



RE-318

***Country Program Evaluation:
Suriname 1980-2004***

Office of Evaluation and Oversight, OVE

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ACRONYMS

ABS	Algemeen Bureau voor de Statistiek (Bureau of Statistics)
ATPL	Agriculture and Trade Policy Loan
Bank	Inter-American Development Bank
CARICOM	Caribbean Community
CBvS	Central Bank of Suriname
CDF	Community Development Fund
CIAT	Inter-American Center of Tax Administration
COF	Country Office
CPE	Country Program Evaluation
CPI	Consumer Price Index
CSs	Country Strategies
DSA	Debt Sustainability Analysis
EEC	European Economic Community
FDD	Front for Democracy and Development
HIPC	Highly Indebted Poor Country
IMF	International Monetary Fund
INDEX	Industrial Development and Export Promotion
KKF	Chamber of Commerce and Industry
LAC	Latin American and Caribbean Countries
M	Million (\$ 000,000)
MDG	Millennium Development Goal
MOE	Ministry of Education
MOH	Ministry of Health
MOP	Multi-Annual Plan
MRD	Ministry of Regional Development
NDB	National Development Bank
NDO	National Debt Office
NDP	Nationale Democratische Patrij
NF	New Front
NIMOS	National Institute for the Environment and Development of Suriname
OAS	Organization of American States
OTA	Office of Tax Administration
OVE	Office of Evaluation and Oversight
PAHO	Pan American Health Organization
PAIS	Project Alert Identification System
PBL	Policy Based Loan
PEC	Project Execution Community
PPMR	Project Performance Monitoring Report
PSIP	Public Sector Investment Program
Region	Bank member countries in LAC
SAP	Structural Adjustment Program
SBB	Foundation for Forest Management and Production Control
SRD	Surinamese Dollar
STPO	Suriname's Trade Promotion Organization
SWAP	Sector-Wide Approach

TC	Technical Cooperations
TGH	Regional Health Services
Treaty	1975 Agreement between the Republic of Suriname and the Kingdom of the Netherlands on Development Cooperation
UNDP	United Nations Development Program
UNESCO	United Nations Economic and Scientific and Cultural Organization
UNICEF	United Nations Children's Fund
WB	World Bank

FORWARD

This report details the evaluation undertaken by the Office of Evaluation and Oversight (OVE) of the Bank's Country Program in Suriname during the period 1980-2004. The purpose of the Country Program Evaluation (CPE) is to describe to the Bank's Board of Executive Directors, the outcomes of the Bank's performance in country, and to distill lessons to enhance the efficacy of future Bank actions. To establish the context in which the Country Program was conceived and delivered, **Chapter I** summarizes the most salient features of Suriname's economy, and prominent developmental challenges faced by the country during the period of review. Against this backdrop, **Chapter II** analyzes the priorities and objectives identified by the Bank in its strategic dialogue with Suriname, drawing conclusions about the *relevance and coherence* of the Bank's Program. **Chapter III** reviews the *efficiency* of program execution; while the *qualitative dimensions* of the Bank's program and overall development effectiveness are reviewed in **Chapter IV**. In conclusion, **Chapter V** presents recommendations to enhance the Bank's performance in the future.

To validate its findings, OVE conducted an extensive desk review of documentary evidence provided by the Bank and additional sources (Bibliography). Nevertheless, questions about the accuracy and reliability of accessible data abound. While the Bank's internal systems contain 11 instruments to supervise and monitor portfolio performance (Chapter III), the universe of data available to OVE was limited, particularly in regard to the earlier years when Bank policies and practices for project evaluation, data collection, information management, and archival storage were neither well-formulated nor rigorously implemented. Where data was available, indicators to measure outputs and results were frequently interchanged or unsubstantiated by empirical evidence. In addition, given the age of the portfolio, many project-specific files had been destroyed prior to initiating the evaluation.

Externally generated data is also scarce and significant data gaps exist, particularly during the 1980s and 1990s when data was not generally available in electronic format. Furthermore, data sets are at times inconsistent, reflecting a lack of alignment between method, standards, and frequency of collection. Although continuous time-series data is not available for the majority of indicators, there is sufficient data and useful studies through which a diagnosis of the economy and developmental challenges faced by Suriname can be constructed. OVE garnered additional information from interviews with Bank staff at Headquarters as well as Government officials, executing unit staff, Surinamese civil society, and the donor community (List of Interviews Conducted). OVE wishes to thank all of these stakeholders for their excellent collaboration, and in particular wishes to acknowledge the significant contribution of Pablo Adam, IDB Country Representative to Suriname (2003-2006), and the staff of the IDB Country Office.

EXECUTIVE SUMMARY

Country context

Suriname is a small, open, and sparsely-populated economy. Well endowed with natural resources (primarily mineral and timber), the country's destiny has been driven predominantly by the influence of external political and economic forces. As a young country, Suriname faces numerous challenges related to strengthening its governing institutions, economic framework, monetary policy, and social cohesion. Over the last 25 years, economic growth has been low and volatile, and has not contributed to improved social conditions. Although living standards in Paramaribo were amongst the highest in the Caribbean until the 1980s, the country's economic performance was extremely poor in the two decades following independence (1975). Gross Domestic Product (GDP) measured in constant local currency was essentially the same in 2000 as in 1980, which means about 20% lower in per capita terms.

As a young country, Suriname is at a crossroad between its development needs and three inherent constraints. One of the main impediments to sustainable development has been the lack of an adequate macroeconomic framework to temper exogenous shocks generated by the country's excessive dependence on mineral resources and Dutch grants. A second constraint to sustainable development is the co-existence of an overextended public sector, weak domestic economic policies, and an underdeveloped private sector. A third obstacle is the negative impact of economic shocks on social development. Recurring episodes of economic crises and periodic interruptions of aid flows have constrained Suriname's capacity to sustain basic social services at recommended levels, resulting in a slow but steady erosion of quality throughout the 1990s. In the absence of an effective safety net to compensate, poverty has increased.

Country Program relevance and coherence

During the period of review, 1980-2004, the Bank prioritized its efforts in five clusters, accumulating 11 loans totaling US\$103.5M, and 88 Technical Cooperation (TC) grants for US\$27.8M. The approvals took place over one *Transitional Cycle*, during which the Bank operated on an ad-hoc basis without an agreed country strategy (CS), and three *Programming Cycles*, each driven by a CS. Social projects represent more than half of all loan approvals (52%), the productive cluster 35%, and governance 13%. Macroeconomic stability and the environment were also identified as key clusters within the Country Program (CP); however the Bank's intervention in these areas has been more limited, and consisted solely of Technical Cooperation (TC) operations. Given the lack of coherence between the breadth of the Bank's program, loan approvals, and the country's execution capacity, the 2003 Strategy Update narrowed the focus of the Bank's program to three pillars: (i) human resource development and social inclusion; (ii) private sector development; and (iii) modernization of the state.

The adequacy of Suriname's macroeconomic framework was a recurrent theme and identified risk in all CSs, however, the Bank did not develop an effective program to address this issue. For the most part, it chose to deal with the problem indirectly, thus distancing its relevance from one of Suriname's most pressing development challenges. Instead, the Bank opted to condition the dimension of its lending portfolio on Suriname's macroeconomic performance, but it failed to identify measurable benchmarks to implement its conditionality with rigor, henceforth undermining its own strategy.

Looking forward, it is imperative that the Bank continues to support Suriname's push to improve the efficiency of public expenditure. Reducing the size and improving the quality of the civil service, and

decreasing the number of public enterprises remains a key aspect of still-pending structural reforms. The size of civil service and the corresponding wage bill are far beyond LAC standards.¹ This phenomenon has led to increased fiscal vulnerability,² and a breakdown of the incentive mechanism for public employment.³ Low-efficiency levels and the crowding out of private investment have been associated with the operation of a large number of public enterprises in the country.⁴

All CSs identified weak institutional capacity and a lack of coordination between public institutions as risks to implementation; but, they did not identify political or ethnic fragmentation as underlying constraints to the implementation of public policy. Suriname exhibits a political system characterized by many well-defined groups successfully participating in the politics of coalitions. The cost of achieving consensus among the different political actors and the electorate is therefore high, and must be taken into account in dimensioning the Bank's Program. A strategy for addressing these underlying constraints is missing from all CSs; hence diminishing the relevance of the Bank's program and the timeliness of its delivery.

Suriname's ties to the Netherlands, and a high level of dependence on the flow of Dutch Treaty aid, have influenced its relationship with the Bank. To establish its relevance as a development partner in a market favored by bilateral assistance, a number of stand-alone projects (that would have received loan financing in other countries) were financed with TC resources. To support its leadership as a development bank, the IDB also used TCs to conduct sector diagnostic work in support of project preparation. Overall, TCs comprise 21% of Suriname's historic operational portfolio (compared to 1% Bank-wide); however, relatively few TCs were anticipated in the CSs. As a result, the overall impact of the TC program is diffused among numerous one-time activities, many of which were driven by an immediate need rather than a development framework. For every TC dollar invested in Suriname, US\$3.7 was extended in loan financing. Bank wide, this proportion rises to an average of US\$83.10.

Over time, the mix of instruments has evolved; however Suriname does not yet have the required internal systems to access the full range of flexible products offered by the Bank. In the past, the Bank's toolkit has been limited to traditional investment loans, the global credit facility, PBLs, and sector loans. The TC portfolio was also instrumental in supporting institutional development. The supervisory requirements of the more traditional investment loans have provided an additional layer of fiduciary accountability and risk management in the absence of strong internal systems. More recently, policy dialogue has emerged as one of the strongest features of the Bank's partnership with Suriname, building support for key policy decisions in trade liberalization, debt management, and sustainable development. In the future, given the country's shift from project to program financing, access to the complete menu of flexible lending instruments will require that internal monitoring, audit, procurement, and budgetary systems be strengthened. It will also necessitate further harmonization of the financial requirements of the Bank and other donors.

The operational capacity of the COF is germane to the Bank's relevance and efficiency. Small countries with limited human resource bases tend to draw heavily on COF Specialists for technical assistance. This practice competes with the demanding administrative workload placed on Specialists by both loans and TCs, and the need for a high level of supervision to maintain a healthy stream of disbursements in a maturing portfolio. To bridge the skills gap, the COF has relied on Headquarters staff and external consultants, producing high transaction costs, and on occasion, projects influenced more by external views than by an accurate diagnostic from the Surinamese perspective.

Initially weak, coordination among donor agencies has built up in recent years. Since 2003, it has included ad-hoc and monthly meetings between the Netherlands, EEC, UNDP, and the Bank. Within

government, coordination has largely been confined to a donor matrix; and oversight is split between the Ministry of Planning (donor agencies) and the Ministry of Finance (development Banks). While all three CSs provide a general overview of donor activities; they do not propose solutions to enhance government's capacity to harmonize investment targeting, planning, and reporting across projects and agencies.

Program delivery

The efficiency of program delivery is low. With the exception of CP1999, the Bank consistently over-estimated its lending program, as well as the capacity of the country to execute. For example, CPP1990 proposed a minimum scenario of US\$68M to revitalize the lending portfolio during a period of economic decline. No loans were approved. Between 1980 and 2004, 25 loans were placed in the pipeline, of which 11 were approved and 12 dropped. The average period of extension for completed loans is 24 months—38% longer than the Bank norm (17.4 months).

In general, Suriname's disbursement rate lags behind the Bank average, with just one loan performing above the norm. Reasons for the lag are fairly consistent throughout the various supervision and monitoring documents of the Bank,⁵ and include delays associated with: (i) intermittent periods of macroeconomic and political volatility; (ii) weak institutional capacity, including low compliance with procurement requirements and language constraints; (iii) a limited supply of qualified consultants; and (iv) slow decision-making. The cost of the slow pace of execution has resulted in the accrual of approximately US\$1.5M in additional commitment fees on undisbursed resources, equal to about 1.5% of the lending portfolio.

Because the Bank has maintained a low-level operational program, Government has accumulated limited experience working with the Bank and visa versa. This is partly due to Suriname's access to considerable concessional resources from bilateral agencies, constraints to lending imposed by the country's macroeconomic condition, and the low efficiency of loan execution. It is also an outcome of the low priority initially assigned by the Bank to the establishment of its COF, the low level of beneficiary participation in project preparation. By virtue of their knowledge of local conditions, the COF staff is well-suited to provide continuity throughout the project cycle; however with just four specialists, a relatively young loan portfolio, and numerous TCs, professionals are consumed by administrative tasks.

Inspection visits are key elements of the COF supervision function. They allow the Bank opportunities to determine the current technical, economic, and environmental situation of loan execution, and to propose prompt remedial actions. In 2003, 69% of the Bank's lending portfolio was at risk. Following a significant increase in COF compliance with technical inspection visits (from an average of 13% between 1997-2002, to 100% in 2004), and a corresponding rise in financial inspections (0% pre 2002, to 82% in 2004), the share of the portfolio at risk dropped to 20% (December 2005).

Results and Evaluability

Measurable outcomes, targets, and baselines were not set at the program level in any CS. As a consequence, programming documents lack a thorough analysis of factors that could help or hinder Suriname's achievement of its medium- and long-term development objectives. They also lack a clear definition of the role that the Bank could play in assisting the country to achieve its national development priorities. Likewise, the development objectives and expected results of the early stock of loans are either unclear or missing quantifiable outcomes.⁶ The ex-ante evaluability of loan documents⁷ reveals that only 50% of the outcomes (and 55% of the outputs) specified indicators; 26% (28%) baselines, and 31% (37%) milestones.

The translation of the Bank's strategy into an effective operational program has been disappointing. In general, there was a lack of prioritization of interventions and continuity between projects. Only three loans achieved full disbursement during the Bank's 24 years of operation in Suriname, and one was cancelled for irregularities. According to CP1999 (pg. 6), "two of the [first three] projects have had significant execution problems and none [Primary Education, Nickerie Hospital, or Global Credit] had produced any net development impact." The Agriculture and Trade Policy Loan and the Census Project remain the only loans to have delivered significant results to date; however, recent modifications to LISP have spawned movement towards initial outcomes. As of December 2005, there were seven active loans in the portfolio, of which five were relatively young, with disbursements of less than 30%, and three were in the process of reformulation due to unsatisfactory performance.

In Suriname, TCs are a main vehicle for Bank activities in Suriname, yet, they are not attached to the same standards of evaluation, supervision, and reporting as loans. They are not monitored as rigorously, nor are their results documented as systematically.

Recommendations

- *The new CS should assist government to analyze and renew its development model in agreed strategic areas, through an active program of ESW and the strategic targeting of TC resources.* In establishing its program objectives and scope, the CS should pay heed to the anticipated pace of reform and the impact of ethnic and political fragmentation on decision making and project execution. In particular, the CS should take into account lessons learned from the implementation of past CSs.
- *The new strategy should define its strategic goal and development objective at the program level within the context of a measurable results framework, including baseline indicators, benchmarks, and targets.* It should analyze the outcomes of the previous CS, as well as execution delays and systemic problems, in order to validate assumptions upon which the previous CS was based, identify lessons learned, and establish realistic development objectives at the level of CP.
- *Vulnerability, both economic and social, should remain a focus for the Bank in Suriname.* The new CS should identify how the Bank could provide strategic assistance to the country to institutionalize the conditions that are necessary to maintain recent gains and to stabilize the economy. It should also explore the introduction of smoothing functions (such as a stabilization fund or counter-cyclical funding) in its policy dialogue with the country and the international community. The long-term rise in poverty should also be examined, and strategies to enhance the integration of interior populations into the national economy identified. Achieving these required reforms should be considered a component of a broader, medium-term strategy that will require a strong commitment from both government and the electorate.⁸
- *The Bank should continue to prioritize the imperative for efficiencies in public sector reform.* Prompt and correct design of a medium-term public sector reform program, followed by a successful implementation, would be critical to consolidating and maintaining economic gains over the long term.
- *The CS should continue to support the country's efforts to identify the potential for economic diversification and the increased role of the private sector.* A strategic program of targeted TCs and ESW could assist government to analyze policies that spur competition without excessive intervention.

- ***It is highly recommended that the Bank review its practice regarding the evaluability of TCs and the reporting of results.*** If TCs are to be a main vehicle for Bank intervention, they must be attached to more rigorous institutional standards for monitoring and measuring performance. The CS should anticipate the strategic targeting of TC resources in a way that would produce economies of scale in association with other investments; and in particular, contribute to the achievement of the development objectives proposed in the new Program.
- ***The slow implementation of Bank projects needs to be addressed.*** The Bank needs to deepen its institutional analysis and broaden its dialogue on execution issues. Projects should be tailored to viable institutional capacity and political constraints. All Bank operations (both loans and TCs) should include a results framework to track outcomes. Project teams must work closely with their Surinamese counterparts to assess and address risks throughout the project cycle, and from the perspective of the country. While COF supervisory practice has improved recently, it must continue to strengthen its vigilance on-the-ground.
- ***To improve coherence, the Bank should review the effectiveness of its current blend of financial and non-financial instruments.*** In the advent of Government's move to program funding and the eventual depletion of Treaty funds, it is recommended that the new CS include a thorough diagnostic of Suriname's financial, administrative, and information management systems in order to document what improvements would need to be put in place for the country to benefit from the full menu of flexible lending instruments available to it, and in particular from access to PRODEV resources.
- ***To enhance investment targeting, program efficiency, and donor coordination, the Bank should work with Suriname to establish a national investment system, capable of monitoring and documenting program outcomes under the new lending framework.*** Future operations would benefit from the harmonization of financial and administrative systems and the establishment of a central capacity to oversee planning and reporting across projects and agencies, thereby enhancing transparency in the targeting of resources, the accumulation of institutional memory and capacity to inform decision-making, and efficiencies through economies of scale.
- ***The Bank should identify ways to optimize the participation of COF professional staff in leading policy dialogue, updating the country strategy, and providing continuity throughout the project cycle.*** In this regard, the toolkit exercise should identify what incentives and structures must be put in place for the COF to focalize the work of the Bank in the country. If government is to build a solid partnership with the Bank, it needs to know that COF represents the front line of the Bank and that it has the authority to make decisions. A greater sharing of administrative resources with Headquarters would help to ensure that the COF has the means to respond to strategic opportunities in a timely manner.
- ***The staffing complement of the COF should be reviewed to ensure that there is a good match between technical capacity and language skills.*** The head-count/staffing model employed by larger COFs may not be appropriate for SU given the lack of economies of scale, the high transaction costs associated with doing business in the country, and the premium paid for heavy headquarters involvement. The Bank should analyze the efficiency and effectiveness of its present business model, and identify the most cost-effective way to enhance execution and strengthen the capacity of COF specialists to engage in substantive issues, including the establishment of core language competencies. A greater utilization of technical expertise from other COFs in the region should be considered.

- ***As the largest multilateral creditor to Suriname, and as part of its due diligence for the CS, the Bank should address the issue of debt management and the Bank's role in it.*** In particular, the CS should not only analyze whether the Bank will accentuate the problem, but also how it can contribute to its amelioration (e.g. increasing the efficiency of expenditure, debt swap, etc) The CS should examine implications of its lending on the country's indebtedness levels. Proposed investment projects should have an explicit rate of return calculation demonstrating significant positive results.
- ***OVE strongly recommends that the Bank review its policy regarding the destruction of documents, given its negative impact on the institution's memory.***

I. COUNTRY CONTEXT

A. Introduction⁹

- 1.1 ***The Republic of Suriname is the smallest country in South America; it is also the most sparsely populated¹⁰ nation in the region.¹¹*** The bulk of economic activity has developed along the narrow coastal zone that borders the Atlantic Ocean. The interior is covered by dense rainforest and largely uninhabited. Half of the country is inaccessible by any means of transportation. Given the chronic lack of employment, healthcare, or access to education in rural areas, urbanization increased from 45% in 1975 to 76% in 2004. Population density is highest in the capital city of Paramaribo and neighboring Wanica district, where 67% of the populace resides in 0.4% of the land. The interior 90% of the country is home to roughly 10% of the population, Suriname's most impoverished citizens--Amerindians and Maroons.¹² (*Annex 1.1*)
- 1.2 ***With eight ethnic groups and 15 languages, Suriname is the most heterogeneous country in the region; a characteristic that has contributed to the creation of a complex social, cultural, and political context.*** Ethnic background has historically been a determinant of occupational choice and other important aspects of social life, such as the language spoken at home, the choice of a partner and neighborhood, and political affiliation. According to the 2004 census, the primary ethnic groups are the Hindustani, Creole, Javanese, Maroons,¹³ and Amerindians. Religion is another factor shaping society-- 41% of the population is Christian, 20% Hindu, and 13% Islamic. (*Annex 1.2*)
- 1.3 ***Cultural, political, and economic ties characterize Suriname's relationship with the Netherlands.*** Suriname was granted autonomy for its domestic affairs in 1954, and gained political independence in 1975. Paradoxically, following independence, the country's relationship with Holland continued to deepen, driven by: (i) strong cultural ties and a common language, Dutch,¹⁴ that officially dominate the Surinamese administrative and education systems; (ii) interest of the Hague in Suriname's political stability; (iii) economic ties, including significant bilateral assistance; and (iv) familial bonds stemming from the large-scale emigration of Surinamese to the Netherlands, and remittances. (*¶1.29*).

Box 1.1: Dutch Bilateral Development Cooperation (*excerpt from Annex 1.3*)

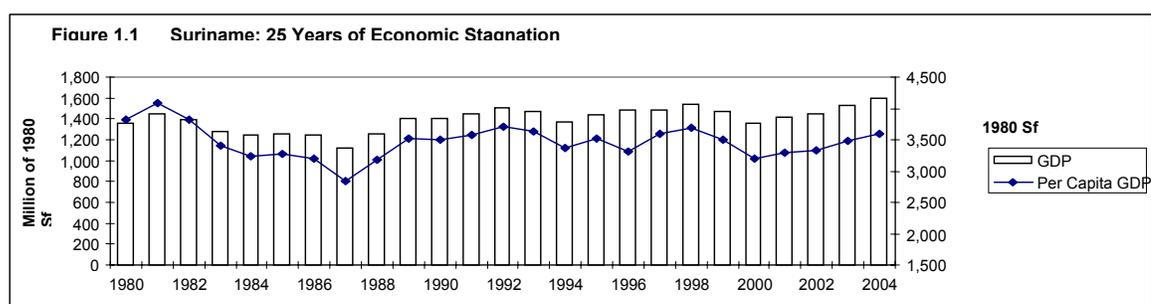
The 1975 Treaty for Development Cooperation¹⁵ is the primary instrument through which Dutch bilateral aid has been channeled since Suriname's independence. Treaty implementation originally received strong financial support from Holland, including € 1.59 billion in development aid, and the writing-off of Suriname's external debt (€ 240M).¹⁶ Until the late 1990s, Suriname's near unilateral reliance on Treaty funds to finance its social and economic development resulted in Holland playing an indirect role in domestic policy. At times, the post-colonial relationship was tense, given successive waves of political and economic turmoil and the periodic suspension of Treaty funds. A comprehensive evaluation of Treaty outcomes from 1975-2000, concluded that "targets set in 1975 for prosperity and growth were not met."¹⁷

The bi-lateral relationship between the two countries has since evolved into a more commercial partnership, emphasizing Suriname's responsibility to set its own development path, and encouraging regional integration, including stronger multi-lateral ties. The targeting of resources has also shifted from project financing to a more strategic, sector-wide approach (SWAP).¹⁸ In 2004, a new five-year plan was approved to build the relationship framework and invest the remaining 20% development aid.¹⁹

- 1.4 ***Suriname has the most open and highly concentrated economy in the region (IMF 2005).*** Well endowed with natural resources (primarily mineral and timber), its destiny has been driven predominantly by the influence of external political and economic forces. Mining is the most important productive sector in terms of income generation and exports.²⁰ In particular bauxite (and

its derivative alumina) is the dominant economic force, impacting dramatically upon the country's growth and trade patterns, the availability of foreign exchange, and public-sector revenue.²¹ (§1.11)

- 1.5 ***As a young country, Suriname is at a crossroad between its development needs and three inherent constraints.*** First, one of the main impediments to sustainable development has been the lack of an adequate macroeconomic framework to temper exogenous shocks generated by the country's dependence on mineral exports and Dutch grants.²² Weak domestic economic policies tie the standard of living to the fluctuation of commodity prices. In addition, prolonged suspensions and sharp reductions of Dutch aid, generally politically motivated,²³ contribute markedly to Suriname's macroeconomic volatility. Gross Domestic Product (GDP) in constant local currency, was essentially the same in 1980 as in 2000, which means about 20% lower in per capita terms. (Sections 1-2)



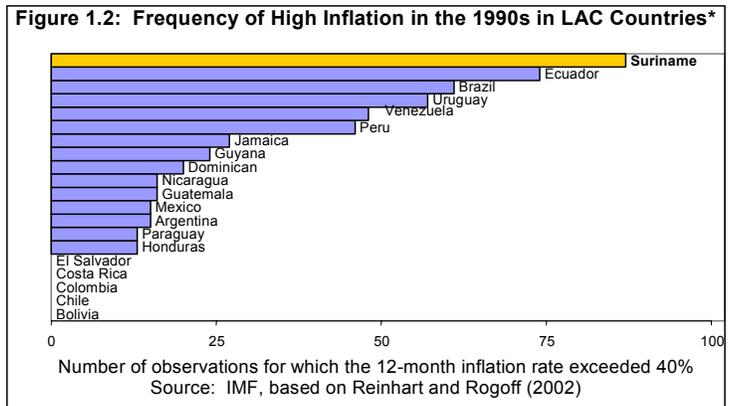
Notes: Excluding Informal Sector²⁴

Source: World Bank and IMF Reports²⁵

- 1.6 ***A second constraint is the co-existence of an overextended public sector, weak public institutions, and an underdeveloped private sector.*** Since independence, Suriname's development policy has been constructed around the role of the State as driver of the national economy, a vision perpetuated by the 1987 constitution. The large public sector is the country's primary employer, with upwards of 60% of all formal employment on its roster of civil service and some 110 state-owned enterprises. (Annex 1.4) Private sector growth has been constrained by excessive government intervention and heavy dismissal laws, which crowd-out investment and impede efficiency. In 2004, Suriname ranked 143 of 161 countries in the Index of Economic Freedom.²⁶ The prevalence of patron-client networks and ethnic fragmentation further constrain government's capacity to gain consensus for needed economic reforms in investment legislation, labor laws, and banking.²⁷ (Sections 3-4)
- 1.7 ***A third obstacle to development is the negative impact of economic shocks on social development.*** Since 1980, economic growth has been low and volatile, and has not contributed significantly to improved living conditions. Recurring episodes of economic crises and periodic interruptions of aid flows have constrained Suriname's capacity to sustain basic social services, resulting in a slow but steady erosion of quality throughout the 1990s. Without an effective safety-net to compensate, poverty has increased. In the interior, limited access to economic opportunities has fueled the large-scale proliferation of informal activities. (Sections 5-6)
- B. **1980-2004: A period of macroeconomic stagnation and social decline²⁸**
- 1.8 ***During the 1980s, the economy deteriorated markedly due to substantial declines in export earnings and government revenue.*** This was caused by the worsening of political and economic stability, the first suspension of Dutch aid (1982-1987), and low international prices for bauxite. Throughout the decade, the nominal exchange rate was fixed at the pre-independence value.²⁹ Competitiveness declined following a large real exchange rate appreciation and the emergence of a

parallel market 17 times higher than the official.³⁰ In the mining sector, a weak global market for alumina and a high bauxite levy resulted in a major downturn from 1980-1987.³¹ As the economy receded and the productive sector reduced its share of GDP, public expenditures increased. Growth of the fiscal deficit³² was financed by the Central Bank (CBvS), leading to the depletion of international reserves and the accumulation of external arrears. Inflation grew to 163% by the decade's end.³³

