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SURINAME
2018

Road to recovery

Suriname's minister of finance, Gillmore Hoefdraad, tells *GlobalMarkets* that the economic recovery is on track and that the government is taking measures to ensure the country is better placed to withstand future shocks.

GlobalMarkets: How has Suriname recovered from the commodity shock?
Gillmore Hoefdraad, Minister of Finance, Suriname: The disappearance of the century-old alumina complex and the drop in oil and gold prices triggered major triple shock in 2014-16. But in place of alumina we have a brand new gold mine [Merian] that nearly doubles exports, and a new oil refinery that almost eliminates net oil imports. That, together with a recovering private sector and the end of fiscal retrenchment, has allowed the return to growth. GDP grew 1.7% last year and there are no signs that the economy will be reverting to a recession. There is a good pipeline of investment in gold, oil and other areas, which bodes well for the future.

GlobalMarkets: What are the policy challenges and priorities now to ensure a sustainable recovery?
Hoefdraad: Firstly, we must ensure that the balance of payments and monetary situation remain sustainable. The current account deficit in the balance of payments shrunk to nearly zero but will now grow slightly as imports grow. Nonetheless, reserves are growing and clearly exceed the minimum three months of imports. Secondly, we need to retain fiscal expenditure restraint and increase revenue. Economic reforms are now required to allow the government to move with agility and mitigate future commodity shocks. The sovereign wealth fund will begin operations on January 1, 2019. We must also put in place legal and administrative reforms to make fiscal management more agile and improve the investment climate. Internal reform is needed in the ministry of finance to bring our administration firmly into the first 21st century, with more automation, computerisation and a flexible human capital base to allow us to address problems when they arise.

GlobalMarkets: How do you plan to meet your fiscal targets?
Hoefdraad: Our objective is to continue to shrink the fiscal deficit, which was quite unsustainable in 2015/16. In 2017 we saw the first benefit of reforms and a continued expenditure restraint. Now we are expecting revenue to pick up back to historical norms. With VAT postponed, in the interim we are putting in place other taxes, such as a temporary increase in import taxation and an increase in road and vehicle taxes. The idea is to ease the fiscal burden away from expenditure compression to greater revenue.

GlobalMarkets: Why did VAT not go ahead as planned?
Hoefdraad: VAT is a complex creature. The world experts at Cartac (Caribbean Regional Technical Assistance Centre) in Barbados told us repeatedly that you have to make sure you implement VAT correctly; you cannot repair it afterwards. This needs a very well written law, regulations that fit, human capital and training in the ministry of finance to manage it, and to educate people and companies. We do not yet have all those conditions in place, so were risking doing it wrong if we did it in 2018. The timetable at the moment suggests it will be implemented in 2020.

GlobalMarkets: What has the government done with the funds from Staatsolie?
Hoefdraad: The funds from Staatsolie are being used for debt refinancing and reducing the country's interest burden. The government has deposited the funds in the central bank, is selling the hard currency to increase reserves, and is using local currency proceeds to retire treasury bills as they mature. This has the double benefit of increasing reserves and reducing the cost of debt. It is an ongoing process and funds that are deposited will be used in the coming months to retire bills. Moreover, buying back the treasury bills injects liquidity into the market, bringing a reduction of interest rates. There has already been a consequent pick-up in credit to the private sector.

GlobalMarkets: What effect might a significant offshore oil discovery have on Suriname's economic outlook?

Minister of Finance Gillmore Hoefdraad

Hoefdraad: To say that a significant oil discovery would be a game-changer for Suriname would be the understatement of the century. The finds in Guyana are worth a multiple of GDP and in Suriname it could be similar. Suriname is very well positioned to benefit directly from an offshore find because we have existing oil infrastructure and a very large construction industry surrounding the mining industry.

GlobalMarkets: How can Suriname diversify its economy beyond the extractive industries?
Hoefdraad: Suriname wants to diversify away from its heavy reliance on the extractive industries, and the areas most ripe for growth are agriculture and tourism. Diversifying is not easy but there has been quite a bit of recent interest in other industries, for example the establishment of an industrial park near the harbour where the bauxite refinery was. Alcoa is driving this and there is important interest from outside investors to build on this.

