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AID FOR DEVELOPMENT:
THE CASE STUDY OF GUYANA, 1966-1981

by
Carol E. Lee

A thesis submitted to the Faculty of Graduate
Studies and Research in partial fulfilment
of the requirements for the degree of
Master of Arts
in Geography

Department of Geography
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ABSTRACT

AID FOR DEVELOPMENT

THE CASE STUDY OF GUYANA: 1966-1981

by Carol E. Lee

At the performance level, the theory and practice of aid diverges. This may be attributed to (a) the reasons for giving aid are very different from those of acceptance and (b) a large number of donors view aid as essentially a political concept; its primary purpose being for the attainment of very specific political, ideological and strategic advantages. Past studies evaluating the "success" of aid, have to a large extent ignored such realities and have tended to reflect the donors' rather than the recipient's point of view. Such studies have attempted to reconcile the basic divergences into a single framework of analysis rather than viewing aid as operating with two separate systems, each with its own conceptual framework, for each of the partners. This study therefore deviates in its attempt to review the aid relationship from the recipient's perspective by hypothesizing that aid has contributed towards the attainment of self-sustaining growth and self-reliance in the Guyanese economy over the last fifteen years. The Development Plans of the country are used as a measure of the "appropriateness" and thus "profitability" of aid. Whilst evidence indicated some degree of benefit, the full extent was limited by the self-interest and inefficiencies of both partners. However, it is argued that aid could be redirected into other avenues, the assumption being that such areas are less likely to influence development priorities and the domestic policies of the recipient government.

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LIST OF ABBREVIATIONS

CIDA	- Canadian International Development Agency
EEC	- European Economic Community
DAC	- Development Assistance Committee
GDP	- Gross Domestic Product
GNP	- Gross National Product
IBRD	- International Bank for Reconstruction and Development
IDA	- International Development Association
IDB	- International Development Bank
IFAD	- International Fund for Agricultural Development
IMF	- International Monetary Fund
ldc.	- lesser developed country
MMA	- Mahaica, Mahaicony, Abary
UNDP	- United Nations Development Programme
WPA	- Working People's Alliance

CHAPTER 1

AID AND DEVELOPMENT

1.1 Introduction

In a decade in which the concept of "foreign aid" or "foreign assistance" is viewed with growing skepticism, it seems somewhat presumptuous to undertake a major research paper which seeks to lend some credence to the value of aid. Yet the adoption of such a position does not necessarily entail total endorsement without an awareness of the ensuing pitfalls, but simply an attempt to review the problem in its entirety.

Current literature on the question of aid has revolved around the donor's motives, abilities and geographical biases in allocating aid. Yet it is precisely this outlook that has perpetuated the uncertainty and confusion about the nature and purpose of aid. The United States for instance, utilized aid as a temporary post- World War II measure for relief and reconstruction, but then switched in the sixties to the initiation of a long term programme of socio-economic assistance in the face of the threat of Communist penetration. This example of one of the biggest aid contributors (U.S \$8 billion in 1980) is indicative of the multiplicity of considerations and criteria employed by donors to justify the expenditure of substantial sums of public funds. Because political considerations are disguised beneath the tokenship of assistance, it is not surprising that the objectives of aid deviate from the stated policy aims. The tying of aid, the bias towards capital intensive projects etc. tend to hinder the true potential of aid in promoting development.

One has to recognize that the reasons for giving aid are very different from those of accepting it. If one accepts this premise, then it is possible to discern two systems of analysis, one for each of the aid partners. The failure of existing studies to fully recognize

the presence of two concepts of aid, and thus their attempts to fit them together into a general framework of analysis, has resulted in the overall general pessimism. Indeed, analysts have attempted to build a theory of aid on the basis of a false sense of symmetry.

This study therefore seeks to review the aid relationship from the recipient's perspective by undertaking a case study of Guyana since Independence (1966) with the hope that it will provide a more realistic picture of the effects of aid in fostering socio-economic changes in lesser developed nations. My central purpose will be to examine the impact of aid on Guyana's development efforts, but more so, towards the attainment of self-sustaining growth and self-reliance over the last fifteen years. The claim that aid is a catalytic input without which development would be considerably slower cannot be accepted on face value and remains to be proven by much closer scrutinies.

Before focusing on specific issues the context and rationale behind the study must be considered. At the outset, an analysis of the objectives of aid followed by definitions of "aid" and "development" as perceived by the recipient, set the parameters of the study. The closer interrelationship between the two (that is, aid and development) is then identified on the basis of scale by concentrating the enquiry on Guyana. The specific sector to be discussed and particular mode of inquiry are then presented to provide cohesion to the general argument.

1.2 Objectives of Aid from the Recipient's Viewpoint

Surprisingly, little empirical research exists on the question as to why recipient countries accept aid. Originally, assistance was only accepted in times of national disaster and emergencies, e.g. hurricanes, floods, famine etc. (Abbott, 1973:7). Once the immediate crisis had rectified itself, then the need and reasons for accepting aid were assumed to disappear. Historically therefore, humanitarianism as a basis for accepting aid was only a temporary phenomenon, justified by the need to help the less fortunate.

Although humanitarian principles are purported to be one of the main reasons for giving aid, there is no historical evidence to suggest that donor nations engage in international benevolence over some period of

time, without expecting some benefits in return (Abbott, 1973:7). Recipients therefore often reject this notion of humanitarianism, and suggest instead that perhaps such monies be labelled "conscience money", because of past injustices. In other words, the donors are only atoning for their past misdeeds.

The use of foreign assistance by certain recipient governments for suppressing the opposition and maintaining themselves in power is not uncommon (Abbott, 1973:8). Yet the longevity of such a relationship is possible only if there exists a mutuality of interests and common purpose between the donor and the recipient. Once the donor is no longer interested in maintaining the "status quo", there is always the likelihood of further funds being curtailed. Thus the acceptance of foreign assistance on such a basis, may often lead to increased leverage (by the donor) over the recipient's domestic developments, thereby compromising its own independence and freedom of action.

In the final analysis, the basis upon which recipient countries accept aid is its perceived role within the economy. It supplements domestic resources by bridging the gap between developmental needs and domestic resources, and aids the development process by removing bottlenecks that impede the full pace of change (Meier, 1977:348). In addition, aid is perceived as being a temporary transaction (that is, it is not an open ended commitment) during which, the authority and developmental priorities hopefully lie with the recipients.

1.3 What is development?

In the late sixties, it was generally acknowledged that development was not simply "economic" development, nor could it be measured by a single variable; it was not simply increasing industrialization, the growth of incomes, gross national product (GNP), technology etc. These are but part of a dynamic multidimensional concept. In fact development is a historic ongoing process, combining both quantitative and qualitative measures (i.e. growth plus change), human and material advancement and ethical considerations, so that the progressive reduction and gradual elimination of malnutrition, disease, illiteracy, unemployment and inequities is achieved. According to Dudley Seers, "Development may now imply among other things, reducing cultural dependence on one or more of

4

the great powers, and adopting a selective approach to external influences of all types (D. Seers, 1977:2).

Thus, for many developing nations, "development" is perceived as moving away from a condition of life widely perceived as "unsatisfactory" in some way, towards some condition regarded as socially and economically "better". The country is then described as "developing" insofar as the changes introduced into the economy and the society as a whole, lead to a balanced, self centered and independent development (I. Abdalla, 1980: 15). In other words, development of the Third World involves the lengthy process of economic and cultural decolonialization, by undoing the ties of dependency (both formal and informal), correcting inequities and achieving the internal integration of the national economy.

For Guyana, development was intended to fulfill the above objectives, but more importantly, to establish a foundation for the attainment of self-sustaining socio-economic growth (K. R. Hope, 1979:118). This meant diversifying the agricultural output to reduce expenditure on imports, and to export larger quantities of traditional exports and of new products. This in turn would also provide the basic raw materials for the development of agrobased industries and strengthen the rural economy by the planned location of such industries (ie. allied to agriculture) (K. R. Hope, 1979:122). In addition, by channelling funds into transportation, education, manpower development--constraints to growth, such processes would eventually lead to a greater self-sufficiency in food, clothing and housing. To facilitate such objectives the government saw the necessity to nationalize all foreign owned companies and to establish itself as a cooperative socialist republic.

1.4 What is Aid?

"Aid", "assistance" and "cooperation" are often used interchangeably when referring to the transfer of goods, services, or capital to developing countries. For instance William Zeylstra (1975) defines international development aid, as being "... the cooperation with a foreign State or autonomous political unit, with the object of assisting that State in furthering its economic growth and social progress." Yet one has to be wary of such interchanges since for instance, assistance and cooperation can designate a large variety of operations ranging from purely commercial

agreements to philanthropic aid for people stricken by calamities (I. Sachs, 1976:264). Likewise under such terms fall direct foreign investment of foreign capital which is designed primarily for the profit of the investor and not to grant favours to the countries concerned.

In this thesis, the terms "aid" and "foreign assistance" will be used interchangeably, since they both represent some form of help and support by the donor country. More specifically, for the recipient country, it represents the transfer of capital (loans and/or grants) and technical knowhow from several countries or multilateral organizations on concessionary terms¹ (R. Sharma, 1977:2). Thus grants of fully convertible currency constitute aid in the full sense, whilst the grant element in most loans will depend on the length of grace and maturity periods, as well as low interest rates. Although technical assistance should be added to the total amount of aid required in the wider sense, it is often counted as capital inflow.

By the above definition, neither short term or medium term loans nor private investment should fall under the category of aid. Except for IBRD loans, most of the aid Guyana receives is long term (over ten years or more) with a considerable grant element (soft loans). Despite the fact that IMF funds constitute short term loans aimed at balancing current accounts, such receipts will be included in this analysis of the overall aided effort. Such an exception is necessitated by the fact that short term stabilization policies could have a contradictory effect to the aided effort.

1.5 A Question of Scale

The precision with which development can be measured and attributed to aid varies from country to country. However, were development an end product rather than a dynamic ongoing process, it would be relatively easy to evaluate programmes aimed at its achievement. One could for instance, decide on certain attributes--capital investment, technology, literacy or whatever--and conclude whether one's "development" efforts had succeeded in measurable statistical terms (Bauer & Yamey, 1957:129). The fact is, development is not so much an end product, as

¹ Loans having at least 25% grant element. This would mean borrowing at a rate more favourable (lower) than those obtained currently in world capital and labour markets.

TABLE 1.1
Selected Measures of Annual Bilateral and Multilateral Assistance
to Major Recipients: 1964-67 Average

Main Recipient	Total Net Official Flow		Popula- tion (Millions) ²	Total Net Official Flow		
	\$ Millions	% of Total		\$Per capita	As % of GDP ³	As % of Imports ⁴
Total all less-developed countries	6,754	100.0	1,632.4	4.1	2.2	-
India	1,226	18.2	501.7	2.4	3.2	42.9
Pakistan	496	7.3	118.6	4.2	3.7	49.1
Vietnam South	379	5.6	16.5	23.0	16.9	76.3
Brazil	222	3.3	83.2	2.7	1.0	16.1
Korea South	216	3.2	29.1	7.4	5.7	33.5
Turkey	185	2.7	32.2	5.7	1.8	29.2
Algeria	150	2.2	12.2	12.3	6.1	22.4
Chile	128	1.9	8.8	14.5	2.0	18.1
French DOM-TOM America ⁵	124	1.8	0.7	177.1	-	-
Israel	115	1.7	2.6	44.2	3.3	14.1
Congo (K)	114	1.7	16.0	7.1	7.6	-
U.A.R.	111	1.6	30.1	3.7	1.9	11.8
Indonesia	109	1.6	107.8	1.0	1.6	17.0
Yugoslavia	98	1.5	19.7	5.0	1.1	6.6
Columbia	97	1.4	18.6	5.2	1.5	17.5
Morocco	95	1.4	13.7	6.9	3.8	20.0
Philippines	93	1.4	33.5	2.8	1.6	9.6
Nigeria	88	1.3	42.4	2.1	1.8	12.4
Mexico	86	1.3	44.1	2.0	0.4	5.4
Tunisia	85	1.3	4.5	18.9	8.6	33.8
Papua & New Guinea	84	1.2	2.2	38.2	29.1	-
French DOM-TOM Africa ⁶	81	1.2	0.7	115.7	-	-
Jordan	67	1.0	2.1	31.9	14.8	-
China (Taiwan)	66	1.0	12.8	5.2	2.1	10.9
Spain	64	1.0	31.9	2.0	0.3	2.1
Laos	64	1.0	2.7	23.7	33.9	-
Ghana	61	0.9	7.9	7.7	2.4	16.7
Peru	61	0.9	12.0	5.1	1.2	8.2
Kenya	61	0.9	9.6	6.4	3.4	22.7
Dominican Republic	54	0.8	3.8	14.2	5.3	30.6
Senegal	50	0.7	3.6	13.9	6.1	-
Total above countries	4,930	73.0	1,225.3	4.0	2.4	-
Total all other less-developed countries	1,824	27.0	407.1	4.5	1.9	-

1 Countries which received more than \$50 million for the 1964-67 average

2 1966 population data

3 1966 GDP data

4 Merchandise imports only

5 French Overseas Departments and Territories in South and Central America

6 French Overseas Departments and Territories in Africa

Source: Pearson's Report

"Partner in Development" (N.Y.: Frayer Publisher) 1969

it is a process of history. Thus the isolation of any one variable, e.g. foreign aid, and its impact on development, though measurable, would be relatively imprecise because of various factors interacting simultaneously.

Here the question of scale becomes critical in determining the degree to which one can presume there is a greater causal relationship between aid and development, despite other intervening variables. As Table 1.1 indicates, Brazil and the Philippines both have a per capita aid receipt of U.S. \$2.8, but the amount of aid received and the population of each of these countries differ. Thus, if aid from a number of sources is accompanied by a relatively small population in the borrowing country, the more aid per head it receives. At the micro scale, the financing of sectoral projects by external sources can be seen to have an even more direct impact on development, especially if counterpart domestic expenditures are low. In other words, if projects are substantially financed by external aid, then one can argue quite strongly that any impact on the economy by that sector is more likely to be the result of external resources rather than internal investment policies. The argument becomes weak where domestic capital equals or exceeds external receipts.

Thus, if at both the macro (aid per capita received) and micro levels of development, reliance on external assistance is high, then one can make a significant argument that any growth or change achieved over a period of time, is probably due to the heavy receipt of external aid.

1.6 Aims of the Study

Having established the rationale to review aid from the recipient's viewpoint and the causal linkage one can form between aid and development based on the question of scale, one is still left with the unanswered questions of, why the choice of Guyana, and what are the specific issues to be investigated? This section attempts to remedy this omission by outlining specifically the parameters of the study.

The role of government as an instrument of change is central to most political ideology and development theory (Anderson, 1967:3). The logic of this position is quite simple and is probably well known. In nations where a large part of the population continues to follow traditional ways of life, where the performances of those involved in the economy are

inadequate to the tasks of change, government appears to be the natural agency to encourage socio-economic growth. When other social or economic institutions are weak or non-existent, the state seems to be one of the few places where resources and capital can be accumulated and mobilized for the task of development (Anderson, 1967:3).

Guyana falls into that category of developing countries where governments play a key role in national development. The public sector occupies a much more important economic position than in the developed western countries and accounts for over 80% of national economic activities (K. R. Hope, 1979:2). This is particularly necessary if the government wishes to pursue a certain ideological path which in the case of Guyana is cooperative socialism,² which contrasts to that of capitalism practised in previous years.

Capital, necessary for socio-economic change and growth, then inherently falls on the governments of these countries. It provides this either directly or indirectly by encouraging the flow from internal and external sources, compulsory or facilitative measures including laws and regulations, guarantees and other means (K. R. Hope, 1979:3). Increasingly, lesser developed nations have found to their dismay however, that to emerge beyond the "malaise" they are confronted with, external aid is necessary.

In the case of Guyana, the unavailability of a substantial local money and capital market (owing partly to the preference by financial intermediaries for foreign securities) meant that the government did not have a regular or sufficiently large outlet for its own securities (M. Odle, 1976:14). The financial gap in public spending then had to be partly filled by loans and grants from foreign governments, which ironically, could contribute to further external dependence.

A rough calculation of Guyana's aid per capita in 1975 places the

² Guyana only became a cooperative republic in 1970, four years after Independence. It was established mainly to create an awareness in the masses that the development process was a participatory one. For more information on the cooperative movement and the concept of cooperative socialism as practised in Guyana, see K. R. Hope (1979) Development Policy in Guyana: Planning, Finance and Administration.

figure somewhere in the vicinity of G\$ 175* (total monetary value of aid--loans and grants). Successive calculations indicate that although this figure has tended to fluctuate annually, aid per capita is high (see table 1.2 demonstrating that foreign loans more than compensate for any reluctance on the part of locally based financial intermediaries to hold government securities (M. Odle, 1976:155)). Section 4 further demonstrates that most of this aid is in the form of project aid, which in some cases finances over 75% of the project cost. Thus, the choice of Guyana is particularly appropriate when one looks at the amount of aid it receives at the aggregate level, or the substantial funding of projects by external assistance as opposed to internal finances. Any causal linkage one may tend to draw between growth/development and aid may then be more feasible given the greater influence of aid at such levels.

Despite the growing number of studies from both multilateral and bilateral donors³ assessing the impact of aid, there is no clear consensus as to how such aid assessment tasks should be tackled. The general feeling is that an evaluation can be approached from different angles and at varying levels of aggregation and sophistication (M. Radetzki, 1973:76). Perhaps the prevailing difficulty arises from the confusion that I have previously identified as being a common identity of interests and goals between the donor and recipient. In addition, such assessments need to originate more from the recipients themselves, since in the final analysis they are the reservoirs of change. But one cannot deny that the interrelations are extremely complicated concepts to analyse since one often disregards many inherent conceptual and methodological problems.

The purpose of this study was previously stated in section 1.1. In order to test the extent to which aid has contributed to self sustaining growth through agricultural diversification, increased productivity and in overcoming the inherent bottlenecks, both a macro and micro assessment of aid will be attempted. The latter starts from the aid financed projects

³ The IBRD, OECD, USAID and many other independent research institutes have attempted various approaches to the evaluation of aid. See page 288 of M. Radetzki's ed. Aid and Development, (1973) for further listings of specific evaluative reports.

* G\$1.00 = US\$0.40 (1979)

TABLE 1.2
Guyana: Aid per Capita

Year	G\$,000	Population	\$ per Capita
1975	147,556	768,607	174.5
1976	164,714	780,000	211.2
1977	63,544	825,000	77.0
1978	107,204	820,000	130.7
1979	143,400	841,000	170.5
1980	240,071 ¹	884,000	271.5

Source: Book of Guyana Annual Report, 1979

Source: U.N. Demographic Yearbook, 1977

1), Budget Estimate

as they are and ascertains the contribution of such projects to development, whilst the former centers on the role aid plays in influencing resource allocation in recipient countries at the aggregate level. This involves looking at questions such as: Is foreign assistance really directed towards relieving the recipient country's resource constraint? Is it provided in a form which will help to overcome these constraints in the long run? Is aid creating economic and social enclaves, or does it help in the integration of the country's political, social and economic structures? etc...

An attempt to answer such an infinite number of questions would be beyond the scope and time of this thesis. But herein the inquiry specifically focuses on the agricultural sector, including forestry and fishing, which would allow for a more rigorous application of such questions. The choice of the agricultural sector is particularly appropriate since it is the medium through which the Guyanese aims of "self-reliance" and "self-sustaining growth" are to be achieved.

In short a descriptive analysis based on the volume, type and form of aid to Guyana and the performance of the agricultural sector (including forestry and fishing) in terms of stated objectives, will determine to a greater degree whether foreign aid, added to domestic resources, has led to the achievement of certain developmental goals. In addition, the adoption of both a macro and micro approach to aid assessment will allow some insight into the influence, consequences and direction of aid on the Guyanese growth and development effort (over the last fifteen years) and the possible repercussions/advantages for future changes. Although it may be naive to have taken the word of donors who proclaim the desire to promote development in recipient countries, I have done so, if only to demonstrate how little or how much aid has contributed to overall development from the recipient's perspective.

1.7 Constraints to the Study

To proceed with the above inquiry both economic, social and aid statistics will be utilized to infer causation. Moreover, both macro (overall appraisal) and micro (project appraisals) levels of inquiry will be adopted, since we can hardly expect to produce definite, quantitative results at the macro level alone. In addition, the descriptive

analysis of the Guyanese situation will try to keep the administrative and political aspects (non-quantifiable factors) in focus.

The difficulties in studying aid to Guyana are more than the usual ones of sparse and unreliable data. Attempts to verify statistics quoted by the multilateral and bilateral donors as having been transferred to Guyana, with those published by the Bank of Guyana Annual Reports, often

differ. Since the difference is based on an annual appraisal, I do not believe the use of aggregate statistics published by either source would jeopardize a fair or just assessment of aid. Thus where statistics are seemingly absent from one source I have supplemented the gap by estimates from the recipient or vice versa. The problem with adopting such a strategy however, is that the Bank of Guyana's estimates are inevitably lower than those of the donor, indicating the probable exclusion of technical assistance or the salaries of aid officials. Also the time lapse between the actual provision of capital and its subsequent receipt could account for the annual discrepancies between donor and recipient aid figures.

Many of Guyana's sophisticated aided schemes did not commence until the mid-seventies. As a result, only certain phases of the programme are completed. An evaluation of quantitative achievements against predetermined targets would therefore be an unwise measure to adopt. Therefore, in an evaluation of aided projects, I am limited to a comparison between expected outcomes (i.e. increased acreage under cultivation, increased employment etc.) and tentative achievements. In other words, any project evaluation must be taken as a relative measure as opposed to an absolute achievement.

Finally, most of the data must be taken as rough and tentative, since international aggregates of both aid and development figures invariably obscure certain realities. Where I was forced to use various sources in the completion of for example a statistical table, I have assumed that the statistics are reasonably accurate and thus any subsequent calculations and comparisons will be approximately correct, or at least internally consistent.

1.8 Plan of the Study

This thesis is divided into seven chapters. Chapter two discusses and appraises the theoretical literature in which aid is theorized as promoting development.

Chapter three provides a summary of the colonial legacy and thus the factors leading to the socio-economic milieu at Independence (1966). Against that background the ideology and development policies of the new independent government are presented, with special emphasis placed on the agricultural sector and the "bottlenecks" to development.

Chapter four is concerned with the type, form and sectoral bias of the various donors. Some tentative observations are presented on the socio-economic impact such external funds may have on long term development policies. Given the tremendous influence the IMF has had on Guyana's economic performance, a cursory description is presented of the terms and conditions of such balance of payment loans, although they do not fall under the umbrella of "aid" as defined in Chapter one.

