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SURINAME

FISCAL STRENGTHENING TO SUPPORT ECONOMIC GROWTH (FISEG) PROGRAM

(SU-L1055)

PROJECT PROFILE

This document was prepared by the project team consisting of: Gerardo Reyes-Tagle (IFD/FMM) Team Leader; Leslie Harper (IFD/FMM) alternate team leader; Hyungon Kim (IFD/FMM); Chrystol Thomas (CCB/CSU); Betina Hennig (LEG/SGO); Carlos Silvani, Hunt Howell, Paulo Dos Santos, Wyatt Grant and; Marcio Cracel (consultants); Mariska Chuquita Tjon A Loi (FMP/CSU); Rinia G. Terborg Tel (FMP/CSU); Lucas Hoepel (CCB/CSU) and Maria Lorena Kevish (IFD/FMM).

PROJECT PROFILE

SURINAME

I. BASIC DATA

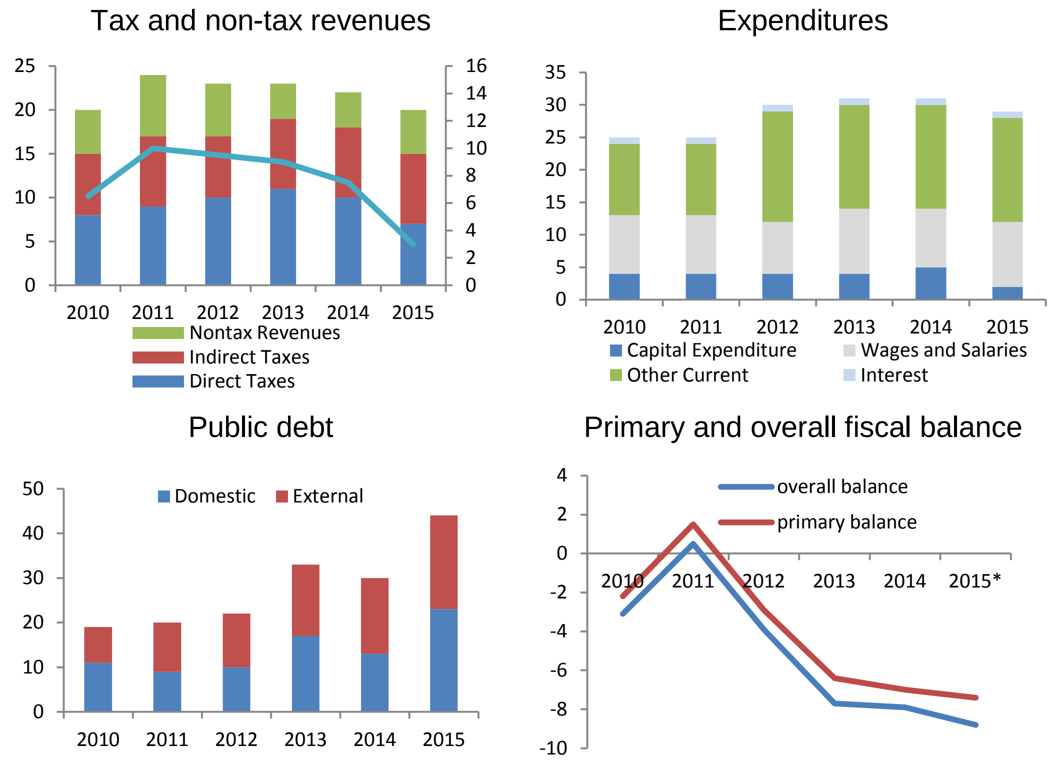
Project Name:	Fiscal Strengthening to Support Economic Growth (FISEG) Program
Project Number:	SU-L1050
Project Team:	Gerardo Reyes-Tagle (IFD/FMM) Team Leader; Leslie Harper (IFD/FMM) alternate team leader; Hyungon Kim (IFD/FMM); Chrystol Thomas (CCB/CSU); Betina Hennig (LEG/SGO); Carlos Silvani, Hunt Howell, Paulo Dos Santos, Wyatt Grant and; Marcio Cracel (consultants); Mariska Chuquita Tjon A Loi (FMP/CSU); Rinia G. Terborg-Tel (FMP/CSU); Lucas Hoepel (CCB/CSU) and Maria Lorena Kevish (IFD/FMM).
Borrower:	Republic of Suriname
Executing Agency:	Ministry of Finance
Financial Plan:	IDB (OC): US$ 20,000,000 Total: US$ 20,000,000
Safeguards:	Policies triggered: B.1, B.16, B.17, B.2, B.4, B.6, B.7 Classification: B

