

GUYANA

*Business Outlook
Survey*

2006



Ram & McRae

CHARTERED ACCOUNTANTS

Professional Services Firm

Guyana Business Outlook Survey 2006

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Introduction

Ram & McRae is pleased to present the results of its *Business Outlook Survey* for the year 2006.

The publication is the 12th in the annual series and summarises the responses of forty-two 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 2006.

The Survey questionnaire required respondents to give brief details on their businesses, highlights of their financial performance and decisions taken during 2005. They were also asked to comment on their outlook on the economy as well as some of their plans and strategies for 2006. In this Report comparisons are made, as appropriate, with the results of the 2005 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.

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 2006 Survey elicited a 48% response rate with forty-two entities responding to eighty-eight questionnaires sent out on November 3, 2005. This compares favourably with 2005 with similar number of businesses surveyed and a response rate of 45%. The composition of the respondent groups was very similar to last year with the top two sectors representing distribution/retail and manufacturing while construction/architecture replaced tourism & media sector as the third leading group.

Of the forty-two respondents, fifteen (36%) had a turnover of over \$1Bln, eleven (26%) between \$500M - \$1Bln, seven (17%) between \$100M - \$500M and seven (17%) under \$100M. Two respondents did not disclose their turnover. Interestingly the number of respondents with turnover of over \$1Bln is four more than reported in the 2005 survey. The workforce of the respondents ranged from under 50 employees (10 entities or 23%), 51 – 100 employees (7 entities or 17%), 100-500 employees (19 entities or 45%), 501 – 1,000 employees (4 entities or 10%), and over 1,000 employees (1 entity or 2%). One respondent did not disclose the number of employees in their workforce.

The Survey took place in conditions where businesses were faced with high fuel prices, security conditions that seem to have deteriorated, increased negative effects of the weather and the uncertainty of the impact the 2006 General Elections would have on the economy and their businesses.

According to the Bank of Guyana the consequence of unfavourable weather conditions and higher world price for oil was a decline in real economic growth during the first half of 2005 of 5.9% compared with a 0.8% percent increase for the corresponding period in 2004¹. The Minister of Finance in his 2005 Budget presentation projected real growth for the year to be 2.2%. Politically while the participation in the National Assembly by the main opposition PNC-R was more consistent than in 2004, the now suspended dialogue between the President and the Leader of the Opposition continues to be of concern to business.

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.

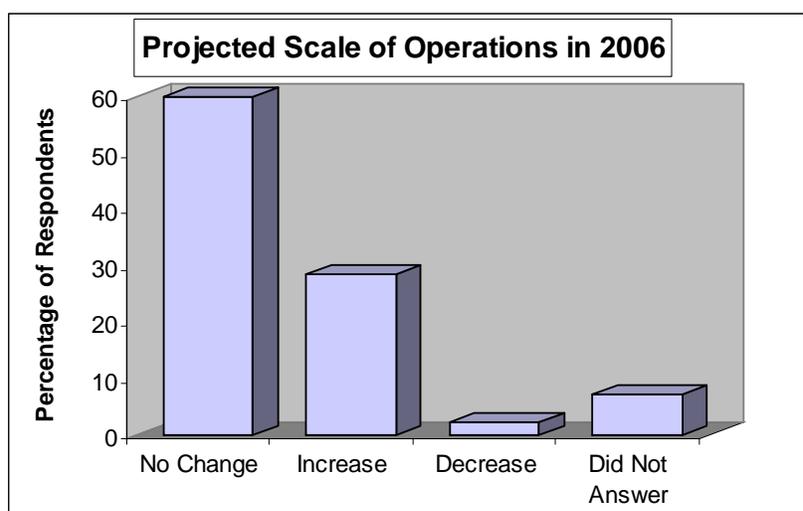
¹ Source: Bank of Guyana, Half Year Report 2005