GlobalMarkets: What message would you send to companies considering investing in Suriname?
Hoefdraad: Suriname has vast amounts of land and fresh water resources and is more than 90% covered by pristine Amazonian jungle, which lends itself to extractive industries, agriculture and tourism. Moreover, Suriname is a peaceful country with great ethnic diversity and a well educated, motivated middle class. The literacy rate is high and nearly everybody speaks at least two languages, so we have a very large pool of workers readily available to be hired by companies investing in Suriname is open for business.

Untapped potential

South America's smallest nation is rich in economic potential, with impressive natural resources, an investor-friendly government, and a well-educated population.

With an area of just 163,820km2, of which 95% is tropical rainforest, and a population of just over 567,000, Suriname is the smallest country in South America. It is also the youngest: it gained independence from the Netherlands in November 1975.

But with GDP per capita projected at $6,800 for 2018, Suriname is a middle-income country. Literacy rates are 95% and, though Dutch is the official language, English is widely spoken.

Extracting wealth

Unsurprisingly, given a World Bank study in 2000 made it the 17th richest country in the world, based on natural resources per capita, the economy has long been orientated towards extractive industries.

Long before independence, Suriname became one of the world's leading producers of bauxite.

US company Alcoa began operations in the country in 1916 and ceased only in November 2015 as aluminium prices slumped. As recently as 2007, aluminium accounted for about half of the country's exports.

Though the end of bauxite mining, combined with slumps in oil and gold prices, brought about a triple commodity shock that wiped 8% off GDP in 2015-2016, a recovery has begun, with gold the new star player.

This started with the Rosebel Gold Mine, Then Newmont's Merian mine, which has 5.1m ounces of reserves, opened in 2016. Next to open will be Iamgold's Saramacca mine.

Recent offshore oil discoveries in neighbouring Guyana suggest another sector could become even more important. Several international oil companies have signed production-sharing contracts to look for oil on the Suriname side of the Guiana basin.

Beyond natural resources

Suriname's mining history has made it adept at attracting and dealing with big private companies. Ginmardo Kromosoeto, CEO of government-owned lender Surinaamse Postspaarbank, says: "Because it is a small economy, big

Ginmardo Kromosoeto, CEO of Surinaamse Postspaarbank

investors do not have to jump through a small window, but can talk directly to the government and ministers."

This should stand Suriname in good stead as it looks to diversify its economy. Agribusiness is a particular focus, and this is a task facing the new investment promotion agency, Investsur.

Of 15 nation states in the Caribbean Community (Caricom), only Suriname and Belize have a trade surplus in fruit and vegetables, suggesting there are several natural export markets.

Suriname is also advertising opportunities in agriculture, where 66,000 acres of prime agricultural land are available; its underexploited fishing areas that boast tuna and shrimp; animal breeding; and processing facilities.

With vast swathes of rainforest, logging concessions and wood-processing opportunities are available, while at the well-attended inaugural Suriname Trade & Investment Forum in Miami in September the government highlighted the possibility of a carbon credit programme.

The rainforest also presents great potential for ecotourism. "Although airlift is a challenge, flights tend to be completely full — especially during vacation times," says Kromosoeto. "There is incredible ecotourism potential."

One big challenge in developing new industries is infrastructure, with further construction required for highways, railways, bridges and ports, among others, but its strategic position means that Suriname has high potential.

Finally, Suriname has a competitive advantage over several of its nearby states and rival agricultural producers: it is located outside of the path of most Atlantic hurricanes.

Credit ratings

Moody's: B2 (negative)
Standard & Poor's: B (stable); Fitch: B- (stable)

Suriname boosts efforts at financial inclusion

A key challenge that Suriname faces in its economic development is that the roughly 40% of the population that lives in the interior of the country is disconnected from the rest of the country.

This is also the case with the financial system, says Ginmardo Kromosoeto, CEO of Surinaamse Postspaarbank (the Surinamese Post Savings Bank). The lender is therefore "supporting the government to give access to those who did not before have the option of entering the banking system", he says.

