

PUBLIC

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

**SURINAME**

**PUBLIC EXPENDITURE MANAGEMENT PROGRAM II  
(SU-L1028)**

**LOAN PROPOSAL**

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<b>Mandatory</b>	
1. Policy Letter	<a href="#">IDBDocs#37189867</a>
2. Results Matrix	<a href="#">IDBDocs#36689049</a>
3. Means of Verification	<a href="#">IDBDocs#36689046</a>
<b>Optional</b>	
1. Suriname Report on Public Expenditure and Financial Accountability (PEFA)	<a href="#">IDBDocs#36275158</a>
2. Comparison of original and current triggers for the second operation	<a href="#">IDBDocs#36888400</a>
3. Republic of Suriname: Country Procurement Assessment Report (CPAR)	<a href="#">IDBDocs#36275164</a>
4. Needs Assessment for the Directorate of Finance	<a href="#">IDBDocs#36275722</a>
5. Economic Analysis	<a href="#">IDBDocs#36483481</a>
6. Monitoring and Evaluation Plan	<a href="#">IDBDocs#36413446</a>
7. Bank Interventions Suriname	<a href="#">IDBDocs#37117844</a>

## ABBREVIATIONS

BPI	Bureau of Public Investment
BPP	Bureau of Public Procurement
CLAD	<i>Centrale Landsaccountantdienst</i>
COM	Council of Ministers
e-GP	Electronic Government Procurement
FFF	Flexible Financing Facility
FMIS	Financial Management Information System
GDP	Gross Domestic Product
GOS	Government of the Republic of Suriname
IMF	International Monetary Fund
MOF	Ministry of Finance
MOP	Multi-Annual Plan ( <i>Meerjaren Ontwikkelingsplan</i> )
MTFF	Medium-Term Fiscal Framework
PBL	Policy-Based Loan
PBP	Programatic Policy-Based Loan
PEFA	Public Expenditure and Financial Accountability
PFM	Public Financial Management
PC	Program Coordinator
PI	Performance Indicator of the PEFA
PLOS	Ministry of Planning and Development Cooperation
PSIP	Public Sector Investment Program
SAI	Supreme Audit Institution
SC	Steering Committee
VAT	Value Added Tax

**PROJECT SUMMARY**

**SURINAME**

**Public Expenditure Management Program II  
(SU-L1028)**

<b>Financial Terms and Conditions</b>			
<b>Borrower:</b> Republic of Suriname (GOS)		<b>Flexible Financing Facility (FFF)*</b>	
		Amortization Period:	20 years
		Original WAL:	12.75
		Grace Period:	5.5 years
<b>Executing Agency:</b> Ministry of Finance (MOF)		Disbursement Period:	12 months
<b>Source</b>	<b>Amount (US\$)</b>	Supervision and Inspection Fee:	**
IDB: Ordinary Capital (OC)	20,000,000	Interest Rate:	LIBOR
Local:	0	Credit Fee:	**
Total:	20,000,000	Currency:	US\$ (OC)
<b>Project at a Glance</b>			
<b>Project Objective/Description:</b> The objective of this second operation of the programmatic series is to support the Government of Suriname reform efforts to enhance public expenditure management. The reforms combine policy initiatives and government actions in three areas: (i) public investment management; (ii) public procurement; and (iii) public financial management and audit.			
<b>Special contractual conditions:</b> This loan will be disbursed in one installment once the operation is eligible for disbursement and the Borrower has provided the Bank, to its satisfaction, with documentation verifying that the policy conditions described in the Policy Matrix (see Annex II) have been duly fulfilled.			
<b>Exceptions to Bank policies:</b> None			
<b>Project qualifies for:</b>	SEQ[ ] PTI [ ] Sector [ ] Geographic[ ] Headcount [ ]		
<b>Procurement:</b> N/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 all cases subject to the final amortization date and original WAL. In considering such requests, the IDB will take into account market conditions and operational and risk management considerations.

\*\* The credit fee and inspection and supervision fee will be established periodically by the Board of Executive Directors as part of its review of the Bank's lending charges, in accordance with the applicable provision of the Bank's policy on lending rate methodology for ordinary capital loans. In no case will the credit fee exceed 0.75% or the inspection and supervision fee exceed, in a given six-month period, the amount that would result from applying 1% to the loan amount divided by the number of six-month periods included in the original disbursement period.

## I. DESCRIPTION AND RESULTS MONITORING

### A. Introduction

- 1.1 This US\$20 million loan operation is the second of three consecutive single-tranche operations that, while technically related, are being financed independently under the Programmatic Policy-Based (PBP) lending modality in accordance with the new lending framework (CA-450-1) and Policy-Based Loans (CS-3633) documents. On December 7, 2011 the Board of Executive Directors of the Bank approved the first loan in this programmatic series entitled Public Expenditure Management Program (2666/OC-SU) for US\$20 million, which was disbursed on December 20, 2011. The proposal for that loan constitutes the framework document for the programmatic series (document PR-3330), and the present proposal updates, complements, and follows up on the framework document, in accordance with the guidelines set forth in Memorandum EVP/1/2006 (PO-LO-2006) dated March 6, 2006.

