

# Panorama of Productive Development Policies in Latin America and the Caribbean

2024

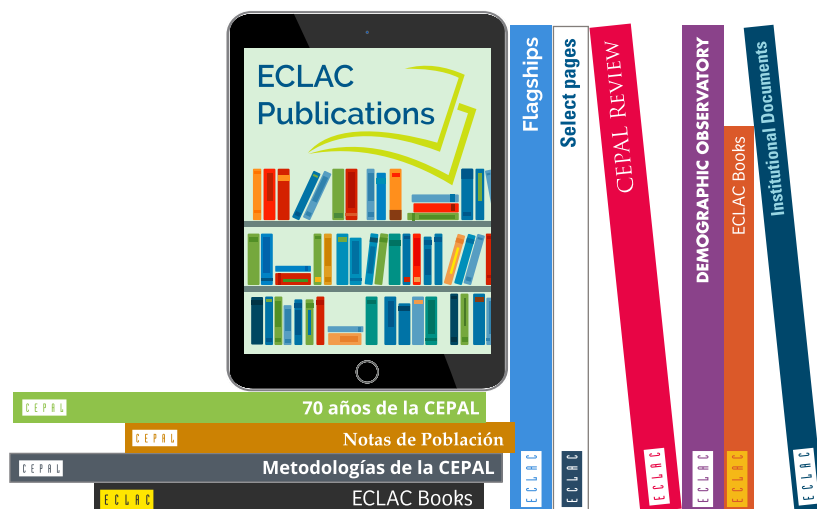
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the great productive  
transformation it needs?



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# Panorama of Productive Development Policies in Latin America and the Caribbean

2024

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ECLAC

**José Manuel Salazar-Xirinachs**

Executive Secretary

**Javier Medina Vásquez**

Deputy Executive Secretary a.i.

**Marco Llinás Vargas**

Chief, Division of Production, Productivity and Management

**Sally Shaw**

Chief, Documents and Publications Division

This edition of the *Panorama of Productive Development Policies in Latin America and the Caribbean* was prepared by Felipe Correa, Marco Dini, Natalia Genta, Nicolo Gligo, Marco Llinás Vargas, Gabriel Porcile, Sebastián Rovira and Paul Wander, under the coordination of Marco Llinás Vargas and José Manuel Salazar-Xirinachs.

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Three dots indicate that data are not available or are not separately reported.

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A full stop is used to indicate decimals.

The word “dollars” refers to United States dollars, unless otherwise specified.

A slash between years (e.g. 2023/2024) indicates a 12-month period falling between the two years.

Individual figures and percentages in graphs and tables may not always add up to the corresponding total because of rounding.

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## Foreword

The Economic Commission for Latin America and the Caribbean (ECLAC) posits that most countries of the region are mired in three traps: an inability to grow; high inequality, with low mobility and cohesion; and low institutional capacity and ineffective governance.

Gradual adjustments and change will not be enough; major transformations in development patterns are needed for the countries of the region to break from these traps. In this regard, ECLAC has proposed 11 great transformations that it considers vital,<sup>1</sup> one of which is a major productive transformation in growth and development models. Without this, progress on the other transformations will not be possible. The aim is to promote not just higher and more sustained growth, but growth that is also more inclusive and sustainable.

The numbers on the low-growth trap speak volumes: in the 10 years from 2014 to 2023, the region grew at an annual average rate of just 0.9% —less than the 2% recorded in the lost decade of the 1980s— meaning that the region rounded off a decade that was even more “lost” than the first. The question now is what needs to be done to avoid a third lost decade and how to do it.

International experience shows that productive development policies are the main instrument for fostering higher, sustained, inclusive and sustainable growth. It goes without saying that an enabling macroeconomic environment is also essential, but while macroeconomic stability is a necessary condition, alone it does not suffice. Productive development policies are the tools that can be used to raise investment rates, increase productivity, focus on sectors that drive growth, train human resources to meet the needs of driving sectors, develop solid business ecosystems, remove obstacles and bottlenecks, and make course corrections in response to the changing scenarios of the global economy and geopolitics. ECLAC is recommending that all this be done in keeping with a new approach to productive development policies that differs substantially from what has hitherto been referred to as “industrial policies”.

With this vision in mind, I am pleased to present this *Panorama of Productive Development Policies in Latin America and the Caribbean*.

Chapter I presents an analysis of the many causes of low growth in the region, notably the low level of investment in the countries and anaemic productivity growth, with productivity remaining virtually stagnant and even declining in recent decades.

A simple definition of productivity is “producing more with less”. While not wrong, this definition can be misleading as the idea is not to produce more of the same with fewer resources. The true challenge of productive development and productivity is learning to do new things with new production methods, all the more so in an era of rapid technological change that is transforming production paradigms. The aim is to build more sophisticated, diversified economies and bring about virtuous structural change that results in greater aggregate productivity. This includes continuing to improve economic fundamentals, namely the conditions pertaining to education, governance, infrastructure and macroeconomic stability, among others. However, empirical data show that countries do not need to attain the same conditions as developed countries before they can drive this transformation process. Many have been able to break from the balancing act between low productivity and income growth by transforming their economies through what the literature refers to as industrial policies, but what we at ECLAC prefer to call productive development policies.

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<sup>1</sup> See *CEPAL Review*, “Towards a more productive, inclusive and sustainable development model” (LC/PUB.2023/29-P), Santiago, Economic Commission for Latin America and the Caribbean (ECLAC), 2023.

Chapter II of this document provides a description of a new vision of productive development policies and how they differ from industrial policies.

It is a vision that takes a broader approach, whereby various sectors of the economy, not just the industrial sector, could be governed by these policies and yield high benefits in terms of economies of scale, productive linkages, skilled human resources, productivity and employment. Under this vision:

- Countries —and regions or territories therein— would define production priorities based on driving sectors that not only become drivers of productivity, but also transform the structure of the economy to make it more productive.
- Policies are seen primarily as collaboration between the public sector, the private sector, academia and civil society to identify and address bottlenecks and implement strategies to transform economies.
- Work is undertaken in a coordinated manner in multiple areas, including science, technology and innovation, technological extension services, entrepreneurship, digital transformation, closing talent gaps, financing, investment, specific infrastructure and other public goods, policy and regulatory agendas, and internationalization, among others.
- The use of instruments such as incentives is not ruled out a priori, but governance and collaboration between the key actors in each sector is a priority, as is the case in the cluster initiatives approach.
- Local stakeholders in the various regions or territories play a greater role, in a bottom-up approach that complements top-down approaches in the design and implementation of these policies, meaning that it promotes models of interaction between the different levels of policy formulation and implementation.
- An experimentalist governance approach is adopted, in which policy management is understood as collaborative and iterative processes, where problems are both identified and solved through multi-stakeholder collaboration, based on continuous iterations and sustained implementation over time. In other words, it is a model in which recursiveness prevails, in which implementation, evaluation, adjustment and renewed implementation take place in a continuous iterative learning process.
- Policies are envisaged with a focus on internationalization, in the broadest sense of the term. This means that, among other things, productive development policies are aimed at positioning the production of goods and services in international markets and at competing with imports, within the framework of economies that are increasingly open to international competition. It also involves attracting foreign capital to leverage these efforts; tapping into global sources of technology and knowledge, including through flows of people and, in particular, diasporas; and the possibility of working with countries both within and outside the region on agendas to strengthen productive development efforts.

The countries of Latin America and the Caribbean have been implementing productive development policies since their birth as independent nations. From the mid-twentieth century on, there was a drive towards import substitution industrialization, which then shifted to a very different phase of openness and international integration as the region began to embrace the Washington Consensus in the 1980s and 1990s. Yet even at this stage, productive development policies were not abandoned, although there was less State intervention and a shift in focus.

This document sets out a number of hypotheses regarding the efforts of the last few decades: they are marginal relative both to the productivity challenge being faced and to what other countries are doing in this area; they are poorly harmonized and coordinated; they have often lacked continuity, undergoing major modifications following changes of government; they have been managed mainly with a centralized approach, with little involvement of local stakeholders in regions and territories; and they have seldom been evaluated. This is why, in general, they have not had the impact expected of them, as evidenced by the region's poor performance in productivity, growth and productive transformation.

Chapters III, IV and IV of this *Panorama* seek to validate or rule out these hypotheses. Chapter III presents an exercise to characterize the productive development policy instruments implemented by a group of countries in the region and to quantify their fiscal cost. Chapter IV includes an analysis of the institutions and governance mechanisms for productive development policies in some countries. Chapter V contains a review of productive development policy efforts at the subnational level.

The data and analysis presented therein suggest that the hypotheses put forward regarding productive development policies in the region cannot be ruled out. They illustrate the importance of continued in-depth analysis and point to areas of research that can be developed by ECLAC and other actors from academia and the research community.

We have been emphasizing that it is not enough to simply indicate what must be done to transform development models with statements such as “productivity must be improved”, “the export basket needs to become more sophisticated and diversified” or “increased investment in R&D is needed”; rather, we must examine in greater depth ‘how’ to do these things, specifically how to manage these and other transformations. This leads us to the issues of governance mechanisms, the technical, operational, political and prospective (TOPP) capabilities of the institutions responsible for policymaking for these transformations, spaces for social dialogue and the political economy of coalitions in favour of change compared with those against change.<sup>2</sup>

Accordingly, chapters II through V present recommendations and guidelines for scaling up and improving productive development policies in the region, both at the national level and at the subnational and local levels. These guidelines are not intended to be exhaustive, nor do they aim to be detailed or in-depth enough to be directly applicable to different contexts. However, they are an attempt to move the discussion towards practical and tangible proposals that will enable progress in the field of productive development policies, while at the same time serving as a guide for the technical assistance initiatives of ECLAC and other international organizations.

ECLAC publishes annual flagship reports on various themes that are central to the development agenda for Latin America and the Caribbean. However, to date, neither ECLAC nor other organizations have published regular reports on one key area: the policies needed to break from the low-growth trap and drive higher, sustained, inclusive and sustainable growth. This new institutional document aims to fill that gap, analysing the efforts undertaken by the countries of the region and their territories in this area, but also drawing lessons and formulating proposals for scaling up and improving these policies.

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<sup>2</sup> See Salazar-Xirinachs, “Rethinking, reimagining and transforming: the ‘whats’ and the ‘hows’ for moving towards a more productive, inclusive and sustainable development model”, *CEPAL Review*, No. 141 (LC/PUB.2023/29-P), Santiago, Economic Commission for Latin America and the Caribbean (ECLAC), 2023.

I would like to take this opportunity to extend special thanks to the European Commission, the Federal Ministry of Economic Cooperation and Development (BMZ) of Germany and Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) for the support provided in various respects, which made it possible to carry out in-depth research for the preparation of the first edition of this publication.

One of the most important takeaways from the extensive literature on growth, economic transformation and development is that countries that are able to accelerate their productive transformation and raise standards of living are the ones that develop a culture of growth and prosperity and a commitment to policies in this area.<sup>3</sup> We hope that this new *Panorama of Productive Development Policies in Latin America and the Caribbean*, by raising awareness and expanding knowledge on the subject, will help to strengthen the culture of productive development and commitment to this issue in the countries of the region.

**José Manuel Salazar-Xirinachs**

Executive Secretary  
Economic Commission for Latin America  
and the Caribbean (ECLAC)

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<sup>3</sup> J. Mokyr, *A Culture of Growth: The Origins of the Modern Economy*, New Jersey, Princeton University Press, 2017; S. S. Cohen and J. B. DeLong, *Concrete Economics: The Hamilton Approach to Economic Growth and Policy*, Harvard Business Review Press, 2016.



# Executive summary

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- A. The low-growth trap in Latin America: the role of productivity
- B. A new vision and a new conviction for productive development policies in the region
- C. Productive development policies of national governments in Latin America and the Caribbean: an initial exercise to characterize and quantify their instruments
- D. Productive development policy institutions and governance in Latin America and the Caribbean
- E. Subnational productive development policies in Latin America and the Caribbean
- F. Cluster initiatives and other productive harmonization initiatives
- G. Guidelines and recommendations for regional implementation of productive development policies



## A. The low-growth trap in Latin America: the role of productivity

Latin America and the Caribbean is mired in three traps that are hampering its development: weak capacity for growth; high inequality and limited social mobility and social cohesion; and weak and ineffective institutional and governance capacities. The structural problem of low growth is clearly reflected in the steady decline in long-term trend growth over more than four decades, ending in another lost decade between 2014 and 2023, during which the region recorded average annual growth of just 0.9%, much lower than the 2% registered in the notorious lost decade of the 1980s.

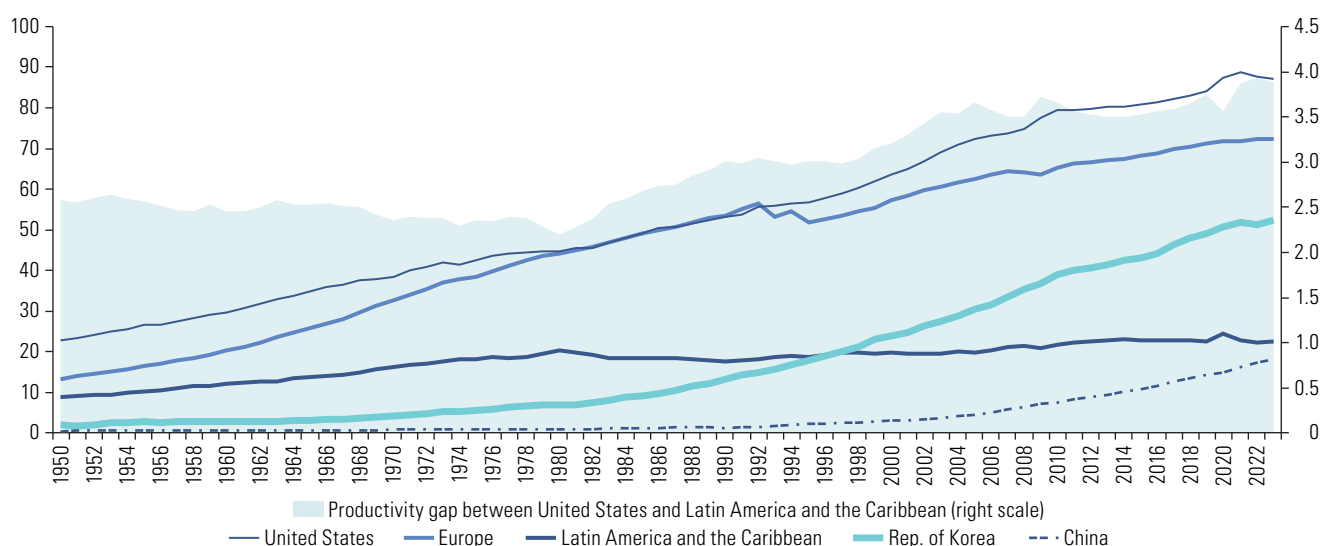
The region has failed to find a steady path to economic growth. First, it lags far behind other regions in terms of investment, recording the lowest levels worldwide. Second, and perhaps more importantly, its productivity has stagnated, and even declined, in recent decades. As explained in detail in *Economic Survey of Latin America and the Caribbean, 2024*, this low-growth trap is also weighing heavily on the capacity to create good-quality jobs and to sustain dynamic labour markets.

### 1. Productivity has stagnated and waned in recent decades

The analysis of labour productivity in chapter I of the present document reveals stagnation in the region, widening the gap with more advanced countries. In 2022, productivity was four times greater in the United States than in Latin America and the Caribbean, almost double the ratio since 1950 (see figure 1). However, trends among the countries of the region are mixed: while Panama recorded an impressive increase of 151% in labour productivity between 2005 and 2024, narrowing its relative gap, productivity fell by 52% in the Bolivarian Republic of Venezuela.

**Figure 1**

Production per hour worked and productivity gap vis-à-vis United States, 1950–2023  
(GDP in international constant dollars at 2017 prices at purchasing power parity)



**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of The Conference Board, Total Economy Database [online] <https://www.conference-board.org/data/economydatabase/total-economy-database-productivity>.

Meanwhile, the contribution of total factor productivity to the region's per capita GDP growth in recent decades has been negative owing to a series of challenges, such as lack of investment in human capital, poor education quality, scarce fixed capital formation, and a political, social and economic environment that is not always favourable to business activity.

Also underlying this mediocre productivity in Latin America and the Caribbean are considerably mixed productivity levels and trends based on economic sector, company size and subnational territory. This heterogeneity is evident in the coexistence of high- and low-productivity sectors, and in the large productivity gaps between companies of different sizes and between different regions of the same country, resulting in a multilevel economic dualism of sorts. Highly uneven productivity, exacerbated by high rates of labour and business informality in particular, hinder productive linkages.

## 2. Labour force and technological complexity and intensity as determinants of productivity

Workers' education and skills play a key role in productivity. Latin America and the Caribbean face significant challenges in this respect, especially with regard to the quality of education and human resource training. The progress made in the region in terms of years of schooling has not translated into stronger economic growth. Part of the reason is that this progress has not produced education outcomes (skills, competencies, capabilities, characteristics) that result in a more productive labour force, which is linked with the poor quality of education in many of the region's countries, as measured by standardized tests. Another factor is the region's economic structure, which, even with the expansion of education giving rise to a workforce with greater productive potential, fails to ensure that this greater "human capital" is leveraged and employed in dynamic and high-productivity sectors.<sup>1</sup> Moreover, the region's low productivity growth is consistent with the weak technological complexity and sophistication of its productive structures. Indicators such as the economic complexity index and the relative share index for engineering-intensive industries reveal structural weaknesses in this respect. In other words, the failure to fundamentally transform the region's economies has made it impossible to achieve stronger productivity growth.

In order to break free from the low-growth trap, which is largely due to weak productivity and the absence of structural change, efforts are required on numerous fronts, including the improvement of economic fundamentals,<sup>2</sup> which entails decades of continuous progress and a long-term perspective. However, productive development policies are an area of work that would yield progress within a reasonable time frame. If the countries applied these policies thoroughly and effectively, they would not need to await the outcome of lengthy prior reform processes, or to have an excellent business climate already in place, in order to increase their productivity and thence their growth.

For this reason, ECLAC has reiterated that Latin America and the Caribbean must scale up and improve productive development policies that foster productivity and bring about a virtuous structural shift towards sectors that are more dynamic and generate higher value added. Narrowing productivity gaps, encouraging the appropriation of technology and knowledge, and creating the economic conditions to leverage the potential of the labour force are essential measures that must be incorporated into such policies, with a view to achieving sustainable and inclusive growth that reduces inequalities and improves the well-being of the region's population.

<sup>1</sup> L. Pritchett, "When does education drive growth and when does it not? Education policies for transformative growth", paper presented at the lecture series as part of the seventy-fifth anniversary of ECLAC, Santiago, Economic Commission for Latin America and the Caribbean (ECLAC), 18 March 2024, forthcoming.

<sup>2</sup> Understood in this analysis as conditions of education, governance and macroeconomic stability.

## B. A new vision and a new conviction for productive development policies in the region

In the history of economic development, no country has successfully made the transition from agrarian to industrial economy without the implementation of selective productive development policies. In Latin America and the Caribbean, import substitution industrialization policies were popular between 1950 and 1980, but subsequently exhausted owing to their prioritization of the domestic market over the international market and excessive tariff protection, which thwarted the shift towards competitive exports and more innovative and productive sectors and production methods.

Implementation of productive development policies in the region declined in the 1980s, when grave economic crises resulted in external trade liberalization and structural adjustment policies focused on macroeconomic factors, all heavily influenced by the Washington Consensus, which, despite including some positive elements, dismissed the importance of productive development policies and the State's role in economic transformation. In spite of this shift, these policies never fully disappeared, and their re-emergence in the past decade has been strong and buoyed by innovation.

New trends, including the rearrangement of global value chains, the rise of China as an economic power, growing geopolitical tensions, the need for greener and more sustainable growth, and greater awareness of the dangers of high social inequality, have prompted the resurgence of productive development policies. However, this does not mean that Latin America and the Caribbean should merely try to emulate the policies implemented outside the region. It must adopt a new vision for productive development policies that address its own challenges and characteristics.

