

The Business Climate Survey Report



Progress since 2003



FALKLAND ISLANDS
DEVELOPMENT CORPORATION

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Introduction

Each year, since its inception in 2003, the Business Climate Survey has increased in relevance. The survey has the ability to provide a confidential channel for the Falkland Islands business community to communicate to FIDC and business associations. The results from these surveys have formed the basis for FIDC's Business Plan plus new projects, initiatives and schemes, and have provided the validation that these would be relevant for the Falkland Islands and its economy.

Looking back over the Business Climate Surveys has been a real challenge since the reports are not built to a specific formula, so certain questions, industries, and sectors have varied throughout the span of the Business Climate Survey.

This report will look back on Business Climate Surveys of the past to uncover the trends, the changes in direction, and the links that have brought action by FIDC: It is comforting to see that the effects the business community can have on the Development Corporation and vice versa.

Since conception, the survey has grown and grown, with two partner organisations involved in the survey's production and promotion. The survey has also seen an increase in numbers of participants from the business community with 2016 setting the record for most completed surveys. Thanks to everyone's efforts, 43% of businesses in the Falklands participated. Finally, the questions in the Business Climate Survey have also expanded, with the first survey in 2003 having only 11 questions, whilst the latest questionnaire had 52 spread across 27 pages.

The focus of the analysis in this paper will on be the questions found throughout the Business Climate Surveys, so we can have a comparison that spans over a decade of these. The results are based on responses provided in previous Business Climate Surveys, and should be looked upon as a snapshot at that time. This report will not draw too many comparisons between 2014 and 2016, because the latest Business Climate Survey (2016) does this already and repetition is not needed at this time.

FIDC would like to thank everybody who has contributed to the Business Climate Survey over the years, from businesses to FIDC members of staff as their effort has seen this survey become a very important part of FIDC's work and its plans for the future.

Sector representation: is your industry over or underrepresented?

In each survey, industries have been over and underrepresented when compared to the return rates of the survey. This has possibly led to the skewing of the results of the Business Climate Survey question concerning barriers to business growth. This could mean that issues raised by underrepresented industries may not rank as highly when compared to issues raised by those in higher represented industries.

Industries	2003	2005	2007	2009	2011	2012	2014	2016	Average
Agriculture/Farming	31%	41%	40%	32%	32%	13%	18%	35%	30%
Business Services/ Trade & Services	31%	24%	22%	11%	31%	34%	29%	36%	27%
Fishing	50%	58%	33%	67%	57%	81%	71%	100%	65%
Construction	11%	25%	20%	18%	50%	29%	13%	39%	26%
Shipping/Transport Ancillary	100%	N/A	N/A	N/A	N/A	27%	0%	0%	32%
Retail	26%	45%	43%	44%	21%	47%	50%	72%	44%
Tourism	28%	31%	40%	43%	33%	N/A	N/A	100%	46%
Government	32%	39%	16%	41%	28%	N/A	N/A	N/A	22%
Other	100%	83%	22%	N/A	N/A	N/A	N/A	N/A	68%
Technology	N/A	N/A	N/A	13%	38%	N/A	N/A	N/A	26%
Restaurant & Hotel	N/A	N/A	N/A	N/A	N/A	30%	35%	21%	29%
Real Estate	N/A	N/A	N/A	N/A	N/A	67%	100%	67%	78%
Oil and Gas	N/A	N/A	N/A	N/A	N/A	25%	0%	50%	25%
Oil and Gas Services	N/A	N/A	N/A	N/A	N/A	100%	50%	100%	83%
Communication and Finance	N/A	N/A	N/A	N/A	N/A	67%	58%	25%	50%
Land Transport	N/A	N/A	N/A	N/A	N/A	80%	50%	43%	58%
Marine Services	N/A	N/A	N/A	N/A	N/A	83%	50%	43%	59%
Mining and Quarrying	N/A	N/A	N/A	N/A	N/A	0%	0%	0%	0%

