

I. THE PROGRAM (INITIAL)

Decentralization and local government strengthening program

A. Objectives

- 1.1 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 (basic financial management and own source revenues). 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, with particular emphasis on a pilot group of five Districts¹; (iii) improving the capacity of key central government stakeholders, particularly in the Ministry of Regional Development; and (iv) undertaking preinvestment activities in support of follow up development of the sector by the government.

B. Components

- 1.2 The program has a total cost of US\$7 million, including a Bank loan of US\$4.9 million, organized into five components:

1. Intergovernmental reforms (US\$0.6 million)

- 1.3 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 fiscal self management. Existing laws and decrees, particularly the Law of Regional Bodies and the Interim Fiscal Decentralization Decree (No. 53), will be amended and consolidated into a new, permanent enabling framework for fiscal self management by the Districts. On the revenue side, this will include a basic package of laws, decrees, and related implementation actions, aimed at:

- (i) Updating and strengthening of the **property tax system** (*Rental Value Tax*), and partially devolving its administration to local governments;²
- (ii) devolution to the Districts of other taxes and fees currently administered by national government, 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**, within a framework of fiscal responsibility that promotes local fiscal effort.

- 1.4 On the expenditure side, the partial or transitional **budget authority** granted by Law of Regional Bodies and the State Decree 52 will be converted into permanent legislation, and new ministerial guidelines and procedures for prudential local budgeting and financial management will be formulated.

- 1.5 A set of studies will also be funded to address **complementary or follow-up reform initiatives**, including: (i) governance studies for the Districts of Paramaribo and Sipaliwini which, due to their special political-administrative status, will require special treatment³; (ii) a

¹ Wanica, Para, Commewijne, Saramaca, and Nickerie.

² Tax proceeds will be entirely transferred to the Districts, as will gradual responsibility for their collection. Tax assessment functions, however, due to their technical complexity, will remain in the hands of the central government's Office of Tax Administration.

³ Because of its role as capital of the country, and its population size, Paramaribo will require a preparatory study to determine the specific legal reforms and capacity building activities needed for self management. Similarly, Sipaliwini, because of its vast territorial extent, low density population, and large number of indigenous communities, will also require a preparatory governance study to determine the most suitable

study to formulate a model personnel policy for District governments⁴; and (iii) a study to define necessary follow up decentralization reforms not addressed in this program, especially as regards administrative and political reforms .

2. District capacity building (US\$3.0 million)

1.6 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 their capacity to manage the above systems (see paragraphs 3.22 - 3.26, **District certification levels**), 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.

a) Administration and planning systems

1.7 The program will assist Districts in creating a new staff position, that of District Administrator (DA). The DA will function as the District's chief executive, accountable – by contract – to the District Council. The DA's will play a critical role in ensuring the implementation of the program in each District. Under this subcomponent, the program will also equip and rehabilitate District offices as required for the new management systems and functions being installed; and provide ongoing training in basic administration and management techniques.

1.8 At the outset of the program, once the District Administrator is in place, each District will be supported in formulating a simple Program Implementation Plan (PIP), which defines the schedule of goals and benchmarks that each District commits itself to accomplish during the life of the DLGP. Further into the program, each District government will be supported in the formulation of a more comprehensive Strategic Development Plan, building around each District's PIP.

b) Budget and financial management

1.9 A central objective of the program is to develop a core capacity in the Districts for managing their own budget and financial management (BFM) systems. To meet this goal, the program will

- (i) Recruit and install new BFM personnel for each District, including: a financial manager, a cashier and a bookkeeper;
- (ii) Prepare BFM manuals on District budgeting, accounting, cash management and procurement.
- (iii) Develop and install basic software, based on the BFM manuals. This will include basic spreadsheet budgets and off-the-shelf accounting software.
- (iv) Provide intensive start up training to relevant District personnel (BFM staff, District Administrators and District council members), to be followed by periodic technical support.

1.10 After undergoing the above program of activities, and successfully preparing an Expenditure Plan (Budget) in accordance with the BFM manuals, each District will be certified in core BFM capacity. Beyond this core capacity, the program will also provide more advanced training and technical assistance to the pilot Districts, aimed at obtaining greater mastery of the full budget cycle and promoting practices of fiscal transparency, including public hearings and audits.

political administrative structure for the District, as well as the accompanying package of capacity building activities.

