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BUDGET SPEECH

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A. INTRODUCTION:

Comrade Speaker,

The number 21 is associated with the tradition of 'coming of age". This tradition persists even though Guyana, under the guidance of this Government, long before the dawn of this International Youth Year reduced the age of majority to 18. There is a parallel manifest in 1984 between this 'coming of age' and the stage of political development achieved by our nation. The maturity of self-reliance, self-respect, and self-worth with which we reacted to the economic challenges of 1984 augurs well for 1985. It is therefore, a special honour for me to present this the 21st Annual Budget of the People's National Congress Government.

Comrade Speaker, the essence of national pride and political and economic independence is the capacity of a nation to recognise, analyse, and respond to the objective circumstances in which it exists. It consists in the capacity of the nation to define for itself the National Development and National Welfare priorities which it will pursue. It consists in the capacity to identify the Structural Changes which must be effected to facilitate that pursuit. It consists also in the capacity to approach the requisite tasks with a combination of individual and collective creativity.

The fostering of the growth of that capacity, and the activation and application of the capacity itself are not activities which occur fortuitously or spontaneously. Instead, they arise out of that deliberate raising of the consciousness of a people through persistent, astute, courageous leadership.

Such leadership recognises the pivotal role of education - a role which does not relegate education simply to the category of a neutral service. Such leadership recognises the importance of self-reliance in the production of food, in the utilisation of local resources, in the derivation, adoption, and adaptation of appropriate technology. Such leadership is acutely aware of the distinctions between aid and hand-outs, between borrowing and begging, between assistance and recolonisation.

For the last two decades, Guyana has had such leadership under the Government informed by the People's National Congress, and it is therefore through acts of careful nurturing that our nation has developed the confidence to face challenge with aplomb.

Secure in the comfort of knowing that my remarks are addressed to a tutored, politically and economically sensitised populace, at one with its leadership, I wish, Comrade Speaker, to state at the very outset this nation's immediate key task.

B. THE NATION'S IMMEDIATE KEY TASK:

Comrade Speaker, Guyana is a country in transition to socialism. The characteristics of the society which we have set out to build for ourselves have been repeatedly outlined, and indeed have been enshrined in our Constitution. We already have ownership, on behalf of the people, by the State of the main means of production. An appropriate planning system which is to be the main regulator of the economy is in the course of being established. Such planning will regulate the allocation of resources and the distribution of national output. In keeping with the Party's socialist goals, the plan will in turn be subordinated to the will of the populace.

Already, we Guyanese have won material gains in the form of free access to health services and education, increased and improved housing facilities, extensive rural electrification, widespread access to potable water, and a high and increasing degree of self-sufficiency in basic foodstuff. However, these gains are not irreversible. Indeed, even now, each of us can recognise that it is an uphill task to maintain, let alone improve what we have achieved and propose to maintain. The resounding refrain is the plea for financial resources, foreign exchange at that, to effect maintenance and improvements.

Ours is not a singular case. We are simply witnessing a phenomenon which has faced each country that has eschewed the path of dependent development. We need to understand this phenomenon, and to understand the tactics appropriate for combating it.

We need to grasp clearly a fundamental issue, that is the role of money in the transition to socialism. Our financial and monetary policy must be realistic and supportive of developments in the real sector of the economy. We ought not to behave as though we are unaware of the reality of this link.

On the basis of our analyses we have decided to have a society which will contain a co-operative sector, a public sector, and a private sector. We have not yet abolished money! In these circumstances, economic linkages among the sectors and individuals will be determined mainly by market relations. If these actors are to coexist in a manner consistent with the development objectives we have set ourselves, financial policy will need to be framed to allow money to perform the functions it can usefully and uniquely provide; namely, a unit of account and a means of exchange. This is imperative given that our ability to physically determine production and distribution is still not well developed. We are inevitably forced to rely on modified and unmodified market mechanisms to perform many of the resource allocative functions related to production and distribution.

Comrade Speaker, in my Budget speech of 1984 I devoted a considerable amount of time to the 'Resource Allocation' problem. I do not intend to reiterate the arguments and explanations I presented then. Instead, I simply wish to remark in this context that it is the role of the political directorate to provide leadership by clearly indicating the specific choices to be made in distributing resources among different social groups and economic sectors. In this regard, courageous leadership has to be provided to resist the strong preferences of some groups for higher and inappropriate consumption patterns, at the cost of expenditures favouring production in support of National Development Priorities. Here again, appropriate financial policy is an imperative as the leadership strives to ensure that the country does not 'live beyond its means' with deleterious effects on its foreign exchange reserves and the availability of resources for development.

Comrade Speaker, where a country which is attempting a transition to socialism finds itself with exhausted foreign exchange resources, it faces a particularly difficult situation. There is for example, the unwillingness of the international financial institutions, and the related banking communities to provide it with resources on terms compatible with its socialist objectives. Its bargaining position is perceived to be weak; its populace is perceived to be malleable and ripe for a 'reversal of direction'; its public corporations are deemed to be inefficient by virtue of the fact that they are state-owned; and the unavailability of imported traditional items tends to be a rallying point for the disruptive and disenchanted.

It is for this reason, Comrade Speaker, that I say the nation's immediate key task is to progressively reduce the overall Public Sector deficit while pursuing the National Development Priorities which include a politically wearable level of Welfare provision.

Comrade Speaker, I shall return again and again to this theme in my presentation. Here lies our Achilles' heel. We must be aware of it. We must understand it. We must prepare ourselves to withstand the pressures which are, and will continue to be, brought to bear from within and without on our national economic policy.

Comrade Speaker, I alluded earlier to evidence of our emerging national maturity. The issue is that of ensuring that we live within our means while we strengthen our self-reliance and secure development.

I believe that our maturity is already at a level which will allow us to deal effectively with this issue.

May I, now, Comrade Speaker turn to the task of giving a definitive statement of our National Development Priorities.

C. THE NATIONAL DEVELOPMENT PRIORITIES:

The comments which I am about to make on our development priorities, Comrade Speaker, contain no new revelations. Indeed, they represent a restatement of the salient ideas which have informed the actions of this Government over the past two decades. Yet, for the purpose of completeness of presentation and for the purpose of re-focusing our minds on our development strategy, a reaffirmation of those priorities would be both timely and necessary. Development is the precursor of Welfare. We must therefore be abundantly clear on the essence of development strategy.

For the purpose of this presentation it is convenient to divide our development priorities into seven categories as follows:

1. Food, Agriculture and Forestry
2. Manpower Training
3. The Export Drive
4. Energy
5. Technology
6. Mining and Quarrying, and
7. Regionalism and Co-operatives.

I wish to say a brief explanatory word on each of these categories.

First - Food, Agriculture and Forestry.

Here, the main national concern is to satisfy basic needs, promote resource based industrialisation, and maximise production for export.

In the current vulnerable situation of inadequate foreign exchange, earned or borrowed, the problem of food supply is of the highest strategic importance.

Our survival in 1984 was attributable in no small measure to our success in feeding ourselves.

Individual house plots, co-operatives, private farms and state enterprises were all production units via which this success was achieved. Our data bases are still in the process of construction and our National Accounts do not yet fully reflect production of and employment related to non-traditional crops. However, the available evidence points to a significant increase in such agricultural production since 1981. This acceleration is testimony to the correctness of the pricing and other policy incentives which we have provided. Here is an example of our emerging maturity as a nation. We have responded to difficult economic circumstances by resorting to eating what we produce and producing more of what we eat.

It is our intention, Comrade Speaker, to reinforce this desirable trend by continuing to pursue pricing policies which, as I said in 1984 will be geared to ensuring adequate and equitable returns to producers of agricultural products. Additionally, we will this year introduce legislation to exempt from personal income taxation, incomes which accrue to producers who produce for their own consumption and for occasional sale on the market.

May I turn now, Comrade Speaker, to the priority which I have described as 'Manpower and Training'. For this priority our concern is that of continually upgrading manpower skills. Little need be said about the necessity for skilled personnel to support the national thrust in an ideologically aware manner. The need for such a priority in the context of the internationally familiar phenomenon of the brain-drain is self-evident. A lot more effort needs to be devoted to curbing the propensity of these privileged groups to depart for the allegedly 'greener pastures' of the developed metropoles. This is an issue with which I will deal when I make some comments on the welfare priority 'education'

The 'export drive' priority is in many ways self-explanatory. It involves the maximisation of both traditional and non-traditional export earnings. In addition it envisages the use of mechanisms such as the rationalisation of countertrade activities, the diversification of markets, and the implementation of policies geared to encourage the production of exportable commodities.

Comrade Speaker, the development priority which I have categorised as 'Energy' is an almost self-evident one. As an oil-importing nation short of foreign exchange, we cannot but be overwhelmingly concerned about the efficient use of imported fuels. We must be concerned to promote the development and use of domestic energy resources such as hydropower, charcoal, biogas, bagasse and oil. As with all countries of the world, energy is pivotal to our existence; but in our case economic circumstances change 'pivotal' to 'transcendental'.

The priority categorised as 'Technology' has to do with the need to encourage appropriate technology transfer, and to develop appropriate, indigenous technology for optimising the use of domestic raw materials. This use will contribute to abolishing waste, and establishing forward and backward linkages through co-operatives, small industry, and small businesses.

This is not to say that large scale foreign capital on terms in accord with our development thrust is unwelcome. Quite the obverse is true. However, we recognise the futility and undesirability of attempting to promote development merely on the basis of attracting foreign capital haphazardly. I believe that point was aptly made by William Demas in an address to the Human Resources seminar held at the University of the West Indies, Mona in August 1970.

> The "selling of the country to foreign investors with the allure of tax incentives and political stability (whatever this may mean) still absorbs much more energy and intelligence than a purposive strategy based on popular commitment and mobilisation, integrated rural development, agro-industries, an incomes policy, a re-fashioned educational system, relevant mass media, technological adaptation and use of intermediate technologies, promotion of small business, small industry and co-operatives, and the conscious shifting of demand towards locally produced goods and services, particularly the latter. Moreover, instead of planning and policy efforts concentrating and developing backward and forward linkages in existing industries, hotels and other activities, new foreign activities, most of them imperfectly integrated with the rest of the economy, are feverishly sought".

Our priority described as 'Technology' is designed to avoid precisely that pitfall. It is a priority to which we must adhere, despite the ill-informed if not cynical urgings of some officials and representatives of powerful international institutions.

In this context, appropriately directed Research and Development is necessary for improving agricultural yields, facilitating vertical integration of existing industries, and optimising the use of domestic resources. Worthy of special mention here is the role of Guysuco which with its managerial skills, technological heritage, and infrastructural facilities must charter a course for agricultural diversification and the forging of agro-industrial linkages.

Comrade Speaker, the development priority categorised as 'Mining and Quarrying' refers to the wealth and profusion of our mineral resources. It affords us development opportunities not available to other less well endowed developing territories. Here, our objective is to maximise production and export earnings from bauxite, gold, diamonds, other precious and semi-precious stones and other mineral resources.

The final development priority is 'Regionalism and Co-operatives'. The objective of this priority is that of identifying and utilising optimally within a framework of co-operatives, the resources native to each Region. The resources are to be utilised to satisfy the Region's internal need and to generate surpluses for export and trade among Regions. Clearly, there is an overlap between this priority and the others already discussed. However, it merits separate mention since it highlights our commitment to balanced Regional Development and to entrenching the concept of co-operativism in our relations of production.

Comrade Speaker, as I mentioned earlier, I have recounted these development priorities to assist us in focusing our minds on the main points of our development strategy. We need such a clear focus to give meaning, method and purpose to the allocation of our financial and human resources.

D. THE NATIONAL WELFARE PRIORITIES:

Comrade Speaker, I earlier observed that Development is the precursor of Welfare. I should add that Welfare is the raison d'être of Development.