Chapter five explores the socio-economic impact of both the IMF and the external sources of finance and the growth of the public debt. It then tries to explore the implications for future growth and change based on the foreign debt and debt servicing capacity, given the political environment and the tighter monetary and fiscal conditions imposed by the IMF.

Given the outcomes of aid to the structurally dependent and open economy of Guyana, Chapter six seeks to review the many ways in which the qualitative aspects of aid can be improved through measures adopted by the recipient, as well as avenues in which aid can be further invested.

Chapter seven then briefly looks at the changes in development theory over the last thirty-five years, drawing parallels to the use of foreign aid. It demonstrates that despite the greater flexibility in areas of investment, the theory and practice of aid still diverges. However given the present economic realities of many Third World countries, it does not advocate total cessation of aid on the recipient's part.

CHAPTER 2

AN INTRODUCTION TO THE THEORY OF AID

2.1 Introduction

The theory of foreign aid to development remains imperfect, and thus its application to the analysis of any developing country such as Guyana will be less than complete. It can hardly be expected that direct one-to-one links will be drawn between theory and performance, though it is generally recognized that there are certain key variables in the aid-growth relationship that allow research efforts of an empirical and theoretical nature. Furthermore, were development an end product rather than a continuous process it would be relatively easy to evaluate programmes aimed at its achievement. One could decide on the key variables--capital investment, technology, literacy or whatever, and conclude whether one's development efforts had succeeded in measurable statistical terms. In addition, it would be quite permissible to separate foreign aid from all other influences in any given situation. Yet despite such weaknesses in the theoretical literature, many developing countries are still pursuing aided development programmes to attain some measure of self-sustaining growth. Whether this goal is achieved is still however subject to empirical research.

This chapter is a review of the existing literature dealing with the concept of aid in promoting development. In addition, it reviews the many ways in which external assistance (both capital and technical) could lead to certain repercussions on the recipient's economy and development efforts. This demonstrates not only the fundamental principles by which aid is incorporated into development efforts, but the tremendous risk involved by the mere acceptance of foreign assistance. Depending upon the term, form and type of assistance received, the short term benefits of aid may be eventually overshadowed by the long term costs of aid. This chapter therefore forms the theoretical foundation upon which the study is centered and the

basis for the comparison in the theory and the practice of aid.

2.2 Aid and the Savings Gap

The simple inference that capital per head is high in economically advanced countries, and low in those which are "under-developed" can delude one into assuming that the provision of capital on a large scale is the primary prerequisite for resolving the economic malaise that confronts such countries (S. Abbas, 1972:7). Indeed, a significant amount of literature (Chenery & Strout, 1966, Bauer, 1957) in the past, assumed that if any one scarce factor associated with under-development could be singled out, it would be capital (U.N., 1960:8). Though an oversimplification of the socio-economic growth process, nevertheless, capital accumulation was considered as the core process by which all other aspects of growth were made possible (U.N., 1960:8). Since capital accumulation was increased through further investment which necessitated more savings or foreign assistance, it implied for the lesser developed countries (wishing to pursue a particular growth target) aid amounting to the difference between the availability of domestic savings and capital requirements.

Today, such simplistic theories are seriously questioned even by the same theorists themselves. As recognized by several economists, such models can only work provided certain conditions and assumptions prevail. For instance, in Chenery's "two gap analysis", the domestic savings would have to be at a maximum if the inflow of aid is to be held at a minimum (also aid would have to increase the rate of investment and not consumption), unemployment would have to prevail if aid is to augment investment by the full amount (Harrod-Domar growth models) etc. (L. Lefebvre, 1979:111). More important, empirical evidence by Papanek (1972), Griffin and Enos (1970), Weisskopf (1972) etc. support the proposition that aid and domestic savings are inversely related (L. Lefebvre, 1979:115). In other words aid has been a substitute for domestic savings. Needless to say, such observations should be evaluated with caution since the apparent inverse relationship between aid and savings can be reversed where the flow of foreign resources opens up new and hitherto unattainable socio-economic opportunities which the government or private individuals in the recipient country may wish to pursue (L. Lefebvre, 1979:116). In addition, much of the empirical evidence depends on the

assumptions about the saving function and whether the test is based on a time series or cross country analysis.

Whilst domestic savings and aid may be inversely related there is supportive evidence (Aresboug (1969), Chenery et al (1970)) that the correlation between aid and investment is positive. However depending once again on the irreversibility of domestic savings, the long term effect on the growth rate may be negative (L. Lefebvre, 1979:122). For example, aid in the form of military equipment may require governments to maintain the same level of preparedness once aid is ceased. This can then channel domestic finances away from investment as well as consumption, leading to adverse consequences on growth and welfare. Thus unless the large expenditure can be offset by corresponding taxation, the receipt of aid can lead to negative constraints for long term growth (L. Lefebvre, 1979:122).

In general terms, it would appear therefore, that the use of aid in reducing the savings gap and thus promoting or retarding development, depends on the combination of the marginal propensity to save and the fraction of added capital (aid) diverted to government consumption. Although aid tends to raise the growth rate during the time of the receipt of aid, the full benefit can only be realized when aid is discontinued. That is, did aid allow private and government savings to grow sufficiently, to maintain the development efforts despite the reduction in total savings once aid is discontinued?

There is yet to emerge a theoretical model that gauges the productivity of additional capital in a particular economy. This is not surprising since it is generally accepted that capital is a necessary and vital ingredient but not a sufficient condition for growth. Socio-economic development is accompanied by improvements in productive techniques, productive capacity of labour, a heightened spirit of enterprise etc. (Bauer & Yamey 1957:129) and thus to isolate any one of them as the inevitable prime mover in the process of development and change, would be inadmissible.

2.3 Aid and the Foreign Exchange Gap

Some developing countries suffer not so much from a shortage of savings in general, as from the shortage in the supply of particular types of goods which they need to import from abroad (Hla Myint, 1965:100). This

special shortage of foreign exchange as distinct from a general shortage in savings, can be particularly acute for poor countries with a low ratio of exports to their incomes and a poor prospect of expanding their exports sufficiently to meet the rising burden of debt from further borrowing (H. Myint, 1965:100).

For instance, in most developing countries, the structure of the economy is relatively simple, so it produces only a limited range of products when relying solely on domestic revenues. In such circumstances, the act of saving by itself, even though it releases resources for investment, may not make available the correct kind of resources (E. K. Hawkins, 1964:334). Unless these savings can be used to purchase the necessary goods and services from overseas, no progress can be made.

Strangely enough, while development programmes can stimulate the demand for imports, this demand may often rise more rapidly than the national product and also the rate of increase in exports. The net result is that the import demand rises above the lesser developed country's (ldc) capacity to import based on export earnings.

Thus while it can be argued that development is partly a function of the availability of foreign exchange, it is also true that increased investment could also lead to the need for a concomitant increase in foreign exchange. The ability of foreign aid to initiate or sustain the purchasing of goods and services from abroad, constitutes what is now termed "the use of aid in the foreign exchange gap".

2.4 Aid and Absorptive Capacity

Absorptive capacity relates to the ability to use capital productively. Besides its reference to constraints such as the savings and foreign exchange gaps, it also refers to institutional problems and human resource deficiencies. Theorists such as Hollis B. Chenery and A. Strout have utilized this criterion as a performance factor to measure the economic performance of a country (E. Hawkins, 1964:335). That is, if the absorptive capacity is increasing over the years, it can be regarded as a measure of the improved socio-economic performance of the country concerned, and of its ability to make use of foreign aid. The problem with such an approach however, is that it is a highly aggregate measure and often obscures the

significance of the specific nature of the investment item. Furthermore, the limitations of absorptive capacity may apply only to particular sectors of the economy, while other parts of the economy are able to absorb more capital above the available local sources of savings (E. Hawkins, 1964:336).

In recent years, emphasis has revolved around the investment in human resources to step up the pace and extent to which a country's absorptive capacity can expand. No doubt, the disillusionment with the neo-classical paradigm of growth, and the viewpoint that development is "economic" and "quantitative" initiated such trends. Nowadays, it is believed that a knowledgeable, skilled and healthy population would be more likely to operationalize capital investment effectively.

Theoretically, financial assistance can then be used to expand the country's educational facilities, to create attitudes aligned to development ideology and revolution of habits, likewise to provide the necessary vocational institutions to equip the population with the required skills. The provision of other social amenities such as health centres, recreation facilities etc., would also result in the enhanced well-being of the worker, eventually leading to increased productivity.

What is more observable however, is the use of aid to utilize the services of foreign consultants and experts (the stipulation of the donor nation). Perhaps the preeminence of a project approach rather than a programme approach determines the criteria of productive use of aid capital (P. Rosenstein-Rodan, 1970:83). Moreover, the tying of aid often results in the country being offered more aid of a certain type than it can usefully absorb (Ester Boserup, 1971:6). In addition, it aims at creating facilities which the recipient country cannot guarantee to keep in operation, for example, hospitals which are too lavishly equipped to be sustained by available technicians.

Thus the problem of aid and the capacity to absorb aid must be analysed from the recipient country and in the framework of national development planning. If not, the split between theory and practice will continue to emerge; the donor country supplying aid which may be unabsorbable because of its form and type, and the recipient country unable to redirect

resources towards bottleneck reduction because of the inflexibility of the given assistance. Invariably, because of the complexity of the problem, increasing the absorptive capacity of a nation is viewed as a long term process which cannot be expressed in a single figure, but only as a quantified pattern (E. Boserup, 1971:10). Yet the increasing importance of accelerating the absorptive capacity of a nation in the initial stages of development cannot be emphasized enough, since it is a fact that socio-economic growth, though a function of the volume of capital used, is equally determined by the productivity of its use.

2.5 Repercussions of Aid

A growing body of literature has emerged which is highly critical of the contribution that foreign aid makes to the development process. Criticisms reflect the fear of continued dominance by the Western world (by meddling in the domestic politics), the reinforcement of capital intensive projects and thus the restriction of activities to already economically successful minorities, the worsening of balance of payment deficits and the continuing belief that opportunities and resources for advance must come from abroad (P. T. Bauer, 1964:355).

There is no doubt that there are elements of truth in the previous statements. As a policy problem, the balance of payment problem is quite similar to the savings-investment limitation. An increase in the growth rate often requires a change in the structure of income-use in order to reduce the proportion going to consumption and hence to increase savings (Chenery & Bruno, 1970:117). It also requires a change in the structure of production in order to reduce the ratio of imports to total output (Chenery & Bruno, 1970:117). Critics therefore argue that ambitious plans embarked upon by the recipient country inevitably result in greater imports of goods, which then "run down" the recipient's foreign exchange reserves. Thus instead of being able to increase output into either increased exports or reduced imports, the reverse occurs. This phenomenon then leads to a debt servicing problem which feeds on the need for increased aid, given its indebtedness and slowly growing exports (C.E.D., 1969:44). This suggests that while the recipient country may have been unwise/hasty in opting for prestige or low priority projects, the growing debt burden has been intensified by the form and terms

of long term lending, a circumstance for which the donor country should bear partial blame (Lloyd Black, 1968:62). Thus if over the longer term, interest increases faster than savings available to repay debt, the country's balance of payment deficit will increase continuously.

Aid is also criticized on the grounds that it acts as a substitute for domestic savings. For instance, Griffin and Enos (1970) argue that "...aid may retard development by leading to lower domestic savings, by distorting the composition of investment and thereby raising the capital output ratio. This then frustrates the emergence of an indigenous entrepreneurial class" (J. Buttrick, 1979:119). But as Louis Lefebvre (1979) argues, the negative correlation between aid and domestic savings is pretty much dependent upon whether the temporal reduction in domestic savings effort is irreversible (J. Buttrick, 1979:122), so that even after the cessation of aid, the rate of savings does not return to its pre-aid level. In simpler terms, this means, if a recipient government increases its expenditure on social services not directly related to short run increases in productivity, such services may not be terminated upon the cessation of aid. It can be argued that such services once instituted, should be maintained with or without the benefit of aid, because they represent an essential increase in the total consumption of society, particularly of the lowest income groups (L. Lefebvre, 1979:123). But there are other ways, some of them less constructive or welfare-oriented in which government consumption can be permanently or irreversibly increased (See Section 2.2).

Further issues which also should be kept in mind when presenting a critique of aid are (1) aid can support extremely wasteful projects which make large losses year after year by absorbing more local resources than the value of their output; (2) it can reinforce the tendency to politicize the life in the recipient country. For example, by increasing the power, resources and patronage of the recipient government, it can effectively immobilize future political resistance and (3) it can pauperize those it purports to assist, by suppressing the attitudes and institutions required by those societies necessary to achieve sustained socio-economic progress (P. Bauer, 1964:353).

2.6 A Summary

While simple theoretical models have been developed to explain certain bottlenecks to progress --foreign exchange, low absorptive capacity, low savings ratio--there are at most only a few countries to which such models can be applied wholesale in practise. Barriers to growth abound --political and social élites unreceptive to change, mismanagement--and these will have to be removed if aid is to be effective. The negative implications of aid are not by themselves arguments against accepting aid, but simply indicators to demonstrate that the success of aid is both a function of the recipient and donor. The problem is not merely that of assimilating added capital, but of deciding the form it should take and the specific uses to which it should be put.

With particular reference to Guyana, the problem is not so much a shortage of savings in general, as one of the shortage in foreign exchange, managerial and entrepreneurial abilities, and skilled manpower. The ability of aid in fostering greater socio-economic changes in Guyana, will therefore depend pretty much on the use made of the borrowed human and capital resources (i.e. in overcoming certain bottlenecks and being invested in productive investments) and the terms on which the debt was initially incurred. Given the importance of an initial level of absorptive capability, the role of external funds is determined by its policy framework and the capability to administer it. Thus social cohesion and the political framework also play a critical role. In Guyana, it would seem that these latter factors are playing a critical role in affecting the potential impact/outcome of aid.

CHAPTER 3

THE GUYANESE ECONOMY

3.1 Introduction

The complex racial, cultural and economic patterns visible in Guyana today can only be appreciated through an understanding of the country's past. Thus a brief review of its historical development is germane to the discussion if one is to determine the relevance and orientation of Guyana's development plans following Independence, and the obstacles impeding their completion. Like most Third World countries, Guyana is a product of her colonial past, and the internal patterns of economic, social and political organizations must be understood within such a framework if one is to initiate new reforms.

3.2 British Guiana 1814-1966

Guyana lies in the northeast corner of South America bordered by Surinam on the east, Venezuela in the west, and Brazil to the south and southwest. Culturally and ethnically, Guyana is, unlike any other country in South America, part of the Commonwealth Caribbean. The population, 825,000 in 1977, small in relation to the country's land area (83,000 sq. miles) is concentrated along a narrow coastal strip through which flow the major rivers of the country: the Essequibo, the Demerara and Berbice; here too, are found the two main cities of Georgetown and New Amsterdam (See Figure 3.1).

The Dutch were the first Europeans to succeed in gaining a foothold in Guyana in the early seventeenth century. They were interested in securing good farmland on which they could raise tropical crops and a relatively protected site which could be easily defended against Spanish attack (C. Gritzner, 1977:23). The provision of a charter in 1621 to the Dutch West India Company, besides providing complete political and economic jurisdiction and the authority to undertake pirate raids against

Figure 3.1; Map of Guyana

Source: Area Handbook of Guyana, 1969

Spanish shipping, also gave the Company the right to carry slaves to the New World (C. Gritzner, 1977:24). With the introduction of black African slaves, coffee, tobacco and cotton production increased, which subsequently encouraged development in regions other than the Essequibo (C. Gritzner, 1977:24).

Between 1771-1814 a series of conflicts between the Dutch, English and French eventually culminated in the colony being ceded to the British in 1814. During that period, and until 1966, Guiana like many New World societies, was an appendage of expanding European economies and its structure of output was dictated by metropolitan needs. As such, the Guianese economy was a "plantation economy"; a society organized to be responsive to the needs of plantations as institutions, with the society's (that is, the black slaves and later the indentured workers) primary responsibility being that of supplying cheap labour to the estates (Jay Mandle, 1973:12).¹ This meant that the relationship between the planter and worker was decidedly unilateral, with few employment alternatives available to the plantation worker in an economy almost totally composed of estates (J. Mandle, 1973:12). In addition, labourers remained poorly educated and poorly skilled.

As Table 3.1 indicates, by the 1830's Guiana's monocultural economic structure was already emerging. More specifically, cotton and coffee production were decreasing drastically as sugar production increased. The increasing labour shortage resulting from the fall in slave population compelled the plantation owners to choose between three crops (J. Mandle, 1973:23). According to Farley (1956), the possibility of higher sugar prices in international markets, plus competition from American cotton, could have dictated the choice of sugar despite its labour intensity.

The abolition of slavery in 1833 and the formal receipt of freedom in 1838, led to a decline in sugar production in the 1840's (J. Mandle, 1973:24). Such circumstances led sugar producers to turn to indentured

¹ See L. K. Matthews & G. Dennis (1980) Community Development in Guyana, for further details on the meaning of plantation economies.

TABLE 3.1
Coffee, Sugar, and Cotton Output, 1812-51

Years	Coffee (lbs.)	Sugar (cwts.)	Cotton (lbs.)
1812-15	9,178,600	270,541	8,939,045
1816-20	9,856,640	390,762	6,852,076
1821-25	7,193,100 ^a	619,040 ^a	4,755,648 ^a
1826-30	6,135,471 ^b	832,022 ^b	2,964,912 ^b
1831-35	3,769,694	848,768	1,123,978
1836-40	3,599,528	689,282	532,380
1841-45	1,337,305	483,217	33,900
1846-50	119,835	510,809	...
1851	3,198	...	...

Source: J. Mandle, 1978

a. 1821-24

b. 1828-30

TABLE 3.2
Prices Received for Exports of Sugar,
Five-Year Averages, 1835/39-1920/24

Years	Shillings (per cwt.)	Years	Shillings (per cwt.)
1835-39	36	1890-94	13
1840-44	39	1895-99	10
1845-59	29	1900-04	9
1850-54	22	1905-09	9
1855-59	27	1910-14	12
1860-64	23	1915-19	22
1865-69	22	1920-24	26
1870-74	23	1925-29	12
1875-79	22	1930-34	6
1880-84	20	1935-39	6
1885-89	14		

Source: Same as Table 3.1

TABLE 3.3
Changes in Rice Industry, 1898-1922

	1898- 1902	1903- 1907	1908-12	1913-17	1918-22
1. Production (tons)	3,824	10,621	30,006	36,336	28,508
2. Acreage	6,778	17,712	39,746	49,695	58,046
3. Tons per acre ^a	0.56	0.60	0.75	0.73	0.49
4. Exports (tons)	...	5	3,120	10,760	6,756
5. Imports (tons)	14,693	8,092	2,519	159	72
6. Domestic avail- ability (tons) ^b	18,517	18,708	29,405	25,735	21,824
7. Domestic avail- ability per capita (tons) ^c	0.062	0.061	0.097	0.083	0.072

Source: Same as tables 1 and 2

a. Row 1 divided by row 2

b. Row 1 plus 5 minus row 4

c. Row 6 divided by interensal midpoint population

labour² as a means of relieving the chronic and intensifying labour shortage. Thus by the 1870's, the essential feature of plantation agriculture--the plentiful supply of unskilled labour--had been reestablished by indentured immigration.

The emergence of the state-subsidized European sugar beet industry drove market prices down in the 1880's to uneconomic levels for West Indian producers (J. Mandle, 1970:35). This manifested itself in a decline in the rate of increase of sugar output in the 1880's and in the 1890's absolute declines in exports (See Table 3.2).

The growth of the rice industry and the creation of the British Guiana Rice Company was first mentioned in an official Guiana government publication in the colony's "Blue Book" for the fiscal year 1895-96 (J. Mandle, 1971:37). Although the Company itself was liquidated the following year, the immigration agent allocated considerable space to the new industry in his report for 1896-97. Composed entirely of small cultivators (indentured Indians), rice cultivation/production tripled between 1898-1902 and 1903-1907 (See Table 3.3). With the continued decline of sugar prices in the international markets plus the need to reduce costs of maintaining indentured labourers, it appears then, that in 1894 estate acreage came into rice cultivation as sugar farmers attempted to find productive uses for their underutilized factor inputs (R. Smith, 1962:66). Although after 1903 market prospects for West Indian sugar greatly improved, the emergence of rice in the context of continued immigration, represented a useful mechanism for the absorption of redundant plantation labour.

If one is to accept this socio-economic form of society, then between 1850 and 1921, the Guianese economy was relatively prosperous. A significant paradox to be noted however, is that where economic expansion resulted in major advances in technology and the emergence of new sectors of the economy, the Guianese growth did not precipitate such an economic transformation. Though output increased significantly, methods of production showed little change and the structure of the Guianese economy remained

² Meaning, labour legally obligated to work on the estates for a significant period of time. This was usually for a period of five years.

narrowly centered on one commercial crop (sugar) (R. Smith 1962:80).

One might presuppose that the ending of indentured immigration was the necessary precondition if Guiana were to experience a change in its development. That is, the loss of a cheap labour supply would initiate the fall of the plantation system. Mandle (1973) notes, however, that the above factor was insufficient to put an end to the plantation structure of the economy. He argues that the plantation economy became even more domineering and rigid (in the inter war years) because the ownership of the Guianese structure had become overwhelmingly concentrated in the hands of the British firm of Bookers, Brothers, McConnell and Company (R. Smith, 1962:82). For instance, in 1945 Bookers acted as the sole agent for 70% of the colony's output and dominated the shipping of sugar from the colony (F. Benham, 1945:71). The important outcome of such an amalgamation, however, was the introduction of the kind of technological change (eg. a new variety of cane, increased applications of sulphates of ammonia) that resulted in increases for both labour and land. The net result was the strengthening of the plantation system with the growing predominance of the Booker Company in the industry (F. Benham, 1975: 72).

On the other hand, the rice industry was experiencing varying degrees of success in terms of production and export (See Table 3.4). Managed by small farmers, the rice industry was facing changes in external demand and poor drainage and irrigation facilities (J. Mandle, 1973:78).

A succession of riots and insurrections that swept the English-speaking Caribbean in 1937-38, led to the Moyne Commission³ recommending that an increased economic activity was required, if such uprisings were to be reduced. Mandel (1973) notes that with reference to Guiana, recommendations in no sense challenged the structure of the plantation economy, as the infrastructure necessary to open up the colony's hinterland was in the eyes of the colonializers, too expensive to construct. As a consequence, little attention was paid to the natural resources, all known to be present, though exploited to only a limited

³ Also known as the West India Royal Commission. Appointed by the British to investigate the reasons behind the recent insurrections and riots.

extent in the interior. More importantly, the Commission recommended the establishment of a West Indian Welfare Fund which would be responsible for the general improvement in education, health services, housing and slum clearance etc., within the colonies (J. Mandle, 1973:113).

