

Dam debt

Understanding the dynamics of Suriname's debt crisis

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The debt crisis in Suriname is the story of an autocratic and corrupt regime aided and abetted by global finance throughout the last decade. Powerful commercial creditors, China and multilateral institutions, such as the IADB, stood to benefit from the debt of the country. It was a good business for everyone involved except those in whose name they were being taken: the people of Suriname. Yet, as the crisis ravages the country, they are the ones expected to pick up the tab in 2020 and beyond.

In November 2020, Suriname joined ranks with Zambia, becoming the second country to default on its sovereign debt in the aftermath of Covid-19.¹ After struggling for years with a surging debt problem, the pandemic tipped over the country into distress. One out of four people were left in poverty after a recent crisis triggered by a commodity price downturn in 2016.² The shock caused by the pandemic is expected to further exacerbate the hardships faced by the population. Per capita income, based on Purchasing Power Parity (PPP), is projected to decline by a record 14 per cent in 2020.³

Despite the severity of the situation, Suriname is precluded from receiving substantial multilateral support due to its upper-middle income country status. The country is not eligible to receive grants or other more concessional forms of Official Development Assistance (ODA). For this same reason, the country cannot participate in the G20 Debt Service Suspension Initiative (DSSI) and the Common Framework for Debt Treatments Beyond the DSSI to receive any form of short term debt reprieve.⁴

From a broader perspective, Suriname is yet another example of the failings of the international sovereign debt architecture. Developing countries are being left to challenge powerful creditors in a playing field tilted against their development needs.⁵ As long as this structural imbalance remains unaddressed, more countries will follow Suriname and Zambia into a full blown debt crisis. While the population of these countries is left to suffer, their creditors stand to profit handsomely from the crisis.

This briefing explores the origins of Suriname's debt crisis and highlights the substantial challenges faced by the country to overcome it. The analysis is structured as follows. The first section provides an overview of the historical roots of the debt problems in Suriname. Sections two and three describe the context and details of the two series of Eurobonds issued by the country in 2016 and 2019. Section four analyses the context of Suriname's default and provides an overview of the challenges faced by the country. Section five concludes with policy recommendations.

Dam Debt: The origins of the debt crisis in Suriname

To understand the debt crisis in Suriname, it is necessary to go all the way back to 1916. This is the year in which the Aluminium Company of America (Alcoa) began its operations in Suriname.⁶ The US multinational required increasing amounts of bauxite as part of the manufacturing process of its main product, aluminium. Following the discovery of a rich bauxite deposit at the Moengo hills in 1915, Alcoa proceeded to set up shop in the country.⁷ By the time of World War II, Alcoa's mining activities had turned Suriname into one of the leading producers of bauxite in the world.⁸ To quench the ever increasing demand for aluminium, Alcoa decided to build the first aluminium manufacturing plant in the Caribbean in Suriname in 1958.⁹ This included the construction of an aluminium smelter and an alumina refinery. To meet the large electricity requirements of the manufacturing facilities, Alcoa reached an agreement with the former Dutch colony to build the Afobaka Dam. The Brokopondo Agreement was a 75-year concession that destined 90 per cent of the electricity generated by the hydroelectric plant to the Alcoa smelter facility.¹⁰ The agreement, set to expire in 2033, only left the remaining ten per cent available to the country.¹¹

The Afobaka Dam was built between 1961 and 1965. It created a 1,560 square kilometre artificial lake, one of the largest in the world.¹² Its construction involved the forced displacement of 6,000 tribal Maroons, direct descendants of 18th century runaway slaves.¹³ The authorities did not consult with the affected population and no meaningful effort was made to provide support after their former homes were flooded.¹⁴ Furthermore, the dam was an ecological disaster. The reservoir caused a steep reduction of oxygen levels in the Suriname River which decimated local fauna.¹⁵ Most species in the river and its tributaries did not survive the Afobaka Dam Reservoir.¹⁶

The Brokopondo Agreement remained unchanged until 1999. At this time, Suralco, the local subsidiary owned by Alcoa, decided to close the aluminium smelter. Reasons cited included inefficient production costs and environmental concerns.¹⁷ This opened the door for Suriname to purchase an additional share of electricity generated by the Afobaka Dam. The revised agreement dramatically changed the price of electricity bought by local authorities. Before, Suriname could buy it at a price of US\$ 0.4 cents per kilowatt hour.¹⁸ After, Suralco based the price of the electricity not on the cost of running the dam, but on market prices linked to the international price of oil.¹⁹ This was the result of a complex arrangement where the cost of electricity was based on the costs of an oil-based thermal plant which provided energy to Suralco's alumina refinery. Estimates by local lawmakers show that electricity prices doubled, reaching US\$ 0.9 cent per kilowatt hour.²⁰

This scheme represented both a financial windfall for Suralco-Alcoa and a massive risk to Suriname. It allowed the former to profit from both the difference between actual electricity generation costs and the price of oil, as well as the difference between the energy required by the alumina refinery and that sold to the country. For the latter, it further exposed Suriname to swings in commodity prices. Despite the changes in the cost structure, the government kept electricity prices fixed. To cover the growing difference between charges and costs, authorities provided a cross subsidy to the public electricity company, Energie Bedrijven Suriname (EBS).²¹ This involved a combination of accumulation of arrears and transfers from the state owned oil-firm, Staatsolie, to EBS. As a result, the government was able to keep the subsidies off-the-books. These were not reported in the fiscal accounts of the government.²² This increased the implicit risks of the arrangement.

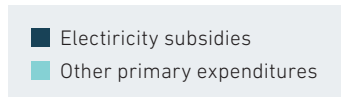
The fiscal impact of the electricity subsidies increased as oil prices surged in 2010. In addition, Suralco's tax and royalty payments declined as it continued to wind down its mining and production operations.²³ Taken together, both trends placed an enormous financial burden on the government. Suriname's primary government expenditures increased from 22 to 32 per cent of Gross Domestic Product (GDP) between 2011 and 2019 (Figure 1). A third of this increase was associated to electricity subsidies. Figures from local authorities show that electricity subsidies grew from 1.7 to 4.2 per cent of GDP between 2011 and 2019. This trend took hold despite a dip in oil prices between 2015 and 2016 and measures which included doubling electricity tariffs in 2015 and a further substantial increase in 2016.²⁴

However, the lopsided nature of the arrangement with Suralco placed relentless pressure on public finances. Government efforts to contain fiscal pressures arising from electricity subsidies were eroded by several factors. These included high international oil prices throughout most of the decade; a high inflation rate (79 per cent at its peak in 2016); and a steep currency devaluation in 2016.

