

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

**SURINAME**

**MACROECONOMIC EMERGENCY PROGRAM TO PROTECT ECONOMIC  
AND SOCIAL DEVELOPMENT**

**(SU-L1064)**

**LOAN PROPOSAL**

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## CONTENTS

<b>PROJECT SUMMARY .....</b>	<b>1</b>
<b>I. PROJECT DESCRIPTION AND RESULTS MONITORING .....</b>	<b>2</b>
A. Background, problem addressed, and rationale .....	2
<b>II. ELIGIBILITY CRITERIA .....</b>	<b>6</b>
A. Objectives, components, and cost .....	9
B. Key results indicators and program beneficiaries .....	10
<b>III. FINANCING STRUCTURE AND MAIN RISKS .....</b>	<b>10</b>
A. Financing instruments .....	10
B. Environmental and social safeguard risks.....	11
C. Fiduciary risks .....	11
D. Other risks and key issues .....	11
<b>IV. IMPLEMENTATION AND MANAGEMENT PLAN .....</b>	<b>12</b>
A. Summary of implementation arrangements .....	12
B. Summary of arrangements for monitoring results .....	12

ANNEXES	
Annex I	Results Matrix
Annex II	Policy Matrix

REQUIRED ELECTRONIC LINKS (REL)	
REL#1	<a href="#">Policy Letter</a>
REL#2	<a href="#">Means of Verifications Matrix</a>
REL#3	<a href="#">EFF approved on December 22, 2021, by the IMF: Suriname – Staff Report and Memorandum of Economic and Financial Policies</a>

ABBREVIATIONS	
CBS	Central Bank of Suriname
COVID-19	Coronavirus disease 2019
DTC	Department of Taxes and Customs
EFF	Extended Fund Facility
FX	Foreign Exchange
GDP	Gross Domestic Product
IDB	Inter-American Development Bank
IFI	International Financial Institution
IMF	International Monetary Fund
LAC	Latin American and Caribbean Countries
MFP	Ministry of Finance and Planning
PBP	Programmatic Policy Based Loan
SARS-CoV-2	Severe Acute Respiratory Syndrome Coronavirus 2
SDL	Special Development Lending
SDR	Special Drawing Rights
TC	Technical Cooperation
VAT	Value Added Tax
WHO	World Health Organization

**PROJECT SUMMARY**  
**SURINAME**  
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Financial Terms and Conditions					
Borrower:			Special Development Lending <sup>(a)</sup>		
Republic of Suriname			Amortization period:	7 years	
Executing agency:			Disbursement period:	1 year	
Ministry of Finance and Planning (MFP)			Grace period:	3 years	
Source	Amount (US\$)	%	Interest rate:	SOFR base rate plus 1.15% plus IDB variable lending spread for Ordinary Capital	
IDB (Ordinary Capital):	50,000,000	100	Front-end fee:	1% of the loan principal, payable within 30 days after entry into effect of the contract	
			Commitment fee:	0.75%	
Total:	50,000,000	100	Weighted average life:	5 years	
			Currency of approval:	Dollars of the United States of America	
Project at a Glance					
<b>Project objective/description:</b> The general objective of the program is to restore macroeconomic and fiscal sustainability. The specific objectives of the program are to: (i) restore fiscal sustainability; (ii) strengthen monetary stability and monetary policy independence; (iii) support financial stability; and (iv) reduce vulnerabilities to corruption. The structure and content of the program are aligned to the International Monetary Fund (IMF) <a href="#">Extended Fund Facility (EFF)</a> approved on December 22, 2021. The program is structured as a Special Developing Lending (SDL) with a single operation that will disburse in a single tranche.					
<b>Commitments and disbursement of the loan proceeds:</b> The single disbursement of loan resources will be subject to compliance with the policy conditions summarized in the Policy Matrix (Annex II) and in the <a href="#">Policy Letter</a> , as well as the compliance with the conditions contained in the loan contract (¶4.2).					
<b>Exceptions to Bank policies:</b> None.					
Strategic Alignment					
Challenges: <sup>(b)</sup>	SI <input type="checkbox"/>		PI <input type="checkbox"/>		EI <input type="checkbox"/>
Crosscutting themes: <sup>(c)</sup>	GE <input type="checkbox"/> and DI <input type="checkbox"/>		CC <input type="checkbox"/> and ES <input type="checkbox"/>		IC <input checked="" type="checkbox"/>

<sup>(a)</sup> Under the Special Development Lending category (document AB-3134) and its Operational Guidelines (document GN-2031-17), this operation will be documented under the Flexible Financing Facility (FFF) with limited debt management options. The borrower has the option to request currency, interest rate, commodity, and catastrophe protection conversions. In considering such requests, the Bank will take into account operational and risk management considerations. The applicable amortization schedule for this loan will consist of equal, six-monthly installments that begin to accrue at the end of the grace period.

<sup>(b)</sup> SI (Social Inclusion and Equality); PI (Productivity and Innovation); and EI (Economic Integration).

<sup>(c)</sup> GE (Gender Equity) and DI (Diversity); CC (Climate Change) and ES (Environmental Sustainability); and IC (Institutional Capacity and Rule of Law).

