that more fully supports capital investment as well capacity building for all the Districts, the operation will include financing for the formulation of a pipeline of local investment projects.

II. THE PROGRAM

A. Objectives

- 2.1 The broad goal of the program is to empower local governments in Suriname with the core legal framework and institutional capacity necessary for fiscal self management (basic financial management and own source revenues). More specifically, the Program aims at: (i) promulgating new enabling legislation for autonomous revenue generation and budget management by District authorities; (ii) putting in place a core package of basic municipal management systems in each of the Districts, with particular emphasis on a pilot group of five Districts³; (iii) improving the capacity of key central government stakeholders, particularly in the Ministry of Regional Development; and (iv) undertaking preinvestment activities in support of follow up development of the sector by the government.

B. Components

- 2.2 The program has a total cost of US\$7 million, including a Bank loan of US\$4.9 million, organized into five components:

1. Intergovernmental reforms (US\$0.6 million)

- 2.3 This component will support the formulation and implementation of a set of core legislative reforms and related technical studies to provide Districts with authority for fiscal self management. Existing laws and decrees, particularly the Law of Regional Bodies and the Interim Fiscal Decentralization Decree (No. 53), will be amended and consolidated into a new, permanent enabling framework for fiscal self management by the Districts. On the revenue side, this will include a basic package of laws, decrees, and related implementation actions, aimed at:
- (i) Updating and strengthening of the **property tax system** (*Rental Value Tax*), and partially devolving its administration to local governments;⁴
 - (ii) devolution to the Districts of other taxes and fees currently administered by national government, including: public entertainment tax, business permit fees, liquor license fees and public market rental fees;
 - (iii) formulation and implementation of a local betterment tax and/or special assessment tax mechanism;
 - (iv) study to explore a **possible revenue sharing system**, within a framework of fiscal responsibility that promotes local fiscal effort.

³ Wanica, Para, Commewijne, Saramaca, and Nickerie.

⁴ Tax proceeds will be entirely transferred to the Districts, as will gradual responsibility for their collection. Tax assessment functions, however, due to their technical complexity, will remain in the hands of the central government's Office of Tax Administration.

- 2.4 On the expenditure side, the partial or transitional **budget authority** granted by the Law of Regional Bodies and the State Decree 52 will be converted into permanent legislation, and new ministerial guidelines and procedures for prudential local budgeting and financial management will be formulated.
- 2.5 A set of studies will also be funded to address **complementary or follow-up reform initiatives**, including: (i) governance studies for the Districts of Paramaribo and Sipaliwini which, due to their special political-administrative status, will require special treatment⁵; (ii) a study to formulate a model personnel policy for District governments⁶; and (iii) a study to define necessary follow up decentralization reforms not addressed in this program, especially as regards administrative and political reforms .

2. District capacity building (US\$3.0 million)

- 2.6 A set of core institution building systems will be put in place in all the Districts, covering: (i) administration and planning; (ii) budget and financial management; (iii) local revenue generation; and (iv) citizen participation. Once a District has been certified by the program, with respect to their capacity to manage the above systems (see paragraphs 3.22 - 3.26, **District certification levels**), it will be eligible to receive support from the program in capital investment projects. Specifically, the first five Districts to obtain certification will be eligible for funding to develop public works management systems, as well as to formulate and implement training projects in road rehabilitation and maintenance.

a) Administration and planning systems

- 2.7 The program will assist Districts in creating a new staff position, that of District Administrator (DA). The DA will function as the District's chief administrative officer, accountable – by contract – to the District Council. The DA's will play a critical role in ensuring the implementation of the program in each District. Under this subcomponent, the program will also equip and rehabilitate District offices as required for the new management systems and functions being installed; and provide ongoing training in basic administration and management techniques.
- 2.8 At the outset of the program, once the District Administrator is in place, each District will be supported in formulating a simple Program Implementation Plan (PIP), which defines the schedule of goals and benchmarks that each District commits itself to accomplish during the life of the DLGP. Further into the

⁵ Because of its role as capital of the country, and its population size, Paramaribo will require a preparatory study to determine the specific legal reforms and capacity building activities needed for self management. Similarly, Sipaliwini, because of its vast territorial extent, low density population, and large number of indigenous communities, will also require a preparatory governance study to determine the most suitable political administrative structure for the District, as well as the accompanying package of capacity building activities.

⁶ The study will provide District governments with a specific design and transition plan to convert the present centralized personnel system to a decentralized district personnel system, with local accountability.

program, each District government will be supported in the formulation of a more comprehensive Strategic Development Plan, building around each District's PIP.

b) Budget and financial management

- 2.9 A central objective of the program is to develop a core capacity in the Districts for managing their own budget and financial management (BFM) systems. To meet this goal, the program will
- (i) Recruit and install new BFM personnel for each District, including: a financial manager, a cashier and a bookkeeper;
 - (ii) Prepare BFM manuals on District budgeting, accounting, cash management and procurement.
 - (iii) Develop and install basic software, based on the BFM manuals. This will include basic spreadsheet budgets and off-the-shelf accounting software.
 - (iv) Provide intensive start up training to relevant District personnel (BFM staff, District Administrators and District council members), to be followed by periodic technical support.

- 2.10 After undergoing the above program of activities, and successfully preparing an Expenditure Plan (Budget) in accordance with the BFM manuals, each District will be certified in core BFM capacity. Beyond this core capacity, the program will also provide more advanced training and technical assistance to the pilot Districts, aimed at obtaining greater mastery of the full budget cycle and promoting practices of fiscal transparency, including public hearings and audits.

c) Revenue generation

- 2.11 The main objective of this subcomponent will be the design and implementation of a simplified Tax Administration System (TAS) in each District, to manage the registration and collection process for all local taxes and fees, including: rental value tax, betterment and special assessment taxes, public entertainment tax, liquor license fees, and market rentals.
- 2.12 During the first year of the program a team of consultants will design a simple computerized tax administration system that will include a taxpayer master file and current account. The system will be implemented in the pilot Districts during the second year through technical assistance projects, under the shared supervision of the program's project implementation unit (PIU) and the national Office of Tax Administration (OTA). The tax system of each District will replicate major features of the national automated TAS administered by OTA. This will be accompanied by a complete set of guidelines, manuals and forms prepared by the program, covering procedures for collection, enforcement, control and audit, sanctions, and appeals.
- 2.13 In the case of Districts that are eligible for public works training projects through the program (see paragraph 2.16), emphasis will be given to developing special

assessment and betterment tax mechanisms as a means of mobilizing private co-financing for these projects. As an incentive, Districts that mobilize at least 30 % of the total cost of a proposed public works project through special assessment mechanisms will be eligible for a second public works training project.

d) Citizen participation

- 2.14 Also included in the core certification process for each District is the requirement that it formulate a Citizen Participation Plan (CPP), defining the mechanisms it will put in place to improve government transparency and accountability with its citizens. This Plan will be drawn up following a practical training program with key District government personnel (Commissioners, Councils, Administrators and staff), familiarizing them with participation techniques currently used by local governments in other countries. These include: public hearings and forums, public announcements, citizen information centers, surveys and polls, focus groups, citizen advisory committees, press releases, coordination with NGOs, publications and newsletters. Once each District formulates its specific CPP, the program will provide follow up technical assistance and training for the implementation of the participation mechanisms adopted by the plan.
- 2.15 Emphasis will be given to the establishment of Citizen Information Centers (CICs) in each of the Districts, allowing citizens to have one-stop access to their local governments. These centers will provide a point of contact for citizen questions, complaints, requests for service and coordination of volunteerism and other citizen activities. Most importantly, they will provide streamlined government response mechanisms to the concerns raised by citizens. (Given the importance of effective response mechanism for the success of CICs, the program will monitor the effectiveness of these mechanisms in each District.) The CICs will perform as two-way information exchange centers, disseminating public information to citizens, related to District activities, plans, and special events, and feeding back to the District Councils and staff information on citizen preferences.

e) Preliminary capital works systems and investment projects

- 2.16 Once certified in the core capacity areas noted above, District governments will be eligible for program financing to develop preliminary capital works management systems and, in order to apply these systems, undertake training projects in road rehabilitation and maintenance. Since certification in core capacity is estimated on average to take one or two years to achieve, only the pilot Districts will be targeted for capital works activities through the DLGP. These activities will include:
- (i) Creation of a preliminary public works management system, focused on District roads. With the support of a basic public works manual prepared by the program, the Districts will be trained and assisted in the installation of policies, procedures and forms for: work orders, job accounting and cost control; work plans and schedules; and work standards. Emphasis will be given to the creation of a rudimentary road management system

in each pilot District, including: inventory and prioritization of District roads and drainage conditions; and formulation of multi-year maintenance and rehabilitation plan, linked to budget constraints.

