

GUYANA

Business Outlook Survey

- Economy*
- Budgets*
- Human Resources*
- Competition*
- Capital*
- Fuel Costs*
- Exports*
- Taxes*

2015



Ram & McRae

CHARTERED ACCOUNTANTS

Professional Services Firm

Guyana Business Outlook Survey 2005

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Introduction

Ram & McRae is pleased to present the results of its *Business Outlook Survey* for the year 2005.

The publication is the 11th in the annual series and summarises the responses of forty business entities of varying sizes, organisational cultures and products/services offered in different sectors of the economy.

The Survey questionnaire required respondents to give brief details on their businesses, highlights of their financial performance and decisions taken during 2004. They were also asked to comment on their outlook on the economy as well as some of their plans and strategies for 2005. In this Report comparisons are made, as appropriate, with the results of the 2004 Survey to highlight the trends in the thoughts of the local business community.

The Survey's focus is on the business, political and current affairs issues - both local and international - which we consider pertinent to the business sector. *Ram & McRae* is pleased to compile, share and comment on these results which we hope will allow respondents to match their own views with those of their counterparts.

We thank those entities that participated in the survey and hope that they find this Report some measure of compensation for their efforts.

We invite you to email us to obtain electronic copies of this Report or visit our web site to gain access to our archive of earlier reports, Business Page articles, Focus on annual Budgets and other useful publications.

We welcome your comments on the report along with your suggestions on how future surveys may be made more useful.

Christopher Ram
Managing Partner

Executive Summary

The 2005 Survey elicited a 45% response rate with forty entities responding to eighty-eight questionnaires sent out on November 3, 2004 as compared with ninety-four businesses surveyed for 2004. The composition of the respondent groups was very similar to last year with the majority representing the distribution/retail, manufacturing and tourism & media sectors.

Of the forty respondents, eleven (28%) had a turnover of over \$1Bln, twelve (30%) between \$500M - \$1Bln, seven (18%) between \$100M - \$500M and eight (20%) under \$100M. Two respondents did not disclose their turnover. Their workforce ranged from under 50 employees (11 entities), 51 – 100 employees (7 entities), 100-500 employees (18 entities), 501 – 1,000 employees (3 entities), and over 1,000 employees (1 entity).

The 2005 Survey took place against slightly improved political and security conditions, the passage of an Investment Act, significant reduction in the number of businesses being placed in receivership and better half-year performance reported by a number of public companies.

The Survey was conducted against the background of an economy which according to the Bank of Guyana Half Year Report 2004 had rebounded to reflect real gross domestic product growth of 0.8% after remaining relatively flat in 2003¹. Real growth for the year however was expected to be less than 2.5% projected in Budget 2004. Politically, conditions were mixed with the termination of the Constructive Engagement between the President and the Leader of the Opposition balanced by the return of the main opposition PNC-R to the National Assembly albeit on a selective basis.

A questionnaire as wide in scope inevitably draws out both positive and negative responses and some which even appear inconsistent. Overall however it reflected guarded confidence about 2005.

