

GUYANA

Business Outlook Survey

2007



Ram & McRae

CHARTERED ACCOUNTANTS

Professional Services Firm

Guyana Business Outlook Survey 2007

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Presented by:



Ram & McRae

Chartered Accountants

157 "C" Waterloo Street,

Georgetown.

GUYANA

Tel: (592) 226-1072 / 226-1301 / 226-0322

Fax: 592-225-4221

E-mail: info@ramandmcrae.com

Introduction

Ram & McRae is pleased to present the results of its *Business Outlook Survey* for the year 2007.

The publication is the 13th in the annual series and summarises the responses of thirty-five business entities of varying sizes, organisational cultures and products/services offered in different sectors of the economy.

While this Survey was not designed to produce statistically valid findings, it contains responses from a wide cross section of the business community. We hope that the results, our analysis and comments will serve as a useful tool for businesses in 2007.

The Survey questionnaire required respondents to give brief details on their businesses, highlights of their financial performance and decisions taken during 2006. They were also asked to comment on their outlook on the economy as well as some of their plans and strategies for 2007. In this Report comparisons are made, as appropriate, with the results of previous surveys 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.

The Survey was conducted before the introduction of Value-Added Tax and respondents were therefore unaware of the substantial difficulties following the commencement.

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

The Report does not include a copy of the questionnaire sent to companies invited to participate, but these together with this report, earlier reports, Business Page articles, Focus on annual Budgets and other useful publications are available on our web site.

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 2007 Survey elicited a 30% response rate with thirty-five entities responding to one hundred and fifteen questionnaires sent out on November 20, 2006. This compares negatively with 2006 when only eighty-eight businesses were surveyed but a response rate of 48% was achieved. The composition of the respondent groups was generally better than in 2006 but significant falls were seen in respondents from the distribution/retail and manufacturing sectors, the largest sectors in our previous surveys. Nevertheless, these two sectors had the highest number of respondents while banking/finance replaced construction/architecture as the third leading group.

Of the thirty-five respondents, fifteen (36%) had a turnover of over \$1Bln while four each (10%) had between \$100Mn - \$200Mn, \$200Mn - \$400Mn, and \$700 - \$1Bln. Only one respondent did not disclose their turnover. The workforce of the respondents ranged from under 50 employees (9 entities or 25%), 51 – 100 employees (6 / 17%), 100-250 employees (13 / 37%), 251 to 500 employees (5 / 14%), 501 – 1,000 employees (2 / 6%), and no entity with more than 1,000 employees.

The Survey took place in conditions where businesses and the general public were preparing for and trying to anticipate the impact of the Value-Added Tax which had an implementation date of January 1, 2007. Guyana had just had general elections and the calm and peace that prevailed were somewhat unexpected. However, Guyanese businesses had a significant number of other things to be concerned above including the daring daylight robberies of two commercial banks during August, the high profile killings of African rights activist Ronald Waddell and Agriculture Minister Satyadeow Sawh and members of his family, the massacre of eight Kaieteur News staff, the arrest of the controversial Roger Khan by Surinamese authorities and subsequently by US authorities, leaked conversations alleged to include the former Commissioner of Police Winston Felix and the discovery of 33 missing AK-47 rifles amongst other issues.

According to President Bharat Jagdeo, Guyana's economy performed 'exceedingly well' in 2006 with higher growth in Gross Domestic Product (GDP) than forecasted and a reduction in the inflation rate. In the 2006 half-year report of the Bank of Guyana, real economic growth was put at 0.4 percent while inflation, as measured by the urban consumers' price index, increased slightly to 3.4 percent. The economic growth compares favourably with 2005 when there was a contraction of 5.9%, attributed mainly to the floods of early 2005.