### B. Background, problems addressed and justification

#### 1. Macroeconomic situation

- 1.2 Suriname is registering strong growth rates on account of robust performance in the mining sector, as commodity prices have been favorable, especially gold. Despite the global economic challenges, Suriname's real Gross Domestic Product (GDP) grew by 4.2% in 2011. The country's unique mixture of bauxite, gold, and oil deposits also explain partially this positive development. The services industry has expanded, with strong performance in the manufacturing, wholesale and retail sectors. Revitalized public investment and activities in the gold and oil sectors will support growth being around the same level in 2012.
- 1.3 Suriname has been able to strengthen considerably its overall macroeconomic framework. Fiscal performance has improved as revenues and implementation capacity for capital expenditures has increased.<sup>1</sup> Based on the Government of the Republic of Suriname (GOS) figures, the fiscal deficit declined to -1% in 2011 from -3.1% of GDP in 2010. The substantial measures taken in 2011 appear to have increased tax revenue by around 42% and will significantly strengthen the country's fiscal position. Given these actions, the fiscal situation is not likely to deviate significantly from a macro-sustainable path or medium-term projections. The fiscal position will be enhanced by GOS's planned actions to implement a Value Added Tax (VAT) in 2013. Notwithstanding, Suriname projects a (fiscal) financing gap of about US\$223 million, of which the disbursement from this operation is equivalent to 9%.

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<sup>1</sup> The public capital investment program increased from US\$170.7 million in 2010 to US\$214 million in 2011, of which IDB account for 38%.

- 1.4 The country's exchange rate is in line with fundamentals and on par with its trading rate in the parallel market trading between \$3.25–\$3.35 per US dollar. Authorities are considering moving to a flexible exchange rate regime over the medium term. The decline in the production and export of bauxite, led to growth in imports (mainly machinery, transport, equipment, manufactured goods, food, and materials for the mining sector), and a greater services deficit. With higher oil and gold prices, the current account balance reached 5.5% of GDP in 2011. Suriname's balance of payments recorded a surplus of about US\$200 million in 2011. Gross international reserves topped the US\$1 billion mark (and grew from 4.4 to 4.9 months of imports). Over the medium term, imports are expected to grow strongly particularly over the next two years. This is mainly due to stronger demand for capital goods associated with large scale investment projects in the mineral sector. This trend is expected to reverse when these projects end.
- 1.5 Given the one-off nature of the government's fiscal and exchange rate policies in early 2011, the risk of inflation is expected to be contained. Authorities project that inflation will stabilize under 6% by the end of 2012.
- 1.6 Debt sustainability is expected to be preserved,<sup>2</sup> as Suriname will continue to grow robustly when bauxite production is revitalized in 2013 and the refinery capacity of the state oil company is expanded due to strong commodity prices. Over the medium term, the International Monetary Fund (IMF) projects the GDP growth to average 4.7%. The Authorities recently established an Interim Sovereign Wealth Fund (pending legal ratification of a full-fledged version), which will support countercyclical policies, especially given the volatility of commodity-related revenue flows. These projections will be affected by the strength of the global economy, particularly developments in the Euro-zone (an important trade area for Suriname), the United States, and the Caribbean region.
- 1.7 Based on the Independent Macroeconomic Assessment, the financing assumptions discussed in this document are fully consistent with maintaining debt sustainability over the medium and long-term. The current operation will deepen and consolidate the reforms initiated under the first operation. It is consistent with the lending envelope and areas of priority in the IDB Country Strategy with Suriname 2011-2015 (GN-2637-3) and its disbursement will contribute to 9% of projected financing needs.

## **2. The GOS approach to more effective public expenditure**

- 1.8 Suriname is a small and open economy that depends heavily on natural resources.<sup>3</sup> It is also dominated by public sector participation.<sup>4</sup> The combination

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<sup>2</sup> The debt stock is equal to 19.5% of GDP.

<sup>3</sup> Alumina, gold, and oil exports will amount to 59% of GDP and account for 95% of total exports of goods in 2011 (IMF – Article IV Consultation 2010).

<sup>4</sup> Suriname's public sector employment has remained stable at 60% of the economically active population for the past 20 years. (IDB Country Strategy with Suriname 2011-2015) (GN-2637-3).

of these two factors results in an elevated exposure to changes in external prices of mining and energy commodities and internal changes in the public sector wage bill. The economy's diversification is necessary to mitigate the risk posed by the high concentration of economic activity in mining and public sector employment.

- 1.9 The GOS intends to scale up public investment in vital infrastructure, to raise the growth potential and diversify its economic base in the medium term. Enhancing infrastructure will provide the foundation for the country's industrial capacity and the means for a more competitive private sector with better access to international markets. Diversification would help steer the economy away from over-reliance on the mining sector and toward new growth and employment opportunities. However, weaknesses in public investment management limit the GOS's ability to achieve this goal. Capital spending is constrained by low implementation capacity. Differences between approved and realized capital expenditure are large, reflecting systematic overestimation of implementation capacities by the executing agencies. Available data shows that current expenditures are regularly underestimated (especially wages and salaries) while capital expenditures are not following the plans from the budget (utilization on average is below 50%).<sup>5</sup>
- 1.10 There is a pressing need to enhance the GOS's capacity to maximize the use of public resources for public investment by addressing legal, technical, and institutional constraints. The GOS plans to address these issues by strengthening the institutional framework and capabilities for public sector investment programming, as well as implementation management.

### **3. Challenges for a more effective public expenditure management**

- 1.11 The GOS faces the challenge of ensuring that public expenditure plays an important role in sustaining economic growth, alleviating poverty and fostering development. The magnitude of this problem is reflected in the diagnostic assessments that demonstrate the lack of effectiveness in public expenditure management. To address this problem, there is a pressing need for: (i) a public investment management system that ensures the prioritization and selection of investment projects with the highest possible economic and social rate of return; (ii) a procurement system, which is effective, fair, efficient, and transparent; (iii) a financial management system, which enables effective and efficient allocation of resources; and (iv) an audit system, which is comprehensive and effective, facilitates transparency and provides feedback regarding the quality of decision making and management processes.
- 1.12 In that regard, the GOS's capacity to maximize the use of resources available for capital spending is constrained by the following issues:

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<sup>5</sup> Suriname Needs Assessment for the Directorate of Finance (SU-T1032; ATN/SF-10319-SU). IMF (2007).



