

GUYANA

**Business Outlook
Survey**

2008



Ram & McRae

CHARTERED ACCOUNTANTS

Professional Services Firm

Guyana Business Outlook Survey 2008

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INTRODUCTION

Ram & McRae is pleased to present the results of its *Business Outlook Survey* for the year 2008.

The publication is the 13th in the annual series and summarises the responses of seventy-four business entities of varying sizes, organisational cultures and products/services offered in different sectors of the economy, which completed the Questionnaire. Another twelve persons partially completed the Questionnaire but these have not been considered in this Report.

This Survey is not designed to produce statistically valid findings but because of the number and range of businesses that have participated in this year's exercise, there is reason to believe that the Report is a fair representation of the views of the Guyana private sector. We therefore hope that the results and our analysis and comments will serve as a useful tool for businesses and policy makers in 2008.

This year's Survey saw an important evolution in this annual exercise which was begun in 1995 (Business Outlook Survey for 1996). For the first time, the Survey has been conducted electronically using internet software with the odd-sounding name SurveyMonkey but one that we found to be both clever and effective. We believe that the electronic process was partly responsible for the highest number of responses ever while it saved us the tedious process associated with the printed questionnaires and responses requiring manual tabulation of responses and extreme care to avoid errors. As an example of technology's contribution to efficiency and cost savings the Survey not only produced twice as many respondents compared to last year but allowed for speedier processing at a fraction of the cost. In terms of efficiency we are able to present the 2008 Report a full month earlier than the 2007 Report.

As in past years, the Survey questionnaire required respondents to give brief details on their businesses, highlights of their financial performance, and decisions taken during 2007. They were also asked to comment on their outlook on the economy as well as some of their plans and strategies for 2008. 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.

We should also point out that some questions were modified this year to facilitate the electronic format while maintaining the integrity of the process and comparisons with previous years.

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.

A questionnaire as wide in scope inevitably draws out both positive and negative responses and some which may even be inconsistent. Overall however the report reflects the respondents' views about 2007 and outlook for 2008.

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 this may be obtained from our office. This and earlier reports, Business Page articles, Focus on annual Budgets and other useful publications are also available on our web site.

As always, we invite your comments on the report along with your suggestions on how future surveys may be made more useful.

Christopher Ram
Managing Partner

December 17, 2007

BACKGROUND

Readers will recall that the 2007 Business Outlook had reflected the highest level of business confidence for five years. 2007 was the first full year following the return to power of the PPP-C at the August 2006 General Elections - regarded as the most peaceful elections witnessed for four decades and it was also the year of the Cricket World Cup, the largest sporting event ever held in this country, the introduction of Value-Added Tax and the appointment of a new Minister of Finance – all factors that add excitement to an exercise of this nature.

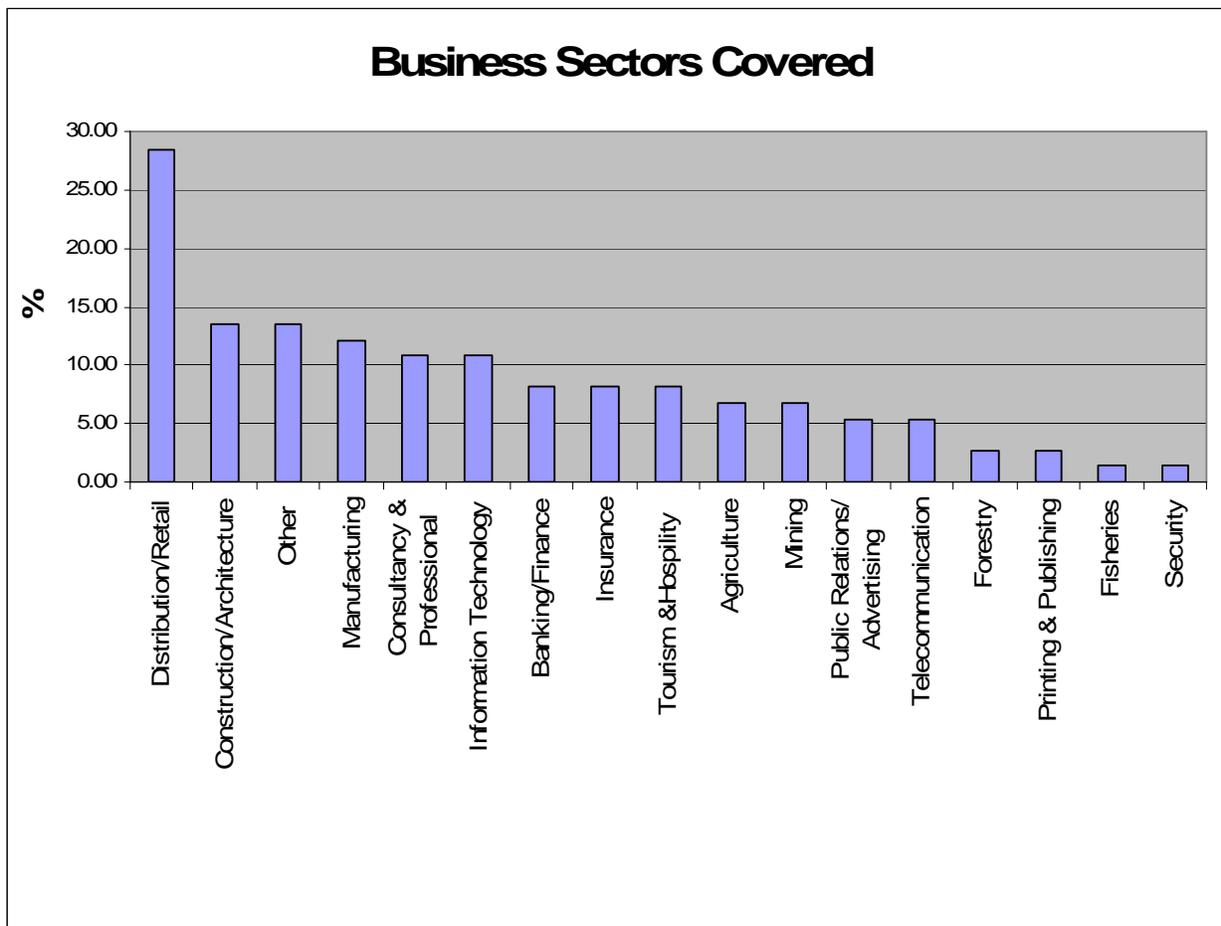
While the Survey was being conducted the Minister presented the first, statutory Mid-Year Report in which he announced a real growth of 5.8% in the first half of 2007 compared with a 3.3% growth in the same period in 2006. He reported growth in several key sectors of the economy including sugar, rice, construction, mining and quarrying, gold and distribution while manufacturing, diamond production, forestry and fisheries were the only sectors not to have recorded increases. On the negative side, perhaps the most disturbing development in the first half of 2007 was a 12.2% increase in prices which the Minister attributed to a combination of imported inflation and ‘the misapplication of the value-added tax by retailers and other vendors in the marketplace’.