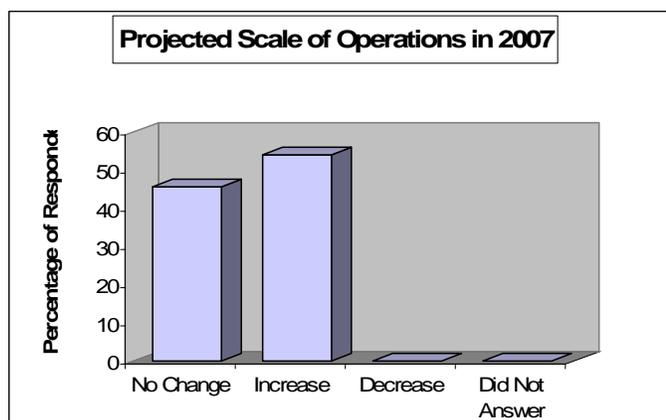
A questionnaire as wide in scope inevitably draws out both positive and negative responses and some which even appear inconsistent. Overall however it reflects the respondents' views about 2006 and outlook for 2007.

Survey results

Confidence in economic prospects: The Survey group was asked to state how confident they were that the economy would improve in 2007. Respondents expressed the highest levels of confidence for 2007 over the past five years. The actual results for the past five years were as follows:

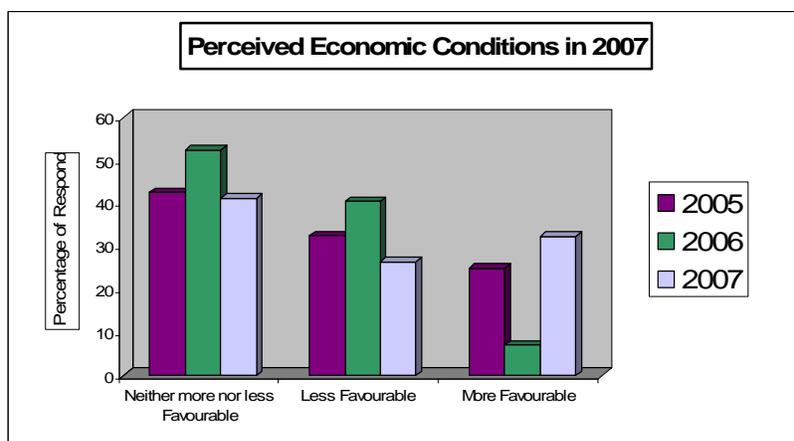
	2003	2004	2005	2006	2007
Very confident	1	0	2	1	1
Confident	0	1	5	0	6
Fairly confident	6	14	12	10	12
Not very confident	15	20	13	20	10
Not confident	12	9	7	7	5
Don't know	4	1	1	4	1
Total	38	45	40	42	35

Not surprisingly therefore, more than 50% of the respondents are planning to increase the scale of their operations in 2007 with no one planning to scale down operations. Sixteen respondents (46%) plan no change. In the 2006 survey, when confidence was low, 62% indicated they had no plans to change while 29% planned to increase the scale of operations. As we stated in our 2006 survey, the plans may have indicated their assessment of the economic climate in Guyana and the uncertainty of the effect of General Elections in 2006. Twenty respondents (57%) stated that the actual outcome of the elections did not change their level of optimism while twelve (34%) stated that their level of optimism had increased.



Confidence in conditions for business:

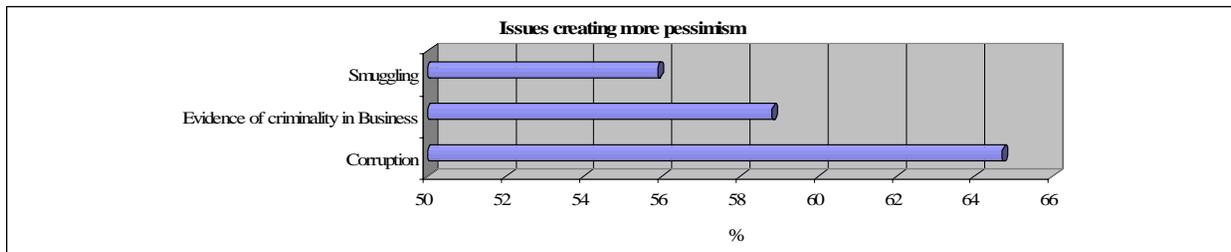
When asked whether economic conditions for privately owned businesses would be more favourable in 2007 versus 2006, optimism increased over that recorded in the 2006 survey. Eleven respondents (32%) believe that economic conditions would be more favourable while nine respondents (26%) believe that economic conditions would be less favourable.



