

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

SURINAME

FISCAL STRENGTHENING TO SUPPORT ECONOMIC GROWTH PROGRAM

(SU-L1050)

LOAN PROPOSAL

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ELECTRONIC LINKS	
REQUIRED	
1.	Pluriannual Execution Plan (PEP), Annual Operational Plan (POA)
2.	Monitoring and Evaluation Arrangements
3.	Environmental and Social Management Report (ESMR)
4.	Procurement Plan
OPTIONAL	
1.	Economic Analysis
2.	Environmental and Social Impact Assessment (ESIA) and Environmental and Social Management and Monitoring Plan for the Construction and Operation of the Office of Tax Administration Building (ESMP)
3.	Suriname: Selected Economic and Social Indicators
4.	Operating Regulations Manual (draft)
5.	Safeguard Policy Filter (SPF) and Safeguard Screening Form (SSF)

ABBREVIATIONS	
AOP	Annual Operation Plan
ASYCUDA	Automated System for Customs Data
AW	ASYCUDA World
CABM	Customs Audit Business Model
DoTC	Department of Taxes and Customs
ESHS	Environmental, Social, Health and Safety
ESIA	Environmental and Social Impact Assessment
ESMP	Environmental and Social Management Plan
ESMR	Environmental and Social Management Report
FISEG	Fiscal Strengthening for Economic Growth Program
FY	Fiscal Year
GDP	Gross Domestic Product
ICAS	Institutional Capacity Assessment
IDB	Inter-American Development Bank
IFMIS	Integrated Financial Management Information System
IMF	International Monetary Fund
IPSAS	International Public Sector Accounting Standards
IT	Information Technology
LAC	Latin American and Caribbean
MoF	Ministry of Finance
MOPWTC	Ministry of Public Works, Transport and Communication
OMF	Office of the Minister of Finance
ORA	Office of Revenue Administration
OS	Organizational Structure
PEFA	Public Expenditure and Financial Accountability
PEP	Pluriannual Execution Plan
PFM	Public Financial Management
PGC	Program General Coordinator
PI	Public Investment
PIU	Program Implementation Unit
PMR	Progress Monitoring Report
POM	Program Operations Manual
PP	Procurement Plan
PPPs	Public Private Partnerships
RM	Results Matrix
SARA	Semi-Autonomous Revenue Agency
SBA	Stand-By-Agreement
SC	Steering Committee
SDMO	Suriname Debt Management Office
SIGTAS	Standard Integrated Government Tax Administration System
SOE	State-Owned Enterprises
ST	Sales Tax
TACS	Tax Arrears Collection Procedures and System
TAS	Tax appeal System
TIN	Taxpayer Identification Number
TPS	Tax Payment System

TRS	Tax Return System
TS	Taxpayer Service
TSA	Treasury Single Account
VAT	Value Added Tax
WCO	World Customs Organization

PROJECT SUMMARY
SURINAME
FISCAL STRENGTHENING TO SUPPORT ECONOMIC GROWTH PROGRAM
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Financial Terms and Conditions					
Borrower: Republic of Suriname			Flexible Financing Facility ^(a)		
			Amortization Period:	25 years	
Executing Agency: Ministry of Finance (MoF)			Original WAL:	15.25 years	
			Disbursement Period:	5 years	
Source	Amount (US\$)	%	Grace Period:	5.5 years	
IDB (OC) ^(c) :	40,000,000	100	Supervision and Inspection Fee:	(b)	
			Interest rate:	Libor Based	
Total:	40,000,000	100	Credit Fee:	(b)	
			Currency of Approval:	U.S. Dollar chargeable to the Ordinary Capital (OC)	
Project at a Glance					
Project Objective/Description: The objective of the Fiscal Strengthening for Economic Growth (FISEG) Program is to support Suriname's efforts to return to a sustainable fiscal path in the medium term through an ongoing reduction of its fiscal deficit. The specific objectives of the program are: (i) increase tax revenue; (ii) improve public expenditure planning and execution; and (iii) improve the quality of public investment while increasing alternative source of funding for investment projects.					
Special Contractual Clauses prior to the first disbursement: See requirements contained in Annex III regarding special contractual clauses prior to first disbursement.					
Special Contractual Clause of execution: See requirements contained in Annex III regarding special contractual clauses of execution. For contractual clauses of execution regarding the Environmental and Social conditions see Annex B of the Environmental and Social Management Report (ESMR).					
Exceptions to Bank Policies: None.					
Strategic Alignment					
Challenges ^(d) :	SI	<input type="checkbox"/>	PI	<input type="checkbox"/>	EI <input type="checkbox"/>
Cross-Cutting Themes ^(e) :	GD	<input type="checkbox"/>	CC	<input type="checkbox"/>	IC X

^(a) Under the Flexible Financing Facility (FN-655-1), the borrower has the option to request modifications to the amortization schedule as well as currency and interest rate conversions. In considering such requests, the Bank will take into account operational and risk management considerations.

^(b) The credit fee and inspection and supervision fee will be established periodically by the Board of Executive Directors during its review of the Bank's lending charges, in accordance with the relevant policies.

^(c) Pursuant to Document AB-2990, the disbursement of Bank financing will be subject to the following maximum limits: (i) up to 15% during the first 12 months; (ii) up to 30% during the first 24 months; and (iii) up to 50% during the first 36 months. All these periods will be counted from the time the Loan operation is approved by the Board of Executive Directors (see ¶2.2).

^(d) SI (Social Inclusion and Equality); PI (Productivity and Innovation); and EI (Economic Integration).

^(e) GD (Gender Equality and Diversity); CC (Climate Change and Environmental Sustainability); and IC (Institutional Capacity and Rule of Law).

I. DESCRIPTION AND RESULTS MONITORING

A. Background, Problem Addressed, Justification

- 1.1 **Background.** A general problem faced by the Government of Suriname is its asthenic fiscal stance that stunts economic growth, which is accentuated by the country's vulnerable position to external macroeconomic conditions. In the period 2010-15, declines in the prices of the main commodity exports and the halt of alumina production, eroded the country's fiscal position due to dwindling tax revenues, and a mounting public expenditure¹ that led to a spiraling public debt (from 19% to 68% of GDP, see Figure 1).² Informality accounted for about 33% of employed labor and the Gini index stood at 0.58, with the highest 20% income bracket concentrating 57% of the income.³ The economy has been in recession since 2015, the exchange rate has depreciated 85% and inflation exceeded 100% ([Suriname: Selected Economic and Social Indicators](#)). In response to the fiscal situation, the authorities launched in 2015 an adjustment program by reining in spending and increasing tax revenue to cut the budget deficit. Measures included purging of past government expenditure arrears equivalent to 3.8% of GDP in 2015 and the reduction of electricity tariff subsidies.
- 1.2 In addition, the government is implementing measures to reduce the budget deficit from 5.7% of GDP in 2016 to 2.5% in 2018⁴ by: (i) restraining the government wage bill; and (ii) raising tax revenues by: (a) increasing fuel taxes; and (b) introducing a Value-Added Tax (VAT) by January 2018, which would replace the existing Sales Tax (ST) and achieve a net revenue increase of 2.5% of GDP by January 2019, while reducing tax revenue volatility.^{5,6}

¹ Up from 25% to 32% of GDP.

² Between 2010 and 2016 real GDP growth averaged 0.5%. In 2011, oil, aluminum and gold represented 88% of total exports and 40% of government revenues, but by 2015, the latter represented less than 15%. The fiscal deficit increased from 3% to 5.7% of GDP, almost 85% of this worsening was due to the drop-in government mineral revenue. Source: IMF WEO, April 2017.

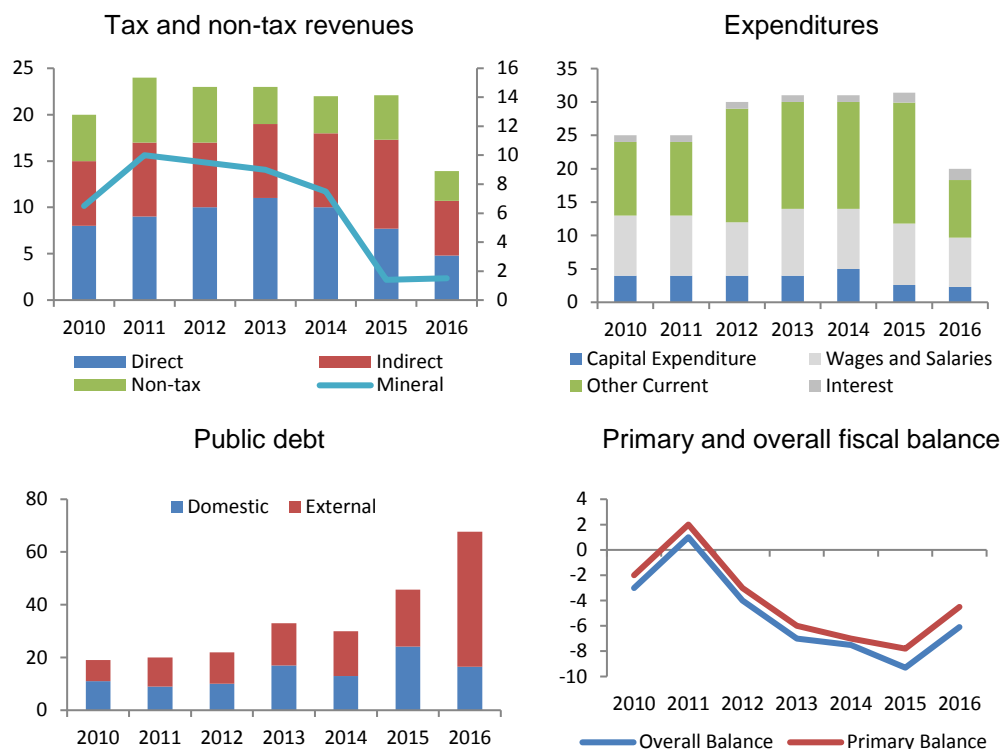
³ World Bank, World Development Indicators, as quoted in Trading Economics (<http://www.tradingeconomics.com/suriname/gini-index-wb-data.html>).

⁴ In 2016, the government signed with the International Monetary Fund, a Stand-by-Agreement (SBA) to support key structural reforms that Suriname is implementing. After some mixed results in its progress the SBA was cancelled at the request of the Surinamese authorities.

⁵ See: Ebeke, C. and Ehrhart, H. Does VAT reduce the instability of tax revenues? CERDI, 2011.

⁶ Volatility of direct taxes was 50% larger than indirect taxes for the period 2006-2016.

Figure 1. Central government fiscal indicators (2010-2016) % of GDP



Source: [Ministry of Finance Flash Report](#), Department of Taxes and Customs.

