

GUYANA

Business Outlook **SURVEY 2004**



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Guyana Business Outlook Survey 2004

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Introduction

Ram & McRae is pleased to present the findings of its tenth annual *Business Outlook Survey* for the year 2004.

The publication summarises the responses of forty-five 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 2003. They were also asked to comment on their outlook on the economy as well as some of their plans and strategies for 2004. In this Report comparisons are made with the results of the 2003 Survey where necessary 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 locally and internationally which we consider to be pertinent to business. *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 have reduced the Report to eight pages compared with twenty-six in previous reports. We hope that readers will find the format more reader friendly. 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 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 2004 Survey elicited a 47% response rate with forty-five entities responding to ninety-four questionnaires sent out on September 22, 2003 as compared with ninety-five businesses surveyed last year. The composition of the respondent groups was very similar to last year with the majority representing the distribution/retail, manufacturing and banking/finance sectors.

Of the forty-five respondents, seventeen (38%) had a turnover of over \$1Bln, eight (18%) between \$500M - \$1Bln, twelve (27%) between \$100M - \$500M and eight (18%) under \$100M. Their workforce ranged from under 50 employees (9 entities), 51 – 100 employees (11 entities), 100-500 employees (18 entities), 501 – 1,000 employees (3 entities), and over 1,000 employees (4 entities).

The 2004 Survey took place against slightly improved political and security conditions, substantial changes in tax legislation, the establishment of a stock exchange, the promise of an Investment Act and significant reduction in the number of businesses being placed in receivership.

The economy however, has continued the pattern of extremely modest performance for the five years 1998 to 2002 during which the economy grew at an annual average of 0.78%. For the half year to June 30, 2003 the Bank of Guyana reported that the economy remained relatively flat¹.

The business community appears to consider the favourable factors as outweighing the negatives and their outlook for turnover and profitability is decidedly more positive than they were last year.

Survey results

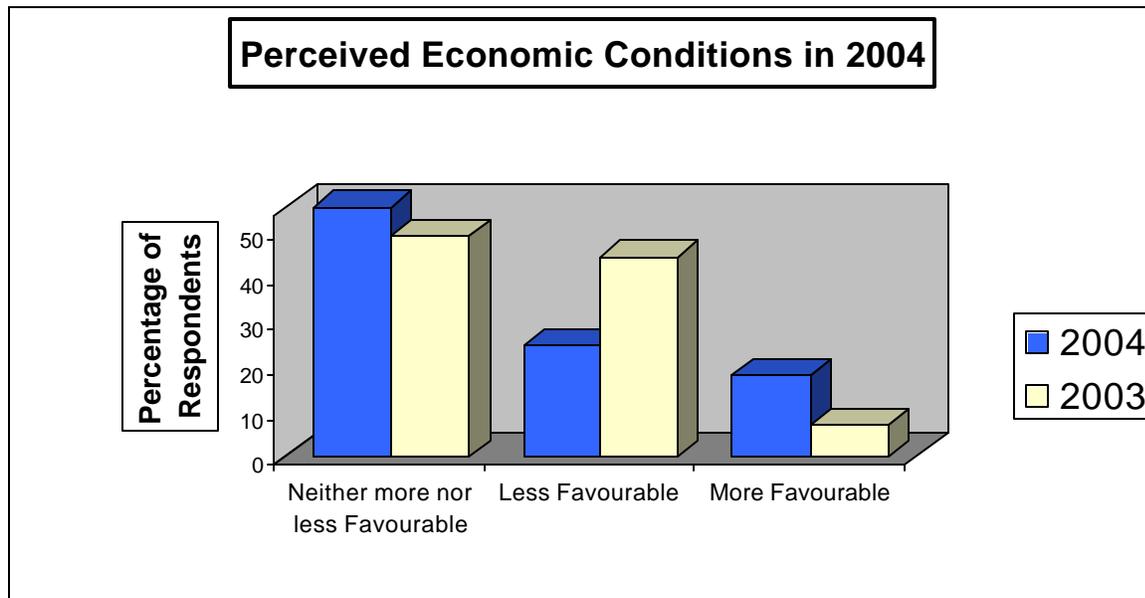
Improvement in the economy: The Survey group was asked to state how confident they were that the economy would improve in 2004. More confidence was expressed in the economy for 2004 than was expressed for 2002 and 2003. The actual results were as follows:

	2000	2001	2002	2003	2004
Very confident	1	1	1	1	0
Confident	3	2	2	0	1
Fairly confident	14	18	6	6	14
Not very confident	15	17	23	15	20
Not confident	11	8	11	12	9
Don't know	1	4	0	4	1
Total	45	50	43	38	45

Seventeen (38%) of the respondents are planning to increase the scale of their operations in 2004 while three (7%) are planning to scale down with twenty-four (53%) planning no change in their operations.

¹ Source: Bank of Guyana, Half Year Report and Statistical Bulletin 2003

This compares with 2003 plans where seventeen (44%) planned increases, 13% planning to scaled down and 42% planned no change.



Conditions for business: As shown in the graph above, twenty-six respondents (58%) believe that economic conditions would be no different while eight (18%) believe that they would be more favourable for privately owned businesses in the next twelve months than the past twelve months. Eleven respondents (24%) believe that economic conditions would be less favourable.

Performance in 2003: When asked to assess their performance in 2003, twenty-six (58%) respondents reported that their results were in line with expectations, fifteen (33%) worse than they expected and three (7%) better than expectations. Readers would recall that in the 2003 survey nineteen respondents expected their profitability to increase while eleven expected decreases.

The majority of respondents (twenty-four or 53%) anticipate no change in their businesses, while seventeen (38%) expect an increase and 3 (7%) expect a decrease.

Outlook on the economy: From a list of seventeen items, respondents were asked to rate the national or international events which, if any, made them more or less optimistic about the economy. Only two developments - the resumption of the engagement between the PPP/C and PNC/R and the tabling of the Investment Bill caused more optimism than pessimism while there was overwhelming pessimism over the value of the Guyana dollar, the level of business failures and the crime and drug problem.

Recent changes in the tax laws did not create a lot of optimism nor did the management of the economy which respectively showed 3 / 20 / 17 and 4 / 26 / 10 as more optimistic / less optimistic and no change.

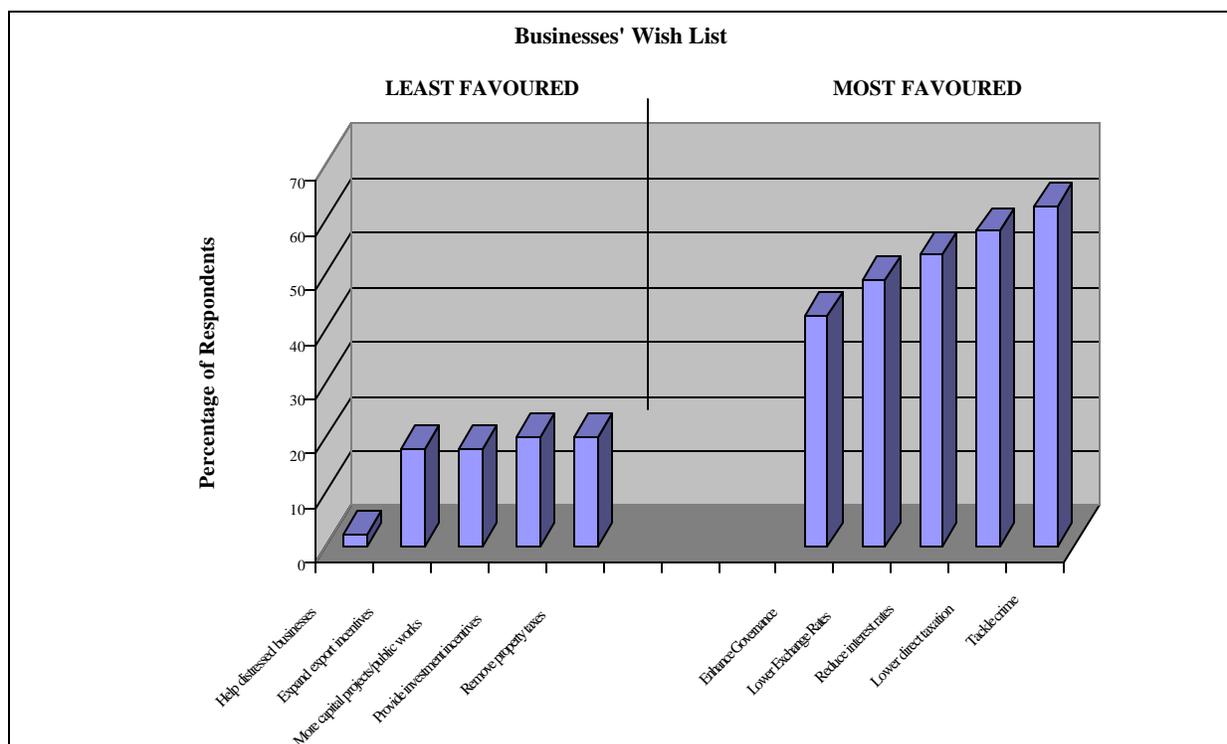
Agreement with Government's decisions: Respondents were asked their views on the Government's handling of three issues: measures put in place to deal with the crime situation, no bailout for distressed entities and the constructive engagement between the President and Leader of the Opposition. The majority of the respondents (twenty-nine or 64%) expressed agreement with the Government's decision in respect of the Constructive Engagement while twenty-five respondents (or 56%) disagreed with Government's decisions in respect of crime.