- (ii) Technical assistance and training on project formulation and procurement.
- (iii) Formulation and implementation of capital works training projects. Each pilot District, once certified at Level 2, will be eligible for funding of up \$180,000 – including a District counterpart requirement of US\$20,000 in matching funds⁷ – for training projects in road rehabilitation and road maintenance. The typical road rehabilitation project, estimated to cost US\$140,000⁸, will reinforce the road surface of approximately 10-12 km of sand/shell (occasionally asphalt) roads, and improve the accompanying drainage systems, road width and signage. The road maintenance projects, estimated to cost approximately US\$40,000⁹ per District, will contract out routine and periodic maintenance – pot hole filling, grading, cleaning of drainage, and repair of signage – for a similar length of roadway (10-12km).

3. Institutional strengthening of sector (US\$0.5 million)

- 2.17 The program will support the organizational strengthening of the Ministry of Regional Development (MRD) as the government's lead agency for the sector. This includes the formulation of a strategic development plan that: (i) defines the Ministry's appropriate long term functions in the sector; (ii) assesses its organizational strengths and weaknesses; and (iii) proposes an action plan of strategic organizational reforms and improvements. Funds will be used to assist in the implementation of this action plan, tentatively targeted to strengthening the Local Government and Decentralization Division, the Budget and Financial Administration Unit, and the Civil Technical Administration Unit.
- 2.18 Program resources will also be used to provide institutional strengthening to other key stakeholders in the sector. As co-executor of the revenue generation activities of the program, the national Office of Tax Administration (OTA) will receive resources for incremental staffing needs, equipment and overhead costs necessary to carry out its obligations in the program. The program will provide organizational and logistical support as well for the establishment of an information exchange network among District governments. Finally, in light of the very limited professional experience in the country with local government capacity building, the program will fund a systematic training of trainers program,

⁷ Generated through a special assessment mechanism to be created in the Districts through the program (see above, Revenue generation).

⁸ Including pre and post contract engineering costs.

⁹ Including pre and post contract engineering costs.

aimed at recruiting, training and certifying local consultants and firms in capacity building for local governments.

4. Preinvestment (US\$0.5 million)

- 2.19 In view of the government's commitment to a long term, stepped-up approach to local government empowerment, the program will include preinvestment activities in support of expanded sector development actions contemplated by the government after the program is completed. Accordingly, funds will be provided for the preparation of a pipeline of follow up District capacity building and capital investment projects, including related needs assessment studies, feasibility studies, and the preparation of preliminary construction designs. Similarly, at the end of the program, operating procedures at the national level will be reviewed and enhanced, to accommodate the evolving demands and needs of the Districts as they become more self sufficient. This includes the design of a new, more demand-driven system for the identification and formulation of District capacity building and capital investment projects. It will also include the design of project approval and eligibility criteria for new types of projects not currently considered under the DLGP, particularly for solid waste collection, and the improvement of public market, small water supply systems, and public open spaces.

5. Program support (US\$1.3 million)

- 2.20 Program funds will be used to finance the Program Implementation Unit (PIU) that will be created in the Ministry of Regional Development to execute the program. This includes the unit's director, five project managers responsible for the execution of the program's components and subcomponents, a financial officer, and support staff. Given the country's limited professional experience in program management and local government capacity building, program resources will also be used to fund a full time international Resident Advisor (RA) to assist the PIU in the execution of the program. During the first 18 months of the program, the RA will be employed full time, playing a lead advisory role in the execution of the program, guiding and training the PIU staff. During the second half of the program, the RA will be employed only part time, gradually reducing the dependence of the PIU on the outside management support.
- 2.21 A comprehensive marketing and public outreach campaign will also be funded through this component, with a view to promoting the program, building consensus, and obtaining stakeholder feedback. Approximately US\$110,000 have been set aside for: (i) the formulation of a marketing plan; (ii) training and TA of PIU staff on marketing techniques; (iii) design of publications, reports, newsletters, and mass media products; and (iv) costs for public speaking, conferences and community interface events. Further, program resources will be used to assist the PIU in the design and start up a performance monitoring and evaluation system for the program.

C. Size and scope of the program

- 2.22 Several factors were taken into account in determining the size and scope of the program, including: (i) estimated cost of activities (ii) the relatively short, three-year, execution timetable for the program; (iii) the restricted counterpart funding capacity of the government; and (iv) the limited implementation capacity, both among national and District government agencies, and as well as among private service providers.

D. Program cost

- 2.23 The total cost of the Program has been estimated at the equivalent of US\$7.0 million, to be disbursed over a three-year execution period. The breakdown by components, subcomponents, and source of funds is presented in Table II-1, below.

Table II-1
PROJECT COSTS BY INVESTMENT CATEGORY AND SOURCE OF FUNDS
(Amount in US\$ million)

	IDB	GOS	TOTAL	%
PPF	0.8	—	0.8	11
Intergovernmental reforms	0.5	0.1	0.6	8
• Fiscal decentralization laws and decrees	0.4	0.1	0.5	
• Studies for follow up reforms	0.1	—	0.1	
District capacity building	2.4	0.6	3.0	42
• Administration and planning systems	0.5	0.2	0.7	
• Budget and financial management	0.2	0.2	0.4	
• Revenue generation systems	0.3	0.2	0.5	
• Citizen Participation	0.3	—	0.3	
• Prelim capital works systems and training projects	1.1	—	1.1	
Institutional strengthening of sector	0.4	0.1	0.5	7
• Strengthening of MRD	0.2	0.1	0.3	
• Other key stakeholders	0.2		0.2	
Preinvestment	0.4	0.1	0.5	7
• Pipeline for District capacity building	0.1		0.1	
• Pipeline for capital investment	0.1	0.1	0.2	
• Follow-up operational procedures	0.2		0.2	
Program support	0.5	0.8	1.3	19
• Program management	0.2	0.6	0.8	
• Marketing and public outreach	—	0.1	0.1	
• Other program support	0.3	0.1	0.4	
Financial expenses	0.1	0.4	0.5	6
• Interest		0.3	0.3	
• Inspection and supervision	0.1		0.1	
• Credit commission fees		0.1	0.1	
TOTAL	4.9	2.1	7.0	100

E. Financing plan

- 2.24 The Bank loan in the amount of US\$4.9 million will account for 70% of total program cost. The remaining US\$2.1 million will be local counterpart. The latter are distributed over the three-year execution period, and will be covered primarily by the national government, with the exception of an estimated US\$120,000

which will be contributed by Districts as a matching fund requirement associated with the trial capital works projects in the program.

F. Terms and conditions of the loan

- 2.25 Bank financing will be drawn from the Ordinary Capital Resources with interest rate support from the Intermediate Financing Facility (IFF). The following table shows the terms and conditions of the loan:

Table II-2
Terms and Conditions of the Loan

Source of funds	Ordinary Capital
Amount	US\$4.9 million
Terms:	
Amortization	25 years
Grace period	3 years
Disbursement	3 years
Interest rate	Variable ¹⁰
Supervision	1% of the loan amount
Credit commission	0.75% per year on undisbursed amount
Currency	US dollars from the Single Currency Facility

¹⁰ The Intermediate Finance Facility (IFF)

III. PROGRAM EXECUTION

A. Institutional framework for execution

1. The borrower

- 3.1 The borrower for this operation will be the Republic of Suriname. The borrower will deposit the resources of the loan in a special foreign exchange account to be established in the Central Bank of Suriname. Government will also open a separate account in the Central Bank for the transfer of the local counterpart resources. **The opening of these accounts will be a condition precedent to first disbursement.**

