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### Productive capacities index for evidence-based policymaking

#### *Summary*

UNCTAD has long stated that fostering productive capacities and structural economic transformation is key, to enable countries to achieve sustained economic growth with accelerated poverty reduction, economic diversification and job creation. Therefore, productive capacities must be placed at the centre of domestic development policies and global development partnerships. With a view to assisting member States in determining where they stand in relation to the fostering of productive capacities and structural economic transformation and, accordingly, how to adjust their respective development narratives, policies and strategies, UNCTAD has developed the productive capacities index.

Policy-oriented analysis on the index is provided in this note, as well as a discussion of its implications for evidence-based policy formulation and implementation, together with conclusions and a way forward.



## I. Introduction

1. UNCTAD conceptualized the notion of productive capacities and defined it in *The Least Developed Countries Report 2006: Developing Productive Capacities* as “the productive resources, entrepreneurial capabilities and production linkages which together determine the capacity of a country to produce goods and services and enable it to grow and develop”. The concept was given further prominence by its inclusion in the Programme of Action for the Least Developed Countries for the Decade 2011–2020, the Vienna Programme of Action for Landlocked Developing Countries for the Decade 2014–2024 and the Doha Programme of Action (for the decade 2022–2031). With a view to operationalizing the concept of productive capacities at the national level, UNCTAD developed the productive capacities index (PCI), aimed at supporting developing countries in determining the status of their respective productive capacities and related gaps and limitations and how they can be improved. Following the mandate given by the Economic and Social Council and in accordance with paragraph 76 (k) of the Nairobi Maafikiano adopted at the fourteenth session of the United Nations Conference on Trade and Development (UNCTAD XIV), UNCTAD finalized the development of PCI.<sup>1</sup> The first generation of PCI covered 193 economies over the period 2000–2018 and it has been updated to include data up to end-2021. The set of productive capacities and their combinations are mapped across 46 indicators under the following eight categories: human capital, natural capital, energy, transport, information and communication technologies (ICTs), institutions, the private sector and structural change. PCI is therefore multidimensional in its use in analysis, statistical measurement and benchmark-setting capacity.

2. The use of PCI has been piloted in several developing countries and used to conduct national productive capacities gap assessments in selected beneficiary countries. Such assessments are multidimensional diagnostic analyses aimed at responding to the question of how developing countries can best address any gaps and limitations related to productive capacities. The assessments offer unique insights into the performance of economies; and help in the identification of comparative advantages and binding constraints to building national productive capacities, as well as in mapping intervention strategies. The Doha Programme of Action encourages the least developed countries to undertake national productive capacities gap assessments. Further, such assessments can feed into vulnerability profiles. The Committee for Development Policy of the Economic and Social Council encouraged UNCTAD to pursue its methodological work to measure progress in and identify obstacles to the development of productive capacities in developing countries, and to share the outcome of its work as an input to the impact assessments of the Department of Economic and Social Affairs and the monitoring reports of the Committee for Development Policy on countries graduating or graduated from the least developed country category.<sup>2</sup>

3. The work on PCI is supported by a statistical and technical advisory group and by the High-level Advisory Board established by the Secretary-General of UNCTAD in 2022. The statistical and technical advisory group supports the further refinement, expansion and development of PCI, including by periodically updating and revising PCI and the methodology, aimed at contributing to the methodological soundness of PCI and enhancing its application and use in statistical and academic forums, including in the United Nations system. The High-level Advisory Board will advise in the areas of research, capacity development and policy formulation, including on the content and key pillars of policy and institutional frameworks, with the aim of improving the quality of policy interventions in developing countries. The goal is to guide the application of the concept of productive capacities and PCI as key in the formulation and implementation of new-generation development policies.

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<sup>1</sup> E/RES/2017/29; TD/519/Add.2.

<sup>2</sup> E/RES/2017/29.

4. In response to increasing interest from member States, UNCTAD has been designing and implementing, in close collaboration with the Governments of the countries concerned, a holistic, economy-wide, multi-year and multidimensional programme of policy interventions, to build productive capacities using an evidence-based, transformative approach, shifting from the practice of short-term and fragmented project-based interventions towards a long-term, integrated and programme-based policy approach to development that is also more holistic and economy-wide. UNCTAD intends to advance its work on productive capacities in structurally weak and vulnerable economies, particularly the least developed countries, landlocked developing countries and small island developing States. Building domestic productive capacities through the holistic programme of UNCTAD, based on national productive capacities gap assessments, is key in structural transformation, economic and export diversification, greater engagement in international economic interaction through international trade, investment and regional and global production value chains and, subsequently, sustainable development, effective poverty reduction and a greater international role. Positioning productive capacities at the core of policy formulation and institution-building enables countries to ensure greater control of their domestic development processes in an increasingly interdependent world, as well as more beneficial regional and global economic integration.