In recent Surveys, crime had ranked prominently and while the number of murders in 2007 was significant, there was none of the high profile murders witnessed in 2006 when a Minister of the Government and one of its leading critics were gunned down in separate incidents.

It may therefore be considered a favourable climate for a survey of this kind. Let us see how the business community saw it.

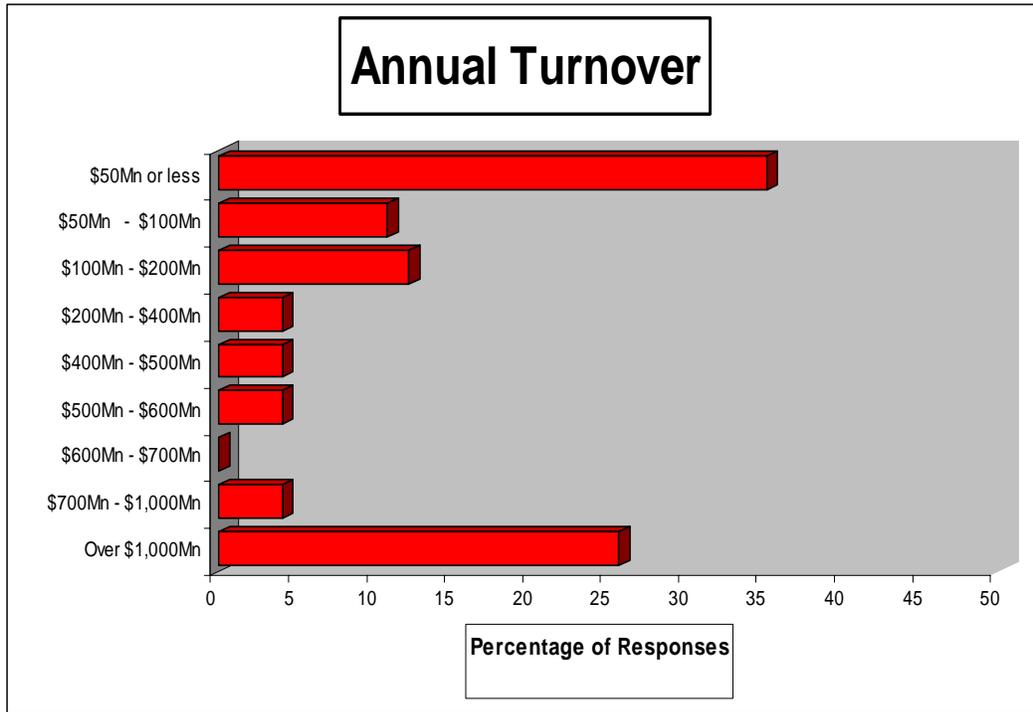
ABOUT OUR RESPONDENTS

Seventy-four entities responded to the questionnaires sent to them by electronic mail on November 21, 2007. It was by far the largest number of responses the Survey has ever elicited and is a measure of the private sector’s facility with computers and their use. The composition of the respondent groups appears to reflect the composition of the private sector economy with the Manufacturing and Distribution sectors accounting for just over 40 percent of the respondents but with significant responses from Construction/Architecture, Consultancy and Professional Services and the financial sector - Banking/Finance and Insurance., all usually good indicators of the performance of an economy.

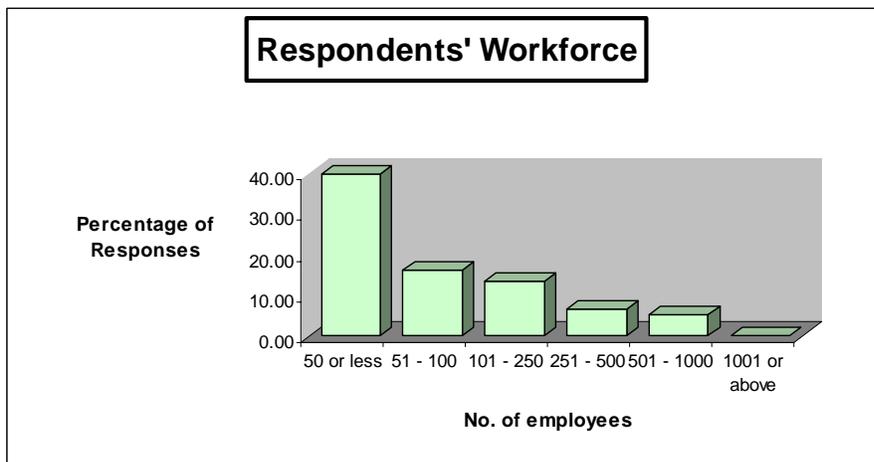


Respondents to the Questionnaire reported turnover ranging from under \$50 million to over one billion dollars. Indeed just over 35% of the respondents reported turnover of under \$50 million and 26% over one billion dollars or the equivalent of US\$5 million. Seventeen responses or 23% of the respondents reported turnover between \$50 million and \$200 million.

