

GUYANA

Business Outlook Survey

2009

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INTRODUCTION

Ram & McRae is pleased to present the results of its *Business Outlook Survey* for the year 2009.

The publication is the 14th in the annual series and summarises the responses of fifty business entities of varying sizes, organisational cultures and products/services offered in different sectors of the economy. For the first time, with the use of the electronic tool we used, it is possible to state with certainty that the survey results included responses from respondents operating within all ten Regions of the country.

This Survey is not designed to produce statistically valid findings but because of the number and range of businesses that participate in the 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 2009.

As in past years, the Survey questionnaire required respondents to give brief details on their businesses and highlights of their financial performance in 2008. They were also asked to comment on their outlook on the economy as well as some of their plans and strategies for 2009. 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.

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 2008 and their outlook for 2009.

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 entities 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 from our web site.

We thank those eight respondents for the suggestions and recommendations made within their responses. We value highly such contributions and view these as part of a conversation for enhancing the business culture in the country.

January 2, 2009

BACKGROUND

The Survey was conducted towards the close of a year which saw the world facing with uncertainty and fear its worst economic challenge in eighty years. Several months after the surfacing of the problems and with more than one trillion United States dollars spent on rescue packages mainly in the G8 countries, no solution yet appears on the horizon. Despite assurances from the Government of Guyana to take measures to mitigate the effects of the problems on the domestic economy, the Survey shows those problems still adversely affecting respondents' optimism about the economy.

Shortly before the start of the Survey, the Minister of Finance presented the 2008 Mid-Year Report in which he reported that driven by improved performances in agriculture, mining, engineering and construction, and services, the economy had recorded a 3.8 percent GDP growth during the first half of 2008, a sharp decline from the 5.8 percent growth in the corresponding period of 2007. More recently the President in his New Year Message announced that for the full year the economy grew by 3 percent, indicating that the economy deteriorated in the second half of 2008.

Perhaps the most striking features of the Mid-Year Report were debt, revenue and expenditure. The Report dealt very inadequately with external debt and omitted completely any information on domestic debt which has been rising alarmingly over the past several years. The Bank of Guyana Report for the same period shows the stock of government's domestic bonded debt increasing by 7.6 per cent, while its external public and publicly guaranteed debt rose by a whopping 16.8 per cent from end-June 2007.

After the massive windfall from Value Added Tax (VAT) in 2007, VAT and its sister tax Excise Tax were budgeted to increase by 12.8% from the \$36.7 billion collected in 2007 to \$41.4 billion in 2008. For the half-year actual collections amounted to \$17.8 billion (43% of full year) compared with the \$17.1 billion collected in 2007. In expenditure the picture was even more interesting. At the half way mark, only 38% of the full year budget was expended in sectors described by the Minister as 'key'. Particular attention is drawn to the Health, Infrastructure and

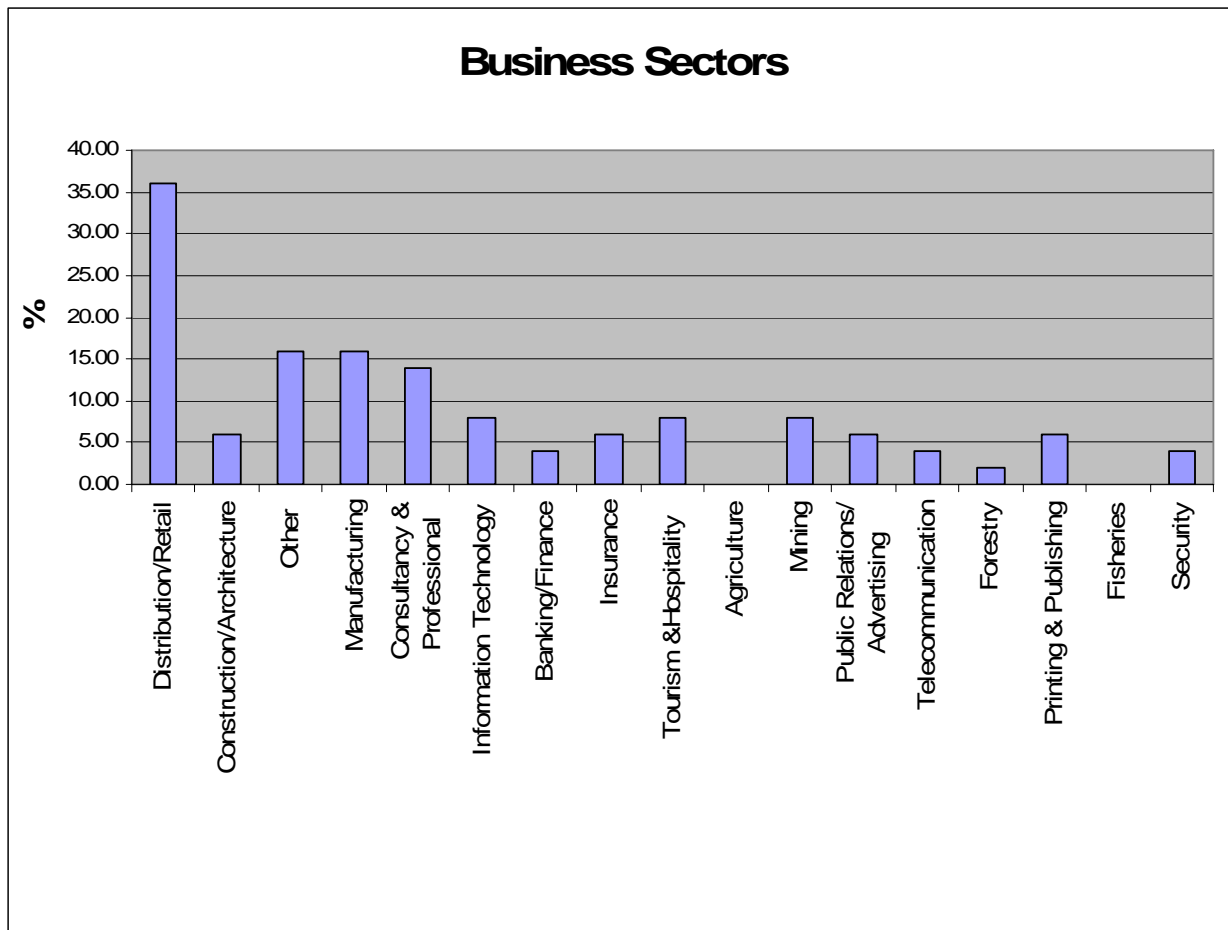
Agriculture sectors where only 41%, 27% and 33% respectively, had been spent in the first half of the year. Infrastructure would include flood control measures and this should be considered against the background of the water-logged communities across some of the most productive regions of the country.