II. GENERAL JUSTIFICATION AND OBJECTIVES

2.1. A general problem faced by the Suriname's Government is its asthenic fiscal stance that stunts economic growth. The problem is accentuated by the country's vulnerable position to external macroeconomic conditions. In the period 2011-15, declines in the prices of the main commodity exports dwindled away the country's fiscal position due to sliding tax revenues. Contractionary fiscal adjustments fell short of expectations, resulting in historic lows on public investment and giving rise to spiraling public debt and mounting fiscal deficits (see Figure 1).[1]

[1] Between 2010 and 2015 real GDP growth declined from 5% to 0.1%. Growth is projected at -2% in 2016. Oil, aluminum and gold represent 88% of total exports. In 2011, sales of these commodities accounted for 40% of government revenues, while in 2015, less than 15%. The fiscal deficit increased from 3% to 8.8% of GDP, almost 85% of this worsening was due to the drop in government mineral revenue. Source: SBA Suriname 2016, IMF.

Figure 1. Selected central government fiscal indicators (2010-15)
% of GDP



Source: Ministry of Finance and IMF SBA.

2.2. Since 2011 the government has been strengthening its fiscal stance. As part of this ongoing effort, the Bank has been supporting the authorities through two fiscal Programmatic Policy Based Loans (PBLs), the Revenue Policy and Administration Program (SU-L1037) and the Public Expenditure Management Program (operations SU-L1026 and SU-L1028)[2]. The former aims at strengthening the country's fiscal position through an increase in tax revenue, foreign investment and economic competitiveness. The latter aims at enhancing public capital expenditure management. These ongoing reforms have played an important role in developing the tools and framework critical for to update the public expenditure and revenue systems. Nevertheless there persist some structural problems in tax administration and public expenditure that have limited the response capacity to strengthen the public finances, including tax collection inefficiencies, a weak Public Financial Management (PFM) framework and outdated public investment system that require investment financing. Moreover, the persistent lack of investment in capacity building in the Ministry of Finance poses the following challenges:[3]

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[2] 2666/OC-SU and 3105/OC-SU were approved in December 4th, 2011 and December 11th, 2013. In addition, TCs ATN/FI-13102-SU: Public Procurement Strengthening and ATN/FI-14581-SU: Revenue and Expenditure Administration have been supporting the fiscal area in Suriname.

[3] This section is based on the work done by Dos Santos and Poulin (2005 and 2014), the PEFA draft (2014) and the staff assessment carry out during the identification mission.

2.3. In the revenue administration area, the specific problems of the Office of Tax Administration (OTA),[4] are:

a. **Low technical capacity.** There is a limited number of qualified staff in the institution. For example, there are only 11 auditors in the Large Taxpayers Unit (LTU) to audit 2,300 large taxpayers. The majority of the staff requires specialized training in key areas such as: tax collection, audits, processes, procedures and risk management as well as training on new methodologies, systems and equipment on which to carry out their administrative duties. Performance measurement and the management regime is weak; particular difficulties are faced in recruiting and retaining qualified talent. In addition, there is no local expertise to implement the Value Added Tax (VAT) reform, which is targeting implementation by January 1st 2018 (see par. ¶2.12).

b. **Organizational structure challenges.** The institution is organized by tax type rather than by functions, resulting in overlapping activities and the replication of organizational units for each tax. Administrative procedures are spread out, creating difficulties for prioritization.

c. **Outdated management procedures and systems.** Taxes are paid mostly on a paper-based filing-in therefore, errors and omissions in the tax registration, collection and processing are common. Taxpayers are registered in different and fragmented Information Technology (IT) systems.[5] There is no unique tax identification number and no cross-reference of any information. Complete reconciliation of tax assessments, collections, arrears and transfers does not take place.

d. **Decaying physical infrastructure.** The facilities used by OTA are antiquated and lack the required level of security both for staff and data security systems.

2.4. Due to the above, non-compliance is high (sales and income taxes average 70% and 40% respectively)[6] and tax revenue (15.7% of GDP), is below the LAC average (17%).[7]

2.5. The specific problems that undermine the functionality of the PFM and the credibility of the budget framework are:[8]

a. **Lacking effective capacity for budget planning and execution.** Budget preparation is fragmented and lacks basic guidelines, processes and procedures;[9] budget data is inaccurate —actual and budgeted expenditure

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[4] There are three collection units within OTA: Sales Tax Office, Corporate and Personal Income Tax Office and Customs.