## I. PROJECT DESCRIPTION AND RESULTS MONITORING

### A. Background, problem addressed, and rationale

- 1.1 **Background.** Since 2015, Suriname's economy is experiencing a severe macroeconomic crisis stemming from an overhang of the commodity price shock,<sup>1</sup> and the ongoing COVID-19 pandemic. The economy was already under significant pressure before the global health crisis, reporting negative growth rates in 2015 (-3.4%) and 2016 (-4.9%) and a mild recovery in the period 2017-2019. Since 2016, the economy has been running fiscal policy in amok with overall fiscal deficits reaching 21.9% in 2019. As such, economic growth is bogged down by large twin deficits, double-digit inflation, and a debt spiral public debt. In the quinquennial prior to the pandemic (2015-2019), Gross Domestic Product (GDP) growth rate averaged -0.9%. The country's economy has suffered even more than most Latin-American and Caribbean Countries (LAC) due to COVID-19. The latest data shows economic activity contracting by about 15.9% in 2020, with the recession deepening in 2021.
- 1.2 After a truncated program with the International Monetary Fund (IMF) in 2017, the authorities were unable to undertake much-needed reforms to strengthen the country's macro-fiscal framework.<sup>2</sup> As a result, fiscal deficits remained large due to a mismatch between revenues and expenditures,<sup>3</sup> and public debt stood at about 148% of GDP at the end of 2020. A combination of a large parallel market exchange rate premium, bouts of monetary financing, and a large official devaluation of the exchange rate contributed to an annual inflation that jump from 4.2% to 61% between 2019 and 2020.
- 1.3 In terms of monetary and financial sector policies, there is room to buffer external shocks and reduce vulnerabilities in the financial sector. The Central Bank of Suriname (CBS) devalued the country's exchange rate by almost 90% on September 22, 2020. Despite the large devaluation in September 2020, the parallel market premium remained higher than the official rate prompting authorities to adopt an exchange rate regime with horizontal bands in March 2021. Furthermore, on June 7, 2021, the CBS decided to float its currency.

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<sup>1</sup> In 2015, a sharp decline in the price of Suriname's chief export commodities (gold and oil) and cessation of alumina production pushed the economy into a deep recession.

<sup>2</sup> The program was cancelled as the conditions were not met.

<sup>3</sup> Fiscal deficits averaged 12.6% of GDP in the period 2015-2019, as a result of higher expenditure driven mainly by an increase in interest payments, the wage bill and subsidies.

**Table 1. Selected economic indicators 2016-2022**

	2016	2017	2018	2019	2020	2021*	2022*
Real GDP growth (%)	-4.9	1.6	4.9	1.1	-15.9	-3.5	1.8
Unemployment (% of economically active population)	10.0	7.0	9.0	8.8	11.1	11.2	10.9
Inflation (% end of period)	52.4	9.3	5.4	4.2	60.7	58.6	37.9
Government revenue (% GDP)	17.7	20.1	20.9	20.4	18.4	24.1	26.6
Tax revenue (% GDP)	12.4	13.3	14.6	15.0	13.4	16.5	17.6
Government expenditure (% GDP)	27.1	27.2	26.2	42.3	31.8	32.0	30.8
Primary balance (% GDP)	-6.8	-4.6	-2.5	-19.0	-9.7	-1.3	1.7
Overall balance (% GDP)	-9.3	-7.1	-5.2	-21.9	-13.4	-7.9	-4.1
National currency (per US\$, end of period)	7.4	7.5	7.5	7.5	14.2	20.8	n/a
Central government debt (% GDP)	74.8	71.5	66.1	85.2	147.7	128.9	128.5

Sources: IMF (2021) and CBS.

\*IMF estimates. Includes the expected benefits from the reforms proposed in the Extended Facility Fund (EFF) program.

- 1.4 **Social outcomes.** In 2017, the poverty rate was estimated at 26.2% with 13% of households at risk of poverty.<sup>4</sup> Income inequality (Gini coefficient) was estimated at 0.44.<sup>5</sup> The current macroeconomic conditions and the COVID-19 pandemic are having a negative impact on the quality of life of Surinamese citizens. The IMF estimated that the unemployment rate increased from 8.8% in 2019 to 11.1% in 2020 and it is expected to remain around 11% in 2021 and 2022.<sup>6</sup> The pandemic is also having a disproportionate impact on vulnerable groups in Suriname. Extreme poor and poor households had a higher incidence of health conditions that increase the risk of coronavirus and were more likely to receive emergency medical assistance.<sup>7</sup> Moreover, a recent IDB telephone survey found that low-and-middle-income households reported the highest employment loss rate in 2020 (21% and 22%, respectively) compared to high-income households (13%). In terms of businesses, the survey results showed that small businesses were more severely impacted by the pandemic through reduction in hours of operation and are facing temporary or permanent closures.<sup>8</sup> These trends are likely to lead to higher poverty levels and exacerbate pre-existing inequalities. Macroeconomic and fiscal stability will be essential to protect social progress in Suriname.
- 1.5 **The COVID-19 pandemic and the health crisis.** The virus was confirmed to have reached Suriname on 13 March 2020.<sup>9</sup> The immediate response by the government included preventive measures, such as the closure of borders and airports, the closure of schools, and a curfew during the evenings. The latest reports signal that COVID-19 infections are increasing, likely as a result of the omicron variant. As of February 4, 2022, there have been 74,858 infections and 1,274 coronavirus-related deaths reported in the country since the pandemic began. Health authorities have administered around 495,165 doses of COVID-19 vaccines so far. Assuming every person needs two doses, that is

<sup>4</sup> [Suriname's Survey of Living Conditions \(2017\)](#).

<sup>5</sup> The lack of availability and comparability of historical poverty and inequality data in Suriname is an important limitation. Alternative estimates of consumption-based poverty put the household poverty rate at 47% ([World Bank 2012](#)).

<sup>6</sup> IMF (2021).

<sup>7</sup> [Arteaga et al \(2021\)](#).

<sup>8</sup> *Ídem*.