The fiscal imbalance caused a commensurate increase of public debt levels. Public debt surged from 20 to 145 per cent of GDP between 2011 and 2020 (Figure 2). Most of the increase was caused by the growth of public external debt, which accounted for 72 per cent of the total in 2019. There were three main drivers of this dynamic²⁵. First, the recognition of off-balance sheet liabilities tied to electricity subsidies in 2016. Second, large fiscal deficits throughout the period. Third, large currency depreciations substantially increase the burden of public external debt in 2016 and 2020. Suriname plunged into crises in both years.

The shifting dynamics of Suriname's historical dependence on commodities triggered the 2016 crisis. The closure of the aluminium smelter led to a reduction of Alcoa's mining activities in the country after 1999. Aluminium export revenues collapsed as a result. These decreased from 31.5 to 3.7 per cent of GDP between 1995 and 2015.²⁶ To compensate for this decline, the country increased its reliance on gold and oil exports. By 2015, gold and oil represented 54 and 14 per cent, respectively, of the exports of the country.²⁷ Government revenues tied to royalties and taxes from these commodities came to account for more than a third of public sector income. Disaster struck as gold and oil prices started to slide in the second half of 2014. Government gold and oil related revenues declined from US\$ 297 to 32 million between 2014 and 2016.²⁸ Government finances were thrown into disarray.

Figure 1: Suriname, General Government, Primary Expenditures as % of GDP (2011-2019)



Source: International Monetary Fund (IMF) World Economic Outlook (WEO) (2020); Republic of Suriname Bond Prospectus 2026 (2016); Republic of Suriname Bond Prospectus 2023 (2019).

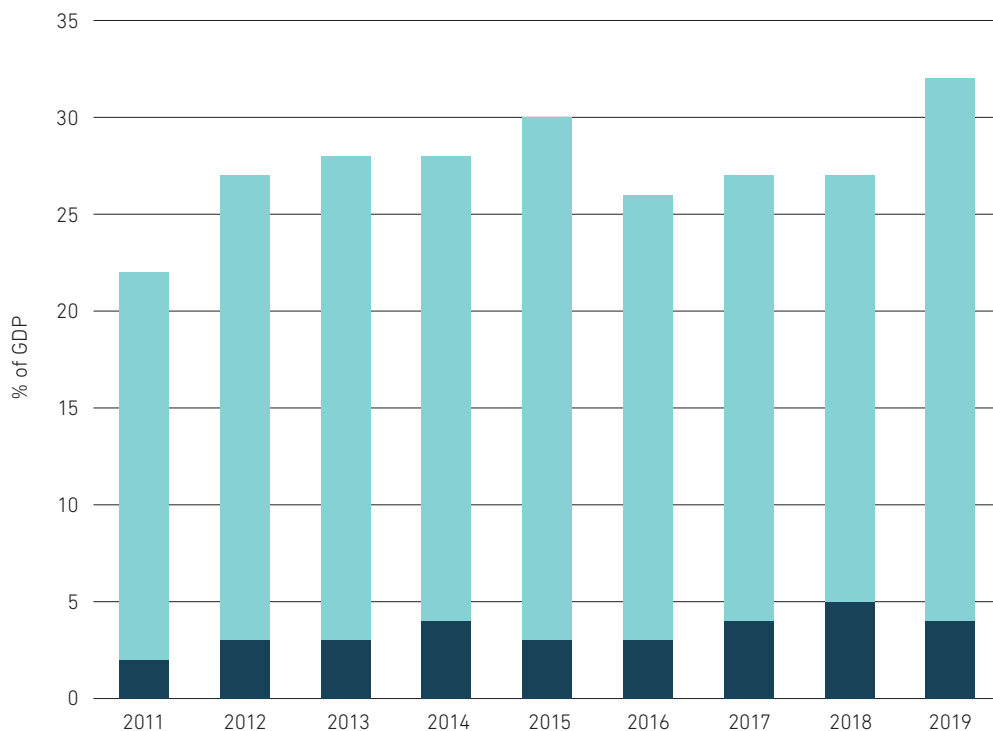
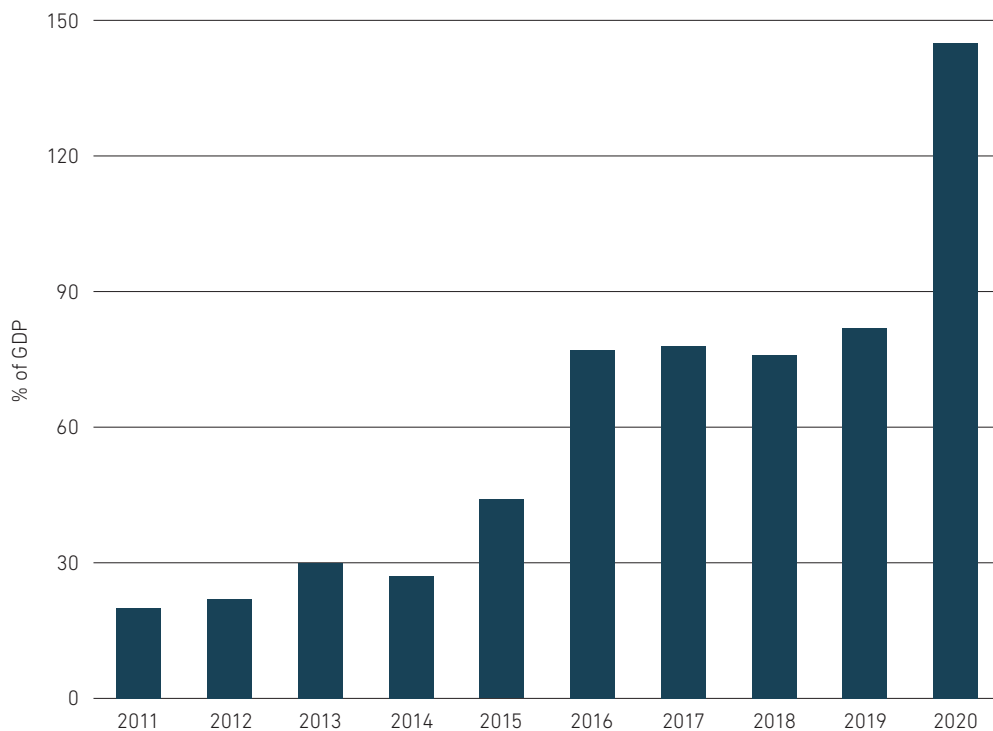


Figure 2: Suriname, Public Debt as % of GDP (2011-2020)

Source: IMF WEO (2020).