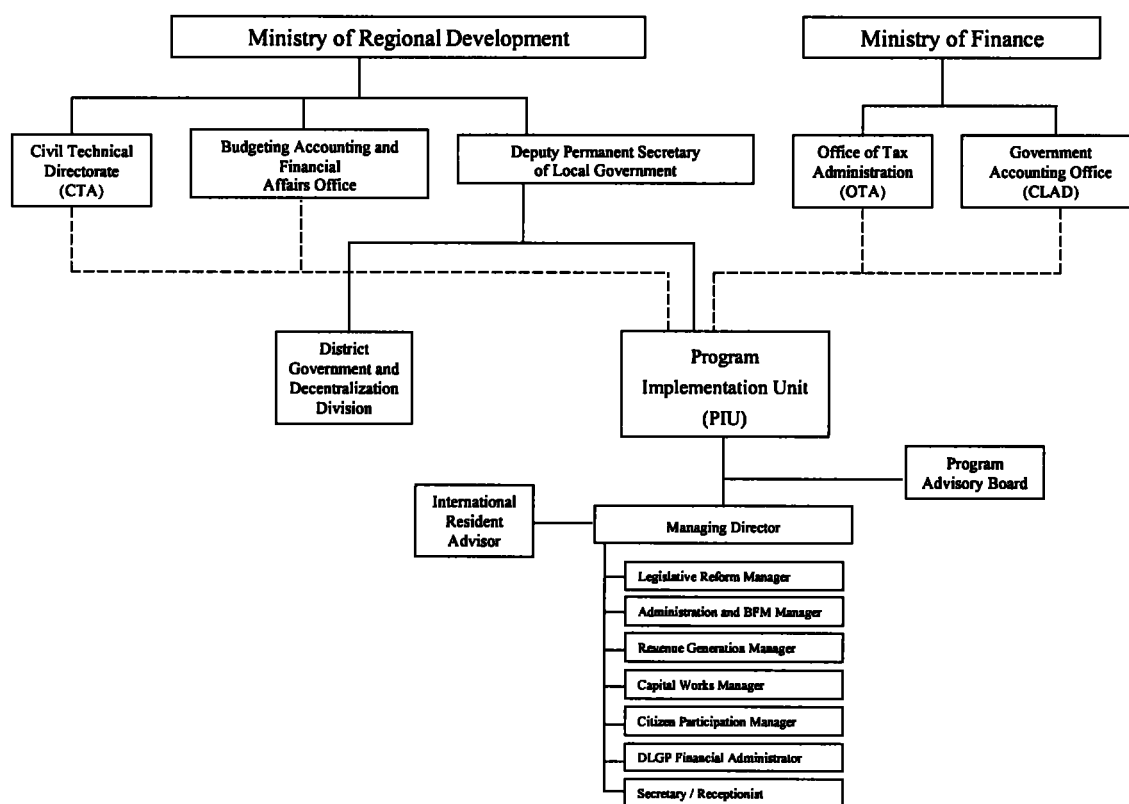
2. The MRD and the Program Implementation Unit

- 3.2 The Program will be executed by the Ministry of Regional Development (MRD), the central government authority responsible for the regulatory oversight and administration of regional and local governments in Suriname. Primarily, MRD serves as the link between the central government and District governments, traditional (indigenous) authorities and citizens of the Interior.
- 3.3 MRDs budget for fiscal year 2000 was approximately US\$5.5 million. Nationally, a total of 2,280 individuals are currently employed by the Ministry, the large majority of whom constitute the work force of the District governments, who are currently employed entirely under MRDs payroll. The central office of the Ministry operates with a staff of only 80 persons, including 28 professional-level staff members.
- 3.4 The Ministry of Regional Development is organizationally weak, unable to adequately implement its formal mandate, let alone undertake a relatively complex program such as the DLGP – without considerable external support. Due to very low salaries and poor work conditions, it suffers from a dearth of skilled personnel. This is exacerbated by a lack of basic office space and equipment and limited communication facilities. Standard management tools and procedures – such as clearly defined duties and functions for personnel, annual work plans and formal information systems – are also absent or deficient.
- 3.5 In light of its internal weaknesses, the MRD created a project preparation unit (PPU) in 1999 – staffed with local consultants, to assume responsibility for the formulation of the program. Because of the limited professional experience in the country with local government strengthening programs, the PPU was supported by international technical assistance from two specialized agencies, the Interamerican Center for Tax Administration (CIAT) – covering the areas of revenue generation and intergovernmental fiscal reform – and the International

City Managers Association (ICMA), responsible for the design of the District capacity building components of the program¹¹.

- 3.6 The DLGP will rely on a similar implementation mechanism for its execution. (see Figure III-1 below). MRD will delegate responsibility for program execution to a **Program Implementation Unit (PIU)**, built around the core team of local specialists currently in the PPU. The PIU in turn will be supported technically and managerially by international consultants throughout the implementation of the program. Given the lack of program management experience in the country, an international Resident Advisor will be contracted to assist the PIU Director in the management of the program. This contract will be part of a larger international consultancy for program management and technical assistance. During the first 18 months of the program the Resident Advisor will work full time, guiding and training the PIU in the implementation of the program. In the second half of the program, the Resident Advisor's level of effort will be reduced to half time, visiting the country for two month intervals every two months. **The contracting of the international Resident Advisor constitutes a condition precedent to first disbursement.**

Figure III-1
Organizational Structure



¹¹ The PIU and international technical assistance were financed by a Project Preparation Facility (1181/OC-SU).

- 3.7 The PIU –supported by the Resident Advisor-- will be responsible for the operational and financial administration of the program, including planning, coordination, supervision and monitoring of all aspects of program implementation as well as report preparation, procurement, disbursement of Program resources, and interface with the Bank and GOS government officials. Day-to-day operation of the PIU will be the responsibility of a managing Director and six full time professional staff, including a financial program administrator and task managers for each of the program’s key activity areas (legislative reform; District administration and financial management; District revenue generation; District capital works systems; and citizen participation and marketing). **The establishment of the PIU and the contracting of its director and financial program administrator constitute a condition precedent to first disbursement.**
- 3.8 Advisory review of the PIU and program execution in general will be the responsibility of a **Program Advisory Board**. During the first year of the program, while basic operating systems and procedures are being established, the Board will be limited to a core group of four stakeholders, representing the Ministries of Regional Development and Finance, as well as two District representatives, one representing the pilot districts and the other representing non-pilot districts. One of the two district representatives will be a District Commissioner while the other will be a councilmember (from a District Council). During the second year of operations, once basic operating systems are in place and program priorities turn more to sector policy concerns, the Board will be augmented to incorporate two individuals from civil society, as well as the Ministry of Planning, bringing the total number of members to seven. The Board will meet on a bi-monthly basis and will be responsible for providing high level advice and review of: (i) operating regulations of the program; (ii) selection of the DLGP managing director; and (iii) monitoring the implementation progress of the DLGP to ensure that the goals and objectives of the program, as well as the government’s long term goals for the sector, are achieved.
- 3.9 Since the process of decentralization and local government strengthening requires a long term commitment on the part of government, the current PIU structure is only intended as a transitional institutional mechanism. Institutional strengthening will be provided through the program to MRD, in order to reinforce its capacity to manage ongoing oversight and control functions in the local government sector, as well as to gradually assume responsibility over some of the program’s implementation functions.
- 3.10 The Managing Director of the PIU will report to the Deputy Permanent Secretary of MRD. Furthermore, the following units of MRD will be strengthened to play supporting roles in the implementation process: (i) the District Government and Decentralization Division; (ii) the Civil Technical Directorate (CTA); and (iii) the Budgeting, Accounting and Financial Affairs Office. Staff within each unit will be designated to liaise with the PIU, both to help ensure fluid communication

between the PIU and the rest of the ministry, as well as to help strengthen the capacity of the MRD in its role as lead entity for the sector.

3. Other participating entities

a) Office of Tax Administration (OTA) and Government Accounting Office (CLAD)

- 3.11 Within the Ministry of Finance, the Office of Tax Administration (OTA) will be the lead agency in charge of the devolution of local taxes to the Districts. It will also play a technical support role in developing new or modified legislation for District revenue generation, both own source and intergovernmental transfers. Additionally, the agency will support the District capacity building by adapting its state-of-the-art Integrated Tax Information System to District requirements and providing on site training to local officials.
- 3.12 The Government Accounting Office (CLAD) will also provide important support to the program, by providing oversight and control over District budgets and financial management. It will also provide technical support to the PIU on District capacity building in the area of budgeting and financial management.
- 3.13 In view of the important co-execution roles of OTA and CLAD, signed interinstitutional agreements, or other appropriate legal instruments, between each of the latter and the Ministries of Regional Development and Finance will be required as a **condition prior to first disbursement of the program**.

b) The Districts

- 3.14 Suriname's Districts will be the main focus of the Program: all of the legislative reforms, systems, manuals, technical assistance and most of the equipment, infrastructure and training will be geared towards them. Currently, the MRD is responsible for preparing district budgets and supervising district financial administration. Under the program, financial administration capacity of the Districts will be strengthened, providing them the ability to develop and implement their own budgets, subject to national financial accounting procedures and the budgetary guidelines of the Ministry of Finance. A District Administrator (DA) will be installed in each District, together with a Budget and Financial Management Unit. Both the DA and the BFM unit will report to the District Commissioner¹², who will provide oversight to the implementation of the DLGP at the district level.
- 3.15 District Councils (DCs) will consult with citizens to identify priority needs for development of the Districts and will participate in the development and approval of each District's Program Implementation Plan, as well as the annual District budget and Strategic Development Plan when they start being formulated in the second or third year of the program.