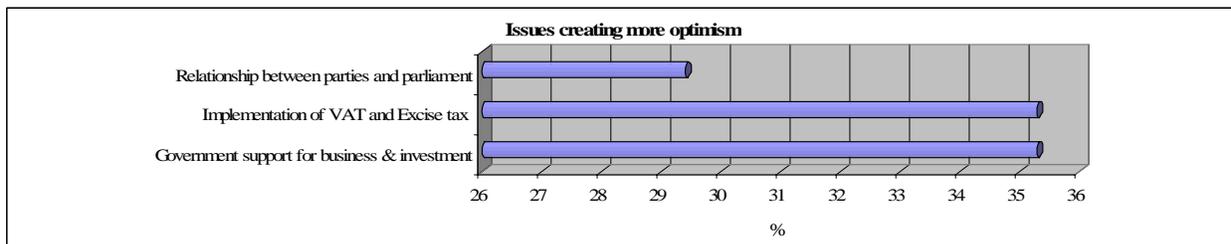
By comparison, only three respondents (7%) felt that 2006 would have been more favourable for privately owned businesses than 2005. A high level of uncertainty however continues to be shown with 41% (2006: 52%) of respondents concluding that the next twelve months would be no more or no less favourable than the last twelve months.

Performance in 2006: When asked to assess their performance in 2006, twenty-one respondents (60%) reported that their results were in line with expectations compared to 51% of those assessing the year 2005. Nine respondents (26%) stated that results were better than expected while 14% had less than expected results. When asked about the impact of the 2006 elections on their business, fifteen respondents (43%) felt that there was no impact while twelve (34%) stated that business reduced and eight (23%) stated that business increased.

Outlook on the economy: Sixteen national or international issues were put to respondents for them to indicate those they felt made them more or less optimistic about the economy. No issue made a majority of persons feel more optimistic while one issue, Government's Support for Business and Investment, tied for the number of persons who felt more optimistic and less optimistic (12 respondents each). The highest levels of pessimism came from Corruption (69%),



Evidence of Criminality in Businesses (61%), Smuggling (61%) and the failure of Regulators to penalise misdeeds (58%). Seventeen respondents (52%) stated that the implementation of the Value-Added Tax and Excise Tax Acts made them less optimistic while twelve respondents (36%) felt that this issue resulted in more optimism.



Agreement with Government's decisions: Respondents were asked their view on the Government's handling of six issues: Value-added tax, Commercial Court, Gambling, Berbice Bridge, Police Force Reform and Appointments to the Judiciary including abolition of the position of Chancellor.

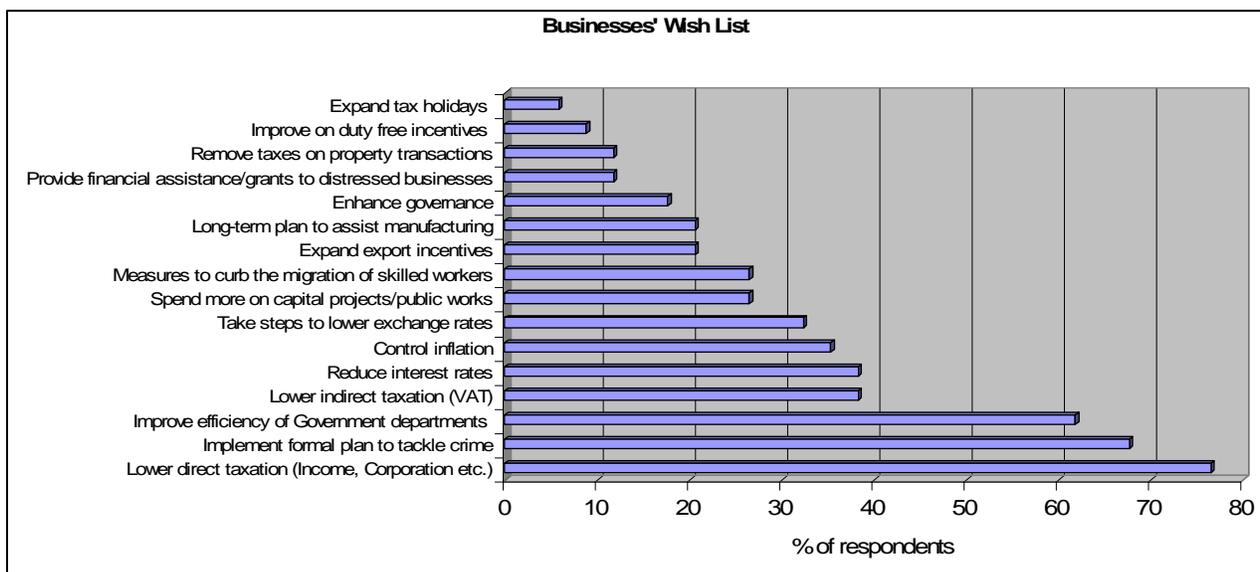
The greatest area of disagreement was with the Government's handling of appointments to the judiciary and abolition of the post of Chancellor. An overwhelming 53% of the respondents (seventeen) expressed disagreement compared with 16% (five respondents) who expressed agreement. The only other issue on which more respondents disagreed with the Governments