The person in charge while these events were taking place was President Desi Bouterse. Bouterse was elected president of Suriname in 2010. He remained at the helm until 2020. Previously, he had been the de-facto military dictator of the country for most of the 1980s. His CV includes a 20-year conviction for the assassination of 15 people in Suriname and a 11-year sentence for drug trafficking in the Netherlands.²⁹ He has avoided serving jail on both accounts. As will be shown in the next sections, the Bouterse government repeatedly made questionable decisions that clearly went against national interest during his decade long autocratic reign in the 2010s. One of the most problematic of these decisions was the borrowing spree which started in 2016. Over the course of this year, Suriname secured almost US\$ 1.5 billion in financing from a patchwork of sources. These included the International Monetary Fund (IMF), the Inter-American Development Bank (IADB), China and international financial markets. The mountain of debt grew to become unmanageable.

The great borrowing spree of 2016

Suriname's first request for financial assistance was filed with the IMF. The country negotiated a Stand-By-Arrangement (SBA) with the IMF for US\$ 478 million in May of 2016.³⁰ The programme was structured around a harsh process of fiscal consolidation in a short period of time. The country was expected to improve its fiscal balance from a deficit of 8.8 to 1.1 per cent of GDP between 2015 and 2018.³¹ The adjustment relied on the introduction of Value Added Tax (VAT) coupled with elimination of subsidies for electricity, water and gas.³² As part of the programme, the country received an initial disbursement for US\$ 81 million from the IMF.³³ The IMF programme went off-track shortly after. Thousands of people took to the streets to protest against IMF austerity measures.³⁴ The protests placed the adjustment on hold.

With an IMF programme in place, Suriname proceeded to issue a US\$ 550 million bond in international financial markets in October 2016. The 2026 Eurobond was structured as a ten year instrument with an interest rate of 9.25 per cent. The underwriters of the bond were Oppenheimer & Co and Scotia Bank. The US based investment firms received a total of US\$ 9 million for underwriting fees and expenses (1.6 per cent of the value of the bond).³⁵

The bond prospectus provided to investors clearly stated the risks they faced. These included, among others, lack of liquidity in the market for the bond, high levels of public debt, difficulties to push through a reform eliminating electricity subsidies, and future difficulties to access financial markets.³⁶ Despite these risks, the bond was well received by the markets. Demand for the 2026 Eurobond surpassed US\$ 1.6 billion.³⁷

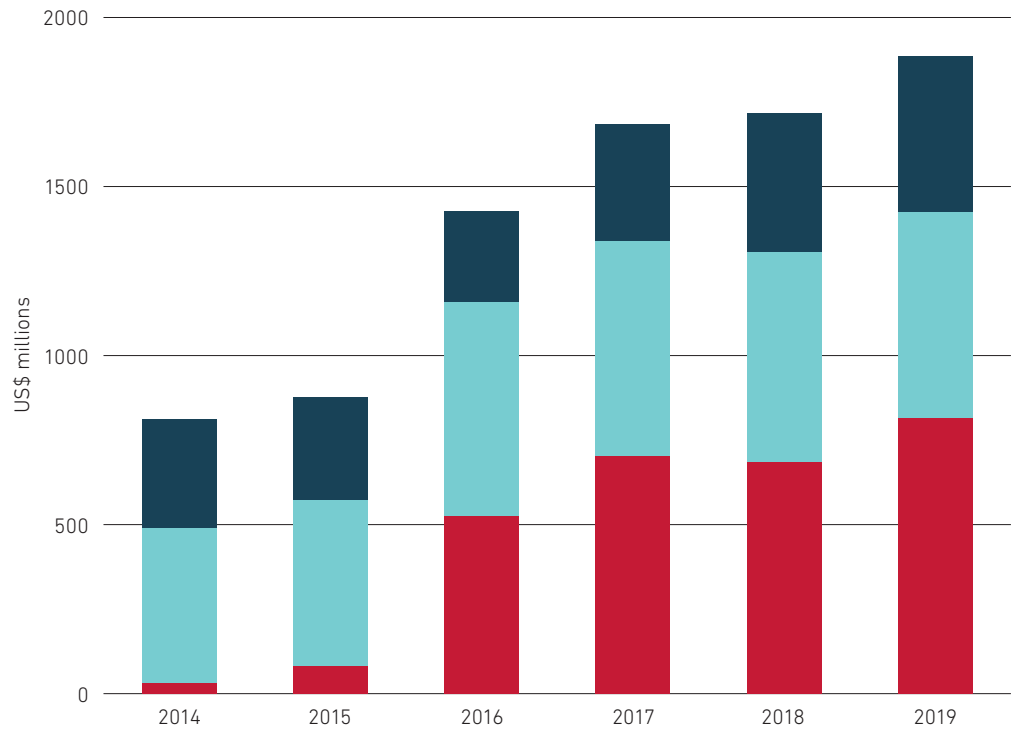
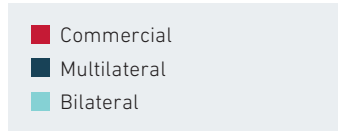
In addition to these credits, the country negotiated a series of large-scale projects with China. The Asian giant had been steadily increasing its presence in Suriname in previous years. Loans from China, mainly related to construction projects, amounted to US\$ 240 million between 2008 and 2014.³⁸ In the context of the 2016 crisis, the amount of debt owed by Suriname to China doubled. Suriname obtained three loans for a total of US\$ 339 million between March and December 2016.³⁹ Of this figure, US\$ 333 million were approved by the Export-Import Bank of China for two infrastructure and telecommunications projects. The loans had a grace period of five years and maturities of 15 and 20 years. Interest rates, including charges, amounted to 2.4 and 3.4 per cent.⁴⁰ As a result of these credits, the Exim Bank of China became the third largest creditor of the country.