Looking at the sectors' return rates, since the first survey in 2003 particular industries seem to have higher consistent return rates than others. For example businesses in the Fishing Industry have consistently been overrepresented with a return rate over 50% and in 2016, 100% thanks to coordination with FIFCA. This has, on average, given the sector one of the highest return rates of 63%. This means that issues that the fishing companies are flagging up could be seen to have more prominence. In the 2016 Business Climate Survey the Fishing Industry stated that 'Distance to Markets', 'Air Links' and 'Freight costs by Sea', were the top three issues they struggle with. The Fishing Industry represent 24% of respondents that stated Distances to Markets is a barrier, 25% of respondents that selected Air links and 32% of respondents that selected Freight costs by Sea. All three of these barriers were in the top ten barriers at number four, five and eight.

In contrast, other industries are consistently underrepresented. The Restaurant and Hotel Industry, for example when comparing it to others in the table on the following page, has a very low representation. This industry is estimated to have, as of 2016, 24 businesses operating in the

Falkland Islands, but the average return rate from these businesses has been 29%. This may have led to industry issues being understated in the survey results. An example in the 2016 survey results is 40% of the Restaurant and Hotel companies selected 'Immigration Regulations and System' as a barrier to business growth. Despite this, the barrier of 'Immigration Regulations and System' wasn't ranked highly in the list of barriers in 2016, which could be interpreted as a low priority.

The above illustrates that very real and prominent issues identified by certain industries as barriers to business growth in the Business Climate Survey, this could be hidden under the issues identified by higher represented industries. As FIDC uses the results of the Business Climate Survey to formulate its Business Plan and to develop new ideas for projects, it is recommended that representation for industries is improved in future editions of the survey. This can be achieved through greater collaboration with businesses and business associations and for FIDC to specifically target businesses from underrepresented industries to complete the Business Climate Survey. Overall, this highlights the importance of businesses filling in the survey to ensure their voice is heard.

Biggest barriers to business growth

Following on from sector representation we will now look at barriers to business growth in the Falkland Islands. The chart on the next page shows some of the most selected barriers that have affected Falkland Islands businesses growth throughout the survey results. The chart illustrates how these barriers have moved in the rankings since 2003.

As you can see on the chart below, over the last ten years 'Freight Costs' is consistently on this list, as is 'Shortage of Labour', 'Distance to Markets' and 'Air Links'. These are seen to be the fundamental barriers to business growth in the Falklands. However, some of the industries you expect to select these barriers, in fact only contribute a very low percentage of the respondents' selections, for example 'Air Links'. Two of the overrepresented industries Fishing and Tourism contribute 50% of the industries that state this is a barrier to business growth. Retailers, which are an underrepresented industry, you would presume would want more flights to the Falklands, only represent 10% that stated this was a barrier.

One thing that is making a rise through this list is 'Telecommunications'. It has been ranked outside of the top 10 barriers throughout the 2011, 2012 and 2014 Business Climate Surveys. However, it has recently, in the 2016 survey, has been ranked in the top ten barriers by businesses with both cost and bandwidth being highlighted as specific issues. When considering this and the recent public debate regarding telecommunications, this barrier could be seen as the emerging problem that might worsen over time due to the greater reliance on the internet and internet based resources. For example, the recent Business Climate Survey is increasingly being completed online.

Currently under review is the new Communications Bill, which if agreed, it will become the provision of telecommunications for the Falklands telecommunications for the next 12 years. What is decided here could have a dramatic effect on the way Falkland Islands companies do business, which could lead Telecommunications moving up or down the barriers ranking list in future surveys.

FIDC is currently involved in multiple pieces of work, though not necessarily instigated or run by FIDC, to help reduce or mitigate barriers on this list. The Skills Assessment Council is one of these pieces of work that FIDC is involved in. The hope is to reduce the skilled labour shortage in the Falkland Islands, which was rated number one in the 2016 Business Climate Survey. The Innovation Project is another area where FIDC is trying to add value to key Falklands products, which aims to mitigate freight costs and distance to markets, two prominent barriers identified by businesses in 2016.

The past movement of some of the most selected barriers to business growth



Access to Finance: what is the actual problem?