The arrival of World War II had two effects on the Guianese economy (J. Mandle, 1973:114). Firstly, transatlantic trade to Great Britain was seriously disrupted (i.e. the export of sugar and the import of consumer goods) and secondly, new centers of employment were established in the local economy in response to the new circumstances (J. Mandle, 1973:113). This involved new opportunities in bauxite mining at MacKenzie, construction work at the new U.S. Air Force Base at Atkinson Field, and in peasant agriculture. Thus between 1940-45, the hegemony of the plantation system was challenged.

The immediate effect of the war was not only to stimulate rice growing and peasant agriculture (See Table 3.4) but to expand bauxite production. Table 3.6 indicates the steady advance in bauxite exports from 1939 through 1943. Most of this expansion was undertaken by the Demerara Bauxite Company, a subsidiary of the Aluminium Company of Canada (R. T. Smith, 1962:67). As a result, the Guianese population started to move from under the low skill, low productivity, low income syndrome associated with the dominance of plantation agriculture.

At this point there were few manufacturing concerns in Guiana. A brewery, margarine and common soap factory, a biscuit and oxygen acetylene plant were the most important (R. T. Smith, 1962:71). Local industries included the small scale manufacture of soft drinks, matches, cigarettes, drugs, patent medicines and printing (R. Smith, 1962:71). Rum, an important export, was manufactured as an important byproduct of sugar whilst the manufacture of gin was mainly for local consumption.

Table 3.7 indicates the gross domestic product at factor cost by industrial origin between 1952-60. The overall impression is that agriculture and food processing are the important income generating sectors of the economy. Within these categories, sugar, mining and building and construction dominate. Here, one can note that the Guianese economy was involved in a set of contradictions. The sugar industry remained

TABLE 3.4
Changes in Rice Industry 1911/15-1956/60

Years	Production (Tons)	Exports (Tons)	Domestic Availability (Tons)	Acreage	Output per Acre (Tons)
1911-15	N.A.	8,770	N.A.	43,867 ^a	N.A.
1916-20	N.A.	10,106	N.A.	58,972	N.A.
1921-25	24,143	5,233	18,190	41,803	0.58
1926-30	36,856	13,813	23,043	45,697	0.81
1931-35	43,695	21,211	22,484	71,440	0.61
1936-40	38,812	15,087	23,725	56,725	0.68
1941-45	55,084	19,710	35,374	70,101	0.79
1946-50	62,191	23,197	38,994	88,097 ^b	0.71
1951-55	75,150	37,300	37,850	120,195	0.63
1956-60	85,935	43,300	42,635	161,997	0.53

Source: J. Mandle 1973;

a) 1911-15: 1913-15

b) 1946-50: 1946-1948/50

N.A.: Not available

TABLE 3.5
Acreage Under Coconuts, Ground Provisions, Coffee,
and Cacao, 1911/15-1956/60

	1911-15 ^a	1916-20 ^b	1921-25 ^c	1926-30 ^d	1931-35	1936-40 ^e	1941-45 ^f	1946-50 ^g	1951-55	1956-60
Coconuts	13,191	24,149	25,269	27,555	22,579	21,809	21,800	33,730	32,200	31,707
Ground Provisions	18,534	17,564	13,919	14,236	N.A. ^h	14,000 ⁱ	21,700 ^a	19,825	21,400	N.A.
Coffee	2,635	5,003	4,763	5,632	4,671	3,354	3,275	3,040	4,319	N.A.
Cacao	2,330	1,907	1,592	1,357	N.A.	N.A.	413	900	1,110	N.A.
TOTAL	36,690	48,623	45,543	48,780	41,250	39,163	47,188	57,495	59,029	

Source: J. Mandle: 1973

Note: N.A. - Not available

a. 1912, 1913 N.A.

b. 1916 N.A.

c. 1925 N.A.

d. 1926-27 N.A.

e. 1939-40 N.A.

f. 1941 N.A.

g. 1949 N.A.

h. Assume 14,000 acres under ground provisions

i. Estimate of International Bank for Reconstruction and Development.

TABLE 3.6
Bauxite Exports, 1939-44

YEAR	TONS
1939	476,014
1940	624,487
1941	1,072,616
1942	1,116,463
1943	1,901,969
1944	873,969

Source: J. Mandle 1973.

TABLE 3.7
Gross Domestic Product at Factor Cost by
Industrial Origin, 1952-60
(Percentage Distribution)

	1952	1953	1954	1955	1956	1957	1958	1959	1960
1. Agriculture	24.46	22.14	21.32	18.54	18.18	18.80	20.70	20.26	19.60
Paddy						2.45	3.71	3.88	3.97
Sugar cane	13.60	12.41	10.54	9.57	10.34	12.30	12.94	12.47	11.96
Other						4.05	4.05	3.91	3.67
2. Livestock, forestry	7.97	7.90	6.89	8.12	7.13	9.39	9.61	8.85	7.65
Fishery	2.64	2.49	2.27	2.14	2.55	3.98	4.18	3.49	3.11
Forestry	5.33	5.41	4.62	5.98	4.58	5.41	5.43	5.36	4.54
3. Mining	8.62	11.31	12.72	9.92	11.30	8.60	6.33	7.13	8.57
4. Food processing	10.56	12.31	9.28	10.25	8.04	8.35	8.12	7.33	7.68
Rice						.67	.85	.74	.87
Sugar-milling						5.57	5.33	4.82	5.02
Other						2.11	1.94	1.77	1.79
5. Chemicals	3.80	2.86	3.17	3.25	3.16	.48	.49	.46	.43
6. Engineering	6.23	6.17	8.36	9.60	10.32	.59	.61	.62	.57
7. Other manufacturing						2.14	2.11	2.32	2.09
8. Fuel and power						.75	.76	.85	.87
9. Distribution	13.44	13.57	14.64	15.05	14.64	13.75	13.39	13.71	14.56
10. Transport and communications	6.17	6.06	5.41	6.17	6.58	7.38	7.68	7.48	7.03
11. Banking and insurance	2.45	2.87	2.65	2.57	1.93	2.72	3.07	2.29	3.11
12. Professions and personal services	2.33	2.26	2.55	2.87	2.94	5.86	5.82	5.92	6.06
13. Building and construction						10.19	10.14	9.86	10.67
14. Rent and dwelling	3.83	3.07	2.74	2.81	2.63	1.24	1.35	1.40	1.28
15. Government	10.24	9.48	10.27	10.85	13.25	9.76	9.82	10.52	9.93
TOTAL	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00

Source: J. Mandle 1973.

Note: For 1952-56: Details of agriculture, except sugar cane, not strictly comparable, hence omitted; details of food processing not available; chemicals include chemicals (5), other manufacturing (7), and fuel and power (8); engineering includes engineering (6) and building and construction (13).

dominant; but for those who remained in its employment, the skills and attitudes associated with plantation agriculture were inconsistent with those needed for development. In any event, the employment creating potential of the industry had declined as sugar producers came to believe that the Guianese could no longer provide the abundant and docile labour force (J. Mandlè, 1973:138). Rice was the sector expected to compensate for the employment loss as well as absorb the additions to the labour force.

Thus on the eve of Independence (1966), the historical experience of the plantation economy had produced in Guiana a rapidly growing and ethnically diverse population, living at low levels of per capita income and with a high and growing rate of unemployment (See Table 3.10). Yet changes in attitudes of the labour force, especially its increased organized trade union strength, would allow them to gain control over economic policy making and in so doing, design a course to efficiently use their available human and economic resources to promote development..

3.3 Socio-Economic Conditions At Independence

The colony's long struggle for Independence became a reality in 1966 and Forbes Burnham became the first Prime Minister of independent Guyana.⁴ As discussed in Section 3.2, the socio-economic structure of the plantation economy was oppressive and exploitative, and thus the acquisition of political and constitutional rights were welcomed and equated with socio-economic advancement. More specifically, Guyana was an "export economy" because of the dominance of the export sector, and "dualistic" because of the contrast between the technical endowment of export production and that for local production (Philip Reno, 1964:74). The vast hinterland lay unexploited. In summarizing the general socio-economic conditions, the following can be said.

The single most important agricultural export was sugar cane products. In 1964, sugar amounted to 37% of total exports whilst bauxite, some 18.5% (See Table 3.8). These few raw materials were exported in

⁴ The main step toward political independence was taken in 1953. At the time of Independence, Burnham represented mainly working and middle class Afro-Guyanese in the urban areas.

TABLE 3.8

Guyana: Contribution of Main Items of Domestic Commodity Exports 1956-71 (Percentages)

	1956	1960	1964	1968	1971
Agricultural Products	65.7	65.7	51.8	46.4	45.0
Sugar-cane Products	51.7	50.6	37.1	32.6	35.5
Sugar	46.7	46.0	32.5	28.5	31.8
Molasses and Rum	5.0	4.6	4.7	4.0	3.7
Rice	10.6	12.3	13.1	12.5	7.3
Timber	3.4	2.8	1.6	1.3	2.2
Mineral Products	32.8	27.4	40.0	46.1	48.0
Bauxite	31.4	23.6	18.5	27.9	33.1
Alumina	-	-	18.9	15.8	14.0
Diamond	1.4	3.8	2.6	2.2	0.9
Manufactured Goods*	1.7	4.2	3.0	2.8	2.4
Other	-	2.2	5.2	4.7	4.5
	100.0	100.0	100.0	100.0	100.0

Source: Area Handbook of Guyana 1978

TABLE 3.9

Guyana: Distribution of Commodity Imports by S.I.T.C. Categories 1956-71

	1956	1960	1964	1968	1971
(a) S.I.T.C. Categories (%)					
0 Food	20.5	16.7	19.1	16.2	15.5
3 Mineral Fuels, Lubricants, and Related Products	8.4	7.6	9.7	9.4	8.8
5 Chemicals	8.3	6.9	11.0	9.7	11.5
6 - 8 Manufactured Goods	35.9	34.7	31.8	33.5	35.2
7 Machinery and Transport Equipment	22.9	30.4	25.6	28.1	25.5
Other	3.8	3.6	2.5	3.1	2.7
	100.0	100.0	100.0	100.0	100.0
(b) Per Capita Imports (\$)					
0 Food	42	45	47	53	94
6 - 8 Manufactured Goods	74	94	78	109	153

Source: Same as Table 3.6

TABLE 3.10

Guyana: Labour Force and Employment 1946-70

		1946	1956	1965	1970
Total Labour Force	(000)	147.5	164.6	174.6	183.7
Male		106.5	104.1	126.9	154.5
Female		41.0	60.5	47.9	29.2
Employed	(,,)	146.2	135.0	138.2	154.5
Male		105.6	89.7	103.6	125.5
Female		40.6	45.3	34.5	29.0
Unemployed	(,,)	1.3	29.6	36.6	29.2
Male		0.9	14.4	23.4	22.1
Female		0.4	15.2	13.3	7.1
Unemployed as per cent of Total Labour Force	(%)	0.9	18.0	20.9	15.9
Male		0.6	8.7	13.4	12.0
Female		0.3	9.2	7.6	3.9
Unemployed Males as per cent of Male Labour Force	,,	0.8	13.8	18.4	14.3
Unemployed Females as per cent of Female Labour Force	,,	2.0	25.1	27.7	24.3

Source: Area Handbook of Guyana, 1978

exchange for a diversity of manufactured products and according to Table 3.9, consumer goods (manufactured goods) accounted for about one-third of this total, whilst machinery and transport equipment about a quarter. Paradoxically, imports of lumber and wood products amounted to 40% of the value of timber exports (P. Reno, 1964:77).

The mechanization of the sugar industry in the 1960's together with natural population expansion, implied that by 1966 unemployment was mounting with no easily identifiable mechanism (besides emigration) whereby this deterioration could be offset (P. Reno, 1964:80). The increasing labour force, far beyond the needs of the sugar industry could not be absorbed by the rice sector and thus by 1965, 21% of the labour force was unemployed (See Table 3.10). More importantly, of those employed, only 7% had professional skills and specialized training, or worked in administrative, executive and supervisory positions. Craftsmen and technicians represent 21% of those employed (W. Mitchell et al., 1969:199).

The lack of infrastructure and social amenities within the colony was especially noteworthy. As Figure 3.2 indicates, roads were few and concentrated entirely around centres of economic activity. The 190 mile road along the coast extends short distances up the river banks and probably sum to another 160 miles. Originally built to connect sugar estates with Georgetown and New Amsterdam, a similar stretch can be seen connecting Bartica with the mining area (P. Reno, 1964:82). Although it is not shown on the map, some 400 miles of broad trail connect major points in the interior.

A similar pattern exists for the railroads. A stretch of standard gauge runs some sixty (60) miles from Georgetown down the coast to Rosignol, whilst another runs from the western side of the Demerara River up the coast to Parika (P. Reno, 1964:82). Originally these used to carry passengers primarily, and some rice and other freight, but are in disuse today.

It can be theorized that the present structure of health services was not planned but evolved over a long period. In 1967, there were 147 medical centres of various kinds including rural maternal and child health clinics (W. Mitchell et al., 1969:87). In addition, there were

Figure 3.2: Present and Proposed Transportation System

34

Source: IBRD, Guyana, An Appraisal of a Highway Project, 1973

Figure 3.2B: Proposed Highway Project

34 a

Source: IBRD, Guyana, An appraisal of a Highway Project, 1973

24 public or private general hospitals and 12 "cottage" and "sugar estate" hospitals (W. Mitchell et al, 1969:187). The doctor/population ratio was about 1/2600 and an equivalent of 5.9 beds per 1,000 people. This would seem to indicate generally poor and inadequate health services for the rapidly expanding population.⁵

Underlying the school system was the British traditional view of the primary function of education as the support of the English social system (W. Mitchell et al, 1969:96). . . Because the curriculum was aimed at preparing an elite group, a classical education was deemed imperative. Technical and vocational education sparked no interest in government or private circles, until the second quarter of the twentieth century (W. Mitchell et al, 1969:96). In addition, the inadequacy of these training programmes reinforced negative attitudes toward the technical schools among technicians and the older, more experienced industrial workers. Thus at Independence, the government was faced with a curriculum unresponsive to fulfilling national needs and an increasing need to expand the accessibility to secondary education (W. Mitchell et al, 1969:97).

Thus the socio-economic situation at Independence was neither rosy nor bleak. The historical experience of the plantation economy had produced in Guyana, a rapidly growing and ethnically diverse population, living at low levels of per capita income and with a high and growing rate of unemployment. The economy was structurally dependent, exporting a few primary products to two dominant metropolitan markets (U.S.A. and U.K.). Moreover, the export dependence was aggravated by foreign ownership which made for very little independence in decision-making by subsidiaries concerning the source of inputs, the level and composition of output and the rate of investment. (This was later changed when the government nationalized Alcan, a subsidiary of the Reynolds Bauxite Co. (1974), the sugar industry, controlled by Booker McConnell (1976), and Sproston, a Canadian owned shipbuilding and general engineering subsidiary.) In addition, the requirement of a single standard certificate,

⁵ For some Third World countries this may represent an improvement to their own meagre standards. The degree of inadequacy is therefore a relative concept.

based on a highly literary curriculum, prevented the acceptance of any specialized or functional secondary school training. The result was a lack of personnel with highly trained skills and abilities.

Yet Guyana potentially stood on the threshold of a promising era. Possessing acres of fertile land, a fairly equitable climate and underexploited resources (e.g. forestry, livestock etc.), it seemed only natural that political sovereignty would initiate socio-economic reform.

3.4 Development Aims and Strategies

A statement to the 24th Assembly of the United Nations in 1968 by the Guyana delegate, concerning the nation's developmental aims, contained the following:

The efficient mobilization and utilization of all natural resources, in conformity with recognized human rights and fundamental freedoms, with a view of raising the standard of living in the society; and the promotion and encouragement of investment with a view to accelerating economic growth, social progress and national development.

(D. Trotman, 1973:17)

Although lacking in methodological detail, this speech did reflect a general overview of the nation's goals. More specifically, through agricultural diversification and local resource exploitation, it was hoped that the "openness" of the economy and its dependence on the external sector would be reduced. By "tapping" the unexploited wealth of the interior, new employment and secondary related industries would emerge, which in total would eventually lead to the "feeding, clothing and housing" of the nation. Important to such achievements was the nationalization of all foreign owned companies, so that the means of production would be in the hands of certain representatives of the state. Instead of presenting a detailed review of the developmental aims and strategies since 1966, a more comprehensive discussion of the government's long term agricultural goals (including forestry and fishing) is now presented, since this was primarily the sector through which it hoped to achieve some measure of self-reliance.

3.4.1 The Role of Agriculture in the Economy

3.4.1.1 Agriculture:

The economy of Guyana is primarily agricultural yet it still imports a considerable quantity of food. This results in high retail prices to the consuming public and heavy deficits in the balance of trade (K. R. Hope, 1979:59). The 1965 employment census shows that about 35% of the working population are employed in agriculture, although it had since declined to 31% in 1975 (See Table 3.11). (Mechanization in both sugar and rice has probably led to this decline.) In 1966, agriculture contributed 24% to the Gross Domestic Product (GDP) and accounted for over two-thirds of Guyana's total exports (W. Mitchell et al, 1969:237).

By far, sugar and rice are the most important agricultural crops and account for at least 80% of value added by crops (K. R. Hope, 1979:70). Coconuts, beef, poultry, ground provisions and other crops account for the remaining 20%.

Sugar is produced on large government owned estates where there are sophisticated drainage, irrigation and transportation networks, resulting in it being the most efficiently produced crop in Guyana. Rice on the other hand, is grown by small farmers who must depend on the Guyana Rice Corporation (GRC) for technical services and credit (K. R. Hope, 1979:70).

Livestock in 1966 contributed almost the same share to the GDP of Guyana as did "other" agricultural products (that is, other than sugar and rice) (W. Mitchell et al, 1969:237). The meat industry appears to have considerable growth potential depending upon a solution to the transportation problem. In 1978, Guyana was almost self-sufficient in poultry and egg production (K. R. Hope, 1979:71).

3.4.1.2 Forestry:

While tropical forests cover 80% of Guyana's surface area, only 1.5% of this area is commercially utilized and thus accounts for only 1% of the GDP (W. Mitchell et al, 1969:264). Greenheart, a durable and resistant wood to termites and water decay, accounts for most of the forestry products.

3.4.1.3 Fishing:

Although fishing comes fifth in its contribution to Guyana's GDP, there is considerable room for expansion. Good fishing and shrimping areas are located along Guyana's coast and some inland water areas produce good catches of fresh water fish (W. Mitchell et al, 1969:345).

3.5 Agriculture and Development in Guyana

There is a general belief based on observations and past experience, that given the central importance of agriculture in the ldc's economic structure, a sound agricultural development strategy is probably the best avenue for increasing income and foreign exchange earnings (B. Johnston, 1961:575). Diversification of agriculture would therefore be a "sine qua non" for development in any such economy. In the case of Guyana, such a strategy was recognized and subsequently adopted. The government then foresaw the most likely prospects for new industry as being

- (a) Import substitution
 - (b) Increased beef production
 - (c) Banana production for export
 - (d) Forest utilization
 - (e) Aluminium)
 - (f) Mining)
- Will not be discussed here.

(Guyana government, 1966:1)

With regards to import substitution, the government has initiated a study to determine which commodities now imported should be produced locally (Guyana government, 1966:2). Although the list is probably exhaustive, the government is giving priority to the following commodities:

- (a) Milk and other dairy products: with an increase in dairy herds and better processing facilities, the country can be self-sufficient.
- (b) Fish: better processing facilities can lead to self-sufficiency in fish products.
- (c) Vegetable oils: by increasing the acreage under coconuts and peanuts as well as soya beans and oil palms, Guyana's dependence on oil imports will be reduced.
- (d) Fruit: More canning is desirable.
- (e) Timber products: expanding timber production and the use of other wood species. More specifically, expanding forest utilization through a pulp and paper industry.
- (f) Footwear: by producing one or two styles of footwear, local demand will be met.

(Government of Guyana, 1966:3).

TABLE 3.11
Official Development Programme, 1966-72
(Millions of Guyana Dollars)

Head and Project	Level of Public Investment			
	Non-Revenue Earning	Earning Revenue	Total Investment	
			Amount	%
1. Sea Defences	14.00	-	14.00	4.8
2. Agriculture and Fishing	<u>4.82</u>	<u>54.29</u>	<u>59.11</u>	20.1
Drainage and Irrigation	-	40.11	40.11	-
Land Development	-	3.18	3.18	-
Agriculture Direct				
Investments	2.12	8.00	10.12	-
Rice Combines	0.50	-	0.50	-
Technical Assistance and				
World Food Programme	1.60	-	1.60	-
Agricultural Credit	-	3.00	3.00	-
Fishing	0.60	-	0.60	-
3. Forestry	2.93	3.35	6.28	2.1
2 & 3. Agriculture, Fishing and Forestry	<u>7.75</u>	<u>57.64</u>	<u>65.39</u>	22.2
4. Industry and Trade	-	<u>16.90</u>	<u>16.90</u>	5.7
Investments — General	-	12.00	12.00	-
Industry and Tourism	-	4.05	4.05	-
Guyana Marketing Corporation	-	0.48	0.58	-
Timber Manufacturing	-	0.27	0.27	-
5. Electrical Power	<u>5.00</u>	<u>10.00</u>	<u>15.00</u>	5.1
Guyana Electricity Corporation	-	8.75	8.75	-
New Amsterdam Electricity	-	0.25	0.25	-

Source: Kemp R. Hope, Development Policy in Guyana
Planning, Finance and Administration 1979.

TABLE 3.11 (Cont'd)

Head and Project	Level of Public Investment			
	Non-Revenue Earning	Earning Revenue	Total Investment	
			Amount	%
Government Loan: Electricity Electricity Survey (U.N.)	- 5.00	1.00 -	1.00 5.00	- -
6. Transportation	38.05	27.03	65.08	22.1
Roads	37.80	-	37.80	-
Railways	-	1.95	1.95	-
Harbours and Stollings	-	6.43	6.43	-
Berbice Channel and Study	-	8.20	8.20	-
Shipping, Airports and Civil Aviation	-	10.45	10.45	-
Transport Survey	0.25	-	0.25	-
7. Postal and Telecommunications	-	9.22	9.22	3.1
8. Resettlement Schemes	4.00	-	4.00	1.4
9. Education and Training	12.24	-	12.24	4.2
10. Housing, Urban and Rural Community Development	3.71	21.63	25.34	8.6
11. Health, Sanitation, Water Supply	13.73	5.75	19.48	6.6
12. Public Safety and National Defence	17.76	-	17.76	6.0
13. Public Buildings, Printery, Vehicles	12.80	0.44	13.24	4.5
14. Resource Surveys (Other)	4.30	-	4.30	1.5
15. Miscellaneous Other Items, Including Youth Corps	6.45	-	6.45	2.2
Other Public Loans, Credits	-	5.85	5.85	2.0
GRAND TOTAL	139.79	154.46	294.25	100.0

However since the local market for such commodities is small, the area of greatest employment will rather depend on expanding exports of both traditional and nontraditional goods than on import substitution.

