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**‘BUILDING ON OUR OWN ABILITIES’:
Suriname’s State Oil Company as a Development Agent**

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ABSTRACT

This paper analyses the conditions under which the Surinamese State Oil Company (Staatsolie) has been consolidated, not only as a firm oriented at the production of oil, but also as a development agent. Staatsolie's chances to success seemed rather slim at its creation in the beginning of the 1980s, mainly because of the non-developmental, patrimonial character of Surinamese politics and the nature of Suriname's state, which has traditionally been oriented toward patronage and clientelism.

The analysis documents the origins of Staatsolie and focuses on its commitment to the acquisition and further development of technological and managerial expertise. At present, Staatsolie ranks among the most successful companies in Suriname and its contributions to the economy of this small middle-income country are considerable.

The success of Staatsolie's attempt to become a development agent is attributed, in particular, to the company's double strategy. The internal part of this strategy, derived from the management vision and ideological commitment of the company's leadership, was aimed at developing technological and management skills. The external part of the strategy was aimed at steering away from political influences on the company and playing out politically the formal-legal position of the firm in the petroleum sector. After 25 years of Staatsolie, it is argued that the factors that were responsible for the company's success may turn out to be the main challenges for the years ahead.

Keywords

Rent-seeking, oil industry, patrimonial politics, Latin America, Suriname

‘BUILDING ON OUR OWN ABILITIES’: Suriname’s State Oil Company as a Development Agent

1 INTRODUCTION

The twenty-fifth anniversary of the State Oil Company of Suriname, in December 2005, was greeted with great enthusiasm by many Surinamese. This enthusiasm is nurtured not so much by the company’s role as an oil company – which has remained quite modest in a world dominated by the ‘Seven Sisters’ – but because of its position as a *development agent*. Well-informed observers of the Surinamese economy argue that *Staatsolie* is one of the best run companies in the country and, in important respects, a model for the management of commercial firms (interviews, March/April 2004).¹

The success of the State Oil Company of Suriname (or *Staatsolie*, as it is usually referred to) is paradoxical in several important respects. First, *Staatsolie*’s achievements are remarkable because Suriname’s political system has traditionally had important characteristics of a patrimonial state. Secondly, the company’s success is noteworthy because Suriname, as one of the world’s best-endowed reservoirs of natural resources (most notably, but not limited to, bauxite, gold, oil and timber), has been a prime example of a primary commodity producing and exporting country.

This paper argues that *Staatsolie*’s history does not conform to the theses of the rentier state and political underdevelopment (Ross, 1999; Moore, 2001). Contrary to the experience of other state-owned enterprises in the country, the revenues earned by *Staatsolie*’s oil sales have not been siphoned off and used as rents by the political elites. Threats that could have led to such misuse of funds have been countered successfully. The company’s financial transfers to the state have taken place on the basis of generally accepted norms. The company has paid a normal dividend to its shareholders (the government of Suriname and the Surinamese Planning Agency), set at 50 per cent of net profit in the past several years. The rest of the company’s net profit was typically added to the general reserve, and used for investment purposes. Apart from its dividend, *Staatsolie* has paid the government an annual amount in corporate income tax, which is mandatory for all companies in the country.

This case study has been prompted by several explicitly theoretical considerations. The literature on patrimonial and rentier states tends to focus on the macro, or state, level, and on the impact of rent-seeking, patronage and clientelism on social processes and economic performance (cf. Schneider, 1987: 217-218). As a result of this focus, actors at the meso and micro level have received far less exposure; studies that included such actors generally used them to illustrate general patrimonialist or rent-seeking hypotheses. The present study zeroes in on *Staatsolie* because the analysis of the company’s attempt to be a development agent provides good insights into the scope and limits of the patrimonial state.

Connected to this, the focus of this study on *Staatsolie* as a state-owned oil company adds to the literature on the impact of economic sectors on the role

of the state in development and, in particular, to the analysis of the so-called mining state and the petro-state (Shafer 1994; Karl 1997). The Surinamese experience is, on the one hand, in accordance with the findings of previous studies that the presence and export of minerals, in this case bauxite, have an important influence on policy-making and governance of developing countries and lead to a focus on the rents resulting from mineral exports. On the other hand, however, the case of *Staatsolie* demonstrates that state-owned firms outside the dominant sector may be capable to escape from the prevailing rent-oriented behaviour and actually follow a relatively independent course, aimed at developing technological and management skills. The conditions under which these independent activities proved possible are the subject of this paper, and it is hoped that the analysis of these conditions will contribute to the understanding of similar ‘pockets of efficiency’ in similar rent-oriented environments.

The argument of this paper is that *Staatsolie* was able to develop into a ‘pocket of efficiency’ largely because of the recognition of the company’s management that the features specific to the petroleum sector in Suriname would enable them to establish a relatively independent enterprise. The conditions present in Suriname were quite different from those in other developing countries where oil had been discovered, such as Venezuela, Iran, Nigeria and Algeria (Karl, 1997: 197-208). One important factor in this was the perception, until the late 1990s, that oil production was quite marginal to Suriname’s economy. The dominance of other sources of rent (most notably, bauxite and aid flows from the Netherlands) no doubt contributed greatly to this outlook of the political elite. *Staatsolie*’s relatively independent functioning, outside the realm of the state, enabled the company to build a corporate culture and create public support that, eventually, sustained the company’s claim to autonomy. Importantly, the 1997-1998 clash with the government – which had laid eyes on *Staatsolie*’s reserves as a means to solve its financial problems – led to a victory for *Staatsolie* as a result of successful popular mobilisation supportive of home-grown economic activity and resistant to a corrupt and rent-seeking elite.

Staatsolie can usefully be seen as a ‘pocket of efficiency’ in an otherwise inefficient and rent-oriented public sector. The company is different from some other pockets of efficiency that were set up by politicians as a tool for modernising the state apparatus, such as the Brazilian National Development Bank founded in the 1960s (Evans, 1989: 577). *Staatsolie* does, however, have certain features in common with the Brazilian petrochemical sector, where the development of industrial capacity in the 1970s resulted from the activities of a relatively independent state enterprise, *Petroquisa*. According to Evans (1989: 580), the ‘ties ... to private capital, both domestic and transnational’ proved important conditions for the success of Brazil’s petrochemical sector. As Schneider (1987: 228) has noted, the desire to consolidate the company’s market position and to diversify production resulted in pressure on the Brazilian government to loosen the ties with the company and move towards a different form of government intervention in the sector. The greater reliance on private capital seems to stimulate a change of government policy as ‘some investors prefer market uncertainty to the strategic uncertainty for political products’ (Barzelay quoted by Schneider, 1987: 229).

