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## **SURINAME RECONNAISSANCE MISSION**

Report by

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2000 Pennsylvania Avenue, N.W.  
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# SURINAME RECONNAISSANCE MISSION

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## **SURINAME RECONNAISSANCE MISSION**

### **1) Purpose and Duration of the Mission**

**Antecedents:** In early 1988 a World Bank mission was in Suriname and was, among other things, involved in discussions about reforming the state owned enterprises (SOEs) sector. This led to a request to the U.S. Government for a study as to how a restructuring of the SOE-sector could be achieved.

Later in the year a team from Robert R. Nathan Assoc., Inc. (Nathan Assoc.) visited Suriname and prepared a scope of work (SOW) for such studies in two reports of November 1988. Subsequently, policy concerns arose as to whether the orientation of the recommended studies was in conflict with Policy Determination No. 14 (PD-14) which establishes that USAID policy is privatization rather than reform of SOEs.

**Purpose:** One of the key purposes of the mission was to determine whether privatization would really be an open alternative at the conclusion of the studies proposed in the SOW (prepared by RDO/C). The report of the Nathan Assoc. consultants mentions privatization of SOEs only marginally and without any indication as to whether the government would in reality consider it at the end of the studies.

**Duration:** The reconnaissance mission to Suriname started May 1 and ended May 12. It was followed by a meeting with the RDO/C (Regional Development Office/Caribbean) in Barbados on May 17 and a debriefing in Washington, D.C. at the Center for Privatization from May 22 to May 24.

The mission in Suriname included discussions with government and other leaders and particularly with Planbureau and the Counterpart Group, which was formed subsequent to the Nathan Associates visit. It consists of delegates from the Ministries that supervise SOEs. The Ministries involved are Finance, Agriculture, Economic Affairs and Natural Resources. These delegates attended most group meetings with those Planbureau staff members who are designated to work with the international consultant team that is to carry out the studies.

Unfortunately, Dr. Kortram, the Director of the Planbureau was ill and was only available on the last two days of the visit. Mr. Ramautarsing coordinated the Planbureau meetings in his absence.

### **II) Findings**

#### **A) General Initial Findings**

After discussing the proposed study plans and the question about privatization with the highest level political leaders and members of the Planbureau and the Counterpart Group, it became apparent that:

- There was little comprehension that privatization is basically a political decision.
- There has been no active initiative in the government for privatization. This is due to this government having been in office only a short period; having been concerned with other pressing problems; not having experienced the general futility of efforts to significantly improve the SOE sector.
- There was the definite impression among those who professed to be against privatization, that privatization meant selling the State's property to those already economically powerful in the country.
- There was no serious ideological opposition to privatization in the sense of doctrinaire Marxism. The professions for "State Capitalism" of a labor leader turned out to be ethnic protectionism and such opposition changed to interested listening when alternatives such as employee ownership, farmer cooperatives and widespread share ownership were mentioned. Also the opposition of an SOE-manager can probably be attributed to the category "fear of change, fear of the unknown," frequently encountered in this context.
- There was no understanding of the complications of the privatization process.
- There was a conviction among the members of the Planbureau staff and the Counterpart Group that the studies in themselves, would demonstrate scientifically which companies ought to be privatized.
- There was a belief, especially among younger working-level Planbureau staff, that SOEs could be improved substantially based on study recommendations.

#### B) Dialogues with Surinamese Leaders

The consultant met with various high level governmental officials, labor leaders and private sector executives. In the course of these meetings, the consultant discerned an overall sense of open-mindedness about privatization as one approach to revitalization of the Surinamese economy.

The leaders expressed interest in privatization for the following reasons:

- It would allow the Surinamese government to focus on improving it's core functions, leaving commercial activities largely in the hands of risk taking entrepreneurs and producers.