A year that started with two murderous attacks in communities in Lusignan in Demerara and Bartica in Essequibo later saw the Police scoring some significant successes, albeit after they had come under intense scrutiny. The elections in the US for a successor to President George W. Bush produced one of the most historic results while in trade, preferences the country and region had enjoyed for centuries were fast dissipating with the signing of the CARICOM-EU Economic Partnership Agreement (EPA).

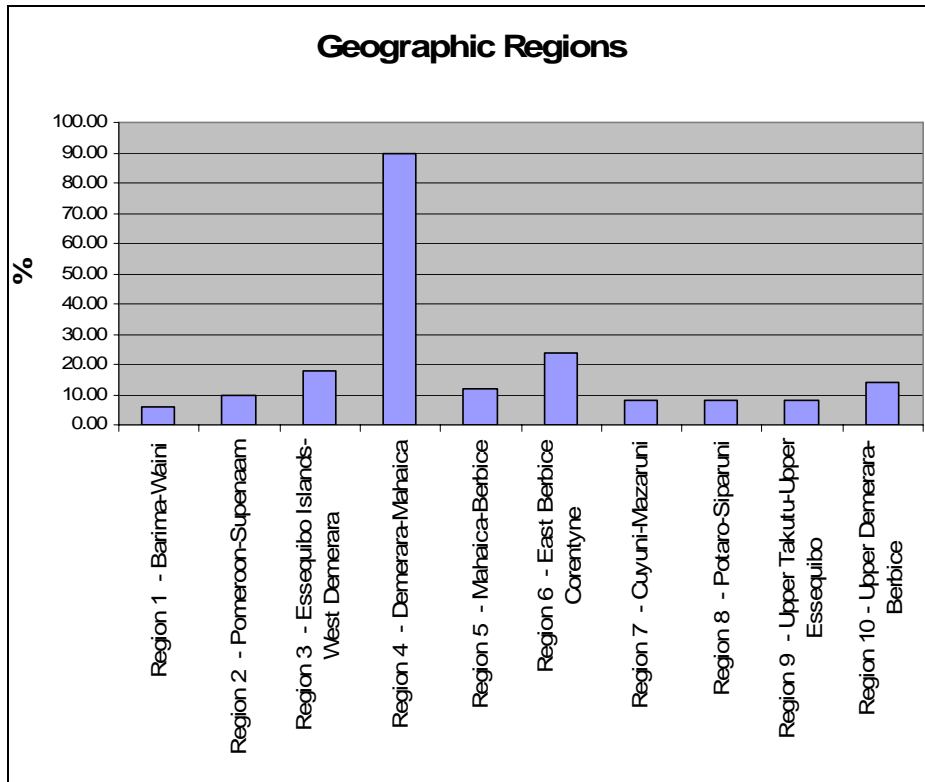
Together these made for a very interesting year. Let us see how they shaped the outlook of the business community for the next.

ABOUT OUR RESPONDENTS

Fifty entities responded to the questionnaires sent to them by electronic mail on November 16, 2008, representing a decline of 32% over the prior year. 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 42 percent of the respondents but with significant responses from Consultancy and Professional Services, Information Technology, Mining and the Tourism and Hospitality sectors, all usually good indicators of the performance of an economy.

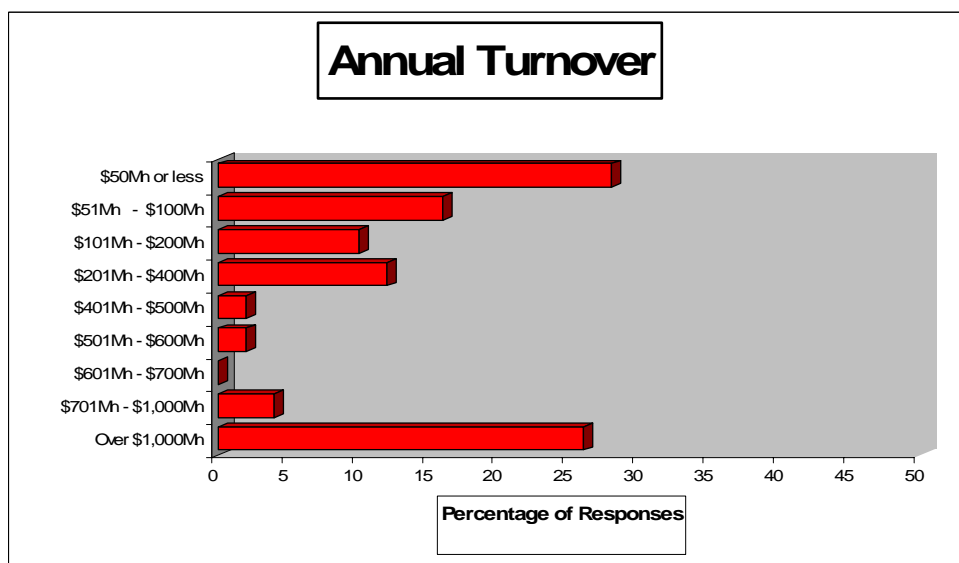


Respondents were also asked to indicate the geographic region(s) in which their business operated. These are the results, with the entire country covered but with Region 4 – Demerara - Mahaica predominant:

