**Pursuing Economic Diversification In Guyana**

**The Role Of The National Quality Infrastructure**

Economies with high levels of concentration, especially those that are resource-rich, pursue diversification as a means of mitigating their economy’s dependency on industries earmarked by volatility and sensitivity to external shocks..[[1]](#footnote-1)

Similar to these economies, Guyana is pursuing economic diversification as a strategy[[2]](#footnote-2) for accelerating growth. As expressed in Guyana’s National Competitiveness Strategy, there is a need for economic diversification. The Government has listed the following sectors as key diversification and growth opportunities: (i) Agriculture/Agro-processing; (ii) Forestry; (iii) Mining; (iv) Manufacturing; (v) energy; (vi) tourism; and (vii) information technology and services.[[3]](#footnote-3) In the Needs Assessment report for a State of the Art Testing Facility, the consultants assess the main export products that contribute to Guyana’s GDP (i.e. sugar, rice, etc.) and determine what the current and projected product would look like, the export markets, the main technical requirements of these markets, existing laboratory support in Guyana, and risks to sectors from having an inadequate lab support.[[4]](#footnote-4)

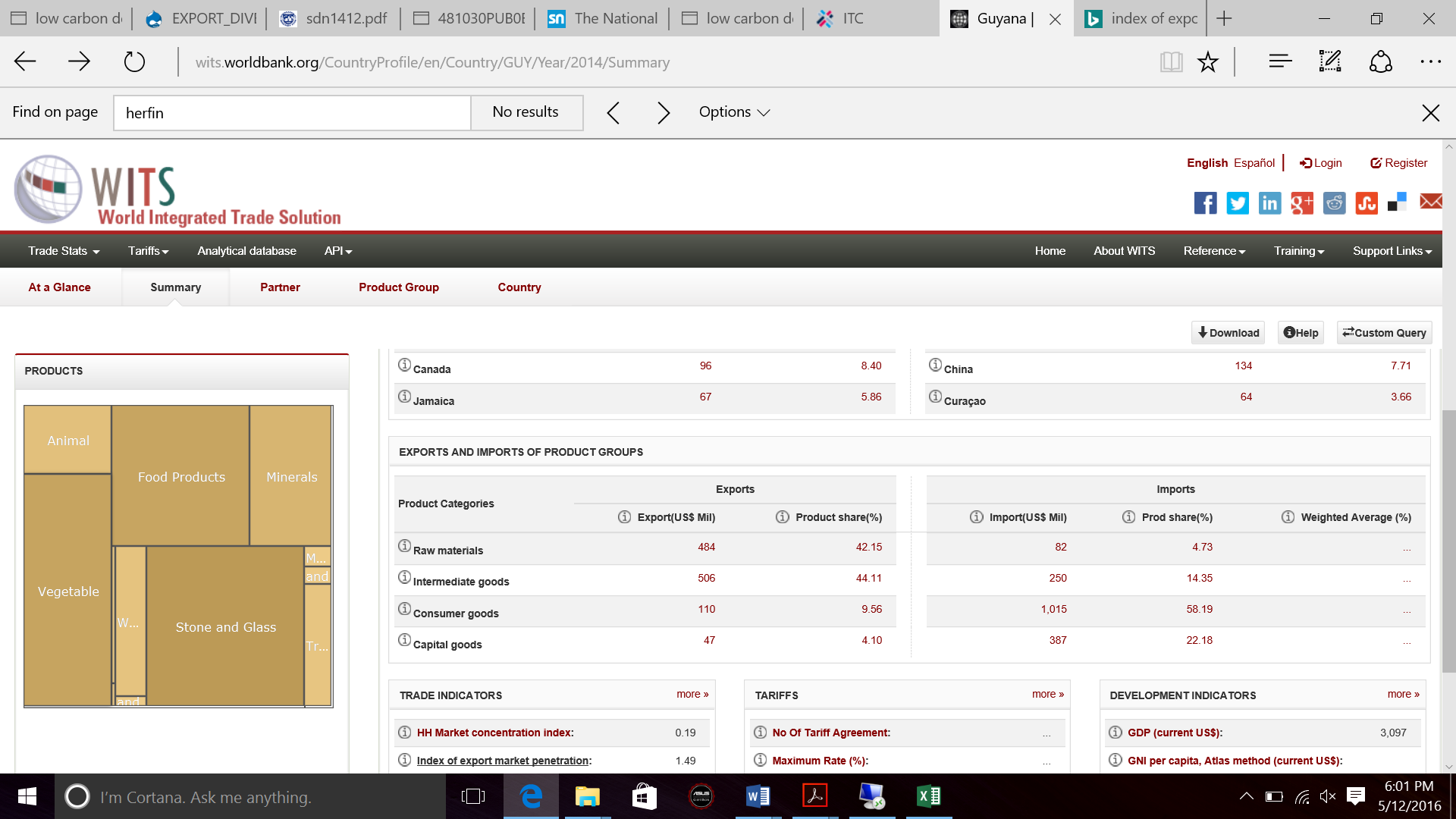
**Diversification of the Economic Base**. Services (59.7%), Agriculture/Agro-processing (18.1%) and Mining (20.3%)[[5]](#footnote-5) together make up more than 90% of Guyana’s GDP, indicating the need to give these areas priority when considering any investment in NQI development. Other sectors such as manufacturing and ICT contribute less than 15% to GDP but are important to innovation in realizing Government of Guyana’s diversification strategy. Furthermore, the services sector (such as electricity, water, construction, retail, transportation, information and communication, education, and health) contribute to the competitiveness of government’s focus sectors and must thus be taken into consideration as well. The import of these services are also very important.