1.9 ***In the 1990s, Suriname had the highest frequency of soaring inflation and real exchange-rate volatility in LAC. (Annex 1.5).*** Notwithstanding the flow of aid from Holland,³⁴ the ongoing fiscal imbalance threatened to destabilize the economy, forcing CBvS to devalue the currency. Even so, inflation rose to unprecedented levels, the parallel market reappeared, nominal interest rates increased, and exchange-rate regulations drove operating costs in the productive sector to unsustainable levels.³⁵ In the rice industry, inflationary prices, coupled with a 50% decline in export prices (1995-1999), forced many operators out of business.³⁶



1.10 ***The economy experienced an upturn between 2000-2004.*** Export earnings picked up in 2001, facilitating a trade surplus on the back of a strong international market for bauxite. Combined with new stabilizing measures, including a cap on government borrowing and the launch of a stable currency in 2004 (the Surinamese Dollar--SRD), inflation gradually fell to 9%. Significant foreign investment in gold mining aided the rebound, and GDP grew by an average 5.3% per year.³⁷ The near-term outlook is favorable given strong global prices for Suriname's commodity exports.³⁸

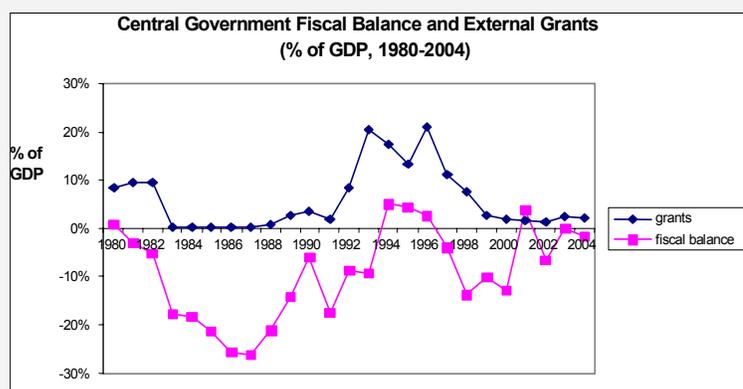
1. Excessive dependence of the economy on bauxite exports and Dutch grants

1.11 ***Bauxite derivatives have dominated Suriname's export performance over the past 25 years, averaging 60-80% of total export earnings, and resulting in highly volatile GDP growth and fiscal revenues.***³⁹ Suriname is the world's 10th largest producer of bauxite. Although the dominance of the bauxite sector receded somewhat with the opening of the Gross Rosebel gold mine in 2004, it continues to be the primary source of export earnings and tax revenues. Bauxite reserves located in eastern Suriname are expected to allow operation for another 15-17 years; and SURALCO is considering a large project for western areas. In periods of favorable alumina prices, the external current account balance improved sharply as did fiscal revenues, leading to increased exports, higher income, lower inflation, and reinforced real wages. The opposite process developed in periods of lowered prices. (Annex 1.6)

1.12 ***External grants have been the most important contributor to public-sector investment; at the same time, they have become another source of macroeconomic instability.*** Dutch bilateral assistance has played a key role in increasing Suriname's economic infrastructure, extending social services, and reinforcing the economic role of the state. From 1975-2003, the flow of Treaty funds averaged 6% GDP per year, making Suriname the largest per-capita aid-recipient in LAC.^{40 41} In periods when grants were suspended or reduced, the fiscal deficit tended to grow considerably. (Box 1.1)

BOX 1.2 - TREATY FUNDS AND MACROECONOMIC VOLATILITY

- A statistical analysis of external aid to Suriname between 1980-2005, confirms a robust significant relationship with fiscal accounts -- even stronger than the world-price of bauxite-related products. In periods when grants were suspended or reduced, the fiscal deficit tended to grow.
- Consequently, heavy reliance on external grants to finance public expenditures, combined with repeated periods of sudden suspensions or sharp reductions in flow due to political reasons, contributed significantly to Suriname's increased macro-economic volatility.



2. Domestic economic policies

a) Fiscal and monetary policy

- 1.13 ***Lack of fiscal discipline became one of the country's most pressing economic problems during the 1980s and 1990s.*** Central government ran a deficit in all years since 1980, except for a short period from 1994-1996, and 2001. The roots of Suriname's fiscal behavior reside in the economy's inability to adjust to changing external conditions, the existence of an oversized and inefficient public sector, and weak financial institutions (¶1.22-1.-23). On the revenue side, heavy reliance on the mining sector is a key factor in macroeconomic instability.⁴² In addition, tax administration is constrained by an inadequate legal framework and limitations associated with revenue collection and management.⁴³ On the expenditure side, wages, transfers, subsidies, and other outlays were frequently adjusted to levels above the capacity of the economy to sustain them. In 2002, the wage bill represented 43% of government current expenditures, making the public sector the main employer in the formal economy. In addition, subsidies were extended to compensate sectors affected negatively by exchange-rate policies, to public enterprises with poor performance,⁴⁴ or to maintain the price of specific goods (such as gasoline) below market value. In sum, changes in wage-expenditures, typically to levels far beyond productivity, often resulted in large fiscal deficits.
- 1.14 ***Cyclical fiscal and monetary policies allowed for several cases of high inflation and real exchange rate appreciation.*** Monetary policy has been conducted mainly by adjustments to credit ceilings, issuing gold certificates, and of late, establishing high reserve requirements. Given the country's limited access to alternative financing, fiscal deficits were typically financed by excessive money creation by CBvS.⁴⁵ Borrowing limits for CBvS government financing have been breached several times.⁴⁶ Prior to 1994, when faced with bottlenecks in fiscal and external accounts, authorities frequently opted for the introduction of price and employment controls and foreign exchange restrictions,⁴⁷ which stimulated the emergence of sizable parallel market activities until the introduction of the SRD.⁴⁸
- 1.15 ***From 1992-1995, Suriname implemented a Structural Adjustment Program (SAP).*** Although there were earlier attempts to carry-out major economic reforms,⁴⁹ the SAP is the most significant. The SAP was drafted with the participation of the Dutch as a condition to restore bilateral aid,

following a second suspension in 1991. It included measures to strengthen fiscal policy, deregulate the economy, liberalize import/export licensing, and privatize some public enterprises. Ultimately, the National Assembly was unable to achieve consensus on several relevant economic measures and quantifiable targets to offset the impact of external shocks. As a result, the fiscal gap continued throughout the 1990s, except for a brief period (1995-1996) when sound monetary, fiscal and exchange rate measures coexisted with favorable external conditions.

- 1.16 ***Helped by favorable external conditions, Government implemented tighter fiscal and monetary policies in 2003-2004.*** This yielded progress towards price and exchange rate stabilization--both envisaged by the earlier SAP.⁵⁰ The banking system requires further reform to effectively mitigate problems related to the high ratio of non-performing loans, the operation of small state-owned banks; and currency mismatch risks.⁵¹ Gold-industry prospects have improved due to favorable prices; and exploration licenses have been issued to promote large-scale mining, increase legal exports, and boost tax revenue.⁵² While new gold deposits have been identified, the lifespan of gold-mining is projected to be short-lived, averaging about 10 years.⁵³ This accentuates the urgency for an adequate policy framework to avoid further volatility in exports and fiscal revenue.

b) Trade, export diversification, and regional economic integration

- 1.17 ***Suriname's trade policy has undergone significant changes.*** From independence in 1975 to the restoration of civilian governance in the early 1990s, successive administrations pursued inward-looking development policies, centered on a strong belief in economic self-sufficiency. Since the mid 1990s, the country has gradually abolished or reformed various trade instruments, resulting in an increasingly open trade regime. The Bank has played an important role in moving these reforms. In its Multi-Annual Plan (MOP) 2001-2005, Government identified trade liberalization as a primary policy objective. A new customs administration system was introduced, facilitating movement towards the elimination of non-tariff barriers to trade. Even so, progress has been curtailed by Suriname's limited capacity to design and implement trade policy and conduct negotiations.
- 1.18 ***Suriname has made few advances in diversifying export products and markets.***⁵⁴ Inadequate domestic policies, underdevelopment, an unfavorable investment climate, and a lack of adequate transportation infrastructure⁵⁵ to grow commerce beyond existing levels have deeply affected the country's competitiveness in global markets.⁵⁶ Other constraints include its relative cultural and geographic isolation. Since 1995, Suriname has pursued regional integration through membership in CARICOM; as a signature to the Caribbean Single Market Economy and Common External Tariff Agreement; and as a participant in negotiations to establish a Free Trade Area of the Americas. Thus far, membership has not resulted in a clear opportunity for export diversification, given the low intra-regional competitiveness of Surinamese products (particularly manufactured goods). To the contrary, it has led to revenue loss due to lower duty on regional imports.

c) External debt

- 1.19 ***Although Suriname's public debt-to-GDP ratio is low compared to other LAC countries, arrears have materialized.*** Suriname's public external debt/GDP ratio averaged 35% in 2003-2004, and is expected to decline if sound fiscal behavior and economic growth are sustained.⁵⁷ This relatively low level of foreign debt is related to the historic availability of grant money, numerous cases of fiscal deficit monetization, and severe market constraints. Ironically, from the debt "flow"

perspective, Suriname's past macro-institutional performance and poor record of external debt repayment threaten its access to non-concessional credit. Arrears, mostly held with bilateral creditors,⁵⁸ appeared in the early 1990s, and accounted for 30.4% of total public external debt from 2000-2004, including a year-long period of arrears with the Bank (June 2000-June 2001). This weak payment record has undermined the country's credit-rating, and increased borrowing costs.

3. Domestic political turbulence and weak governance

- 1.20 ***The 1980s started with the military coup led by Desi Bouterse.*** Violent episodes ensued, resulting in the 1982 "December Murders" of 15 prominent civilian opponents to the military regime. Eventually, economic decline manifest in broad public dissatisfaction with the financial system and the loss of civil rights. In eastern Suriname, insurgent Maroons embarked on a campaign to disrupt the national economy until democracy was restored; principal economic targets (mines, refineries, electric grid) were shut down. The army retaliated by wreaking havoc on Maroon villages, and the rebellion escalated into an "Internal War" (1986-1991).
- 1.21 ***Amid this difficult political and economic context, a new Constitution was drafted in 1987, allowing the return of democracy.*** The military regime eventually agreed to free elections and a new constitution. The new constitution established a mixed parliamentary-presidential system, expanded the role of the state, increased the role of the military, and promoted decentralization. It did not, however, provide an adequate framework for good governance, due in part to a lack of clarity in establishing limits between different powers, and the absence of rules to ensure prudent fiscal behavior.⁵⁹ The incoming Front for Democracy and Development⁶⁰ won 40 of 51 seats in the National Assembly, but was unable to deliver macroeconomic or political stability. In 1990, despite the negotiation of a Peace Accord to end the Internal War, the situation deteriorated. With the military unwilling to obey the rule of law,⁶¹ Mr. Bouterse engineered a bloodless "telephone coup". The coup was internationally condemned and new elections took place the next year. The New Front Party won the elections of 1991, 2000, 2005;⁶² but in a context characterized by changing alliances, a second-round vote was required each time, resulting in a governing coalition of parties.
- 1.22 ***Government has periodically developed, but not implemented, plans to scale back the public sector and introduce reforms.*** The size of Suriname's civil service and the corresponding wage bill are beyond LAC standards. (*Annex 1.7*) Its importance as a source of employment and long-term benefits (retirement pension and health insurance) for loyal voters, obstructs economic performance and improved governance (by straining the budget and narrowing the scope of sound domestic policies). Attempts to introduce changes to the social compact have not been successful in the past.
- 1.23 ***Since 1996, Suriname has improved on cross-country estimates of governance; however, weak institutions and ethnic fragmentation remain major constraints to social and political consensus.*** While Suriname has improved in all six dimensions of the Kaufmann index (rule of law, government effectiveness, regulatory quality, voice and accountability, political stability, and control of corruption),⁶³ its relative position within the Caribbean remains below the regional average in all but the last.⁶⁴ To some extent, good governance has been blocked by the existence of country-specific obstacles, such as: (i) the prevalence of patron-client networks and ethnic

fragmentation, affecting the choice of political party and impeding consensus in public policy;ⁱ (ii) country wealth concentrated in natural resources, whereby a few players dominate economic trends; and (iii) large-scale informal economic activities, and drug trafficking. It is also hampered by a weak judiciary and legislature. The justice sector showed a poor record of case resolution, and faces problems related to a shortage of judges and a lack of budgetary and political independence. The National Assembly failed to hold the executive accountable for economic decisions under the SAP; and produced a slow track-record of legislative work, due in part to political fragmentation.

- 1.24 ***In 2004, the informal sector was the most important contributor to GDP (14.5%).***⁶⁵ A highly-regulated economy, deteriorating socio-economic conditions, and ineffective government controls have resulted in the rapid expansion of the informal economy. The main activity is small-scale gold mining, which takes place in the interior. About 15,000-25,000 people are directly involved, over half from Brazil.⁶⁶ Drug trafficking is another problem. A 2001 report published by the UN Drug Control Programme suggested that 22 tons of cocaine per-year pass through Suriname and Guyana, mainly en route to Europe. Government is attempting to extend tax collection to these groups and introduce policing in their communities, but without much success. Given resource limitations and physical constraints to surveillance and enforcement in the interior, the informal economy is likely to grow.

4. Socioeconomic performance

- 1.25 ***The Ministry of Regional Development (2000) reports that the ranks of the poor have swollen since 1987.***⁶⁷ The share of the population living below the poverty line increased from 38% in 1978 to 66% in 1999/2000.⁶⁸ This rise in poverty was driven by the economic collapse of the previous two decades, the lack of an adequate safety net to mitigate fall-out from economic shocks, and growing inequality. Poverty data extracted from the General Bureau of Statistics (ABS) showed that among the 86% of the workforce employed as wage earners, poverty grew in tandem with the erosion of real wages by inflation, affecting the most vulnerable groups, including children, the aged, the uneducated, and geographically isolated households.⁶⁹ While the new millennium has brought about some economic recovery and a corresponding drop in poverty (44%, 2003), the distribution of income has worsened. In 1978, the richest 10% of the population earned 11.7 times more than the poorest 10%; by 1999/2000, income inequality grew nearly threefold to 32.1.⁷⁰
- 1.26 ***Suriname has progressed towards the achievement of Millennium Development Goals (MDGs); but it has done so at a slower pace than other countries.*** From 1997-2003, the Human Development Index⁷¹ calculated by UNDP for Suriname rose from 0.757 to 0.775, reflecting an improvement. Nevertheless, the country's position relative to the other 176 countries surveyed actually worsened, falling from 64th position to 86.⁷² (*Annex 1.8*) In part, this is the outcome of prolonged reductions and inefficiencies in social expenditures. One notable gain is that more Surinamese (including the poor) have access to improved water and sanitation than do people in other LAC countries. (*Annex 1.9*).
- 1.27 ***Education is free at all levels; nonetheless, serious quantitative and qualitative disparities exist.***⁷³ The education system is plagued by low efficiency, a lack of instructional materials, outdated curriculum, and poorly motivated teachers. In 1985, education expenditure was nearly twice the

ⁱ Historically, Suriname's political parties have been organized along ethnic lines. As parties come together to form the governing coalition, ethnicity plays a pivotal role in ministry appointments, political consensus, and maintaining social balance. According to Easterly and Levine (1997), fragmentation can encourage groups in power to create rents for themselves, making it difficult to agree on public policy.

LAC average; however, it declined significantly during the 1990s⁷⁴ before recovering to an acceptable 5.5% GDP in 2002.⁷⁵ (*Annex 1.10*) School is compulsory for all children ages seven to 12, and thus contributes to the achievement of the MDG of universal primary education.⁷⁶ Ironically, only a third of this cohort finish without repeating a grade, and roughly 50% leave without a Primary School Leaver's Certificate.⁷⁷ Dropout averages 23% across the system, and is about 50% higher in the interior than the coastal region.⁷⁸ In 2004, secondary net enrollment was estimated at 42.8%; completion data is not available.⁷⁹ The downward trend in performance is considered a potential barrier to the development of the productive sector.

- 1.28 ***The health sector also suffered from a shortfall of resources and incentives.*** In the 1990s, public-health expenditure dropped to 3% GDP, about half of the norm recommended by WHO/PAHO. As a consequence, government payments to healthcare institutions fell short, leading to a deterioration of medical services and facilities, a compression in the wage scale, and ultimately, the emigration of 82% of all nurses trained between 1970-1998.⁸⁰ Despite a backslide in several related MDGs during the 1990s,⁸¹ Suriname's healthcare indicators remain comparable to its Caribbean neighbors. The sustainability of the system is at risk, however, given the growing demand for primary healthcare, inefficiencies in delivery, and a lack of incentives to contain costs.⁸²
- 1.29 ***The right to move freely to Holland following independence resulted in two significant waves of emigration***—the first associated with independence, the second with unstable political and worsening economic conditions. Emigration offset the natural rate of population growth, which helped to prevent a larger increase in unemployment; it also led to a shortage of skilled labor. In 2004, ABS estimated that 47% of all high skills migrated. Roughly 309,000 people of Surinamese origin reside in the Netherlands.⁸³ In 2004, this population remitted an estimated US\$68M⁸⁴ back home. (*Annex 1.11*)

5. Environmental protection, sustainable development, and indigenous peoples

- 1.30 ***90% of Suriname is covered by one of the most ecologically diverse rain forests in the world.*** In 1998, Suriname set aside 10% of its virgin territory as a nature reserve. The country is also endowed with vast mineral deposits and ocean territory. Ironically, while the country's main economic sectors depend on these natural resources, they also contribute significantly to their degradation. For example, the use of mercury in informal gold mining is a major environmental pressure with devastating effects on the fish population, and on the interior communities who consume the fish and drink the water.
- 1.31 ***A number of factors erode the potential contribution of protected areas to sustainable development,*** including the dependence of the economy on natural resource extraction, the recruitment of foreign investment in the mining and forest sectors, and the scarcity of conservation objectives in development planning. Poor standards, uncoordinated concessional policies, and weak supervision have also resulted in uncontrolled logging and the rapid growth of informal gold mining. Hardwood has attracted the attention of Asian firms, which generally have a poor record of environmental protection. The National Institute for the Environment and Development of Suriname lacks the resources and approved regulatory framework to enforce protected status.
- 1.32 ***Significant natural resource extraction occurs in territories occupied by Amerindian and Maroon populations, yet these groups have not shared equitably in the benefits.*** The land rights of indigenous and tribal communities have not been resolved, and there are few discernable improvements in the lives of the rural poor. As agreed under the Peace Accord following the Internal

War, indigenous and tribal communities have pressed Government to extend economic zones to interior villages without much success. With no legal voice, or oversight responsibility for concessions in heritage lands, the historic rights, culture, and traditions of interior groups are threatened by formal and informal activities. Given their remote location, interior populations are frequently excluded from household surveys, further distancing their voice and needs from decision makers in Paramaribo.⁸⁵

II. THE BANK'S STRATEGIC ENGAGEMENT WITH SURINAME

2.1 ***This chapter evaluates the relevance and coherence of the Bank's Country Program (CP) in Suriname.***^{87,88} During the period 1980-2004, the Bank accumulated 11 loans totaling US\$103.5M⁸⁹ and 88 Technical Cooperation (TC) grants for US\$27.8M. The approvals took place over one *Transitional Cycle*, during which the Bank operated on an ad-hoc basis without an agreed country strategy (CS),⁹⁰ and three *Programming Cycles*, each driven by a CS. For the purpose of its evaluation, OVE will review the Transitional Cycle apart from the formal Programming Cycles.

Program Cycle	Period of Analysis	Characteristics
Cycle I	1980-1989	1980-1989 Transitional Program, No country strategy
Cycle II	1990-1996	1990-1993, Country Programming Paper (CPP1990) 1994-1996, De facto continuation of CPP1990 ⁸⁶
Cycle III	1997-1998	1997-1998 Programming Memorandum (PM1997)
Cycle IV	1999-2004	1999-2001 Country Paper (CP1999) 2002-2004 Country Strategy Update (CSU2003)

A. Transitional Cycle I: 1980-1989

2.2 ***Suriname joined the Bank in 1980.*** At that time, it was the beneficiary of abundant bilateral assistance. Subsequent to the "December Murders" of 1982, the Dutch unilaterally suspended access to Treaty funds. It was during this period that the Bank approved its first operations (3 loans, 18 TCs). Following the return of democracy in 1987, Dutch aid resumed and Bank activity declined to the extent that just 3 additional TCs and no loans were approved through the end of Cycle I. This suggests that Government's interest in the Bank was largely to compensate for the loss of Dutch funds with concessional resources.⁹¹

2.3 ***In the absence of a guiding strategy, the Bank limited its focus to the justification of projects requested by Government, many of which never matured into a loan.***⁹² As a new development partner, the Bank had to establish its value in a context characterized by significant bilateral aid, the Dutch language, and the absence of a fully operational country office (COF), until 1986.⁹³ Despite these challenges, with the exception of two small TCs in agriculture, the Bank did not initiate any economic sector work (ESW) to build its understanding of the constraints faced by the country, or to construct a long-term development framework in which to prioritize support.

2.4 ***Gradually, a pipeline of 11 loans emerged to form the "Transitional Program".*** (Annex 2.1) Three operations in education, health, and global industrial credit were eventually approved, and the balance were taken off-pipeline in 2002.⁹⁴ The Bank also awarded US\$6.8M in TC resources, of which US\$1.5M was used to design and implement the approved loans, US\$5.1M to prepare the dropped operations, and US\$0.3M for technical assistance.

2.5 ***In sum, by defining its relevance through the reproduction of government requests, the Bank may have missed important opportunities*** to: (i) deepen its understanding of the constraints to development and decision-making faced by the country; (ii) identify its comparative advantage as a

regional development bank, to strengthening Suriname's macroeconomic model; and ultimately, (iii) construct a relevant strategic framework to guide Bank efforts and drive for results.

B. Country Program Relevance:⁹⁵ 1990-2004

2.6 *Over the period of review, the Bank structured its CP around the three primary development challenges presented in Chapter I:* (i) the imperative to maintain a stable macroeconomic environment, the foundation for stability and growth; (ii) the necessity to modernize the state, as a means to improve the efficiency of the public sector and create an enabling environment for private sector development; and (iii) the importance of upgrading and extending basic social services to underserved populations, to mitigate the social cost of adjustment measures. (Annex 2.2 & 2.3)

2.7 *In this context, the Bank prioritized its efforts across all Programming Cycles in five clusters, intervening with both loans and TCs.* With the objective of supporting good governance, the Bank has aimed to improve the efficiency and efficacy of public sector management. Its intent in the productive cluster has been to create an enabling environment for private sector development, economic diversification, and the revitalization of agriculture and trade. In the social cluster, it has focused on community development, as well as basic services in health, education, and low-income housing. Bank activity in the macroeconomic and environment clusters has been more limited, and has consisted solely of TCs. In the former, the Bank aspired to improve macroeconomic management; in the latter, its goal has been to improve natural resource management. All five clusters are consistent with successive MOPs. (Annex 2.4 & 2.5)

Cluster	TCs Approved US\$(#TCs / % \$)	Loans Approved US\$(#Loans / % \$)
Social	8,371,892 (30/ 30%)	53,360,000 (6/ 52%)
Productive	5,060,600 (23/ 19%)	36,000,000 (2/ 35%)
Governance	5,285,979 (22/ 19%)	14,112,145 (3/ 13%)
Environment	2,297,800 (7 / 8%)	0
Macroeconomic	6,738,000 (6/ 24%)	0
Total	\$ 27,754,271 (88/100%)	\$103,472,145 (11/100%)

1. Challenge 1: The imperative to maintain a stable macroeconomic environment, the foundation for stability and growth

2.8 *From the start of its dialogue with Suriname, the Bank acknowledged macroeconomic instability as a major challenge to sustainable development; but it did not prioritize support for strengthening Suriname's economic model.* Beginning with CPP1990, the Bank considered the "fiscal deficit and monetary financing by the CBvS to be incompatible with the long-term goals of economic growth, employment, and the promotion of private sector activities." PM1997 observed that the country's economic policies have "emphasized state control, caused widespread price and incentive distortions, and paid little heed to macroeconomic constraints." Ironically, the Bank's concern with Suriname's macroeconomic stability contradicted its capacity to engage central government, its development partners, or the productive sector in the identification of a stable macroeconomic model or other smoothing functions such as anti-cyclical funding.