### 1. New rationales, new scope and new vision for productive development policies for Latin America and the Caribbean

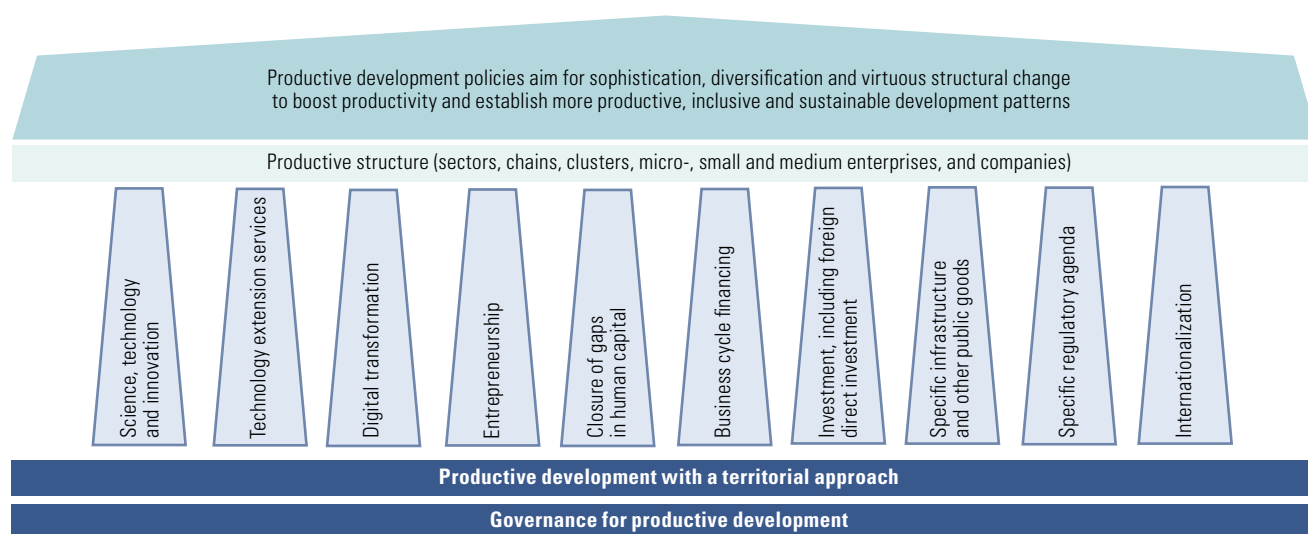
Chapter II of the present document summarizes the ECLAC proposal for new rationales, a new scope and a new vision for productive development policies adapted to the current context and specific conditions in the region. Briefly, these policies may be understood as horizontal and vertical efforts aimed directly at productive transformation, in other words, sophisticating, diversifying and producing virtuous structural change in the productive apparatus, as a vehicle for increasing productivity and thereby achieving more productive, inclusive and sustainable development.

According to this definition, these policies are applicable to many sectors of the economy, not just the industrial sector. Broadly speaking, this new vision of productive development policies:

- Advocates for the countries and their respective territories to define productive priorities on the basis of driving sectors that may not only spur productive development, but also transform economies to achieve stronger, sustained, inclusive and sustainable growth.
- Includes the understanding that these policies are mainly collaborative efforts involving the public and private sectors, academia and civil society to identify and address bottlenecks and implement strategies for economic transformation. Therefore, governance, understood as the various mechanisms—forums, ground rules, characteristics and incentives—that enable multiple stakeholders, resources and efforts to be coordinated at different levels of government, becomes key.

- Implies coordinated work on a number of fronts, including science, technology and innovation; technology extension; entrepreneurship; digital transformation; closure of human resource gaps; financing; investment; specific infrastructure and other specific public goods; regulatory agendas and specific regulations; and internationalization, for example (see diagram 1).
- Does not, a priori, rule out the use of instruments as incentives, but does not prioritize them; focusing instead on governance and collaboration between key stakeholders in each sector and on the provision of specific public goods, like the cluster initiative approach.
- Encourages a greater role for territories and local stakeholders, complementing national efforts, in the design and implementation of these policies. This means advancing models for interaction among the different forums for policymaking and policy implementation on the basis of multilevel governance mechanisms.
- Adopts an experimentalist governance approach, meaning the understanding of policy management as a collaborative, iterative process in which problems are both identified and solved through collaboration between multiple stakeholders in ongoing iterations and the sustained implementation of solutions over time. In other words, a governance model in which recursiveness prevails, in which implementation, evaluation, adjustment and renewed implementation take place in a continuous iterative learning process.
- Conceives these policies with a broadly understood internationalization approach. This includes, among other things, guiding productive development policy efforts to position the production of goods and services in international markets, for economies that are increasingly open to international competition. Includes attracting foreign capital to leverage these efforts. Also implies connection through sources of technology and knowledge worldwide, including the possibility of connecting through the flow of people and particularly diasporas. Moreover, includes the possibility of working with countries within and outside the region on agendas to strengthen productive development efforts.

**Diagram 1**  
Definition and scope of productive development policies



**Source:** J. M. Salazar-Xirinachs and M. Llinás, “Towards transformation of the growth and development strategy for Latin America and the Caribbean: the role of productive development policies”, *CEPAL Review*, No. 141 (LC/PUB.2023/29-P), Santiago, Economic Commission for Latin America and the Caribbean (ECLAC), 2023.

## 2. Hypotheses relating to productive development policy efforts in Latin America and the Caribbean

Productive development policymaking is not new to Latin America and the Caribbean. As mentioned, the region has already undertaken efforts in this area and continues to do so. However, these efforts have been: (i) marginal, given the productivity challenge it faces and compared with what other countries are doing in this area; (ii) disjointed, with great opportunities to improve the coordination of the efforts being made by different ministries, agencies, stakeholders and levels; (iii) discontinuous, changing abruptly when there are changes of government, although these are medium- and long-term agendas, and the idea of building on what has already been achieved should prevail; (iv) managed primarily in a centralist, top-down way from capital cities, without any major role for local territories and actors; (v) insufficiently evaluated, even though evaluation is essential to identify what works, and should therefore be scaled up, and what does not, so that it can be adjusted or discarded; and (vi) low-impact, when considered in the light of the region's poor productivity and growth performance. Because of these and other factors, efforts are generally not aligned with the new vision for productive development policies.

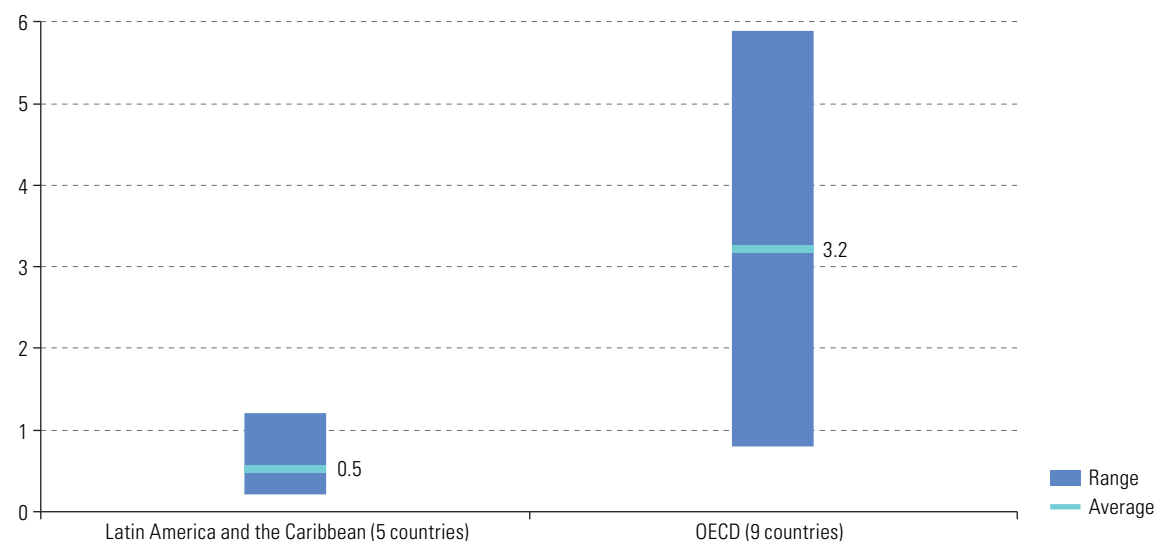
Given these hypotheses on the characteristics of productive development policies in the region, the rest of this document is focused on an initial comprehensive analysis of the relevant efforts in the region, in order to validate them or rule them out.

## C. Productive development policies of national governments in Latin America and the Caribbean: an initial exercise to characterize and quantify their instruments

Chapter III of the report presents an initial analysis that characterizes and quantifies productive development policy efforts in five of the region's countries: Argentina, Brazil, Chile, Colombia and Mexico. This exercise was limited to direct support instruments focused on helping companies improve how they operate, including subsidies (non-reimbursable financing), tax incentives (exemptions, discounts, tax credits and other measures), financial instruments (loans and guarantees), capital contributions (for example venture capital) and direct support services (non-financial support such as technical advice, provision of information and training).

This first comparative analysis of productive development policies in these countries reveals commonalities as well as big differences. The five countries analysed allocated public resources equivalent to between 0.2% and 1.2% of GDP in the five instrument categories considered from 2021 to 2022. These data show that the amounts allocated are low compared to spending on productive development policies in nine member countries of the Organisation for Economic Co-operation and Development (OECD) for which a similar exercise was carried out, and indicated that those countries spend an average of 3.5% of GDP, even when excluding support for the agricultural sector (see figure 2).

**Figure 2**  
Latin America and the Caribbean and OECD: public funding for direct support productive development policy instruments, 2021–2022  
(Percentages of GDP)



**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of surveys conducted in the respective countries and CEPALSTAT [online database] <https://statistics.cepal.org/portal/cepalstat/index.html?lang=en> for Latin America and the Caribbean data; and C. Criscuolo and others, “Quantifying industrial strategies across nine OECD countries”, OECD Science, Technology and Industry Policy Papers, No. 150, Organisation for Economic Co-operation and Development (OECD), June 2023, for OECD data.

**Note:** The figures for Latin America and the Caribbean refer to the 2021–2022 average; those for OECD, to 2021 (excluding the agricultural sector).

In general, except in Chile, tax instruments predominate in the countries evaluated. In Argentina and Brazil, they account for between 61.5% and 87% of the total amounts allocated to productive development policies. Meanwhile, in Chile, subsidies represent more than 70% of the total. Brazil makes the most use of financial instruments, which account for more than 35% of the amount spent, underscoring the importance of development banks in the country. Support services generally account for a smaller share of this type of spending by national governments.

A comparison of the identified objectives and priorities of productive development policies reveals few similarities among the countries. While Brazil mainly employs policy instruments differentiated by sector, Colombia’s productive development policies reflect no such differentiation, and are instead focused on spending to spur innovation across all sectors. In Argentina, meanwhile, there is a heavy emphasis on tax expenditure at the local level.

There is no clear alignment between the policy instruments and the definition of production priorities. Productive policy instruments appear to be mainly disconnected from the priorities defined in national productive agendas.

Moreover, there is little coordination between the institutions responsible for productive development policies. Resources are dispersed widely among multiple agencies, programmes and instruments, which results in efforts that are highly fragmented and therefore of reduced potential impact, in addition to imposing a heavy administrative burden and making it difficult to coordinate efforts. Lastly, there is a limited range of instruments to facilitate or encourage partnership, coordination and effective governance of multiple stakeholders, in line with the good practices outlined in the ECLAC vision for productive development policies.

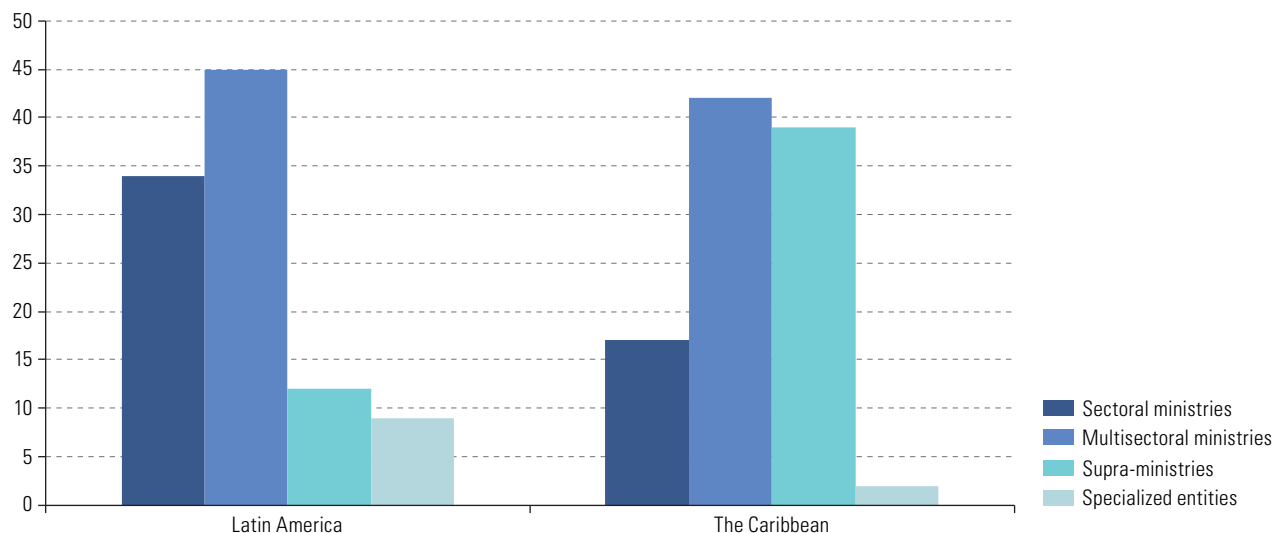
## D. Productive development policy institutions and governance in Latin America and the Caribbean

As already mentioned, obstacles to the effectiveness of productive development policies in Latin America include insufficient coordination among key productive development stakeholders, an excessively centralist approach that prevents the adaptation of policies to specific contexts, and the lack of systematic evaluation and monitoring of policies and of continuity of productive development policies. Improving the effectiveness of such policies thus requires the strengthening of governments' institutional capacity and of the type of governance that would resolve these shortcomings. Chapter IV of the present document provides an initial assessment of public institutions that support productive development policies in the countries of the region, and a first map of relevant multi-stakeholder and multilevel governance mechanisms.

The assessment provisionally identifies and characterizes 197 institutions that are directly responsible for productive development policies in the 33 countries of the region, and 74 coordinating bodies in 15 countries. Productive development policy institutions were divided into four categories, depending on their level of specialization: "supra-ministries"; multisectoral ministries, sectoral ministries and specialized entities; multisectoral ministries made up the largest group (see figure 3).

**Figure 3**

Latin America and the Caribbean (33 countries): areas of activity addressed by different types of government entity, by region and subregion  
(Percentages)



**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official information from the countries.

Governance, as mentioned earlier, is understood as the set of mechanisms that stimulate and strengthen coordination of efforts, stakeholders and resources for productive development, such as formal and informal coordination incentives; legal instruments that define roles and responsibilities of productive development policy stakeholders and modalities for joint decision-making; interaction procedures; and traditional coordination mechanisms, such as committees and councils, either national, local or multilevel. Chapter IV focuses on the analysis of coordination mechanisms,

of which it presents a preliminary map. Although this map reveals big differences between the countries analysed, it indicates a greater number of national coordination mechanisms than multilevel ones; the former play a consultative role, or at most, offer proposals, rather than fulfilling deliberative or executive functions.

The specific analyses of Argentina, Chile, Costa Rica, Mexico and Uruguay give weight to this reflection with examples of implementation of productive development policies in different national settings, and of governance of productive development policies and mechanisms for multi-stakeholder and multilevel coordination in each of these countries. These five cases show the diversity of approaches and coordination mechanisms employed in the region, as well as the varying degrees of maturity of multilevel governance.

On the basis of the information gathered, this chapter underscores that, unlike in other areas of public policy (such as education and justice), productive development policy institutions are dominated by a polyarchy, given the involvement of a wide variety of stakeholders, authorities and specialities. This highlights the importance of having governance mechanisms to avoid duplication and enhance the effectiveness of productive development support measures. In that regard, the region is highly fragmented, and the coordination mechanisms adopted have been unable to fully resolve this problem.

There is ample room for improvement in multilevel coordination mechanisms, which are scarce and often only wield consultative authority. One of the obstacles to more effective multilevel governance is the lack of decentralization policies to advance capacity-building in subnational governments, especially in territories with weaker institutions.

Lastly, this chapter underscores the need for continued research and fine-tuning of information on productive development policy institutions and governance in the region, with the aim of systematizing good practices and thus strengthening governments' productive development capacity.

## E. Subnational productive development policies in Latin America and the Caribbean

As mentioned in chapter I, uneven productivity at the subnational level is one of the factors behind low productivity in the region, with some territories enjoying relatively high productivity while others suffer from low productivity. This, along with the technical and political factors driving the need for a territorial approach to such policies, has led to the increasing implementation of a place-based policy approach to productive development policies. With a view to providing a more detailed analysis of the action taken by subnational governments —intermediate and local— in that regard, chapter V presents novel measurements of subnational spending on productive development policies in selected countries of the region, and examines the areas of specialization of these policies at the subnational level as well as the type of instrument used.

An understanding of States' structure is essential to comprehend the role of subnational governments in productive development policymaking. The analysis presented in chapter V provides a closer look at the experiences of five countries in the region: Argentina, Chile, Costa Rica, Mexico and Uruguay. These countries' State structures vary, in that they are either federal or unitary.

Subnational governments' relative autonomy is reflected in their share of national public sector spending. In countries where subnational governments have greater relative authority or functions, they also account for a larger share of total public spending, and thus wield more power in the exercise of their functions. Public spending covers a wide range of policies, including productive development policies, which are crucial to accelerate local economic development. The productive development policies designed and implemented by subnational governments tend to be more specific and adapted to the needs of territories, compared with those arising from centralized approaches employed by national governments. Moreover, productive development policies implemented by subnational governments are generally the result of a collective effort that encourages participation and contributions from stakeholders in each territory, companies, academia and civil society, giving rise to policies that enjoy more social legitimacy, stability and continuity.

The data show that intermediate governments allocate roughly 10% of available investment budgets, on average, to productive development policies (Chile and Colombia), and about 2% of total budgets (Argentina and Uruguay). There is also a negative correlation between regions' per capita income and the share of public spending by intermediate governments allocated to productive development policies: the poorest regions tend to invest more, proportionally, in productive development policies than richer regions. This may be due to the greater need for and urgency of economic revitalization in territories with fewer resources. Subnational governments' absolute spending is heavily influenced by the financing they receive from national governments, which is sometimes subject to criteria to reduce gaps between regions or territories.

Subnational governments employ different types of programme and instrument to implement productive development policies. These include programmes to foster productivity, innovation, job training, tourism development and support for science and technology research, for example. Chapter V provides an analysis of these instruments in three countries of the region (Argentina, Chile and Uruguay), and shows which programmes and instruments are most often adopted by subnational governments in the region.

Data compiled from the review of municipal development plans in Chile and Colombia show that local (municipal) governments tend to focus on specific types of productive development policy, e.g. those targeting entrepreneurship, formalization, microenterprises, tourism, agricultural development, job training and technical education. Meanwhile, intermediate governments tend to prioritize specific economic sectors and to invest more in small and medium-sized enterprises and business clusters, and to be involved in attracting foreign direct investment and in efforts targeting science, technology and innovation, in addition to supporting local governments in these areas. National governments, for their part, support and form relationships with intermediate governments relating to the productive development policies mentioned, and focus on establishing regulations that support national productive development, financing major specific infrastructure works, coordinating and carrying out internationalization efforts and participating in global value chains, and leveraging international relations to drive national productive development. This outline of "comparative advantages" by level of government, on the basis of the data collected, proposes an initial approach to differentiating specific functions by level of government with a view to ensuring collaborative multilevel governance of productive development policies (see table 1).

**Table 1**  
Areas of specialization of productive development policies, by level of government

	Prioritized sectors	Major infrastructure	Internationalization	Regulations	Science, technology and innovation	Attraction of FDI	Prioritized sectors	Clusters	Small and medium-sized enterprises	Technical education	Job training	Agriculture	Tourism	Microenterprises	Formalization	Entrepreneurship
National government																
Intermediate government																
Local government																

Source: Economic Commission for Latin America and the Caribbean (ECLAC).

## F. Cluster initiatives and other productive harmonization initiatives

Cluster initiatives and other productive harmonization initiatives are a good example of collaborative productive development policies with a territorial approach, it being understood that they are a mechanism that allows the coordination of multiple stakeholders and the combination of different types of productive development action and project in strategic agendas that improve the productivity of the firms that participate in these initiatives. In December 2023, ECLAC launched the Platform for cluster and other territorial productive articulation initiatives in Latin America and the Caribbean,<sup>3</sup> which identifies, maps and classifies hundreds of examples in the region, in order to promote these efforts. The data show that this type of productive harmonization initiative has been developed in sectors such as agro-industry, manufacturing and tourism, which not only contribute to economic growth, but also foster employment, social inclusion, sustainable development and dialogue among various stakeholders. The active participation of subnational governments in these initiatives is key to their success, as they provide knowledge of the territories and facilitate implementation of policies adapted to local realities.

## G. Guidelines and recommendations for regional implementation of productive development policies

The assessment undertaken revealed significant opportunities for taking a more ambitious approach and for improving the design and implementation of productive development policies in the region. Countries of the region must leverage these opportunities to break out of the low-growth trap. This calls for deeper analysis as well as more robust recommendations. As outlined in the document, there is a need to deepen the “whats” and the “hows” underlying productive development policies. To that end, chapters II, III, IV and V include more than 80 recommendations for Latin American and Caribbean countries and their respective territories to scale up and improve their productive development policies. These recommendations are grouped under the following 14 guidelines.