[5] There are four 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).

[6] Source: Sales Tax and Income Tax Divisions at OTA (2016).

[7] See: Fretes, V. et al. "More than Revenue: Taxation as a Development Tool" IDB 2013.

[8] This section is based on the draft of the PEFA (2014) and the staff assessment carried out during the identification mission.

[9] Budget preparation involves 17 separate reports submitted by the line ministries with no prioritization or specifications.

figures differ significantly. Budgeting for capital expenditures and recurrent expenditures are two different exercises. While budget planning benefits from a medium term fiscal framework, only 30% of the sector strategies have complete costing of investments and recurrent expenditure. Treasury functions are carried out by different institutions without a clear mandate on essential functions —e.g. cash management and forecasting, accounting procedures, Treasury Single Account (TSA) management, accounting for revenues, etc. There is no cash flow planning, resulting in regular cash shortages and government arrears. In addition, there is no centralized unit that monitors and evaluates the procurement processes in the Ministry of Finance and no annual procurement planning is elaborated.

b. **Low capacity to manage IT systems.** In general, there is inadequate coordination to deal with IT management at the Ministry of Finance leading into financial systems and tools that are not properly integrated and harmonized. Out of the existing five modules in the Free Balance IT platform, only one (expenditures) is partially implemented.[10] Human and financial resources have not been available to create a full-time dedicated project management team to implement the Integrated Financial Management Information System (IFMIS).

2.6. **Outdated public investment management.** The National Investment System (NIS) lacks of guidelines, procedures and processes to identify and prioritize public investment projects. There is no comprehensive 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. In addition, the lack of technical expertise in the Ministry of Finance to engage in Public Private Partnerships (PPPs) restraints the government's investment options through alternative financing mechanisms.

2.7. The abovementioned problems on the PFM and public investment, limit the capacity of the Ministry of Finance to prepare and execute the budget and analyze effectively spending requests or prepare monitoring reports.[11] According to the PEFA report, Suriname scores low in three key areas: (i) credibility of the budget; (ii) comprehensiveness and transparency; and (iii) budget cycle.

2.8. The **objective** of the Fiscal Strengthening to Support Economic Growth (FISEG) program is to support Suriname to foster fiscal sustainability in the medium term. For this purpose, the FISEG will focus on strengthening the Ministry of Finance's institutional capacity to effectively: (i) implement the VAT and strengthen the tax administration; (ii) strengthen the PFM system; and (iii) revamp the public investment (PI) system.[12] Through the institutional strengthening of the PI, the

[10] As such, no performance indicators are produced to measure outcome based budgeting.

[11] For example, the budget-to-actual difference in 2015 was of SRD$1.14 billion, or 18% of the approved budget.

[12] There are great challenges to be addressed in the fiscal area in Suriname (see: Problems, Causes and Solutions Matrix). This program will target the most urgent matters as detailed in section II. The continuing dialogue with the Government of Suriname and the results of the current proposed investment operation, could elaborate the specific interventions where additional bank support can be contemplated.

program aims to create an environment that fosters investment and growth. This single investment loan operation includes the following components and activities:

2.9. **Component I. Strengthen the revenue administration,** by supporting: (i) the design and implementation of new guidelines, processes, procedures and operating models for the VAT; (ii) hiring consultants (e.g. auditors and tax experts) to assist OTA in the implementation of the VAT; (iii) training programs, seminars and capacity building for OTA staff in: a) VAT implementation and; b) new tax management including data generation, maintenance and systems; (iv) the development and implementation of a new business model and organizational structure for the OTA along functional lines to support the transition to an integrated Semi-Autonomous Revenue Authority; (v) the implementation of an Integrated Tax Solution, including the taxpayer identification database and; (vi) the development of risk management capacity, technical tools, and controls.

2.10. **Component II. Strengthen the PFM.** In the budget planning and execution area, the program will support: (i) technical capacity to prepare, consolidate, execute and monitor the annual budget; (ii) create a Treasury Unit in the Ministry of Finance in which treasury functions are rationalized and integrated, including a new cash management model; (iii) strengthen the Procurement Unit that is responsible for oversight and evaluation of procurement of goods and services; (iv) enable an integrated IT system that facilitates the compatibility, effective planning, budget management, data generation, accounting and reporting of the budget and develop budget performance indicators and; (v) upgrade the existing physical infrastructure to accommodate for the new offices and personnel.