2.9 *Macroeconomic performance and the implementation of structural reforms became deciding factors in dimensioning the Bank's CP.* Cognizant that continuing macroeconomic vulnerability would curb program implementation, Cycles II and IV developed alternate lending scenarios, each conditioned by the country's economic performance. The minimum credit scenario was premised on the perpetuation of an inadequate macroeconomic environment; the extended scenario on improved macroeconomic performance. This was a first attempt to organize Bank priorities within a results

framework; however, neither strategy included quantifiable targets to gauge outcomes, or benchmarks to trigger movement between lending scenarios. OVE considers the absence of an evaluation framework a detractor from the Bank's underlying message that economic performance matters.

2.10 ***Good macroeconomic management was a Government priority in successive MOPs, however the Bank was not able to reach agreement with Suriname on financial sector reform.*** Two TCs to enhance tax administration were programmed at Government's request; though, the Bank's proposal for a policy-based loan (PBL) in the financial sector did not meet with the same level of interest. After "a mission to initiate discussions with Government on its plans for financial sector reform, the Bank concluded that it could best assist by generating more information. through a diagnostic study of the legal, regulatory, and institutional framework of the financial sector, state-owned banks, the National Development Bank, [etc]."⁹⁶ The study was approved, along with TC interventions to establish a Debt Management Unit and upgrade key statistical and financial management capacity in Government; however, the loan was later removed from the pipeline.

2.11 ***In sum, although the adequacy of Suriname's macroeconomic framework has been a recurrent theme and identified risk throughout the Bank's 24-year history in-country, the Bank did not develop an effective program to address this concern.*** Successive governments have acknowledged these same problems, but substantial changes have not been introduced, in part due to the socio-political context in which decisions are made. The Bank chose to deal with the issue indirectly, by conditioning the dimension of its lending portfolio on Suriname's macroeconomic performance. It failed, however, to identify measurable benchmarks to implement its conditionality with rigor, henceforth undermining its own strategy. Although no loans were approved in the cluster, six TCs representing 24% of the historic TC portfolio were executed. For the most part, the TCs addressed the pressing need for improved financial data and a steady flow of tax revenue.

2. Challenge 2: The necessity to modernize the state, as a means to improve the efficiency of the public sector and create an enabling environment for private sector development

2.12 ***As the economy declined, the Bank shifted its focus from traditional investment projects to policy and incentive frameworks which enable efficient public sector management.***⁹⁷ The shift was based on lessons learned from past experience, principally: "(i) trying to execute standard investment projects without substantial reform components...in the face of severe incentive distortions and institutional and organizational deficiencies is futile, frustrating for the Bank, and ultimately damages Suriname's development efforts; and (ii) the Bank's first priority is to put in place the fundamental economic and governance conditions for future interventions. [These issues] cannot be sidestepped or skirted; rather, they must be the focus of Bank's efforts."⁹⁸

2.13 ***The Bank's approach was also informed by ESW in agriculture, governance, education, and health,*** which concluded that Suriname's development was constrained by the quality of its policies and institutions rather than a shortage of financial resources.⁹⁹ Since the inflow of aid had not prevented economic decline over the years, CP1999 noted "the magnitude of resource flows actually may have been detrimental to economic performance by delaying the imperative to reform economic policies on one hand, and by introducing distortions on the other."

2.14 ***Suriname prioritized public sector reform and its corollary, private sector development, as a cornerstone of its MOP, and in its program with the Bank.*** Since 1990, all three CSs diagnosed

the need for civil service reform and privatization. In particular, PM1997 recognized that heavy state intervention and a small private sector had resulted in disappointing economic performance, including "a weaker tradable sector base than two decades ago". The turning point was the Agriculture and Trade Policy Loan (ATPL), which addressed issues central to the elimination of policy constraints to trade. ATPL was also the first successful engagement between the Bank and Suriname at the policy level in a major sector. In 2003, Suriname became eligible for MIF resources.

- 2.15 ***Overall, the Bank's Program in this cluster was driven by immediate needs, and limited in scope to stand-alone initiatives*** for improved public sector management, reliable statistics, and decentralized government, rather than embedded in a strategic framework for good governance. By dispersing efforts broadly over the cluster, opportunities to leverage economies of scale were diminished, and effective priorities dictated by short-term needs. In 2004, the Bank awarded a TC to develop a long-term roadmap for public sector reform, including the privatization of some state enterprises and the establishment of an enabling environment for private sector investment. This was the first step taken jointly by Suriname and the Bank to develop a strategic framework and action plan for the cluster.

3. Challenge 3: The importance of upgrading and extending basic social services to underserved populations, to mitigate the social cost of adjustment measures.

- 2.16 ***The Bank initially identified support for structural adjustment as its overall goal; however, it was relatively disengaged from the SAP at the policy level.*** CPP1990¹⁰⁰ used this challenge as an ex-ante determinant to narrow the focus of the program to "basic services and environmental protection, including health, education, and sanitation--all areas less sensitive to the prevailing policy environment, but integral to the mitigation of negative social impacts stemming from SAP adoption." CPP1990 included a rich diagnostic of the development challenges in the cluster, and identified thematic areas for possible Bank financing, but it was unable to translate that focus into a meaningful program of support. Despite the priority placed on social development by the CS, only three related TCs and no loans emerged over the seven-year cycle.
- 2.17 ***A setback in core MDG indicators during the 1990s, a corresponding rise in poverty, and the large-scale emigration of skilled workers to Holland led to a renewed emphasis on social projects in Cycles III and IV.*** Following nearly two decades of declining investment in social infrastructure, and the absence of an effective safety net to compensate, Government requested loan financing to upgrade housing conditions for the growing poor, and to support community development. While the Bank did not view housing as a principal development challenge,¹⁰¹ it incorporated both requests into its program, along with TC resources for eventual loans to strengthen basic education and improve health-sector efficiency. Half of all loans approved in Cycles III and IV, were in the social cluster.
- 2.18 ***While the Bank's operations in the social cluster were relevant to the country's needs in general,*** outside of "improvements in incentive and institutional structures", which could provide grounds for almost any operation, the intended development outcome of the Bank's program is unclear. With the exception of "government request" for the housing and community development loans, no rationale was provided for the selection of operations, and none of the projects were linked to measurable objectives at the level of Country Program. This leaves open the question of whether the Bank's activities were purposefully driven by Suriname's development priorities, or by the availability of Bank expertise.

C. Coherence

- 2.19 ***Of the five clusters prioritized by the CP, social projects represented more than half of all loan approvals (52%), the productive cluster 35%, and governance 13%.*** Macroeconomic stability and the environment were also identified as strategic thrusts; though they were supported solely by non-reimbursable TCs. Given the lack of coherence between the breadth of the CSs, loan approvals, and execution capacity, the 2003 Strategy Update narrowed the thematic focus to: (i) human resource development and social inclusion; (ii) private sector development; and (iii) modernization of the state.
- 2.20 ***During the period of review, 25 loan operations were inserted into the Bank's pipeline, of which 11 were approved and 12 dropped.*** It is important to note that ATPL consumed 29% of all loan financing. Because the financial instrument does not restrict the use of loan resources once policy conditions are fulfilled, the Bank had no influence over nearly one-third of its lending portfolio.
- 2.21 ***From 1988–1997, there was a 10-year impasse during which the Bank did not approve any new loans.*** PM1997 affirmed that "accelerating deterioration of macroeconomic conditions, which reached grave proportions by 1994, was the main factor deterring the Bank and other international organizations, from preparing investment projects in Suriname". Perhaps the biggest reason why Suriname didn't borrow is because it had access to an abundant supply of Treaty funds. (See ¶3.3)
- 2.22 ***The fragility of Cycle II is evident in the translation of diagnostic to program.*** CPP1990 included a rich diagnostic of 12 sectors and 9 sub-sectors; however the final program contradicted the identified constraints. For example, CPP1990 noted that: (i) the fiscal deficit was an unsustainable 25% GDP; (ii) "Suriname's capacity to implement projects could be seriously affected by the lack of counterpart funds unless the fiscal problems are successfully resolved"; and (iii) national institutions did not have the capacity to implement project investments. Ironically, it proposed a US\$68M program for 1990-1991 (three times larger in volume than that of the entire previous decade), but did not include mitigating actions to address the referenced constraints. No loans were approved.
- 2.23 ***Lending patterns in the portfolio reflect a trend of improved coherence between the intent of the CP and the loans delivered in Cycle IV.*** (See Table 2.3) For example, of the 11 loans entered into the Bank's pipeline in Cycle I, three were approved and the others dropped. Assuming that the pipeline is a proxy for the Bank's program, this would imply a 27% coherence ratio. By Cycle IV, the coherence ratio increased to 78%, and a stable pattern of approvals emerged.

Table 2.3 – Loans' Approved and Disbursed Amount by Cycle (US\$M)*							
CYCLE					APPROVED LOANS 1980-2004		
Cycle	# Loans Assigned to Pipeline	# Loans Approved (Coherence Ratio)	Total \$M Approved (as % all Portfolio)	Total \$M Disbursed (as % all Portfolio)	Loan Name	Loar (\$ M)	Year
I 1981-89	11	3 (27%)	21.8 (21%)	4.1 (7.4%)	Primary and Middle Education System Improvement (SU-0006)	8.0	1985
					Global Credit for Industry (SU-0005)	6.0	1986
					Improvements of Nickerie Hospital (SU-0003)	7.8	1987
II 1990-96	2**	0 (0%)	-	12.4 (22%)	none		
III 1997-98	3	1 (33%)	30.0 (29%)	0.0016 (0.003%)	Trade and Agriculture Program (SU-0016)	30.0	1998
IV ¹⁰² 1999-04	9	7 (78%) ***	51.7 (50%)	39.3 (70.4%)	Community Development Fund (SU-0020)	10.3	2000
					Low-Income Shelters (SU-0017)	9.8	2001
					Decentralization/Local Government Strengthening (SU-0019)	4.9	2001
					Preparation of the Census (SU-0025)	4.2	2002
					Basic Education Improvement Project (SU-0023)	12.5	2003
					Strengthening of Public Sector Management (SU-0027)	5.0	2004
Health Sector Facility (SU-0028)	5.0	2004					

* OVE's evaluation does not include Project Preparation Facilities, as they are not intended to produce measurable outcomes.

** Loans in Cycle II are a proxy for suggestions found in CPP1990 that were programmed outside of the CS.

*** In Cycle IV, seven of nine programmed loans were approved by the end of 2004, the 8th in 2005, and the 9th is scheduled for 2007.

2.24 ***CP1999 proposed a program of US\$64.9M under the high scenario and a more modest US\$19.0M under the low scenario.*** Although both scenarios were within Bank limits for exposure, it cautioned that given Suriname's history of arrears, the Bank would be vigilant in monitoring its exposure through close supervision and regular Portfolio Reviews. The following year Suriname went into arrears with the Bank. The first Portfolio Review was undertaken in October 2002.

2.25 ***The evaluability of the CP improved in Cycle IV, with the inclusion of performance indicators, the establishment of clearer objectives, and the identification of risks and mitigation efforts;*** still, not all indicators had a measurable target, and none had baselines. Not a single CS specified expected results at the level of program objective. In terms of self-evaluation, each Cycle provided an update of earlier loans, but none analyzed the relevance of the Bank's guiding strategy; thus, missing an important opportunity to identify lessons learned and to validate the assumptions on which the CP was constructed.

Table 2.4 Characteristics of the Bank's Country Program	Cycle II ¹⁰³ CP 1990	Cycle III PM1997	Cycle IV CP1999
Identifies development challenges	√	√	√
Identifies objectives in most intervention areas			√
Programs operations	*	√	√
Presents alternative scenarios	√		√
Analyzes previous strategy			
Analyzes Bank's past interventions		√	√
Includes risks			√
Mentions ways to mitigate risks			√
Includes measurable indicators, targets, baselines			
Mentions Government's objectives	√		√
Mentions coordination efforts with donors	√	√	√

2.26 ***Initially weak, donor coordination has built up in recent years.*** Since 2003, it has included ad-hoc and monthly meetings between EEC, UNDP, the Netherlands, and the Bank. This collaboration has resulted in the co-financing of several loans and TCs. Within government, coordination has largely been confined to a donor matrix; and oversight is split between the Ministry of Planning (donor agencies) and the Ministry of Finance (development banks). While all three CSs provide a general overview of donor activities, they do not identify lessons learned from past coordination, nor do they propose coordination mechanisms to enhance investment targeting. Government has chosen not to draw upon financing from WB or

IMF; however it recently joined the Islamic Development Bank. Bilateral aid is primarily received from Brazil, China, France, India, Spain, U.S, and Belgium.¹⁰⁴

2.27 ***Over time, the mix of instruments has evolved; however Suriname does not yet have the internal systems that are required to access the full range of flexible products offered by the Bank.*** In the past, the Bank's toolkit has relied heavily on traditional investment loans. Two MIF operations and two small projects have created openings to address the needs of the private and informal sectors. The PBL in agriculture and trade, and subsequent sector facilities in health and education have enabled the Bank to work closely with Suriname during adverse economic conditions. The oversight requirements of the more rigid investment loans have provided an additional layer of fiduciary accountability and risk management in the absence of strong internal systems. Looking to the future and Suriname's shift from project to program financing, access to the complete menu of lending instruments (including SWAPS and Performance Driven Loans) will require the strengthening of internal monitoring, audit, procurement, and budgetary systems. It will also necessitate further harmonization of the financial requirements of the Bank and other donors.

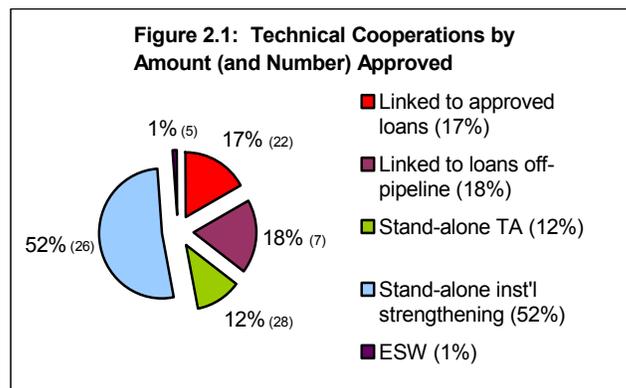
2.28 ***Policy dialogue has emerged in Cycles III and IV as one of the most salient features of the Bank's partnership with Suriname,*** helping to build awareness and consensus around key policy decisions in trade liberalization, macroeconomic management, and public sector reform. Bank financing of ATPL, the Debt Management Unit, and the Road Map for Public Sector Reform are the fruit of this dialogue. ESW was activated in 1996. This body of research entails 24 studies which have supported the programming process and informed the identification of four loans in Cycles III and IV.¹⁰⁵

D. Technical Cooperation Analysis

2.29 ***A distinctive characteristic of the Bank's relationship with Suriname is the high level of non-reimbursable funds assigned to the country.*** To establish its relevance as a development partner in a market favored by bilateral assistance, a number of stand-alone projects were funded by TCs. This instrument was also used for project preparation and to provide technical assistance. Overall, 21% of Suriname's historic operational portfolio was comprised of TCs, vastly higher than the Group C or Bank-wide averages of 2% and 1%. (*Annex 2.6 & 2.7*)

2.30 ***The TC portfolio has been instrumental in facilitating institutional development and policy dialogue.*** A significant 52% of all non-reimbursable funding (US\$14.5M) was aligned with the CP's thrust to strengthen public policy and institutions. The balance was dedicated to ESW, technical assistance, and project preparation. In regard to the latter, 17% (US\$4.7M) of the total was linked to the preparation of approved loans, and 18% (US\$5.1M) to loans removed from the pipeline. Stand-alone resources were disbursed over a broad array of independent activities, hence their impact was diffused.

2.31 ***The TC Program was concentrated in the social, productive, and governance sectors.*** Beyond this, it has been the sole source of assistance for interventions in the macroeconomic and environmental clusters.



Social programs have the largest proportion of TC resources (30 projects totaling and 30% of all funding). This focus is consistent with the priority attached to the cluster by both Government and the Bank. For the most part, the TCs were project-related, providing institutional support, diagnostic, and preparatory inputs to the loans in the cluster.

2.32 **The macroeconomic cluster received the second largest share of TC resources (24%).** Of the six approved TCs, four were stand-alone projects initiated during the lending impasse. Governance¹⁰⁶ and the productive sector¹⁰⁷ were each awarded 19% of the total allocation, followed by environmental protection,¹⁰⁸ which received 8%. (Annex 2.8) Although no loans resulted from these efforts, the TC projects have been analyzed for results in Chapter IV.

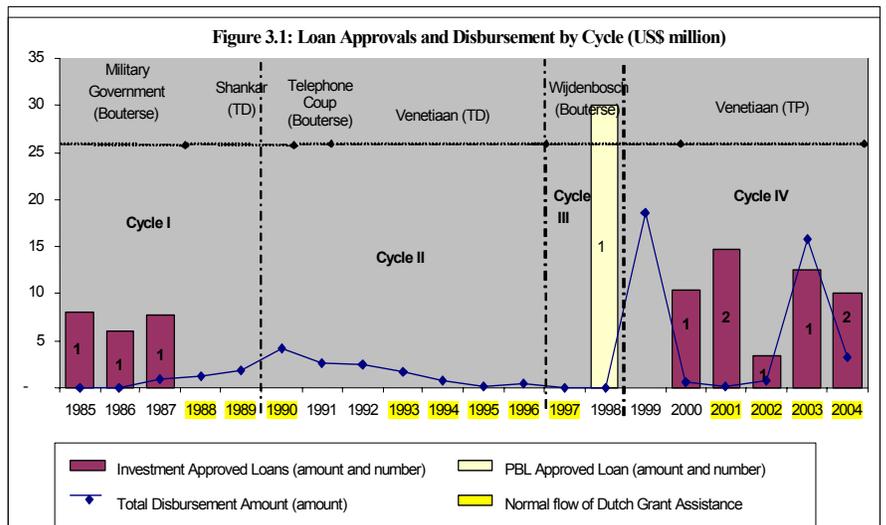
III. THE BANK'S PROGRAM IN EXECUTION

3.1 **This chapter evaluates the execution of the Bank's program.** Section A describes the portfolio and generated flows; Section B analyzes the efficiency and cost-effectiveness of program delivery; Section C reviews compliance with Bank supervision and monitoring protocol. The analysis uses the following comparators: Group C countries,¹⁰⁹ Region 3 countries,¹¹⁰ and all borrowing countries.¹¹¹

A. Portfolio description and aggregate flows

3.2 **The Bank has become Suriname's most important multilateral creditor, accounting for almost 80% of multilateral debt between 1996-2004,** years for which reliable data are available. As a share of external public debt, multilateral debt is relatively low, averaging 13% in 2004,¹¹² compared to 40% Bank wide. (Annex 3.1) Nevertheless, the country's total debt outstanding with the Bank tripled over the last decade, peaking dramatically in 1999 and again in 2003 as a result of the ATPL.¹¹³ In the past, Suriname's need for external loans to finance development initiatives was tempered by the flow of bilateral aid. Reliance on Bank financing could accelerate, however, once Treaty funds are depleted (planned for 2010). At the close of 2004, the active loan portfolio equaled 3.9% GDP. (Annex 3.2)

3.3 **Suriname's relationship with the Netherlands has been influenced by bilateral politics, with substantial spillover effects on the Bank.** Figure 3.1 illustrates the interplay between approvals and disbursements by program cycle, six changes of government, and the flow of Dutch aid. In particular, Suriname had a close rapport with The Hague during democratically-elected administrations. Hence, in response to human rights violations following the December Murders, the Netherlands suspended bilateral assistance to Bouterse's military government until democracy was restored (1982-1988). It was during this period that the Bank approved its first three loans. Upon the return to democracy in 1987, Treaty funds flowed steadily for the next 10 years with the exception of a second moratorium following the "Telephone Coup". During



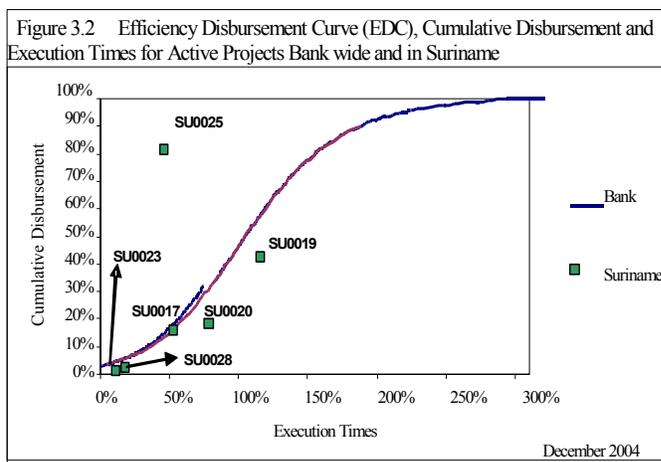
this decade of relatively plentiful development assistance, the Bank did not approve any loans. Instead, it turned its focus to small technical assistance projects where it could stand on equal footing with the donor community. This explains, the progressive reduction of disbursements in Cycle II, and the resulting negative net cash flow. The Hague's management of Treaty resources was rejected by President Wijdenbosch in Cycle III, provoking a third suspension of aid. As before, the discontinuation provided a window of opportunity for the Bank to support to Suriname's policy agenda through ATPL. Cycle IV began with a change in government, the resumption of Dutch aid, and the gradual stabilization of lending. Disbursements reflect the two peaks generated by the ATPL tranches, followed by the flow of a maturing portfolio and the steady approval of one to two loans per year.

3.4 ***The improved performance of the Bank's portfolio relates to Suriname's shift from project funding to sector-wide planning, and the opening of fiscal space for increased intra-sectoral collaboration between donors and the Bank.*** Beginning in Cycle III, Suriname decided to diversify away from the Netherlands and turned to the IDB. The country recognized the importance of the Bank's know-how, and viewed its membership as an opportunity to gain greater access to regional expertise. Government also appreciated the fact that its historical and political ties with the Bank were neutral; which offset the greater cost of borrowing. For its part, the Bank had a better understanding of its role in country, and of Government's execution capacity. Henceforth, it focused its resources in a more strategic fashion through small, targeted loans, and the program expanded.

3.5 ***Net cash flow has been analyzed since the first loan disbursement in 1987.*** (Annex 3.3). During this period, net cash flow was positive for nine of the 17 years, including 1987-1993, which reflected disbursements under the first three loans approved in Cycle I. Since 1993, with the exception of the PBL tranches of 1999 and 2003, the flow of net cash resources has been negative, even during periods of adverse economic performance: 1994, 1998 and 2000/01. Overall, the volatility of net cash flow in Suriname¹¹⁴ is well below the values of its comparators, given the relative flat historic performance of the portfolio. (Annex 3.4.) The Bank projects a positive flow for the next four years (2005-2008) and a negative one for 2009, the last year with disbursements scheduled for active loans. These projections assume a higher disbursement rate than can be substantiated by historic trends or actual flows.¹¹⁵

B. Program Delivery: Efficiency and Cost-effectiveness

3.6 ***In Suriname, the efficiency of program execution is low in terms of timing and cost-effectiveness.*** The Efficiency Disbursement Curve (EDC) contrasts the execution efficiency of Suriname's active loan portfolio with that of all borrowing countries. This curve relates the disbursed proportion of the active loans to the planned and actual execution period of each project. In general, Suriname's disbursements lag behind the Bank average, with just one loan (Census) performing above the norm. The average period of disbursement for the four closed projects (all approved during Cycles I-III) was 79.2 months, compared with 60 months for



all comparators. (*Annex 3.5*) This average is biased, however, by an outlier, the first health loan, which required an additional 108 months to execute. Without this loan, the mean extension would be 24 months, which is still longer than the bank-wide norm (17.4 months). As of December 2005, three of the seven active loans had received extensions of between 12 and 24 months. (*Annex 3.6*) Given the current pace of execution, further extensions will be required.

- 3.7 ***Reasons for the lag in loan execution are fairly consistent throughout the various supervision and monitoring documents of the Bank,***¹¹⁶ and include delays associated with: (i) intermittent periods of macroeconomic and political volatility; (ii) weak execution capacity, including low compliance with procurement requirements and language constraints; (iii) the limited supply of qualified consultants; and (iv) slow decision-making. A further analysis of documentation available to OVE also suggests a poor use of inspection visits in the past, although this has improved as of 2003. (*Section C, below*). Cancellations account for 5% of the portfolio.¹¹⁷
- 3.8 ***Overruns entail costs for the country in terms of higher financial cost, fixed costs, and the postponement of results.*** The Bank charges a commitment fee on all undisbursed loan resources. An estimate of the anticipated commitment fee is calculated in the loan document, based upon an agreed schedule of disbursements. The present value of loan charges grows when the disbursement period is extended due to the accrual of unscheduled commitment fees. These fees are generated either by delays in meeting agreed criteria for first disbursement,¹¹⁸ or by delays in project completion. As of 2004, Suriname had accrued approximately US\$1.5M in unscheduled fees.¹¹⁹ This is equivalent to about 1.5% of the total loan portfolio. Of this amount, an estimated US\$564,000 relates to delayed fulfillment of disbursement conditionality. (*Annex 3.7*) In five out of 11 the loans, this cost is equivalent to an extra 1% of the approved loan, rising to 1.7% in the case of the Nickerie Hospital Project. An additional US\$927,700 in unscheduled fees was also accrued by prolonged implementation. This sum is 92% higher than the fee would have been, had the projects executed on time.¹²⁰ Should current patterns of disbursement be maintained in the active portfolio, further commitment fees would be generated. In the case of the Community Development Fund, the fee could rise to three times higher than the scheduled estimate for on-time implementation. (*Annex 3.8*)
- 3.9 ***Roughly 61% of all TC resources were executed through 12 large grants between US\$750,000 and US\$3.1M.*** (*Annex 3.9*) The four largest TCs represent US\$8.5M or 30% of the total TC portfolio.¹²¹ (*Annex 3.10*) At the other extreme, 38 TCs smaller than US\$50,000 account for just 3% of the portfolio. For every TC dollar invested in Suriname, US\$3.7 was extended in loan financing. Bank wide, this proportion rises to an average return of US\$83.10. (*Annex 2.7*)

C. Implementation, Monitoring, and Supervision

- 3.10 ***This section reviews the extent to which the Bank utilized its supervisory tools to monitor project execution and take corrective action.*** Nine out of the 11 loans approved in Suriname were active in or after 1998, the year in which the Bank initiated its Project Alert Identification System (PAIS). From the review of this and other reporting instruments,¹²² we can identify some relevant trends regarding Bank compliance with its supervisory commitment.
- 3.11 ***Between 1998-2004, six of the nine active loans were classified "at-risk" by PAIS*** (*Annex 3.11*). The most common reasons for classifying a project at-risk in this portfolio include slow initial disbursement, slow annual disbursement, unsatisfactory implementation progress, lengthy

extensions, and overdue audited financial statements. The two projects considered "Problematic" (Nickerie Hospital, ATPL) have since closed. The balance remained on Alert Status as of December 2004, making the achievement of their development objectives less certain, while increasing the probability that they could turn into problem projects.¹²³

- 3.12 ***Economic Implications of Development Risks.*** The same analysis can be made by replacing the number of projects at risk with the dollar amounts of the approved loans. For example, as observed above, the total amount of the active portfolio increased from US\$7.4M in 1998 to US\$51.7M in 2004. In this context, risk has fluctuated between one and four projects at any given point in time. In general, risk elevates with the age of the loan, indicating that a higher level of COF supervision and technical assistance is required as projects mature to maintain a healthy stream of disbursements.
- 3.13 ***At-risk projects and inspection visits.*** Technical, institutional, and financial inspection visits are key elements of the COF's supervision function. COF use of this tool, while poor during Cycles I-III, improved significantly beginning in 2003. As illustrated in *Annex 3.12*, compliance with technical inspections increased from an average of 13% (1998-2002) to 67% (2003) and 100% (2004). A corresponding rise in financial inspections can also be seen over the same period of time (0%, 60%, and 82%). In addition to the required inspection visits, COF also maintained a close supervision of its projects through coordination meetings, participation in missions, and additional (non-required) inspections.¹²⁴ In the case of the four projects on Alert in 2004, COF use of this tool has paid off. By year-end 2005, only the Community Development Fund remained at-risk.

