

GUYANA

Business Outlook *Survey*

2010

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Guyana Business Outlook Survey 2010

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INTRODUCTION

Ram & McRae is pleased to present the results of its *Business Outlook Survey* for the year 2010.

This publication is the 15th in the annual series and summarises the responses of fifty-nine business entities of varying sizes, organisational cultures and products/services offered in different sectors of the economy and within all ten Regions of the country.

The 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 2010.

As in past years, the Survey questionnaire asked respondents to give brief details on their businesses and highlights of their financial performance in 2009. They were also asked to comment on their outlook on the economy as well as some of their plans and strategies for 2010. In this report comparisons are made, where possible and 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, as the results for this year confirm, some of the responses may even be inconsistent. Overall however, the questionnaire was designed to reflect respondents' views about 2009 and their outlook for 2010.

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. This may be obtained from our office. This and earlier reports, Business Page articles by the firm's Managing Partner, Christopher Ram and published in the Sunday Stabroek, Focus on Annual Budgets, and other useful publications are also available for free download from our web site.

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

December 17, 2009

BACKGROUND

2009 began with the world confronted by real fear of another Great Depression, the possibility of a return to protectionism and the collapse of the world's increasingly globalised financial system. However, according to the publication, **World Economic Situation and Prospects (WESP)**, a joint product of the Department of Economic and Social Affairs, the United Nations Conference on Trade and Development and the five United Nations regional commissions, from the second quarter of 2009, the global economy began to recover with the support of massive fiscal stimuli. The recovery has however been uneven and conditions for sustained growth remain fragile. An increasing number of countries have registered positive quarterly growth of gross domestic product (GDP) with China and other BRIC countries showing remarkable resilience and paving the way for tectonic shifts in global economic power.

After considerable confusion caused by separate mid-year publications by the Bank of Guyana and the Ministry of Finance, it has now been agreed that the Guyana economy contracted in the first half of 2009 by some 1.4%, with declines in all the major sectors of the economy.

As the 2010 Survey was being conducted, the world's - and Guyana's - attention was focused on Copenhagen, Denmark where the world's leaders were grappling this time with a phenomenon with potentially devastating consequences for the environment and indeed future growth. The signs coming out from that Conference are not good, for no amount of fiscal stimulus could substitute for the tough economic and political decisions which a solution demands. It may be no overstatement to say that for the low-lying and developing countries especially, the next forty-eight hours are the most crucial to their development and future than to have ever taken place.

Unlike last year, this year's Survey was conducted against a Mid-Year economic scorecard that reported that only two out of fifteen sectors had growth when measured against the corresponding period in 2008 when growth was 3.8%, and a higher 5.8% in 2007. The half-year report by the Bank of Guyana reported continuing borrowings by the Government, even as the national coffers are replenished by annual windfalls from the regressive Value-Added Tax introduced in 2007, to replace several other mainly indirect taxes.

The Mid-Year Report starkly exposed the weak absorptive capacity of the economy as the sectors identified as key could only spend 34.6% of their full-year allocation, compared with 37% in 2008. This makes the increasing borrowings all the more intriguing. Over the twelve-month period ended June 30, 2009, the stock of outstanding public and publicly guaranteed debt rose by 11.3% to US\$862 million with the IDB and the Venezuelans contributing equally to a \$100 million. Domestic debt continued its mountainous climb reaching \$84 billion dollars in June

2009, an increase of 15% over the 12-month period and 11% during the first half of 2009, and a whopping 100% increase over ten years.

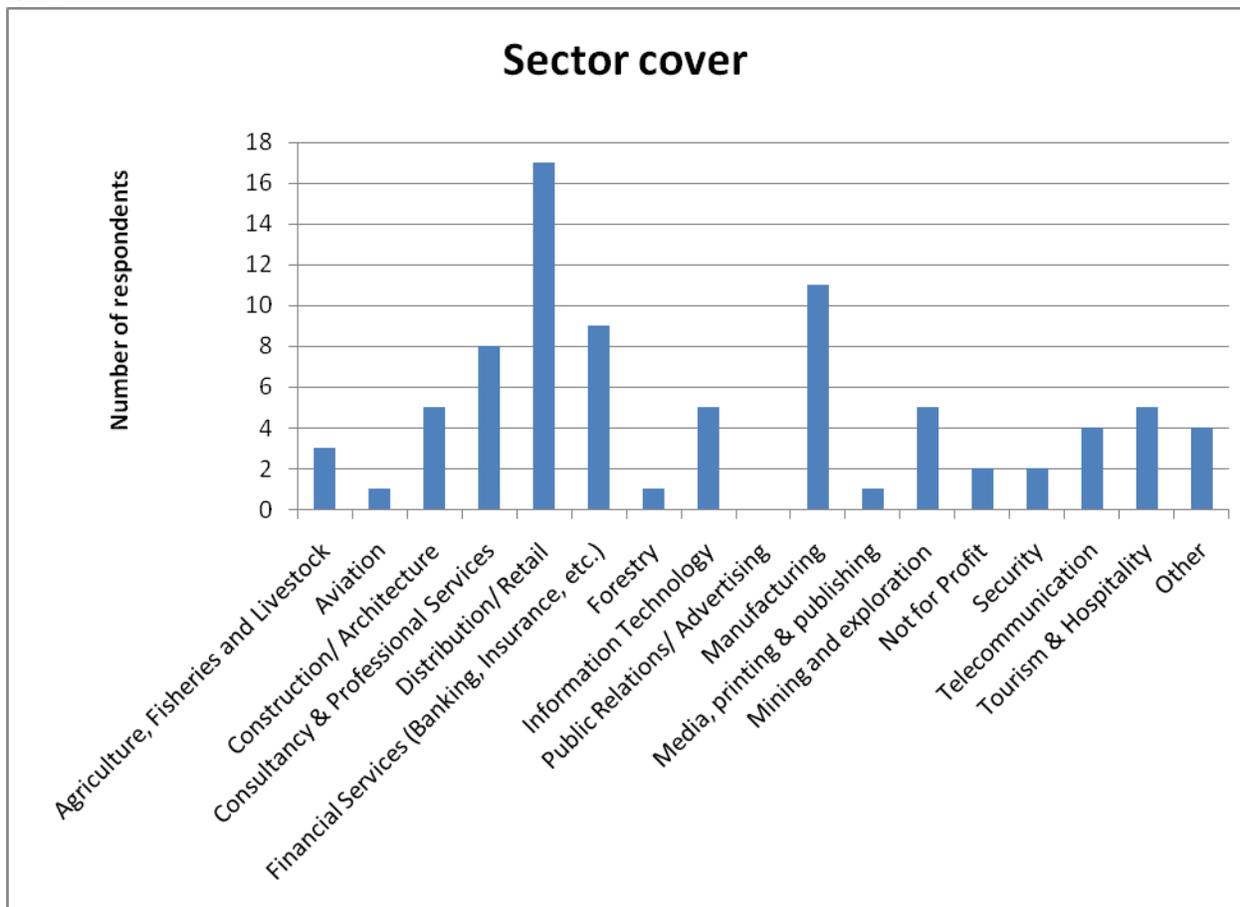
While crime continues to make life unsafe for many, the country was spared a repeat of the murderous attacks of the previous year and the security forces have been rewarded with substantial increases in budgetary and supplementary allocations. As this Report shows however, the business community continues to have serious concerns about the security sector.