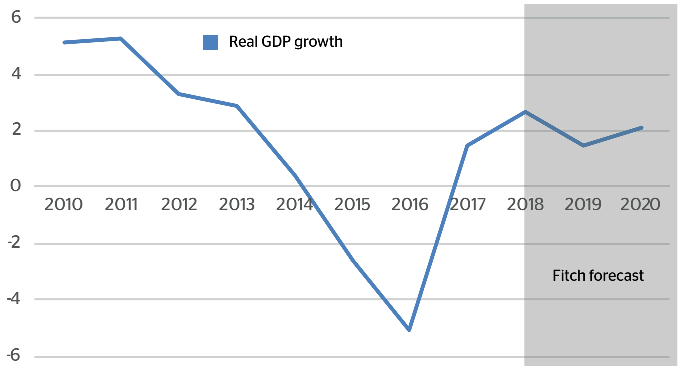
An important initiative that government-owned Postspaarbank is promoting is the creation of debit cards, known as Moni Karta, that some Surinamese people can use to receive their social support.

"This is a financial inclusion initiative that means that even people living in areas without roads – who therefore don't have a home address required to open a conventional bank account – can become visible in the banking sector," says Kromosoeto.

Postspaarbank had already signed an agreement in 2016 with financial software company Euronet to provide banking services to its customers living in more remote areas, by allowing them to conduct transactions at merchant locations rather than traditional bank branches.

Postspaarbank is also looking to encourage the development of the banking system by promoting mobile banking via Union Pay credit cards. "We hope that such a big credit card company increasing its footprint in Suriname can help the drive towards a cashless company," says Kromosoeto.

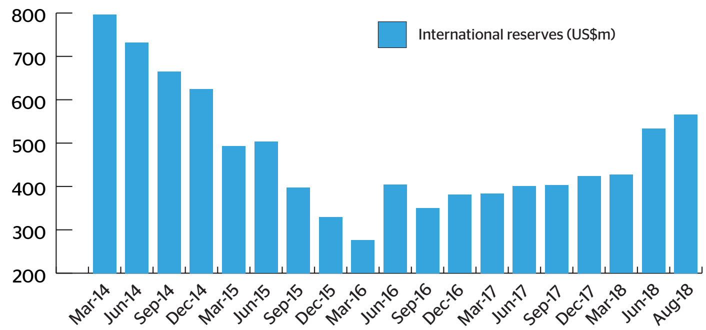
GDP – a commodity-led recovery



Suriname's economy shrunk by 8% in 2015-16 as mining revenue shrank and the sharp fiscal contraction squeezed disposable income. But GDP has returned to positive territory, and Fitch Ratings is predicting growth will reach 2.7% in 2017 – no mean feat given what Suriname lived through. However, this is still nowhere near the heights that the economic growth regularly reached before the commodities slump. Fiscal much-needed consolidation efforts are growth-negative, while Suriname struggles to find GDP drivers beyond commodity exports, leaving the recovery somewhat vulnerable.

Source: Central Bank of Suriname, Fitch Ratings

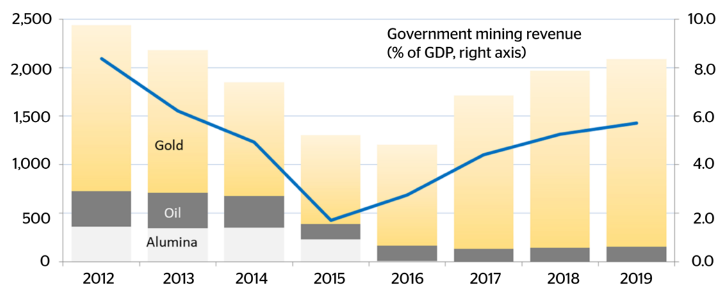
International reserves – a slow rebuild



Before finally allowing a free float the Surinamese dollar in late 2015, the central bank spent much of the country's international reserves attempting to prop up the currency. A persistent current account deficit has meant the rebuild of these reserves has been a gradual process, but it is happening. Reserves received a significant lift in May 2018 thanks to state oil company Staatsolie repaying a loan from the government and buying government shares in the Merian gold mine, though gave back some of that uptick in June due to government debt payments. Government officials now expect reserves to increase as the central bank resumes FX purchases.

