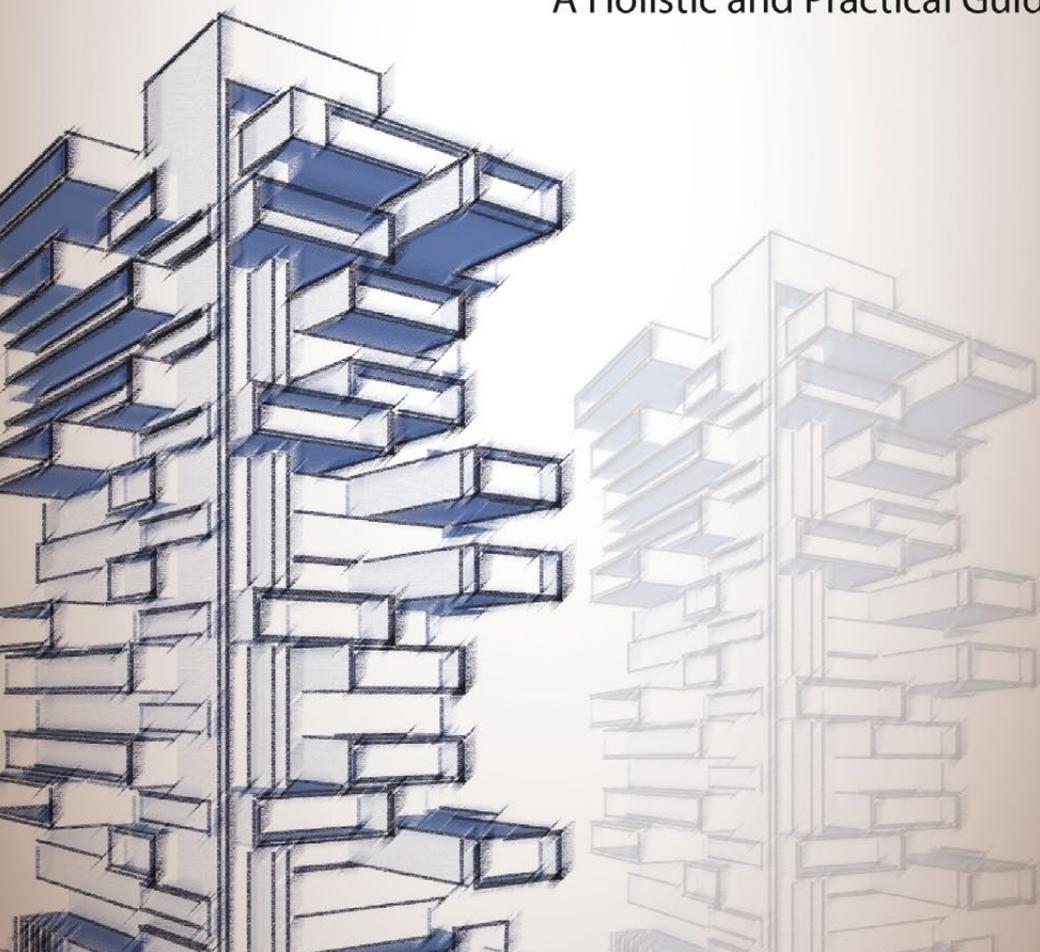


BUILDING AND UTILIZING PRODUCTIVE CAPACITIES IN AFRICA AND THE LEAST DEVELOPED COUNTRIES

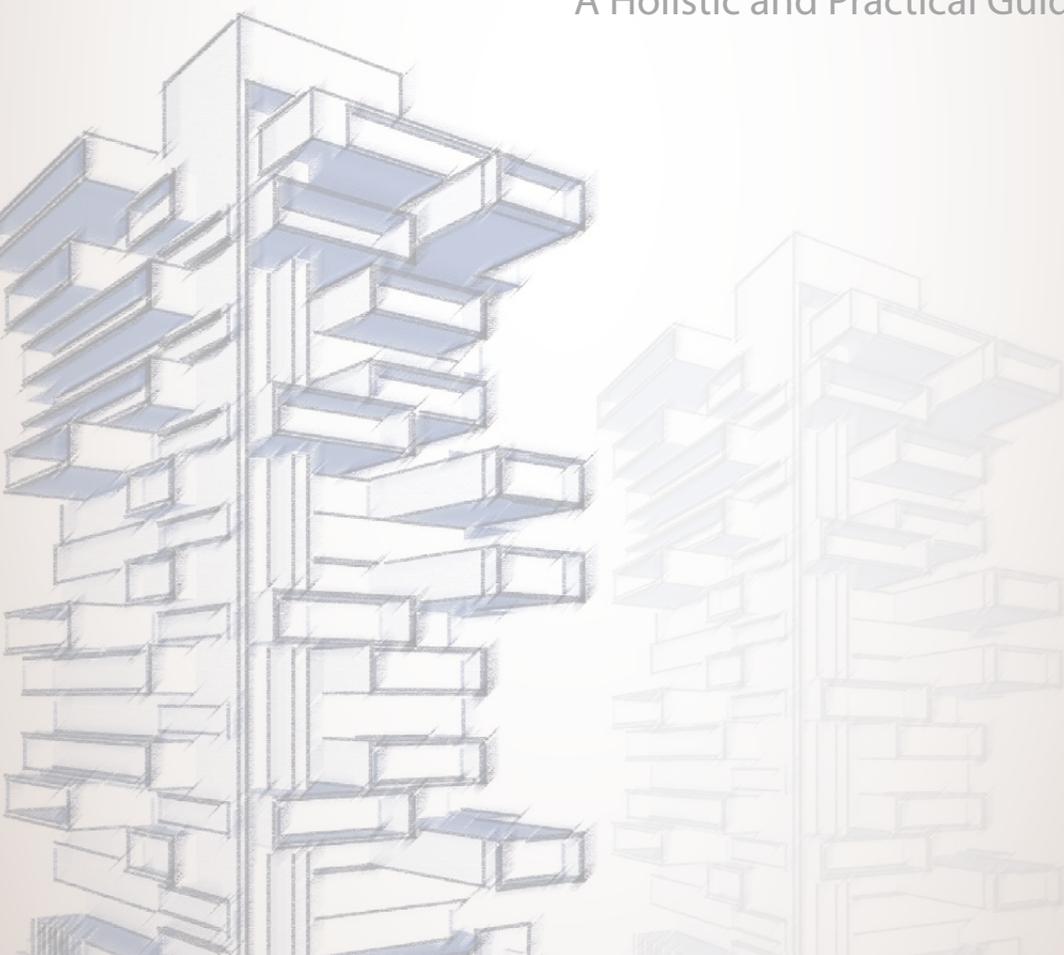
A Holistic and Practical Guide





BUILDING AND UTILIZING PRODUCTIVE CAPACITIES IN AFRICA AND THE LEAST DEVELOPED COUNTRIES

A Holistic and Practical Guide



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Executive summary

The development of productive capacities is increasingly recognized as a fundamental step in transforming the economies of African countries and the Least Developed Countries (LDCs) and putting them on a sustained development path. Following the global financial and economic crises of 2008/09, there is also growing acknowledgement of the vital role of industrial policy in fostering economic transformation and development, particularly in structurally weak and vulnerable developing countries. The *Least Developed Countries Report 2006: Developing Productive Capacities* (UNCTAD, 2006) was one of the key international reports promoting a “production capacities centred” view of development and stressing how the development of productive capacities could play a role in addressing the trade and development challenges that LDCs and other structurally weak and vulnerable economies face in the medium to long term. Subsequent *Least Developed Countries Reports* and other UNCTAD publications, such as the *Trade and Development Report* and the *Economic Development in Africa Report*, have also made useful contributions to the discourse on productive capacity development and structural transformation.

The present report complements the materials in the *Least Developed Countries Report 2006*, and other UNCTAD publications, on issues related to the development of productive capacities. It provides a comprehensive and operational framework for developing productive capacities in Africa and LDCs. More importantly, it adopts a holistic approach to productive capacity development, which underscores the need to build new productive capacities as well as enhance utilization rates of existing capacities. It also provides actionable policy recommendations and instruments that African countries and LDCs could adopt to develop productive capacities. In this context, the report is a useful and practical guide to Governments engaged in the design, implementation and enforcement of productive transformation policies.