- **The Surinamese economy would benefit because divestiture of SOEs would help eliminate losses which contribute to the budget deficit.**
- **Opportunities for middle-income people to own part of the productive capital in the country would be created.**

**Some officials expressed concerns about the privatization process, such as the following:**

- **It would be difficult in a small economy to establish competitive conditions.**
- **There would be too few investors interested in the Surinamese enterprises.**
- **Due to certain political sensitivities, the term "privatization" would not be favored by all.**
- **Privatization and free enterprise are seen as a free-for-all in which the economically powerful exploit the weak.**

**In his dialogue with the leaders, and in response to their concerns, the consultant expressed his views that:**

- **There is a broader group of potential investors than is commonly believed. For example, local insurance companies represent a source of capital for acquisition of SOEs.**
- **Terms such as "restructuring" or "commercialization" can be used in place of "privatization."**
- **Employee ownership and limitations on shareholdings by rich individuals can be elements in a privatization program.**

### **C) Summary Appraisal**

**In summary, there seems to be rather widespread acceptance of privatization as an option for SOEs. Substantial work will be required, however, to demonstrate its feasibility in Suriname and to develop a viable plan for its implementation.**

**When appraising the issue it must be kept in mind that:**

- **There are a number of different actors and interest groups involved on the Surinamese side.**

- CFP and USAID, with their worldwide experience in privatization and the Surinamese government, with its limited experience with SOE problem-solving, do not necessarily communicate on the same wave length.

This said, some summarizing and interpretative statements can be made:

- The government is truly concerned with the problems of its SOEs and the losses they cause the government.
- Government leaders are open minded about privatization and would be disposed to implement it if the analysis of the SOE-sector indicates that this is the best way to solve the problem.
- The leaders of certain constituencies are concerned about the word privatization. They are afraid their supporters might see it as a move to transfer national property into the hands of those who are already seen as the principal owners of private wealth. Emphasis on employee ownership, farms and other cooperatives, limitations on maximum individual share ownership, and education of the public would greatly alleviate these concerns and, in some cases, even turn the argument around.
- Suriname's political leaders are willing to try privatization measures. However, they do not have, at this point, much experience with the actual process of privatization. They will need to experiment with it to gain this experience. A demonstration phase of a few actual privatizations would be very helpful in this process.

### III) Recommendations to Modify the Earlier Terms of Reference (TOR)

After 3 to 4 days of discussions and opinion gathering, the consultant decided that he should table some concrete proposals about modifications of the earlier terms of reference and become more specific about privatizations.

At this point he contacted CFP to propose modifications to the earlier SOWs, i.e.:

- The Inventory Phase (information gathering on all SOEs) should be done largely with Surinamese nationals, rather than with foreign consultants;
- Funds allocated in the original TOR for the Inventory Phase be reprogrammed for some privatization tests and other assistance in the execution of the study recommendations;

- Privatization should be tested early in the studies with several SOEs;
- The studies should, early in the process, identify macroeconomic policy improvements to be submitted to the government for implementation.

The Center for Privatization agreed that these modifications be proposed to the GOS, and the U.S. Ambassador also concurred. The consultant then proceeded to negotiate with the Surinamese authorities on the following proposals:

A) Utilization of Surinamese Personnel for the Inventory Phase

The original SOW did not envision funding for assistance in planning in the execution of the study recommendations. In order to reallocate funds for such assistance, the consultant examined the question of whether the Phase of 40 SOEs (or 55 if partly owned companies are included) could be carried out mainly by Surinamese personnel instead of by foreign consultants. This phase is a massive data collection on the SOEs.

After repeated meetings with Planbureau and Counterpart staff, and noting their interest and professionalism, and after meeting with a local auditing firm, the consultant concluded that Surinamese personnel could well replace foreign analysts. He suggested, therefore, that only \$ 20,000 of the projected foreign consultants costs for the Inventory Phase be retained for technical assistance to the Surinamese (questionnaire review, data review of the 5 companies that are the subject of the "special studies", etc.). For the verification of the accounting data of SOEs (Profit and Loss Statements, Balance Sheets) it is preferable to contract Surinamese public accountants familiar with Dutch/Surinamese accounting rules.

B) Reserve Funds for Assistance in the Execution of the Study Recommendations

After initial reluctance to accept any changes in the original SOW, the Planbureau staff agreed to this proposed change which would reserve funds for such assistance at the end of the study phases or at an opportune moment during the studies.

C) Test Privatization with Actual Cases

The Planbureau staff was asked to select three medium sized, politically not-sensitive companies, with which the actual privatization process could be tested. These tests should commence right from the beginning of the studies, i.e., at the same time at which the macroeconomic studies and the studies of the remaining companies were to be started.

The subsequent dialogues with government leaders about the study program included this new aspect. No serious objections were encountered from government leaders. However, the Planbureau and Counterpart people objected strenuously on several grounds:

- It would be too much of a deviation from the Terms of Reference agreed to months ago by the two governments
- It would be prejudice the studies. The Planbureau staff had either convinced itself that the studies would scientifically establish in which cases privatization was indicated or they had obtained this impression from the Nathan reports.

