

DEPARTMENT OF STATE
AGENCY FOR INTERNATIONAL DEVELOPMENT

- 504-044

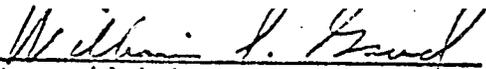
OFFICE OF
THE ADMINISTRATORA.I.D. Loan No. 504-L-008
(Ref: AID-DLC/P-778)LOAN AUTHORIZATIONProvided From: Alliance for Progress Fund
GUYANA: Rice Modernization Project

Pursuant to the authority vested in the Administrator of the Agency for International Development ("A.I.D.") by the Foreign Assistance Act of 1961, as amended, and the delegations of authority issued thereunder, I hereby authorize the establishment of a loan pursuant to Part I, Chapter 2, Title VI, Alliance for Progress, to the Government of Guyana ("Borrower"), with proceeds to be relented to the Guyana Rice Development Company, Limited or its successor ("Executor"), of not to exceed twelve million nine hundred thousand United States dollars (\$12,900,000) to assist in financing the United States dollar costs of (1) construction and placing into operation of six modern rice storage centers with necessary receiving, handling, cleaning, drying and grading equipment; (2) establishment of a rice research station in Guyana and (3) technical assistance for the above projects as required to assure satisfactory operations ("Project"), this loan to be subject to the following terms and conditions:

1. Interest and Terms of Repayment: Borrower shall repay the loan to the Agency for International Development ("A.I.D.") in United States dollars within forty (40) years from the first disbursement under the loan, which period may include an initial grace period of not to exceed ten (10) years. Borrower shall pay to A.I.D. in United States dollars on the outstanding disbursed balance of the loan interest at the rate of two (2) percent per annum during the grace period and three (3) percent per annum thereafter.
2. Borrower shall relend the funds to the Guyana Rice Development Company, Limited, or its successor ("Executor"), which will be responsible for implementation of the Project. Executor shall repay the loan to Borrower in Guyana dollars within twenty (20) years from the first disbursement under the loan, which period may include an initial grace period of not to exceed five (5) years. During the grace period interest (at six (6) percent per annum) shall be capitalized. After the grace period, executor shall pay to Borrower in Guyana dollars interest at the rate of six (6) percent per annum on the outstanding balance of the loan principal, said principal, to include accrued and capitalized interest.

3. Other Terms and Conditions:

- (a) Goods and services financed under the loan shall have their source and origin in the United States of America, except that up to three hundred thousand U. S. dollars (\$300,000) may be used to procure technical assistance services from IRRI (Philippines), CIAT (Colombia) or JCRR (Taiwan) if it appears that services of a suitable quality are unavailable from the United States.
- (b) Prior to signing of the Loan Agreement A.I.D. shall have determined that all of the applicable requirements of Section 611 of the Foreign Assistance Act have been satisfactorily met.
- (c) Prior to signing of the Loan Agreement, Borrower shall confirm in writing its commitment to make available the funds, personnel, equipment and other resources required for the timely completion of the Project as indicated in a financial and construction schedule to be agreed upon.
- (d) Prior to first disbursement by A.I.D., the Borrower shall present, in form and substance satisfactory to A.I.D., a plan for adequate and continuing financing for the research station.
- (e) Prior to first disbursement by A.I.D., the Guyana Rice Development Company, Limited shall have been reorganized, its outstanding long-term debt taken over by the Government of Guyana and it shall be empowered to undertake the activities contemplated in the project; or alternatively, the said Company shall have been abolished and arrangements completed with a successor, satisfactory to A.I.D., which shall be capable of and responsible for the prompt implementation of the project.
- (f) The loan shall be subject to such other terms and conditions as A.I.D. may deem advisable.



Administrator

NOV 27 1983

Date

DEPARTMENT OF STATE
AGENCY FOR INTERNATIONAL DEVELOPMENT
Washington, D.C. 20520

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AID-DLC/P-778/3
November 18, 1968

MEMORANDUM FOR THE DEVELOPMENT LOAN COMMITTEE

SUBJECT: Guyana: Rice Modernization Project

Attached for your information is an ADDENDUM to the
subject Capital Assistance Paper.