The most promising export industry is beef and beef cattle (Government of Guyana, 1966:3). Flood control and drainage improvement will open up both coastal and riverine lands where cattle can thrive without fear of inundation (Government of Guyana, 1966:3). Likewise, if pilot studies indicate an average yield of five tons per acre of bananas, then this commodity will also become a major export.

One of the most urgent problems however is to raise the productivity of rice farming which occupies the best soils, but which are expensively drained and irrigated (Government of Guyana, 1966:8). Where poor drainage is preventing higher productivity, the obvious solution seems to be improved drainage facilities. Where yields are still low even on best drained and irrigated land, a new line of seed will have to be introduced (Government of Guyana, 1966:9).

Central to the achievement of such goals is the opening up of new lands for cultivation (Government of Guyana, 1966:9). New roads will be built southwards along the Demerara River, the Berbice and the Corentyne Rivers (See Figure 3.3) but the biggest scheme is for flood controls at the Mahaicony and Abary Rivers, followed by smaller schemes at Tapakuma and the Black Bush areas.

3.5.1 Constraints to Agricultural Development

The concept of low capital absorptive capacity (the amount of capital any one country can use productively during a specific period of time) and its application as an economic factor is, I believe, a serious variable contributing to uneven growth in Guyana. The lack of a well-organized marketing system, good credit facilities, trained manpower, entrepreneurial and managerial capabilities and an inadequate transportation network can in one way or another contribute to the overall inability to successfully absorb capital.

For instance, essential to self sustaining growth is the presence of entrepreneurial and managerial abilities to take advantage of investment opportunities, to plan and implement viable projects and to operate

TABLE 3.12
Estimated Gross Domestic Fixed Investment (1972-76) and its Financing
(in Millions of Guyana Dollars)

Investment & Financing	1972	1973	1974	1975	1976	TOTAL 1972-76
Gross Domestic Fixed Investment	129	211	252	275	284	1,151
Financed from Gross Domestic Savings	106	116	147	174	205	748
Capital Inflow	43	85	105	101	79	413

Source: As for Table 3.9

TABLE 3.13
Official Development Plan 1972-76, Sectoral Breakdown of Planned Expenditure
(Millions of Guyana Dollars)

Sector	1972	1973	1974	1975	1976	1972-76 TOTAL
1. Agriculture	24.0	38.2	35.9	33.7	33.2	165.0
2. Fishing	2.5	5.3	11.3	4.7	3.2	27.0
3. Forestry	2.0	6.9	20.2	21.2	14.2	64.5
4. Mining and Quarrying	6.0	13.0	14.0	17.0	12.0	62.0
5. Manufacturing (of which power)	24.2 (11.6)	39.7 (31.9)	42.0 (15.1)	42.7 (17.0)	28.4 (6.4)	187.0 (52.0)
6. Engineering & Construction	1.0	2.0	3.0	2.0	2.0	10.0
7. Distribution	9.1	12.0	10.4	2.5	3.0	37.0
8. Transport & Communication	24.8	32.1	34.1	55.6	61.3	207.9
9. Housing	18.0	25.0	50.0	67.0	90.0	250.0
10. Buildings, etc., for Financial Institutions	1.0	1.0	2.0	1.0	1.0	6.0
11. Public Buildings & Equipment	16.1	25.6	28.2	26.4	33.7	130.7
12. Other Investment	0.5	0.5	1.0	1.0	2.0	5.0
TOTAL	129.2	211.3	252.1	274.8	284.0	1151.4

Source: Government of Guyana, Draft Second Development Plan (1972-76)
J. Horn, 1973

Figure 3.3: Land Use System and Location of Major Projects

Source: IBRD, Guyana: An Appraisal of the MMA Project, 1972.

them efficiently (K. R. Hope, 1979:231). Unless there exists the necessary expertise and ability to manage Guyana's development programme, then irrespective of the validity of such projects, they are doomed to fail. In the past, efforts to increase administrative capabilities suffered from inadequate assessment of the deficiencies and shortcomings to be overcome, and from the failure to adopt a strategy for dealing with them (K. R. Hope, 1979:232). Thus, unless Guyana improves her management and administrative capabilities, there is a high probability that its development plans will be no more than mere aspirations.

Closely aligned to this problem is the shortage of trained manpower. Before 1963, there was not a school of agriculture to train farmers or "would be" farmers in the theory and practice of agriculture and in the management and operation of farms. Today, the School offers two-year diploma courses and has plans for four centres to train and encourage young people to take up gardening (Government of Guyana, 1966:11). But perhaps there is a greater need, given the greater role agriculture is to play in the economy, to provide agricultural services on a broader scale. For example, improved media for information and communication to rural youth and farmers as to the economic feasibility and profitable types of agricultural and agro-based operations.

In the past, credit was not easily available to small farmers from commercial banks (W. Mitchell et al, 1969:245). Sources of medium and long term credit available to farmers from the government in 1966 were "insufficient" according to government planners, to meet their required needs. In addition, where short term credits were available, these were usually provided on the basis of an overdraft or with the provision of "stringent" security. Interest rates were also very high (W. Mitchell et al, 1969:246). Considering that rice, livestock and other cash crops are cultivated by small farmers, if output and productivity is to rise as well as to diversify, then credit and certain advisory services will have to become more easily available than they are at the moment. Since the agricultural sector has been unable to generate sufficient capital to meet even its own credit requirements, then this form of credit may have to come from external sources.

Because agricultural development was concentrated on the coast,

interior development through the building of roads was thought to be too expensive and thus left unattended. But if the government is to open up the interior and make land available on a larger scale for cattle raising, mixed farming and other purposes, then the road network within small interior settlements, and between settlements and central places will have to expand, not only to reduce the transportation costs to the hinterlands but to make economically feasible the working of neglected forested areas. Too often, community development schemes for new land development have simply petered out and finally aborted, simply because, among other factors, transportation and thus communication links were so poor.

3.6 A Summary

Given the resource potential, Guyana seems to be following the correct philosophy which assumes that agriculture advance may be a concomitant of other forms of industrial development and that the agricultural sector may provide large scale employment opportunities.⁶ In seeking these objectives however, the government will have to face problems both of an external and internal nature, arising from the need to borrow capital as well as overcoming constraints arising from past structural and institutional patterns embedded into the society. More importantly, given the magnitude of the agricultural aims, the plan must surely call for a massive mobilization of the country's human resources. It is to this latter factor that the government has to pay particular attention, if it is to implement its rather ambitious development strategy.

⁶ As mentioned before, the most important mineral resource is bauxite. Along with alumina, it contributes a yearly average of 14% of the GDP. The government in conjunction to its agricultural policies hopes to accelerate the industry's monopoly in calcined bauxite (K. R. Hope, 1979:73).

CHAPTER 4

BILATERAL AND MULTILATERAL AID

4.1 Introduction

Guyana's transition from colonialism to Independence was accompanied by a wider role for domestic fiscal and monetary policy in determining the direction for the country's development (W.Mitchell et al, 1969:310). Prior to Independence, the Colonial Development Welfare Act (of 1945) ensured that "adequate" loans were available for both development planning and implementation, though Guyana was also the recipient of "soft" loans and grants from the U.S. Agency for International Development, the United Nations Special Fund and the World Bank (See Table 4.1).

Thus prior to 1966, government's capital financing came almost entirely from grants and loans, of which virtually all was long term and owing to the United Kingdom. Exchequer loans and U.K. stock (long term Guyana bonds issued on London capital markets) were the principal items of the external debt (W.Mitchell et al, 1969:420).

This chapter outlines in detail the principal sources from which Guyana is an aid recipient; the terms and type of aid received and the sectoral bias of the donor. In addition, a description of six aided projects will be provided to give some additional insight into the general assertions to be derived from an overall appraisal. Although descriptive in nature, this Chapter seeks to pinpoint the implications for future development given certain forms of aid, and thus the degree of self-reliance and self-sufficiency attained as a result of such aid practices.

4.2 Development Programmes and External Assistance

Rising socio-economic aspirations and constitutional advances in 1966 created the pressure for rapid growth in government expenditures.

This implied that new sources of capital other than the United Kingdom had to be found. Today, the United States, the United Kingdom and Canada form the largest bilateral sources of funds, whilst the International Bank for Reconstruction and Development (IBRD), the International Development Association (IDA) and the Inter American Development Bank (IDB), the largest multilateral sources (See Table 4.1). Within the last few years, an even greater need to obtain new funds has led to additional bilateral aid flowing from Libya, Iraq, the People's Republic of China, Japan and Korea (Abecor Report, 1980:1), together with multilateral funds from the European Economic Community (EEC).

Loans altogether comprise the major part of the external capital receipts and long term debts the major part of the total external public debt (K. R. Hope, 1979:179). Indeed, aid in the form of grants has not been exactly copious, and has slowly decreased from about 37% of the total receipts in 1966, to almost 8% in 1980 (See Table 4.1). According to Table 4.2, financing of the development effort has displayed a tendency towards an increased use of external funds. Except for 1972, external borrowing financed at least one quarter of the public sector's capital expenditure. In fact in 1971, capital expenditure increased substantially to more than two and a half times the capital expenditure of the previous year, with the effect that net external borrowing had to be increased by over 500% of the 1970 level. Given the fluctuations in net borrowing, there seems to be no indication that this need is decreasing.

4.3 Multilateral Donors

4.3.1 The IDB

Five IDB loans totalling some G\$79 million are helping to finance projects in agriculture, forestry, health and fisheries (IBRD News, 1979:3). In addition, G\$1,052,500 in non-reimbursable technical cooperation was provided by the Bank for institutional support and preparation of feasibility studies. A recent G\$1,315,000 was made available for a feasibility study into the possible mining, processing and marketing of kaolin or China clay (IBRD News, 1979:3). In general such loans are lent on a long term, low interest basis.

More specifically, the IDB is helping to finance the Mahaica, Madia

TABLE 4.1
GUYANA : Government External Receipts

Year	Total Grants and Loans	G \$,000 GRANTS					LONG TERM LOANS							Short Term JCF Advances
		Total	U.K.	USAID	Canada	U.N.	Other	Total Loans	U.K.	USAID	Canada	FRD IDA	Other	
1966	19,929	10,655	9,399	1,189	13	-	54	9,274	7,262 ¹	883	239	-	890	-
1967	21,363	8,046	3,908	-	4,108	-	30	13,317	5,139	4,633	1,730	-	207	1,608
1968	21,885	5,794	3,138	702	1,944	-	10	16,091	2,170	111,696	2,225	-	-	-
1969	25,070	4,081	1,077	1,561	1,443	-	-	20,989	6,692	13,819	14	104	-	160
1970	21,122	1,713	1,056	156	93	8	-	19,809	7,343	8,102	4,192	112	-	-
1971	30,118	3,695	-	2,901	104	690	-	26,423	6,092	13,721	4,192	2,418	-	-
1972	20,113	301	-	61	240	-	-	17,747	6,607	8,363	-	2,692	85	2,785
1973	49,702	3,206	-	651	286	1,024	1,245	44,301	1,316	498	-	3,459	39,028	2,195
1974	70,336	1,080	-	-	-	-	1,080	69,256	8,000	4,100	1,000	7,456	48,700	-
1975	147,556	3,200	-	-	-	-	1,200	142,237	9,247	7,975	1,973	16,937	106,105	-
1976	166,714	2,000	-	-	-	-	2,000	162,714	5,337	13,100	4,500	6,800	132,977	-
1977	63,544	2,136	-	-	-	2,136	-	61,408	4,672	11,227	2,153	5,639	41,717	-
1978	107,204	704	-	-	24	-	680	106,500	24,538	7,298	5,803	19,672	49,189	-
1979 ¹	143,400	15,800	-	1,370	790	1,960	11,730	127,600	12,160	16,150	11,440	40,785	56,665	-
1980 ²	240,070	19,310	-	1,560	550	2,380	14,820	221,760	14,400	11,480	12,510	24,850	158,520	-

¹ Not Yet Final

² Budget Estimates

JCF - Joint Consolidated Fund

Source: Bank of Guyana Annual Report, 1979

TABLE 4.2
Public Sector Capital Expenditure and its Financing, 1968-80 (Millions of Guyana Dollars)

Year	Capital Expenditure	External Borrowing	% of Public Sector Expenditures Financed by External Borrowing
1968	41.3	12.3	30.0
1969	53.7	17.6	30.5
1970	68.0	20.9	30.7
1971	194.6	136.7	70.7
1972	100.2	22.3	22.2
1973	123.4	31.8	25.7
1974	161.1	49.5	29.6
1975	358.7	110.0	30.7
1976	459	226	49.2
1977 ^a	270	90	33.3
1978 ^b	286	161	56.3
1979 ^b	317	158	49.8
1980 ^b	355	160	45.1

Source: K. R. Hoque, Development Policy in Guyana, 1979
IBRD, Economic Memorandum on Guyana 1976

a - Preliminary Estimate.

b - Projected Estimate

TABLE 4.3

Projects Financed by the IBD in Guyana

Year of Involvement	Project	Estimated Project Cost	Project Loan	% of Project Cost Financed by IBD
1977	MMA Scheme	G \$ 72.6M	G \$ 49.5M ^a	68.1%
1978	Black Bush	G \$ 45.9M	G \$ 7.2M	15.6%
1979	Prod & Marketing of edible Crops	G \$ 9.7M	G \$ 7.7M	79.3%
1978	Timber Development	G \$ 31.8M	G \$ 6.0M	19.0%
1978	Health Exp.	G \$ 10.9M	G \$ 8.8M	80%
1979	Expansion of Guyana Fisheries Ltd.	-	G \$ 12.7M	-
1980	Small Scale Fishing	G \$655,000	G \$500,000	76.3%

Source: World Bank, Economic Memorandum on Guyana, Washington, 1978

and Abary Scheme (MMA), the production and marketing of edible crops, health provision in non-metropolitan areas, small scale fishing (See Table 4.3) and some \$6 million (US) to the Black Bush Irrigation Project (World Bank Staff Report, 1978:2).

4.3.2 The IBRD

Loans are offered on non-concessionary terms but they offer the possibility of obtaining finance for large scale projects which could scarcely hope to attract commercial lenders--provide larger repayment periods than are normal with commercial borrowing (F. Lappe-More, 1980:172). According to Table 4.4, IBRD's commitment between 1966-71 to sea defense and education (multilateral schools¹ and technical training colleges) totalled some US\$13.3 million, and by the end of 1977, the total amount outstanding and disbursed, was US\$20.1 million (World Bank, 1978:2). IBRD loans are also helping to finance Guyana's electricity programme (Quarterly Economic Review, 1978:18) and quite surprisingly, a concessionary loan of G\$12.9 million was obtained for the Tapakuma rice expansion programme (Quarterly Economic Review, 1974:14).

4.3.3. The IDA

Like the IBRD, the IDA is also an affiliate of the World Bank. Unlike the IBRD however, it provides loans for some fifty years, charges no interest and makes only a small service charge to cover its expenses² (F. Lappe-More, 1980:173). So far, most of its credits have been channelled into education (multilateral schools and technical training colleges), agriculture (Black Bush Irrigation Scheme--US\$ 10 million) and road engineering and supervisory works. However, by the end of 1977, the total capital outstanding and disbursed was US\$6.7million (World Bank, 1978:2)

4.4 Bilateral Aid

4.4.1 CIDA

According to Table 4.1, CIDA's commitments between 1966-71 were

¹ Secondary schools offering the following separate streams at the upper level--science, agriculture, commercial, home economics, technology and arts.

² IDA aid is often called credits, rather than loans because of the nominal service charge and long grace period.

TABLE 4.4

Commitments of External Loans and Grants
By factor and Source, 1966 - 71 (US Millions)

<u>Sector</u>	<u>IBRD</u>	<u>IDA</u>	<u>USAID</u>	<u>CIDA</u>	<u>UK</u>	<u>Total</u>	<u>%</u>
Transport	-	-	25.0	6.0	-	31.0	21.1
Power & Communication	-	-	-	-	17.8 ²	17.8 ²	12.1
Water & Sewerage	-	-	2.6	2.3	-	4.9	3.3
Sea defense	10.4	-	1.0	-	7.3	18.6	12.6
Education	2.9	2.9	0.6	3.4	0.2	10.0	6.8
Agriculture	-	2.2	14.6	-	2.6	19.4	13.2
Other	-	-	10.3	5.2	29.9	45.4	30.9
Total	13.3	5.1	54.1	16.9	57.7	147.1	
%	9.0	3.5	36.8	11.5	39.2		100.0

¹Includes factors of \$186M, based on disbursements estimates

²Includes private back loans and supplies credits guaranteed by the
Guyana Government

Source: IBRD Memorandum on Percent Development and Prospects in
Guyana 1972.

diverse, covering transport, water sewerage, education and "others". Recent annual reports by CIDA provide a more illustrative account of its activities in Guyana. Under an agreement signed in May 1977, Canada is providing the country with an \$8 million loan at zero percent interest, ten years grace and fifty years maturity, and a grant of \$1.25 million to help develop its forest industry (CIDA, 1980:2). However such loans are tied to the purchasing of Canadian logging, saw-milling and road building equipment, and the grant the cost of technical assistance to the Guyana Forest Department (CIDA, 1980:2). The Guyana Electricity Corporation was also provided with \$5.5 million worth of Canadian equipment to help expand its distribution network; part of a multi donor project costing more than \$25 million (CIDA, 1980:2). Other projects are as follows:

Project	Loan	Grant
1) 13 Navigation beacons, landing aids at Timehri airport, technical assistance	\$406,000	\$1.3 million
2) Flight handling equipment to Guyana Airways Corporation	\$145,000	-
3) Construction of veterinary diagnostic lab and for technical assistance and equipment for an applied science institute	?	?
4) New Amsterdam Technical Institute	\$1.8 million	-

Source: Quarterly Economic Review, 1978 No. 4 ? = unobtainable
CIDA, Quarterly Project Status Reports, 1980

Thus, it would seem based on Table 4.4 and supplementary reports published by CIDA, that Canadian development assistance is concentrated in forestry development and the transfer of both management and technical skills. Forestry, veterinary science, applied science and technology, are the main areas for productive employment generation as perceived by the Canadian government.

4.4.2 U.K.

Over the last decade, receipts have been in the vicinity of G\$85

million (See Table 4.1). Based on the figures tabulated in Table 4.4, it would appear that Britain's interest lies with sea defense, power and communications and water and air travel expansions. There is also some commitment to the Tapakuma Rice Expansion Scheme.

Between 1965-75, U.K. loans accounted for nearly 27% of the aid disbursed (IBRD, 1973:107). These were obtained at varying interest rates between 0.3% and 9.4% (IBRD, 1973:107).

4.4.3 U.S.AID

Of the total aid disbursements between 1965-72, low interest AID loans accounted for over 40% (IBRD, 1973:107). Such monies have been primarily channelled into projects connected with agriculture (Black Bush Irrigation Scheme--US \$7.5 million; Tapakuma Rice Modernization Scheme--G\$25 million) (IBRD, 1974:2) but more importantly, transportation (access roads, East Bank Road/Canje Bridge, roadway from Mahaica to Soesdyke). In fact between 1966-72 a total of US \$20 million was provided for the improvement and construction of highways (IBRD, 1972:7). Furthermore, an additional US \$9 million was pledged for the reconstruction of roads in and around Georgetown for the period 1972-75. Smaller commitments are made to sectors such as public sector manpower training, overseas scholarships and training and fisheries (See Table 4.5).