5. Angola is the first beneficiary country under the holistic programme, with financial support from the European Union. Details on the implementation of the project in Angola and concrete results achieved to date were presented at a side event held during the Fifth United Nations Conference on the Least Developed Countries, at which the discussion on programmatic interventions and narrative changes, as well as results achieved to date, provided insightful policy lessons and a way forward for other countries that have requested similar interventions and support from UNCTAD.

## **II. Substantive arguments in favour of productive capacities**

6. There is no one-size-fits-all development trajectory that countries can follow to achieve socioeconomic progress. There are, however, some ingredients that are necessary for long-term growth and sustainable development in any country, such as political stability and well-functioning institutions. Another important ingredient is strong productive capacities, which form the backbone of the ability to produce goods and services.

7. Fostering productive capacities and structural transformation has been debated at major international conferences, such as the Fourth United Nations Conference on the Least Developed Countries, the Fifth United Nations Conference on the Least Developed Countries, the second United Nations Conference on Landlocked Developing Countries and UNCTAD XIV and the fifteenth session of the United Nations Conference on Trade and Development (UNCTAD XV). Ministerial declarations, as well as the Programmes of Action, the Nairobi Azimio and Nairobi Maafikiano and the Bridgetown Covenant adopted at UNCTAD XV, have all underlined that developing productive capacities is key for sustainable development in the least developed countries and landlocked developing countries.

8. There are four fundamental reasons for the ongoing global discourse on the need to foster productive capacities and structural transformation. First, in structurally weak and vulnerable economies, there has been a lack of substantial impact from the episodes of high economic growth in the early 2000s on job creation, poverty reduction and economy-wide improvement in productivity growth. Second, most developing economies face continued challenges in fostering industrialization and technological upgrading, which are critical in building productive capacities and accelerating structural transformation. Third, sluggish economic growth and limited economic diversification means these economies are vulnerable to negative external shocks, whether economic, political or health-related shocks. Fourth, even with robust economic growth, many developing countries continue to be locked in low-income and middle-income traps, and the fostering of economy-wide productive capacities and structural economic transformation is therefore required.

9. There is growing recognition of the importance of productive capacities in the development process. Fostering productive capacities is a critical prerequisite for achieving structural transformation, inclusive economic growth and sustainable development and is essential in building socioeconomic resilience, to withstand the negative consequences of external shocks. Yet there is no simple and uniform universal blueprint that enables developing countries to address persistent and emerging development-related challenges, and there is therefore a need to design country-specific development policies and strategies based on national socioeconomic circumstances, resource bases, institutional capabilities and overall local and regional conditions.

10. The pandemic has served to reinforce the systemic interconnectedness and interdependence of countries, and led to fundamental challenges, in particular in structurally weak economies, in coping with the significant and widespread socioeconomic consequences and in launching recovery processes. The crisis also highlighted that addressing such global challenges requires coordinated global policy interventions and robust responses. The pandemic affected all countries to varying degrees and scales and at different magnitudes and served to provide lessons with regard to both ensuring swift and collective mitigation actions and the need for early warning systems and preparedness planning, to be able to quickly and effectively deal with other such events in future. Countries with weaker productive capacities and vulnerable economies were more significantly affected. For example, economies with weak productive capacities faced significant challenges in quickly manufacturing and making available the supplies and equipment needed to deal with the spread of the coronavirus. In the absence of domestic productive capacities to quickly manufacture and supply such vital goods, many economies, such as those of the least developed countries, landlocked developing countries and small island developing States, relied heavily on imports. However, importing such supplies during the pandemic was difficult, in particular due to the disruption of supply chains, high levels of domestic demand in producing and exporting countries, the imposition of restrictions on exports of such items and/or established constraints on foreign currency. This made the fostering of domestic productive capacities in most developing countries more urgent than before.