IV. IMPACT AND EFFECTIVENESS

- 4.1 ***One of the main features of this report is to evaluate the development impact of the Bank's Country Program in Suriname.*** Chapter IV reviews the outcomes observed in respect to each of the three lines of action that link the Bank's Program Cycles, primarily: public sector reform and macroeconomic stability; revitalization of the productive sector; and social development. Per RE-271-2, *Protocol for the Conduct of Country Program Evaluations*, the analysis is based on standard evaluative practice applied by OVE to assess project design, progress, and results. The exercise is, however, constrained by the quality of information contained in Bank records such as PPMRs, PCRs, and project evaluations; the lack of quantifiable results frameworks; limited access to relevant statistical data; and in the case of disbursed operations, Bank policy governing the retention of files.
- 4.2 ***In the discussion of results, it is important to clarify that there are no measurable development objectives, baselines, or outcome targets in any of the CSs by which to gauge their performance at the program level.*** Likewise, the development objectives and expected results of the early stock of loans are either unclear or missing quantifiable outcomes.¹²⁵ The ex-ante evaluability of loan documents¹²⁶ reveals that only 50% of the outcomes (and 55% of the outputs) specified indicators; 26% (28%) baselines, and 31% (37%) milestones. Of the seven active loans, five are relatively young, with disbursements of less than 30%; hence it is premature in most cases to draw conclusions of impact. (See *Annex 4.1 for the ex-ante analysis of loan evaluability.*)
- 4.3 ***As discussed in Chapter II, TCs were used as a vehicle to execute operations that would likely have been pursued with lending instruments in other countries.*** Ironically, OVE observed that the Bank's treatment of TCs in its self-evaluation system was significantly less rigorous than its

treatment of loans from both the design and supervision perspectives. For example, of the 88 TCs analyzed, just 9 contained a results framework, only five required evaluations, two mandated a PCR, and none required PPMRs. Despite this incongruence, OVE has managed to fill some of the gaps through its analysis of TCs. These results are reported below.

A. Public-sector reform

4.4 Improving public administration and the creation of a stable macroeconomic environment in Suriname calls for undertaking institutional and policy reforms in numerous strategic areas. This section reviews the Bank's program in six key areas: (i) debt management; (ii) tax reform; (iii) national statistics and census management; (iv) decentralization; (v) civil service reform; (vi) privatization of public enterprises.

4.5 **Debt Management.** Conceptually, the main objective of public debt management is defined as ensuring that a government's financing needs and its payment obligations are met at the lowest possible cost over the medium- to long-run, consistent with a prudent degree of risk.¹²⁷ Thus, for reasons explained in Chapter 1,¹²⁸ debt management in Suriname is a very constrained exercise. The Bank intervened in late 2002 with a stand-alone non-reimbursable TC of US\$0.6M for the *Institutional Strengthening of Debt Management*.¹²⁹ After a nearly two-year delay, Suriname's National Debt Office (NDO) became operational in late 2004. It is now possible to obtain accurate and timely debt data from the NDO computerized debt recording and management system. Although credit rating agencies have acknowledged NDO as an important step towards improving debt management in Suriname, some limitations remain. Data is still unavailable on the Internet, and as far as debt management is concerned, there is no significant improvement in terms of regularizing payments. To the contrary, debt arrears measured as a share of total external debt increased in 2004 with respect to 2003; and a December 2005 payment to the Bank was delayed. According to recent reports from IMF and Fitch, debt management in Suriname remains weak.¹³⁰

4.6 **Tax Reform.** A tax structure heavily reliant on the mining sector was identified in Chapter I as a contributing factor to Suriname's macroeconomic instability, but the problem does not stop there. Tax administration is constrained by an inadequate legal framework, severe limitations in tax management, and low compliance. At Government's request, the Bank responded with two TCs totaling US\$4.95M in 1990 and 1997 to assist the Office of Tax Administration (OTA) adjust its structural organization, improve the efficiency of tax administration, simplify the tax code, update system resources, and improve tax control and auditing.¹³¹ Both operations co-existed with a larger project financed by the Dutch, and shared the same executing unit and objectives. A small TC paved the way for the larger projects.

4.7 The first project took seven years to execute, beginning in a prolonged period of economic and political instability. During 1996-1997, a sharp rise in bauxite prices and the stabilization of the economy produced a two-fold increase in tax revenue, followed by a modest boost in 2003-04. (*Annex 4.2*)¹³² This suggests that the structure of the tax base and the reduced Olivera-Tanzi effect may have played a more direct role in revenue generation than the program's achievements in strengthening tax administration.¹³³ Notwithstanding some advances in indirect taxation, such as the introduction of a sales tax in the late 1990s, the system remains concentrated in easy-to-collect taxes (i.e. wage tax, customs duty, corporate tax), and less effective in administering wealth and property tax, where aggregate collections are virtually nil. Of all taxes, the corporate tax has shown

the most volatility over time. Indeed, IMF has remarked that “even though Suriname’s tax-to-GDP ratio is high, income tax relies heavily on the mining industry, and taxation of the non-mining sector is further hampered by weak tax and customs administration.”¹³⁴ It is unclear (at least from Bank documents) the extent to which the TCs directly resulted in key improvements, such as the creation of a special unit for controlling large taxpayers. OVE wasn't able to validate this or other evidence that may have been reported in required evaluations, as they were previously destroyed by the COF in accordance with Bank policy governing the purging of older files.

- 4.8 ***National Statistics and the Census.*** In the history of Suriname there were just five, non-periodic censuses: 1921, 1950, 1964, 1972, and 1980. The General Census Law recommended a 10 year periodicity for the census; however, responsibility for conducting it was placed on a "temporary" census bureau, threatening the sustainability of institutional capacity. Given the significant demographic changes in the country since the last survey, access to accurate demographic data became a priority for the central government. There was also recognition that the General Bureau of Statistics needed significant strengthening as an institution, since the 1980 census did not include the interior population, and it took 12 years to publish. In 1996, the Bank provided US\$1.8M in TC resources to strengthen ABS's institutional framework and capacity. Although CP1999 did not identify the census as a need or priority, a US\$3.4M loan and parallel TC were included to prepare and disseminate the results of the 6th *General Population Census* within 2.5 years of enumeration. In 2004, the Bank approved a contract extension of US\$847,145, following a fire that destroyed the ABS building and raw census data. Government has not yet ratified the amendment.
- 4.9 The development objectives of the loan and TC are similar: (i) provide accurate, and comprehensive demographic, social, economic, and cultural data for national and regional planning and research; and (ii) build a national capacity to collect and analyze data. It should be noted that due to the fire, two censuses were actually administered over the course of the loan. Enumeration of the 7th census was complete in September 2004; and four volumes of results have since been published and placed on line.¹³⁵ To sustain institutional capacity, the operation permanently established ABS as an autonomous public agency by law. The TC and loan have achieved their objectives. Planning for the 2006-2010 MOP has been informed by current data; and ABS institutional capacity has increased, as measured by productivity in data collection, analysis, and dissemination.
- 4.10 ***Decentralization.***¹³⁶ Suriname has historically had a very centralized government. Local governance structures emerged in the 1980s, following the new constitution. Today, the country is divided into 10 Districts.¹³⁷ Local government responsibilities are limited, and concentrate on small-scale infrastructure, maintenance of the local environment, and District administration. Financial resources are severely constrained for this kind of structure. Although entitled by the 1989 Regional Institutions Act to introduce local taxes, in practice there are none; and revenue-transfers from central government are low (0.05% GDP in 2001). In 2001, the Bank approved the US\$4.9M *Decentralization and Local Government Strengthening Program* to prepare local governments with the "core legal framework and institutional capacity necessary for fiscal self management". The loan was prepared with a US\$0.75M Project Preparation Facility (PPF) loan, and coupled with a US\$0.3M TC.
- 4.11 On the revenue side, the program aims to achieve partial devolution of taxes that have a justification for district administration,¹³⁸ and introduce new local taxes (i.e., betterment tax). On the expenditure side, the program intends to create independent financial-management systems, and convert District-level transitional budget authorities to permanent status. A discussion of how economic

decentralization would improve governance is not included in the loan document. Furthermore, the project practically ignores the treatment of vital issues that could operate as deterrents to effective decentralization, such as : (i) limited administrative capabilities at the local level; (ii) delays in the allocation of district funds (due to fiscal instability at the central level); (iii) the imposition of local government structures on traditional structures in the interior. An identified risk is the "lack of political support for legislative reforms", which is considered moderate because the "political climate in Suriname is presently very supportive of the decentralization reforms". (pg 35) In this context, the loan overlooks two basic facts: (i) decentralization initiatives in Suriname date back to 1987, and progress has thus far been slow; and (ii) fragmentation could affect the pace of legislative change, even when assuming that each party individually supports the proposed reform.

- 4.12 Progress towards decentralization has been slow; and its impact on improved governance remains unknown. According to the December 2005 PPMR, 47% of loan resources were disbursed; however, legislation to devolve centralized functions to the Districts was still pending. Based on the recommendations of the mid-term evaluation, the project was extended for an additional year. Success will depend, however, on passing legislation for autonomous revenue generation and budget management at the local level, where the population is sparse and capacity is low.
- 4.13 **Civil Service.** As stated in Chapter I, the need for a comprehensive civil service reform has been diagnosed since the early 1990s. Even so, the design of a concrete plan to undertake such a reform in an appropriate way (with the highest support by political stakeholders and the lowest social cost), has just started to be seriously considered in the last few years. The US\$5.0M *Public Sector Management Loan* was approved in 2004 to revise the civil service regulatory framework (1962 Personnel Act). The loan also contemplates improvements of the civil registry and the public procurement system. In addition, the Bank awarded US\$0.7M in TC resources to develop a *Road Map for Public Sector Reform* that would assist the country to: (i) identify structural rigidities that hinder efficiency, effectiveness, and transparency in the Public Sector; (ii) define a socially and politically sensitive strategy to transform the Public Sector; and (iii) attain the level of political and electoral consensus needed to implement the strategy.
- 4.14 The pace of the reform process should be expected to be slow given: (i) society's resistance to changing the social compact; (ii) the need for deep political consensus prior to initiating reform, especially in areas involving unpopular measures (i.e., downsizing the public sector),¹³⁹ and (iii) difficulties associated with re-inserting the bulk of restructured employment into a weak private sector. In other words, the comprehensive reform of the civil service is considered a component of a broad, medium-term strategy that will require strong commitment across society to implement. As of December 2005, the Road Map had assisted government to frame and vet an initial 2015 vision document with stakeholders; however, the loan had not yet achieved disbursement eligibility.
- 4.15 **Public enterprises and parastatal agencies** have played an important role in Suriname's economy, not only in the provision of basic services (power, telecommunications, transport, and water); but in productive activities typically assigned to the private sector (agro-industries, banking, etc.). Operation at low-efficiency levels and the crowding out of private investment were identified in Chapter I as challenges associated with these enterprises. Government has not yet enacted an investment law to privatize its companies; but even if adequate legislation becomes available, attracting private capital to formerly state-owned companies will be a medium-term process, whose chance of success is tied to the timely implementation of other structural reforms in the economy. (*Annex 4.3*) The privatization of

state-owned enterprises will require the design of a thoughtful plan of action, and a strong commitment by Surinamese society—including the government, private sector, and labor unions. To this end, the *Road Map for Public Sector Reform* will also address State intervention in the productive sector, and identify measures for privatization. A separate TC was approved in 2004 to *Prepare an Action Plan for the Privatization of (4) Agro-industries*. No results can be measured at this time.

B. Revitalizing the productive sector

- 4.16 Throughout the period of review, the establishment of an enabling policy environment to revive the productive sector and stimulate trade has been a key focal point of Suriname's development agenda. In its country program, the Bank has addressed this priority by: (i) supporting policy reforms in trade and agricultural; and (ii) extending credit to stimulate industrial development.
- 4.17 ***Trade and Agriculture.*** Agriculture accounts for 9% of Suriname's GDP; rice is the most important crop followed by bananas. As discussed earlier, since 1999, the country has gradually abolished or reformed various trade instruments, resulting in an increasingly open trade regime. Before that, a restrictive system of trade controls was maintained, which adversely affected the rice industry. Under the 1954 Import and Export Regulation, a non-automatic licensing system was applied to all imports and exports to ration foreign exchange and shield domestic producers from external competition.¹⁴⁰ Also, licenses were granted at the discretion of the Ministry of Trade and Industry on a per shipment basis, and often required approval from several other agencies.
- 4.18 Based on extensive ESW,¹⁴¹ the Bank focused on revitalizing agriculture through policy and trade reform.¹⁴² *ATPL*, a US\$30.0M fast-disbursing PBL, was approved in 1998 to advance sustainable economic development by: (i) eliminating unnecessary and costly constraints to trade; (ii) removing artificial obstacles to rice exports (market controls); (iii) protecting human health through improved food safety; and (iv) implementing a policy for sustainable forest management. The reforms were intended to diversify export products and markets since "the interventionist approach had produced poor results, aid from the Netherlands had declined, and tariff-free access to the European rice market had been severely reduced."¹⁴³ A TC was used to prepare the action plan.
- 4.19 With regard to trade, the loan was approved when Suriname was liberalizing its trade regime. The PCR does not present any measurable outcome data to document the achievement of development objectives in terms of improvements in efficiency, transparency, or welfare gains. Nonetheless, *ATPL* did succeed in reshaping Suriname's trade regulatory framework. Foreign-exchange licensing requirements were abolished in 1999,¹⁴⁴ the requirement to sell proceeds from non-mineral exports to local exchange banks was removed in 2002,¹⁴⁵ and the outdated 1954 Import and Export Regulation was replaced with a new law that allowed for the free movement of goods.¹⁴⁶ The framework is in line with Suriname's obligations to WTO and CARICOM, and includes sanitary, phytosanitary, and anti-dumping measures. Today, authorities indicate that goods clear customs within three days; yet, further streamlining of customs procedures seems feasible, and would reduce transaction costs.
- 4.20 In agriculture, the ESW on which the loan is based identified policy, infrastructure, financial, and investment constraints. The loan, however, focused solely on policy. Indeed, the PCR states that the intervention in the rice sector, although necessary, was not a sufficient condition for improved competitiveness.¹⁴⁷ The PPMR proposed two related indicators (rate of growth in agriculture and increased agricultural exports), but neither has materialized. To the contrary, agriculture's share of

GDP has declined since 2000, reflecting longer-term problems, and a collapse of the banana sector in 2002-2003. Suriname exports rice to the EU under preferential terms; however, its access to EU markets has been substantially eroded by external constraints, including the Everything but Arms Initiative.¹⁴⁸ Suriname is seeking to diversify its rice export markets, and in 2003, signed an agreement with Brazil to export rice under a reduced tariff.¹⁴⁹ The rice industry is also looking to the Caribbean market, and in particular Jamaica, to which it can export duty and quota free under CARICOM.

- 4.21 In forestry, the absence of a comprehensive forestry policy supported by legislation has been a primary factor limiting sustainable development.¹⁵⁰ The Foundation for Forest Management and Production Control (SBB) was established to bring order to the forest sector, increase government revenues from logging, and improve the quality of forest statistics. The Bank facilitated SBB's mandate in 2002 with a TC to formulate a sustainable *Forest Policy*. As of December 2005, full implementation of the policy still required action by all stakeholders, including the legislature. Further institutional strengthening is needed to consolidate these improvements.¹⁵¹
- 4.22 ***Global credit.*** As illustrated in Chapter I, Suriname's economic performance deteriorated markedly during the 1980s as inflation rose. In this context, development of the industrial sector plays a key role in economic revitalization, as a provider of job opportunities for the growing labor force, and through the generation of badly needed foreign exchange. Suriname's efforts to develop its industrial sector included the establishment of agencies to promote growth, such as the Center for Industrial Development and Export Promotion (INDEX) and the National Development Bank (NDB); as well as specific trade, foreign exchange, and related price policies. The Bank supported government's initiative through the approval of a US\$6.0M *Global Credit Industrial Program* (1986), and a parallel TC to strengthen NDB, the executing agency. The main objectives of the Program were to: (i) stimulate the expansion, and improvement of industrial and agro-industrial enterprises, by financing eligible projects designed to create and/or save foreign exchange; and (ii) promote increased employment opportunities the NDB sub-loans. Two smaller TCs were awarded to prepare the loan.
- 4.23 As a consequence of the archives destruction policy of the Bank, no source documents were found relating to the execution and completion of this operation in the COF or through RE3. The only references to results were located in the CSs.¹⁵² The conclusion is that impact was limited. The loan fell short in terms of job creation, establishing 91 new jobs out of a planned 175. Furthermore, the average cost of each new job was US\$66,000, three-fold higher than expected, and 18 times per capita GDP.¹⁵³ PM1997 noted that "the effectiveness of the program may have been hindered by the heavy overvaluation of the exchange rate during the period of execution, the acceleration of inflation, and a regulatory and incentive environment that was not conducive to sustainable industrial development." The loan did, however, contribute to an enhanced institutional capacity within NDB and INDEX. It also fostered the NDB pipeline, injecting resources into the economy at a time when Dutch assistance was cut. No information was found on foreign exchange savings.

C. Social and Human Development

- 4.24 Suriname has traditionally devoted considerable resources to the social cluster; however periodic episodes of economic crises and interruptions of aid flows since the early 1980s have severely constrained Government's ability to sustain its investment in social infrastructure and service delivery. The Bank has assisted Suriname to support the cluster through a program of loans and TCs in: (i) education; (ii) health; (iii) housing; (iv) community development; and (v) the environment.

- 4.25 ***In education***, prolonged periods of political and economic instability have resulted in a shortfall of resources in the system, a downward spiral in sector performance, and the emigration of much of the skilled workforce to Holland. Using TC resources, the Bank prepared a *Program to Improve the Quality of Primary Education*, that was approved in 1985. The objectives of the US\$8.0M operation were to: (i) consolidate a permanent service of curriculum development; (ii) establish a permanent mechanism of in-service teacher training; (iii) provide textbooks to students and written guides to teachers; (iv) facilitate access to educational materials through a learning resource center and a network of school libraries throughout the country; and (v) improve the quality of teaching.
- 4.26 According to the PCR, the project was constrained from the start. "When the Loan Contracts were approved (1986),¹⁵⁴ the Executing Unit did not have any experience at all...Furthermore, the Field Office at that time did not have enough personnel." Implementation was further complicated by the scarcity of local counterpart, and a loss of interest by government. After seven years, the operation was cancelled due to irregularities in the civil works component. Although the project was 48% disbursed, however it had not achieved any of its objectives. According to the PCR, just 20% of the Learning Resource Center was complete, none of the 54 libraries were installed, and a permanent capacity to renew the education system had not been put in place. Although PM1999 considers the curriculum component more successful, it observes that "the replacement of re-usable textbooks with disposable workbooks led to students having neither texts nor instructional materials because government could not assume the recurrent costs..." In sum, not only did the project fail to achieve its objectives, but it deprived the sector of scarce resources that may have been used more effectively in another way.
- 4.27 In 2003, a second loan of US\$12.5M was approved for a *Basic Education Improvement Project* to consolidate primary and lower secondary education into a seamless system of improved quality and efficiency. The loan was coupled with a TC for project preparation. As of December 2005, the project was 15% disbursed. While it is premature to comment on results, delays in execution should be anticipated. According to the PPMR, "MOE has displayed a lack of political will to implement a revised basic education cycle in accordance with the Loan Agreement.[and].revealed some reservation about proceeding with this major reform without fully consulting with all stakeholders." This risk was unforeseen. As in the case of public sector reform, measures to generate consensus around a "Road Map" to reform the basic education cycle are now being considered.
- 4.28 ***Health***. Suriname's healthcare indicators are generally comparable with those of the Caribbean; nonetheless, as described in Chapter I, access to quality healthcare has declined. The Bank intervened in 1987 with a US\$7.8M loan for *Improvements to Nickerie Hospital* and a parallel TC (US\$985,000) to enhance MOH institutional capacity. The loan, which was part of a larger Government initiative to develop the western region of the country, had as an objective "to increase the self-sufficiency and medical capacity of the New Nickerie Hospital, as the main source of secondary care for the Nickerie region". According to the PCR, loan execution was highly unsatisfactory: (i) the original execution period of 48 months required an additional 108 months to complete; (ii) following delays in the early years of the project, the civil works component was completed and updated medical equipment was installed; however, maintenance of the new equipment was inadequate; (iii) the hospital had severe problems attracting and retaining qualified medical and managerial staff, due to its distance from the capital and the perceived lower standard of living. This phenomena, which was not anticipated as a risk in the loan, resulted in an under-utilization of the hospital's enhanced capacity. Another objective of the project was to transform Nickerie Hospital into a foundation, whereby it could set its own tariffs in line with market demand, and gradually move towards self-sustainability. This objective was never

met. The foundation was created; however, MOH continued to limit fees to the national scheme. In the case of the new hospital, the tariffs were too low to sustain costs.

- 4.29 Over the years, a growing awareness of the need to rationalize and modernize the health sector moved to the forefront of policy dialogue. The TC *Support for Health Sector Reform*, (US\$2.12M) was approved in 1998 to inform the process. This activity was highly relevant to enhancing the planning capacity of MOH. It also generated a White Paper that outlined measures to improve the efficiency, quality, targeting, and sustainability of public health expenditures. In 2004, the Bank approved a US\$5.0M loan to *Support the Implementation of Health Sector Reform*, and ensure that the poor and needy have access to quality health care. As of December 2005, just 7% of the loan was disbursed; hence it is too early to comment on results.
- 4.30 **Low-Income Housing.** Government has repeatedly emphasized the importance that it attaches to improving the living conditions and social well being of its citizenry through upgraded housing and community development programs. Challenges to the provision of housing for low-income families in Suriname include limited access to financial subsidies, high mortgage interest rates; problems with land divestiture, regulation, and transfer taxes; and the high cost of building and development. Access to affordable housing is further exacerbated by Suriname's worsening poverty and unplanned migration to urban areas. The Bank intervened with a US\$ 0.75M PPF to prepare the *Low-Income Shelters Program (LISP)* and a subsequent loan of US\$9.8M to: (i) improve housing conditions for low- and moderate-income households; (ii) harness Suriname's most capable private finance institutions and NGOs to assist under-served families to improve or construct housing; and (iii) make shelter policies and subsidies more efficient, equitable, and transparent. These objectives are in line with the Government's policy goal of improving housing conditions. The beneficiaries were identified as low/moderate-income households in eligible neighborhoods where approximately 65% of the community earns below the poverty line of US\$188 per month.¹⁵⁵ The midterm goal indicator was 1,500 houses built or rehabilitated, and by the end of the 5-year loan, more than 4000 housing solutions implemented (3,300 rehabilitation and 740 new core houses).
- 4.31 LISP was approved in December 2001, however the first disbursement was not released until June 2003. By December 2004, LISP was placed on Alert Status by PAIS. From a strict cost-efficiency perspective, the project showed low performance, having completed just 37 housing solutions and disbursed 15% of its financing. Of this, half was spent on program administration and just 0.3% on rehabilitation and new construction. Main execution problems seem to relate to the original project design, which was modified in 2005 to eliminate a neighborhood-based restriction to participation, increase the income threshold for targeted beneficiaries, and introduce a social marketing campaign to enhance public understanding of the program. According to the December 2005 PPMR, the adjustments are beginning to produce favorable outcomes—household demand for subsidies has risen sharply to around 90 per month, the availability of local financial products has increased, the supply of well-trained small contractors has increased, and project disbursement has nearly doubled (to 28%).
- 4.32 **Social Inclusion.** Given the rise in poverty during the 1990s, PM 1999 programmed a TC to prepare its social development and poverty reduction strategy. As part of the exercise, the deficit in social infrastructure following two decades of economic downturn was pointed out.¹⁵⁶ In 2000, the Bank approved a US\$10.3M loan to establish a *Community Development Fund (CDF)* that would "increase access of the poorest communities to social and economic infrastructure and services that reflect the priority needs." Five TCs totaling US\$925,600 were approved to prepare the operation.