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

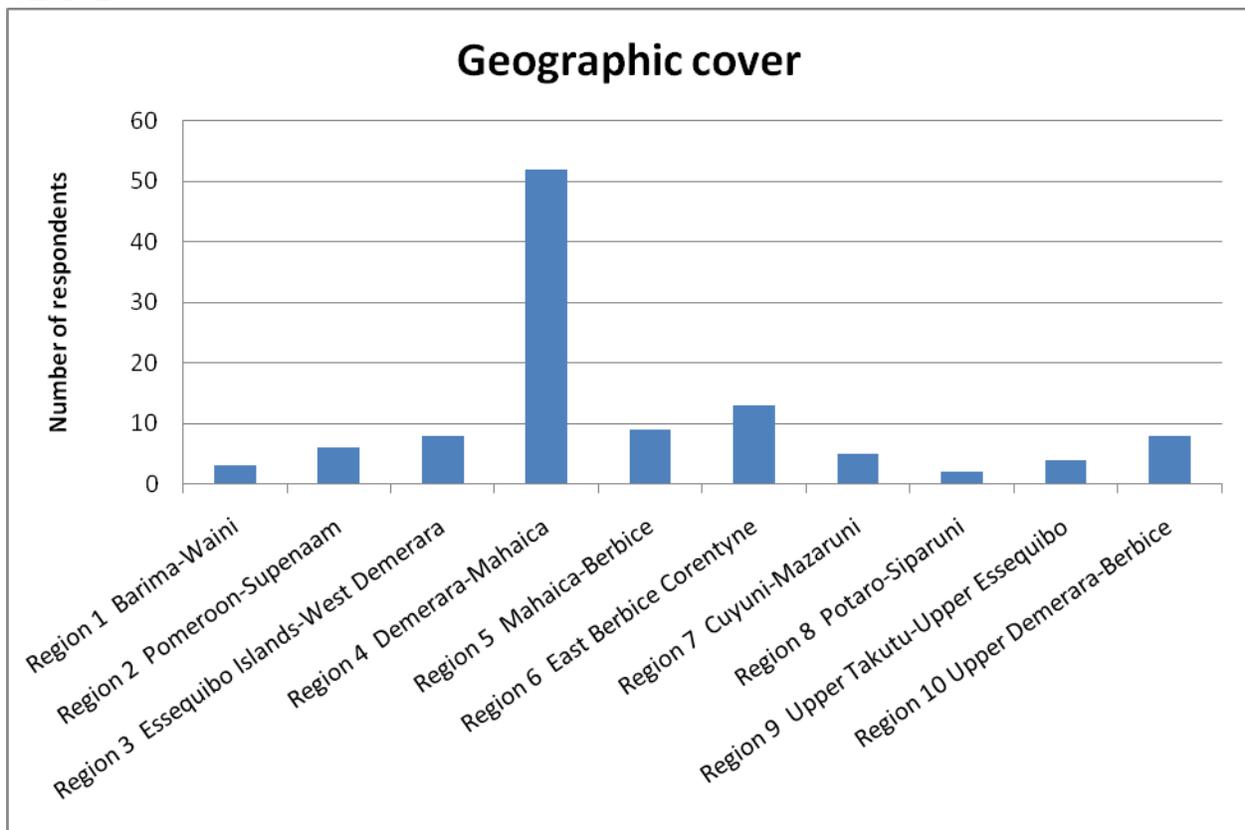
Fifty-nine entities responded to the questionnaires sent to them by electronic mail on November 5, 2009, an 18% increase over the prior year. The composition of the respondent groups continues to reflect the composition of the private sector economy with the Manufacturing and Distribution sectors accounting for just over 47 percent of the respondents, compared with 42 percent in the 2009 survey. Significant responses were also received from Consultancy and Professional Services, Financial Services, Mining and the Tourism and Hospitality sectors, all usually good indicators of the health and performance of an economy.

Chart 1



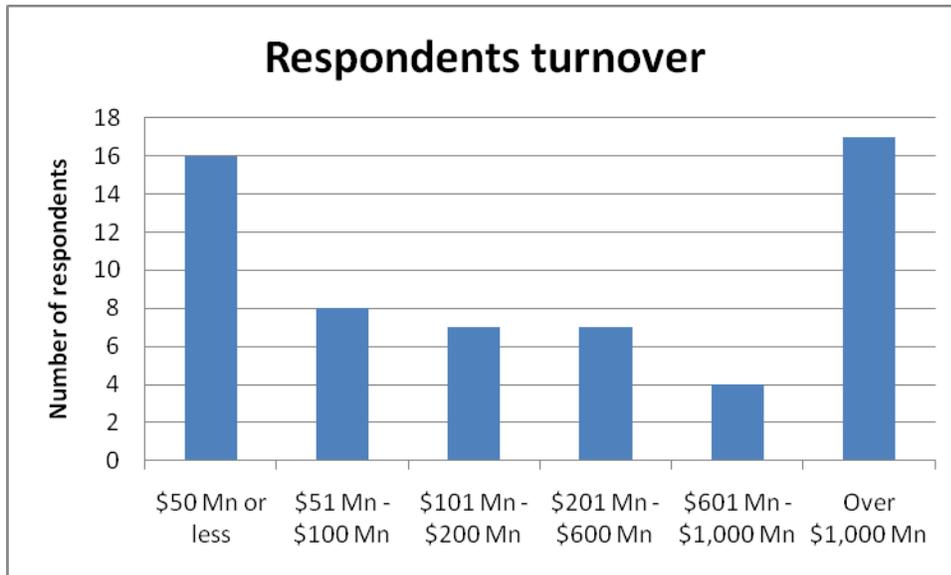
Respondents were also asked to indicate the geographic region(s) in which their business operated. While Region 4 – Demerara - Mahaica remains predominant, we have noted that some respondents with distribution facilities in other regions had only selected Region 4 in their answer – that region being their base of operations.

Chart 2



Respondents to the Questionnaire included both small and large enterprises with 27% of the respondents reporting turnover of under \$50 million and 29% of over one billion dollars or the equivalent of US\$5 million. In the absence of statistics on regional economic activities, it is not possible to assess how the geographic distribution of the respondents measure up against the levels of activities by region. The turnover profile of the respondents was as follows:

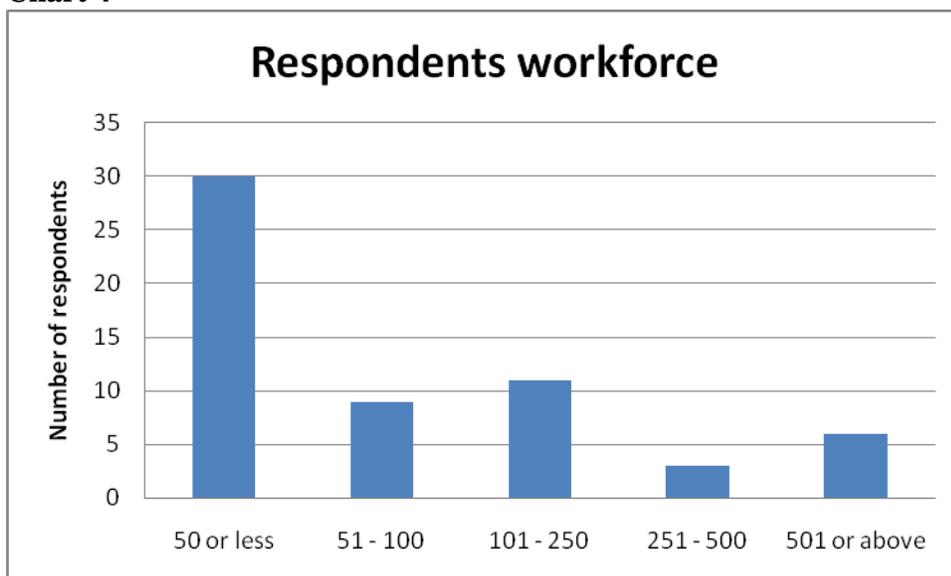
Chart 3



One immediately notable feature of the turnover distribution is the almost identical extremes with about the same number of respondents reporting turnover of \$50 million or less and those reporting turnover of over one billion dollars. Policy makers should be interested in ascertaining the reasons for any difficulties small businesses encounter in migrating from small to medium-sized, those that contribute to job-creation, as the next chart shows.