Staatsolie, which has so far been part of the Surinamese public sector, has accomplished a high degree of managerial and technological excellence, to a large extent due to the skills of the company's management to deal with the political dynamics in the country. Largely as a result of their understanding of the political environment, the company proved able to carve out a relatively autonomous place in the public sphere, from where it could operate without being subjected directly to political considerations. The pressures resulting from the diversification of *Staatsolie's* interests (among others, its refinery activities and its evolving role in the national electricity sector) and from the need to cooperate with foreign capital in the off-shore exploration of oil resources may have the beneficial effects on *Staatsolie's* autonomy alluded to by Evans and Schneider in relation to the Brazilian context.

This paper is structured as follows. Sections 2 and 3 contain a discussion of Suriname's political system from the perspective of recent scholarship on the role of the state in development, thus providing an argument why *Staatsolie's* role as a development agent is paradoxical. Section 4 discusses the expansion of *Staatsolie's* operations since 1980 and briefly analyses the company's contribution to Suriname's economy and society. Section 5 analyses the double strategy that *Staatsolie* adopted to effectuate its developmental role. Section 6 contains some concluding observations.

2 THE STATE IN DEVELOPMENT

Recent scholarship shows various approaches to theorising the role of the state in development. Two sets of approaches, in particular, seem to be pertinent to the case of Suriname. The first relevant set of approaches relate variations in state structure and state-society relations to variations in developmental performance. The second group of approaches focus on the impact of sectoral characteristics on state features and developmental outcomes.

Of the scholars taking the first approach, Peter Evans has had great influence. He juxtaposed several ideal types of states, notably the 'predatory' and the 'developmental' forms. Predatory states 'extract such large amounts of otherwise investable surplus while providing so little in the way of "collective goods" in return that they do indeed impede economic transformation', while developmental states 'foster long-term entrepreneurial perspectives among private elites by increasing incentives to engage in transformative investments and lowering the risks' (Evans, 1996: 44). Evans has conceptualised the developmental state in terms of 'embedded autonomy', in an attempt to highlight the combination of an insulated bureaucracy, organised on the basis of Weberian rational-legal principles, and close relations between the state and social (market) institutions. Most developing countries should, according to Evans, be placed in an 'intermediate' category, with states ranking somewhere between these two ideal types and combining predatory and developmental features (Evans, 1989: 563, 1996: 60).

Evans' ideal types have been criticised, among others, by Hutchcroft (1998: 57), who argued that 'Evans has overlooked important elements of variation among patrimonial polities. In particular, by presenting Zaire as his archetypal example of a state that fails to promote development, he does not

consider other cases that would also be patrimonial but be properly placed elsewhere according to the relative strength of state apparatuses and business interests'. Among the more patrimonial states, Hutchcroft (1998: 20, 45-55) differentiates between patrimonial administrative states (or 'bureaucratic capitalism', in which a bureaucratic elite extracts rents from the business sector, such as in Thailand and Indonesia) and patrimonial oligarchic states (or 'booty capitalism', where a powerful business class exploits an incoherent bureaucracy, such as the Philippines).

Leftwich has put forward a classification of democratic non-developmental states on the basis of the relative importance of class-oriented or patronage-oriented political parties. 'Class-compromise' non-developmental states, with Venezuela and South Africa as examples, are built on the awareness of major political forces that certain radical changes that could be beneficial from a developmental or social justice point of view, are not feasible because of the opposition, with possibly non-democratic means, of others (Leftwich, 2002: 70). 'Party-alternation' non-developmental states, such as Jamaica and Costa Rica, are characterised by the existence of rival 'cross-class' parties, 'each (when in power) dispensing clientelist patronage to its followers and supporters, and each differentiated from the other mainly by a combination of historical association, personal loyalties, anticipation of patronage prospects, and – at times – ideological-policy orientations' (Leftwich, 2002: 74).

The failure of many developing countries to transform into developmental states can usefully be understood within the framework of 'political underdevelopment' or the 'rentier state' (Ross, 1999; Moore, 2001, 2002). This framework implies 'that when governments gain most of their revenues from external sources, such as resource rents or foreign assistance, they are freed from the need to levy domestic taxes and become less accountable to the societies they govern' (Ross, 1999: 312). Following the same logic, states that are based on rent-seeking are expected to be weaker and less effective, since they have less incentive 'to reduce the influence of patrimonial principles and personal linkages when recruiting and managing the public service' (Moore, 2002: 106).

The second set of approaches to the state in development that was outlined above has related the dominance of certain economic sectors, such as mining, to development outcomes and features of the state in developing countries. According to several authors working in this tradition, certain types of economic sectors are particularly conducive to rent-seeking practices. Shafer (1994: 10, 23-24) has drawn attention to the prevalence of rent-seeking in so-called mining states. Because the mining sector is highly capital intensive and shows high economies of scale, and production and the employment of production factors are very inflexible, the sector is characterised by monopoly rents that are 'easily tapped by the state' (Shafer 1994: 35). The economic dependence on a single resource, produced by an enclave-like industrial sector that is dominated by foreign capital, generates extraordinary rents. These rents are almost unrelated to the productive processes of the domestic economy and are almost exclusively channeled to the state (Karl 1997: 47-48). Petro-states take in a special place among mining states because of the sheer magnitude and

duration of the extraordinary rents that result from oil production and export (Karl 1997: 49).

3 SURINAME'S STATE AND POLITICAL SYSTEM

Following up on the discussion of the characteristics of the state in development in the previous section, Suriname would most aptly be characterised as a party-alternating, democratic, non-developmental mining state.² In addition to this, its post-World War II history shows that the country has many features of a patrimonial administrative state, as described by Hutchcroft, in which the state apparatus has dominated the economy and has been a major source of rents for office holders and their clients (interview Schalkwijk, 2 April 2004).

Since its independence (1975), Suriname's per capita gross domestic product has not experienced substantial growth, despite the fact that, since World War II, Suriname has been one of the world's major bauxite exporters and the country ranks among the world's best-endowed countries in terms of natural resources. The Inter-American Development Bank (2001: 5) concluded that the '[e]xploitation of Suriname's large bauxite reserves has generated rents that are large in relation to the economy'. Van Dijck (2001a: 57) has calculated that bauxite mining and processing generated between 30 and 33 per cent of Suriname's GDP in the 1945-1975 period and, despite a decline in relative importance, still accounted for an important 15 per cent of GDP at the end of the twentieth century. Recent calculations by Monsanto (2005: 30-31) indicated that the contribution of the bauxite industry to government revenues hovered between 27 and 34 per cent in the 1961-1981 period.

