Reforms for stability

Suriname’s finance minister Gillmore Hoefdraad tells GlobalMarkets that reforms are under way to bring structural improvements to the resource-rich economy.

What comfort can you provide to bond investors concerned about the upward revision, in April, of the fiscal deficit forecast?

The deficit has not improved as fast as expected mainly due to the retroactive payments resulting from the 2017 healthcare reform and the retroactive element of wage increases.

These additional payments expire in the coming months and the outlook is positive: we estimate that Newmont will begin to pay substantially higher income tax on the Merian mine during 2020; Iamgold will soon be extracting ore from its Saramacca concession, which should increase its profits and the government’s tax revenue; while Newmont is preparing two new mines.

Importantly, the government will acquire the Afokaba dam from [mining company] Alcoa before December 31, 2019. The immediate effect will be that the profits Alcoa has been generating by selling electricity will end up in the hands of the government, helping to gradually reduce the cost of energy subsidies. Subsidies were around 5% of GDP in 2018 and account for around two thirds of the fiscal deficit. We will also implement a value-added tax.

What other impacts will the Afobaka dam transfer have?

The transfer is a key and initial element in a broader five-year electricity reform. Under the reform, all generation assets will come under centralised ownership and management, allowing for efficiency gains. A five-year tariff adjustment process will eliminate subsidies at the consumer level, which will also reduce electricity consumption as users adjust to market-orientated prices.

Will this transfer require additional financing?

Yes, we will seek financing to purchase the dam and place the electricity reform on a secure financial footing. Given the costs of subsidies and the inherent inefficiencies of the system, this financing will provide a significant return on investment for Suriname.

What is the status of the VAT reform?

In collaboration with the IADB and IMF, we are working on VAT reform to be implemented in 2021. The law is almost ready to be presented to Parliament, while the IT system is in place and being integrated with central Integrated Financial Management Information Systems (IFMIS). The implementation plan foresees that, during 2020, regulations will be issued and stakeholder education meetings will take place. Overall, we will institute a VAT rate, threshold, and exemption levels that will increase net revenue by 2% of GDP.

Some analysts are worried spending will go over budget in the run-up to elections. How do you plan to control this?

There are clear differences between 2019 and any previous pre-election year. Our IFMIS allows for faster and more granular expenditure control. The results are clearly visible, as expenditure has not expanded in real terms in 2019 and we plan to keep it that way. Additionally, the 2020 budget recently discussed in Parliament is almost identical in nominal terms to 2019’s and has no additional expenditure items.

There are concerns that the Surinamese dollar may be allowed to depreciate after the 2020 elections. Are these justified?

Given the history of post-election devaluations, this is understandable. To a certain extent, such pre-election depreciation fears are self-fulfilling: the more people fear a devaluation, the more the exchange rate depreciates in the spot market. Let’s be clear that the authorities cannot devalue the currency, as it is already floating. The spot rate is a clear reflection of the foreign exchange rate market. This spot rate is being negatively affected by the usual pre-election jitters and the pernicious effects of the unlawful cash seizure by the Dutch authorities. Both will end soon. Furthermore, international reserves continue to build consistently, and foreign direct investment has a strong present and future.

What measures are being taken to ensure markets have up to date data about Suriname?

Our provision of information has improved leaps and bounds in five years and analysts and investors must only browse the internet to obtain the latest data sets. The Central Bank now provides monthly data on monetary and financial developments, while fiscal data are now largely presented on a GFS basis on the Ministry’s website. The IMF has certified that Suriname’s data provision is now consistent with the General Data Dissemination Standards. Authorities also hold regular investor presentations and are available for phone calls and on-site visits.

What does Suriname need to do to make the most of a potential major offshore oil find?

In 2019, Suriname’s Savings and Stability Fund became operational, and we are now defining the exact mechanism of transfer, following the Santiago Principles so it meets world-class standards. Thus Suriname is prepared to properly manage any windfall that would follow a major offshore oil find.

The country is well prepared to absorb higher investments in the extractive industries, with a century-old tradition of working cooperatively and amicably with foreign investors. Our domestic industry and commerce has also extensive experience providing ancillary services to large investors. Finally, the peaceful, diverse, friendly, and well-educated Surinamese society has always welcomed and integrated foreign nationals.

Are there plans to dredge the river to increase local benefits of any oil discovery?