Survey results

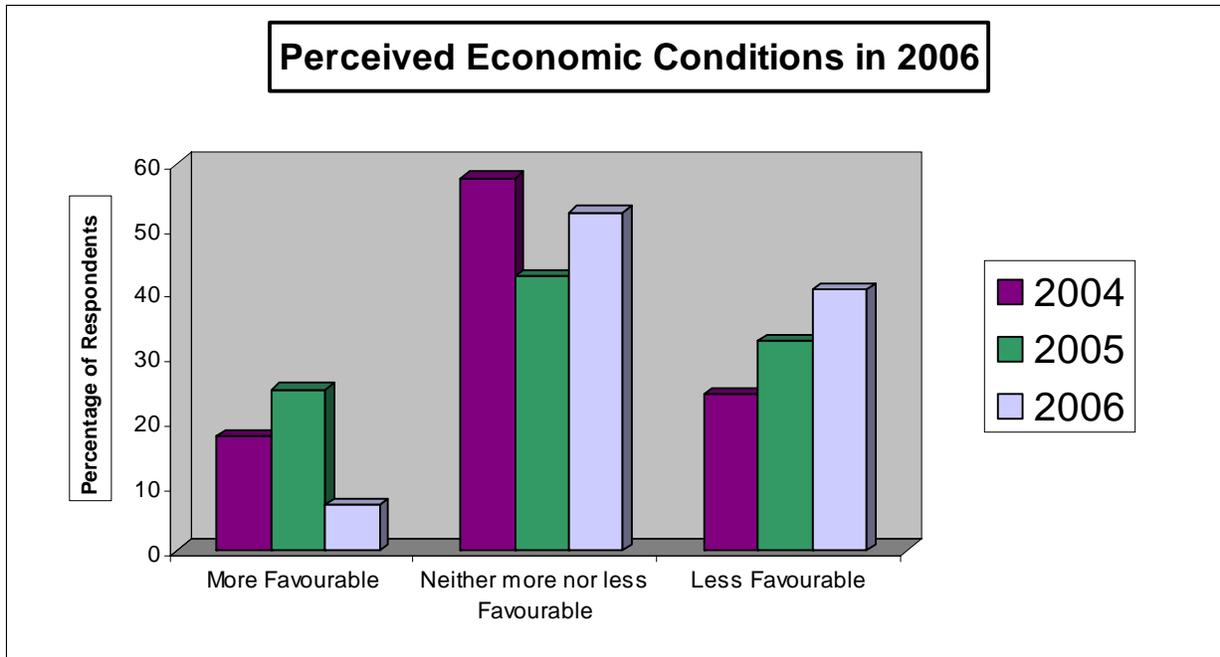
Confidence in economic prospects: The Survey group was asked to state how confident they were that the economy would improve in 2006. Less confidence was expressed in the economy for 2006 than was expressed for 2005 and 2004. The actual results for the past five years were as follows:

	2002	2003	2004	2005	2006
Very confident	1	1	0	2	1
Confident	2	0	1	5	0
Fairly confident	6	6	14	12	10
Not very confident	23	15	20	13	20
Not confident	11	12	9	7	7
Don't know	0	4	1	1	4
Total	43	38	45	40	42

Twelve (29%) of the respondents are planning to increase the scale of their operations in 2006 while one (2%) is planning to scale down with twenty-six (62%) planning no change in their operations. In the 2005 survey sixteen respondents (40%) indicated they had plans to increase the level of operations, two (5%) decreases and twenty (50%) planned no change. The increase in the number of respondents not planning to change the level of their operations may be an indication of their assessment of the economic climate in Guyana and the uncertainty of the effect of General Elections in 2006.



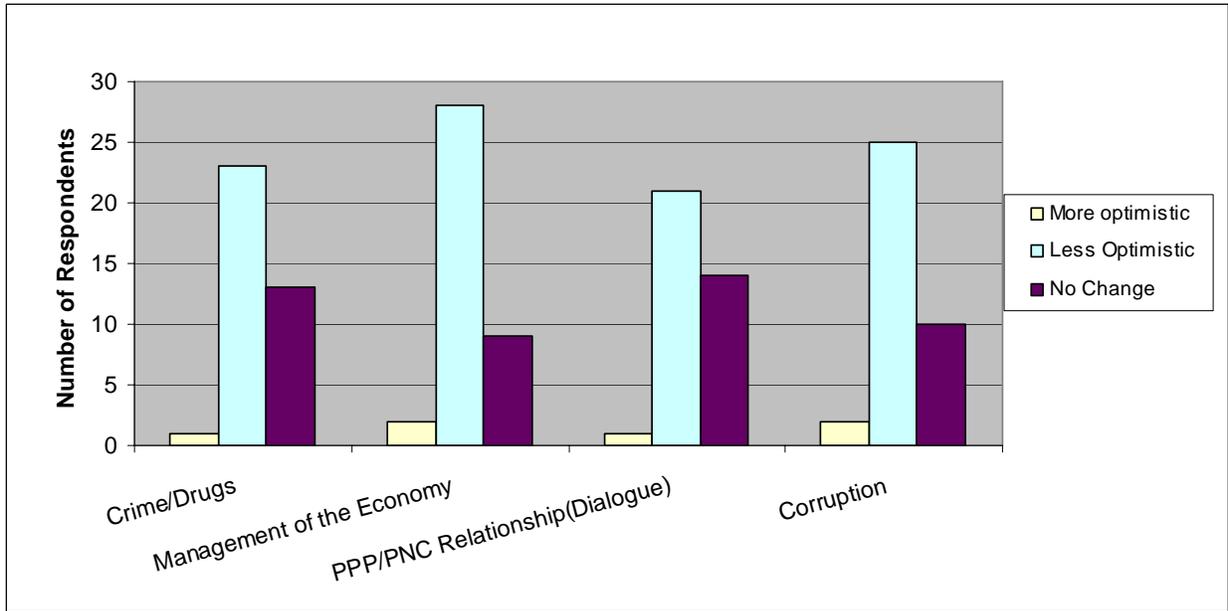
Confidence in conditions for business: As shown in the chart below, seven percent or three respondents believe that economic conditions would be more favourable for privately owned businesses in the next twelve months than the past twelve months. Fifty-two percent or twenty-two respondents believe that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