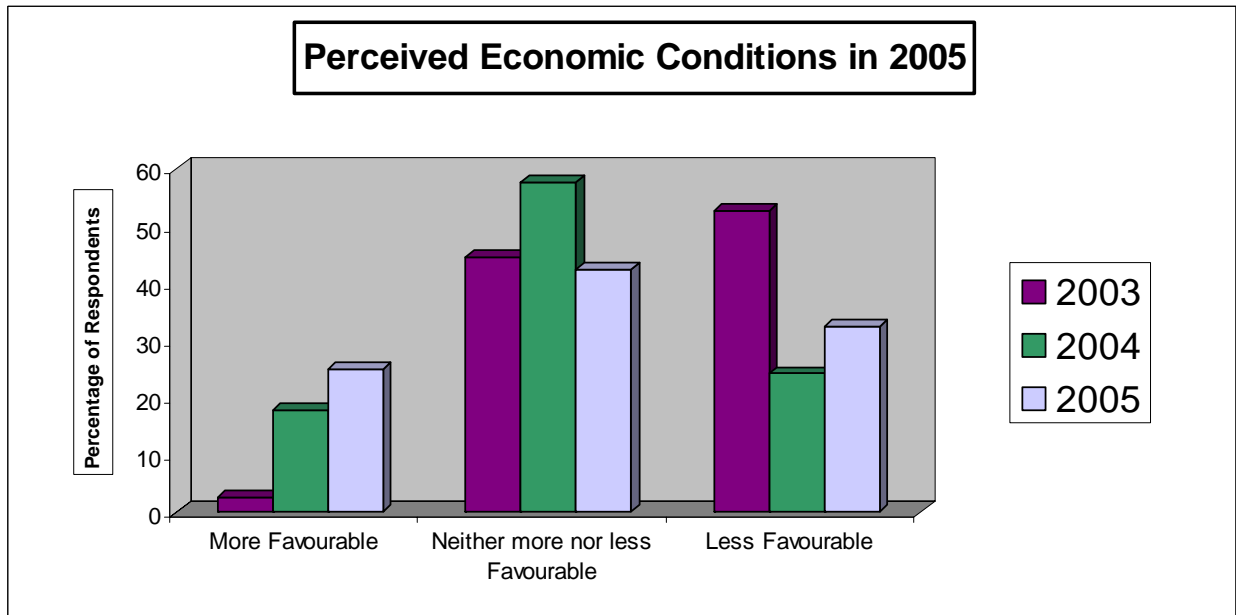
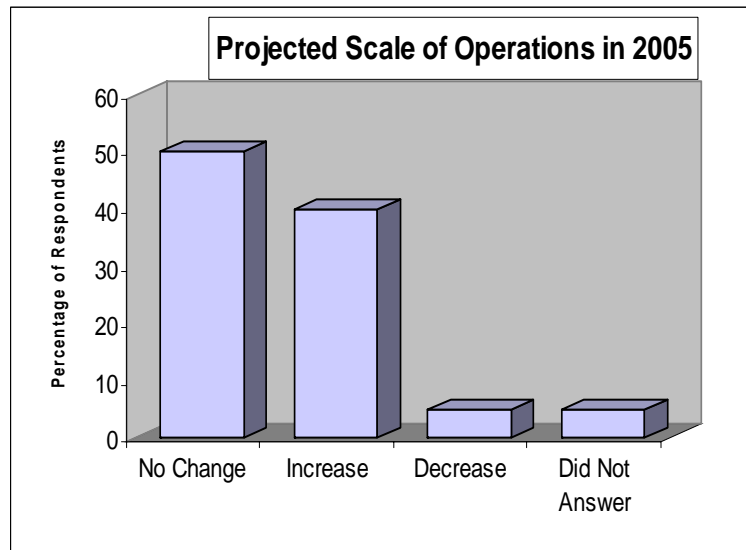
Survey results

Confidence in economic prospects: The Survey group was asked to state how confident they were that the economy would improve in 2005. More confidence was expressed in the economy for 2005 than was expressed for 2003 and 2004. The actual results for the past five years were as follows:

	2001	2002	2003	2004	2005
Very confident	1	1	1	0	2
Confident	2	2	0	1	5
Fairly confident	18	6	6	14	12
Not very confident	17	23	15	20	13
Not confident	8	11	12	9	7
Don't know	4	0	4	1	1
Total	50	43	38	45	40

¹ Source: Bank of Guyana, Half Year Report 2004

Sixteen (40%) of the respondents are planning to increase the scale of their operations in 2005 while two (5%) are planning to scale down with twenty (50%) planning no change in their operations. This is similar to 2004 plans when seventeen respondents (38%) planned increases, three (7%) decreases and twenty-four (53%) planned no change in the level of their operations.