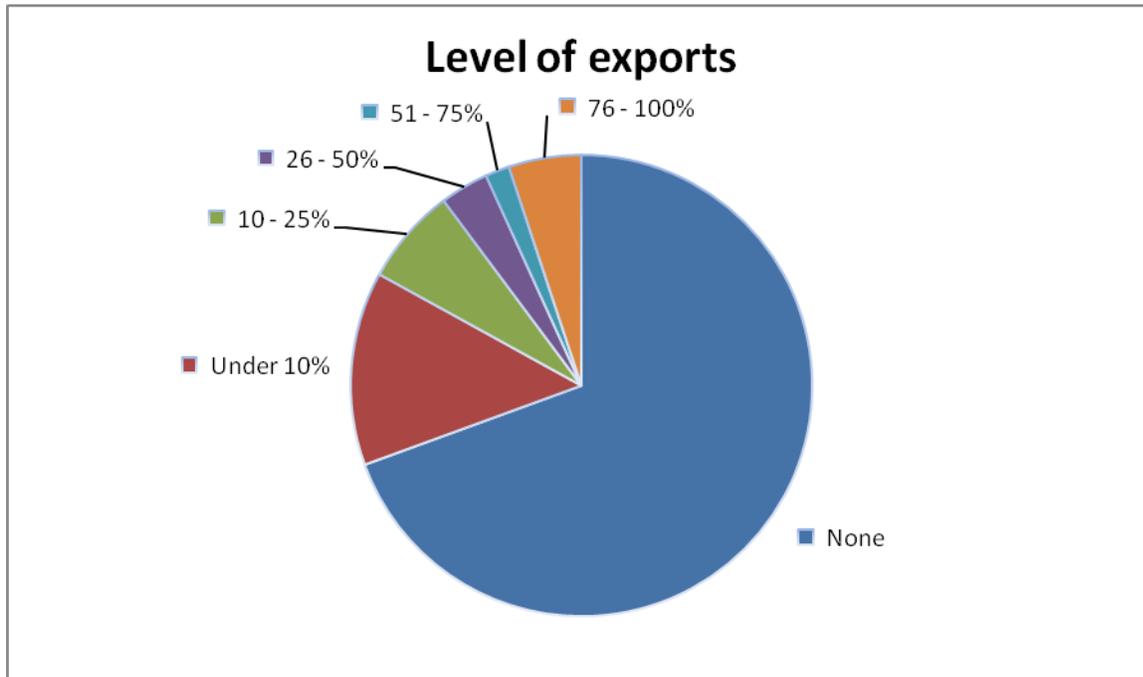
Thirty respondents (51%) had less than fifty employees while six respondents (10%) had more than 500 employees.

Chart 4



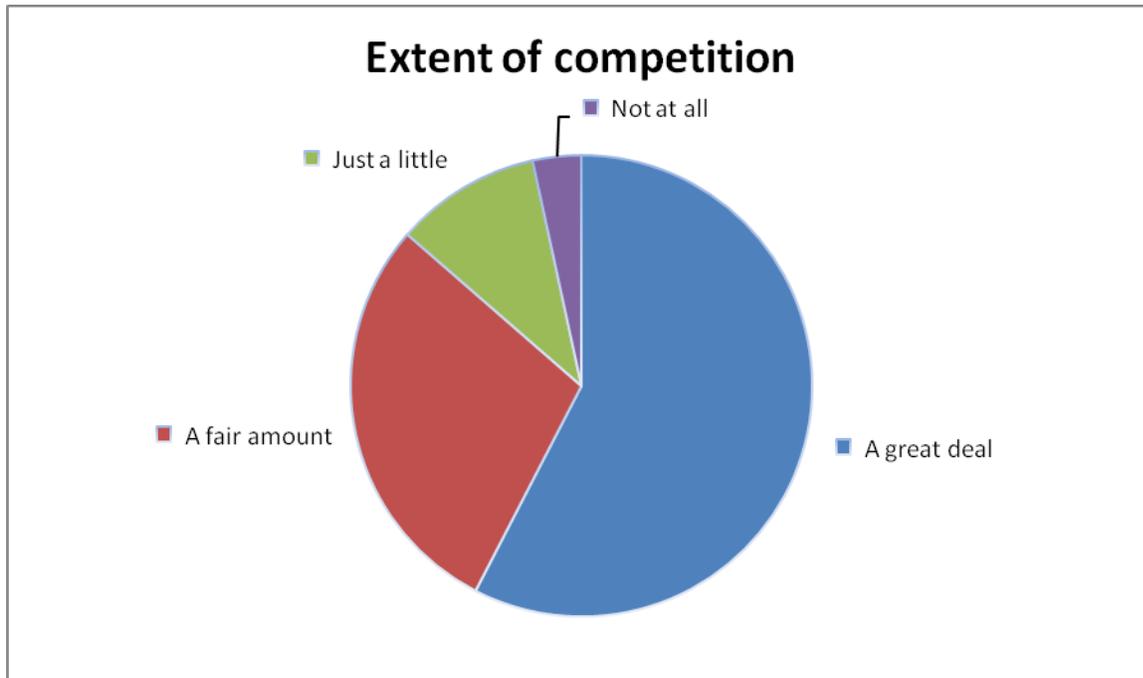
Forty-one respondents (70%) did not export any of their output while exporters reached all the major regions with the Caribbean and North America being dominant at twenty-two percent of total respondents exporting to each.

Chart 5



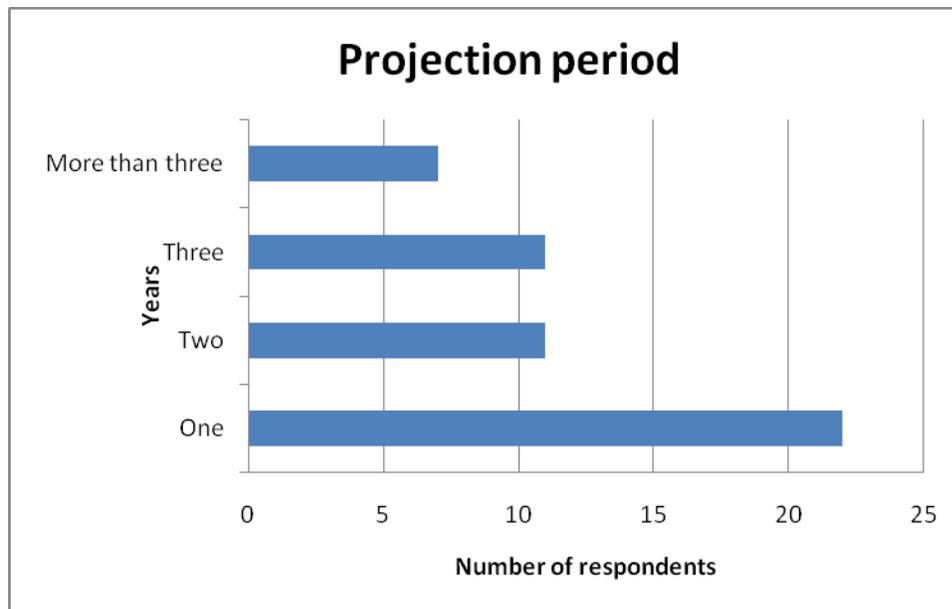
Ninety-seven percent of respondents report that they are faced with competition while seventy-six percent reported competition from foreign sourced products and services.

Chart 6



Seventy-six percent of the respondents indicated that they operate within a formal business plan with an additional ten percent preparing projections. The respondents prepare financial business plans and projections for periods extending from one year (37%) to more than three years (12%). Eight respondents or 14% do not operate with any sort of plan.