The turnover profile of the respondents was as follows:

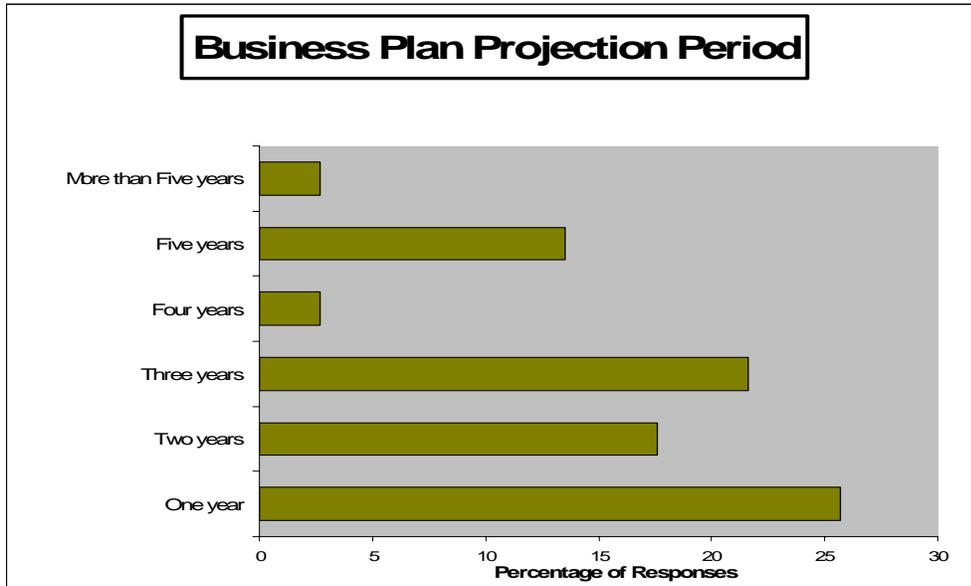


Forty-three respondents (58%) had less than fifty employees and twenty-two (30%) had between fifty-one and two hundred and fifty employees and four (5%) had between five hundred and one thousand employees.



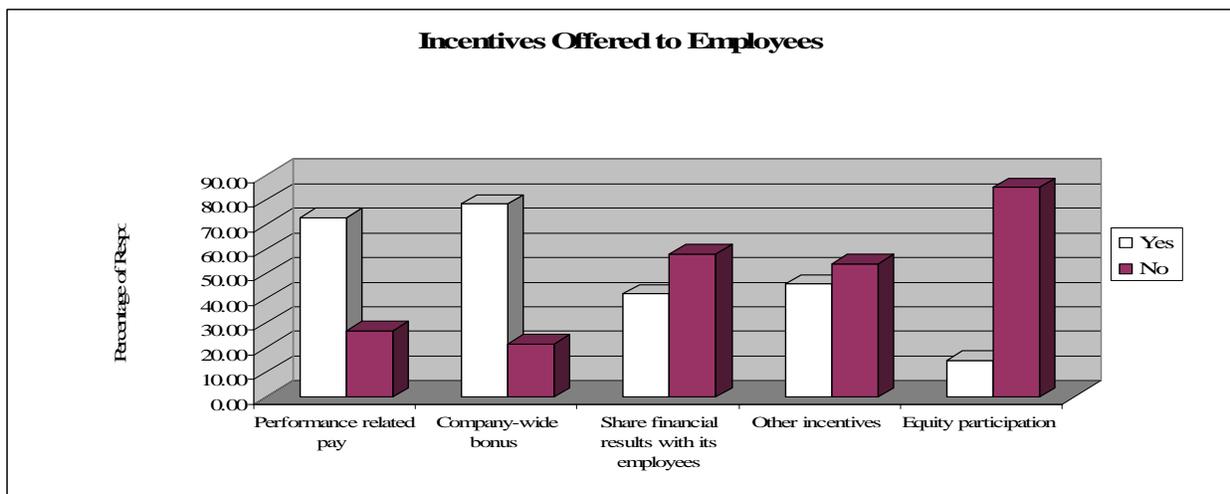
Seventy-six percent of the respondents indicated that they operate within a formal plan while an additional eight percent prepare projections but answered no in relation to operating within a formal plan. The respondents prepare financial projections for periods extending from one year

(26%) to beyond five years in exceptional cases but twelve of the respondents or 16% do not operate with any sort of plan.



Those who prepare projections formally review performance against budget with the majority (50%) doing so on a monthly basis, 31% quarterly and 15% half-yearly.