By comparison, in the 2005 survey ten respondents (25%) had anticipated that economic conditions would be more favourable in 2005, seventeen respondents (43%) believed it would be neither more nor less favourable and thirteen respondents (32%) believed that economic conditions would be less favourable. There are therefore increases in the percentage of respondents who believe that conditions would be less favourable and those that anticipate that there will be no change.

Performance in 2005: When asked to assess their performance in 2005, twenty (51%) respondents reported that their results were in line with expectations, fourteen (36%) worse than they expected and five (13%) better than expectations. In the 2005 Survey twenty respondents expected their profitability to increase while eight expected decreases.

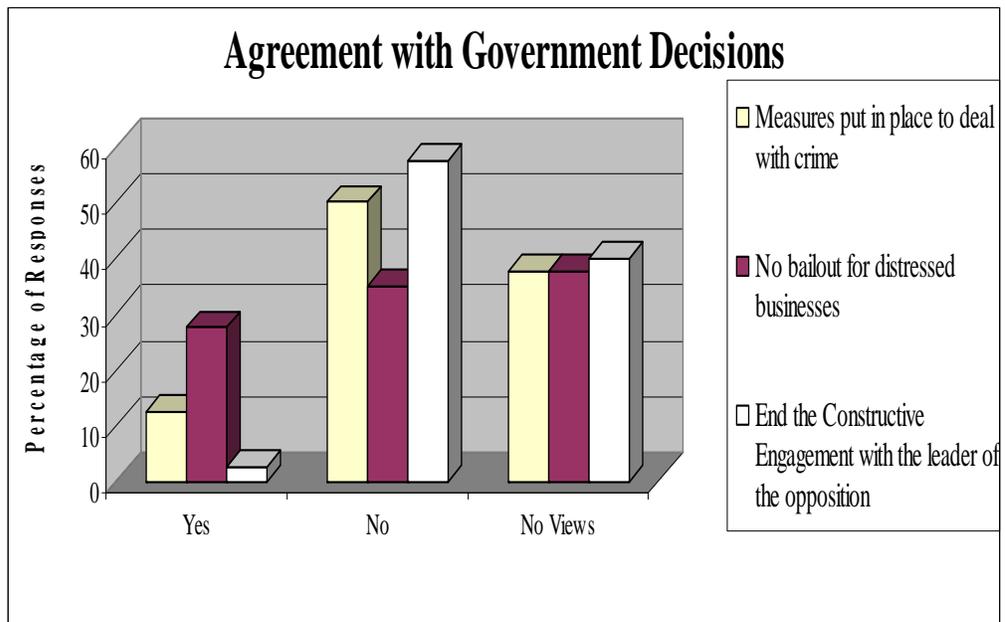
Outlook on the economy: From a list of eighteen items, respondents were asked to rate the national or international events if any, which, made them more or less optimistic about the economy. Only three developments –actions by the Guyana Energy Authority (GEA) to curb fuel smuggling, the launching of Alliance For Change and the new Commissioner of Police in that order caused more optimism than pessimism. The graph below indicates the overwhelming pessimism of respondents on issues such as the crime and drug problem, management of the economy, PPP/PNC-R relationship (dialogue) and corruption.



The passage of the Value-Added Tax and Excise Tax Acts during the year did not appear to have had a particularly favourable impact on respondents as there are fewer responses (5) which are more optimistic than those who are (19) less optimistic and 14 respondents said that they were neither more nor less optimistic. While the respondents were more optimistic about the action of the GEA to curb fuel smuggling, on the issue of smuggling generally twenty-four respondents were less optimistic, twelve said that they were neither more nor less optimistic and none of the respondents were more 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 58% of the respondents (twenty-three) expressed disagreement



compared with 3% (one respondent) who expressed agreement. The percentage of respondents in disagreement and agreement on the Government’s decision on the Constructive Engagement has decreased slightly with the 2005 Survey reporting 66% in disagreement and 9% in agreement.