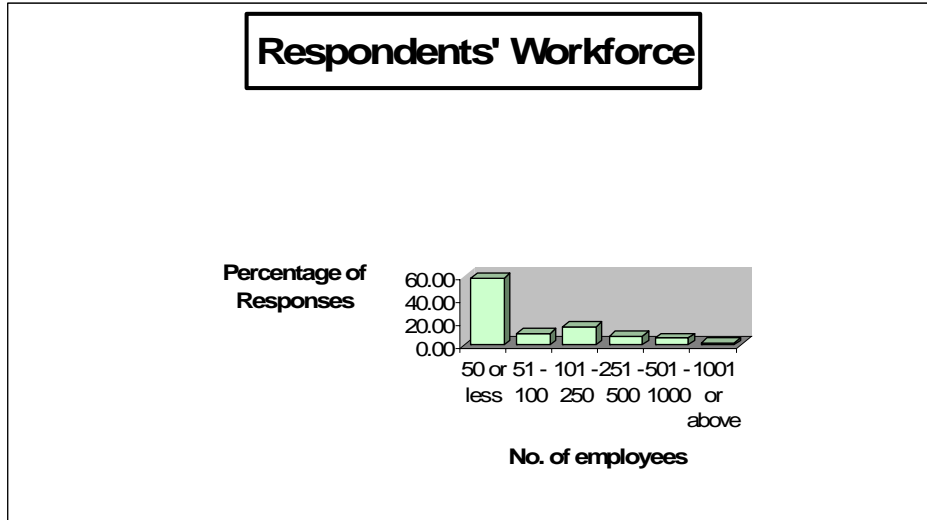


Respondents to the Questionnaire reported turnover ranging from under \$50 million to over one billion dollars. 28% of the respondents reported turnover of under \$50 million and 26% over one billion dollars or the equivalent of US\$5 million. Thirteen responses or 26% of the respondents reported turnover between \$50 million and \$200 million.

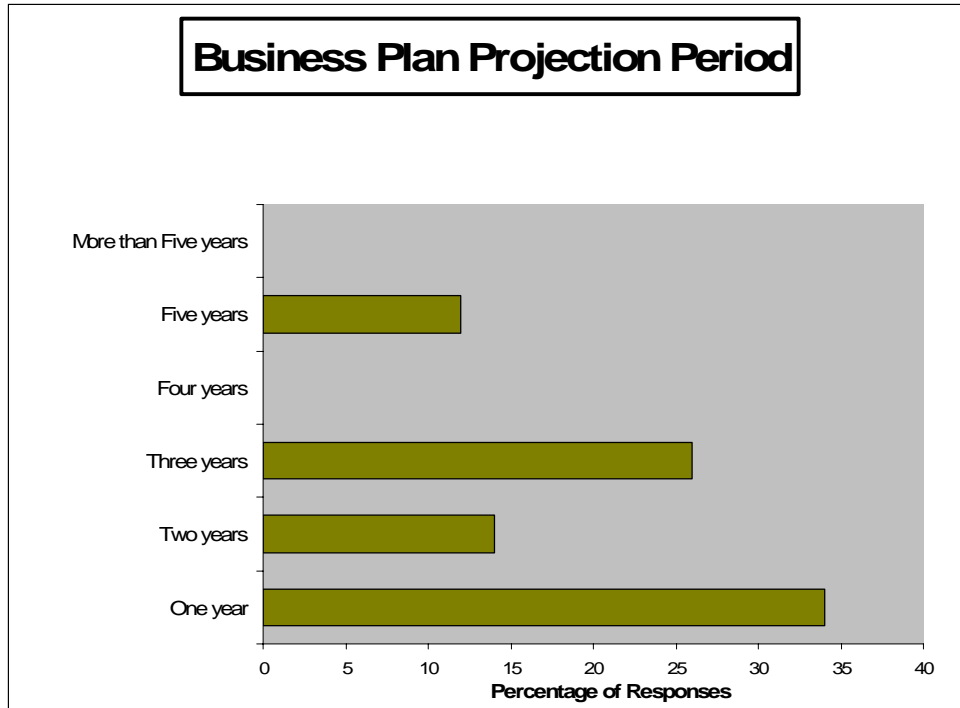
The turnover profile of the respondents was as follows:



Twenty-nine respondents (58%) had less than fifty employees and thirteen (26%) had between fifty-one and two hundred and fifty employees and three (6%) had between five hundred and one thousand employees.