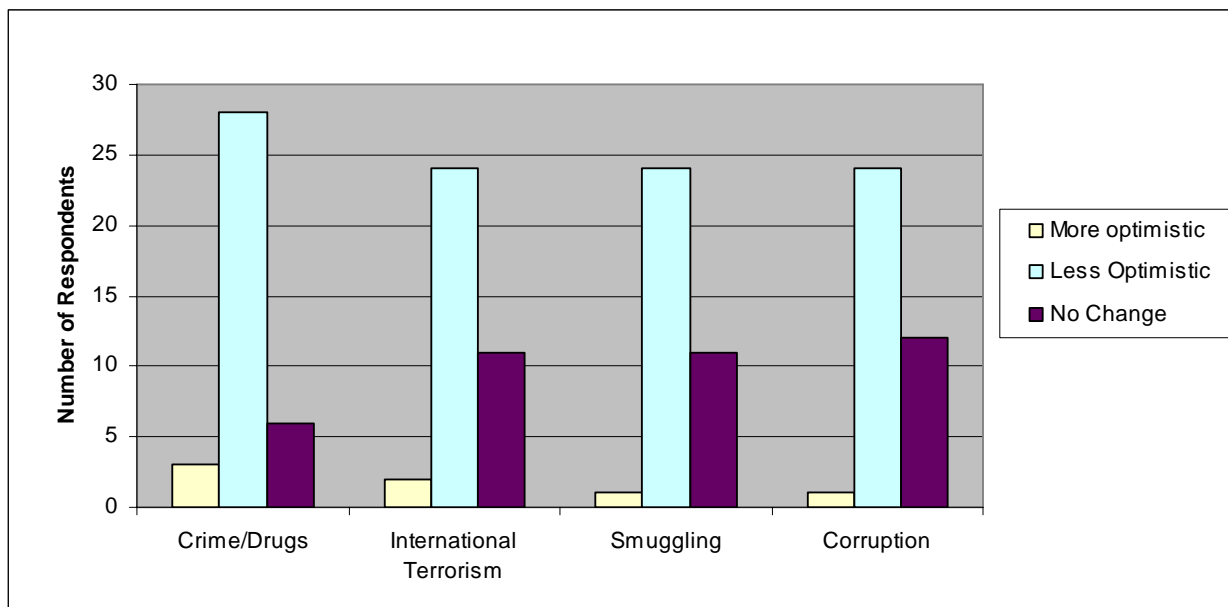


Confidence in conditions for business: As shown in the chart above, twenty-five percent or ten respondents believe that economic conditions would be more favourable for privately owned businesses in the next twelve months than the past twelve months. Forty-three percent or seventeen respondents believe that economic conditions would be no different while thirty-two percent or thirteen respondents believe it would be less favourable.

By comparison, in the 2004 Survey eight respondents (18%) had anticipated that economic conditions would be more favourable in 2004, twenty-six respondents (58%) believed it would be neither more nor less favourable and eleven respondents (24%) believed that economic conditions would be less favourable. In other words, there are increases both in those who perceive that things will be better and those who anticipate that they will be less favourable.

Performance in 2004: When asked to assess their performance in 2004, twenty-four (60%) respondents reported that their results were in line with expectations, nine (23%) worse than they expected and seven (17%) better than expectations. Readers will recall that in the 2004 Survey twenty-seven (60%) respondents expected their profitability to increase while eight (18%) expected decreases.

Outlook on the economy: From a list of seventeen items, respondents were asked to rate the national or international events if any, which, made them more or less optimistic about the economy. Only two developments – GuyExpo and the appointment of a new Commissioner of Police caused more optimism than pessimism. Despite this positive view on the appointment of a new Commissioner of Police, there remains overwhelming pessimism over the crime and drug problem, smuggling, corruption and international terrorism.



The passage of the Investment Act during the year did not appear to have had a particularly favourable impact on respondents as there are fewer responses (8) which are more optimistic than those who are (10) less optimistic. Overwhelming pessimism was expressed over the level of consultation on the introduction of VAT proposed for 2006. Six respondents were more optimistic, seventeen less optimistic while eleven said that they were neither more nor less optimistic.

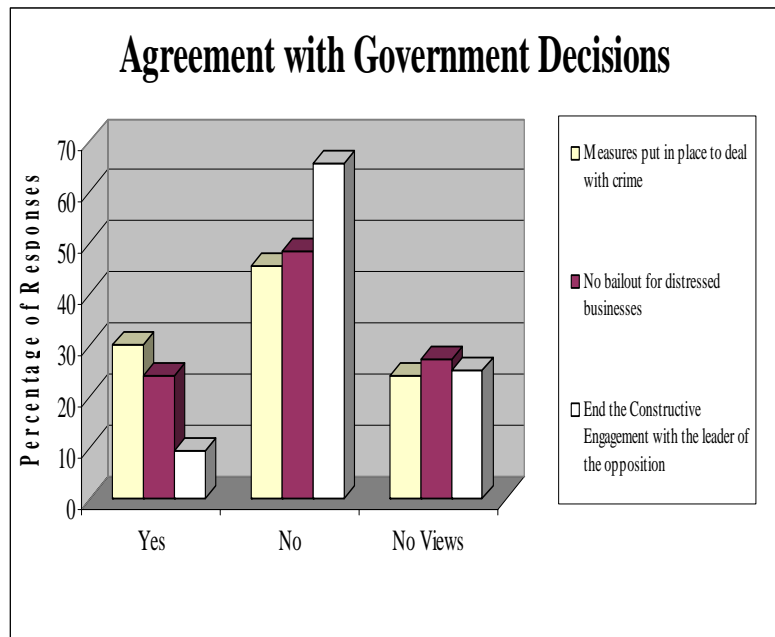
Agreement with Government’s decisions: Respondents were asked their views on the Government’s handling of three issues: measures put in place to deal with the crime situation, no bailout for distressed entities and the Constructive Engagement between the President and Leader of the Opposition.

The greatest area of disagreement was with the Government’s decision to terminate the Constructive Engagement. An overwhelming 66% of the respondents (twenty-one) expressed

disagreement compared with 9% who expressed agreement. By contrast in 2004 66% of respondents had welcomed the Constructive Engagement.

While the level of disagreement with the Government's decision on crime has declined from 61% to 46%, the percentage who agree also fell but by a smaller 3% from 27% to 24%. The main change was in respect of those with no views which increased from 12% to 30%.