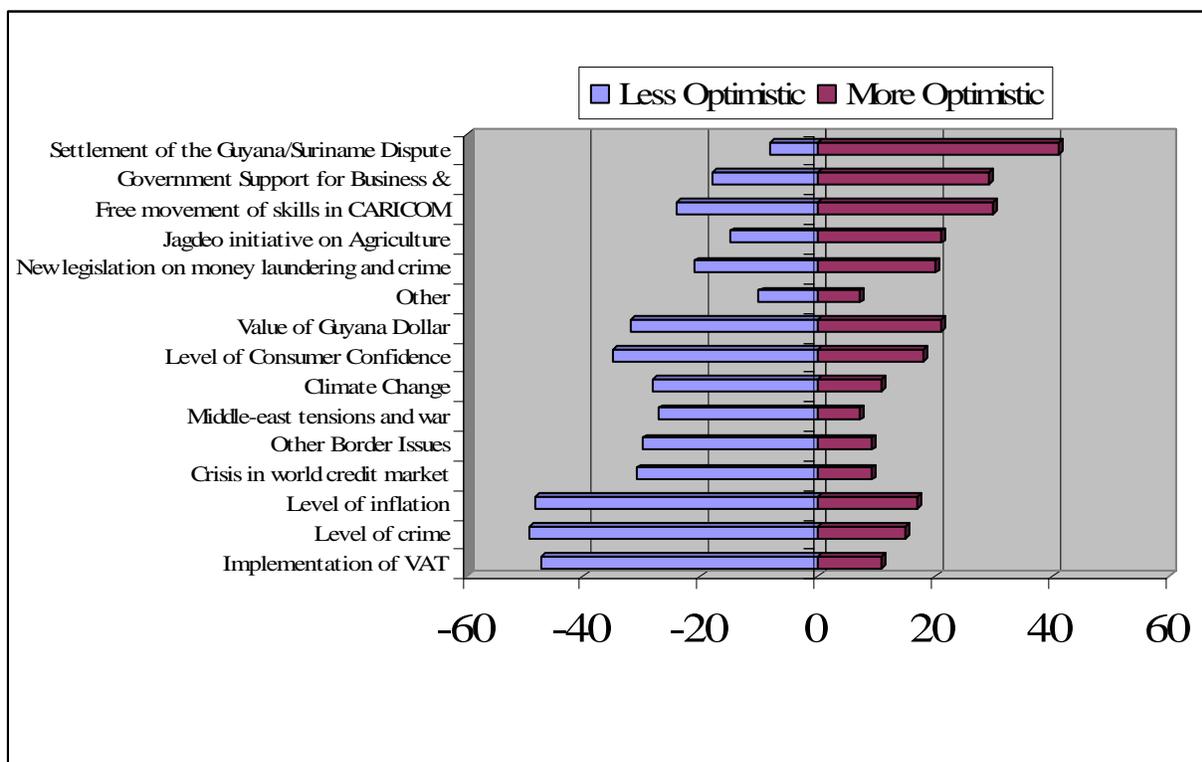
Only 11 (15%) of the respondents offer to their employees equity participation in their business, while less than half share financial information with them. However, bonus and other profit-related remuneration are used by the overwhelming majority of respondents, (78%).



LOOKING BACK

Respondents were asked to rate fourteen national and international issues that arose or prevailed in 2007 that affected optimism about the economy. The only event that caused more optimism and which had an overwhelming favourable impact was the settlement of the Guyana/Suriname Border Dispute. At the same time respondents are concerned about “Other border issues” which would include the Venezuela border controversy which gained some prominence with that country’s recent incursion into Guyana’s territory, and cross-border crimes and trading. The Free Movement of Skills and Government Support for Business and Investment both had a positive but not overall favourable impact. The Jagdeo [CARICOM] Initiative on Agriculture was viewed favourably by twenty-one respondents (28%), negatively by fifteen (20%) and had no effect on thirty-eight entities or more than fifty percent of the respondents.

Those that aroused less optimism and had an overall negative impact were crime, inflation and the Implementation of VAT.



In the 2007 Business Outlook Survey, 68% of respondents had projected increase in turnover for that year, 71% projected increase in profitability, and only 12% and 29% expected turnover and profit respectively, to decrease.

One year later, on being asked to provide information on the actual performance in 2007, 39% reported performance was worse than expected, 46% in line with expectations, and 15% exceeded expectations.

Changes in their workforce

In the 2007 Questionnaire, 23% of the respondents predicted no change in their workforce while 51% projected increases and 12% projected decreases. A summary of the seventy-four responses in 2008 shows that some 31% had decreases ranging from under 5% to over 20%.

A summary of the results of the fifty-one responses reporting changes is as follows:

| | Increase | Decrease |
|---------------|----------|----------|
| Under 5% | 14% | 12% |
| 5%-20% | 45% | 13% |
| More than 20% | 10% | 6% |

Table: respondents reporting change in workforce

Value-Added Tax

In anticipation of the introduction of VAT from January 1, 2007, the 2007 Survey highlighted VAT and asked respondents several questions surrounding their preparedness for VAT and the impact of VAT on their businesses. Seventy-two percent (72%) of the respondents had expressed agreement with the Government's decisions with respect to VAT while 16% had disagreed. Respondents in that Survey including those who had welcomed VAT and those who disagreed had ranked their concerns regarding the implementation of VAT. In that Survey, respondents expressed major concerns about the administrative cost to businesses, lack of clarity in the legislation, failure to have corresponding decreases in the rates of other taxes, the inadequacy of resources to administer VAT and the standard rate of 16%.

Out of a total of nine issues put to respondents, after close to one year of operation of VAT, their concerns in the order ranked were as follows:

1. Impact on consumer spending
2. The rate
3. Absence of corresponding adjustment to rates of other taxes
4. Its inflationary effect

5. Absence of information on tax collections

Despite a number of amendments and a major public information campaign, respondents to the 2008 Survey also expressed concern about the lack of clarity in the legislation and the resources of the GRA to administer the VAT.