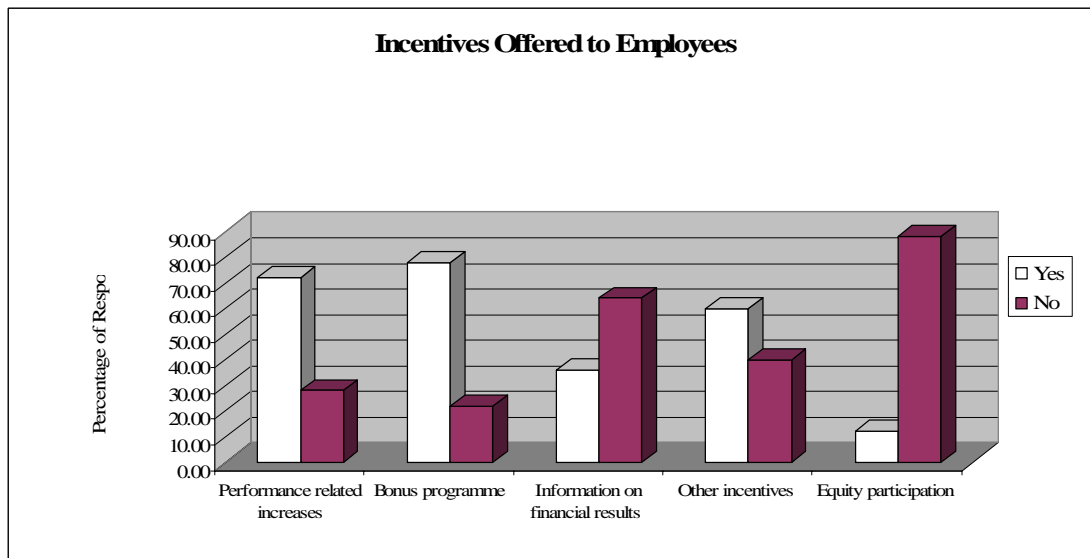


Seventy-six percent of the respondents indicated that they operate within a formal plan while twenty-four percent answered “no” in relation to operating within a formal plan. An additional ten percent however prepare projections. The respondents prepare financial projections for periods extending from one year (34%) to five years (12%) but twelve of the respondents or 24% do not operate with any sort of plan.



Those who prepare projections formally review performance against budget with the majority (56%) doing so on a monthly basis, 30% quarterly and 9% half-yearly.

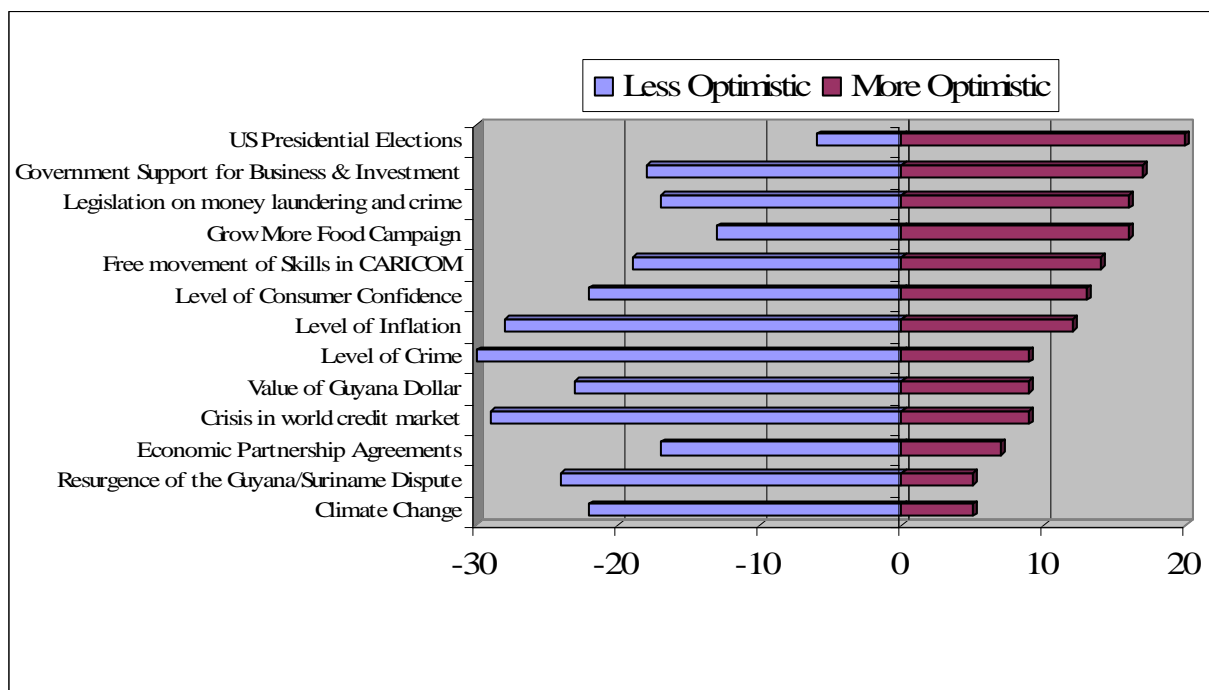
Only 6 (12%) of the respondents offer to their employees equity participation in their business, while less than half share financial information with them. However, bonus, performance-related remuneration and other incentives are used by the overwhelming majority of respondents (70%).



LOOKING BACK

Respondents were asked to rate fourteen national and international issues that arose or prevailed in 2008 that affected optimism about the economy. Only two events caused more optimism than pessimism: *US Presidential Elections* and *Government's Grow More Food Campaign*. Other issues causing some optimism include *Government Support for Business & Investment* and proposed *Legislation on Money Laundering and Crime*. The much talked about Economic Partnership Agreement was viewed favourably by seven respondents (14%), negatively by seventeen (34%) and had no effect on twenty-six (52%).

Those that aroused less optimism and had an overall negative impact were *crime, crisis in world credit market and inflation*.