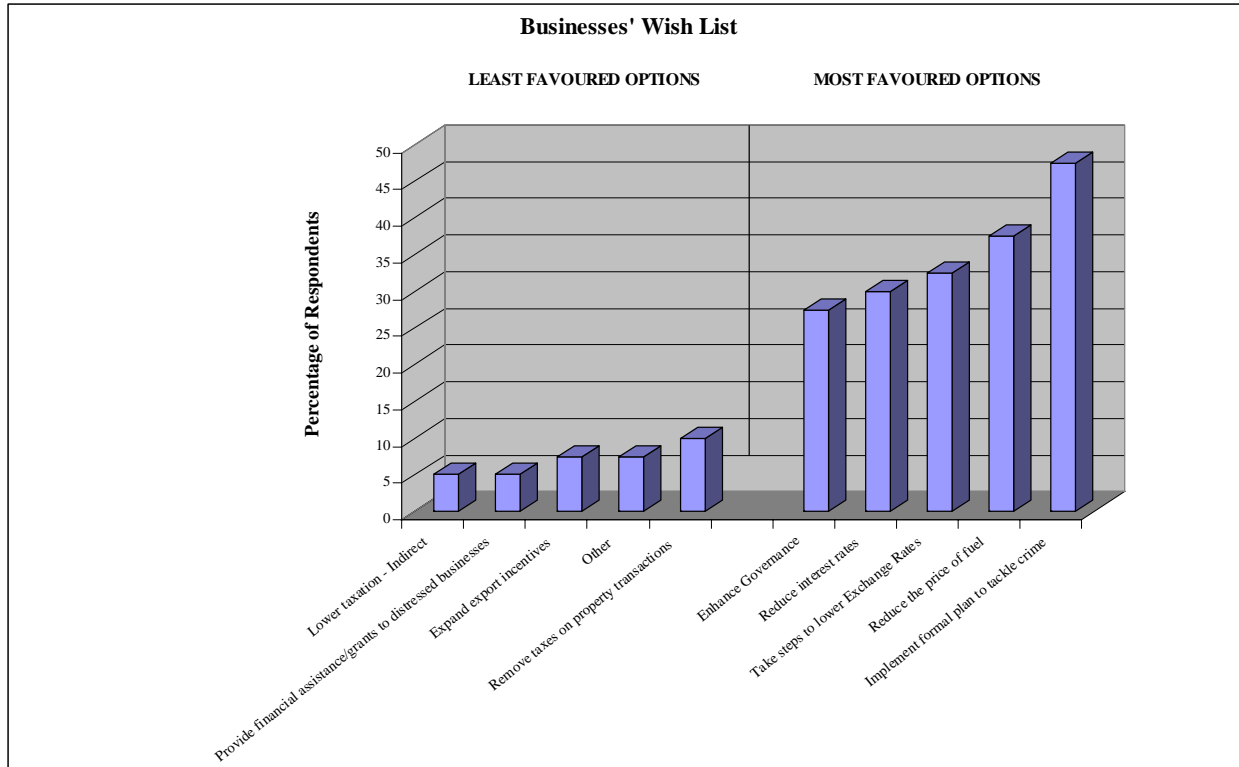
With respect to the bail out of businesses, sixteen respondents (48%) disagreed with Government's decision while a significant nine respondents (27%) offered no views. In comparison with the 2004 survey a greater percentage of respondents (60% compared to 52%) had agreed with Government's decision on distressed businesses.



Measures for Government to act on: From a list of fourteen measures, companies were asked to rank five on which they wanted to see the Government take action. The issue which the respondent group would most like the Government to deal with is the implementation of a plan to tackle crime followed by the reduction of the price of fuel, and the rates of exchange and interest.

Interestingly lowering of direct taxes ranks sixth in 2005 as compared to second in the 2004 survey as items that respondents to see Government tackle.

The issues least on the “wish list” are the provision of financial assistance / grants to distressed business and the lowering of indirect taxes.