Dredging the river is imminent; we signed a project loan agreement in September 2019 to dredge the river and it should begin in the coming months.

What work is underway to diversify the economy away from a reliance on natural resources and bring greater dynamism to the private sector?

Diversifying an economy that is highly competitive in extractive industries is a challenge but is an important objective. Our investment promotion agency Investsur is active in attracting investment in agriculture and tourism, while we are working with the World Bank and IADB to improve the competitive environment, specifically in the ease of doing business.
Suriname seeks to show off credentials

A well-managed mining sector, falling inflation and increasing reserves continue to underpin Suriname’s recovery. However, further robust policy action is still needed to lay a sustainable base for stability and growth.

Suriname received a shipment of an extremely valuable commodity, direct from the source, in September. The country is rich in gold, and optimistic about discovering transformational quantities of oil, yet the delivery of US dollars, in cash straight from the US Federal Reserve, has arguably been its most precious acquisition this year.

The Central Bank of Suriname (CBvS) took the unusual step of asking the Fed for a delivery of dollars to combat the impact of the April 2018 seizure of a €19.5m shipment of euro banknotes from Suriname by Dutch authorities.

Suriname says the seizure was illegal, and has filed a complaint with a Dutch court that will be heard in November. Yet the economy is already suffering the effects.

Euros — brought mostly by Dutch visitors and shoppers from French Guyana — have piled up in central bank vaults as the country has been unable to ship them abroad and exchange them for dollars.

Exchange houses known as Cambios, which populate capital Paramaribo’s landscape, offer US dollars at 10%-15% above the official rate, and the central bank estimates that scarcity has triggered an average increase in their cash value of 1% a month. Euros, on the other hand, trade well below international market rates.

With cash payments in the dominant gold and fishing sectors made in US dollars, and deposit dollarization around 65%, demand for the US currency is high. Banks, prevented from making transfers to their nostro accounts, have been forced to restrict cash withdrawals of US dollars, diminishing confidence in the banking system.

Authorities hope the move will alleviate some of the severe strains the economy has suffered as a result of the euro seizure.

“It is important to understand that we have coped with the situation and worked very hard to provide our country with a solution,” Robert van Trikt, governor of the central bank since March 2019, tells GlobalMarkets.

Building reserves
Analysts welcomed the Fed shipment, with Stephen Ogilvie, director at Standard & Poor’s, telling GlobalMarkets that it “looks to be good news for bondholders, as would be any news that frees up official foreign exchange”.

With a general election to come in 2020, Suriname is particularly keen to remove pressure on the exchange rate; the sharp falls in the Surinamese dollar that followed president Desi Bouterse’s victories in 2010 and 2015 have left some worried that a similar depreciation is looming for next year. Indeed, a weaker parallel FX has previously indicated a future depreciation.

The question is whether this time things are different. The dollar shortages and consequent distortions are certainly anomalous. Moreover, Suriname’s foreign currency reserves are recovering, in contrast to 2014, the most recent pre-election year.

“As long as Suriname’s international reserves keep growing, the FX rate should remain stable,” says Tiffany Grosvenor-Drakes, senior manager, strategy and economics at CIBC FirstCaribbean International Bank.

Suriname’s $715m of international reserves, as of September this year, equate to 5.3 months of non-mining imports (the mining sector finances its own imports), and the amount has increased steadily from a low of $212m in May 2016.

Yet, as Suriname is a leading gold producer with the ability to buy the commodity in local currency, the central bank knows reserves should be higher. Van Trikt is confident that reserves will soon surpass the all-time high of $1.008bn, reached back in 2012.

His optimism partly emanates from a June 1 measure from the CBvS that obliges commercial banks to hold at least half of their US dollar and all their euro-denominated required reserves at the central bank. The banks’ assets are ring-fenced and CBvS has set up a Strategic Investment Committee to manage them.

Van Trikt also highlights an agreement with...
Having briefly returned to surplus in 2017, Suriname’s current account has been deteriorating steadily, but it is not overly worrying analysts. Net foreign direct investment, mostly in the mining sector, covered the current account deficit during 2016-2018, according to Fitch. And though FDI could fall as the Saramacca gold mine enters production, exports should correspondingly increase. Growth in imports has been the main driver of the return to a current account deficit, but this could level off soon. Furthermore, the income account includes the transfers of profits from gold mining company Newmont, which is not yet paying income tax in Suriname, due to accelerated depreciation in its contract. When it does, 36% of these profits, the income tax rate, will remain in the country.