decisions was in respect of Gambling where fifteen respondents (45%) disagreed and seven respondents (21%) agreed.

Overwhelming support was expressed for the Commercial Court (85%), the Berbice Bridge (79%) and Reform of the Police Force (78%).

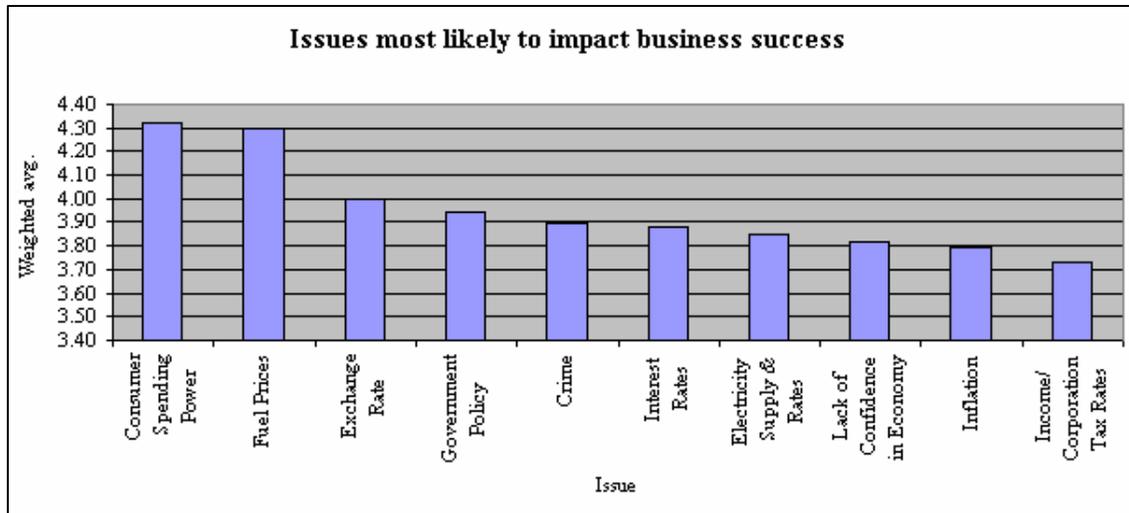
Measures for Government to act on: From a list of sixteen measures, respondents were asked to rank five on which they most wanted to see the Government take action. The issue which the respondent group would most like the Government to deal with (twenty-six respondents) is the reduction of Direct Taxes (Income, Corporation, etc.) which incidentally ranked third in the 2006 survey.

Other top issues include the implementation of a formal plan to tackle crime (twenty-three respondents) and improving the efficiency of Government Departments (twenty-one respondents).