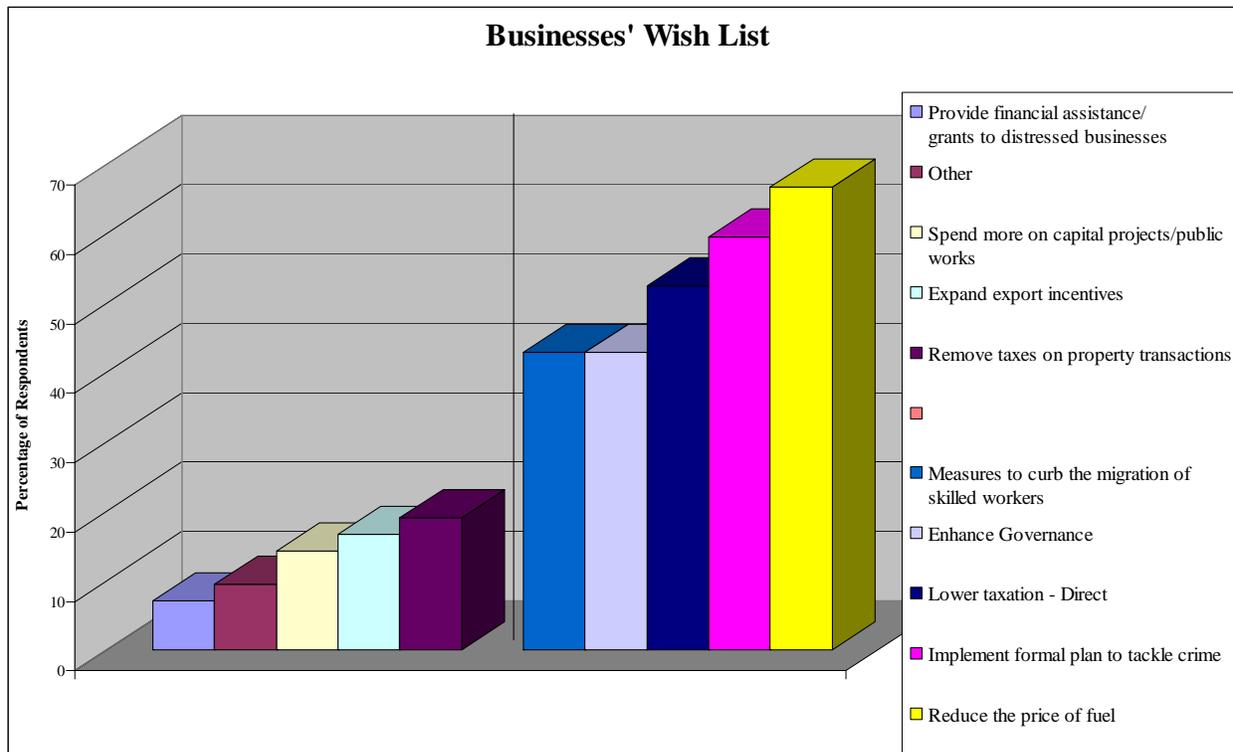
While the level of disagreement with the Government’s decision on crime has increased from 46% in 2005 Survey to 50%, the percentage who agree decreased from 24% to 13%. The percentage of respondents with no views increased from 30% to 38%.

With respect to the bail out of businesses, fourteen respondents (35%) disagreed with Government’s decision while a significant fifteen respondents (38%) offered no views. There was a significant reduction in respondents (28% in 2006 compared to 60% in 2005) who expressed agreement with Government’s decision on distressed businesses.

Measures for Government to act on: From a list of seventeen 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 reduction of the price of fuel followed by the implementation of a plan to tackle crime and lower direct taxes.

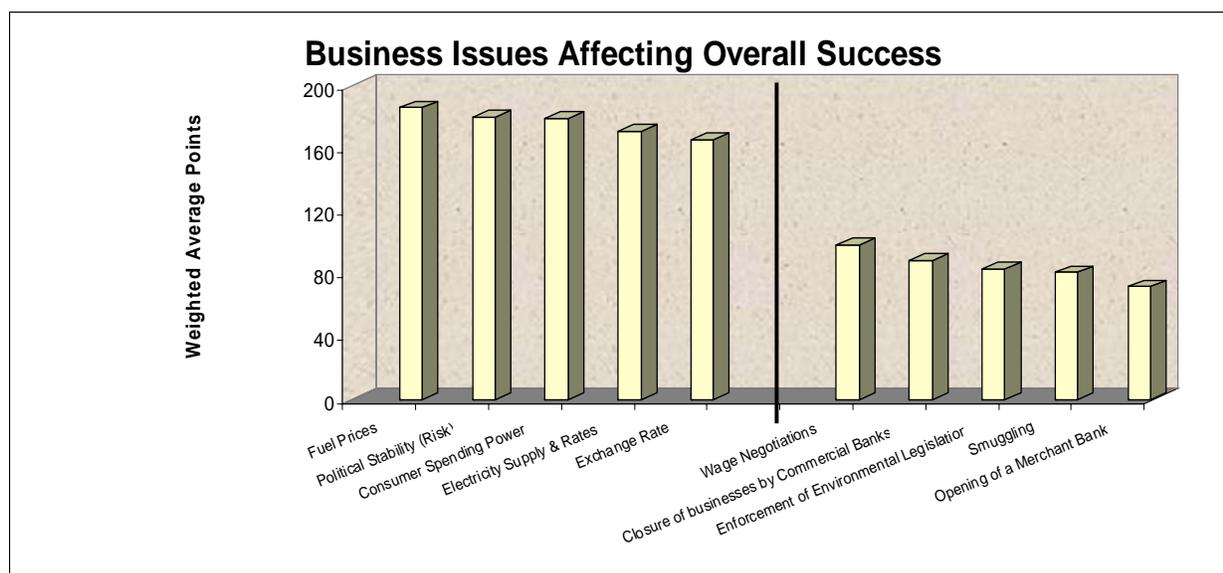
Interestingly lowering of direct taxes ranked sixth in 2005, second in 2004 and has now moved back up to third on list.