- 1.3 Since 2011, the Bank has been supporting the authorities through two fiscal Programmatic Policy Based Loans, the Revenue Policy and Administration Program (3105/OC-SU; SU-L1037) and the Public Expenditure Management Program (operations 2666/OC-SU; SU-L1026 and 2862/OC-SU; SU-L1028).⁷ The former aims at strengthening the country's fiscal position through an increase in tax revenue, foreign investment and economic competitiveness. Two key activities in the tax policy reform and revenue administration components are the introduction of the VAT and the plan to restructure the Department of Taxes and Customs (DoTC). The latter aims at enhancing public capital expenditure management through key changes in the Public Financial Management (PFM) and procurement laws. These ongoing reforms have played an important role in developing the tools and framework critical to updating the public expenditure and revenue systems, which provide the basis for this investment operation.
- 1.4 For the above reforms to be successfully implemented and sustainable over time, the Ministry of Finance (MoF) needs to address the following institutional challenges and problems.
- 1.5 **Challenges and problems addressed:** The main challenge is to reverse the overall fiscal deficit to put the country back on the path of a sustainable fiscal balance and growth. To do so, the authorities are implementing the fiscal

⁷ Also: ATN/FI-13102-SU (Public Procurement Strengthening) and ATN/FI-14581-SU (Revenue and Expenditure Administration) have been supporting the fiscal area.

consolidation program (§1.1, §1.2). To support these reforms, the authorities will be focusing on strengthening the institutional capacity of the MoF to collect tax revenue in an efficient manner as well as to strengthen the planning, prioritization, preparation, execution and monitoring of the annual budget, including the improvement of public investment by preparing and structuring better projects. The specific problems and the causes associated with the main problem are presented in three sections as follow (Revenue Administration, PFM and Public Investment). This investment loan tackles key institutional challenges that need to be addressed despite the pace of the structural reforms supported by the Bank or other organizations.

- 1.6 **Revenue Administration.** The most cost effective systems for collecting taxes are those that induce taxpayers to meet their tax obligations voluntarily, leaving tax authorities to concentrate their efforts on those taxpayers who do not comply.⁸ In Suriname, the ineffective revenue administration of the DoTC, hinders the MoF's efforts to improve compliance rates and therefore revenue collection. In the period 2013-16, non-filing of income tax returns averaged 25% and 54% for large taxpayers and other taxpayers respectively. For the ST, the average non-filing rate for all taxpayers during the period was 62%. Tax arrears averaged 73% of the domestic revenue collection (Table 1.1). DoTC conducts no comprehensive audits for any type of taxpayer and the reporting on single-tax-type audits is incomplete. These problems contribute to the low tax revenue collection rates. In 2016, the tax revenue reported by the MoF was 14% of GDP, which is below the Latin American and Caribbean (LAC) average (17%).⁹

Table 1.1. Tax compliance (selected indicators)				
Non-filing (% of total required to file)	2013	2014	2015	2016
Sales tax returns				
- <i>All taxpayers</i>	63%	61%	61%	63%
Income tax returns				
- <i>Large taxpayers</i>	22%	24%	26%	29%
- <i>Other taxpayers</i>	52%	52%	55%	56%
Tax audits cases audited and (% collected from total assessed)				
Income tax				
- <i>Large taxpayers</i>	6 (0.8%)	29 (0.3%)	21 (1.7%)	16 (2.9%)
- <i>Other taxpayers</i>	40 (7.1%)	94 (46.9%)	54 (23.6%)	39 (1.3%)
ST				
- <i>Large taxpayers</i>	16 (6.7%)	90 (1.4%)	22 (91.7%)	54 (68.6%)
- <i>Other taxpayers</i>	01 (7.4%)	2319 (121%)	254 (30.4%)	645 (48.8%)
Tax Arrears (stock of arrears as a % of annual domestic revenue collection)				
<i>Large taxpayers</i>	31%	49%	16%	32%
<i>Other taxpayers</i>	115%	108%	283%	128%
Total				
<i>All taxpayers</i>	61%	70%	119%	69%
Source: Staff estimates.				

⁸ Okello, A. Managing Income Tax Compliance through Self-Assessment. IMF, 2014.

⁹ See: Fretes, V. et al. More than Revenue: Taxation as a Development Tool IDB, 2013 and World Economic Outlook, 2016.

1.7 The main causes associated with this specific problem are:

a. **Regarding the DoTC structure and taxpayer's services**

- i. It does not facilitate tax administration operations since it is organized predominantly by tax type rather than by functions, resulting in overlapping activities and replication of organizational units.¹⁰ For example: (a) administrative procedures are spread out, creating difficulties for task planning, prioritization and execution; (b) the DoTC prepares neither corporate business plans nor policies related to resources, services, property, personnel and contracts; (c) there is no official headcount, so the reported global number of staff does not match the sum of the staff level reported by unit;¹¹ and (d) organizing by tax type, limits comprehensive audit coverage.¹²
- ii. There are no units dedicated solely to taxpayer service and enquiries, nor has staff received training or guidelines to handle questions from taxpayers. There are no systems available for accessing tax services via the Internet.
- iii. DoTC personnel are subject to government-wide civil service regulations regarding job classification and compensation levels. These regulations severely limit the Directorate's flexibility offer competitive salaries to attract and retain qualified staff. Vacancies in key management positions also hamper agile administration.

b. **Regarding internal revenue operations**

- i. There is no unique Taxpayer Identification Number (TIN). Each TIN has its particularities: customs has a six-digit number, ST and income tax use a four-digit number, another six-digit number is used for individuals. None of the numbers use check digits.¹³ Taxpayers are registered in different and fragmented IT systems¹⁴ and no registration information is validated against any other data sources.
- ii. Manual tax return processing foster misfiling and underreporting. Reconciliation of treasury deposits to Bank transfers is also manual and is error prone. The system's filters to detect and correct errors and omissions have not been developed and data validation is very weak.¹⁵

¹⁰ The DoTC includes three main Inspectorates and two associated Departments of Collection.

¹¹ See: [Howell, H. Institutional Capacity Assessment IDB, 2017.](#)

¹² [Dos Santos, et.al. Suriname Tax and Customs Administration IDB-Caribbean Regional Technical Assistance Center, 2005.](#)

¹³ Idem.

¹⁴ There are four Information Technology (IT) tax systems: (i) direct taxes; (ii) indirect taxes; (iii) sales taxes; and (iv) the Automated System for Customs Data (ASYCUDA) World, with no linkages between them. Source: PEFA draft (2014).

¹⁵ Dos Santos, et.al. op.cit.

- iii. The use of paper invoices limits the revenue administration's effectiveness as it promotes misfiling, deficient information for decision-making purposes and evasion. DoTC receives cash-tax-payments in its offices given that bank payment processes are slow and unreliable. Payments made at banks take at least three weeks to be processed and then are not accurately credited to the taxpayer's account at the DoTC.¹⁶
- iv. The identification of tax obligations in the taxpayer register is not accurate. Inactive taxpayers are not detected by the system, thus the stop-filing control and return system keeps generating notices to inactive taxpayers.¹⁷
- v. There is no taxpayer audit system planning. The absence of a risk analysis tool and systems to support information crosschecking is a critical issue.
- vi. There is a limited number of qualified staff to carry tax auditing functions. None of the 98 auditors (e.g. 14% of total DoTC staff) holds a Certified Public Account degree. Best practices in developing countries place the average percent of accredited tax-compliance auditors in revenue administrations at 30%.¹⁸ These auditors have not been trained on key aspects related to the processes and procedures of the VAT.
- vii. Arrears collection is independent from other functional units due to the provisions of the collections law. This affects coordination among units (e.g. audit and assessment) especially as they have no common IT system available. DoTC uses official assessments to enforce filing however; as many stop-filers are inactive taxpayers these automatic system-generated assessments are uncollectable. This causes the receivables for DoTC to be overstated.¹⁹
- viii. Tax appeals are first filed with the same assessor who raised the assessment, which is an unusual practice in modern tax administrations. There are no IT systems to support appeals activities and to produce information for management decisions.

c. Regarding customs operations

- i. Lack of adequate training and equipment prevents customs from operating in line with best practices as suggested by the World Customs Organization (WCO). Even though, ASYCUDA World (AW) is in place, lack of training is limiting the potential use of the system in terms of registration, merchandise processing and risk analysis.²⁰ The AW risk analysis engine needs parameters based upon data analytics to be an effective compliance tool.

¹⁶ Information provided by the General Collector of DoTC.

¹⁷ Stop-filing rates are 35% for companies and 43% for individuals. For sales tax the stop-filing rate is 70%. Source: DoTC Sales Tax and Income Departments 2016.

¹⁸ Source: World Bank's "Some essential questions to identify revenue administration weaknesses, environmental constraints and reform priorities" Toolkit for Revenue Administration Diagnosis, 2005.

¹⁹ IMF. op.cit.

²⁰ Idem.

Lack of trained staff limits the adoption of more risk profiling of imports and exports.²¹ The AW is not ready to comply with the VAT requirements, not has been tested to calculate and collect the VAT and provide information on imports and exports for the VAT system.²²

- ii. Lack of current procedures and practices restricts the ability of customs to adequately validate declarations for imports and exports resulting in suboptimal collection, with poor valuation of imports and exports reportedly resulting in losses of 30–40% in customs duty.²³
- iii. Multiple senior management positions are vacant and there is understaffing in key areas hampering custom administrative capacity.

d. Regarding technological and physical infrastructure

- i. The IT environment is outdated. For example: (a) the system is characterized by limited and old tax software applications running on outdated versions of the software; (b) the IT equipment relies on ad-hoc peer to peer networking which introduces significant security risks into the system and prevents the central administration of their office network; (c) there is no disaster recovery data center and technical support for AW and the IT environment is lacking;²⁴ (d) exchange of information amongst government entities is done through manual file transfers; and (e) there is no official customs website, with online information about processing transactions through customs.²⁵
- ii. AW is not fully implemented as there is lack of trained staff to finalize the implementation of all modules.²⁶
- iii. Customs and DoTC are physically separated from each other making it difficult to coordinate activities. Also, the building fit-ups are not current (electrical and air handling limitations, plumbing issues, networking and communication caballing is not structured) and makes it difficult to offer modern taxpayer services and office space for the staff.

e. Regarding the legal framework

- i. The legal framework is outdated. For example, there are no provisions in the legislation to allow for e-filing, electronic signature or validity of e-documents to enforce taxes.

1.8 PFM. The MoF faces the following challenges that undermine the functionality of the budget process (planning and execution) and its framework:

²¹ World Bank. op.cit.

²² Idem.

²³ Idem.

²⁴ Idem.

²⁵ Idem

²⁶ CIAT. Considerations for the IT system 2013.