Last but not least, Suriname obtained additional credits for budgetary support from the Caribbean Development Bank (CDB) and the IADB. Loans from both development banks to support reforms in the energy sector of the country amounted to US\$ 120 million in June 2016.⁴¹ At this point, the IADB became the largest creditor of the country. Outstanding loans owed by Suriname to the multilateral bank reached US\$ 522 million at the end of 2016.⁴²

The borrowing spree dramatically altered the debt structure of the country. Public debt levels increased from 44 to 77 per cent of GDP between 2015 and 2016. Public external debt grew by 63 per cent in 2016 (Figure 3). The 2026 Eurobond had the most visible impact. Debt owed to commercial creditors increased from 9.1 to 36.8 per cent of the total. Furthermore, the high interest rate of the bond significantly increased debt payments. Public external debt service rose from US\$ 54 million in 2015 to an average of more than US\$ 212 million for the rest of the decade (Figure 4). The ratio of debt service to government revenues increased sharply averaging 30 per cent between 2016 and 2020. This further restricted the capacity of the government to provide basic public services to its citizens.

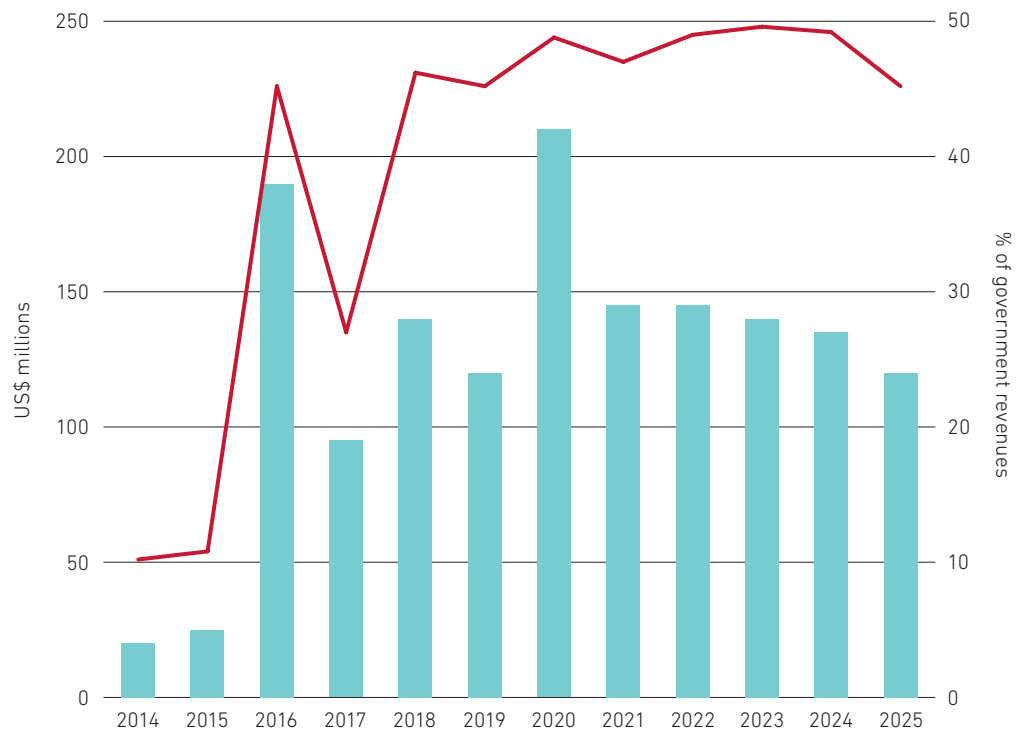
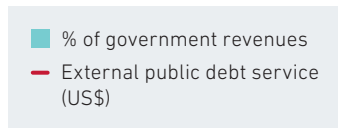
In this complex context, the government of Suriname cancelled the IMF programme in 2017.⁴³ The implementation of adjustment measures proved to be politically infeasible for the government. In order to pay back the initial disbursement to the IMF, the country used a combination of available resources from the IADB, the Islamic Development Bank (IDB) and additional commercial financing.⁴⁴ Unfortunately, cancelling the IMF programme did not address the unsustainable debt burden of the country. Instead, the Bouterse government doubled down on its borrowing strategy.

Figure 3: Suriname, External Public Debt Composition (US\$ Millions) (2014-2019)



Source: Republic of Suriname Bond Prospectus 2026 (2016); Republic of Suriname Bond Prospectus 2023 (2019).

Figure 4: Suriname, External Public Debt Service (US\$ Millions & Share of Government Revenues) (2014-2025)



Source: Eurodad calculations based on Republic of Suriname Bond Prospectus 2026 (2016), Republic of Suriname Bond Prospectus 2023 (2019) and IMF World Economic Outlook (WEO) data.

The Afobaka Dam and the 2023 Eurobond

With debt growing at an alarming rate in the background, Suriname's complex relationship with Alcoa continued to evolve. In October 2014, Alcoa and the government announced the signing of a Memorandum of Understanding (MoU) for the departure of the company from the country.⁴⁵ The agreement included a decision to close the alumina refinery which remained in operation after the closure of the aluminium smelter in 1999.⁴⁶ The deal also included a payment from Alcoa to Suriname to cover environmental clean-up costs. More importantly, the MoU provided for the early termination of the Brokopondo Agreement. Suriname agreed to acquire Suralco from Alcoa, including its mining operations and the Afobaka Dam, ahead of the expiration of the 75-year concession in 2033.⁴⁷

In theory, the transfer of the Afobaka Dam would help to alleviate the fiscal pressures arising from electricity subsidies. The government estimated that owning the plant would allow it to generate yearly savings amounting to US\$ 61 million in the 2020s (equivalent to 1.6 per cent of GDP in 2019).⁴⁸ However, there were additional strings attached to the deal. The formula to calculate the price of electricity bought by Suriname was changed to include a yearly automatic increase of the price of oil of US\$ 3 per barrel until the transfer was made effective at the end of 2019.⁴⁹ In addition, Suriname pledged to clear outstanding arrears to Suralco arising from the purchase of electricity from the dam. These were estimated at more than US\$ 120 million in 2019. This became, in practical terms, the price tag of the Afobaka Dam.⁵⁰