Access to Finance has been identified as a barrier by businesses for a number of years now, and led to its own dedicated survey in 2014. The results showed that 57% of participants did not need access to external finance as its capital needs were met in the previous year, and three quarters who had needed external finance, had secured finance successfully. However FIDC has always presumed that Access for Finance was concerned with loans and mortgages

This has been the area FIDC has tried to mitigate, by making changes to the loan process to make the procedure quicker and easier. FIDC has developed and promoted a new and comprehensive loan policy and set a target to approve smaller loans within six weeks of first contact with the client. But Access to Finance is still considered by businesses as a barrier to business growth, as it remains to float around the top 12 of barriers facing companies in the Falklands. But what if this isn't what businesses mean when they talk about the barrier Access to Finance?

The data gathered in the latest Business Climate Survey shows which industries feel they struggle with Access to Finance. It would seem that the industries in question are all underrepresented, with Agriculture, Business Services, Retail, Construction and Restaurants and Hotels all stating they struggle with Access to Finance. This could be the reason it has slipped down the barrier list and is no longer ranked in the top 10. However FIDC would like to find out more information on this barrier and what is the actual issue.

Companies that started in the last five years seem to have more of a need for Access to Finance with over 47% of these companies stating they struggle with Access to Finance. But what exactly are they struggling with? Is it long-term financing options, which FIDC has tried to mitigate through new services and offerings, e.g. energy loans, or is it more short-term options such as overdraft and credit card facilities? Is there a misinterpretation on what Access to Finance actually is? Is it clear what specifically FIDC is asking about? Is it what FIDC offers or is it Standard Chartered Bank? Or could it be access in general in the Falklands?

FIDC is planning on adding into the next Business Climate Survey more options when it comes to the question of Access to Finance as a barrier to business growth. This is to try to find if it is a particular issue in finance that might not be catered for in the Islands or is it multiple financial options that businesses are in need of. It will be broken down into 'Business Loans', 'Working Capital Loans/Over Drafts', 'Credit Card Facilities' and 'Merchant Banking Facilities'. These should hopefully provide more specific answers to get to the bottom to the Access to Finance barrier once and for all.

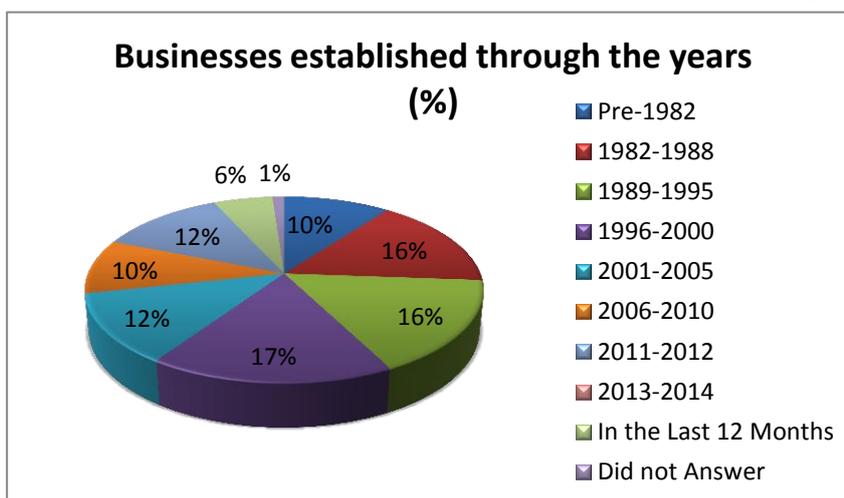
Once FIDC has the data available, FIDC will investigate options that may solve these issues. FIDC is committed to removing barriers to help entrepreneurs businesses succeed and grow in the Falkland Islands. Once the root cause is identified it is hoped that this is one barrier that might disappear from the barrier rankings all together.

Businesses established over the years

A question that was introduced in the 2012 Business Climate Survey and has been in the following two surveys, asks businesses when they were established. The table below shows the results from the three surveys in question.