4.5 The International Monetary System--IMF

Within the last few years there has been an increased availability of IMF funds to Guyana. But such receipts do not fall under the umbrella of development aid as defined in Section 1.3. In fact, the IMF has denied any responsibility for aiding development (G. Bird, 1978:12) and considers its primary responsibility as providing temporary assistance in financing balance of payments deficits on current account for monetary stabilization operations (G. Bird, 1980:11). Despite its denial in affecting development however, theorists have suggested that short term stabilization policies can have a detrimental effect on the long term development. Because of Guyana's need to withdraw sums far exceeding its special Drawing Rights³ and the required adherence to strict

³ A non-traded reserve currency used only for accounting purposes. Thus when a country needs foreign exchange to finance its balance of payments

TABLE 4.5
GUYANA : Breakdown of Public Sector Investment, 1978-80 (G \$ Millions)

ONGOING PROJECTS CENTRAL GOVERNMENT	1978			1979			1980			PRINCIPAL FINANCING AGENCY
	EXTERNAL FINANCE	OTHER	TOTAL	EXTERNAL FINANCE	OTHER	TOTAL	EXTERNAL FINANCE	OTHER	TOTAL	
M.M.A. Scheme	5.50	2.50	8.00	21.0	9.0	30.0	24.50	13.90	48.40	IDB
Black Bush	2.50	-	2.50	7.0	-	7.0	23.20	-	23.20	IDA, IDB, USAID, CIDA
Installation of Pumps	-	0.75	0.75	-	2.0	2.0	-	1.50	1.50	---
Essequibo Sea Defense	1.60	0.75	2.35	3.8	1.7	5.50	2.70	1.30	4.0	U.K.
Other Seas River Defenses	-	1.20	1.20	-	1.5	1.5	-	1.00	1.0	---
Soedylke Linden Highway Dev.	-	0.50	0.50	-	0.8	0.8	-	0.7	0.7	---
Matarkai Development	-	3.0	3.0	-	2.0	2.0	-	1.5	1.5	---
Topographical Surveys	0.10	0.06	0.16	0.50	0.50	1.0	0.20	0.40	0.60	CIDA
Veterinary Diagnostic Lab	0.35	0.20	0.55	0.65	0.35	1.0	-	-	-	CIDA
Tapakuma	22.77	6.53	28.30	4.50	17.50	22.0	11.0	6.7	17.7	IBRD, UK
On Ranch Investment	0.80	-	0.80	0.50	-	0.50	0.20	0.20	0.4	IBRD
Caricom Corn & Soya Bean	1.78	-	1.78	-	-	-	-	-	-	CDB
Cotton Textile Mill	2.40	6.10	8.50	-	2.0	2.0	-	-	-	People's Republic of China
Demerara High Port Complex	0.25	0.05	0.30	0.75	0.25	1.0	2.0	0.50	2.5	EDF, Supplied & Credit
Georgetown Approaches	0.50	0.50	1.0	4.00	1.00	5.0	-	-	-	USAID
East Bank Berbice Rd.	0.20	0.50	0.70	0.90	0.60	1.5	5.0	4.0	9.0	EDF
East Coast Dem. Road	3.20	0.80	4.0	1.50	1.0	2.5	-	-	-	---
East Bank Rds/Canje Bridge	1.99	1.01	3.0	1.0	0.5	1.5	-	2.00	2.00	USAID
Upper Mazaruni Rd.	-	1.50	1.50	-	1.50	1.5	-	1.50	1.50	---
Access Roads	0.55	0.05	0.6	2.00	1.00	3.0	5.0	2.00	7.00	USAID
West Demerara Roads	2.00	4.00	6.00	1.00	2.00	3.00	-	1.00	1.00	IBRD/IDA
Purchase of Launches	0.75	-	0.75	0.75	-	0.75	-	-	-	U.K.
Hinterland Air Strips	0.50	0.10	0.60	1.00	0.20	1.20	-	1.00	1.00	U.K.
Sites & Services	-	1.00	1.00	-	3.00	3.00	-	-	-	---

TABLE 4.5: (continued)

ONGOING PROJECTS CENTRAL GOVERNMENT	1978		1979		EXTERNAL FINANCING	1980		PRINCIPAL FINANCING AGENCY
	EXTERNAL FINANCING	OTHER TOTAL	EXTERNAL FINANCING	OTHER TOTAL		EXTERNAL FINANCING	OTHER TOTAL	
Loans to G.C.M.F.R.	2.00	- 2.0	3.00	- 3.0	-	4.00	4.0	GBR
Loans to G.A.D.R.	21.00	- 21.00	10.00	- 10.00	-	-	-	---
Second Education Project	4.25	2.25 6.5	5.50	2.50 8.00	3.00	1.50	4.50	IBRD/IDA
Research Institute of Applied Science & Tech.	1.10	- 1.10	0.50	- 0.50	-	1.00	1.00	CIDA
Scholarship Training	1.40	- 1.40	1.50	- 1.50	1.40	-	1.40	UK, USAID, etc.
Public Sector Manpower Training	1.15	0.85 2.0	1.00	0.50 1.50	-	-	-	USAID
Georgetown Hospital	-	1.08 1.08	1.00	0.50 1.50	-	0.50	0.50	---
New Amsterdam Hospital	-	0.41 0.41	1.25	0.25 1.50	4.60	-	4.60	People's Republic of China
Water Supply	-	0.95 0.85	-	1.00 1.00	-	1.50	1.50	---
Linden Pure Water	4.20	0.80 5.00	0.75	0.75 0.75	-	-	-	CIDA
Upper Demerara Forestry	0.80	0.50 1.30	11.0	5.0 16.00	17.0	8.00	25.00	IDA, IBRD, EDF
Upper Demerara Forestry Rd.	3.15	0.35 3.50	5.4	0.6 6.0	-	-	-	GBR
Rural Health Centres	-	-	-	-	5.0	2.0	7.0	IDB
Dairy Development	-	-	4.25	0.75 5.0	8.2	1.8	10.0	IDB
REST OF PUBLIC SECTOR	31.30	- 31.20	-	-	-	-	-	UK
Power Machines (GEC)	12.00	- 12.00	-	-	-	-	-	Commercial Services
Glass Factory	2.8	5.1 7.9	-	-	-	-	-	CIDA, Commercial Services
Guyana Timbers	1.0	0.5 1.5	0.25	0.25 0.50	6.25	0.25	6.50	CIDA
Guyana Food Industrial Corp.	13.60	- 13.60	-	-	-	-	-	Commercial Services

Source: World Bank Report - Economic Memorandum on Guyana, 1978

Note: This table represents at least 80% of the aided projects.

monetary and fiscal policies, there will be conflicts arising from the greater emphasis on internal adjustment rather than on initiating long term development. Thus, in the case of Guyana, an analysis of the aid effort has to encompass the special workings of the IMF if a complete or all embracing explanation is to be offered for its growth or lack of growth.

4.5.1 The IMF in Guyana

A combination of both internal and external factors eventually led by the end of 1975 to a severe reduction in government revenues, with the need to withdraw from the IMF amounts far exceeding its drawing rights (Caribbean Basin Report, 1980:9). The granting of such assistance was conditional however, on the acceptance of certain monetary and fiscal policies stipulated by the IMF.

Thus based on a one year agreement for credit amounting to G\$20 million and a compensatory loan of G\$28 million (Caribbean Contact, 1978: 10), the Guyana government set about reducing subsidies of some G\$47 million in 1976, to G\$6.6 million in 1978 (Caribbean Basin Report, 1980:9). (These subsidies covered items such as transport, electricity, poultry feed and flour.) In addition, charges for public transport utilities and prices at the state controlled wholesale/retail distribution centres were increased dramatically. Increased taxation was also imposed (Caribbean Basin Report, 1980:9).

Compliance with the targets proposed then allowed the government to negotiate another three year contract in mid-July of 1979, for some US 80 million dollars. The programme called for the reduction on the level of commercial arrears, limits on the amount of borrowing by the central government and state corporations from domestic banks, and increases in the net local reserve (Foreign Economic Trends, 1980:1). However, failure by the Guyana government to meet the first quarter targets upon which Oct. 1 (1979) drawing rights were conditioned, implied that the agreement was suspended (Foreign Economic Trends, 1980:1).

deficits, it can borrow SDRs in exchange for its own currency and repay the loan within a certain specific period.

In October of 1980, the government disclosed that it had finally adopted an austerity plan prepared for it by the IMF (Caribbean Basin Report, 1980:10). These policies were designed to attract foreign investors as well as satisfy the stringent conditions as stated in previous agreements. In exchange Guyana would receive IMF standby credits amounting to roughly US 100 million dollars over three years. (Caribbean Basin Report, 1980:10) instead of the stated US \$80 million. Recent reports indicated that this was subsequently changed to credits amounting to roughly US \$150 million dollars (Caribbean Contact, 1981:7). However, this was subject to (a) the economy growing in real terms by at least 6% (b) the current gap in the balance of payments being and limited to a level of 20.4% of GNP (c) the overall deficit of the balance of payments being limited to 30 million dollars (d) the surplus of public sector increasing to 6% of the GNP and (e) external payment arrears being eliminated when gross foreign assets of the central bank reach a level of US \$52 million (Caribbean Contact, 1981:7). In July 1981, the dollar was devalued and equated with a basket of currencies⁴ (Guyana Chronicle, 1981:1).

4.6 Individual Project Descriptions

On account of the difficulties in gaining access to a number of project studies, the choice of project descriptions was limited to available information gathered from several sources. However they do reflect a variety of circumstances such as bilateral vs multilateral aid, financial vs technical assistance, geographical location plus the greatest repayment burden to be shouldered by the government. Since these projects were already subject to cost benefit, profitability and social cost analyses by the donors, it would be more beneficial to appraise these projects in terms of how they will affect the present and future development efforts, rather than what they could have achieved given some alternative which I am incompetent to tackle at the moment.

⁴ Instead of being solely aligned to the US dollar, the Guyana government has set new exchange rates such that G\$1=TT\$0.80, B\$0.67, EC\$0.90, J 0.59, US\$0.33.

TT=Trinidad & Tobago dollar, J=Japanese yen, B=Barbadian

4.6.1 The MMA Scheme

The Mahaica, Mahaicony and Abary region, extends over 432,000 acres and accounts for over 20% of the value of the total agricultural production (IDB News, 1978:6). Presently, the farmers harvest one rice crop a year because irrigation is not generally available during April-June. When no crops are grown, cattle are raised on the rice stubbles and at other times in pegasse swamp and rough pastures (IDB News, 1978:6).

More importantly, in 1976, severe flooding in the rice belt caused production figures to fall 67,000 tons below those of the previous year (Canada Newsletter, 1979:1). To increase production as well as to achieve greater control over the difficult conditions, the government hoped to bring a total of 300,000 acres of land under double cropping, through the MMA project and the Black Bush and Tapakuma schemes (IDB News, 1978:6). The MMA scheme essentially involves implementing infrastructural works for flood control, irrigation and drainage for the development of 148,000 acres under Phase I and 30 miles of access roads (Canada Newsletter, 1979:2). By 1985, it is anticipated that the project will not only have contributed some 72,000 tons of rice to the national total, but would have increased the yield of sugar cane, coconuts and ground provision in the area (Canada Newsletter, 1979:1). The estimated cost of US\$72.6 million is to be borne jointly by the IDB and the government of Guyana. Table 5.10 provides a summary of the proposed project.

4.6.2 The Black Bush Scheme

Like the MMA Scheme, the central purpose of the project is to rehabilitate and expand the infrastructure of the drainage and irrigation systems and agricultural support services on 52,900 acres in the low coastal region between the Berbice and Corentyne Rivers (See Figure 3.3) (IDB News, 1979:8). Besides increasing the production of rice and other foods, the project seeks to bring the water resources of Guyana's entire coastal belt under effective control and make agriculture less vulnerable to flooding (IDB News, 1978:9). Estimated at US \$42.8 million, the project is funded by both bilateral and multilateral donors, namely USAID, CIDA, IDB, IDA and IFAD (International Fund for

(Agricultural Development) (World Bank, 1978:2). Estimated completion date is 1983 (See table 5.10 for further details.)

4.6.3 The Tapakuma Project

Basically designed to increase rice production in an area of 41,750 acres through double cropping, better drainage to achieve flood control and land levelling to achieve greater efficiency in water use and the use of improved seed varieties, the project is but part of the overall scheme to bring 30% of land under more cultivation (IDB News, 1978:8). Funded primarily by the IBRD and the U.K. (See Table 4.5), the estimated cost is US\$18.5 million. (See Table 5.9 for further details.)

4.6.4. The Upper Demerara Forestry Project

Among Guyana's very rich resources, none holds more promise than its vast timberlands. Given the possibility of exporting not only wood products from well-known species, but also those of less well-known species, the project seeks to purchase logging and transport equipment to handle 93,500 cubic meters of roundwood per year, install a sawmill and power plant, construct port facilities and 13 km of access roads (IDB News, 1978:10). Estimated to cost \$31.8 M, it is supported by the IDB which finance 19% of the cost, the IBRD, 31%, the EDF (Europe Development Fund) 22% and Guyana, 28%. Except for the IBRD loans, the remaining is obtained on "soft" terms. This project should not be confused with a similar project, financed by CIDA in the Great Falls area mentioned in my subsequent analyses.

4.6.5 The First and Second Educational Projects

The recognition that the educational and training system was not geared towards supporting the development objectives of the newly independent country led to schemes to rectify this problem. The first educational project was designed primarily to respond to the socio-economic situation featuring high unemployment, mostly among the young and primary school leavers (World Bank, 1977:2), concurrent with a manifest shortage of technical and skilled workers. The plan called for the construction of multilateral schools offering the following separate streams at the upper level--agriculture, commercial, home economics, technology, arts

etc., and a primary teacher training college. The manpower rationale was basically the same in 1976, when plans were initiated for the Second Education Project, except that it was too early to assess whether the manpower objective was attained to any degree by the first project (the first group of graduates to have gone substantially through the new curricula graduated in 1980).

4.7 Tentative Observations on the Aid implications for Development

It would appear from the previous sections that project aid as opposed to programme aid is favoured. Furthermore donors support those projects which are more favourable for them either in terms of expertise or expected profitability. The key question based upon such observations is, how does this affect the Guyanese development effort?

Firstly, the emphasis on external loans may have encouraged highly capital intensive activity. As a result, central government expenditure may have been greater than it would otherwise have been (M. Odle, 1976: 155). On the other hand, if the amount of foreign finance for the various sectors was not very different from what the government would have spent anyhow, more local funds would have been available for other sectors and the actual expenditure would not have differed greatly.

The preponderance of project aid as opposed to general all purpose aid acts as both a hindrance and an advantage in the case of the Guyanese development effort. Aside from being tied to purchases in the donor country it prevents the Guyana government greater flexibility in determining the degree of development in any particular sector. Imports of raw materials and spare parts needed to keep industries working at full capacity are reduced to a certain degree through the lack of foreign exchange. On the other hand, given Guyana's continuing "brain-drain" and the lack of a trained and skilled manpower in various capital intensive and technologically advanced industries, the technical staff and training contribution they (donors) are expected to make as part of their activities, would in itself contribute to overcoming limitations to absorptive capacity. Guyana can therefore take sufficient advantage of combining a substantive amount of technical assistance with capital projects.

Table 4.6 Project and Sector Investment by External Donors

Agriculture		
Drainage & Irrigation	Fisheries	Forestry
IBRD	IDB	CIDA
IDB	EDF	EEC
IDA	EEC	
USAID	Japan	
U.K.		
Communications		
Air Transport	Water	Land (Roads)
CIDA	U.K.	IBRD
U.K.		IDA
		USAID
Social Welfare		
Schools	Health	Sea Defense
IBRD	IDB	U.K.
IDA	People's Republic of China	
	USAID	
Resource Development		
Hydro Electric Power	Research Institutes	Feasibility Studies
UNDP	CIDA	UNDP
Sweco (Incomplete)		IDB
		CIDA
Productive Employment		
Scholarship & Training	Schools Same as above	Public Sector Training
U.K.		U.K.
USAID		USAID
CIDA		CIDA

The argument that donors have used the project approach to pursue their favourite venture without sufficient regard to the overall development needs of the recipient country, is especially debatable in the case of Guyana. There is no doubt that the projects being undertaken are sanctioned by the government. But were they coerced into such schemes or were they of the government's initiative, though knowledgeable of the donors' preferences?

There have been reports that the existence of many donors have aggravated the problem of coordination and integration of projects (M. Odle, 1976:177). Also that donors have discriminated in favour of large obtrusive projects without sufficient regard to whether social services or direct productive activity are of a higher priority (M. Odle, 1976:177). A case in point would be the upper Mazaruni hydro electric project. Preliminary findings of a UNDP hydro electric power survey have indicated that a smaller, more accessible installation site at Kai teur could be operational much sooner and at a cost one third less than the Upper Mazaruni (World Bank, 1976:17). In addition, it could also facilitate the operation of a small aluminum smelter. But the Swedish consulting firm SWECO, has challenged such findings on the grounds that Kai teur would neither be large enough to meet Guyana's needs or be less costly than the Upper Mazaruni (World Bank, 1976:17).

A second possible case, though purely speculative, is the three large drainage and irrigation schemes. Current indications point to an uncertain future with regards to the absorption of the potential output of both the rice and sugar industries (Guyana Development Plan, 1966:1), and thus it would seem very unwise to plan for an increase in national income based on massive increases of such products given such uncertainties. Since yields are even low for the best drained and irrigational lands (Guyana Development Plan, 1966:8) perhaps more careful husbandry could be practised in conjunction with bringing a smaller percentage of land under cultivation. Given the number of bilateral and multilateral agencies funding these projects, this is a likely indication that Guyana's preferences could have been influenced and distorted by such biases.

If projects are to yield high returns in terms of increments to the

social product, they must be employed in strategic ways which either remove bottlenecks to productive domestic investment or initiate increased production by introducing new methods of production and distribution, new techniques etc. (M. Mikesell, 1968:163). It would appear that the government has recognized the existing bottlenecks and has set into motion some of the necessary corrective changes. For instance, multilateral vocational schools to increase the skilled manpower, investing in the development of its own hydro electric power etc.. The point to be made here is that given the long gestation periods of such projects, it would be some time before the direct and indirect impacts on output materialize. This is not to say that shorter term projects are preferable, but that simply if the country has to make investments which require a relatively long period of net resource inflow, then the government is even more committed to ensuring that the cost of such projects is not obtained at the expense of long term development. If investments are not allocated in such a manner which will eventually decrease Guyana's dependence on imports relative to exports, then further borrowing will become inevitable-- an undesirable process.

Lastly, there is an overall greater emphasis on economic programmes for structural changes rather than programmes for higher productivity from the indigenous masses. That is, projects related to health, education, worker incentives etc.. This was reflected in the government's capital expenditure for 1966-71 when only 11% of some G\$250 million was spent on social services, more especially education, whilst 23% was spent on roads (IBRD, 1972:12). Perhaps this was basically a pragmatic response to the need for rapid growth and change, based on the belief of easy recruitment of qualified Guyanese working abroad, the emphasis in consultants contracts, the training contribution they are expected to make plus the expanding of the educational system to include more vocational and technical schools. Perhaps more importantly, it reflected the donors' emphasis on certain sectors of the economy, and the subsequent channelling of counterpart funds into those sectors by the government.

4.8 A Summary

External borrowing is not a post-independence phenomenon in Guyana. But the increased volume of external aid since 1966 is a reflection of the changed development thrust of the government and therefore differs substantially from previous aid in terms of objectives and origin. There is no doubt that Guyana receives a considerable proportion of "soft" loans, but the high foreign exchange component of certain projects tend to minimize the benefits of such aid terms. Furthermore the tying of aid to imports also reduces any concessionary elements of such flows.

Given the socio-economic constraints, but more so the political milieu prevailing in Guyana, project aid is probably the best form of aid. However this is counter-acted by the somewhat non altruistic motives of the donor, who is biased towards capital intensive, highly technological innovations and certain sectors of the economy.

Being open to external constraints such as fluctuations in price for primary exports, oil hikes, and so on, implies Guyana is never totally in command of its balance of payments. This can lead to severe debt repayment problems especially if constraints simultaneously occur within a short period of time. Excessive borrowing from the IMF can only mean constrictions in the rate of Guyana's growth and change, thus contracting in the short run, the pace of aided programmes.

CHAPTER 5

THE PATH TOWARDS SELF SUSTAINING GROWTH

5.1 Introduction

Aid to Guyana is a conglomeration of various activities as should be clear from a glance at Table 4.5. Whether such activities have led or will lead to increased self-reliance and a basis for self-sustaining growth is subject to analysis in this chapter. Given the number of on-going projects a micro appraisal of each and every one would be beyond the scope of this study. Thus the appraisal will be limited to six projects, the cost of which is relatively large (that is, foreign aid of some US\$187.7 million is helping to finance these projects) and which by analogy should compensate adequately for such initial indebtedness. To complete the picture, the IMF and its role in assisting growth and change will be discussed. Before attempting such a task, a summary of the current/prevailing socio-economic situation is necessary, not only to provide background material upon which the aid effort can be analyzed, but to identify the stage of development reached and hence the potential for future growth.

5.2 Prevailing Socio-Economic Conditions

5.2.1 The Overall picture

Looking at Table 5.1 it would appear that the performance of the economy has been erratic, oscillating with years of relative and real declines in gross domestic product. In current value terms the gross domestic product was estimated at G\$1,170 million, a rise of 3.9 percent with respect to 1978. In real terms output decreased since there was an estimated 15.4% rise in consumer prices during the year. The slight increase in gross domestic product mirrors the imposition of a very rigid regime of import controls rather than any marked improvement in exports.

Percentage distribution of Gross Domestic Product by sector (Table

TABLE 5.1

GUYANA: Main Economic Indicators

	1972	1973	1974	1975	1976	1977	1978	1979
A. BASIC ECONOMIC INDICATORS								
Gross domestic product (millions of Guyana dollars at current prices)	529	577	865	1060	1038	1013	1126	1170
Population (thousands of inhabitants)	740	756	774	791	799	812	824	862
Per capita gross domestic product (current Guyana dollars)	715	763	1118	1540	1299	1247	1366	1389
ANNUAL GROWTH RATES								
B. SHORT-RUN ECONOMIC INDICATORS								
Gross domestic product (current prices)	5.4	8.9	50.0	22.5	-5.5	-2.4	11.1	3.9
Per capita gross domestic product (current Guyana dollars)	342	6.7	46.5	19.9	-6.9	-6.0	9.5	1.7
Terms of trade	8.0	-10.3	19.1	27.0	-21.5	-6.5	14.6	1.2
Value of exports of goods and services	0.1	-3.9	85.4	26.6	8.9	-14.6	-8.7	14.9
Value of imports of goods and services	10.2	23.6	34.1	31.9	-18.3	1.3	5.9	-8.1
Consumer Price Index, ^b	5.0	7.5	17.5	8.0	9.2	9.0	20.0	15.4
Money	22.7	14.5	31.3	60.6	8.7	10.8	19.5	15.6
Current income of government	19.1	0.1	99.3	58.7	7.6	28.7	4.9	1.1
Total expenditure of government	16.1	38.7	21.8	68.0	-21.2	-5.1	5.9	-
Fiscal deficit/total expenditure ^d	27.9	47.3	15.0	19.6	23.0	-21.6	9.9	-
MILLIONS OF US DOLLARS								
C. EXTERNAL SECTOR								
Trade balance (goods and services)	-3.9	-50.8	17.3	1.8	111	-71	-1	52
Balance on current account	-14.4	-61.7	-7.9	-21.3	14.9	-95	-28	82
Variation in net international reserves	10.0	-27.0	47.0	49.0	-90	-6	128	-41

Source: Latin American Yearbook, 1978

¹ Budget estimates

TABLE 5.2
Percentage Distribution of G.D.P. by Sector

PRODUCT	1969	1972	1975	1977	1979 ¹
Sugar	13.7	14.4	30.5	10.3	14.1
Rice	2.9	2.1	3.8	5.7	3.4
Livestock	2.2	2.2	1.8	2.6	3.6
Other Agriculture	3.0	2.8	2.0	3.4	3.1
Fishing	1.1	1.1	.9	1.2	1.2
Forestry	1.2	1.0	.7	.9	1.0
Mining & Quarrying	19.6	16.9	12.8	16.2	16.4
Food & Tobacco	3.9	3.6	2.4	3.3	5.1
Other Manufacturing	3.8	4.2	3.8	5.0	3.1
Transport & Communications	6.2	6.2	5.0	5.7	5.3
Engineering & Construction	8.0	8.0	6.2	7.6	6.4
Other Services	3.8	3.7	2.2	2.6	2.5
Government	12.6	16.8	14.5	19.8	20.0

¹ Budget Estimate

Source: Compiled from Book of Guyana Annual Report, 1979

5.2) indicates that there have been no marked changes in the relative contributions made by each sector. Sugar and mining continue to dominate, accounting for over twenty-five percent of the economy's output in any single year; domestic oriented industries on the other hand continue to lag. Combined, livestock, other agriculture, fishing, forestry, food and tobacco contributed only 14.7 % of the output in 1977 and according to budget estimates, should increase by only 2.4 % to 14.1 % in 1979. Not surprisingly, the government's role has increased tremendously since 1976.