- 4.33 Thus far, the results are disappointing. In May 2005, a mid-term evaluation of CDF sampled 6 ongoing and completed projects representing all geographical areas, and equal to 60% of CDF's investments. Whereas the logical framework had anticipated that 175 projects would have been successfully executed by that time, only four were complete. The cost-efficiency of CDF is extremely poor. Project administration has equaled 271% of community-based investment over the first four years of execution, and by December 2004, resources for Program Administration were exhausted.¹⁵⁷ The average duration of the project cycle is 12 months compared with the planned 5 months. The model of community participation employed by the project has not worked. Of the 133 stakeholders interviewed, most believed that their participation in project investments was low, although 60% of the beneficiaries perceived that their living conditions had improved. Subsequent to the evaluation, the loan was extended by two years under a new organizational structure, financial plan, and a revised operational manual. Given the limited progress of the loan by December 2005 (27% disbursed, seven completed projects), it appears unlikely that CDF will achieve its output or outcome targets.
- 4.34 ***Environmental Management and Sustainable Development.*** Suriname is a rich country in terms of natural resources. More than 80% of the country is covered by tropical rainforest, and it has substantial endowments of water, wildlife, fish, and minerals. Nevertheless, as discussed in Chapter I, a number of factors erode the potential contribution of sustainable development to long-term growth, including the dependence of the economy on natural resource extraction, the scarcity of conservation objectives in development planning, and the lack of resources and regulations to enforce protected status. In accordance with the 1997 National Environmental Action Plan, the President of Suriname requested Bank assistance to develop a national legal and institutional framework for environmental policy and management, including the establishment of a National Institute for the Environment and Development of Suriname (NIMOS). The Bank awarded two non-reimbursable TCs in 1998 and 2000, with the same objective. The TCs, which represent 80% (US\$1.9M) of all resources in the sub-sector, were evaluated by EEC, who co-funded the project.
- 4.35 The evaluation report asserts that (i) NIMOS staff are well-trained and its technical output is of high standard; (ii) an excellent Environmental Assessment System and a Monitoring and Enforcement Manual have been developed, but not implemented; (iii) the various specific environmental studies have helped in the development of environmental guidelines and a related action plan; and (iv) the development of environmental standards and codes of practice for key sectors (such as mining, forestry, agriculture, transport and infrastructure) are pending. While the report recognizes draft legislation as a key achievement, the National Assembly has not yet garnered sufficient support across all parties to approve and implement the regulatory framework; hence, the developmental impact of the operation is constrained.

V. CONCLUSIONS AND RECOMMENDATIONS

A. Conclusions

- 5.1 *The purpose of this review is to evaluate the Bank's Country Program against five criteria—relevance, coherence, efficiency, effectiveness, and evaluability; conclusions are presented below*

- 5.2 ***Relevance. - The translation of the Bank's focus into a relevant and effective operational program, has been disappointing.*** Between 1980-2004, the Bank approved 11 loans, of which three have disbursed fully, and one was cancelled. In general, there was a lack of prioritization of interventions and continuity between projects. The Bank premised its country program, ex-ante, on the maintenance of a conducive macroeconomic environment; however, it did not work with government or its development partners to identify an appropriate model for addressing this central issue.
- 5.3 ***Looking forward, it is imperative that the Bank continues to support Suriname's push to improve the efficiency of public expenditure.*** Reducing the size and improving the quality of the civil service, and decreasing the number of public enterprises remains a key aspect of still-pending structural reforms. The size of civil service and the corresponding wage bill are far beyond LAC standards.¹⁵⁸ This phenomenon has led to increased fiscal vulnerability,¹⁵⁹ and a breakdown of the incentive mechanism for public employment.¹⁶⁰ Low-efficiency and the crowding out of private investment have been associated with the operation of a large number of public enterprises in the country.¹⁶¹
- 5.4 ***Taking into account Suriname's main characteristics and constraints, arguments favoring decentralization should be considered cautiously,*** given reasons explained in Chapter IV. Constraints related to severely limited financial resources and administrative capabilities are still a priority agenda to solve at the central level. In this context, transferring resources from central to local government could further undermine the fragile macro-fiscal situation, and trigger irresponsible expenditure behavior (the so-called “common pool” problem).
- 5.5 ***Because the Bank maintained a low-level operational program, Government accumulated limited experience working with the Bank and visa versa.*** This is partly due to Suriname's access to considerable bilateral grant resources, constraints to lending imposed by the country's macroeconomic condition, limited beneficiary participation in project preparation, and the low efficiency of loan execution. It is also an outcome of the low priority assigned by the Bank to the establishment of its COF. It was not until six years after Suriname joined the Bank, that a fully operational COF was established; however international staff posted to the country generally did not possess the language skills needed to hit-the-ground running, and supervisory practice was weak during Cycles I-III.
- 5.6 ***The operational capacity of the COF is germane to the Bank's relevance and efficiency.*** Small countries with limited human resource bases tend to draw heavily on COF Specialists for technical assistance. This practice competes with the demanding administrative workload placed on the Specialists by both loans and TCs, and the need for a higher level of supervision to maintain a healthy stream of disbursements. To bridge the skills gap, the COF has relied on Headquarters and external consultants, producing high transaction costs, and on occasion, projects premised more on external views than an accurate diagnostic.¹⁶²
- 5.7 ***Weak institutional capacity was identified as a risk in all CSs, loan documents, PPMRs, and PCRs.*** Nonetheless, after 25 years of citing this risk, and an equal number of years of mitigation at the project level, the problem persists.
- 5.8 ***An understanding of how political and ethnic fragmentation has constrained the implementation of public policy is missing from all CSs.*** Suriname exhibits a political system characterized by many well-defined groups successfully participating in the politics of coalitions. The cost of achieving social consensus is therefore high, and must be taken into account when dimensioning the Bank's

Program.¹⁶³ Failure to anticipate this inherent constraint has diminished the relevance of the Bank's program, as well as the efficiency of program delivery.

- 5.9 ***Coherence - To establish its relevance as a development partner in a market favored by bilateral assistance, a number of stand-alone projects (that would have received loan financing in other countries) were financed with TC resources.*** To enhance its coherence, the IDB also used TCs to conduct sector diagnostic work in support of project preparation. Overall, TCs comprise 21% of Suriname's historic portfolio; however, relatively few were anticipated in the CSs. As a result, the overall impact of the TC program is diffused among numerous one-time activities, many of which were driven by an immediate need rather than a development framework.
- 5.10 ***Policy dialogue has emerged as one of the strongest instruments used by the Bank.*** Over the years, the Bank has become Government's foremost donor partner on policy reform. Its policy dialogue has played a significant role in building consensus around key issues such as trade liberalization, tax reform, and Public Sector Reform.
- 5.11 ***Efficiency - The efficiency of loan execution is low.*** Suriname's disbursement rate lags behind the Bank average with just one loan performing above the norm. In general, delays relate to a mismatch between project scope and institutional capacity; and the complexity of building consensus for policy implementation has been consistently underestimated. Barring outliers, the average period of extension for completed loans is 24 months--38% longer than the Bank norm (17.4 months).
- 5.12 ***The performance of the Bank's loan portfolio improved significantly in Cycle IV.*** In 2003, 69% of the Bank's lending portfolio was at risk. Following a significant increase in COF compliance with technical and financial inspections, COF was able to reduce the risk factor to 20% by December 2005. The improvement in performance mirrors a parallel improvement in overall coherence, and the emergence of the Bank as a key partner in policy dialogue.
- 5.13 ***Effectiveness - The developmental effectiveness of the Bank's Country Program is low.*** Projects are not linked to measurable objectives under the CP, nor are they linked to each other in a way that could leverage economies of scale or impact. Only three loans have disbursed fully over the Bank's 24 years of operation in Suriname, and one was cancelled for irregularities. According to CP1999 (pg. 6), "two of the [first three] projects have had significant execution problems and none [Primary Education, Nickerie Hospital, or Global Credit] had produced any net development impact." ATPL and the Census remain the only loans to have delivered a significant impact to date; however, recent modifications to LISP have spawned movement towards initial outcomes. The balance of the portfolio is either too young, or too delayed, to substantiate net development impact at this time.
- 5.14 ***While Suriname's debt to the Bank is relatively small, its overall indebtedness has grown.*** Despite recent progress associated with the implementation of a new debt-recording system, debt management in Suriname remains weak. One key pending task is to regularize central government's debt service payments with foreign creditors.
- 5.15 ***Evaluability - Measurable outcomes, targets, and baselines were not set at the program level in any CS.*** As a consequence, programming documents lack a thorough analysis of factors that could help or hinder Suriname's achievement of its medium- and long-term development objectives. They also lack a clear definition of the role that the Bank could play in assisting Suriname to achieve its

national development priorities. Likewise, the development objectives and expected results of the early stock of loans are either unclear or missing quantifiable outcomes.¹⁶⁴ The absence of a reliable system of monitoring and evaluation constrains Suriname's eligibility to benefit from the full array of financial instruments available under the New Lending Framework.

- 5.16 ***TCs are a main vehicle for Bank activities; yet, they are not attached to the same standards of evaluation as loans.*** TCs are not monitored as rigorously as are loans by the country or by the Bank, nor are they documented as systematically. As a result, lessons learned from the implementation of a fifth of Suriname's portfolio are not always taken into account by the institutional memory.

B. Recommendations

- 5.17 ***The new CS should assist government to analyze and renew its development model in agreed strategic areas, through an active program of policy dialogue, ESW, and the targeting of TC resources.*** In establishing its program objectives and scope, the CS should pay heed to the anticipated pace of reform and the impact of ethnic and political fragmentation on decision making.
- 5.18 ***The new strategy should clearly define its strategic goal and development objective at the program level within a results framework, including baseline indicators, benchmarks, and targets.*** It should analyze the outcomes of the previous CS, as well as execution delays and systemic problems, in order to identify lessons learned, validate assumptions upon which the previous strategy was based, and establish realistic development objectives at the level of CP.
- 5.19 ***Vulnerability, both economic and social, should remain a focus for the Bank in Suriname.*** The new CS should identify how the Bank could assist Suriname to establish the conditions that are necessary to stabilize the economy, and explore the introduction of smoothing functions (such as a stabilization fund or anti-cyclical funding) in its policy dialogue with the country and the international community. The long-term rise in poverty should also be examined, and strategies to enhance the integration of interior populations into the national economy identified. Achieving these required reforms should be considered a component of a broader, long-term strategy that will require a strong commitment from both government and the electorate.
- 5.20 ***The Bank should continue to prioritize the imperative for efficiencies in public sector reform.*** Prompt and correct design of a medium-term public sector reform program, followed by a successful implementation, would be critical to consolidating and maintaining economic gains over the long term. To facilitate implementation, the new CS should take into account inherent risks, assumptions, and constraints to decision-making in public sector reform and economic policy.
- 5.21 ***The CS should continue to support Suriname's efforts to identify the potential for economic diversification and the expected role of the private sector.*** A strategic program of TCs and ESW could assist government to analyze policies that spur competition without excessive intervention.
- 5.22 ***It is recommended that the Bank review its practice regarding the evaluability of TCs and the reporting of results.*** If TCs are to be a main vehicle for Bank intervention, they must be attached to institutional standards for monitoring and measuring performance. The CS should consider a strategy for targeting TC resources in a way that would produce economies of scale in association with other investments; and in particular, contribute to the achievement of development objectives proposed in the Country Program.

- 5.23 ***The slow implementation of Bank projects needs to be addressed.*** The Bank needs to deepen its institutional analysis and broaden its dialogue on execution issues. Projects should be tailored to viable capacity and political constraints. In general, the Bank must work more closely with its Surinamese counterparts to assess and address country, sector, and institutional risks from design through execution, and from the perspective of the country. While COF supervisory practice has improved recently, it must continue to strengthen its vigilance on-the-ground.
- 5.24 ***To improve coherence, the Bank should review the effectiveness of its current blend of financial and non-financial instruments.*** In the advent of Government's move to program funding and the eventual depletion of Treaty funds, it is recommended that the new CS include a thorough diagnostic of Suriname's financial, administrative, and information management systems in order to document improvements that would need to be put in place for the country to benefit from the full menu of lending instruments available to it. The diagnostic should review the readiness of the country and the donor community to move towards a SWAP environment for planning and financing. This would require further harmonization of financial requirements within the donor community and the strengthening of national systems. Finally, the CS should consider how the Bank could draw upon its comparative advantage as a regional institution to deepen Suriname's participation in intra-regional dialogues, technical exchanges, and training, using non-financial instruments such as CT Intra Funds.
- 5.25 ***To enhance investment targeting, program efficiency, and donor coordination, the Bank should work with Suriname to establish a national investment system.*** Future operations could benefit from the harmonization of administrative systems, and the establishment of a central capacity to oversee program planning, monitoring, and reporting across projects, thus ensuring coordination across all agencies. Additional benefits include enhanced transparency in the allocation of resources, accumulated institutional memory and capacity to inform decision-making, and efficiencies through economies of scale. In the short-term, the CP should identify how the Bank can assist Suriname to initiate the process with PRODEV resources.
- 5.26 ***The Bank should identify ways to optimize the participation of COF professional staff in leading policy dialogue, updating the country strategy, and providing continuity throughout the project cycle.*** By virtue of their knowledge of local conditions, COF staff is well-suited to engage at this level; however with just four specialists, a relatively young portfolio, and numerous TCs, professionals are consumed by administrative tasks. In this regard, the toolkit exercise should identify what incentives and structures must be put in place for the COF to focalize the work of the Bank in the country. If government is to build a solid partnership with the Bank, it needs to know that COF represents the front line of the Bank and that it has the authority to make decisions. A greater sharing of administrative resources with Headquarters would help to ensure that the front-line has the means to respond to strategic opportunities in a timely manner.
- 5.27 ***The staffing complement of the COF should be reviewed to ensure that there is a good match between technical capacity and language skills.*** The head-count staffing model employed by larger COFs may not be appropriate for SU given the lack of economies of scale, the high transaction costs associated with doing business in the country, and the premium paid for heavy Headquarters involvement. The Bank should analyze the efficiency and effectiveness of its present business model, and identify the most cost-effective way to maintain continuity, enhance execution, and strengthen the capacity of COF specialists to engage in substantive issues. Greater utilization of technical expertise from other COFs in the region should be considered.

- 5.28 ***As the largest multilateral creditor to Suriname, and as part of its due diligence for the CS, the Bank should address the issue of debt management and the Bank's role in it.*** In particular, the CS should not only analyze whether the Bank will accentuate the problem, but also how it can contribute to its amelioration (e.g. increasing the efficiency of expenditure, debt swap, etc) The CS should examine implications of its lending on the country's indebtedness levels; proposed investment projects should have an explicit rate of return calculation demonstrating significant positive results.
- 5.29 ***It is difficult to review past Bank experiences in Suriname due to a lack of official records.*** OVE recommends that the Bank review its policy regarding the destruction of documents.

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LIST OF INTERVIEWS CONDUCTED

A. At IDB headquarters and IMF:

Daughters, Robert	Urban Development Spec.	IDB/SDS/SGC
De Falco, Ciro	Manager	IDB/RE3
De la Cruz, Rafael	Senior Economist	IDB/RE3/SC3
Duarte, Jesus	Education Specialist	IDB/RE1/SO1
Elias, Carlos G.	Suriname Country Economist	IDB/RE3/OD6
Fritz-K. Bernhard	Special Projects Officer	IMF/SEC
Glassman, Amanda	Senior Health Specialist	IDB/OVE
Martin, Dougal	Senior Country Economist	IDB/RE3/OD6
Raw, Silvia	Senior Health Specialist	IDB/RE1/SO1
Torres, Mariana	Senior Economist	IMF/WHD
Vargas, Jaime	Education Specialist	IDB/RE3/SO3

B. At the IDB Country Office in Suriname:

Adam, Pablo	Representative (2002-present)	IDB/CSU
Bailey, Angela	Sr. Finance & Accounting Specialist	IDB/CSU
Grisley, William	Agriculture Specialist	IDB/CSU
Harris, Donna	Multi-Sector Specialist	IDB/CSU
Oosterlen, Ria	Administrative Officer	IDB/CSU
Tjong-Ahin, Silvano	Project Economist	IDB/CSU

C. Public, private and nongovernmental stakeholders in Suriname:

Ameerli, R.	Chairman	KKF
Ang, Silvia	Director	Association of Surinamese Manufactures
Brielle, Judith	Managing Director,	Low Income Shelter Program
Bruma, Diana	Task Manager	Ministry of Regional Development
Changoer, Ravin C.	Director	Nickerie Hospital
Elmont, Chantal	Staff Member	KKF
Embricqs, Marion v.	Senior Policy Advisor	Ministry of Finance
Frankel, Ruth	Monetary and Economic Affairs	CBvS
Gersie, Glenn	Executive Director	CBvS
Hildenberg, H.	Minister of Finance	Ministry of Finance
Hindori, Manodj	Program Manager	Ministry of Public Health
Jabbar, S.	Deputy Director	Godo&Schakel Credit Union
Joella, U.	Minister of Home Affairs	Ministry of Home Affairs
Kallan, Adiel K.	Permanent Secretary	Ministry of Education
Khudabux, M.R.	Minister of Public Health	Ministry of Public Health
King, Roland	Managing Director	Community Development Fund Suriname
Lachmising, Rafall	Acting Secretary General	CBvS
Lenne, F.	Board Member	National Women Movement Organization

Misiekaba, Andre	Director	Godo&Schakel Credit Union
Moensie, A.	Permanente Secretary	Ministry of Home Affairs
Noordenne, Bas van	Head of Development Cooperation	Embassy, Kingdom of The Netherlands
Ooft, Maximiliaan	Assistant Resident Representative	UNDP
Pawinorardi, S.	Minister of Social Affairs	Ministry of Social Affairs
Polanen, Sam		<i>Formerly</i> at Central Bank
Proeve, Siegmund		DSB Bank
Rambharse, I.	Permanent Secretary	Ministry of Planning and Association
Rijp, Jules de	Project Coordinator	Ministry of Education and Community Development
Roza, Vincent	Intern, Development Cooperation	Embassy, Kingdom of The Netherlands
Russel, Romeo van	Former minister	Ministry of Regional Development
Sandriman, W.	Minister of Education	Ministry of Education
Sang, D.		Association of Surinamese Manufactures
Sextone, Darryl	Acting Representative	European Union
		European Commission
Sno, Iwan	Director of Census Agency	ABS
Soedhwa, B.	Deputy Manager	ABS
Soeters, Henk J.W.	Ambassador	Embassy, Kingdom of The Netherlands
Sowma, Roy	Financial Administrator	Ministry of Public Health
Staphorst, S.		National Women Movement Organization
Telting, Andre	President	CBvS
Tuur, Mauro	Permanent Secretary	Ministry of Trade and Industry
Varsseveld, J. van	Permanent Secretary	Ministry of Regional Development
Vyent, R.	District Commissioner	District Paramaribo
Welsjin, Ferdinand	Board Member	Suriname Trade and Industries

ANNEX

Annex 1.1 Population, Area, and Density by District

District	Population	%Total Population	Area in Km2	% Total Area	Density
Paramaribo	242,946	49%	183	0.1%	1,327.6
Wanica	85,986	17%	443	0.3%	194.1
Nickerie	36,639	7%	5,353	3.3%	6.8
Caronie	2,887	1%	3,902	2.4%	0.7
Saramacca	15,980	3%	3,636	2.2%	4.4
Commewijne	24,649	5%	2,353	1.4%	10.5
Marowijne	16,642	3%	4,627	2.8%	3.6
Para	18,749	4%	5,393	3.3%	3.5
Brokopondo	14,215	3%	7,364	4.5%	1.9
Sipaliwini	34,136	7%	130,567	79.7%	0.3
Total	492,829		163,820		3.0

Source: General Bureau of Statistics, Suriname. 2004 Census.

Annex 1.2 Population by ethnic group in 1972 and 2004

Ethnic group	1972		2004	
	Total Population	% of the Total	Total Population	% of the Total
Maroon	35,838	9%	72,553	15%
Creole	119,008	31%	87,202	18%
Hindustani	142,917	38%	135,117	27%
Javanese	57,688	15%	71,879	15%
Mixed	-		61,524	12%
Other	24,155	6%	31,975	6%
Not reported		0%	32,579	7%
Total	379,607		492,829	

Source: General Bureau of Statistics, Suriname. 1972 Census, 2004 Census.

Annex 1.3 Dutch Bilateral Development Cooperation

Box 1.1: Dutch Bilateral Development Cooperation

The 1975 Treaty for Development Cooperation¹⁶⁵ (Treaty) is the primary instrument through which Dutch bilateral aid has been channeled since Suriname's independence from the Netherlands. Implementation of the Treaty originally received strong financial and political support from Holland, including € 1.59 billion in development aid for its former colony, and the writing-off of Suriname's external debt in the amount of € 240M. The funds were distributed into three categories: (i) € 1.23 billion were set aside as grant resources for Suriname's continued development; (ii) € 140M were accessible as parity funds; and (iii) € 230M were available as credit guarantees for development loans.

Initially, the resources were earmarked for three sectors: infrastructure (25%), social (25%), and productive (50%). It was thought that the funds would be depleted within 10-15 years. By 1988, nearly 40% of the total had been committed; as of 2004, approximately 20% remained.¹⁶⁶ The balance includes roughly € 130M in development grants, and the original € 140M in parity-funds, which will become available only when the former is depleted. Guarantee funds were used in full.

Until the late 1990s, Suriname's near unilateral reliance on Treaty funds to finance its social and economic development had resulted in Holland playing an indirect role in domestic public policy. At times, the post-colonial relationship between the two countries was tense, given successive waves of political and economic turmoil and the periodic suspension of Treaty resources. A comprehensive evaluation of Dutch development assistance, 1975-2000 (Krwitj and Maks 2001), concluded that the use of Treaty funds had not lived up to expectations, and that "targets set in 1975 for prosperity and growth were not met. In short, until 2000, the Treaty Fund has not contributed sufficiently to the development of Suriname. The sensitive relationship between the two countries has made it difficult to reach professional agreements; and political disagreements between the two countries have had an impact on overall effectiveness."¹⁶⁷

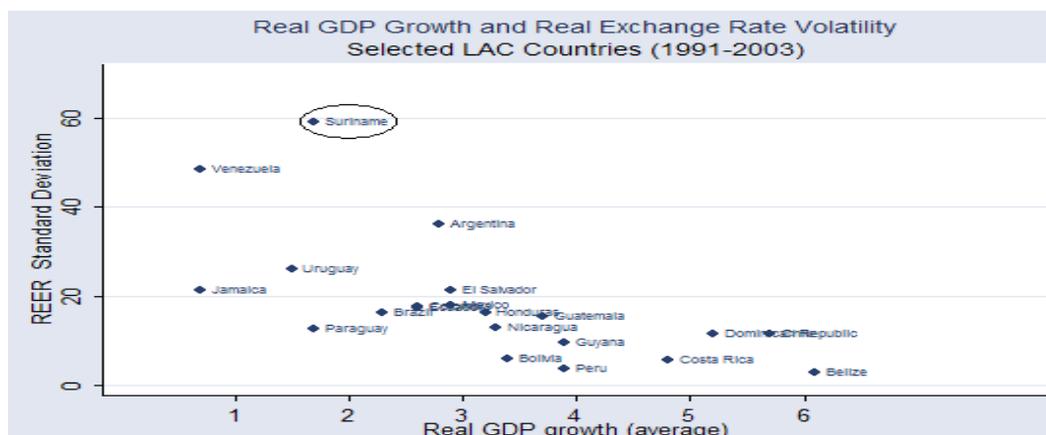
The bi-lateral relationship between the Netherlands and Suriname has since evolved into a more commercial partnership, emphasizing the responsibility of Suriname to set its own development path, and encouraging regional integration, including stronger multi-lateral ties. The targeting of Treaty resources has also shifted from project financing to a more strategic, sector-wide approach (SWAP), as a means to facilitate national ownership, enhance donor coordination, and address underlying development constraints in governance, agriculture, environment, education, housing, and health.¹⁶⁸ In 2004, a new five-year plan was approved to build the relationship framework and invest the remaining aid.

Annex 1.4: Employment by Sector (% of total)

Mining	4.4%	4.0%	3.6%	3.4%	3.5%
Manufacturing	10.4%	10.1%	9.5%	9.8%	9.7%
Utilities	2.3%	2.6%	2.5%	2.7%	2.7%
Construction	2.1%	2.0%	1.9%	2.0%	2.0%
Trade	9.9%	10.0%	9.5%	10.0%	10.0%
Transport and communication	3.5%	3.3%	3.1%	3.1%	3.2%
Banking	2.5%	2.4%	2.0%	2.3%	2.3%
Insurance	0.5%	0.5%	4.4%	0.5%	0.5%
Other services	3.5%	3.5%	3.6%	3.8%	4.0%
Government	61.0%	61.6%	59.9%	62.4%	62.0%
Total number employed	62,073	62,506	65,494	63,575	64,677

Source: IMF (2005): Suriname Country Profile. <http://www.imf.org/external/country/SUR/index.htm>.