¹² Hiring and firing of the DA, however, will be subject to approval of the District Council.

B. Program execution

1. Operating regulations

- 3.16 Program execution will adhere to the DLGP operating regulations, which will include, among others, the following: (i) a description of program activities; (ii) organizational structure of the program, (iii) criteria for participation and certification of Districts (iv) model interinstitutional agreements, (v) environmental guidelines for capital works projects; (vi) procurement guidelines; (vii) reporting guidelines; and (viii) the Program's logical framework, with benchmarks for each program component. A preliminary version of the operating regulations is in the project's technical files. **A final version will be presented to the Bank by the PIU as a condition precedent to first disbursement.** Attached, as Annex is the DLGP's logical framework.

2. Intergovernmental reform component

- 3.17 The implementation of the Intergovernmental Reform Component will be the responsibility of the legislative reform task manager in the PIU, who coordinate and supervise all consultants involved in the preparation of technical background papers, legal background papers, draft legal documents, and the legislative review process.
- 3.18 The legal reform process itself will go through the following sequence: (i) preparation of background technical papers in the areas of fiscal reform; (ii) development of policy documents; (iii) draft law; (iv) public hearings; (v) review of draft law; (vi) legal opinion; (vii) final draft; (viii) revision of final draft by Board of Ministers; (ix) revision by the State Advisory Board; (x) revision by the Permanent Commission; (xi) parliamentary revision and approval; (xii) publication and distribution; (xiii) state decrees; and (xiv) ministerial decrees.
- 3.19 Background technical papers will be prepared by local and international consultants in the areas of (i) local taxes and user fees; (ii) rental value tax; (iii) betterment tax; (iv) revenue sharing systems; (v) budget and financial management; (vi) local government personnel systems; (vii) citizen participation; and (viii) local government service delivery. Local lawyers with expertise in Surinamese fiscal, administrative and personnel law, supported by an international lawyer with general expertise in local government law, will prepare the draft legislation based on the technical background papers, and will provide on-going support throughout the legislation review and approval process.

3. District capacity building component

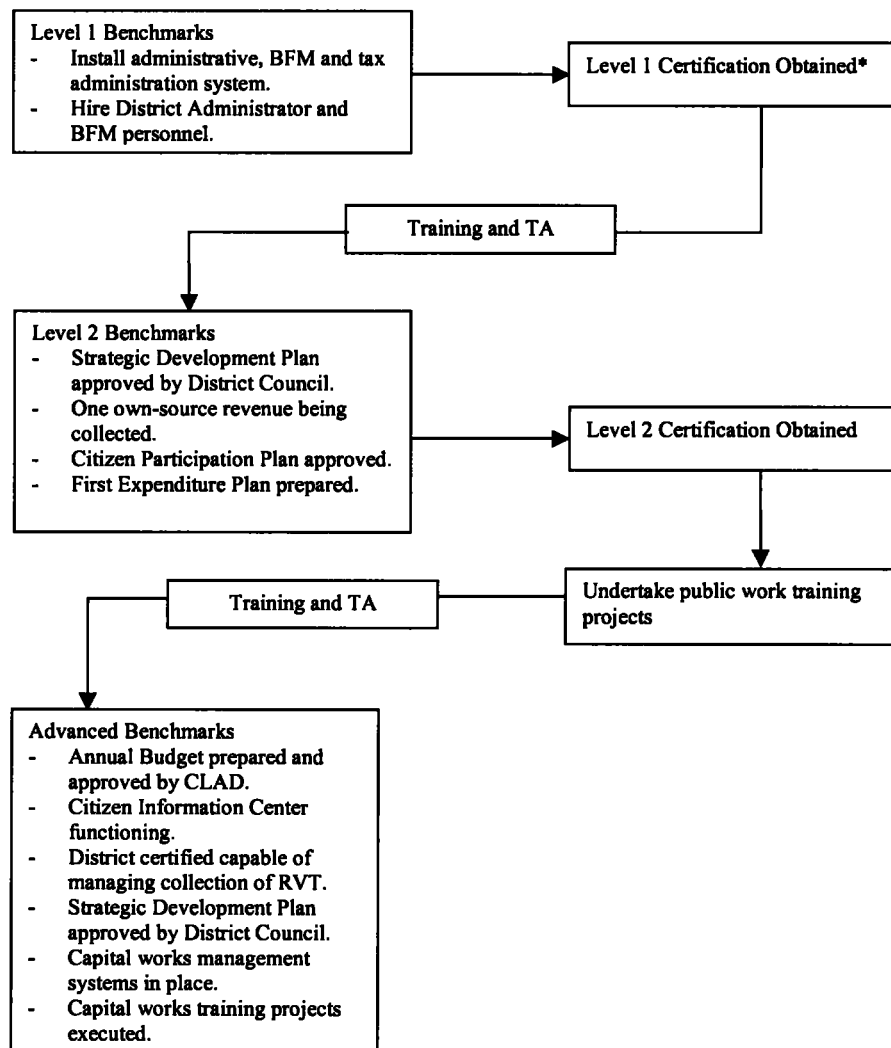
- 3.20 One of the key goals of the DLGP is to bring the Districts of Suriname up to an adequate administrative, budgetary/financial, and technical level so that they will be able to plan, prepare and implement financially sustainable and demand-driven strategic development plans, provide services and execute capital works investment and maintenance projects under a fiscally decentralized service-delivery structure.

a) District certification levels

- 3.21 To help structure the execution of the District capacity building component of the DLGP, a two-level certification process will be employed. (see Figure III-2 below). Both levels of certification have associated with them a set of clearly-defined responsibilities and eligible Program activities. Districts will be required to achieve certification to be eligible to benefit from the Program activities associated with successive certification levels. The certification process will thus play a dual function, as an eligibility criterion for successive levels of participation in the DLGP, and as indicators of key Program benchmarks.

Figure III-2

District Certification and Capacity Building Benchmarks



* Required by Interim Fiscal Decentralization Decree

- 3.22 **Level 1 certification** refers to the conditions for budgetary self management, as defined in the Interim Fiscal Decentralization Decree (State Decree 53). These require the installation of core administrative, BFM, and tax administration systems, as well as the hiring of a District Administrator and required new BFM personnel in each District. **Level 2 certification**, the program's standard for core District capacity, requires Level 1 certification plus: (i) the formulation and approval of Program Implementation Plans for each District; (ii) achievement of benchmarks for District revenue generation; (iii) adoption of a Citizen Participation Plan; and (iv) preparation of a first Expenditure Plan.
- 3.23 It is a goal of the DLGP that all districts achieve Level 2 certification, with the exception of Sipaliwini, which due its distinct geographic character requires an additional pre-investment study, to be undertaken during the second year of Program execution. Furthermore, it is a principle of the DLGP that these nine districts be eligible for the same package of capacity strengthening resources in order to achieve Level 2 certification.
- 3.24 The Program consists of an initial start up phase during the first half of the Program and a secondary phase during its final 18 months. During the start up phase, systems and manuals will be developed, installed and tested and refined in five of the ten districts in the areas of BFM, tax administration and capital works investment. Citizen participation plans will be developed and citizen information centers will be established. The five start up districts, selected to represent the country's geographic, political and ethnic diversity, include Wanica, Saramacca, Para, Nickerie and Commewijne.
- 3.25 During the second half of the Program, the remaining districts will be eligible to receive the systems, equipment, and training provided to the pilot districts. Also during this phase of the Program, the five pilot districts will be eligible to receive financing for small road rehabilitation training projects. Advanced capacity building will also be provided for those Districts that have reached Level 2 certification. This will include: (i) preparation of Annual Budgets; (ii) implementation of Citizen Information Centers; and (iii) formulation of Strategic Development Plans.

b) Training of trainers

- 3.26 The strengthening of local capacity for training and technical assistance is an important element of the DLGP. The strategy to be used consists of a two-stage training-of-trainers process. The first stage involves developing a core or nucleus of local training capacity. The second stage involves expanding this core training capacity to a wider group of trainers through a combination of periodic workshops together with practicums at the district level.
- 3.27 Building up the core training capacity begins with the PIU. Each Project Manager will be responsible for identifying candidates able to provide training and technical assistance on a consulting basis in their respective areas of

responsibility. The identification of these candidates was begun during Program preparation. From the list of candidates, one or two top candidates will be identified in each area of specialization. These top candidates will comprise the local training nucleus.