Source: Central Bank of Suriname

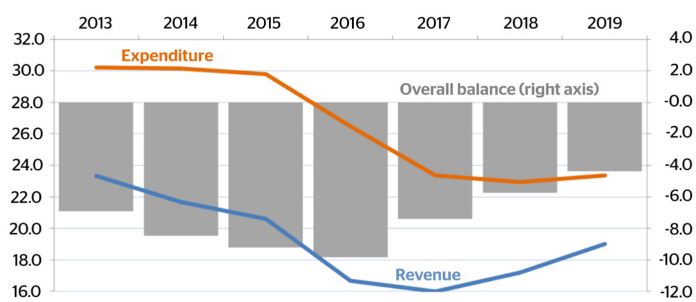
Going for gold



The composition of Suriname's exports has evolved significantly, with alumina disappearing and gold taking over. The strengthening of the gold sector has been a boon for government revenues and looks set to continue to blossom with Iamgold, which operates the Rosebel mine, set to start operating its new Saramacca mine in the second half of 2019. Although offshore oil exploration has so far proven fruitless, experts say that the successful drills in Guyana point to an exceedingly high probability of similar discoveries being made in Surinamese territory. In the long term this would have an important effect on mining revenues.

Source: Government of Suriname

Fiscal consolidation



The triple commodity forced a sharp decline in government expenditure in 2015-16 but further cuts have proved difficult. However, the revenue side of the fiscal equation is now pulling its weight, with gold royalties an important factor. Although the promised VAT law has been put on the backburner until after the election, the government has been putting in interim technical measures to help raise revenues. From 2020, the government will start to receive income tax, not just royalties, from the Merian mine. This should further improve fiscal performance.

Source: Government of Suriname

Suriname searching for sustainability after recovery

A strong policy reaction to a harsh commodity shock in 2015 has put Suriname on the road to recovery. But the government still faces challenges in making the recovery sustainable and reducing vulnerability to the commodity cycle.

If countries make their own luck, maybe Suriname was due a break. Hit by a triple commodity shock in 2015-16 that shrank the economy by 8%, the government did a lot right: it floated the currency, set to work with fiscal reforms, and slashed expenditure.

It wasn't perfect: an IMF programme lasted less than a year, for instance. But, in the words of Francisco Rodríguez, chief economist at Torino Capital, the government's handling of the negative shock "said something about its willingness to reform".

Suriname was rewarded, then, with increase in gold and oil prices that were nicely complemented by exciting gold discoveries and the completion of its oil refinery. If offshore oil lives up to its promise, the commodity windfall will be even greater.

Numbers have improved. The current account deficit shrunk from 19.1% in 2015 to virtually zero in 2017. GDP returned to positive territory in 2017, and inflation has returned to single figures having peaked at 79% in 2016. The economy is expected to continue to grow, even if most analyst forecasts are not as high as the 3% average that the government is predicting for 2018-2022.

"There has been a recovery in some key economic fundamentals," says Jeetendra Khadan, economist for Suriname at the IADB. "The gold sector is the main driver of the economic improvement, but there are important planned fiscal reforms in train to help ensure that the gold-led recovery is sustainable."

VAT in the vault

However, certain developments in 2018 have raised concern among bond market participants — who have increased their scrutiny of the country since a $550m 10 year bond debut in October 2026.

Chief among these was April's postponement of a value-added tax law previously due to be implemented on July 1.

"Suriname has a lot of potential as there is a lot of low hanging fruit, and the prospects for the natural resources sector are promising," says Petar Atanasov, co-head of sovereign research at EM investment manager Gramercy. "But the delay in VAT implementation was a huge disappointment for investors.

"The uncertainty and delays in carrying out fiscal measures mean it is hard to make a compelling investment case."

B2/B/B- rated Suriname's 9.25% 2026s have held up better in secondary than many single B credits during a torrid year for EM markets, and were trading at around 98.5 cents on the dollar in late September, according to data from MarketAxess. This equates to a yield of just above 9.5%.