<sup>3</sup> See [online] <https://geo.cepal.org/dp-clusters/index.html?lang=en>.

## 1. Increase efforts relating to productive development policies and their impacts, in line with the new vision proposed

A comparison with more developed countries shows that there is need in the region of increased efforts and the commensurate resources for productive development policies, as well as better allocation and management of these resources. This poses a major challenge, since, in a scenario of scarce resources and multiple priorities, it is not only a matter of “doing more” with more resources, but also of “doing better” with the resources that are available. However, as has been argued in this document, the new global wave of productive development policies should not prompt the region to emulate the cascade of subsidies and tax credits granted in other parts of the world. Instead, in line with the new vision of productive development policies proposed by ECLAC, the emphasis should be on implementing or strengthening governance schemes that make it possible to coordinate multiple stakeholders, resources and efforts around strategic agendas for productive development policies.

This would be facilitated, for example, by forging agreements between national and subnational governments to scale up the resources available to the latter for investment in productive development policies. It would also be useful to review current allocations to avoid duplication, maximize synergies and curb fragmentation of investments, which results in limited and ineffective measures. Moreover, it will be crucial to identify the best instrument designs in the different productive development policy areas, which are shown in diagram 1 and detailed in chapter II, in accordance with the different institutional capacities of countries and their territories, including making efforts conditional on the achievement of results and targets relating, for example, to productivity, exports or some other productive performance variable.

Two productive development policy areas deserve special mention. First, the need to scale up and sophisticate efforts in technology extension, in other words the services that allow businesses, especially micro-, small and medium-sized enterprises, to appropriate technologies and knowledge, including the improvement of management practices. Second, the need to work collaboratively to identify and close gaps in human resources, particularly in prioritized sectors.

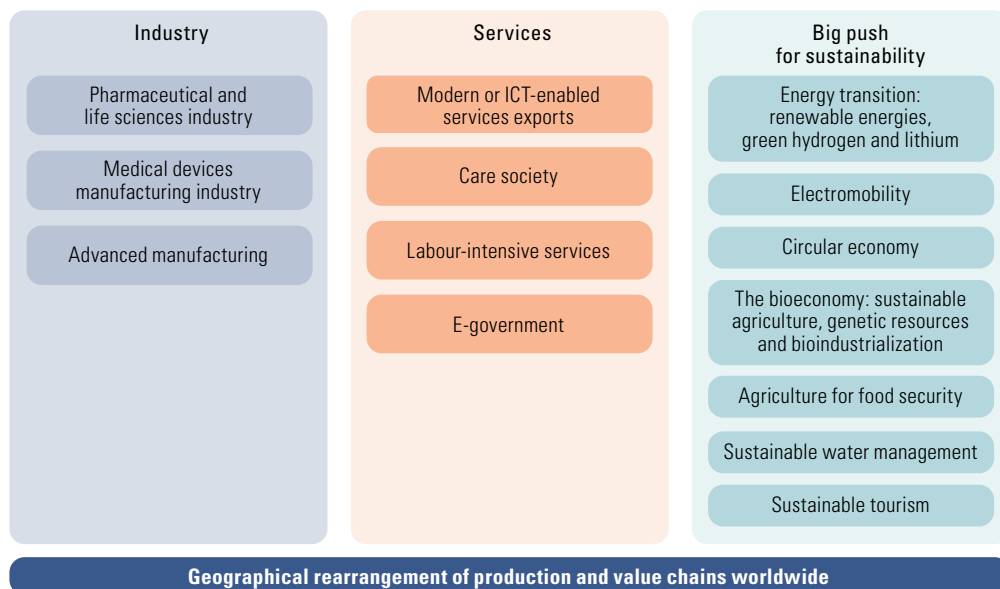
These measures and others detailed in this publication, as well as fostering greater proactivity and collaboration between the private sector, academia and civil society, could scale up productive development policy efforts and their impact with relatively moderate investment. Programmes and instruments involving the coordination of local productive initiatives, such as cluster initiatives, are examples of methods that require limited resources but can have a big impact, strengthening and boosting the proactivity and coordination of local stakeholders.

## 2. Establish production priorities and align productive development policy efforts with them

Given that productive development policies influence multiple areas and involve a number of requirements, and in light of limited capacity not only in terms of financial resources but also of institutions, countries and territories must establish productive priorities when developing such policies. To that end, ECLAC has proposed an illustrative portfolio of 14 driving sectors that countries and territories may consider when defining these priorities. This exercise should include analysis of the specific context of each

country and territory. The sectors are grouped into three categories: industry, services and the big push for sustainability (see diagram 2). The opportunities presented by the geographical rearrangement of production and value chains globally represent a cross-cutting area, as this is a key trend encompassing several of the other sectors listed.

**Diagram 2**  
Great productive transformation: portfolio of driving sectors



**Source:** J. M. Salazar-Xirinachs and M. Llinás, “Towards transformation of the growth and development strategy for Latin America and the Caribbean: the role of productive development policies”, *CEPAL Review*, No. 141 (LC/PUB.2023/29-P), Santiago, Economic Commission for Latin America and the Caribbean (ECLAC), 2023.

The need to establish these priorities does not prevent countries and territories from strengthening their capacities to address a growing number of new sectors and needs.

A large part of their efforts targeting productive development policies must be aligned with the established priorities. It is therefore crucial for diverse stakeholders—the public and private sectors, academia and civil society—to play an active role in defining productive development policy priorities, to ensure the firm and active commitment of all stakeholders to these policies. This support not only guarantees continuity in policies, but also better alignment of resources, experiences and knowledge. To this end, it is advisable to establish continuous and formal procedures for dialogue among stakeholders to maximize the convergence of the different efforts towards the achievement of the agreed priorities. Moreover, prioritization exercises must be complemented by incentive mechanisms at multiple levels, so as to encourage the alignment of efforts and resources around these priorities.

### 3. Strengthen coordination of stakeholders and efforts at different levels of government through governance mechanisms

The countries of Latin America and the Caribbean and their territories must strengthen or establish governance mechanisms that allow the coordination of stakeholders from the public and private sectors, academia and civil society, and their efforts involving productive development policies. It is therefore necessary to organize and improve the functioning of multi-stakeholder and multilevel mechanisms for coordination (between national and subnational bodies), formally establishing them where necessary or

eliminating ineffective ones. Other instruments that encourage coordination should also be considered, such as incentives or regulations that foster collaboration among the different productive development policy stakeholders, or virtual platforms that serve as repositories of the productive development programmes of the different ministries and agencies in charge of these policies, which make it possible to detect duplication and gaps in productive development, and thus foster coordination.

#### **4. Strengthen the commitment of all stakeholders, particularly the private sector, to productive development policies**

Productive development policies cannot be seen as the exclusive responsibility of governments, but as that of all stakeholders. It is therefore crucial for diverse stakeholders—the public and private sectors, academia and civil society—to play an active role in designing and implementing productive development policies, to ensure the firm and active commitment of all stakeholders to these policies. This support ensures continuity in policies and better integration of resources, experiences and knowledge. The modality of stakeholders' participation in forums for dialogue must thus allow for an effective synthesis of all their contributions and roles, and of the respective knowledge and experiences.

Special mention should be made of the commitment needed from the region's private sector in the design and implementation of productive development policies. The experience of many more industrialized countries such as Germany and the Republic of Korea, and of regions such as the Basque Country, shows that private companies, especially large ones, are called upon to play a central role in the productive transformation of their economies. In particular, they can be crucial in revitalizing production chains and clusters, accelerating technology and knowledge transfer, creating marketing opportunities for smaller companies, or simply venturing into new sectors and economic activities. Business associations and companies themselves can actively contribute to the design, implementation and management of productive development policies, especially in collaboration with national governments, to execute productive development programmes or create collective goods. This would increase available resources and ensure the continuity of productive development efforts, and establish more relevant and effective policies and programmes. To achieve this collaboration, efforts can be made to engage in dialogue with the private sector on the important role it must play within the framework of this new generation of policies, and to convince the public sector of the advantage of encouraging collaborative work with the private sector.

#### **5. Strengthen the technical, operational, political and prospective capabilities of the institutions responsible for productive development policies**

The technical, operational, political and prospective (TOPP) capabilities of the institutions in charge of productive development policies are fundamental for the design, management, monitoring and evaluation of these policies. In addition, there is an urgent need to strengthen the capacities of subnational governments (especially in the territories lagging the furthest behind) to design and implement productive development policies, facilitating their participation in multilevel coordination bodies, their capacity for dialogue with national entities in charge of productive development policies and their contribution to the development of collective efforts with subnational governments in this area.

Links with the higher education and training system are therefore fundamental, as they enable public officials and other stakeholders to continuously acquire greater capacities for planning and implementing policies, programmes and projects. It is also key to create spaces for regional dialogue that allow for the exchange of good practices in the design and implementation of productive development policies, such as the Platform for cluster and other territorial productive articulation initiatives in Latin America and the Caribbean and other initiatives for territorial productive coordination, and the emerging network of subnational governments for productive development, which ECLAC has been leading.

## 6. Maintain continuity of productive development policies

Strengthening productive development policies will require medium- and long-term efforts. Therefore, it will be essential to maintain these policies and strategic agendas over time, always seeking to “build on what has been built.” One way to achieve this is precisely by strengthening the institutional framework and collaboration agreements. A strong institutional framework of excellence in productive development policies is one of the best ways to ensure the legitimacy of priorities, goals and strategies, seeking to stimulate the participation and even, in some cases, the co-leadership of private stakeholders, the private sector and civil society in the management of productive development policies and programmes. In other words, public bodies with strong management capacity and greater autonomy from the respective policy governing bodies must be created and consolidated. This would reinforce the continuity of the work plans that are rolled out to implement the policies. At the same time, non-governmental stakeholders must appropriate these policies, demanding their continuity and strengthening, regardless of changes in administration.

## 7. Strengthen territorialization of productive development policies

It is necessary to rethink the role of the national institutions in charge of productive development policies, reduce their responsibilities for the execution of local and regional programmes and strengthen their strategic capacity, which includes the implementation of major national and long-term projects, the establishment of competitive funds that encourage the coordination of efforts at the subnational level, the fostering of joint programmes between intermediate governments, the systematization and dissemination of good practices, innovation in productive development policy efforts and support for intermediate governments in this area, especially in peripheral regions. Adopting the mechanism of multilevel collaboration agreements with resource transfers for specific purposes related to productive development policies seems to be a good practice in many countries of the region. In some countries, it may be essential to review the current legal framework to clarify and strengthen the powers of intermediate and local governments in relation to productive development policies, implement efforts to decentralize authority and resources currently concentrated in national entities to subnational actors, with a good balance between both areas, and strengthen the institutional framework and capacities of subnational governments (intermediate and local) for the design and implementation of productive development policies, as well as mechanisms for transparency, accountability and probity in the use of resources.

## 8. Establish and strengthen cluster initiatives and other productive harmonization initiatives

Cluster initiatives and other productive harmonization initiatives are effective forms of collaboration, which have been widely successful in the international arena, allowing the organization of productive development policy efforts. The establishment of national and subnational programmes to support the emergence and strengthening of these types of initiative —such as cluster initiatives, business networks, production chain initiatives or supply networks— aims to provide technical support to these initiatives, co-financing of cluster managers, co-financing of joint projects and efforts linked to strategic agendas, including the financing of specific public goods. These programmes and initiatives should also be used to implement national and subnational productive development strategies, with emphasis on specific sectors capable of boosting the economies of the regions and territories.

## 9. Adopt the experimentalist governance approach in the management of productive development policies

The new generation of productive development policies advanced by ECLAC is based on an experimentalist approach to management, which is essential in polyarchic environments of uncertainty and rapidly changing technological, competitive and market realities. The experimentalist approach, as described above, facilitates the adaptation of plans, programmes, institutional arrangements and policies to the constantly evolving economic, competitive and institutional context in which they are developed. Hence the importance of this approach in relation to productive development policies, in contrast to the more traditional public policy management approaches.

## 10. Strengthen evaluation capacities

Generally speaking, it is important for the countries of the region and their territories to strengthen their capacity to evaluate and monitor productive development policies in order to improve such interventions, and not as a sanctioning or bureaucratic process. Clear mandates should be created or reinforced to, among other things, evaluate policy (and not only instruments in isolation), encourage the use of cost-efficient methodologies, develop clear strategies to use results in the design and redesign of programmes, break with the perception of evaluations without sanctions for the public service, and foster exchange networks among productive development policy evaluation and monitoring agencies in the region.

## 11. Adopt a market internationalization approach for productive development policies

As part of the above-mentioned internationalization approach, productive development policy efforts must take a market internationalization approach, because of the importance of developing international competitiveness for exporting and because in economies that are increasingly open to international competition, internationalization is a way for domestic companies to compete with increasingly international standards in domestic

markets. The countries that have achieved extraordinary growth in recent decades have been those that have managed to bring their output to international markets, growing exports by more than GDP and diversifying them into more complex goods. Greater economic interdependence and international standards in a multitude of value chains mean that internationalization is also important for the competitiveness of companies in national and regional markets under the open regionalism approach. It cannot be expected, though, that this internationalization of production will be achieved simply through productive development policy efforts, as a kind of spillover effect. To meet this objective, it is necessary to work on explicit productive development agendas for internationalization with this dual vision of the concept, i.e. with policies that seek to position national products in international markets and that, at the same time, are capable of increasing the share of these products in domestic markets through the adoption of the best global production standards.

Considering internationalization in addition to economies of scale allows the discipline of exporting to be treated as an indicator of the productivity improvements resulting from productive development policy efforts, and internationalization as a criterion for applying conditionality when providing support under these policies.

## 12. Frame efforts to attract foreign direct investment within productive development policies

In line with what is proposed in *Foreign Direct Investment in Latin America and the Caribbean, 2024* of ECLAC, it is essential to frame efforts to attract foreign direct investment as a subset of the productive development policies of the region's countries and their territories. In this regard, productive priorities defined in these policies must serve as a basis for attracting foreign direct investment, not only to allow foreign investors to resolve bottlenecks and expand their initial investments through the productive development agendas that may be deployed, but also to strengthen the development of local suppliers, productive linkages, human resources training, specific infrastructure and regulatory improvement, for which cluster initiatives, for example, can be a powerful tool.

## 13. Create collaborative links between countries to strengthen productive development policies by developing common strategies and agendas

Although productive development policy efforts will depend largely on the achievements of the countries and their respective regions and territories in that regard, collaboration between different countries and territories in Latin America and the Caribbean is also possible. For example, the countries of the region could strengthen their productive development policies by formulating shared agendas on issues of common interest, such as the sustainable exploitation and processing of natural resources and the strengthening of certain value chains that can take advantage of the scale that the regional market would allow. To that end, collaboration between cluster initiatives operating in different countries and working in similar or complementary sectors could be useful, for example.

## 14. Leverage opportunities arising from the productive development policies fostered by countries outside the region

With the return of productive development policies at the global level, it is important that any collaboration in terms of trade and investment between Latin America and the Caribbean and the rest of the world should complement collaboration on productive development policies. For example, ways should be explored to ensure that at least part of the relocation benefits that the more developed countries are granting to firms returning to their territories or new investments in sectors targeted by incentives can also be granted to investments made by those countries' firms in Latin America and the Caribbean. In addition, cooperation should be sought with these countries to strengthen the productive capacities of the countries of the region, as is exemplified by the CHIPS ITSI Western Hemisphere Semiconductor Initiative of the United States, which seeks to improve semiconductor assembly, testing and packaging capabilities in key partner countries, starting with Mexico, Panama and Costa Rica.



## CHAPTER



# The low-growth trap in Latin America and the Caribbean: the role of productivity

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### Introduction

- A. Labour productivity: comparing the region's performance with selected reference countries
- B. Growth and multifactor productivity: weak technical progress
- C. The region's heterogeneous production landscape and some of its determinants
- D. Characteristics of the labour force as determinants of productivity and the role of education
- E. The significance of technological intensity and complexity
- F. Concluding remarks

### Bibliography

Annex I.A1

Annex I.A2



## Introduction

The Latin American and Caribbean region faces diverse barriers when it comes to making progress towards more productive, inclusive and sustainable development. These challenges distil into three main traps or syndromes that feed into one another: (i) low capacity for growth; (ii) high inequality, low social mobility and weak social cohesion; and (iii) low institutional capacity and ineffective governance (Salazar-Xirinachs, 2023).

Economic growth in Latin America and the Caribbean has shown a clear downward trend since the 1950s. Average growth was 4.9% in the 1950s, 5.7% in the 1960s and 5.9% in the 1970s, but just 2% in the 1980s (including the period of the debt crisis), and 2.7% in the 1990s (the time of the market reform boom). These growth rates showed no improvement entering the twenty-first century, at just 3% in the 2000s (including the period of the commodities export boom, but also the headwinds of the North Atlantic financial crisis of 2008 and 2009) and 1.9% in the 2010s (a slow-recovery phase prior to the outbreak of the coronavirus disease (COVID-19) pandemic).

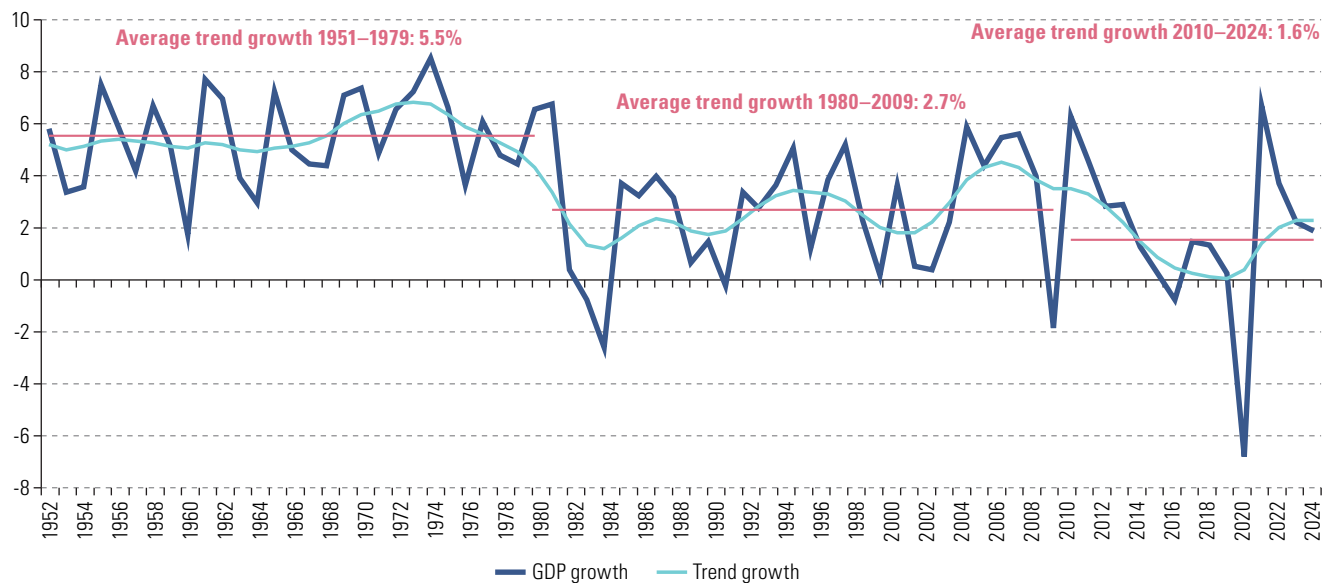
In the more recent period, and in a more complex setting for global trade and finance, the lag suffered by the region has become more glaringly obvious, and in 2023 the region rounded off a decade that was even more “lost” than the lost decade. Annual output growth averaged just 0.9% between 2014 and 2023, compared with 2.3% in the notorious lost decade of the 1980s. The contractionary effects of the pandemic and the war in Ukraine, with the recent addition of the crisis in the Middle East, and the inflationary drive these shocks produce (affecting interest rates in most of the world’s economies) have further worsened global trade prospects. There has even been reference to a cascade of crises that began with the global financial crisis of 2008, whose effects are still keenly felt and have been intensified by growing geopolitical rivalry between the major global powers (Salazar-Xirinachs, 2023; Grynspan, 2023).

Beyond the current circumstances, it is important to be clear that the region’s growth problem is a structural and long-term one. As shown in figure I.1, average trend growth was 5.5% per year in the 30 years from 1951 to 1979, falling to 2.7% in the following 30-year period from 1980 to 2009 (half the previous period’s rate), then dropped again to just 1.6% per year in the 15 years from 2010 till the present. A limited capacity for growth is clearly an ingrained characteristic of the region.

In relation to volatility, figure I.2 shows that whereas for the United States the coefficient of variation in the growth rate for the period 1951–2023 was around 0.7, for most of the Latin American and Caribbean countries it exceeded 1.0.

Figure I.3 presents an alternative method for measuring economic volatility, demonstrating that a significant percentage of the 57 years covered experienced negative per capita GDP growth across various countries in the region. For example, this percentage is between 11% and 15% in Colombia, Guatemala and Costa Rica, and 41% or more in Argentina, the Bolivarian Republic of Venezuela and Jamaica. It is obviously not possible to achieve high levels of per capita income if the ground gained in some years is then lost in others.