This inter-relationship between Development and Welfare stands at the core of the problem of resource allocation. The main problem lies in choosing between welfare benefits and securing and expanding the production base. Every Government which concerns itself with the material and psychological well-being of its citizens must face this dilemma. Where that Government's views are informed by the principles of socialism, and particularly where there are concerns about the disadvantaged, there is a temptation to give an unsustainable preference to welfare expenditure. This policy is inappropriate and as I have indicated, has inherent in it the seeds of destruction of the very transition to socialism that is desired.

Naturally, the people themselves, with heightened consciousness and aspirations, tend to insist on rapid improvement in their welfare irrespective of the objective circumstances at home and abroad. Not surprisingly the potential beneficiaries and their spokesmen, including some Trade Unions, focus only on the welfare or consumption side of the production

and consumption equation. Article 38 of our Constitution constrains us to avoid the one-sided approach by juxtaposing the 'rights' with '. . . the duty of the State, co-operatives, trade unions, other socic-economic organisations and the people through sustained and disciplined endeavours to achieve the highest possible levels of production and productivity and to develop the economy in order to ensure the realisation of the rights...'

In the final analysis however, the battle is truly joined, not between the Government and the populace, but rather between what is desired and what is possible. Resources are obtained by production or from external flows (whether grants or loans). Improved welfare is limited by the availability of resources. The Government and the populace are at one in their desire to improve welfare. It is one thing to resolve an argument on what is to be bought or acquired. It is quite another tc achieve harmony over how to pay. One thing is certain, however. Pay you must.

The problem is invariably compounded by the apparent reasonableness of the welfare aspirations, taken by themselves. A simple listing of the National Welfare Priorities will suffice to make the point.

An unranked listing, appropriate to Guyana may read as follows:

1. Food and Nutrition
2. Health
3. Education
4. Recreation and Culture
5. Housing
6. Clothing
7. Employment
8. Equitable Income Distribution, and
9. Security of Individuals and their personal property.

Who dares question the 'rightness' of this list except to add to it!

Comrade Speaker, if this Government is to secure the gains made so far, it must resolve this conundrum. The resolution lies in performing what I characterised as 'The Nation's Immediate Key Task'. This is to progressively reduce the overall Public Sector deficit while pursuing the National Development Priorities which include a politically wearable level of Welfare provision.

To come to grips with this task, we need to probe a little more deeply into the meaning of 'politically wearable level'. In this regard, 'politically wearable level' is a criterion which must satisfy at least two types of constraints.

One constraint has to do with political judgement and national maturity in the sense that it deals with those welfare benefit levels which the populace can be persuaded to defer for the time being. Wage increases, improvements in housing, or a wider variety of food etc., fall into this category. They are all amenable to settlement by negotiation and discussion, given an atmosphere in which the economic and financial realities are honestly faced. Resolution of this aspect depends on the stage of national maturity and its reflection in the different classes and groups. On this I need say no more.

The other type of constraint has to do with isolating those welfare items which constitute the fundamental underpinnings of the Development thrust itself. These are quite complex, and need to be highlighted because they are crucial to our continued efforts to complete the transition to socialism.

Perhaps, Comrade Speaker, I may best begin with some comments on Education. Let me start with schools. Schools are the mechanisms for determining what economic, political, and cultural patterns will dominate the society. Curricula represent a certain selection of knowledge for dissemination, and teaching methods combine with curricula to create forms of consciousness and views of the world that simply endorse important social features such as norms of equity which some dominant class wishes to enshrine.

Our schools still tend to entrench thinking in individualistic terms quite unsuited to our declared pursuit of co-operativism. This enshrines a bourgeois individualism which dictates our social relations with and dependence on others.

I should like to draw your attention, Comrade Speaker, to an excerpt from one of Raymond Williams' books.

> "I remember a miner saying to me, of someone we were discussing: 'He's the sort of man who gets up in the morning and presses a switch and expects a light to come on'.
>
> We are all, to some extent, in this position, in that our modes of thinking habitually suppress large areas of our real relationships, including our real dependence on others. We think of my money, my light, in these naive terms, because parts of our very idea of society are withered at root. We can hardly have any conception, in

our present system, of the financing of social purposes from the social product, a method which would continually show us, in real terms, what our society is and does. In a society whose products depend almost entirely on intricate and continuous co-operation and social organization, we expect to consume as if we were isolated individuals, making our own way. We are then forced into the stupid comparison of individual consumption and social taxation - one desirable and to be extended, the other regrettably necessary and to be limited. From this kind of thinking, the physical unbalance follows inevitably. Unless we achieve some realistic sense of community, our true standard of living will continue to be distorted. . . Questions not only of balance in the distribution of efforts and resources, but also of the effects of certain kinds of work both on users and producers, might then be adequately negotiated... It is precisely the lack of an adequate sense of society that is crippling us."

In effect there is an overwhelming emphasis on the individual in our educational processes, in our emotional and in our social lives. It results in the individual defining his/her role as a neutral technician in pursuit of his/her individual betterment. It can destroy or severely inhibit one's analysis and perceptions of social and economic justice. The loss of skills developed at great expense to the nation is in good measure stimulated by these individualistic perceptions which have been partly fostered by the inadequacies of our educational system.

When, therefore, we consider the society which we are trying to build, and the development priorities which we wish to pursue, we need to come to grips with: the appropriateness of our educational institutions; the appropriateness of their overt curricula; the appropriateness of their teaching methods; and the orientation of those who teach in those institutions, particularly insofar as they may be proselytisers of a 'hidden' curriculum.

This is no new discovery on our part. Various well-known works on education have highlighted and analysed these issues much more lucidly.

In view of this we must view Education as a very special 'welfare' priority which is fundamental to the likely success of the transition which we seek. And, when we ask whether we are getting value for the money which we are allocating to education, considerations of the kind just mentioned should inform our answers.

We are agreed that we are not getting as much value for money as we should. The indication - we must return to the drawing board to review speedily but in depth our educational policies, structures, and mechanisms, including the training and orientation of those to whom we entrust the activity of educating.

It therefore follows, Comrade Speaker, that 'politically wearable' in terms of Education means that although there will be the continued allocation of resources to the activity there must also be a concomitant insistence on getting value for money.

Comrade Speaker, the second welfare priority to which I wish to draw attention is Employment. This aspect remains crucial in the sense in which I addressed it in my 1984 budget speech. I feel constrained to repeat what I said then. That was: 'It is no secret that the organisational structures of many of our ministries and other institutions in the public sector need to be streamlined. Paying people more to continue to do little is both morally and economically debilitating'.

During 1984 we undertook the task of reconfiguring ministries and reallocating people to the Regions. This exercise was supposed to improve the labour efficiency of our bureaucracy, but the task has proved to be more difficult than we anticipated, and much still remains to be done. Many major central ministries have yet to redefine their roles and activities at the centre and to make their employees available for posting to the Regions where the implementation action is. Now that we have adjusted wages and salaries, the urgency of appropriate labour allocation is even more palpable. We have resolved to take effective action by the end of the first quarter of this year.

May I now, Comrade Speaker, turn to the Structural Changes which have to be a part of what I have described as the Nation's Immediate Key Task.

E. STRUCTURAL CHANGES:

In this section of my presentation, Comrade Speaker, I propose to undertake more than a status report on the structural changes we initiated two years ago. I would like to relate those initiatives to the immediate key task I referred to earlier.

Allow me to start with a simple synopsis of the recent origins of the Public Sector deficit. I have emphasised the necessity of rapidly reducing the deficit and bringing it within the bounds of prudent, as opposed to dysfunctional, financial policy.

The Public Sector to which I am referring includes the agglomeration of Central Government institutions and State enterprises. The existing deficit is the result of spending more than the resources the Public Sector is able to command by way of domestic revenues and foreign inflows.

The Central Government for its part undertakes expenditures primarily to meet capital costs, employment and other related charges of Ministries, Regions and various statutory bodies; transfers to finance wholly or partly the current and capital programmes of various institutions such as the Guyana National Service, the Guyana Defence Force, the State Planning Commission, the Institute of

Applied Science and Technology; debt repayments related to interest charges and principal amortisation for both local and foreign indebtedness; and equity contributions and loans or grants made to state enterprises to help finance their losses and/or capital programmes.

If we ignore borrowing, the domestically derived resources of the Central Government consist mainly of taxes, other imports, and dividends from the state enterprises. The Public Corporations' special role in Public Sector finances derives from the fact that their after-tax surpluses net of dividends have traditionally been large enough to compensate for the imbalance between the Central Government revenues and expenditures. Since 1981, however, the Central Government deficit has been compounded by the losses of the Public Corporations, as a whole. At the same time foreign inflows have not been enough to cover this combined loss as well as capital expenditure.

To the extent that the resources generated by the Public Sector, when taken together with the foreign borrowings, do not match the expenditures which the sector wishes to incur, a deficit results. This overall deficit can be financed through borrowing from the local banking system. However, if the magnitude of the deficit exceeds the level of savings by the economy as a whole either imports are drawn in or inflation rises, or both. An unsustainable imbalance will occur if, in addition, there are no foreign reserves on which to draw. Undesirable effects, such as a parallel market, will become entrenched national features. There will be the accumulation of arrears of payments to foreign suppliers. Such arrears will of course have adverse implications for the continued flows of imports, whether for consumption or for production.

Comrade Speaker, I have described the system and its workings as simply as I possibly can. The essentials of the circumstances in Guyana are well known. Let us therefore turn to the solution. Basically the task is, as I have repeated several times, to progressively reduce the overall Public Sector deficit while pursuing National Development Priorities which include a politically wearable level of the Welfare provision.

To be consistent with this strategy our financial policy must be geared to ensuring that we live within our means. To do otherwise would be to seek to live within other people's means.

One common remedy proffered as appropriate financial policy is to drastically cut employment. In our circumstances of idle productive capacity and resources capable of exploitation, we need all hands on deck. So the reduction of the deficit through the massive sidelining of human resources is not an appropriate policy for effecting the Nation's Immediate Key Task. In addition it conflicts with our ideological commitment to utilise fully labour resources as set out in Article 22 of the Constitution. Instead, we must opt for raising the productive performance of those who are employed.

In summary, Comrade Speaker, the policy needs to comprise a mix of the following:

(i) a careful rechannelling of work efforts to secure more value for the employment costs incurred. Unless employees co-operate positively in the achievement of this objective their continued employment in the Public Sector cannot be guaranteed.

(ii) a re-assessment of the roles of the Ministries with a view to the deployment of human resources to Regions where their efforts will yield greatest fruit. In short, make the centre lean and efficient, and simultaneously strengthen the implementation capabilities and efficiencies of the Regions.

(iii) remove ineffectual subsidies, particularly those which merely or mainly provide opportunities for parallel market initiatives, and deprive producers of fair returns for their productive efforts.

(iv) devise means of increasing Central Government revenues, particularly by ensuring compliance with existing laws (so that everyone bears his fair share of the burden).

(v) re-organise the Public Corporations in pursuit of the generation of surpluses by state enterprises taken as a whole. Deny transfers to those enterprises whose detailed plans do not indicate a return to profitability or a significant attenuation of their losses in the medium term.

(vi) devise policies for increasing the levels of savings by Corporations and individuals.

(vii) devise and strictly apply criteria for determining the adoption or exclusion of capital projects.

(viii) make the maturity structure of the internal debt portfolio more appropriate. Wherever possible rescheduling of the external debt is to be negotiated.

(ix) diversify trade in order to achieve greater utilisation of installed productive capacity in the public, the co-operative and the private sectors.

(x) conclude and implement arrangements with friendly countries whose assistance accords with our national development priorities and represents support for our efforts in terms of credit, capital inflow, and export opportunities.

The ten types of initiatives which I have just recited, Comrade Speaker, have informed the structural changes which we have been and are in the process of undertaking. I turn now to a brief description of the major changes on which we have embarked and which we intend to continue to pursue during 1985.