With respect to the bail out of businesses, 18 respondents (40%) disagreed with Government's decision while a significant 11 respondents (24%) offered no views.

Measures for Government to act on: 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 lowering of direct taxation which ranks ahead of such issues as tax holidays, inflation and lowering of indirect taxes.

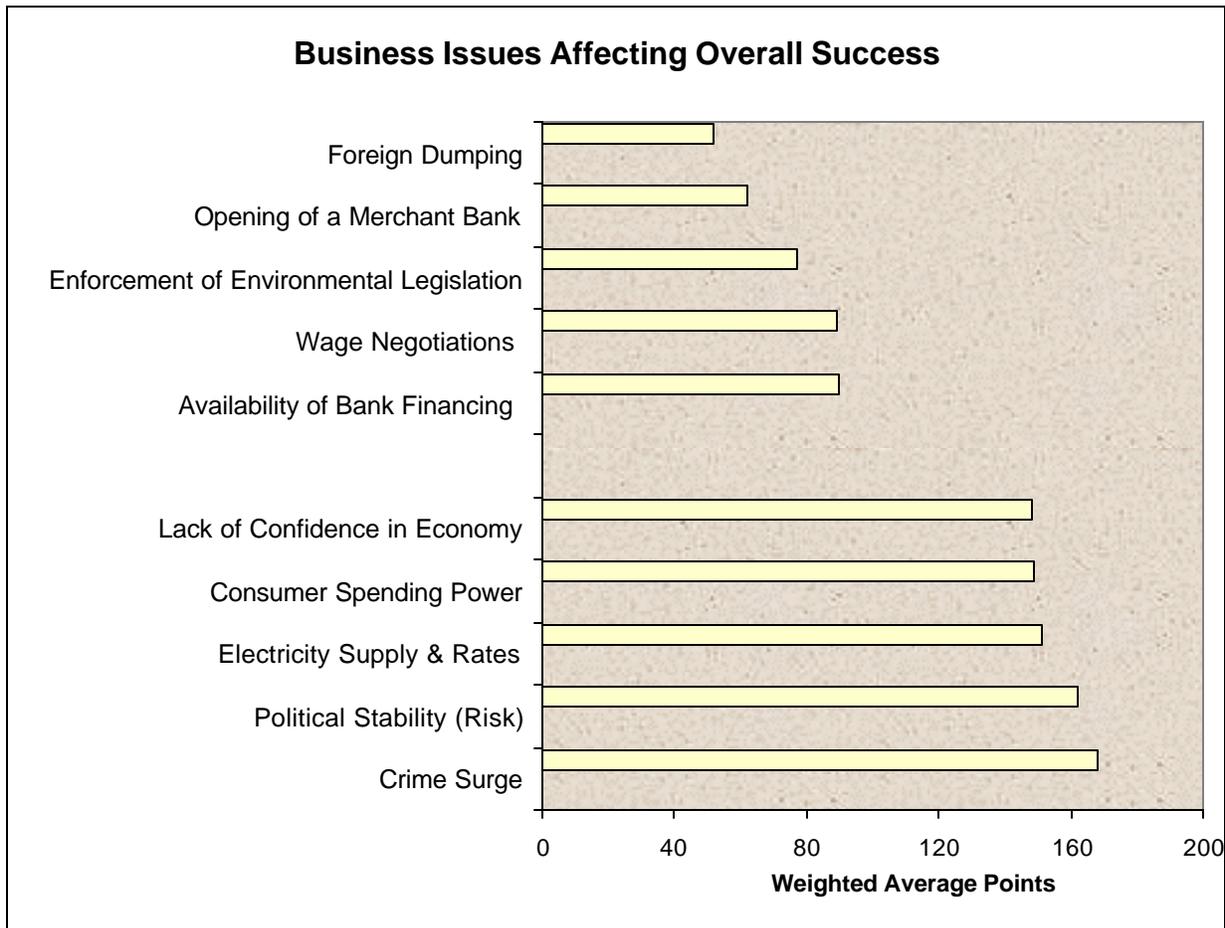
The issue least on the "wish list" is the provision of financial assistance / grants to distressed businesses. This contrasts sharply with respondents' views on Government's decision on the bail out of businesses (see above) where fifteen (33%) agreed with the Government's decision on no bailout for distressed businesses as compared to eighteen (41%) who disagreed.