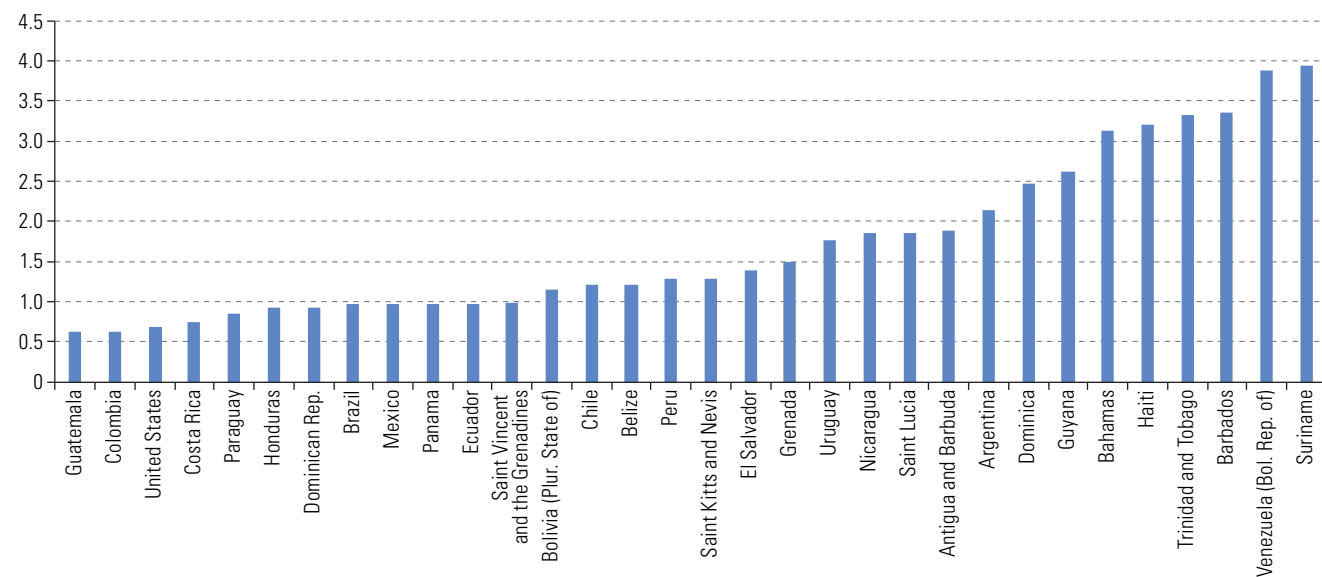
**Figure I.1**  
Latin America and the Caribbean: growth in GDP and in trend GDP, 1951–2024  
(Percentages based on constant dollars at 2018 prices)



**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

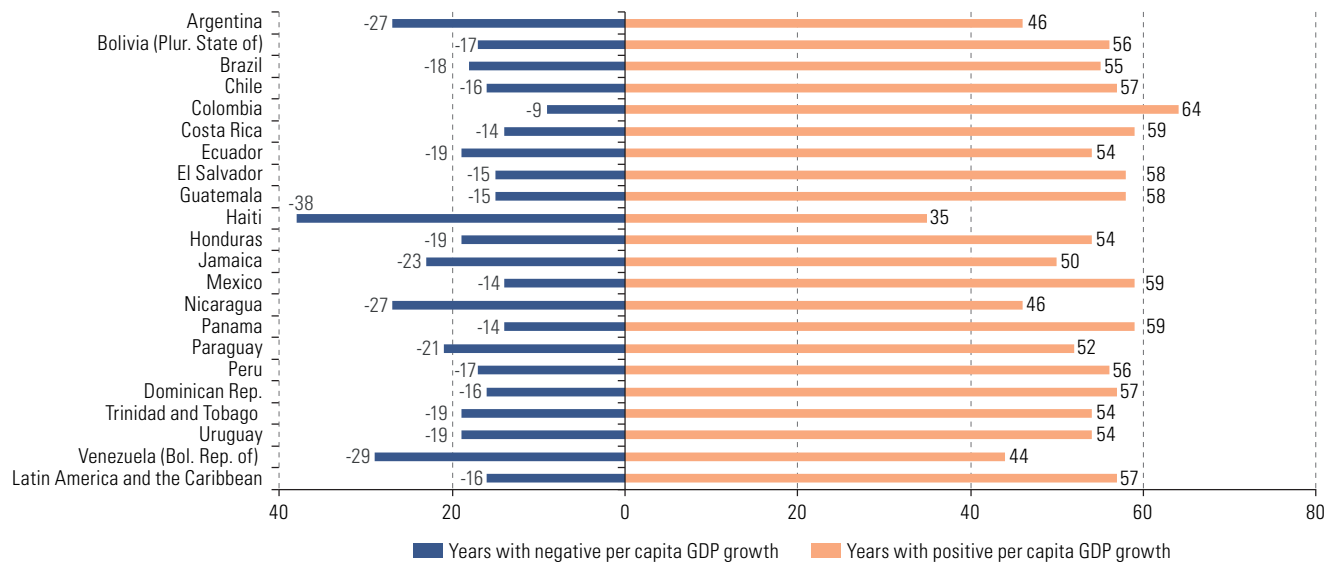
**Note:** A Hodrick-Prescott filter was used to calculate trend GDP.

**Figure I.2**  
Coefficient of variation in growth rate, 1951–2023



**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of The Conference Board, Total Economy Database [online] <https://www.conference-board.org/data/economydatabase/total-economy-database-productivity>.

**Figure I.3**  
Number of years with positive and negative per capita GDP growth, 1951–2023



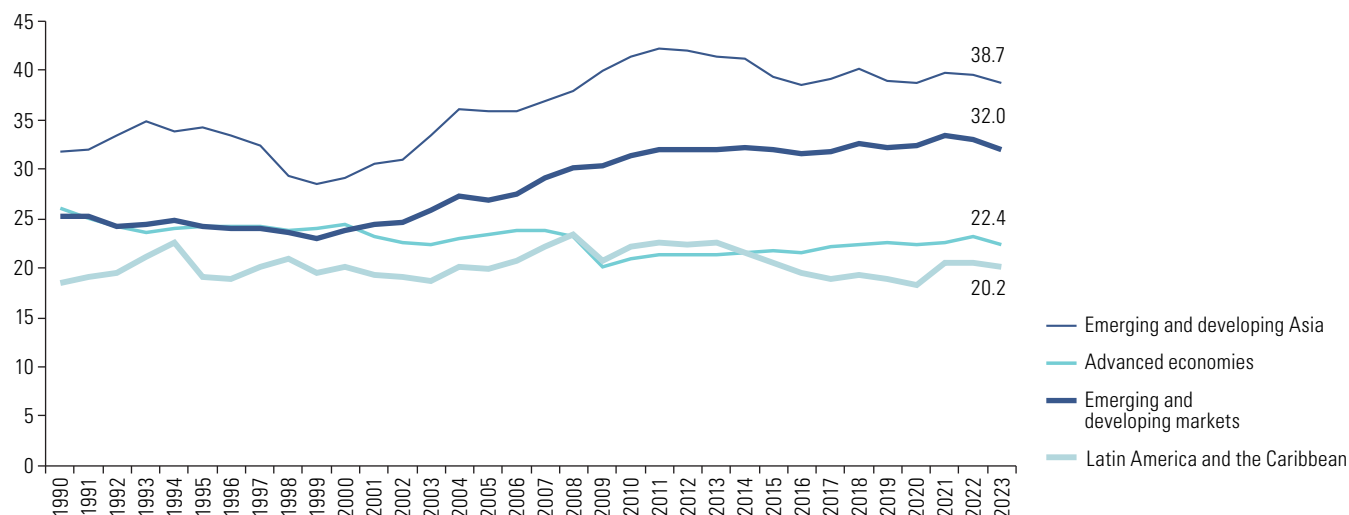
**Source:** United Nations Development Programme (UNDP), *Regional Human Development Report 2021. Trapped: High Inequality and Low Growth in Latin America and the Caribbean*, New York, 2021.

The existence and persistence of high volatility far in excess of that affecting developed countries acts as a drag on growth, inequality reduction, formality and quality employment creation. Part of the volatility reflects vagaries of external financing and terms of external trade arising from commodity cycles, as well as the typical procyclical pattern of macroeconomic policy in the Latin American countries (Ocampo, 2015). In many countries, this volatility is also deeply rooted in a high concentration of exports in a few commodities and a lack of productive diversification.

For all these reasons, it is essential to foster not only stronger, more diversified and less volatile growth, but also a new type of growth geared towards greater social inclusion and environmental sustainability; in other words, growth based on what the Economic Commission for Latin America and the Caribbean (ECLAC) has called a “great productive transformation”.

Although many factors contribute to the region’s structurally low and volatile growth rates, one of the most important has to do with the investment gap. At only 20% of GDP, total investment levels in Latin America and the Caribbean are among the lowest in the world, albeit with large differences between countries (see figure I.4). After reaching 23.3% of GDP in 2008, investment levels have been relatively low, especially in 2016 and 2020, when they fell below 20%, and they recovered only slightly between 2021 and 2023. It is essential to invest more and invest better if the region is to achieve better growth rates, drive productive transformation and forge a more inclusive and sustainable development model (ECLAC, 2022). Given the region’s relative level of development and the structural challenge it still faces, it would need far higher levels of investment, at around 30% of GDP or even more, such as those seen in emerging and developing Asian economies, where those rates are around 38%, or in other emerging and developing markets whose investment levels are around 32% of GDP.

**Figure I.4**  
Selected regions: investment share of GDP, 1990–2023  
(Percentages)



**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of International Monetary Fund (IMF) and World Bank.

**Note:** Data for 2023 are projections.

Although the mediocre investment in fixed capital is one of the key factors in the region's poor and uneven economic growth, another crucial factor is its tragically low level of productivity. In a world defined by rapid technological revolutions, what determines a country's growth prospects—more than investment in physical and tangible assets—is intangible capital, the ability to adopt new technologies in production processes and to innovate (Susskind, 2024). In other words, productivity is the key variable for understanding the performance of economies over the long term and their capacity to grow (Ros, 2014). This is why Paul Krugman insisted that “productivity isn't everything, but over the long term it is almost everything” (Krugman, 1994).

Productivity is usually measured in terms of value added per unit of labour (for example, by persons employed or by hours worked), per unit of capital or in multifactor terms (total factor productivity). Productivity improvements, meanwhile, can come from different sources. They may be rooted in fortuitous or exogenous events, such as the discovery of a deposit that has major implications for the availability of energy inputs, or in shifts in the prices of basic inputs or in climate variables; this may occur in the agricultural sector given a favourable climate for the production and harvest of a particular grain. But this is not the sort of productivity that underpins sustained processes of growth and wealth creation. The productivity gains that matter for development are those rooted in the application of new technologies in production processes, and in structural shifts that birth new sectors with greater productivity than existing ones and are able to absorb growing shares of the labour force with higher wages and income levels.

More accurately, there are two main sources of productivity change: (i) more efficient use of the factors of production within a given production structure (productivity gains within sectors or within firms), and (ii) the transformation of that structure, as more productive sectors, firms or activities gain ground in it (structural change or intersectoral effect) (see ECLAC (2007); McMillan and Rodrik (2011); Andrews, Criscuolo and Gal (2015); McMillan, Rodrik and Sepúlveda (2016), and Cusolito and Maloney (2018)). The forces underlying those improvements in productivity performance are innovation and scientific and technological development, the strengthening of productive capacities—both of people (human talent) and of firms—and improvements in governance and institutions, locally, nationally and regionally.

Strengthening capacities means fostering processes of productive learning by spreading innovations across all production stakeholders and processes. Innovations (both in technology and management) and their diffusion are what ultimately shape trends in productivity and employment. What is more, the approach must be systemic: it is not enough to achieve productivity gains in a single cluster while the majority of workers remain in very low-productivity jobs. If productivity gains in certain sectors simply displace workers towards informality or open unemployment, aggregate productivity will remain depressed and sluggish, and the production structure will continue to be a distinctly two-track system with a few high-productivity sectors contributing only a small share of employment and vast low-productivity sectors accounting for most of employment.

Analyses of the growth contribution of productivity in Latin America and the Caribbean show that the region's per capita GDP growth in the period 1962–2017 is almost entirely attributable to factor accumulation (capital and labour), and only for short periods to productivity gains.<sup>1</sup> Palma (2022) concludes that Latin America and the Caribbean is the region with the worst productivity performance of all world regions in the period 1980–2019.

In fact, as discussed in this chapter, in Latin American countries, total factor productivity has made a negative contribution to growth during several periods; in other words, efficiency has been lost, which means not only that growth has relied primarily on production factor accumulation but also that, even more importantly, this weak productivity growth is the main factor in the region's poor growth capacity.

In light of the foregoing, this chapter discusses productivity in Latin America and the Caribbean and offers some explanations of what underlies its poor performance, as a basis for proposals put forward in the following chapters about what to do and what action to take—especially in terms of productive development policy—to spur productivity growth in the region. The chapter has seven sections. Following this introduction, section A describes the evolution of labour productivity in the region and section B analyses total factor productivity and its contribution to GDP expansion. Section C takes a more disaggregated look at productivity through different lenses, and section D addresses the subject of human talent and the role of education as determinants of productivity. Section E analyses some indicators that capture economic complexity, which is key in region's poor production performance, and section F offers some final remarks.

## A. Labour productivity: comparing the region's performance with selected reference countries

Given the complexity of production processes and the range of elements that influence them, measuring productivity is not a simple matter and measuring it in just one way would not support a full understanding of all the factors that affect it. A broad approach is essential to understand the most important determinants of productivity, as well as to define and implement the productive development instruments and policies discussed in this document.

In relation to forms of measurement, labour productivity offers great advantages as an indicator of productivity (Benavente, 2011; Fedi and El Hadj, 2024). First, it can be estimated and read directly. The numerator is the value added of production and the denominator is the number of workers or the hours worked; both variables are obtained

<sup>1</sup> See, for example, Fernández-Arias and Fernández-Arias (2021), who find that, on average for the region (with the exception of six countries), productivity growth subtracted from per capita GDP growth from 1962 to 2017. From 1990, four countries have seen positive and rising productivity growth: Argentina, Costa Rica, Dominican Republic and Uruguay. Even in those countries, however, factor accumulation dominates productivity growth. In Brazil and Mexico, productivity growth has contributed negatively to per capita growth since 1990.

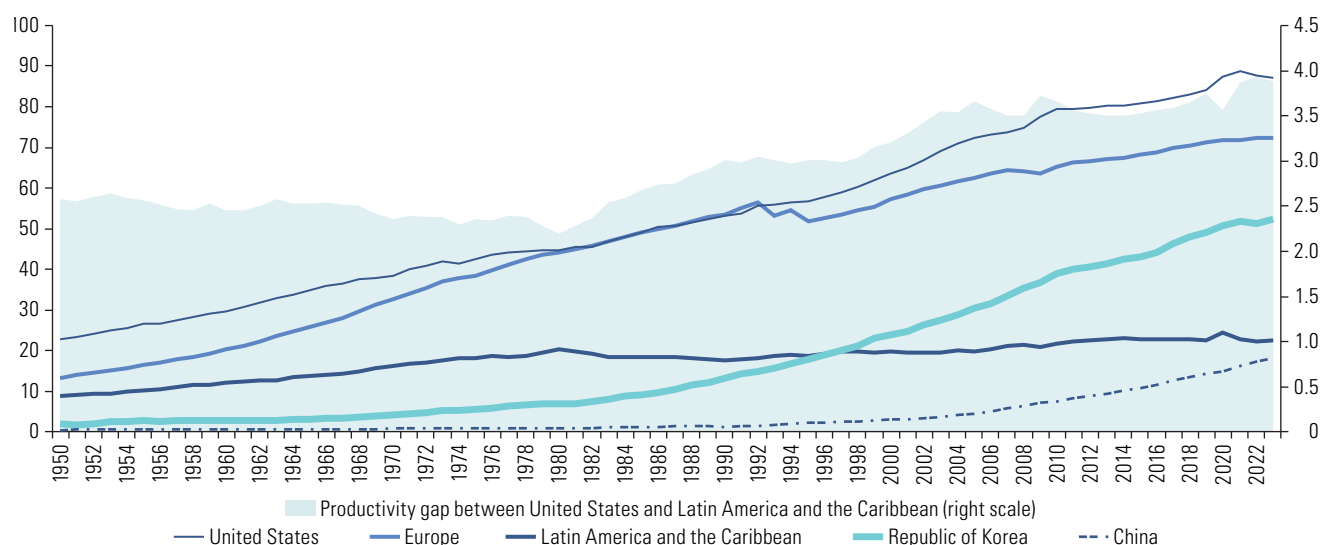
directly: from the national accounts in the case of aggregate productivity, or from census and survey data in the case of the labour productivity of a sector, activity or firm. It is also a key indicator of competitiveness, especially price competitiveness, which depends on differences in the unit cost of labour, given the nominal exchange rate and the increase in mark-up. Another benefit of labour productivity as an indicator is that it can be estimated both at the firm level and at aggregate meso- and macroeconomic levels. The disadvantage is that it offers no means to distinguish the causes of an increase, such as technical progress (also known as total factor productivity) or more intensive use of capital in the production process.

It is also important to observe the difference—known as the productivity gap—between labour productivity in a given country and in other countries that are at the technological frontier. A country's capacity to defend its presence in dynamic markets depends to a large extent on its ability to prevent that gap from widening over time. Although a country can bridge the productivity gap with lower labour costs or access to natural resources, these boosts are temporary and over the long run its competitiveness will suffer unless it achieves genuine competitiveness gains, and it will be unable to prevent the gap from widening. Keeping a close watch on the productivity gap is an important indicator of a country's ability to seize opportunities for learning and technical change arising from a range of frontier knowledge. The comparison can be made with more advanced countries or those that have been able to reduce the gap quickly.

This section provides estimates of labour productivity indicators for the Latin American and Caribbean countries, analysing their evolution over time and their heterogeneity across sectors. It also offers a comparison with selected reference countries internationally, with a particular focus on the trends in productivity gaps.

An initial general analysis, based on this information, shows very uneven situations internationally (see figure I.5). First, there are a series of countries with high labour productivity, such as the United States and the European countries, which have shown a very positive trend over the years. These regions not only have the highest levels of productivity but have typically increased these levels steadily over recent decades. Second, there are countries that had very low labour productivity levels in the 1950s, even far below those of the Latin American and Caribbean countries, but have grown significantly, managing to reduce their productivity gap, as in the case of the Republic of Korea.

**Figure I.5**  
Production per hour worked and productivity gap vis-à-vis United States, 1950–2023  
(GDP in international constant dollars at 2017 prices at purchasing power parity)



**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of The Conference Board, Total Economy Database [online] <https://www.conference-board.org/data/economydatabase/total-economy-database-productivity>.

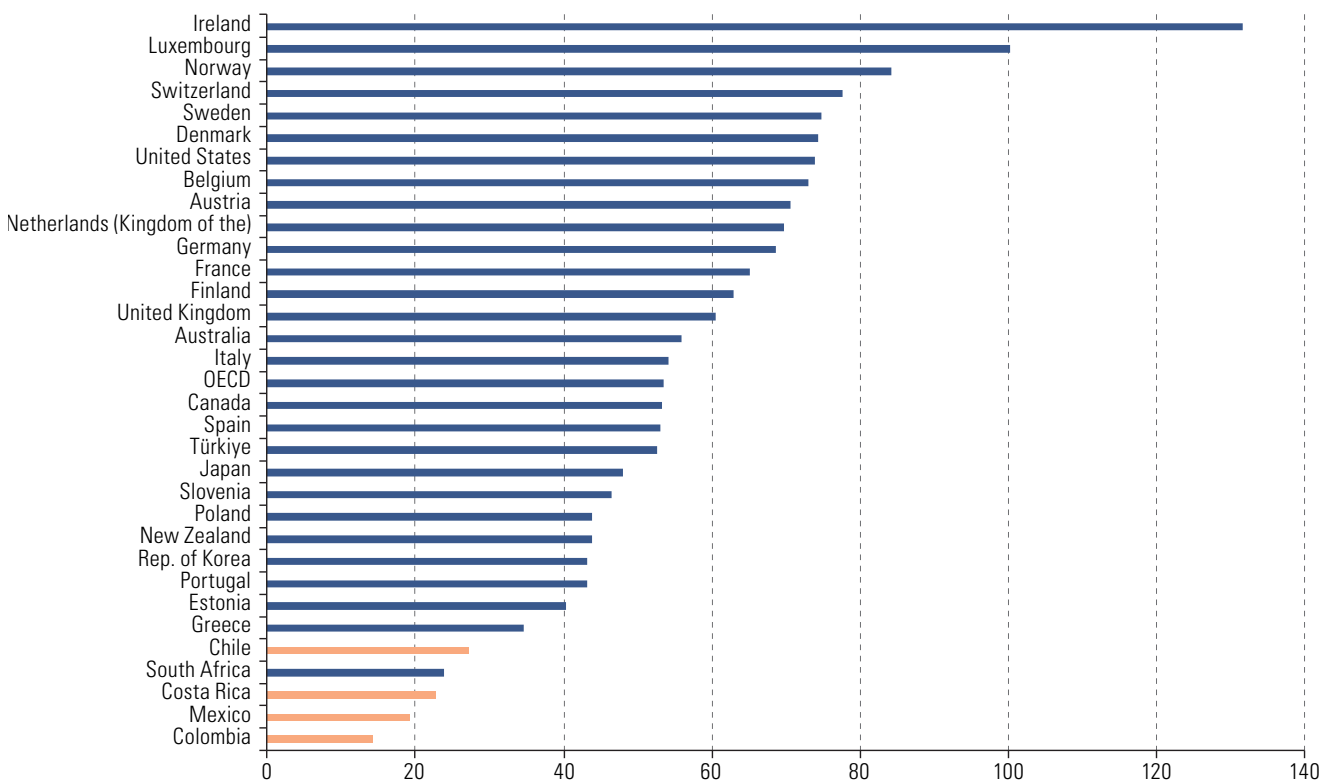
Productivity has stagnated in Latin America and the Caribbean, however, so that its situation has deteriorated relative to more advanced and emerging countries. An example of this is that United States productivity was four times that of the region in 2023, which means that it has almost doubled the ratio since 1950.