<sup>9</sup> [Reuters \(2020\)](#).

enough to have vaccinated about 42.8% of the country's population.<sup>10</sup>

- 1.6 **Measures to support socioeconomic recovery.** In September 2020, the government announced a set of measures aiming to help alleviate the economic impact and support households in the short-term. Some of the main measures were: (i) a devaluation of the exchange rate on September 22, 2020 (¶1.3); (ii) the establishment of an emergency fund of SRD1.5 billion (about US\$105 million at the time of the announcement); (iii) the increase in social benefits supporting vulnerable groups;<sup>11</sup> (iv) the maintenance of a tax credit of SRD750 per month; (v) increasing control and adjustment of royalties in small-scale gold mining; (vi) introduction of a solidarity tax of 10% to persons with an income of SRD150,000 per year; and (vii) improved targeting of tariffs on utilities.<sup>12</sup>
- 1.7 **Macroeconomic and fiscal repercussions of the pandemic.** The IMF estimates that real GDP fell by 15.9% in 2020 and by 3.5% in 2021 (after growth of 1.1% in 2019), while the fiscal deficit for the same years was estimated at 13.4% and 7.9% of GDP, respectively (compared to 21.9% in 2019). The IMF estimates a slow economic recovery in the following years, with growth rates of 1.8% and 2.1% in 2022 and 2023, respectively. The fiscal deficit is estimated to decrease to 4.1% of GDP in 2022.
- 1.8 **Monetary policy and exchange rate management issues.** The current account deficit averaged 6.8% of GDP for the period 2015-2019 and usable gross international reserves at the end of 2020 amounted to US\$118 million (equivalent to roughly 0.7 months of imports of goods and services). The country has recently implemented reforms to improve the management of the exchange rate (¶1.3) and expects to improve its level of usable gross international reserves to US\$1,672 million by 2024. However, further reforms to enhance the monetary policy and institutional framework are needed, including the elimination of gross CBS financing to the government, the improvement of liquidity monitoring and forecasting capabilities, and the strengthening of the CBS mandate, governance, and financial autonomy.
- 1.9 **Fiscal challenges and public debt crisis and restructuring.** As indicated above, the main fiscal challenge is a chronic mismatch between government revenues and expenditure, which has contributed to large fiscal deficits and the increase of the public debt. This difference between revenues and expenditure is caused both by a relatively low level of tax collection and rising expenditures driven by higher interest payments, wages, and subsidies.
- 1.10 In the wake of the currency devaluation and the macroeconomic impact of the pandemic, the lack of sources of financing has had important implications for Suriname. The government has been unable to pay its debt obligations and has been accumulating external and domestic arrears. The IMF estimated arrears of about US\$14 million to multilateral creditors, US\$21 million to bilateral creditors, US\$32 million to private external creditors, and SRD2.9 billion to domestic debt holders and suppliers.
- 1.11 The government approached creditors to establish a debt restructuring plan after defaulting for the third time on the US\$675 million bonds due in 2023 and 2026.<sup>13</sup> Negotiations have been taking place and are expected to conclude in the first

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<sup>10</sup> [Reuters COVID-19 Global Tracker \(2022\)](#).

<sup>11</sup> These included the increase in General Old Age Pensions, General Child Benefit, financial assistance for people with a disability and food packages for vulnerable households.

<sup>12</sup> [Khadan \(2020\)](#).

<sup>13</sup> [Bloomberg \(2020\)](#).



semester of 2022. According to the IMF, by end-2021, the government accumulated an estimated US\$90 million in arrears to bilateral creditors, US\$181 million to private external creditors (commercial loans and bonds), and domestic debt holders and suppliers (about US\$160 million). The authorities have settled all multilateral arrears.<sup>14</sup>

- 1.12 **Vulnerabilities in the financial sector.** About half of total lending in the banking system has been made in US dollars.<sup>15</sup> This represents an important vulnerability considering the recent exchange rate reforms, as the loans have been extended for the most part to individuals and businesses that do not have income sources in the same currency. Moreover, there are issues with banks' capitalization and the increase of non-performing loans (14.6% of total lending as of December 2020).
- 1.13 **Limitations of the anticorruption framework.** In 2020, Suriname had a Corruption Perception Index of 38, ranking 94<sup>th</sup> out of 180 countries.<sup>16</sup> This reflects the lack of an effective anticorruption framework to tackle corruption, which hinders the government's efforts. Some of the main identified vulnerabilities include risks related to institutional weaknesses, lack of capacity, implementation gaps and lack of overall transparency and awareness.<sup>17</sup>
- 1.14 **Multilateral support.** The government is seeking financial and technical assistance from the IMF and the Bank to help formulate and implement an economic reform program to address the country's macroeconomic and fiscal crisis. For 2022, the estimated financing needs are US\$572 million. Front-loaded multilateral financing along with a short to medium-term reform program will help address the severe short-term challenges presented by current financial service commitments in the absence of other funding sources. This financing, in conjunction with corrective economic and fiscal measures introduced by the government, aims to give short-term relieve and allow the government to advance on important and difficult reforms to place the public finances on sustainable footing.
- 1.15 The IMF is supporting the authorities through an EFF for SRD472.8 million (about US\$688 million) with a duration of 36 months. The Bank will complement this support and assist the country through a package comprising a Special Development Lending (SDL) program for US\$50 million and a Programmatic Policy Based (PPB) series,<sup>18</sup> with a first operation (under preparation) for US\$100 million. Additional investment loans disbursements from the outstanding portfolio are expected during the year. Going forward, the Bank will continue to offer a mix of both lending and non-lending instruments to support for the government. Table 2 shows the expected financing for 2022.