Annex 1.5



Annex 1.6

The Effect of Changes in the Price of Alumina on Suriname's Economy¹⁶⁹	
Boom Phase (alumina's price hike)	Recessive Phase (alumina's price slump)
<p>First-round effects:</p> <ul style="list-style-type: none"> - increase in export revenues - trade and current-account balances improve - increase in CBvS foreign reserves (transfers from alumina companies) - increase in public sector revenues (taxes charged on alumina companies) - public sector balance improves, preventing deficit monetization and thus lowering inflation <p>Second-round effects:</p> <ul style="list-style-type: none"> - a larger supply of foreign exchange leads to appreciation of nominal (and real) exchange rates and stimulates foreign exchange credit for importers - increased government revenues allow for higher public expenditure and typically higher real wages for civil service (a substantial share of the total work force) - increased wages, higher foreign exchange supply, and appreciated local currency boost consumption and import demand, along with demand for non-tradable goods and services - trade, current-account balances adjust downward (imports typically fully adjust to the new export level, reestablishing the balance before the boom) - inflation is not a big concern: (i) the reduced public sector deficit prevents large monetary financing by CBvS; (ii) high dependency on imports facilitates price stabilization/reduction as real exchange rate increases - despite usually generous salary allowances for civil service, the public sector balance is kept under control by higher domestic and import tax collection. No public sector savings are made to prepare for future eventual alumina price slumps 	<p>First-round effects:</p> <ul style="list-style-type: none"> - export revenues decrease sharply - trade and current-account balances deteriorate - CBvS foreign reserves decline - public sector revenue decreases rapidly - public sector deficit grows given rigidities in expenditures <p>Second-round effects:</p> <ul style="list-style-type: none"> - nominal and real exchange rates depreciate in response to the scarcity of foreign exchange. The availability of credit for importers shrinks sharply - pressured by sticky expenditures and lowered revenues, government finances call for borrowing and public deficit monetization - increased local currency supply reinforces exchange-rate depreciation, already in place due to decreasing foreign exchange supply. This effect may result in a loss of confidence and consequent flight from domestic currency, eroding government seigniorage. The amount of money issued to finance the fiscal gap is increased, pushing inflation higher. - inflation escalates, driven by two main forces: (i) monetization of public deficit; (ii) high exchange rate depreciation, which increases the price of imported goods as measured in local currency - nominal salaries tend to increase, but slower than the price level. Consequently, real wages decline, especially in the public sector, helping to lower public expenditure¹⁷⁰ - the economy adjusts to a lower level of consumption and imports; economic growth is curbed as non-tradable sectors are also hit by these recessive mechanisms

Annex 1.7: Basic Statistics on Public Sector Employment and Wages- year 2002				
	LAC	Suriname	Trinidad & Tobago	Guyana
Public Sector Employment				
% Total (formal) Employment		60%	20%	8.6%
% Economically Active Population	10%	25%	n/a	7.6%
% Total Population	4%	12% ^{\1}	n/a	4%
Public Sector Wages				
% GDP	5%	13%	5.7%	6.5%
% Total Public Expenditure		43%	28.2%	28.0% ^{\2}

Sources: IMF: SM/03/335; SM/05/142; Guyana Country Report 01/01; T&T Country Report 05/04. IDB: SU-0027 loan doc. Guyana's Bureau of Statistics: Statistical Bulletin April-June 2005; 2002 Census. Trinidad and Tobago's Central Statistical Office:

Notes: \1 Includes public enterprises and parastatal agencies ; \2 Year 2000; \3

Annex 1.8 Selected Social indicators in Caribbean Countries

Country	HDI Rank 2003	Infant Mortality /1000 births 2003	Adult Literacy 2003	% Net Secondary Enrollment 2002/03	GDP per capita (PPP US\$) 2003
Barbados	30	11	99.7	90	15,720
Bahamas	50	11	95.5	76	17,159
Trinidad & Tobago	57	17	98.5	72	10,766
Suriname	86	30	88.0	42.8%*	6,552
Jamaica	98	17	87.6	75	4,104
Guyana	107	52	96.5	76	4,230
All LAC		27	89.6	-	7,404

Source: UNDP Human Development Index 2005. * MOE 2004, based on 2001-2002 data.

Annex 1.9: Water Supply and Sanitation

	Improved access to sanitation facilities (% population)		Improved access to water source (% population)	
	Urban	Rural	Urban	Rural
Latin America & Caribbean – 1990	83	35	84	44
Latin America & Caribbean – 2002	93	58	96	69
Suriname – 1990	99	-	98	-
Suriname - 2002	99	76	98	73

Source: WDI – World Bank. 2003

Annex 1.10 Education Expenditure as % GDP, 1990 - 2002

	Suriname	Guyana	Barbados	Jamaica
1990 (Baseline)	6.4%	3.4%	7.8%	-
1990-2000 (avg)	3.4%	3.0%	7.3%	4.5%
2000-2002 (avg)	(5-6% est.)	8.4% [*]	7.6%	6.1%

*Education's share increased after 2000 in Guyana as an outcome of the HIPC initiative

Source: United Nations 2005. Millennium Indicators Database.

Annex 1.11: Remittances to Suriname

Year	Total Value of Remittances (1)	National Income (2)	(1) as % of (2)
1990	67.4	169.2	39.8%
1991	75.2	181.4	41.5%
1992	83.8	194.1	43.2%
1993	68.3	195.6	34.9%
1994	65.7	189.6	34.7%
1995	67.8	217	31.2%
1996	31.4	250.7	12.5%
1997	69.7	279.8	24.9%
1998	62.8	293.7	21.4%
1999	59.7	287.8	20.7%
2004	51		

Source: Gowricharn 2004, for the data for the period 1990-1999, IDB/MIF for the year 2004.

Annex 2.1 Transitional Program Description 1980 – 1989, Suriname

Program Cycle	Program Objective	Program Sector Priorities	Programmed Activities	Characteristics of Bank Strategy	Government Strategy (reflected in CS)
<p>Cycle I: 1980-1989 Transitional</p> <p>US\$ 21.8M (de facto loan approvals)</p> <p>US\$6.8M (TC grants)</p>	<p>No Country Program</p> <p>Ad Hoc, Project-driven</p>	<p>Approved projects are considered a proxy for intent in Cycle I:</p> <p>1. Social</p> <p>2. Productive</p>	<p>3 Loans:</p> <p>(i) Improved Primary Education; Upgraded Nickerie Hospital;</p> <p>(ii) Global Industrial Credit</p> <p>21 TCs:</p> <p>(i) Social: 7 (US\$ 4.0M.)</p> <p>(ii) Productive: 9 (US\$ 2.6M)</p> <p>(iii) Governance: 3 (US\$ 0.2M)</p> <p>(iv) Environment: 2 (US\$ 46,000)</p>	<p>- Project driven</p> <p>- Use of TCs to develop Bank's relationship with Suriname</p> <p><u>Instrument Mix:</u></p> <p>- Investment loans (IFF;IR, TC Loans), non-reimbursable TCs</p>	<p>Structural Adjustment</p>

Annex 2.2 Loan and TC Approvals by Strategic Thrust, Cluster, and by Cycle (US\$)

Strategic Thrust	Cluster (Total Financing)	Cycle without Programming	Cycles with Programming		
		Cycle I 1980-1989	Cycle II 1990-1996	Cycle III 1997-1998	Cycle IV 1999-2004
(i) The imperative to maintain a stable macroeconomic environment, the foundation for stability and growth	Macroeconomic (TC: \$ 6.7 M)		4 TCs (\$ 4.3 M)	1 TC (\$ 1.8 M)	1 TC (\$ 0.6 M)
(ii) The necessity to modernize the state as a means to improve the efficiency and effectiveness of the public sector, and to create an enabling environment for productive sector development	Governance (L: \$ 9.9 M) (TC: \$ 5.3 M)				Decentralization and Local Government Strengthening (\$ 4.9 M) Preparation of the Census (\$ 4.2 M) Strengthening of Public Sector Management (\$ 5.0 M) 9 TCs (\$ 3.0 M)
	Environment Management & Protection (TC: \$ 2.3 M)	3 TCs (\$ 0.2 M)	8 TCs (\$ 1.9 M)	2 TCs (\$ 0.2 M)	4 TCs (\$ 0.9 M)
	Productive (L: \$ 40.3 M) (TC: \$ 5.1 M)	Global Credit for Industry (\$ 6.0 M)		Agriculture and Trade Policy Loan (\$ 30.0 M)	
		9 TCs (\$ 2.6 M)	7 TCs (\$ 0.2 M)	1 TC (\$ 0.7 M)	6 TCs (\$ 1.6 M)
(iii) The importance of upgrading and extending basic social services to underserved populations, to mitigate the social cost of adjustment measures	Social (L: \$ 52.0 M) (TC: \$ 8.4 M)	Primary and Middle Education System Improvement (\$ 8.0 M) Improvements of Nickerie Hospital (\$ 7.8 M)			Basic Education Improvement Project (\$ 12.5 M) Health Sector Facility (\$ 5.0 M) Community Development Fund (\$10.3 M) Low-Income Shelters (\$9.8 M) 10 TCs (\$ 1.0 M)
		7 TCs (\$ 4.0 M)	3 TCs (\$ 37,092)	10 TCs (\$ 3.3 M)	

Annex 2.3 Country Strategy by Objective and Cycle

CPP 1990		PM 1997		CP 1999		UPDATE 2003
Strategic areas for intervention	Priorities and Objectives	Strategic areas for intervention	Priorities and Objectives	Strategic areas for intervention	Priorities and Objectives	
(I) improve performance of public sector, specifically its planning capabilities	a. planning and project cycle management			2. Governance	a) support reforms to improve efficiency and effectiveness of government	Governance
	c. strengthening Statistics Bureau				b) strengthen the legislative and judicial branches	
	d. strengthening organization of environmental unit	i) improving natural resources management and environmental protection	a. Environmental Council (policy making body in the Office of the President) b. Environmental Management Agency (operational arm) c. Sector Ministries that deal w/environment issues	4. Environmental Management	Promote sound environmental practices by strengthening env. Management and enforcement capacity and updating legislation	
	e. Improving current practices of tax collection				v) improvements in tax administration	
		iii) financial sector reform	After 1997 mission, the conclusion was that BID could best assist financial sector reform by generating more information about the sector	5. Macroeconomic Management	a) Strengthen capacity for macroeconomic management by upgrading key statistical and financial management Units	
ib) reduce foreign exchange expenditures						
(iib) support the necessary measures to mitigate the social impact of the adjustment plan						
(ii) support SU in privatization efforts	<i>b. establishing policies to promote and regulate private investment (moved by OVE from I) improve public sector</i>	iv) strengthening public-private partnership		1. Private Sector Development	a). "support policy and institutional reforms to improve the environment for private sector b). support privatization process c). continue analytical and sector work to identify constraints and opportunities for private sector development" <i>b)continued collaboration with MIF (moved by OVE from "5. Macro mngmt")</i>	Private Sector
(iii) assist in upgrading or expanding existing services to meet needs particularly of the low income groups		vi) housing and community development	BID does not view a shortage of housing as a principal development challenge; however it is high priority to the government. Mission will explore whether BID has a role in this area	3. Human Resource Development and Social Inclusion	a) promote social inclusion by strengthening social safety net and improving framework for the provision of low-income housing b) promote HR dvlp by supporting improvements in incentive and institutional structures of the health and education sectors c) analytical and sector work on indigenous groups	3. Human Resource Development and Social Inclusion

Annex 2.4 Suriname Country Program by Cluster

CLUSTER	DIAGNOSTIC	BANK'S OBJECTIVES	LOANS
Macroeconomic	-Large fiscal deficit and poor macroeconomic policies	-Support the government in the adoption of an adjustment program	*
	-Economic dependence on bauxite, rice exports, and Dutch assistance		
	-Lack of a strong banking sector		
Governance	-Public sector is over-extended both in functions and manpower	-Improve the performance of the public sector by supporting reforms to increase the efficiency and effectiveness of government	SU0019: Decentralization and Local Government Strengthening SU0025: Preparation of the Census SU0027: Strengthening of Public Sector Management
	-Lack of institutional capacity to implement project investments at the sector and national level		
	-Accountability within the state is weak; therefore, deficient budgetary process, lack of information and transparency, and weak capacity in public institutions		
	-Highly centralized state; local governments have minimal financial resources, power and authority in practice		
	-Inadequate coordination between Ministries and agencies		
Environment	-Deficient legal framework and institutional capacity to manage the country's natural resources and protect the environment	- Improve natural resource management and environmental protection	
	-Absence of appropriate policies for the productive sectors and the role to be played by the private sector	-Support Government efforts to develop the private sector	SU0005: Global Credit for Industry
Productive	- Investment legislation is outdated; Suriname was ranked last out of 140 countries in terms of attractiveness for foreign investment	-Support economic diversification and revitalize agriculture	SU0016: Agriculture and Trade Policy **
	-Deteriorating transport infrastructure		
	-Poor sewerage and water supply systems	-Greater access to upgraded and/or expanded services	
Social	-Shortage of highly qualified staff	-Support community development	SU0003: Improvements of Nickerie Hospital
	-Deficiencies in institutional and incentive structures in education and health sectors	-Improve the incentive and institutional structures of the health and education sectors	SU0006: Primary Education Quality Improvements
	-Schools lack autonomy and financial allocation mechanisms are completely unrelated to performance		SU0017: Low Income Shelters
		-Improve the framework for the provision of housing (Government Request)	SU0020: Community Development Fund SU0023: Basic Education Improvement Project
			SU0028: Health Sector Facility

* (SU0015- Financial Sector Reform, in pipeline since CP1999),

** (SU-L1002 Trade Sector Facility, entered into pipeline 2003)

Annex 2.5 Composite Description of Suriname Country Program, 1990 - 2004

Program Cycle	Program Objective	Program Sector Priorities	Programmed Activities	Characteristics of Bank Strategy	Government Strategy (reflected in CS)
<p>Cycle II: 1990-1996</p> <p>CPP 1990-93</p> <p>US\$ 68M (anticipated for 1990-91 only)</p>	<p>General Support government efforts to implement adjustment measures (SAP)</p> <p>Minimum program: Efficient provision of basic services and environmental protection activities</p> <p>Extended Program: Productive sector strengthened</p>	<p>Minimum program: Governance: (i) public sector performance improved; (ii) process of privatization supported; Social: (iii) existing services upgraded and expanded to meet population needs, particularly low income groups</p> <p>Extended Program: Productive: (iv) foreign exchange expenditures reduced; (v) export expansion and diversification promoted; (vi) measures to mitigate social impact of SAP supported</p>	<p>Minimum program (i) TA to strengthen planning and project cycle management, Planning Bureau, ABS, MOH; to organize environmental unit, and improve tax collection; (ii) TA to establish policies to promote and regulate private investment; (iii) financing for decentralizing services through local governments; to expand electricity generation, improve the water supply system, and prepare feasibility studies for sanitary/ storm drainage system expansion</p> <p>Extended Program: (iv) financing for domestic hydrocarbon reserves; small project financing for agro-industrial development; (v) public enterprise sector loan; financing for projects that raise productivity / stimulate exports; industrial credit loan; TC to identify transport projects that reduce export constraints; (vi) small project financing and vocational training for women in informal sector and agro-industrial activities</p>	<p>Two Lending Scenarios - conditioned by the macroeconomic situation</p> <p>Minimum program - SAP not in place - activities not sensitive to policy environment -no infrastructure or productive sector lending</p> <p>Extended program - SAP adopted - minimum program + lending for export expansion and productive sector</p> <p>IDB-7 / IDB-8 - Environmental protection, and assistance to low income groups given prioritized</p> <p>Instrument Mix: - Non-reimbursable TCs (FSO), small project financing, non-financial support</p>	<p>In the short term: i) restoring domestic production to pre-1982 levels by rehabilitating the infrastructure of the major productive sectors; ii) decreasing the fiscal deficit by increasing tax revenue and reducing current expenditures, iii) reducing the level of external debt to 15% of GDP, iv) promoting export expansion</p> <p>In the medium term: Achieve sustained growth through economic diversifications</p>
<p>Cycle III: 1997-1998</p> <p>PM 1997-98</p> <p>Up to US\$ 69.8M (IFF), and US\$ 2.5M (FSO/TC)</p>	<p>General Support policy and institutional reforms that improve institutional and incentive frameworks, thereby enabling resources to be used more efficiently and effectively</p>	<p>Environment: (i) natural resource management and environmental protection improved Productive: (ii) Agriculture revitalized Macroeconomic: (iii) financial sector reformed; public-private partnership in economic reform strengthening Governance: (iv) consolidation of improvements in tax administration Social: (v) housing and community development</p>	<p>(i) PBL or TC Project to develop an environmental institutional framework, establish and strengthen Environmental Management Agency and Council; (ii) PBL to deregulate agricultural trade; (iii) diagnostic studies of financial sector for future PBL to reform financial legislation, strengthen bank supervision, and reduce the state's direct role in the sector; (iv) MIF TC diagnostic of impediments to private sector development; (v) Phase 2 of tax administration project, simplify tax system, introduce tax code, expand tax base, increase coverage and productivity of auditing activities; (vi) increased provision of housing, particularly to low-income groups</p>	<p>Short-term strategy of "Mutual Priorities" -18 months (allowing Bank and Suriname more time to gain operational experience and prepare a more comprehensive, strategy - Program tailored to take into account aid from non-IDB sources - Focus limited to areas where the Bank has a competitive edge over donors. Avoid standard investment projects that can be financed by donors without counterpart requirements</p> <p>Instrument Mix: - Reimbursable and non-reimbursable TC projects, PBLs (IFF), PPF, C&D, non-financial support</p>	<p>Government's medium-term development objectives and plans are still undefined</p> <p>Project-driven: "President of the Republic of Suriname requested Bank assistance to develop a new institutional framework for the environment."</p> <p>"Housing, particularly the provision of housing to low-income groups, is a high priority for Government"</p>

Annex 2.5 Composite Description of Suriname Country Program, 1990 – 2004 (Continued)

Program Cycle	Program Objective	Program Sector Priorities	Programmed Activities	Characteristics of Bank Strategy	Government Strategy (reflected in CS)
<p>Cycle IV: 1999-2004</p> <p>CP 1999-2001</p> <p>Scenario 1: US\$ 64.9 Scenario 2: US \$ 19.0</p> <p>Country Strategy Update 2003 Anticipated US\$ 21.0</p>	<p>Goal Support economic and social development that is economically, socially, and environmentally sustainable.</p> <p>Objective Support improvements in incentive and institutional frameworks and hence improve resource allocation and enable resources to be used more efficiently and effectively</p>	<p>Scenario 1 Productive: (i) improved framework for private sector development Macroeconomic: (ii) strengthened macroeconomic management Governance: (iii) improved governance and modernization of the state Social: (iv) human resource development and social inclusion Environment: (v) environmentally sustainable development</p> <p>Scenario 2 Activities corresponding to items ii-iv, above</p>	<p>Scenario 1 (i) continued support through existing loans for the privatization process and an enhanced business environment, analytical work to identify constraints to private sector development; studies on labor market and export promotion; private sector development strategy, TC to assist with legal aspects of trade reforms; (ii) Financial Sector Reform Loan to improve legal and regulatory framework, insurance and pension industries, and to rationalize state banks; TC advisory services to Central Bank and Ministry of Finance; (iii) Loan to decentralize and strengthen the efficiency and effectiveness of local governance; TC to strengthen personnel management (iv) poverty alleviation in the poorest communities through the Community Development Fund and Low-Income Shelter and Settlements Loans; TC to prepare a basic education loan to address the incentive and institutional structures needed for the efficient delivery of quality education; TC grant to study traditional medicine; TC grant and loan to conduct the census; (v) strengthened institutional capacity for environmental management and sustainable development through existing instruments.</p> <p>Scenario 2 Activities corresponding to items ii-iv, above</p> <p>CS Update Additional loans included in Trade, Public Sector Management, Health Sector, and Basic Education Improvement</p>	<p>Two Lending Scenarios - continuation of PM1997 - conditioned by the macroeconomic situation</p> <p>Scenario 1 - adequate macroeconomic framework, ambitious program in 5 clusters</p> <p>Scenario 2 - inadequate framework, lower level of lending, but increased support for the restoration of a strong macroeconomic framework - operational program tailored to take into account substantial aid from non-IDB sources - minimize need for counterpart funding (sector loans) and subsequent recurrent expenditures through instrument mix</p> <p>Instrument Mix: - Reimbursable and non-reimbursable TC projects (FSO), sector loans and PBLs (IFF), MIF TC, possible investment loan, non-financial support</p> <p>- 2003 Update: Trade Sector Facility, Health Sector Facility, Public Sector Facility, and Investment OC/IFF</p>	<p>Multi-Annual Development Plan (i) High priority on private sector investment and policy reform; (ii) a stable and adequate macroeconomic framework, fiscal deficit reduction; (iii) good governance, civil service reform, decentralization, and democracy building; (iv) emphasized importance of improving living conditions and social well-being, primarily through upgraded housing and community development programs targeted to the poorest; inter-ministerial housing task force, requested Bank assistance to prepare a social development and poverty reduction strategy, education sector plan; (v) 10% of rain forest designated as a nature reserve, established the National Institute for Environment and Development</p>

Annex 2.6 TC/Loan Ratio

	TCs (i)	Loans (ii)	TC/Loan (iii) = (i)/(ii)
Suriname	88	11	8.0
Group C	954	420	2.3
Region 3	1686	698	2.4
All Bank	5170	2314	2.2

Annex 2.7: Composition of historical portfolio by funding source (1980-2004).

	TCs (i) (US\$)	TC/Total portfolio	Loans (ii) (US\$)	Loan/Total portfolio	Loans \$/TC \$ (ii)/(i)
Suriname	27,754,271	21%	103,472,145	79%	3.70
Group C	294,416,606	2%	12,398,830,702	98%	42.10
Region 3	480,282,888	1%	33,100,742,748	99%	68.90
All Bank	1,636,645,719	1%	136,062,953,685	99%	83.10

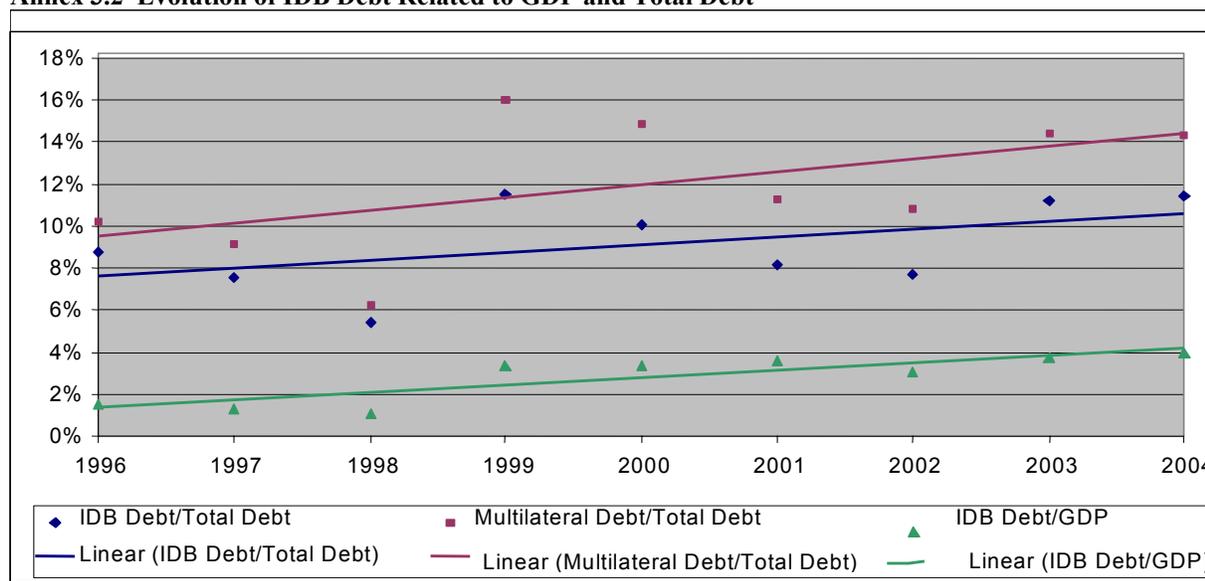
Annex 2.8 TCs Classification By Cluster And Sub-Cluster

Cluster	Sector	1st Cycle		2nd Cycle		3rd Cycle		4th Cycle		Total TCs	Total Amount
		1980-1989		1990-1996		1997-1998		1999-2004			
		#	Amount	#	Amount	#	Amount	#	Amount		
Environment	Energy	2	46.000							2	
	Industry							1	123.800	1	
	Environment and Natural Disasters					1	1,380.000	3	748.000	4	
	Total	2	46.000	0	0.000	1	1,380.000	4	871.800	7	2,297.800
Governance	Agriculture	1	24.000							1	
	Reform and Mod.of the State	2	160.000	6	1,904.500	2	195.079	7	2,353.900	17	
	Energy			1	4.500			1	200.000	2	
	Other - Streng. Non-Govt. Organizations			1	9.000					1	
	Airport Security (MIF)							1	435.000	1	
	Total	3	184.000	8	1,918.000	2	195.079	9	2,988.900	22	5,285.979
Macroeconomic	Reform and Mod.of the State			2	4,280.000	1	1,830.000	1	600.000	4	
	Financial & Capital Market Development			1	20.000					1	
	Other - Implementing an Econ. Adjust.Prog.			1	8.000					1	
	Total	0	0.000	4	4,308.000	1	1,830.000	1	600.000	6	6,738.000
Productive	Agriculture	5	1,297.000	2	32.500			1	150.000	8	
	Energy	1	1,048.000								
	Industry	1	13.500							1	
	Information Technology and Communications					1	700.000	1	150.000	2	
	Microenterprises			4	172.500			2	265.500	6	
	Multi-sector Credit & Pre-Investment	1	14.000	1	30.000					2	
	Other - Strengthening of Nat. Develop.Bank	1	194.600							1	
	Tourism (including 1 MIF)							2	993.000	2	
	Total	9	2,567.100	7	235.000	1	700.000	6	1,558.500	23	5,060.600
Social	Education	3	231.000	3	37.092			1	150.000	7	
	Health	2	1,009.600			2	2,120.000	2	25.500	6	
	R.M.- Judicial Ed. for Domestic Violence							1	48.000	1	
	R.M.- Preparation of the Year 2000 Census							1	150.000	1	
	Sanitation	2	2,776.000							2	
	Social Inclusion					4	1,028.000	3	301.600	7	
	Other - Assessment Community Infrastructure Development					1	145.000			1	
	Urban Development and Housing					3	30.100	2	320.000	5	
	Total	7	4,016.600	3	37.092	10	3,323.100	10	995.100	30	8,371.892
	Grand total	21	6,813.700	22	6,498.092	15	7,428.179	30	7,014.300	88	27,754.271

Annex 3.1 - Multilateral debt as a percentage of the Total External Debt

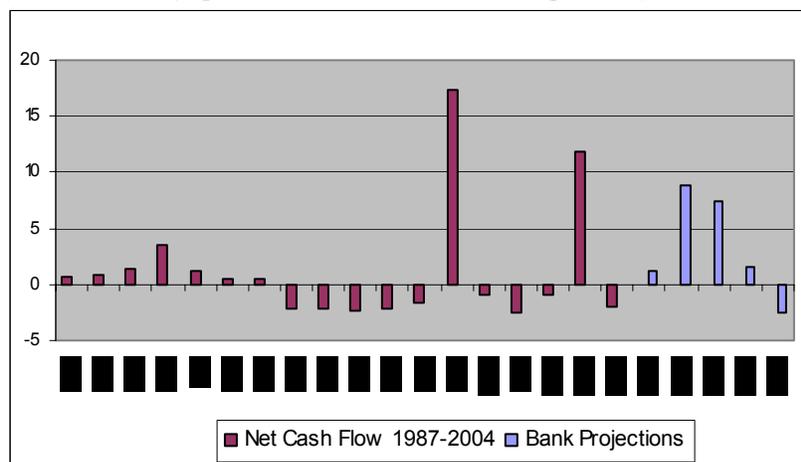
	1996	1997	1998	1999	2000	2001	2002	2003	Average 1996-2003
Suriname	10%	9%	6%	16%	15%	11%	11%	14%	12%
CGC	48%	47%	50%	51%	52%	49%	38%	42%	47%
"C" Countries	30%	30%	35%	34%	34%	35%	33%	37%	34%
REGION 3	31%	29%	33%	30%	39%	40%	32%	36%	34%
Bank wide	37%	36%	38%	40%	42%	40%	39%	44%	40%

Annex 3.2 Evolution of IDB Debt Related to GDP and Total Debt



Source: 1996-1999: Poverty Report WB/IMF 2000-2004: Debt Management Unit of Suriname

Annex 3.3 Net Cash Flow 1987-2004 And Projections 2005-2009 (US\$ Millions, (Equivalent At Historical Exchange Rates))



Annex 3.4 Coefficient of Variation of the Net Cash Flow

Coefficient of Variation of the Net Cash Flow	
Suriname	432%
CGC	76%
C Countries	2418%
Region 3	1734%
Bank	9496%

Annex 3.5: Suriname Project Cycle Efficiency (Historical Portfolio)

	Preparation (months)			Execution (months)		
	Pipeline to Approval	Approval to Contract	Contract to Eligibility	Eligibility to Original Final Disbursement	Extension	Period of Active Disbursement
Suriname	24.3	3.4	9.4	40.2	39.0	79.2
Group C*	22.7	3.9	10.1	42.2	18.7	60.9
Region 3*	23.1	4.6	9.2	41.7	18.7	60.4
Bank wide*	20.6	4.0	10.4	42.3	17.4	59.7

* The average number for the comparison groups of countries were calculated considering only the four instruments presented in Suriname's portfolio, namely PESP, PGCR, PSCT, PSEF.