2.11. **Component III. Improve the public investment system** by supporting: (i) the strengthening of the NIS, including strategic guidelines, methodologies and tools for project preparation, selection and execution of investment projects; (ii) training on new methodologies for staff and consultants; (iii) the creation of a PPP Unit; (iv) a pilot performance management system for selected investment projects including projects that are based on gender matters; and (v) strengthening the Ministry of Finance's ability to review project profiles, select projects based on specific criteria and develop a multi-year investment plan.

2.12. **Results**. The main expected result from the FISEG is the increase of indirect tax revenues from 9% of GDP in 2015 to 12% in 2020 by implementing the VAT that contributes to recover a sustainable primary balance from -7.4% of GDP in 2015 to 0.3% in 2020.[13] Other results are: (i) an effective tax collection system; (ii) a more conducive and functional budgetary process; and (iii) the improvement of the quality and efficiency of public investment.

2.13. **Coordination with other donors.** In May 2016, the Government of Suriname signed a 24 month Stand-By-Agreement (SBA) with the International Monetary Fund (IMF). The program´s goal is to restore fiscal and external sustainability. Within the fiscal area, the authorities aim at reducing the budget deficit by: (i) eliminating electricity subsidies; (ii) restraining the wage bill; (iii) introducing the

[13] Other measures outside the scope of the FISEG contributing towards this goal are: (i) wage bill freeze; (ii) elimination of electricity subsidies; and (ii) other primary current expenditure restraints.

VAT (January 1st 2018);[14] and (iv) increasing fuel taxes. In this context, the FISEG program plays a key role in supporting the government in implementing the VAT; strengthening tax administration; controlling public spending by strengthening the PFM system; improving the budget planning and execution framework as well as the public investment system. The World Bank will be complementing the multilateral group efforts by supporting the government with a US$100 million Development Policy Loan, while the Caribbean Development Bank (CDB) is assisting the government with a Policy Based Loan for US$50 million on the energy sector that is linked to the elimination of the electricity subsidies. The Bank is closely coordinating with all three institutions through joint missions and regular meetings to update on new developments in the country.

2.14. **Alignment with the Bank Strategies.** The FISEG is aligned with the Country Strategy 2011-2015 (GN-2637-3), under the public investment management pillar, the cross-cutting institutional and absorption capacity theme and, the tax administration strategic dialogue; the Update Institutional Strategy (UIS) 2010-2020 (AB-3008); the Corporate Results Framework 2016-2019 (GN-2727-6) under the transversal result of institutional capacity and rule of law; the Fiscal Sector Framework (GN-2831-3) and; the Sector Strategy Institutions for Growth and Welfare (GN-2587-2).

III. SECTOR KNOWLEDGE AND TECHNICAL ISSUES

3.1 **Sector Knowledge and Technical Issues.** The Bank has vast experience supporting countries in strengthening their tax systems, improving the quality of public expenditure and fostering fiscal sustainability. In the Caribbean Region, the Bank has supported the design and implementation of tax policy and administration reforms (Barbados, Bahamas and Jamaica) and, PFM systems (Barbados, Guyana and Jamaica), etc. Since 2011, the Bank is supporting the government's efforts to strengthen its fiscal sustainability program (see par. 2.2). Through the FISEG, the Bank is supporting key investments to implement these policy reforms. Given Suriname's context, the Bank is preparing an institutional assessment report that will help address the capacity constraints and the structure of the executing agency that will be in the Ministry of Finance (see Annex IV).

IV. ENVIRONMENTAL SAFEGUARDS AND FIDUCIARY SCREENING

4.1 This program is ranked as Category B, and in accordance with the Bank´s Environmental and Safeguards Compliance Policy, an ex-ante environmental impact classification will be undertaken. The institutional weakness mentioned in Section II poses a big challenge in terms of project implementation. The Bank will discuss with the authorities alternatives to ensure that the executing unit is composed by qualified staff that has experience in project implementation. The authorities may request retroactive financing according to the Bank rules and guidelines.

[14] With the introduction of the VAT, the Sales tax will be suppressed.