Rachel C. Rogers
Assistant Secretary
Development Loan Committee

Attachment: a/s

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GROUP 3
Downgraded at 12-year intervals,
not automatically declassified

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AID-DLC/P-778/3
November 18, 1968

ADDENDUM

SUBJECT: Rice Modernization Project - Export Demand for Guyana

Rice export demand for Guyana has been evaluated not only in terms of the 1966 study but also in light of both the more recent indications of world demand and supply.

In this analysis and its conclusions, which the USDA has agreed are reasonable, it was determined that Guyana would be facing a demand for the particular types of rice which it intended to export, particularly to the Caribbean and Latin America markets where it is anticipated to have a clearly competitive advantage in both production and transportation.

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DEPARTMENT OF STATE
OFFICE FOR INTERNATIONAL DEVELOPMENT
Washington, D.C. 20523

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AID-DLC/P-778/1
November 4, 1968

MEMORANDUM FOR THE DEVELOPMENT LOAN COMMITTEE

SUBJECT: Guyana: Rice Moderniation Project

Attached for your review is a CONFIDENTIAL memorandum
relating to the subject paper.

Rachel C. Rogers
Assistant Secretary
Development Loan Committee

Attachment: a/s

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AID-DLC/P-778/1
November 4, 1968

October 25, 1968

TO: LA/CD - Mr. Glaessner
FROM: ARA/NC - Mr. Hill
SUBJECT: Rice Loan for Guyana

I understand you will be taking up on Tuesday in the CAEC the Loan Paper for the long awaited rice modernization program in Guyana. Since, regrettably, I will be out of the country and unable to attend the meeting, I want to put down on paper to you my concern that further delays in getting this loan authorized could have serious -- even grave -- consequences for our entire program in Guyana.

I need not go over in detail for you the tortured history of this project, which we have been discussing with the Government of Guyana and "in-house" for years. As you know well, however, our original intentions and plans were to have the project completed by the time of the 1968 elections so that the Burnham government could demonstrate clearly its good intentions to the East Indians and so that the financial gains from the new storage facilities would already be felt by the time the rice farmers went to the polls. Then in August 1967, when it became clear that we would not be able to have the project completed by the elections, we agreed at least that we would plan to have the work underway on a few sites so that Burnham would have some physical evidence that the long promised modern storage and drying facilities would, in fact, become a reality. But alas, that goal also was not met. Early in the summer of this year it became clear that the most we could hope for was an early fall signing of the loan agreement and a beginning of the work early in 1969 -- after the elections. Finally, in early October you told Minister Reid that the loan paper would be completed by the end of October and the loan authorized in November.

I now hear that there are engineering problems that could delay the final authorization of this loan for two months or possibly more. I, frankly, think that a delay in the authorization on this loan much beyond November 20 would be nothing short of calamitous for our policy in Guyana and reflect badly on the U.S.

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Government as well as on Burnham. The elections will probably be held in mid-December and it would obviously be politically unwise for us and Burnham to sign such a large loan on the very eve of the elections. In order that the loan not be construed as an American payoff, it should be signed three or preferably four weeks prior to the elections.

The positive benefits, both political and economic we had seen for this rice program, are well known (see the attached message from USAID Georgetown for a recent restatement of the political objectives of the project). What disturbs me now, however, are the negative political implications of not signing this loan prior to the elections. Some of those implications are:

- 1) The Government of Guyana has already committed itself publicly to modernizing the rice industry. In Minister Reid's speech of last June 7 he spelled out in detail the rice program and announced that the government planned to borrow \$10 million to carry it out. If nothing has been accomplished by the elections, Jagan's repeated charges against the rice program will be given a major boost and his electoral hold over the East Indians reinforced.
- 2) More seriously perhaps are the implications in the post electoral period of this failure to keep a promise. If Jagan should lose the election, as we anticipate, he may well seek some massive demonstration against Burnham in the way of strikes, riots, or even prolonged violence. To carry out such a program he will have to depend on significant numbers of East Indians, including rice farmers. If the rice farmers feel that the Burnham government has betrayed or seriously deceived them on this large program, they might be much more inclined to join an obstructionist Jagan.
- 3) Another important factor is our own credibility gap that seems to be developing with the Government of Guyana. We have made important efforts to help the Burnham Government for which it is greatly appreciative. However, we have made great promises on this rice program and have encouraged the government to undertake major changes in its own management arrangements, purchase and clear sites for the storage facilities, and in

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- 3 -

general commit large sums of money and time to making preparations. Continued delays on our part not only raise serious questions in the minds of the Guyanese as to our intentions, but must make them question our wisdom and ability to produce. The Guyana government has looked to us for guidance and help in the past, however, their future confidence in us may be damaged by an inability to iron out the difficulties in this loan proposal.

