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BRITISH GUIANA

Report on the Financial Position

by

K. C. JACOBS, Esq., C.B.E.

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British Guiana

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BY

K. C. JACOBS, ESQ., C.B.E.

BARBADOS,

12th August, 1963.

SIR,

I have the honour to submit this report as required in accordance with my short-term appointment to undertake a financial inspection in British Guiana with the following terms of reference:

- (a) To investigate the present state of the finances of the Government of British Guiana and the causes of the present difficulties
- (b) To assess the outlook for 1964 and 1965
- (c) To examine the finances of such Statutory Boards or authorities as he may deem necessary for the purpose of (a) and (b)
- (d) To report to the Secretary of State.

Preliminary report by Mr. D. J. Kirkness

2. Before my arrival in British Guiana on the 4th July, Mr. D. J. Kirkness had made, in conjunction with Mr. W. P. D'Andrade, a preliminary assessment of the financial position at the end of 1962 and the variations expected in it through 1963. In his report Mr. Kirkness referred to the difficulties in the way of making his assessment on account both of the incompleteness of books of account (due to the strike) and of uncertainty about how trade would be affected by the strike, which had not been settled by the time of his departure on the 6th July. Because of this he stressed that the table setting out his assessment should be regarded as subject to a wide margin of error which might be as much as \$2 m. and that the figure in it for the overdraft at the 31st December, 1963, was the "best guess" that could be offered. The strike ended very soon after his departure and as his figures were calculated on the assumption that settlement would not long be delayed the most significant of the premises on which his estimates were based holds. During my stay in the country progress has been made in writing up books (though they are not up to date) and I have had the advantage of discussions with Permanent Secretaries, senior officials and several gentlemen not in the Government service who are in positions that bring them into close contact with the economic, financial and commercial affairs of the country. Nevertheless, the over-riding uncertainty about the economy remains and my assessment of revenue prospects is made with great reserve.

THE RIGHT HONOURABLE
DUNCAN SANDYS, M.P.

Previous estimate of the deficit in 1963 substantially confirmed

3. The investigations that I have made confirm that the estimates of ordinary and development revenue and expenditure in the table attached to Mr. Kirkness's report are within the margin of error referred to in the last paragraph. Within this margin I think that his figures may err on the side of under-estimating the year's deficit, but the difference between our estimates is not wide enough and my grounds for differing are not strong enough to justify me in supplying yet another set of figures which would undoubtedly stand in need of subsequent correction and be more confusing than helpful. I suggest therefore that his estimates of the deficit and balance on development account should still stand good, but the estimated deficit of \$3.5 m. should be regarded as a minimum figure open to a margin of error upwards only.

Post Office Savings Bank

4. Deposits and withdrawals at the Bank from the end of the strike until the end of July were \$513,000 and \$1,040,000 respectively; nearly \$100,000 of the withdrawals was in respect of business at District Offices during the strike. The excess of withdrawals in July is not as much as it was feared that it might be and, as deposits were substantial, the indication is that the amount of withdrawals is due more to a need for money than to a "rush" on the Bank. As Mr. Kirkness had assumed that such withdrawals could be met by a special overdraft on the Joint Colonial Fund, which would avoid the loss that would be incurred if the depreciated gilt-edge securities held by the Bank as cover for the deposits were realised at current prices, no amendment to the estimated ordinary overdraft is required as a result of this improvement from the position anticipated.

Gimpex Loan

5. Recently the Government has borrowed \$1.7 m. from Gimpex. This loan is to be repaid in January, 1964, at the latest and repayment might be required in October 1963. For the purposes of this report it is best treated as repayable before the end of the year as it is a firm commitment. No amendment to the estimated overdraft at 31st December has therefore been made but estimated overdrafts in the interim have of course to be reduced.

Emergency Supplies

6. The transactions in respect of emergency purchases and sales of fuel oil, flour, condensed milk etc. are being investigated by the Director of Audit. He is finding some difficulty as the accounts, like others, are in arrears and to confirm that all transactions are included in them it is necessary for him to obtain from Customs records, also in arrears owing to the strike, a list of imports made by the marketing organisation. The total amount of imports was about \$1.5 m. and it is said that no further orders are to be made. It is expected to dispose of the bulk of the supplies, except diesel oil, by the end of August. Issues have not been made on credit except to Government Departments, District Commissioners and a few reputable firms. Prices of commodities were fixed in relation to the selling prices of similar commodities before the strike and it is expected that over the transactions as a whole a small surplus may be made, although this will not be sufficient to cover the cost of requisitioning equipment which is a matter for negotiation (or arbitration) and may involve

up to \$100,000. The Director of Marketing hopes to prepare a statement of account, which the Director of Audit will examine and report on, by the end of August.

Outcome of 1962 and overdraft at the end of July

7. The accounts for 1962, which though not formally closed can be taken as firm, show the following changes in the balances which appear in the table attached to Mr. Kirkness's report:

Recurrent Budget	...	...	—\$2.5 m. instead of—\$3.5 m.
Development Budget	...	...	—\$1.7 m. instead of nil
Below the line	...	...	—\$0.2 m. instead of—\$1.0 m.
Working Cash	...	...	\$1.8 m. instead of \$1.7 m.

The overdraft at the end of July was \$1.5 m. or \$5.9 m. less than the estimate in the table; the loan from Gimpex and delay (owing to negotiations) in paying advances to strikers now estimated at \$0.6 m. instead of \$2.0 m. have improved the position and delay in the issue of Exchequer Loan has worsened it. The balance of the decrease is due to a difference in the incidence of receipts and payments. The decrease does not imply any variation in the estimate of the overdraft at the end of the year, but variations in the estimates of it in intervening months will result. Appendix 1 sets out receipts payments and balances and is a revision, in extended form, of the table attached to Mr. Kirkness's report.

Further amount available to reduce the overdraft if necessary

8. The investments (valued at present at about \$0.4 m.) held on account of the General Revenue Balance are available to reduce the overdraft if necessary. These investments are not earmarked for any trust or special fund and are therefore untied. The investments held are 3 per cent Savings Bonds and it would seem to be sound financially to realise them and bear the loss incurred through their depreciation, which has already been taken into account, so as to utilise the proceeds to reduce overdraft charges at the rate of 7 per cent. As, however, the investments are at times useful as security for advances from the Joint Colonial Fund in London realisation may not be practicable.

Overdraft at the end of 1963

9. The overdraft at the end of the year can be expected to be at least \$4.5 m. or, if the Savings Bonds are realised, \$4.0 m. Of this \$3.1 m. would be attributable to development (see paragraph 24 below) and technically it might be justifiable to make an application for an additional issue, in August or September of this year, of Exchequer Loans (out of the agreed total of \$38.4 m. for the period 1960–64) to recoup past expenditure on development account and reduce the overdraft. Since, however, the funds available for development in 1964 are already low and heavily committed it might not be possible to draw on them in this way.

Future budgetary prospects

10. If the prospects for 1964 were bright and firm or if the estimates of expenditure for 1963 had been on an expansive scale that provided scope for substantial reduction in 1964 the banks might have been asked to let the overdrafts continue into 1964. In favourable circumstances they might have

agreed to such a request. Unless there was a prospect of a budget surplus in 1964, from which an overdraft could be repaid, the carry forward of the overdraft at the end of the year would not however be a sound or proper course even if the banks were to agree. For it would place the Government under the necessity to satisfy the banks about its financial policy and intentions. It is therefore necessary to consider whether there is any likelihood of a surplus of about \$4 m. in 1964 and this involves consideration of the consequence of the strike on revenue prospects.