The issues least on the “wish list” are the provision of financial assistance / grants to distressed business and more spending on capital projects and public works.



Issues impacting business in 2006: Entities were asked to rank thirty-one external factors most likely to impact on their businesses. In order of ranking, the issues considered likely to have the most impact on the success of companies in 2006 based on weighted average points were identified as:

- Fuel prices – 186 points
- Political stability (risk) – 180 points
- Consumer spending power – 179 points
- Electricity supply & rates – 171 points
- Exchange rates – 166 points



The top five issues respondents considered to have the most impact on the success of companies in the 2006 Survey are generally consistent with the result of the 2005 survey. With fuel prices and political stability (risk) moving from second and third respectively in 2005 to first and second respectively in 2006. Consumer spending was considered the issue to have the most impact on the success of businesses in 2005 Survey.

Other issues which are likely to impact on the success of businesses include crime (160 points), inflation (159 points), lack of confidence in the economy (152 points), interest rates (151 points), income/corporation tax rates (150 points), followed by General Elections 2006.

The issues which are considered to have little impact on the success of businesses were the opening of a Merchant Bank, smuggling, the enforcement of environmental legislation and the closure of businesses by Commercial Banks. 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 four years.

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 2006 are fuel cost, electricity supply and security/crime. The top two issues were the same in the 2005 Survey with security/crime which ranked fourth in 2005 replacing Customs procedures as the third most important issue.

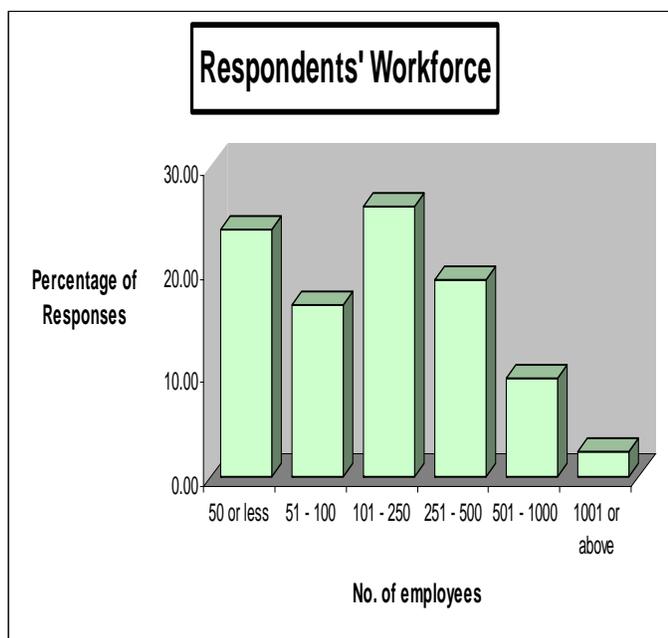
The most important financial issues: Respondents were asked to rank from six financial issues those they consider most important to their businesses. Cash flow management, interest rates charged by the commercial banks and access to foreign currency are the highest ranked financial issues. The top three most important financial issues for 2006 were the same as in 2005.

Planning and budgeting: Forty (95%) respondents to the Survey reported that they review actual performance against budget. 60% do this on a monthly basis, 21% quarterly, 5% half-yearly and 10% annually. 68% of these entities claim that they operate with a formal business plan with twelve entities preparing projections for a three-year period, seven for a one-year period, five for five-year periods, three for two-year periods and two for period exceeding five years.

Human resource issues: Respondents were asked to indicate whether and by what percentage their workforce had changed in 2005. Of the forty-two responses, nineteen (45%) reported an increase averaging 9% while twenty-three or 55% reported a decrease averaging 11%.