11. With regard to macroeconomic impacts, some vulnerable economies that depend heavily on the export of raw materials experienced declining demand for their exports, decreased inflows of remittances and a decline in tourism services. Ability to domestically finance rapid responses to the crisis was therefore weakened. Impacts included, but were not limited to, recessions; disruptions in foreign direct investment flows, production networks and supply chains; decreased global trade flows; increased capital outflows from developing countries; declines in global output and employment; and diminished capacities in developing countries, in particular in Africa, to finance rapid responses to help deal with the pandemic. As a result, in many developing economies, extreme poverty levels increased for the first time since 1998, reversing the hard-won development gains of several decades.

12. Vulnerabilities to external shocks, which are inherent in structurally weak economies, as well as persistent development-related challenges, require a new generation of development and trade policies and strategies that have at their centre the fostering of productive capacities and structural transformation. A prerequisite in such a process is to determine the current levels of productive capacities in individual economies and, subsequently, to design and implement holistic responses in terms of economy-wide policy interventions and institution-building.

### **III. The concept of productive capacities**

13. The UNCTAD definition of productive capacities stresses the three distinct but interrelated fundamental elements that make up such capacities.<sup>3</sup>

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<sup>3</sup> See paragraph 1 of the present note and UNCTAD, 2020, *UNCTAD Productive Capacities Index: Focus on Landlocked Developing Countries* (United Nations publication, Geneva).

14. Productive resources are factors of production and include human, natural, financial and physical capital resources. Human resources relate to the quantity and quality of labour and therefore involve issues related to education, health and skills. Natural resources encompass agricultural land, water, forest and energy resources, among others. Financial capital resources refer to the availability and cost of financial capital to finance production, investment and innovation. Physical capital resources are capital stock and physical infrastructure such as transport, energy and telecommunications infrastructure.

15. Entrepreneurial capabilities are the abilities of firms and family-owned businesses to produce goods and services. A distinction is made between core competencies and technological capabilities, as follows: core competencies refer to applying current skills, knowledge and information to existing productive resources, to transform inputs into outputs; and technological capabilities refer to dynamic abilities to advance core competencies and thereby increase productivity, competitiveness and profitability and, as such, are the basis for the creativity, flexibility and dynamism of an economy. Technological capabilities, in turn, comprise the following five types of skills: expanding physical facilities (investment capabilities); upgrading products and processes (incremental innovation capabilities); developing new markets (strategic marketing capabilities); benefiting from the transfer of technology (linkage capabilities); and creating new technology (radical innovation capabilities).

16. Production linkages are the interactions between economic sectors and among enterprises through trade, investment and technology flows and among firms and farms within domestic economies as well as between those within domestic and foreign economies. The presence of backward and forward linkages and a shift of productive resources from traditional to modern sectors are considered signs of structural transformation. Similarly, linkages and flows between enterprises have long been suggested as important elements for the productivity and competitiveness of countries, with studies drawing attention to, among others, backward and forward linkages and production clusters. Production linkages therefore encompass different types of interactions that affect sectors and all types of enterprises such as, among others, small and medium-sized enterprises, large firms, family-owned businesses, domestically owned enterprises and foreign-owned enterprises.

17. The definition of productive capacities underlines that these three basic elements determine the capacity of an economy to produce goods and services together. It therefore stresses interactions among the three elements and that their impact on productive capacities is amplified or diminished in the way they influence each other. For example, the use of productive resources is more optimal when entrepreneurial capabilities are improved and production linkages are strengthened. The combination of productive resources, entrepreneurial capabilities and production linkages in a country results in a distinctive set of capacities to produce goods and services. Moreover, the attributes of the three elements and their particular mixture determine the types of goods and services produced, because productive capacities are often activity-specific, as they promote certain products and processes.

18. The concept of productive capacities is therefore an important tool in that it takes into account a wide range of factors that contribute to national development. Beyond this holistic approach to the production of goods and services, building productive capacities is valuable in that it simultaneously addresses multiple development-related challenges and socioeconomic vulnerability. Rather than being limited to a single concern such as economic growth or poverty reduction, the building of productive capacities can have positive repercussions across a wide range of issues. For example, it has a direct positive impact on relieving supply-side constraints and reducing unemployment, which implies a significant role in supporting economic growth, employment creation and poverty reduction. Similarly, the building of productive capacities is integral to efforts to support diversification and structural transformation, factors that are viewed as fundamental for inclusive growth and long-term development. Moreover, there is the possibility of creating a virtuous circle, whereby building productive capacities helps to achieve development objectives such as economic growth and poverty reduction that, in turn, foster a greater

expansion of productive capacities and help reduce systemic vulnerability to negative external shocks, such as those caused by the pandemic.