Issues impacting business in 2007: Entities were asked to rank thirty external factors most likely to impact on the success of their businesses in the coming year. In order of ranking, the issues considered likely to have the most impact on the success of companies in 2007 based on weighted average points (maximum of five) were identified as:

- Consumer spending power – 4.32
- Exchange rates – 4.00
- Fuel prices – 4.30
- Government policy – 3.94
- Crime – 3.90



Fuel prices were the top ranked issue in the 2006 survey while Consumer Spending Power ranked third. Falling out of the top five are Political Stability (risk) and Electricity Supply and Rates while Government Policy and Crime come into the top five. Consumer spending was also considered the issue to have the most impact on the success of businesses in 2005 Survey but with rising fuel prices and the scheduled elections of 2006, it was not surprising that these issues ranked high for that year.

The issues which are considered to have little impact on the success of businesses were the Enforcement of Environmental Legislation, Wage Negotiations, the new Excise Tax, Regional Integration and Dumping of Foreign Products.

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 2007 are fuel cost, electricity supply and security/crime. These issues were also the top issues for 2006 in the same order. Environmental issues were the lowest ranking operating issue.

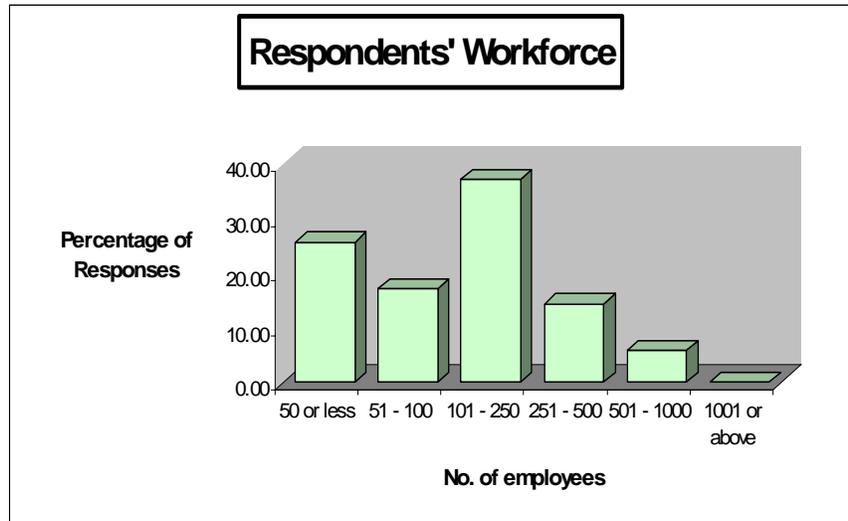
The most important financial issues: Respondents were asked to rank from six financial issues those they consider most important to their businesses. Foreign currency, interest rates and cash flow management were again ranked the top three issues albeit in different order from the 2006 survey. Foreign currency and cash flow management were ranked third and first respectively in the 2006 survey.

Planning and budgeting: Thirty-four of the respondents stated that they review actual performance against budget while one respondent skipped this question. A majority (68%) do this on a monthly basis. 77% of respondents stated that they operate with a formal business plan and of these, 31% reported that they prepare projections for a one year period and another 31% reported that they prepare projection for a three year period. Only three respondents (12%) reported that they prepare five year budgets while no respondent prepared budgets for more than five years.

Human resource issues: Respondents were asked to indicate whether and by what percentage their workforce had changed in 2006. For the seventeen respondents reporting a change, only three indicated a decrease in their workforce. Applying the percentage increases or decreases stated by respondents to the size of their work force results in a net increase of less than 1%.

Thirty-three percent of the respondents to our 2005 survey expected their workforce to increase compared to 45% which actually showed increases. Fourteen percent projected decreases while nine percent showed decreases in 2006.