In constant 1995 prices, Suriname's GDP per capita peaked at \$1,111 in 1977, fell to a low of \$685 in 1987 and reached a level of \$1,036 in 2001 (World Bank, 2003). The share of manufacturing in Suriname's gross domestic product fell from 12.9 to 8.6 per cent between 1989 and 1999 (Van Dijck, 2001b: 15). As Martin (2001: 52-76) has indicated, Suriname's economic situation was highly volatile during the 1990s, with clear boom-bust cycles mainly as a result of fluctuations in alumina prices.

In addition to natural resources, aid has been another major source of rents. Aid is estimated to have accounted for more than three-quarters of the Surinamese government budget in the period between 1956 and 1975, and to have amounted to more than Dfl. 1 billion in this twenty-year period (Oostindie and Klinkers, 2001: 133-134). At the eve of independence in 1975, the Dutch government provided Suriname with a development fund of approximately € 1.95 billion. In per capita terms, Suriname received roughly four to five times the median aid amount transferred to other lower-middle income countries during the 1990s (Van Dijck, 2004: 43-45). There is widespread agreement that the development fund has been spent largely on prestige projects that have produced relatively little value added in terms of the development of the country; as one critical observer of Surinamese politics put it: 'foreign aid to Suriname has not proven to be an economic lever. In Suriname, the money has disappeared into a black hole' (Silos, 2002: 4). Foreign aid has also enabled Suriname to maintain its oversized public sector,

referred to as the ‘principal vehicle for sharing the rents’ (Inter-American Development Bank, 2001: 41). Data reported by the Inter-American Development Bank (2001: 39) show that, in 1998, the government provided employment for 43.7 per cent of the total labour force.

With a brief interval of military rule between 1980 and 1987, Suriname’s political system has been relatively democratic ever since the Statute of the Kingdom of the Netherlands (1954) gave the Surinamese *Staten* (Parliament) more powers. With the exception of the military era, *Freedom House* has rated the Surinamese political system as free or partly free during its post-independence period (Freedom House, 2005).

The post-war political system of Suriname has been characterised by the existence of multiple political parties. Analysts agree that these parties are an expression of the ethnic diversity of the country and that they have played an important role in the emancipation of various ethnic groups, notably the Creole (black) working class, the Hindustanis (East Indians) and Javanese (e.g., Ramsodh, 2001: 95-96).³

The first political parties in Suriname were founded in 1946, at a time when franchise in the colony was still limited mainly to the light-skinned Creole elite. This elite opposed the introduction of universal suffrage, but when this was finally adopted for Suriname by the Dutch Parliament in 1949, the elite shaped the electoral system to serve its interests. The country was divided into several electoral constituencies that gave the Creoles, through their major political vehicle Nationale Partij Suriname (NPS, National Party of Suriname), an assured majority (Sedney, 1997: 20-21; Dew, 1978: 74-82).

The political dynamics of the 1950s can be understood against the background of the attempt of the light-skinned Creoles to retain their hold to power. The dark-skinned, working class Creoles in the NPS and the Hindustanis in the Verenigde Hindostaanse Partij (VHP, United Hindustani Party) built a coalition that won the 1958 elections and would rule until 1967 (Sedney, 1997: 31-38).

The multi-ethnic NPS-VHP collaboration – also referred to as *verbroederingspolitiek* or ‘politics of fraternisation’ – was in many ways the model for Surinamese politics after 1967. With the exception of the 1980-1987 interval of military rule, multi-party and multi-ethnic coalitions have continued to rule Suriname. Since the return to democracy in 1987, several pre-election coalitions have dominated the political landscape, with the *Front voor Democratie en Ontwikkeling* (Front for Democracy and Development) as the dominant force until 1996 and after 2000. The Front’s backbone has consisted of the old political parties NPS and VHP. Until 1996, also the Javanese KTPI (*Kaum Tani Persatuan Indonesia*) was part of the Front, but it was replaced by the Javanese *Pendawa Lima* as a result of political controversies after the Front’s defeat in the 1996 elections. The Surinamese Labour Party (SPA, founded in 1987), which is linked to one of the country’s main labour unions, has also been part of the Front. For reasons of political expediency – in particular, to guarantee a majority in the election of the President⁴ – several other parties joined the Front, renamed the New Front, for the 2005 elections.

One of the most persistent elements of the Surinamese political system has been the attempt by political forces to exercise power in order to serve the

interests of a particular ethnic group rather than to achieve ideologically defined objectives (interview Schalkwijk, 2 April 2004). Class relations have been of marginal importance only in post-World War II Surinamese politics. As Menke (1991: 63) has put it, 'the state was an instrument of class formation through political patronage by giving facilities and resources (e.g. land) to members of the own political party or ethnic group'.

Patrimonial features of Surinamese politics and the state find expression, *inter alia*, in the attempt of political parties to assure their hold of particular ministries. To an important degree, government employment has served as an instrument of clientelism, where support for political parties was built on their ability to create jobs (referred to as *regelen*, 'arrange') in the ministries (Sedney, 1997: 27-28; Menke, 1991: 63; Derveld, 1999: 5, 15). The continuing dominance of Suriname's public sector employment in the total labour force (see above) is a important sign of the persistence of the 'pervasiveness of patron-client networks' (Inter-American Development Bank, 2001: 40) in the country's political system.

The creation of state-owned enterprises (or 'parastatals') has been an equally important tool of patronage, witness the formation of 76 such enterprises in the 1948-1987 period, more than 60 per cent of which were in the tertiary sector (Menke, 1991: 60). Despite the numerical importance of state-owned enterprises in the Surinamese economy, the assessment of their performance by the Inter-American Development Bank (2001: 76) has been very negative: 'They have generally been inefficient and have produced inferior quality goods and services. ... As a result, subsidies to state enterprises have represented a considerable drain on the treasury'.

The defeat of the *Front* parties in the 1996 parliamentary elections and the subsequent election of Jules Wijdenbosch to the Presidency marked the beginning of a new era, during which some of the perennial features of Surinamese politics were intensified. Wijdenbosch was the representative of the *Nationale Democratische Partij* (National Democratic Party, NDP), the political party that was founded by the former military leaders. The NDP was built on a class of *nouveaux riches*, that had benefited from corruption, drugs trafficking, gold mining and other illegal activities in the military period (Buddingh', 2000: 364). The 1996-2000 period is widely regarded as a time of intensifying corruption in politics and society and of a fast growing informal sector. The appointment of political allies to 'strategic positions' in the public sector and in state-owned enterprises, as well as economic favouritism of companies that supported the NDP government and the misuse of public funds became the order of the day (Buddingh', 2000: 372-380; Derveld, 1999: 15). The government's economic policies, characterised by massive monetary financing of public spending, resulted in a rapid depreciation of the Surinamese guilder and plunged Suriname into crisis (Buddingh', 2000: 402-408). According to Buddingh' (2000: 375), the Wijdenbosch regime showed much resemblance to the 'military-civilian oligarchy' of Suharto's Indonesia.