Interestingly enhanced governance ranks fifth as compared to third in the 2003 survey as items that the respondents wanted to see the Government tackle. Reducing interest and exchange rates have become more important to businesses.



Issues impacting business in 2004: Entities were asked to rank 29 external factors most likely to impact on their businesses in 2004. On a weighted basis respondents identified the crime situation as the main issue that will impact on their business while the dumping of foreign products was expected to have the least impact. Interestingly the top issues businesses expect to have the most and least impact were the same in 2003 as shown in the graph below.

Fuel prices ranked 8th, the road to/from Brazil 17th and legal matters held up in court 24th on the list of issues businesses consider as impacting on their operations. Of course the commercial banks take a different view of the court system for which it has lobbied for Government action.



The most important operating issues: The three most important operating issues for 2004 are security/ crime, electricity supply and improving the quality of products/ services offered. There has been no change from last year in the ranking of these issues. Four respondents (9%) expected to increase spending on security by over 50% in the coming year while the majority of respondents (15 or 33%) expected to increase spending between 6% and 20%.

The most important financial issues: Access to foreign currency, cash flow management and timely flow of financial information are the highest ranked financial issues this year. Again, there has been no change from last year in the ranking of these issues.

Planning and budgeting: All respondents to the Survey reported that they review actual performance against budget. 64% do this on a monthly basis, 20% quarterly, 7% half-yearly and 7% annually. 78% of these entities claim that they operate with a formal business plan with 12 entities preparing projections for a three-year period, 9 for a one-year period, 5 for two-year periods and 5 for five-year periods. Despite thirty-five saying they operate a formal business plan, only thirty-one gave information on their planning period.

Human resource issues: Of the forty-two responses to this question, twenty-five (60%) reported changes in their workforce during 2003. Increases averaged 13% while decreases averaged 19%.

Thirteen (29%) of respondents expect no changes in workforce size in 2004 while sixteen (36%) project increases and twelve (27%) project decreases. Two respondents expect to increase their workforce by over 20% while eight expect to increase theirs between 5% and 20%. No respondent expected a decrease in their workforce by greater than 20% while five expected a decrease between 5% and 20%.