1.13 **Public investment management.** For 2011 and 2012, investment was projected to gradually return to its historical level averaging 5.25% of GDP.<sup>6</sup> A weak public investment system can reduce a country's growth by reducing the efficiency and productivity of public investment, resulting in poorly executed and ineffective projects. Poor selection, monitoring, and evaluation tend to produce large cost overruns, benefit shortfalls, waste and low completion rates in major infrastructure projects. As a result, growth contribution of capital spending is diminished by the low efficiency of the public investment system. Suriname's public investment system is constrained by the following:

- a. An institutional framework for public investment management with limited integration of pre-investment, design, execution, and evaluation. The public investment process is not supported by appropriate regulation that establishes roles and responsibilities for the different actors who are part of the investment cycle;
- b. Objective criteria for the prioritization of public investment projects have not yet been implemented across all entities involved in the public investment system. Criteria were developed by the Ministry of Finance (MOF) and approved by the Council of Ministers (COM) (SU-L1026; 2666/OC-SU) in 2011 and are pending implementation by 2013;
- c. There is a limited multi-year perspective in fiscal planning and budgeting, reflected in the score (C) received by Suriname in the 2011 Public Expenditure and Financial Accountability (PEFA) assessment on multiannual fiscal forecasts functional allocations.<sup>7</sup> This precludes the government's capacity to evaluate the sustainability of the public investment program while ensuring aggregate fiscal discipline;
- d. There is a weak link between investment budgets and expenditure estimates, which is reflected in the score (D) received by Suriname in the 2011 PEFA assessment on multi-year perspective in fiscal planning, expenditure policy and budgeting.<sup>8</sup> According to the 2011 PEFA recurrent expenditure implications are not generally included in forward budget estimates;<sup>9</sup>
- e. Lack of standardized methodologies to prepare and evaluate public investment projects. Suriname has no systematic process for appraising

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<sup>6</sup> IMF 2011 Article IV Consultation – Staff Report. IMF Country Report No. 11/256, August 2011.

<sup>7</sup> Performance Indicator (PI) 12 (i) –Multi-annual fiscal forecasts and functional allocations. PEFA Report (2011).

<sup>8</sup> Performance Indicator (PI) 12 (iv) –Links between investment budgets and future expenditure estimates PEFA Report (2011).

<sup>9</sup> In the first year of each new presidential term, the government of Suriname prepares and presents to the National Assembly a five year Multi Annual Plan (MOP). A second document, the Annual Plan (Jaarplan), is presented yearly and consolidates progress under the MOP and defines more precise policy objectives for the forthcoming fiscal year by ministry, with costing of recurrent and investment expenditure. It is used by MOF to estimate aggregate expenditure and apportion budget ceilings for line ministries. In addition, there are six sector plans: education, health, agriculture, housing, governance: separated in Legal protection and security; and Supervision and management of state finance.

proposed projects. This deficiency limits the GOS's ability to prepare and assess projects from a coherent and homogeneous socio-economic perspective, including a specified set of shadow prices and a social discount rate;

- f. Lack of a comprehensive review and quality control at the initial stage of the public investment project, as line ministries currently handle the investment prioritization. The review should include legal, environmental, and technical issues, alignment with policy priorities, as well as socio-economic analysis;
  - g. Lack of a monitoring system to assess the efficiency of project implementation. The absence of a system to compare actual versus expected project implementation hinders the ability of the GOS to capture changes in project costs, schedule and benefits. Information about budget execution on individual projects is not readily available;<sup>10</sup> and
  - h. Absence of an ex-post evaluation mechanism of completed projects that can be used to improve future project design and implementation.
- 1.14 **Public procurement.** This area has significant fiscal and economic relevance as it represents an important share of total public expenditure. Over the last seven years, annual public procurement averaged 11.5% of GDP.<sup>11</sup> It also plays a critical role in the execution of public investments as it should guarantee the greatest possible value for money.
- 1.15 Suriname's public procurement system is constrained by the following:<sup>12</sup>
- a. Outdated, dispersed, and incomplete legal framework dating back to 1952, which results in a lack of clarity and overlapping jurisdictions in important policy and procedural requirements. Basic principles and policies governing public procurement are not anchored at sufficiently high juridical level of the law; with a negative effect on the level of transparency and clarity of the regulations, which has made enforcement difficult. In the current legislation there is no explicit requirement that open competitive bidding be the preferred or the default method of procurement;
  - b. Incipient centralized general oversight and policy function. Although the Bureau of Public Procurement (BPP) was created within the MOF in 2011 (SU-L1026; 2666/OC-SU) to perform these functions, staffing and training will happen starting in 2012;
  - c. Absence of uniformity of procedures across agencies, leading to an absence of necessary standardization on procurement documentation and practice;

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<sup>10</sup> Suriname: Needs Assessment for the Directorate of Finance. IMF (2007).

<sup>11</sup> Suriname authorities and IMF estimates and projections: Comprises Goods and Services and Capital expenditure from 2005 to 2011.

<sup>12</sup> Country Procurement Assessment Report. CARICOM (2003). Section A.6 General Risk Assessment.