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<sup>14</sup> [IMF \(2021\)](#).

<sup>15</sup> IMF (2021).

<sup>16</sup> [Transparency International \(2020\)](#).

<sup>17</sup> IMF (2021).

<sup>18</sup> Each operation disbursement is contingent to the Bank's macroeconomic safeguards and approval by the Board of Directors.

**Table 2. Identified financing 2022**

Source	US\$ millions	Status
IMF	228	Approved
IDB (SDL)	50	In preparation <sup>19</sup>
IDB (PBP)	100	In preparation <sup>20</sup>
IDB (Investment loans)	18	Approved
Financing from external arrears accumulation (net)	176	In negotiation <sup>21</sup>
<b>Total</b>	<b>572</b>	

Source: IMF (2021) and IDB data (2022).

- 1.16 **Extended arrangement under EFF.** On December 22, 2021, the IMF Board approved the use of a 36-month Extended Arrangement under the [EFF](#) for an amount equivalent to US\$688 million. The EFF allows for an immediate disbursement of US\$55.1 million, with further disbursements subject to the achievement of the structural benchmarks of the program during the 2021-2024 period.
- 1.17 The EFF contains a series of prior actions and structural benchmarks, which are listed in the Memorandum of Economic and Financial Policies. For fiscal sustainability, the main prior actions include raising the sales tax to 12% and increasing the royalty rate on small gold miners to 7.5%.<sup>22</sup> For exchange rate and monetary stability, the main prior actions include unifying the official and parallel exchange rates and ending gross central bank financing of the government. For financial stability, the prior action requires developing the terms of reference to undertake an asset quality review for all banks. Finally, in the area of governance, the prior action involves ratifying the United Nations Convention Against Corruption. A list of structural benchmarks in these same areas complements the prior actions mentioned before.<sup>23</sup>

## II. ELIGIBILITY CRITERIA

- 2.1 **Eligibility criteria for SDL loan.** The SDL category, established in the Proposal to Create a Special Development Lending Category (document AB-3134), approved by the Board of Governors on 30 June 2017 pursuant to Resolution AG-9/16, and its Special Development Lending Category Operational Guidelines (document GN-2031-17), is a budgetary support lending instrument for dealing with macroeconomic crises,<sup>24</sup> and preserving social gains and economic growth in countries of the region facing a macroeconomic crisis. The Government of Suriname meets the eligibility criteria for this loan (document AB-3134), inasmuch as Suriname: (i) is experiencing a macroeconomic crisis (§1.10); and (ii) has a lending arrangement approved by the IMF (§1.16). The SDL operation amount

<sup>19</sup> Contingent on the approval by the Board of Directors.

<sup>20</sup> Idem.

<sup>21</sup> According to the IMF, negotiations with bilateral and private sector creditors are currently taking place (§1.11). IMF (EFF program 2021).

<sup>22</sup> Further fiscal measures include the introduction of the value added tax to replace the sales tax, which will take place in mid-2022. The necessary legal reforms for VAT implementation are expected to take place in March 2022 (IMF, 2021). VAT implementation will be supported by a PBP loan (§2.7).

<sup>23</sup> For more details, see the Memorandum of Economic and Financial Policies.

<sup>24</sup> Defined as a situation in which the country lacks or potentially lacks sufficient financing on affordable terms to meet its net international obligations, such as payments for imports or external debt redemptions, while maintaining prudential reserve buffers (document GN-2031-17).

(US\$50 million) falls within the limit set by Bank policies: 2% of the country's GDP or a maximum of US\$500 million.<sup>25</sup>

- 2.2 The Policy Matrix of this program includes the same conditions as the ones set on the EFF program. The EFF's prior actions focus on four areas: (i) fiscal; (ii) exchange rate/monetary/safeguards; (iii) financial; and (iv) governance. These areas are reflected in the components of this operation.
- 2.3 **The Bank's operational work and technical support in the country and lessons learned.** The last Bank's policy-based support to Suriname took place in 2011, with the approval of two fiscal PBP Loans, the Revenue Policy and Administration Program (3105/OC-SU), and the Public Expenditure Management Program (operations 2666/OC-SU and 2862/OC-SU)<sup>26,27</sup>. Both programs were truncated after the first tranche, mostly due to the government's weak institutional capacity to pursue the proposed reforms, specifically in implementing the VAT, and public procurement. An important lesson learned is the need to accompany the design and implementation process through a mix of technical assistance and investment loans. Therefore, since 2018, the Bank has been working with the authorities in the design of these key reforms, mostly through technical assistance. It also approved the Fiscal Strengthening to Support Economic Growth (FISEG) Program (4112/OC-SU) with the aim of strengthening the areas of tax administration, budget preparation and public investment. The FISEG was reformulated to support the country's efforts in the wake of the COVID-19 pandemic. As a result, the Bank is currently preparing a new investment loan which will continue to support Suriname's fiscal reform agenda, including the introduction of the VAT and the plan to restructure the Department of Taxes and Customs (DTC). These reforms will play an important role in developing the tools and framework critical to strengthen the revenue system, which is key for long term fiscal sustainability. The Bank will continue to assist the authorities through this new investment loan and technical cooperation to guarantee the successful implementation of these reforms.
- 2.4 **The Bank's experience in the region and lessons learned.** The Bank has experience assisting the countries of the region in overcoming macroeconomic crises and fiscal imbalances like those faced by Suriname. For example, the SDL approved for the Government of Barbados (4656/OC-BA) supported: (i) the restoration of macroeconomic stability; (ii) fiscal adjustments to promote sustainable fiscal balance in the short and medium term; and (iii) protection of social spending to preserve social gains. The SDL approved for Ecuador (4771/OC-EC) supported: (i) macroeconomic stability; (ii) the restoration of fiscal sustainability; (iii) strengthening of the central bank's institutional structure; and (iv) safeguarding of social spending to support the most vulnerable population. Both operations were approved in conjunction with IMF macro-fiscal support.<sup>28</sup> In 2014, moreover, the Bank approved the Development Sustainability Contingent Credit Line in Ecuador (3415/OC-EC),<sup>29</sup> which offered liquidity to withstand the external shock caused by the oil price drop. Additionally, during the

<sup>25</sup> Whichever amount is less. This limit applies to new country funds (paragraph 4.6 of document AB-3134).