Robert van Trikt, governor of Suriname’s central bank since March 2019, is particularly proud of the growth in the country’s international reserves, which have a history of shrinking in the years before elections. The central bank in July took measures to bring stability to the reserves, including obliging commercial banks to hold at least half their US dollar and all their euro-denominated required reserves at the central bank. Therefore, van Trikt is targeting continued growth, and believes reserves can soon top the all-time high of $1.008bn, recorded in late 2012. As mining revenues should continue to increase, prudent management will make this a real possibility. “International reserves play an important role in building trust in the country, defending the stability of the currency, and how rating agencies view you.”

The good news is that Suriname is growing again. But if commodities caused the economy’s last slump, thanks to drops in the oil and gold prices and the end of Alcoa’s alumina mining operations, they are the principal driver behind the recovery. Gold production has increased and prospects are looking good at IAMGOLD’s Saramacca project, which should provide a further lift to the economy. Yet Suriname urgently needs to diversify its economy. Tourism has plenty of potential, though it suffers from a lack of international connections, while the needs of the Caribbean Community (Caricom) present a good opportunity for Suriname to expand its agricultural exports. An industrial baseline study looking at how local businesses would benefit from an offshore oil discovery made it plain that the domestic private sector has a lot of work to do to become more competitive and productive, which would be a big help in making growth less vulnerable to commodity prices.

After ballooning to a peak of over 55% in 2016 on the back of a sharp depreciation in the Surinamese dollar, inflation in the country has come down steadily and is well into the single digits. Improved monetary policy tools are giving the central bank a better handle on excess liquidity in the system and have allowed the monetary authority to revise its end of year inflation projections down. As long as international reserves continue to build, and given the promising outlook for foreign direct investment, analysts say the exchange rate should remain stable, keeping inflation under control. However, investors will keep an eye on 2020 elections, with the dollar having previously depreciated in post-election periods.
gold exporters to buy gold in local currency, which he believes will provide annual net income of $120m-$140m on international reserves.

“Five years ago, the possibility of a default on foreign currency obligations was the biggest concern,” says Ogilvie. “The increase in international reserves does provide comfort, especially in the year before an election.”

“This also reduces the probability of a spike in the exchange rate, though we will look out for any movement in the parallel rate, as this weakened substantially before the last major devaluation.”

S&P’s expectation is that, as reserves build, “the central bank resists the temptation to over-manage the currency”, says Ogilvie.

Inflation has also dropped swiftly from the commodity crunch peak of 79% in 2016, down to 5.4% by December 2018 and 4% as of August 2019. This has occurred in the context of recovering GDP growth. After a deep recession, the economy grew 1.8% in 2017 before expanding by an estimated 2.6% in 2018.

**Fiscal challenge**

Given the dire dollar shortage, it seems unusual that some holders of Suriname’s sovereign bonds were unaware of the Fed deal when *GlobalMarkets* spoke to them in the week after the first shipment — despite announcements, in English, on the websites of both the CBvS and finance minister Gillmore Hoefdraad.

If historical patterns such as pre-election policy are important concerns for bondholders, it may be because several say that updated numbers are trickier to find.

Suriname has taken steps to improve data provision over the past decade, and in 2018 implemented the IMF’s General Data Dissemination System (e-GDDS).

Yet with only one $550m international bond, it is only a small part of emerging market indices, so experts on the country are at a premium. Limited flight connections can also make it a logistical challenge to carry out field research.

The resultant secondary market illiquidity and perceived opacity could have prompted some bond investors to turn away from the country completely when it gave them a fiscal shock. In April 2018, the government revised its historic deficit numbers for 2018 and projections for 2019 are much higher, while also revealing the accumulation of previously unknown budget arrears.

As Moody’s, a fiscal deficit on a cash basis of 9.9% of GDP for 2018 was wider than its expected 7.2%, and more than the 8.7% reported in 2017.

The sovereign’s 9.25% 2026s plunged from a secondary market price of around 104 to the mid-90s in the following weeks, and have continued to drift lower. They ended September at around 89 cents on the dollar, yielding 11.55%.