Chart 7



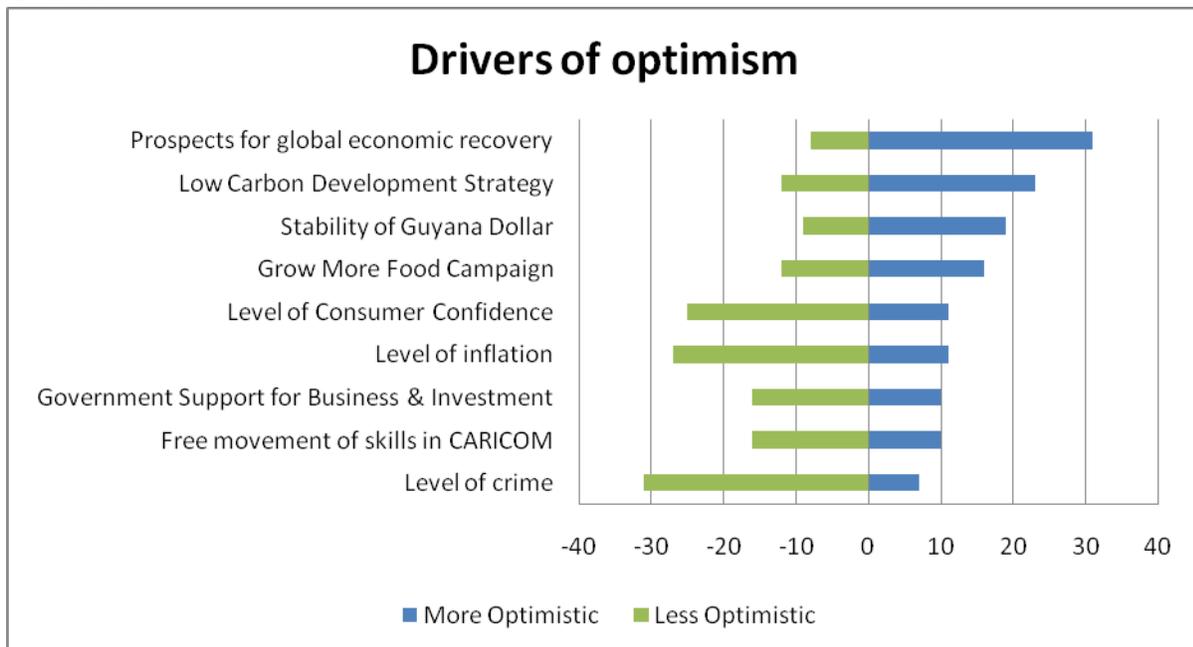
Those who prepare projections, formally review performance against budget with the majority (53%) doing so on a monthly basis, 19% quarterly and 10% half-yearly.

LOOKING BACK

Respondents were asked to rate ten national and international issues that arose or prevailed in 2009 that may have affected their optimism about the economy. Four of those events caused more optimism than pessimism compared to two in the prior year's survey: The four positives are the prospects for the global economic recovery, the Low Carbon Development Strategy, the stability of the Guyana Dollar and the Grow More Food Campaign. The two events in 2008 that drove optimism were the results of the *US Presidential Elections* and Government's *Grow More Food Campaign*.

The level of crime continues to cause serious pessimism, followed by the levels of inflation and consumer confidence. Notwithstanding the official statistics which show the increase in the Consumer Price Index (CPI) at 1.3% in the first half of 2009 the business sector seems to have their own perception of the rate of inflation.

Chart 8



Changes in their operations

In the 2009 Business Outlook Survey, 66% of respondents had projected an increase in turnover for that year while 64% projected an increase in profitability. A significant 26% and 28% expected turnover and profit respectively, to decrease in 2009.

One year later, on being asked to provide information on the actual performance in 2009, 29% reported performance was worse than expected, 61% in line with expectations, and 10% reported performance exceeding expectations. In summary it appears then that performance based on the results of the Survey, fell short of expectations.

Changes in their workforce

In responding to the 2009 Questionnaire, 50% of the respondents had projected no change in their workforce while 40% projected increases and 10% projected decreases.

Nineteen respondents to the 2010 questionnaire, or 32%, reported a decline in their workforce while fifteen respondents or 26% reported an increase. This finding seems consistent with the worse than expected performance in 2009, and indeed the overall performance of the economy which saw many employers, engaging in downsizing of their workforce.

Table 1: Actual change in workforce in 2009

	Increase	Decrease
No change	42%	
Under 5%	9%	12%
5%-20%	12%	17%
More than 20%	5%	3%

LOOKING FORWARD

Impact

From a list of sixteen issues, respondents were asked to identify those that are likely to have the most and the least impact on their businesses in 2010. By an overwhelming margin and in order, the top five issues are (prior year ranking in parenthesis):

- Consumer spending power (1);
- Fuel prices (2);
- Finding new customers/markets (5);
- Direct tax rates (12); and
- Electricity supply and rates (11).

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

- Availability of Financing (5);
- Technology (6);
- Corruption in Government Departments (7);
- Prospects for international recovery (*); and
- Global financial crisis (16).

* represent a new issue included in the 2010 survey.

While corruption is high on the wish list for Government action – see Chart 15 - respondents do not consider that it has any significant impact on their businesses. The responses also indicate that despite the competition they face, Guyana businesspersons do not rate highly the competition that can arise from the resolution of the international recovery of the global financial crisis which has seen bank lending curtailed.

Plan for Operations

Of the fifty nine respondents, twenty-seven (46%) project no change in the scale of their operations while thirty two (54%) propose an increase.

Significantly, none of the respondents is projecting a scaling down of their operations.

44% of the respondents anticipate increases in their workforce while just four of the fifty-nine respondents (7%) expect a decrease.

Table 2: Expected Change in workforce in 2010

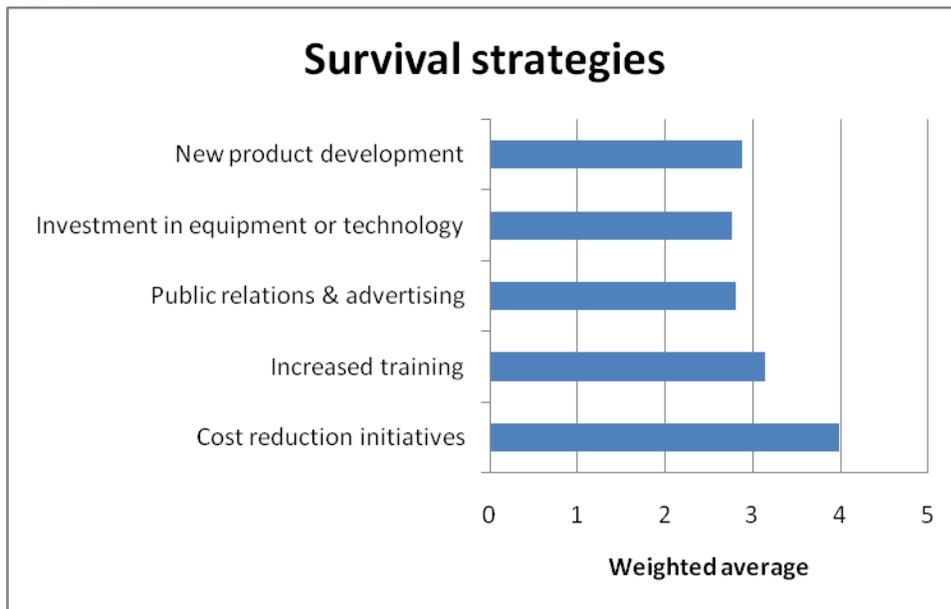
	Increase	Decrease
No change	49%	
More than 20%	8.5%	0.0%
5% - 20%	16.9%	3.4%
Less than 5%	18.6%	3.4%

The principal reason attributed for the change in workforce is “changes in the level of operations” – for seventeen out of thirty six respondents expecting a change. No change is stated as 49% so those expecting a change must be 51%.

Survival strategies

In the event of a negative change in business conditions, businesses are likely to employ cost reduction strategies as the primary tool to cope.

Chart 9



Outlook on profitability and turnover

Even though confidence has not increased to pre-2008 levels, businesses remain bullish about their own performance with the majority expecting profitability and turnover to increase while few expect decreases.