In the 2008 Business Outlook Survey, 73% of respondents had projected increase in turnover for that year, 67% projected increase in profitability, and only 10% and 16% expected turnover and profit respectively, to decrease.

One year later, on being asked to provide information on the actual performance in 2008, 32% reported performance was worse than expected, 56% in line with expectations, and 12% reported performance exceeding expectations.

Changes in their workforce

In responding to the 2008 Questionnaire, 37% of the respondents had projected no change in their workforce while 53% projected increases and 10% projected decreases. A summary of the fifty responses in 2008 shows that some 42% had no change in their workforce while 44% had increases.

A summary of the results of the twenty-nine responses reporting changes is as follows:

	Increase	Decrease
Under 5%	14%	10%
5% -20%	45%	14%
More than 20%	17%	0%

Table: respondents reporting change in workforce

Value-Added Tax

Given the introduction of VAT from January 1, 2007, the surveys for the past three years have highlighted VAT and asked respondents several questions surrounding their preparedness for, main concerns of and the impact of the tax on their businesses.

Out of a total of nine issues put to respondents, their concerns in the order ranked (prior year ranking in parenthesis) were as follows:

1. The rate (2)
2. Its inflationary effect (4)
3. Impact on consumer spending (1)
4. Absence of corresponding adjustment to rates of other taxes (3)
5. Insufficient number of zero-rated and exempt items (*)

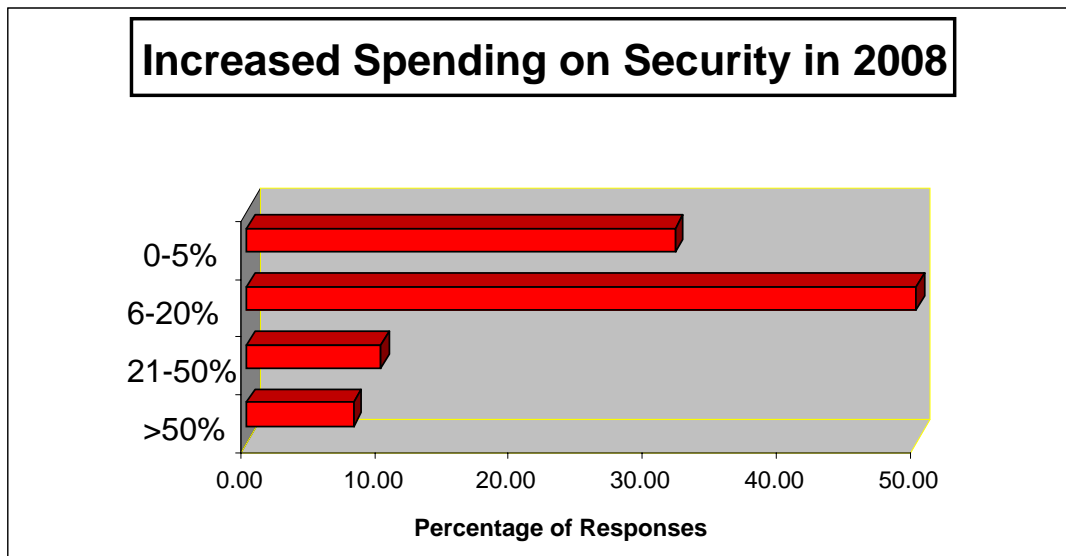
(*) not included in prior year survey.

Despite the significant public information campaign, there remains a lack of understanding of the Value-Added Tax system and one instance was noted where a respondent expressed their frustration of having to 'dig further into their pockets' to remit their monthly VAT obligations.

In the 2008 Survey, 58% of respondents indicated that VAT had a negative impact on the level of their business, while 35% reported no impact. Five respondents (6.8%) had reported that VAT resulted in a slight increase on the level of their business. In that survey, 57% of respondents indicated that VAT did not affect their ability to compete, 39% felt that competing was more difficult while 4.1% felt that competing was easier. In the 2009 Survey, a larger percentage of entities (48%) stated that competing has been more difficult.

Security

In their own handling of crime risks, fifty percent of respondents have reported increases in expenditure in security costs from 6 to 20%. 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 2009 – perhaps the most significant question in the survey. Readers would recall that the number of options offered by the Questionnaire was cut from six in previous years to three in 2008, removing the shades of confidence allowed in previous years.

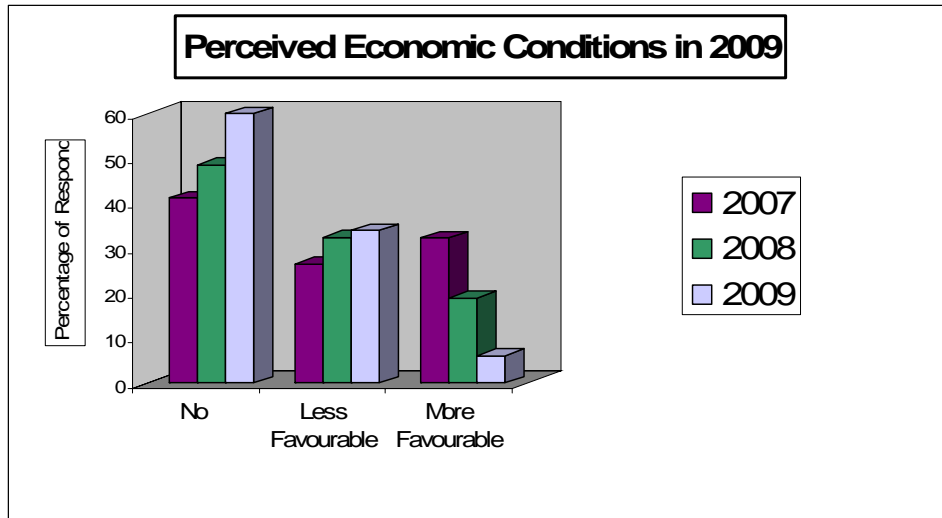
Confidence levels have fallen significantly with none of the respondents being confident that the economy would improve in 2009 and respondents who were fairly confident falling from 43% to 40%. The percentage of respondents who were not confident that the economy would improve in 2009 was the highest in over five years and almost ten percentage points higher than reported in the 2008 survey.