The report focuses on the role of industrial policy in building productive capacities and offers new cross-country evidence and insights that are relevant at different stages of the policy process and cycle. The recognition of the ways in which both technical and political economy factors shape the process of productive capacity-building in Africa and LDCs is another distinctive contribution and approach of this report. Effective industrial policy requires both engaging with the micro- and meso-level production-technical dynamics affecting Africa and LDCs, as well as with the political economy factors determining the feasibility of any transformation in the economy.

African countries and LDCs are facing micro- and meso-level production and technical challenges. The recognition and investment in different and complementary types of productive capacities – including production, technological, organizational and innovation capabilities – is a fundamental step in advancing their industrial competitiveness. Building an industry without industrialization is, however, not sufficient to develop and transform the economy and society in Africa and the LDCs. Since the 1980s, African countries and LDCs have been increasingly involved in international production networks; however, this has not gone hand in hand with a deep process of industrialization at the level of their local production systems. These economies will industrialize only when linkages in their domestic industrial systems develop, leading to productive and inclusive transformations.

Finding technical solutions to these challenges calls for a joined-up industrial policy approach which emphasizes the introduction, coordination and governance of multiple policy instruments beyond policy silos. The development of various institutions providing technical, financial and organizational support to productive firms in Africa and LDCs is also critical in the implementation and enforcement of these instruments.

The allocation of resources and rents through industrial policy is a political economy process that requires technical coordination and effective enforcement solutions. In Africa and LDCs, the limited number of productive organizations and their institutional weaknesses reflect a specific type of political economy settlement, where transformative investments are challenged and discouraged by the distribution of power and incentive structure. This condition must be reverted to make industrial transformation possible.

The report finds that African countries have relatively low productive capacity.

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