But Nathalie Marshik, managing director, head of sovereign research at Oppenheimer & Co, says the bonds would be perform better "if the government delivered on their promises".

Presidential elections are scheduled for May 2020, so if VAT is to happen it will likely be at least two years away. This leaves the fiscal consolidation effort "more reliant on the luck of commodity markets", says Kelli Bissett-Tom, director in Latin American sovereigns at Fitch Ratings.

Fitch, which had anticipated that VAT would provide an additional 1.5% of GDP in permanent revenue, is now expecting a slower reduction of the budget gap, says Bissett-Tom.

"The nearing election has also closed the window for policy reforms," she adds.

Though the government is predicting the fiscal deficit will fall below 6% in 2018 from 10.6% in 2015/16 and 7.9% in 2017, Fitch is forecasting a deficit of 6.1% and Torino reckons 6.8%.

As Rodríguez of Torino says, the numbers will depend very much on mining revenues, because in such a small economy, a higher than expected take at a mine can make a huge difference.

However, the economist says that though Suriname is "partly" on the right track, "it still has plenty to do to get totally on the right track".

Nathalie Marshik, managing director, head of sovereign research, Oppenheimer & Co

With VAT on the backburner, the government is putting smaller technical measures in place to increase revenue in the interim and does forecast an increase in fiscal revenue in 2018. It has implemented several economic, administrative, and legal framework reforms aimed at ensuring that future commodity-price shocks will have a more limited impact on the economy.

Khadan of the IADB also highlights the limits imposed of fiscal deficit, and the passing of legislation to establish a Savings and Stability Fund, which will begin operations in January 2019.

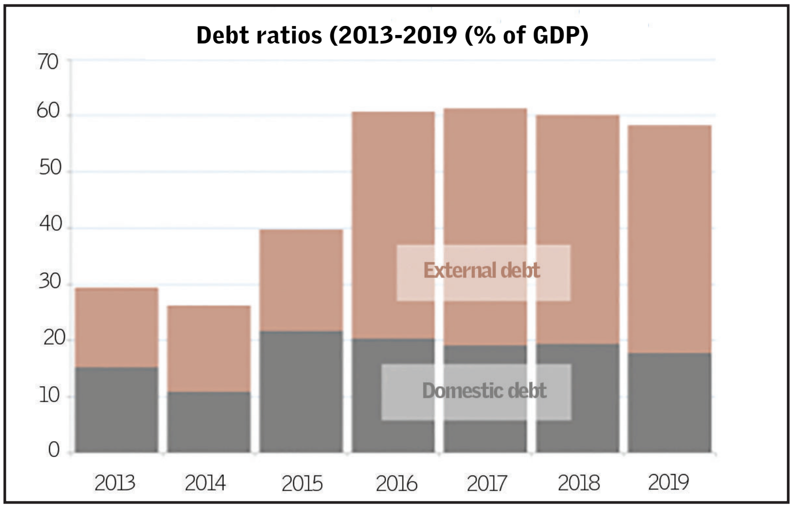
"Despite these efforts, fiscal deficits and debt continues to be an area that requires more work," he says. "The authorities have been working to address challenges on the revenue and expenditure side which can contribute to a more substantial and sustainable recovery over the medium term."

Expectation challenges

However, some still wonder whether the recovery is coming quickly enough.

Bissett-Tom says that, away from natural resources, growth, investment, and consumption in are "still quite weak".

"Growth of just under 3% over 2018-2020 is



Suriname traditionally maintained low levels of debt, with external debt mostly from bilateral and multilateral sources on concessional terms.

Debt increase 2015-16 due to:
- Fall in fiscal revenue.
- Exchange rate adjustment.

Debt stabilization since 2017:
- Sharp contraction in fiscal deficit.
- Renewed economic growth.
- Stable exchange rate.

Source: Government of Suriname

not terrible for a country that underwent such a large macro adjustment, but it is below previous rates and lower than what you might have expected given some of the positive investment stories in Suriname," says the Fitch analyst.

And in certain areas, the recovery has underperformed expectations.