Data on the levels of output of food crops reflect mixed trends (See Table 5.3). Taking 1972 as the base year, (i.e. 1972=100%) plantains, bananas, tomatoes, coffee and eggs have shown signs of increasing production. On the other hand, sugar, rice, dried and calcined bauxite, alumina, meat and timber production depict fluctuating patterns of increasing and decreasing output in relation to annual projections. The interesting point to note is that although bananas, eggs, coffee etc. have increased in volume, their contribution to the gross domestic product (GDP) has been minimal. In other words, they have not potentially become significant exporting commodities.

The lack of recent unemployment data makes it very difficult to assess the current situation. It would appear that in the urban or larger populated areas--Georgetown, New Amsterdam, Anna Regina Districts--unemployment is decreasing (See Table 5.4). These figures represent however, all divisions of economic activity except those of agriculture, forestry, hunting and fishing, and thus cover only wage earners and salaried employees. As such, it tends to reflect increased government spending in service activities such as road construction, school building and national service activities, rather than increased employment in agriculture, fishery and forestry. Yet the authenticity of such data must be viewed with caution, since it represents the number of unemployed persons registered at the end of each month. K. R. Hope (1979) places the figure of unemployment somewhere in the vicinity of 15.2% depending on seasonal adjustability.

Guyana is presently facing serious balance of payment problems. The

TABLE 5.3

Indices of Physical Output of Selected Commodities - Annual Rates = 100

COMMODITIES	UNITS (000)	PHYSICAL OUTPUT In 1972	WEIGHTS*	1969	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	
AGRICULTURE															
Sugar	Tons	115	46.7	115.6	98.7	117.1	100	84.1	108.2	95.2	105.4	76.8	103.1	96.7	1) Provisional
Rice	"	94	11.6	120.2	151.1	127.7	100	117.0	152.1	170.2	117.0	273.4	193.6	151.1	2) Cereals for industrial use only
Coccoluts	Nuts	28,500	2.4	111.9	107.7	103.8	100	96.1	92.6	109.8	118.7	88.4	87.7	92.1	3) Output of beef, poultry, pork, mutton and venison of commercial producers
Ground Provisions	Lbs	44,600	4.1	87.0	91.0	95.5	100	104.9	109.6	115.3	107.6	121.1	119.2	119.2	4) Commercial products only
Plantain	"	27,800	1.4	142.9	126.6	111.5	100	89.2	79.1	116.9	111.5	154.7	169.1	169.1	5) Excludes Maltaba Poles
Bananas	"	10,600	0.8	106.7	102.8	100.1	100	98.1	96.2	94.3	86.9	103.8	136.9	136.9	
Citrus	"	23,000	0.8	95.0	195.7	98.4	100	101.5	106.5	110.9	95.7	111.0	104.3	99.1	
Pineapples	"	4,500	0.2	66.2	66.7	82.1	100	107.8	66.7	66.7	86.7	91.3	80.0	88.0	
Corn	"	6,200	0.2	62.9	66.1	85.5	100	96.8	96.8	206.5	88.7	116.1	36.2	59.4	
Coffee	"	1,515	0.7	101.5	101.0	100.5	100	99.5	99.0	99.0	-	-	-	178.2	
Tobacco	"	330	1.2	66.4	69.1	90.9	100	77.6	75.8	75.8	35.0	61.0	-	-	
Pulses	"	432	0.3	62.7	80.6	126.8	100	156.5	489.3	543.7	395.1	555.6	280.8	-	
Tomatoes	"	3,500	1.4	90.0	92.8	95.7	100	102.8	105.7	105.7	117.1	152.1	180.0	171.0	
Cabbages	"	1,650	0.3	42.4	42.4	75.0	100	103.6	121.2	151.5	157.6	182.9	121.2	109.1	
Other Crops	"	535	0.1	12.3	45.0	127.7	100	105.2	107.3	209.3	-	-	-	-	
Meat	"	28,598	13.4	76.6	80.8	91.8	100	107.5	99.1	123.3	147.0	119.9	118.3	109.1	
Milk	"	3,600	2.0	118.8	119.4	99.3	100	100.3	66.7	69.4	75.0	-	-	-	
Eggs	"	26,400	1.3	80.4	91.9	96.9	100	106.8	132.2	118.3	213.1	200.4	123.1	197.0	
FISHERIES															
Shrimp	"	12,000	1.7	36.9	46.5	108.3	100	94.2	112.4	87.5	58.3	58.3	58.3	66.7	
Other	"	27,000	6.0	96.3	96.3	98.5	100	111.1	143.0	129.6	129.6	129.6	118.5	163.0	
FORESTS															
Timber	Cubic Ft.	6,000	1.6	97.6	107.0	92.0	100	108.7	146.0	149.7	125.9	109.4	95.4	90.6	
All Agriculture	"	100.0	100.0	102.9	100.1	109.7	100	96.3	108.8	110.3	-	-	-	-	
MINING & QUARRYING															
Bauxite	Tons	1,652	23.2	127.4	138.6	127.6	100	100.7	83.0	80.0	39.2	36.0	41.2	62.9	
Dried	"	690	57.7	91.3	100.4	102.9	100	92.3	105.2	112.6	119.3	103.0	82.6	82.5	
Calcined	"	257	21.0	116.0	121.4	118.7	100	91.1	121.0	114.4	90.7	100.0	87.9	53.3	
Alumina	"	32	1.3	-	-	-	100	146.3	96.9	81.3	-	-	-	71.9	
Other	"	3.9	0.2	53.8	112.8	35.9	100	194.9	112.8	464.1	600.0	105.0	396.9	282.1	
Gold	ounce	47	1.6	104.3	131.9	102.1	100	112.8	63.8	44.7	29.8	11.0	36.2	36.0	
Diamonds	Carat	4100.0	4100.0	106.2	116.4	111.8	100	95.2	102.9	104.6	106.2	55.4	-	-	
All Mining	"														

Source: Bank of Guyana, 1979 Annual Report

TABLE 5.4
Guyana Percentage Unemployed
(Georgetown, New A da Anna Regina Districts)

YEAR	%*
1967	8.94
1968	7.65
1969	6.40
1970	5.18
1971	4.45
1972	3.39
1973	2.90
1974	2.27
1975	3.16
1976	2.97
1977	2.46

Source: U.N. Statistical Yearbook, 1977
Yearbook of Labour Statistics, 1980

* The scope of the series and persons covered, include all divisions of economic activity except the division of "agriculture, forestry, hunting and fishing, and covers wage earners and salaried employees. Data relates to unemployed persons registered at the end of each month.

TABLE 5.5
Total Employment by Sector, 1965.- 1975

SECTOR	1965		1970		1975	
	EMPLOYMENT	%	EMPLOYMENT	%	EMPLOYMENT	%
Agriculture	57,975	34.9	57,400	32.2	67,800	30.9
Mining & Quastying	5,576	3.4	6,100	3.5	7,200	3.3
Manufacturing	26,806	16.2	27,800	15.6	33,800	15.4
Engineering, Construction & Housing	9,331	5.6	14,400	8.1	11,700	5.3
Services	66,212	39.9	72,300	40.6	99,100	45.1
Total	163,000	100	178,000	100	219,900	100

Source: Bank of Guyana Annual Reports, 1977

rise in sugar export earnings during 1974 and 1975 was more than sufficient to offset the huge increases in the cost of imported petroleum. Guyana therefore moved from a deficit position in both visible trade and overall balance of payments, to a surplus in both years (See Table 5.6). This trend was sharply reversed in 1976, as there was a sharp visible trade deficit despite the apparent stabilization of payments with respect to foreign exchange.

This suggests that if oil maintained its current high prices and export prices remained favourable, then the volume of exports had to decrease significantly to record a deficit. A glance at Table 5.3 confirms this supposition as rice, dried bauxite and alumina all depicted significant decreases in output. Since capital inflows were insufficient to make any meaningful impact on the deteriorating current position, considerable pressure was then placed on the foreign exchange reserves. Despite the increase in 1978, the trend has been one of declining reserves (the estimated increase of G\$124 million as shown in Table 5.6 never materialized. Instead a deficit was recorded.) In addition, the combination of increasing value of imports and reduced levels of major exporting commodities, exacerbates the problem.

Thus the country's external position has a tendency to be highly volatile, subject to the vagaries of sharply fluctuating world prices and unpredictable domestic (strikes) and climatic conditions, which play havoc with agriculture.

On the whole, general cost of living has increased and shows no signs of abating in the eighties. Since 1972, percentage growth in consumer prices has been over 5% per annum considerably higher than what was originally projected (See Table 5.1). The upward movement was mainly in food, beverages and tobacco, clothing and housing (See Table 5.7) though the latter only began to rise significantly in the late seventies. Although the government has declared education free from nursery to university and the provision of free medical services (Canada Newsletter, 1975:2), recent reports indicate that as of 1975, the population per physician was 3,270 and 190 per hospital bed (U.S. Department of State, 1981:453)--a significant deterioration since 1966.

TABLE 5.6

Guyana Balance of Payments (G \$ Millions)

	1972	1973	1974	1975	1976	1977	1978	1979*
Exports	344	332	650	914	760	706	788	782
Imports	367	456	660	960	1095	948	850	972
Balance on goods and services	-23	-123	-10	-26	-335	-242	-52	-190
Net Capital Inflows	+43	+80	+80	+116	+ 98	+186	+118	+66
Decrease(+) on Increase (-) in Reserves	-20	+43	-70	-90	+237	+56	-66	+124

Source: Bank of Guyana Annual Reports, 1977 and 1979

* Budget Estimates

TABLE 5.7

Evolution of Consumer Price Index (Growth Rate in Percent)

Commodities	1972	1973	1974	1975	1976	1977	1978	1979
Food, beverages and tobacco	5.0	7.5	17.5	8.0	9.0	10.8	19.5	15.6
Clothing	8.8	12.0	26.4	8.4	13.3	10.1	22.9	15.1
Housing	0.1	0.3	6.4	5.5	0.2	17.5	22.9	19.7
Miscellaneous	5.1	5.7	12.4	8.1	3.3	2.0	2.2	14.3

Source: Latin American Yearbook, 1980

It would appear that despite the tremendous investment efforts into the general economy, but more so the agricultural sector, no significant measurable output changes have occurred. A contributing factor could be that major investments that are intended to overcome structural constraints are still in their infancy, or near completion. In fact, the 1981 Capital Programme, (Guyana Chronicle, 1981:9) lists the numerous projects that are scheduled for completion, chief of which are the water control projects at Tapakuma, M.M.A. and Black Bush Polder, as well as the Upper Demerara Forestry Complex. In addition, considerable work is still required for the construction of a new Teacher's Training College schools and other buildings under the Second Education Project, the Health Care Delivery Project, the extension of the wharf and berthing facilities, cold storage and generating plant under the Demerara Fish Port Complex and so on (Guyana Chronicle, 1981:9). Such trends would seem to indicate further reliance both on external as well as internal capital for future development.

Thus the foreign debt is increasing and shows no signs of abating. In 1980, the debt was estimated at G\$954 million.¹ Interestingly, the internal debt began to supersede that of the external in 1976, reflecting an increased reliance on domestic sources for finance (See Figure 5.1). This suggests that central government is financing public capital formation through utilizing a substantial portion of voluntary savings.

Thus, based on output statistics the performance of the economy has not been promising. Recent announcements to "scale down" its investment programme for 1981 may result in foreign aid disbursements being much smaller than was originally projected (Guyana Chronicle, 1981:7). Moreover continued negotiations with the IMF would only mean tighter monetary and fiscal policies which invariably creates more hardships for the lower income populace. However, before arriving at a concrete assessment of the Guyanese situation, one has to look at the implications for future growth and change based on the aided projects, the continued

¹ Figures on the external debt vary depending on the source--Bank of Guyana debt statistics are invariably lower.

TABLE 5.8

Total Foreign Debt as a % of GDP at Current Prices

<u>YEAR</u>	<u>% OF GDP</u>
1972	58.6%
1973	60.5
1974	46.7
1975	50.5
1976	63.7
1977	68.1
1978	66.1
1979	68.1

Source: The Author's calculations based on Table 5.1
and Figure 5.1

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Figure 5.1: Total External and Internal Debt

reliance on external funds and the exigencies of the IMF's policies.

5.3 A Micro Appraisal of Foreign Aided Projects

As mentioned in Section 1.6, this appraisal starts with the aided projects as they are and basically tries to ascertain their contributions to development. As such it tries to substantiate any findings that will be discussed in the overall appraisal as well as presenting any new factors which may not emerge at the aggregate level.

Firstly, simply based on the achievements of the projects as of 1980 (See Table 5. 9), it would appear that the existence of more than two donors on any single project could create problems with regards to initiation/commencement and thus the early completion of any scheme. For instance, both the MMA and Tapakuma projects have major structures nearly completed as opposed to the Upper Demerara and Black Bush Schemes where roads have been simply constructed to the site and consultants now appointed (they were all initiated around the same time, 1978-79). Like most recipient countries Guyana lacks a group representing all the donors who will be in day to day contact with her officials, coordinating the activities and thus facilitating greater consensus. Whilst the donor countries may have their own officials present within Guyana coordinating their own activities, such groups are separate and are not in unison with each other. Thus there is the likelihood of competition between donors for the funding of certain areas within any single project, which can only lead to delays for the recipient in terms of potential benefits.

Considering the emphasis placed on secondary schools to offer agriculture, technology, home economics, etc. as separate streams at the upper level, a concomitant effort to train and increase the supply of teachers in the various fields would be expected. Analysing the project proposals, it would appear that the number of planned educational institutes far outweigh this criterion. With the construction of a new secondary teacher's training college (Second Educational Project), it would be some time before such personnel contribute in any way to the manpower objective of the country. Thus the problem is not only a matter of creating an educational and training system geared towards the develop-

ment objectives, but also an educational system proficient in disseminating such knowledge. In a narrow sense, this apparent negligence is perhaps not so serious considering schools are needed. But given the government's commitment to free education, free school books and uniforms, could the country afford to maintain such a number of buildings at a reasonably high standard? In short, the government is perhaps over-emphasizing the avenues of change without giving due consideration to the disseminators of change.

The purpose of training programmes contained in any project can be seen as part of an institution building and Guyanization process. Therefore the laissez faire attitude adopted in the arrangements for training in the proposed contracts is disheartening, considering the potential such sessions hold for reducing the managerial and skilled worker bottlenecks. The training of one or two locals abroad or manuals that systematically explain the complexities of the programme (Upper Demerara Forestry Project) are insufficient and are short term solutions. Greater

on-the-job training plus the participation of personnel from other related fields (that is, training activities are not restricted to employees in the project) might well result in a net skill output in the specialized subjects. Thus, the development of a trained cadre of workers, including management, should be a planned prerequisite before the transfer of the entire responsibility into Guyanese hands. Although consideration and acknowledgement is given to such prerequisites, it appears from the project descriptions that it is of low priority. In many cases, the mere training of a few Guyanese abroad is accepted by the donor as being a sufficient contribution to the training process.

~~Lastly, there is no doubt that the hinterland and rural projects~~ have considerable potential for income and population redistribution. Given that employment has an important impact on income, the number of jobs to be created by such schemes could alleviate the unemployment problem as well as disparities in income. The changes in the income for rice farmers through the various drainage and irrigation schemes are likely to occur in two ways. First, and most important, the subsistence farmers who are enabled to produce more will derive an additional income

from this production. Secondly, on the assumption that in the long run the consumer rice prices will adjust to changing supply and demand conditions, so as to maintain market equilibrium, the additional supply ceters parabis, imply a lower price than would have existed in the absence of the project. This will benefit rice consumers by increasing the real purchasing power of their incomes. Likewise, these projects can be seen as a measure to limit unemployment in the city (towns) by providing income opportunities as an inducement to rice farmers and the general rural populace to remain in the countryside.

It would appear therefore that the drainage and irrigation projects are designed not only to increase the potential of rice output but to increase the real earnings of the small farmers to be served by such schemes, either through job creation or increased production. Given the proposed value of rice output expected through the three schemes, one cannot help wondering however, if such investments would not lead to the continued dependence on primary products for foreign exchange. In fact, the magnitude of the projects would seem to strengthen this belief.

A limited but very valuable development contribution lies in the training programmes to be provided by the Upper Demerara Forestry Project. The loss of trained personnel (Guyanese) to Canada does not ensure the efficient control and management of the project after foreign personnel departs. Considering the slow turnover of skilled/semi-skilled workers from many of the new vocational/technical schools, skilled manpower and managerial capabilities continue to threaten development.

The lack of completed aided projects working at nearly full capacity prevents a proper assessment of the projects' socio-economic yield or a meaningful qualitative weighing of the various effects emerging. Thus the rationale for my assessment has been so far based on the importance of such schemes to Guyana's overall stated developmental goals and a knowledge of the constraints present within the economy. This brings one back to the aforementioned problem of the lack of an aid consortium (that is, an aid coordinating group) to critically analyze the projects the recipient is supporting. Perhaps if the implications of alternatives between which Guyana must choose were more clearly

TABLE 5.9: GUYANA: Individual Project Descriptions

PROJECT	COST	FINANCING AGENCY	FOREIGN COST COMPONENT	EXPECTED BENEFITS	PROBLEMS/REPERCUSSIONS	EXPECTED DATE OF COMPLETION	ACHIEVEMENTS TO DATE
IBUK	U.S. \$72.6M	IDB - US \$49.5M Guyana Government		1) 20,000 farms will benefit 2) 1,600 jobs will be created 3) 72,000 tons of rice will be added to the national total by 1985 4) Improve yields of sugar cane, coconuts and ground provisions.	1) Several hundred farmers will be displaced by the new drainage and irrigation works. These farmers will have to be relocated as well as compensated for loss of property.	?	1) Work has begun on the conservancy dam 2) The 7 door sluice was completed 3) Construction of feeder roads into the area
The Black Bush Scheme	U.S. \$42.8M	IDA - US \$10.0M ICAD - US \$10.0M USAID - US \$7.5M IDB - US \$6.0M CIDA - US \$2.5M	US \$27.0M (Irrigation equipment and civil works)	1) 6,000 families will benefit 2) Development of 6,500 acres of unutilized land 3) Incremental foreign exchange from rice exports would be US \$8.2M/year at full development 4) Expansion of commercial services		?	1) Consultants have been consulted and are on the job
The Tapakunda Project	U.S. \$18.5M	IFRD - U.K. -	US \$12.90 M	1) 5,000 families will benefit 2) 200% increase in income for subsistence farms (5 Acres) 3) 80% increase for family farms (100 Acres) 4) 40% increase in income for medium size farmers (20 Acres)		?	1) All major structures under the Tapakunda Scheme were completed 2) Construction of feeder roads

TABLE 5.9 (continued)

PROJECT	COST	FINANCING AGENCY	FOREIGN COST COMPONENT	EXPECTED BENEFITS	PROBLEMS/REPERCUSSIONS	EXPECTED DATE OF COMPLETION	ACHIEVEMENTS TO DATE
The Tapakuna Project continued				5) 37% increase for large farms (30 Acres) 6) More land would be brought under cultivation 7) The net value of product at economic prices would be U.S. \$9.8M/year			
The Upper Demerara Project	U.S. \$11.9M	IDB - US \$6M IBRD - US \$4.0M EDF - US \$6M Guyana - US \$10M	?	1) Saw milling complex would provide employment for 500 people 2) Financial rate of return on equity before tax = 24% 3) After the 6th year the government would obtain from the operation a yearly tax of US \$1.3M	1) Lack of qualified personnel and skilled labour 2) Trained employees do not return to Guyana	1981 - still incomplete	1) The Mahdura Hill Rd. was virtually completed 2) Work has begun on the township and other aspects of the project
First Education Project	U.S. \$10.0M	IBRD) US \$5.8M IDA)	?	1) 6 new multilateral schools 2) Construction and equipping of a primary teachers training college 3) Study of building materials and techniques	?	Completed in 1978	1) The construction of the 6 multilateral schools 2) Cyril Patterson College of Education

TABLE 3.9 (continued)

PROJECT	COST	FINANCING AGENCY	FOREIGN CUST COMPONENT	EXPECTED BENEFITS	PROBLEMS/REPERCUSSIONS	EXPECTED DATE OF COMPLETION	ACHIEVEMENTS TO DATE
Second Education Project	U.S. \$12M	IBRD - US \$8M IDA - US \$4M	7	1) 7 new community secondary schools 2) Construction of a new secondary teachers training college 3) A new Caribbean Animal Health Technicians Training Centre	7	The loan was just confirmed in 1981	

Source: World Bank, Project Performance Audit Report, Guyana, 1977
 World Bank, Guyana - Second Education Project, 1975
 World Bank, Upper Demerara Forestry Project 1978
 IDB News, - Projects Financed by IDB in Guyana, 1979
 ? - Unavailable

stated, then it would have been possible for the government to have a greater flexibility in the activity it supports.

5.4 An Overall Assessment of Foreign Aided Projects

This section asks the fundamental question: was the composition of aided programmes aimed at pursuing the development objectives defined by the recipient in Chapter 3? The answer to this question is, as we shall see, an unequivocal yes.

First of all on a broad scale one can say that aided projects did reflect the overall development thrust of the country; drainage and irrigation schemes to increase export production (mainly rice), access roads for interior and resource development, and so on. Likewise there was emphasis placed on reducing inherent "bottlenecks" to growth related to transportation, skilled manpower, energy, and resource potential of the country. Cases in point would be the expansions of coastal highways and the building of primary and access roads to the interior, introducing training sessions related to the forestry and electricity projects etc.. More importantly, aid was not confined to the coastal areas but extended to some degree to the interior regions: the Rupununi (On Ranch Investment), Upper Demerara (Upper Demerara Forestry Project), Mazaruni (access roads), Mahafcony (access roads) etc.. Likewise the argument could be made that the schemes are not all geared towards the high income populace since, for instance, the rice expansion programme involves meeting the basic needs of the small farmers through new mills, storage silos and new seeds. It should create a great number of jobs for the surrounding populace (IBD News, 1980:1). IBD loans to the greater Georgetown Fisherman's Cooperative Society should provide credits to enable small scale fishermen to acquire import items, including motors, nets and twine (IBD News, 1980:1). U.S. aid is also financing a rural health delivery system project, to train sub professional personnel (MEDEX) to assume medical and public health responsibilities under the general supervision of doctors (Foreign News, 1980:7). Thus it would seem that there is an effort to direct economic activity away from the coast as well as to achieve some measure of equitable income distribution.