1. GUYSTAC RESTRUCTURING:

May I begin, Cde. Speaker, with some remarks on the restructuring of the Guystac group of Corporations. This restructuring is the fifth of the ten initiatives I just outlined. In my 1984 budget speech I listed the main goals of the proposed reform. Now I propose to highlight the main features of the re-organisation on which we have finally decided. These are as follows:

(i) The Corporations will be divided into four groups.

(ii) The groups will not include the Guyana Broadcasting Corporation, the National Newspapers

Limited, and related entities in the information sector. These entities will continue to be supervised by their subject Ministry until an appropriate corporate grouping has been devised for them. The decision on this aspect should be made later this year.

(ii) Each of the four groups of Corporations will be controlled by a Supervisory Council. In summary, the Supervisory Council will be the single Government source to which the particular group of Corporations looks for policy guidance.

(iv) There will be a single Secretariat serving the Supervisory Councils, and built around the nucleus of the existing Guystac Secretariat.

(v) The main instrument through which a Supervisory Council will translate its policy directives into specific objectives will be the Performance Contract.

(vi) Each Corporation will sign a Performance Contract with the Supervisory Council which controls the group to which the Corporation belongs.

The four groups into which the Corporations will be divided are:

(a) Utilities

(b) Agriculture-based entities

(c) Commercial Companies (Group 1), and

(d) Commercial Companies (Group 2).

The details of the composition of each of the four groups and their Supervisory Councils are set out in a schedule to this presentation. That schedule also contains a statement of the main goals of the reform, a listing of the functions and powers of a Supervisory Council, the functions of the Secretariat, and an itemisation of the typical elements of a Performance Contract.

Cde. Speaker, since these changes to which I have referred are fundamental ones, I believe it will be useful for me to highlight some of the main implications of the restructuring. These may be conveniently listed as follows:

(i) Guystac in its present form will have to be re-organised and its functions modified.

(ii) In order to fulfil its role of servicing Supervisory Councils the Guystac Secretariat will have to be strengthened, in terms of skilled personnel, in terms of the authority which it exercises for garnering information from Corporations, analysing corporate investment programmes, and auditing corporate technical and financial performance.

(iii) Each Supervisory Council is to be established under the Chairmanship of a Deputy Prime Minister. Once established, it will be necessary to assess the need for the existing Board of Directors associated with each Corporation. If it is decided that the Corporation still needs to have such a Board of Directors, then the Supervisory Council which will be responsible for overseeing its functioning must approve the membership of the Board.

(iv) The Supervisory Council will present, amplify, and explain the general sectoral policy of the Government to the Corporations which it supervises. Approval of such sectoral policies will continue to be the responsibility of the Cabinet. Individual Ministers will continue to have the responsibility for bringing such matters to Cabinet for final decision-making.

(v) Any pricing structure approved by a Supervisory Council must be within the context of and in accord with the pricing policy adumbrated by the Government.

It should be stressed that these arrangements are not intended to involve any interference with the day to day operations of the enterprises. The arrangements for implementing these changes are in the course of being put in place. As with all systemic changes we expect to face transitional problems and are prepared to deal with them. More important, however, is the key role which has been assigned to the Secretariat. From this body there will emanate, advice on important matters such as mergers, closures, and joint ventures involving individual Corporations.

Already, a decision has been made on the matter of financial transfers to individual Corporations. These transfers, including equity contributions, will be considered in the context of the long-term viability of the particular Corporation. Accordingly, transfers will only be committed to those Corporations which have technically adequate and acceptable medium/long-term plans aimed at eliminating or reducing to acceptable levels, over a reasonable time, the need for further transfers. A target date of 31 March, 1985 has been set for receipt of such plans.

2. RICE INDUSTRY RESTRUCTURING:

As members of this Assembly are aware, Cde. Speaker, the passage last month of the Rice (Regulation of Manufacturing and Marketing) Bill 1984 authorises the establishment of a new institutional framework for the activities of the rice industry. In my 1984 budget speech I outlined in detail the salient features of and rationale for the restructuring: The stage has therefore been set for the industry to exhibit a dynamic vibrance befitting an industry so central to our National Development Thrust. More specifically the industry is being geared to widen its export market coverage, to deepen its export market penetration, and to ensure that the proceeds of rice and rice-product exports accrue to the benefit of the producers and to the national economy as a whole.

The three new corporate entities, viz., the Guyana Rice Milling and Marketing Authority;; the Guyana Rice Export Board; and the National Padi and Rice Grading Centre will belong to the group of Agricultural entities which are under the Supervisory Council chaired by the Comrade Prime Minister.

The main steps to be taken next are to establish the accounting, market information, quality control, and domestic distribution systems which the legislation and its attendant rationale require. This will be one of our major tasks in relation to this industry during 1985.

3. BAUXITE INDUSTRY RESTRUCTURING:

Comrade Speaker, we have spent the last four years subjecting the bauxite industry to most careful scrutiny. It has taken this length of time because the importance, the size and the sophisticated nature of the industry and its markets demanded careful analysis. Indeed, inputs for the analysis were drawn from a variety of sources - local and foreign, transnational, multilateral, business, private and parastatal. Comrade Speaker, the quality of the recommendations reflect the great breadth and depth of the analysis.

The analysis was undertaken: to determine a medium term resuscitation programme for the industry; to decide on the nature of the technical, managerial, financial and marketing support required for the execution of that programme; to identify the entities which we should contract to render that assistance; and to conclude the terms and conditions to be associated with the provision of assistance by the relevant entities.

Comrade Speaker, almost all of these tasks have been completed or are nearing completion. The physical resuscitation programme (1985-89) is detailed enough to allow estimation of the financial resources required. This resuscitation would require the expenditure of US$91mn. over 5 years. It is envisaged that the industry will be restored to sustained profitability by 1989. The precise level, timing and nature of Central Government financial assistance to the industry are to be determined shortly.

We are in the process of concluding contractual arrangements with a major transnational corporation, for the purchase of certain necessary technical and other support services. I wish to emphasise that these arrangements will in no way limit national ownership and control of the industry. Furthermore, there will be no inhibitions to marketing and other associations which we might wish to pursue with various countries and enterprises as part of our developmental initiatives.

We are reasonably sanguine about the prospects of receiving financial resources from institutions related to the EEC and from the World Bank. We are also arranging inflows of financial and material resources through co-operation agreements with friendly countries. In this context we have had extensive discussions on the rehabilitation and commercial operation of the alumina plant.

The Central Government is committed to the objective of progressively relieving the industry of the weight of social services which it currently carries. Indeed, provision has been made for a 60/40 sharing, between the Central Government and/or the Region on the one hand and the industry on the other, of the costs of providing medical facilities in 1985.

As far as foreign exchange is concerned, the industry will continue to be allowed to operate the system established since 1971. This system allows the industry to have first call on those receipts to satisfy its needs. However, appropriate allowance will have to be made for the national cash flow problem and the need for closer monitoring of, and accountability by, the industry for the goods and services to which such funds have been allocated.

4. CAPITAL PROJECTS - CRITERIA FOR EXECUTION: Comrade Speaker, in my introductory remarks on structural changes I was at pains to highlight the knife-edge balance between expenditures and revenues which needs to be achieved by appropriate financial policy. I now wish to look more pointedly at a major area of expenditure - that associated with capital projects.

There exists a tendency to undertake all projects which appear to hold out the possibility of being beneficial. Regional administrations, ministries, and Corporations all succumb to this temptation. However, not only are there real constraints on the success of this approach, such as the availability of domestic and foreign resources, including skills, but there is also the need to consider which mix of capital projects best serves the national development and national welfare priorities.

This quality and quantity constraint commends the utilisation of a decision-making system for choosing projects. Only through the application of such a system can we attempt to ensure that the public sector deficit to which I have repeatedly alluded is brought, and held, within manageable bounds.

Comrade Speaker, we have devised such a system and I now wish to apprise this Assembly of its main elements.

The first step is that of identifying those projects which are 'critical'. By this we mean those projects whose non-implementation will give rise to intolerable results. Some Sea Defence works and Sewerage projects fall in this category. These are the projects which will have first call on the available, domestically generated resources.

The second step is that of jointly applying the following criteria to all other proposed projects. These criteria will enable us to derive rank scores and assign priorities to projects. The criteria have been formulated with the national development priorities, the national welfare priorities, and the circumstances of the nation's financial liquidity, in mind. They may be stated as follows:

(i) Will contribute to increased utilisation of existing productive capacity.

(ii) Will contribute to import replacement.

(iii) Will contribute to increased exports.

(iv) Will require the national economy to provide the minimum of foreign exchange.

(v) Will contribute to the maintenance of existing assets.

(vi) Will lead to the breaking of important bottlenecks to production.

(vii) Is in an advanced stage of execution.

(viii) Will require a relatively low overall level of expenditure.

(ix) Will provide critical linkages with other productive activities.

(x) · Is eminently related to national development priorities.

(xi) Will provide a high return on investment.

(xii) Will provide a quick return during the year in a net cash inflow sense.

For each project, each of the above twelve criteria is applied, and on each criterion a score of 1, 2, 3, 4, 5, 6, 7, 8, 9, or 10 is awarded. The score 10 represents a high preferred ranking while a score of 1 represents a low capability and a low ranking. The individual scores are then aggregated with criteria (i) through (iv) being given a weighting of 2, criterion (xii) being given a weighting of 3, and the rest of criteria being given equal weightings of 1, to derive a final appraised score.

Comrade Speaker, I have dealt with this matter in some detail because of its importance in the budget methodology. It has helped us to decide which capital projects to implement. There have been over 250 project proposals from Regions, Ministries, and Corporations. To facilitate discussion of this aspect of the 1985 budget proposals we have prepared a special supplement to the Estimates as presented. This supplement contains information on the projects which we are proposing for implementation during 1985. However, a more comprehensive document is being printed, and this will contain, in addition, those projects which have not been chosen. In this manner, they can represent the main projects in the 'pipeline' which can be considered for funding as additional domestic resources become available.

As a final word on this matter, Comrade Speaker, I wish to re-focus on the availability of domestic resources. This is the main effective constraint on the execution of our proposed financial policy. This constraint, taken together with the criteria we have devised, will ensure a proper response to what I have characterised as the Nation's Immediate Key Task. The net result of all this is that some on-going projects will have to be abandoned, attenuated, or re-phased. A revised portfolio of capital projects, more appropriate to our circumstances, has to be managed.

5. FURTHER DEVELOPMENT OF REGIONALISM:

Earlier in this presentation, I had occasion, Comrade Speaker, to refer to the task, still incomplete, of reconfiguring ministries and re-allocating people to the Regions, which we set ourselves in 1984. I now wish to highlight, a little more pointedly, the nature of and the rationale for the structural change which we need to effect in relation to the deepening of regionalism.

Comrade Speaker, the simple, compelling facts are that the resources on whose development the economic well-being of the country depends are distributed over the ten administrative Regions, and neither the detailed planning for the development of those resources, nor the monitoring of plan implementation can be effectively undertaken exclusively from Georgetown. The nation's financial state demands the efficient execution of projects and, prompt decision-making - particularly with respect to agricultural production. It also requires meticulous accountability for funds expended. None of these can be effectively achieved through long range involvement. A greater degree of on the spot guidance, on the spot decision-making, on the spot monitoring of activities are thus of paramount importance.

Our existing administrative structures are not up to the tasks required. In these structures inhere alienation of the centre from the region, of the head from the body.

So we must begin with those ministries and institutions which are the main users of funds and which hold a crucial role in decision-making. These institutions must be reconfigured to have effective representation and influence closer to the point of execution. A significant proportion of the employees of these institutions should be based in the Regions. They should guide and support the efforts of the regional administrations. The agencies in question include the State Planning Commission, and the Ministries of Works, Education, Health, and Agriculture.