Consequence of riots and strike

11. The riots of 1962 and the prolonged strike of 1963 have of course had very serious consequences that transcend the financial difficulties that they gave rise to. But had the consequences been only economic and financial they would have been very bad indeed and these difficulties are likely both to be increased by and to increase the underlying causes of unrest. The loss to the year's economic production and the financial loss are not confined to the current year. They are likely to go on as long as unrest engenders lack of confidence. Nor will all the effects be deferred to some time far ahead as is the case when lack of confidence only causes the cutting off of investment from abroad that might have developed natural resources to enrich the country in the future. The consequences will be felt week by week in nearly every part of the country's economy, for while uneasiness continues few people in the country are likely to make their customary contribution to the economy. The effort or the enterprise will not be deemed worthwhile if the conditions to enjoy the fruits are thought not to exist. Crisis caused by some natural calamity may be the spur to greater effort and may set the economy going faster to restore the damage. Crisis caused by continuing conflict and unrest clogs effort and the economy with it.

Government's financial difficulties could weaken confidence

12. A dilemma that is likely to face the Government is that its own financial weakness may preclude it from giving the lead that would help to restore confidence. Curtailment of services and under-staffing of Government departments is discouraging and frustrating; reduction of expenditure below its present level would not be possible without retrenchment affecting the livelihoods of many people and adding to the feeling of insecurity.

Decrease in revenue for 1964 expected

13. In such circumstances it would I think be quite unrealistic and misleading to anticipate any increase in the level of trade in 1964 above that on which the original revenue estimates for the current year were based. This implies that no substantial increases in revenue can be expected at current rates of taxation and other imposts. On the other hand the effects of the strike on commercial and industrial profits will without any doubt at all be reflected in diminished receipts in 1964 from the taxation of companies' profits made in 1963. On this account a fall of about \$3.5 m. in Income Tax receipts must be expected. A reduction of about \$0.5 m. from Net property tax in 1964 will occur because the revenue on this account for 1963 was based on the dues for two years (1962 and 1963); this alone would more than offset any increases that might occur under other heads of revenue. Total revenue at \$3.5 m. less than the original estimate for 1963 seems to be the best that can be anticipated, without variation of rates of duties, taxes and charges.

Rates of duties, taxes and transport charges

14. After the experience of 1962 it must be assumed, I think, that there is little practical possibility of increasing revenue by raising duties or taxes. In the present state of unrest such a course would be more likely to reduce than to increase revenue. I am informed that the Government is contemplating increasing railway and steamer charges by about 25 per cent. on an average. This could be justified by the heavy losses incurred on the services. It would not lead to an increase of 25 per cent in receipts, but if it is a feasible proposition it might increase them by \$600,000 a year. Railway maintenance charges are however rising and maintenance is in arrears; a reduction of \$500,000 on the deficit in Transport Services seems as much as could reasonably be anticipated from this proposal.

Expenditure (other than debt charges) in 1964

15. For some months since before the Estimates of Expenditure for 1963 were framed the basis of financial policy has been to keep expenditure down to the level of revenue. In the determined effort to achieve this services have been cut to the minimum and risks have been taken through deferring maintenance to an extent that would be dangerous if continued for long. There is therefore no prospect of reducing the votes of Ministries; on the other hand some increase must be allowed for the unavoidable upward creep of expenditure that arises from the past expansion of services. With the recent insistence on curtailing expansion this creep should be less than before 1962, but it is unlikely to be less than \$2 m. which was the increase between the revised estimate for 1962 and the original estimate for 1963. I understand that the Ministry of Home Affairs is likely to submit a case for expanding the Police Force and claims for increased expenditure on Fire Prevention are also likely. The Police expansion proposals envisage recurrent expenditure rising from \$279,000 in the first year to \$879,000 in the fifth year and capital expenditure of nearly \$3.5 m. over the five years. No doubt this will be scaled down but equally it would be unreal in the light of recent experiences not to expect some expansion and capital expenditure to be conceded as inevitable. There are passages in the speech from The Throne to the Legislature which indicate that appreciable additions to the Estimates of Expenditure are contemplated and after the University of Guyana is inaugurated recurrent expenditure of up to \$800,000 might be incurred next year. The formation of an army would add further expenditure.

Public Debt

16. The estimate for 1963 for Public Debt includes \$1 m. for repayment of echelon No. 1 of bonds issued under contractor-finance arrangements (see paragraph 27). The next echelon will not be repayable until 1965 and the estimate under this head for 1964 will be reduced by \$1 m. on this account. On the other hand an additional \$620,000 must be found for the equated annuity in respect of Exchequer Loans issued in 1963 as well as \$500,000 for the National Development Savings Levy and \$100,000 for the I.B.R.D. loan. In the absence of measures for repayment of bank overdrafts an increase on the amount included in the revised estimate for 1963 (\$0.2 m. over the original estimate) would have to be allowed for. The most hopeful estimate that can be made for the head is therefore the same as the amount in the revised Estimates for 1963—\$10.4 m.

Summary of probable variations in Estimates for 1963-64

17. To summarise the foregoing paragraphs the following reductions in revenue estimates for 1963 have to be expected and the following increases in the expenditure estimates have to be considered.

Revenue.

Reduction in income tax	\$3·500 m.
Less: possible increase in transport charges	·500
	<hr/>
	\$3·000 m.
	<hr/>

Expenditure.

Annual "creep"	\$2·000 m.
Police—say	\$·250
University of Guyana and other projects (excluding the proposed army)—say	\$·500
	<hr/>
Nett addition to budget	\$5·750 m.
	<hr/>

As the original Revenue and Expenditure estimates for 1963 balanced the effect of these variations would be a deficit of \$5·75 m. in 1964.

Outlook for 1965

18. If there are no further set-backs the loss sustained under Inland Revenue in respect of income tax on company profits would not be incurred again in 1965. With restoration of confidence revenue should resume its former upward march, but any increase that might occur would be needed badly for the rehabilitation of services that have suffered from the severe budgetary cuts that have been made recently and for additional debt charges. The best that can be looked forward to in 1965 seems to be a balanced budget.

General Conclusion

19. No other conclusion is possible than that assistance will be required first to pay off the bank overdrafts at the end of 1963 and secondly to make possible a budget in 1964 which, instead of imposing more cuts which might be disastrous, allowed for the restoration to normal of provisions in the Estimates and the filling of vacancies in the establishment which have been kept unfilled to reduce expenditure, to the detriment of efficiency and in the long run economy. In this connection mention should be made of the shortcomings in the control of Government revenue and expenditure which are set out in the annual reports of the Director of Audit. Largely, these are due to shortages in, and in cases like the Accountant General's Department congestion of, staff and they must have been the cause of substantial financial loss. The orderly and systematic conduct of Government affairs and its services cannot be expected when there is the necessity constantly to count the money in the till or look up the overdraft in the passbook and to alter course according to what is found.

The Causes of the Present Difficulties—Principal and contributory causes

20. In paragraph 11 the economic and financial consequences of the riots of 1962 and the prolonged strike of 1963 were briefly set out. They are of course the primary and over-riding cause of the present difficulties. But, while nothing should be said to obscure the main cause or minimise the seriousness of its consequences, the reasons why a deficit expected to be about \$3.5 m. (about a fortnights' revenue) should have caused an immediate financial crisis require examination.