On the other hand, it is not possible to find any special emphasis placed on the indigenous creation of currently inadequate skills. That is, in establishing functioning institutions with a built-in system of local personnel training and promotion. Direct transfers of skills and capital seem to be more important than aid induced indigenous creation of these resources. More importantly, where personnel training is provided for the locals, it invariably involves the trainee being sent to the donor country; the grant component of the loan covers the salary of the cooperant (i.e. donor personnel) and the training of at most two locals abroad. This was often the case in CIDA loans to, for example, the Institute of Applied Science and Technology project (IAST), the Veterinary Diagnostic Laboratory (CIDA Report, 1980:2). Whilst foreign and administrative personnel support is invaluable in overcoming administrative deficiencies in the short run, this can lead to secondary repercussions in policy determination and create the continued dependence on foreign expertise if nothing "concrete" is undertaken to reduce this constraint in the long run. A case in point would be the lack of qualified professionals to operate the Guyana Forestry Commission (GFC). This will cause difficulty in implementing the Kartabu Forestry Management Plan which is the cornerstone of the forestry technology transferred by CIDA to Guyana (CIDA Report, 1980:2). In all fairness, one must note that even when locals are trained, not only in the forest sector but in all sectors, there is the tendency to lose these trainees to the donor country. It would appear that the lack of confidence in the political leadership does little to inspire faith in those persons charged with the actual administration of development.

Moreover, sadly lacking in the few appraisals of ongoing projects, is whether pedagogical sessions have actually begun or what they have achieved in terms of disseminating information and skills.² Since many of the projects will not be completed for another three to four years, or are still in their infancy, the problem may only arise at the operating stage when the completed projects are handed over to local

² An interview with CIDA officials revealed for example that the training programme for the Guyana electricity workers was subsequently aborted.

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Guyanese dollar by 18% and the adoption of multiple exchange rates.⁶ Theoretically, it implies that the Guyana government is allowed greater selectivity on the limitation of imports and in the fostering of exports and import substitutes. But it was suggested that such adjustments were basically designed to attract funds for the aluminum smelter (part of the Upper Mazaruni Hydro Electric Scheme) than with improving the foreign exchange crisis (Caribbean Contact, 1978:9).

The government has in the past experienced repeated delays in getting the project "off the ground" (Abecor Country Report, 1980:2). More importantly, it has benefitted little from the setting of a new minimum price for alumina and bauxite at 14-16% and 2% respectively, of the American Metal Market list for aluminum ingot (Abecor Country Report, 1980:2). If Guyana is to reap the full benefit of the recent recommendation, it has to attract investors as quickly as possible for the proposed aluminum smelter. Given the government's past approach to foreign investment conditioned by its socialist ideology, such an approach is but a harsh reflection of the government's realization of the need for more private investment (both domestic and foreign) if the economy is to progress.

Guyana's foreign debt is increasing and as was tabulated in Table 3.1, rose to some 68.1% of the GDP in 1979. With the recent devaluation, this could only mean an even greater increase in the domestic costs of servicing the given external obligation. Thus what appeared to be six years ago a fairly acceptable rising increase in debt, now appears to be of unmanageable proportions.

Thus the immediate measures taken by the IMF to ensure the return of its loans, and a stabilization of the Guyanese economy can only mean higher food prices, higher interest rates, decreased expenditure on social programmes and prohibitive credit risks for small businesses, fishermen and farmers. Considering the recent stipulations for the negotiated US \$150 million (See section 4.5.1) this can only mean greater hardships for the general populace.

⁶ G\$1= T\$.80, B\$0.67, EC\$0.90, J 0.59; US\$0.33 (Guyana Chronicle, June 2nd, 1981).

Perhaps a more appropriate example would be the CIDA flight equipment installed at Timehri, which has yet to be commissioned or tested (CIDA Report, 1980:2). As a result of this delay, some of the equipment has fallen into a state of disrepair and malfunction, which in turn has led to the termination of the present project and the likelihood of a new Second Timehri project (CIDA Report, 1980:2). Such endeavours represent not only a wasteful use of aid, but an illustration of the weak basis upon which decisions are made to initiate assistance ventures and the uncertain results that follow as a consequence.

The capital and skill intensive approach can be also criticized from the viewpoint that it makes little use of local raw materials and human resources during the initial stages of development. For instance, almost three quarters of the aid is redirected back to the donor in the form of wages for the cooperant or specialized equipment. In short, the argument is being made for intermediate and small scale capital intensive works; projects which utilize less outside goods and services, but which capitalize on the recipient's resources, however modest they may be. For instance, since rice is a staple crop in Guyana, more emphasis should perhaps be placed on the use of rice bran/husks for edible oil; the rivers and off shore waters abound with aquatic life--train Guyanese fishermen in the simple but efficient tasks of processing fish. Feasibility studies have already shown that corn, soya beans and peanuts can be grown in the intermediate savannahs, whilst cattle, vegetables and other crops, in the North West Matthews Ridge region (IBRD News, 1973: 25). A recent study by T. Spreen et al (1980) suggests that production systems which use traditional techniques and rely largely on resources with which opportunity costs are more viable, produce tremendous benefits for the livestock industry than systems which require the purchase of modern inputs. In fact, if significant cattle production is to take place in the Intermediate Savannahs, either a less capital intensive technology will have to be introduced or production will have to be heavily subsidized (T. Spreen et al, 1980:27). Whilst such schemes are too expensive to be undertaken by the Guyanese government, they are open for donor (loan) involvement. Lastly, with such massive infrastructural

works (i.e. roads), there seems to be little urgency in developing the local building material industries, such as stone, sand and clay brick, which would serve as partial replacements for imported cement (M. Odle, 1976:222).

The possible reason for the lack of donor enthusiasm or "rush" to fund such projects is that they are essentially "low profile" endeavours and are exclusive of the so called "pet"⁴ projects undertaken by the donor. Furthermore, one can make the supposition that Guyana's development plans are influenced by the relative narrowness of the donors' interests. Although in principle, the only effect aid should have on the recipient country is a net expansion of the development effort without any change in its own priorities, it is evident from the few donors in health, fisheries, research and local resource development, and the current expenditure by the Guyanese government,

that certain important development activities are likely to remain relatively neglected. Whilst USAID's preference for road and highway construction is somewhat counterbalanced by Japan's or the People's Republic of China's interest in fishery and health respectively, the latter's endeavours are relatively small. The aid flow cannot compare to the net input by several donors to any single project related to, for example forestry, drainage and irrigation etc..

Based upon the above observations one can draw some tentative conclusions. Firstly, foreign aid is playing a useful role in accelerating Guyana's development plans. Given its domestic skills, savings and foreign exchange resources, Guyana can maintain its development efforts at a higher level than would be feasible in the absence of aid. But whether it reaps the benefits from a number of development ventures without increasing the strain on its scarce domestic resources is doubtful at the moment. (That is, the incompleteness of many projects prevent any definite conclusions being made.) This brings one back to the original comment on the efficiency of foreign capital, in the sense that the same

⁴ Agriculture, Energy, and Transportation are the principal sectors towards which aid is often directed. As such, they are commonly referred to as "pet" projects.

volume of aid could have been used for more development, but "development" of a different kind. The difficulty with such a question is that it is impossible to quantify how much "development" was lost.

Secondly, it would appear that a considerable amount of activity was directed at increasing the country's potential to earn foreign exchange, to increase its absorptive capacity as well as its ability to save. However, given the particular constraints to Guyanese development defined in Section 3.5.1, it would seem that not enough emphasis was placed on overcoming the entrepreneurial and managerial constraint. Whilst vocational/technical schools are increasing the skills of young primary school leavers, there seems to be no commitment to improve administration to increase implementing capability. Such efforts should parallel and be integrated in the development efforts. In addition, the question of agricultural credit to small farmers was sadly neglected. Whilst there was mention of an IDA loan to the Fisherman's Cooperative Society to enable fishermen to obtain easy credit, the problem still remains largely unresolved.

Likewise, not enough emphasis was placed on the question of research and development, if only as a means of economizing on the scarce resources and making more intensive use of the Guyanese potential. In other words, greater emphasis is required on (a) identifying the human and natural resources and the uses to which these might be put and (b) selecting those areas which can contribute the greatest to the economy given suitable technology. For instance, although the Canadian government is assisting with the development of the Institute of Applied Science and Technology (IAST) and the Veterinary Diagnostic Laboratory, such projects have not even begun to set up their research programmes. This is not necessarily the fault of CIDA since the Guyanese government has caused costly delays by failing to provide local financing for construction termination and in providing electricity at the job site (CIDA Reports, 1980:2). This suggests that the government itself is ineffective in resolving its own internal problems which in turn only delays the aided efforts.

The problem with assessing the impact such projects have had on the

overall economy, is one of being "premature". That is, many of the projects are incomplete and will not begin to work at full capacity until three to five years after completion. Although farmers are reportedly enjoying ~~the~~ little benefits from the work already done on the MMA project, it is impossible to state to what degree it has increased production of rice, reduced unemployment in the area, etc..

In the light of existing constraints, it would appear that the commencement of some measure of the equitable geographic distribution of economic activities is being achieved at considerable cost! Both on the coast and in the hinterland, sectoral and infrastructural activities are widely separated from each other and thus, cannot really capitalize on the "spread" effects originating from each scheme (See Figure 3.4). (That is, being able to utilize any transportation, innovation, social and administrative benefits the other may develop) Whilst the agricultural dispersion may be the result of soil capability (K. R. Hope, 1976:140), the need for a more rigorous regional development policy is still vital, considering the overall contribution regional development is expected to make at the national level. Given therefore the environmental constraints (soil capability, inaccessibility, location of resources etc.) towards a more integrated regional development policy, it is crucial that investment planning be aware of such limitations and tries the best it can to overcome such hurdles. Before commenting finally on the use of aid in Guyana's developmental objectives, some comment is forthcoming on the impact of the IMF's policies on the mainstay of the economy.

5.5 The Implications of the IMF's Involvement in Guyana

Sections 4.5 and 4.5.1 outlined in brief the reasons and conditions under which Guyana is presently involved with the IMF. For the Guyanese population, the first 1978 negotiations meant increased taxation (forced savings to reduce spending) and the public sector having to show greater surpluses via higher prices (that is, increased airport exit taxes, electricity hikes, etc.). In fact, the regime's method of increasing tax revenue was not via income taxes (already admittedly high) but by indirect taxes on a number of essential commodities. In addition, there was the

complete elimination of subsidies on basic commodities (Caribbean Contact, 1980:1). Given the wage controls which were part of the IMF's standard prescription (Caribbean Contact, 1980:1), it meant that overall, income of the poor was greatly undercut and government spending on social programmes-especially housing and health- was greatly reduced.⁵

With regards to long term development the implications were less simplistic. Whilst the above mentioned measures were basically designed to boost revenue and restrain consumption, the shortage of foreign exchange placed priorities on the importation of certain products. What occurred was a delay in the purchasing of certain essential goods such as diesel oil, spare parts, lubricants etc., and in the payment for imports (Foreign Economic Trends, 1980:1). This had a constricting effect on both indigenous and foreign financed projects, causing costly delays in completion and in some cases, decreased production. For instance, the 1979 rice reduction was caused not only by the insufficient price paid to farmers by the state owned Guyana Rice Board for their paddy or rice, together with adverse conditions, but also by the lack of available machinery and spare parts (Foreign Economic Trends, 1980:9).

Higher interest rates made it even more difficult for farmers, fishermen and small businesses to obtain credit. Although such policies were contradictory to the original government proposal of making credit easily available, given its need to contract both domestic and foreign consumption, such long term plans had to be momentarily shelved.

Theoretically, the devaluation of any country's currency is designed to create a number of situations (a) Increase the domestic price and reduce the foreign price of exports, (b) Lower the domestic consumption of imports, but raise the domestic consumption and production of import substitutes, (c) Increase the foreign consumption of exports and (d) Increase the production of exports (G. Bird, 1978:124). In June of 1981, the Guyana government announced the devaluation of the

⁵ According to Dr. C. Jagan (leader of the opposition), the administration spent 12% of its 1980 budget on the army and police, and less than 1% (.07%) on the housing sector (Caribbean Contact, 1981:7).

Guyanese dollar by 18% and the adoption of multiple exchange rates.⁶ Theoretically, it implies that the Guyana government is allowed greater selectivity on the limitation of imports and in the fostering of exports and import substitutes. But it was suggested that such adjustments were basically designed to attract funds for the aluminum smelter (part of the Upper Mazaruni Hydro Electric Scheme) than with improving the foreign exchange crisis (Caribbean Contact, 1978:9).

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5.6 Implications for Future Growth

Based on the findings of the previous sections, it would appear that Guyana is yet to achieve its much desired goal of self sustaining growth and thus some degree of self-reliance. Current indications are, that sugar and rice (and bauxite) will continue to be the dominant sources of national income and aided investment will center in one way or another in increasing the productivity of these traditional crops (and minerals) rather than actively trying to diversify the agricultural output. This is not to say that investment was not devoted to other sectors, for instance, forestry, fishery, livestock, etc., but that simply the disbursements (both external and internal) do not reflect a stronger commitment towards these sectors gaining a foothold in the economy. Rather aid was either forthcoming to these sectors or yet to commence operations/construction.

Moreover, although aid was received on concessionary terms, a large proportion was tied to the purchasing of goods and services from the donor country, which not only increased the "cost" of aid but aggravated the foreign exchange problem. Instead of activating dormant domestic resources and decreasing the economy's dependence on imports of capital goods, there are signs that the capital intensiveness of certain projects may have perpetuated this constraint. Where technical assistance was supposed to reduce Guyana's capacity constraints in the field of management and labour skills, it has yet to emerge (this is due however to internal factors as well) in terms of valuable training sessions. In addition, the efficiency of the aid resources is questionable in the sense that some of the aid endeavours were repetitive (drainage and irrigation schemes, educational projects) and were not suitably combined with domestic inputs (Timehri flight equipment installed by CIDA) to achieve specific objectives pursued. In essence, a combination of donor's self-interest and competition amongst the donors themselves are decreasing the developmental impact of aid.

Thus a combination of both internal and external factors has over the last fifteen years, resulted in a situation where Guyana's major pre-occupation will be restoring foreign exchange reserves, and containing the

debt service burden within manageable proportions. Furthermore, investments will be limited mainly to projects financed by the international financial institutions and bilateral aid donors, since the shortage in revenue will most likely lead to cutbacks in both current and capital spending. In addition, whatever benefits the society is to gain particularly through the full exploitation of the undoubted mineral, hydro-electric and agricultural potential, will take some years to materialize.

Reviewing the previous sections more thoroughly, one is apt to conclude that the Guyanese government was overly ambitious in its development targets; perhaps a harsh criticism but nevertheless a valid one. Given the historical, structural and financial forces that existed at Independence, it was somewhat foolhardy of the government to expect sharp increases in gross domestic savings to help finance its plan. In fact, development finance from external sources would be obviously limited in disbursement simply by the absorptive capacity of the public sector-- that is, the basic historical and structural forces that lead to a shortage in high level manpower, skilled personnel, inadequate transportation etc.. It would seem obvious that these constraints to growth would have to be eradicated, if not before, or with the use of aid before any substantive changes can be realized.

The primary objective of any developing country is to secure the greatest increase in its income from its available resources (K. R. Hope, 1976:139). Guyana, at Independence, aside from setting ambitious targets, seemed to be (based on its development plans, 1966-72, 1972-76) moving in the right direction in trying to diversify her economic base and reducing her dependence on three principal exports. In doing so, she would not only develop the base for agro-based industries but also create a basis for self-sustaining growth through increased foreign exchange earnings.

But as was stated previously, the use of aid in achieving these targets was not entirely successful. This is not to say that the use of aid did not accomplish anything. But simply that its use appeared not to center upon the recipient's priorities. Rather it resulted in the continued dominance of the traditional sectors (capital expenditure

centered mainly on projects related to the three principal exports), more economic programmes rather than social welfare programmes and counterpart funds being above and beyond planned expenditure. In essence, the basis for the attainment of a self-sustaining economy is still to be achieved. Livestock, and more so fishery, still has considerable room for investment and expansion; agricultural products such as soya beans, peanuts and oil palm which have considerable potential for reducing oil imports, are barely exploited; industries based on the local raw materials such as cotton, kaolin clay, clay brick etc. have yet to be fully developed and set into productive use. In short, higher priority is urgently required into the research of human and material resource development in accordance to the Guyanese potential. Yet to explain the current situation solely in terms of external aid and certain exogeneous factors would be misleading. Various sources (Caribbean Contact, 1979), Premdas (1977)) would argue that the government itself is a major factor inhibiting some measure of self-sustaining growth. For instance, the crisis of political legitimacy is a development not unrelated to rigged elections (1973), a fraudulent referendum (1978) and recently, the enactment of a new constitution which automatically transfers the right to presidency to the then Prime Minister (WPA, 1979:190, T. Spinner, 1977:723). Events over the years such as "teargassing of striking workers in police prisons" (Caribbean Contact, 1978:10), "the political transfer of teachers associated with the Working Peoples Alliance (WPA)", "the suspicious death of Walter Rodney, leader of the WPA"... have together, aggravated the production problem which in turn has caused an intensification of the foreign exchange crisis. Therefore, the latter is merely a symptom of a deeper and all pervasive malaise in the society.

Thus it would seem that the deficits in balance of payments and resultant foreign exchange problems are only partly a product of the crisis of the international capitalist economy. Probably more important are the failure of the government to instill confidence into the masses, to reduce wasteful expenditure through mismanagement, corruption, etc. and to plan effectively and realistically. Above all, the time, energy and resources of the government are constantly distracted by its fierce

political struggle in repressing the WPA and all similar forces rather than being totally devoted to solving the socio-economic crisis (Premdas, 1971:70). According to Premdas (1977:70), "It (the government) needed revenues to ... pay the salaries of police and the military upon whose loyalty the regime's survival depended". Furthermore, "to blame the IMF for the current situation would be not only partly incorrect but simply reflect the use of an easy scapegoat. The tight monetary and fiscal policies have indeed aggravated the problem, but cannot be labelled as the instigator."

5.7 A Summary

It is perhaps too early to judge realistically the impact aid has had and will have on the economy. Evidence suggests that aid is a catalyst, in that it allows development to proceed at a faster pace than in its absence, but whether such development mirrors the recipients' priorities is indeed doubtful. Rather, it reflects a movement away from the proposed policy objectives, to alternative strategies which accommodate the donors' interests. This in itself is a cause for alarm since it has the potential for creating economic enclaves and thus socio-economic disparities within the society. In fact, the full catalytic effects are being reduced as the Guyana government is slow to provide the supplementary local input requirements--be it counterpart funds, construction material, trainees etc--and a political climate conducive to private investment. This is particularly sad since domestic entrepreneurs are then tentative towards investing in local resource industries, and this eventually leads to a situation where the number of emigrants increases as does the country's skilled personnel.

It is too early to definitely say whether aid has had a counterproductive effect on the development of Guyana. On the other hand, one is still to see the projected benefits achieved. The politics of the

⁷ Skilled non African government employees emigrated from Guyana as racial discrimination practices intended to consolidate People's National Congress (PNC) control over the civil service became more open and widespread. See R. Premdas (1977) "Guyana: Communal Conflict, Socialism and Political Reconciliation" for further details.

country and the external constraints of increased oil prices and fluctuations in prices for its primary exports, and recently the IMF's involvement in Guyana, have to a large degree hindered the catalytic effect of the aided effort. Given the continuing socio-economic malaise that faces the government, it seems very unlikely that the attainment of a self-reliant, egalitarian, self-sustaining economy is foreseeable in the next decade, despite the continued receipt of external assistance.

CHAPTER 6

NEW OUTLOOKS FOR AID AND THE RECIPIENT

"Leaders should not only offer direction, but should possess the capacity to direct."

(K. R. Hope, 1979:233)

6.1 Introduction

The original premise of this thesis was based on the belief that there were two conceptual views on the value of aid--one possessed by the donor and the other by the recipient. In recognizing this difference, it was still possible to view the value of aid within a general framework of analysis, if one assumed that both partners had reached terms of agreement that were mutually beneficial. However

it was further argued that since the burden of repayment and the ensuing societal transformation were the concerns of the recipient, then there was a greater need to review the "appropriateness" of the aid transfers from the developed to the lesser developed countries from the recipient's viewpoint than is presently undertaken. In this respect, a case study based on the Development Plans of Guyana seemed an apt measure to review the value of aid in the light of the country's political and development policies, and the practices upheld in the international donor community.

The net result was a concrete illustration that the rate of socio-economic development does not in reality depend uniquely or perhaps, even primarily, on the rate of capital formation. Entrepreneurial and institutional requirements, well researched and innovative development plans, the adequacy of domestic or foreign demand ... and so on, are just as important to overall development, as injections of capital. Lefebvre (1979) even suggests:

... the policy makers of the lesser developed countries

have frequently relied on repayable capital imports for ill considered projects and programmes which often do not have the income generating capacity to justify the outlay.

(Lefebvre, 1979:177)

In other words, the international indebtedness of the lesser developed countries has been in large measure the result of import substituting urban industrialization.

This chapter intends to draw attention to the many possible avenues in which aid can be also channelled with direct benefits for both growth and change. This is particularly worthwhile, since as noted, there is growing skepticism and acknowledgement that perhaps aid cannot effectively alleviate the problems of foreign exchange and capital scarcity, and has inadvertently perpetuated existing problems. Furthermore, the policy of donor countries to finance import costs often causes recipient governments to gravitate toward projects with high foreign exchange components or require more imported equipment than others. Thus although development financing on concessional terms is supposed to help recipient governments overcome their foreign exchange scarcity, the form of financing nevertheless creates an incentive to increase unnecessarily the demand for that scarce exchange (J. Tendler, 1975:74). That is, it increases future demand for foreign exchange because of the need for spare parts and maintenance equipment to service the financed project. The structure of development lending, then, increases unnecessarily the burden on the borrower's future payments balances and encourages irrational decision-making said to be so characteristic of underdeveloped countries (J. Tendler, 1975:76).

Likewise, there is gradual acceptance that aid acts as a substitute for domestic savings. Lefebvre and Buttrick (1979), J. Tendler (1975), Griffin and Enos (1970), etc., are all of the opinion that development assistance is viewed by the borrower as an alternative to raising domestic revenues, and may even distort the composition of investment thereby raising the capital output ratio. These reasons together with a recent report by the World Bank, revealing the likely decrease by DAC donors to some 36% of GNP in 1985 and 1990 (World Bank, 1980:28), suggest that there

is presently an even more critical need to improve not only the qualitative aspects of aid, but to review other avenues through which the aid-development process can be improved. It is to these inquiries that this chapter is now addressed.

6.2 A New Direction for Aid?

6.2.1 Aid for Development Research

More often than not, the main problem for development planners in the Third World in formulating development plans is that so little is known about the country's resources. Although its presence is acknowledged exact information concerning, for example the amount and quality of the available resource, what will grow in various areas, the alternative avenues for maximizing both social and economic benefits, the specific techniques required for the efficient utilization of both labour and land, the "appropriate" scale of the operation etc., is not readily available for detailed analysis and planning. As a result, development plans may mirror to a certain degree, past practises or are based on incomplete information. This often leads to misguided policies and future directions that are either costly, inappropriate or without the expected outcomes.