This productivity gap between the countries of Latin America and the Caribbean and the developed countries varies depending on the source of information used. An analysis based on data from the Organisation for Economic Co-operation and Development (OECD) confirms major gaps between countries in terms of GDP per hour worked. In particular, it was found that average labour productivity in the countries of the region included in this database (Chile, Costa Rica, Mexico and Colombia) is around 41% of the average for the OECD countries and 30% of the productivity levels of the United States (see figure I.6).

Labour productivity in Latin America and the Caribbean has evolved in quite an uneven manner although it appears to have risen over the years. The region's high-income countries show an average increase of 40%, compared with less auspicious results in the lower-middle-income countries (see figure I.7). In this regard, the region's productivity gap has increased in the past two decades: in 2005 productivity was US\$ 25 per hour worked in the countries of the region that may be considered high-income, and US\$ 5 per hour worked in the lower-middle-income countries; in 2024 these figures were US\$ 34.40 and US\$ 6.50, respectively, per hour worked.

**Figure I.6**

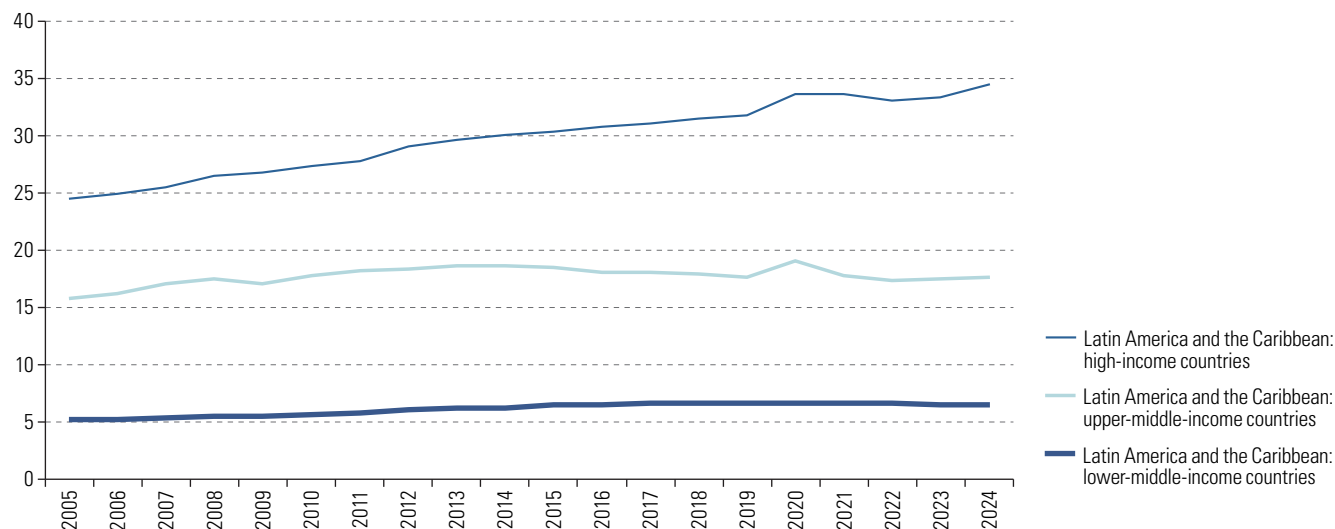
Organisation for Economic Co-operation and Development (OECD): GDP per hour worked, 2022  
(International constant dollars at 2018 prices at purchasing power parity)



**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of Organisation for Economic Co-operation and Development (OECD).

**Figure I.7**

Latin America and the Caribbean (selected groups of countries): production per hour worked, 2005–2024  
(GDP in international constant dollars at 2017 prices at purchasing power parity)



**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of International Labour Organization (ILO), ILOSTAT [online database] <https://ilostat.ilo.org/>.

**Note:** High-income countries: Bahamas, Barbados, Chile, Panama, Puerto Rico, Trinidad and Tobago, and Uruguay. Upper-middle-income countries: Argentina, Belize, Bolivarian Republic of Venezuela, Brazil, Colombia, Costa Rica, Cuba, Dominican Republic, Ecuador, Guatemala, Guyana, Jamaica, Mexico, Paraguay, Peru and Suriname. Lower-middle-income countries: El Salvador, Haiti, Honduras, Nicaragua and Plurinational State of Bolivia.

The differences between groups of countries are even more evident when they are examined individually. Between 2005 and 2024, Panama's labour productivity increased by 151%, benefiting from very strong capital flows and a construction boom. The Bolivarian Republic of Venezuela, conversely, saw its productivity fall by 52% after a series of major GDP contractions. Other countries that improved productivity performance included Costa Rica, the Dominican Republic and Uruguay, with gains of over 50% in labour productivity over the period. More modest gains were registered in Paraguay (49%), the Plurinational State of Bolivia (48%), Colombia (46%), Cuba (42%) and Chile (35%). Lastly, labour productivity growth has been notably poor in Jamaica (with a decrease of 14%), Honduras (5%), Ecuador (5%), Mexico (11%), El Salvador (15%), Argentina (15%), Brazil (17%), Trinidad and Tobago (18%) and Guatemala (23%).

In absolute terms, the country with the region's highest productivity in 2024 is Panama, with over US\$ 45 per hour worked, and the worst performance is in Haiti, with US\$ 3.40 per hour worked (see figure I.8).

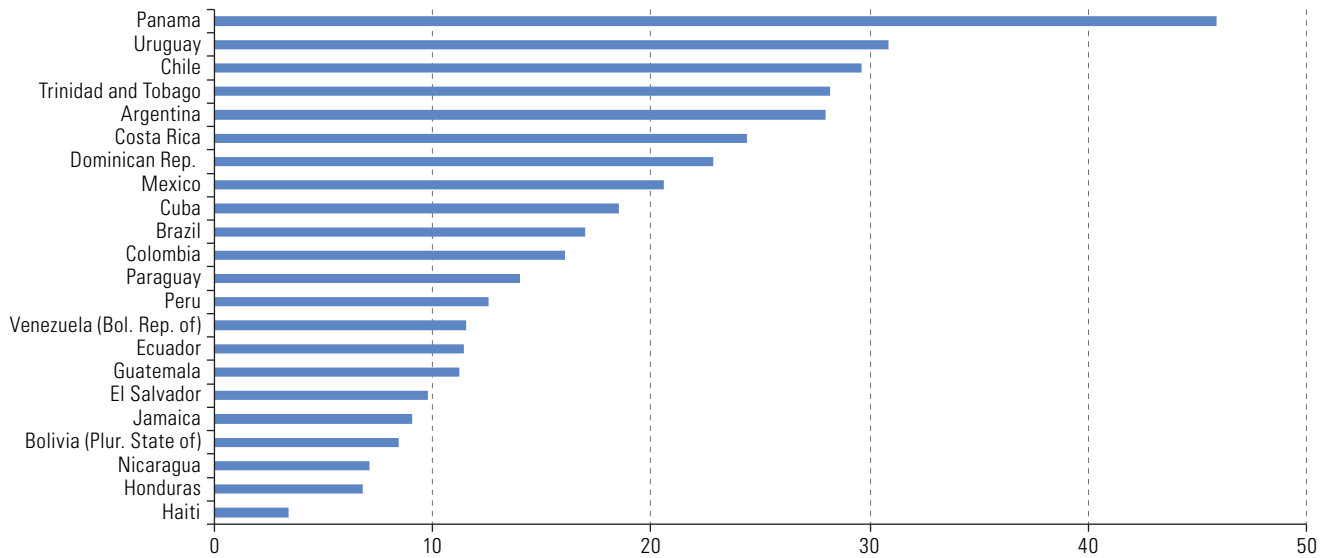
The results also appear to confirm the procyclical nature of productivity gains, as indicated in Kaldor-Verdoorn's law,<sup>2</sup> with positive movement in commodity boom years (2004–2015) and a fall during the COVID-19 pandemic.<sup>3</sup> In many cases, productivity did not regain its pre-pandemic growth rates. This trend shift may reflect the investment and GDP growth impacts of the cascade of crises that have occurred since the great global financial crisis of 2008, including the war in Ukraine and the interest rate and inflation spikes since 2020 (OECD and others, 2022).

<sup>2</sup> Kaldor-Verdoorn's law assumes a long-term relationship between growth rates in labour productivity and production/demand whereby causality runs from the latter to the former, in other words, demand growth drives productivity growth.

<sup>3</sup> Although some indicators seem to show that the region's productivity grew during the pandemic, these movements had to do with a large number of firm closures, especially affecting smaller firms, or employment reduction, which are not genuine sources of productivity gains.

**Figure I.8**

Latin America and the Caribbean (selected countries): GDP per hour worked, 2024

*(Dollars)*

**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of International Labour Organization (ILO), ILOSTAT [online database] <https://ilostat.ilo.org/>.

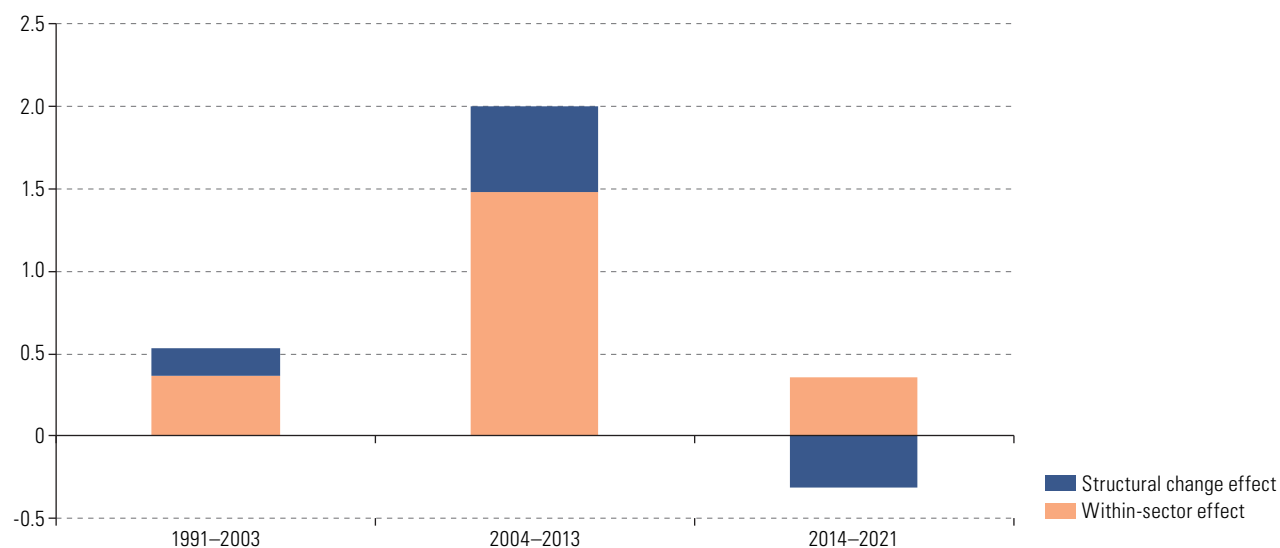
**Note:** Data for 2024 are estimates.

In Latin America and the Caribbean, gains achieved within sectors have contributed to increasing labour productivity, but there has been no real reassignment of resources between sectors. The shift of resources towards more productive sectors, known as the “structural change effect,” tends to generate a more sustainable and sustained increase in economic growth. In the region, however, the contribution of this effect to labour productivity has been relatively small and was even negative in the period 2014–2021 (see figure I.9). Productivity growth in Latin America and the Caribbean has been driven mainly by improvements within sectors, such as increases in physical or human capital, technological advances and the disappearance of low-productivity firms to give way to more efficient ones. Ideally, intrasectoral improvements and positive resource reassignment should occur simultaneously. This is the only way to support more permanent, less variable productivity growth, with greater productive linkages and more benefits for the whole economy and society. In this manner, a virtuous structural resource shift remains an important opportunity in the region (OECD and others, 2023).

In order for virtuous structural change to be possible, and as will be seen in greater depth in chapter II, beyond an improvement in the fundamentals,<sup>4</sup> it is necessary to have in place a comprehensive battery of policies to support productive transformation, fostering increased productivity within sectors and the creation of opportunities for the emergence of new, higher-productivity sectors and growth. It is also necessary to strengthen institutions to mould the productive environment for firms, whatever sector they operate in. Incentives and profitability signals must be aligned to redirect investments towards economic activities that benefit from greater market and technological momentum and innovation potential (OECD and others, 2023). These policies should be complemented with other measures aimed at strengthening essential local investment capacities to have a positive impact on economic growth and productivity.

<sup>4</sup> Understood as improvements in conditions of learning, governance and macroeconomic stability (Rodrik and Stiglitz, 2024).

**Figure I.9**  
Latin America and the Caribbean: breakdown of labour productivity growth, 1991–2021  
(Percentages)



**Source:** Economic Commission for Latin America and the Caribbean/International Labour Organization (ECLAC/ILO), “Labour productivity in Latin America”, *Employment Situation in Latin America and the Caribbean*, No. 27 (LC/TS.2022/213), Santiago, 2022.

**Note:** Data refer to an unweighted average of data from the following countries: Argentina, Bolivarian Republic of Venezuela, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru, Plurinational State of Bolivia and Uruguay.

## B. Growth and multifactor productivity: weak technical progress

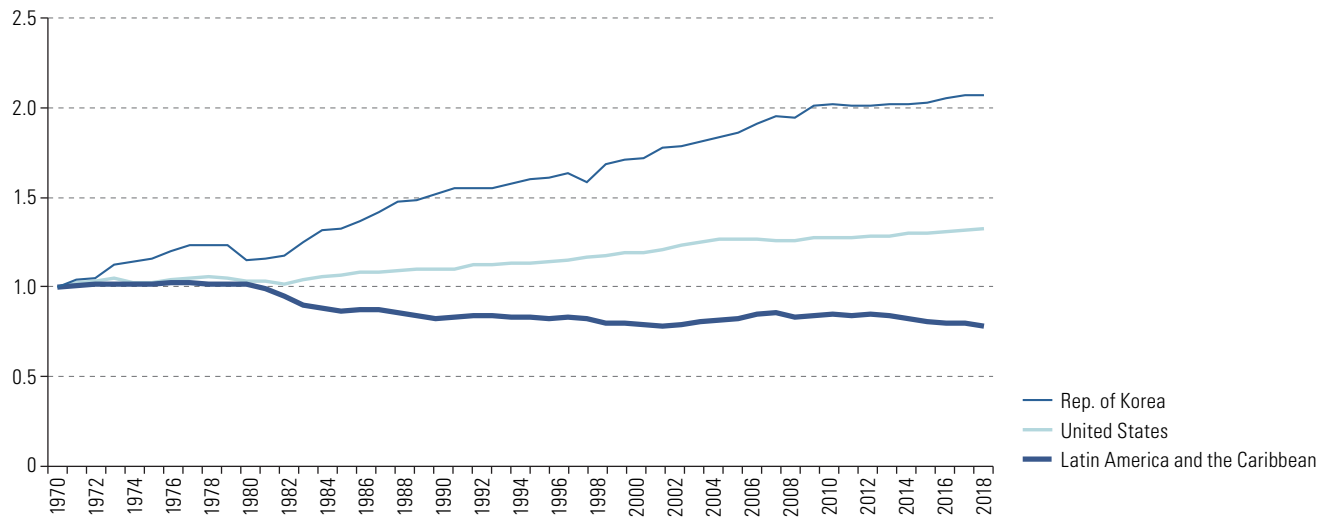
As noted earlier, another measure of productivity widely used in the literature is multifactor productivity or total factor productivity. This approach distinguishes different sources of increase in total output, namely accumulation of the factors of production (such as capital and labour) over time and increases in the efficiency in the use of these factors, also known as technical progress (defined broadly as changes in production and management processes) or total factor productivity.<sup>5,6</sup> The evolution of total factor productivity for the countries of Latin America and the Caribbean was estimated using the Penn World Table (Feenstra, Inklaar and Timmer, 2015).<sup>7</sup> A comparative analysis of total factor productivity in the countries of the region with respect to selected reference countries shows the productivity lag the region has suffered. Whereas between 1970 and 2019 the United States and the Republic of Korea achieved substantial productivity gains—33% and 107%, respectively—, Latin America and the Caribbean saw a 21% decline (see figure I.10).

<sup>5</sup> The purpose of constructing a multifactor productivity indicator is to distinguish increases in output generated by mere accumulation of production factors (capital, labour and, in some cases, human capital) from increases driven by technical progress. The simplest case is a Cobb–Douglas production function with Hicks-neutral technology,  $Y = AK^\alpha L^{(1-\alpha)}$ . The growth rate of output will then be  $\frac{\dot{Y}}{Y} = \frac{\dot{A}}{A} + \alpha \frac{\dot{K}}{K} + (1-\alpha) \frac{\dot{L}}{L}$ , where  $\alpha$  is the output elasticity of capital and  $(1-\alpha)$  is the output elasticity of labour. At constant prices and assuming perfect competition in all markets,  $\alpha$  is the profit share of income and  $(1-\alpha)$  is the labour share of income. Thus, GDP growth is divided between the contributions made by the increase in capital, the increase in labour and the increase in multifactor productivity, which is given by  $\frac{\dot{A}}{A}$ .

<sup>6</sup> For many economists, this productivity is associated with Abramovitz’s famous phrase (1956): “a measure of our ignorance”, inasmuch as productivity was the difference resulting from an accounting exercise between the rates of accumulation of physical capital, added to the use of labour, and the economic growth rate of the countries. Thus, Solow’s residual or total factor productivity captures countless elements that economic theory has not fully understood, much less measured.

<sup>7</sup> This data source, prepared by the University of Groningen and the University of California, Davis, contains data on GDP growth and the variation and share of capital and labour in 183 countries, for the period 1950–2019.

**Figure I.10**  
Total factor productivity, 1970–2019  
(Index: 1970 = 1)

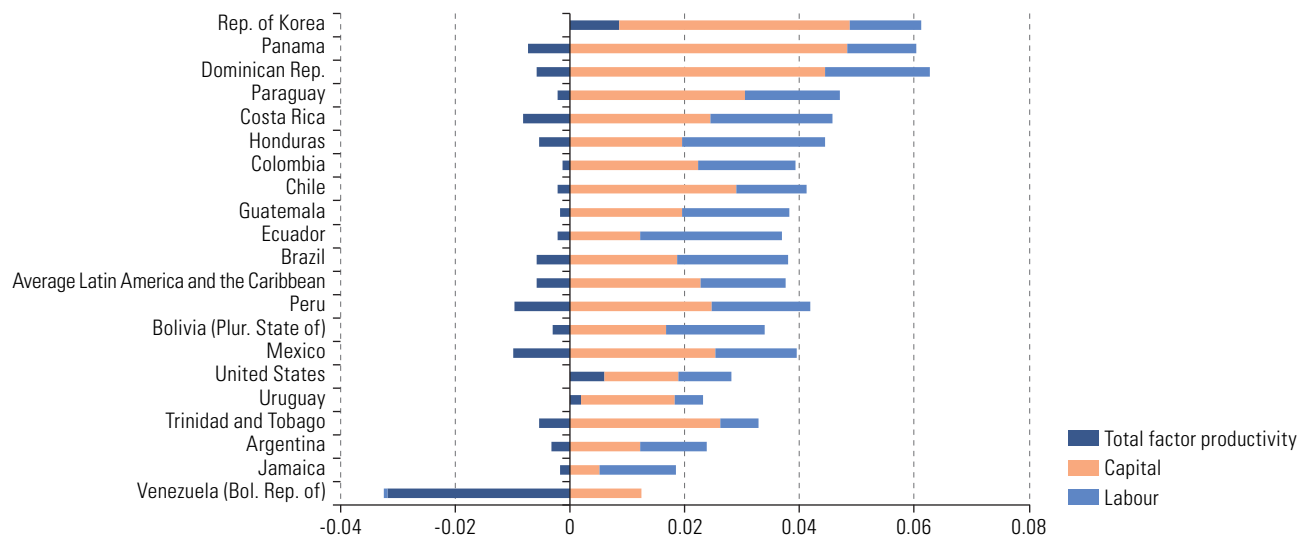


**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of University of Groningen, Penn World Table (PWT) [online database] <https://www.rug.nl/ggdc/productivity/pwt/?lang=en>.