Survey	Pre-1982	1982-1988	1989-1995	1996-2000	2001-2005	2006-2010	2011-2014		In the last 12 Months	Did Not Answer
							2011-2012	2013-2014		
2012	6	16	14	13	9	10	8		N/A	N/A
2014	6	12	20	16	12	7	7		N/A	1
2016	15	14	9	16	11	8	24		5	N/A
Average	9	14	14	15	10	8	11		5	1
Average (%)	10%	16%	16%	17%	12%	9%	12%		6%	1%

It is interesting to note how close the numbers are throughout the periods, suggesting a steady number of businesses being established since the early 1980s. What is also very positive is the large increase of business founded between 2011 and 2014, as earlier surveys suggested a slowing in businesses that were being established in the latter part of the 2000s. However the latest survey suggests, since 2010, an increase of new businesses opening locally, producing the survey's highest percentage for any period. A total of 29 businesses in the 2016 Business Climate Survey stated they had opened since 2011. This represents 18% of the respondents overall for only four years.



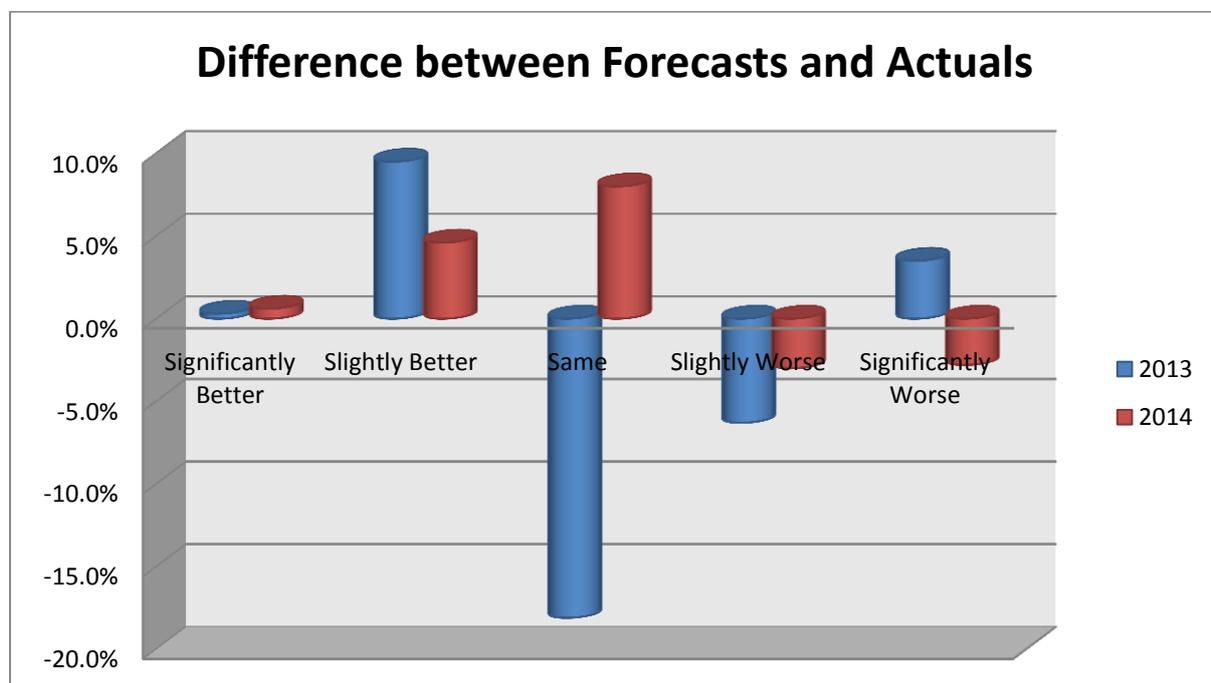
The cause of this growth could be linked to the start of the major oil exploration, and how it has provided new opportunities in the local market since the first round of exploration in 2011. It will be interesting to see how the latter half of the decade goes in terms of new business start-ups. With the oil exploration no longer happening on the Islands for the foreseeable future it could mean a slowdown in development if that was the cause. But if it does continue, as is hoped by FIDC, it could lead to the highest growth in new businesses in the Falkland Islands for the last three decades.