The fiscal bad news “explains the negative trajectory by the 2026 bonds year-to-date”, says Petar Atanasov, co-head of sovereign research at Gramercy.

“As obtaining timely and reliable data about Suriname is challenging, and given that 2020 is an election year, it is hard to get comfortable with the credit in the short term,” he says.

Other analysts echo Atanasov’s election concerns. Grosvenor-Drakes at CIBC FirstCaribbean says she does “not expect 2019’s deficit to improve on last year” due to increased spending, “a pattern observed in the run-up to the last elections”.

S&P’s Ogilvie, says that while the government does “a lot right”, particularly in its mining sector, “the worry is how it spends money”, also referencing the pre-2015 election spending.

In late 2018, Moody’s said that higher public sector salaries and capital spending “already point to some increased spending leading up to elections”, though in February the rating agency removed its negative outlook on Suriname and then in August said that it believes the fiscal deficit will narrow to 6.6% in 2019 and 5.2% in 2020.

Grosvenor-Drakes at CIBC notes that capital spending, which has increased from 8% of spending in 2015 to 13%-14%, according to the government, “should contribute to greater productive capacity”.

What have been termed as arrears were mostly the result of a 2017 healthcare reform and pension changes that required big retroactive payments. These payments, which cost more than 3.5% of GDP in 2018, will continue into next year, and the government still predicts a fiscal deficit of 7.2% for 2019.

Yet the finance ministry believes the outlook is positive for Suriname’s fiscal situation, in part because Newmont, which operates the Merian gold mine, has so far only paid royalties on the investment because its contract allows accelerated capital depreciation.

Though regulation prevents the company from informing the government exactly when this agreement will end, the finance ministry has told *GlobalMarkets* that it projects that Newmont will be paying income taxes by the end of 2020. The ministry believes this alone could bring $80m-$120m to government coffers, around 2.3%-3.5% of 2018 GDP.

Furthermore, when Lamgold begins to extract ore at its Saramacca mine, possibly as early as this year, tax revenues could also benefit.

**Strong potential**

However, income is not necessarily investors’ main concern: for while revenues increased by 17% year-on-year in 2018, according to Moody’s, the big concern was that this was overshadowed by the 20.5% increase in spending.

Suriname’s government has taken measures to ensure more sustainable spending in future. The Savings and Stability Fund began operations in January and will receive a portion of mining windfalls above a certain threshold, creating a buffer to a downturn in commodity prices.

Meanwhile, the Afofaka dam, built by bauxite miner Alcoa during its century-long operation in Suriname, will be transferred to the government on December 31.

Until now, Alcoa has sold the electricity produced by the dam to the government. As of 2020, the government will be able to pocket those profits, allowing it to begin much-needed subsidy reductions (see *interview with finance minister Gillmore Hoefdraad*). Broader electricity reform is also in the works.

In addition, the forthcoming VAT law, scheduled for 2021, will aim to bring a net revenue benefit of 2.5%.

While elections can prompt market uncertainty, Suriname’s outlook should remain on track, regardless of the result.

“Whichever party gains power at the next election, we would expect them to follow a similar path of economic policy,” says Steven MacAndrew, director of the Suriname Trade and Industry Association. “There is a need to reduce Suriname’s debt, curb the budget deficit, and introduce measures — such as VAT — to ensure a positive outlook.”

Given the sound management of its rich commodity sector, the recovery from the triple commodity shock should continue, and nobody needs convincing of Suriname’s potential.

“After the election, the promised implementation of VAT and expenditure restraint, particularly on subsidies, would be crucial to setting deficits on a downward path,” says Grosvenor-Drakes.

Yet, for all this to be sustainable, the country must take the measures that it has done a good job of identifying as needed, and turn promises into action in the form of pre-election control and post-election policies.

“It is clear that the economy has good growth potential,” says Atanasov at Gramercy. “If the policy outlook turns positive after the elections, Suriname could become an interesting story.”
A mandate for modernisation

Suriname’s new central bank governor has had an immediate impact, ringing the changes and setting out his vision for 2030

Robert van Trikt took the reins at the Centrale Bank van Suriname (CBvS) in March 2019, with far-reaching ambitions for the institution. “Suriname is the 17th richest country in the world in natural resources,” van Trikt tells GlobalMarkets. “The central bank must ask itself what its role should be in ensuring the country fulfils its potential and is up to speed with international markets.”