- d. Lack of a procurement policy manual and handbook of government procedures, which causes inconsistencies in the procurement process;<sup>13</sup>
  - e. Limited procurement capacity due to the absence of a career stream in the civil service for procurement management and limited training opportunities;<sup>14</sup>
  - f. Absence of a procurement portal that can provide basic information on public procurement processes and regulation for purchasers and suppliers, and generate statistical data on government procurement at the MOF. Currently, procurement notices are irregularly published through local newspapers and the Government Gazette (*Staatsblad*). This information asymmetry limits participation in public procurement and undermines competition; and
  - g. Absence of a framework for the reporting, collection, and maintenance of procurement information. Readily accessible statistical data on government procurement is not available. Procurement advertising, especially for small and medium value contracts, is inadequate. Procurement legislation is not easily accessible because it is disorderly, dispersed and only the staff dealing with procurement is familiarized with the legislation.
- 1.16 These shortcomings in public procurement management delay project implementation, increase costs, lead to poor project performance and delay the delivery of benefits to the project's beneficiaries.<sup>15</sup> This is reflected in the low score (D) received in the 2011 PEFA assessment indicator on competition, value for money, and controls in procurement.<sup>16</sup>
- 1.17 **Public Financial Management (PFM).** The existing PFM system suffers from a number of challenges that limit its effectiveness in the planning, execution, and control of the GOS's budget and finances. Among the most important are:
- a. Outdated and incomplete legal framework for budget preparation and execution that limits the credibility, transparency, and comprehensiveness of the budget;<sup>17</sup> and
  - b. At the operational level, the PFM system has the following shortcomings according to the Public Financial Management Assessment:<sup>18</sup> (i) it does not generate data on expenditure arrears; (ii) the budget classification system does not meet international standards; (iii) the lack of predictability in the availability of funds for commitment of expenditures affects the efficiency in the strategic allocation of resources; (iv) the reporting on in-year budget

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<sup>13</sup> Country Procurement Assessment Report. CARICOM (2003). Annex 2C - Financial/Budgetary Framework.

<sup>14</sup> Country Procurement Assessment Report. CARICOM (2003). Section 1 - Findings and Recommendations.

<sup>15</sup> Country Procurement Assessment Report. CARICOM (2003). Annex 2F - Procurement Performance.

<sup>16</sup> PI-19 Competition, value for money and controls in procurement. PEFA Report (2011).

<sup>17</sup> PI-27 Legislative scrutiny of the annual budget law. PEFA Report (2011).

<sup>18</sup> Public Financial Management Assessment. IDB (2007).

execution is weak and cash flow planning and monitoring are not undertaken; and (v) the current financial management information system is limited as it merely automated existing manual processes without their previous reengineering.

- 1.18 The overall performance of Suriname's PFM systems, processes, and institutions are weak and there are several key areas to be improved. As a result of these deficiencies, in the 2011 PEFA assessment Suriname scored the lowest (D) on deviations in composition of expenditure out-turns compared to the original approved budget (PI-2), budgetary classification (PI-5), public access to key fiscal information (PI-10), and availability of information on resources received by service delivery units (PI-23).
- 1.19 **Internal and external audit.** The function of internal audit in the GOS is carried out within each of the 17 ministries. Each ministry has a unit in place for this purpose. In addition to the ministries' audit units, the government has created the *Centrale Landsaccountantdienst* (CLAD), an autonomous agency that reports to the MOF on the internal auditing of the 17 ministries and about 30 parastatals (both autonomous agencies and small corporations).
- 1.20 The external audit is carried out by the Rekenkamer, the Supreme Audit Institution (SAI) in Suriname. The Rekenkamer is in charge of the supervision of the spending of funds under the budget, and the approval of the accounts of revenue and expenditure, as well as of the control of the financial management of the government. The Rekenkamer has a broad scope which includes ministries and parastatals (74 autonomous government agencies and 20 public corporations).
- 1.21 To reinforce the drive for efficiency and enhance accountability in project implementation, having appropriate internal controls in relevant ministries as well as credible internal and external audit functions in place are important, however, internal and external audit functions are constrained by:
- a. Weak internal controls at the ministry level, due to a lack of appropriate legislation and low capacity to carry out control activities and internal audit;
  - b. Absence of a structured channel of communication between the CLAD and the ministerial audit units. As a result, audit activities between the internal ministerial units and the CLAD are only partially coordinated;
  - c. Limited autonomy of the audit institutions. The CLAD lacks organizational independence while the Rekenkamer's financial autonomy is constrained since its operational budget is part of a separate ministry budget; and
  - d. Need for modern accounting and internal auditing manuals and approaches.
- 1.22 These deficiencies undermine the audit institutions capacity to fulfill their watchdog role and explain the low scores (D+) received by Suriname in the

sections of the PEFA on effectiveness of internal controls on non-salary expenditure and scope, nature and follow-up of external audit.<sup>19</sup>

#### **4. Strategy for the programmatic series**

- 1.23 The program outlines a comprehensive reform of the whole cycle of publicly funded projects, covering key aspects for preparation, selection, execution, monitoring, and evaluation. The program design follows a vertical logic, where each intervention contributes to the next higher level. The first operation laid the foundation for the rest of the program, focusing on the formal approval of the content and structure of the policies and reforms in each area as well as the establishment of key institutions to lead the implementation of policy reform in the areas of public investment and public procurement. The present operation represents the next step in the process, focusing on the drafting of legislation, issuance of regulations and tools, preparation of conceptual designs, as well as the approval of action plans. The third operation will consolidate the reforms through the submission of legislation to the National Assembly for its consideration and the issuance and implementation of regulations and tools.
- 1.24 **The Bank Strategy with Suriname and the GCI-9.** The program is aligned with the IDB Country strategy with the Republic of Suriname 2011-2015 (GN-2637-3). This strategy calls for an improvement in the quality of public spending through support for the area of public investment management. This program will directly contribute to this goal by supporting the GOS in the public expenditure reform. In addition, the program is consistent with the “Lending to small and vulnerable countries” target of the GCI-9 (AB-2764) as well as the Bank Output Contribution to Regional Development Goals 2012-2015 of implementing or upgrading public financial systems.
- 1.25 **Bank’s interventions in Suriname.** Over the last eight years, the Bank has provided the GOS with technical and financial assistance in areas related to this program, including one investment loan and four non-reimbursable technical cooperation programs (TCs). Some of these operations had difficulties executing, see ¶2.4 for an explanation of lessons learned and how the conditions are different for this current operation.
- 1.26 The Bank also supported the preparation of a governance study and a PEFA assessment in 2011.