These reconfigurations have to be completed and implemented during the first quarter of this year. Without this, the public sector deficit will be exacerbated by the continued existence of a bloated, ineffectual, centralised bureaucracy, and an under-manned, inadequately supervised regional administration. Without it there can be little value for money.

6. MANAGEMENT OF THE DEBT BURDEN:

I should like to revisit the debt issue. Let me start with a review of the internal debt.

Up to 1981 Guyana's internal debt was quite manageable. Net domestic borrowing was around 3.5 per cent of GDP in 1970, 25.1 per cent in 1980, 14.6 per cent in 1981. In 1982 it jumped to 31.6 per cent. Naturally, interest payments increased in sympathy with this borrowing.

In 1981 the domestic debt increased by G$150mn., a level quite in keeping with prudent financial management. Because of the extensive inflows under the Trinidad and Tobago Oil Facility and to a lesser extent the IMF Trust Fund all the borrowing was not borne by the domestic banking system. Thus, indebtedness to the banking system only increased by G$80mn. in that year. Since 1981, borrowing by the State has increased because public sector savings have been negative. Heavy losses by Guysuco and Guymine have had to be covered by equity contributions from the Central Government. As a result, indebtedness of the Government increased by G$968.5mn. and G$1045.1mn. in 1982 and 1983 respectively. The interest burden of servicing that debt rose by an additional G$120mn. annually.

Close scrutiny of the debt indicates that the overwhelming proportion of it is short-term debt. In the past when we have spent more than we collected in revenues the difference has been made up by borrowing. It was normal to borrow on the basis of medium and long-term securities for financing developmental works. In the recent past, however, short-term borrowing has been looming large in the portfolio of the State. So short-term cash flow needs, long-term developmental needs and basic imbalances were all met primarily by borrowing short-term. Such borrowing is, not surprisingly, more expensive than longer term borrowing. Thus, between 1970 and 1984 outstanding short-term securities moved from 34 to 77.9 per cent of our total internal debt. In essence, we are borrowing short for what appears to be a long-term need.

We ought to tackle this problem urgently. While it is true, as the American financier Andrew Mellon remarked in 1933, 'that a nation is not in danger of financial disaster because it owes itself money', it is nevertheless true that perceptive management of the liquidity impact of that indebtedness is vitally important. It has implications for the viability of the Treasury, the distribution of income and the rate of inflation.

In 1983 we made a first attempt to address the matter. That year's budget speech contained an undertaking to make a special provision by which holders of Government securities could choose to reinvest their principal and interest payments in two-year securities at attractive interest rates. These two-year securities were to be available only to investors who had first invested in the other Government securities and only amounts accruing as principal or interest could be so invested. For various reasons, it was not until July last year that the General Local Loan (Amendment) Bill was laid before Parliament.

Essentially, the Bill was the first step towards the reduction of the burden of the interest payments borne by the Government in the short-term. It involved facilitating the voluntary rescheduling of financial securities. In a nutshell, provision was made for the issue of fixed-date debentures in lieu of interest and principal repayments if the holder of the security so wished. Secondly, Treasury Bills could also be rescheduled by their conversion into fixed-dated debentures, i.e., converted from 3 to 24 months. Unfortunately, as a result of the tardy implementation of the legislation, we have not been able to benefit to the extent originally envisaged.

We now need to go further in the matter of the restructuring of the maturities of the internal debt. A complete spectrum of maturities needs to be made available - short, medium, and long term. By deliberate acts of financial management, involving differential interest rate determination and ceilings on borrowing levels of particularly the shorter maturities, we could plan for and adjust the annual liquidity burdens of interest and principal repayments. Thus a combination of market forces and administrative action will allow the achievement of manageable annual repayment streams. This system adjustment will be effected this year.

On the external debt front Guyana had some US$1.23bn. of debt outstanding at the beginning of 1984. The structure of this debt is far more manageable than that of the internal debt. Roughly 62 per cent of the external debt constitutes medium and long-term debt. Since 1980 long and medium term debt have increased by a mere 19 per cent. Of the medium and long-term debt the largest single element consists of bilateral loans. Bilateral loans account for 37 per cent of medium and long-term debts and 23 per cent of all external debt. The other significant element in the external debt is multilateral loans which amount to roughly 30 per cent of medium and long-term debts. Thus some 41 per cent of all the external debt has been contracted on concessionary terms. Loans from financial institutions account for some 8 per cent of the external debt while nationalisation payments are about 4 per cent. It may be said quite confidently, particularly when one bears in mind the purposes for which these debts were contracted, that in normal circumstances their structure would not constitute a problem. The significance of short-term debts has grown in recent times. In 1980 they constituted some 25 per cent of the total debt but by end 1983 they accounted for some 38 per cent having more than doubled over the period largely through the growth of commercial arrears.

With respect to our external debt, we are truly labouring under the burdens of the debt trap. However, our approach to this problem will be informed by unwavering adherence to the principle that we <u>must</u> and <u>shall</u> repay all our debts. In this regard, debt repayment shall continue to be a top priority, subject in terms of timing only to the availability of funds and the ensuring that payments are not made when such payments will destroy our very ability to continue to repay.

Given those fundamental principles which will inform our actions, Comrade Speaker, I wish to highlight for this Assembly the main approaches which we have been taking and will continue to take in relation to repayment of our external debt.

First, we have to pursue mutually agreed rescheduling. The most recent example of this has been the agreement which we concluded last month with Alcan in relation to compensation for the nationalisation of Demba. The main ingredients of that agreement were as follows: (i) an extension by 5 years of the original 20-year term of the agreement; (ii) a preservation of the original favourable interest rate (6% p.a. with continued application of the 25% withholding tax); (iii) an enshrining of provisions for retirement of the debt through a linkage with new contractual deliveries of product. That model, Comrade Speaker, with its characteristi of rescheduling and countertrade is one which we are prepared to apply with any of our creditors.

Second, with particular but not exclusive reference to our Caricom colleagues, we are devising a model for debt servicing which contains a development thrust component. Basically, the model rests on the establishment of joint venture arrangements whereby a production entity located in Guyana is linked to a finance and marketing entity located in the territory to which Guyana is indebted. The latter entity would provide inputs for the operation of the production entity which in turn delivers all its products to the finance and marketing entity. The Government of Guyana then pays the production entity in Guyana dollars. The value of the product, net of the value of the imported inputs provided, goes towards the reduction of Guyana's indebtedness to the creditor. In turn, the finance and marketing entity would be free to sell the product domestically or to re-export it. Such re-export would enhance the balance of payments position of the creditor.

In essence, this model allies the natural resources and underutilised production capabilities of Guyana with the credit-worthiness of the relevant territory. Additionally, the model allows joint venture partnership by individuals or firms who are not nationals of either Guyana or the relevant territory thus offering the possibility of export penetration into non-Caricom countries.

This model, Comrade Speaker, is one which we are seeking to apply both within and outside of Caricom. It contains no barriers to the involvement of private sector entities. During 1985 these two approaches will constitute the main initiatives which we will employ to deal with our external debt. We shall of course continue the standard approach of seeking to improve export earnings.

7. DIVERSIFICATION OF TRADE:

Comrade Speaker, the comments made on capital projects and those I just made with respect to managing the external debt burden, lead easily into the structural changes which I wish to emphasise in relation to our trading activities.

The need to rapidly and significantly increase the economy's export earnings can be met by increasing the volume of our traditional export products. It can also be satisfied by diversifying the composition of our exports - hence our emphasis on exports of non-traditional products. Both of these initiatives can be enhanced by the search for geographically new markets.

On another front, our task is to bring the Public Sector deficit under control with minimal sacrifice of the capital programme which is necessary to sustain our development thrust. Financial imbalance jeopardizes current and future growth but financial balance is not to be sought at the expense of growth. We can see no merit in the stability of stagnation.

Since any worthwhile capital programme requires both local and foreign financial resources, it would be necessary to find a route which allows investment with minimal widening of the Public

Sector deficit. Clearly, the easiest solution is to become the recipient of grants. However, one does not live in an altruistic world: and both conservatism and recession militate against the likelihood of largesse.

The solution lies in marrying our needs with those of friendly nations. This implies the forging of mutually beneficial trading relations with those nations - a move which may run counter to our historical predispositions and traditions. These trading relations should be characterised by inflows of equipment, technology, and inputs for production, and buyback or outflow of product by way of repayment. The time lag between the two flows represents credit which goes primarily towards the financing of our capital programme without the deleterious effect of widening our deficit.

Comrade Speaker, the co-operation agreements which we have forged and are forging at the highest political levels with Brazil, Bulgaria, China, Cuba, the D.P.R.K., the G.D.R., Romania, the U.S.S.R., and Yugoslavia, all have the characteristics which I have just outlined. During 1985 we will attempt to make maximal use of these restructured trading arrangements.

8. PRICES, SUBSIDIES, AND INCOME ADJUSTMENTS:

Comrade Speaker, the implementation of an appropriate financial policy aimed at dealing with the Immediate Key Task is impossible without a forthright approach to the questions of prices, subsidies, and income adjustments.

No matter how well intentioned we are in humanitarian terms, neither our economic objectives nor our humanitarian concerns will be well served by a futile attempt to administratively set prices, subsidies, and income at 'comfortable' levels. We have already had experience of this reality. Again and again we have witnessed attempts to hold prices too far below their free market levels in an attempt to assist the poorer sections of the population. In the final analysis neither the producers of the commodities, the poorer people, nor the Government derived the benefits desired. Instead, operators on the parallel market availed themselves of the commodities with alacrity. Many fortunes were made by illegal trading and domestic prices were pushed to unnecessarily high levels.

We have therefore addressed this problem and have resolved to apply the following principles. First, the price mechanism is to be used to help determine the desirable allocation of resources. This does not mean allowing the unfettered play of the free market. It means ensuring, through the use of a judicious mix of administrative measures and market mechanisms, that our pricing policies do not produce aberrant effects in terms of expenditure patterns, in terms of rewards to producers, and in terms of the allocation of resources.

In practical terms this means that we will allow prices to rise in cases where we wish to discourage consumption, to change consumption patterns, or to raise the efficiency of utilisation. Thus, for instance, we will use prices to induce change in the pattern of consumption of fuels, and to stimulate the production of local alternatives. We will also use prices to facilitate a redistribution of income away from trading activities and towards production activities.

These approaches will immediately raise the question of our treatment of subsidies. We plan to abolish all ineffectual subsidies. A subsidy can be regarded as ineffectual if the consumers for whose benefit it is intended, are not receiving that benefit or if its application is encouraging inefficient, excessive or irresponsible use of a good or service, particularly imported goods or services.

Under such a regime of prices and subsidies, Comrade Speaker, there will be severe pressures to raise money incomes. Such pressures have to be resisted without losing sight of the need to alleviate real hardships or to correct anomalies in income distribution. Clearly, some hardships and/or anomalies can detract from the enthusiasm of productive effort.

The devices for dealing with this difficult aspect will be at least two-fold. First, we will establish a standing committee, which will have to include significant trade union representation, whose mandate will be to keep the levels and distribution of income under continual review. On the basis of these reviews appropriate adjustments will be made from time to time. The other device will be that of institutionalising further, agricultural production on an individual plot basis or in group participative arrangements. Such institutionalisation would include various forms such as assistance with access to land, marketing, and technical support.

It is our conviction, Comrade Speaker, that astute application of these devices can actually increase incomes if workers exploit the opportunity opened to them. In that way both real income and non-traditional agricultural production can be increased.

9. FULL APPLICATION OF BASKET OF CURRENCIES:

On 11 January, 1984, Comrade Speaker, we introduced the mechanism of a currency basket for monitoring the value of the Guyana dollar. We continue to declare its conversion rate for exchange rate purposes in terms of the US dollar. As we explained then, the need to use the US dollar as our intervention currency did not involve automatic linking of the behaviour of the two currencies. The factors which determine the strength of the US dollar vis-a-vis other internationally traded currencies are not the ones which are relevant to the determination of the appropriate value of the Guyana dollar.

