



Coherent Strategies to Enhance Productive Capacities and Alleviate Poverty

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OUTLINE

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I. Context

- Three sets of questions are often posed in discussions on developing productive capacities
 - WHAT does it mean?
 - WHY is it important?
 - HOW can it be developed AND How can progress be measured?
- So far, there has been more focus on the WHAT and the WHY of productive capacity development rather than on the HOW.
- The HOW questions have not been effectively addressed in a manner that can easily be operationalized at the country level.



II. Aspects of an incoherent approach to developing productive capacities

- a) Macroeconomic and sectoral policies inconsistent with the goal of enhancing productive capacities
 - prohibitive interest rates
 - environmental policies that inhibit manufacturing development
- b) Focus on creating new capacities without making better use of existing ones.
- c) Resource allocation not matching level of commitment to developing productive capacities.



III. Elements of a coherent strategy to develop productive capacities





(i) Set realistic goals and targets

- African governments tend to set ambitious goals and targets
 - Implementation capacity often not taken into full account
 - Resource constraints not well factored into policy design
 - Political feasibility of policy actions not considered.
- As a result, a substantial part of policies and initiatives are either partially implemented or not implemented at all.
- Governments should set goals that are realistic given current and expected constraints.



(ii) Lift core binding constraints

- Governments should identify the core constraints to developing domestic productive capacities
 - Infrastructure bottlenecks
 - Human capital and skills shortages
 - Structural deficits in domestic enterprise structure
 - Institutional challenges
 - Policy incoherence
 - Weak demand and domestic consumer preferences.
- For optimal outcomes, most of these constraints have to be addressed simultaneously rather than in a piece-meal fashion (interlinkages exist!).



(iii) Address policy incoherence

- Align macroeconomic and sectoral policies to the goal of productive transformation

(iv) Harness gender potential

- Women account for about 50 percent of the population of most African countries
- Yet, their potential for productive transformation has not been harnessed.
 - They are mostly involved in unpaid domestic work
 - Employed either in informal sector or traditional agriculture



(v) Develop, promote and diversify exports

- Exports can contribute to improving competitiveness and sustaining productive transformation. Harnessing this potential requires policy actions in three areas.
 - Export development; Export promotion; and Export diversification

(vi) Make regionalism work for transformation

- Regional integration provides an opportunity for African countries to access larger markets and exploit economies of scale.
- But the gains from regionalism are not automatic.
 - Policies are needed to gear it towards achieving transformation
 - Avoid overlapping membership of regional groups



IV. Strategy Implementation Issues

- Governments need an effective resource mobilization and allocation strategy
 - Ensures domestic ownership of policies and outcomes
 - Facilitates implementation of policies.
- Resource allocation also has to match identified priorities
- There is also the need for a credible system for monitoring and evaluation of policies and initiatives.
 - Accountability is also required here.



V. Concluding remarks

1. There are lots of interesting ideas and frameworks on how to develop productive capacities. What is missing is HOW to operationalize these frameworks at the country level.
2. Effective strategies to develop productive capacities involve building new capacities as well as better utilizing existing ones
3. Developing productive capacities can contribute to structural change. But the link is not automatic
4. The nature of structural change also matters. An economy can experience the wrong kind of structural change and it can coexist with low productive capacity development.

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