This initial agreement was rejected by the National Assembly of Suriname in November 2015. Members of the Assembly demanded the dam to be returned immediately to the country.⁵¹ The Bouterse government refused to follow suit due to fears of an investor arbitration process.⁵² The negotiations between Bouterse and Alcoa continued, with no accountability or transparency to the public, until a final agreement was approved by the National Assembly after a gruelling 25-hour session in August 2019.⁵³ Members of the opposition argued that the Bouterse government cared more about the interests of investors than those of Suriname.⁵⁴

Immediately after securing approval from the National Assembly, the government arranged for the issuance of a second Eurobond to pay for the outstanding electricity arrears to Suralco. The US\$ 125 million 2023 Eurobond was issued in December 2019. The four-year bond was structured with a fixed interest rate of 9.875 per cent. Failure to meet a coupon payment increased accrued interest rates by three per cent. The lead underwriter was once again Oppenheimer & Co. Fees and underwriting expenses charged by the investment firm amounted to US\$ 7.1 million (5.6 per cent of the total value of the bond).⁵⁵ The entire proceeds, US\$ 111 million after fees and discounts, were transferred by Suriname to Suralco to fulfil the terms of the handover of the Afobaka Dam.

A review of the 2023 Eurobond prospectus shows that it included the same list of risks listed in the 2026 Eurobond prospectus. The bond was structured to collect payments from an offshore account with dividends from the local oil and gold companies, Staatsolie and IAMGold, respectively.⁵⁶ Lack of compliance with legal disclosures prohibited the sale of this bond to retail investors in the European Union (EU) and the UK. At the time, members of the opposition in Suriname questioned the legitimacy of the operation.⁵⁷ Issuance of the bond required Bouterse to unilaterally amend sovereign debt legislation, eliminating debt ceiling provisions that would have precluded further indebtedness.⁵⁸

In conclusion, there were plenty of signs regarding the degree of risks involved with the 2023 and 2026 Eurobonds. These were clearly speculative investments with questionable legitimacy. They represented an unhedged bet on the capacity of the government of Suriname to crack down on subsidies and public services to free up resources to meet creditors' claims.

Neither Bouterse nor investors seemed troubled by any of this. After a final push by the government, the official transfer of the dam to Suriname was completed on 31 December 2019.⁵⁹ This was a moment charged with historical connotations to the people of the country. In the meantime, Covid-19 loomed on the horizon.

Pandemic and default in Suriname

Covid-19 has placed additional pressure on Suriname and its population. Poverty is set to increase as a result of the economic impact of the crisis. Vulnerable groups living in the interior of the country, where 1 out of 2 households is classified as poor, is expected to be hit disproportionately by the crisis.⁶⁰ The education system has also been affected. School closures throughout the year have left an estimated 150 thousand children unable to attend classes.⁶¹

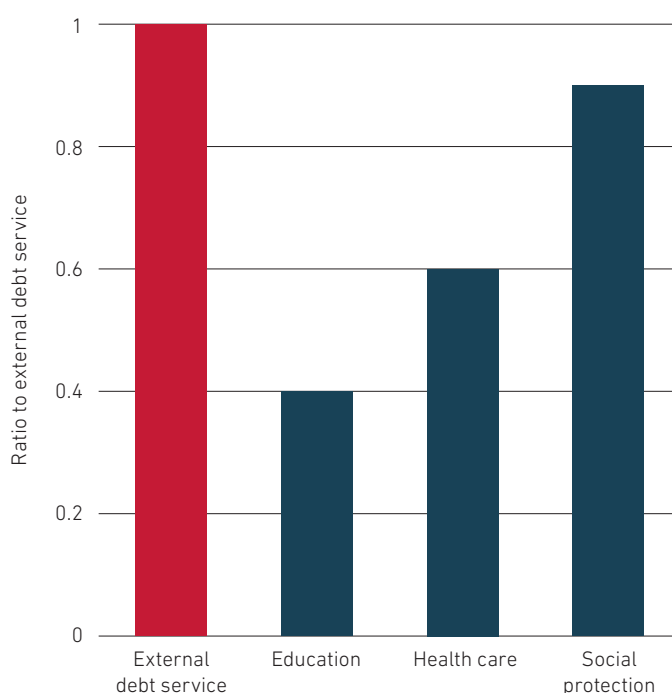
The pandemic caused an enormous strain on an already weak and vulnerable health care system. The country has a small health care workforce with just eight doctors and 23 nurses per 10,000 inhabitants.⁶² Lack of resources forced the country to rely on a solidarity brigade sent by Cuba, composed of 50 health care workers, to provide care in the context of the pandemic.⁶³ The Pan-American Health Organization (PAHO), The Netherlands, and Brazil have also provided support.⁶⁴ Since the start of the pandemic, Suriname has registered a total of 6,666 cases and 130 deaths as of the first week of January 2021.⁶⁵

The fall in commodity and tourism revenues caused by the pandemic took place at a time when the financing needs of the country were set to increase further as a result of the payments on the 2023 Eurobond and the Exim Bank of China loans.⁶⁶ Exports are projected to decrease from US\$ 2,340 to 1,686 million between 2019 and 2020.⁶⁷ This represents a calamitous decline of 27.9 per cent over a year. As a result of the ever-present dependence on commodity exports, the economy is expected to contract by at least 13 per cent in 2020, according to IMF figures.⁶⁸ This is one of largest contractions in the Latin America and Caribbean region in 2020.⁶⁹

The collapse of the economy cast Bouterse out of power. Following a challenging election race, the leader of the opposition, Chandrikapersad Santokhi, was elected by the National Assembly as President of Suriname in July 2020.⁷⁰ The new government inherited a bankrupt country with no room for manoeuvre to respond to the pandemic. The prioritisation of debt service during the Bouterse administration had devastating consequences on the population. The government is projected to spend nearly 40 per cent of its revenues on debt service in 2020 (Figure 4). An analysis of the composition of Suriname's budget shows that for each US dollar allocated to public external debt service, the government was spending an equal amount on public education (37 cents) and health care (63 cents) combined in 2020 (Figure 5). The ratio of the public budget for social protection to debt service is estimated at 86 cents on the dollar. Without measures to address the debt burden, these ratios are subject to further deterioration.