Initially, we chose a Guyana dollar value of G$15 for the basket. We then monitored this value as it fluctuated for the given Guyana dollar/US dollar exchange rate set on 11 January, 1984 at G$3.75 = US$1. Our view then was that we would establish a symmetric band about the G$15 value and adjust the declared G$/US$ rate only if the basket value moved outside that band. The band width chosen was 10% of the G$15 target level.

However, as the year progressed, a number of circumstances peculiar to the U.S. economy and its relationship to other major developed world economies, led to the progressive strengthening of the US Dollar against all other major internationally traded currencies. With the Guyana dollar sitting in a fixed relationship to the US dollar it strengthened pari passu with the US dollar. Accordingly, major export earners such as sugar, significant proportions of whose export earnings accrued in pounds sterling, found their Guyana dollar proceeds from exports dwindling alarmingly. The Guyana dollar value of the basket was not fluctuating about the target level of G$15. Instead it was progressively moving downwards, and the concept of fluctuation within a band was therefore clearly inappropriate.

This effective appreciation of the Guyana dollar was not justified by our economic performance. Accordingly, on 6 October, 1984 we fully applied the basket mechanism to help inform our derivation of the appropriate G$/US$ relationship. This regime of exchange rate determination on a weekly basis is one which we propose to maintain during 1985. Concomitant adjustments to the Guyana dollar prices of various commodities will be made from time to time in accord with our declared policies on prices and subsidies.

10. THE BANKING SECTOR:

1984 has turned out to be quite an eventful year for the banking sector. Normally, the most exciting events in this staid arena are confined to the Western financial markets. However, in 1984 we found technological and institutional changes in the field of international banking impacting on local developments.

The communications revolution which allows satellite communication, electronic transfers and banks without tellers has reduced the attractiveness of branch banking. Legislative changes in North America have opened up the banking business to non-banks. There has been a frenzied search to find safer havens and defensive investment closer to home. The so-called over-exposure of many Trans National (TNC) banks to 'high risk' borrowers has also prompted a search to unearth ways and means of protecting balance sheets from bad debts and defaults.

You would be aware, Comrade Speaker, that on 30th November last the Royal Bank of Canada (RBC) banking operations were transferred to a locally-incorporated entity. The decision by Royal Bank to terminate its local operations was not engineered by the Government of Guyana. One of the hazards of courting or allowing extensive TNC investment is coping with the aftermath when they move in response to their own perceptions of global profitability. It is not for us to wonder why but to sit back and enjoy - so runs the ditty. However, since that is not a particularly fruitful exercise we have sought to make the best of the opportunity afforded by RBC's decision.

In this context the tables have turned full circle. One hundred and fifty years ago the first locally-owned private bank was established. The Royal Bank of Canada bought out that enterprise in 1904 following deepening recession in the local sugar industry associated with the depression in the United Kingdom. Within a few days we hope to set up a major commercial bank, one completely locally owned by shareholders drawn from all sectors of the Guyanese economy.

Doubtless, Comrade Speaker, you would like to hear a few words on the terms under which the entity was acquired. Guyanese still seem bemused by the fact that a large TNC such as the RBC could close its operations and hand over a going concern for G$1.00. Let me offer a few comments on this 'generosity'. We have always had good relations with the RBC and its management. As far as TNCs go it has been a good corporate citizen. The local enterprise appears to have been RBC's most profitable operation in this part of the world. Why then did they not seek more recompense for the assets they left behind? Basically, Comrade Speaker, they needed, for accounting reasons, to have the earnings which are blocked in the external payments deposit scheme through Guyana's shortage of foreign exchange, converted into a de facto loan. Better still if such a loan is to be regarded as the liability of the Government rather than the Bank of Guyana. It obviously makes good business sense to be generous. RBC left behind G$8mn. of assets in exchange for a commitment from us to pay G$30mn. over 10 years. Their alternative was to have written off the G$30mn. as bad debt.

Comrade Speaker, it is often forgotten that the commercial banks now operating in Guyana garner the savings of Guyanese, relend these to Guyanese, earn profits in Guyana in the process and repatriate these earnings.

However, the nationalisation of such entities is not an economic imperative as long as the Central Bank is able to exercise effective control of their credit policies. Furthermore, in a situation where foreign exchange is short TNC banks may actually support development by bringing in convertible currency. In the absence of the latter facility a country has the duty to run all of its own banking business thereby saving itself the headache of blocked earnings; particularly since these are not the fruit of inflows of financial resources or skills.

In relation to the new entity, the National Bank of Industry and Commerce (NBIC), our main task in 1985 will be to facilitate the smooth transition of ownership and to provide conditions conducive to local support of both a large bank and a large share of banking business. It is interesting to note, Comrade Speaker, that the existing banking legislation does not even countenance the establishment of an entity of this kind. Special legislation has to be passed to effect this change.

One piece of legislation that also needs to be enacted will ensure that all foreign banks bring in capital to back their operations in Guyana. WE INTEND TO REQUIRE EXISTING AND NEW FOREIGN BANKS TO BRING IN SUCH CAPITAL. The growth of a bank should bear a reasonable relationship to its capital and reserves. Most importantly the law will be amended to ensure that the ability of foreign banks to incur deposit liabilities is no better than that of local banks.

During the course of 1985, Comrade Speaker, we intend in addition to conduct a comprehensive review of what in essence is outdated banking legislation, with a view to revising it to make it relevant and functional.

F. 1984 REVIEW:

Nearly a year ago, Comrade Speaker, on 30 January 1984 I described the prognoses for the Guyana economy as 'daunting', although the extant circumstances presented a good opportunity to restructure the economy.

You may recall the circumstances in question deteriorating terms of trade, rising interest rates, restricted access to credit, burgeoning commercial arrears, and extensive underutilized capacity.

At the same time the OECD countries and the agencies they control were demanding structural adjustment by the LDCs of their economies. These very countries have resolutely failed to follow their own prescriptions. The current state of the International Monetary System (IMS) and world trade is testimony to this failure. However, they have also declined to address seriously the question of reforming these regimes, both of which were adversely affected by the domestic policies of the very OECD countries.

There was in addition a concerted move on the part of the latter countries to de-emphasize multilateral loans in preference to bilateral disbursements with political conditionality. Execution of important capital projects was being thwarted by powerful nations which offered non-economic objections to financial flows to the LDCs. Political power was overriding the economic rectitude of project analyses in multilateral agencies, not withstanding the fact that their charters enjoined them to eschew political considerations and to apply only economic criteria in their decision-making processes.

On the domestic scene our major public corporations were generating significant losses, and had to be underwritten by subventions from the Central Government. At Budget time we were still in the process of working out solutions for the revitalisation of the public enterprises. Pressures for wage increases were building up at the very time when the public sector deficit could least withstand aggravation. The official economy was under pressure from the parallel economy. In short the economy was in crisis.

In all these circumstances, 'daunting' was an appropriate assessment. In the face of these economic challenges we faced the year courageously. What was the outcome?

Comrade Speaker, I now wish to present the main aspects of our performance in 1984. As usual this account must perforce rely on preliminary estimates. The picture is nevertheless relatively clear.

As a general observation it could be said that in production terms we did less well than planned. In value and export terms this was also the case. This outcome may well have been attributable to over-optimistic targets in the face of problematic circumstances. There were, however, notable exceptions to this general picture. Prominent among these were calcined and abrasive bauxite, alumina cement grade bauxite, alcohol, gold and rice exports all of which performed as planned or better. In some other cases the value of production and total sales also approached the amounts reflected in the 1984 Budget. Comparison with 1983, however, gives a better feel for the progress the economy manifested in the course of 1984.

I begin with the main activities. The bauxite industry improved its production and sales performance over 1983 in all major products other than metal grade; and in that case the inhibiting factor was demand.

Calcined bauxite production increased by about 64 per cent; Abrasive grade production rose approximately 111 per cent; Chemical grade production increased by about 59 per cent; Alumina cement grade production rose by about 25 per cent; but Metal grade production decreased by approximately 3 per cent. You are no doubt aware that the alumina plant has not been operational since 1982. In export value terms the movements were as follows: Calcined + 55 per cent, Abrasive Grade + 70 per cent, Chemical Grade + 30 per cent, Alumina Cement Grade + 50 per cent, Metal Grade - 15 per cent.

In keeping with this performance, and in the face of worsening export prices in US$ terms in some cases, total sales receipts in Guyana dollars exceeded 1983 levels by about 73 per cent. As a result, the industry was in a position to reduce its losses by approximately G$40mn. - a reduction of more than a fifth of the 1983 loss level of G$172mn.

Obviously the industry was helped by some factors outside its control. These factors were increased demand for refractory grade bauxite and the effect of devaluation on its sales receipts. None of this should however detract from our appreciation of the sterling efforts which the workers, management and non-management in the industry have made.

The sugar industry experienced mixed fortunes. After an encouraging first crop slightly in excess of 105,000 tons, prolonged rain throughout most of the second crop severely affected operations. As a result total production for 1984 fell short of the original estimates of 284,000 tons by some 42,000 tons or approximately 15 per cent.

In terms of sugar's export performance, two phenomena need to be noted. First, as in the case of bauxite, the depreciation of the Guyana dollar relative to the US dollar enhanced the Guyana dollar value of their export proceeds. Second, however, the price of sugar on the 'free' market remained in the doldrums. By the end of the year, prices were, in the words of one commentator, "the lowest in nominal terms for the past 14 years and probably the lowest in this century in real terms". To some extent the industry's earnings were stabilized by the E.E.C. and the US markets where prices were about three times better than prevailing world prices.

The net result of all these circumstances was that the industry earned G$277mn., some G$65mn., or about 30 per cent higher than the 1983 level. It should be stressed that a relatively small proportion of sugar's inputs comes from abroad so that its role as a net earner of foreign exchange is a crucial one. Indeed, sugar was the nation's main net foreign exchange earner during 1984. It is in this context that the value of sugar's 1984 performance should be assessed and deemed praiseworthy.

In terms of the industry's revenues from domestic sales of sugar, the local price increase granted at the beginning of 1984 contributed significantly to a G$12mn. increase in local sales revenues relative to 1983.

The necessity for Guysuco to use its expertise in large scale agriculture and in agricultural research for diversification of its production programme has long been recognised. During 1984, aquaculture has been further developed yielding about 17,000 lbs. of fish; Palm Oil production increased during the year to about 18,000 gallons from the 1983 level of 15,000 gallons; and the area under rice cultivation has been increased to 1,800 acres.

In overall financial terms, the industry made a loss of about G$110mn. during 1984 as compared with G$119.7mn. in 1983, an improvement of about 8 per cent.

For the rice sub-sector the available data show that 1984 production exceeded the 1983 levels by about 32,400 tons, an increase of some 22 per cent. The value of exports during 1984 was approximately G$82mn., about 26 per cent higher than that of 1983.

In terms of production of other traditional products the picture is fairly well-represented by the following observations. Preliminary figures indicate that production of fish, which was targeted to increase by about 8 per cent to 55mn. pounds in fact increased by some 22 per cent above the 1983 level to reach about 62mn. pounds. On the other hand, recorded shrimp production declined by 29 per cent. The main problem with the statistics on shrimp has to do with the well known activity of illegal and unrecorded sales. However, if one treats fish and shrimp together the average increase in the volume of production is about 17 per cent over the 1983 level.

Timber production, which appears to have continued to suffer from an inadequate volume of spare parts and equipment, recorded a 10 per cent reduction in production despite buoyant domestic and foreign demand. Shingles, however, recorded an increase of some 63 per cent in production over the 1983 level.

Declared gold production in 1984, as measured by inflows to the Gold Board, improved by about 107 per cent over the 1983 level to reach approximately 11,130 ozs. In value terms purchases by the Board increased by approximately G$15mn. or about 169 per cent.