19. Therefore, the value of focusing on productive capacities is twofold. First, it provides a broad view of the essential inputs needed for the production of goods and services in an economy. Second, it helps generate outcomes that have an impact on a wide range of development-related challenges. It is this twofold attribute that makes a focus on productive capacities so valuable as an analytical and strategic tool. It is the main reason that policymakers and policy analysts should ensure that productive capacities are placed at the core of development efforts, and they have begun to do so, as reflected in the prominence of productive capacities in international agreements and declarations. Finally, it is important to note that productive capacities also determine the potential output achievable through the full utilization of resources at the domestic level. The potential growth rate of an economy over time is also determined by the growth and development of productive capacities.

#### **IV. Productive capacities index**

20. In the construction of PCI, challenges concerned the broadness of the concept as conceptualized and defined by UNCTAD and gaps in internationally harmonized country-level data that could be compared across countries and regions, to feed into the process of selecting indicators relevant for each category of PCI. For example, indicators under the Sustainable Development Goals can be used to measure socioeconomic progress through a multitude of development variables. However, the multidimensional nature of the Goals and the number of indicators require the development of coherent and composite indices. That is, single variables or indicators, while important in measuring progress, do not provide indications of the sources of change or the underlying factors driving performance, such as the growth or development potential of countries. Despite the challenges, UNCTAD successfully developed the composite PCI, which is methodologically and statistically sound, to measure the level of productive capacities and gaps.

21. Overall, PCI is used to measure inputs but not outputs. It provides proxy measures of the level of inputs required to yield a given amount of output, such as a greater gross domestic product (GDP). PCI is designed with the objective of supporting developing countries in determining the status of productive capacities and related domestic gaps and limitations and how they can be improved. PCI is based on the three-pillar conceptualization by UNCTAD of productive capacities (see paragraph 1).

22. The eight PCI categories are as follows:

(a) Human capital: education, skills and health conditions possessed by the population; fertility rate; and overall integration of research and development into the texture of society through the number of researchers and expenditure on research activities.

(b) Natural capital: the availability of extractive and agricultural resources, including rents generated from the extraction of such resources, minus the cost of extraction.

(c) Energy: the availability, sustainability and efficiency of power-related sources. Indicators measure use of and access to energy, losses in distribution and renewability of energy components and sources, and include total energy supply and consumption, as well as GDP generated by each unit of oil, to highlight the importance of optimal energy systems.

(d) Transport: capability of a system to move people and goods from one place to another, defined as the capacity of the national road and railway networks and air connectivity.

(e) ICTs: accessibility and integration of communication systems within the population, including fixed-line and mobile telephone users and indicators on Internet accessibility and server security.

(f) Institutions: political stability and efficiency, measured through regulatory quality, effectiveness and success in dealing with criminality, corruption and terrorism and in safeguarding the freedom of expression and association of citizens.

(g) Private sector: how dynamic, innovative and vibrant the private sector is and how it is facilitated by government policies such as access to finance or other productive resources. Indicators measure the number of patent applications and trademark registrations, the level of ease of cross-border trade, including time and monetary costs to export and import, and the support provided to businesses in terms of domestic credit, speed of contract enforcement and time required to start a business.

(h) Structural change: ability to undergo effective structural economic transformation and the propensity of an economy to this process, captured by the sophistication and variety of exports, the intensity of fixed capital and the weight of industry and services in total GDP. Structural change may connote short-term shifts in economic parameters such as changes in the composition of GDP or trade; structural transformation is viewed as long-term, profound and systemic changes in key economic parameters such as the technological embodiment of production and the sophistication of exports.

23. The eight categories were selected based on several considerations, as follows:

(a) Theoretical and empirical relevance of each category for production transformation.

(b) Relevance of each category for socioeconomic development in developing countries, whereby PCI is not only a statistical tool but also serves to guide the formulation and implementation of development policies and strategies in member States.

(c) Consistency and conformity with the emerging development paradigm, because a “business-as-usual” approach is no longer an option. A new approach is necessary, to guide the shift in domestic policies and strategies from current short-term, sector-specific and project-based interventions towards long-term, comprehensive, economy-wide and programme-based approaches to development.