The conclusion is thus that Suriname's society and economy has been dominated by the state apparatus, which is a prime instrument of patronage and clientelism. This has resulted in the amassing and redistribution of rents derived from the country's rich natural resources and substantial inflows of aid.

The country may thus be considered a prime example of a non-developmental or *rentier* state.

4 **STAATSOLIE AS A 'POCKET OF EFFICIENCY'**

Staatsolie has developed, in the context of post-independence Suriname, into a 'pocket of efficiency', the performance of which stands in sharp contrast to other state-owned enterprises. *Staatsolie* has gradually come to occupy an important economic role in Suriname and is generally acknowledged as a well-managed and meritocratic organisation. Before moving to an interpretation of *Staatsolie's* role as a development agent (in section 5), this section will provide some data on the company's main achievements.

Staatsolie was founded on 13 December 1980 on the advice of the Oil Commission of Suriname. Its original assignment was to enter into a production-sharing service contract⁵ with Gulf Oil for the exploration of petroleum in the Tambaredjo field in the central coastal area of Suriname, where oil reserves had been anticipated ever since the 1920s. The Head of the Surinamese Mining Office, Eddy Jharap, was appointed as the first director of the State Oil Company of Suriname by the military authorities that had taken over the government in a *coup d'état* in February 1980 (Jharap, 1998: 15-17; *Staatsolie*, 2002: 6).

The production of oil in Suriname started officially at independence day (25 November) in 1982 in the Catharina Sophia area in Tambaredjo. Since 1982, *Staatsolie* has ascertained petroleum reserves of 150 million barrels in the oil fields of Tambaredjo and Calcutta (the latter discovered in 2003) and produced approximately 55 million barrels of crude oil until the end of 2004. Yearly production hovered around 4.25 million barrels in 2003 and 2004 (State Oil Company of Suriname, 2004: 11; Jharap, 2004, table 2.4).

Apart from petroleum exploitation, *Staatsolie* has gradually moved into refining operations. After the completion of a pipeline between the Catharina Sophia area and Tout Lui Faut on the Suriname River in 1992, a refinery was built, financed with a loan from ABN Amro Bank and ABB-EFAG (*De West*, 1 March 1994). As of the end of 2003, annual refining capacity was increased to 2.6 million barrels (State Oil Company of Suriname, 2004: 19). In addition to this, a pipeline was built in 2000 to cover all energy needs of the Suralco alumina plant in Paranam. Since 2004, *Staatsolie* has been working on the establishment of an electricity division, after an initial agreement with the Suriname Energy Company, EBS (*Times of Suriname*, 19 March 2004). In April 2006, the *Staatsolie* Power Company will become operational; its 15 megawatt generators, financed with a \$16 million loan from foreign banks, will produce energy for EBS (*De Ware Tijd*, 23 January 2006).

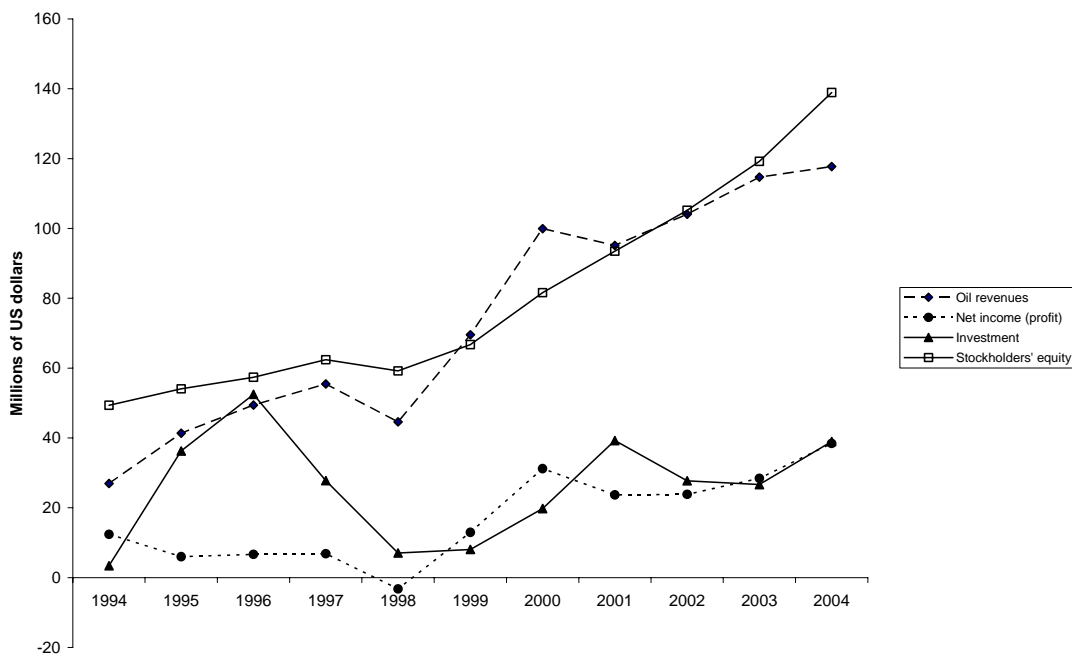
Over the years, *Staatsolie* has diversified its products. In 2001, it was reported that *Staatsolie's* production of crude oil was sufficient to cover the energy needs of Suriname, expressed in barrels. Since the company was not yet able to produce all required end-products (such as diesel oil, petrol and kerosene), Suriname still had to import part of its energy sources (*Staatsolie Nieuws*, March 2001). Over time, *Staatsolie* has developed in an important supplier of fuel oil to the region, among others to Barbados, which relies to an

important extent on Surinamese oil for its power generation (State Oil Company of Suriname, 2004: 20). *Staatsolie's* strategic plan for 2005-2010 includes the diversification of the refinery product portfolio by installing a hydrocracker and a hydrogen and sulphur plant to produce premium diesel and LPG (State Oil Company of Suriname, 2005: 2)

The expectation that the continental shelf off the Suriname coast contains significant petroleum reserves has resulted in several attempts – most recently, the ‘Suriname 2003-2004 International Bidding Round’, held between November 2003 and May 2004 (State Oil Company of Suriname, 2004: 16) – to interest foreign companies to undertake exploration activities. In 2004 and 2005, *Staatsolie* signed production-sharing agreements aimed at offshore oil exploration with Spanish-Argentinean Repsol-YPF, Danish Maersk Oil and U.S. Occidental Petroleum Corporation (interview Brunings, 5 April 2004; *Staatsolie Nieuws*, December 2004; *De Ware Tijd*, 26 October 2005).