**Note:** The index for Latin America and the Caribbean was built as a simple average for the countries.

Figure I.11 shows the contribution to the rise in total output between 1970 and 2019 for the countries of Latin America and the Caribbean from the different sources: capital, labour and total factor productivity. The United States and the Republic of Korea are included as reference countries in a comparative exercise. On average for the region, total factor productivity contributed negatively to total output between 1970 and 2019. This occurred for all the countries in the region, except for Ecuador and Uruguay, which both showed a very small positive contribution from this source, of 0.3% in the case of Uruguay and even less in the case of Ecuador. The increase in total factor productivity in Uruguay was only a fifth of that in the Republic of Korea and half of the increase in the United States.

**Figure I.11**  
Share of total factor productivity, capital and labour in GDP growth, 1970–2019  
(Percentage points)

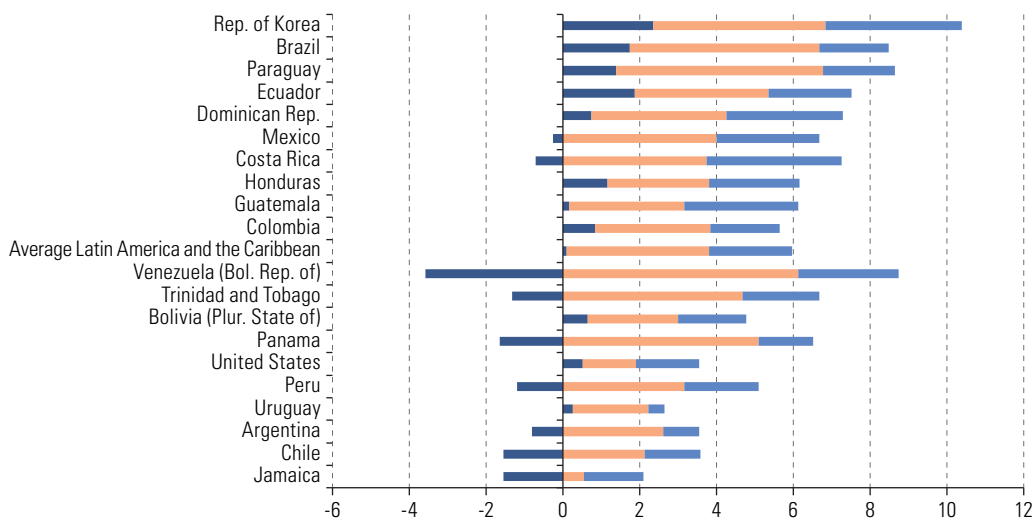


**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of University of Groningen, Penn World Table (PWT) [online database] <https://www.rug.nl/ggdc/productivity/pwt/?lang=en>; R. Feenstra, R. Inklaar and M. Timmer, "The next generation of the Penn World Table", *American Economic Review*, vol. 105, No. 10, Nashville, American Economic Association (AEA), 2015.

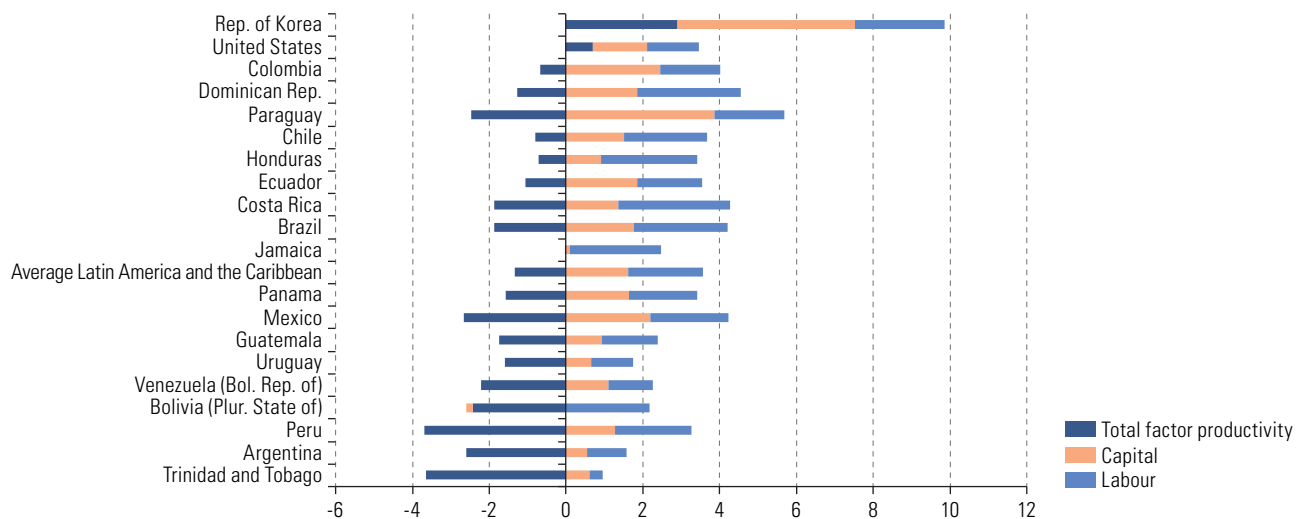
Figure I.12 shows the contribution of factor accumulation and total factor productivity in different decades starting in 1970, showing marked differences by country and by period. In the 1970s (see figure I.12A), 1990s (figure I.12C) and 2000s (figure I.12D), total factor productivity made a positive, albeit very small, contribution to growth in the region (always under 1%); in the 1980s (see figure I.12B) and 2010s (see figure I.12E), its contribution was negative, even without factoring in the impact of the pandemic.

**Figure I.12**  
Share of total factor productivity, capital and labour in GDP growth  
(Percentage points)

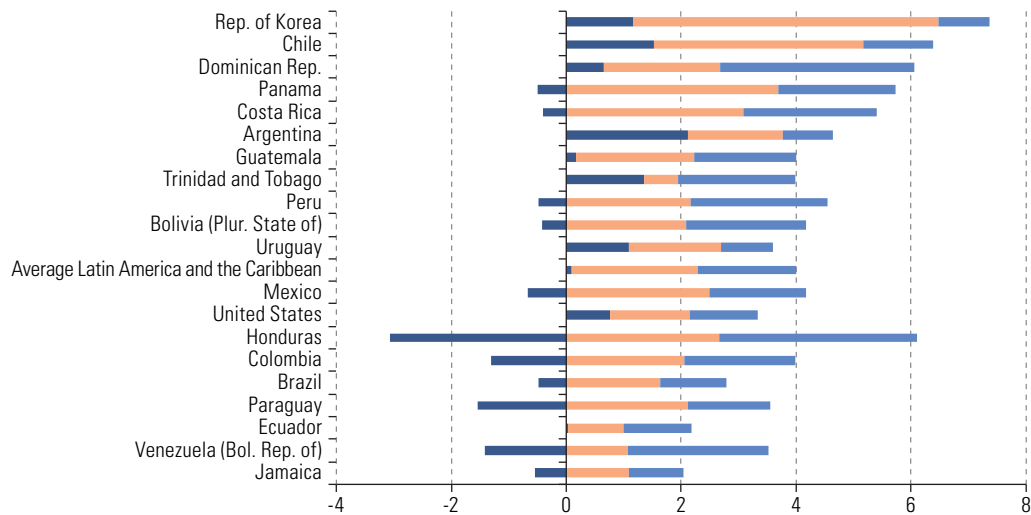
**A. 1970–1979**



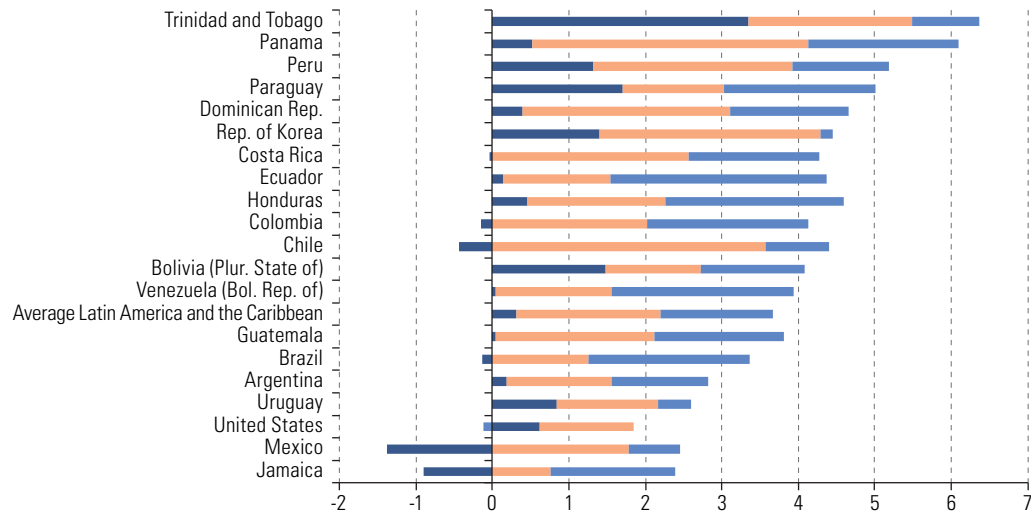
**B. 1980–1989**



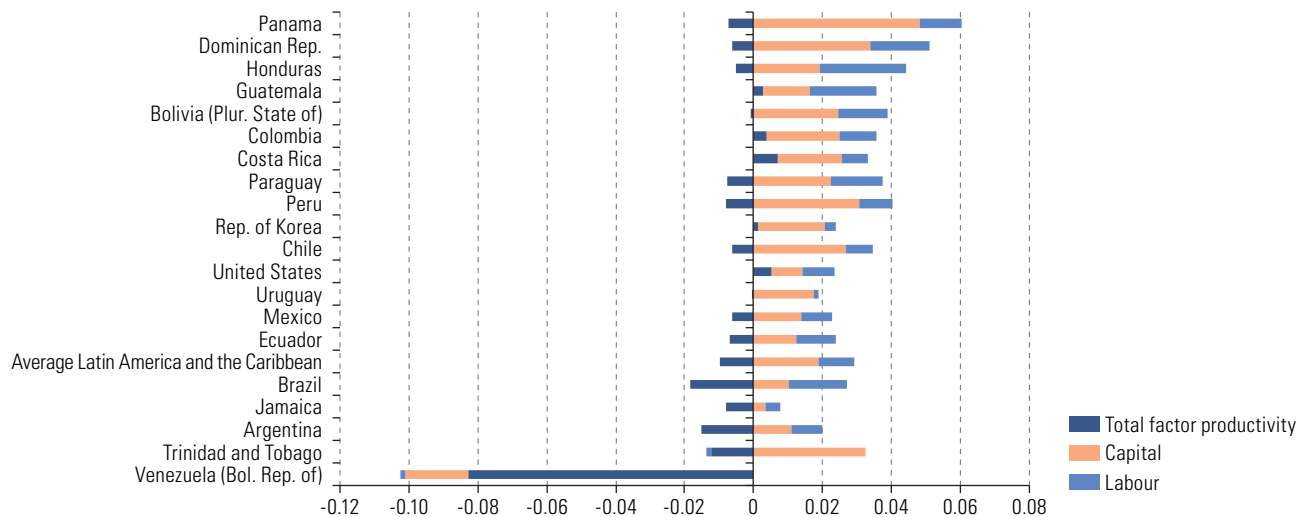
C. 1990–1999



D. 2000–2009



E. 2010–2023



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of University of Groningen, Penn World Table (PWT) [online database] <https://www.rug.nl/ggdc/productivity/pwt/?lang=en>.

Table I.1, which shows the change in total factor productivity by country, reflects the great variation between countries and periods. Notable is the increase in Brazil in the 1970s, when the second national development plan was launched; in Chile in the 1990s, when the country went through a rapid diversification of its export basket; in the Plurinational State of Bolivia, Chile, Paraguay and Uruguay during the commodities boom; and in Costa Rica over the last decade, with the development and surge in exports of medical devices and Internet-enabled modern services.

**Table I.1**  
Change in total factor  
productivity, by country  
and by decade,  
1970–2023  
(Percentages)

Country	1970–1979	1980–1989	1990–1999	2000–2009	2010–2023	1970–2023
Argentina	-7.2	-21.2	20.7	1.6	-18.0	-16.1
Bolivia (Plurinational State of)	5.8	-19.8	-3.7	14.1	-1.2	-15.0
Brazil	16.8	-15.6	-4.3	-1.2	-21.5	-26.7
Chile	-13.2	-7.1	14.6	-3.8	-7.7	-10.6
Colombia	7.9	-5.9	-11.1	-1.4	5.2	-7.3
Costa Rica	-6.4	-15.6	-3.7	-0.4	9.6	-35.8
Dominican Republic	6.7	-10.9	6.0	3.6	-7.6	-27.2
Ecuador	18.2	-9.2	0.2	1.2	-8.7	-10.7
Guatemala	1.4	-14.7	1.5	0.4	3.7	-8.7
Honduras	10.9	-6.3	-24.5	4.2	-2.6	-23.8
Jamaica	-13.0	-0.2	-4.7	-7.8	-9.9	-9.3
Mexico	-2.2	-21.6	-5.9	-11.8	-7.6	-41.5
Panama	-14.0	-13.3	-4.5	4.8	-20.5	-30.4
Peru	-10.3	-28.8	-4.2	12.5	-10.0	-40.3
Paraguay	13.1	-20.2	-13.1	16.5	-9.5	-11.5
Uruguay	2.2	-13.5	10.2	7.8	0.0	10.9
Venezuela (Bolivarian Republic of)	-29.5	-28.0	-5.1	29.5	-67.6	-82.1
Trinidad and Tobago	38.1	-45.5	-4.4	21.8	-14.9	-25.3
<b>Average for Latin America and the Caribbean</b>	<b>1.4</b>	<b>-16.5</b>	<b>-2.0</b>	<b>5.1</b>	<b>-10.5</b>	<b>-22.9</b>
United States	5	6	7	6	7	37
Republic of Korea	23	29	11	13	2	57

**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of University of Groningen, Penn World Table (PWT) [online database] <https://www.rug.nl/ggdc/productivity/pwt/?lang=en>; R. Feenstra, R. Inklaar and M. Timmer, "The next generation of the Penn World Table", *American Economic Review*, vol. 105, No. 10, Nashville, American Economic Association (AEA), 2015.

In sum, in aggregate terms, while in other regions total factor productivity gains contributed positively to growth, this has not been the case in Latin America and the Caribbean, where the opposite has been true, except for a few countries in certain periods. This pattern reflects technological and productive lags, and lags in education and human capital enhancements, as well as the lack of clear strategies for productive transformation.

## C. The region's heterogeneous production landscape and some of its determinants

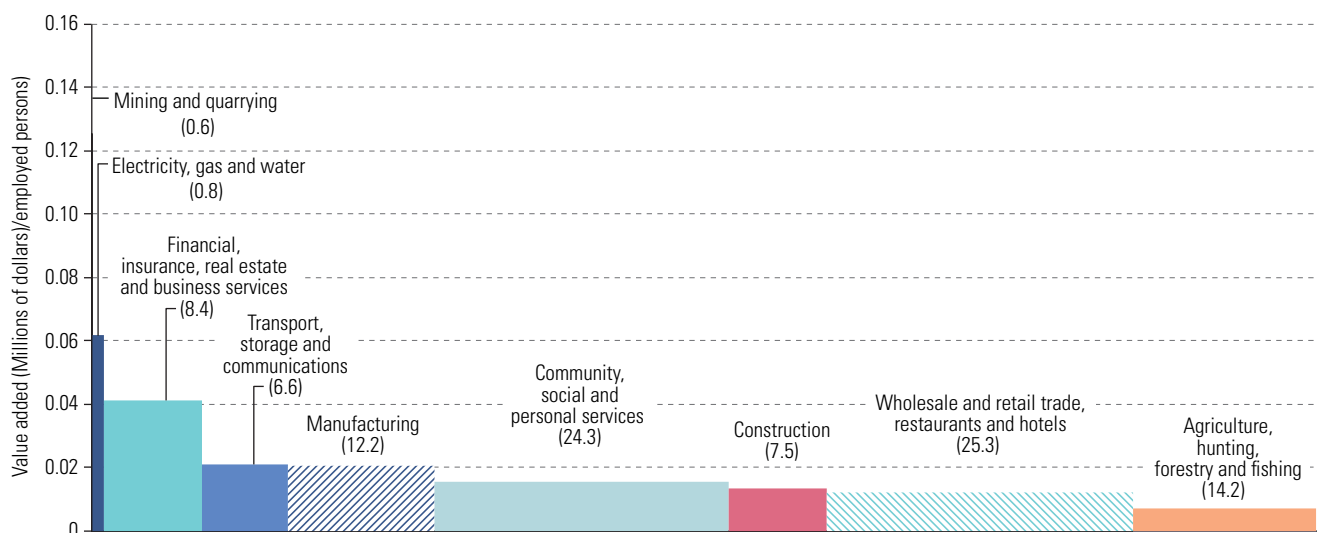
One of the factors underlying the region's failure to attain any significant, sustained increase in overall productivity is the heterogeneity of its ratios of output to inputs on at least three different levels: the sectoral level, the company level and the geographical level. These three different dimensions of the problem will be analysed in the following discussion.

### 1. Sectoral heterogeneity

The situation in terms of sectoral productivity is depicted in figure I.13. As shown, there are sharp differences across sectors, with the highest productivity levels in the mining, quarrying, and electricity, gas, and water sectors. However, these industries employ only 1.4% of the labour force. In order of productivity levels, these sectors are followed by financial, insurance, real estate and business services, which account for 8.4% of total employment. The biggest employers are community, social and personal services (24.3%), commerce, restaurants and hotels (25.3%) and agriculture, hunting, forestry and fishing (14.2%), which together account for 63.8% of the employed workforce. However, these latter sectors' productivity is much lower. These low levels of productivity, particularly in the most labour-intensive sectors, are the reason for the persistent gap in labour productivity that separates Latin America and the Caribbean from developed economies.

**Figure I.13**

Latin America and the Caribbean: labour productivity and share of total workforce, by economic sector  
(Percentages)



**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of national statistics.

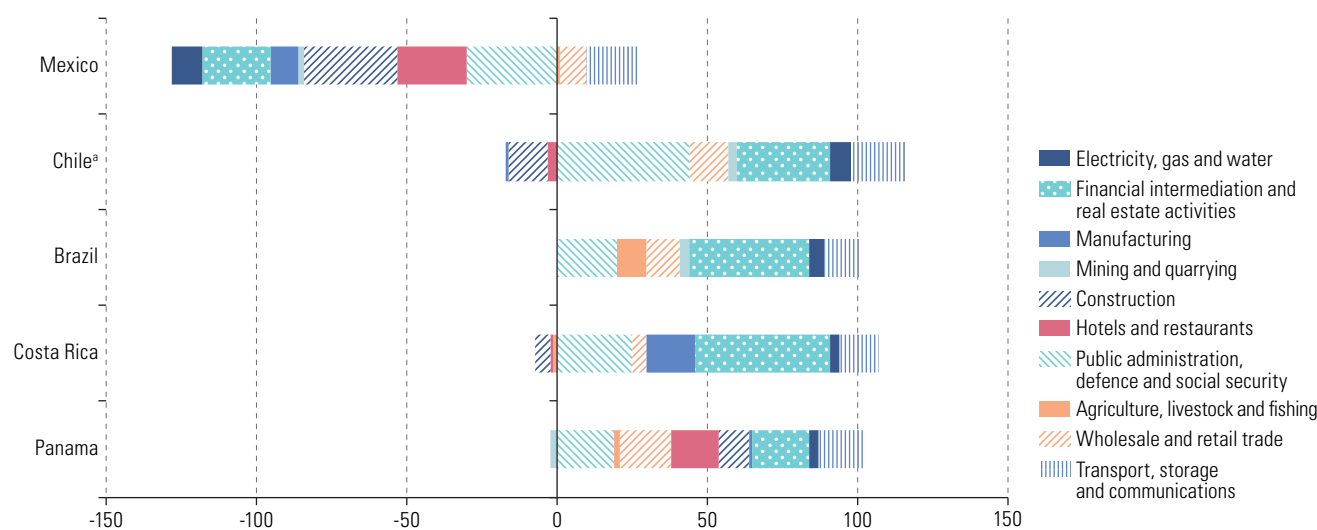
**Note:** The figures on the vertical scale denote labour productivity per employed person. Those on the horizontal scale refer to the percentages of the total workforce employed by the main industries as defined in the International Standard Industrial Classification of All Economic Activities (ISIC), third revision. The different sectors are listed according to their productivity levels (from highest to lowest).