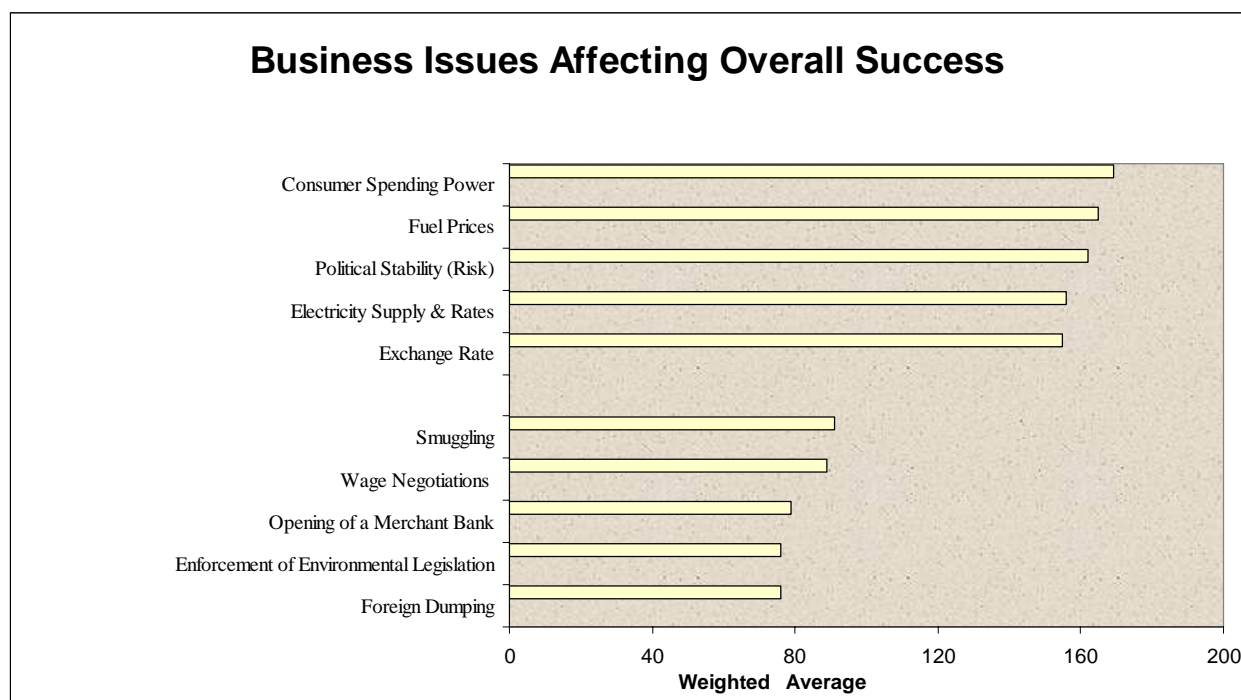
Issues impacting business in 2005: Entities were asked to rank thirty external factors most likely to impact on their businesses in 2005. In order of ranking, the issues considered likely to have the most impact on the success of companies in 2005 were identified as:

- Consumer spending power
- Fuel prices
- Political stability (risk)
- Electricity supply & rates
- Exchange rates

Other issues which are likely to impact on the success of businesses include interest rates, crime, income/corporation tax rates, lack of confidence in the economy followed by Government policy.

The issues which are considered to have little impact on the success of businesses were 'dumping' of foreign goods in the domestic economy, enforcement of environmental legislation and the opening of a Merchant Bank. Foreign dumping, opening of a Merchant Bank, wages negotiations and enforcement of Environmental Legislation were included in the five issues least to impact business for the past three years.

The road to/from Brazil and legal matters held up in court are issues which despite their particular effect to the some entities, were not highly ranked by the general body of respondents as key issues likely to affect business success in 2005. The commercial banks however consider the bottlenecks in the court system as critical to their success.



The most important operating issues: Respondents were asked to rank from nine operating issues those that are most important to their businesses. The three most important operating issues for 2005 are fuel cost, electricity supply and custom procedures. In comparison, Customs procedures were ranked fifth in 2004 when the top three issues were security/crime, electricity supply and improving the quality of products and services offered. The crime/security issue is now ranked fourth with three respondents (8%) expected to increase spending on security by over 50% in the coming year while a substantial number (19 or 47%) expect to increase spending on security between 6% and 20%.

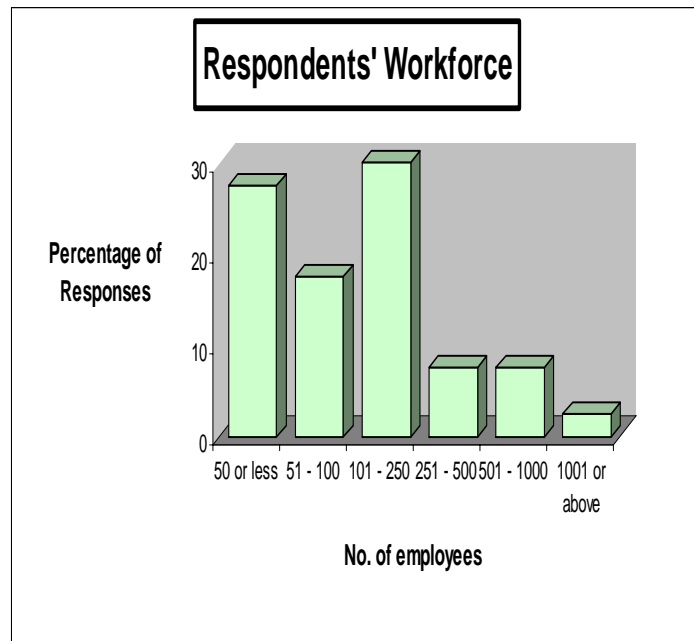
The most important financial issues: Respondents were asked to rank from six financial issues those they consider most important to their businesses. Interest rates charged by the commercial banks, access to foreign currency and cash flow management are the highest ranked financial issues this year. Two of the top three most important financial issues for 2005 were the same as in 2004 with interest rates replacing timely flow of financial information.