#### **C. Actions taken in public expenditure management by the GOS**

- 1.27 Since the first operation of the programmatic series, significant progress was evidenced in the vast majority of activities associated with the public expenditure management reform process. The following section describes the actions that the GOS has been taking since the start of the programmatic series.

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<sup>19</sup> Performance Indicators 20 and 26 respectively. PEFA Report (2011).

- 1.28 Public investment management. During the first operation, the COM approved a proposal for a new Framework to enhance the management of investment projects. The framework establishes the foundation for a modern public investment system, ensuring that projects are: (i) selected based on development policy priorities; (ii) evaluated for their social and economic value; and (iii) properly monitored and maintained. The MOF established a Bureau of Public Investment (BPI), responsible for public investment policy and oversight. The COM also approved criteria for the prioritization of public investment projects; and an instruction mandating that all donor-funded public investment is coordinated and prioritized by the MOF. The MOF also submitted with the budget presentation to the National Assembly, a Medium-Term Fiscal Framework (MTFF).
- 1.29 Public procurement. During the first operation, the GOS submitted for approval by the COM an Action Plan to strengthen public procurement that includes a concrete, clearly prioritized set of recommendations supporting procurement reform, including appropriate sequencing and timelines. It also includes recommendations for a new procurement entity and improvement in monitoring and oversight arrangements, basic legal and institutional infrastructure, establishment of a complaints mechanism, code of ethics, tender practices and procedures and future Electronic Government Procurement (e-GP) solutions. The MOF also established a Bureau of Public Procurement (BPP), responsible for public procurement policy and oversight.
- 1.30 PFM and audit. In compliance with triggers for the first operation, the COM approved a PFM reform strategy that includes clear objectives, critical milestones, main activities, implementation methodology, risk assessment, sequencing, timeframe and estimated costs. The COM also approved a Policy Note setting out actions to enhance functions of the internal and external audit institutions in the government (the CLAD and the Rekenkamer), defining their core responsibilities and identifying measures to improve their autonomy and guidelines to develop medium-term strategic plans for their institutional strengthening. In addition, both the CLAD and the Rekenkamer have made significant advances with regard to their strategic plans for institutional strengthening (second operation triggers), having started the validation process.

#### **D. Objectives and components**

- 1.31 **Objective.** The objective of this second operation of the programmatic series is to support the GOS reform efforts to enhance public expenditure management. The reforms combine policy initiatives and government actions in three areas: (i) public investment management; (ii) public procurement; and (iii) public financial management and audit. The first area addresses issues related to policies, practices, and mechanisms for improved project cycle management, including better strategic vision in the pre-investment stage. The second and third areas are considered to be key pillars to enhance project implementation. For each area of

intervention, the program will establish triggers related to changes in the relevant legal framework, as well as critical procedures and/or instruments.

- 1.32 For this second operation, the Framework to enhance the management of public investment projects, the Action Plan to strengthen Public Procurement and the PFM Reform Strategy gave the MOF the power and mandate to oversee public investment, public procurement and PFM reform respectively. As a result of the first operation therefore, the MOF has been empowered to carry out the reform process. To reflect this new mandate, approval of the Regulatory Framework (condition 1.6) and the White Paper on Budget Law (condition 3.4) was switched from the COM to the MOF. With regard to the Procedures Manual (condition 1.8), the Operating Regulations (condition 2.3), Procurement Handbook (condition 2.4) and the Standard Bidding Documents (condition 2.5) the wording was changed from “issued” to “approved” to reflect the fact that the MOF decided that these instruments need to be piloted before widespread implementation (see optional link #2 for detailed accounting and explanation of the changes). These adjustments are minor and do not imply substantive changes to the policy matrix of the programmatic series.
- 1.33 **Component I. Public investment management.** The objective of this component is to enhance the public investment management system. The GOS will improve the project formulation process by establishing a system to screen and prioritize proposed public investment projects.<sup>20</sup>
- 1.34 For the second operation, the conditions prior for disbursement are the approval by the MOF of: (i) a regulatory framework establishing a mechanism for identification, selection, budget allocation, monitoring and evaluation of public investment projects; (ii) a methodology for the formulation, evaluation and selection of public investment projects; (iii) a procedures manual and its use made mandatory as of July 2013; (iv) a formal training program for the formulation, evaluation and selection of public investment projects; and (v) a design of a system to register public investment projects and monitor their implementation.
- 1.35 **Component II. Public procurement.** The objective of this component is to improve efficiency and transparency in public procurement. The GOS will introduce modern tools and practices to ensure the streamlining of the procurement process, thereby generating price, transactional and administrative savings and leveling the playing field for different stakeholders in the private sector. This will contribute to greater value for money, quality of spending, competition and transparency in the procurement cycle.

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<sup>20</sup> Improved project formulation entails a prioritization of the use of public resources in accordance with public policy. This will include methodologies with a thorough economic and social analysis (for example PVC, NPV or EAC) that will contribute to the highest possible return on investment. The new public investment management system will be administered by the Bureau of Public Investment at the MOF.

