

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

**(SU-0019)**

**EXECUTIVE SUMMARY**

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

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

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

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

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

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

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

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

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

**Environmental/social review:**

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

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

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

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

**Benefits:**

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

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

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

**Risks:**

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

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

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

**Special contractual clauses:**

Conditions precedent to first disbursement:

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

Condition during execution:

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

**Poverty-targeting and social sector classification:**

This operation qualifies as a social equity enhancing project, as described in the indicative targets mandated by the Bank's Eighth Replenishment – due to the concentration of program activities in Districts outside the capital city, where average household incomes are, on average, well below the national median. However, the program does not qualify as a poverty-targeted investment (PTI) (see paragraph 4.7).

**Exceptions to Bank policy:****Exceptions to Bank policy governing the use of International Competitive Bidding for the procurement of consulting services.**

1. The Association of Netherlands Municipalities (VNG) has been selected as sole source specialized agency responsible for international technical assistance in program management and District capacity building, based on the agency's high level of specialization and regional experience in this area and its current ongoing technical advisory role in the area of local governance with the Government of Suriname (see paragraph 3.49).
2. For the international technical assistance required by the program in the area of local taxation and revenue generation, another specialized agency, the Interamerican Center for Tax Administrators (CIAT) will be contracted on the basis of a continuation of services contract. The new contract extends work already successfully under way through a PPF contract. CIAT, a highly specialized regional agency in the area of tax administration, plays a key technical advisory role with Suriname's Office of Tax Administration, who will co-execute the revenue generation component of the program (see paragraph 3.50).

**Procurement:**

The procurement of works, goods and consulting services will take place in accordance with Bank policy, as set out in Annexes B and C to the loan contract. In the case of civil works, since the maximum cost of projects in the program does not exceed US\$170,000, no procurement will be carried out under International Competitive Bidding (ICB) procedures; national procurement procedures will be followed instead. Consulting services will also be contracted according to Bank procedures, with two exceptions (see above). A procurement table is attached as Annex II.