The percentage of respondents indicating an increase in their workforce in 2005 is consistent with the projection made in the 2005 Survey when eighteen companies or 45% had projected an increase. Five or 13% had projected a decrease in the 2005 Survey.

Most of the respondents of the 2006 Survey 26% have workforces of between 101-250 staff. Ten respondents (24%) have less than fifty workers and eight respondents (19%) have between 251-500 employees. Seven companies (17%) have between 51-100 and four (10%) 501-1000 employees. Only one (2%) company has above 1000 workers.

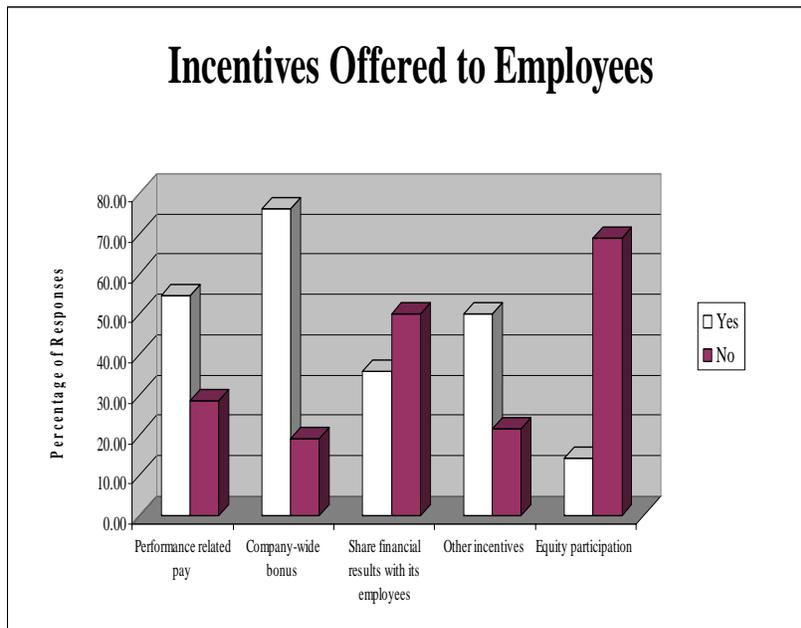


When asked whether the number of people employed by their organisation would increase, decrease or stay the same over the next 12 months and by how much, eighteen (43%) of the respondents expect no changes in workforce size in 2006 while fourteen (33%) project increases and six (14%) project decreases.

Seven respondents expect to increase their workforce by between 5% and 20% and seven respondents expect to increase theirs by less than 5%. Three respondents expected a decrease in their workforce by greater than 20% while the other three respondents expect decrease between

5% and 20%. The main reasons for changes in workforce reported by the respondents are migration, security risks, expansion and reorganising and outsourcing.

Interestingly when respondents were asked, if financial resources were significantly reduced, which area they would cut back, employment cost ranked first of the eight likely areas listed. While respondents seek to cut back on employment cost they indicate that they are not likely to cut back on employment levels which ranked sixth in the 2006 Survey.



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 left indicates the responses to the four specific questions geared to ascertain the level of participation by employees in the companies.

Thirty-two respondents or 76% indicated that their employees participate in company-wide bonus. The incentive least offered to employees is equity participation with only six companies or 14% indicating that the option is available to employees.

Other incentives being offered by respondents include provision of transportation, production and safety incentives, credit facility, staff discount, education support programmes and medical and pension schemes.

Exports: Respondents were asked whether they exported and how much they export to various markets. Only thirteen respondents (33%) are engaged in any form of export with twenty-seven or 67% operating in the domestic market. Of the thirteen, twelve export in varying levels to CARICOM ranging from over 50% to less than 10%. Nine exported to North America, seven to Europe, five to South and Central America and three to other markets. In the 2005 Survey six companies indicated that they exported to North America and three 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, eight anticipate increases in the level of their exports while two companies expect their exports to this market to stay the same. One respondent expects a decrease while one

could not say whether there would be any change in exports over the next twelve months.

- North America: Three respondents exporting to North America are expecting increases in the level of their exports while four expect exports to remain the same and one expect a decrease and one unable to predict.
- South & Central America: Two respondents expect exports to remain the same while two were unable to say and one anticipates an increase.
- Europe: Three respondents believe that their exports to Europe will increase, two expect exports to remain the same while one expected a decrease and one was unable to predict.
- Other: Of the three respondents exporting to other markets two were unable to predict and one expected their market to stay the same in 2006.