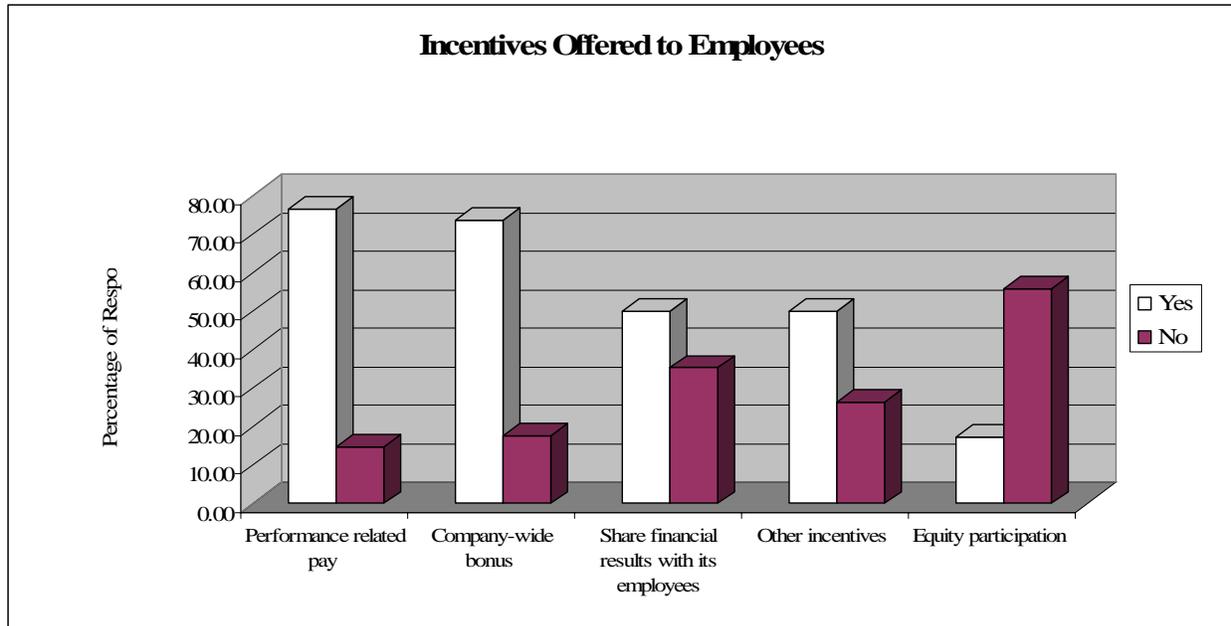
The size of the workforce for respondents in the 2007 is distributed similarly to that of 2006.



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, eight (23%) of the respondents expect no changes in workforce size in 2007 while eighteen (51%) project increases and four (11%) project decreases. Eight respondents expect to increase their workforce by less than 5% while the same number expects an increase between 5% and 20%. Only two respondents projected an increase higher than 20%. Two respondents expected a decrease of less than 5% while the amount expected a decrease between 5% and 20%. When asked about the reason for the change in the number of employees, nineteen of the twenty-two respondents attributed the change to a change in the level of operations. The others cited the effects of Value-Added Tax, Security risks and optimisation.

Companies were asked about the areas in which they allowed participation by employees and of the various types of incentives offered to employees. The graph to the next page indicates the responses to the four specific questions geared to ascertain the level of participation by employees in the companies.

Twenty-five respondents or 81% indicated that their employees participate in company-wide bonus. The incentive least offered to employees is equity participation with only six companies or 24% indicating that the option is available to employees.



Other incentives being offered by respondents include provision of transportation or a company vehicle, loans and discounts, education support programmes, medical and pension schemes and leave passage assistance.

Exports: Respondents were asked whether they exported and how much they export to various markets. Only eight of the thirty-five respondents (23%) are engaged in any form of export. Of these, seven export in varying levels to CARICOM ranging from over 50% to less than 10%. Three exported to North America, three to Europe, one to South and Central America.

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

CARICOM: Four respondents anticipate increases in the level of their exports while two respondents expect their exports to this market to stay the same.

North America: The three respondents answering this question are expecting increases.

South & Central America The three respondents answering this question are expecting increases.

Europe: Three respondents answered this question and one each expected an increase, expected the same level and was unable to predict whether there will be a change.