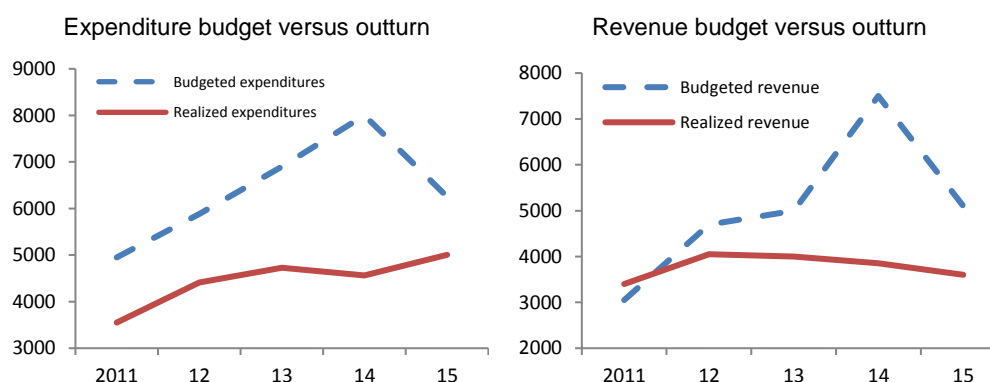
a. Regarding the organizational structure

- i. PFM functions are spread among several entities, like treasury operations which are not integrated in a single Organizational Structure (OS).²⁷ Currently, the equivalent of the treasury function spans five organizational units, four in the MoF and one in the Central Bank. These entities lack of functions expected in a treasury office, such as: cash management and forecasting; a comprehensive Treasury Single Account (TSA)²⁸ accounting for revenues; and accounting policy and procedures. There is no formal cash management procedure established or entity directly responsible for this function. Also, there is no committee to oversee cash management activities.

b. Regarding budget planning and execution

- i. The MoF lacks capacity to carry out macroeconomic analyses of fiscal and public policy issues in terms of: diagnostics, reporting, evaluation, forecasting, debt scenarios, etc.
- ii. Revenue and expenditure budgets have been higher than the outturns over the period 2011-15 (see Figure 2). The average gap between expenditure (revenues) budgeted amounts and outturns in Fiscal Year (FY) 2011-2015 was SDR\$1.7 million each (e.g. 29% deviation from the original approved budgets).

Figure 2. Outturns for budget expenditure and revenue (2011-2015 SRD million)



Source : Gentry, D. et al. IMF 2016

- iii. There is no standardized mechanism to manage the seasonal difference between cash inflows and outflows making it hard for line ministries to plan budget execution. The financial budgets are not linked to any results or goal achievement. Sector strategies presented by line-ministries are normally not considered in the final budget. For the 2015 budget, only 30% of these strategies showed up in the approved budget. The capital and

²⁷ See: Gentry, D. et.al. Suriname: Establishing an Effective Treasury and Cash Management Unit (2016) and Howell, H. op. cit

²⁸ There is a partial TSA through which for about 75% of central government expenditures are channeled. Source: MoF, Free Balance Module.

recurrent expenditures are not integrated. There is no comprehensive methodology to support multiyear budget planning. There is no consolidation of the auditing process. For example, each of the 16 ministries²⁹ submits their annual statements separately with significant delays of up to 15 months.³⁰ The current expenditure management system is inefficient, and there is a systemic risk of arrears. In 2015, payments to resolve arrears amounted to SRD\$666 million and payments in 2016 amount to an additional SRD\$255 million.³¹

- iv. Operations within the Suriname Debt Management Office (SDMO) are not comprehensive and only the back office is fully operational. SDMO does not participate in the cash management forecasts and decisions for short term borrowing by issuing Treasury bills;³² SDMO systems are not connected to the Integrated Financial Management Information System (IFMIS), which in turn does not have a module to manage public debt.
- v. Public procurement is carried out by the line ministries and there is no regulatory entity to oversee procurement processes. Competition, value for money and controls in procurement are weak. Information on procurement legislation and regulations is not systematically provided to the public nor is it made freely accessible. Circulars, decrees, letters of information and regulations within each ministry, department, or other government entity, are essentially an internal set of rules for financial control of the government administration.³³ The use of procurement plans is not enforced. Awarded contracts are not published. The legal framework does not provide for a review process for handling procurement complaints by participants and there is no formal complaints mechanism in place. In addition, there is no code of ethics in place and there is no system in place to systematically collect and disseminate procurement information to the public.³⁴
- vi. Internal control (and internal audit) at the ministry level is weak. Ministries have no legal responsibility for ensuring that internal control systems are in place and operate effectively (controls to ensure compliance with applicable laws, regulations and contracts, and to ensure reliability and integrity of financial information and reports).³⁵
- vii. Capacity to oversee the 105 active State-Owned Enterprises (SOEs) and other parastatal entities is weak. Only the seven joint stock companies consistently provide financial information to the MoF. The percentage of

²⁹ In February 2017, the Ministry of Transport Communication and Tourism was abolished and its component parts distributed to two other ministries, leaving a total of 16 ministries.

³⁰ PEFA op.cit.

³¹ Gentry, D. et al op.cit. and IMF op.cit.

³² Gentry, D. Selected Issues on IFMIS Implementation SEMCAR-IMF, 2013.

³³ World Bank, Country Procurement Assessment Report ,2013.

³⁴ PEFA op.cit

³⁵ Idem.

submissions from other parastatal entities,³⁶ which the Department of Economic Affairs is responsible to oversee, is very low, falling close to zero in 2015 and below 30% on average over the last 12 years.³⁷

c. Regarding technological infrastructure

- i. The three main systems: The Standard Integrated Government Tax Administration System (SIGTAS), AW and IFMIS are not integrated and operate in three different data centers, not sharing any technological infrastructure. The technological infrastructure of the MoF is obsolete and does not meet the requirement of the three main systems. There are no permanent training programs in IT competencies, including software, hardware and communication.³⁸

d. Regarding the legal framework

- i. There is neither a specific PFM law nor regulations and operating manuals. The current legal framework is not aligned with good international practices on PFM legislation.³⁹

1.9 Public investment. The public investment framework is highly fragmented and unregulated. There are no developed alternative sources of investment available in the country to finance public projects. The main causes associated with this specific problem are:

- i. **Outdated public investment management.** The National Investment System lacks guidelines, procedures and processes to identify and prioritize public investment projects.⁴⁰ There is no database on the status of each project or linkage to the government's economic development plans. There is no knowledge base to assess the criteria and effects of public investment projects. There is no legal framework, business model, technological tools, or entity responsible to support and oversee Public Private Partnerships (PPPs) activities, even though some line ministries are using concepts like PPPs to finance projects. There is no technical expertise to engage in PPPs, which restrains the government's investment options through alternative financing mechanisms.⁴¹ Additionally, there is neither centralized project database, nor uniform methodologies for project preparation, feasibility studies, execution, monitoring and evaluation.⁴²
- ii. **Responsibilities and functions are spread among line-ministries.** Recurrent and capital budget are not integrated. Capital and recurrent expenditures are presented separately by line-ministries and mixed in the

³⁶ These include: (i) Public Corporations 100% Government Owned Stock (20 companies); (ii) State Owned Companies (by SOE law 1971) & State-Owned Companies (Sui Generis) (23 companies); and (iii) Foundations (55 entities).

³⁷ See Howell, H. op.cit.

³⁸ Source: IT directorate of the MoF

³⁹ PEFA op.cit.

⁴⁰ Idem.

⁴¹ Source: Macroeconomic and Planning Divisions MoF.

⁴² PEFA op.cit.

budget making it hard to assess the amount assigned to each category. There is no integrated electronic system supporting public investment operations. The line ministries carry out their control with separate management tools and Excel spreadsheets.

1.10 Justification, Bank experience and lessons learned. At the request of the authorities, the Bank will reinforce MoF capacity through the Fiscal Strengthening to Support Economic Growth (FISEG) Program. This intervention is justified by the Bank's experience supporting fiscal programs in Suriname (see ¶1.3) and other countries like Bahamas (VAT implementation ATN/JF-13061-BH) and Jamaica (Fiscal Programme for Economic Growth: 3148/OC-JA, 3511/OC-JA, and 3880/OC-JA) and revenue administration strengthening (2658/OC-JA). Among the salient lessons learned are: (i) program preparation takes time to avoid technical shortcomings or execution problems; and (ii) when institutional strengthening and policy reforms are difficult to achieve, the presence of the Bank as a neutral player can address many of the same issues in a less politically and more technocratically environment. Staff resistance to change can diminish internalization of new program-sponsored skills and procedures. This loan intervention is consistent with international best practices on revenue reform (e.g. [Supporting the Development of More Effective Tax Systems](#)) and PFM (e.g. [LAC 2014:Towards Innovative Public Financial Management](#)).

1.11 Internal and External Validations. Implementing the VAT in other countries has been associated with higher tax revenue, efficiency gains and simplification of tax collection compared to the ST it replaced (see Tables 1.2 and 1.3). One recent successful case is the Bahamas, which implemented its VAT in 2015 (with the support of the Bank). According to the IMF,⁴³ a smooth VAT introduction has contributed to fiscal consolidation. VAT revenue over the first 12 months, at US\$536 million (about 6% of GDP), exceeded expectations and helped reduced the fiscal deficit from 5.6% in FY2013/14 to 4.4% of GDP in FY2014/15.

Table 1.2 Revenue differences between VAT and predecessor ST by Region* (% of GDP)						
Sub-Saharan Africa	Asia and Pacific	LAC	Central Europe	European Union	North Africa and Middle East	Small Islands
1.10	0.7	1.42	-1.88	1.05	0.10	1.96
(*) Three-year revenue moving average between the VAT its ST predecessor.						

Table 1.3 C-Efficiency ratio by Region						
Sub-Saharan Africa	Asia and Pacific	LAC	Central Europe	European Union	North Africa and Middle East	Small Islands
27	35	37	38	36	37	48
Source: Ebrill, L. (et al.) The Modern VAT. IMF, 2001						

1.12 Regarding budget and planning, Simson and Welham (2014) claim that budgets where outturns deviate considerably from plan will be poor guidelines for planning, resulting in less effective delivery of public services. A non-credible budget also undermines the implicit contract that underpins social acceptance of taxation and

⁴³ IMF, [Article IV Bahamas 2016](#), Page 2.

spending.⁴⁴ Using country cases (Liberia, Tanzania and Uganda) they present solutions to improve budget credibility. Regarding, public investment and PPPs, literature suggests that conditionally to the context and economic development of the country, project implementation is the most important component of the investment process. Improving project implementation (e.g. competitive bidding, internal audit, project selection, link to medium term frameworks and annual budgetary policies), can benefit public investment and growth in low-income countries.⁴⁵ In the latter, Reyes-Tagle and Garbacik (2016) find that policy-related government institutions increase the probability of countries having active PPPs programs. The results suggest that governments understand the importance of institutional quality for PPPs, but may feel compelled to utilize their PPPs units once they exist even if they do not have the institutional quality to maintain their use. This could have ramifications for the sustainability of PPPs programs throughout the world.⁴⁶

- 1.13 **Strategic alignment.** This operation helps to strengthen public finance, a priority area in the Bank's country strategy with Suriname 2016-2020 (GN-2873) under the modernization of the public sector strategic area (par. 3.3 to 3.16). It is included in the Country Program Document (GN-2884), it is consistent with the 2010-2020 Update to the Institutional Strategy (AB-3008) and is strategically aligned with the crosscutting area of institutional capacity and rule of law as it aims at strengthening the institutional capacity of the revenue administration to collect taxes more effectively. The program is aligned with and contributes to the Corporate Results Framework 2016-2019 (GN-2727-6) through the outcome indicator "percent of GDP collected in taxes," by supporting a net tax revenue collection increase up to 2.5% of GDP through the strengthening of the DoTC processes and procedures; the VAT implementation; and through the output indicator "government agencies benefited by projects that strengthen technological and managerial tools to improve public service delivery," by strengthening the taxation and customs systems. The program is aligned with the Sector Strategy on Institutions for Growth and Social Welfare (GN-2587-2) regarding revenue mobilization capacities. It is consistent with the Fiscal Policy and Management Sector Framework Document (GN-2831-3) regarding strengthening the efficiency of revenue administrations; financial management; and the use of public resources, and with the Integration and Trade Sector Framework Document (GN-2715-6) regarding improvements in customs operations.