V. RESOURCES AND TIMETABLE

5.1 Annex V describes the project preparation, timeline and activities. Distribution of the Proposal for Operation Development (POD) to the Quality and Risk Review (QRR) committee is expected by October 3rd. Distribution to the Operation Policy Committee (OPC) is expected by November 4th, and Board approval by December 14th, 2016. Approximately US$95.672 will be used for mission travel and consultancy.

CONFIDENTIAL

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Safeguard Policy Filter Report

Operation Information

Operation		
SU-L1050 Fiscal Strengthening to Support Economic Growth Program		
Environmental and Social Impact Category	High Risk Rating	
B	{Not Set}	
Country	Executing Agency	
SURINAME	{Not Set}	
Organizational Unit	IDB Sector/Subsector	
Caribbean Group	FISCAL POLICY FOR SUSTAINABILITY AND GROWTH	
Team Leader	ESG Lead Specialist	
GERARDO REYES-TAGLE	{Not Set}	
Type of Operation	Original IDB Amount	% Disbursed
Loan Operation	$0	0.000 %
Assessment Date	Author	
30 Sep 2016	josedb	
Operation Cycle Stage	Completion Date	
ERM (Estimated)	15 Sep 2016	
QRR (Estimated)	3 Oct 2016	
Board Approval (Estimated)	{Not Set}	
Safeguard Performance Rating		
{Not Set}		
Rationale		
{Not Set}		

Safeguard Policy Filter Report

Safeguard Policy Items Identified

B.1 Bank Policies (Access to Information Policy– OP-102)

The Bank will make the relevant project documents available to the public.

B.2 Country Laws and Regulations

The operation is expected to be in compliance with laws and regulations of the country regarding specific women's rights, the environment, gender and indigenous peoples (including national obligations established under ratified multilateral environmental agreements).

B.3 Screening and Classification

The operation (including associated facilities) is screened and classified according to its potential environmental impacts.

B.4 Other Risk Factors

The borrower/executing agency exhibits weak institutional capacity for managing environmental and social issues.

B.5 Environmental Assessment Requirements

An environmental assessment is required.

B.6 Consultations

Consultations with affected parties will be performed equitably and inclusively with the views of all stakeholders taken into account, including in particular: (a) equal participation by women and men, (b) socio-culturally appropriate participation of indigenous peoples and (c) mechanisms for equitable participation by vulnerable groups.

B.7 Supervision and Compliance

The Bank is expected to monitor the executing agency/borrower's compliance with all safeguard requirements stipulated in the loan agreement and project operating or credit regulations.

B.11. Pollution Prevention and Abatement

The operation has the potential to pollute the environment (e.g. air, soil, water, greenhouse gases).

B.17. Procurement

Suitable safeguard provisions for the procurement of goods and services in Bank financed operation will be incorporated into project-specific loan agreements, operating regulations and bidding documents, as appropriate, to ensure environmentally responsible procurement.

Potential Safeguard Policy Items

B.1 Bank Policies (Disaster Risk Management Policy– OP-704)

The operation is in a geographical area exposed to natural hazards (Type 1 Disaster Risk Scenario). Climate change may increase the frequency and/or intensity of some hazards.

Safeguard Policy Filter Report

Recommended Actions

Operation has triggered 1 or more Policy Directives; please refer to appropriate Directive(s). Complete Project Classification Tool. Submit Safeguard Policy Filter Report, PP (or equivalent) and Safeguard Screening Form to ESR.

Additional Comments

[No additional comments]

Safeguard Screening Form

Operation Information

Operation		
SU-L1050 Fiscal Strengthening to Support Economic Growth Program		
Environmental and Social Impact Category	High Risk Rating	
B	{Not Set}	
Country	Executing Agency	
SURINAME	{Not Set}	
Organizational Unit	IDB Sector/Subsector	
Caribbean Group	FISCAL POLICY FOR SUSTAINABILITY AND GROWTH	
Team Leader	ESG Lead Specialist	
GERARDO REYES-TAGLE	{Not Set}	
Type of Operation	Original IDB Amount	% Disbursed
Loan Operation	$0	0.000 %
Assessment Date	Author	
30 Sep 2016	josedb	
Operation Cycle Stage	Completion Date	
ERM (Estimated)	15 Sep 2016	
QRR (Estimated)	3 Oct 2016	
Board Approval (Estimated)	{Not Set}	
Safeguard Performance Rating		
{Not Set}		
Rationale		
{Not Set}		