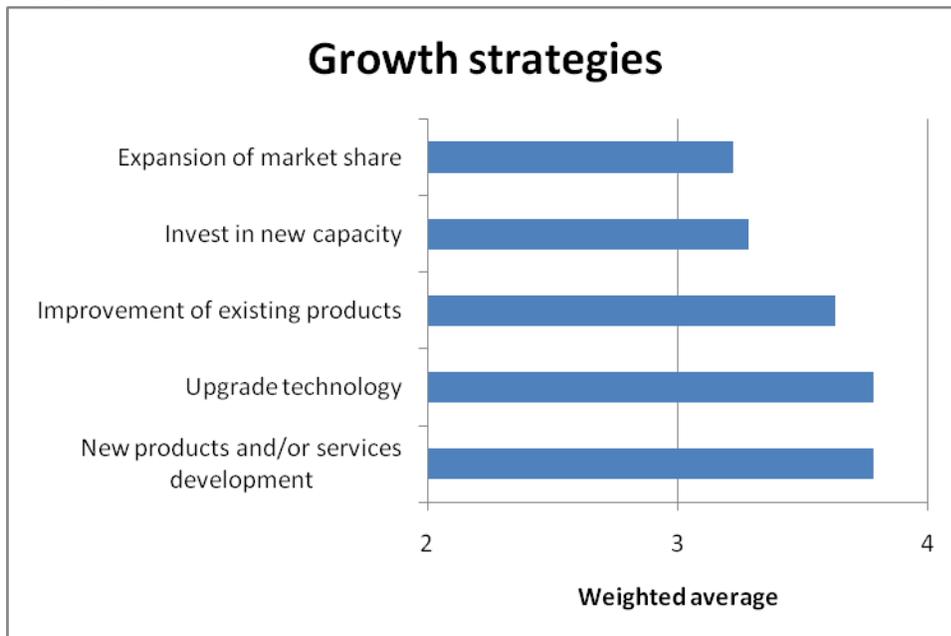
Table 3

	2006	2007	2008	2009	2010
	%	%	%	%	%
<i>Turnover to increase</i>	64	68	73	66	83
<i>Profitability to increase</i>	51	71	67	64	76
<i>Turnover to decrease</i>	13	12	10	26	9
<i>Profitability to decrease</i>	28	29	16	28	7
<i>No increase or decrease in turnover</i>	13	12	16	8	8

Growth Strategies

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

Chart 10



New products and/or services development remains the number one strategy for the sixth consecutive year.

Respondents see little growth from acquisitions and mergers, new strategic partnerships or expansion into new international markets. Despite seeing Technology as having the second least impact on business success in 2010 (see page 13), technology upgrade is yet rated high in potential growth strategies.

Sources of capital

In line with previous years, over half of the respondents, 56%, indicated that they do not plan to raise capital in the year 2010. For those who plan to raise capital, the main reasons they gave were:

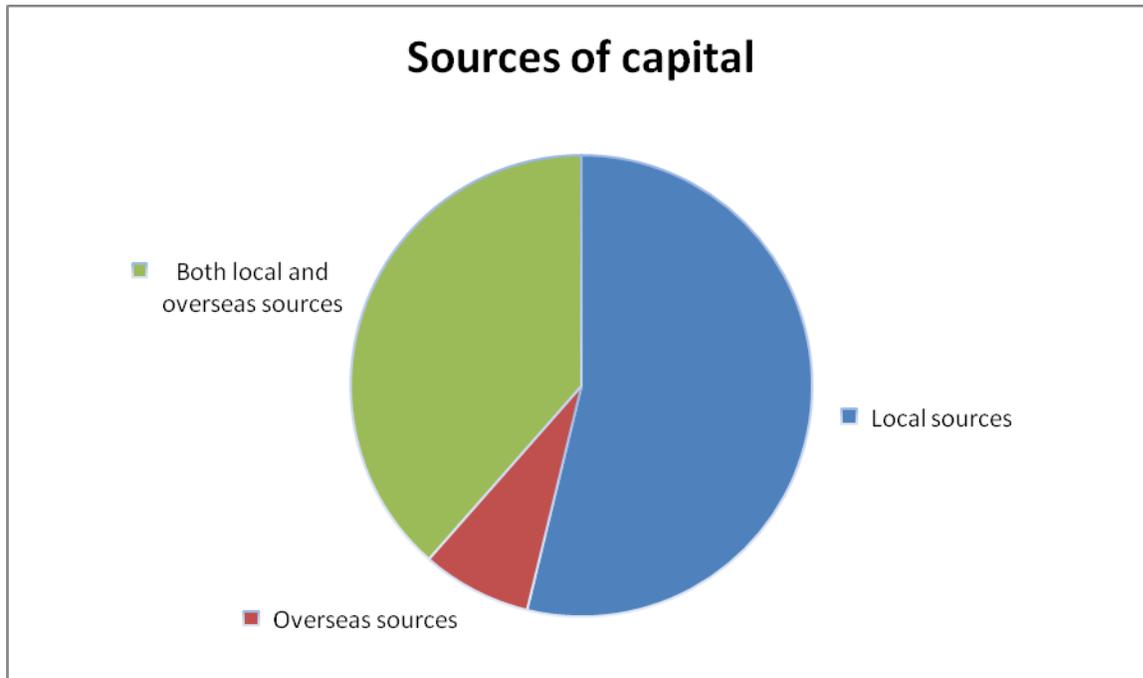
1. To embark on a capital expenditure/expansion programme (15 or 25%);
2. To fund new products and services and to fund current operations such as working capital (given by an equal number of respondents (13 or 22%); and
3. To expand into new geographic markets (9 or 15%).

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 *Cash Flow/Operating Profit* and *Bank debt*, largely the same result as in the 2009 survey. Sources of raising funds with the least likelihood are: *The public issue of bonds and of shares* and the *Disposal of assets*.

Efforts to encourage businesses to go public with attractive incentives have not worked, partly because of the manner in which privatisation was undertaken, and conflicting and inconsistent strategies pursued by the government.

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

Chart 11



Exports: As noted earlier, respondents were asked whether they exported and how much they export to various markets.

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

CARICOM: Ten respondents anticipate increases in the level of their exports while two respondents expect their exports to this market to decrease.

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

South & Central America: Two respondents answering this question are expecting an increase while two are expecting a decrease.

Europe: Four respondents answering this question expect increases while two are expected a decrease.

CONFIDENCE

The Survey group was asked to state how confident they were that the economy would improve in 2010 – one of the most significant questions in the survey.

Confidence levels had fallen significantly in recent years, and more recently none of the respondents were confident that the economy would have improved in 2009. In the 2009 Survey, sixty percent of the respondents were not confident about the country's economic prospects. That percentage has fallen by 9% to 51% one year later, the same level as in 2008 but still far from the levels of confidence reflected in the 2006 and 2007 surveys.