State of Finances at the end of 1959

21. Looking back it seems clear that the scale of expenditure in the development plan adopted in 1959 and the reliance, in addition to heavy borrowing involving debt charges, on contributions from annual surpluses of revenue over expenditure imposed a strain that might in any event have led to difficulty. Because the need and desire for development were so great surpluses earned in earlier years had unavoidably been spent on it instead of being invested as reserves in external securities. At the time the plan went into operation the Government's General Revenue Balance amounted to only 10 per cent of annual revenue and half of it was tied up in perennial advances and not easily realisable assets. Statutory Boards and Government sponsored corporations were also short of money. The Rice Marketing Board had insufficient funds for working capital, which was required on an increasing scale as turn-over and stocks increased, or for investment in essential additional buildings and equipment in order to handle increasing quantities of rice. The Rice Development Company had been formed on short term borrowing at a high rate of interest which there could be no hope of repaying out of annual earnings within the time prescribed. The Electricity Corporation was dependent on overdrafts from the date it was launched, and British Guiana Airways were dependent on the Government for subsidies and capital expenditure.

Growth of revenue

22. The expected contributions to development from annual surpluses were calculated on the assumptions that revenue would increase at the rate of 6 per cent a year and expenditure at the rate of 4½ per cent. The assumption about revenue has been proved to have been conservative. In 1960 and 1961 revenue substantially exceeded the forecasts in the plan and in spite of the set-back caused by the riots in 1962 the actual revenue for that year surpassed the forecast by \$1 m. These excesses are attributable to a sharp rise of \$5 m. (over 20 per cent) in Customs-revenue between 1959 and 1960 and a rise of \$1.5 m. in Income Tax receipts between 1960 and 1961, which reflected conditions in 1960 when the expansion of customs revenue occurred. Between 1960 and 1961 Customs revenue increased only by 5 per cent and there was no increase in Income Tax earnings after 1961. Though the period covered by these figures is too short for a firm assessment of trends they indicate that the rate of increase in economic activity between 1959 and 1960 was phenomenal and unlikely to have been maintained at the same rate even had there been no riots or strike. The annual rate of increase since 1961 would have been 6 per cent had the estimate for 1963 been realised as, but for the strike, it probably would

have been. The increase since 1961 had been helped, it should be noted, by increased rates of taxation in 1962. These were modifications of steeper increases which had been introduced with the National Development Savings Levy in order to provide more funds for development and which were the immediate cause of the riots.

Growth of Expenditure

23. But the growth of ordinary expenditure was under-estimated. Although strenuous efforts have been made to restrain it and recently cuts in some votes have been made that may prove expensive in the long run its rate of increase has been much more than allowed for in the plan and more than the rate at which revenue has grown. In 1962 ordinary expenditure (excluding public debt charges) exceeded the forecast in the plan by \$7 m. and the expenditure in 1959 by \$13 m. The average annual rate of increase since 1959 had been 11 per cent against $4\frac{1}{2}$ per cent allowed for in the plan and 7 per cent in the average annual rate of revenue increase. Public debt which had nearly doubled had added an annual charge of \$3.9 m. and the salaries revision in 1961-62 \$2 m.

Shortfall in finances for development plan

24. The phenomenal increases under Customs in 1960 and Income Tax in 1961 resulted in surpluses that could have covered the contributions to development contemplated in the plan. The riots and strike spoiled any chance of contributions in 1962 and 1963, but even if revenues had increased after 1961 at the anticipated rate of 6 per cent. the growth of expenditure would have precluded the contributions predicated in the plan. Less has been derived from external sources of aid to development other than from the United Kingdom. Against an expectation of over \$11 m. from these sources up to the end of 1963 only about \$2 m. have been obtained. I think that the high expectations in this respect, which must have been engendered by pronouncements, should be mentioned as contributing to the formulation of a plan for which there were insufficient funds. The only sources of aid to the plan that have completely matched expectations have been grants under the Colonial Development and Welfare Act and Exchequer Loans. The total shortfall in the amount anticipated for development revenue up to the end of 1963 is now expected to be \$12.2 m. Expenditure has been reduced and at \$70.7 m. up to the end of 1963 will be \$16.8 m. less than the estimate in the plan; the effect of the reduction is greater than this because of increased costs. The gap between development revenue and expenditure is being met partly by contractor-finance arrangements and partly by advances from the government banking accounts. In the overdrafts on these accounts at the end of the year it is estimated that \$3.1 m. will be attributable to advances for development.

Total Charge for development on Government Funds

25. The aggregate of charges in respect of the public debt incurred since 1959 add up to \$14 m. (including \$1 m. for contractor finance). This amount together with contributions from revenue of \$5.5 m. and advances of \$3.1 m. make a total of \$22.6 m. which is the estimated charge for development during the years 1960-1963 on Government funds.

Little Government revenue attributable to development schemes

26. There are three things to say about the projects in the plan and the charge on revenue for them. First, even those projects that have economic objectives have yielded virtually no revenue to the Government during the period when the expenditure was being incurred and high debt charges had to be met in respect of it. Development expenditure in the period 1954-1959 has not yet yielded any appreciable additional revenue, other than the revenue derived contemporaneously and indirectly from the spending locally of development money. The Boerasirie project costing over \$15 m. was not successful in its main economic purpose of increasing rice production. Expenditure of \$18 m. on the Black Bush Polder (Blocks I and II) project have so far yielded negligible amounts of revenue to the Government. In Appendix 2 I have attempted very rough calculations of the return that might be expected in revenue to the Government as a result of the capital expenditure on the Black Bush and Tapakuma projects. The calculations are no doubt not very accurate and probably err on the side of under-estimating the full cost and concomitant social services, especially as they omit the cost of expensive preliminary investigations. But admitting this, the margin between the rate of interest and loan repayments necessitated by such schemes on the one hand and the return in revenue to Government on the other is so much as to make it appear extremely questionable whether these schemes, even if assisted by large Colonial Development and Welfare Act grants, can safely be financed from loans that call for almost immediate debt charges at 8 per cent. They are more open to question in view of the fact that these projects have to be undertaken under contract by expatriate firms using heavy equipment, which means that a considerable part of the expenditure is on imported equipment and materials and external overhead charges and that the Government is committed, once contracts are made, to heavy expenditure and borrowing for a number of years regardless of how its financial fortunes may change.

Contractor Finance

27. Secondly, shortage of funds has led the Government of British Guiana, like other Governments, into contractor-finance engagements. In the particular case of the Parika-Bartica road there were very early on unusual and unfortunate difficulties, arising from complications over the registration of bonds in the U.S.A., and the Government is now faced at best with the alternatives of the loss of most of \$3½ m. already spent or a commitment to incur debt of a further \$7 m. (involving an increase of \$2 m. above the original estimate) on a contract similar to the first in order to complete the work. The Government may have been misguided in the choice of contractors but they also seem to have been unlucky over the complications. The result of the venture shows up the dangers of this form of financing, which though appearing to be on favourable terms usually contains a high interest element, involves repayment over a short period of time and limits the choice of contractors.