Guyana’s private sector is small and fragmented consisting of mainly micro, small, and medium-sized enterprises with a few large enterprises operating in the extractive industries.[[6]](#footnote-6) “As of October 2013 the Small Business Bureau’s database included 6,756 businesses, of which about 2,500 had been validated as active businesses (a number of businesses were not active because they had closed or were improperly registered). About 73% of registered businesses in Guyana employ fewer than five people, while 22.3% employ 5-15 people and 4.7% employ more than 15. Most firms sell their goods and services only in the domestic market, with only 15% reporting that they sell to the Caribbean region and a mere 3.8% selling beyond the Caribbean”.[[7]](#footnote-7) Many informal businesses go unaccounted for. As attested by the 2010 Enterprise survey, the top three obstacles cited by firms are inadequately educated workforce, practices of the informal sector, and tax rates. In the updated 2013 firm-level survey, the most critical obstacles to doing business were electricity, telecommunications, and tax rates. The country improved its competitiveness index rank from 109th out of 148 countries to 102nd in the 2013-2014 round.

**Export Diversification**. Given Guyana’s relatively small market, growth is dependent on exports to the competitive external market. 42% of the country’s exports are raw materials, 44% intermediate goods and only 9.56% consumer goods and 4.1% capital goods. Alternatively, 58% of the country’s imports are consumer goods and 22% capital goods revealing the low level of sophistication and complexity of the Guyanese export basket. As revealed by its export trade map in Figure 1, majority of its exports are concentrated in stone and glass and food products. 82% of Guyana exports products are concentrated in less than 10 products. According to WITS, Guyana has a Hirschman Herfindahl market concentration index of 0.19 as of 2014 (comparatively the US was at 0.06, Barbados 0.14, Suriname 0.16, Venezuela at 0.24 and Trinidad and Tobago in 2010 was at 0.22), meaning that its economy is relatively concentrated (a value closer to 1 indicates high concentration). Despite the high concentration in mining, there are strong forward and backward linkages that enhance the multiplier effect of investment and spending generated by the mining and agricultural sectors[[8]](#footnote-8). Nevertheless, given the country’s small market size, it is a necessity for its private sector to export for growth.

There is a growing consensus that patterns of economic development is associated with structural change in exports and increased export diversification.[[9]](#footnote-9) Diversification of exports by transitioning into non-traditional, high productivity, and more knowledge-intense areas may assist Guyana in competing in more value added products and services. Tourism has been found to be positively related to export diversification, but to have a successful tourism industry also requires that the industry maintains standards and high quality in tandem with marketing and investment efforts.