B. Objective, Components and Cost

- 1.14 The objective of the FISEG Program is to support Suriname's efforts to return to a sustainable fiscal path in the medium term through an ongoing reduction of its fiscal deficit. The specific objectives of the program are: (i) increase tax revenue; (ii) improve public expenditure planning and execution; and (iii) improve the quality of public investment while increasing alternative sources of funding for investment

⁴⁴ Simson, R. and Welham, B. Incredible Budgets. Budget credibility in theory and practice ODI, 2014.

⁴⁵ See: Gupta, S. et.al. Efficiency-Adjusted Public Capital and Growth, IMF, 2011.

⁴⁶ See: Reyes-Tagle, G. and Garbacik, K. Policymakers' Decisions on Public-Private Partnership Use: The Role of Institutions and Fiscal Constraints. IADB 2016.

projects. For this purpose, the FISEG will focus on strengthening the MoF's institutional capacity to effectively: (i) increase tax compliance; (ii) support the implementation of a VAT; (iii) strengthen the PFM system; and (iv) revamp the Public Investment (PI) system and foster the use of alternative funding sources through PPPs.⁴⁷ Through the institutional strengthening of the PI framework, the program aims to create an environment that fosters investment and growth. The main beneficiaries will be: (i) the Government of Suriname with more resources to carry out priority public investments; (ii) the taxpayers with more support to fulfill their tax obligations; and (iii) the general population with the benefits of the government investments. This single US\$40 million investment loan operation includes the following components and activities:

- 1.15 **Component 1 – Strengthen revenue administration (US\$22.5 million).** The objective of this component is to revamp the DoTC's institutional organization and support the VAT implementation. It will finance the following activities:
- a. **Organizational structure and taxpayer services:** (i) new OS for the Office of Revenue Administration (ORA) prepared and implemented (including the new functions for the VAT); and (ii) Taxpayer Service (TS) function and organization in the ORA created and staffed.
 - b. **Internal revenue operations:** (i) new effective TIN system for all taxpayers in Suriname designed and implemented; (ii) integrated tax return (declaration) system for all taxes (including VAT) using modern procedures and methods designed and implemented; (iii) new payment system for all taxes (including VAT) through the banking system designed and implemented; (iv) stop-filing and refund processing procedures and system modernized; (v) tax audit procedures and system based on risk analysis implemented including training existing auditors; (vi) Tax Arrears Collection Procedures and System (TACS) reviewed and modernized; and (vii) tax appeal system and institutions implemented.
 - c. **Customs operations:** (i) plan for the improvement of customs processes according to the WCO standards prepared and implemented; (ii) Customs Audit Business Model (CABM) reviewed and modernized; (iii) post clearance audit system implemented; (iv) new procedures for the adoption of the VAT developed and implemented; (v) plan for the modernization of the Customs IT implemented; and (vi) operational support for AW customs system implementation.
 - d. **Physical infrastructure:** plan for the modernization of the new ORA physical infrastructure implemented, including a new building, updated office space, telecommunication equipment, and inspections equipment for customs.

⁴⁷ There are great challenges to be addressed in the fiscal area in Suriname. This program will target the most urgent matters as detailed in section A. The continuing dialogue with the Government of Suriname and the results of the current proposed investment operation could identify specific interventions where additional Bank support can be contemplated.

- e. **Revenue administration legal framework:** tax legal framework reviewed and updated.

1.16 **Component 2 – Strengthen the PFM (US\$10.2 million).** The objective of this component is strengthening the budget decision-making process regarding planning, execution and monitoring. It will finance the following activities:

- a. **Organizational structure:** new OS of key areas (macroeconomic assessment, treasury and procurement) of the MoF developed and implemented.
- b. **Budget planning and execution:** (i) macroeconomic analysis, fiscal and public policy function of the MoF modernized; (ii) budget planning business model reviewed and improved; (iii) treasury operations developed and implemented; (iv) debt management operations and system reviewed and strengthened; (v) procurement system reviewed and strengthened;⁴⁸ (vi) accounting system reviewed and strengthened according to the new International Public Sector Accounting Standards (IPSAS); (vii) internal control needs assessment and recommendations for improvement prepared and implemented; (viii) SOEs business model reviewed and indicated adjustments implemented; and (ix) internal audit procedures and system reviewed and strengthened.
- c. **Technology infrastructure:** (i) transparency portal for the MoF designed and implemented; and (ii) technological infrastructures of the MoF updated.
- d. **Regarding the Legal Framework:** PFM legal framework reviewed and updated.

1.17 **Component 3 – Strengthen the public investment system (US\$3.2 million).** The objective of this component is to strengthen the public investment strategy to prioritize and rationalize investment projects based on Value for Money. It will finance: (i) the design and establishment of a PI and PPPs Unit including the business model, management system and training for existing MoF personnel in formulating, executing, monitoring and evaluating investment projects; and (ii) implementation of an operational plan and funding for planning, pre-investment and feasibility studies in public infrastructure and PPPs including training for MoF personnel.

1.18 **Program Administration (US\$2 million).** This category includes the personnel and other recurrent costs required for supporting the program's administration in its implementation period. It includes also auditing costs and monitoring and evaluation activities.

⁴⁸ This activity takes into consideration the Bank's Office of Evaluation (OVE) recommendation to enhance fiduciary oversight of investment loans procurement. See RE-493-1.

C. Key Results Indicators

- 1.19 **Expected impact.** A reduction in the fiscal deficit from 5.7% of GDP in 2016 to 2% by 2022, that can free revenue resources that can be allocated to better public investment and therefore growth. This justifies the importance of strengthening tax administration⁴⁹ to take advantage of the maximum tax collection potential, however it is also ivory important to keep the expenditure at an acceptable level.⁵⁰ The main results expected from the program are: (i) an increase in tax revenue through the implementation of the VAT by 2.5% of GDP; (ii) increase resources available for government expenditure by increasing the proportion of funds channeled through the TSA from 75% to 95% of total expenditure; and (iii) increase the alternative sources of funding for investment through PPPs from 0% to 1% of total public investment. The specific values of the results indicators, as well as, the products indicators can be found in Annex II: Results Matrix.⁵¹
- 1.20 **Financial Analysis.** The team performed an analysis of the financial costs and benefits of the program. Using a financial appraisal methodology, two of the expected results of the program are evaluated: (i) tax collection increases by 1% of GDP by implementing the VAT; and (ii) an increase in the availability of government resources by 25% of total expenditure, as a result of benefits generated by the full use of the TSA. The financial analysis reports an Internal Rate of Return of 134% with a Net Present Value of US\$45.4 million in ten years, which justifies the US\$40 million investment loan.

II. FINANCING STRUCTURE AND MAIN RISKS

A. Financing Instruments

- 2.1 The program will be financed by a specific investment loan from the Bank with a total value of US\$40 million. The program costs are divided according to Table 2.1. Program Costs and Financing:

⁴⁹ According to Ebeke, C. The Power to Tax in Sub-Saharan Africa: LTUs, VATx and SARAs. Cerdi 2016, both VAT and the Semi-Autonomous Revenue Agency (SARA) have positive effects on non-resource tax revenue. For example, five years after the adoption of the VAT in many developing countries, the non-resource tax revenue-to-GDP ratio is larger than it was at the time of the VAT adoption, whereas it is roughly unchanged in the counterfactual scenario of no VAT adoption. In the case of implementing SARA, tax revenue increases are reported to average 0.5% of GDP.

⁵⁰ Irwin, C. [Defining the Government Debts and Deficit](#), IMF 2015.

⁵¹ Improving economic and social infrastructure is key under the Millennium Development Goals and may, for instance, require low-income countries to raise their tax-GDP ratios by around 4% (United Nations, 2005). But also under this context, tax systems are central to collect revenue in a more efficient way. More fundamentally still, the centrality of taxation in the exercise of state power means that more efficient, fairer, and less corrupt tax systems can spearhead improvement in wider governance relations. See: Cottarelli, C. [Revenue mobilization in Developing Countries](#), IMF, 2011

Table 2.1. Program Costs and Financing (US\$)

Categories	Bank	%
1. Direct Costs	35,997,588	89.99
Component I. Strengthen the revenue administration	22,579,118	56.45
Component II. Strengthen the PMF	10,250,202	25.63
Component III. Public Investment Strengthening	3,168,268	7.92
2. Administrative Costs	1,992,080	4.98
Chief of the PIU	244,800	0.61
Financial Expert	221,760	0.55
Procurement Expert	221,760	0.55
Monitoring Expert	221,760	0.55
Evaluation Expert	170,000	0.43
Audit and Evaluation	220,000	0.55
Consultancies to support the program execution	692,000	1.73
Contingency	2,010,332	5.03
Total	40,000,000	100.00

- 2.2 In accordance with document AB-2990, disbursement of the loan proceeds will be subject to the following maximum limits: (i) up to 15% in the first 12 months; (ii) up to 30% in the first 24 months; and (iii) up to 50% in the first 36 months, in all cases as of the date of loan approval by the Bank's Board of Executive Directors. These limits may cease to be applicable if the requirements set by Bank policy with respect to the limits are satisfied, provided the borrower has been notified in writing.

Table 2.2. Disbursement Timetable (US\$)

Source	Year 1	Year 2	Year 3	Year 4	Year 5	Total	%
IDB	4,550,818	6,480,892	8,414,713	12,753,097	7,800,480	40,000,000	100.00
%	11	16	21	32	15	100	

B. Environmental and Social Safeguard Risks

- 2.3 Given the nature of the proposed intervention and its location, it is anticipated that the environmental and social impacts and risks are likely to be mostly local and short term, for which effective mitigation measures are readily available. As such, a Category "B" classification has been assigned to the program in accordance with the IDB's Environment and Safeguards Compliance Policy (OP-703). Based on the Bank's Disaster Risk Management Policy (OP-704) the program was assessed for disaster risks and categorized as "medium" due to potential flooding, which could have a high risk to the project and the maintenance of the ORA building. Also, under OP-102 (Access to Information Policy), the Environmental and Social Impact Assessment (ESIA) with the Environmental and Social Management Plan (ESMP) has been disclosed on the IDB and the Executing Agency websites. The

Bank will supervise the implementation of the environmental and social safeguard periodically during construction and operation face.