The macro-economic importance of *Staatsolie's* activities for Suriname in the last decade (1994-2004) can be illustrated with the data presented in figure 1 and table 1.

FIGURE 1
***Staatsolie's* financial results, 1994–2004**



Sources: State Oil Company of Suriname, Annual Reports 1993-2003; World Bank, *World Development Indicators 2003 CD-ROM*.

Figure 1 shows that *Staatsolie's* revenues from oil sales increased almost fivefold in the 1994-2004 period. Over this period, profits rose to \$38.4 million in 2004 and the average investment, despite fluctuations, increased to an average of over \$30 million in the four most recent years. Stockholder's equity

– representing the ‘value’ of *Staatsolie* to Suriname’s government and the Surinamese Planning Agency – has steadily increased to peak at nearly \$140 million in 2004.

Further, table 1 presents data related to two indicators that shed light on *Staatsolie*’s contribution to the Surinamese economy.

TABLE 1
***Staatsolie*’s contribution to the Surinamese economy, 1994–2002**

Year	Oil revenues as percentage of Surinamese GDP	Stockholder’s equity as percentage of Surinamese GDP
1994	9.6	17.5
1995	11.9	15.5
1996	7.5	8.8
1997	7.0	7.9
1998	4.2	5.6
1999	7.9	7.6
2000	11.6	9.4
2001	12.6	12.4
2002	10.9	11.0

Sources: State Oil Company of Suriname, Annual Reports 1993-2003; World Bank, *World Development Indicators 2003 CD-ROM*.

Figures in the second column indicate, for the nine-year period for which data are available, that oil revenues have constituted an important source of Suriname’s gross domestic product. With the exception of the last four years of the twentieth century, the oil sector has contributed roughly 10 per cent to the country’s GDP. Stockholder’s equity has represented never less than 5.6 per cent of GDP (in 1998) and has been as high as 17.5 per cent (in 1994). Data on corporate and income taxes and dividend paid by *Staatsolie* to the state show that the company’s payments represented a significant, and increasing, share of total government consumption expenditure.⁶ Over the years for which data are available the percentage increased from 8.2 (1999) to 14.8 (2000) and 17.8 (2001). In 2004, *Staatsolie* was one of the few Surinamese firms that brought foreign exchange into the country (interview Tuur, 1 April 2004).

TABLE 2
***Staatsolie*’s return on assets, 2000–2004**

Year	Ratio of Return on Assets
2000	19.1
2001	13.6
2002	12.6
2003	13.2
2004	15.9

Source: State Oil Company of Suriname, Treasury

Staatsolie's performance can be illustrated also on the basis of a commonly used financial indicator. In table 2, data are given on the company's return on assets (the ratio of a company's net income and its total assets) from 2000 to 2004.

The figures presented in table 2 indicate that *Staatsolie* has achieved a noteworthy level of efficiency in its use of resources. Despite some fluctuation over time, due to variations in the price of crude oil, *Staatsolie* has been able to secure a rate of return on assets of over 12.5 per cent over the last five years, which compares favourably with the performance of other oil companies.⁷

The data presented in this section have demonstrated that *Staatsolie*, in the nearly 25 years of its existence, has become a true 'pocket of efficiency' in patrimonial Suriname. Figures show that the activities of *Staatsolie* have expanded considerably, leading to a notable diversification of the company's activities. Moreover, the company has been contributing significantly to the overall economic wealth of the country. In short, *Staatsolie* has become a genuine development agent. The next section will attempt to contribute towards the explanation of the company's role.

5 'BUILDING ON OUR OWN ABILITIES': *STAATSOLIE'S* DOUBLE STRATEGY

State-owned enterprises are a common phenomenon across the developing world, where they have often been set up to 'rapidly lift the entire economy to a level of self-sustaining industrial growth' (Waterbury, cited in Evans, 1995: 79). Typical explanations of the generally weak performance of state-owned enterprises in non-developmental or *rentier* states tend to focus on the fact that such enterprises have little autonomy from the state, and thus are easy instruments to pursue political objectives. The emphasis of such explanations is often on the rent-seeking attitude of the management, who have themselves been appointed for political reasons, and on the overly political nature of the enterprises' activities (cf. Schneider, 1999).

This section serves to analyse which were the conditions to develop and maintain *Staatsolie's* role as a development agent. The discussion focuses, in particular, on the double strategy that was developed by *Staatsolie* to become a successful medium-size oil company. The internal part of this strategy, derived from the management vision and ideological commitment of the company's leadership, was aimed at developing technological and management skills. The external part of the strategy was aimed at steering away from political influences on the company and playing out politically the formal-legal position of the firm in Suriname's petroleum sector.

It was noted above that *Staatsolie* was founded at the beginning of the period of military rule in Suriname. In the immediate aftermath of the *coup d'état*, the military's role in Surinamese politics was generally regarded as legitimate, as its intervention reflected a general discontent with the 'old order' based on pernicious practices of patronage and clientelism on the basis of ethnicity (interview Menke, 2 April 2004).

Staatsolie's start in the military era was important, because the military rulers originally embraced a nationalist economic agenda and saw the possible expansion of the oil sector as a step towards self-reliant development. Oil was being regarded as a strategic mineral resource, the exploration and production of which would best be done under control of the state. In order to enhance the effectiveness of the state's presence in the oil sector, the state would need to have a specialised instrument, in the form of a state oil company (*De Ware Tijd*, Kompas, 9 December 2000; interviews Sedney, 1 April 2004, and Jharap, 5 April 2004; Jharap, 2006: 6).

The economic agenda of the military was in line with the ideas propounded by the Surinamese *Volkspartij* (People's Party), a Marxist party that tried to bring about massive social and political change in Suriname and supported ideas about self-reliance (interview Jharap, 5 April 2004; Lotens, 2004: 73-75). During the 1970s, Eddy Jharap had been a very active member of the *Volkspartij*, which was dismantled, as were all existing political parties, after the military coup.⁸ Jharap's background in the *Volkspartij* seems to have played a role in his appointment to the chair of the Oil Commission and, later, to the directorship of *Staatsolie*. According to Jharap (2006: 6), then Minister for Reconstruction, Herman Adhin, selected him with a view to his left-wing orientation, as this would be a 'useful counterweight' to foreign oil companies during negotiations.