<sup>26</sup> [3105/SU-OC](#) approved in December 2014 for US\$20 million; [2862/OC-SU](#) approved in November 2012 for US\$20 million; and [4112/OC-SU](#) approved in June 2017 for US\$40 million.

<sup>27</sup> Also [ATN/FI-13102-SU](#) Public Procurement Strengthening, and [ATN/FI-14581-SU](#) Revenue and Expenditure Administration have been supporting the fiscal area.

<sup>28</sup> [4656/OC-BA](#) approved in November 2018 for US\$100 million; and [4771/OC-EC](#) approved in April 2019 for US\$500 million.

<sup>29</sup> [3415/OC-EC](#) approved in December 2014 for US\$300 million.

COVID-19 pandemic the Bank supported government efforts to address the health and economic crisis through SDLs in Dominican Republic, Honduras, and Panama.<sup>30</sup>

- 2.5 The many lessons learned from this experience include the following: (i) the Bank's SDL instrument is an effective vehicle for channeling budgetary support resources swiftly in crisis situations; (ii) its main value-added, other than financial, is that it leverages and strengthens the IMF program and adds a layer of technical support to help the government meet its agreed commitments; and (iii) Technical Cooperation (TC) assistance and ongoing dialogue with the authorities to support fulfillment of the commitments with the IMF play an important role. These lessons confirm the appropriateness of the SDL instrument in view of the situation and challenges to which Suriname is responding, as well as the importance of supplementing it with the operational work under way or in preparation (¶2.3 and ¶2.7).
- 2.6 **Coordination with other donors.** Since the SDL instrument requires for an IMF program be approved and under disbursement, ongoing coordination with the IMF was necessary to prepare this operation. The Bank is also actively coordinating with other donors supporting the country, including the World Bank (which is assisting in the area of debt management) and the Netherlands Development Cooperation (which is supporting the creation of a Large Taxpayer Unit).<sup>31</sup>
- 2.7 **Complementarity with other Bank operations.** In addition to this SDL, the Government of Suriname requested a PBP from the Bank for US\$100 million. This PBP is under preparation and is contingent on the approval by IDB's Board of Directors. The PBP supports policies to strengthen the tax system, rationalize public expenditure, improve the macro-fiscal institutional and policy framework, and strengthen the fiscal framework of State-Owned Enterprises.<sup>32</sup> The Bank is also supporting the government through two complementary interventions. First, the fiscal reform agenda will be financed through an investment loan currently under preparation, which will continue to support Suriname's fiscal efforts, including the introduction of the VAT and the plan to restructure the DTC. Second, the Bank will provide technical assistance to strengthen the medium-term fiscal framework, evaluate public expenditure efficiency and enhance the fiscal management of the extractive industries, through a TC for the Caribbean region.<sup>33</sup>
- 2.8 **Strategic alignment.** The program is consistent with the Update to the Institutional Strategy (document AB-3190-2) and aligned with the crosscutting area of Institutional Capacity and Rule of Law through the reduction of the fiscal deficit to achieve public debt sustainability (¶2.12) and the strengthening of the governance and anticorruption framework (¶2.15). The program will also contribute to the Corporate Results Framework 2020-2023 (document GN-2727-12) through the indicator, "countries with strengthened tax and expenditure policy and management." It is aligned with the public sector management and financing and

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<sup>30</sup> [5666/OC-DR](#) approved in July 2020 for US\$250 million; [5069/BL-HO](#) approved in July 2020 for US\$76.2 million; and [5055/OC-PN](#) approved in June 2020 for US\$400 million.

<sup>31</sup> During the program, efforts will be coordinated with multilateral institutions and donors through ad hoc coordination roundtables and senior management meetings. The Bank will share its progress in program implementation with the IMF and the other donors.

<sup>32</sup> The PBP will also contribute to the government efforts by providing vital resources to protect social programs. Additionally, it includes policy actions aimed to complete a Survey of Living Conditions. This is expected to contribute to the improvement of targeting of social programs, hence, protecting the most vulnerable.

<sup>33</sup> [ATN/OC-18057](#).

macro-fiscal management areas of the Sector Strategy: Institutions for Growth and Social Welfare (document GN-2587-2) and is consistent with the Fiscal Policy and Management Sector Framework Document (document GN-2831-8), which emphasizes the importance of institution-strengthening to improve the quality of public expenditure, as well as fiscal equity and social inclusion. This program is aligned with the IDB Group Country Strategy with Suriname 2021-2025 (GN-3065) under the strategic area of restoring macroeconomic sustainability, as it contributes to the strategic objective of attaining fiscal sustainability in the medium term. This operation is included in the Update of the Annex III of the 2021 Operational Program Report (GN-3034-2). This operation also promotes IDB's subregional initiative of smart and resilient investment for the Caribbean.<sup>34</sup>