- 2.4 Significant risks to the project are: (i) soil contamination (medium risk), leaks and spills from vehicles, machinery and handling of potential pollutants during the construction and operations phases of the new building may potentially contaminate soil resources. The implementation of the recommended mitigation measures would result in a reduced likelihood of the impact occurring and a shorter impact duration; (ii) flooding (high risk) due to the construction site that is near the river and sea and climate conditions of Suriname. Mitigation measures include a sheet piling curtain at the river bank to intercept the water flow and a pump system; and (iii) construction-related occupational health-and-safety risk of hazards (high risk). The implementation of recommended management measures (in compliance with the local health-and-safety laws and regulations) would reduce the probability of health-and-safety injuries. The project is not related to Involuntary Resettlement. A consultation process has been carried out with local stakeholders, following the Bank's safeguard policy guidelines.⁵²
- 2.5 The ESIA includes an ESMP to mitigate that potential environmental and social impacts and risks. Activity specific ESMPs will be developed and implemented by the construction contractors. The executing agency will put into place the ESHS governance structure (environmental and social specialists) to ensure that the ESMP for the program is implemented adequately. The project will be executed in accordance with the conditions set forth in section five and Annex B of the Environmental and Social Management Report [ESMR](#).

C. Fiduciary Risk

- 2.6 The MoF lacks: (i) a formal assignment of functions and responsibilities for financial management and procurement activities; (ii) internal controls - norms and procedures, process flows for planning, organizational and financial management and procurement activities; and (iii) experience with the financial management and procurement administration under Bank programs. These medium type risks will be mitigated by: (a) assigning responsibilities to financial and procurement officers in the Program Implementation Unit (PIU) as well as training on Bank's procurement policy, procedures, and financial management; (b) an accounting system that will integrate the financial and budgeting reports; and (c) Bank's semiannual inspection visits.

D. Other Risks

- 2.7 **Macroeconomic.** There is a high risk that macroeconomic conditions can jeopardize the sustainability of some key components of the project, because of the country's unstable fiscal situation. Harsh macroeconomic conditions may jeopardize the implementation of some of the key components of the project (see ¶1.1). In specific, the VAT implementation and/or the establishment of the new ORA could be cancelled or delayed, which would pose a bigger threat to the

⁵² Primary stakeholders were interviewed in person. Secondary stakeholders were informed about the site plan and modifications with an information sheet to the physical address of these stakeholders.

already difficult fiscal stance of the country. In addition, and despite the introduction of the VAT, there is a risk that revenue expectations are not met given the acute macroeconomic conditions, which could affect the country's fiscal sustainability. This risk is going to be mitigated by the actions included and budgeted in the program such as studies with simulation of scenarios and recommendations for mitigation; identification of critical milestones for the VAT implementation; strengthening the budget planning with forecasting tools related to Medium Term Fiscal Framework and Medium Term Expenditure Framework.

- 2.8 **Development.** There is a risk of delay in the project implementation, due to: (i) staff resistance to proposed institutional changes (high risk); and (ii) delays in the implementation of the IFMIS and SIGTAS due to the insufficient managerial, institutional and technical capacity of the MoF in handling PFM and technology subjects (medium risk). The first risk is substantially mitigated, because the program foresees the hiring of a change management expert to develop and implement a change management strategy, including stakeholder coordination and communication, to guide and support proposed changes. The second risk will be mitigated, by providing training for the users in PFM subjects, support in IT by hiring specialized consultancy, and providing specific experts to assist the component coordinators. These mitigation measures are budgeted in the program.
- 2.9 **Governance.** There is a medium risk of delays in the project because of government elections in 2020. The risk will be mitigated through the continuous oversight of the Steering Committee (SC) and the carrying out of a fiscal summit (tax and expenditure) amongst the main stakeholders to achieve their consensus one year prior to the elections and guarantee the continuity of the project implementation. The SC will play a key role in assuring the sustainability of the institutional changes over the medium and long term.
- 2.10 **Sustainability.** There is a high risk that the improvements introduced by the program (VAT implementation, the new ORA and IT systems) could deteriorate in the medium-term, due to policy reversals, lack of sufficient measures to attract and retain qualified human resources in the revenue and expenditure areas, as well as to maintain and update the IT systems and equipment introduced by the program. This risk is mitigated by establishing ORA with autonomy to pay competitive wages and by the implementation of phased personnel training programs. Provision for updating the IT systems and equipment in 2023 is also included in the medium-term financing plan, as noted in the Economic Analysis.
- 2.11 **Monitoring and Reporting.** There is a medium risk of the occurrence of delays in presenting the reports required by the Bank, due to lack of adequate systems to support accurate and timely accounting and financial reporting. This risk will be mitigated through the acquisition and use of an automated project management system, budgeted within the program.
- 2.12 **Reputational.** There is a high risk that the reputation of the Government of Suriname and the Bank will be negatively impacted, in case of the government does not carry out the planned reforms. This risk is being mitigated by the preparation of a plan for the regular monitoring and support of the project execution, budgeted within the program.

III. IMPLEMENTATION AND MANAGEMENT PLAN

A. Summary of Implementation Arrangements

- 3.1 The borrower will be the Republic of Suriname. The governmental entity responsible for implementing the program will be the MoF, through the Office of the Minister of Finance (OMF). A PIU will be established within the existing structure of the OMF that will be responsible for carrying out all the fiduciary and technical obligations of the program. The Minister will serve as the titular Program General Coordinator (PGC), who will delegate the operational responsibility for supervision and oversight of program activities to the chief of the PIU. In addition, a SC, consisting of MoF staff representatives from tax administration, customs, OMF, and budget planning will be created to strengthen the coordination between units in the MoF.⁵³
- 3.2 The PIU will be responsible for carrying out all the operational and fiduciary obligations (including procurement, financial management and social and environmental safeguards) necessary for program execution and will act as the Bank's direct interlocutor. Among other responsibilities, the PIU will be: (i) performing technical and operational coordination of the program; (ii) programming the activities related to the loan; (iii) approving and financing the activities related to the loan; (iv) supervising the formulation, execution, and evaluation of all the activities related to the loan; (v) developing, implementing and updating the Pluriannual Execution Plan (PEP), the Annual Operation Plans (AOP), Procurement Plan (PP), Results Matrix (RM), and the Progress Monitoring Report (PMR); (vi) preparing Terms of Reference, tendering and procurements of goods, construction works, services and consultancies; (vii) maintaining all formal communication with the Bank, particularly submitting disbursement requests and preparing financial statements; and (viii) contracting and approving the final program evaluation. To this end, the OMF will be strengthened through the hiring of qualified and specialized personnel fully dedicated to the program.
- 3.3 **Procurement and contracting.** It will follow the Policies for the procurement of works and goods financed by the Bank (GN-2349-9), and the Policies for selection and contracting of consultants financed by the Bank (GN-2350-9), as well as the fiduciary arrangements included in Annex III. Regarding advanced contracting and retroactive financing, the Bank may finance retroactively under the loan, eligible expenses incurred by the Borrower prior to the date of loan approval for the consultancy services: "Implementation of an Integrated Tax Information System for the Republic of Suriname" up to the amount of US\$6 million (15% of the loan), if all the requirements substantially like those set out in the loan agreement requirements are adhered to. These expenses must have been incurred on or after October 10, 2016 (PP approval date), and under no circumstances shall expenditures incurred more than 18 months prior to the loan approval date be

⁵³ The Minister of Finance will be the chair the SC. The chief of the PIU will act as secretary of the SC with voice but no vote. SC functions include review and approval of: (i) the AOP and the progress reports prepared by the PIU; (ii) changes in objectives, strategies and components before those changes are presented to the Bank for non-objection; (iii) annual audit reports of the financial statements; and (iv) the mid-term and final reports.

included. Any retroactive financing disbursed will be included as part of the 15% disbursement restriction in place for the first 12 months of the project.

- 3.4 **Deadline and mode of disbursement.** The disbursement period is five years. The Bank will disburse the program resources in accordance with project liquidity needs as evidenced by the current and anticipated commitments and obligations. It is expected that the advance of funds methodology will be used. These advances, which will cover liquidity needs for a period not exceeding six months, will be calculated based on the semiannual cash flow program allocated for the program and on investment categories, products and/or activities to be executed during the period. Subsequent advances may be disbursed once 80% of the total accumulated balance pending justification has been submitted and accepted by the Bank. Disbursement reviews will be performed on the ex post modality in line with OP-273-6.
- 3.5 **Audits.** The PIU will deliver audited financial statements for the program on an annual basis and a final audit at the end of the program. These statements will be delivered within 120 days after the close of the respective fiscal year and, in the case of the final statements, 120 days after the date of the last disbursement, as stipulated by the Bank's policies. The PIU will be responsible for contracting and supervising the audit firm External Auditing Services will be provided, at the Bank's discretion, by an eligible private firm of auditors.

B. Summary of Arrangements for Monitoring Results

- 3.6 **Monitoring.** Program monitoring is based on the standard Bank instruments: (i) the PEP and AOP; (ii) the PA; (iii) the RM and Monitoring Plan; and (iv) the PMR. Semiannual progress reports will be presented within 60 calendar days after the end of the corresponding semester (end of February and end of August) and should include the outcomes and outputs achieved in the execution of the AOP, the PP, the PRM, as well as a description of the status of compliance with the environmental and social obligations. The PIU will maintain an administrative information system to register all relevant events in program implementation. This system will furnish all the required information for completing the financial and administrative reports and will be a key instrument for program monitoring.
- 3.7 **Evaluation.** Two evaluations will be performed: a midterm (after 3.5 years from eligibility date or 60% disbursement) and a final evaluation that will be carried out together with the Project Completion Report (PCR). The midterm report will include: (i) the outcomes of the physical and financial execution; (ii) the degree of fulfillment of targets in the results matrix; (iii) the degree of fulfillment of environmental requirements and works maintenance; (iv) a summary of the results of the audits and of the improvement plans; and (v) a summary of the main lessons learned.
- 3.8 The final evaluation will adopt a reflexive approach, comparing the status of indicators in the Results Matrix before and after the program's interventions. Also, an ex post economic analysis will be conducted to verify whether the project actually achieved the estimated economic rates of return ([Monitoring and Evaluation Plan](#)).

- 3.9 The borrower has agreed with the methodologies for the final evaluation and ex post economic evaluation. The budget of US\$100,000 is included in the project as part of the program administrative costs.