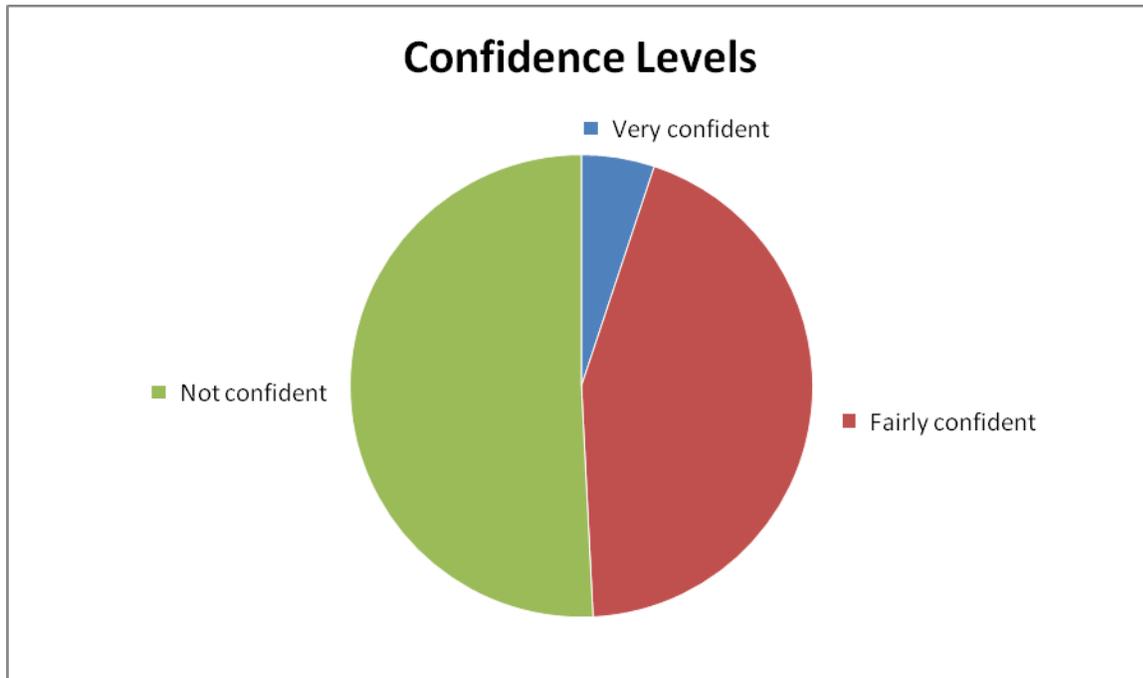
Table 4: Confidence levels

A summary of the responses is as follows:

	2006	2007	2008	2009	2010
Very confident	1	7	4	0	3
Fairly confident	30	22	32	20	26
Not confident	11	6	38	30	30
Total	42	35	74	50	59
% not confident	26	17	51	60	51

In a related question, we asked respondents whether they think that economic conditions would be more or less favourable for privately-owned businesses in 2010 compared with 2009. For 2009, six percent had expected economic conditions to be more favourable than in the previous year and thirty-four percent expected economic conditions for businesses to be less favourable. For 2010, fourteen percent believe that the conditions will be more favourable compared with seventeen percent who think it will be less favourable and sixty nine percent who expect no change.

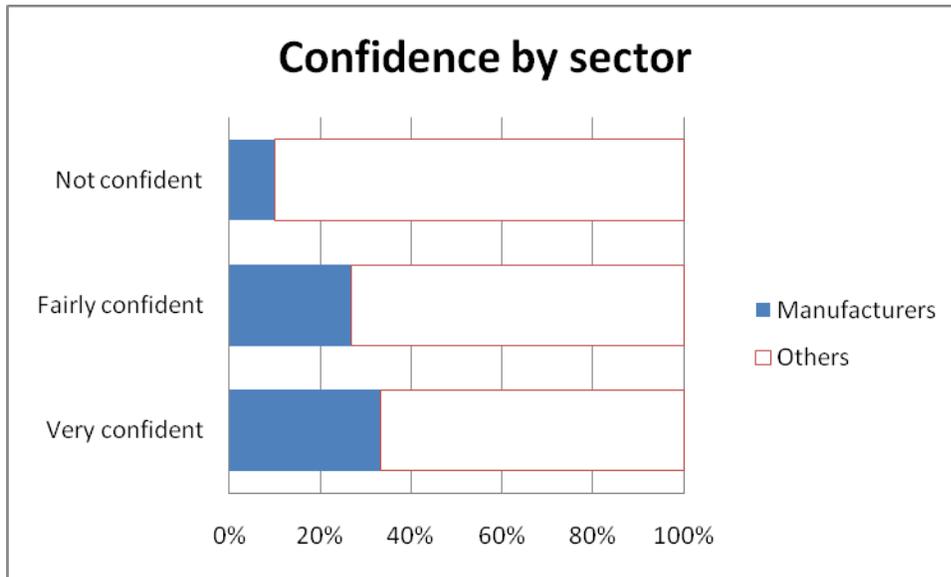
Chart 12



Of the sectors with five or more respondents, the sector with the highest level of confidence was Mining and Exploration with those in oil exploration being very confident. This was followed by Manufacturing and Distribution/Retail. Least levels of confidence were reflected by the following services sectors (from lowest to highest): Consultancy & Professional Services, Information Technology and Financial Services.

As illustrated in the following chart, respondents involved in manufacturing were more confident than non-manufacturers:

Chart 13



Exporters expressed slightly more confidence than non-exporters but expressed less confidence than manufacturers. Exporters who were not manufacturers came primarily from the information technology and mining sectors.

POLICY ISSUES AND RATINGS

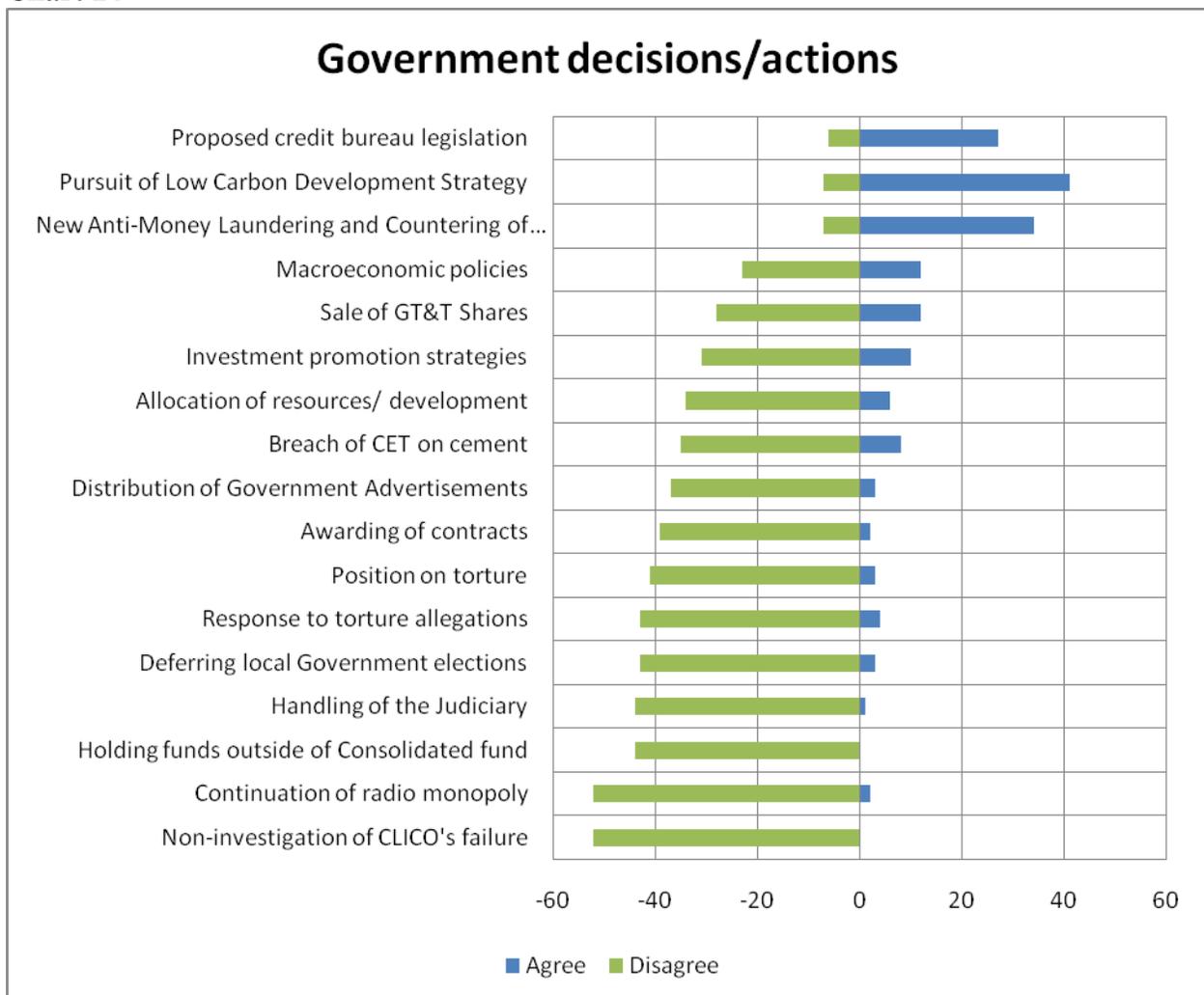
The year 2009

Respondents were asked whether they agreed with Government’s decisions/actions in respect of seventeen issues which arose or were considered critical in 2009.