I have, personally, made presentations at two successive AID Donors meetings in Georgetown (1967 and 1968) in Guyana on the scope and objectives of our long discussed rice program. As time goes by I'm finding it increasingly difficult to convince other governments such as the British and Canadians at these and similar meetings that they should pick up more of Guyana's foreign assistance needs when I am unable to explain how and why the U.S. government has taken so very long to fulfill its long expressed intentions to begin the rice program.

I will be in London next week to discuss with the British, inter alia, our development program in Guyana. I will be calling on the Ministry of Overseas Development on Wednesday afternoon. I am hopeful that I will be able to report at that time that the last technical hurdle has been passed on this long track and that we will be authorizing and signing the loan in November.

Attachment

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AIRGRAM

ALD-DLC/P 778/1 Attachment

DEPARTMENT OF STATE

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For each address check one: ACTION INFO

TO - AID/W TOAID 4345

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DATE REC'D.
DATE SENT
August 23, 1968

FROM . GEORGETOWN

SUBJECT . Rice Modernization Loan

REFERENCE .

In connection with the preparation of the loan paper on the rice modernization loan, the following is submitted in terms of the political implications of the project.

United States political objectives in Guyana center on the maintenance of moderate pro-Western Government. In practical terms, this means that the communist-led People's Progressive Party (PPP) headed by Jagan must be denied power. The stakes are high and the margin is narrow as Jagan commands the loyalty of the mass of East Indians who now constitute over 50% of the population (though not yet over 50% of the post 21 voting population).

East Indians support Jagan because he is one of them and because they believe it is in their self interest to do so. Yet in the main the East Indian is a conservative small farmer or agricultural worker, deeply interested in increasing his family's wealth and very possessive of what he already owns. It is a paradox, that he follows a communist leader whose motivation and goals are so directly contradictory to his own. The long term solution to Guyana's most serious political problem lies in the exploitation of that paradox. Rice is seen as a key to that solution.

Guyana's rice farmers constitute an estimated 15,000 families, practically all East Indians, and rice contributes to the livelihood of a third of the population of Guyana, and probably to two-thirds of the East Indian population. While in office during the colonial days of Guyana, Jagan almost wrecked the economy in order to bring out benefits to the rice farmers, thereby solidifying their support. But the inefficiency of his regime in the end also left the rice industry in shambles, as farmers overproduced for

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OFFERED BY Gorman/fan	OFFICE EMB	PHONE NO.	DATE 8/23/68	APPROVED BY <i>[Signature]</i> Robert C. Hamer, Director
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CLASSIFICATION

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protected markets and were paid more than the rice was worth on the world market.

Initially the government of Forbes Burnham had to reduce prices to farmers in order to straighten out the inherited mess. As a result of actions over the past three years the finances of the industry have been put in order and the government is prepared to modernize with our assistance the industry from cultivation to marketing.

If this project succeeds, and its economics show that it can, the government will demonstrate to the farmers that efficient moderate government brings them more benefits than the radical inefficient racial government of the PPP. Over a five-year period it should help create the climate in which alternative East Indian leadership more moderate in character can emerge.

The fact of this is the extent to which the GSE moves to improve the rice industry creates concern within the PPP and its satellite organization, the Rice Producers' Association, (whose officers and members are selected by PPP headquarters). Both have worked hard to undermine the program, attempting to discredit the new high yielding rice varieties introduced by the government and attacking the modernization program as outlined in policy statements of the Prime Minister in 1966 and the Minister of Finance in 1968. They are aware that rice may be the Achilles heel of the communist movement in Guyana, which controls the country's largest political party.

GAMISON