Operation Classification Summary

Overriden Rating	Overriden Justification
Comments	

Conditions / Recommendations

Category "B" operations require an environmental analysis (see Environment Policy Guideline: Directive B.5 for Environmental Analysis requirements)

The Project Team must send to ESR the PP (or equivalent) containing the Environmental and Social Strategy (the requirements for an ESS are described in the Environment Policy Guideline: Directive B.3) as well as the Safeguard Policy Filter and Safeguard Screening Form Reports. These operations will normally require an environmental and/or social impact analysis, according to, and focusing on, the specific issues identified in the screening process, and an environmental and social management plan (ESMP). However, these operations should also establish safeguard, or monitoring requirements to address environmental and other risks (social, disaster, cultural, health and safety etc.) where necessary.

Summary of Impacts / Risks and Potential Solutions

Moderate Greenhouse Gas Emissions are predicted.

Greenhouse Gas (GHG) Assessment: The borrower should promote the reduction of project-related greenhouse gas emissions in a manner appropriate to the nature and scale of project operations and impacts. The borrower should quantify direct emissions from the facilities owned or controlled within the physical project boundary and indirect emissions associated with the off-site production of power used by the project. Quantification and monitoring of GHG emissions should be conducted annually in accordance with internationally recognized methodologies (i.e. IPCC - http://www.ipcc.ch/). In addition, the borrower should evaluate technically and financially feasible and cost-effective options for the reduction/offset of emissions that may be achieved during the design and operation of the project. The Sustainable Energy and Climate Change Initiative (SECCI) can help with this task (http://www.iadb.org/secci/).

Generation of solid waste is moderate in volume, does not include hazardous materials and follows standards recognized by multilateral development banks.

Solid Waste Management: The borrower should monitor and report on waste reduction, management and disposal and may also need to develop a Waste Management Plan (which could be included in the ESMP). Effort should be placed on reducing and re-cycling solid wastes. Specifically (if applicable) in the case that national legislations have no provisions for the disposal and destruction of hazardous materials, the applicable procedures established within the Rotterdam Convention, the Stockholm Convention, the Basel Convention, the WHO List on Banned Pesticides, and the Pollution Prevention and Abatement Handbook (PPAH), should be taken into consideration.

Likely to have minor to moderate emission or discharges that would negatively affect ambient environmental conditions.

Management of Ambient Environmental Conditions: The borrower should be required to prepare an action plan (and include it in the ESMP) that indicates how risks and impacts to ambient environmental conditions can be managed and mitigated consistent with relevant national and/or international standards. The borrower should (a) consider a number of factors, including the finite assimilative capacity of the environment, existing and future land use, existing ambient conditions, the project's proximity to ecologically sensitive or protected areas, and the potential for cumulative impacts with uncertain and irreversible consequences; and (b) promote strategies that avoid or, where avoidance is not feasible, minimize or reduce the release of pollutants, including strategies that contribute to the improvement of ambient conditions when the project has the potential to constitute a significant source of emissions in an already degraded area. The plan should be subject to review by qualified independent experts. Depending on the financial product, this information should be referenced in appropriate legal documentation (covenants, conditions of disbursement, etc.).

Project construction activities are likely to lead to localized and temporary impacts (such as dust, noise, traffic etc) that will affect local communities and workers but these are minor to moderate in nature.

Construction: The borrower should demonstrate how the construction impacts will be mitigated. Appropriate management plans and procedures should be incorporated into the ESMP. Review of implementation as well as reporting on the plan should be part of the legal documentation (covenants, conditions of disbursement, etc).

Safety issues associated with structural elements of the project (e.g. dams, public buildings etc), or road transport activities (heavy vehicle movement, transport of hazardous materials, etc.) exist which could result in moderate health and safety risks to local communities.

Address Community Health Risks: The borrower should be required to provide a plan for managing risks which could be part of the ESMP; (including details of grievances and any independent audits undertaken during the year). Compliance with the plan should be monitored and reported. Requirements for independent audits should be considered if there are questions over borrower commitment or potential outstanding community concerns.

The negative impacts from production, procurement and disposal of hazardous materials (excluding POPs unacceptable under the Stockholm Convention or toxic pesticides) are minor and will comply with relevant national legislation, IDB requirements on hazardous material and all applicable International Standards.

Monitor hazardous materials use: The borrower should document risks relating to use of hazardous materials and prepare a hazardous material management plan that indicates how hazardous materials will be managed (and community risks mitigated). This plan could be part of the ESMP.