**A. Objectives, components, and cost**

- 2.9 **Program objective.** The general objective of the program is to restore macroeconomic and fiscal sustainability. The specific objectives of the program are to: (i) restore fiscal sustainability; (ii) strengthen monetary stability and monetary policy independence; (iii) support financial stability; and (iv) reduce vulnerabilities to corruption. The program's objectives and components are aligned with the IMF's EFF, approved on December 22, 2021. The program is structured as a single operation to be disbursed in a single tranche.
- 2.10 In line with the IMF's EFF, the paragraphs below contain the prior actions to be completed by the Government of Suriname under the components of the proposed program, as reflected in the [Policy Letter](#) for this operation and the Memorandum of Economic and Financial Policies to the IMF.
- 2.11 **Component 1: Strengthening Fiscal Sustainability.** The policy actions are: (i) enactment by the National Assembly of a 2021 budget that is consistent with the parameters of the program; and (ii) enactment by the National Assembly of the following key fiscal measures: (a) raising the sales tax to 12%; (b) raising the royalty rate on small gold miners to 7.5%; (c) limiting a nominal wage and benefit increase in 2021; and (d) a timeline to phase out electricity subsidies.
- 2.12 **Component 2: Enhancing Exchange Rate and Monetary Policies.** The policy actions are: (i) the CBS to unify the official and parallel exchange rates and ensure that the official exchange rate is calculated based on the rates used in unrestricted Foreign Exchange (FX) market transactions; (ii) conclude a Memorandum of Understanding between the CBS and Ministry of Finance and Planning (MFP) to end new, gross central bank financing of the government; (iii) conduct special audits of program monetary data (net international reserves and net domestic assets of the CBS) to verify the opening stocks of data used as performance criteria; (iv) the CBS to co-source the internal audit function to a qualified expert firm based on Terms of Reference prepared in consultation with IMF staff (to commence internal auditing and advance its development); and (v) the CBS Board to adopt a timebound Governance Reform Implementation Plan, in consultation with the IMF, to strengthen the governance and control environment.
- 2.13 **Component 3: Safeguarding Financial Stability.** The policy action is for the CBS to engage an internationally reputable specialist firm and develop the terms of reference to undertake an asset quality review for all banks.

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<sup>34</sup> The sub-regional strategy of Vision 2025 for the Caribbean focuses on a delivery-oriented initiative aimed at helping Caribbean countries define Sustainable Development Pathways for their transformation in a smart and resilient manner.

- 2.14 **Component 4: Improving Governance Framework.** The policy action is for the Government of Suriname to request the National Assembly's approval of the ratification of the United Nations Convention Against Corruption.

**B. Key results indicators and program beneficiaries**

- 2.15 The expected impact is to contribute to macroeconomic and fiscal sustainability, as reflected in a decrease in the inflation rate to 14.1% and in public debt to 119.4% of GDP by 2024. The main expected outcomes by 2024 are: (i) to reach a primary fiscal balance of 4.5% of GDP; (ii) to reduce electricity subsidies financed through the budget to 0.5% of GDP; (iii) to decrease gross credit to the central government by the CBS to zero; (iv) to increase usable gross international reserves of the central bank to US\$1,672 million; (v) to reduce the value of non-performing loans to 8.5% of total gross loans; and (vi) to improve the score in the Corruption Perception Index to 46.
- 2.16 The program will benefit:
- a. the Government of Suriname directly, by: (i) securing fast-disbursing resources to finance actions to restore macroeconomic stability; and (ii) increasing institutional capacity to restore fiscal sustainability.
  - b. the general public, indirectly, by: (i) increasing the availability of financial resources to the government to invest in social welfare; and (ii) restoring macroeconomic stability, which allows markets to operate in a predictable environment.

### **III. FINANCING STRUCTURE AND MAIN RISKS**

**A. Financing instruments**

- 3.1 This SDL loan will be financed with the Bank's Ordinary Capital resources. The Bank's capital ratios as of November 2021 are in the surplus capital zone established in the Capital Adequacy Policy Regulations. Based on this, Management proposes that financing for this SDL utilize lending capacity part of the US\$25 billion approved by the Board of Directors for the biennial 2021-2022 at this point. The operation has been prepared in coordination with the EFF approved by the IMF. The single-tranche structure and complementary financing arrangements with the IMF provide a flexible and effective mechanism for supporting the government's emergency measures to mitigate the health and economic impacts of the pandemic. The SDL resources will be disbursed to the government in a single tranche into the bank account designated for such purpose by the MFP.<sup>35</sup>
- 3.2 The amount of this program is US\$50 million, in addition to the expected US\$228 million to be disbursed under the EFF in 2022<sup>36</sup> and a PBP for US\$100 million contingent on the approval by IDB's Board of Directors, bringing the total to US\$378 million. The following factors were considered to determine the loan amount: (i) the size of the package of macroeconomic adjustment measures needed to address the macroeconomic crisis; (ii) the US\$228 million available from the IMF in 2022; and (iii) the fiscal<sup>37</sup> and balance of payment

<sup>35</sup> The disbursement of resources will be synchronized with the EFF program, which must be disbursing in order for the loan to be eligible for disbursement.

<sup>36</sup> This includes US\$55.1 million upon approval and further disbursements following the achievement of structural benchmarks.

<sup>37</sup> The financing needs for 2022 are US\$572 million.

shortfalls, the country's debt sustainability, and risk factors, as well as the limit of funds per country established by the Bank (see paragraph 3.3 and 4.1 of the SDL guidelines document GN-2031-17 and PR-221). The program will help cover the additional financing needed by the country because of the macroeconomic and fiscal crisis by providing US\$50 million (8.7% of financing needs for 2022).