⁴ The study will provide District governments with a specific design and transition plan to convert the present centralized personnel system to a decentralized district personnel system, with local accountability.

c) Revenue generation

- 1.11 The main objective of this subcomponent will be the design and implementation of a simplified Tax Administration System (TAS) in each District, to manage the registration and collection process for all local taxes and fees, including: rental value tax, betterment and special assessment taxes, public entertainment tax, liquor license fees, and market rentals.
- 1.12 During the first year of the program a team of consultants will design a simple computerized tax administration system that will include a taxpayer master file and current account. The system will be implemented in the pilot Districts during the second year through technical assistance projects, under the shared supervision of the program's project implementation unit (PIU) and the national Office of Tax Administration (OTA). The tax system of each District will replicate major features of the national automated TAS administered by OTA. This will be accompanied by a complete set of guidelines, manuals and forms prepared by the program, covering procedures for collection, enforcement, control and audit, sanctions, and appeals.
- 1.13 In the case of Districts that are eligible for public works training projects through the program (see paragraph 2.16), emphasis will be given to developing special assessment and betterment tax mechanisms as a means of mobilizing private co-financing for these projects. As an incentive, Districts that mobilize at least 30 % of the total cost of a proposed public works project through special assessment mechanisms will be eligible for a second public works training project.

d) Citizen participation

- 1.14 Also included in the core certification process for each District is the requirement that it formulate a Citizen Participation Plan (CPP), defining the mechanisms it will put in place to improve government transparency and accountability with its citizens. This Plan will be drawn up following a practical training program with key District government personnel (Commissioners, Councils, Administrators and staff), familiarizing them with participation techniques currently used by local governments in other countries. These include: public hearings and forums, public announcements, citizen information centers, surveys and polls, focus groups, citizen advisory committees, press releases, coordination with NGOs, publications and newsletters. Once each District formulates its specific CPP, the program will provide follow up technical assistance and training for the implementation of the participation mechanisms adopted by the plan.
- 1.15 Emphasis will be given to the establishment of Citizen Information Centers (CICs) in each of the Districts, allowing citizens to have one-stop access to their local governments. These centers will provide a point of contact for citizen questions, complaints, requests for service and coordination of volunteerism and other citizen activities. Most importantly, they will provide streamlined government response mechanisms to the concerns raised by citizens. (Given the importance of effective response mechanism for the success of CICs, the program will monitor the effectiveness of these mechanisms in each District.) The CICs will perform as two-way information exchange centers, disseminating public information to citizens, related to District activities, plans, and special events, and feeding back to the District Councils and staff information on citizen preferences.

e) Preliminary capital works systems and investment projects

- 1.16 Once certified in the core capacity areas noted above, District governments will be eligible for program financing to develop preliminary capital works management systems and, in order to apply these systems, undertake training projects in road rehabilitation and maintenance. Since certification in core capacity is estimated on average to take one or two years to achieve, only the pilot Districts will be targeted for capital works activities through the DLGP. These activities will include:
- (i) Creation of a preliminary public works management system, focused on District roads. With the support of a basic public works manual prepared by the program, the Districts will be trained and assisted in the installation of

policies, procedures and forms for: work orders, job accounting and cost control; work plans and schedules; and work standards. Emphasis will be given to the creation of a rudimentary road management system in each pilot District, including: inventory and prioritization of District roads and drainage conditions; and formulation of multi-year maintenance and rehabilitation plan, linked to budget constraints.

- (ii) Technical assistance and training on project formulation and procurement.
- (iii) Formulation and implementation of capital works training projects. Each pilot District, once certified at Level 2, will be eligible for funding of up to \$180,000 – including a District counterpart requirement of US\$20,000 in matching funds⁵ – for training projects in road rehabilitation and road maintenance. The typical road rehabilitation project, estimated to cost US\$140,000⁶, will reinforce the road surface of approximately 10-12 km of sand/shell (occasionally asphalt) roads, and improve the accompanying drainage systems, road width and signage. The road maintenance projects, estimated to cost approximately US\$40,000⁷ per District, will contract out routine and periodic maintenance – pot hole filling, grading, cleaning of drainage, and repair of signage – for a similar length of roadway (10-12km).

3. Institutional strengthening of sector (US\$0.5 million)

- 1.17 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 that: (i) defines the Ministry's appropriate long term functions in the sector; (ii) assesses its organizational strengths and weaknesses; and (iii) proposes an action plan of strategic organizational reforms and improvements. Funds will assist in the implementation of this action plan, tentatively targeted to strengthening the Local Government and Decentralization Division, the Budget and Financial Administration Unit, and the Civil Technical Administration Unit.
- 1.18 Program resources will also be used to provide institutional strengthening to other key stakeholders in the sector. As co-executor of the revenue generation activities of the program, the national Office of Tax Administration (OTA) will receive resources for incremental staffing needs, equipment and overhead costs necessary to carry out its obligations in the program. The program will provide organizational and logistical support as well for the establishment of an information exchange network among District governments. Finally, in light of the very limited professional experience in the country with local government capacity building, the program will fund a systematic training of trainers program, aimed at recruiting, training and certifying local consultants and firms in capacity building for local governments.