- 3.28 A series of training modules will be developed by international consultants specialized in each of the relevant areas of local governance, working together with the core trainers to ensure the relevancy of topics and the appropriateness of methodologies within the local context. Candidates who successfully complete training courses will become certified trainers under the DLGP and will be entered into the PIU's consultant database. Only certified trainers will be eligible to provide training and technical assistance to the district local governments.

c) Capital investment training projects

- 3.29 The Technical Project Manager of the PIU will be responsible for coordinating and supervising the implementation of this sub-component.
- 3.30 In each of the program's pilot districts, a public works, road and maintenance management system will be established along with a capital investment programming system. In addition, two small-scale road rehabilitation and maintenance projects will be implemented in each district to strengthen the capacity of pilot districts to undertake capital works projects. The capital works training projects will follow a project cycle that includes the following stages: (i) identification; (ii) preparation; (iii) appraisal; (iv) contracting; (v) implementation and supervision; (vi) completion. Priority projects will be identified based on assessment studies carried out by the districts during the second year of the program.
- 3.31 The majority of the capital works projects will be executed by the PIU with the participation of the districts. Through the DLGP's certified training program, a network of service providers will be established to assist the districts during each stage of the project cycle. The capital works projects will be prepared by the districts with the support of external service providers together with the PIU. The PIU will appraise projects with input from the MRD's Civil Technical Directorate (CTA), and will be responsible for contracting and supervision of the works until districts have achieved certification of their budget and financial administration processes and have adequate technical systems and skills in place.

d) Maintenance of capital works

- 3.32 To be eligible to participate in Capital Works Training Projects, the Districts must formally commit to operate and maintain the equipment and works financed with program resources in accordance with generally accepted technical standards, and to make available to that effect the necessary resources. The training projects in road maintenance will directly support this commitment by helping the Districts

create the planning, budgeting and logistical systems that sustain effective maintenance of works. Projected operating and maintenance costs for the DLGP's infrastructure investment will be included in the districts' short and midterm budgeting process, and approved by the respective district councils. During execution of the program and five years afterwards, the Bank will be entitled to inspect all the infrastructure investments and, if unacceptable operation and maintenance standards are not met, it will be MRDs obligation to take all the necessary steps to improve operation and maintenance quality.

4. Institutional strengthening of sector

- 3.33 The institutional strengthening of the sector will focus on a consolidation of the role and capacity of the Ministry of Regional Development, in particular: (i) the District Government and Decentralization Division; (ii) Budgeting, Accounting and Financial Affairs Office; and (iii) the Civil Technical Works Directorate (CTA).
- 3.34 The Decentralization Division will need to play a key role in spearheading the expected legal reforms proposed by the program and monitoring the general performance of District governments. Yet it lacks the ability to (i) systematically monitor and evaluate conditions in the Districts and Ressorts; (ii) conduct policy studies on district-related issues; and (iii) gather and analyze statistical information relevant to policy formulation. To strengthen the MRD's capacity in these areas, experts in planning and statistical research will be provided for the Division through the program.
- 3.35 The Budgeting and Accounting Office currently provides financial and budgetary oversight and assistance to the Districts. As a result of the decentralization process, there will be an increased demand on this office in the short to medium term to ensure that district budgets adhere to the accounting and budget guidelines established by the MOF. To strengthen its capacity to perform this function, the program will finance, on a declining basis, a Financial Specialist to monitor district budget and their financial management.
- 3.36 Under the program, the role of the Civil Technical Works directorate (CTA) will also be changed. As the Districts gradually assume responsibility for the planning and execution of capital works projects, CTA's role will shift from one of planning and execution to one of technical oversight and support. The directorate will receive technical assistance in the form of institutional analysis and skills training to facilitate this transition.

C. Financial aspects of program execution

- 3.37 Program finances will be administered through two Special Accounts set up as revolving funds by the Ministry of Finance in the Central Bank, established in the name of the DLGP. One account will be denominated in U.S. dollars and the other in Surinamese guilders. IDB disbursements will be made into the U.S. dollar

account, while counterpart contributions will be made into the local currency account. Transfers to the local currency account from the U.S. dollar account will be made using the exchange rate mechanism stipulated in the loan agreement between IDB and the Government of Suriname. **The establishment of the special accounts is a condition prior to first disbursement.**

- 3.38 To facilitate the expected quarterly financial cash flow requirements of the Program, a revolving fund of US\$250,000, equivalent to 5% of the loan resources, will be established. PIU will prepare and submit to the Bank, within a period of sixty (60) days after the closing of each semester, a semi-annual report showing the use of the loan's funds as of June 30 and December 31.
- 3.39 The period for commitment of the resources of the Bank's financing will be 30 months from the date of signature of the Loan Contract. The resources are deemed to have been committed when the contract between the PIU and the contractor has been signed. Although the period for disbursement of the resources is three years, the request for the final disbursement must be presented to the Bank no later than 30 days before the end of the period. The six-month difference between commitment and disbursement termination dates should provide sufficient time for the completion of all contracted activities.
- 3.40 The following table contains a projection of the annual disbursement by financier during the program. It should be noted that first year disbursements are unusually large, as a result of the necessary repayment of a US\$750,000 Project Preparation Facility loan, used to formulate the program.

Table III-1
Annual Disbursement Schedule by Financier
(in US\$ million equivalent)

Source	Year 1	Year 2	Year 3	Total	%
IDB	1,900	1,600	1,400	4,900	70
GOS	700	700	700	2,100	30
Total	2,600	2,300	2,100	7,000	100
% year	37%	33%	30%	100%	

- 3.41 As part of project preparation, the equivalent of US\$750,000 was provided through the Revolving Line of Credit 1181/OC-SU, to finance project design activities, including the Project Preparation and Implementation Unit, and the contracting of international consulting services in the areas of: local capacity building; intergovernmental revenue systems; legislative reform; environmental impact assessment; and organizational design of the program. Once the loan is eligible for disbursements, the PPF funds will be automatically repaid to the Bank.

D. Program monitoring, evaluation and control

1. Annual and midterm reviews

- 3.42 Upon fulfillment of the eligibility conditions for disbursement, a start-up workshop will be conducted to familiarize the principal stakeholders with the Program's goals and objectives as well as the implementation strategy and each stakeholder's role therein.
- 3.43 Given the limited experience of GOS in program execution and considering the innovative nature of the Program for Suriname, close monitoring is deemed necessary during Year 1 of DLGP to help resolve implementation issues that may arise. The Bank's Country Office will track the general progress of the program. In addition, two monitoring and evaluation exercises will be conducted, one six months after first disbursement, and the other for midterm review
- 3.44 During the first six months of the program, a Performance Monitoring and Evaluation Plan will be formulated by the PIU, with external technical assistance funded by the program. The criteria for monitoring and approval of funding in this Plan will be based on the benchmarks and indicators defined in the program's logical framework matrix (see Annex I). **Prior to the construction start up of capital works training projects, approximately 18 months following the start of the program, by contractual obligation a midterm evaluation will be carried out by the PIU, the Resident Advisor, and the Bank, during which a careful review will take place of progress made in meeting the mid-term benchmarks defined in this matrix, including:**

**Table III-2
Benchmarks for Mid-Term Review**

Key Objectives	Benchmarks
Intergovernmental reforms	<ul style="list-style-type: none"> • Technical background papers completed and approved by Bank • Draft laws formulated and approved by Cabinet • Model personnel system and transition plan for Districts completed
Core capacity building of Districts	<ul style="list-style-type: none"> • District Administrators hired and Program Implementation Plans of pilot Districts are being executed on schedule • 5 pilot Districts certified at Level 2 Capacity • 3 pilot Districts collecting at least one own-source revenue • Citizen Participation Plans approved by Councils of pilot Districts • Capital works mgmt systems in place for pilot Districts
Strengthening of institutional framework for sector	<ul style="list-style-type: none"> • MRD strategic plan approved • Information exchange network for local governments meeting twice a year • 10 local trainers/consultants certified by program
Preinvestment	<ul style="list-style-type: none"> • Demand driven project formulation system designed and initiated
Marketing and program support	<ul style="list-style-type: none"> • Public approval survey of program undertaken and reviewed • Performance monitoring and evaluation system in operation

- 3.45 Continued program financing will be contingent upon the satisfactory evaluation of mid term progress, or the agreement of the authorities to introduce the recommendations of the evaluation in order to achieve modified Program targets.