The staff instinctively rejected the notion that certain state companies should be pre-selected as candidates for privatization without first analyzing them. These young professionals believe that studies and their conclusions will almost certainly force political leaders to take action.

The particular suggestion to start with several privatizations right away was not accepted by the Planbureau's staff. However, they did agree to reallocate funds from the inventory phase to be utilized for demonstration cases of privatization, or other implementation efforts, at an opportune TIME.

D) Initiate Stand-Alone Macroeconomic Recommendation Early in the Study

The studies doubtless will recommend the elimination of the severe macroeconomic distortions that presently exist because the business and investment climate cannot be normalized, or fundamentally improved, without serious policy reforms. Examples: The high rate of government "money printing" equivalent to about 35% of government expenditures and the totally unrealistic exchange rate.

However, implementing these fundamental corrections needs to be part and parcel of a major structural adjustment program, as is normally sponsored by the IMF/World Bank. It cannot be expected that the study alone will bring this about. The study will help document the need for such an adjustment program and highlight the benefits of increased economic and business activity from the adoption of such a program.

Nevertheless, there are many improvements in the business climate that can be made on a stand-alone basis as interim steps. For example ( and this is not to prejudice the studies): to encourage exporters, they might be allowed automatically to retain a certain portion of the foreign exchange generated by them. This, in fact, would not be entirely novel; it has been permitted on a piecemeal basis before. Exporters also might be provided a realistic exchange rate on exports until there is a general devaluation; at least this might be allowed on new exports. While dual exchange rates are generally undesirable, this might be a temporary measure. It might, in

fact, prepare the way for exchange rate sanity. The ASFA managers mentioned that unnecessary “red tape” is a major factor that discourages exports and business activity, and action could be taken to reduce this impediment.

The consultant believes that such stand-alone recommendations should not have to await the completion of all the studies, which may take a number of months, but could be submitted to the government as soon as they are proven. The studies should also be designed to identify such recommendations early in the process.

Their adoption early-on will have several benefits for Suriname:

- The business climate and the economy will benefit earlier from the study;
- In the case of later privatizations, the companies concerned will have a higher value;
- The government will be seen as actively improving the economic environment, which will send encouraging signals to donor countries, and international financial institutions which have been withholding assistance in the absence of reforms.

E) Agreements Reached with Planbureau

Mr. Ramautarsing, the coordinator of the Counterpart Group, believes that the analysis and diagnosis of individual companies would provide the proper opportunity for creating the basis for recommendations to privatize specific SOEs. As he sees it, the studies would project what the future outlook for the various companies would be under different scenarios, such as “continue as is”, “try to improve as SOE”, or “privatize”. The study teams would draw on the experience of the World Bank ( as exemplified by the study “Bank Lending for State-Owned Enterprise Sector Reform (Lessons of Experience)”), of USAID and on the experience of many developing countries which shows that improving SOEs frequently has been unsuccessful, or only temporarily successful. In this setting privatization

Surinamese experience with changing or improving SOEs is very limited and the present civilian government has not been able to systematically analyze the condition of the state owned sector. Thus, Mr. Ramautarsing’s position has a certain validity.

### Final Meeting with Dr. Kortram

After a preliminary discussion with Dr. Kortram on May 10, a final meeting was held on May 11 in Dr. Kortram's office to summarize the agreements. Dr. Kortram agreed to:

- Conduct the inventory phase largely by Surinamese personnel (Planbureau and Counterpart staff, and Surinamese Public Accountants for the verification of the accounting data) with overall advice from senior members of the international consultant team.
- Reallocate study funds for assistance in carrying out the study recommendations.
- Begin the test of three privatizations either at the end of the studies or perhaps at an opportune moment during the STUDY.
- Formulate macroeconomic recommendations early in the STUDY.

Dr. Kortram emphasized that:

- He wants the studies started as soon as possible and with great urgency. He was very dissatisfied with the delays so far encountered.
- He wants to minimize changes in the details of this S.O.W.

The consultant reiterated that he was on a reconnaissance mission and could not leave any written agreement that was binding on the USG. However, he would discuss and try to finalize his recommendations with RDO/C and Washington within 10 days.

### IV) Clarification of a Misunderstanding about the TOR

During the mission, a significant misunderstanding of several parties regarding the intent and orientation of the analytical, diagnostic and recommendation parts of the "General Studies" was clarified. Several parties had come to understand that these studies were to be mainly management-consulting studies based on the inventory phase of the 40 (or 55) SOEs.