Development Effectiveness Matrix		
Summary		
I. Corporate and Country Priorities		
1. IDB Development Objectives	Yes	
Development Challenges & Cross-cutting Themes	-Institutional Capacity and the Rule of Law	
Country Development Results Indicators	-Percent of GDP collected in taxes (%) -Government agencies benefited by projects that strengthen technological and managerial tools to improve public service delivery (#)* -Accountability institutions strengthened (#)*	
2. Country Development Objectives	Yes	
Country Strategy Results Matrix	GN-2873	Attain fiscal sustainability in the medium term.
Country Program Results Matrix	GN-2884	The intervention is included in the 2017 Operational Program.
Relevance of this project to country development challenges (If not aligned to country strategy or country program)		
II. Development Outcomes - Evaluability	Evaluable	
3. Evidence-based Assessment & Solution	9.3	
3.1 Program Diagnosis	3.0	
3.2 Proposed Interventions or Solutions	3.6	
3.3 Results Matrix Quality	2.7	
4. Ex ante Economic Analysis	10.0	
4.1 The program has an ERR/NPV, a Cost-Effectiveness Analysis or a General Economic Analysis	4.0	
4.2 Identified and Quantified Benefits	1.5	
4.3 Identified and Quantified Costs	1.5	
4.4 Reasonable Assumptions	1.5	
4.5 Sensitivity Analysis	1.5	
5. Monitoring and Evaluation	6.6	
5.1 Monitoring Mechanisms	2.5	
5.2 Evaluation Plan	4.1	
III. Risks & Mitigation Monitoring Matrix		
Overall risks rate = magnitude of risks*likelihood	Medium	
Identified risks have been rated for magnitude and likelihood	Yes	
Mitigation measures have been identified for major risks	Yes	
Mitigation measures have indicators for tracking their implementation	Yes	
Environmental & social risk classification	B	
IV. IDB's Role - Additionality		
The project relies on the use of country systems		
Fiduciary (VPC/FMP Criteria)	Yes	Financial Management: Budget, Treasury, Accounting and Reporting, External Control. Procurement: parison, ontracting Individual Consultant, ational Public Bidding.
Non-Fiduciary		
The IDB's involvement promotes additional improvements of the intended beneficiaries and/or public sector entity in the following dimensions:		
Gender Equality		
Labor		
Environment		
Additional (to project preparation) technical assistance was provided to the public sector entity prior to approval to increase the likelihood of success of the project		
The ex-post impact evaluation of the project will produce evidence to close knowledge gaps in the sector that were identified in the project document and/or in the evaluation plan		

Note: (*) Indicates contribution to the corresponding CRF's Country Development Results Indicator.

The overall objective of this program is to support Suriname's efforts to return to a sustainable fiscal path in the medium term, through an ongoing reduction of its fiscal deficit. The specific objectives are to: (i) increase tax revenue; (ii) improve public expenditure planning and execution; and (iii) improve the quality of public investment, while increasing alternative sources of funding for investment projects. For these specific objectives, the program focuses on strengthening the revenue administration (component I), the Public Financial Management (PFM) (component II), and the Public Investment System (component III).

The main problem identified is the high overall fiscal deficit that is preventing the country to reach a path of a sustainable fiscal balance and growth. The specific problems are: (i) the inefficient and ineffective tax system affected by weaknesses on legal, institutional, operational, technological and physical infrastructure; (ii) the inefficient and ineffective expenditure system due to legal, organizational, operational, technological deficiencies; and (iii) the highly fragmented and unregulated public investment (due to outdated public investment management, and weaknesses in the assignment of responsibilities and functions among line-ministries).

The loan proposal clearly identifies the potential beneficiaries of the project. The project's vertical logic is clear and well specified. The link between interventions and problems has been adequately established. The project presents evidence of internal validity of the proposed solutions. The Result Matrix is adequately constructed and contains the required elements for monitoring the project results. The proposed impact, outcomes and output indicators are SMART.

The loan proposal includes an ex ante Economic Analysis where the economic benefits have been clearly quantified, and the costs reflect real resource costs to the economy. The estimated Net Present Value (NPV) is US\$ 34,1 million and the Internal Rate of Return (IRR) is 102%. The assumptions used are clearly presented, and a sensitivity analysis has been performed undertaking variations in key assumptions. The documentation includes an ex post economic evaluation proposal using the same methodology to recalculate the IRR and the NPV.

The program includes an adequate monitoring and evaluation plan. However, the program does not propose to conduct an impact evaluation with experimental or quasi-experimental methodology.

The documentation includes a risk matrix and identifies mitigation measures with adequate monitoring indicators.

RESULT MATRIX

Project Objective:	The objective of the FISEG Program is to support Suriname's efforts to return to a sustainable fiscal path in the medium term through an ongoing reduction of its fiscal deficit. The specific objectives of the program are: (i) increase tax revenue; (ii) improve public expenditure planning and execution; and (iii) improve the quality of public investment while increasing alternative sources of funding for investment projects. For this purpose, the FISEG will focus on strengthening the MoF's institutional capacity to effectively: (i) increase tax compliance; (ii) support the implementation of a Value-Added Tax (VAT); (iii) strengthen the PFM system; and (iv) revamp the Public Investment (PI) system and foster the use of alternative funding sources through PPPs.
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IMPACTS¹

Indicators	Unit of measurement	Base line	Base line Year	Year 1	Year 2	Year 3	Year 4	Year 5	End of Project	Means of Verification	Observations
IMPACT 1 - Decrease the ratio public deficit and GDP											
Indicator 1 - Public Deficit / GDP	%	5.7	2016	4.8	2.5	2.1	2.1	2.0	2.0	Central Bank of Suriname annual report	<p>The indicator measures the performance of the fiscal stance. The closer to zero, the stronger the fiscal sustainability. Target uses the WEO IMF estimations and is compatible with the increase revenue estimation presented in indicator 1.²</p> <p>BL: Public Deficit = SRD\$1,200 million GDP = SRD\$22,239 million WEO IMF April 2017</p>

¹ Intermediate results are accumulated.

² [Defining the Government Debts and Deficit](#) – IMF, 2015.

OUTCOMES³

Indicators	Unit of measurement	Base line	Base line Year	Year 1	Year 2	Year 3	Year 4	Year 5	End of Project	Means of Verification	Observations
OUTCOME 1 - Increase the ratio tax revenue and GDP											
Indicator 1 -Tax revenue / GDP	%	11.3	2016	12.2	16.3	16.3	16.4	16.3	16.3	MoF annual report	<p>Measures tax revenue growth to GDP. Higher ratios indicate better revenue performance and contribution to deficit reduction. Target uses the WEO IMF (2017) estimations and are compatible with the economic analysis.⁴ Baseline will be updated once the 2017 figure is known.</p> <p>BL: Tax Revenue: SRD\$3,374 million GDP: SRD\$22,239 WEO IMF April 2017</p>
OUTCOME 2 - Increase the availability of resources for effective government public expenditures											
Indicator 1 - Expenditures paid through the TSA / Total government expenditures	%	75	2015	75	75	75	85	95	95	Central Bank annual report	<p>The indicator measures cash availability to government commitments. A percent equals to 100% eliminates the need for borrowing from the financial sector, contributing decreasing the fiscal deficit. The target is compatible with one of the main pillars in PFM, which recommends that all expenditure transactions have to be done through the TSA.⁵</p>

³ Intermediate results are accumulated.

⁴ [Revenue Mobilization in Developing Countries.](#)

⁵ [Treasury Single Account: Concept, Design, and Implementation Issues IMF, 2010.](#)

											BL: Payments through TSA = SRD\$3,922 million Total of gov. expenditures = SRD\$5,230 million WEO IMF April 2017
OUTCOME 3 - Increase the ratio of the project amount financed through PPP over total public investment											
Indicator 1 - Projects amount financed through PPP / Total public investment	%	0	2016	0	0	0.5	0.8	1	1	Annual Management Report presented by the MOF Budget Directorate	The indicator measures how much investment was financed through PPP from total public investment. The goal is to reach 1% of the 4% of GDP invested in 2016. The target is very conservative positing that just 1% of the total investment is expected. Best practice in this subject recommends that resources from PPPs should be considered as an alternative source of investment. ⁶ BL: Investment, Projects amount financed through PPP = 0 Total investment = 60% of GDP WEO IMF April 2017

⁶ [Making Public Investment More Efficient IMF, 2015.](#)

OUTPUTS⁷

Indicators	Unit of Measurement	Baseline	Baseline Year	Year 1	Year 2	Year 3	Year 4	Year 5	End of Project	Means of Verification	Observations
Component 1. Strengthen the revenue administration											
ORA's Organizational Structure and Taxpayers Services											
Product 1 - New Organizational Structure (OS) of the revenue administration implemented	Organizational structure	0	2016	0	0	1	-	-	1	Resolution issued by the MOF approving the new OS	
Product 2 - Taxpayer Service (TS) function and organization in the ORA created and staffed	Taxpayer service	0	2016	0	0	1	-	-	1	Annual ORA report including the TS activities	
ORA's Internal Revenue Operations											
Product 3 - New effective Tax Identification Number (TIN) system for all taxpayers designed and implemented	System	0	2016	0	0	0	1	-	1	Annual ORA report informing the TIN is fully in operation	
Product 4 - Tax Return (Declaration) System (TRS) using modern procedures and methods	System	0	2016	0	0	0	0	1	1	Annual ORA report informing the TRS is fully in operation	

⁷ The intermediates results are annually registered.