Planning and budgeting: Thirty-seven (93%) respondents to the Survey reported that they review actual performance against budget. 65% do this on a monthly basis, 24% quarterly and 8% half-yearly. None of the respondents indicated that they review actual performance against budget on an annual basis. 68% of these entities claim that they operate with a formal business plan with nine entities preparing projections for a three-year period, five for a one-year period, three for two-year periods and six for five-year periods.

Human resource issues: Respondents were asked to indicate whether and by what percentage their workforce had changed in 2004. Of the thirty-nine responses, fourteen or 36% reported an increase averaging 11% while nine or 23% reported a decrease averaging 14%.

By comparison in the 2004 Survey sixteen companies or 36% had projected an increase and twelve or 27% had projected a decrease.

Most of the respondents of the 2005 Survey 38% have workforces of between 101-250 staff. Eleven respondents (28%) have less than fifty workers and seven respondents (18%) have between 51-100 employees. Three companies each (7%) have between 251-500 and 501-1000 employees respectively. Only one (2%) company has above 1000 workers.



When asked whether the number of people employed by their organisation would increase, decrease or stay the same over the next 12 months and by how much, fifteen (37%) of the respondents expect no changes in workforce size in 2005 while eighteen (45%) project increases and five (12%) project decreases. Two respondents expect to increase their workforce by over 20% while six expect to increase theirs by between 5% and 20%. No respondent expected a decrease in their workforce by greater than 20% while one expected a decrease of between 5% and 20%.

In recognition of the challenge of retention of key personnel as a key HR issue, respondents will delay cutbacks in employment levels or remuneration if faced with financial difficulties. Employment cost and employment levels are ranked at five and six of the eight likely areas respondents will cut back behind capital investment, developing new markets, advertising and research & development. Perhaps because of the retention issue, businesses now include on their wish list steps to limit migration, ranking 9th of the 16-issues on that list.

Exports: Respondents were asked whether they exported and how much they export to various markets. Only twelve respondents (31%) are engaged in any form of export with twenty-seven or 69% operating in the domestic market. Of the twelve, all export in varying levels to Caricom ranging from over 50% to less than 10%. Six export to North America, three to South and Central America, five to Europe and two to other markets. In the 2004 Survey nine companies indicated that they exported to North America and four to South and Central America.

Companies were asked whether exports would increase or decrease over the next twelve months:

Caricom: Of the companies exporting to Caricom, seven anticipate increases in the level of their exports while three companies expect their exports to this

market to stay the same. One respondent could not say whether there would be any change in exports over the next twelve months.

- North America: Two respondents exporting to North America are expecting increases in the level of their exports while one expects exports to remain the same and one expect a decrease and one unable to predict.
- South & Central America: Two respondents expect the same level of exports.
- Europe: Two respondents believe that their exports to Europe will remain the same while one was unable to predict.
- Other: Two respondents export to other markets and they expect their markets to stay the same in 2005.

Competition: Respondents were asked about their exposure to foreign competition and whether they expect this to decrease or increase in 2005. Eight respondents (21%) consider that they are not exposed to any foreign competition while nine (23%) consider that they are exposed to just a little foreign competition. Nine (23%) consider that they are exposed to a fair amount while twelve (31%) are exposed to a great deal of foreign competition. For the year 2005, twenty-seven (68%) respondents expect competition to increase while seven (18%) expect competition to remain the same.

Outlook on profitability: The expectations of business performance from the past four surveys were as follows:

	2002	2003	2004	2005
	%	%	%	%
<i>Turnover to increase</i>	57	68	74	71
<i>Profitability to increase</i>	83	50	62	60
<i>Turnover to decrease</i>	27	16	12	8
<i>Profit to decrease</i>	17	29	19	24
<i>No increase or decrease in turnover</i>	8	11	9	16

The respondents who expect their turnover to increase attribute the principal reasons for the increase to product/ service improvements, competitive pricing, new products and services and the results of entering new markets. There has been no change from last year in the principal reasons for the expectation of increases in turnover.

Cutbacks: In the event of limited financial resources businesses are most likely to cut back on capital investment programmes, developing new markets, advertising and public relations programmes and research and development from the eight items they were asked to consider.