Competition: Respondents were asked about their exposure to foreign competition and whether they expect this to decrease or increase in 2007. The majority of respondents (twelve or 34%) stated that there were not affected by such competition. Ten respondents (29%) stated that they are exposed to a great deal of competition, five (14%) consider that they are exposed to a fair amount while 8 (23%) felt they were exposed to just a little. Eighteen respondents (58%) felt

however that such competition would increase in 2007 while twelve (39%) expected such competition to remain the same. No respondent felt that such competition would decrease.

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

	2004	2005	2006	2007
	%	%	%	%
<i>Turnover to increase</i>	74	71	64	68
<i>Profitability to increase</i>	62	60	51	71
<i>Turnover to decrease</i>	12	8	13	12
<i>Profit to decrease</i>	19	24	28	29
<i>No increase or decrease in turnover</i>	9	16	13	12

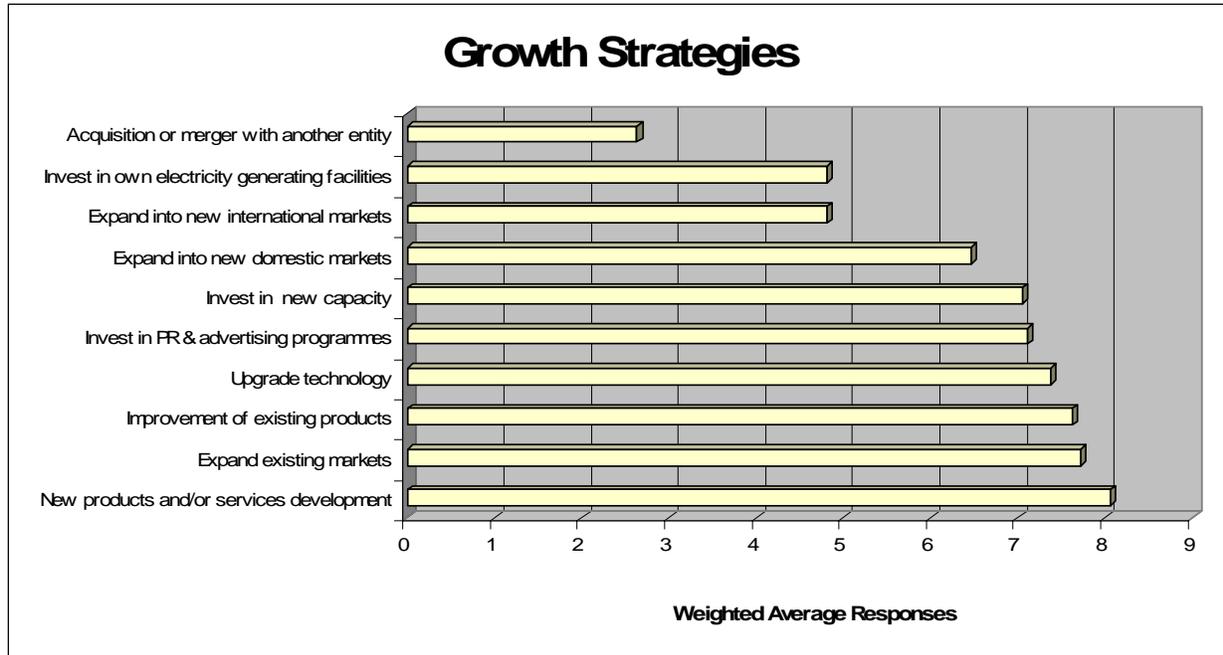
The respondents who expect their turnover to increase attribute the principal reasons for the increase to product/ service improvements, new products and services, productivity and enter into new markets. Competitive pricing, now ranked fifth, was replaced by entering new markets as a top reason for increase in turnover. The least likely sources of increases were increased spending on public relations, advertising and marketing.

Cutbacks: In the event of limited financial resources businesses are most likely to cut back on capital investment programmes, research and development, advertising and public relations programmes, and developing new markets from the eight items they were asked to consider. Employment cost which ranked high in the 2006 survey was sixth while working capital was the least likely area of cut-backs.

To cushion the effects of financial difficulties, respondents propose to pursue cost reduction initiatives, enter new markets, develop new products, investment in equipment and technology, and diversify their business. Liquidation, acquisitions and mergers, and relocation were the least likely strategies to pursue.