OUTPUTS⁷

Indicators	Unit of Measurement	Baseline	Baseline Year	Year 1	Year 2	Year 3	Year 4	Year 5	End of Project	Means of Verification	Observations
designed and implemented											
Product 5 - New Tax Payment System (TPS) through the banking system designed and implemented	System	0	2016	0	0	0	0	1	1	Annual ORA report informing the TPS is fully in operation	
Product 6 - Stop-filing and refund processing (SFRPS) procedures and system modernized	System	0	2016	0	0	0	0	1	1	Annual ORA report informing the SFRPS is fully in operation	
Product 7 - Tax audit procedures and system based on risk analysis implemented	Procedures	0	2016	0	0	0	1	-	1	Annual ORA report informing the Tax audit procedures is fully in operation	Including training to existing auditors.
Product 8 - Tax Arrears Collection Procedures and System (TACS) reviewed and modernized	System	0	2016	0	0	0	1	-	1	Annual ORA report informing the TACS is fully in operation	
Product 9 - Tax appeal system (TAS)	System	0	2016	0	0	0	1	-	1	Annual ORA report informing the TAS is fully in operation	

OUTPUTS⁷

Indicators	Unit of Measurement	Baseline	Baseline Year	Year 1	Year 2	Year 3	Year 4	Year 5	End of Project	Means of Verification	Observations
and institutions implemented											
ORA's Custom's Operations											
Product 10 - Plan to improve customs processes according to the World Customs Organization (WCO) standards prepared and implemented	Processes	0	2016	0	1	-	-	-	1	Annual customs report informing the CP are fully implemented	
Product 11 - Customs Audit Business Model (CABM) reviewed and modernized	Business model	0	2016	0	0	0	0	1	1	Annual customs report informing the CABM are fully implemented	
Product 12 - Post Clearance Audit system (PCAS) implemented	System	0	2016	0	0	1	-	-	1	Annual customs report informing the PCAS is fully in operation	
Product 13 - New procedures for the adoption of the VAT developed and implemented	Procedures	0	2016	0	1	-	-	-	0	Annual customs report informing the VAT processing is implemented	
Product 14 - Plan for the modernization of	System	0	2016	0	0	0	0	1	1	ORA annual report informing the ITS is fully operational	

OUTPUTS⁷

Indicators	Unit of Measurement	Baseline	Baseline Year	Year 1	Year 2	Year 3	Year 4	Year 5	End of Project	Means of Verification	Observations
the Customs ICT implemented											
Product 15 - Operational support for the ASYCUDA World (AW) system implemented	System	0	2016	0	1	-	-	-	1	Annual ORA report informing the AW support is provided internally	
ORA's Physical Infrastructure											
Product 16 - ORA physical infrastructure implemented including gender specific needs	Building	0	2016	0	0	0	0	1	1	1. Annual ORA report informing the new building is fully operational. 2. Survey to representative number of male and female workers. 3. Blueprints include gender specific features found in survey.	
ORA's Legal Framework											
Product 17- tax legal framework reviewed and updated	Acts	0	2016	0	0	3	3	-	6	Collection of Acts presented by ORA legal directorate	(1) New VAT act, (2) New Income Tax Act; (3) Customs Act; and (4) Electronic Trade Act.

OUTPUTS⁷

Indicators	Unit of Measurement	Baseline	Baseline Year	Year 1	Year 2	Year 3	Year 4	Year 5	End of Project	Means of Verification	Observations
Component 2. Strengthen the PFM											
Organizational Structure											
Product 1 - new OS of the MOF developed and implemented	Organizational structure	0	2016	0	0	1	-	-	1	Annual report of the MOF informing that the OSMOF is implemented	
Budget Planning											
Product 2 - Macroeconomic analysis, fiscal and public policy function of the MoF modernized	Macroeconomic functions	0	2016	0	1	-	-	-	1	Annual report of the MOF informing that the functions are implemented	
Product 3 - budget planning business model reviewed and improved	Planning instruments	0	2016	1	0	1	1	-	2	Annual report from the Budget Directorate of the MOF informing that the 2 planning instruments are implemented	(1) Medium Term Fiscal Framework methodology; and (2) Medium Term Expenditure Framework methodology.
Regarding the Budget Execution											
Product 4 - Treasury Operations developed and implemented	Treasury instruments	0	2016	0	1	1	1	-	3	Annual report from the Treasury Directorate of the MOF informing that the 3 treasury management instruments are implemented	(1) Treasury single account system; (2) Cash management system; and (3) Treasury management training program
Product 5 - debt management	System	0	2016	0	0	1	-	-	1	Annual report from the Debt	

OUTPUTS⁷

Indicators	Unit of Measurement	Baseline	Baseline Year	Year 1	Year 2	Year 3	Year 4	Year 5	End of Project	Means of Verification	Observations
operations and system reviewed and strengthened										Management Directorate of the MOF informing that the system is implemented	
Product 6 - Procurement system reviewed and strengthened	System	0	2016	0	0	0	1	-	1	Annual report from the Procurement Directorate of the MOF informing that the e-tendering and supplier system is implemented	
Product 7 - accounting system reviewed and strengthened according to the new International Public Sector Accounting Standards (IPSAS)	Needs assessment	0	2016	0	0	1	-	-	1	Report from the Accounting Directorate of the MOF accepting the internal control needs assessment	
Product 8 - internal control needs assessment and recommendations for improvement prepared and implemented	Needs assessment	0	2016	0	1	-	-	-	1	Report from the MOF accepting the internal control needs assessment	
Product 9 - State Owned Enterprises (SOEs) business	Model	0	2016	0	0	0	1	-	1	Report from the Internal Audit of the MOF informing that	

OUTPUTS⁷

Indicators	Unit of Measurement	Baseline	Baseline Year	Year 1	Year 2	Year 3	Year 4	Year 5	End of Project	Means of Verification	Observations
model reviewed and implemented										the model is implemented	
Product 10 - internal audit procedures and system reviewed and strengthened	System	0	2016	0	0	1	-	-	1	Report from the Internal Audit of the MOF informing that the system is fully operational	
Regarding Technologic Infrastructure											
Product 11 - Transparency Portal for the MoF designed and implemented	Portal	0	2016	0	0	0	0	1	1	Report from the Internal Audit of the MOF informing that the Portal is operational	
Product 12 - Technological infrastructures of the MOF updated (ORA, Directorate of Finance)	Plan	0	2016	0	0	0	0	1	1	Annual report from the ICT directorate of the MOF informing that the plan is fully accomplished	
Legal Framework											
Product 13 - PFM Legal Framework reviewed and updated	Legal instruments	0	2016	0	0	2	1	-	3	Annual report of the MOF informing that the 3 legal instruments are operationalized	(1) Finalization of the PFM Law; (2) Preparation of the PFM regulations; and (3) Preparation of the operating manuals.
Component 3. Strengthening the Public Investment System											
Product 1 - Design and establishment of	Unit	0	2016	0	0	0	1	-	1	Annual report from the MOF informing	Including the business model,

OUTPUTS⁷

Indicators	Unit of Measurement	Baseline	Baseline Year	Year 1	Year 2	Year 3	Year 4	Year 5	End of Project	Means of Verification	Observations
a Public Investment and PPPs Unit including the business model and a management system										that the PPP is fully operational	management system and training for MoF personnel.
Product 2 - Implementation of an operational plan and funding for planning, pre-investment and feasibility studies in public infrastructure and PPPs	Projects	0	2016	0	0	2	2	4	8	Annual report from the PIU of the MOF	Including training to MOF personnel.

FIDUCIARY ARRANGEMENTS

COUNTRY: Suriname
PROJECT N°: SU-L1050
NAME: Fiscal Strengthening to Support Economic Growth (FISEG) Program
EXECUTING AGENCY: Ministry of Finance (MoF)
FIDUCIARY TEAM: Rinia Terborg-Tel, Fiduciary Financial Management Specialist and Mariska Tjon A Loi, Fiduciary Procurement Consultant

I. EXECUTIVE SUMMARY

- 1.1 The objective of the FISEG Program is to support Suriname's efforts to return to a sustainable fiscal path in the medium term through an ongoing reduction of its fiscal deficit. The specific objectives of the program are: (i) increase tax revenue; (ii) improve public expenditure planning and execution; and (iii) improve the quality of public investment while increasing alternative sources of funding for investment projects. The project execution period is five years. The project will be funded with 100% of Bank's loan financing totaling US\$40 million.
- 1.2 The MoF will implement the program through the PIU, which will be responsible for financial management, procurement, and program management of the project. The PIU will be strengthened with qualified personnel fully dedicated to the program.
- 1.3 An Institutional Capacity Assessment (ICAS) was carried out to evaluate the MoF's capacity to execute and manage the Program. The results indicate that the MoF lacks the necessary institutional capacity to coordinate the execution of the program. The incipient levels of development and associated risks in some of the individual components of ICAS, point to the opportunity to address specific areas for improvement through concrete institutional building/strengthening efforts which would enhance project coordination and execution.

II. EXECUTING AGENCY'S FIDUCIARY CONTEXT

- 2.1 The loan will be administered by the MoF. The fiduciary context of the Government of Suriname and its line ministries has been documented in the Public Expenditure Financial Accountability (PEFA) report of 2011 (updated in 2017), indicating that the legal framework and practices for Public Financial Management Systems (PFMS) and procurement are outdated and not consistent with best international practices. Preliminary results of the PFM reform interventions supported by the Bank show that some improvements have been made but not to the extent that now country systems can be used for administration of the project, except for the use of the TSA.
- 2.2 Procurement:
 - a. There is no single Procurement Unit with the responsibility for purchases and contracts of goods, services and works within the MoF. The procurement function is carried out amongst a number of units, with distinctions made based on minimum thresholds of

- US\$531.713 and US\$199,257.68. Procurement processes are designed based on these thresholds. The Procurement Commission of the MoF manages the requests for proposals, bidding process, et al and makes a recommendation for approval of the contract to the Council of Ministers for all public procurements for all procurements over US\$531.713, except for public works such as buildings and other construction projects.
- b. The General Services Unit of the MoF (Algemene Zaken or AZ) manages procurement processes for smaller purchases of goods under US\$531.713.
 - c. The MoF does not employ specialized procurement officers, and has not prepared, or implemented specific procedures manual for the procurement function along with a description of the corresponding internal control system surrounding its administration.
 - d. Record keeping. Each procurement and corresponding accounting transaction has a manually created and stored file which shows the complete process and internal controls applicable from the point of requisition to the ultimate payment to the supplier or contractor.

III. FIDUCIARY RISK EVALUATION AND MITIGATION ACTIONS

- 3.1 The MoF does not have in place the necessary procurement management, financial management, and internal/external control capabilities to administer the resources allocated to the program. It lacks: (i) a centralized Procurement Unit with strong internal controls and an efficient segregation of responsibilities and functions throughout the procurement administration cycle; (ii) qualified human resources to implement a program of this size; and (iii) procurement officers trained in the Bank's procurement regulations.
- 3.2 The MoF presents solid budget and accounting systems, however the treasury function does not presently exist and the IFMIS platform has not been fully deployed to execute programs in accordance with the IDB standards. Additionally, the Accounting Department is not sufficiently staffed to assign specific personnel to manage the financial accounting responsibilities related to a project of this size. Projects are therefore managed by the Development Financing Directorate (DF) of the MoF. With respect to internal controls, MoF presents a governance, strategic planning, and operating and administrative environment that seeks adequate levels of institutional performance and efficiency. However, the MoF would seek to improve other key areas listed in the ICAS to improve its performance.
- 3.3 With respect to **external controls**, the compliance with the yearly external audit requirements are defined in the legislation and carried out by the Rekenkamer.
- 3.4 The level of the fiduciary risk will be monitored during the execution of the program through a supervision plan designed for such purpose. The Bank will provide continuous fiduciary support, supervision, training and advice in accordance with Bank's policies, procedures and practices. A key fiduciary risk identified is the lack of: (i) formal assignment of functions and responsibilities for financial management and procurement activities; and (ii) experience with the financial management and procurement administration under Bank programs. These medium type risk will be mitigated by: (a) assigning responsibilities to financial and procurement officers in the PIU and training on Bank's procurement policy, procedures, and financial management; (b) an accounting system that will integrate the financial and budgeting reports; and (c) Bank's semiannual inspection visits.