4. Preinvestment (US\$0.5 million)

- 1.19 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 projects, including related needs assessment studies, feasibility studies, and the preparation of preliminary construction designs. 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. This includes the design of a new, more demand-driven system for the

⁵ Generated through a special assessment mechanism to be created in the Districts through the program (see above, **Revenue generation**).

⁶ Including pre and post contract engineering costs.

⁷ Including pre and post contract engineering costs.

identification and formulation of District capacity building and capital investment projects. It will also include the design of project approval and eligibility criteria for new types of projects not currently considered under the DLGP, particularly for solid waste collection, and the improvement of public market, small water supply systems, and public open spaces.

5. Program support (US\$1.3 million)

- 1.20 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. This includes the unit's director, five project managers responsible for the execution of the program's components and subcomponents, a financial officer, and support staff. 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 and, initially, lead the PIU in the execution of the program. During the first 18 months of the program, the RA will be employed full time, playing a lead managerial role in the execution of the program, and training the PIU staff. During the second half of the program, the RA will be employed only part time, gradually transferring effective management responsibility to the PIU Director.
- 1.21 A comprehensive marketing and public outreach campaign will also be funded through this component, with a view to promoting the program, building consensus, and obtaining stakeholder feedback. Approximately US\$110,000 have been set aside for: (i) the formulation of a marketing plan; (ii) training and TA of PIU staff on marketing techniques; (iii) design of publications, reports, newsletters, and mass media products; and (iv) costs for public speaking, conferences and community interface events. Further, program resources will be used to assist the PIU in the design and start up a performance monitoring and evaluation system for the program.

C. Size and scope of the program

- 1.22 Several factors were taken into account in determining the size and scope of the program, including: (i) estimated cost of activities (ii) the relatively short, three- year, execution timetable for the program; (iii) the restricted counterpart funding capacity of the government; and (iv) the limited implementation capacity, both among national and District government agencies, and as well as among private service providers.

D. Program cost

- 1.23 The total cost of the Program has been estimated at the equivalent of US\$7.0 million, to be disbursed over a three-year execution period. The breakdown by components, subcomponents, and source of funds is presented in Table II-1, below.

Table II-1
PROJECT COSTS BY INVESTMENT CATEGORY AND SOURCE OF FUNDS
(Amount in US\$ million)

	IDB	GOS	TOTA L	%
PPF	0.8	--	0.8	11
Intergovernmental reforms	0.5	0.1	0.6	8
• Fiscal decentralization laws and decrees	0.4	0.1	0.5	
• Studies for follow up reforms	0.1	--	0.1	
District capacity building	2.4	0.6	3.0	42
• Administration and planning systems	0.5	0.2	0.7	
• Budget and financial management	0.2	0.2	0.4	
• Revenue generation systems	0.3	0.2	0.5	
• Citizen Participation	0.3	--	0.3	
• Prelim capital works systems and training projects	1.1	--	1.1	

Institutional strengthening of sector	0.4	0.1	0.5	7
• Strengthening of MRD	0.2	0.1	0.3	
• Other key stakeholders	0.2		0.2	
Preinvestment	0.4	0.1	0.5	7
• Pipeline for District capacity building	0.1		0.1	
• Pipeline for capital investment	0.1	0.1	0.2	
• Follow-up operational procedures	0.2		0.2	
Program support	0.5	0.8	1.3	19
• Program management	0.2	0.6	0.8	
• Marketing and public outreach	--	0.1	0.1	
• Other program support	0.3	0.1	0.4	
Financial expenses	0.1	0.4	0.5	6
• Interest		0.3	0.3	
• Inspection and supervision	0.1		0.1	
• Credit commission fees		0.1	0.1	
TOTAL	4.9	2.1	7.0	100

E. Financing plan

- 1.24 The Bank loan in the amount of US\$4.9 million will account for 70% of total program cost. The remaining US\$2.1 million will be local counterpart. The latter are distributed over the three-year execution period, and will be covered primarily by the national government, with the exception of an estimated US\$120,000 which will be contributed by Districts as a matching fund requirement associated with the trial capital works projects in the program.

F. Terms and conditions of the loan

- 1.25 Bank financing will be drawn from the Ordinary Capital Resources with interest rate support from the Intermediate Financing Facility (IFF). The following table shows the terms and conditions of the loan:

**Table II-2
Terms and Conditions of the Loan**

Source of funds	Ordinary Capital
Amount	US\$4.9 million
Terms:	
Amortization	25 years
Grace period	3 years
Commitment	2.5 years
Disbursement	3 years
Interest rate	Variable ⁸
Supervision	1% of the loan amount
Credit commission	0.75% per year on undisbursed amount
Currency	US dollars from the Single Currency Facility

⁸ The Intermediate Finance Facility (IFF)