Although retention of key personnel was selected as a key HR issue, respondents consider employment levels and employment costs as two likely areas they will cut back on if faced with financial difficulties. Employment cost is the most likely area of cut back while employment levels are at number 4 behind capital investment and advertising. Perhaps because of the retention issue, businesses now include on their wish list steps to limit migration, ranking 6th in the 15-issue wish list.

Exports: Only twelve respondents (27%) are engaged in exporting their products to various markets. All of these export to Caricom, nine to North America, four to South and Central America, five to Europe and one to other markets. More respondents reported exporting to North, South and Central America than in earlier surveys.

Competition: Surprisingly fourteen respondents (31%) consider that they are not exposed to any foreign competition while twelve (27%) consider that they are exposed to just a little foreign competition. Ten (22%) are exposed to a fair amount while eight (18%) are exposed to a great deal of foreign competition. For the year 2004, 19 (42%) respondents expect competition to increase while 17 (38%) expect competition to remain the same.

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

	2002	2003	2004
	%	%	%
<i>Turnover to increase</i>	57	68	74
<i>Profitability to increase</i>	83	50	62

<i>Turnover to increase</i>	27	16	12
<i>Profit to increase</i>	17	29	19
<i>No increase or decrease in turnover</i>	8	11	9

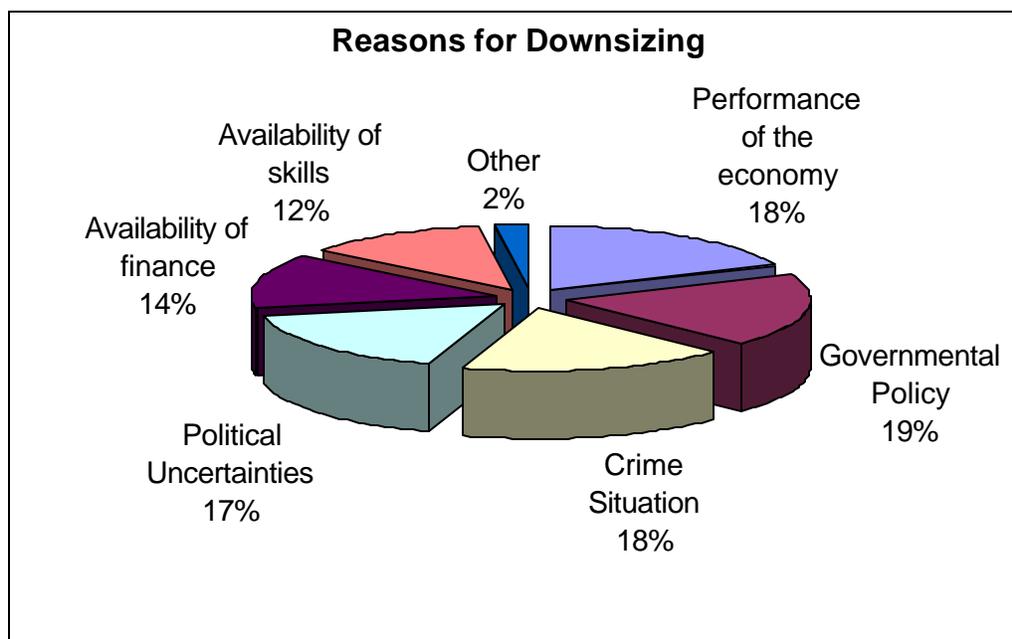
The respondents who expect their turnover to increase attribute the principal reasons for the increase to the results of entering new markets, product/ service improvements, competitive pricing and new products and services.

Cutbacks: In the event of limited financial resources businesses are most likely to cut back on their employment costs, capital investment programmes, advertising and public relations programmes and employment levels 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, advertising and public relations, providing more training to staff, investment in equipment and technology and new product development as initiatives they would pursue.