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

	2005	2006	2007	2008	2009
Very confident	7	1	7	4	0
Fairly confident	25	30	22	32	20
Not confident	8	11	6	38	30
Total	40	42	35	74	50
% not confident	20	26	17	51	60

The high number and percentage of responses that state that they are not confident about the economy in 2008 and 2009 continues to reflect a significant shift from previous years.

In a related question, we asked whether the members of the private sector think that economic conditions would be more or less favourable for privately-owned businesses in 2009 compared with 2008. For 2008, nineteen percent had expected economic conditions to be more favourable than in the previous year and thirty-two percent expected economic conditions for businesses to be less favourable. For 2009, only six percent believe that the conditions will be more favourable compared with thirty-four percent who think it will be less favourable and sixty percent 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 2009. By an overwhelming margin and in order, the top five issues are (prior year ranking in parenthesis):

- Consumer spending power (4);
- Fuel Prices (1);
- Inflation (2);
- Crime (7); and
- Finding new customers/markets (11).

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

- The US Presidential election (*);
- Opening of the new Skeldon Sugar Factory (*);
- The Economic Partnership Agreement (*);
- The Berbice Bridge (*); and
- Availability of Financing (4).

* represents new issues included in the 2009 survey.

Plan for Operations

Of the fifty respondents, three entities (6%) project a scaling back of their operations, twenty-four (48%) project no change, while the remaining twenty-three (46%) proposed increasing the scale of their operations.

Of the three entities which plan to scale back operations, availability of skills, tax policies, crime and the global financial crises were identified as the main reasons for their decision.

40% of the respondents anticipate increases in their workforce ranging from under 5% to more than 20% in their workforce, while just five of the fifty respondents (10%) expect a decrease.

	Increase	Decrease
No change	50.0%	50.0%
More than 20%	4.0%	0.0%
5% - 20%	22.0%	8.0%
Less than 5%	14.0%	2.0%

Table: Expected change in workforce

The principal reason attributed for the change in workforce is “changes in the level of operations”.

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

Outlook on profitability and turnover

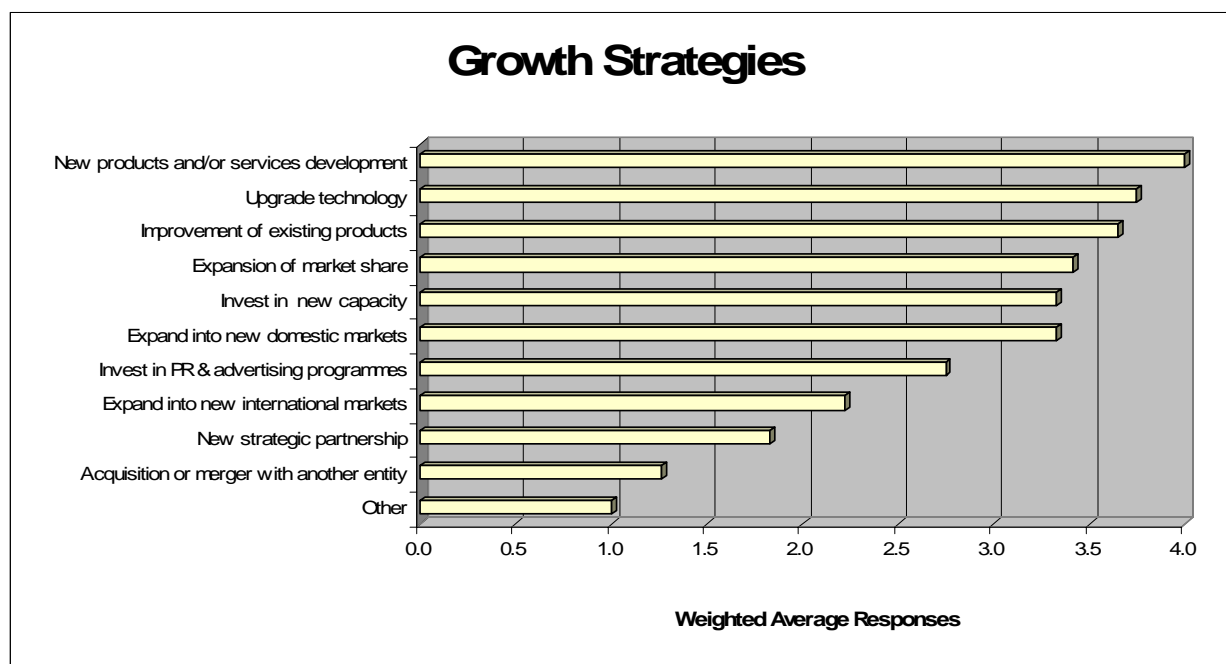
Even as confidence continues to wane, businesses remain bullish about their own performance with the majority expecting profitability and turnover to increase by varying percentages while smaller numbers expect decreases in profitability and turnover ranging from under 5% to over 20%.