No revenue returns to Government on borrowing for electricity

28. Thirdly since the start of the development plan the Government found it necessary to take over the Demerara Electricity undertaking in order to get necessary extensions carried out. This involved the Government in expenditure of \$2.7 m. and a re-casting of the development plan. The money was raised by borrowing and as well as incurring the debt charges the Government lost revenue from income tax payments to which the company was liable. The take-over was no doubt necessary and with the help of overdrafts guaranteed by the Government the new Corporation should be able to finance its expansion in future. All profits are however likely to be required for this purpose and the debt charges incurred by the Government are unlikely to be offset by a return in revenue to the Government.

Conclusion (paragraphs 20 to 28)

29. Because the financial return to Government on any form of development expenditure is long deferred and because development itself engenders more expenditure by the Government, borrowing on the scale of the past six years and on terms that impose immediate charges of about 8 per cent has been beyond the means of the Government. Moreover, the debt charges in respect of drainage and irrigation, land development and loans involve substantial subsidies to rice production, which is also subsidised in other ways. It is doubtful if the country can afford to subsidise rice which may not be a sufficiently remunerative crop for expensive development but which nevertheless is regarded as one of the principal supports of the country's economy.

Development Finance 1964-1965

Funds available in 1964

30. The funds that should be available for development expenditure in 1964 are as follows :

	\$ m.
Balance of C.D.W. allocation 1960-64	3.6
Local Loans	2.0
Exchequer Loans—balance from \$38.4 m.	5.3
National Development Savings Levy	4.0
U.S.A.I.D. and I.B.R.D. ... ..	.5
	<hr/>
	15.4

Firm Commitments

31. About \$8.5 m. will be required in 1964 for schemes to which the Government is firmly committed through engagements entered into with staff, contractors or with Governments and institutions which have provided financial assistance, or because work is in progress or the scheme is a continuing one. To complete these schemes to which the Government is firmly committed at least another \$4.5 m. would be required after 1964. A summary of firm commitments under main heads is given in Appendix 3.

Renewals and Reconstruction

32. Included in the unspent balances of development allocations for 1960-1964 (but not included in firm commitments) are amounts aggregating about \$4.6 m. for renewals and reconstruction (e.g. for the railway, shipping services, civil aviation and roads). This expenditure is necessary to maintain existing services or facilities and though not firm commitments in the sense of the previous paragraph is ultimately inescapable.

Inadequacy of funds for unspent allocations in the plan

33. For 1965 the only development funds which are in view are what may be expected from Local Loans and the National Development Savings Levy, possibly \$6 m. in all. This amount and the available development funds for 1964 exceed the unspent allocations for firm commitments and renewals and reconstruction by just under \$4 m. This is all that can be seen for the remaining unspent balances of allocations which amount to over \$20 m. It therefore seems to be urgently necessary to avoid expenditure on development account unless it is for firm commitments or essential renewals or reconstruction and, a fortiori, not to embark on expenditure for new schemes or projects.

Finances of Statutory Boards and Authorities

34. Notes on the finances of the Rice Marketing Board, the Rice Development Company, the British Guiana Credit Corporation and the British Guiana Electricity Corporation appear in Appendices 4, 5, 6 and 7.

35. It does not appear that there is a serious risk that the Government will be called upon in the near future to find money to enable any of these institutions to meet their commitments. But when Government-sponsored corporations which are closely bound up with the basic economy or services of the country have contracted large debts the Government's position is bound to be precarious. More so when its own finances are in a critical state. Good management is a vital consideration in this respect.

36. It seems therefore that the Government should consider strengthening its position with regard to these institutions so as to ensure that their policies or commitments do not end in the necessity for heavy financial assistance which it could not in fact afford.

Acknowledgements

37. I should like to acknowledge the help that I have had from all those from whom I sought information. Under present conditions I was dependent mainly on information obtained from discussion and question and answer. I am aware that these must have cut into the time of people who are hard pressed and can ill-afford to spare it. In particular I wish to thank Mr. W. P. D'Andrade, C.M.G., with whom I was constantly in touch and who, as well as answering innumerable questions, made the arrangements for me to meet others.

I have the honour to be,

Sir,

Your most obedient,
humble servant,

APPENDIX 2

Cost of and financial return from Drainage and Irrigation Schemes

A. BLACK BUSH POLDER SCHEME BLOCKS I AND II

1. Area drained, irrigated and developed

Rice Lands	...	...	...	...	...	...	17,416 acres
House Lots and Gardens	...	...	...	...	...	...	3,844 acres
Community Zones	...	...	...	...	...	...	147 acres
Farm Lands	...	...	...	...	...	...	1,679 acres
							23,086 acres
Rice Mills and bonds	...	...	...	...	...	...	44 acres
Burial Grounds and reserve sites	...	...	...	...	...	...	30 acres
Roads and Canals	...	...	...	...	...	...	3,010 acres
Air Strip	...	...	...	...	...	...	58 acres
Unsurveyed	...	...	...	...	...	...	4,771 acres
							30,999 acres

Yield—say—equivalent of 23,086 acres of rice-land at 23 bags paddy per acre equals 531,000 bags of paddy. Up to 1963, only 14,000 acres had been cultivated and yields had been 12 bags of paddy per acre.

2. Capital Cost to Government (no C.D.W. Assistance)

	\$000
Drainage	
1954-59 per Development Estimates	9,634
1960-61 per Development Estimates	4,892
1962 and 1963 Actual and Revised Estimate	1,240
Development	
Lesbeholden 1960-61	165
1962	26
Mibikuri etc. 1960-61	251
1962	100
Loans for 19,000 acres of rice and farm lands	
Planting at \$40	760
Fencing, etc. at \$50	950
Total to 31st December, 1962	\$18,018

Further expenditure on water supplies and roads to serve the area is contemplated.

	\$000
3. Estimated final yield to Farmers—	
531,000 bags of paddy @ \$7.0	3,717
Expenses—Rent @ \$17.5	\$404
Seeds and Bags @ \$9.8 for 23,086 acres	226
Farmers' estimated spendable surplus	\$3,187

4. Estimated yield to Government	\$000
Rents	404
Indirect revenue from Farmers' spendable surplus—20% on \$3,187	637
	<hr/> 1,041
Less: expenditure under head 13-7	158
head 16-35	320
	<hr/> 478
Estimated nett yield to Government	<hr/> 563

5. Estimated nett yield as percentage of capital expenditure ... 3.1%

6. Loan Charges and return year by year since 1959

	<i>Charges</i>	<i>Return</i>
In 1960—8% on expenditure to 1959 (9.634 m)	770,000	—
1961—8% on expenditure to 1960 (13.367)	1,069,000	Crop failed
1962—8% on expenditure to 1961 (14.941)	1,192,000	Nil?
1963—8% on expenditure to 1962 (17.471)	1,397,000	At most \$500,000

Expenditure on loans to Farmers is not included in the above, as it is not known precisely when and how much was loaned.

B. TAPAKUMA PROJECT

1. Before the project was commenced, these were within the area that the project will command—

- (a) 8,000 acres of properly drained and irrigated rice-land; and
- (b) 8,000 acres of poorly drained and irrigated but not cultivated land.

After the completion of the project, in addition to the area under (a) above the area of 8,000 acres under (b) and 12,000 further acres will be properly drained and irrigated, and 7,000 acres will be drained and cultivable though not fully developed.

Thus the project will create 20,000 acres of good rice-land formerly uncultivated and 7,000 acres capable of cultivation but in need of further expenditure to render it good rice-land.

The additional yield of rice after deduction for domestic consumption might be about 20,000 acres at 23 bags of paddy an acre and 7,000 acres at 16 bags an acre—i.e. 572,000 bags in all.