The performance of different sectors varies greatly from the standpoint of productivity growth, as well. The agricultural sector's productivity has doubled since the 1990s, while productivity in the manufacturing sector has followed a similar trend to overall productivity in Latin American and Caribbean economies, rising by approximately 15%. However, there are some sectors—such as mining, financial and business services, and commerce—where productivity levels have slumped by between 25% and 30% during this same period (ECLAC/ILO, 2022).

Using ECLAC data on annual GDP by economic activity at constant prices in dollars and ILO data on the number of employed persons and hours worked by sector of economic activity, sectoral labour productivity indicators were estimated for the countries of the region as a group. Because data are not available for many of these countries, a series could not be constructed that would illustrate the trends involved, but it is nonetheless evident that the variations in total labour productivity are very closely correlated with the variations in productivity of the largest sectors in the economy.

A comparison of the results across countries and sectors shows up an enormous amount of heterogeneity, as may be seen in figure I.14, which shows the different sectors' contributions to the growth of labour productivity in 2012–2022. Private sector financial, real estate, business and rental services have made a significant contribution to labour productivity growth in Panama, Brazil, Chile and Costa Rica, whereas those activities' contribution to labour productivity growth in Mexico was actually negative. In addition, the only country in which commerce made a considerable contribution to labour productivity growth was Panama. In Brazil, Chile, Mexico and Costa Rica, transport, storage and communications made a large contribution, while the manufacturing sector made a significant contribution to labour productivity only in Costa Rica.

**Figure I.14**  
Latin America and the Caribbean (selected countries): sectoral contributions to labour productivity growth, 2012–2022  
(Percentages)



**Source:** Economic Commission for Latin America and the Caribbean (ECLAC) and International Labour Organization (ILO).

**Note:** The sectors shown above are as follows: (i) public administrative services, defence, compulsory social security, education, social and health services, and other community, social and personal services; (ii) agriculture, stock-raising, hunting, forestry and fishing; (iii) wholesale and retail trade and repair of goods; (iv) hotels and restaurants; (v) construction; (vi) mining and quarrying; (vii) manufacturing; (viii) financial intermediation, real estate, business and rental services; (ix) electricity, gas and water supply; and (x) transport, storage and communications. In Brazil, commerce is in the same category as hotels and restaurants, so in the case of that country, sectors (iii) and (iv) are merged. In order to determine the contribution to productivity growth of sector  $i$ , the following estimate was calculated:  $\frac{p_i s_i - p_0 s_0}{\sum_i p_i s_i - p_0 s_0}$ , where  $p_i$  and  $s_i$  are the labour productivity of sector  $i$  and that sector's share of total employment in the last year, respectively, and  $p_0$ ,  $s_0$  in the first year.

<sup>a</sup> For Chile, the time period covered is 2010–2022.

Beyond the marked heterogeneity in labour productivity, a key point is that major sectors in the region's production structures have made only a minimal contribution to labour productivity growth. Manufacturing, which has traditionally been viewed as a leading sector in terms of technical progress, has made very little or no contribution to productivity growth at all, except, as noted earlier, in Costa Rica. In countries that pioneered industrialization in Latin America and in which the manufacturing sector is large, such as Brazil and Mexico, that sector's contribution has actually been negative. The contribution to labour productivity growth made by the agricultural sector, which plays an important role in the expansion of exports in many countries of the region, has also been very small, except in Brazil, but, even in that case, its contribution has been just one fourth of what the financial sector has contributed. The telecommunications sector, which is leading technological change globally, is the only one that has clearly made a significant contribution to productivity growth in the region (see figure I.14).

These findings, along with figure I.14, offer strong insights into why productivity growth in the region has been limited. All the major production sectors where the technological revolution has had a strong impact on productivity have contributed very little to productivity gains, with the sole exception of transport and telecommunications. This analysis also demonstrates, however, that contributions to labour productivity growth can be made by a wide range of sectors of the economy, and that is why the ECLAC proposal that is delineated in this publication calls for a diversified or "broadband" approach to productive development policies in terms of the range of sectors that may be capable of driving productivity growth.

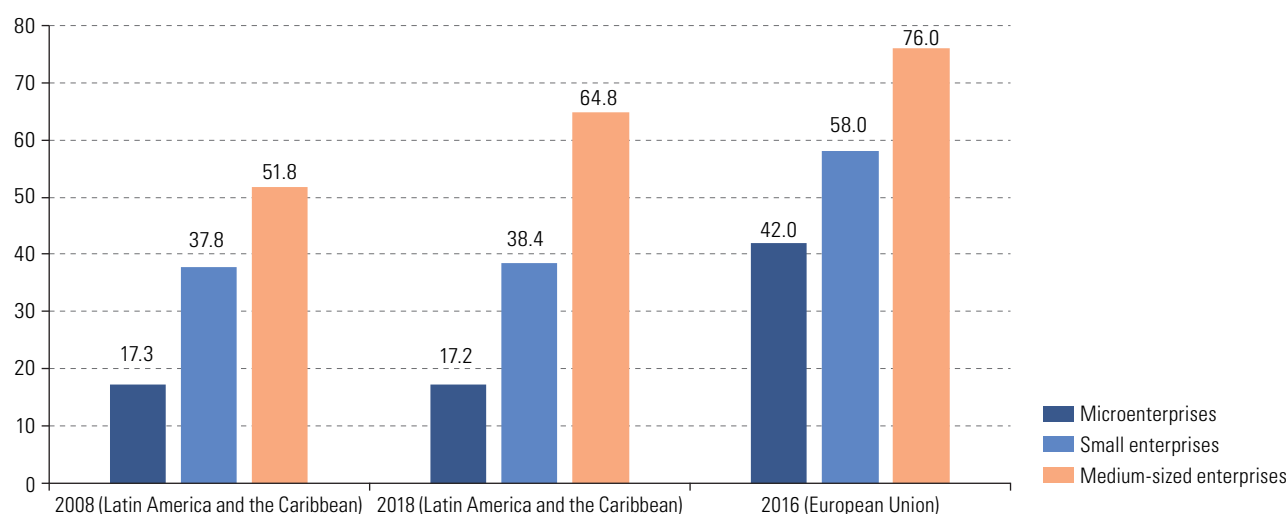
## 2. Inter-company heterogeneity

Scale-based productivity differentials between different companies is another critical factor in understanding why productivity growth in the region has been so sluggish. Microenterprises and small and medium-sized enterprises (MSMEs) are massively predominant in Latin America and the Caribbean, representing approximately 99% of all formal companies and accounting for 66% of formal-sector employment (Dini and Stumpo, 2020), and the differential in labour productivity between MSMEs and larger formal-sector companies is much greater in the countries of the region than it is in developed economies (see figure I.15). In 2018, the labour productivity of medium-sized companies in Latin America and the Caribbean was only 65% of the productivity of large companies, while that of small businesses was just 38% and that of microenterprises only 17% of the labour productivity rate of big enterprises. In the European Union, those differentials were 76%, 58% and 42%, respectively. These gaps are even wider for some countries. The productivity of Brazilian microenterprises, for example is just 4% of what it is for large companies, while the corresponding figure in France is 74% (OECD and others, 2023).

These productivity differences by company size between the Latin American and Caribbean region and other world regions would be even greater if data for informal enterprises were also being considered. This is because, generally speaking, informal enterprises have lower productivity levels than formal companies do,<sup>8</sup> and the informal sector is larger in the countries of the region than it is in the European Union countries (see figure I.16). In addition, informal employment has a much more direct impact on microenterprises. In 2020, microenterprises—including single-person businesses or own-account workers—not only exhibited the widest gaps between the formal and informal sectors in terms of income (40%), but also accounted for nearly 86% of total informal employment (ECLAC, 2022).

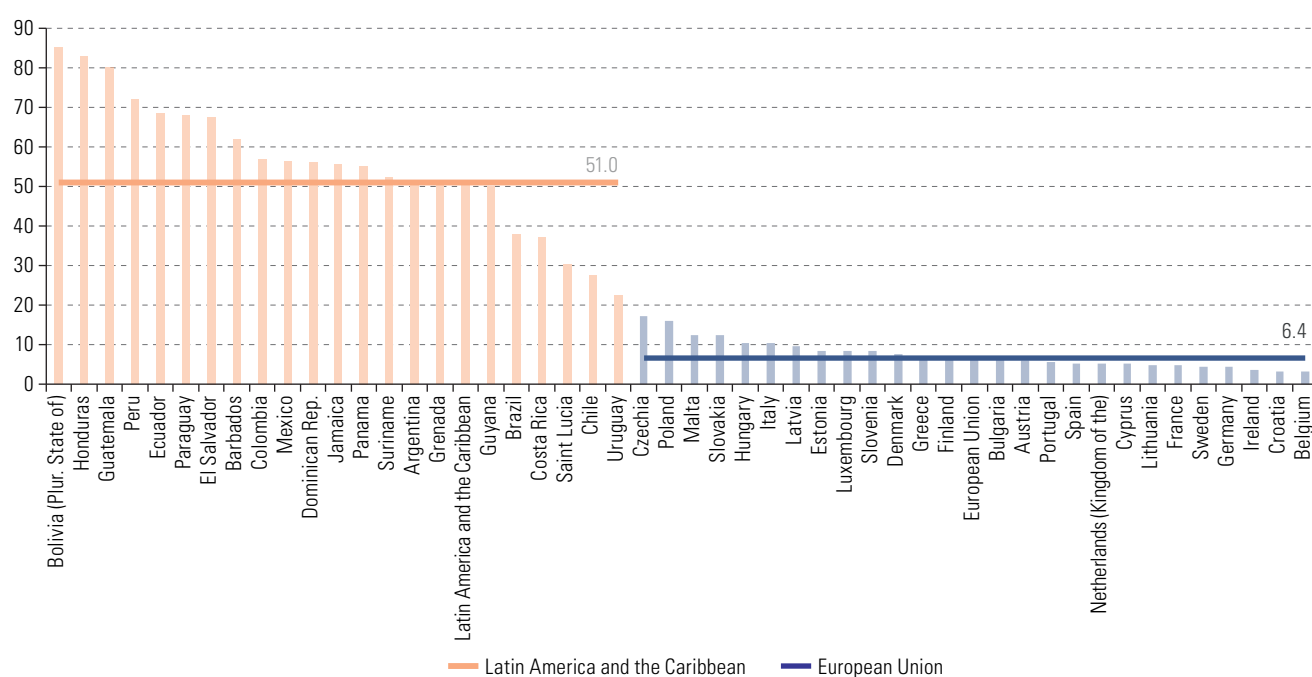
<sup>8</sup> In order to measure productivity, information on sales or value added at the company or worker level is needed, but countries' administrative records do not provide this type of information for informal businesses. It is possible, however, to gather information on informal sector revenues broken down by company size and to posit that income gaps may be correlated with productivity gaps.

**Figure I.15**  
Latin America and the Caribbean and European Union: labour productivity relative to that of large companies, by company size, 2008, 2016 and 2018  
(Percentages)



**Source:** Organisation for Economic Co-operation and Development (OECD) and others, *Latin American Economic Outlook 2023: Investing in Sustainable Development* (LC/PUB.2023/21), Paris, OECD Publishing, 2023.

**Figure I.16**  
Latin America and the Caribbean (22 countries) and European Union (26 countries): labour informality rates, 2023 or latest year available  
(Percentages)



**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of International Labour Organization (ILO), ILOSTAT [online database] <https://ilostat.ilo.org/>.

The region's low productivity levels are related to the productivity gaps between MSMEs and large companies. These gaps are much narrower in the European Union countries, where MSMEs play a key role in the production structure, are drivers of growth and are well integrated into the entire production system, which is not the case in Latin America and the Caribbean (Dini and Stumpo, 2020).

In general, MSMEs in the region tend to be concentrated in low-productivity sectors and make no more than a quite limited contribution to export activity, save for exceptional cases where they have succeeded in linking up with large, more dynamic companies. The region's MSMEs also encounter challenges in adopting new technologies and in innovating. The available information suggests that these problems are associated with a limited ability to visualize how new technologies can benefit these businesses' production and marketing processes and with unprofessional and faulty management practices. For example, a recent ECLAC study on Internet access and use in Latin American and Caribbean enterprises found that over 90% of the companies with fewer than 50 employees did not have a web page and, of those that did have an Internet presence, over 60% did not conduct any kind of business transaction via the Internet (Vilgis, Jordán and Patiño, 2023).

The differences between the productivity levels of smaller and larger businesses are often related not only to differences in their innovativeness but also to the ways in which they manage their factors of production. Thus, the degree of effectiveness with which they combine those factors frequently accounts for part of that productivity differential. The efficient use and correct combination of factors of production require a certain level of managerial skill and knowledge about how to deploy a firm's capital (Bloom and Van Reenen, 2010; Lederman and others, 2014; Iacovone, Maloney and McKenzie, 2022). Although some progress has been made in terms of technological outreach efforts to improve managerial practices in the region, these initiatives have so far reached only a tiny fraction of the businesses that could benefit from them.

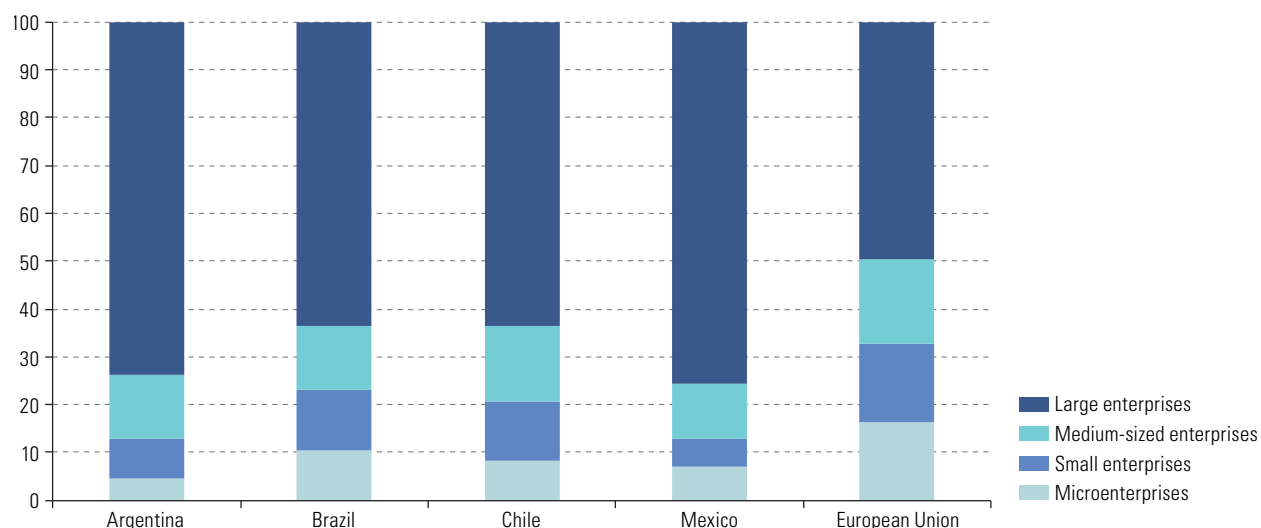
There is also significant heterogeneity among businesses of similar size in Latin America and the Caribbean. Along with a large number of low-productivity, informal MSMEs, rapidly growing start-ups with a solid technological base can also be found. These firms are an important source of innovation and can transform industries and business models while at the same time helping to reshape business leadership styles. Although investments in these types of companies are a high-risk venture that is inherently uncertain, they can be very profitable if they are successful and can have a considerable impact on economic growth, job creation and the sustainable development process (OECD and others, 2023). As will be discussed in chapter II, it is therefore of crucial importance to foster the creation of start-up ecosystems and support new, innovative firms, and in order for this to be accomplished, policymakers will need to take decisive action.

In terms of the concentration of sales or production, the contribution made by MSMEs in the region is far, far smaller than that made by MSMEs in the countries of the European Union. In some of the countries of Latin America and the Caribbean, the output of microenterprises and small businesses represented between 9% and 21% of total formal-sector production in 2018, as compared to the corresponding figure of 32% for the European Union (see figure I.17). By the same token, large European Union firms accounted for around 50% of total sales, whereas large firms in Latin America and the Caribbean accounted for between 62% and 77% of the total.

**Figure I.17**

Latin America and the Caribbean (selected countries) and European Union: distribution of production or sales, by company size, 2018

(Percentages)



**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official statistics.

**Note:** The data used here refer to sales or gross output in the case of the countries of Latin America and the Caribbean but to income in the case of the European Union.

Average productivity in the region could thus be increased substantially if the marked inter-company heterogeneity in productivity could be reduced, either by boosting the productivity of low-productivity businesses (including informal ones) or by reallocating factors of production from those businesses to more highly productive ones. The productivity gains that could be realized if more could be done to promote start-ups with genuine growth potential would also be substantial.

### 3. Geographical heterogeneity

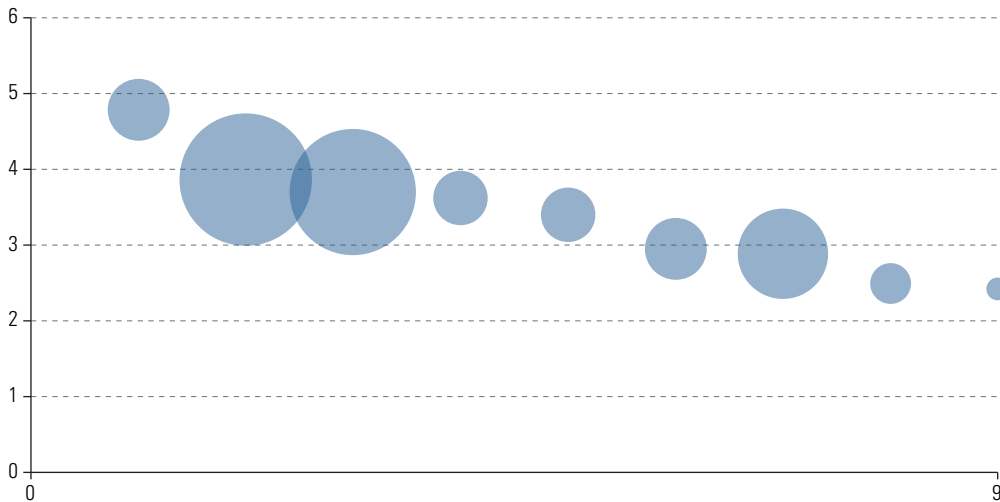
Economic and productivity growth is also influenced by different regions' or areas' production capacities. The marked degree of productive heterogeneity existing within individual Latin American and Caribbean countries is another factor that helps to explain why the region's productivity is so low. This intra-country heterogeneity not only makes it harder to achieve productivity gains at the country level but also interferes with efforts to attain a more harmonious and inclusive development process for each country and for the region as a whole. Boosting the productivity of the areas that are lagging behind would improve the well-being of the populations of those regions, increase their integration and resilience, and help to instil pride and a sense of belonging. It would also help to ensure that no one is left behind, which would also contribute to the political stability of the countries of the region and help reduce the level of polarization. In order for this to occur, however, localized productive development strategies are needed that will also focus on fostering the formation of agglomeration economies in certain areas and medium-sized cities rather than solely in large urban areas.

An analysis of per capita income levels in the more productive and less productive areas shows that there has been some level of convergence in productivity levels but that major differences remain. Whereas, in the European countries, the more productive regions have productivity indices that are approximately two to three times higher than the less productive ones, in the countries of Latin America and the Caribbean, the differentials are substantially greater, with the high-productivity areas being around five times more productive than the more disadvantaged areas (OECD and others, 2023).

There are countries in Latin America and the Caribbean where the richest area has a productivity level that is 12 times higher than the poorest one (see figure I.18G). In

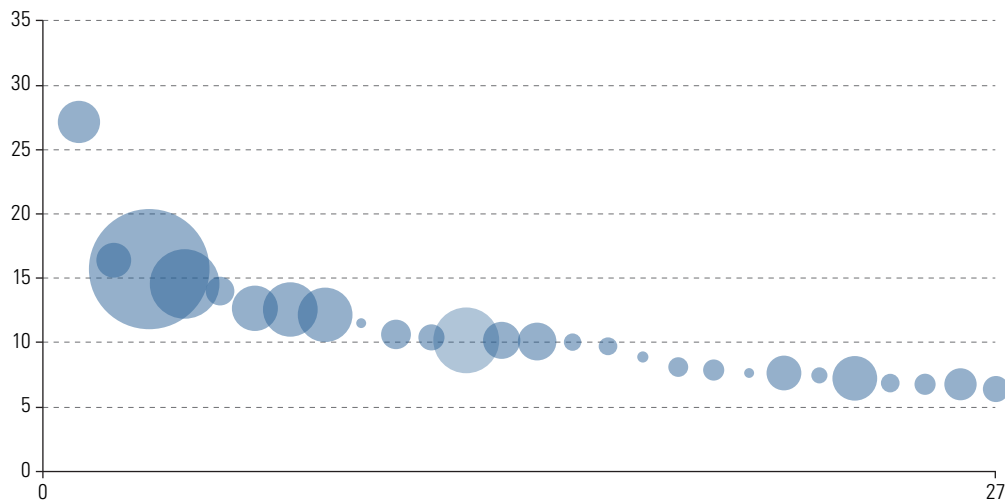
addition, production is highly concentrated in some areas, which are also generally the ones with the highest productivity levels, thus leaving many low-productivity areas in a position in which their contribution to the national economy is very small.