“I want to see Suriname lay down a vision for where it should be in 2030.”

International hot topics such as financial inclusion and financial technology immediately climbed the priority list. The bank moved to get up to speed in areas of monetary policy. The National Risk Assessment was launched to examine money laundering and terrorism financing risks ahead of Suriname’s mutual evaluation assessment by the Caribbean Financial Action Task Force in 2020.

Meanwhile, the governor addressed urgent concerns such as excess liquidity in the banking system and the crippling lack of US dollar notes due to the seizure of euros by Dutch authorities back in April 2018 (see macroeconomic overview).

One executive in the private sector comments that the central bank has done “three years of work in six months”.

Maya Parbhoe, chief executive of OuroX, a fintech start-up, highlights the central bank has implemented “several measures” to improve the financial and monetary policy in recent months.

These include asking banks to transfer part of their required FX reserves, previously held abroad, to the central bank, setting up a market-based monetary policy framework directed at conducting open market operations, and amending financial legislation.

“This should contribute to a more modern and sophisticated management of the economy,” says Parbhoe.

First of all, the bank had to put certain fundamentals straight. In his first press conference, van Trikt dismissed local speculation that he would help the government use additional central banking financing to boost pre-election support.

“With regard to the financing of the state, I guarantee that I will never act above the legally permitted 10% standard,” said van Trikt at the time. “The development of domestic financial markets is urgently required so that the state can finance part of its budget deficit in a responsible manner.”

As of August, Moody’s said that “a larger central bank balance sheet” was not its base case, highlighting it would be a credit-negative should that situation change.

Monetary moves

In recent months, the CBvS has modernised its monetary policy framework in conformity with financial Sector Overview Macro Overview

When Suriname posted a 17% increase in government revenues in 2018, a curious point about the figure was that it was driven largely by a 33% increase in mining revenues.

Non-mining revenues increased by just 10%, which Moody’s highlighted was below nominal GDP growth and a slower pace than the 23% growth recorded in 2017.

This deceleration in non-mining revenue, Moody’s believes, points to “slowing economic activity”, and anecdotal evidence from the private sector backs this up.

“The operating environment remains difficult for the private sector in Suriname, and the government remains the main driver of economic activity,” says Steven MacAndrew, director of the Suriname Trade and Industry Association. “The SME community was badly hit by the economic downturn that began in 2015, and small businesses suffered when the government had financial issues.”

MacAndrew highlights the Association’s desire to see progress in sustainable development, fair competition, and the ICT sector, as well as continuing to advocate for a greater diversification of the economy—particularly in agriculture, tourism and manufacturing.

“Though the mining sector is a vital revenue earner for the government, we would like to see more focus on other sectors,” says MacAndrew. “Suriname has huge opportunities.”

As it looks to encourage this, the Association has made better dialogue with authorities a priority and MacAndrew notes that “it is a positive development that we have been able to hold several meetings with the new governor of the central bank since he took office.”

These more frequent discussions speak to van Trikt’s vision for a broader role for CBvS. Authorities are well aware of the need to diversify the economy to reduce the vulnerability to commodity shocks, while the IMF has said that the lack of a non-mineral engine of growth “could further erode potential growth”, but finding this engine is not an automatic process.

The new governor believes the central bank can play what he sees as an “incubator” role as part of the task of “promoting the balanced socioeconomic development of Suriname”.

“The central bank cannot forget to be the adviser on how to best use all our resources and bring Suriname forward,” says van Trikt.

In part, this involves the central bank taking seriously its role as a “knowledge institute” to strengthen the institutional and financial capacity of the economy, and working to improve the productive cycle.

Yet perhaps the most ambitious part of the plan is for a new sovereign wealth fund — distinct from the already operating Savings and Stability Fund Suriname.

Separate to this intergenerational rainy-day fund, the central bank envisages a further investment vehicle that will deploy assets for the benefit of government and society.

“This will be where we can deploy assets to increase production, exports, and growth, in the style of Norway, Belgium or the Emirates,” says van Trikt.
recommendations from the International Monetary Fund. After visiting Suriname in October 2018, the IMF highlighted that the monetary framework “lacks standard instruments” and that the bank “does not have in place standing facilities that are common to most central banks”.

After officially moving to a floating FX rate in May 2016, CBvS announced a monetary targeting regime, which will initially be used internally before switching to formally announcing operational targets to the public.