The Government won overwhelming support for its pursuit of the Low Carbon Development Strategy and the new Anti-Money Laundering and Countering of Terrorism Act while its non-investigation of CLICO’s failure and continuation of its radio monopoly were tied for highest levels of disagreement.

The responses were as follows:

Chart 14

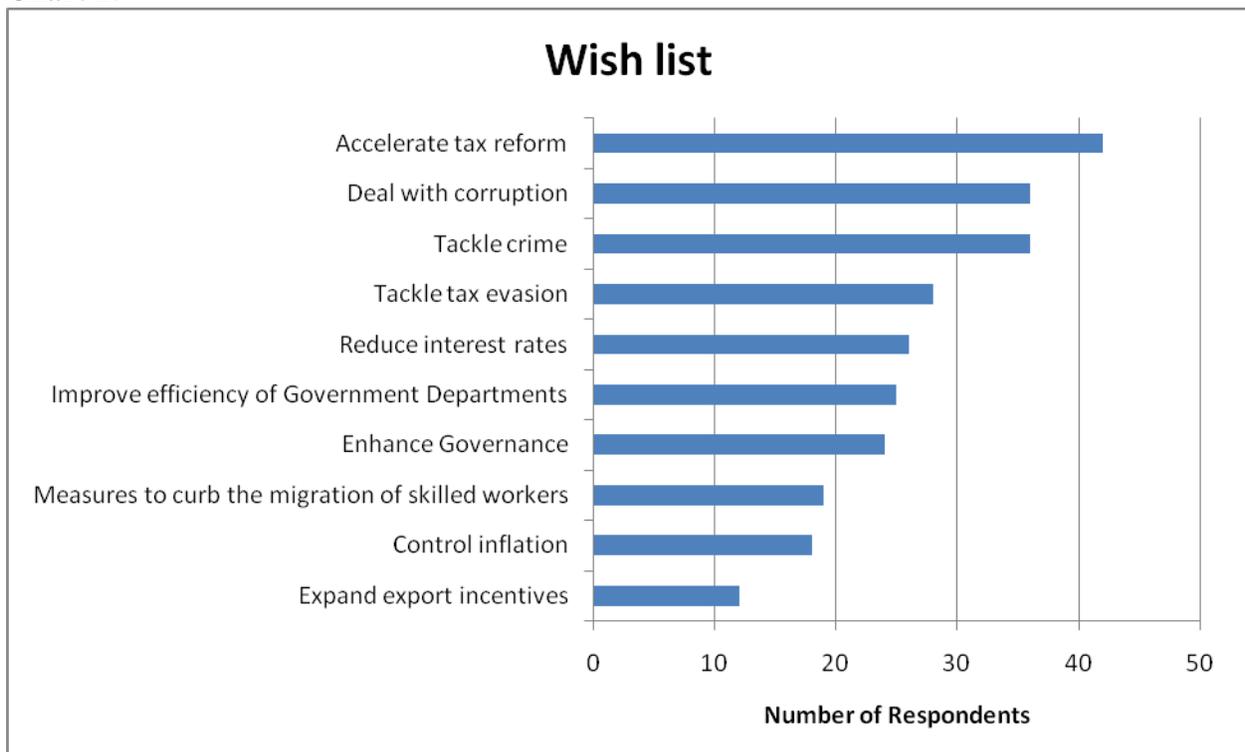


The Wish List

From a list of fourteen issues, respondents were asked, in the specific circumstances of their business, to identify the five on which they would like to see Government action. In revising the questionnaire for 2010, *Lowering direct and indirect taxation* which had been the two highest ranked issues for several years were replaced in the questionnaire by *Accelerate tax reform*. This issue has also taken the number one spot while the removal of the link between the Guyana dollar and the US dollar was ranked lowest.

Here are the top ten issues:

Chart 15



Public Sector performance

For the first time since we initiated a Business Outlook Survey in 1995, we asked respondents to rate twenty-one public sector entities which affect businesses, ranging from poor (ineffective) to excellent (very effective). Respondents were given the option of not providing a rating for any of the entities, an option taken up by an average of eleven respondents – either opting out of the question or not having done business with the body.

For those who expressed an opinion on the entities, those which received the highest ratings in the categories poor (ineffective) or marginally ineffective, are as follows:

Guyana Power and Light, Inc. by forty-four out of fifty-three respondents (83%);

The Guyana Police Force by thirty-eight out of fifty-six respondents (68%); and

The Ministry of Home Affairs by thirty-six out of fifty-three respondents, also 68%.

Those which received the highest ratings in the categories moderately effective to excellent (very effective) were as follows:

Ministry of Agriculture by thirty-seven out of forty-nine (76%);

Bank of Guyana by twenty-six out of forty-five (58%); and

Ministry of Labour by thirty-three out of fifty (66%)¹.

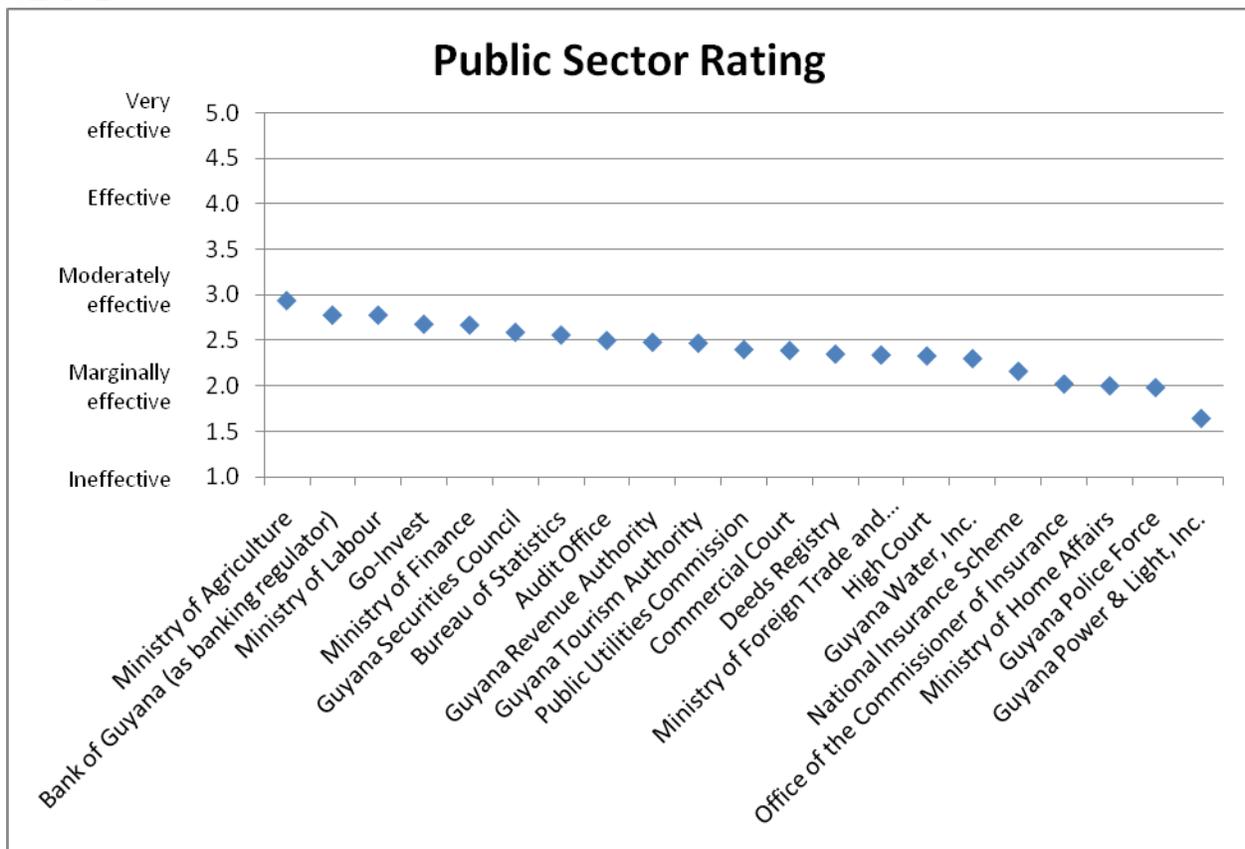
Among regulators, the Bank of Guyana received the highest favourable rating followed by the Guyana Securities Council and the Guyana Tourism Authority. The Office of the Commissioner of Insurance, which came to prominence in 2009 for its supervision of the failed insurance giant Clico, was the lowest ranked with thirty respondents (70%) considering it either ineffective or marginally effective. Readers will recall that as a consequence of the Clico debacle, the functions of the Commissioner of Insurance have now been assigned to the Bank of Guyana.