(d) Link of each category to the fostering of productive capacities as key in guiding the process of structural economic transformation.

24. The availability of consistent, reliable and internationally comparable data and statistics was considered in the choice of indicators under each category. The scarcity and low level of quality of data, as well as the fact that data may not be comparable across countries, added additional constraints to the indicator selection process. The construction of PCI relies on a common core of globally harmonized and standardized data series available regardless of development status and statistical capacity. Despite the challenges, efforts have been made to maintain the high level of methodological rigour of PCI, in parallel with the policy use and relevance of a given indicator. For example, the use of a high number of indicators has been avoided in order to not overburden policy interpretation and interventions at the national, subregional, regional and global levels.

25. PCI is aimed at responding to the following questions: What level of productive capacities is needed to achieve inclusive growth and sustainable development as measured by indicators other than GDP growth? What mix of policies and strategies is needed to accelerate inclusive growth and development in developing countries? What are the sources of such growth?

26. Relationships and connections among the indicators used and the categories selected was an important dimension considered in the choice of indicators. The intention was to emphasize causation over correlation. Building on the existing literature and the established conceptual framework, the use of PCI is aimed at, for example, assessing how improvements in human capital can help economies harness the potential of ICTs or entrepreneurial capability in the private sector. The primary objective of PCI is to change policy narratives and intervention strategies at the national, regional and global levels. PCI should, therefore, be viewed as an integrated whole, whereby interventions in one area

have spillovers in another, signalling the need for a holistic, multisectoral and multi-year programme. PCI has several other attributes, as follows:

(a) PCI is aligned with the UNCTAD theoretical and conceptual framework of productive capacities. The choice and selection of indicators is theoretically grounded, with a focus on those directly relevant for structural economic transformation; the composite PCI and indicators therefore have intrinsic meaning and relationships with regard to policy formulation and implementation.

(b) PCI shows evolution over time in a given country, as this is key in identifying areas of progress or a lack thereof. Both overall PCI and the categories should be capable of use in tracking changes over time, as well as gaps and limitations in the development of productive capacities, in order to be able to realign policies or map intervention strategies for Governments and stakeholders and to bridge gaps through the conduct of national productive capacities gap assessments, which are part of the workstream guided by the use of PCI, which helps to measure and provide benchmarks for progress with regard to developing productive capacities, as well as for gaps and limitations.

(c) Although not intended to rank countries, PCI is designed to enable development experts and policymakers to compare progress between neighbouring countries, other comparable countries and regions. Regional aggregation is equally necessary for regional comparability, to facilitate information-sharing on best practices between and among countries and regions. In this regard, use of PCI enables policy-consistent comparisons between countries and regions.

(d) Equal importance is given to each category as each is critical for production transformation. This is consistent with empirical and historical evidence from country-level development experiences. For example, several countries in which transport infrastructure has developed or energy is a major export show weak or poor transformation, regardless of the real economy such as in the agriculture, industry or services sectors; and, in some cases, where micro and macroeconomic fundamentals are sound and institutions vibrant, the role of the private sector is negligible. This is consistent with the view of UNCTAD that each category and their interconnections are critical. Policies should therefore aspire to develop economy-wide productive capacities, for which holistic and multisectoral approaches are necessary.

(e) There are intrinsic relationships between each of the categories, whether the categories are positively correlated with PCI or with each other. For example, fostering human capital is key in tapping the potential of the ICT sector or enhancing the role of the private sector. Similarly, the use of natural capital has potential for structural transformation and is also vital in mobilizing public investment in the form of rents from such capital, used to improve, for example, human capital or infrastructure. The overall PCI and the categories may not necessarily have a unidirectional relationship. To the extent possible, they make use of internationally comparable and publicly accessible data, as well as verifiable data.

(f) PCI is designed to have the flexibility to be aggregated at different levels, such as by income group, geographical location and regional economic grouping.

(g) Comparability of categories between and within countries is a feature, aimed at enhancing the analysis of gaps and limitations in productive capacities, as well as facilitating the interpretation and application of PCI in domestic policy formulation and implementation.

27. Since the launch of the first generation of PCI in 2018, several operational and substantive activities have been undertaken using PCI, including the following:

(a) Engaging with member States at the national, regional and global levels regarding PCI and its policy implications.