In the 2007 Survey, fifty-one percent of respondents had predicted price increases and twenty-nine percent predicted increases in some prices and decreases in others. One respondent had expected no price impact while 11% predicted decreases.

The 2008 Survey revealed the following:

| | |
|------------------------------------|-------|
| Decrease by 5 – 10% | 9.5% |
| Decrease by more than 10% | 0% |
| No change | 17.6% |
| Mix of Increased and stable prices | 26% |
| Price increase by 5 – 10% | 25.7% |
| Price increase by more than 10% | 21.6% |

In the 2007 Survey, the majority (54%) of respondents predicted that VAT would not affect their ability to compete, 9% felt that competing would be easier while 37% felt that competing would be more difficult. The results of the 2008 Survey are broadly in line with those expectations with 56% reporting no change, 39% greater difficulty and 4% indicating that VAT made it easier for them to compete.

58% of respondents indicated that VAT had a negative impact on the level of their business, while 35% reported no impact. 5 (6.8%) respondents reported that VAT resulted in a slight increase on the level of their business.

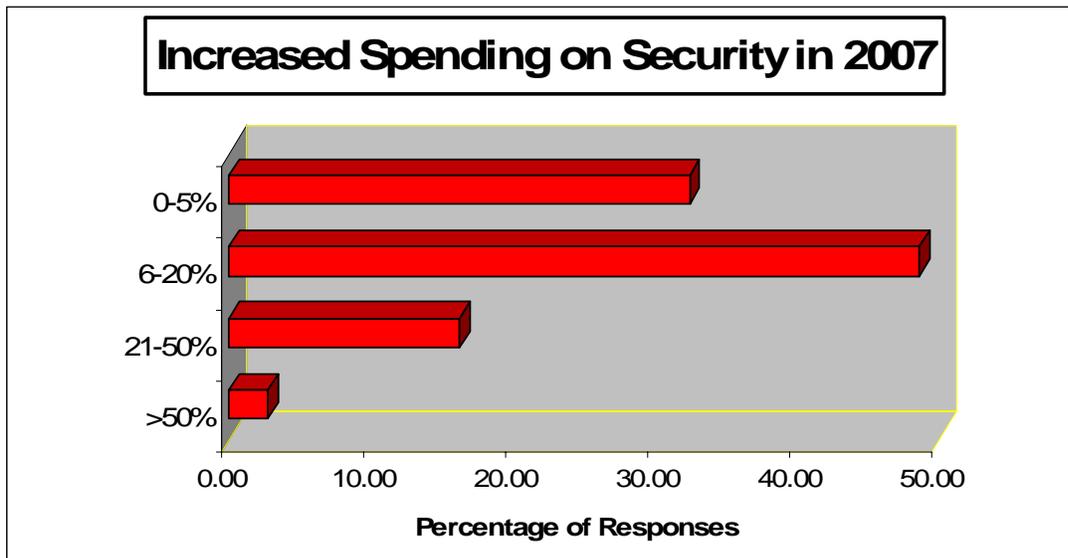
The results of the Survey indicate that a number of fears expressed by citizens and stoutly resisted by the Government have in fact materialised and it is perhaps not too late for a review by Government of the more critical VAT issues. While VAT is not a tax on business, its contribution to inflation and the purchasing power of consumers are affecting turnover and profitability.

VAT will continue to challenge businesses in 2008 and beyond.

Security

In what appears to be an attempt to address crime, whether internal or external, all the respondents have reported significant increases in expenditure in security ranging from under 5% in the case of 32% of the respondents to 21-50% for 16% of the respondents and with 49% of the respondents reporting increased security expenditure of 21 – 50%.

The results of the Survey are:



LOOKING FORWARD

Confidence in economic prospects: The Survey group was asked to state how confident they were that the economy would improve in 2008 – perhaps the most significant question posed to them. The number of options offered by the Questionnaire was cut from six in previous years to three so as to remove the shades of confidence allowed in previous years.

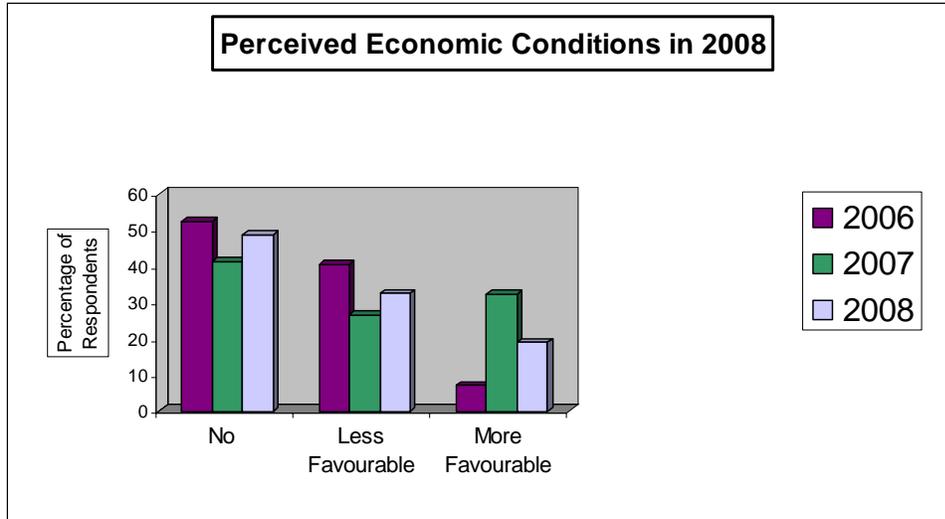
Compared with 2007 when respondents expressed the highest levels of confidence over a five year period, confidence has fallen with slightly over half responding that they are not confident that the economy would improve in 2008.