Project aid does involve a certain degree of research (Project feasibility, cost benefit analysis etc.), but this is often based on the donor's bias towards certain technological skills and expected benefits. In addition, such research tends to be independent of the overall development programme and hardly encompasses the impact linkages such a project may have on the various remaining social and economic sectors. In fact, because such research involves either the efforts of a consultant firm representing a particular donor, or a multilateral agency such as the World Bank or the UNDP (United Nations Development Programme), one can be quite skeptical of the number of alternative strategies reviewed for the greater benefit of the recipient.

Thus there is an urgent need to channel aid into a research cadre of consultants who will work closely with aid coordinators as well as the development planners of the recipient country, concentrating their attention on identifying investments of particular benefit to the host

6.3.1 Aid is Not a Right, Nor is it in Abundance

It is not uncommon for recipient countries to view aid as a "right", something to which they are morally entitled because of past injustices, exploitation and so on. Hence the question of repayment is never seriously considered because unconsciously aid is viewed as being repayment for past practices. The problem with such an assumption however, is, why should donor nations be any more altruistic in their negotiations today as opposed to in the past?

On the other hand, the knowledge that developed countries have a moral obligation to assist the lesser developed countries and thus external funds are available, has resulted in many governments proposing development plans which do not realistically mirror the domestic needs or available resources. Too often, investment plans are based on the assumption that there will be sufficient increases in domestic savings and private investment to supplement the external capital inflow. Yet reason and experience have shown that development finance from external sources could be limited in disbursement by the absorptive capacity of the public sector of any given country (K. R. Hope, 1979:128). Such constraints would have to be eliminated either before the receipt or with the use of aid before such growth targets can be achieved. Governments when formulating development plans should have therefore, a clear idea where the finance will come from other than that of the external source. In fact, such clarity would allow potential lenders to judge the financial reliability of certain schemes.

This perception of "available" resources (aid) has led to a certain degree, to the reliance on external funds as opposed to local resources when choosing between alternative sources of human and capital resources. Often, there is a certain degree of technological skill and capital resource available that is under-utilized because of government's lack of encouragement or discriminatory policies (such as having to belong to a particular political party). P. Prasad (1968) cites the case of India where domestic endeavours were not favoured when foreign assistance was in sight. Indeed, the eradication of such policies could very well reduce the need for maintenance imports and the demand for new loans.

as a vital part of foreign aid, it was demonstrated that such programmes were not particularly rigorous in training many workers, but simply accepted the return of one or two participants from abroad as being the necessary fulfillment of such training requirements. Whilst this may have resolved partly the managerial and administrative problem, it did not provide for a reservoir of trained manpower.

In recent years the need to rectify such past practices have become acute as the expected contributions of the indigenous personnel have failed to materialize; and the number of graduates from technical/vocational schools are slow to remedy the deficiency. No doubt, the amount of aid devoted to such schemes is minimal and is thus responsible for such meagre results. More often than not, the grant element of the assistance covers the salary of the foreign consultant with little else to devote to training. What is currently needed is additional aid over and above the project requirements, which would assure the provision of adequate "on the job" training. Only through a greater understanding of the complexities, rationale and potential of a particular scheme, can workers truly manifest the desired benefits of any project. Such an endeavour would not be a duplication of the training provided in the vocational schools since the scale would be considerably smaller and the focus of attention more specific.

6.3 Qualitative Changes--the Task of the Recipient

Given the overall thrust of this discussion, it is not unfair to place the task of aid improvement within the realm of the borrowing country. Indeed, recipient governments are not guiltless of mismanagement, demanding and receiving bribes, being corrupt and politically expedient. Furthermore, whilst the capacity of any government to act is constrained

by the very limitations it is urged to overcome, how the resources and powers of the state are used, is certainly dependent on the attitudes, integrity and zeal of the political leaders. Thus the state can contribute either positively or negatively to overall growth, and change by pursuing courses which directly or indirectly affect socio-economic growth.

projects will not be tied to imports, or that donors will not continue to have sectoral biases etc., but what it will facilitate hopefully, is a channel through which the existing misunderstandings and suspicions which often lead to delays, more project aid as opposed to programme aid, the politization of aid etc. are gradually erased.

For instance, one of the many reasons cited for the preponderance of project as opposed to programme aid, is that it enables the donor to ensure that the resources provided by it are specifically used for the ends it wholeheartedly supports (M. Mikesell, 1973:34). In other words, donors are doubtful that untied aid will be utilized for developmental purposes. Whilst this explanation can be questioned on the grounds that the reasons are more likely to be associated with the donor wanting to identify with a particular project, to ensure increased exports from its own economy etc., it has carried a certain amount of "weight" because of the politically motivated programmes adopted by certain recipient governments. Given the tremendous benefits of programme assistance, it is worthwhile for the recipient to initiate a channel through which the donor is assured that funds will not be diverted. In a sense, this independent body of aid consultants would be responsible for the supervision of programme aid (if given) reducing not only unnecessarily detailed donor supervision of individual projects, but also the element of suspicion and doubt.

The functions of such an organization would be diverse but essentially aimed at improving the present aid relationship between the donors and recipient. Perhaps the greatest change this group will perform with regards to the present aid relationship, would be attracting external assistance and in negotiating actual investment agreements. This calls not only for an in-depth knowledge of the recipient country's financial situation and financial constraints, but an acceptance by the recipient that such an organization is acting in the best interest of the host country (recipient). However, the final decision of acceptance or rejection will lie with the recipient, thus to a certain degree the latter is still involved in the aid negotiation process. Although development banks and other investment promotion bodies have already attended to

some of these tasks at a national level (M. Radetzki, 1973:258), the distinct advantage of this body of specialists, is that it would reap considerable advantage through its specialization and scale with its multinational connections.

In effect, activities would involve encouraging suitable and discouraging unsuitable types and terms of external assistance, delineating terms that would be of more benefit to the recipient while remaining acceptable to the donor, ensuring that each partner fulfills its part of the aid agreement and generally coordinating all aided activities especially in those cases where more than one donor is assisting. Ideally, developing countries require information in advance of the total quantum of aid that would become available annually and the commodities and projects for which these funds could be used (N. Kappagoda, 1978:10). Whilst such a task may be beyond the present scope of such a coordinating group, it is not entirely outside of its capabilities. Whilst the cost of initiating and maintaining such a group of professionals may be high, the possibilities of a more efficient use of aid and the greater success in achieving desired objectives warrant the investment.

6.2.3 Aid for Short Term Balance of Payment Problems

It is not uncommon for a developing country dependent upon the export of a few primary commodities for its income to experience short-term balance of payment problems. These may arise either through an international crisis situation (for example the recent oil hikes), a fall in market price for its exported commodities, internal conditions--climatic and political--leading to decreased production etc. In effect, the deficit is unplanned, temporary and reversible. In dealing with this deficit however countries do have a choice relating to the time period over which they may undertake adjustment, that is, there is a trade off between financing and the speed of adjustment; the theory of which has been well documented both in general terms and as applied to the specific position of developing countries (Bird & Orme, 1981:563). Thus, the more inclined countries are to make use of variations in their exchange rate to accelerate swift adjustment, the less inclined will they be for international

finance either from the United States in the form of loans, the IMF¹ and the private capital market, in particular the Eurocurrency market (Bird & Orme, 1981:564).

During the 1970's, developing countries as a group borrowed quite heavily from the Euro-market (Bird & Orme, 1981:564). Yet it was later shown by Bird (1978) that the distribution of Eurocredits was skewed, since the vast majority of Eurocurrency finance had gone to those developing countries that were regarded as credit worthy by commercial banks. Furthermore, Bird and Orme (1981:567) were able to show that the IMF and the Eurocurrency market provided complementary sources of finance and that reserve use and drawing on the Fund were complementary activities. What was interesting to note however, was the tendency by developing countries to draw more from the Fund as their balance of payments situation and general economic performance deteriorated, but to draw less, as they became more "rich".

However, there are several instances where the deficits are neither temporary nor reversible within a reasonable period of time--say three to five years. This may be the case where maturing indebtedness severely affects the country's ability to refinance shorter term obligations by long term loans (R. Mikesell, 1968:212); where the demand for the particular export commodity continues to decline, in which case policies will have to be designed to shift the pattern of investment and production into other areas; or where capital outflows may require a shift in monetary policies. Whatever the case so-called balance of payment assistance would be inappropriate and should in reality be a form of long term aid.

This brings us to the central argument that perhaps aid should be made available for relatively short term balance of payment problems (3-5 years). Given the conditions stipulated by the IMF (refer to section 4.5) in balance of payment drawings above and beyond a country's gold

¹ A country can draw up to 25% of its goldtranche to finance its deficits. Drawings beyond this goldtranche require special approval of the IMF Executive Board, and a fairly formal and quantitatively expressed agreement before resources are forthcoming.

tranche, and the resultant conflicts it holds for long term development, corrections of balance of payments deficits would seem to suggest that the receipt of financial resources should be freed of the present "constraints." According to Lefebvre (1979), the arbitrary imposition of austerity measures, the induced unemployment and the lack of economic motivation, if anything, would make the design and implementation of improved development policies even more difficult. Thus short term policies utilized for the resolution of long term situations can, conceptually and in reality, create added problems. In other words, if the present deficit is the result of a structural problem hindering further release of resources, then fiscal and monetary policies designed to correct present imbalances can do little to aid against future mishaps.

This proposal therefore seeks to fill a gap between the short term compensatory financing facilities of the IMF and long term development aid programmes. Financing would not be automatic but would depend on the cause for the apparent deficit and the expected duration of the shortfall. If obtained however, it would then avoid the disruption of the country's development programme as a consequence of its inability to carry out planned programmes and projects. In addition such aid would not be tied to specific projects.

The quest for short term balance of payment assistance is not entirely unique. In 1965, the World Bank prepared a study entitled "Supplementary Financial Measures" which proposed essentially the need for assistance for unexpected reductions in export earnings (R. Mikesell, 1968:209). The differences between the above mentioned scheme and that proposed by the World Bank, however, are that it deals with stagnating export earnings and financing would not be closely integrated with the country's development programme (R. Mikesell, 1968:210).

6.2.4 Aid for Training Programmes

The need to successfully train and inform the indigenous personnel on the use and maintenance of "new" projects before the foreign advisers leave, was stressed in Section 5.6. Whilst this scheme was acknowledged

² See M. Ratzeski ed. (1973) Aid for Development

as a vital part of foreign aid, it was demonstrated that such programmes were not particularly rigorous in training many workers, but simply accepted the return of one or two participants from abroad as being the necessary fulfillment of such training requirements. Whilst this may have resolved partly the managerial and administrative problem, it did not provide for a reservoir of trained manpower.

In recent years the need to rectify such past practices have become acute as the expected contributions of the indigenous personnel have failed to materialize; and the number of graduates from technical/vocational schools are slow to remedy the deficiency. No doubt, the amount of aid devoted to such schemes is minimal and is thus responsible for such meagre results. More often than not, the grant element of the assistance covers the salary of the foreign consultant with little else to devote to training. What is currently needed is additional aid over and above the project requirements, which would assure the provision of adequate "on the job" training. Only through a greater understanding of the complexities, rationale and potential of a particular scheme, can workers truly manifest the desired benefits of any project. Such an endeavour would not be a duplication of the training provided in the vocational schools since the scale would be considerably smaller and the focus of attention more specific.

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by the very limitations it is urged to overcome, how the resources and powers of the state are used, is certainly dependent on the attitudes, integrity and zeal of the political leaders. Thus the state can contribute either positively or negatively to overall growth and change by pursuing courses which directly or indirectly affect socio-economic growth.

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On the other hand, the knowledge that developed countries have a moral obligation to assist the lesser developed countries and thus external funds are available, has resulted in many governments proposing development plans which do not realistically mirror the domestic needs or available resources. Too often, investment plans are based on the assumption that there will be sufficient increases in domestic savings and private investment to supplement the external capital inflow. Yet reason and experience have shown that development finance from external sources could be limited in disbursement by the absorptive capacity of the public sector of any given country (K. R. Hope, 1979:128). Such constraints would have to be eliminated either before the receipt or with the use of aid before such growth targets can be achieved. Governments when formulating development plans should have therefore, a clear idea where the finance will come from other than that of the external source. In fact, such clarity would allow potential lenders to judge the financial reliability of certain schemes.

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Furthermore, the argument could be made for the reduction of aid in such cases, since it could lead to a more controlled and manageable development strategy.

The argument against relying too heavily on foreign assistance stems however, from the very uncertainty of the external and internal environment facing the borrowing country during the repayment period. Developing countries are apt to assume that repayment would be possible given the role the external flows are to play in the economy. What is often forgotten is the uncertainty surrounding the developed countries' own development policies, to resolve their own economic crises, and what such measures would have for their own countries tied to such economies. A case in point would be that of Guyana and the appreciating U.S. dollar. Besides making American exports much more expensive, it has also increased the value of all other currencies linked in one way or another to the U.S. dollar. Oil prices will also rise since the pricing of that commodity is done in the U.S. dollar. More important will be the significant increases in debt servicing obligations coming at a time when Guyana will be seeking new sources of finance to cope with its rising balance of payment deficits. Although Guyana has since adopted a basket of currencies to counteract such fluctuations, it cannot prevent the increases in imports. Thus, ironically, while at the time of receipt aid may be tied, repayments are made from free foreign exchange. This then increases the cost of assistance.

Thus the call for the borrowing country to review its perception of aid is an attempt to emphasize the greater responsibility towards the receipt and use of aid than has otherwise been demonstrated by most borrowing governments. The greater role played by the state in initiating and directing socio-economic change is all the more reason why such commitments should be carefully considered. There is need for foresight and planning into the source of counterpart funds and to conceive rational priorities to secure a gradual and balanced development. In essence, socio-economic growth is much more complex than political rhetoric; it requires carefully formulated programmes of how it will be operationalized and a concept of who shares the cost and who enjoys the

benefits.

6.3.2 Areas for Private Investment

It goes without saying that in and of itself, an increased role of government is not sufficient to ensure success in development. Indeed, one of the most fundamental reasons for the development of the IFC, (International Finance Corporation), was the observation that there are broad areas of economic activity in which private enterprise can be an effective agent for economic development (C. Bell, 1981:16).³ The post-war history of poor nations is replete with examples of nations adopting statist⁴ policies without achieving the desired advances in their economies (J. Mandle, 1976:42). In fact, both domestic and foreign private investment have often been scared away as a consequence of the assumed political stance by certain governments, which is often selfishly motivated and stems from the uncertainty surrounding their own economic survival.

Many newly-independent countries now recognize that the contribution of private capital, both domestic and foreign, needs to be interpreted in terms beyond simply private profit. Direct foreign investment can bring not only capital and foreign exchange, but also managerial ability, technological knowledge, innovations in products, etc. (G. Meier, 1976:373). In fact, feasibility studies, the act of investment, and the administration of the project are all ensured in such a transaction. This is not to say that the encouragement of such policy measures is not without considerable risk to the host country, but the objective must be to ensure that the investment supports activities from which the recipient nation derives maximum socio-economic gains, as assessed through costs and benefits (G. Meier, 1976:378).

³ The financial flows mobilized and invested by the IFC have become an important factor in international private investment: see C. Bell, (1981), for further details.

⁴ The control of central economic processes by the government--often identified with socialism.

A recent UN report "National Legislation and Regulations Relating to Transnational Corporations" (1978), focuses on the four main areas⁵ in which host governments limit or control the influence of the transnational corporations. However it proposes the "consolidation of investment legislation, ... the coordination of its administration and the adoption of screening procedures" (UN, 1978:5) as being important steps towards more effective regulations. Given such recommendations followed by a clear statement by the recipient of the areas in which private investment is desired, there is no reason why such investments would not be of considerable value to both partners. Because the investor is sometimes unaware of the investment guarantees, his/her position vis-à-vis the public sector, the policy of nationalization, the event of any loss arising through other than "normal" business causes etc., the receipt of private capital has been somewhat minimal. To remove this ambivalence and to encourage the greater inflow of foreign and domestic capital, governments therefore need to devise new approaches that mobilize such resources while ensuring their maximum performance in terms of the country's development programme. As was pointed out earlier, the tasks of development require both more effective governmental activity as well as more investment on the part of private entrepreneurs.

6.4 A Summary

Aid can only assist in the borrowing country's development aims. It cannot guarantee their achievement. The numerous problems peculiar to each and every developing nation suggest that the areas for aid involvement, however, are more diverse than are presently focused upon. Since the borrowing country is the only source for which such problem areas can be identified, the onus is placed on the recipient to successfully encourage assistance in these avenues. Thus the resultant outcome of any aided project/programme in relation to the overall development plan is partly a combination of both donor and recipients' policies and their

⁵ These relate mainly to (1) Foreign Investment Decision-Making (2) Regulation of ownership, managerial control and employment (3) Taxation and regulation of financial transactions & (4) Administration and Supervision.

overall commitment to the aid and development philosophies to which they ascribe. Likewise, if the suggested improvements in both the aid processes and recipient governments are to occur, a greater commitment on the part of both partners would have to be made than is otherwise demonstrated. Ideology for development or concepts regarding the aid relationship are not sufficient to carry out the transformation; it must be backed by a leadership that is truly committed to its implementation.

CHAPTER 7

CONCLUSION

If government policies and the pursuit of development have led to the further impoverishment of the poor and greater social conflict, it is natural to ask what has gone wrong and also who is to blame. Questions related to the need for aid, its link to domestic capital formation, how large will aid have to be and for how long? etc. will continue to plague development economists, planners, governments and academics alike, as long as the divorce between policy and practice remains so wide that it demands explanation.

This study revealed that whilst aid may have accelerated the pace of the development effort, this was achieved at some cost to the recipient. Furthermore, whether aid was successful in reducing somewhat the savings and foreign exchange gaps, and in increasing the absorptive capacity can only be fully analysed once the aid financed projects are completed and working at full capacity, and even then, there is the possibility that the recent IMF policies may have affected certain outcomes. Since the present study is but a preliminary analysis of aid over the last fifteen years within the Guyanese context, future work can be of a similar nature but have the advantage of a longer period over which the aided effort is applied.

One question which immediately emerges from this study is: should Third World countries continue to accept aid, and if so, why? This is not an invalid question since there has been considerable literature relating the present "aid dilemma" in many underdeveloped countries to the relative availability of capital funds from foreign sources. The relative availability of loans and grants has tended to make the expenditure of governments greater than it would otherwise have been (Bird & Orme, 1981:

564); it created no real pressure on the central governments to control current expenditure in order to have a surplus to finance their capital expenditure requirements. On the other hand, critics argue that such perceptions are not unwarranted, as according to Cheryl Payer (1976:5), "The World Bank and the IMF in their zeal to promote international trade and payments according to the letter of their charter, helped to propound an ideology ... that emphasized the need for imports from the developed world and thus the need to borrow money to finance such imports". Whilst there is an element of truth in such suppositions, the explanation is not that simplistic. One consequence of the increasing experience with development problems in the Third World is the growing awareness of the differences among such countries and of the inadequacy of the state of knowledge about the sources of change. Each and every country has inter-related but distinct problems. Before answering my original question, a brief review of the important lessons that have emerged in connection with development is germane to the discussion, as such changes have direct bearing on the relevance of foreign aid.

A post World War II belief was the centrality of investment in determining the rate of growth. The key to faster growth was believed to be a rising capital-labour ratio (K. Griffin, 1981:224). If only a country could reduce consumption and raise savings and investments, growth would accelerate. This bias in favour of investment was accompanied by a bias in favour of industry and an espousal of the concept of planning. However, planning was to be from the top down; the benefits of growth being expected to "trickle down" to the mass of the population.

This whole approach to development was gradually rejected in the early seventies as such concepts did little to raise the welfare of large sections of the population. It disregarded equity and could encourage a country to become excessively dependent on foreign capital to finance growth. The centrality of planned investment shifted therefore to envelop the concept of rural development and investment for the mobilization of local human and material resources. In effect, there emerged the thought of regional development or decentralization of decision-making, to encompass the regional differences within any country.

The rate of growth of GNP thus became less of a key variable in

measuring development, as emphasis was placed on measures aimed directly at reducing poverty (K.Griffin, 1981:335). Some theorists then argued that reducing inequality in the distribution of income should be the first priority, whilst others focused not on inequality, but on measures to meet the "basic needs" of the entire population through adequate nutrition, health, clothing and shelter.

The consequence of the above described experience with development was a concomitant change in the role foreign aid was to play in such economies. In keeping with the chronological trend, foreign aid was supposed to result in a high level of investment and thereby enable an economy to "take off". With the acknowledgement that, in practice consumption usually increased more than investment, that capital formation could account for only a fraction of growth, and that the effectiveness of investment varied from one country to the next, the scope for foreign assistance changed. While the emphasis was originally on capital transfers, it was now thought that the mobilization and development of human resources and the introduction of more appropriate forms of technological change were the key answers to growth. The view that investment in machinery and buildings was almost the only thing that mattered was replaced by the view that investment was often badly allocated and that capital, land and labour were often under-utilized (K.Griffin, 1981:225).

The case study of Guyana revealed that despite such changing views on the process of development and the areas towards which aid can be directed, there still exists a divorce between theory and practice. Where once foreign aid was supposed to be a modest and temporary phenomenon, it has reached the stage where external debts are enormous, and aid will have to flow if only to prevent recipient countries from defaulting on their loans. In other words, where only the investment deficit needed financing, borrowing must now cover not only the growing investment deficit but the service of previous debts as well. Likewise, where aid was supposed to mobilize and develop human resources and in many instances cater simply to the "basic needs" of the lower income populace, it more often than not supports capital intensive projects and military "build-ups" with little funds being channelled into health, education and research.

Such evidence does not constitute arguments against the acceptance of further aid. Yet in many countries, a planned reduction in the quantity of aid may be necessary. There is considerable evidence to show that high idealism and the tendency to go "too far, too fast", has led to unwise planning. However, given the situation as it exists in many Third World Countries, it would be suicidal to consider: what if there were no aid? Given the areas towards which aid can be possibly directed (see Chapter 6) there is a possibility that the efficiency of public spending will improve. Moreover, the increasing evidence of future reductions of aid by the Developed World may inadvertently achieve this aim. What is perhaps required, is, "something" which cannot be a by-product of institutional and technical improvements; reorientation of both individual and collective attitudes. More specifically, the large weight of political and economic self-interests and relatively small importance of humanitarian objectives in both partners' policies need to be removed. In Guyana, it would seem that these are the critical factors affecting its present growth and that in the nearby future.

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