2. Present estimated Capital Cost, including C.D.W. Share

	\$000
Drainage and irrigation	12,000
Development	750
Planting Loans 23,000 acres @ \$40	920
Fencing, etc. Loans 23,000 acres @ \$50	1,150
	\$14,820

Half the cost up to \$5,898,000 will be paid for by C.D.W. grant.

3. Estimated yield to farmers 572,000 bags paddy at \$7.0	4,004
Less: rent 20,000 acres @ 17.5	350
seed and bags @ \$9.8 an acre	196
	3,458

4. Estimated yield to Government

Rents	350
Indirect revenue, 20% of Farmers' spendable income	692
	1,042
Less: recurrent expenditure—say	406
	636

5. Estimated nett yield as percentage of total estimated capital expenditure, including loans to Farmers	4.3%
Estimated nett yield as percentage of Government share of capital expenditure including loans to Farmers	7.1%

6. <i>Loan Charges and return year by year to date</i>	<i>Charges</i>	<i>Return</i>
1960—8% on Government Share to 1959 (179,000)	14,000	—
1961—8% on Government Share to 1960 (230,000)	18,400	—
1962—8% on Government Share to 1961 (1,586,000)	127,000	—
1963—8% on Government Share to 1962 (4,076,000)	326,000	—

NOTES ON COMPUTATIONS

Yield. Annual national averages from the seasons 1958-59 to 1961-62 inclusive of Autumn and Spring crops were 16.25 bags of paddy or 8.7 bags of rice per acre. The maximum estimated yields I have seen or been told of are 25 bags of paddy (under "former intensive manual cultivation practices") and 13.3 bags of rice per acre from the richest area in the best season. The Rice Development Company cultivates rice in the Mahaicony/Abary areas and produces 11.1 bags paddy in the least productive block and 22.7 in the most productive, the average is 19 bags. The calculations are based on a yield in fully developed areas of 25 bags an acre, less 2 bags for home consumption; this has not yet been achieved in the Black Bush Polder area, and the high yield of 25 bags an acre depends on farmers acquiring experience, which takes time.

Planting and Fencing Loans are calculated on basis of paragraph A6, page 21 in Development Programme 1960-1964 (SP 5/1959). These loans represent final expenditure to the Government as the funds for them are provided to the Credit Corporation and not paid back to the Government. Planting loans are renewed each year.

Yield to Government does not include any amount for income tax as the Commissioner of Inland Revenue advises that farmers cultivating less than 25 acres do not earn enough to bring them within scope of the tax.

The amount allowed in respect of import duties on farmers' spendings is probably on the high side.

Nothing is allowed for indirect and direct revenue from Government capital expenditure. This is unlikely to be great, as the work is performed by a U.K. contractor and involves a small proportion of truly local expenditure.

APPENDIX 3

Summary of development projects for which there are firm commitments

	<i>Estimated Total Expenditure</i>	<i>Approximate estimate of expenditure to 31.12.63</i>	<i>Estimate of amount required 1964-65</i>
	\$ m.	\$ m.	\$ m.
Agriculture	3·236	2·030	1·206
Drainage and Irrigation ...	25·230	21·920	5·550*
Education	3·700	2·755	0·945
Geological Survey	2·510	1·953	0·557
Health	1·287	0·768	0·519
Lands and Mines	0·800	0·600	0·200
Land Development	2·600	1·230	1·370
Public Works	11·560	9·090	2·470
Rural Self Help	0·500	0·436	0·064
Amerindian Development ...	0·472	0·390	0·082
	<u>\$51·895</u>	<u>\$41·172</u>	<u>\$12·963</u>

* Allocation for Tapakuma scheme insufficient for completion of project.

RICE MARKETING BOARD

General

The Government has no legal or statutory commitment in respect of the Board's finances, but as it is the sole medium for the purchase and export of rice the Government would be closely involved in any major failure of it. The Board has no easily realisable assets, other than its stocks of rice and bags, and all but \$600,000 of its reserves is represented by fixed assets. Its working capital has for many years been provided from bank overdrafts, secured on its stocks, and the former have been as high as \$8 m.; the lowest level at which they have stood in recent years was \$0.9 m. in October, 1959. At the 30th June, 1963, its overdraft was \$6.04 m. against which it had rice stocks valued at \$5 m. and stocks of bags and stores valued at \$1 m.

Accounts and Surpluses or Deficits

2. The accounts are audited by Messrs. Fitzpatrick, Graham & Co., Chartered Accountants, who have made clean reports on them. The accounts are well kept and the Board appears to be amenable to advice about improvements in systems or methods. For the years 1956-57 to 1961-62 the following results are shown by the accounts:

<i>Year</i>	<i>Surplus or deficit (excluding cess but including grants)</i>	<i>cess remitted (Special appropriations) to reserves)</i>
1956-57	Surplus \$460,000	\$290,000
1957-58	Surplus \$121,000	\$319,000
1958-59	Deficit \$78,000	\$316,000
1959-60	Surplus \$173,000	\$229,000
1960-61	Deficit \$67,000	nil
1961-62	Surplus \$840,000	(included in 1961-62) \$570,000 (including 1960-61)

For the nine months to 30th June 1963 the interim monthly accounts, which are prepared on the same basis as the annual audited accounts, but are not of course certified by the Auditors, show a surplus of \$524,000 (equivalent to an annual surplus of \$698,000).

Surpluses used for acquiring assets

3. Most of the surpluses and the amounts of "cess remitted" have been spent on additions to fixed assets that are necessary for the expanding business of the Board, and at times temporary borrowing has been resorted to for additions to fixed assets (e.g. at the end of the years 1960-61 and 1961-62 fixed assets exceeded reserves by \$689,000 and \$188,000). At 30th June, 1963, Reserves exceeded fixed assets by \$618,000.

Reserves and Overdrafts

4. In 1954 reserves amounted to \$1.327 m. which represented 12 per cent of annual purchases and of which all but \$500,000 were tied up in fixed assets; the bank overdraft during that year varied between \$.758 m. and \$2.922 m. or 6.9 per cent and 26.6 per cent of purchases. At the end of the year 1961-62 reserves at \$3.214 represented 13.4 per cent of purchases and overdrafts at month ends varied between \$1.948 and \$3.826 or 8.2 per cent and 16.2 per cent of purchases. At the end of June, 1963, the overdraft was \$6.04 m. (27 per cent of purchases). The amounts of overdraft month-end by month-end during the current financial year have been pretty much in line with those in 1960-61.

Financial Footing of the Board

5. Between early 1955 and early 1957 attempts were made to put the Board on a better financial footing first by reducing and then by abolishing the cess on rice sold locally that was payable into Government revenue. The attempts were not successful. In 1962 the Governor urged the Premier to re-impose a cess, to be retained by the Board, or to encourage the Board to borrow long term (which would have been very difficult). As is mentioned in the main part of my report rice production is indirectly quite heavily subsidised through Government expenditure.

Changes in prices paid by Board

6. The following minimum prices have been paid for paddy since 1953 :

October, 1953	...	...	...	...	...	...	\$6.30
October, 1955	...	...	...	...	...	...	\$6.00
September, 1957	...	...	...	...	...	...	\$6.80
October, 1962	...	...	...	...	...	...	\$7.30

In April, 1961, the Board introduced a revised and more favourable purchase price structure for white rice in order to encourage its production and in October, 1962, following the increased prices negotiated with West Indian importers of British Guiana rice, the purchase and local selling prices of all grades were raised.