In this difficult environment, the country managed to allocate three per cent of GDP (US\$ 78 million) to its Covid-19 response package in 2020.⁷¹ Measures included an increase in health care expenditures and two special funds to support the unemployed and vulnerable population.⁷² All of these resources were procured from painful expenditure cuts in other areas of the budget. Primary expenditures, measured in US dollars, are projected to decline by 40 per cent between 2019 and 2020.⁷³ The capacity of the Suriname government to guarantee the provision of basic public services to protect the lives and guarantee the human rights of its population is at stake.⁷⁴

Figure 5: Suriname, Ratio of External Debt Service to Public Budget for Education, Health Care and Social Protection (2020)



Source: Eurodad calculations based on Refinitiv data.

Despite Bouterse's efforts to shift the costs of the crisis onto its population, the magnitude of the emergency forced the government to negotiate with its external creditors. On 30 June 2020, the government asked bondholders of the 2023 Eurobond to reschedule the date of the first payment due on 30 December.⁷⁵ This was followed by a similar request to the bondholders of the 2026 Eurobond in October.⁷⁶ On 5 December, bondholders agreed to defer owed payments until 31 March.⁷⁷ As a result of the missed payments, both S&P currently rates the country in default. Both bonds have priced-in the high probability of default. They have been trading at around 50 cents to the dollar since March 2020.⁷⁸

Against this dire background, Suriname recently submitted an official request for financial assistance to the IMF.⁷⁹ A new IMF programme is likely to follow in the footsteps of its 2016 predecessor, requiring steep fiscal consolidation. However, the current situation is more complex given the substantial increase in debt levels that has taken place since then.

A rescheduling of payments, such as the one agreed recently with bondholders, won't be enough to address the fundamental debt sustainability challenges faced by the country.⁸⁰ The latest IMF Debt Sustainability Analysis (DSA), published in December 2019, describes in detail these challenges. A review of the IMF of the DSA shows that the public debt of Suriname was already unsustainable before the pandemic. The country was in breach of almost all of the high-risk thresholds for debt vulnerabilities established by the IMF as of 2019.⁸¹ These include vulnerabilities of debt levels and profile, as well as gross financing needs, to a severe macroeconomic shock.

The pandemic has materialized and aggravated all the underlying risks faced by the economy. The IMF projected that public debt levels could rise above 120 per cent of GDP in 2020 and follow an unsustainable trend thereafter under a severe macroeconomic shock.⁸² The simulated shock encompassed a simultaneous contraction of the economy, a widening fiscal deficit and higher financing costs. The impact of the pandemic has proven worse than the most dire IMF simulation. Public debt is now projected to surge past 145 per cent of GDP in 2020 (Figure 2).

Against this background, a debt restructuring under an IMF programme seems inevitable. This is bound to be a complex endeavor due to the composition of the creditor base of the country. As of December 2019, the main creditors of the country include:

- **Multilateral creditors:** The IADB is the single most important creditor of the country. The multilateral development bank has granted a total of 26 loans to Suriname between 2012 and 2019.⁸³ Total outstanding debt amounts to US\$ 519 million as of 2019.⁸⁴ These credits represent 25.9 per cent of total public external debt. Most of these credits were provided on concessional terms. These include 25-year maturities, five-year grace periods and interest rates close to the funding costs of the IADB.⁸⁵
- **Public and private creditors from China:** Entities from China have granted six loans to Suriname for a total of US\$ 651 million between 2012 and 2019.⁸⁶ A total of US\$ 398 million remained outstanding by the end of 2019.⁸⁷ These credits represent 19.9 per cent of total public external debt. The terms of these loans can be classified as concessional under the Organization for Economic Cooperation and Development (OECD) methodology.⁸⁸ These include long maturities and low interest rates.
- **Commercial creditors:** Debt owed to commercial creditors, including bondholders, amounted to US\$ 814 million at the end of 2019.⁸⁹ These credits represent 40.6 per cent of total public external debt. 18 per cent of commercial credits correspond to loans by banks such as Credit Suisse (US\$ 57 million), ABN-AMRO (US\$ 44 million) and Monte de Paschi di Siena (US\$ 40 million).⁹⁰ The remaining 82 per cent corresponds to bondholders of the 2023 and 2026 Eurobonds.

Box 1: Who are Suriname's bondholders?

Bondholders represent the most opaque segment of Suriname's public creditors. In the case of the US\$ 125 million 2023 Eurobond, there is no publicly available data to identify them. In contrast, it is possible to identify 40.6 per cent of the bondholders of the US\$ 550 million 2026 Eurobond. These include a total of 48 financial institutions which hold US\$ 223 million as of December 2020. On a geographical basis, at least a quarter of the investors are located in the US and Switzerland (Figure 6). EU registered bondholders account for at least 8.6 per cent of the total. The majority of bondholders, equivalent to 59.4 per cent, is not publicly listed.

A more detailed analysis allows to single out the largest registered holders of the 2026 Eurobond. The top ten bondholders account for US\$ 183 million, equivalent to 33.2 per cent of the total (Figure 7). The top three bondholders in term of nominal holdings at par value include:

- Global Evolution Fondsm (Denmark) (US\$ 19.9 million): A subsidiary of Global Evolution Holdings based in Kolding, Denmark.⁹¹ Global Evolution is a privately-owned investment management firm which specialises in emerging and frontier markets. The firm has a total of US\$ 13 billion in Assets under Management (AuM).⁹²
- Eaton Vance Management (United States) (US\$ 40.8 million): An investment affiliate of Eaton Vance Corp. based in Boston, Massachusetts.⁹³ Eaton Vance Corp. was recently acquired by Morgan Stanley for US\$ 7 billion.⁹⁴ The firm specialises in active management of portfolios for institutional clients and hedge funds. The firm has a total of US\$ 516 billion in AuM.⁹⁵
- Vontobel Asset Management (Switzerland) (US\$ 60.3 million): An active investment management firm based in Zurich, Switzerland. Vontobel advertises itself as offering access to "both the higher rates and pricing inefficiencies on offer in emerging markets".⁹⁶ The firm has a total of US\$ 134 billion in AuM.⁹⁷

The social cost of meeting the claims of these private creditors is particularly high in the case of Suriname. Resuming debt service would force Suriname to pay the three top listed bondholders a total of US\$ 11.2 million in interest in 2021. These resources would be enough to pay a full year of local salaries of 3,023 school teachers or 1,092 doctors (Figure 8).