Other notable ratings were the Commercial Court and the High Court which were ranked 12th and 15th respectively, out of a selection of twenty-one.

Eight entities failed to receive an 'excellent' rating from any respondent while the Bank of Guyana received five such ratings.

¹ The Bank of Guyana received a higher overall rating as a result of the other rating categories.

Chart 16



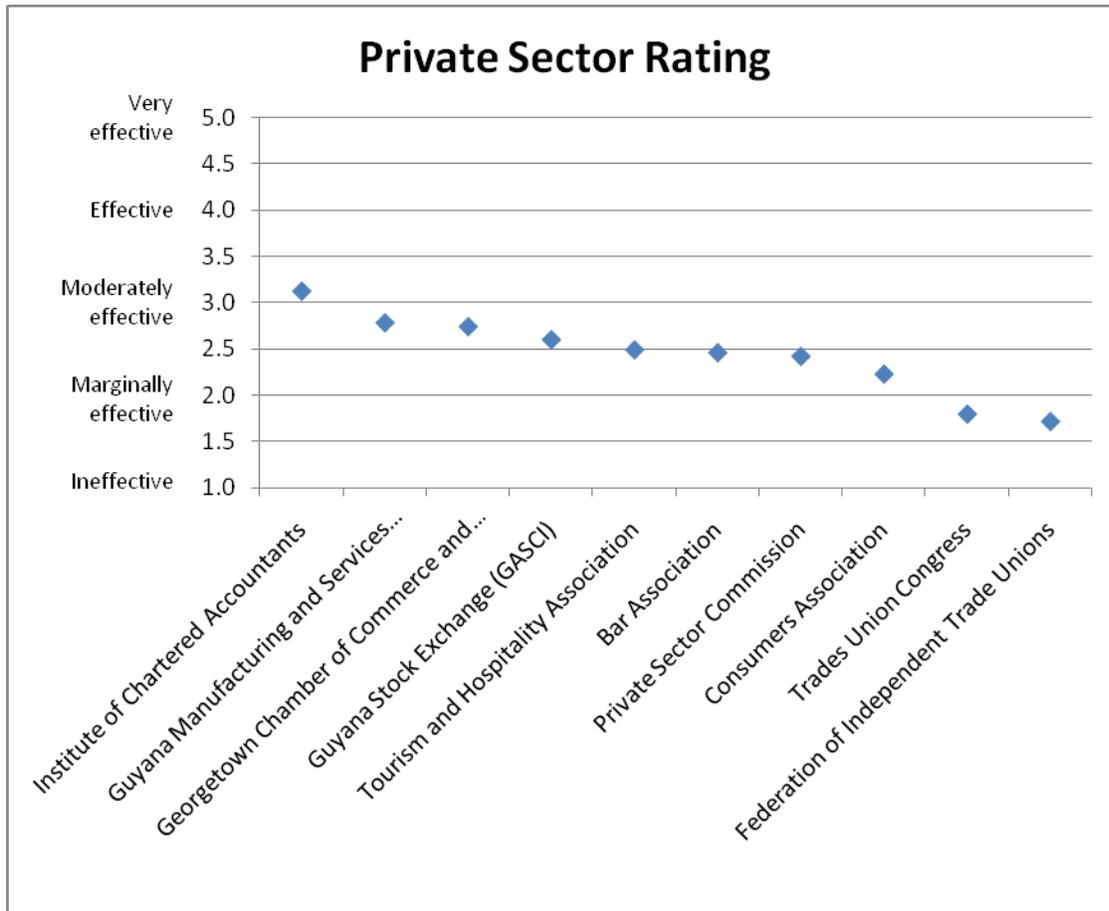
Private Sector/non-governmental organisations effectiveness

For the first time too, we sought Respondents’ views on private sector/non-governmental organisations. In a similar manner to the Public Sector ratings, not all survey respondents expressed a view on any of these.

Of the ten organisations, the two trade union umbrella bodies were rated lowest in terms of effectiveness, with the Trades Union Congress slightly ahead of the Federation of Independent Trade Unions with thirty-seven respondents (80%) and thirty-six respondents (84%) rating them as ineffective or marginally effective, respectively. Neither received an ‘excellent’ rating from any respondent.

At the other end of the scale, the Institute of Chartered Accountants of Guyana and the Guyana Manufacturing and Services Association were rated highest with fourteen (33%) and ten (22%) rating them as effective or very effective respectively.

Chart 17



CONCLUSION

All the indicators and informed projections point to a retreat from the free fall in world trade, industrial production, asset prices and global credit availability which had threatened to push the global economy into another great depression in 2009. Economies across continents have been improving at varying rates of growth, since the second quarter of 2009. International trade and global industrial production have also been recovering noticeably, with an increasing number of countries registering positive quarterly growth of gross domestic product (GDP). The economic revival has been driven in no small part by the effects of the massive policy stimuli injected worldwide since late 2008, and by strong cyclical inventory adjustment.

But as the UN **World Economic Situation and Prospects (WESP) 2010 notes**, the recovery is uneven and conditions for sustained growth remain fragile. Credit conditions are still tight in major developed economies, unemployment is still high and businesses are still wary of expanding the productive capacity until more certainty and stability appear.

Despite serious warning signs in agriculture, bauxite and manufacture, the Minister of Finance predicted a significant turn around in the second half of 2009 while the President seems over-enthusiased about the economy's prospects with some US\$30 million coming to the country next year under the Guyana-Norway LCDS Memorandum of Understanding.

Ram & McRae continues to believe in the usefulness of this survey and its findings. That the Government seems to disregard the wider views of the private sector expressed in confidential, independent and professionally compiled reports is indeed regrettable. Its failure to treat with meaningful tax reform has contributed to the continuing, widespread and massive tax evasion. It has failed to incorporate into the formal economy the huge parallel economy and it has demonstrated neither the will nor the capacity to deal with the criminalised segment of the economy, corruption, and white collar crime. Unemployment and under-employment are official non-issues, even as we lament the loss of professional and other skills to migration.

The short-term political advantages gained by allowing these issues to be driven by electoral considerations are far outweighed by the long-term economic costs. Yet, it seems unrealistic to hope that they will be addressed in a year preceding important general elections.

Let us hope as we move into 2010 that the increasingly confident business community, including the cash-rich financial sector, will provide the investment the country badly needs to generate employment, foreign exchange and taxes, to help in the development of the country.

As Ram & McRae moves into its 25th anniversary year, we extend to the business community and to all Guyana, its best wishes for 2010 and thank those entities that participated in this Survey.

END