	2005	2006	2007	2008	2009
	%	%	%	%	%
<i>Turnover to increase</i>	71	64	68	73	66
<i>Profitability to increase</i>	60	51	71	67	64
<i>Turnover to decrease</i>	8	13	12	10	26
<i>Profitability to decrease</i>	24	28	29	16	28
<i>No increase or decrease in turnover</i>	16	13	12	16	8

The respondents who expect their turnover to increase attribute the principal reasons for the increase to the same causes as for 2008 albeit in different order: *product/ service improvements, competitive pricing, winning market share new products and services, and entering new markets.* Respondents see little gain resulting from *increased consumer spending/confidence 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:



New products and/or services development remains the number one strategy for the fifth consecutive year while seven strategies showed no movement and upgrading technology showed the largest movement compared with the 2008 Survey when it was ranked sixth.

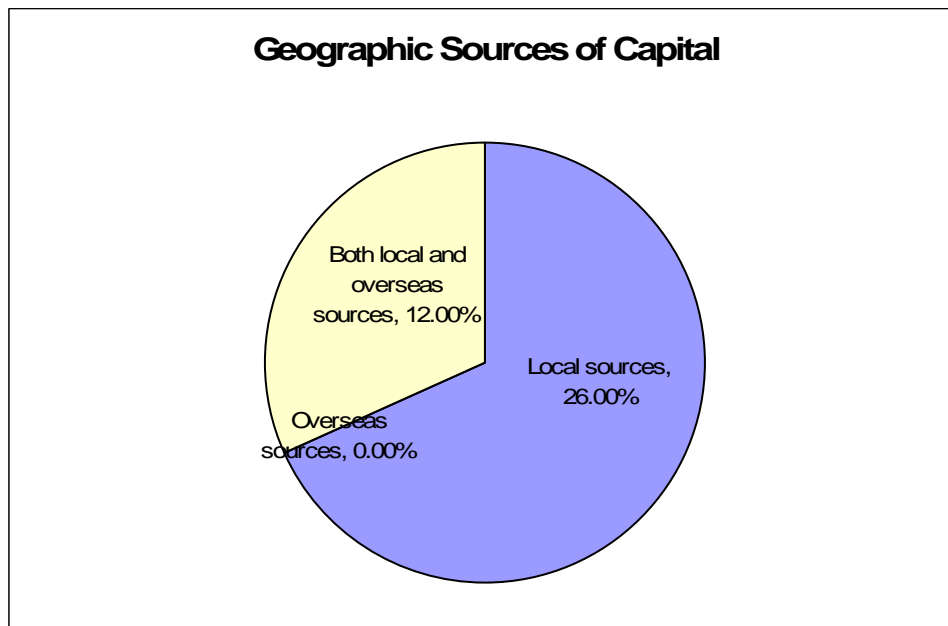
Sources of capital

In line with previous years, over half of the respondents, 62%, indicated that they do not plan to raise capital in the year 2009. For those who plan to raise capital, the main reasons they gave were:

1. To fund new products and services (11 or 22%);
2. To embark on a capital expenditure/expansion programme and to fund current operations such as working capital (given by an equal number of respondents (9 or 18%); and
3. To expand into new geographic markets (5 or 10%).

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*, in the same order as per the 2008 survey. Sources of raising funds with the least likelihood are: *The public issue of bonds and of shares, Mergers*, and the *Disposal of assets*.

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. Twelve respondents (24%) are engaged in some form of export. Of these, nine export to

CARICOM countries while eight export to North America. Four export to Europe, two to South and Central America and two to other places.

For those twelve respondents who were engaged in some form of export, changes in exports over the next twelve months are estimated as follows:

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

North America: Five respondents answering this question are expecting increases while one expects a decrease.

South & Central America: One respondent answering this question is expecting an increase.

Europe: Two respondents answering this question expect increases.