"Analysts had been scratching their heads as to why Suriname had been printing a current account surplus in 2017 without seeing an increase in international reserves," says Marshik of Oppenheimer.

According to Marshik, the central bank had published a current account surplus of 7% for the first three quarters of 2017, but as international gold companies were not bringing export dollars back onshore Suriname ended up printing a current account deficit of 0.1% of GDP for the full year.

"Though this is better than what it had been it was not the surplus we had hoped for," says Marshik. "The country needs to build reserves back up to more appropriate levels for a commodity producer."

Finance minister Gillmore Hoefdraad told *GlobalMarkets* that reserves were growing and "clearly exceeding the minimum of three months of imports", and Torino's Rodríguez said that the current account was not too much of a concern. But Bissett-Tom agrees with Marshik that reserves are low for an economy where almost 85% of annual FX earnings are from commodity exports.

The current account deficit is predicted to widen again as domestic demand recovers, but this should be offset by an increase in exports when the Saramacca gold mine opens in 2019.

Yet for some bondholders the episode speaks to a major challenge in investing in Suriname.

"It can be hard for investors like me to follow Suriname closely because statistics are often on a lag and there is not great transparency in the data," says Atanasov of Gramercy.

Suriname has taken steps to improve data transparency. In January it implemented the IMF's enhanced General Data Dissemination System (e-GDDS). And the US State Department released a report in September noting "considerable progress" in fiscal transparency and the provision of quality information, according to the finance ministry.

Quarterly GDP does not exist, though Torino notes that an IMF technical assistance report published in August suggested it was targeted to be available for the end of August 2020.

Staatsolie windfall brings wins all round

Marshik agrees with Atanasov that Suriname could make itself more attractive to bond investors by providing more "timely and reliable" data, and underlines another pertinent issue where this is important.

State oil company Staatsolie used $337.5m of the proceeds from a new syndicated loan to prepay a $261.5m loan from the government and purchase the government's stake in the Merian gold mine for $76m, providing an injection to government coffers worth 9%-10% of GDP, according to Khadan of the IADB.

What the government does with these funds is Marshik's primary concern about Suriname right now, she says. "But without regular fiscal data it is hard to track how the Staatsolie money is being spent."

To be fair, the consensus among analysts is that the government is using the funds as proposed: to refinance debt and reduce the interest burden.

"Despite worries that the government would use the liquidity from the Staatsolie payment to stimulate the economy, my impression is that they have used it quite conservatively," says Atanasov.

The government has deposited the fund in the central bank and is gradually using local currency proceeds to retire expensive treasury bills. In tandem, the central bank will gradually unwind some foreign exchange swaps.

"Net benefits of this would be lower financing costs in the domestic market, while it would also create more headroom for the government's financing needs heading into 2019 and gives the government more capacity to finance itself in domestic currency in an election," says Bissett-Tom.

Additionally, the central bank is unwinding close to $115m foreign currency swaps extended by resident commercial banks to the central bank in 2015-2016 that had been "undermining" the quality of the reserves, says the Fitch analyst.

Energy opportunity

If Suriname is really going to reduce its vulnerabilities to external shocks, it needs to find another engine for growth beyond commodities, says Marshik.

As the government looks to diversify (*see Untapped Potential on page 19*) it is vital to tackle state electricity company EBS' profitability and find ways to produce cheaper electricity.

"There will be an opportunity when [aluminium producer] Alcoa returns the Afobaka dam to the government at the end of 2019," says Marshik. "Alcoa will continue to sell electricity to EBS until the handover, but the government is negotiating a new price for the electricity, which could help drive down EBS costs."

It is an opportunity Suriname must take if it is to capitalise on the lucky hand it has earned for itself in the last couple of years.

Oil optimism high as gold gives economy sparkle

The stellar performance of Suriname's gold sector continues, while the potential of offshore oil remains huge despite a couple of early dry wells. A market-friendly government is key to unlocking the country's natural resource potential.

Perhaps it's down to the pace of ExxonMobil's remarkable offshore exploration success in neighbouring Guyana, but some observers seem spooked when drilling efforts in Suriname prove fruitless. "Offshore oil remains a potential for the country but markets are questioning feasibility after last year's Araku-1 well disappointment," says Nathalie Marshik, head of sovereign research at Oppenheimer.