Figure 6: Suriname, Registered Bondholders Geographical Distribution (2026 Bond) (2020)

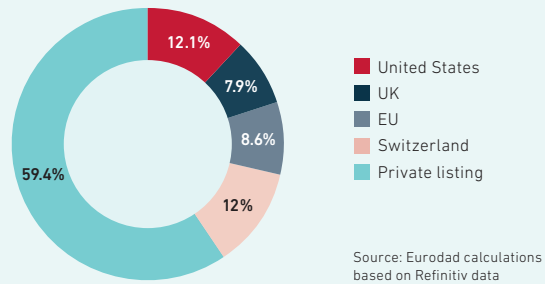


Figure 7: Top ten holders Suriname 2026 Eurobond (2020)

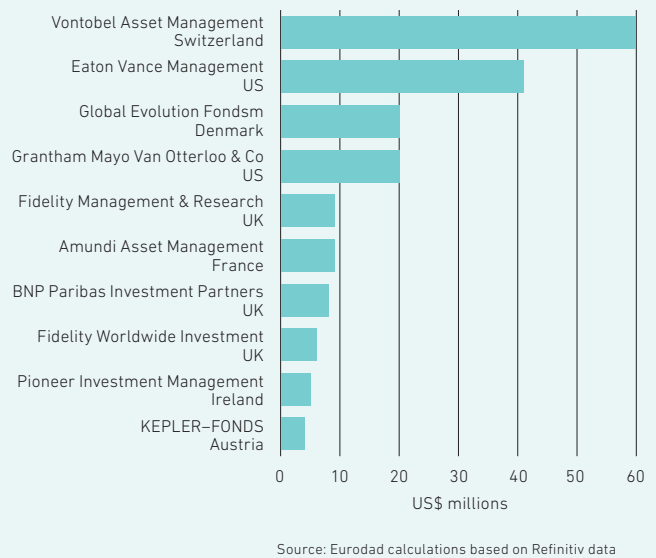
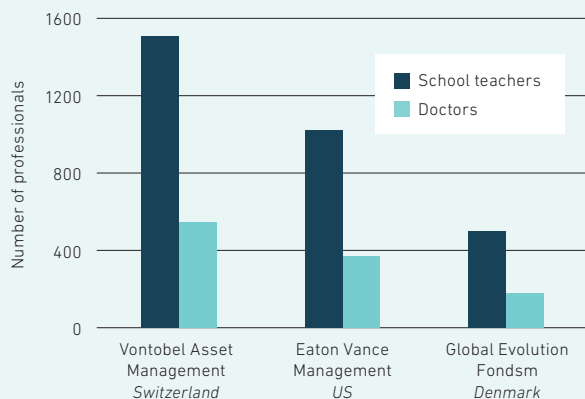


Figure 8: Social Cost of Opportunity: Number of School Teachers and Doctors that could be employed by the Government of Suriname with debt service being paid to top bondholders (2021)



Policy recommendations

The situation in Suriname highlights the failings of the international sovereign debt architecture for debt crisis resolution. The current crisis, deepened by the pandemic, is the result of years of mismanagement by an authoritarian regime from which several international actors stood to benefit handsomely. Yet, as the population of Suriname struggles, the creditors of the country continue to push for full repayment.

Overcoming the crisis will require a clear plan by Suriname which emphasizes the protection of the lives and rights of its population. As a starting point, this will require the development of a medium-term fiscal framework designed around expenditure requirements consistent with the achievement of the 2030 Agenda.⁹⁸ On this basis, the government needs to establish a debt restructuring strategy which guarantees consistency between its fiscal framework and long-term debt sustainability.⁹⁹ In practice, this implies a debt restructuring which creates enough fiscal space for the country to meet its commitments under the 2030 Agenda over the next decade.

Negotiations with creditors must be structured under this premise. To achieve a successful debt restructuring, the recently installed Santokhi administration should use a series of complementary mechanisms. These include the organization of an independent public debt audit, inclusion of all creditors as part of the restructuring process and a proactive negotiation with the IMF.

The government of Suriname ought to start by questioning the legitimacy of the debts incurred by Bouterse's autocratic regime. In coordination with Civil Society Organizations (CSOs), the new government should organize an independent public debt audit.¹⁰⁰ This is an instrument for actively involving citizens in examining the impact that debt accumulation may have had on the economy and on the population.¹⁰¹ A debt audit has the mandate to identify signs of the illegal, illegitimate or odious character of the public debt of a country. The audit can lead to complementary outcomes. First, it should lead to the cancellation of loans and credits that originate from irresponsible lending under the UNCTAD principles on Promoting Sovereign Responsible Lending and Borrowing or that are found to be illegal, illegitimate and/or odious.¹⁰² Second, it can help to put in place governance mechanisms to ensure the fulfilment of UNCTAD principles in terms of due diligence, transparency and accountability. Third, the findings of the audit can help increase the leverage of the government in its negotiations with creditors as it happened in the case of Ecuador in 2007.¹⁰³

In this regard, Suriname should ensure that all creditors participate in the debt restructuring process. In the case of multilateral creditors, led by the IADB, the country should request a standstill on debt payments that lasts, at least, until the end of 2021. This measure should be followed by a reprofiling of outstanding credits to provide fiscal space to sustain an economic recovery over the coming years. The standstill and reprofiling of multilateral credits are in line with the request to multilateral organizations made recently by the United Nations Secretary General, Antonio Guterres.¹⁰⁴

Negotiations with public and private creditors from China must adhere to the principle of inter-creditor equity. Net Present Value (NPV) losses imposed on this group of creditors, led by the Exim Bank of China, must be consistent with those being applied to commercial creditors. While this element is certain to complicate the negotiations, given recent opposition by China to provide debt treatments beyond reprofiling, it is the only way to ensure an equitable distribution of the losses arising from debt restructuring.¹⁰⁵