The creation of *Staatsolie*, made necessary because there was a need for a legal entity to enter a production-sharing service contract with Gulf Oil, was in line with the political commitment of Jharap, who left the *Volkspartij* after the coup. In his role as managing director of *Staatsolie*, Jharap saw himself as expert and ideologue. Looking back, he argued that the challenges for the oil company were to use Suriname's wealth for the benefit of the country's population and to undertake resource exploration and exploitation with the company's own, not foreign-dominated, means (Lotens, 2004: 77).

The slogans 'Confidence in our own Abilities' and 'Building on our own Abilities' – the latter adopted in 2001 to reflect the company's offensive nature in a more prominent way – are the expression of *Staatsolie* management's vision that the creation and further development of Suriname's oil sector are important not only to contribute to the country's level of wealth, but also to signal the endogenous capacity of the Surinamese to build a modern enterprise (Jharap, 1998: 19). On the basis of his analysis of the operations of major oil companies, Jharap came to see the challenges of the oil industry less in terms of technical than management skills. Based on the Norwegian experience, Jharap argued that the Surinamese state oil company should operate firstly as a commercial firm aiming at the development of expertise that is required to manage the inputs of consultants, subcontractors and in-house experts. Apart from this, the company would need to develop the infrastructure that would enable it to do business with foreign oil firms as an equal partner (Jharap, 2006: 8).

During the first few years of its existence, *Staatsolie* acquired its technological and managerial know-how by working closely with foreign consultants, most notably in Gulf Oil's division Geoman. According to Jharap, the establishment of master-apprentice relationships was very important in this

respect, as the main problem of the transfer of technology and management skills appeared to lie in the absorptive capacity at the receiving end. In Jharap's view, a master would, in general, be willing to transfer knowledge and expertise, provided that the apprentice would display an appropriate attitude. In the relationship between the master and apprentice, a certain degree of submission would be required, as the master would only then stop seeing the apprentice as a possible threat, but rather as somebody who can be trusted with the knowledge and expertise (interview Jharap, 5 April 2004).

In addition to the acquisition of technological and managerial expertise by *Staatsolie* staff, the spreading of know-how about aspects of the oil industry throughout the Surinamese economy was considered to be important. The construction of the first oil plant in Catharina Sophia, in 1982, was undertaken with local contractors and constructors. *Staatsolie*'s first oil drill was purchased second-hand in Canada and overhauled by local staff. Drilling staff was trained by Geoman consultants (Jharap, 1998: 37).

In later years, *Staatsolie* has placed much emphasis on the need to maintain well-defined standards for its operations. In contrast to prevalent practices of patronage and clientelism, the company adopted meritocratic principles in its human resource policy. Background and ethnicity are considered irrelevant as criteria for appointment and promotion within *Staatsolie*. In order to upgrade the quality of its staff, *Staatsolie* has instituted a sizeable training programme, the budget of which is currently in the order of \$0.5–1 million annually, as well as a management development programme. Much attention is paid to enhance the attractiveness of *Staatsolie* to well-qualified applicants; secondary labour conditions (among others, a holiday allowance, a profit-sharing scheme, a company car for senior staff and health care and pension facilities) serve to make the company competitive *vis-à-vis* the foreign-dominated bauxite sector (interview Essed, 6 April 2004).

In terms of standards, *Staatsolie* has been very active in implementing quality control mechanisms for its operations. In 2001, the Marketing and Sales Division and the *Staatsolie* laboratory received ISO certification status (*Staatsolie Nieuws*, March 2001), and in March 2004, the refinery operations at Tout Lui Faut became ISO9001:2000 certified (*Staatsolie Nieuws*, March 2004). Internally, *Staatsolie* has instituted a safety award and certificate for divisions and staff members that contribute to enhancing company safety and completing operations without accident (*Staatsolie Nieuws*, March 2004).

Staatsolie's history demonstrates that the company's management has consistently kept an eye on developments in the Surinamese political system. A lack of trust in Suriname's political leaders – and particularly the fear that *Staatsolie* could become an instrument of patronage, should the company become too dependent on political decision-making – resulted the desire of the company's leadership to keep politics at a distance. The inclination on the part of Jharap, later shared by other *Staatsolie* staff, was related to his political engagement with the *Volkspartij* and its ideology. The *Volkspartij* rejected traditional Surinamese political practices and profiled itself as a national party, unaffected by ethnic biases. In order to build a successful company that would contribute to the wealth and capacities of the Surinamese people, Jharap felt he should not depend on political favours.

During *Staatsolie's* early years, Jharap tried to distance himself and the company – literally as well as figuratively – from the military regime. Jharap purposefully made *Staatsolie* into an ‘island’ during its early years. Its operations, located away from capital, Paramaribo, were out of sight for most people. Jharap argued that a great part of the political elite at the time preferred to let him be occupied with *Staatsolie's* operations, so that he would not interfere with them and their political activities (Lotens, 2004: 78). Attempts by military from the lower ranks to use *Staatsolie* as a source of jobs for relatives and friends were averted by pointing out that such requests would be discussed with the military leadership. As the latter’s credo, according to Jharap (2006: 21-22), was that *Staatsolie* should be autonomous, no interventions of the military took place in the company’s employment policies. Occasional pressures on the company from within the military government – such as Deputy Prime Minister Haakmat’s attempt to intervene in the agreement between Suriname and Gulf Oil in late 1980, based on his assessment that the benefits for the country were too meagre – were also warded off after intervention by the military’s leadership (Jharap, 2006: 21).

Jharap’s resolve to stay clear of politics was also reflected in his search for capital. Except for a relatively small advance that was received from the Ministry of Finance, most of the risk capital needed in *Staatsolie's* early days was received from Gulf Oil (Jharap, 1998: 25). Other amounts, required for the financing of exploration activities and the purchase of oil production facilities respectively, were obtained from the Surinaamsche Bank, with a bank guarantee from the Central Bank of Suriname (interview Sedney, 1 April 2004), and from a consortium of six banks in Suriname (Jharap, 1998: 33).

Jharap preferred not to draw on the aid funds provided by The Netherlands, partly because of the bureaucratic procedures involved and partly because of his desire to maintain a business-like, non-political relationship with *Staatsolie's* financiers (Jharap, 1998: 35; interview Sedney, 1 April 2004). The only exception to the rule was the guarantee from Dutch Treaty funds sought (and received) by *Staatsolie* as collateral for its major investments in the refinery, which itself were financed with private bank credit (*De Ware Tijd*, 19 March 1993).