Indeed, after Tullow failed to find oil at Araku, Kosmos abandoned its Anapai-1A well in June after an unsuccessful drill.

Yet Rudolf Elias, CEO of Suriname's oil company Staatsolie, is "even more confident than a year ago" that there will be offshore oil discoverie s in Suriname. Oil industry experts appear to back him.

"Exploration is a journey, not an event," says Julie Wilson, director, global exploration at Wood Mackenzie. "Each well — successful or not — brings new information about the petroleum system that helps explorers better understand it."

Kosmos and Tullow continuing to explore in Suriname means they were "encouraged" by what they found in their first wells, she says.

When Tullow plugged the Araku well, it highlighted that the geological insights and seismic data it had gained from the drill had "de-risked deeper plays" in the group's acreage. And the company described Araku as an "ambitious wildcat exploration".

Wilson says explorers have to find the "sweet spot" where all elements of the petroleum system are working together. "The success in Guyana demonstrates that the sweet spots in this basin can be giant-sized, so I would not yet write off Suriname offshore exploration," she says.

Elaine Reynolds, oil analyst at Edison Investment Research, says it is "not too concerning" that there has not yet been a discovery in Suriname.

First of all, says Reynolds, the number of dry wells is small compared to the size of the basin. And while some drills have found reservoirs but not hydrocarbons, others evidence hydrocarbons but no reservoirs. This suggests there will be a successful drill at some point.

When Kosmos announced the dry well at Anapai, CEO Andrew Inglis said the company was in the "early stages" of exploring the "emerging" basins. Kosmos' next Surinamese well, Pontoenoe, is exciting as it is the first time a company will drill above the same source rock that produced Exxon's massive "Liza" discovery in Guyana.

"It looks promising because it has the same feeder system that is seen in Liza, and it is notable that Hess, which is a partner in the Liza block, has come into this block," says Reynolds at Edison.

Kosmos is giving Pontoenoe a one-in-four to one-in-five chance of success, says Reynolds, but even if it is not successful, "there are multiple further prospect options on the block".

As Elias says: "We have a lot to learn and are still only scratching the surface of Suriname's potential."

Golden boy

Yet for all the excitement over oil, Marshik points out that, even if a company struck oil tomorrow, it would take several years to get it out the ground, meaning limited near-term economic benefits.

However, the gold sector goes from strength to strength and is already providing important revenues. The government is earning royalties through its stake in Newmont's Merian mine, which came on line in 2016. There is further excitement from Canada's Iamgold, which has been operating the Rosebel mine since 2004.

In September Iamgold confirmed that its recent drilling at the nearby Saramacca site — where it plans to start mining by the second half of 2019 — would increase the company's reserves in Suriname by 1m ounces. The additional reserves increase Rosebel's life by five years to 2033, and the government, which holds a 30% stake in Iamgold's expansion, estimates that Saramacca holds proven reserves of $1.9bn at today's prices.

Economic benefits from both Merian and Saramacca are imminent. Newmont has only been paying royalties so far on its Merian investment, because its contract allows accelerated capital depreciation, in other words repaying the capital invested before paying taxes.

Julie Wilson, director, global exploration at Wood Mackenzie

But it is likely to start paying income tax from 2020, while the government should also be able to collect royalties and income tax from the Saramacca mine — which required lower capital investment than Merian — in 2020.

Newmont's delay in paying income taxes highlights just how market-friendly Suriname's gold mining contracts are, says Kelli Bissett-Tom, director for Latin American sovereigns at Fitch Ratings. Accelerated depreciation incurs short-term costs for the government — in balance of payments, slower rebuilding of international reserves, and the foregoing of tax revenues.

But Suriname's attitude is also a factor in attracting investment from so many international companies. "There is an absence of natural resource nationalism in Suriname and greater contract certainty for foreign investors," says Bissett-Tom. "Once a contract is agreed with the government, it passes into law, rendering a very stable agreement."

This could be key in unlocking Surinam's estimated 5m kg of unproven gold reserves.