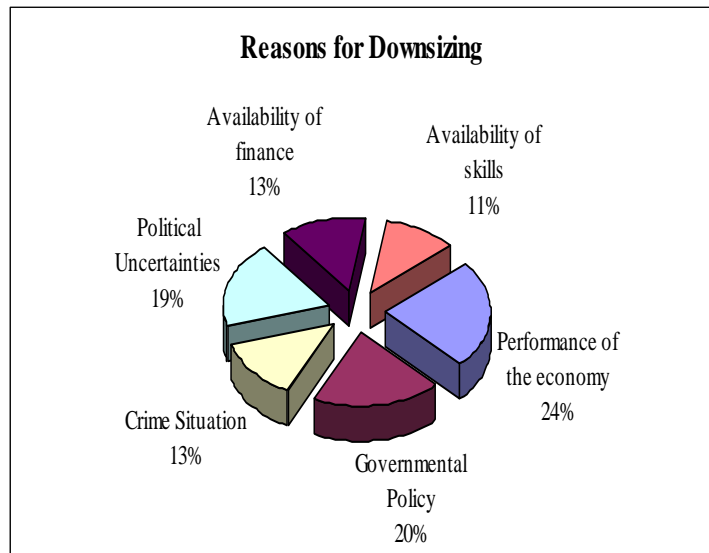
To cushion the effects of recent financial difficulties, respondents propose to pursue cost reduction exercises, entering new markets, new product development, investment in equipment

and technology, advertising and public relations and diversification as initiatives they would pursue.

Interestingly advertising and public relations fall into both the list of items to cut back on and initiatives to pursue in a cost reduction exercise.

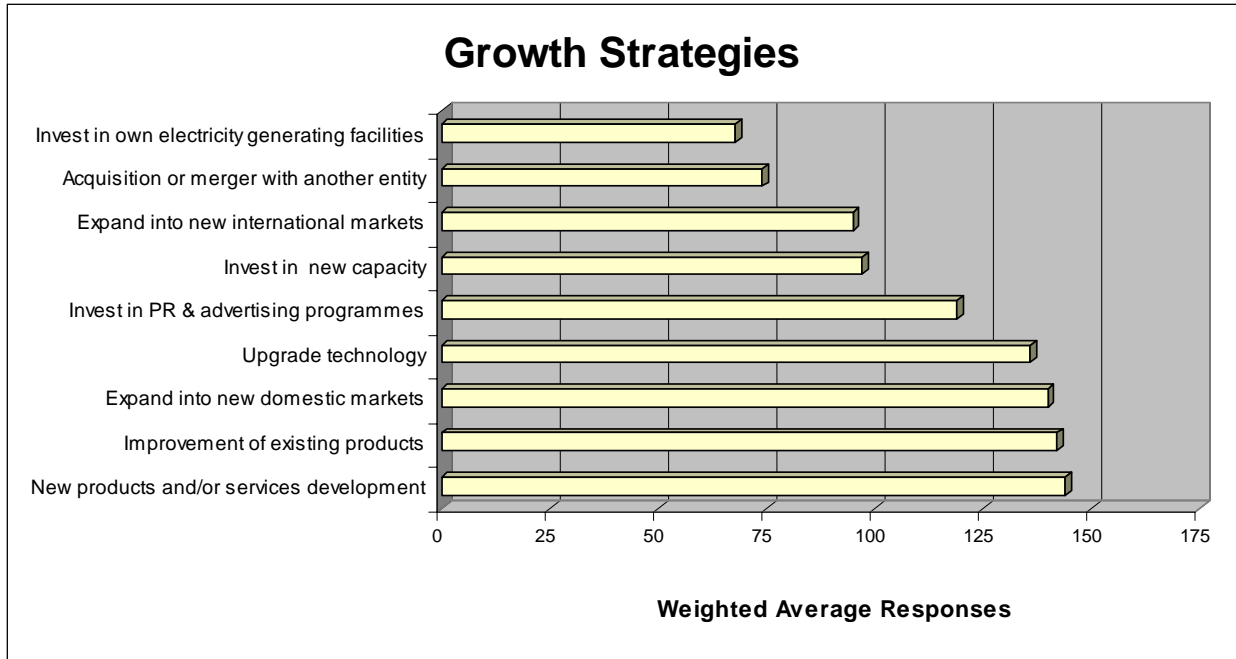
Reasons for downscaling: From a list of seven items outside of their control, performance of the economy and Government policies are the main reasons cited by businesses which may cause them to scale back. The political uncertainties and local crime situation follow in this list. However, only two respondents categorically stated that they expect a decrease in their operations.