**Figure 1: Guyana’s Product Map**



Source: WITS, 2014

**Market Diversification.** Diversification also requires a diversification of markets.[[10]](#footnote-10) Low income countries tend to only exploit few export market destinations and opportunities. Guyana’s export penetration in overseas markets, as measured by an index of export market penetration of 1.49,[[11]](#footnote-11) shows a concentrated export market not uncommon in the Caribbean region (comparatively, the United States’ index is 38.59). Five countries (United States, 26.9%; United Kingdom, 12%; Venezuela, 9.6%; Canada, 8.4%; and Jamaica, 5.86%) make up approximately 63% of its export market. Access to these markets require compliance, in most cases mandatory, with technical requirements that are standards-based and include: food safety, good Agricultural Practices, Good Manufacturing Practices, Quality Standards, Animal Health, Plant Health, Environmental, Social, Safety, Information Security, Efficiency and Certification Standards. Complying with these technical regulations and standards in order to access these markets calls for support from a quality infrastructure with laboratories that are able to generate precise and accurate results.[[12]](#footnote-12) All sectors require some or major quality infrastructure support to access markets.

**Economic diversification is comprehensive.** Economic diversification requires a comprehensive view and entails many elements such as getting the right supportive institutions, creating an ideal business and investment climate, ensuring a healthy macro economy, developing a skilled labor force,[[13]](#footnote-13) encouraging an entrepreneurial ecosystem, and building an innovative economy using productive development policies and tools.

**Relevance of quality and standards in diversification.** Economic diversification, including export diversification, requires a supportive and complementary NQI system if it is to be successful. The NQI can assist with overcoming the risk that new export flows are not sustained in the long run. The risks to sectors from inadequate lab support could be loss or markets, loss of revenue, disruption of trade, inability to defend trade challenges/disputes on quality issues, rejection of shipments, increased production costs when testing has to be done at overseas facilities, loss of reputation, inability to command premium prices when quality and safety of products are not defined, removal/recall of products, and even loss of life.[[14]](#footnote-14)

The proposed loan intends to develop an NQI and an investment and promotion strategy that will support the on-going economic diversification efforts in Guyana. The ideal is a move towards a knowledge based economy exporting more sophisticated and complex goods and services whilst still staying anchored to the pillars of its economy by modernizing those traditional industries that employ large numbers of persons, often categorized in being poor, vulnerable, or marginalized groups. The proposed loan would complement IDB projects and programs that focus on increasing the level of productivity, innovation, and competitiveness by giving attention to an area crucial to attracting, securing, and maintaining export markets and that is having a sound quality infrastructure that the private sector can rely on.

1. Carneiro, Francisco. “Is there a Blueprint for Diversification”. https://blogs.worldbank.org/voices/is-there-a-blueprint-for-diversification. (According to WITS, by the year 2000, Chiles’s HH dropped to 0.07 – comparative to advanced country levels). [↑](#footnote-ref-1)
2. See Guyana’s National Competitiveness Strategy. [↑](#footnote-ref-2)
3. Kandhi, R. and Edmondson, H. 2014. Consultancy for Needs Assessment for State of the Art Testing Metrology Facilities. [↑](#footnote-ref-3)
4. See pages 47 – 58 of the “Needs Assessment for State of the Art Testing Metrology Facilities” Report [↑](#footnote-ref-4)
5. Figures are for year 2013 as determined from Bureau of Statistics 2014 Report on GDP at Current Basic Prices. [↑](#footnote-ref-5)
6. Guyana Private Sector Assessment Report. [↑](#footnote-ref-6)
7. Ibid. [↑](#footnote-ref-7)
8. Ibid. [↑](#footnote-ref-8)
9. Samen, Salomon. World Bank. 2010. Export Diversification: Key Concepts, Theoretical Underpinnings, and Empirical Evidence. [↑](#footnote-ref-9)
10. Newfarmer, Richard; Shaw, William; & Walkenhorst, Peter. 2009. Breaking into new markets: emerging lessons for export diversification. World Bank. [↑](#footnote-ref-10)
11. WITS. 2014. [↑](#footnote-ref-11)
12. Needs Assessment Report for SAL. [↑](#footnote-ref-12)
13. Guyana has high migration rates and thus sees an outpouring of its highly skilled labor force who then provide remittances to the economy but arguably could do more in building the economy. [↑](#footnote-ref-13)
14. Needs Assessment of the SAL. [↑](#footnote-ref-14)