Suriname needs to adopt a similar approach to deal with commercial creditors. While their resources place them in a position to endure a default and impose disadvantageous conditions on Suriname, the country needs to ensure that the outcome of the debt restructuring is consistent with its long-term developmental goals. This will likely lead to the imposition of substantial losses on commercial creditors. Negotiations will be complex as a result. They will serve to test once again the efficiency of Collective Action Clauses (CACs) to facilitate debt crisis resolution.¹⁰⁶ CACs are contractual clauses included in sovereign bonds which bind all bondholders to debt restructuring terms agreed by a super majority of creditors. They are designed to prevent holdouts, such as vulture funds, to either block or request better terms from a country in a debt restructuring process. Both Eurobonds issued by Suriname include the latest generation of CACs issued under New York law. These stipulate that a majority of 75 per cent of bondholders for each series, or an aggregate majority of 66.3 per cent for both series, is required to restructure the bonds.¹⁰⁷ While it's unlikely that the imposition of substantial losses on creditors would be consistent with a successful use of CACs, the country should engage with negotiation in good-faith with its creditors on the basis of its development financing requirements.

Parallel to the negotiations with its creditors, Suriname should engage in a pro-active discussion with the IMF on the design of its adjustment programme. Despite the relatively small size of the country, the IMF programme for Suriname could set a precedent for other countries in the post Covid-19 era. Thus, it would be a mistake to use the IMF programme as a mechanism to bailout external creditors of the country. The IMF programme for Suriname needs to be designed around a debt restructuring consistent with the government plans to protect the lives and human rights of the population.

To accomplish this goal, Suriname needs to have a clear negotiating position with the IMF in two broad areas. First, the design and assumptions of the IMF DSA which will underpin the programme. Second, the active use of financial and legal mechanisms to support the country through its debt restructuring process.

In the first case, Suriname ought to request the inclusion of financing requirements to meet the 2030 Agenda as part of the programme DSA. Without this crucial element, the design of the IMF programme will limit itself to ensure the capacity of the country to meet debt service payments with complete disregard for the needs of the local population. Furthermore, both the IMF and Suriname ought to take a conservative approach to the inclusion of prospective revenues from recent oil field discoveries on at least two accounts¹⁰⁸. First, research shows that the IMF systematically overestimates the impact of oil and gas discoveries on economic growth.¹⁰⁹ Optimistic growth projections reduce the projected financing envelope of a programme, and by extension, the requirements for debt restructuring. Thus, rosy projections would run against the goals of the programme. Second, even if oil revenues meet the optimistic forecasts used by the IMF and other creditors of the country, Suriname needs to assess whether the extraction plans are compliant with the commitments under the Paris Climate agreements.¹¹⁰ This environmental assessment has to be an integral component of the design of the IMF programme for Suriname.

With regards to the active use of financial and legal mechanisms, the IMF should use the provisions under the Exceptional Access Lending (EAL) and Lending into Arrears (LIA) frameworks. In the case of the former, a loan above 300 per cent of the IMF quota for a country whose debt is unsustainable can only be approved after a debt restructuring which restores debt sustainability with high probability.¹¹¹ In the case of the latter, the LIA allows the IMF to lend to a country when debt relief from creditors has not been secured upfront.¹¹² Taken together, these arrangements allow the IMF to provide financing to the country in its efforts to restore debt sustainability, even if the country defaults and its creditors are unwilling to provide debt relief consistent with the parameters defined by the programme. Thus, the IMF must support Suriname through a potential default and litigation with its EAL and LIA frameworks in the event creditors refuse to provide debt relief consistent with debt sustainability. Evidence from countries in the Caribbean, such as Grenada and Barbados, shows that the costs of a protracted debt overhang tend to be higher over the long run than those of a default.¹¹³ While being in default, the country should continue to negotiate with its creditors under the parameters of the IMF LIA framework until an agreement can be reached.

From a broader international perspective, the negotiations in Suriname will test the capacity of commercial creditors and China to arrive at an agreement that provides enough debt relief in a timely manner to countries in debt distress. Protracted negotiations in Suriname would herald substantial difficulties for eligible countries to participate in the G20 Common Framework that require urgent debt relief.¹¹⁴ The stakes are high as failure of the Common Framework will effectively translate into a lost decade for developing countries. To avoid this outcome, Eurodad advocates for the adoption of multilateral measures and mechanisms to help countries, such as Suriname, in the aftermath of the pandemic:

- Revision of eligibility criteria for multilateral support: G20 policy initiatives, such as the DSSI and the Common Framework, must expand the eligibility criteria to provide support for middle income countries. In addition, both private and multilateral creditors should be required to participate in debt relief efforts through measures ranging from suspension, to restructuring and cancellation.
- Methodological overhaul of the IMF DSA: IMF DSA methodology forces countries to abandon the active pursuit of development goals in order to meet creditor claims.¹¹⁵ Post Covid-19 debt relief needs cannot be assessed under this premise. A review of the methodology is needed. DSAs must explicitly incorporate countries' long-term financing needs to pursue the Sustainable Development Goals (SDG), climate goals, human rights and gender equality commitments.

- Use of Article VIII, Section 2 (b) of the IMF Articles of Agreement:¹¹⁶ In addition to the EAL and LIA frameworks, the IMF could impose a debt standstill through the temporary suspension of enforceability of debt contracts in domestic courts of more than 189 IMF member countries, including the US and the UK. Debtor countries acting in good faith under an IMF programme would be protected from aggressive litigation strategies from holdout creditors in numerous jurisdictions, including the US and the UK through the provisions of Article VIII, Section 2 (b).
- Creditor Reporting System (CRS):¹¹⁷ Establishment of a publicly accessible registry of loan and debt data providing full transparency on public debt of developing countries. Civil society, parliaments and media should be consulted on its construction so that the data is open, standardised and structured in a way that is readily usable and allows to keep track of bond holders.
- Debt workout mechanism (DWM):¹¹⁸ Any serious efforts to meet multilateral commitments, such as the 2030 Agenda, Paris Climate Agreement and Beijing Declaration require the renewal of international political efforts to definitively address the problem of disorderly and inequitable debt crisis resolution. Progress towards the establishment of a permanent multilateral framework under UN auspices to support systematic, timely and fair restructuring of sovereign debt in a process convening all creditors cannot be further postponed.

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