It appears, Comrade Speaker, that despite the continuing difficulties an increase in the precentage utilisation of installed production capacity took place in 1984.

There is, however, an occurrence which still needs further research. This concerns the scheme for retention of foreign exchange. In October 1983, fourteen entities were granted approval to operate foreign currency retention accounts. This experiment was undertaken in response to private sector complaints about the need to queue at the Central Bank for foreign exchange. The scheme was intended to allow firms to be masters of their own earnings. During 1984, however, only 7 of the 14 approved entities utilised the facility. The total amount involved was about US$1mn. Some of the entities who had successfully lobbied for retentions in excess of 20 per cent of their earnings did not utilise the facility at all! More specifically, in the experiment we had deliberately favoured entities in the timber producing sector. Yet only two undertook transactions of any significance.

With respect to the production of 'non-traditional' crops, estimated output is still not informed by an adequate statistical base and information system for accurately estimating production levels. We are in the process of establishing such a system. However, indications are that there has been a significant increase over the 1983 levels. The main areas of this increase have been plantains, ground provisions, fruits including citrus, pineapples, bananas, legumes, and green vegetables. Although the prices of some of these commodities have fallen in the main urban markets it remains the case that this increased production has been a response to higher demand and higher prices.

In 1985 we need to tackle resolutely the problem of improved productivity in agriculture if the twin objectives of lower consumer prices and reasonable farm incomes are to be achieved. Since our costs of production of these commodities remain well below those of our Caricom neighbours this strategy can also be bolstered through vibrant domestic and export marketing drives for the products and their derivatives.

Let us turn to the performance of the Central Government, Comrade Speaker. Current revenue is estimated to have risen by about 6 per cent over the 1983 level of G$566mn. to G$600mn. in 1984. The main areas of increase were Income Tax collections which rose by about 12 per cent or G$23mn.; taxes on production and consumption which rose by G$26mn. or about 14.5 per cent; and travel tax which increased by G$8mn. or about 19 per cent. The main decreases which were recorded were in import duties (G$4mn., approximately 14 per cent); Bank of Guyana profits (G$16mn., about 42 per cent); and dividends from non-financial enterprises (G$7mn., or 78 per cent).

The Central Government's expenditure on employment costs rose by G$56mn. or 23 per cent to the level of about G$295mn. Of this increase about G$45mn., represented an average 18 per cent increase in wages and salaries and employment overhead expenses associated with the revision of wages and salaries undertaken last December and made retroactive to 1 January, 1984.

Overall current expenditure, including public debt of G$522mn. in 1983 (Interest charges of G$426mn and Principal repayment of G$96mn) rose to G$1.269mn. in 1984 (including public debt of G$699mn - Interest charges of G$556mn., and Principal repayment of G$143mn.). This was an increase of about one third over the 1983 level.

The capital expenditure of the Central Government, not taking account of G$378mn. capital transfers from Government to Corporations and equity contributions, stood in 1984 at G$229mn. as compared with G$185mn. in 1983.

Thus the Central Government generated a deficit of G$1082mn. in 1984 as compared with one of G$563mn. in 1983.

The preliminary results for the Public Corporations taken as a whole indicates that they generated an operating deficit of G$161mn. in 1984 as compared with the 1983 operating deficit of G$86mn. G$35mn. of this deficit was attributable to the cost of the December wage adjustments. More important, however, it contains approximately G$73mn. which represents the losses incurred by the Corporations as a result of exchange rate adjustment. To the extent that these losses are accrued rather than cash losses, the greatest care has to be exercised in comparing the operating deficits of 1983 and 1984. Their 1984 capital expenditure level was G$81mn. as compared with G$67mn. in 1983.

When all this is put together Comrade Speaker, it appears that the national economy generated in 1984 exports of G$914mn., and imports of G$1348mn. giving rise to a current account deficit of G$434mn., an improvement of G$39mn. over the 1983 performance. Comrade Speaker, not withstanding all the difficulties including that of access to financial resources, Guyana's Gross Domestic Product grew by 2 per cent in real terms, making 1984 the first year of positive real growth since 1980.

Comrade Speaker, this welcome turn of events should not blind us to the need to address persistent underlying financial imbalances. The financial reflection of this performance was that our Net Foreign Assets deteriorated by G$630mn., while net banking system borrowing by the Central Government increased by G$772mn., and by the other Public Sector declined by G$128mn. Net external borrowing by the Central Government and the Public Corporations stood at G$70mn. for the year.

Comrade Speaker, despite the unsatisfactory nature of the financial results, the production performance of the major sectors and the vibrance of the 'non-traditional' agricultural sectors must be seen as evidence of progress and a source of great hope. These achievements were after all made in the face of great adversity.

Our plans for 1985 are geared to build on these performances, but before I turn to those, Comrade Speaker, I feel compelled to spend some time on a matter that is in need of urgent clarification. I refer, Comrade Speaker, to our relationship with the International Monetary Fund.

G. RELATIONS WITH THE INTERNATIONAL MONETARY FUND:

Comrade Speaker, a great deal has been said about our failure to negotiate a new Fund agreement. I wish to clarify the main issues involved and to indicate where matters currently stand.

During November 1983, a Guyana team held detailed discussions in Washington with the staff of the Fund. The team concluded that visit with discussions at the top management level of the institution. Those discussions left open the avenue for further talks.

Early in 1984, after hearing many of the northern members of the IBRD expound piously and at great length on the need for discipline and 'sensible' economic policies, I was moved to remind them of Voltaire's aphorism - that their analysis of Guyana's plight is 'fable convenu', fable agreed upon. It is important, Comrade Speaker, for all concerned to truly understand the nature of the Guyana situation, rather than attempt to fit it into a preconceived mould.

Somewhat more than a year ago, Comrade Speaker, the management of the Fund apprised the IBRD of their conclusion that Guyana needed some US$150 - 200mn. of concessionary flows to restore external balances and enable the economy to get on its feet. A fundamental part of the supporting analysis was that Guyana is suffering from a chronic under-utilisation of installed productive capacity. In timber and rice, for instance, we were unable to satisfy export market demand because of a shortage of spares and other imported inputs.

At the time this analysis was proffered it was realised that sources of this magnitude of inflows could not have been identified. Indeed, only US$95mn. appeared possible from multilateral institutions. The Fund itself, constrained by its lending rules related to the size of Guyana's quota, could offer net inflows of no more than US$32mn.

A key characteristic of the Fund's standard proposal is the contraction of imports. Usually, this contraction falls on consumer imports. However, in Guyana's case, consumer imports were already so low that even if completely abolished they could not effect the reduction required. Accordingly the contraction required would have to impact significantly on imported inputs for production. Thus, the size of the financial assistance which appeared possible could not compensate for the reduction of imports required by the Fund's proposed programme.

Furthermore, since Guyana's capacity to repay any amounts borrowed had to come from increased production and exports, and since these increases themselves required imported inputs which were already scarce, we were faced with an internally inconsistent set of proposals.

Switching the discussions to the need for structural changes to correct the fundamental weaknesses of the Guyana economy does not resolve this inconsistency. In any event, our own analyses confirmed the need for structural changes. We have been actively implementing such changes, as I have indicated at length earlier in this budget presentation. Arguments about the pace or depth of such changes are equally diversionary since they do not deal with the fundamental inconsistently of the Fund's proposals.

This glaring inconsistency persisted, and its persistence has had predictable results viz our growing incapacity to service debt as payments become due, given that the debt servicing is to be by the conventional rules of cash payment. The consequent accumulation of arrears has included accumulation of arrears to the Fund. Thus, since May 1983 Guyana has fallen in arrears with respect to its repayments to the IMF.

Despite the fact that sugar receipts became virtually the sole source of available net 'hard' currency receipts by the economy, we made strenuous efforts to correct this arrears situation during 1984. Indeed, between June and December 1984 we disbursed 63 per cent of our total foreign exchange earnings on debt servicing - 28 per cent going to the Fund. In spite of these efforts, by the end of 1984 we were still in arrears to the Fund by about SDR 14.75mn., even though we had reduced the rate of increase of indebtedness.

It should be noted that in a sense this attempt was counter-productive since we at times had to deny requests for foreign exchange required in a timely manner by productive enterprises in both the private and the public sectors. Nevertheless, on balance we deemed it correct to make the effort since: (i) it is our debt and we are obligated to pay; and (ii) the rules of the Fund make us ineligible to draw on its ordinary resources, and unable to formally negotiate a programme while we are in arrears.

In May of 1984, the Fund team had indicated that were we somehow to find the resources to pay off the arrears and to remain current, thereby allowing the restart of formal negotiations towards a programme, it was not likely that a programme could be concluded before September 1984. We were therefore advised that it would be prudent for us to assume that financial resources from the Fund would not be available in the near future. This remains the case.

Comrade Speaker, in 1982 total imports were reduced by about 40 per cent in value and resulted in many closures and part-closures of enterprises. Imports of consumer goods fell by over 100 percent between 1981 and 1983.

Of the US$77.5mn. which we expect to earn in available net 'hard' currency receipts during 1985 we have offered to pay US$25mn. or about one-third to the Fund, our largest creditor, for whom we will have US$31.7mn. falling due. This tactic will leave an amount of US$9mn. of debt to be repaid to the Fund in 1986.

One may well question the advisability of this offer, since it implies that the sugar and rice industries are together due to receive less than a fifth of what we propose paying to the Fund; and sugar is the prime generator of the receipts. Nevertheless, we have made the offer.

It is our understanding, Comrade Speaker, that despite these efforts in these circumstances, the Board of the Fund is scheduled to meet in February of this year - a time when no sugar receipts will be in train - to consider declaring Guyana ineligible and giving publicity to Guyana's case, on the basis that Guyana's efforts at payment are inadequate.

Comrade Speaker, I am reminded of the sentiments expressed in 1899 by Paulus Kruger, the Boer Leader under rather trying circumstances. He is alleged to have said: "They have asked for my trousers, and I have given them; for my coat, I have given that also; now they want my life, and that I cannot give."

H. 1985 PROJECTIONS:

Comrade Speaker, as a prelude to my discussion of the structural changes which we are effecting, I listed ten types of initiatives which should inform our actions in executing the immediate key task. In summary these were:

(i) A reorganisation for better labour productivity in the Public Sector to ensure that we get value for the employment costs to which we are committed.

(ii) Further regionalisation of central ministries and other institutions.

(iii) The application of appropriate pricing, exchange rate, and subsidy policies.

(iv) The raising of the levels of Central Government revenues through appropriate measures including insistence on compliance.

(v) A reorganisation of Public Corporations to improve surplus generation.

(vi) The increasing of levels of savings by Corporations and individuals.

(vii) The choice of an appropriate capital programme.

(viii) The adjustment of maturities of internal debt, and the rescheduling and otherwise discharging of obligations related to external debt.

(ix) The increased utilisation of installed productive capacity, partly by diversifying external trade.

(x) The implementation of arrangements with friendly countries to support our current earnings and develop our capital base for future growth.

During 1984 we undertook activities along these lines and the 1985 programme represents a continuation of these efforts.

However, Comrade Speaker, before outlining the main details of that programme I need to highlight some uncertainties, most of them jeopardies, which attend our efforts.

First, there is the question of the level of our export receipts, as measured in both the purchasing power in foreign currency and the value in Guyana dollars. Our main net 'hard' currency export earner is sugar. For price optimisation reasons the bulk of sugar is sold into the E.E.C. However, the Pound Sterling has been falling in value drastically, particularly against the US dollar. Indeed it has recently hit historic lows and grave uncertainties surround its future movement. There therefore exists a jeopardy surrounding the value of our main export receipts, and an uncertainty as to what defensive tactics we may have to employ in relation to our own Guyana dollar exchange rate.