It continued to smooth the exchange rate via interventions and manage liquidity through ad hoc instruments such as unwinding FX swaps and occasional deposit facilities to banks.

Recognising the necessity for more indirect instruments to influence the amount of money in circulation under a floating FX regime, in July CBvS introduced deposit certificates and gold certificates, while in September it introduced its open market operations with an intraday liquidity facility, short-term liquidity facility, and deposit facility. These were facilities recommended by the IMF in its 2018 article IV report.

Of course, more sophisticated policies require improved visibility on the liquidity needs of the system, and the central bank has also worked to update its monetary monitoring and forecasting system.

Van Trikt credits Suriname’s decreasing inflation levels in part to these new tools for managing excess liquidity. As of September, he was confident that inflation would end 2019 at about 3.6% — compared to an initial estimate of 4.3%.

**Tackling risks**
If the list of measures implemented by the central bank is extensive, the new governor also wants to send a message about the way things will be done in Suriname.

Take the cash shipment of US dollars from the US Federal Reserve (see macroeconomic overview). Not only did this move address a severe imbalance in the country, but it also showed the standards at which Suriname could operate.

“The on-boarding with the US Fed was an in-depth, tough process,” says van Trikt. “Passing this level of due diligence is worthy of international prestige.”

Completing the process is a promising sign for Suriname’s National Risk Assessment, for which the central bank received the full commitment of the government in van Trikt’s first month in office.

A project management team including employees from the Ministry of Justice and Police, Ministry of Finance and CBvS was set up in May, and it was launched — with technical support from the Inter-American Development Bank — in July.

Complying to anti-money laundering and terrorism finance standards is an urgent matter — especially in the Caribbean, where de-risking of correspondent banking relationships by foreign institutions is becoming a serious problem.

“We have not been affected by derisking to the extent that certain other Caribbean nations have been, but if we fail the mutual evaluation with the Caribbean Financial Action Task Force the consequences could be catastrophic,” says Steven MacAndrew, director of the Suriname Trade and Industry Association.

Conducting a National Risk Assessment will be “critical” in mitigating money laundering and terrorism financing risks and “effectively communicating the government’s efforts to foreign correspondent banks”, according to the IMF.

In an effort to increase standards, CBvS has also this year prioritised corporate and social responsibility, set up a compliance department, and held more than 50 meetings with players in the economy to discuss how and why they should help Suriname comply with the task force’s requirements.

Furthermore, CBvS is looking to ensure stability of the financial sector with a draft Bank Resolution Act and a contingency plan for systemic risk — both expected by the end of 2019. The National Risk Assessment also ties in closely with the central bank’s targets to improve financial inclusion and grow the cashless economy.

**TOWARDS A DIGITAL CAPITAL MARKET**

With a market capitalisation of just 6% of GDP, the Suriname Stock Exchange remains small — despite a Capital Market Act passed in 2014 that aimed to set up a new exchange.

But private investors have taken an interest in the plans. In April this year, OuroX, a Suriname headquartered fintech startup in Latin America and the Caribbean, signed an agreement with the Association forSecurities Trading in Suriname (VvES) for OuroX to operate the exchange.

Maya Parbhoe, CEO of OuroX, told GlobalMarkets that Suriname needs a “modern, transparent, digital capital market compliant to international standards”. She feels there is an opportunity for at least 50 further companies large enough to be publicly traded in the next 18 months; today there are 11 companies and one Staatssoliek bond listed on the exchange.

“Suriname has very high national savings to GDP and private credit to GDP ratios, which are perfect conditions for the creation and growth of a capital market,” says Parbhoe. “Suriname also has large pension funds and the central bank has set up an innovation hub to develop a fintech ecosystem; and Parbhoe believes conditions are ideal for Suriname to create a modern exchange.

“The silver lining of being so far behind when it comes to financial technology is that there is a lot of room for innovation,” she says. “We can effectively start with a blank slate and begin with the latest technologies.”

“Suriname is the 17th richest country in the world in natural resources. The central bank must ask itself what its role should be in ensuring the country fulfils its potential and is up to speed with international markets.” — Robert van Trikt
Drilling deep

As drilling advances off the coast of Suriname, the CEO of the state-owned oil company Staatsolie is calling for the country to prepare itself for a big oil discovery

Guyana — Suriname’s neighbour to the west — had no oil industry until recently. However, after 14 deepwater offshore oil discoveries from ExxonMobil alone since 2015, it now has more oil reserves per capita than any other country.