Competition: Respondents were asked about their exposure to foreign competition and whether they expect this to decrease or increase in 2006. Seven respondents (18%) consider that they are not exposed to any foreign competition while ten (26%) consider that they are exposed to just a little foreign competition. Nine (24%) consider that they are exposed to a fair amount while eleven (29%) are exposed to a great deal of foreign competition. For the year 2006, seventeen (41%) respondents expect competition to increase while fifteen (36%) expect competition to remain the same. By comparison in the 2005 Survey twenty-seven (68%) respondents expected competition to increase and seven (18%) expected competition to remain the same.

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

	2003	2004	2005	2006
	%	%	%	%
<i>Turnover to increase</i>	68	74	71	64
<i>Profitability to increase</i>	50	62	60	51
<i>Turnover to decrease</i>	16	12	8	13
<i>Profit to decrease</i>	29	19	24	28
<i>No increase or decrease in turnover</i>	11	9	16	13

The respondents who expect their turnover to increase attribute the principal reasons for the increase to competitive pricing, product/ service improvements, new products and services and productivity. Three of the four principal reasons for the expectation of increases in turnover identified by respondents in the 2006 Survey were the same last year with productivity replacing entering new markets.

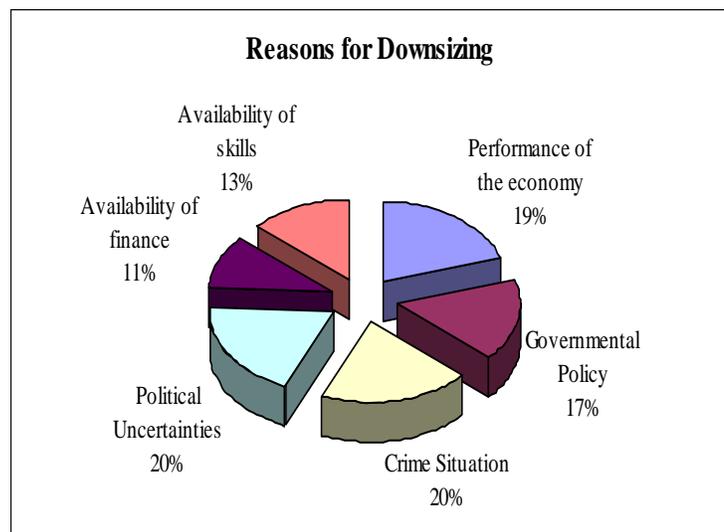
Cutbacks: In the event of limited financial resources businesses are most likely to cut back on employment cost, capital investment programmes, developing new markets and advertising and public relations programmes from the eight items they were asked to consider.

To cushion the effects of financial difficulties, respondents propose to pursue cost reduction exercises, entering new markets, investment in equipment and technology, new product development, more training and diversification as initiatives they would pursue.

Advertising and public relations which ranked fifth out of twelve initiatives respondents indicated that they would pursue in a cost reduction exercise in the 2005 Survey ranks seventh in 2006 survey.

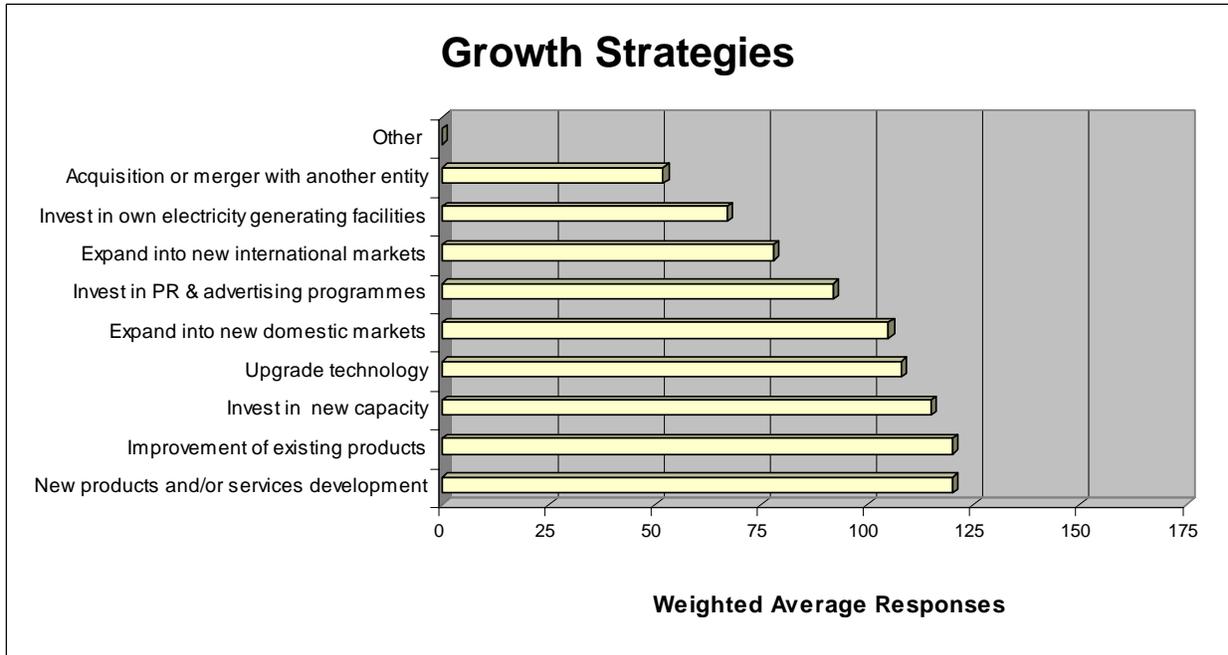
Reasons for downscaling: From a list of seven items outside of their control, performance of the economy, political uncertainties and the crime situation are the main reasons cited by businesses which may cause them to scale back. Governmental policy which ranked second in the 2005 Survey followed the three main reasons in this list as reflected by table and chart below.