Staatsolie eyes capital markets amid new era

Suriname's oil company could be on the verge of an exciting discovery that will be likely to bring a first venture into international capital markets. Work to ensure the company is prepared for this brave new world is well under way.

Rudolf Elias is a man with a mission. The former BHP Billiton project director is at the helm of state-owned oil company Staatsolie, charged — among other things — with coordinating one of the most promising offshore exploration areas in the world.

Elias is well aware that offshore oil discoveries that rival the scale of those found in neighbouring Guyana could transform Suriname forever. But it has to be managed properly. Though it would be the finance ministry's job to ensure any windfalls are put to good use, the oil is the responsibility of Staatsolie, which plans to be a partner in any successful oil finds there.

That means Staatsolie itself has to be in good health.

"We have to ensure that we are acting in the short term in a way that allows us to be successful in the long term," says Elias, CEO of Staatsolie since May 2015.

Here enters the company's 2016-2020 "Strategy for Success", which states that it needs to prepare Staatsolie to become the "partner of choice" for international oil companies drilling in offshore Suriname.

Achieving this means adapting quickly to future oil markets. Having spent the past decade investing heavily in downstream activities, Staatsolie is refocusing on finding and producing oil, while efficiency, not growth, is the name of the game for downstream.

In more volatile markets, "it is very important that everything we do will be based on the assumption that the oil price will be lower for longer", says Elias. "Therefore we want to ensure that we remain a first quartile producer."

A first quartile producer — meaning one that produces with the lowest quarter of the cost curve — can be successful for 40 or 50 years, reckons Elias, even if oil will no longer be the driver for global energy growth.

Right now Staatsolie produces around 6m barrels annually, and its immediate growth will come from near-shore and shallow off-shore exploration.

"Even if we don't find commercial quantities, near-shore drilling will be useful to tell us about the migration of oil," says Elias. "Then 2020-2025 will be an exciting period for shallow offshore."

Bond, equity market debuts in the works

In May 2018, Staatsolie raised a $625m loan from a syndicate of international banks that enabled it to repay a $261.5m loan from the government, on which it was paying 9.25% interest, and purchase the government's 25% share in the Newmont gold mine for $76m.

According to one US-based Latin America credit analyst, refinancing the expensive loan put Staatsolie "in a much stronger financial position and gives it a cleaner capital structure if it wants to approach international markets".

If a company strikes big with an offshore oil find in Suriname, this will be necessary. Staatsolie will look to be a 10%-20% partner in offshore oil finds, and the CEO believes it would require $1bn of financing to do so.

One option would be to return to the syndicated loan market, but the company "would love to raise the money via an IPO", says Elias.

First up would be a debut international bond, however, pencilled in for late 2018 or early 2019.

"One part of the process of getting ready for an IPO is issuing a bond — either at the end of this year or early next," says Elias. "That way banks and international institutional investors would begin to get to know us ahead of the IPO."

Proceeds would be used to pay off around half of the company's bank loan.

In an effort to meet the standards required by international bond markets, Staatsolie has employed Ernst & Young as accountants to go over its numbers, while the company has moved from US GAAP to IFRS accounting standards to be more transparent for capital markets.

Rudolf Elias, CEO of Staatsolie

But preparations are more than just financial. A key arm of Staatsolie's strategy is about preparing its people. Pairing up with a major international oil company means thinking more efficiently about safety, costs and production — and getting that balance right, says the CEO.

Cultural shift

To help achieve this, the company has introduced a cultural change programme and a succession planning programmes to identify young talent and bring them to managerial positions by design, rather than by default.

"If we manage to have a company where everyone enters with a sense of purpose and leaves with a sense of accomplishment each day, we'll have succeeded in becoming a world-class company and will be able to handle the big offshore projects," says Elias.

He is adamant that it is not just Staatsolie itself that must prepare for the discovery of deep offshore oil, but also Suriname's business community, as local firms are going to be needed to support the burgeoning industry.

"If they wait until we discover oil to design the strategy it will be too late," says Elias. "The local business community needs to be looking today what is necessary to be ready for tomorrow."