Annex 3.6 Project cycle efficiency, by Program Cycle as of December 31, 2004 (in months)

	Preparation			Execution		% Original Disbursement as of 12/31/2004 (Update 2005)
	Approval	Signature	First Eligibility	Eligibility to Original Final Disbursement	Extension as of 2004 (Update 2005)	
Suriname	24.3	3.4	9.4	40.2	39.0	
Group "C" Countries	22.7	3.9	10.1	42.2	18.7	
Region 3	23.1	4.6	9.2	41.7	18.7	
All Bank	20.6	4.0	10.4	42.3	17.4	
Cycle I Average	N/A	2	13.3	34.7	53	
Primary Education Improvement	N/A	2	14	34	36	48% (closed)
Global Credit for Industry	N/A	1	11	37	15	89% (closed)
Improvements of Nickerie Hospital	N/A	3	15	33	108	96% (closed)
Cycle II Average	<i>(No Loans Approved)</i>					
Cycle III Average	12	1	4	32	24	
Trade and Agriculture Program	12	1	4	32	24	100% (closed)
Cycle IV Average(Active Loans)	26	4.3	8.3	43.7	12 (20)	
Community Development Fund	22	18	12	36	0 (24)	18% (27%)
Low-Income Shelters	35	2	18	42	0 (12)	15% (28%)
Decentralization Land Local Government Strengthening	33	2	12	24	12 (24)	41% (47%)
Preparation of the Census	31	3	0	54	0	71% (72%)
Basic Education Improvement Project	48	3	5	55	0	0.4% (14%)
Strengthening Public Sector Mgmt	5	2	N/A	50	0	0% (0%)
Health Sector Facility	8	0	3	45	0	1.6% (7%)

Annex 3.7 Credit fee cost

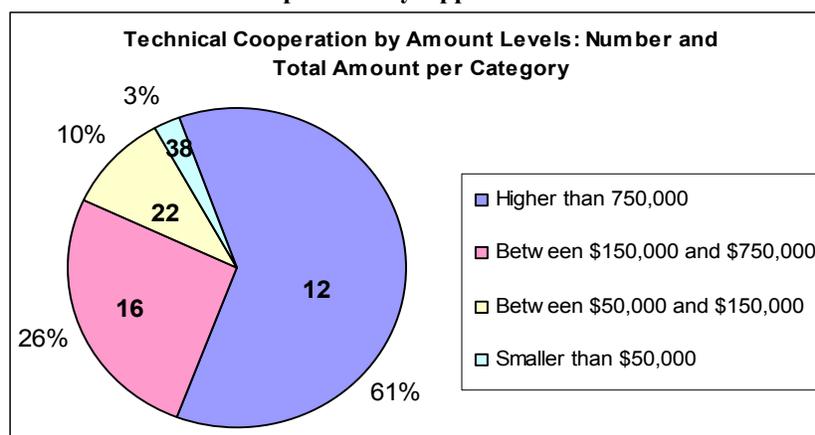
Project #	Project Name	Paid Credit Fee						
		Prior to First Disbursement.** (i)	Prior to First Disbursement. (% Loan Amount) (ii)	Scheduled Disbursement. Period (iii)	Extension Disbursement. Period (iv)	Extension Disbursement. (% Loan Amount) (v)	Extension Credit Fee (as a % of Scheduled Credit Fee) (vi)	Total Extra Credit Fee as % Loan Amount (ii)+(v)
SU0003	Improvements of Nickerie Hospital	107,625	1.71%	169,403	173,600	2.76%	102%	4.46%
SU0005	Global Credit for Industry	87,917	1.47%	138,750	90,370	1.51%	65%	2.97%
SU0006	Primary and Middle Education System Improvement	97,274	1.50%	122,975	312,249	4.80%	254%	6.30%
SU0016	Trade and Agriculture Program	33,750	0.11%	218,363	178,106	0.59%	82%	0.71%
SU0017	Low-Income Shelters	102,492	1.05%	140,862	54,487	0.56%	39%	1.60%
SU0019	Decentralization Land Local Government Strengthening	32,871	0.67%	37,250	42,551	0.87%	114%	1.54%
SU0020	Community Development Fund	63,517	0.62%	126,875	71,637	0.70%	56%	1.31%
SU0023	Basic Education Improvement Project	35,156	0.28%	29,063	2,188	0.02%	8%	0.30%
SU0025	Preparation of the Census	-	0.00%	19,308	2,045	0.06%	11%	0.06%
SU0027	Strengthening of Public Sector Management	2,257	0.05%	-	-	0.00%		0.05%
SU0028	Health Sector Facility	1,389	0.03%	3,646	479	0.01%	13%	0.04%
Total / Average		564,247	0.7%	1,006,494	927,712	1.1%	92%	1.8%

*sU0027 calculates up to December 2004 because there was no disbursement up to December 2004

Annex 3.8. Projected Credit Fee Cost

Project Number	Project Name	Total Projected Credit Fee during the Disbursement Period			
		Paid Credit Fee at current Disbursement Rate	Paid Credit Fee at Originally Scheduled Disbursement Rate	Excess of Paid Credit Fee	Paid Credit Fee at current disbursement rate as a % of Originally Scheduled Credit Fee
SU0017	Low-Income Shelters	524,472	165,271	359,202	317%
SU0019	Decentralization and Local Government Strengthening	106,043	37,250	68,793	285%
SU0020	Community Development Fund	480,988	131,375	349,613	366%
SU0025	Preparation of the Census	32,665	21,962	10,703	149%
Total		1,144,167	355,858	788,310	322%

Annex 3.9 Technical Cooperation by Approval Levels



Annex 3.10

TC Number	Project Name	Approved	Sector	TYPE	Amount (US\$)	% TC Portfolio
ATN/SF-3548-SU	Strengthening of Tax Administration System	1990	Macro-stability	Stand alone	3,120,000	11%
ATC/SF-3330-SU	Paramaribo (SU-0007): Potable Water (dropped)	1989	Social	Linked to Loan	1,850,000	7%
ATN/SF-5769-SU	Strengthening Tax Administration Office	1997	Macro-stability	Stand alone	1,830,000	7%
ATN/SF-5124-SU	Inst. strength. Bureau of Statistics	1996	Governance	Stand alone	1,655,000	6%
				Total	8,455,000	30%

Key: Problem and *Alert*

Annex 3.12: Suriname Portfolio Risk, 1998 - 2004

Project	Approvals in US\$ million						
	1998	1999	2000	2001	2002	2003	2004
SU0003 (Nickerie Hospital)	7.4	7.4	7.4	7.4			
SU0016 (Agriculture & Trade)		30.0	30.0	30.0	30.0	30.0	
SU0017 (Low-Income Shelters)				9.8	9.8	9.8	9.8
SU0019 (Decentralization)				4.9	4.9	4.9	4.9
SU0020 (Community Dev. Fund)			10.3	10.3	10.3	10.3	10.3
SU0023 (Basic Education)						12.5	12.5
SU0025 (Census)					3.4	3.4	4.2
SU0027 (Public Sector Mgmt)							5.0
SU0028 (Health Sector)							5.0
Total Value Loan Portfolio	7.4	37.4	47.7	62.4	58.4	70.9	51.7
% of Portfolio at Risk	100%	100%	16%	60%	51%	69%	57%

Annex 3.12: Inspection Visits by Type and by Date, 1998 - 2004

	Technical Inspection Visits							Financial Inspection Visits						
	1998	1999	2000	2001	2002	2003	2004	1998	1999	2000	2001	2002	2003	2004
Required	1	2	3	5	5	6	7	1	2	2	2	2	5	6
Done	0	1	0	0	1	4	7	0	0	0	0	0	3	6
Not required and Done	0	1	0	0	0	10	11	0	0	0	0	0	0	2
Compliance	0%	50%	0%	0%	20%	67%	100%	0%	0%	0%	0%	0%	60%	100%

Annex 4.1: Qualitative Dimension of the Lending Portfolio

One of the main features of this report is to present an evaluation of the development impact of the Bank's Country Program in Suriname. In doing this, the report evaluates loan documents by putting the goals (higher outcome objective) and purposes (intermediate outcome) at center stage. It is less concerned with individual project means and outputs. In general, the loan documents lack indicators to measure baselines, milestones, and outcomes level. The ex-ante evaluability index at "face value"¹⁷¹ reveals that only 50% of the outcomes (55% of the outputs) specified indicators; 26% (28%) baselines, and 31% (37%) milestones. In trying to assess the evaluability of the projects in Suriname at the design level, OVE concluded:¹⁷²

In general, the loan documents present a relatively clear diagnosis of the problems to be addressed.

Two exceptions are the decentralization and primary education projects. In the case of the former project, the loan fails to explain how changes in government structure could lead to improved governance. Furthermore, the project ignores potential deterrents to decentralization such as the small size, limited resources, and low administrative capacity found at the local level. Similarly, the education project does not identify constraints to the effective and sustained implementation of the proposed solutions; nor does it sufficiently analyze the root causes of the problems in the sector.

Ten of the 11 loan documents presented a relatively clear definition of objective. The exception is ATPL, which defined its objectives broadly, and without specifying measurable results or targets. ***Seven of the 11 projects had a relatively clear logic that was consistent with the analysis, objectives, and activities.*** In the remaining four, activities and components were difficult to link with the stated goals, and causal links between project components and project objectives were not clearly specified. For example, ATPL states that by improving the policy environment, the project will impact agricultural growth. The assumption is weak since better policies do not necessarily lead to the conclusion.

Five projects presented relatively clear or partially defined assumptions and risks. With regard to the balance, common problems included: (i) a very limited number of risks with no description of mitigation measures; (ii) risks associated only with outputs but not outcomes; and (iii) a lack of indicators to monitor the occurrence or intensity of risks. For example, the Low Income Shelters Program assumes that the price of building materials will decrease as demand increases. The project did not provide a supply analysis supporting this assumption, and in a country with a small indigenous industry and high transportation costs, this assumption may not be accurate.

Most outcome indicators were adequately defined in the six loans programmed in the social cluster; however, among the four loans approved in the governance/productive sectors, outcome indicators were either absent or not verifiable. ***With the exception of ATPL and the Global Credit loan, all projects provided an adequate set of output indicators.***

The two health projects include baselines, and the two education projects intend to collect baseline data during project execution. The remaining seven projects did not contemplate the development of a baseline against which to measure the performance of output and outcome indicators.

Nine of the eleven projects included monitoring and evaluation systems that were partially or well-defined, and which included mechanisms to track project execution in relation to baselines and budget, semi-annual reports, mid-term and end-of-project evaluations, monitoring missions, and ex-post evaluations. Only two projects (ATPL and the first primary education loan) did not include an adequate monitoring and evaluation systems to track results.

Annex 4.2

Tax Revenue : Structure and Trends, 1992-2004 (in % of GDP)

	AVG 1992-93	AVG 1996-97	AVG 1999-00	AVG 2003-04 ¹
TAX REVENUE	12.5	24.7	23.4	28.8
Direct Taxes	6.8	13.8	10.5	12.5
Individual Income Tax	0.4	0.9	0.6	0.5
Wage Tax	4.2	3.6	4.1	6.0
Corporate Income Tax	2.1	9.2	3.7	4.7
Wealth Tax	0.0	0.0	0.0	0.0
Rental Value Tax	0.0	0.0	0.0	0.0
Other (*)	0.2	0.2	2.2	0.4
Indirect Taxes	5.7	10.9	12.9	16.0
Sales tax on domestic goods and services (**)	-	-	1.3	2.2
Taxes on specific domestic goods and services	2.5	2.9	2.8	4.5
Liquor	0.2	0.1	0.2	0.2
Beer	0.2	0.2	0.2	0.4
Tobacco	0.4	0.4	0.2	0.5
Lottery	0.1	0.0	0.1	0.2
Entertainment	0.1	0.1	0.1	0.1
Motor Vehicules	0.5	0.2	0.0	0.0
Motor Fuel	1.1	1.9	2.1	2.9
Other	0.0	0.1	0.1	0.2
Taxes on international trade	3.6	7.9	8.7	9.5
Customs duty	3.0	6.3	4.8	4.5
Sales Tax on Imports (*)	-	-	2.7	3.7
Statistical fees and consent Rights	0.4	1.6	1.2	1.3
Export and re-export taxes	0.1	0.0	0.1	0.0
Other	0.1	0.0	0.0	0.0
Other indirect taxes (*)	-0.3	0.2	0.1	0.1

Sources:

IMF Report SM/97/125

IMF Report SM/01/131

IMF Report SM/05/143

Notes:

- ¹ 2004 data are preliminary and only available for major categories. Dissaggregated tax data corresponds to 2003 only, then figures do not match exactly when adding up.

- (*) Includes adjusting factors accounting for statistical discrepancies between the CBVs and collecting agencies.

- (**) introduced in 1997.

- Figures should be interpreted with caution due to lack of good data and changes in GDP measurement methodology since 1996.

Annex 4.3

SURLAND: The first attempt to privatize a major state enterprise in Suriname

According to Government officials, funds from ATPL were directed towards the re-capitalization of SURLAND, the state-owned Banana producer; however as stated in ¶2.21, the Bank's role was passive in that it did not control the destination of PBL resources.

SURLAND controlled 95% of all banana plantations, and was the country's sole banana exporter. In April 2002, SURLAND closed its doors, after it was unable to meet payroll for the second month in a row. (The company's debt eventually reached US\$ 25.0M). Government started a privatization plan for the banana sector in the same year. Under the plan, a new company, "Foundation to Save the Suriname Banana Sector" (SBBS), assumed SURLAND assets and restarted operations. Both the EU and the IDB (through ATPL) provided funds for re-capitalizing. SBBS's staffing costs are lower than SURLAND's, and thus operational unit costs have been reduced. Even so, Government has not found a private investor for the restructured company; and the chances of doing so are highly dependent on the continuity of preferential access to European markets (Cotonou Partnership Agreement).

Endnotes

¹ Comparative data and details are provided in “Governance Technical Notes”

² Wage increases / adjustments have historically been a main source of fiscal unbalances and following inflation.

³ A flat salary pyramid; little incentives towards higher-skilled staff; low productivity of public employment, low efficiency and effectiveness in the provision of essential public services; drain of best qualified employees towards the private sector, etc.

⁴ There are currently some 120 public enterprises and parastatal agencies in Suriname. Overall, they employ an estimated 15,000-17,000 workers (about 20% of formal total employment).

⁵ Including PPMRs, PCRs, Aide Memoires, Portfolio Reviews, and project evaluation documents.

⁶ See Project Results Frameworks

⁷ For more information about the ex-ante evaluability index see Knight and Ruprah 2001.

⁸ The Bank has recently assisted the country with a TC with the purpose of identifying a long-term strategy or “road map for public sector reform”. The objective of this operation, which aims to facilitate a broad public sector reform both vertically and horizontally across the current government structure, has focused into three major points: (i) identifying the structural rigidities that hinder efficiency, effectiveness and transparency of the Public Sector; and (ii) defining a socially and politically sensitive strategy for the transformation of the Public Sector; and (iii) facilitating the attainment of widespread agreement and support necessary to implement such strategy.

⁹ Unless otherwise cited, all demographic data presented in the Introduction has been extracted from the General Bureau of Statistics (GBS), (2005): *Seventh General Population and Housing Census 2004*. (Algemeen Bureau voor de Statistiek).

¹⁰ Suriname's population density is 3 persons per sq. kilometer. Source: World Bank. (2004): World Development Indicators Database: Food and Agriculture Organization and World Bank population estimates.

¹¹ For the purpose of this evaluation, the term "region" signifies all Bank member countries in Latin America and the Caribbean.

¹² Maroons are the descendents of escaped slaves who established autonomous zones in the interior of Suriname around the mid-1700s.

¹³ According to the 2004 census, the Maroon population has experienced the greatest demographic growth, doubling in number since the last census in 1972.

¹⁴ While Dutch is the official language of Suriname; many Maroons consider Sranan their primary language. According to the 2004 Census, 58% of the urban Maroons think of Sranan as their primary home language and an additional 23.9% maintain a Maroon language as their main language. Source: General Bureau of Statistics (GBS).

¹⁵ Agreement between the Republic of Suriname and the Kingdom of the Netherlands on Development Cooperation, Paramaribo, 25 November 1975.

¹⁶ Source: Foreign Ministry of the Kingdom of the Netherlands (2004): *A Rich Relationship Suriname and the Netherlands: Present and Future*. Policy note on Suriname, unofficial Translation.

¹⁷ The report, *A Burdened Relationship, 25 Years of Development Cooperation: Netherlands – Suriname 1975-2000*, by D. Krwitj and M. Maks, was commissioned by the Office of Development Cooperation, Embassy of the Kingdom of Netherlands, Suriname.

¹⁸ The SWAP has emerged as a means of overcoming the lack of sufficient recipient ownership and the fragmentation of many individual projects, which, even when taken as a whole, have not necessarily resulted in adequate support for the country's own, identified priority development. (Cited from UNESCO website). <http://portal.unesco.org>

¹⁹ Sectors identified by the Netherlands for priority funding include: governance, agriculture, environment, education, housing, and health

²⁰ Initially, agriculture played a primary role in shaping Suriname's economic, social, and demographic development following Dutch colonization in 1667. The structure of the economy shifted to mining after World War I in response to global demand for alumina. During World War II more than 75% of all U.S. bauxite imports came from Suriname. Source. <http://www.cia.gov/cia/publications/factbook/geos/ns.html>.

²¹ Bauxite is refined to alumina and sold by two subsidiaries of foreign companies, Suralco (Alcoa) and BHP Billiton. In 1984, Suralco and Billiton formed two joint ventures: the Mining Joint Venture (MJV) and the Refining Joint Venture (RJV).

²² IMF Recent Economic Developments, all years.

²³ Bilateral assistance from the Netherlands was suspended on three occasions: (i) 1982-1987 in response to human rights violations under Bouterse's military dictatorship; (ii) 1991-1992 as an outcome of the "telephone coup" led by Bouterse in 1990; and (iii) 1997-2000 over political disagreement of the management of Treaty resources during the administration of Jules Wijdenbosch. Dutch development assistance was suspended a second time from 1991-1992 following a military coup in December 1990.

²⁴ Data published by the Bureau of Statistics (ABS) for the early 1990s are subject to more than the usual caveats due to the existence of a large and growing informal sector and distortions caused by high inflation. A methodology to estimate the size of the informal sector (gold mining, wholesale and retail trade) became available in 1996.

²⁵ For this evaluation, data has been extracted from various World Bank (1980-87) and IMF (1988-2004) reports, all based on official ABS data.

²⁶ The *Index of Economic Freedom* measures 161 countries against a list of 50 independent variables divided into 10 broad factors of economic freedom. Low scores are more desirable. The higher the score on a factor, the greater the level of government interference in the economy and the less economic freedom a country enjoys.

<http://www.heritage.org/research/features/index>

²⁷ Through the Ethnic Fractionalization Index, Easterly & Levine (1997) empirically demonstrate that in countries with weak public institutions (e.g. rule of law, bureaucratic quality, freedom from government expropriation), ethnic diversity has an adverse effect on income, growth, and economic policy. In countries with sufficiently good institutions, ethnic diversity does not lower growth or worsen economic policies.

²⁸ The quality of available economic data is poor, and therefore some of the figures presented may not be exact.

²⁹ During the 1980s, the official exchange rate was fixed at the pre-independence rate of Sf. 1.785/ US\$.

³⁰ Other issues affecting competitiveness include growth in the size and inefficiency of the public sector, loss of infrastructure in the interior due to guerrilla activities, and high real wages for agricultural activities destined to foreign markets.

³¹ The economic downturn was driven by decreases of 50% in GDP contribution, 37% in balance of payment impact, 85% in related government income, and 52% in export revenue. Source: WB (1985), *Economic Memorandum on Suriname*. Prepared by the Latin America and the Caribbean Regional Office. Report No. 5283-SUR. Volumes I: Main report and Volume II: Sector Reviews, pg.14.

³² Between 1982 and 1987, the fiscal deficit grew from 5% GDP to 25% GDP. (WB report 7635-SUR 1989)

³³ As measured by the percentage growth in the Consumer Price Index (CPI) index.

³⁴ At the end of 1993, the flow of aid from Holland was equal to 20.5% GDP, the country's average external balance was negative, real GDP growth slumped to -0.6% (1990-1994), gross international reserves stood at US\$ 41M (about one month of imports of goods and non factor services), and external payment arrears reached US\$ 48M.

³⁵ Exchange rate regulations had a particularly negative impact on the productive sector since industry paid for imported goods at the parallel market rate, while export receipts were surrendered at the appreciated official rate.

³⁶ Export volumes slumped as did export proceeds, falling from US\$35M (mid-1990s) to less than US\$ 10M (2003). See IMF (2005): *Suriname: Selected Issues*, IMF Country Report No. 05/142, April 2005, Washington, D.C

³⁷ Source: Central Bank of Suriname.

³⁸ Source: IMF Country Report No. 06/135. 2005 Article IV Consultation

³⁹ See IMF (2005): *Suriname: Selected Issues*, IMF Country Report No. 05/142, April 2005, Washington, D.C.

⁴⁰ Source: Embassy of The Kingdom of The Netherlands, Paramaribo, Suriname, 2005. Since 2000, Dutch aid has resumed at about 2% GDP, given the determination of Holland to pursue stricter policy conditions for disbursements.

⁴¹ Source: World Bank. (2004): World Development Indicators Database, Aid per capita (current US\$), 1980-2003

⁴² See IMF (2005): *Suriname: Selected Issues*, IMF Country Report No. 05/142, April 2005, Washington, D.C

⁴³ Although some tax rates have been raised to very high levels, the tax base remains skewed towards easy-to-collect taxes including import duties, wage withholding, and a corporate tax. (¶4.6)

⁴⁴ In the agriculture sector, Government owned about one third of the country's farmland and a number of agricultural enterprises. It intervened by fixing producer prices for rice that did not reflect the cost of production; and by providing agricultural infrastructure (including irrigation), and technical and financial assistance at subsidized rates through the Government-owned Agricultural Bank. (IMF, 1985:6-7).

⁴⁵ The most striking cases of fiscal deficit monetization, inflation, real exchange rate appreciation, and crises in the balance of payments took place during 1989-1993 and 1997-2000. In some of these years, notoriously (1989, 1990, 1997), there existed good external prices for bauxite-related exports. Higher revenue from the mining boom, combined with expansionary fiscal measures, caused upward inflationary pressures, thus reducing the

competitiveness of other economic sectors--a phenomenon that economic theory has denominated "Dutch disease".

Source: IMF

⁴⁶ A ceiling on Central Bank financing to central government was set since 1981 at 10% of budgeted annual current fiscal revenues, although this limit was surpassed in several opportunities in the past. More recently, in 2002, legislation was changed establishing new limits for state borrowing from all sources (60%), and imposed heavy penalties for government functionaries breaching these new limits.

⁴⁷ Controls on the prices of domestic goods and services, wages, and profit margins have been common since the early 1980s, as have limits imposed over private employers for personnel dismissal procedures. See IMF (1990): *Recent Economic Developments: Suriname*.

⁴⁸ In 1992, government introduced a multiple exchange rate system that failed to reduce the large gap between the official and parallel markets. The failure to reduce the gap between the official and parallel markets yielded to great distortions and heavy losses by CBvS, estimated at 11.5% of GDP during 1993. A unified official rate was adopted in 1994; however, a parallel market soon emerged and continued until the launch of the SRD 10 years later (IMF, 1994 Article IV).

⁴⁹ The 1988 adjustment program prepared by World Bank (WB) did not meet Government's approval. The following year, Suriname invited the European Economic Community (EEC) to prepare a multi-year adjustment and recovery program; this too failed.

⁵⁰ With the introduction of the SRD in January 2004, the exchange rate stabilized around SRD 2.75 per US\$.

⁵¹ See IMF Public Information Notice No. 05/54.

⁵² Gold mining is still performed to a large extent by informal small-scale miners located in the interior; however, recent changes in regulation and favorable international prices are resulting in positive changes. For example, in 2004, Cambior, a Canadian company, invested in a large project for gold extraction that employed a workforce of 600. That year, gold exports accounted for 22% of the country's total exports.