2. Reports

- 3.46 During program execution, the PIU will present to the Bank semi-annual reports that, as a minimum, summarize progress achieved in each of the component and subcomponent areas of the program, plus the financial information of the period. The reports will use indicators selected by the PIU, the Districts and the Bank, drawn from the program's logical framework. More detailed reports will be prepared for the monitoring and evaluation exercises, six months after first disbursement and at midterm. The first report, in particular, will include baseline data for future monitoring reports.
- 3.47 The executing agency will be responsible for keeping updated accounting records. It will present the financial statements to the Bank on a quarterly and annual basis. A firm of independent public accountants acceptable to the Bank will audit the annual report, as well as two of the quarterly reports at the end of each semester.

E. Procurement procedures

- 3.48 The procurement of works, goods and consulting services will take place in accordance with Bank policy, as set out in Annexes B and C of the loan contract. International competitive bidding procedures will be followed for purchases of more than US\$250,000 for procurement of goods and services and US\$2 million for construction works. Bids below these ceilings will take place in accordance with local legislation. In the case of civil works, it should be noted, the maximum cost of projects is expected to be below US\$170,000. A procurement plan is presented in Annex II.
- 3.49 International technical assistance for the program will be consolidated into two consultancies, one responsible for local revenue generation activities, and the other for program management assistance (including the Resident Advisor) and the remaining international TA requirements of the program. To undertake the latter, estimated at US\$1.25 million, the Holland-based Association of Netherlands Municipalities (VNG) will be commissioned as a sole source specialized agency. VNG is a public nonprofit organization established in 1912 for the exclusive purpose of supporting the development of local authorities in Dutch speaking territories. As such it has the unique advantage of acting as a clearinghouse for the entire network of local government professionals working in Dutch speaking countries. Internationally, VNG is a widely-recognized expert in the areas of local government administration, having worked extensively with Dutch speaking territories outside of Holland. In the specific case of Suriname, as with other Dutch speaking territories, VNG has an established professional relationship with the country in the area of decentralization and public administration, formalized in a 1996 agreement with the Ministry of Regional Development. VNG 's participation in the program is considered vital, not only

because of its clear language advantages, but especially because of its in depth understanding of the Surinamese public administration system and related legal framework, which in its essence draws on the Dutch system in which VNG plays a major role.

- 3.50 For the international expertise related to local revenue generation, another specialized agency, CIAT, will be contracted on the basis of a continuation of services contract. The new contract extends work already under way through an eighteen month PPF funded and Bank administered contract, supporting the formulation of the program. Performance by CIAT during this period was considered highly satisfactory. CIAT, a nonprofit public international organization established in 1967, is the only institution in Latin America and the Caribbean that specializes in the field of tax administration. CIAT's experience is recognized by its 33 member countries and has participated in technical cooperations funded by multilateral organizations such as the Bank, the World Bank and the International Monetary Fund. Moreover, over the last four years, CIAT has been responsible for the technical supervision of a Bank funded national tax reform program, implemented by the Office of Tax Administration (OTA). Since the OTA will play a central role in the process of devolution of property tax authority to the District's governments, CIAT's past experience with this agency and with the tax systems of the country, are considered essential for undertaking this consultancy.
- 3.51 The PIU will be responsible for procurement of all local consultants. All procurement will be channeled through the PIU's financial administrator, who will be responsible for ensuring that all of the procurement procedures outlined in the Program Operating Regulations are adhered to. The PIU project officer responsible for management of the corresponding program component or subcomponent will field local consultants, drawing from a registry of consultants who have received training and certification through the program's training-of-trainers mechanism. For many program activities, local consultants will be teamed with international consultants. As such, the selection of local consultants will be performed in consultation with VNG, through the Resident Advisor, and CIAT.

IV. VIABILITY AND RISKS

A. Program viability

1. Institutional structure and implementation plan

- 4.1 Suriname currently lacks the capacity to implement decentralization and local government strengthening programs. The DLGP uses a three-prong approach to address this deficiency. First, it is designed to build up the capacity of local consultants to provide training, on-going technical assistance, and services to the districts and to the relevant central ministries in areas related to administrative, budgetary and financial decentralization. This process began with program preparation, during which a Program Preparation Unit and a number of local consultants received applied training through the process of interacting with international consultants and Bank missions. During the DLGP, this nucleus of local expertise will be developed through a formal training process, creating a sustainable supply of local consultants and service providers.
- 4.2 Second, the DLGP is designed to facilitate the kind of broad based consultative process that necessarily accompanies a decentralization and local government reform initiative. Beginning with the formulation of the program, during which key stakeholders (District Councils, District Commissioners, key central government Ministries, representatives of major political parties and civil society) were systematically consulted, the program will continue to actively support stakeholder consultation during implementation. From the “bottom-up” -- at the level of citizenry, this will be accomplished through the Citizen Participation subcomponent, supported by the Marketing and Public Outreach action plan. From the “top down”, at the level of central government and Parliament, consultative processes have been defined in the Fiscal Reform Component, also supported by the Marketing and Public Outreach action plan, and the Program Advisory Board mechanism. At “intermediate” levels, including civil society (NGOs, business, academia and other private sector institutions) and District governments, the Marketing and Public Outreach action plan will ensure feedback loops, further supported by the Program Advisory Board mechanism, as well as the mechanism for horizontal consultation created for District government officials.
- 4.3 Third, the implementation structure for the Program has been designed in accordance with the institutional capacity of the executing agency. The creation of a small, professional PIU, contracted specifically for the purpose of implementing the DLGP and supported by a international Resident Advisor, will help to ensure the technical viability of the program.

2. Fiscal and financial viability

- 4.4 Given the tight fiscal constraints currently faced by the Surinamese economy, the a financial analysis was undertaken to evaluate the government's capacity to meeting counterpart funding and debt repayment obligations. The report concludes that GOS is capable of meeting its counterpart funding obligations, both for this program as well as those of other Bank programs currently under implementation, as long as it stays on its current course of macroeconomic structural adjustment, as agreed with the IMF.
- 4.5 In the short to medium term, given the lack of diversification of the Surinamese economy and the susceptibility of its two leading export products to cyclical demand fluctuation together with the recent expansion of the fiscal deficit, there is a certain element of risk concerning the counterpart funding capacity of the government. To help mitigate this risk, costs were carefully scrutinized during Program design and the components and activities of the Program were streamlined as much as possible.
- 4.6 To help strengthen the financial capacity of the districts and – in the short to medium term – of the central government as well, thereby contributing to the Program's financial sustainability, DLGP will support increases in revenue flows from the Rental Value Tax, including an updated property valuation survey in 2001, and will finance the preparation of legislation which would permit for annual inflation-adjusted assessments. The Rental Value Tax is far and away the single most important revenue generation mechanism for the districts. Ultimately, the Rental Value Tax is earmarked for districts. Furthermore, a Revenue Generation Component has been included in the Program, designed to strengthen the revenue generation capacity of local government by providing systems and procedures for tax and fee administration and by building upon existing structures for receiving private donations for local public works projects. Revenue enhancement targets have been established as key Program indicators and training and technical assistance will be provided to the districts to help them meet these targets. In the medium to long term, it is anticipated that enhanced local government revenue generation will reduce the burden of financial transfers on the central government, thereby contributing to the Program's financial sustainability.

3. Environmental and social impact

a) Social sector classification

- 4.7 Due to the concentration of program activities in Districts outside the capital city, where average household incomes are, on average, well below the national median, the program qualifies as a social equity enhancing project, as described in the indicative targets mandated by the Bank's Eighth Replenishment.

b) Social and environmental impact

- 4.8 Institutional systems for environmental and social impact assessment and management only began to be put in place in Suriname in 1997, with the creation of the National Council for the Environment (*Nationale Milieuraad* – NCE) to advise the government on the formulation and implementation of environmental policies. In 1998, the National Institute for Environment and Development (*Nationale Instituut voor Milieu en Ontwikkeling in Suriname* – NIMOS) was established within the President's Office as the agency in charge of proposing environmental laws and regulations, and coordinating the implementation of environmental management activities and related research. A number of line ministries have maintained their former decision-making and enforcement roles with regard to the approval of development activities and the use of natural resources.
- 4.9 The IDB and the European Union have provided funds for developing an environmental management framework for the country, through the Environmental Management Technical Cooperation Project (ATN/SF-5941-SU). Its principal objectives include the development of procedures for project environmental impact assessment, environmental quality standards and monitoring, as well as the design and implementation of an encompassing institutional strengthening program. It will also provide training for NIMOS personnel and officers from other government institutions in the field of environmental management issues.
- 4.10 Although several legal documents already contain regulatory guidelines on pollution control and the use of natural resources, a bill addressing comprehensive regulations for environmental protection and management is expected to be presented by NIMOS to the National Assembly in 2001.
- 4.11 The principal activities of the DLGP are in policy reform and institutional capacity building, for which few environmental or social risks are anticipated. These activities include: legal reforms, preparation of manuals, staff training, program marketing, installation of information systems, and public participation. However, the program will also support capacity building activities in the Districts related to their planning and service delivery functions, both of which could have more significant social and environmental impacts. Specifically, the program will assist Districts in preparing strategic development plans and capital investment budgets. It will also finance training projects in secondary and tertiary road rehabilitation and maintenance, as well as the development of a modest pipeline (preinvestment) of small local public works projects – in (secondary and tertiary) road infrastructure, solid waste collection, slaughterhouse and public market rehabilitation, and upgrading of public spaces – for financing outside the program.
- 4.12 Accordingly, the capacity building systems offered by the program will include specific procedures for social/environmental assessment and screening of local

investment projects. Given the limited resources of District governments, care has been taken to simplify these procedures, and integrate them with the overall planning and management frameworks being developed for each District. A preliminary version of these procedures has been developed through a technical cooperation project during the formulation of the program (see technical files).¹³