Additionally, the sugar industry's physical ability to produce is dependent on its timely acquisition of spares and equipment and its implementing some key aspects of the capital programme. A significant proportion of the proposed foreign financing of that programme appears to be on the brink of being jeopardised. Here I refer to the Industrial Rehabilitation Loan from the IDB. We are concerned that an objection to the loan being approved may be mounted on the basis that too much of the money is being allocated to sugar, and too little to the private sector. This objection refers to an industry which is the main hard currency earner and which has been starved of funds for capital investment since we have had to commit an inordinately large proportion to debt service, as I have earlier explained.

Secondly, with respect to bauxite, we are not yet completely free of the obstacles raised to the proposal of EEC type assistance by one of their members. That member is seeking to link EEC assistance to bauxite to Guyana's conclusion of a programme with the Fund. We have irrefutable evidence that this unenlightened attitude arises from the misinformation which their local representatives have provided; and it is interesting to note that despite that country's objection to provision of the loan it is vigorously lobbying to be suppliers of equipment and materials if the loans were approved.

Thirdly, as an oil-importing country, we have to be concerned about developments in the area of oil prices. The prognoses are quite unclear. Additionally, in the Caribbean, significant rearrangements are taking place in relation to refining capacity in terms of both quantum and geographical location. These events can have significant impacts on the fortunes of the bauxite industry; apart from the linkage effects on a number of international variables, such as freight charges, fertiliser prices, and prices of other imported inputs for production.

This sample of uncertainties, Comrade Speaker, with their major possible implications for the underpinnings of our plans for export receipts, for our exchange rate policy, and for the levels of foreign inflows available to finance parts of our desired current and capital programmes, points to the necessity for us to gear ourselves to monitor keenly and then review the 1985 programme. This tactic appears to us eminently desirable, especially when we take into account the fact that the various local reorganisations which we propose will imply changes, hopefully improvements, in our output to current expenditure ratios. Such changes may nevertheless require us to shift emphases in our programme. In all the circumstances, we have resolved to undertake a mid-year review of the 1985 programme here proposed. To facilitate this review we will immediately establish an 'office of the budget' under the responsibility of the Minister of Finance.

The 1985 programme envisages Central Government current expenditure at the level of G$1,034mn.

Of this total, G$259mn. is for wages and salaries; about an 8.5 per cent increase over the 1984 level which had already benefitted from the wage rate increase implemented last December. Accordingly, total employment costs will rise to G$319mn. from their 1984 level of G$295mn.; an increase of about 8.5 per cent. Total other charges will rise by about 21 per cent to G$334mn., reflecting mainly increases in contributions to international organisations (we had underpaid in 1984) and in expenses specific to agencies.

With the planned rephasing of the maturities of the internal debt, into the medium and longer end of the spectrum, the expenditures on the public debt will amount to G$381mn., some 54 per cent of the 1984 level of G$699mn.

The net result is a reduction of overall Central Government current expenditures by about G$235mn. or 18.5 per cent from its 1984 level of G$1,269 mn. These variables are the ones to which our efforts will be directed to ensure that we get value for money. With particular reference to the regionalisation effort, we will have state papers prepared during the first quarter on Agriculture, Education, Health, Technology, Information and Energy, in which there will be a clear redefinition of the roles and functioning of the central agencies vis-a-vis the Regions. These papers will form the basis for the further regionalisation of the main centralised institutions.

During 1985, it is envisaged that the Public Corporations, taken as a whole, will convert their operating 1984 deficit of G$88mn. (discounting the G$73mn. loss due to devaluation) into a surplus of G$38mn. This improvement is based primarily on improvements of G$39 mn. and about G$6mn. respectively in the deficits of the bauxite and sugar industries; and improvements of G$71mn. in the deficits/surpluses of Telecoms (G$24mn.), GPC (G$13mn.), GNEC (G$10mn.), GLC including Sapil (G$8mn.) and NIS (G$16mn.).

It is anticipated that the contribution in taxes and dividends to the Central Government by the Public Corporations will be G$46mn., about the same level as in 1984.

In terms of the revenues of the Central Government, we expect a total realisation of G$642mn. or about 7 per cent more than the 1984 performance of G$600mn. The main increases will come from increases in Income Tax collections (about G$11mn., based primarily on improved efficiencies of collection), from Import and Export duties (about G$4mn.), G$16mn. from other taxes (primarily purchase taxes for motor cars, vehicle licences, and other taxes and duties described later), and from other Current Revenue (about G$12mn., some G$8mn. of which is the increase in Bank of Guyana profits).

The regime of new imposts which we will be implementing comprises mainly:

1. Annual licence fees for T.V. receiving sets (G$200 per annum per set).

2. Annual licence fees for T.V. transmitter systems (G$40,000 per annum per system).

3. Annual licence fees for T.V. 'Dish' receiver systems i.e., where reception is entirely for personal use (G$250 per annum per system).

4. A monthly 'sticker' system for taxi operators (G$100 per month per vehicle), and

5. An ad valorem export tax on shrimp exports (10 per cent).

These imposts are expected to contribute approximately G$13mn. to the overall Current Revenue of the Central Government.

It should be noted that the established tax regimen yields less than it should, primarily as a result of incompleteness of compliance. Not only does non-compliance lead to undercollection; it also results in such equity as inheres in the rate structure not being translated into a fair sharing of the burden of taxation among the various socio-economic groups in the society. During 1985 we will redouble our efforts towards collecting the legitimate revenues of the State.

Comrade Speaker, Article 18 of our Constitution declares that land is for social use and must go to the tiller and our development priorities indicate clearly the pre-eminence of agriculture. We therefore have to review the systems of fees for rental of state lands and for collection of rates and taxes. We also <u>must</u> put an end to the practice of individuals leasing large blocks of land at nominal prices from the State and in turn renting portions of that very land at exorbitant prices.

The right to proper housing accommodation, which is enshrined in Article 26 of our Constitution, implies the need for appropriate revenue and expenditure flows in relation to housing. During 1985, this priority will be addressed in the following manner. Those persons with houses on state lands, and those renting flats/houses in Government schemes will be afforded the opportunity to acquire the land and housing respectively at reasonable prices. Proceeds from the sale of these assets will be used to finance, via a revolving fund, additional mortgages for house-building.

Comrade Speaker, I have already stated that we should be aiming for stabilization with growth. The theme of this budget is 'developing within our resources'; a theme in keeping with our analysis of the economy. A major factor in the matrix of influences on economic growth is of course the investment programme which reflects net capital formation. A high proportion of current growth levels is the product of investment in preceding years. Thus, many of the projects coming on stream in 1985 are the result of initiatives undertaken in the past including 1984. Witness for example, the Guyana Glassworks Limited factory, and the Vanceram ceramics plant. The need to identify and implement projects that address the concerns outlined in the last Budget Speech was uppermost in our minds when we identified some of these projects or took steps to have them completed.

Comrade Speaker, the 1985 capital programme mirrors the priorities which were set out earlier. I should like to give a brief summary of the projects using the following classification:

(i) Increasing capacity utilization.
(ii) Increasing self-sufficiency in food.
(iii) Maintenance of important capital assets, and
(iv) Non-fossil fuel power generation.

The companion document to the Estimates as presented, sets out the priorities in broader terms and the projects I will mention can be found therein.

In pursuit of increased capacity utilization we have concluded a number of agreements for the supply of equipment intended either to remove bottlenecks bedevilling major industries or to supply inputs for production. Both multilateral and bilateral credit lines have been, or are in the process of being concluded with this object in mind. Some of the lines are of the revolving fund type and are intended for hard currency exporters. In spite of the fact that less than ten per cent of export earnings is attributable to the private sector, special arrangements will be made for private sector participation. As mentioned earlier we have detected some undercurrents, clearly ill-informed, about the 'fairness' of proposed allocations. We are prepared to use our ingenuity to help the private sector to increase exports via these lines. As a quid pro quo our entrepreneurs need to ensure that these programmes do not suffer the same fate as the IBRD's Export Development Fund. In that instance the 'hard' currency available to private exporters was used to facilitate 'soft' currency exports, thereby bringing the revolution of the fund to a premature and sudden halt.

Criticisms of proposals to enhance development seem never to be constrained by fact. The proposed allocation I have alluded to falls into this category. The private sector has a part to play here in setting the record straight because these particular chickens have an uncomfortable habit of coming home to roost.

In addition to these general credit lines I have mentioned, there will be other specific programmes: For example, the Yugoslavs will help to rehabilitate the Georgetown milk plant, there is a joint fisheries project with China aimed both at increasing our catch from the deep sea fishery and at raising the throughput of Guyana Fisheries' processing plant at McDoom. There is also to be assistance from China which will contribute to a greater utilization of the Textile Mill and a diversification of its output.

Increasing self-sufficiency in food and expanding agricultural exports will be tackled by a variety of capital projects. In addition to those projects already mentioned should be added a stockfeed plant to be operated by the GPC and financed by the GDR. Projects for broiler and tabacco production will be put in place with the assistance of Cuba and will also involve the Private Sector.

The allocations to the Black Bush Polder roads and its drainage and irrigation system, the T & H.D. vessels, and the Upper Demerara Forestry Road Project are aimed at maintaining the physical well-being of the nation's main capital assets. Timehri International Airport is to be similarly upgraded with the aid of a grant from CIDA, to be disbursed over 5 years.

Finally, there are a few critical projects aimed at tackling the power/energy needs of Guyana. In 1984 we spent roughly G$400mn. on fuel in spite of the recent falls in crude oil prices. For nearly a decade we have sought assistance, in vain, from multilateral sources to deal with this problem. This says a great deal about the factors that influence loan approvals of such agencies; for Guyana in addition to having one of the highest unutilised per caput hydro power capabilities in the world also has the project with the lowest estimated mill rate for any (potential) new hydro project.

In 1985, Comrade Speaker, we will with the assistance of the DPRK go a long way to establishing a major hydro-electric scheme aimed at facilitating development of a vibrant hinterland industrial community. We hope to follow this with a major project at Tumatumari with the assistance of Bulgaria. We hope also to attend to the needs of G.E.C. during the course of 1985. The main element of this Corporation's programme will be diesel generators financed with a Japanese grant.

These programmes will lead to the Public Sector having capital expenditure of about G$750mn. The overall Public Sector deficit which will result from this wide variety of activities on the current and the capital side is expected to be G$990mn. The financing of that deficit will be contributed to by G$430mn. from inflows of foreign funds. These will come in the form of credits, loans and grants from multilateral and bilateral arrangements, including counter-trade. Accordingly, the overall deficit to be financed from domestic borrowing will be G$560mn. in 1985, some 65 per cent of the comparable 1984 figure of G$860mn.

Savings through the banking system are expected to be of the order of G$325mn., these resources being supplemented by some G$20mn. as a result of the introduction of a special system for contribution to retirement incomes.

The system to which I refer recommends itself on both economic and ideological grounds. On economic grounds it has the advantage of contributing to savings. The ideological argument is obvious once the rationale for the system is given.

We have been concerned for some time about the fact that, outside the activities of the Central Government, there exist many employees for whom pension benefits remain a matter for the gratuitous consideration of their employers. Accordingly, we have a system in which an individual could work for decades with an employer and find himself with no pension benefits on retirement. In 1983 we introduced the system of Personal Investment Accounts, and included in the trio of schemes, one, the Personal Retirement Account (PRA), which provides for individuals and their employers to make contributions to the individuals' retirement incomes. Though some employers have pension schemes, almost none have schemes which concern themselves with the long-run effect of inflation on the likely proceeds to the individual from those schemes. In the case of the Central Government, administrative mechanisms including dialogue with the TUC, represent a safeguard which could lead to adjustment at appropriate intervals. For other employers, however, a more structured mechanism needs to be put in place to ensure such a corrective effect.