The Regional Development Office/Caribbean (RDO/C) noted that the "General Studies" were to be mainly macroeconomic studies (aside from the Inventory Phase) to identify the problems which economic policy and the general economic framework in the country caused for the SOEs and, in fact, all businesses, and to prepare macroeconomic policy recommendations to improve the overall business climate.

V) Summary of the Recommendations and the Key Phases of the Study (as modified)

During the reconnaissance mission, the following recommendations were made and agreed to except for a timing difference on one point:

- Replace foreign analysts with Surinamese personnel for the inventory phase;
- Reserve funds for assistance in the execution of the study recommendations;
- Test privatization with actual cases;
- Propose macroeconomic, stand-alone recommendations early in the study.

These items, as a broad scenario, were agreed to by the political leaders during the various individual discussions. Dr. Kortram and Planbureau staff did not feel ready to carry out privatizations concurrently with the start of the work of the international team, but preferred to leave this for the end of the studies or some other opportune moment.

At the meeting with RDO/C on May 17 RDO/C agreed to the changes suggested by Geiger, after he had briefed Messrs. Grohs, Patalive and Clarke on the reconnaissance mission.

In view of the modifications and of past misunderstandings about the orientation of the studies it may be advisable to specify the key phases of the Surinamese study, as now clarified and partly re-defined:

- A) The Inventory Phase (C-1)  
Unchanged in content.  
Main detailed workload now to be performed by Surinamese personnel (Planbureau and Counterpart Members, Public Accountants) instead of by foreign consultants
- B) The Analysis, Diagnosis and Recommendation Phases of the SOE Sector (C-2, C-3, C-4-1st part)  
Unchanged  
To be based on the original primary focus on the macro-economic business climate, and only incidentally on management consulting of individual SOEs.
- C) The Study of Five Selected Companies (C-4-2nd part)  
Unchanged

D) Assistance in Planning the Execution of the Study  
Recommendations ( C-7)  
New

E) Early Submission of Stand-Alone Macro-Economic  
Recommendations (C-8)  
New

SURINAME  
ESTIMATED BUDGET

## I. DIRECT LABOR

# WK DAYS X DAILY RATE X MULTIPLIER

## A) GENERAL STUDY

1. SR. ECONOMIST	87	\$285.78	1.90	\$47,488.06
2. SR. FIN. ANALYST	60	\$285.78	2.94	\$50,411.59
3. JR. FIN ANALYST	22	\$210.00	1.90	\$10,533.60
4. BACKSTOP OFFICER	10	\$274.52	2.07	\$5,682.56

## B) SPECIAL STUDY

1. SR. ECONOMIST/FIN	70	\$285.78	1.90	\$38,008.74
2. INUSTRY SPEC. (5)	50	\$274.52	1.90	\$26,079.40
3. SR. MGNT SPEC.	50	\$274.52	2.28	\$31,295.28
4. LEGAL/INSTITUTION	50	\$274.52	1.90	\$26,079.40

4. REPORT PREPARATION				\$20,000.00
5. DBA INSURANCE (ON \$180,189.82)				\$7,664.92
6. MEDAVAC INSURANCE				\$650.00
7. LOCAL TECH. SUPPORT (40 DAYS)				\$21,600.00
8. WASH SEMINAR PARTICIPANT FEE @\$2950.00/PERSON X 3 PERSONS				\$8,850.00

SUBTOTAL

\$83,764.92

## III. TRANSPORTATION

1. AIRFARE (WASH-PARIMABO- WASH.) @\$1741/TRIP X 17 TRIPS	\$29,597.00
(PARIM.- WASH.- PARIM.) @1741/TRIP X 3 TRIP	\$5,225.00
2. PER DIEM @\$108.00/DAY X 440 DAYS	\$47,520.00
WASH PER DIEM @\$122.00/DAY X 42 DAYS	\$5,124.00
5. LOCAL TRANS./MISCELL \$200/PERSON X 20 TRIPS	\$4,000.00

\$91,466.00

TOTAL DIRECT COSTS

\$410,809.55

SCIENTEX G&amp;A FEE 12.39%

\$50,899.30

TOTAL ESTIMATED COSTS

\$461,708.85

SCIENTEX FEE 8.5%

\$39,245.25

GRAND TOTAL

\$500,954.11

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