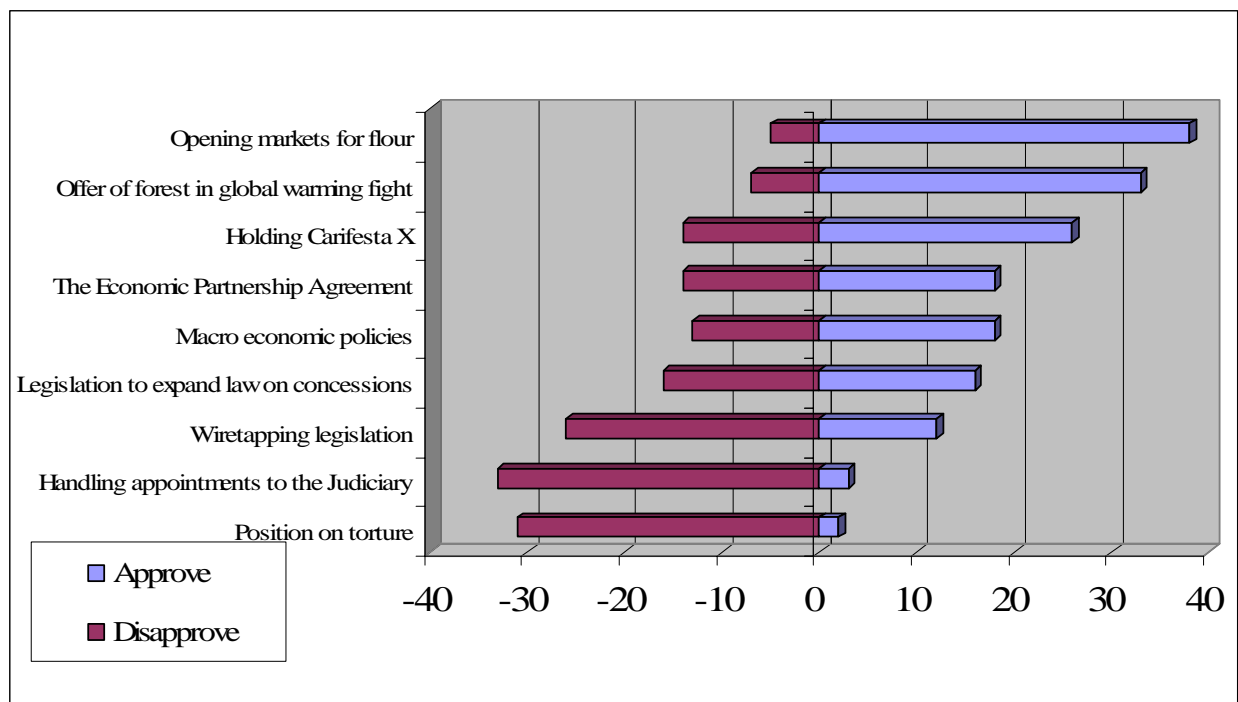
POLICY ISSUES

The year 2008

Respondents were asked their view on Government's decisions in respect of nine issues which arose or were considered critical in 2008 - 1. Macro-economic policies; 2. Offer of forest in Global Warming fight; 3. Opening of the markets for flour; 4. Hosting Carifesta X; 5. Wiretapping legislation; 6. Legislation to expand law on concessions; 7. Handling of appointments to the Judiciary; 8. The Economic Partnership Agreement; and 9. Position on torture.

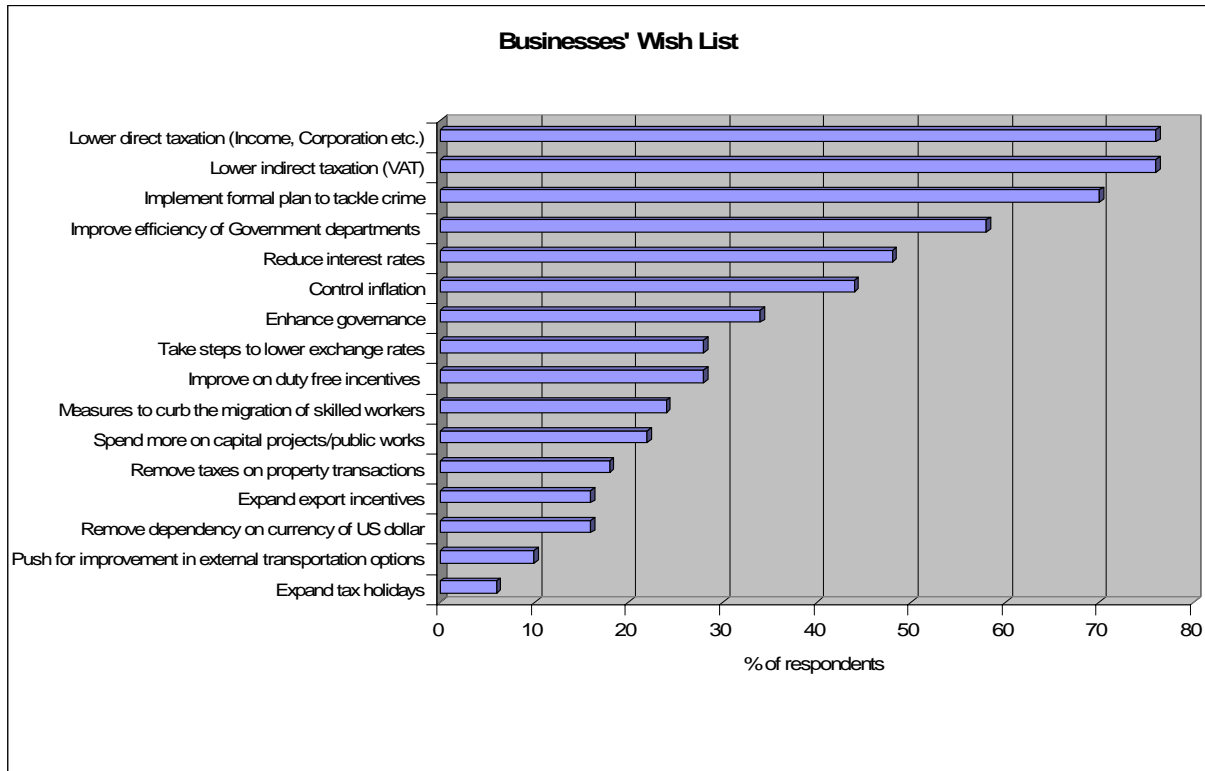
The Government won overwhelming support on issues #2, #3 and #4 while it scored very poorly on issues #7 and 9.

The responses were as follows:



The Wish List

Respondents were asked to identify from a list of sixteen issues the five on which they would like to see Government take action, given the specific circumstances of their business. *Lowering direct and indirect taxation* remain the highest ranked issues while the expansion of tax holidays was ranked lowest. These are what they would like:



CONCLUSION

In our 2008 survey we predicted a challenging year for businesses, not knowing how really challenging it would be. On this occasion we quote from Daniel Franklin, the Editor of the **World in 2009**, a publication of The Economist:

Anyone hoping for a period of calm after the turbulence of the past year will be disappointed. For the economy and for business, as well as for politics, 2009 promises to be a year of bracing adjustment to a changed world.

This no doubt is as true for Guyana as it is for the rest of the world.

The business community and the country now look forward with much interest and even anxiety to Budget 2009 for a more definitive report on 2008 and the Government's planned response to the economic challenges facing the country.

Until then, we extend to the business community our best wishes for 2009 and thank those entities that participated in this Survey.

END