When the adjustment is made to make the years comparable, the responses are as follows:

| | 2004 | 2005 | 2006 | 2007 | 2008 |
|------------------|-------------|-------------|-------------|-------------|-------------|
| Very confident | 1 | 7 | 1 | 7 | 4 |
| Fairly confident | 34 | 25 | 30 | 22 | 32 |
| Not confident | 10 | 8 | 11 | 6 | 38 |
| Total | 45 | 40 | 42 | 35 | 74 |
| | | | | | |
| % not confident | 22 | 20 | 26 | 17 | 51 |

The high number and percentage of responses that state that they are not confident about the economy in 2008 reflects a significant shift from 2007, even when allowance is made for the narrowing of the options offered by the question in the 2008 Questionnaire.

In a related question we asked whether the members of the private sector think that economic conditions would be more favourable or less favourable for privately-owned businesses in 2008 compared with 2007. For that year, thirty-two percent had expected economic conditions to be more favourable than in the previous year and twenty-six percent expected economic conditions for businesses to be less favourable. For 2008, 19% believe that the conditions will be more favourable compared with 32% who think it will be worse and 49% who expect no change.



Impact

From a list of twenty-one issues, respondents were asked to identify those that are likely to have the most and the least impact on their businesses in 2008. By an overwhelming margin and in order, the top five issues are:

- Fuel Prices;
- Electricity supply and rates;
- Consumer spending power;
- Inflation; and
- The Exchange rate of the Guyana Dollar.

By contrast the issues identified as having the least impact are:

- Money Laundering;
- The Commercial Court;
- Smuggling and Fuel Dumping;
- Interest rate; and
- Availability of Financing.

Plan for Operations

Of the seventy-four respondents, eight entities (11%) project a scaling back of their operations, twenty-four (32%) project no change, while the remaining forty-two (57%) proposed increasing the scale of their operations.

Of the eight entities which plan to scale back operations, high operating costs, availability of skills, the performance of the economy and government policies were identified as the main reasons for their decision.

53% of the respondents anticipate increases ranging from under 5% to more than 20% in their workforce, while just eight of the seventy-four respondents (11%) expect a decrease.

| Increase in workforce | Increase | Decrease |
|------------------------------|-----------------|-----------------|
| No change | - | - |
| Under 5% | 12% | 4% |
| 5%-20% | 30% | 5% |
| More than 20% | 11% | 1% |

Table: Expected change in workforce

The principal reasons attributed for the change in workforce are changes in the level of operations and significantly, migration.

Cutbacks: In the event of limited financial resources businesses are most likely to cut back on capital investment programmes, advertising and public relations programmes, Research and Development, pursuit of new markets, and employment levels and costs.

Outlook on profitability and turnover

Even as confidence wavers, businesses remain bullish about their own performance with the majority expecting profitability and turnover to increase by varying percentages while smaller numbers expect decreases in profitability and turnover ranging from under 5% to over 20%.

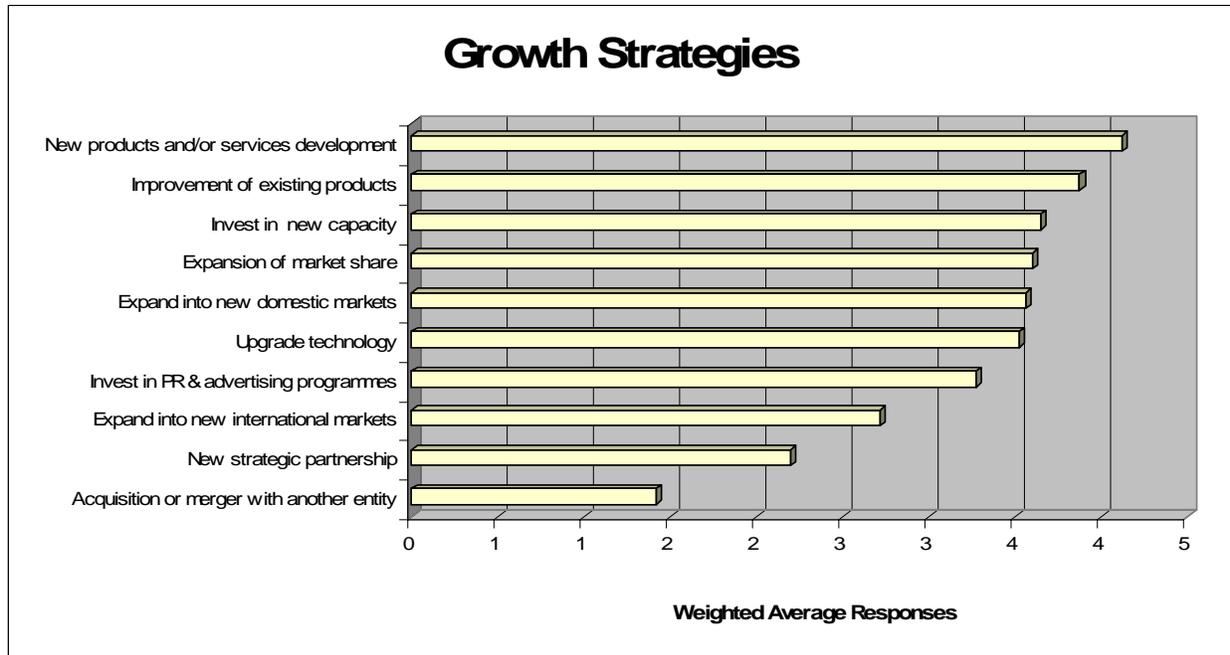
| | 2005 | 2006 | 2007 | 2008 |
|--|------|------|------|------|
| | % | % | % | % |
| <i>Turnover to increase</i> | 71 | 64 | 68 | 73 |
| <i>Profitability to increase</i> | 60 | 51 | 71 | 67 |
| <i>Turnover to decrease</i> | 8 | 13 | 12 | 10 |
| <i>Profitability to decrease</i> | 24 | 28 | 29 | 16 |
| <i>No increase or decrease in turnover</i> | 16 | 13 | 12 | 16 |

The respondents who expect their turnover to increase attribute the principal reasons for the increase to product/ service improvements, new products and services, competitive pricing,

entering new markets and winning market share. Respondents saw little gain resulting from performance of the economy or government policy.