After 1985, the main sources of finance were a revolving credit and long-term loans obtained from international banks, with ABN Amro taking in an important position among these (interview Kortram, 6 April 2004). The revolving credit arrangement with ABN Amro was only partly a financial deal. The country’s financial situation had deteriorated in the final years of the military period – primarily because Dutch development assistance had been cut off in response to the military-led ‘8 December killings’ of 15 opponents – and all exporting firms in Suriname were forced to deposit their hard currency in the Central Bank in exchange for steadily depreciating Surinamese guilders. One of the conditions of *Staatsolie's* revolving credit was that its earnings on exports, which ultimately served as collateral, had to be deposited at ABN Amro in Houston. Thus, *Staatsolie* managed to retain control over its foreign earnings, which it needed for reinvestment purposes, and could influence the amount of foreign currency that was handed over to the Central Bank of Suriname (Jharap, 2006: 18).

Staatsolie's legal position as 'agent of the state' has been played out consistently by Jharap and his colleagues as a powerful tool to pursue the objectives of building an independent oil company and upgrading the technological and management expertise present in Suriname. *Staatsolie's* position was defined as a result of the Oil Commission's desire to enter into an agreement with Gulf Oil, the basis for which was laid in a legal arrangement (the so-called Decree E-8B of 1981) that granted *Staatsolie* the concession on oil exploration and exploitation in Surinamese soil as well as the exclusive right to negotiate with foreign investors (*Staatsolie Nieuws*, June 1998).

In addition to the original arrangement regarding Suriname's oil reserves, the Petroleum Law 1990 specified certain conditions regarding the exploration and exploitation of hydrocarbons. In particular, the new law ruled that the state's share of oil revenues (the 'take') should be maximised, and that operations should lead to technology transfer and the training of Surinamese employees (*Staatsolie Nieuws*, June 1998). Notwithstanding occasional complaints by politicians that the company has not been contributing sufficiently to the government budget, *Staatsolie's* willingness to transfer all profits, apart from a share needed for investment, to the state, has produced great confidence among many politicians in the reliability of management.

Staatsolie's attempt to stay clear of political interference was successful, ultimately, because of the company's ability to act as a role model. This is probably nowhere clearer than in the absence of patronage and ethnically-based appointments within the company (interview Menke, 2 April 2004). By insisting on its quality standards and drawing on its successes, *Staatsolie* has defended its a-political position. Although the company has been active in the typically Creole-dominated industrial sector, *Staatsolie* has proved able to withstand possible pressures from the Ministry of Natural Resources (interviews Jharap, 5 April 2004, and Sedney, 1 April 2004).

The company's standing as a role model and an example for other firms was demonstrated most clearly during *Staatsolie's* confrontation with the Wijdenbosch government in 1997 and 1998, when leading politicians attempted to appropriate *Staatsolie's* resources for political means. At the time, the government made various attempts to extract more money from the company to finance its increasing deficits. Among other things, the government tried to force *Staatsolie* to increase its oil production from 9,500 to 20,000 barrels per day, sell off the Tambaredjo oil field and initiate a joint venture between *Staatsolie* and foreign oil companies (*De Ware Tijd*, 6 June 1997, 12 September 1997 and 18 March 1998). The ensuing dismissal of the Board of Supervisory Commissioners in March 1998 (*De West*, 26 and 28 March 1998) and the double attempt to dismiss Jharap should be seen as efforts to bring *Staatsolie* under direct government control. *Staatsolie's* management mobilised legal advisors who emphasised that the role of the state was limited to the appointment and dismissal of the Board of Supervisory Commissioners. Jharap successfully challenged

the decision of the General Meeting of Shareholders (composed of representatives of the government and the Surinamese Planning Agency) to fire members of the Board of Executive Officers on the basis of non-

compliance with government policy (*De West*, 17 June 1998 and 23 September 1998).

Jharap's successful recourse to the available legal means and the massive protests, first of the *Staatsolie* trade union (the *Staatsolie Werknemers Organisatie Suriname*) and later of the joint political opposition and labour unions, warded off the government's bid for power in the oil sector. An important factor spurring the popular resistance against the government on the issue of *Staatsolie* was the widespread feeling that the oil company, as one of the most successful firms in the country, should be protected against political machinations. The resistance became particularly fierce because of the involvement of politicians, such as NDP President Wijdenbosch and Central Bank President Goedschalk, who were suspected of placing their personal interest in the sale of oil rights above the national interest, and whose financial-economic policies were felt to lead the country to disaster (*De Ware Tijd*, 4 June 1998; interview Read, 6 April 2004).

The 1997-1998 protest movement fed into broader popular protest against the Wijdenbosch government, which ultimately led to earlier elections. Since the events of 1997-1998 and the return to power of the Front government in 2000, *Staatsolie's* position beyond the reach of politicians seems to have been secured. The smooth transition of the company's leadership to the long-serving Director of Refining and Marketing, Marc Waaldijk, after Jharap's retirement in December 2005 underlines *Staatsolie's* current autonomy from politics.

6 CONCLUSION

The literature about patrimonialism and rentier states has focused traditionally on macro-level institutions (primarily, the state) and on the influence that rent-seeking, patronage and clientelism exert in society and the economy. The theoretical argument that this paper has made is that it is necessary to look beyond such macro-level institutions, and include actors at the meso and micro level, to 'unpack' the argument about the patrimonial or rentier state. Only if attention is focused on meso- and micro-level actors, is it possible to gauge the political and social dynamics in particular sectors of the economy. The study of sectoral dynamics may help analysts to avoid all too crude generalisations about the impact of patrimonialism, in particular, in the form of rent-seeking, patronage and clientelism.

More specifically, the current analysis has demonstrated how and under which conditions concrete development activities can take place in a seemingly hostile environment. This paper has focused on a typical 'hard case' – the oil sector in a country that has traditionally been characterised by patronage and clientelist politics – where the patrimonial/rentier state argument would predict rent-seeking to prevail. The case of the Surinamese State Oil Company indicates that sectoral development under committed leadership is possible against all odds.

The analysis of *Staatsolie* contributes to the argument about so-called 'pockets of efficiency' brought forward by Evans (1989), among others. The current analysis shows that the creation of a pocket of efficiency within the

public sector need not signal an overall improvement in the functioning of the state bureaucracy. Indeed, the Surinamese case supports Evans' (1989: 578) observation that a successful state-owned enterprise can coexist alongside inefficient parastatals and a government bureaucracy infested with practices of patronage and clientelism. At the same time, however, the case of *Staatsolie* also illustrates how the dynamics within a pocket of efficiency – in particular, the need to consolidate the market position and diversify production – lead to changing preferences about the relations with the state. Current discussions about the (partial) privatisation of *Staatsolie*, which are likely to lead to a proposal from the Board of Directors to sell 20 per cent of the company's shares to private investors on the local capital market, may lead to a legal *volte-face* in the relationship between *Staatsolie* and the Surinamese government (interview Gemerts, 7 April 2004; *De Ware Tijd*, 13 December 2005).