(b) Sensitizing Governments and national stakeholders, including among the private sector and civil society, on country-specific PCI performance and policy

implications, as well as intervention strategies needed to foster productive capacities and structural transformation.

(c) Training national technical experts and statisticians in using PCI in policy formulation and identifying sectoral gaps.

(d) Identifying gaps and limitations in an economy and devising ways and means of fostering productive capacities, which can ultimately lead to effective policy formulation aimed at accelerating structural transformation and economic diversification and enhancing the process of sustainable development.

(e) Preparing analytical studies containing tailored policy recommendations, to address development challenges stemming from the lack of productive capacities.

## **V. National productive capacities gap assessments and holistic programme of policy intervention**

### **A. National productive capacities gap assessments**

28. UNCTAD applies PCI in the analysis of gaps and limitations in productive capacities, contained in national productive capacities gap assessments. Such assessments are multidimensional diagnostic analyses that aim to respond to the question of how developing countries can best address any gaps and limitations related to productive capacities. Productive capacities are essential for national capability to plan for long-term and inclusive growth and to respond to external shocks. The assessments offer unique insights into the performance of economies based on PCI and empirical and policy-oriented research, and help in the identification of comparative advantages and binding constraints to building national productive capacities and in mapping intervention strategies.

29. The novelty and value added of national productive capacities gap assessments is in the consistent and systemic application of the eight categories of PCI and the key indicators used in the construction of PCI, as well as the close examination of micro, meso and macroeconomic policies, institutional and governance frameworks and challenges and opportunities in each economy covered by an assessment.

30. National productive capacities gap assessments provide an in-depth assessment of socioeconomic performance and of opportunities, prospects and challenges with regard to further growth. At the national level, analysis is provided of key binding constraints to building productive capacities, progressing towards structural transformation and achieving inclusive and sustainable growth. Such assessments also provide concrete, country-specific recommendations of policies and measures, to facilitate the building of productive capacities in the identified areas. The aim is to reorient domestic policies from the current practice of short-term and project-based interventions toward programme-based, coordinated, sustained and economy-wide interventions. The assessments help identify needs for future technical assistance and international support, to build the capacity of policymakers in ensuring that the country can foster productive capacities for development. Finally, the assessments serve as starting points for a holistic, economy-wide, multi-year and multidimensional programme, to support structural transformation and economic diversification through tailored, targeted policy interventions and institution-building.

31. The Doha Programme of Action for the Least Developed Countries states: “To build and enhance productive capacities at the country level, each least developed country, with the support of development partners, is encouraged to undertake national productive capacities gap assessments to analyse the key constraints in building productive capacities and achieving the Sustainable Development Goals.”<sup>4</sup>

<sup>4</sup> A/RES/76/258.

## B. The value of a holistic technical assistance programme

32. A holistic programme on building productive capacities uses an evidence-based and data-driven transformative approach, such as through the application of PCI, shifting from the practice of short-term and fragmented project-based interventions towards a long-term, integrated and programme-based approach to development. It is based on a clear identification of comparative advantages and an analysis of key binding constraints to development. The aim is to realign policy measures and related interventions to relieve binding constraints and unlock comparative advantages in developing countries. The programme therefore aims to maximize synergies and, at the same time, avoid the duplication of efforts, time and resources. The work of UNCTAD focuses not only on persistent and current development challenges faced in developing countries, but also on providing a diagnosis of and outlook on emerging issues and trends and their implications for development and trade from the perspectives of developing countries.

33. In particular, the programme supports economic and export diversification and industrialization, as well as the following: strengthening human resources and institutional capacity; fostering a vibrant and dynamic private sector; attracting and benefiting from foreign direct investment; harnessing the potential of the ICT sector for production and business transformation; enhancing the participation of developing countries in regional and global value chains with the aim of achieving the Sustainable Development Goals; and graduating from the least developed country category. A holistic approach is applied across all of these areas in order for interventions in one area of a national economy or a development process to have synergistic impacts in other areas. The intervention areas of the programme include the following:

(a) Analysing national productive capacities and related gaps using PCI. This step leads to the formulation of national productive capacities gap assessments, which is key in identifying the comparative advantages of an economy and binding constraints to development, as well as in mapping intervention strategies.

(b) Building capacity among policymakers, statisticians, development policy experts and practitioners, to adequately respond to the identified development challenges and productive capacities gaps.