- 4.13 Potential social and environmental consequences from the implementation of DLGP are mainly positive, since a number of benefits may be expected through the improvement of public services by district administration. Moreover, the training and public participation activities will provide the opportunity to improve environmental awareness and institutional capability at the local level.
- 4.14 Minor negative impacts could occur in the case of the road rehabilitation training projects funded by the program, including noise and dust from construction; minor erosion; and vegetative waste accumulation from cleaning of roadside drains.
- 4.15 To address the latter, as well as enhance general capacity of the Districts to incorporate social and environmental dimensions into their planning and management processes, *an environmental assessment and management action plan* has been formulated for the program (and incorporated in the program operating regulations), covering the following activities:
 - (i) Interinstitutional agreement between PIU and NIMOS for delivery, by the latter, of services needed to implement the program's environmental assessment and management activities;
 - (ii) Inclusion of environmental aspects in the program's District capacity building activities, public participation events and procurement documents;
 - (iii) Procedures for environmental assessment, review and management of capital works and preinvestment projects;
 - (iv) Incorporation of environmental assessment provisions in the strategic local development plans prepared by the Districts during the DLGP
- 4.16 Financing of for the above activities, estimated to cost approximately US\$20,000, will be provided by the program. In order to ensure that DLGP activities and investment projects are planned and executed in accordance with the country's environmental protection, as defined in the Environmental Management Technical Cooperation Project, NIMOS will be responsible for the primary technical assistance functions involved in the implementation of these activities. The terms of this assistance will be defined in an interinstitutional agreement, or

¹³ Final operational details of the procedures will be developed during the first year of the DLGP, prior to the start up of the trial public works projects in the DLGP.

other appropriate legal instrument, between NIMOS and MRD, which must be **drafted and signed as a condition prior to first disbursement of the program.**

B. Program risks

4.17 Program management capacity. Like most central government institutions in Suriname today, the Ministry of Regional Development does not have the institutional capacity to manage a program like the DLGP with in-house staff. Program management will therefore have to depend on an external PIU, composed of full time local consultants. Moreover, since program management experience is relatively limited in the country, and few local professionals know about local government capacity building, even a moderately well trained local PIU team will require outside technical support to efficiently manage the program. For this reason, the program will rely strongly on external consultants to assist in: (i) overall program management; (ii) the training of local trainers; and (iii) the operational design and initial implementation of DLGP activities. As a longer run program management objective, MRD will receive institutional strengthening support to enable it assume direct responsibility for some of the functions initially borne by the PIU.

4.18 Political support for legislative reforms. The political climate in Suriname is presently very supportive of the decentralization reforms proposed by the program. During the recent national elections, all major political parties explicitly supported decentralization and local government empowerment agendas in their election platforms. Nevertheless, potential resistance to the specific legislative proposals, once drafted, must always be considered a potential risk. This can include resistance from central government agencies not willing to give up influence; or the reluctance of some local governments to levy taxes on their constituents. To reduce this risk, a broad based information campaign was initiated during the formulation of the program. This will be further expanded during implementation through a marketing and consensus-building action plan that periodically feeds back with all major stakeholders as legislation is drafted – National Assembly, national Ministries, representatives of local elected officials, and local NGOs. This will be reinforced by the Bank's periodic monitoring of program benchmarks, especially during midterm review.

DECENTRALIZATION AND LOCAL GOVERNMENT STRENGTHENING PROGRAM

LOGICAL FRAMEWORK

OBJECTIVE	INDICATORS		VERIFICATION	ASSUMPTIONS
	MIDTERM	END OF PROJECT		
OVERALL GOAL				
Highly and administratively viable decentralized government institutions in Suriname		(see output indicators below, especially as regards budget management and revenue generation)		Decentralization efforts by government continue
OBJECTIVES OF THE PROGRAM				
Local governments in Suriname have the legal framework and capacity necessary for fiscal management and, in the case of a pilot project, capacity to begin to manage their own affairs	<ul style="list-style-type: none">Pilot Districts have been certified by Program at level 2 of institutional capacity	<ul style="list-style-type: none">Two non pilot Districts have been certified by Program at level 2 of institutional capacityPilot Districts have achieved advanced capacity building benchmarks	<ul style="list-style-type: none">Project progress reports6 month and midterm reviewson site inspectionscertification by CLAD and PIU	<ul style="list-style-type: none">transfer of functionstransfer of fundsincreased incomecost effectivenesstransparency
Legal reforms are adopted and a long term strategy for sector is developed	<ul style="list-style-type: none">Technical and legal background papers for legal reforms completedLegislative bills, amendments and state decrees drafted and approved by CabinetGovernance study for Paramaribo completedTORs approved for study on: long term decentralization strategyModel personnel policy and action plan for Districts approved by Cabinet and at least one District	<ul style="list-style-type: none">Legislative bills approved by National AssemblyGovernance study on Sipaliwini completedLong term decentralization strategy approved by Cabinet	<ul style="list-style-type: none">Legal gazetteProject progress reportsPublished bylaws and ordinances6 month and midterm reviews	<ul style="list-style-type: none">Participatory managementrevenueprtransparencyBrsuprcoPrmefuef

DECENTRALIZATION AND LOCAL GOVERNMENT STRENGTHENING PROGRAM

LOGICAL FRAMEWORK

OBJECTIVE	INDICATORS		VERIFICATION	ASSUMPTIONS
	MIDTERM	END OF PROJECT		
<p>Ministerial Steering Committee for technical background studies created by end of first quarter/year 1 (same committee reconvened for decentralization strategy in quarter/year 2)</p> <p>Submission of legislative drafts and bills by end of third quarter/ year 1</p> <p>Submission of no objection to proposed legal reforms from District Councils by end of fourth quarter/ year 1</p> <p>Institutional and financial management mechanisms of Districts is created</p> <p><u>Core administration and planning mechanisms put in place.</u></p> <p><u>Basic budget and financial management mechanisms and practices of financial transparency put in place.</u></p>	<ul style="list-style-type: none"> DA recruited and hired in pilot Districts and two non pilot Districts PIP approved by MRD and District Councils for pilot Districts and two non- pilot Districts Pilot District PIPs 40% implemented Office rehab plans approved by MRD for pilot Districts and two non pilots Key new BFM staff installed in pilot Districts BFM manuals approved Basic BFM software developed and installed in pilot Districts Complete extensive, first phase training and technical support in pilot Districts Pilot Districts have prepared Expenditure Plans (Budgets) in accordance with BFM manuals 	<ul style="list-style-type: none"> Strategic Development Plan formulated and approved for pilot Districts District office rehab work completed and equipment purchased and installed in pilot Districts and two non pilots Two non pilot Districts: new BFM staff and basic computer software installed; extensive first phase training completed Each pilot Districts submits one budget to public hearing Three pilot Districts present a budget execution report to their District Councils <ul style="list-style-type: none"> One budget from each of pilot districts has been fully executed and the corresponding balance reports prepared. Three of above mentioned reports approved by external auditors 	<ul style="list-style-type: none"> Project progress reports On site inspections 6 month and midterm reviews certification by PIU and CLAD presentation of respective written documents 	<ul style="list-style-type: none"> transparency transparency efficiency preparation of internal procedures preparation of internal procedures local level efficiency the District Councils Cooperation preparation be