Option	Weighted Average
Performance of the economy	73
Political Uncertainties	72
Crime Situation	72
Governmental Policy	61
Availability of skills	49
Availability of finance	39

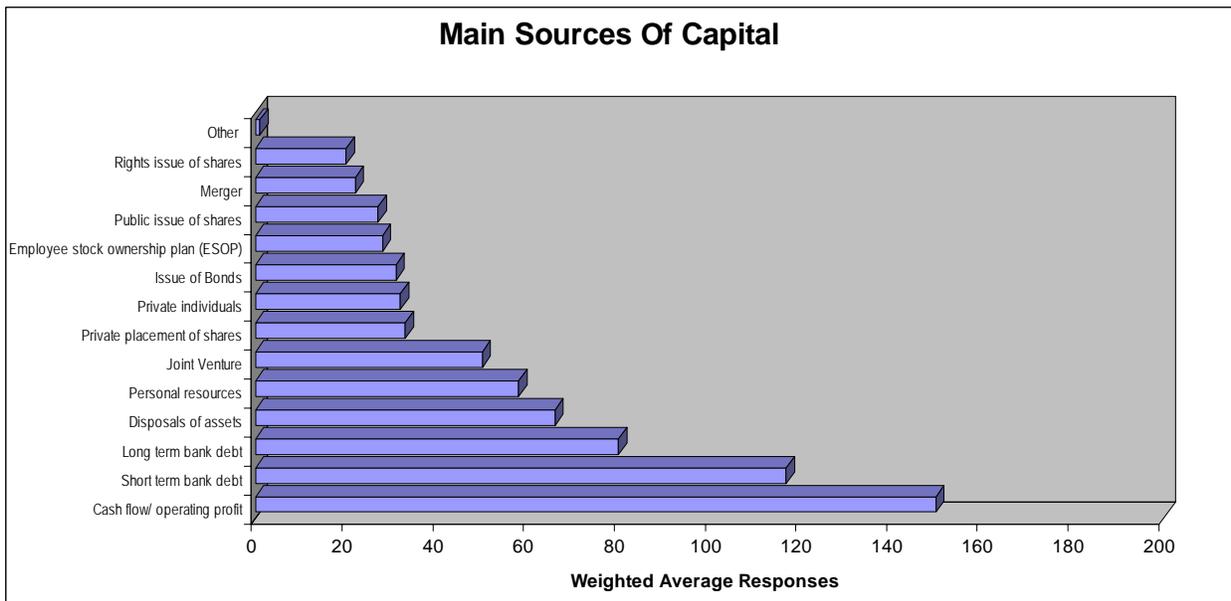


Growth strategies: Twelve respondents stated that they expect their businesses to grow in 2006.

They have identified as the top strategies to be employed new product/ service development, improvement of existing products and invest in new capacity.



Sources of capital: Perhaps reflective of their concerns about borrowing costs, 50% of respondents do not plan to raise capital in the year 2006. 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 2006. Sources least favoured include rights issues (to existing shareholders), merger and public issues of shares as reflected in the chart below.



Conclusion

The 2006 Business Outlook is being presented one week before the Minister of Finance presents Budget 2006. Respondents to this survey as in previous years continue to express their disagreement on the dialogue between the President and Leader of the Opposition.

Despite the floods early in the year and high price for oil on the world market price world over fifty percent of respondents indicated that their performance were in line with expectation. In this survey as in previous years businesspersons are very concerns about the management of the economy, drug and crime, fuel prices and migration of skilled workers.

The percentage of businesses having confidence in the economy has decreased when comparison is made with last year report. In the 2006 Survey only one respondent was either very confident or confident that the economy would improve compared to seven in 2005. This issue together the activities that surround our General Election must be in the minds of over sixty of the respondents which indicated that they were not planning any increase in their operation during 2006.

END