⁵³ See IMF (2005): *Recent Economic Developments: Suriname*.

⁵⁴ As of 2004, the United States (U.S.), Norway, and the Netherlands (all large consumers of bauxite products) remain Suriname's primary markets. Within LAC, exports have remained marginal, with the only exception of Trinidad and Tobago. Numbers are presented in the Appendix, Table E: External sector

⁵⁵ The national road network consists of 8,837 kilometers of road, of which 26% was paved as of 2001. There is one transnational road connecting Suriname with Guyana and French Guiana; and one road running partially south from the capital towards Brazil. The chief seaport of Paramaribo handles 500-600 ships annually; but its rivers are too shallow to transit large ocean-going vessels, thus limiting commerce. Direct air links are scheduled to Amsterdam, Trinidad and Tobago, and Brazil; transactional costs are high due to limited demand. World Bank, World Development Indicators 2001.

⁵⁶ Inadequate domestic policies refer to real exchange rate appreciation and limited progress in structural reforms; underdevelopment refers to infrastructure and human capital constraints.

⁵⁷ Forecasts provided by IMF are the result of a debt-sustainability analysis that allows for assessing the country's vulnerabilities, especially to fiscal shocks. See IMF (various) *Article IV Consultations*, Staff Reports, Washington, DC.

⁵⁸ The three main creditors are Brazil, USA, and China respectively.

⁵⁹ For example, rules were not put in place to ensure a balanced budget, or that expenditures did not exceed estimated resources. For details, see IADB (2001): *Governance in Suriname Economic and Sector Studies*, RE3

⁶⁰ The Front for Democracy and Development was comprised of an alliance of traditional parties, including: Creole NPS, Hindustani VHP, and the Javanese KTPI coalition.

⁶¹ During the transition to democracy, and following two years of tense negotiations, a peace agreement was reached between the Maroon insurgency and the Military regime that included a guarantee of safety for Eastern Suriname's population, and development commitments for the interior. Rebel activity diminished, but not for long. Despite the agreement, Bouterse's forces armed a group of Amerindians to fight against the Maroons. The Amerindians revolted and the civil government had little control over the situation, thrusting the country into even greater chaos. On June 15, 2005, the Inter-American Human Rights Court found Suriname in violation of the American Convention on Human Rights, including Article 21 (the right to property) in relation to the killing of 39 members of the Maroon community of Moiwana during the Interior War. In addition to financial compensation, the Court ordered that Suriname "adopt such legislative, administrative, and measures as are necessary to ensure the property rights of the members of the Moiwana community in relation to the traditional territories from which they were expelled."

⁶² In 1996, NF lost by a narrow margin in second-round voting to Bouterse's Nationale Democratische Partij (NDP).

⁶³ Kaufmann D., A. Kraay, and M. Mastruzzi 2003: *Governance Matters III: Governance Indicators for 1996-2002*. World Bank http://info.worldbank.org/governance/kkz2004/sc_chart.asp. The Kaufman index is based on responses from a large number of enterprises, citizen, and experts respondents regarding the quality of governance.

⁶⁴ These findings are further discussed in the Technical Note on Governance.

⁶⁵ Source: IMF 2005.

⁶⁶ The World Bank (1998) estimates that the small-scale gold mining sector employs between 15,000 and 25,000 people, thus representing between 24% and 40% of the country's total formal employment. On the other hand, an IMF's report (2005) presents more conservative estimates, based on Suriname official data, of between 10,000 and 20,000 small-scale miners, who represent between 16% and 31% of the country's total formal employment. It is worth stressing that even taking the lowest figure, this sector continues being the second largest employer in the country.

⁶⁷ Ministry of Regional Development (2000): *A New Agenda for Social Development and Poverty Reduction*, Government of the Republic of Suriname, Paramaribo.

⁶⁸ According to the IDB Suriname Poverty and Safety Net Assessment, household surveys in Suriname are representative of Greater Paramaribo and Nickerie only, and do not take into account the population living in the interior, which anecdotal evidence suggests is the poorest.

⁶⁹ General Bureau for Statistics (2001): *Poverty Lines and Poverty in Suriname*, ABS (Algemeen Bureau voor de Statistiek).

⁷⁰ Unemployment ran in double digits for all but three years from 1990-2003. (1995, 2002, 2003).

⁷¹ HDI is a composite index measuring average achievement in three basic dimensions of human development, a long and healthy life, knowledge, and a decent standard of living.

⁷² Source: United Nations Development Program (UNDP) 2005

⁷³ IDB: *Education Sector Study*. Economic and Sector Studies Series. Region3. 1997.

⁷⁴ Education expenditure as a %GDP averaged 3.4% for the decade 1990-2000. Source: United Nations 2005. Millennium Indicators Database.

⁷⁵ Source: Ministry of Education 2001-2002.

⁷⁶ Source: United Nations 2005, 97% primary net enrollment

⁷⁷ IDB: Basic Education Improvement Project (SU-0023), 2003.

⁷⁸ UNICEF: Suriname Multiple Indicator Cluster Survey, 2001: <http://www.childinfo.org>; IDB: Suriname Education Sector Study, 1989.

⁷⁹ Source: Ministry of Education 2004 (for the period 2001-2002), pg. 1-7.

⁸⁰ 2001 estimate: The Economist Intelligence Unit.

⁸¹ "The infant mortality rate has fluctuated strongly between 1995 and 2000, the prenatal mortality rates –the probability of death between the 22nd week of pregnancy and 7 days after birth– and neonatal mortality rates –the probability of dying in the first month of life– have both increased slightly over the same period... Maternal mortality is also high in Suriname and has reportedly been increasing since 1995. In 2000, maternal mortality was 153 per 100,000 live births, the second-highest maternal mortality rate in the region" (IDB 2005, pp. 21-22). Life expectancy at birth in 2002 was 71.4 years, compared with 64.8 in 1980; infant mortality improved from 46.6/1000 live births to 24/1000 over the same period. (IDB 2005, *Suriname's Road to Health Sector Reform, an examination of the health care system and recommendations for change*)

⁸² IDB (1997): *Suriname Health Sector Study*. IDB (2005): *Suriname's Road to Health Sector Reform, An Examination of the Health Care System and Recommendations for Change*

⁸³ Source: International Monetary Fund (IMF) Report 05/142,

⁸⁴ The total value of remittances is unknown. Professor Ruben Gowricharn, Tilburg University, has estimated the average annual transfer between 1990-1999 to be US\$ 68M, or 30.1% of the national income over the decade. Kruijt and Maks, Centre on Migration, Policy and Society, University of Oxford, have calculated an average annual transfer of US\$ 47.5M. The Dutch government has estimated remittances to be as high as € 100M. Source: A Rich Relationship: Policy note on Suriname 2004. (Unofficial translation.)

⁸⁵ According to the IDB Suriname Poverty and Safety Net Assessment, household surveys in Suriname are representative of Greater Paramaribo and Nickerie only, and do not take into account the population living in the interior, which anecdotal evidence suggests is the poorest.

⁸⁶ For the purpose of this evaluation, OVE will treat the gap between country programs as the de facto continuation of the previously approved strategy.

⁸⁷ RE 271-1

⁸⁸ The following questions were posed to gauge relevance, consistency, and coherence: Did the program address Suriname's most serious development challenges? Are there any contradictions between the various programming cycles over time? Did the program make full use of all the Bank's instruments and coordinate its activities with those of other agents?

⁸⁹ In addition to the referenced loans, two Project Preparation Facilities (PPF: SU-0021 Low Income Settlements, PPF:SU-0022 Support for Local Government Development) totaling US\$ 1.1M were approved to finance the preparation of corresponding loans. Following the protocol established in earlier CPEs, these resources are not included in the analysis.

⁹⁰ This evaluation uses the current terminology "country strategy" (CS) which supersedes documents formerly called "country programming paper" (CPP), "program memorandum" (PM), and "country paper" (CP). The specific aims of country programs are set out in country strategy (CS) papers, which are the broad frames of reference for the Bank's programming with a country. Worked out by consensus between the Bank and the country authorities as to strategy aims and the lending program, CSs define the Bank's programming cycles for its work with member countries. Note that CSs form part of a larger programming exercise that includes other tools such as programming memoranda and programming missions and their respective reports, as well as economic and sector studies (OP-201), which build a dynamic dimension into the process and seek to reaffirm the priorities mapped out in the CSs.

⁹¹ Beginning in 1983 with IDB-6, Suriname became eligible for concessional financing under the Intermediate Financing Facility (IFF). In practice, the rate extended was equal to the Ordinary Capital rate minus 5%, but with a floor at the FSO effective rate of 1.88%. Under IDB-6, Suriname drew US\$ 12.8M in IFF credit to finance its social infrastructure projects in education and health. No resources were borrowed from the facility during IDB-7. With the advent of IDB-8 in 1994, IFF resources were allocated using a methodology based on GDP per capita, population, and debt service ratio to official creditors. Given Suriname's over-valued "official" exchange rate, the country was no longer eligible for concessional financing. The following year, following a severe contraction in economic conditions and the devaluation of the currency, Suriname was again declared eligible by the Board of Executive Directors for both IFF and non-reimbursable TC resources.

⁹² Off Pipeline Projects Include: SU001 Multisectoral Credit; SU0002 Environmental Sector Loan; SU0004 Rehabilitation Eastern Nickerie Polders; SU0007 Potable Water Supply-Paramaribo; SU0008 Rehabilitation Saramaca Rice Polders; SU0009 Electric Diesel Plant

⁹³ The Bank did not have a physical presence in Suriname until September 1984, when it appointed a Bank Official and an Administrative Officer in Paramaribo. Until then, all institutional arrangements were managed via Suriname's Embassy in Washington, DC. A fully operational Country Office was established in 1986, following the appointment of a Bank Representative and Financial Specialist.

⁹⁴ Loans applied for in Cycle I, but taken-off pipeline in 2002 include: SU0001 Multisectoral Credit; SU0002 Environmental Sector Loan; SU0004 Rehabilitation Eastern Nickerie Polders; SU0007 Potable Water Supply; SU0008 Rehabilitation Saramaca Rice Polders; SU0009 Electric Diesel Plant; SU0010 Expansion of Banana Cultivation; SU0011 Rehabilitation of Drainage and Irrigation.

⁹⁵ The relevance of the country program is defined as the degree to which the program's strategic objectives corresponded to the country's needs and the bank's general priorities.

⁹⁶ PM1997 7.10

⁹⁷ PM1997; CP1999

⁹⁸ CPP1999 2.5

⁹⁹ As summarized in PM1997, "Suriname has received more than US\$1.7 billion in aid since 1975, equivalent to about 7.5%GDP per annum. Still, per capita incomes were slightly lower than in 1975, and social indicators had declined over the decade of the 1990s." This finding was congruent with a growing body of research that affirmed "foreign aid accelerates growth and poverty reduction in developing countries that pursue sound economic policies, but has no measurable impact in countries with poor policies." [Source: Burnside C., Dollar D. (1997). *Aid Spurs Growth – in a Good Policy Environment*. Finance and Development (Vol 34, No. 4, December 1997).56-country study of the impact of development assistance]

¹⁰⁰ CPP1990, ¶ 3.02.

¹⁰¹ PM1997 ¶ 7.13

¹⁰² In addition to the 11 loans that form the core historic lending portfolio, two PPFs were also approved in 1999. Given the nature of this instrument, and the fact that it is not intended to produce measurable outcomes, they are not included in OVE's analysis.

¹⁰³ The 'program' for Cycle II is a 'proxy' based on the Bank's intentions in certain sectors in Suriname. OVE interpreted 'suggested' projects to be the Bank's programming efforts

¹⁰⁴ IDB Policy Note on Donor Coordination, 2005.

¹⁰⁵ Some studies have been jointly written with other organizations and Ministries in Suriname. For detailed information please look at Appendix H

¹⁰⁶ Governance received US\$ 5.3M or 19% of the total TC allocation. Of these resources, most (87%) were dedicated to public sector modernization, including a road map for public sector reform, and institutional strengthening. Three loans evolved from this input: Decentralization and Local Government, Public Sector Management, and Census Preparation.

¹⁰⁷ Twenty-three TCs totaling US\$ 5.1M (19%), were approved in the productive cluster. For the most part, the operations were small and unrelated to the preparation of the two approved loans.

¹⁰⁸ A total of 7 TCs (US\$ 2.3M, 8%) were approved for the environment and sustainable development.

¹⁰⁹ The Bank groups its borrowing member countries on the basis of their relative level of development within the region (AB-300). Group A are the more advanced countries; Group B represents the middle developing countries; Group C is comprised of countries with insufficient markets; Group D countries are the least developed. Suriname belongs to Group C (The Bahamas, Barbados, Costa Rica, Jamaica, Panama, Trinidad & Tobago, and Uruguay.)

¹¹⁰ The classification of countries into three Regional Departments is largely based upon geographic considerations. Region 3 includes the Commonwealth Caribbean and northern Andean countries of: The Bahamas, Barbados, Guyana, Jamaica, Suriname, Trinidad & Tobago, Colombia, Ecuador, Peru, and Venezuela.

¹¹¹ In addition to the three referenced comparators, Annex 2 describes a methodological exercise intended to identify a fourth Comparison Group of Countries (CGC) within the Bank based upon two dimensions: (i) similarities among the country portfolios in terms of volume and share of loans relative to technical cooperations (TCs); (ii) similarities of socio-economic structures for the period 1980-2003 as defined by key indicators. The results of this comparison are not reported in the main text; however, they are included in the Annex 3 Tables.

¹¹² Source: Debt Management Unit of Suriname

¹¹³ The Agriculture and Trade Policy Reform (ATPL) was a fast disbursing policy based loan of US\$ 30,000,000 approved in 1998. At the time, the Bank strategy (CP 1997) was to avoid investment lending until the Structural Adjustment Program (SAP) was implemented and the economy stabilized. The project disbursed the first tranche in April 1999. By December, 1999, the borrower was unable to comply with one of the key conditions related to the establishment of an adequate macroeconomic environment, i.e. the achievement of a central government fiscal surplus or a deficit of less than 3% GDP, when in fact, by the end of 1999, the deficit approached 12%. In addition, the requirement to introduce a freely floating, market-driven exchange rate was only partially satisfied, in that a managed float was introduced. Moreover, the rate of inflation increased dramatically, hovering around 120%, far in excess of the 25% limit agreed. The second tranche was disbursed in 2003 under an improved political and macroeconomic context.

¹¹⁴ Net cash flow is measured through the coefficient of variation of the disbursed amounts

¹¹⁵ For example, SU0020 was approved in May 2000 and expected to be totally disbursed in four years. By the end of 2004, only 18% was disbursed. Likewise, SU0017, approved in 2001, had just 15% disbursed three years later.

¹¹⁶ Including PPMRs, PCRs, Aide Memoires, Portfolio Reviews, and project evaluation documents.

¹¹⁷ 80% of all loan cancellations (US\$4.2M) relates to the termination of the Bank's first loan (Primary Education) for unsatisfactory performance and irregularities in the infrastructure component. With regard to the active portfolio, the two most recent internal audits of the COF by the Bank's Auditor General's office (2000, 2004) have not identified loan irregularities as either a pressing or continuing concern.

¹¹⁸ The Bank allows a 60 day grace period following contract signature during which no commitment fees are charged.

¹¹⁹ These costs were calculated for all the projects with more than one year at December 2004 in Suriname.

¹²⁰ In the two worst cases, unscheduled commitment fees amounted to an additional 4.5% (Improvements of Nickerie Hospital project - SU0003) and 6.3% (Primary and Middle Education System Improvement project - SU0006),¹²⁰ over the original programmed loan financing. Should current patterns of disbursement be maintained, an additional US\$ 1.1M in unscheduled commitment fees could accrue to active loans. This amount is about three times higher than the fee would have been for on-time implementation; and in the case of the Community Development Fund (SU0020), the additional fee could rise to 3.7%. (*Annex 3.8*)

¹²¹ Of these, two were stand-alone projects in tax administration, one was linked to the census, and one was used to prepare to a loan dropped from the pipeline.

¹²² There are 11 supervisory instruments in the Bank's toolkit, including the Project Alert Information System (PAIS), Project Performance Monitoring Report (PPMR), Technical Inspection Visits (TIV), Financial Inspection Visits (FIV), External Financial Auditing (EFAS), Project Completion Reports (PCRs), Annual Portfolio Review Mission (CPR), Annual Evaluation of the Portfolio (APE), Mid-Term Evaluation (MMT), Final Evaluation (FIN), Ex-Post Evaluation (BEP). Analyzed information has been taken both from the IBD Data Bank and ROS. The Country Office and RE3 have verified this data and provided additional records.

¹²³ COF does not agree that disbursements, as interpreted by PAIS, are an accurate measure of project success. In comments to OVE (June 15, 2006), COF noted that "the level of disbursement as an indicator of successful project execution runs contrary to the efficient use of project resources." In other words, if a project can execute in a more cost-effective manner than originally planned, it is automatically categorized by the Bank as a problem project, rather than an efficient project.

¹²⁴ Although supervisory measures are not consistently tracked by the Bank's self-evaluation system beyond those required by loan contracts, hence discrepancies exist between the level of supervision compliance tracked by the Bank's official reporting systems, and the level of supervision documented by COF specialists through official "memos to the files".

¹²⁵ See Project Results Frameworks

¹²⁶ For more information about the ex-ante evaluability index see Knight and Ruprah 2001.

¹²⁷ See World Bank: *Guidelines for Public Debt Management*.

¹²⁸ Constraints to debt management raised in Chapter I include: the country's historical reliance on non-debt financing; the occurrence of numerous episodes of inflationary financing of public deficits; the country's difficulty in issuing marketable debt both domestically and internationally; difficulty in servicing external debt on a regular basis; lack of medium-term risk-management analysis and assessment of contingent liabilities; degree of exposure to macro-shocks; and the absence of coordination of debt management with fiscal and monetary policy.

¹²⁹ *Institutional Strengthening of Debt Management (ATN/SF-8173-SU)*.

¹³⁰ <http://www.sdmo.org/>

¹³¹ Of the 88 TCs approved for Suriname, these two operations are the largest in size – US\$ 3.1M and US 1.8M respectively.

¹³² To correctly interpret table figures, the reader should be aware of important changes in the macroeconomic context. For example, the sudden increase in tax revenues in period 1996-97 was due in part to the sharp reduction in inflation.

¹³³ Refer to IMF (2005): *Suriname: Selected Issues*, IMF Country Reports No. 05/90, and 05/142.

¹³⁴ IMF (various) *Article IV Consultations*, Staff Reports, Washington, DC

¹³⁵ As of June 2006, the following volumes of census data were available on line: Demographic and Social Characteristics of the Population; Employment and Education; Fertility and Mortality; and Living Quarters, Households, and Families.

¹³⁶ Background main source: (2001): *Governance in Suriname Economic and Sector Studies Re3*

¹³⁷ By law, the President appoints District Commissioners; and the Ministry of Regional Development manages the relationship between the Districts and central government.

¹³⁸ Envisioned local taxes include property taxes, public entertainment taxes, liquor license fees, rental fees.

¹³⁹ Although there is confirmed evidence of support from several political fractions and interest groups on an individual basis, eventual difficulties may arise when collective political support is needed, especially in considering the sensitivity of the area subject to reform and the increasing trend towards political fragmentation in the country. These aspects are overlooked in the risk analysis of the Bank project SU-0027.

¹⁴⁰ Suriname maintained a restrictive system of trade controls under the 1954 Import and Export Regulation.

Licenses were granted at the discretion of the Ministry of Trade and Industry on a per shipment basis, and often required approval from several other government agencies

¹⁴¹ IDB (1997): *Revitalizing Agriculture in Suriname*. Economic and Sector Studies Series. Region3

¹⁴² The 1997 Bank Strategy proposed to finance two Policy Based Loans: one small, focused and fast disbursing loan to improve the overall environment for agricultural development by supporting deregulation of agricultural trade, and a larger loan to support more fundamental structural reforms such as the removal of policy, legal and institutional constraints to land and water-resource management as well as reforming the role of the state in agriculture.

¹⁴³ Source: Loan Document: ATPL (SU-0016)

¹⁴⁴ Source: 2004 WTO Trade Policy Review

¹⁴⁵ It was replaced with a requirement to deposit such proceeds in a foreign exchange account held by the exporter with a domestic bank, or sold to local commercial banks at the existing market rate. However, according to private sector representatives, this requirement is not actively enforced.

¹⁴⁶ The new law incorporated a Negative List approach by declaring imported goods free from non-tariff restrictions, with some exceptions. An automatic registration requirement for imports and exports not contained in the negative list is maintained for data collection purposes. According to private sector representatives, this requirement results in significant delays. To clear goods through customs, importers need to complete the international trade transaction form for goods and services (IT form) for statistical purposes. All payments related to trade transactions must be made through a commercial bank established in Suriname. Still, customs can be cleared in about three days.

¹⁴⁷ The PCR also notes that ATPL improved the economic environment for the rice industry by eliminating taxation, pricing distortions, price controls and retention quotas; but no measurable data is provided to support these statements.

¹⁴⁸ The Everything But Arms initiative, adopted by the EU in March 2001, grants quota-free and duty-free access to some 50 least developed countries (as defined by United Nations) for all goods except weapons and armaments for an unlimited period. Neither Suriname nor Guyana qualifies for the EBA initiative. Nevertheless, special transitional arrangements have been maintained for sugar, bananas, and rice; but these are scheduled to expire in 2006 (for bananas) and 2009 (for sugar and rice). In the latter case, custom duties under the EBA will be reduced by 20% in September 2006, and a further 30% each in September 2007 and 2008, and eliminated completely in 2009. (IMF, 2005:47)

¹⁴⁹ The negotiated agreement with Brazil would allow for a reduction in rice tariff of from 11% to of 4% for a limited period

¹⁵⁰ The 2001-2005 MOP identified the principal problems in the forestry sector as: an aging industry, lack of investments, incomplete legislation, inadequate coordination, high interest rates limiting access to capital, and weak enforcement of laws. A high priority was given to establishing a forest management authority and policy.

¹⁵¹ Source: (FSEA 2003, SBB evaluation report 2002)

¹⁵² CPP1990 documented that the loan was slow to execute because of the borrower's lack of familiarity with Bank requirements and complicated internal procedures to obtain import licenses, and that none of the three projects approved in 1980s, including the Credit program, has delivered a positive net development impact. PM 1997 observed that the program "the program partially met its objectives. However, the cost of the 91 jobs created by the program (US\$66,000 each) was high. Moreover, the wisdom of supporting mostly import-substitution industries...without trade barriers, is dubious."

¹⁵³ Today the logic behind the project has been abandoned. Direct lending by National Development Banks, credit allocation to particular sectors, and subsidies across Latin America are discouraged by the Bank.

¹⁵⁴ The Program to Improve the Quality of Primary Education (SU-0006) was financed by a TC Loan of US\$6.5M and an FSO Loan of US\$1.5M.

¹⁵⁵ The lowest wage for civil servants was approximately US\$160 (SRD 427) per month, which did not provide a decent standard of living for a worker and family, US Department of State, 2004.

¹⁵⁶ A civil war in the mid-80s affected mainly the communities in the interior destroying a large part of public services infrastructure.

¹⁵⁷ It is possible to identify three main reasons for this low level of efficiency. First, CDFS is overstuffed; it employed 39 full-time technical staff as of December 2004.¹⁵⁷ Second, CDF salaries account for US\$749,700 per year (an average of US\$2,119 per person each month between November 2002-December 2004—significantly higher than the average public service salary). While the high level of salary could be justified as a way to attract skilled professionals, this does not appear to be the case, since this well-paid staff had only completed four projects.¹⁵⁷

¹⁵⁸ Comparative data and details are provided in "Governance Technical Notes"

¹⁵⁹ Wage increases / adjustments have historically been a main source of fiscal unbalances and following inflation.

¹⁶⁰ A flat salary pyramid; little incentives towards higher-skilled staff; low productivity of public employment, low efficiency and effectiveness in the provision of essential public services; drain of best qualified employees towards the private sector, etc.

¹⁶¹ There are currently some 120 public enterprises and parastatal agencies in Suriname. Overall, they employ an estimated 15,000-17,000 workers (about 20% of formal total employment).

¹⁶² Examples of projects that have been misdiagnosed include the Community Development Fund (poor identification of risks); Primary Education (misdiagnosis of execution model and capacity); Global Credit

(inappropriate replication of project model); Nickerie Hospital (faulty assumptions); and Basic Education (lack of ownership).

¹⁶³ While CP1999 states that "a lack of social consensus on reforms is explicitly recognized and incorporated as [an] ex ante determinant of Bank strategy", ¹⁶³ it does not demonstrate an understanding of the inherent constraints, nor does it identify how they were taken into account in developing the strategy.

¹⁶⁴ See Project Results Frameworks

¹⁶⁵ Agreement between the Republic of Suriname and the Kingdom of the Netherlands on Development Cooperation, Paramaribo, 25 November 1975.

¹⁶⁶ Source: Foreign Ministry of the Kingdom of the Netherlands (2004): *A Rich Relationship Suriname and the Netherlands: Present and Future*. Policy note on Suriname, unofficial Translation.

¹⁶⁷ The report, *A Burdened Relationship, 25 Years of Development Cooperation: Netherlands – Suriname 1975-2000*, by D. Krwitj and M. Maks, was commissioned by the Office of Development Cooperation, Embassy of the Kingdom of Netherlands, Suriname.

¹⁶⁸ The SWAP has emerged as a means of overcoming the lack of sufficient recipient ownership and the fragmentation of many individual projects, which, even when taken as a whole, have not necessarily resulted in adequate support for the country's own, identified priority development. Cited from UNESCO website <http://portal.unesco.org>

¹⁶⁹ The Table is based upon Martin, D (2001): *The Suriname Economy: Experiences of the 1990s and Challenges Ahead*.

¹⁷⁰ During the 1980s and early 90s, the effect of exchange rate depreciation has not impacted significantly on public finances because of the relatively small incidence of external debt service payments as a share of total public expenditure; situation that has started to change since the end of the 1990s.

¹⁷¹ For more information about the ex-ante evaluability index see Knight and Ruprah 2001.

¹⁷² For more information about project evaluability see: *Analysis of Project Evaluability for 2001* (RE-275).