Disaster Risk Summary

Disaster Risk Level

Low

Disaster / Recommendations

No specific disaster risk management measures are required.

Disaster Summary

Details

The project is classified as low disaster risk because the occurrence of the hazard event does not impact in the achievement of project outcomes.

Actions

Operation has triggered 1 or more Policy Directives; please refer to appropriate Directive(s). Complete Project Classification Tool. Submit Safeguard Policy Filter Report, PP (or equivalent) and Safeguard Screening Form to ESR.

SOCIAL AND ENVIRONMENTAL STRATEGY

I. PROJECT DESCRIPTION

1.1 The objective of the Fiscal Strengthening to Support Economic Growth (FISEG) program is to support Suriname to foster fiscal sustainability in the medium term. For this purpose, the FISEG will focus on strengthening the Ministry of Finance's institutional capacity to effectively: (i) implement the VAT and strengthen the tax administration; (ii) strengthen the PFM system; and (iii) revamp the public investment (PI) system. Through the institutional strengthening of the PI, the program aims to create an environment that fosters investment and growth.

1.2 The main expected result from the FISEG is the increase of indirect tax revenues from 9% of GDP in 2015 to 12% in 2020 by implementing through the implementation of the VAT so as to that contributes to recover a sustainable primary balance from 7.4% of GDP in 2015 to 0.3% in 2020. Other expected results are: (i) a more effective tax collection system; (ii) a more conducive and functional budgetary process; and (iii) the improvement of the quality and efficiency of public investment.

1.3 The FISEG estimated cost is US$20 million. The program has been ranked as Category B, and in accordance with the Bank´s Environmental and Safeguards Compliance Policy, a no ex-ante environmental impact classification will be undertaken. The justification for the B Category stands due to the construction of a new building for the OTA with appropriate security as well as the facilities to accommodate the new systems and equipment (see Component I in the PP) and; the upgrade of a building to accommodate the new offices for the Public Expenditure Division.

II. SITE AND POTENTIAL ENVIRONMENTAL IMPACTS

2.1 The new building of the OTA will be located in the area where the Customs building stands, right next to the parking lot. While the building that is going to be rehabilitated is the Post Office building in the downtown area. Annex I contains some architectural design proposals for the new building of OTA.

2.2 The building site and the requirement for a contracted resource to do the project management and TOR preparations are being elaborated by the authorities. At this stage the Ministry of Finance has done the consultation with Customs and Tax to produce several conceptual designs. The government has estimated a multi-building facility in the harbor area would likely cost in the range of US$15 million for the construction, split down as follows:

- Project preparation and project management of the civil works $1.3M
- Civil works: $13.7M for the construction.

2.3 The engagement of the firm to perform the project management would need to occur in the first year of the investment loan as it will likely take one year for the procurement to complete and 2 years to build. This doesn't factor in any fit-up of the new building (eg: furniture, equipment, cabling for structured wiring) that would also have to be acquired. Also, this doesn't address any costs with civil works required for buildings that would be retained, notably in Customs where several of the remote border posts need to be fixed and supplied with phone and internet access).

2.4 It is important to mention that the Bank would not be financing the total cost of the building. Under the investment loan, the team has estimated the cost for the building in US$8 million.

III. ENVIRONMENTAL AND SOCIAL IMPACTS

3.1 The potential risks and negative impacts for this operation are related to the stages both construction and operation of the new building and the one that will be rehabilitated to accommodate the Public Expenditure Division. During the construction phase, it is expected that negative impacts on the environment will come forward resulting from soil movement, vibration, impact on groundwater levels, production of solid waste and effluent and industrial health and safety of workers and atmospheric emissions, among others. These impacts will be mitigated through the implementation of the Surinamese regulation for the construction of buildings, regulations including concerning special measures to handling and use of building materials, and specific designs for this kind of construction, specifically for the installation and management air circulation, handling of merchandise areas, proper installation of electricity and IT systems, evacuation, etc.). Other potential negative impacts are also present during the operation phase and are related to the generation and handling of waste management and safety issues regarding the handling of imported goods and the heavy machinery.

IV. OTHER CONSIDERATIONS

4.1 As part of the design of the operation, the Team has requested to VPS/ESG, the inclusion of an environmental specialist to assist in the design of the operation and in particular to oversee that the potential negative impacts of the construction and rehabilitation of both buildings are correctly mitigated.

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