Accordingly, during 1985 the Central Government will introduce legislation which requires every employer to make contributions to the account of each person it employs, in the form of a PRA contribution. The level of contribution will be 6 per cent of the employee's wage. These contributions, in keeping with the already published and publicised rules of the PRA, will be expenses which the employer can treat as tax deductible, and on which the employee will not be taxed.

The main results which we expect in terms of the traditional economic aggregates not already mentioned are as follows:

We expect exports in 1985 to be at the level of G$1,170mn. The main contributors to this aggregate will be: bauxite - G$505mn; sugar - G$287mn; rice - G$105mn.

Imports in 1985 are expected to be around G$1,850mn, with no significant change in composition in favour of consumer imports. The accent will continue to be on inputs for production.

G.D.P. at Current Factor Cost should achieve the level of G$1,600mn. as compared with G$1,410mn. in 1984, representing another year of real growth of an order slightly in excess of 2 per cent.

The impact on the Net Foreign Assets should be that of a deterioration of G$340mn., a 46 per cent improvement on the 1984 rate of deterioration of G$630mn.

I. CONCLUSION:

Comrade Speaker, I am well aware that I have made a longer than usual presentation. I am equally aware that the bulk of that presentation has been spent ventilating issues and principles. However, these particular issues and principles lie at the very heart of our development problems.

It is not so much that we have an economy in crisis and we simply need to find a way out. The problem is much more fundamental. It is the problem of how to develop; develop, that is, primarily along our own path, towards our own self-determined ends, and through the use of our own resources - mental, physical, and financial. We are striving to secure hard-won gains and to lay the foundation for future gains. We are therefore faced with the difficult tasks of conceptualisation and efficient implementation. The difficulty of the task is compounded by ignorance and hostility. The diagnosis of Guyana's case that some foreign commentators are fond of making brings to mind Galbraith's aphorism: "It is a far, far better thing to have a firm anchor in nonsense than to put out on the troubled seas of thought". Comrade Speaker, each day we are made aware of the disruptive influences of the hostile and arrogant forces of the world in which we live. Forces hostile to the very notion of independent development. How dare we deviate from their dictates and prescriptions for us.

Comrade Speaker, at the beginning of my presentation I referred to the stage of maturity which we, as a nation, have reached. I also outlined the salient features of our problems and prescribed explicit strategies for dealing with them. But more than that Comrade Speaker, I demonstrated that tenacious pursuit of the strategies has already started to bear fruit, and that our economy has shown a toughness and resilience that even our detractors are forced to acknowledge. In the face of predictions of impending economic collapse and the disintegration of our society we were able to tackle successfully many of the difficulties which faced our economy. The resurgence of the Bauxite Industry, the rapid and substantial increase in food production, all attest to the enthusiasm exuded by our working people, and the unflagging dynamism of the development process in our country. All honour to our workers and farmers! The task which now faces us is to consolidate and expand those gains through, as the Comrade Leader has repeatedly explained, and as has been enshrined in our Constitution, sustained and disciplined work calculated to achieve the higher attainable levels of production and productivity.

Ours has been a strenuous and unremitting search over the past 20 years for a way out of the morass of the under-development and poverty of the past into the green pastures of a well-organised, prosperous and viable modern state.

The ultimate goal of our development is, by the overwhelming consensus of our people, the establishment of a democratic, socialist society in which all our people can enjoy as a right, by reason of their citizenship and of their work, conditions of life that are rewarding, productive and humane. As we strive to develop our country and create the kind of society that is compatible with our national aspirations, we will have to face the inevitable intensification of threats and diverse manoeuvres calculated to destabilise our country, and thwart our collective effort.

Bold initiatives are demanded in such circumstances and, with due regard to the vital distinction between boldness and recklessness, we opt for boldness. As we deepen the process of change in our society we will not be able to create new conditions by employing old mechanisms. Let no one expect of us, and we do not propose to attempt, this impossible feat. If we are to be successful in pursuing these initiatives we require collective will, joint endeavour and a common purpose. Let us then with confidence in our Comrades, faith in our ability, critical pride in our achievements, recommit ourselves to the task of building our country. No stranger can do it for us. Indeed, none will so attempt for as long as we steadfastly refuse to ever compromise or surrender our sovereignty.

The old Romans recognised this fact as exemplified in one of their favourite aphorisms: "Aut inveniam Viam aut faciam" - I shall either find a way or make one. Let there be no doubt that under the guiding influence of the People's National Congress and armed with this resolution ultimately, victory shall surely be ours.

GUYSTAC RESTRUCTURING:

MAIN GOALS OF PROPOSED REFORM

The main goals of the proposed reform are the following:

(a) Allocating more efficiently the limited managerial and technical resources available to Guyana. This means that qualified managers and professionals should be given executive authority and responsibility rather than positions of bureaucratic oversight over other managers.

(b) Ensuring that senior Government officials are not bogged down with the task of day-to-day supervision of public enterprises. This will allow senior officials to concentrate on the more appropriate tasks of macro-economic planning and sectoral policies.

(c) Simplifying and unifying the mechanisms of supervision and control over public enterprises in order to avoid overlapping of different and sometimes conflicting sources of orientation, authority and control.

(d) Clearly separating managerial functions from policy orientation and from the control/appraisal function.

(e) Giving managers of public corporations more autonomy and independence in operational decisions, subject to well-defined sectoral policies and social constraints defined by the Government.

(f) As a quid pro quo for more autonomy, managers will be held responsible and accountable for the performance of their companies, with goals and performance targets being agreed at the outset.

FUNCTIONS AND POWERS OF A SUPERVISORY COUNCIL

A Supervisory Council will be the principal organ through which the Central Government safeguards its interest as a shareholder and ensures a corporation's conformity with the general orientation of the Government's policy, and planning. Accordingly, onc Government policy has been decided by Cabinet, the Supervisory Council will present, and explain, the general sectoral and other policies of the Government to the Corporations which it supervises. Thus, the Supervisory Council cannot make Policy decisions as an independent body, but must act in conformity with the decisions of Cabinet and its Advisory Organ

In furtherance of this abovementioned role, a Supervisory Council will undertake functions and exercise associated powers as follows:

1. The Supervisory Council appoints the Executive Chairman or the single Managing

Director and has the power to remove him. It determines his compensation.

2. If there is to be a Board of Directors for the Corporation, the Supervisory Council confirms the appointments of the members of the Board.
3. The Supervisory Council, having liaised with the Minister of Finance and the State Planning Commission, and having subsequently obtained the approval of Cabinet, approves the extension or change in the activity of the corporation, the formation of new subsidiaries, and any changes in the corporation's capital structure.
4. Through the medium of the Performance Contract, the Supervisory Council formally approves the amount and general orientation, of the investment budget, the main thrusts of the annual operating budget, and any associated medium term plans of the Corporations. It is to be understood that such formal approval is to be given only after the Supervisory Council, through the Secretariat, has liasied with the National Budget Committee.
5. A Corporation must secure the approval of the Supervisory Council to approach foreign creditors, consultants, or potential partners. The Supervisory Council must formally approve the terms of any subsequent

agreement, such approval being given only after the Supervisory Council has liaised and received agreement from the relevant institutions which must always include the Ministry of Finance and the State Planning Commission.

6. The Supervisory Council, having liaised with the Ministry of Finance and the State Planning Commission, shall establish in the Performance Contracts, borrowing limits for each Corporation. Borrowing in excess of limits set up in the Performance Contract will need the approval of the Supervisory Council, and such approval shall not be given without the concurrence of the Ministry of Finance and the State Planning Commission.

7. The Supervisory Council shall set broad guidelines for the pricing structure of a Corporation. Guidelines approved by the Supervisory Council must be in accord with the pricing policy adumbrated by the Central Government, and it shall be the responsibility of the Supervisory Council to monitor the Corporation's prices in order to ensure conformity with the guidelines.

8. A Corporation will have the power to hire and fire employees and to determine their salaries in accord with the Central Government's general personnel and wages policies. The Supervisory Council shall be responsible

for ensuring that these policies are respected.

9. The Supervisory Council shall ensure that dividends are paid by a Corporation, in accord with the principles set out by the Minister of Finance.

10. The Supervisory Council shall conclude with each of its Corporations, a Performance Contract. The Performance Contract will define the relationship between the Central Government and the Corporation as well as the main parameters of the enterprise's activity over a defined period, say a calendar year. The Contract will deal, inter alia, with financial objectives subject to agreed pricing, resources allocation, and investment policies..

11. It shall be the responsibility of the Supervisory Council to monitor the performance of each Corporation in relation to its Performance Contract, and to require the management of the Corporation to take corrective measures as necessary.

12. The Supervisory Council shall have the responsibility for establishing a regime of periodic meetings for the express purpose of monitoring the performance of its Corporations.

13. A Supervisory Council shall have the authority to require the Secretariat which

serves it to carry out any investigation of the activities of any of its Corporations, and to apprise the Council of its findings.

14. Notwithstanding all the above, in cases where a Minister has responsibility for a sector on which the activities of a Corporation impinge, that Minister can summon the Executive Officer of the Corporation for discussions on the specific policy issues; but all directives to the Executive Officer would come only from the Chairman of the Supervisory Council responsible for the Corporation.

FUNCTIONS OF THE SECRETARIAT

The Secretariat will be a formal, full-time organisation established around the core staff of the existing Guystac Secretariat. It will assist the Supervisory Councils in the translation of general policies into corporate objectives, targets, and standard practices, and will advise the Councils on technical and financial matters pertaining to the Corporations. In performing these tasks it will liaise closely with the Ministry of Finance, the Central Bank, and the State Planning Commission. It will be necessary to build up within the Secretariat a strong inspectorate body of technicians who will be able to undertake performance audits of the operations of the Corporations, and to do keen analyses of their major on-going and proposed investment projects.

In accord with the above, the functions of the Secretariat may be itemised as follows:

(1) Preparing the Performance Contracts for each Corporation. In doing this they must liaise closely with the Corporations and with the regulatory institutions mentioned in (8).

(2) Requesting, and analysing, periodic reports from Corporations as standard inputs to meetings of the Supervisory Councils.

(3) Making all physical and other arrangements for meetings of the Supervisory Councils.

(4) Advising the Supervisory Councils on technical and financial matters related to the Corporations. This advice is to be based on analyses of corporate investment programs, and on audits of corporate technical and financial performances.

(5) Drawing to the attention of the various Supervisory Councils matters which require their prompt attention. These matters will usually be the result of financial and management audits carried out by the Secretariat on individual Corporations, and in relation to which the Secretariat provides the Councils with early warning signals.

(6) Assisting Corporations, as necessary in matters related to the fulfilment of their Performance Contracts.

(7) Participating in an advisory capacity, as they deem necessary, in discussions between Corporations and foreign creditors or potential joint-venture partners.

(8) Liaising, on its own behalf, on behalf of the Corporations, and on behalf of the Supervisory Council, with various regulatory institutions with specific reference to the Ministry of Finance, the Central Bank, and the State Planning Commission, to facilitate the functioning of the Corporations and the Supervisory Councils.

TYPICAL ELEMENTS OF A PERFORMANCE CONTRACT

A Performance Contract will typically include the following elements:

(1) A preamble indicating the general purpose of the Performance Contract, naming the contracting parties, and establishing the duration of the contract.

(2) The main social, economic, and operational objectives.

(3) Objectives and plans regarding improvements in the management of the Corporation.

(4) Financial objectives.

(5) Productivity and Cost Efficiency indicators by which the performance of the Corporation is to be assessed.

(6) The main elements of the operating plan and budget for the contract period.

(7) The general orientation, main projects, and overall level of the investment program for the contract period.

(8) The public service obligations which the Central Government requires the Corporation to fulfil, and the compensation which the Corporation will receive for so doing.

(9) The main elements and objectives of the Corporation's pricing policy.

(10) The main elements of personnel and wages policies.

(11) The rules and procedures to be followed in the reporting and reviewing of the Corporation's progress, as well as the practices to be used in revising targets and objectives.