- 1.36 For the second operation, the conditions prior for disbursement are the approval by the MOF of: (i) operating regulations for public procurement; (ii) a procurement handbook; (iii) standard bidding documents; (iv) a formal training program for public procurement officers; and (v) a functional public procurement portal with the architecture and functionalities necessary to provide information on business opportunities, invitations to tenders, contract awards, minutes of tender openings, regulations, standard bidding documents and sanctioned entities.
- 1.37 **Component III. Public financial management and audit.** The objective of this component is to enhance PFM and control and audit systems. The program will support the modernization of the legal framework, processes, and information system, as well as action plans for the external and internal audit institutions.
- 1.38 For the second operation, the conditions prior for disbursement are the approval by the MOF of: (i) an action plan for the implementation of the PFM reform strategy; (ii) a white paper for a new budget law; (iii) a conceptual design for a Financial Management Information System (FMIS). In addition, (iv) the authorities of the CLAD and Rekenkamer will approve their respective strategic plans for institutional strengthening.

**E. Expected impact, key results, and beneficiaries**

- 1.39 The expected impact of the program is improved quality of public expenditure. The expected outcomes of the program are: (i) enhanced public investment management system; (ii) improved transparency and efficiency in public procurement; and (iii) enhanced public financial management and control systems. Result indicators for each program component are included in the [Results Matrix](#).
- 1.40 There are no changes regarding the expected results of the program as stated in the framework document for the programmatic series (document PR-3330).
- 1.41 The program results reflect GOS's commitment to the sustainability of the reforms in order to ensure that fiscal policy and management are consistent with the principles of prudence, procurement and financial management processes are better integrated, and the regulatory framework is consistent with international standards (see [PEFA Report](#) for a description of the results indicators).
- 1.42 The program's direct beneficiaries will be public officials from the 17 Ministries from the Central Government that have project management, procurement, audit and budget functions. The ultimate beneficiaries will be: (i) the local private sector, which will benefit from more competitive, streamlined and transparent public procurement processes; (ii) government agencies, which will benefit from more efficient and effective processes; and (iii) the general population, which will benefit from higher quality and better targeted public sector investment programs.



## **II. FINANCING STRUCTURE AND MAIN RISKS**

### **A. Financing instrument and program strategy**

- 2.1 The program is the second in a series of three independent but technically related operations of US\$20 million each under the programmatic policy-based modality. The structure of the loan operation is consistent with the provisions set forth in document GN-2200-13 and in the document CS-3633. The financing arrangement is considered the most appropriate because it is a flexible and effective mechanism to support complex and long term reforms that require sequenced actions for implementation and broader dialogue. The amounts and number of operations under the program reflect: (i) the government's projected financial needs; (ii) the required timeframe to sequence the reform; and (iii) the level of political effort needed to implement the reforms.
- 2.2 This second operation, to be financed from the Ordinary Capital resources of the Bank, consists of a series of policy and operational reforms that will precede a sole disbursement of US\$20 million. The first operation was fully disbursed on December 20, 2011, while this second operation is expected to be disbursed in 2012. The third operation under the programmatic series is currently scheduled for approval in 2014. This operation will use the Flexible Financing Facility (FFF), which is the Bank's new financial platform under which all Ordinary Capital (OC) Sovereign Guaranteed (SG) Loans are negotiated as of January 1st 2012.

### **B. Lessons learned from related operations in Suriname and other PBLs**

- 2.3 In June 2011, the GOS requested the cancellation of the Public Sector Management Strengthening Program (1547/OC-SU), which included one component on public procurement reform. The overall program disbursed only 25% of the investment loan. The reason for the component's poor execution was due to weak governance arrangements stemming from the lack a public procurement entity and outdated, dispersed and incomplete legal framework. The main lesson learned from this operation was that a policy-based modality is a more appropriate financing instrument to support policy reforms such as those related to legislation and regulatory frameworks and the creation of new entities within the MOF. A comprehensive public expenditure reform is challenging politically and a PBL can provide incentives needed to undertake it. This would be much more difficult to do with other instruments such as an investment loan, as was learned in the case of 1547/OC-SU.
- 2.4 In November 2011, the first operation of the programmatic series was approved (2666/OC-SU); all conditions were complied with and disbursement of the PBL was effective in December, 2011. Some key lessons learned from this operation were: (i) that the creation of the SC is an effective mechanism for inter-agency coordination; and (ii) securing technical assistance funds in advance to

accompany the reforms is critical as it is difficult to predict all funding requirements that may arise.

**C. Environmental and social safeguard (ESS) risks**

- 2.5 In accordance with the provisions set forth in Directive B.13 of the Environment and Safeguards compliance policy (OP-703), this operation does not require classification.

**D. Other key issues and risks**

- 2.6 The implementation of a number of visible reforms under this program requires high level of persistent political support. In the absence of such support, the program may not deliver the expected results. This is particularly the case with regard to the implementation of the Procurement Action plan. This risk will be mitigated by: (i) building the program on the government's reform agenda; and (ii) supporting the authorities with realistic solutions that can be applied in the Surinamese context. These actions enhance the GOS's commitment and ownership of the program as reflected in the [Policy Letter](#).
- 2.7 In addition, a significant training effort will be required to build the necessary capacity for the successful implementation of these reforms. These risks will be mitigated through a coordinated effort in the following actions: (i) preparation and implementation of a change management strategy; (ii) raising public awareness of the need for reform; (iii) maintaining a continuous dialogue with the GOS; and (iv) providing valuable technical assistance for capacity building.
- 2.8 Given the ambitious scope of the program, inefficient project coordination may jeopardize its success. This risk is mitigated by the MOF's strong commitment to the reform program as indicated in the Policy Letter and by the establishment of a program Steering Committee (SC) to facilitate inter-agency coordination. In addition, the MOF appointed a Program Coordinator (PC).