The theoretical significance of *Staatsolie's* case is that it brings out clearly how a company could be set up that is committed to the acquisition and further development of technological and managerial expertise, despite its insertion into a patrimonial environment. The discussion of the conditions for *Staatsolie's* role as a development agent (section 5) attributed the company's success to its double strategy, built on the management vision and ideological commitment of the company's leadership, and the ability on the part of management to steer away from political influences and to play out politically the formal-legal position of the firm in the petroleum sector. It is important to realise that these were, at most, necessary, and clearly not sufficient conditions for *Staatsolie's* success. In particular, the fact that the company started as a marginal enterprise in 1980 and remained in the shadow of major rent-producing activities – such as, in particular, the bauxite sector and Dutch development assistance – until the mid-1990s produced the conditions under which *Staatsolie's* skills could be developed without much interference from those who, as shareholders, could have pulled the strings.

Despite the fact that most people in Suriname now seem to respect *Staatsolie* and its leadership for what has been achieved over the past 25 years, it has to be realised that the immediate external environment for the oil company is not without threats. The major challenges for the company and for its desire to maintain its role as a development agent in the years ahead seem to be related to the same factors that contributed to *Staatsolie's* achievements. Since the smooth succession of Jharap by someone with a comparable vision and commitment, *Staatsolie's* resolve to continue building on its own abilities seems to be guaranteed. The most important threat to the future success of the oil company is, therefore, to be found in the interaction between *Staatsolie* and the Surinamese government and, particularly in the willingness of the shareholders to grant *Staatsolie* a substantial degree of autonomy. Such autonomy will be required in the light of major decisions on off-shore exploration and exploitation and the further diversification of its activities, for all of which the company will undoubtedly need to attract private, possibly foreign, capital.

Fundamentally, the discussion about *Staatsolie's* future touches upon the nature of Suriname's politics and, broader, its governance structure. As demonstrated by, among others, the Inter-American Development Bank (2001: 4-5), the creation of wealth and other public goods in Suriname is seriously

hampered by the pervasive nature of patronage and clientelism, which support rent-seeking rather than productive initiatives. The flowering of initiatives such as *Staatsolie*, aimed at the acquisition of technology and management expertise, is heavily dependent on the capacity of the political leadership to curtail patrimonial practices. In this perspective, a major step forward in the securement of *Staatsolie*'s legacy would lie in the establishment of more reliable governance structures and the ensuing institutionalisation of mechanisms of self-restraint among those working in the Surinamese public sector.

NOTES

1. See Appendix A.
2. Suriname does not have all characteristics of a 'petro-state' as described by Karl. Although its reserves per capita (roughly 0.3 billion barrels per million persons) and the share of oil production in GDP (over 11 per cent between 2000 and 2002) would place the country in Karl's category of capital-deficient oil producers, the share of oil in total exports (approximately 2 per cent in 2003) falls far short of the 40 per cent threshold used by the World Bank (Karl 1997: 17). In addition to this, Suriname's oil reserves and the country's share of world oil production render the country insignificant by international standards.
3. In 1998, the population of Suriname counted roughly 431,000 people, and consisted of 27 per cent Creoles, 40 per cent Hindustanis, 16 per cent Javanese, 12 per cent Maroons (former slaves who escaped to the interior of Suriname), 3 per cent Amerindian and 2 per cent others (St-Hilaire, 2001: 1002).
4. Suriname's Constitution specifies that the election of the President and Vice-President requires a qualified majority in Parliament. If such a majority cannot be obtained in two rounds of voting, the so-called People's Assembly (*Verenigde Volksvergadering*), composed of all Parliamentarians plus all elected representatives at the regional and municipal level, meets to elect the President and Vice-President by simple majority. In both 1996 and 2005, there was no sufficient majority in Parliament, and in these cases the People's Assembly met to select the President and Vice-President.
5. A production-sharing service contract is a contract between a state and a foreign oil company, under which the state retains the property rights of all oil that is produced as well as the jurisdiction over the exploitation. Payment of the foreign company for an agreed set of activities (such as a minimum level of exploration and production) takes place through the granting by the state of a fixed share of the annual oil production to the company (Jharap, 1998: 15).
6. Data on *Staatsolie*'s payments to the government were provided by the Staatsolie Treasury; data on general government final consumption expenditure were taken from World Bank (2003). Overall, it has appeared to be difficult to gather reliable data on the Suriname economy. As documented by a former President of the Surinamese Audit Office, there is systematic underreporting of data related to government spending (Prade, 1999).
7. Differences in the size and nature of operations of oil companies as well as in the financial data provided by these companies make comparisons difficult. A comparison of the financial results reported by *Staatsolie* and by Repsol YPF, which has important activities in Latin America, shows that the latter's average rate of return on assets (6.6 per cent in the 2000-2004 period) was significantly lower than the former's (see <http://www.repsolypf.com/eng/todosobrerepsolypf/>

AccionistaseInversores/principalesmagnitudes/principalesmagnitudes.asp?Nivel=10, retrieved 30 August 2005).

8. The *Volkspartij* split over the issue of cooperation with the military. A fraction of the party allied with the military regime under the name *Revolutionaire Volkspartij* (Revolutionary People's Party).

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- De West*, daily newspaper
- Staatsolie Nieuws*, quarterly publication on *Staatsolie*
- The Times of Suriname*, daily newspaper

APPENDIX A: INTERVIEWS

- Leon Brunings: Treasurer, State Oil Company Suriname (5 April 2004)
- Vincent Essed: Manager Human Resources, State Oil Company Suriname (6 April 2004)
- Glenn Gemerts: Deputy-Director for Mining, Ministry of Natural Resources (7 April 2004)
- Dr. Eddy Jharap: Managing Director, State Oil Company Suriname (5 April 2004)
- Niermala Hindori-Badrising: Advisor in the Cabinet of the President of Suriname (31 March 2004)
- Iwan Kortram: Financial Director, State Oil Company Suriname (6 April 2004)
- Dr. Jack Menke: researcher, affiliated with the Anton de Kom University of Suriname (2 April 2004)
- Lloyd Read: Chairman, State Oil Company Employees' Organisation Suriname (SWOS) (6 April 2004)

Dr. Marten Schalkwijk: Director, Nikos – NGO Institute for Training and Research (2 April 2004)

Dr. Jules Sedney: Advisor to the Minister of Trade and Industry and former Prime-Minister of Suriname (1 April 2004)

Mauro R.L. Tuur: Permanent Secretary of the Ministry of Trade and Industry (1 April 2004)