IV. ASPECTS TO BE CONSIDERED FOR THE LOAN CONTRACT

4.1 The following aspects should be considered for the program:

- a. **Special Contractual Clauses prior to the first disbursement:** Given the lack of experience with the Bank procedures and the poor institutional capacity of the MoF, it is crucial to establish a PIU, with minimum staff selected and hire, in accordance with the terms of reference previously agreed with the Bank, including: the chief of the PIU, a procurement specialist, a monitoring specialist, an evaluation specialist, and a senior financial specialist, to carry out the planning, financing and IT procurement activities of the program. In addition, it is also crucial to approve a Program Operations Manual (POM) by the Executing Agency, in the terms previously agreed with the Bank to provide the PIU with the necessary guidelines and procedures for the successful execution of the program.
- b. **Special Contractual Clause of execution:** Due to Suriname's regulations that establish that the Ministry of Public Works, Transport and Communication (MOPWTC) is in charge of the monitoring of public works, it is crucial that, prior to the disbursement of resources linked to the works of the new building, the PIU hire a construction specialist to work with the MOPWTC in the process and procedures related to the new building, such as scheduling the works and services to be contracted, preparing the bidding documents and conducting the tender processes. In addition, given the Bank's environmental safeguards pertaining the construction of new buildings, it is important that the PIU provides evidence of compliance with the obligations established for such activities in the POM, and ESMR.
- c. **Exchange rate agreed on with the PIU for accountability would be as follows:**
(i) reimbursement of expenses made: the effective rate of exchange on the date of payment of each expenditure, as published by the Central Bank of Suriname;
(ii) reporting on accounts or justification of the Advance of Funds: the effective rate of exchange used in the conversion of the currency of the operation to the local currency; and (iii) disbursements in alternate currencies from the US\$ and the Suriname Dollar. In cases of direct payment and reimbursement of a guarantee of letter of credit, the equivalent of the currency of the operation will be fixed in accordance with the amount effectively disbursed by the Bank.
- d. **Financial reports:** (i) semiannual financial report is to be included in the semiannual progress report which will be submitted by the PIU to the Bank; (ii) annual financial statements of the project, audited by an independent external audit firm acceptable to the Bank, are to be submitted to the Bank within 120 days at the end of each fiscal year, beginning with the fiscal year in which the first project expenditures are incurred; and (iii) final financial statements, audited by an independent audit firm acceptable to the Bank, are to be submitted to the Bank within 120 days following the last disbursement date of the program.

V. FIDUCIARY ARRANGEMENTS FOR PROCUREMENT EXECUTION

A. Procurement Execution

5.1 Procurements for the program will be carried out in accordance with the Policies for the Procurement of Works and Goods Financed by the Inter-American Development Bank (GN-2349-9), and the Policies for the Selection and Contracting of Consultants Financed

by the Inter-American Development Bank (GN-2350-9), with the provisions established in the Loan Contract and the Procurement Plan (PP).

- a. **Procurement of Works, Goods and Non-Consulting Services:** The PP covering the first 18 months of project execution will indicate the procedure to be used for the procurement of Goods, the contracting of Works and Non-Consulting Services. The contracts for Works, Goods, and Non-Consulting Services¹ generated under the project and subject to International Competitive Bidding will be executed using the Standard Bidding Documents (SBDs) issued by the Bank. The processes subject to National Competitive Bidding (NCB) will be executed using National Bidding Documents satisfactory to the Bank. Where these are not available, Bank's Standard Bidding Documents will be used. The review of technical specifications in all cases, during the process of selection is the responsibility of the sector specialist of the program.
- b. **Procurement of Consulting Services:** The PP for the Suriname FISEG Program covering the first 18 months of project execution indicates the procedure to be used for the procurement of Consultancy Services, and the method of selecting Consultants. The Borrower is responsible for preparing the TORs, short lists, selection of Consultants, and awarding and subsequently administering the contract, with Bank supervision. Review of Terms of Reference (TOR) for the selection of consulting services is the responsibility of Bank's sector specialist.
- c. **Selection of individual consultants:** Individual consultants will be selected for assignments for which: (i) teams of personnel are not required; (ii) no additional outside (home office) professional support is required; and (iii) the experience and qualifications of the individual are the paramount requirement. Individual Consultants are selected based on their qualifications for the assignment. Advertisement is not required and Consultants do not need to submit proposals. Consultants shall be selected through comparison of qualifications of at least three candidates among those who have expressed interest in the assignment or have been approached directly by the Borrower. Individual Consultants may be selected on a sole-source basis with due justification in exceptional cases. This will be carried out in accordance with Section V (Selection of Individual Consultants) of GN-2350-9 paragraphs 5.1-5.4.
- d. **Recurrent expenses:** This category includes the payment of salaries of the PIU staff, consisting of a Program Coordinator, Financial Officer, Procurement Officer and a Monitoring Officer.
- e. **Advance contracting and retroactive financing:** The Bank may finance retroactively under the loan, eligible expenses incurred by the Borrower prior to the date of loan approval for the consultancy services: Implementation of an Integrated Tax Information System for the Republic of Suriname up to the amount of US\$6,000,000.00 (15% of the loan), provided that all the requirements are substantially similar to those set out in the loan agreement requirements are adhered to. These expenses must have been incurred on or after October 10, 2016 (PP approval date), and under no circumstances shall expenditures incurred more than 18 months prior to the loan approval date be included.
- f. **Thresholds:** When procuring simple works and common goods and their amount is under the International Competitive Bidding thresholds, Shopping may be used. When

¹ Policies for the Procurement of Goods and Works Financed by the Inter-American Development Bank ([GN-2349-9](#)) paragraph 1.1: The services different to consulting services have a similar process as procurement of Goods.

procuring complex works and non-common goods with amounts under the NCB range, Shopping shall be used Country Thresholds Table (US\$).

www.iadb.org/procurement.

Country Thresholds					
International Competitive Bidding Threshold*		National Competitive Bidding Range ** (Complex Works and non-common goods)			Consulting Services
Works	Goods	Works	Goods		International Short List
≥1,000,000	≥100,000	100,000 – 1,000,000	25,000 - 100,000		≥100,000

B. Procurement Plan (PP)

- 5.2 The PP indicates the procedure to be used for the procurement of Goods, the contracting of Works and Services, and the method of selecting Consultants, for each contract or group of contracts. It also indicates cases requiring prequalification, the estimated cost of each contract or group of contracts and the requirement for prior or post review by the Bank. The PP will be posted on the Bank's website and will be updated annually or whenever necessary, or as required by the Bank. To access the 18 month procurement plan, [click here](#).

C. Procurement Supervision

- 5.3 The review method for all procurement activities will be ex ante. If a procurement activity is moved to ex post, the ex post procurement supervision should take place at least once every 12 months, in accordance with the supervision plan of the program.

D. Records and Files

- 5.4 All records and files will be maintained by the PIU, and be kept for up to three (3) years beyond the end of the operation's execution period.

VI. FINANCIAL MANAGEMENT

A. Programming and Budget

- 6.1 The PIU will start with a strategic planning process that is the basis for the annual budgeting. It will prepare and implement an operational plan, which will include the budget plan, procurement plan and financial plan, consistent with a 12 month financial plan that will be required from the PIU on an annual basis. Additionally, the PIU will report on a semiannual basis on implementation matters that covers actual versus planned operational, financial and procurement matters.

B. Treasury disbursements and flow of funds

- 6.2 The PIU will establish adequate banking arrangements at the Central Bank of Suriname for the management of the program resources. The financial plan will serve as the basis for the disbursement of funds to the PIU to cover the program's needs and for maintaining Bank's projections. The main disbursement methodology will be the advance of funds to cover a period up to 180 days, based on liquidity needs of the program. The funds will be advanced through the Treasury Single Account. Other disbursement methodologies that will be used on a smaller scale are the reimbursement of payments made and direct payment to supplier. Disbursements will be reviewed ex post, except for requests for direct

payment to suppliers and direct payment to borrower. The PIU will be responsible for the maintenance of adequate and original documentation to support the program expenditures and shall be made available for the ex post reviews.

C. Accounting and Information Systems

- 6.3 The PIU will procure an off the shelf accounting and financial management software for the accounting and financial reporting of the program. Financial Statements will be prepared based on Bank rules given that the PFM reform is still in process and it is foreseen that country systems will not be used until 2018.

D. Internal Control and Audit

- 6.4 The PIU will establish an internal control system documented in the OMF that should provide reasonable assurance that: (i) program funds are used for their intended purpose; (ii) program assets are properly safeguarded; (iii) program transactions, decisions and activities are properly authorized and documented; and (iv) program transactions are executed in accordance with the established policies, practices and procedures delineated in the legal agreements. Proper segregation of duties, approval authority levels for signature of contracts, commitment of funds, reception of goods and services and payment to suppliers and beneficiaries should be arranged adequately.

E. External Control and Reporting

- 6.5 The external audit of the program will be performed by an independent audit firm acceptable to the Bank. Audits will be performed in accordance with Bank's Guidelines for Financial Reports and External Audit. The PIU will be responsible for contracting of an external auditor eligible to the IDB to perform the program audit as follows: (i) an annual financial audit to be submitted within 120 days of the end of fiscal year; (ii) semiannual financial statements as part of the semiannual progress report of the program; and (iii) one final financial audit of the program to be submitted within 120 days after the date of last disbursement. The scope of the external audit can be modified per the needs identified during program execution.

F. Financial Supervision Plan

- 6.6 Bank fiduciary staff will conduct inspection visits on a semiannual basis to ascertain the proper functioning of the accounting systems, the adequacy of the internal control system and follow up the fiduciary risk initially assessed. During the first year of execution, a quarterly review of the execution of funds will take place to support the update of the financial and procurement plan.

G. Execution Mechanism

- 6.7 The MoF will implement the program, through the OMF. A PIU will be established within the OMF that will be responsible for carrying out all the fiduciary and technical obligations of the program. The Minister will be the titular Program General Coordinator (PGC), who will delegate the operational responsibility for supervision and oversight of program activities to the chief of the PIU. The PIU will be responsible for carrying out all the operational and fiduciary obligations necessary for program execution and will act as the Bank's direct interlocutor.

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-___/17

Suriname. Loan ____/OC-SU to the Republic of Suriname
Fiscal Strengthening to Support Economic Growth Program

The Board of Executive Directors

RESOLVES:

That the President of the Bank, or such representative as he shall designate, is authorized, in the name and on behalf of the Bank, to enter into such contract or contracts as may be necessary with the Republic of Suriname, as Borrower, for the purpose of granting it a financing to cooperate in the execution of a fiscal strengthening to support economic growth program. Such financing will be for the amount of up to US\$40,000,000 from the resources of the Bank's Ordinary Capital, and will be subject to the Financial Terms and Conditions and the Special Contractual Conditions of the Project Summary of the Loan Proposal.

(Adopted on _____)