**B. Environmental and social safeguard risks**

- 3.3 Under Directive B.13 of the IDB's Environment and Safeguards Compliance Policy (Operational Policy OP-703), no *ex ante* impact classification is required for this program. The operation supports the development of policies, regulations, management instruments, and other institutional strengthening actions, so no significant direct impacts on the environment or natural resources are foreseen.

**C. Fiduciary risks**

- 3.4 No fiduciary risks have been identified for this program. The loan proceeds will be disbursed directly to the account designated by the MFP and used to cover financing needs. The executing agency has the necessary financial management instruments and control systems for such purpose. Resources will be disbursed once all the conditions set in the Loan Contract are met.

**D. Other key risks**

- 3.5 **Economic and Financial (high).** This operation is being prepared before the latest wave of the COVID-19 pandemic in Suriname begins to abate, and there is no certainty as to how long the health and economic crisis will last.<sup>38</sup> If the pandemic lingers and the economic recovery takes longer than expected the impact of the crisis on public finances could be much stronger than anticipated. If this first high-risk scenario materializes, the Bank will continue to offer technical assistance through its regional pandemic response TC operations (¶2.7), to identify additional measures for restoring fiscal sustainability while protecting the most vulnerable populations.
- 3.6 A second source of economic and financial high risk arises from global commodity markets, particularly those of gold and oil, and other external factors, such as US interest rates. A fall in the price of those commodities could have a large negative impact on Suriname's external balance, affecting macroeconomic stability. Similarly, an increase in US interest rates would put further financing pressures on Suriname. These impacts cannot be fully mitigated. If this risk materializes, the Bank will continue its dialogue with the country and offer technical assistance as needed.
- 3.7 Finally, a third source of economic and financial high risk is related to the possibility of occurrence of contingent liabilities, including those related to *Staatsolie* (the state oil company), other public entities, and the banking sector. If large contingent liabilities in any of these sectors materialize, it can represent a substantial fiscal burden for the country and could lead to a further deterioration of the macroeconomic environment. To partially mitigate this risk, the Bank is supporting the strengthening of the fiscal framework of State-Owned Enterprises through a PBP in preparation (¶2.7), and an asset quality review for all banks in this operation (¶2.13).

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<sup>38</sup> The IMF projections (Table 1) assume COVID-19 is managed effectively, but further outbreaks could impact these projections.



- 3.8 **Political environment (high).** The extent of the macroeconomic and fiscal crisis in the country could jeopardize the political ability of the government to pass and implement crucial economic reforms. If this risk materializes, there could be further deterioration of the fiscal balance and the public debt crisis. This risk will be partially mitigated with the PBP that supports fiscal reforms and provides vital resources to protect social programs (currently in preparation) and with technical assistance from the Bank through its regional pandemic response TC operations (¶2.7) in priority areas for the fiscal adjustment and improvement of public expenditure. Additionally, the government is implementing a communication strategy, which includes the publication of information regarding the main reforms taking place, as well as meetings with relevant stakeholders.<sup>39</sup>
- 3.9 **Institutional (high).** The success of this program will require the ability to approve and implement the expected reforms and also to maintain the fiscal variables in line with the estimates of the program in order to ensure fiscal sustainability. In the latter case, if the institutional capabilities of the MFP to monitor these variables is not strengthened, this could result in unanticipated deviations that may be hard to correct in the short and medium-term. To mitigate these issues, the Bank has compiled an integral support package, including budget support from this operation, a PBP (under preparation), an investment loan (under preparation), and a regional TC (ATN/OC-18057-RG) (¶2.7). The government is also implementing a communication strategy, which includes the publication of information regarding the main reforms, as well as meetings with relevant stakeholders.

#### IV. IMPLEMENTATION AND MANAGEMENT PLAN

##### A. Summary of implementation arrangements

- 4.1 **Borrower and executing agency.** The borrower will be the Republic of Suriname. The executing agency will be the MFP, which will be responsible for: (i) providing evidence that the commitments for disbursement of the loan, as agreed between the government and the Bank, have been met; (ii) promoting measures to achieve the program objectives; and (iii) compiling, maintaining, and providing to the Bank the necessary information, indicators, and parameters for monitoring and evaluation of the program outcomes.
- 4.2 **Commitments and disbursement of the loan proceeds: The single disbursement of loan resources will be subject to compliance with the policy conditions summarised in the Policy Matrix (Annex II) and in the [Policy Letter](#), as well as the compliance with the conditions contained in the loan contract.**

##### B. Summary of arrangements for monitoring results

- 4.3 **Monitoring.** The borrower and the Bank will meet regularly to monitor the commitments described in the Commitments Matrix. The Bank will also maintain regular contact with the IMF mission to Suriname and take note of any IMF decision related to the EFF and any potential new arrangement with the country. The executing agency will compile and process all data necessary for program monitoring and evaluation. Consulting engagements to verify Results Matrix

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<sup>39</sup> The government established a Special Tripartite Consultation to engage in meaningful discussions with the main labor unions and employers' organizations. There have also been meetings with business trade groups and consumer protections advocates. Moreover, the government has created a dedicated [website](#) with information regarding the recovery plan.



- indicators and Policy Matrix activities will be financed with Bank administrative funds.
- 4.4 **Evaluation.** After the close of fiscal year 2024, upon conclusion of the EFF arrangement, the Bank will prepare a Project Completion Report to assess the impact of the program. The evaluation will be carried out with Bank resources.
- 4.5 **Policy Letter.** The [Policy Letter](#) of the Government of Suriname, reaffirming its commitment to the macroeconomic measures agreed upon with the Bank, is aligned with the program's Policy Matrix and Results Matrix.