During this unexpected growth period FIDC has been heavily involved in helping new businesses start up in the Falkland Islands. In the financial year 2013/2014 FIDC approved 10 loans and four farm mortgages to the total of £1,134,121, similar in 2014/2015 with loans and mortgages at a total of £933,933. This shows that the increased business activity in this timeframe. Business advice is also on the increase, in 2013/14 there was 43 enquires it has increased in 2014/15 to 91 enquires. With the development of the Youth Entrepreneurship Scheme and FIDC holding more and more business workshops the aim is to sustain this large growth period in business start-ups in the Islands.

Pessimism in the Falklands: do businesses always look towards the downside?

Over the last few years the Business Climate Survey has been asking businesses to rate their overall performance in the past, present and coming year. This section will analyse the results of what businesses forecasted and their actual performance.

The following is looking at how accurate businesses are at forecasting their performance. The results show some very pessimistic views by Falkland Island businesses. Throughout the last few Business Climate Surveys there has been a trend of estimating lower than the last years result, however 2016 seems to have bucked the trend and the results are more in line with 2015s actuals. The graph below shows the results between the difference in the forecasts and actuals from 2013 and 2014.



As you can see the forecasts made by the respondents have consistently been worse than the actual outcomes. The 2013 forecasts when compared to the actuals show a very different picture, as 'Slightly Worse' estimations were over 5% higher than actuals and 'Slightly Better' estimations were 10% lower than the actual results. A similar trend happened in the forecasts for 2014, but on a more extreme scale. 'Significantly Worse' was above 2013 actual results with 8.6% of respondents were asked to forecast their performance for 2013, however when the actuals came in it was at 0% not one business selected this option in that year. 'Slightly Worse' forecasts were 12% higher than actuals and 'Slightly Better' had a disparity of 23% compared to the actual results.

The years of 2013 and 2014 was the period between the two latest rounds of oil exploration and would have had a bearing on the forecasts provided by respondents in the 2012 survey, which it seems, is reflected in the results shown above. These results can be interpreted that respondents seem to think because the Oil exploration was coming to an end it would have a significant downturn in performance. What is comforting is that many businesses performed better than

expected during these periods when looking at the actual performance ratings provided by businesses in the 2014 survey.

A similar level of pessimism happened in the 2016 survey, possibly under similar circumstances with Oil exploration coming to an end and oil operations were being demobilised. With the uncertainty of oil exploration returning or oil production starting in the near future it could be assumed that this would have had an effect on the incoming forecasts for 2016's Business Climate Survey. In this survey nearly 60% of Falklands businesses felt that the economy would be worse off compared to 2015, but business forecasts of their performance seem to not have followed the same decline.

The trend throughout the past Business Climate Survey would suggest that businesses would feel that their performance would take a large dip when oil exploration had finished in the Falklands. However the 2016 estimations seem to be less pessimistic of the future as businesses in the Islands seem to have placed their forecasts closer to 2015's actual performance ratings, which could mean that businesses are feeling optimistic for the immediate future.

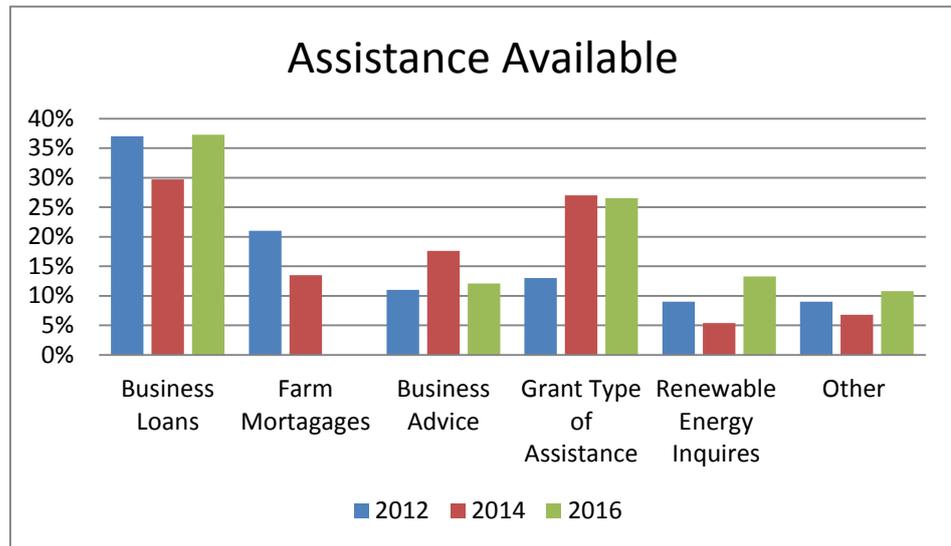
Looking at the analysis you can see that this pessimism, combined with the changes that happen in the Falklands, could be affecting some businesses forecasts for the coming year. This might not seem like a major issue, doing better than expected, but the initial pessimism could influence decision-making, particularly long-term decisions.