Growth Strategies

Ten possible growth strategies were put to respondents and the options they are most likely to pursue are as follows:



When compared to 2007, new products and/or services development remains the number one strategy while investing in new capacity showed the largest movement compared with the 2007 Survey when it was ranked sixth.

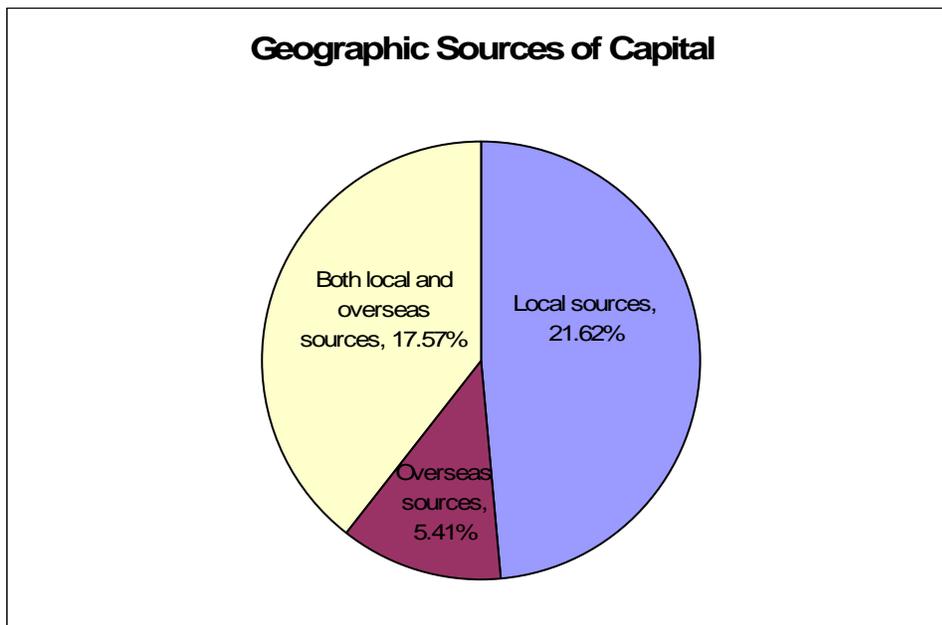
Sources of capital

In line with previous years, over half of the respondents, 55%, indicated that they do not plan to raise capital in the year 2008. For those who plan to raise capital, the main reasons respondents gave were:

1. To fund new products and services (19 or 26%);
2. To embark on a capital expenditure/expansion programme (15 or 20%); and
3. To expand into new geographic markets and to fund current operations such as working capital (given by an equal number of respondents (13 or 17.6%).

Respondents were asked to rate the most likely and the least likely sources of capital and identified the most likely sources, on a weighted average basis, as follows: Cash Flow/Operating Profit, Long Term bank debt and Short Term bank debt. Sources of raising funds with the least likelihood are: The public issue of shares and of bonds, Mergers, and the Private placement of shares/venture capital.

For those who do plan to raise funds the prospective sources are set out in the chart below.



Exports: Respondents were asked whether they exported and how much they export to various markets. Nineteen respondents (26%) are engaged in some form of export. Of these, sixteen export to CARICOM countries while twelve export to North America. Seven export to Europe, five to South and Central America and two to other places.

The nineteen respondents were asked whether exports would increase or decrease over the next twelve months:

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

North America: Nine respondents answering this question are expecting increases.

South & Central Four respondents answering this question are expecting increases.

America

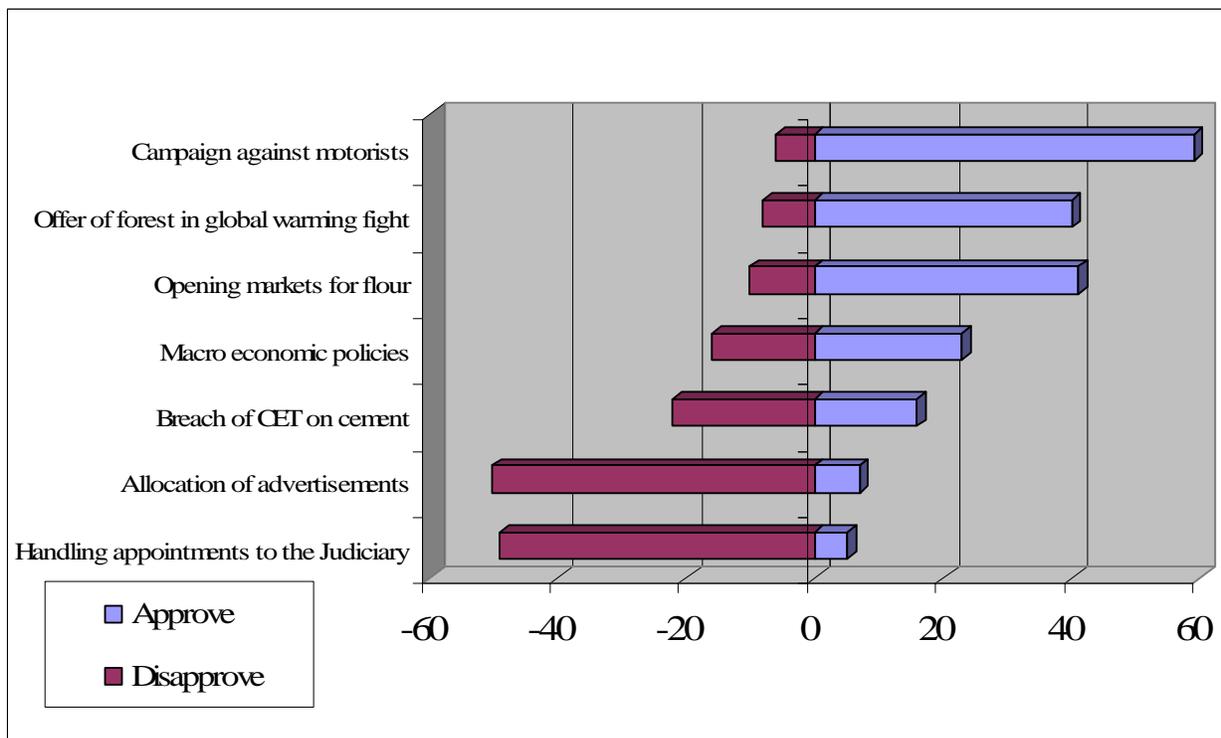
Europe: Three respondents answering this question expect increases while one expects a decrease in the level of export.