Option	Weighted Average
Performance of the economy	54
Governmental Policy	45
Crime Situation	30
Political Uncertainties	43
Availability of finance	30
Availability of skills	26

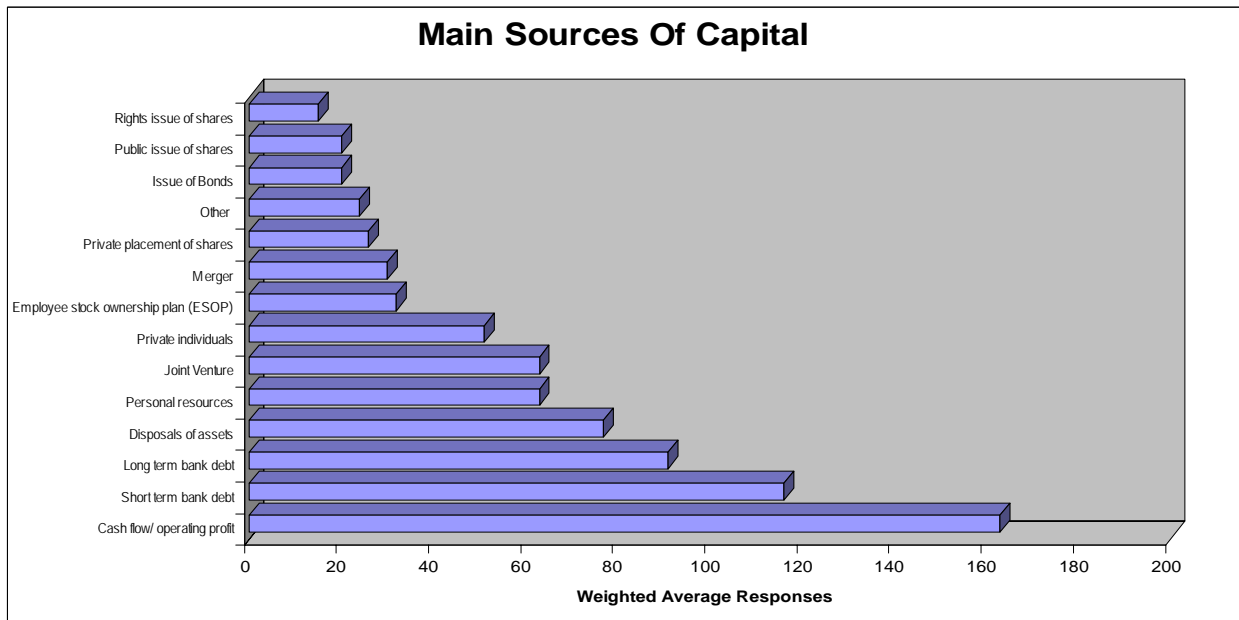


Growth strategies: Sixteen respondents stated that they expect to grow their businesses in the coming year.

The top strategies identified by respondents which they will employ in any expansion in 2005 are new product/ service development, improvement of existing products and expansion into new domestic markets.



Sources of capital: Perhaps reflective of their concerns about borrowing costs, 33% of respondents do not plan to raise capital in the year 2005. Respondents are most likely to use cash flow/ operating profits, short-term and long-term bank debts and asset disposals as chief sources of capital in the upcoming year. Sources least favoured include rights issues (to existing shareholders), public issues of shares and employee share ownership plans as reflected in the chart below.



Conclusion

The 2005 Business Outlook is being presented one week before the Minister of Finance announces Budget 2005. Respondents to this Survey have consistently been highlighting the impact of low/no growth in the national economy on their businesses. It has been sixteen years since the Hoyte Administration embarked on an IMF-sponsored Economic Recovery Programme. The essence of that Programme has been excessively stringent fiscal and monetary management. The growth rates which characterised the earlier years of the Programme have all but disappeared and current projections prepared by the IMF and accepted by the Government shows only meagre growth.

Despite what can best be described as the modest performance of the economy, our business community has continued to demonstrate hope if not optimism about their businesses. For years they have pleaded with the Government to bring about an end to the political stalemate which has stultified our development, to take more positive measures stimulate the economy, to deal decisively with the country's endemic crime and corruption problems, to reduce the high rates of direct and indirect taxes, dislodge some of the stifling bureaucracy which slow businesses and take steps to influence the unjustifiably high rates of interest.

Successive Surveys show the business community as resilient, resourceful and persevering. Faced with a Government that is either unwilling or unable to respond to their concerns, businesses seek their own solutions in ways that are not always helpful to the national interest. Challenged by other businesses that appear to operate on the fringe of the law, those inclined to legitimacy often find it necessary to deal established ones take such steps – some highly unorthodox - as is necessary to compete and survive.

It is not unusual in surveys of this nature to find some responses that appear internally inconsistent. While only a quarter of the respondents believe that the conditions for businesses would be more favourable in 2005, close to fifty-percent are at least fairly confident that the economy would improve in 2005. Fuel cost and the related issue of electricity supply and rates continue to cause concern in the business community while the insecurity arising out of the continuing high levels of crime are raising security costs to businesses.

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