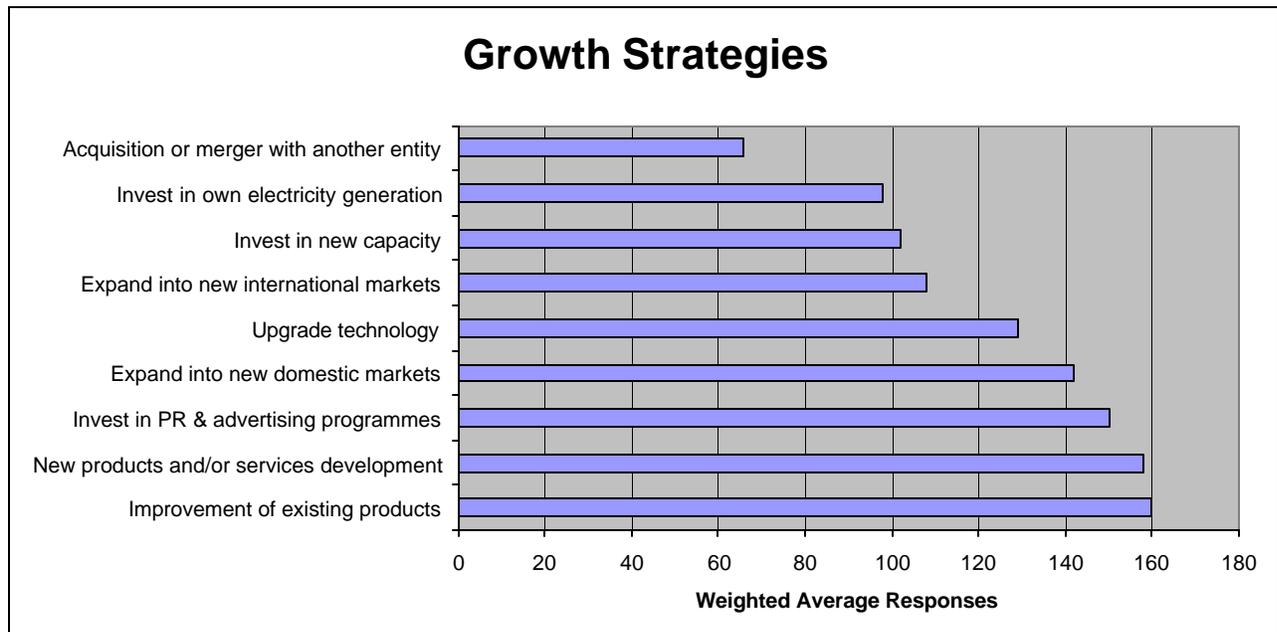
Interestingly advertising and public relations falls into both categories.

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



Growth strategies: The top strategies identified by respondents that they will employ in any expansion in 2004 are improvement of existing products, new product/ service development and investment in

advertising/ public relation programmes. Interestingly, investing in own electricity generation ranked eighth. Seventeen respondents stated that they expect to grow their businesses in the coming year.



Sources of capital: 38% of respondents do not plan to raise capital in the year 2004. 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.

Conclusion

While the overall outlook of business persons was more positive than in the prior year, crime remains on the agenda as a major issue not being satisfactorily addressed. With few businesses planning to scale back their operations and a significant minority planning to expand the prospects for investment and jobs are improving.

The findings of the 2004 Survey are decidedly more positive than those of the preceding two years when the economy suffered from a series of difficult events including El Nino/ La Nina weather patterns, a highly contentious general election, international terrorism and increased local crime.

These augur well for the economy even though it continues to perform at a level that is not conducive to raising standards of living, reducing social pressures including income disparity and migration, all factors which may contribute to the crime situation.

Against these are the negative trends - the overwhelming number of specific issues with which respondents show either less optimism or no change such as the value of the Guyana dollar and management of the economy and the government's handling of the crime situation.

Their overall optimism suggests that notwithstanding their concerns about factors external to their businesses such as the conditions for private businesses, exchange rates and economic management, survey respondents are more confident of their own ability to overcome obstacles.

Finally, there are two issues in particular which we think the business community need to reassess. They are the level of foreign competition which they consider they face and their unwillingness to raise capital through the issue of shares. Business persons appear to have learnt little from the consequences of short-term borrowing and to misunderstand the functions and benefits of the Stock Exchange.

An obsession with control, weak governance arrangements and excessive dependence on bank borrowings will continue to inhibit the engine of growth.

END