POLICY ISSUES

Respondents were asked their view on Government’s handling of seven issues which arose or were considered critical in 2007 - 1. Macro-economic policies; 2. Offer of forest in Global Warming fight; 3. Allocation of Government advertisements; 4. Opening of the markets for flour; 5. Breach of CET on cement; 6 Campaign against motorists; and 7. The Handling of appointments to the Judiciary.

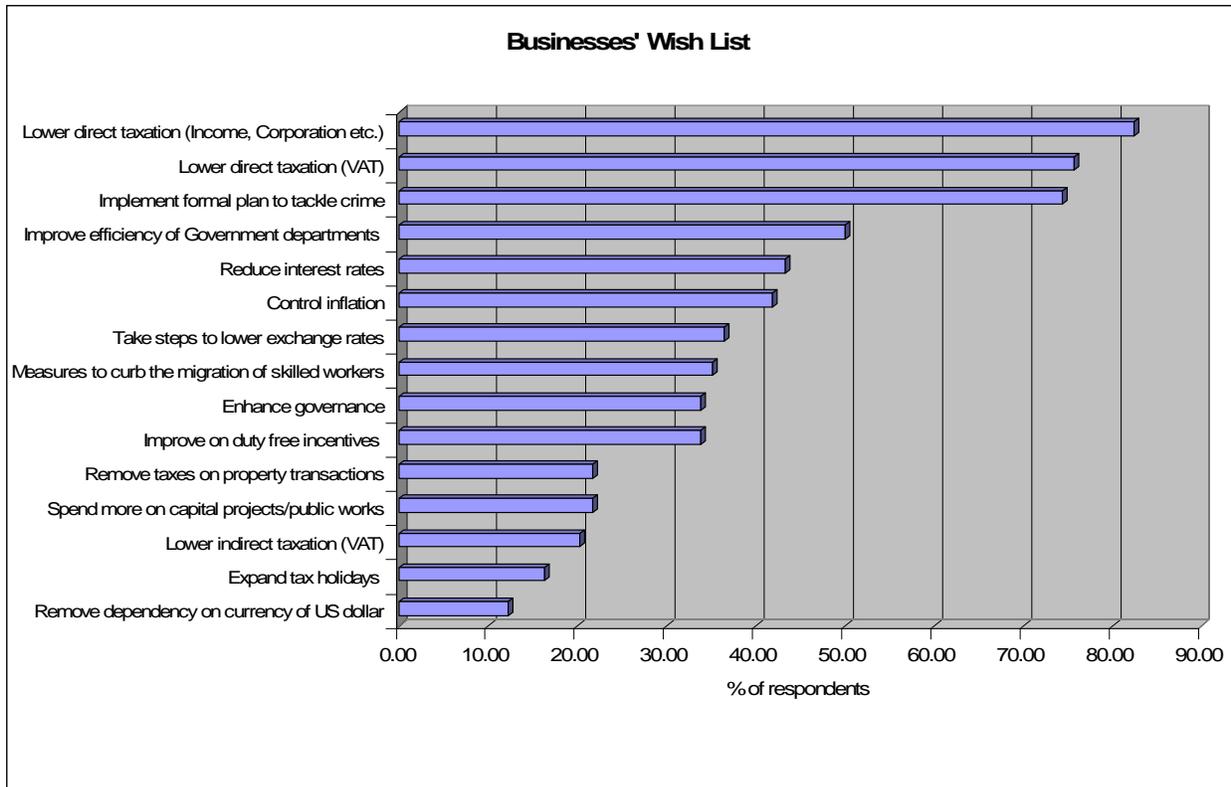
The Government won overwhelming support on issues #2, #4 and # 6 while it scored very poorly on issue # 3 and 7.

The responses were as follows:



The Wish List

Respondents were asked to identify from a list of fifteen issues the five that they would like to see Government take action, given the specific circumstances of their business. These are what they would like:



CONCLUSION

We anticipate a challenging 2008 for businesses. More accurate turnover reported in VAT returns may lead to higher taxes on income with a corresponding impact on cash flows with its own ripple effect.

Yet, we extend to the business community our best wishes for 2008 and thank those entities that participated in this Survey.

END