Improved quality of rice production

7. The campaign to improve the yield and quality of rice production through better methods of cultivation and the use of insecticides and fertilisers has been so successful as to have become embarrassing. Most of British Guiana's Caribbean customers prefer to buy the cheaper and poorer kinds of rice and British Guiana is now producing more of the better kinds and less of the poorer kinds. The increase in prices to farmers and millers has reduced the scope for mixing good and poor qualities so as to produce a blend that could be sold to the West Indian Islands profitably. The increased production of better quality rice may impose the necessity to resort to using high quality rice in blending, which will reduce the margin of profit, so as to fulfil its export commitments and dispose of the Board's stocks (see also below—paragraph 13).

Millers' Stocks of Rice

8. The 1962 Autumn crop besides being of high quality was also, partly due to suitable weather, a bumper crop and a record. The strike held up milling and transport and at its end stocks of rice and paddy in the hands of millers were unusually large. It is expected that they will have larger stocks than usual at the 30th September, 1963.

Board's Stocks of Rice

9. The strike also held up shipments of rice by the Board, whose stocks are also high ; they should be reduced by the end of September but the necessity to buy the backlog of millers' stocks will cause them to remain above average for some time. It should however be noted as the following figures show that the Board's stocks have fluctuated considerably and the level of stocks estimated at 30th September, 1963, has been exceeded.

Board Stocks :

30th September, 1958	...	...	...	9,938 tons
30th September, 1959	...	...	...	2,446 tons
30th September 1960	...	...	...	12,589 tons
30th September, 1961	...	...	...	12,968 tons
30th September, 1962	...	...	...	2,304 tons
30th June, 1963	...	...	...	20,460 tons
30th September, 1963	...	...	...	12,880 tons (see attachment)

Forecast of rice stock and exports

10. The attached statement attempts to forecast the stock and overdraft position of the Board up to the end of the year. Like other forecasts it is subject to a margin of error. The rate at which rice is offered for sale to the Board may vary and there may be delays in shipping that would affect the estimates of stocks. Local sales and exports to West Indian Islands can be taken as fairly firm estimates. Shipments to Cuba, which it is hoped will absorb most of the rice remaining after satisfying local demands and the annual commitment to supply the West Indian Islands, are liable to variation. The Board first obtained access to the Cuban market in the year 1960-61, during which 174,000 bags (representing 19.3 per cent of total exports) were shipped to Cuba. In 1961-62, 349,000 bags (31.7 per cent of total exports) were shipped to Cuba. A contract for exports to Cuba was first entered into in 1961-62 and it was then agreed that there should be an annual renegotiation. Up to 30th June, 1963, shipments to Cuba in the Board's year 1962-63 amounted to 91,000 bags. A copy of the contract entered into for the year 1963-64 is attached. It provides for export of 40,000 tons (500,000 bags) including 2,400 tons (30,000 bags) recently shipped. It would probably be correct to say that quantities specified are targets rather than firm commitments. The Cuban market is particularly attractive in so far as super-parboiled rice is concerned, shipments of this quality amounted to 37,000 bags in 1960-61 and 73,000 bags in 1961-62. Arrangements (partly fulfilled) have been made for shipping 63,000 bags super-parboiled in July and August of this year.

Prospects of overdrafts for 1963 crop

11. The banks' attitude about overdrafts appears to depend both on the amount of rice stocks and the prospect of disposing of them. Overdrafts have been as much as \$8 m. and their future attitude and the amount of overdrafts they might agree to cannot be foreseen and is probably not predetermined. If the estimate in the attached statement is correct, or nearly correct, there should be no difficulty in obtaining overdrafts to meet the Board's requirements of money for the 1963 Autumn crop. Managerial defects or questionable policies of the Board or heavy losses on trading would probably cause them to harden their attitude but when I saw the managers of the banks they did not give me the impression of contemplating a change of past policy.

Stocks in 1964

12. If the stock at the 31st December, 1963, is 314,500 bags (25,160 tons) and the monthly rate of sales is 109,000 bags (i.e. the rate estimated for the last quarter of 1963 after deducting the East German order and the West Indies backlog) this stock together with the balance of the 1963 Autumn crop and stocks in millers' hands at 30th September would last until the end of June. If the purchases and sales were spread evenly over this period, stocks and overdrafts would diminish at the rate of 30,000 bags (\$600,000) a month until the spring crop was milled and offered for sale; if this crop is about 20,000 tons its disposal (on the same basis as for the Autumn crop) would take 2½ months so that it and the 1963 Autumn crop would last until the middle of September, 1964.

Quality of rice and its effect on profits

13. The question of the higher quality of rice being produced was referred to in paragraph 7, with particular regard to the exports to the West Indian Islands. The improvement in the quality of British Guiana rice does not necessarily imply that it would be unable to export its rice to these Islands, but it might very well mean that it would have to sell a better quality of rice for the same price as that which it now gets for inferior rice. It is not possible to say precisely what effect this might have on the profits made by the Board. On a rough calculation I should say that at the worst it might reduce the present margin between cost and selling prices of \$2.10 to \$1.35 a bag. Over annual shipments to the West Indian Islands this would mean a reduction of \$525,000 in the annual profits of the Board. This would be a very serious loss indeed and it would obviously call

for urgent rectification but it would not be ruinous if rectified in time. I do not think therefore that the improved quality of the rice produced faces the Board with ruin within a matter of months or that, unless the Board allowed things to drift indefinitely, the reduction in profits would prompt the banks to curtail overdraft facilities and endanger the security of their money. There is a clear red light ahead but the Board has not yet reached the point where it could do nothing else but pass it.

Difficulties of the Board

14. The Board is however beset by labour troubles and reports are current that there is dissension on the Board and interference with management. This state must give cause for serious anxiety about what might happen at any time, especially in view of the difficult problems it is faced with. Moreover, in these circumstances reports of difficulties that the Board is encountering are inevitably magnified ; confidence in the Board is shaken and there is a constant state of alarm about the ability of the Board to carry out its functions.

Individual Transactions

15. I attach a note on individual transactions paragraph 4 of which adds point to the last sentence of the previous paragraph.

Rough Computation of Marketing Board's stocks of rice and overdraft

	<i>Rice stocks in bags 000</i>	<i>Overdraft in \$000</i>
1. Rice stocks with RMB 30.6.63	256	
2. Overdraft on account of rice stocks at 30.6.63 ...		4·956
Overdraft on stocks of bags and stores		1·084
		<hr/>
3. Total overdraft at 30.6.63		6·040
		<hr/>
4. Proportion of rice stocks at 30.6.63 to be purchased by RMB by 30.9.63, see note	278	
	<hr/>	
	534	
5. (a) Normal local sales, July–September	57	
(b) Normal exports to W.I. Islands	175	
(c) Shipments to Cuba arranged	122	
	<hr/>	
	354	
	<hr/>	
	180	
6. One-third backlog of shipments to Jamaica and Barbados for first half of 1963	19	
	<hr/>	
7. Probable stock at 30.9.63	161	
8. Overdraft at 30.9.63 i.r.o. rice		3·389
Overdraft at 30.9.63 i.r.o. other items as at 30.6.63 ...		1·084
Less: arrears on price variations due from Jamaica and Trinidad: paid in July		·550
Debts for bags with millers holding stocks at 30.6.63		·150
Add: creditors for bags		—·100
		<hr/>
Probable overdraft at 30.9.63		3·873
		<hr/>
9. Possible purchases October–December	530	
	<hr/>	
	691	
10. (a) Sales (local), October–December	57	
(b) W.I. Island exports	175	
(c) Cuban exports at 2,500 tons a month	94	
(d) Two-thirds backlog Jamaica and Barbados	38	
(e) German order	12·5	
	<hr/>	
	376·5	
	<hr/>	
	314·5	
11. (a) Overdraft at 31.12.63 for rice		6·604
(b) Overdraft at 31.12.63 for bags, etc.		·484
		<hr/>
		7·088
		<hr/>