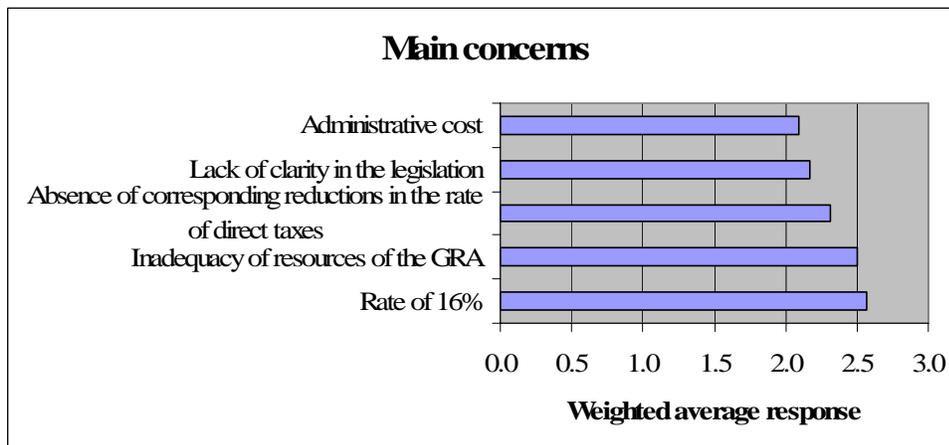
Level of operations: Respondents were asked whether they had planned to increase or decrease their scale of operations. No respondent planned to decrease their scale of operations while 19 (54%) planned to increase their scale.

Growth strategies: Of the respondents who planned to increase their scale of operations, the top strategies identified were as follows:



Sources of capital: Seventeen (53%) of respondents, a similar number as in the 2006 survey, stated that they do not plan to raise capital in the year 2007. For those who plan to raise capital, the main reasons were to embark on a capital expenditure/expansion programme (6 / 19%), fund new products or services (4 / 13%) and to retool (3 / 9%). Respondents are most likely to use cash flow/ operating profits, short-term and long-term bank debts and private placement of shares in that order as chief sources of capital in 2007. Sources least favoured include mergers, employee share ownership plans and public issues of shares.

Expectations on Value-Added Tax: Given the planned introduction of Value-Added Tax (VAT) on January 1, 2007, respondents were asked several questions surrounding their preparedness for VAT and the impact of VAT on their businesses. Twenty three respondents (72%) agreed with the Government’s decisions with respect to VAT while 5 respondents (16%) disagreed. Respondents were asked to rank on a scale of one to five their concerns regarding five issues surrounding the implementation of the tax on a scale of one to five. Perhaps somewhat



optimistically, three of the five issues (shown on the graph to the left) caused less than moderate concern.

Respondents were also asked about their expectations on the impact of Value-Added Tax

on prices. Only one respondent felt that VAT would have no effect on prices while ten respondents (29%) felt that some prices would increase while others would decrease. A majority of respondents (51%) felt that prices would increase while a minimal 11% felt that prices would decrease.

When asked how VAT would affect their ability to compete, the majority (54%) felt that it would have made no difference. Only three respondents (9%) felt that competing would be easier while thirteen respondents (37%) felt that competing would be more difficult.

Finally, respondents were asked to state how ready they would be on January 1, 2007. Only fifteen respondents (47%) felt that they would be fully ready. Three respondents (9%) felt that they would not be ready while fourteen respondents felt that they would be partially ready by January 1, 2007.

Conclusion

The business community and the country are investing heavily in World Cup Cricket, the multi-billion dollar Skeldon Sugar Factory and the Berbice River Bridge. It promises to be an interesting year. The 2007 Business Outlook is being presented amidst high levels of uncertainty on the effects of the implementation of Value-Added Tax, concerns about casino gambling and the Government's withdrawal of advertisements from the privately-owned Stabroek News.

Despite the low level of responses, we believe that the survey results are very informative on the thinking of business persons.

We wish to thank those persons who have responded and look forward to the next edition of this Survey later in 2007.

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