## RESULTS MATRIX

<b>Project objective</b>	The specific objectives of the program are to: (i) restore fiscal sustainability; (ii) strengthen monetary stability and monetary policy independence; (iii) support financial stability; and (iv) reduce vulnerabilities to corruption. The achievement of these objectives will contribute to the general objective of the program to restore macroeconomic and fiscal sustainability.
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### General Development Objective

Indicators	Unit of measurement	Baseline 2020	2021	2022	2023	Target 2024	Means of verification
General development objective: Restore macroeconomic and fiscal sustainability							
Inflation (end-of-period)	%	61	59	38	22	14.1	IMF Report
Public debt (% of GDP)	%	147.7	128.9	128.5	119.8	119.4	IMF Report

### Specific Development Objectives

Indicators	Unit of measurement	Baseline 2020	2021	2022	2023	Target 2024	Means of verification
Specific development objective 1: Restore fiscal sustainability							
Primary fiscal balance of the central government (% of GDP)	%	-9.7	-1.3	1.7	3.5	4.5	IMF Report
Electricity subsidies financed through the budget (% of GDP)	%	2.3	3.4	3.5	2.2	0.5	IMF Report
Specific development objective 2: Strengthen monetary stability and monetary policy independence							
Gross credit to the central government by the central bank (ceiling)	SRD (million)	10,157	0	0	0	0	IMF Report

Indicators	Unit of measurement	Baseline 2020	2021	2022	2023	Target 2024	Means of verification
Usable gross international reserves	US\$ (million)	118	501	955	1,320	1,672	IMF Report
Specific development objective 3: Support financial stability							
Non-performing loans (% of total gross loans)	%	14.6	12.5	11.0	9.5	8.5	Central Bank of Suriname – <a href="#">Financial Soundness Statistics</a>
Specific development objective 4: Reduce vulnerabilities to corruption							
Corruption Perception Index (0-100)	Index	38	40	42	44	46	Transparency International – Corruption Perception Index Report

## POLICY MATRIX

**Objective:** The specific objectives of the program are to: (i) restore fiscal sustainability; (ii) strengthen monetary stability and monetary policy independence; (iii) support financial stability; and (iv) reduce vulnerabilities to corruption. The achievement of these objectives will contribute to the general objective of the program to restore macroeconomic and fiscal sustainability.

Objectives	Conditions for the single operation <sup>1</sup>	Status of fulfilment of conditions <sup>2</sup>
1. Strengthening Fiscal Sustainability		
Restore fiscal sustainability.	1.1. Enactment by the National Assembly of a 2021 budget that is consistent with the parameters of the program.	Fulfilled IV Quarter 2021.
	1.2. Enactment by the National Assembly of the following key fiscal measures: (i) raising the sales tax to 12%; (ii) raising the royalty rate on small gold miners to 7.5%; (iii) limiting a nominal wage and benefit increase in 2021; and (iv) a timeline to phase out electricity subsidies.	
2. Enhancing Exchange Rate and Monetary Policies		
Strengthen monetary stability and monetary policy independence.	2.1. The CBS to unify the official and parallel exchange rates and ensure that the official exchange rate is calculated based on the rates used in unrestricted FX market transactions.	Fulfilled IV Quarter 2021.
	2.2. Conclude a Memorandum of Understanding between the CBS and MFP to end new, gross central bank financing of the government.	
	2.3. Conduct special audits of program monetary data (net international reserves and net domestic assets of the CBS) to verify the opening stocks of data used as performance criteria.	

<sup>1</sup> This matrix identifies the prior actions to be fulfilled by the Government of Suriname under the EFF.

<sup>2</sup> As of the date of this document, this information is merely indicative. The fulfillment of all disbursement conditions will be verified by the Bank at the time of the corresponding disbursement request by the borrower and promptly noted in the disbursement eligibility memorandum.

Objectives	Conditions for the single operation <sup>1</sup>	Status of fulfilment of conditions <sup>2</sup>
	2.4. The CBS to co-source the internal audit function to a qualified expert firm based on Terms of Reference prepared in consultation with IMF staff (to commence internal auditing and advance its development).	
	2.5. The CBS Board to adopt a timebound Governance Reform Implementation Plan, in consultation with the IMF, to strengthen the governance and control environment.	
3. Safeguarding Financial Stability		
Support financial stability.	3.1. The CBS to engage an internationally reputable specialist firm and develop the terms of reference to undertake an asset quality review for all banks.	Fulfilled IV Quarter 2021.
4. Improving Governance Framework		
Reduce vulnerabilities to corruption.	4.1. The Government of Suriname to request the National Assembly's approval of the ratification of the United Nations Convention Against Corruption.	Fulfilled IV Quarter 2021.

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-\_\_\_/22

Suriname. Loan \_\_\_\_/OC-SU to the Republic of Suriname  
Macroeconomic Emergency Program to Protect  
Economic and Social Development

The Board of Executive Directors

RESOLVES:

That the President of the Bank, or such representative as he shall designate, is authorized, in the name and on behalf of the Bank, to enter into such contract or contracts as may be necessary with the Republic of Suriname, as borrower, for the purpose of granting it a financing to cooperate in the execution of the Macroeconomic Emergency Program to Protect Economic and Social Development. Such financing will be for the amount of up to US\$50,000,000 from the resources of the Bank's Ordinary Capital, and will be subject to the Financial Terms and Conditions and the Special Contractual Conditions of the Project Summary of the Loan Proposal.

(Adopted on \_\_\_\_ 2022)