NOTES

- Item 4. Carry over of stocks of rice in mills at 6,400 tons, a little less than for the last autumn crop, is allowed for. In 1962 it was the equivalent of 7,138 tons of rice. R.D.C.'s carry over is known to be equivalent of 4,250 tons.
- Item 5 (c). These are shipments that will count against order of 40,000 tons for year commencing 1st August 1963—see item 10 (c). 39,718 bags shipped end of July; telegraphic confirmation of orders for delivery of 85,000 bags in August received.
- Item 6. It is understood that Jamaica and Barbados have agreed to take backlog commitments on imports to 30th June. Trinidad's backlog of 50,000 bags rice is under discussion. There may be difficulties over the quality of rice required (see paragraph 13). Amount allowed is for Jamaica and Barbados only and it is divided as to one-third before 30th September and two-thirds afterwards.
- Item 9. Purchases are calculated at the same amount as in 1962. Although the crop is expected to be only about 70% of last year's, the rate of milling in the last months of this year is expected to be the same. Lower production should be reflected in lower purchases and reductions in stock early in 1964.
- Item 10 (c). A copy of a written agreement with Cuba for 40,000 tons of rice in the year commencing 1st August 1963 is attached. Against this shipments under 5 (c) would be charged. This would reduce shipments in period 1st October 1963 to 31st July 1964 to 30,000 tons—three-tenths of 30,000 or 9,000 tons would be proportion for October to December. The agreement is not firm but it seems unlikely that exports to Cuba will cease altogether and 7,500 tons in the last three months of 1963 is thought to be a fair guess.
- Item 10 (e). Account is taken of a possible shipment of 1,000 tons to East Germany which is still under discussion; a loss of about \$50,000 is expected to be sustained on this if the Germans insist on the price mistakenly negotiated.

PRO-MEMORIA

During the conversations that were carried on between His Excellency, Senator Mooneer A. Khan, Member of the British Guiana Rice Marketing Board, and His Excellency the Vice-Minister of Foreign Trade of the Republic of Cuba, Lic. Hector Rodriguez Llompart,—between the 15th and 20th of June, 1963, with a view to strengthen and expand commercial relations between the two countries, there was agreed the following:

First: That the Republic of Cuba shall purchase 25,000 (twenty five thousand) metric tons of rice "White B" and 15,000 (fifteen thousand) metric tons of rice "Super Parboiled", which is a total of 40,000 (forty thousand) metric tons of rice from British Guiana during the period of time between the month of August of 1963 and the month of August of 1964.

Second: That all questions relating to price, quality and other contractual conditions shall be discussed and agreed upon by the respective foreign trade organization of both countries.

Third: That both parties shall make all necessary efforts to achieve a further expansion of trade on the basis of reciprocal exchange of goods.

Given in the city of Havana, Cuba, this 22nd day of June, nineteen sixty three.

SENATOR MOONEER A. KHAN,

*Member British Guiana
Rice Marketing Board.*

SD/—Mooneer A. Khan.

LIC. HECTOR RODRIGUEZ LLOMPART,

*Vice-Minister of Foreign Trade
of the Republic of Cuba.*

SD/—H. Rodriguez.

Individual Transactions

Reference to the results of individual transactions in isolation is not always a reliable means of assessing the overall profitability of a business concern. A better view is obtained from the accounts as a whole, especially when, as in the case of the Rice Marketing Board, comprehensive accounts are prepared monthly.

The Russian Shipment

7,730 tons—March—April, 1963

2. The cost of this rice to the Board was \$20.41 a bag; there was a special charge of \$25,000 by the Rice Development Company and stowing in hold cost \$15,460. The total cost of the consignment was thus \$2.012 m. and it realised \$2.290. The overall trading profits by the Board in March and April when these transactions were brought to account amounted to \$603,000.

The Cuban Shipment

July—August, 1963

3. 31,007 bags of grade D rice and 8,711 bags of Special Parboiled were shipped at the end of July and telegraphic confirmation has been received for a further 54,000 bags of Special Parboiled and 31,000 bags of Grade D. The grade D is being milled especially by the R.D.C.

The cost of the D grade is \$17.6 a bag and the selling price \$19.58; the Special Parboiled costs \$21.05 and is being sold for \$24.00. As an equal amount of both kinds is being sold the mean between the two margins, which is \$2.46 a bag, gives the rate of trading profit on this order.

Fertiliser from Russia

4. Fertilisers to the value of about \$0.75 m. and representing requirements for a number of years, were ordered from Russia by the Rice Producers' Association early in the year. As the Association has no funds and the Board joined in the correspondence (by cable mostly) it would inevitably have to bear the liability in respect of this order if one should still arise. Fortunately, shipping and banking difficulties prevented the execution of this order and the Russians appear to regard it as cancelled, but the Board has not yet made it clear that this is the case. Although I do not think that it is at all likely that the fertilisers will now be shipped, the manner in which the whole affair has been handled by the Board is most alarming. I have advised the Chairman and Manager to make it clear to the Russians that the order is cancelled.

Cement—unknown quantity in R.M.B. store

5. The Manager of the Board firmly denies that the Board has taken any part in the transaction except to agree to store it. It is understood that the cement has been delivered by Gimpex to the Rice Growers Association, who are issuing it to farmers, and that the R.P.A. would collect the cost on behalf of Gimpex.

APPENDIX 5

The Rice Development Company

Under the terms of debentures in the company amounting to about \$5 m. taken up by the Colonial Development Corporation between 1954 and 1957 the Government is guarantor for repayment, which was due five years after the issue of the debentures. \$2 m. debentures were issued in 1959 and \$1 m. each in 1960, 1961 and 1962. Up to the present \$200,000 has been repaid and \$120,000 is expected to be repaid before the end of the year though it can be ill afforded.

2. The rate of interest prescribed was $6\frac{1}{2}$ per cent on \$3 m. and $5\frac{1}{2}$ per cent on \$2 m. The rate on the latter was increased to 7 per cent in consideration for the granting of a moratorium on the repayment of overdue debentures. It may be noted that since no income tax is payable in British Guiana on the debenture interest it is less expensive for the country to borrow from banks than from the C.D.C. The proceeds of the debentures as well as amounts deducted from profits for depreciation were spent on buildings, plant and equipment; for any considerable working cash requirements the Company depends on overdrafts for which it has facilities up to \$2.8 m.

3. Up to 1961, mainly owing to difficulties of phasing equipment and matching it with output, the company made losses. These difficulties are gradually being overcome and in 1961-62 a small profit was made and it is expected that profits will increase in the years after that.

4. I understand that the company is at present negotiating a further moratorium on the repayment of debentures. If it were to fail in this the Government would be liable under its guarantee. However, insistence by the C.D.C. on repayment in accordance with the terms of issue, which appear to have been unrealistic in the first instance, is hardly likely, especially as the company has promptly paid the interest as it fell due.