The Falklands does have a thriving business community that can solve many issues that a small Island could have. But if you are concerned with the future and would like to get some business advice on the future direction of your business, FIDC is here to help with forecasting, training, business growth, loan options or a combination of all of these.

Assistance offered to the Falkland Islands by FIDC

The final part of this report will look into the data about FIDC and how the Corporation has assisted Falkland Island businesses. FIDC offers multiple options to any business in the Falkland Islands to help with many aspects of their development.

From the graph you can see that 'Business Loans' is the most provided assistance offered by FIDC, with an average percentage of 34.7%. This is followed by 'Grant Type of Assistance' with an average percentage of 22.2% and then followed by 'Farm



Mortgages' with 17.3%. The data from the Access to Finance Survey seems to suggest that FIDC is second most common source of finance for companies. However, FIDC wants to be seen more than just a source of finance. FIDC wishes to help businesses at any point in their lifetime through regular dialogue and business advice.

FIDC throughout the years has not just helped businesses develop with business advice and financing, it has tried to address economic and industry issues through projects. Falklands Legal, which was started with FIDC help, was created because when there was a need for a second law firm to facilitate commercial activity in the Islands. Simultaneously, Law services were identified as a barrier in earlier Business Climate Surveys, but since Falklands Legal's inception not one respondent in a Business Climate Survey has selected it as a barrier to business growth.

Aquaculture is another area in which FIDC has managed a project that has turned into a successful business. FIDC, with help from the European Development Fund, built the foundations and proved that aquaculture is a viable opportunity for the private sector in the Islands. Now in the hands of a local business owner, Falkland Islands farmed sea trout is available in the local supermarkets and internationally as well.

The Rural Energy Grant scheme has allowed many businesses in the rural community to reduce their reliance on diesel powered generators and provide 24 hour power in Camp. The grant allowed the rural community access to wind turbines and battery packs so electricity could be stored and used without the reliance on fossil fuels. This project transformed Camp's electrical supply and now the Falkland Islands is recognised as a Renewable Energy Champion by the Overseas Countries and Territories Association (OCTA), with the islands producing around 37% of its power through renewable sources.

The Rural Development Strategy, which is in its last year, has brought about many developments in Camp, from the introduction of the Rural Energy Advisor and the integration of new renewable energy sources to Camp, changes to legislation to accommodate rural tax reliefs, to tourism road signage.

The Horticulture project is one of FIDC's latest endeavours that could help reduce the island's reliance on imports. The aim of this project is to reduce the need for imported fruit and vegetables and instead grow more produce in the Islands. This project has already started with FIDC appointing Horticulture experts to visit the Falklands to assess the scope for growing and selling more and better fruit and vegetables on the Islands. This has led to the Horticulture report 'Fresh for the Future', which is available from our website. The next stage of this scheme is to set up several test projects to show the business potential of the ideas proposed in the report.

The Business Climate Survey is one of the ways FIDC gets answers to questions it feels need to be answered. FIDC develops its Business Plan based on the results on the survey, which focuses on the coming years and can put projects into action to complete them. By answering the survey you are helping the development of the Falkland Islands and getting your views, preoccupations and ideas across. This information is used to help inform FIDC to make steps to help, grow and develop the needs of the Falkland Islands.