(c) Designing a domestic strategy aimed at economic diversification through building productive capacities and closing identified gaps, as well as enhancing structural economic transformation and economic diversification.

(d) Supporting the fostering of a vibrant and dynamic private sector that captures the potential of ICTs, foreign direct investment, technological innovation and industrialization, including through an electronic trade strategy and technological capability-building.

(e) Revamping or overhauling transport, logistics and trade facilitation, to improve export competitiveness and development.

34. The holistic and multisectoral programme has been implemented in Angola since 2018 and has supported the diversification of the economy and of exports towards green sectors. The programme has, for example, triggered whole-of-society participation, facilitating the formulation and implementation of coherent policies. By integrating vulnerable groups as valuable contributors to development, it has encouraged the adoption of a leave-no-one-behind mindset. Together with the focus on green sectors and the support for diversification and industrialization to reduce vulnerabilities, implementation of the programme in Angola contributes to the achievement of most of the Sustainable Development Goals. The sustainability of the interventions has been ensured by integrating core workstreams of the programme components into those of national public and private sector bodies that now independently implement activities, with continued mentoring by UNCTAD. Macro-level evidence shows a solid trend towards increased diversification of the economy, as non-oil product exports have grown by 4 per cent in real terms since 2016. Such significant development impacts have been achieved through human capital capacity-building and the provision of support for policy review, formulation and implementation in

several economic policy areas. To date, training has been provided for 2,550 people (35 per cent women) and capacity has been built in over 660 institutions, to amplify impacts on the ground. Similar programmes are being designed for other beneficiary countries.

## VI. Conclusions and way forward

35. In response to increasing interest from member States, UNCTAD can provide further support to developing countries, including structurally weak and vulnerable economies, the least developed countries, landlocked developing countries and small island developing States, in building productive capacities. Such support requires several steps towards the implementation of a demand-driven, holistic, economy-wide programme, to address binding constraints to development, namely the following:

- (a) Assessment missions and sensitization consultations with Governments and other relevant stakeholders in development and structural transformation processes.
- (b) Capacity-building among national policymakers and technical experts in the centrality of productive capacities to development.
- (c) Statistical capacity-building among technical experts and statisticians in the use of PCI.
- (d) National productive capacities gap assessments, to estimate productive capacities gaps and recommend related policy interventions.
- (e) Validation exercises with Governments, to ensure national ownership of the process of building productive capacities and aligning actions with national development visions, plans and strategies.
- (f) Designing, in collaboration with Governments, holistic, economy-wide, multisectoral and multi-year programmes of interventions, to address productive capacities gaps and to facilitate structural transformation and economic diversification.
- (g) Implementation of aforementioned programmes.

36. UNCTAD is receiving an increasing number of requests from developing countries for assistance in reorienting development policies and strategies towards fostering economy-wide productive capacities through a holistic and integrated approach and long-term interventions. The sustainability of UNCTAD engagements and interventions have proved necessary in order for capacity-building activities to achieve impacts. The continued targeted support from the European Union is key in the successful and impactful implementation of the programme in Angola. Similarly, support through the China Sustainable Development Goals Fund has enabled the secretariat to undertake statistical and methodological training on PCI and to sensitize policymakers to national productive capacities gap assessments. The increase in requests for assistance serves to show the quality and value added of UNCTAD support, yet capacity to meet increasing demand is constrained due to limited financial resources. It is critical for member States to enhance financial support to undertake and sustain capacity-building in structurally weak and vulnerable economies, particularly the least developed countries, landlocked developing countries and small island developing States, to address the gaps and limitations in productive capacities.

37. The secretariat therefore seeks support to further advance work on productive capacities in developing countries, including through extrabudgetary funding or financing modalities, including through country-based donor institutions and, where possible, national budgetary processes. Building domestic productive capacities through the holistic programme of UNCTAD, based on national productive capacities gap assessments, is key in structural transformation, economic and export diversification, greater engagement in international economic interaction through international trade, investment and regional and global production value chains and, subsequently, sustainable development, effective poverty reduction and a greater international role. Positioning productive capacities at the core of policy formulation and institution-building enables countries to ensure greater

control of their domestic development processes in an increasingly interdependent world, as well as more beneficial regional and global economic integration. However, the necessary processes require sustained and predictable financing, including from extrabudgetary sources.

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