**III. IMPLEMENTATION AND MANAGEMENT PLAN**

**E. Summary implementation arrangements**

- 3.1 Special contractual clauses. This loan will be disbursed in one installment once the operation is eligible for disbursements and the Borrower has provided the Bank, to its satisfaction, with documentation verifying that policy conditions of the Policy Matrix (see Annex II) have been fulfilled (see ¶1.28, ¶1.32 and ¶1.35).
- 3.2 The executing agency will be the MOF which will provide the evidence of compliance with the program's conditions. The MOF established a program SC with the responsibility to provide overall program guidance and oversight and facilitate inter-agency coordination. The SC reviews the progress on the execution of the policy reforms and interface with other institutional actors to facilitate the

implementation of the program. The MOF's Permanent Secretary or his/her designate chairs the SC, and its membership includes representatives of the institutions with specific responsibilities in the implementation of the reforms.

- 3.3 The MOF appointed a PC responsible for: (i) providing support to the entities involved in implementation; (ii) coordinating program execution; (iii) revising and presenting the work plans and progress reports to the SC; (iv) monitoring the timely compliance of triggers and performance benchmarks set out in the policy matrix; (v) collecting the information needed for the indicators specified in the results matrix; and (vii) assisting the procurement and processing of the contracts.

**F. Arrangements for monitoring results**

- 3.4 The implementation of the reform program will be monitored by the GOS through the MOF and the SC with technical support from the project team. The Borrower and the Bank will hold semiannual meetings in order to review the progress achieved in implementing the program and on the fulfillment of the conditions for the subsequent operations. For these meetings, the Borrower will furnish information and documentation requested by the Bank.

- 3.5 A reflective evaluation method will be applied, using as a reference the triggers and indicators set in the policy and results matrixes and input from an independent consultant. At the end of the programmatic series, the Bank will prepare a project completion report to assess results achieved by the program, its long-term sustainability and lessons learned to improve future operations.

**G. Complementary Bank interventions and technical support activities**

- 3.6 Activities for achieving the goals of the second and third operations are being supported by donor funds administered by the GOS as well as technical assistance provided by the PRODEV TC Strengthening Management for Results (ATN/OC-12149-SU) for US\$1,500,000 and the TC Public Procurement Strengthening in Suriname (ATN/FI-13102-SU) for US\$250,000.

Development Effectiveness Matrix			
Summary			
<b>I. Strategic Alignment</b>			
<b>1. IDB Strategic Development Objectives</b>		Aligned	
Lending Program	The intervention contributes to the lending program (i) to small and vulnerable countries, and (ii) to support regional cooperation and integration.		
Regional Development Goals			
Bank Output Contribution (as defined in Results Framework of IDB-9)	The intervention contributes to the Bank outputs: Public financial systems implemented or upgraded.		
<b>2. Country Strategy Development Objectives</b>		Aligned	
Country Strategy Results Matrix	GN-2637-3	The operation contributes to improve national systems to facilitate planning and public investment functions and ensure proper control over public spending.	
Country Program Results Matrix	GN-2661-4	The intervention is included in the 2012 Country Program Document.	
Relevance of this project to country development challenges (If not aligned to country strategy or country program)			
<b>II. Development Outcomes - Evaluability</b>		Highly Evaluable	Weight
		7.6	Maximum Score
		7.1	10
<b>3. Evidence-based Assessment &amp; Solution</b>		7.1	10
<b>4. Ex ante Economic Analysis</b>		7.0	10
<b>5. Monitoring and Evaluation</b>		6.1	10
<b>6. Risks &amp; Mitigation Monitoring Matrix</b>		10.0	10
Overall risks rate = magnitude of risks*likelihood		Medium	
Environmental & social risk classification		B.13	
<b>III. IDB's Role - Additionality</b>			
The project relies on the use of country systems (VPC/PDP criteria)		Yes	Procurement: Contracting individual consultant.
The project uses another country system different from the ones above for implementing the program			
The IDB's involvement promotes 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		Yes	An operational input was prepared that will provide technical assistance to support the country in the area of procurement and change management.
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.		Yes	From the ex-post evaluation some lessons about the strengthening of public capital expenditure management in Suriname.

This is the second operation of a policy program loan (PBL) for the government of Suriname. It will be entirely funded by ordinary capital resources of US\$ 20 million. The overall objective of the project is to support the government of Suriname on its efforts to improve public investment management. These reforms combine policy initiatives and government actions in three areas: (i) public investment management, (ii) procurement, and (iii) public financial management and auditing. The program has an acceptable diagnosis that has identified the deficiencies and their magnitudes. The justification on the effectiveness of similar interventions in other contexts and the size of the intervention is acceptable. The overall results are correctly defined and almost all indicators are SMART. The products are also acceptably well-defined and thus generate coherence in the vertical logic of the program.

General monitoring mechanisms have been defined and a budget has been assigned to that activity. The operation has a reflective assessment and an evaluation plan with key activities to be performed. There was an economic analysis of some of the components, in which the majority of the costs are adequately quantified. Also, most of the assumptions have been clearly defined.

The program has correctly identified the main risks and mitigation measures required. Finally, there are indicators for all risks that allow monitoring the implementation of these mitigation measures.