Interest has followed on the Surinamese side of the basin, as a host of international oil companies — including Exxon, Hess, Chevron, Apache, Tullow and Kosmos — have begun exploration activities.

As of September this year, all the successful drills have been on the Guyanese side of the basin. Yet Rudolf Elias, chief executive of Staatsolie, Suriname’s state-owned oil company, is not deterred.

“It is almost certain that we will have a find between now and the end of 2020,” says Elias. “We don’t know if it will be next month or the end of next year.”

Tom Fauria, vice president and country manager for Kosmos Energy Suriname, agrees that “remarkable discoveries” there validate this optimism.

“We know that the petroleum system is working, since the heavy oil found onshore in Suriname was generated far offshore and migrated to the coast,” Fauria tells GlobalMarkets.

It is still early days for Surinamese deep-water exploration, and a few unsuccessful wells “are no reason to be overly negative” about prospects, says Fauria. Kosmos’s position is one of cautious optimism.

“In this business there are no guarantees of success, and the risk in this play is higher because the traps are stratigraphic rather than structural,” he adds.

No matter, Elias has been emphatic in his message to the country: the government, businesses and people need to prepare immediately for a big oil find. Similarly to Guyana, such a find in a country of fewer than 1m people will inevitably have a huge impact.

“How we deal with an oil find needs to be a broad national discussion held before we have this find,” says Elias.

Bracing for business

Suriname’s history with mining may serve it well in the case of a big offshore oil find. The government has already set up the Savings and Stability Fund Suriname to ensure it is saving a portion of gold revenues, and this should protect against the risk of splurging any oil windfalls.

Stephen Ogilvie, director at Standard & Poor’s, says that the government is “sophisticated in dealing with mining companies” and has a “robust royalty regime”.

Even an immediate oil find would not bring in royalties for several years, however, and the country must first face the challenge of ensuring that the investment that would follow a discovery would benefit the economy.

Staatsolie and the IOCs say they are committed to a strategy that would ensure any find brings “high impact local content development”, and they commissioned private development company DAI to carry out an industrial baseline study looking at the impact of a hypothetical find.

DAI found that the maximum value of business for which local firms would be able to compete would be just 6.3% of the total investment. In reality, given the low competitiveness of the domestic private sector, DAI forecast that this number would be just 1.6%.

“We have a few companies that have worked for the likes of [bauxite miner] Alcoa and [gold miner] Newmont and they understand the way of working and standards required,” says Elias. “But for now there are only a few.”

One change that would sharply increase the opportunity pool for Suriname’s businesses would be if the offshore developers could set up an onshore base in the country. So far, the shore base for exploration activities in Surinamese seas has been Trinidad, as Paramaribo’s harbour is inaccessible to large ships.

“It is not ideal to have to go to Trinidad, and we are hoping Suriname will dredge the river to enable large supply vessels to work from a local base,” says Fauria.

Dredging the river, which would enable developers to set up a shore base in Suriname, is imminent, finance minister Gillmore Hoefdraad told GlobalMarkets, and the government signed a project loan agreement in September 2019 to finance this. The benefits would be substantial. DAI found that — with an onshore base — the maximum local content value would increase from 6.3% to 14.3% of expenditure in case of a discovery, while the forecast local content would nearly quadruple to 6.3% as Surinamese firms would be able to participate in areas like civil works, facilities management and logistics.

Work is also underway to improve Suriname’s workforce.

“Suriname has a large enough workforce to service the offshore oil industry, but needs to update its technical schools because the employment that will be generated will require specific vocational skills,” says Fauria. “The oil industry is very much engaged in this opportunity and is helping to fund a multi-year programme to support and enhance the quality of technical education in the country.”

Staatsolie set to hit markets

As Staatsolie looks to become a joint venture partner in any oil find, the company is laying down bases to raise financing via the capital markets.

An international bond issue, likely to be a secured deal to ensure a better rating than the sovereign, of $300m, would be subject to market conditions. Proceeds would be used to pay off part of a bank loan, while Elias feels the issue would also help to put Staatsolie on the radar of the international investment community.

“We are working hard to make the company ready to IPO in case of an oil find,” he says.●