Thank you to all who participated in the surveys throughout the years, as without your input and support, we wouldn't be where we are today.

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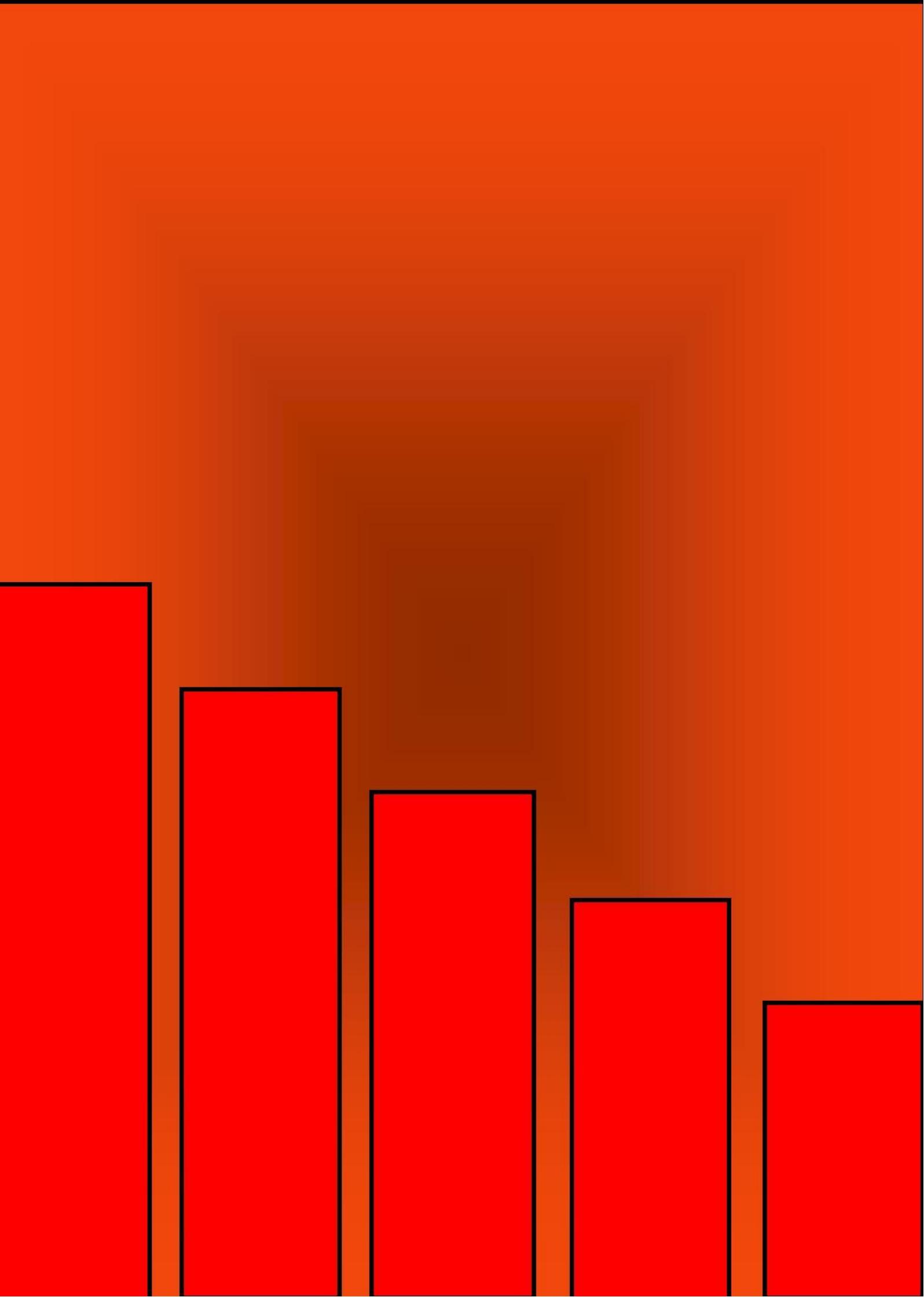
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