POLICY MATRIX<sup>1</sup>

Objective	Policy Conditions – First Loan Operation	Policy Conditions – Second Loan Operation	Triggers – Third Loan Operation
<b>Macroeconomic Stability</b>			
Enhanced Macroeconomic Stability	The borrower maintains a macroeconomic framework consistent with the program objectives.	The borrower maintains a macroeconomic framework consistent with the program objectives.	The borrower maintains a macroeconomic framework consistent with the program objectives.
<b>Component I: Public Investment Management</b>			
Enhanced public investment management system.	<p>(1.1) Framework to enhance the management of public investment projects, approved by the Council of Ministers (COM). The Framework will establish the foundation for a modern public investment system that ensures that projects are: (a) selected based on development policy priorities; (b) have been evaluated for their social and economic value, and; (c) are properly monitored and maintained.</p> <p>(1.2) Bureau of Public Investment (BPI) within the MOF, established. Head of the BPI, who will report to the MOF Permanent Secretary or the Minister, appointed. The BPI will be responsible for public investment policy and oversight.</p>	<p>(1.6) That a Regulatory Framework (RF) establishing a mechanism for identification, selection, budget allocation, monitoring and evaluation of public investment projects is approved.</p> <p>(1.7) That the Methodologies for the formulation, evaluation and selection of public investment projects (Methodologies) are approved.</p> <p>(1.8) That a Procedures Manual (PM) for public investment is approved and its use made mandatory as of July 2013.</p> <p>(1.9) That a formal Training Program (TP) for the formulation, evaluation and selection of public investment projects is approved.</p>	<p>(1.11) Regulatory framework establishing a mechanism for identification, selection, budget allocation, monitoring and evaluation of public investment projects, approved by MOF and legally in effect.</p> <p>(1.12) All new investment projects that are submitted for MOF approval (i) are in accordance to the strategic selection criteria as defined in the methodologies and (ii) have a previous economic evaluation.</p> <p>(1.13) Budget circular that provides instructions on allocating funds to maintain infrastructure, issued by the MOF.</p>

<sup>1</sup> See optional electronic link #2 for a comparison of original and current triggers for the second operation and explanation for any changes made.

Objective	Policy Conditions – First Loan Operation	Policy Conditions – Second Loan Operation	Triggers – Third Loan Operation
	<p>(1.3) Criteria for the prioritization of public investment projects, approved by the COM.</p> <p>(1.4) Instruction mandating that all donor funding for public investment is coordinated and prioritized by the MOF, approved by the COM.</p> <p>(1.5) Medium-Term Fiscal Framework (MTFF) that evaluates the sustainability of the public investment program while ensuring aggregate fiscal discipline, submitted to the National Assembly with the budget presentation.</p>	<p>(1.10) That the design of a system to register public investment projects and monitor their implementation is approved.</p>	<p>(1.14) Instruction mandating the publication in the MOF web site of reports on individual projects relative to their implementation plans, issued by the MOF.</p>

Objective	Policy Conditions – First Loan Operation	Policy Conditions – Second Loan Operation	Triggers – Third Loan Operation
<b>Component II: Public Procurement</b>			
Improved efficiency and transparency in public procurement.	<p>(2.1) Action Plan to strengthen public procurement, approved by the COM.</p> <p>(2.2) Bureau of Public Procurement (BPP) within the MOF to lead the implementation of the Action Plan, established. Head of the BPP, who will report to the MOF Permanent Secretary, appointed. The BPP will be responsible for public procurement policy and oversight.</p>	<p>(2.3) That the Operating Regulations (OR) for public procurement are approved.</p> <p>(2.4) That the Procurement Handbook (PH) is approved.</p> <p>(2.5) That the Standard Bidding Documents (SBDs) are approved.</p> <p>(2.6) That a formal Training Program (TP) for public procurement officers is initiated.</p> <p>(2.7) That a functional public Procurement Portal (PP) is created with the architecture and functionalities necessary to provide information on business opportunities, invitations to tenders, contract awards, minutes of tender openings, regulations, and standard bidding documents.</p>	<p>(2.8) Legislative proposal for Public Procurement, submitted to the National Assembly and Operating Regulations issued by the MOF.</p> <p>(2.9) Financial instruction establishing that all contracts above the established threshold use standard bidding documents for their procurement processes, issued by the MOF.</p> <p>(2.10) All public entities are complying with the posting of information in the public procurement portal.</p>

Objective	Policy Conditions – First Loan Operation	Policy Conditions – Second Loan Operation	Triggers – Third Loan Operation
<b>Component III: Public Financial Management and Audit</b>			
<p>Enhanced public financial management and control systems.</p>	<p>(3.1) PFM Reform Strategy, approved by the COM. The Strategy sets out the road map to enhance public financial management. It includes clear objectives, critical milestones, main activities, implementation methodology, risk assessment, sequencing, timeframe and estimated cost.</p> <p>(3.2) Policy Note setting out the core actions to enhance the internal and external audit functions in Government (Centrale Landsaccountantdienst -CLAD, and Rekenkamer), approved by the COM. The note includes a definition of their core responsibilities, the identification of measures to improve their autonomy, and guidelines to develop medium-term strategic plans for their institutional strengthening.</p>	<p>(3.3) That an Action Plan (AP) for the implementation of the Public Financial Management reform strategy is approved.</p> <p>(3.4) That a White Paper (WP) for a new Budget Law is approved.</p> <p>(3.5) That the Conceptual Design (CD) for a Financial Management Information System is approved.</p> <p>(3.6) That the Strategic Plans (SPs) for the institutional strengthening of CLAD and Rekenkamer are approved.</p>	<p>(3.7) Core actions defined in the PFM reform strategy under implementation. The actions will address main weaknesses in the areas of budgeting, cash management, accounting, and reporting, amongst others.</p> <p>(3.8) Budget Act proposal, submitted to the National Assembly.</p> <p>(3.9) Implementation of an improved FMIS, initiated.</p> <p>(3.10) Core actions defined in the strategic plans of the CLAD and Rekenkamer, under implementation.</p> <p>(3.11) Formal mechanism to follow up audit recommendations, issued by the CLAD. The mechanism includes the establishment of: (i) a communication channel between CLAD and the ministries' internal audit units; and, (ii) procedures to inform CLAD on actions taken by ministries to address recommendations contained in audit reports.</p>