DECENTRALIZATION AND LOCAL GOVERNMENT STRENGTHENING PROGRAM

LOGICAL FRAMEWORK

OBJECTIVE	INDICATORS		VERIFICATION	ASSUMPTIONS
	MIDTERM	END OF PROJECT		
<p><u>Capacity to raise and manage own-source revenues created</u></p>	<ul style="list-style-type: none"> • Computerized tax administration system (TAS) for Districts designed and tested • TAS installed and operating in three pilot Districts • Three pilot Districts collecting own-source revenues and assisting OTA in collection of RVT 	<ul style="list-style-type: none"> • Pilot districts collecting more RVT, PET and devolved fees than amounts previously collected by GOS in their territory before DLGP • TAS installed and operating in all pilot Districts and two non pilots • Four pilots certified capable of managing collection of RVT and public entertainment tax • Two Districts have collected funds through special assessment-type arrangements to partially finance local investment projects, using public hearing procedures 	<ul style="list-style-type: none"> • Project progress reports • On site inspections • 6 month and midterm reviews • certification by PIU and CLAD • presentation of respective written documents • sample survey of CIC users 	<ul style="list-style-type: none"> • tra • tra • effi • pre • of • int • pre • effi • loc • lea • effi • the • Di • Co • acc • pre • be
<p><u>Citizen participation mechanisms implemented</u></p>	<ul style="list-style-type: none"> • Citizen participation manual formulated • Citizen Participation Plans formulated and approved in pilot Districts • Citizen Information Centers started up in 3 pilot Districts 	<ul style="list-style-type: none"> • Citizen Participation Plans formulated and approved in 2 non-pilot Districts • Citizen Information Centers running in all pilot Districts • User satisfaction survey of Program undertaken among District residents 		

DECENTRALIZATION AND LOCAL GOVERNMENT STRENGTHENING PROGRAM

LOGICAL FRAMEWORK				
OBJECTIVE	INDICATORS		VERIFICATION	ASSUMPTIONS
	MIDTERM	END OF PROJECT		
<u>Preliminary capital works systems in place and training projects implemented</u>	<ul style="list-style-type: none"> Public works manual formulated and approved Capital works mgmt systems in place in pilot Districts Training manuals for project formulation and procurement formulated and approved Preinvestment work for training projects, up through preliminary designs, completed in 3 pilot Districts 	<ul style="list-style-type: none"> Follow up technical assistance in mgmt systems completed Capital works training projects formulated and implemented in pilot Districts Training on project formulation and procurement completed in pilot Districts 	<ul style="list-style-type: none"> Project progress reports On site inspections 6 month and midterm reviews certification by PIU and CLAD presentation of respective written documents 	<ul style="list-style-type: none"> Project progress reports On site inspections 6 month and midterm reviews certification by PIU and CLAD presentation of respective written documents
Local framework for local government sector is strengthened	<ul style="list-style-type: none"> MRD organizational study approved by GOS MRD strategic plan approved MRD offices rehabilitated and equipment installed OTA consultants hired and equipment installed Information exchange network for local governments created and functioning with 2 meetings per year 10 local trainers/consultants certified by program 	<ul style="list-style-type: none"> Main recommendation from MRD study implemented -- with particular emphasis on those related to LGDD, BAFA and CTA new staff of LGDD, BAFA and CTA hired Information exchange network defines bylaws and fee structure 10 more local trainers/consultants certified by program 	<ul style="list-style-type: none"> Presentation of respective written documents Project progress reports On site inspections 6 month and midterm reviews 	<ul style="list-style-type: none"> Support from MRD, Re-De and wi du pro

DECENTRALIZATION AND LOCAL GOVERNMENT STRENGTHENING PROGRAM

LOGICAL FRAMEWORK

OBJECTIVE	INDICATORS		VERIFICATION	ASSUMPTIONS
	MIDTERM	END OF PROJECT		
Plans and follow up support to development are formulated	<ul style="list-style-type: none"> Design of demand-driven project formulation system initiated TORs for needs assessment studies approved TORs approved for feasibility studies and prelim designs of first year pipeline projects 	<ul style="list-style-type: none"> Design of demand driven project system completed Needs assessment inventory for capacity building and physical investment projects completed Feasibility studies and prelim designs of project pipeline completed Draft operating regulations completed 	<ul style="list-style-type: none"> Program reports 6 month and mid term reviews supervision visits by Bank Field Office presentation of respective written documents 	<ul style="list-style-type: none"> PIU Revised Advisory capacity management pro Pil ab Le cer tin
Implementation of program management and support activities fully implemented	<ul style="list-style-type: none"> Program Advisory Board set up PIU fully staffed 80% of midterm deliverables in DLGP Implementation Plan completed 80% of midterm targets of Marketing Plan completed 	<ul style="list-style-type: none"> 80% of revised DLGP Implementation Plan achieved User satisfaction survey of Program undertaken among District residents DLGP program mgmt fully in hands of PIU 	<ul style="list-style-type: none"> CIC random survey of users Program reports 6 month and mid term reviews supervision visits by Bank Field Office 	<ul style="list-style-type: none"> sk tec per be lev MI Di

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DLGP Implementation Plan formulated by Resident Advisor and PIU, and approved by Program Advisory Board and Bank end of 1st Q/1st year, revised at mid term
 Marketing Plan approved end of 1st Quarter/1st year; revised at midterm
 Finance Monitoring and Evaluation plan for DLGP approved by Bank end of 1st Q/1st year, and initiated following month

SURINAME
DECENTRALIZATION AND LOCAL GOVERNMENT
STRENGTHENING PROGRAM
SU-0019
PROCUREMENT PLAN

MAIN PROCUREMENT	AMOUNT (US\$ million)	FINANCING BY BANK %	METHOD	PREQUALI FICATION	DATES
A. SERVICES Aggregate estimate: US\$4.5 million					
1. International program mgmt. and technical assistance (VNG)	1.25	100	SS	no	Years 1-3
2. Local revenue generation (CIAT)	0.24	100	SS	no	Years 1-3
3. Program management and institutional strengthening--- PIU and other MRD units (individual long term consulting contracts)	0.80	70	LS	no	Years 1-3
4. Training and technical assistance – local experts (separate contracts for each training or TA project; on average less than US\$50,000 per contract)	1.90	70	LS	no	Years 1-3
5. Designs and supervision of training projects in road rehab and maintenance	0.13	100	LS	no	Years 2-3
6. Feasibility studies and prelim. design for preinvestment pipeline of capital works projects	0.16	100	LS	no	Year 3
B. CIVIL WORKS Aggregate estimate: US\$0.9 million					
1. Road rehab (5 separate contracts @US\$120,000)	0.60	70	NCB	no	Year 2 and 3
2. Road maintenance (5 separate contracts @ US\$34,000)	0.17	70	NCB	no	Year 2 and 3
3. Rehab of District offices	0.17	100	NCB	no	
C. GOODS Aggregate amount: US\$0.3 million					
1. Computers and office equipment					
a. Lot 1	0.07	100	LS	no	
b. Lot 2	0.07	100	LS	no	
2. Vehicles					
a. Lot 1	0.09	100	LS	no	
b. Lot 2	0.09	100	LS	no	

SS Sole Source
ICB Intl Competitive Bidding
NCB National Competitive Bidding
LS Local Shopping

PROPOSED RESOLUTION

SURINAME. LOAN ____/OC-SU TO THE
REPUBLIC OF SURINAME
(Decentralization and Local Government Strengthening Program)

The Board of Executive Directors

RESOLVES:

That the President of the Bank, or such representative as he shall designate, is authorized, in the name and on behalf of the Bank, to enter into such contract or contracts as may be necessary with the Republic of Suriname, as Borrower, for the purpose of granting it a financing to cooperate in the execution of the Decentralization and Local Government Strengthening Program. Such financing will be for an amount of up to four million nine hundred thousand dollars of the United States of America (US\$4,900,000) from the Single Currency Facility of the Ordinary Capital resources of the Bank, and will be subject to the "Special Contractual Conditions" and the "Financial Terms and Conditions" of the Executive Summary of the Loan Proposal.

PROPOSED RESOLUTION

SURINAME. PARTIAL PAYMENT OF INTEREST ON LOAN No. ____/OC-SU
TO THE REPUBLIC OF SURINAME
(Decentralization and Local Government Strengthening Program)

The Board of Executive Directors

RESOLVES:

That the President of the Bank, or such representative as he shall designate, is authorized, in the name and on behalf of the Bank as administrator of the Intermediate Financing Facility Account (the "Account") to enter into such contract or contracts as may be necessary with the Republic of Suriname, as Borrower, and to adopt other pertinent measures to use the resources of the Account to pay a portion of the interest due by the Borrower on outstanding balances of the loan authorized by Resolution DE-____/____, in accordance with the provisions set forth in Document FN-263-2, as amended, approved by the Board of Executive Directors on December 21, 1983.