APPENDIX 6

British Guiana Credit Corporation

Since (and including) 1960, the Government has advanced to the Corporation about \$3.1 m. against an allocation of \$13 m. in the Development Budget for 1960-64. Interest at the rate of 3½ per cent is paid to the Government by the Corporation on these advances, and under the terms of the agreement for the loan from the International Bank (referred to below) the amount of the advances outstanding at 30th June, 1961 (\$12 m.) may not be reclaimed by the Government from the Corporation during the term of the Agreement. The total amount of advances made to date by the Government to the Corporation is about \$14 m.

2. The loans made by the Corporation are principally for rural housing, agricultural development and machinery, logging and fishing; loans are made to individual persons and to Co-operative Societies. Interest at the rates of 7 per cent for individuals and 5 per cent for Co-operatives are charged by the Corporation, the rate for individuals having been raised from 6 per cent and 6½ per cent in 1961.

3. Under an Agreement with the International Bank, re-imbusement of the cost of imported goods bought with the proceeds of certain loans can be obtained from the Bank. So far, \$325,000 has been re-imbursed under this Agreement and claims for a further \$600,000 have been lodged. Under the terms of the Agreement, no further claims can be lodged. This loan has been made to the Government of British Guiana for re-issue to the Corporation, interest at 3½ per cent is payable by the Government who are responsible to repay the loan by instalments up to 1969. Under the terms of the Agreement referred to in paragraph 1, the Government could not obtain funds from the Corporation to repay the loan except to the extent that its own advances to the Corporation exceeded \$12 m.; subject to this condition, the Government might obtain funds to repay this loan, when due, out of repayments of loans made by borrowers to the Corporation; these repayments are at present running at the rate of about \$2½ m. a year.

4. Through the difference between the rates of interest paid and received by the Corporation, it has been possible to show a small profit in the annual accounts. The profits have been computed after including uncollected interest, and providing \$600,000 as reserve for bad debts.

5. The possibility of capital losses is of more importance than the small annual profits shown in the annual accounts. At 30th June, 1962 nearly 70 per cent (or \$1.94 m.) of the amount overdue (\$2.05 m.) to the Corporation on account of loan repayments and interest was more than a year in arrears, and nearly 30 per cent was more than three years in arrears. Considerable improvement has been made in the arrangements for collecting overdue repayments and loans are secured. Nevertheless, it is possible that more than the amount of the provision for bad debts (\$600,000) will have to be written off in the end.

6. As advances made by the Government to the Corporation have been finally charged to expenditure and the Corporation has a credit and not an overdraft at the banks, the Government has no liabilities, contingent or direct, except for the loan from the International Bank referred to above.

7. As regards the future, the Corporation has already decided that housing loans shall be limited to the amount of repayments of housing loans already made. They have represented that the Corporation's Organisation is capable of handling all business on a scale corresponding to a total capital of \$20 m. (implying further advances by the Government of \$6 m.) and that their organisation is capable of continuing to handle loans for industrial projects. They are therefore opposed to the proposed establishment of a Public Industrial Corporation, which they point out would mean two parallel expensive organisations to do the routine work that one could comfortably manage. This opposition to a separate organisation appears to be well founded.

8. Apart from the provision required for industrial loans, the question of whether the Capital should be increased as proposed must be considered in relation to the Government's agricultural expansion policy and programme, and in particular its policy programme for rice settlement schemes, which are referred to in another part of this report and of which loans to producers are an essential element.

APPENDIX 7

The Electricity Corporation acquired the undertaking of the Demerara Electric Company Limited for about \$6 m. and an income tax liability of \$0.7 m.

2. The arrangements for paying the purchase price were

(a) A down payment of \$1.2 m. to be met by a loan repayable in 1970 by the Government to Barclays Overseas Development Corporation with interest of 7 per cent payable by the Government.

(b) Payment to the Company of the revenue of the undertaking month by month.

3. By April, 1963, the Corporation had cleared its liability to the vendors. The Government has undertaken to accept 7 per cent debentures, that mature in 1969, in consideration of its commitment for the loan of \$1.2 m. and interest on it as well as the income tax liability.

4. At the time of acquisition, it was agreed that the Corporation should carry out extensions and improvements to the electricity system, and it was decided also to carry out civil engineering works for a further increase in generating capacity that would be required within the next few years. The total cost of these works in the contract documents was \$13,113,600, but variations in costs permissible under them and interest on outstanding balances are now estimated to increase the overall cost to about \$15.2 m. The amount is due to be paid under the contract in stated instalments, the last of which is due on the 1st January, 1968.

5. The Government has already paid about \$1.5 m. (under the Development Budget) towards the cost of these works on the same terms as in paragraph 3, and it is expected, on the basis of assumptions referred to below, that the balance can be met from revenue during the years up to 1969. Owing to the incidence of the instalments, however, overdraft facilities of up to \$5.4 m. would be required. At present, Barclays D.C.O. Bank have agreed to grant overdraft facilities up to the end of 1968 under a Government guarantee up to a maximum of \$3.5 m.

6. The principal assumptions on which these conclusions have been reached are that

(a) consumption of electricity will increase over the previous year by 10 per cent in 1963 and 12 per cent thereafter; and

(b) there will be normal capital expenditure of \$1.044 m. in 1963 and \$.5 m. thereafter.

7. The first assumption is of course highly speculative and must be so. While the increases in demand are moderate estimates, the estimates for effective demand are dependent, as all else, on the economy picking up. Moreover, the increase in revenue after 1968 would demand further capital expenditure (and therefore capital charges) a year or so earlier. Failure of revenue to rise above the 1968 level would not however affect the Corporation's position as regards the overdraft at the end of that year, but a decision to order the extra generator so as to be ready to meet a demand above that estimated for 1968 would increase the overdraft in that year or earlier. I understand that the Corporation intends to wait to see how effective demand increases before proceeding to order the third generator. It seems clear that in its present financial condition the Government cannot afford to increase its guarantee commitments in respect of new capital expenditure.

8. The second assumption predicates a much higher rate of "normal capital expenditure" than in earlier forecasts made by the Corporation. Although these are revenue earning, the revenue in the crucial years of financial stringency ahead would be less than the capital expenditure incurred to earn it. Moreover, in view of the strike it must be exceedingly doubtful whether the amount forecast for 1963 can physically be spent.

7

9. With stringent restriction of normal capital expenditure it should be possible to keep peak overdrafts (in January of each year) to between \$4 and \$4.3 m. in 1964 and 1965, and since these would be required to meet firm commitments they, or direct financial aid by Government, could not be avoided. The Corporation could not obtain an increase in the overdraft facilities without a Government guarantee; even if the Government were in a position to guarantee an increased limit of overdraft facilities it would not seem to be advisable for it to do so without first making it conditional on some control over new capital expenditure. It is indeed doubtful if the bank would grant such facilities unless assured that new capital expenditure was made strictly in the light of present capital commitments.

10. If the bank should refuse, under any conditions, to allow a higher overdraft limit, the Government might be faced with the necessity to provide between \$.5 m. and \$.8 m. during the first few months of 1964 and, if this were repaid later in the year, a similar amount during the first few months of 1965. So long as the Corporation, in which the bank appears to have confidence, continues in its view to act responsibly I doubt if they would refuse this application for a temporary increase in respect of past capital expenditure.

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