#### A. Departments of Bolivia (Plur. State of) (2021)

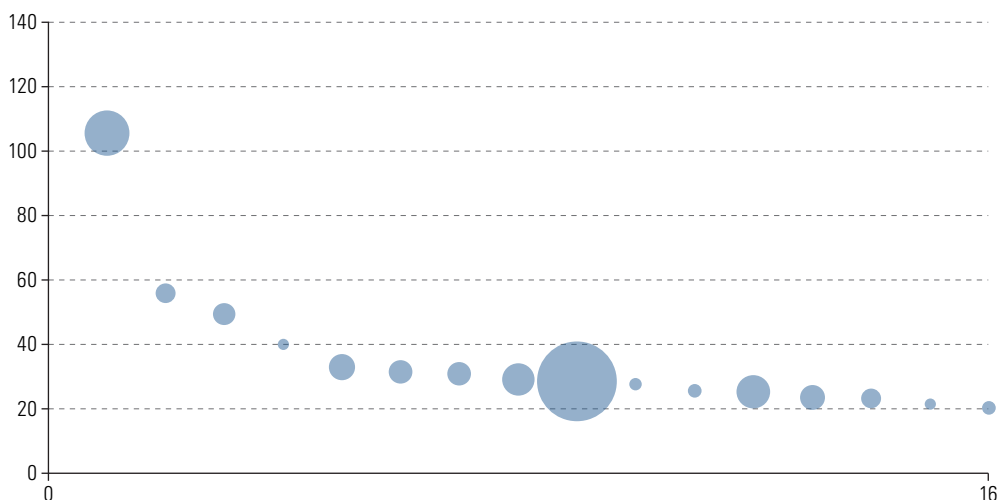


**Figure I.18**  
Latin America  
(selected countries):  
labour productivity,  
by geographical area,  
2020–2022  
(Thousands of dollars  
at current prices)

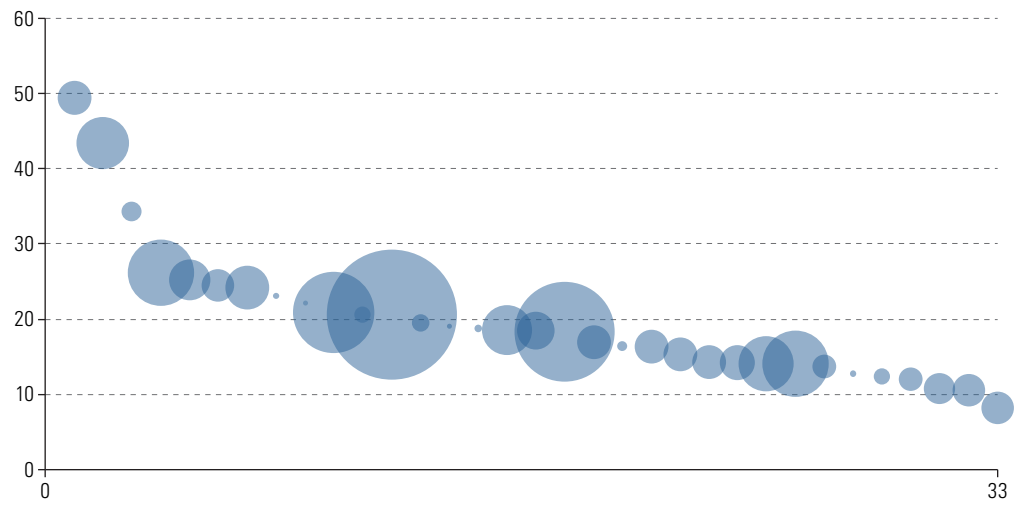
#### B. States of Brazil (2020)



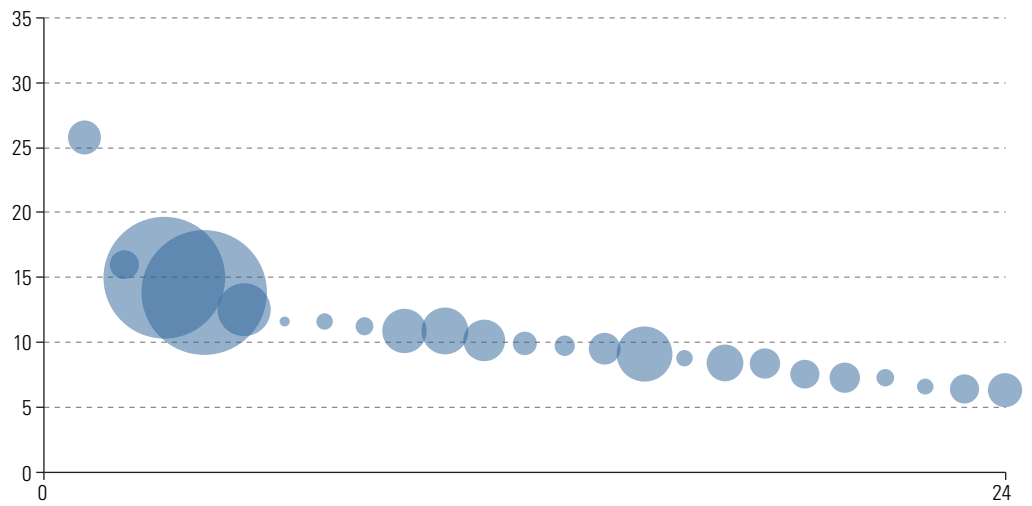
#### C. Regions of Chile (2022)



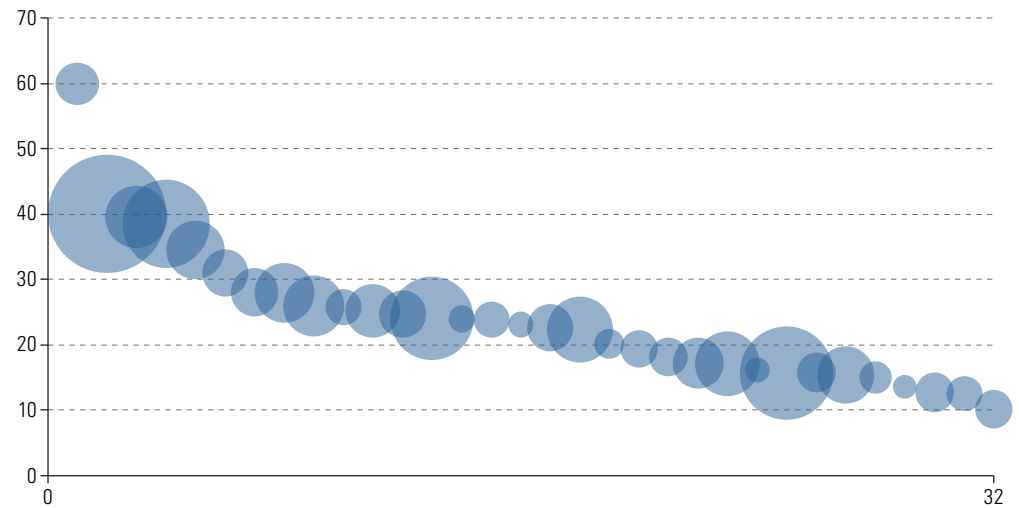
D. Departments of Colombia (2022)<sup>a</sup>



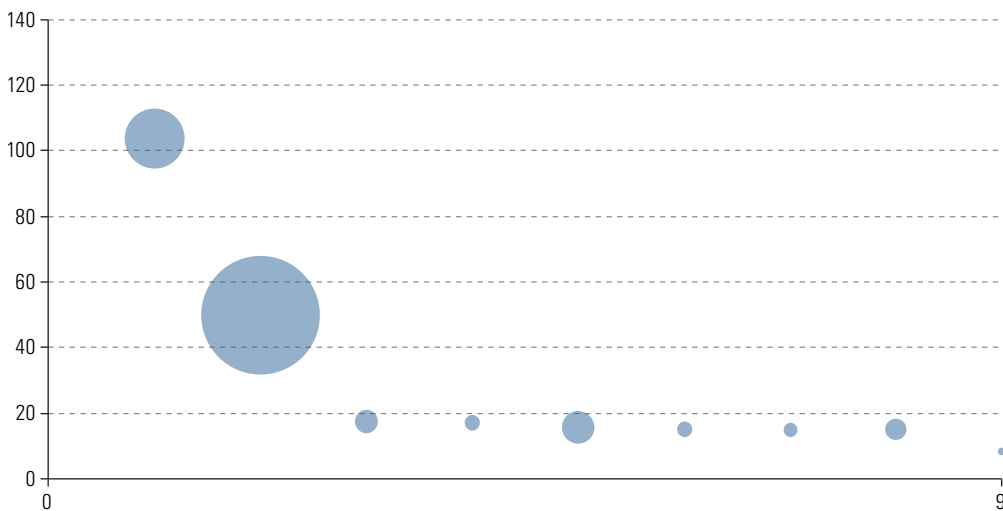
E. Provinces of Ecuador (2020)



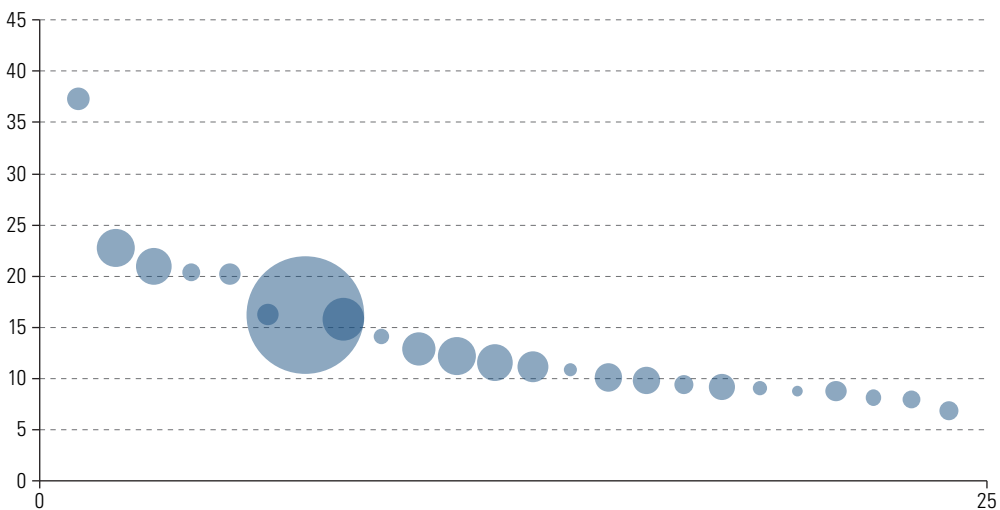
F. States of Mexico (2021)



G. Provinces of Panama (2021)



H. Departments of Peru (2021)



**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), CEPALSTAT [online database] <https://statistics.cepal.org/portal/cepalstat/index.html?lang=en>.

**Note:** The size of the circles represents each region's contribution to the country's value added.

<sup>a</sup> Includes the Capital District in Colombia and the Federal District in Mexico.

## D. Characteristics of the labour force as determinants of productivity and the role of education

Although the initial theories about growth that were prevalent in the 1950s saw it as a process of the accumulation of physical and tangible capital, experience has shown that much more besides this type of capital (and its suitable financing) is needed to support growth. Growth theories then began to focus on the role of labour, not only in the sense of the actual number of workers involved, but also in terms of the skills and capabilities of those workers—what they could do and how good they were at doing it—in combination, of course, with the factors of physical capital and technology.

In many countries, there had been a broad consensus dating back to the nineteenth century about the fundamental role of education in supporting prosperity and development, long before economists began to pay attention to this and to incorporate this insight into their growth theories. In the 1960s, however, some economists “rediscovered” this subject and incorporated it into their growth theories and mathematical models (Becker, 1975; Mankiw, Romer and Weil, 1992).

This was the origin of the concept of “human capital”, whereby education and vocational training are seen not only as a cultural and humanistic experience but also as an investment that is made by individuals to enhance their development as human beings and by society as a means of increasing its growth, productive development and the per capita income levels of its members. In modern knowledge societies, diminishing—or even constant—returns do not predominate; instead, innovation and new ideas drive increasing returns, leading to cumulative productivity growth. In today’s modern knowledge societies and with their new, technology-intensive production paradigms, education and vocational training are more important than ever. Following this line of thinking, for a long time now, societies have been devoting attention to the coverage and quality of education as part of their development and productive transformation strategies.

But what is known and what is not known about when and how education drives or leads to growth? What types of education policies can help to bring about a major transformation of production patterns? ECLAC invited Lant Pritchett, one of the foremost researchers in this field, to deliver a keynote speech on the subject as part of its lecture series to commemorate the Commission’s seventy-fifth anniversary. The answers to these questions, in Pritchett’s view, can be summed up as follows.

The starting point, according to Pritchett, is a recognition of the fact that the expansion of the coverage of education since the 1950s has been one of the greatest successes of humankind in the second half of the twentieth and first half of the twenty-first centuries. However, a great deal is unknown about the relationship between education and growth because many countries have expanded their education systems on a massive scale and yet have not experienced rapid, sustained growth. This suggests that the expansion of education is not sufficient, in and of itself, to drive growth. More specifically, the empirical evidence indicates that there is no correlation between the percentage increase in enrolment rates and the percentage increase in productivity. Part of the explanation for this is that education does not generate growth unless it also generates learning.

In the specific case of Latin America and the Caribbean, the average number of years of schooling completed by people between 25 and 34 years of age jumped from 3.0 to 10.2 (with the majority at least completing their lower secondary education) between 1950 and 2015, which is a huge increase. Furthermore, young people in almost every country of the region had more years of schooling in 2015 than young people in developed countries did in 1950. This leads to the following conclusion: “No part of a failure of Latin America and the Caribbean to converge in labour productivity (GDP per worker) with the leading countries can be attributed to any ‘failure’ to expand schooling as rapidly as the ‘developed’ nations” (Pritchett, 2024). What is more, not all the high-performing East Asian countries expanded enrolment more rapidly or more broadly than the Latin American and Caribbean countries did, and the Plurinational State of Bolivia and the Bolivarian Republic of Venezuela actually increased enrolment more rapidly than the Republic of Korea did.

Pritchett notes that there are two main “reasons why schooling does not uniformly lead to growth. One is that schooling is not producing the education outcomes (skills, competencies, capabilities, characteristics) that lead to a labour force with higher

productivity. The other is that the economy is structured in such a way that, even though the expansion of schooling is producing a labour force with more productive potential, this ‘higher human capital’ is not being deployed into productivity” (Pritchett, 2024).

With regard to the first reason cited above, the data are clear: countries’ economic growth is closely associated with education when this is measured using indicators that reflect students’ learning outcomes. Thus, when the Learning-Adjusted Years of Schooling indicator is used, the correlations between education and growth and between education and per capita income levels are significant.<sup>9</sup> These findings align with Hanushek and Woessmann (2012), who found that much of the region’s growth shortfall is due not to the number of years of schooling, but to the poor learning outcomes. Thus, the serious damage done to students’ learning paths by the COVID-19 pandemic threatens to further impair the region’s growth capacity in the immediate and near future.

In sum, the region has met with great success over the past 50 years in improving its enrolment rates, but it has reached a point where, if it is to grow more and to meet the challenges involved in transforming its production patterns, the task that it must now undertake on an urgent, priority basis is to improve its students’ learning outcomes, while not neglecting to finish the job of closing existing gaps in access to education. In other words, there are serious shortcomings in the levels of learning attained by students in the education systems of the countries of the region. Consequently, allocating larger budgets to education but continuing to do more of what is already being done will not yield the desired results. The main change that the countries will need to make in their education systems in order to achieve greater prosperity and productivity and to bring about a transformation of the production sector and create quality jobs is to increase the quality of the learning process.

The second reason why more schooling, even if the learning outcomes of that schooling are improved, will not lead, in and of itself, to greater growth is that the economic structure is not opening up opportunities for using this better trained and potentially more productive labour force in productive ways. Opening up such opportunities is precisely the objective of the productive development policies being analysed in this publication.

## E. The significance of technological intensity and complexity

As mentioned earlier, not all sectors are equal or exhibit the same momentum in terms of their demand for skilled labour or their ability to attain productivity gains. Production structures displaying greater complexity (more diversification and a greater presence of technology- and knowledge-intensive sectors) tend to reach higher levels of productivity and exhibit steeper productivity growth curves than economies that produce a few less sophisticated goods and services.

The technological intensity (and the associated momentum) of a production structure can be gauged in different ways. One of those ways is the economic complexity index (see box I.1).

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<sup>9</sup> For a more detailed discussion of these methodologies and for other writings and empirical evidence on the subject, see Pritchett (2024).

### Box I.1 Economic complexity index

The economic complexity index tracks countries' production capacity and reflects emerging structures for the accumulation and combination of knowledge. This index is designed to capture two dimensions of the economic structure: (i) diversity, which is measured by the number of different products that a country makes; and (ii) ubiquity, which is defined as the number of countries that make a given product. Formally:

$$(i) \text{ Diversity} = kc,o = \sum_p M_{cp}$$

$$(ii) \text{ Ubiquity} = kp,o = \sum_c M_{cp}$$

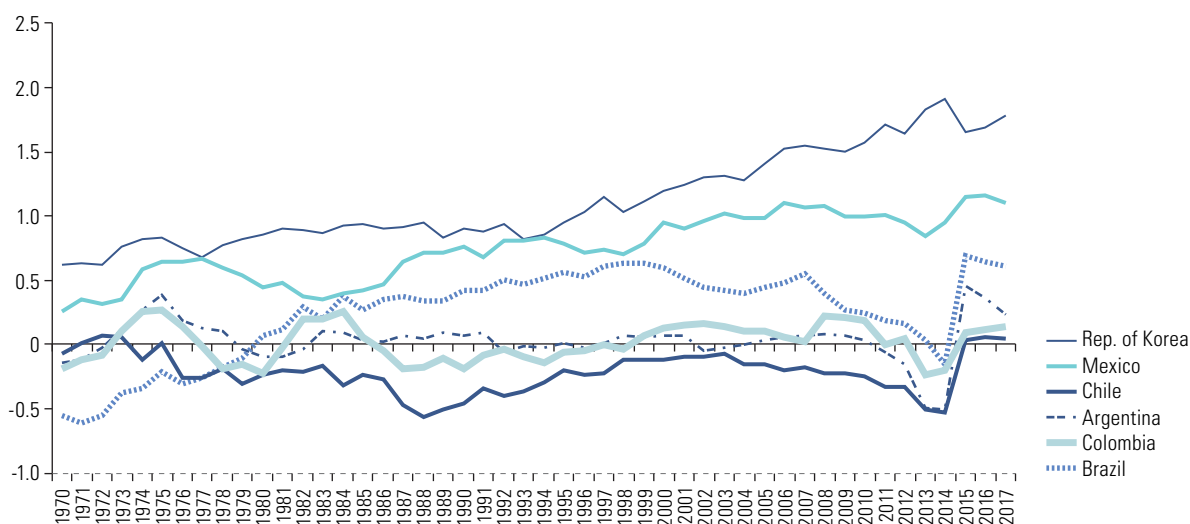
In order to arrive at a more exact measurement of the number of capacities or skills available in a country, or the number needed to make a given product, each of those measurements has to be used to correct the other one. This means that, for each country, the average ubiquity of the products it exports and the average diversity of countries that make those products have to be calculated. In the case of products, this entails calculating the average diversity of the countries that make the product and the average ubiquity of the other products that these countries make (Hidalgo and Hausmann, 2009).<sup>a</sup>

**Source:** Author's calculations and C. Hidalgo and R. Hausmann, "The building blocks of economic complexity", *Proceedings of the National Academy of Sciences (PNAS)*, vol. 106, No. 26, Washington, D.C., National Academy of Sciences (NAS), 2009.

<sup>a</sup> The economic complexity index suffers from a few significant limitations. One of them is that it is focused on final products and does not measure intermediate production. Consequently, a higher ranking may not necessarily denote greater technological intensity. This can happen, in particular, when the products in question are very import-intensive and the country's contribution to value added is concentrated in the stages of the production process that are more intensive in unskilled or low-skilled labour (maquilas).

Figure I.19 traces the trends in the economic complexity index rankings for some Latin American countries and shows how they compare with the trend in a country that has successfully attained technological convergence, such as the Republic of Korea. With the exception of Mexico, the countries of the region have lagged behind or have even regressed relative to the benchmark country.

**Figure I.19**  
Latin America and the Caribbean (selected countries) and Republic of Korea: economic complexity index, 1970–2017



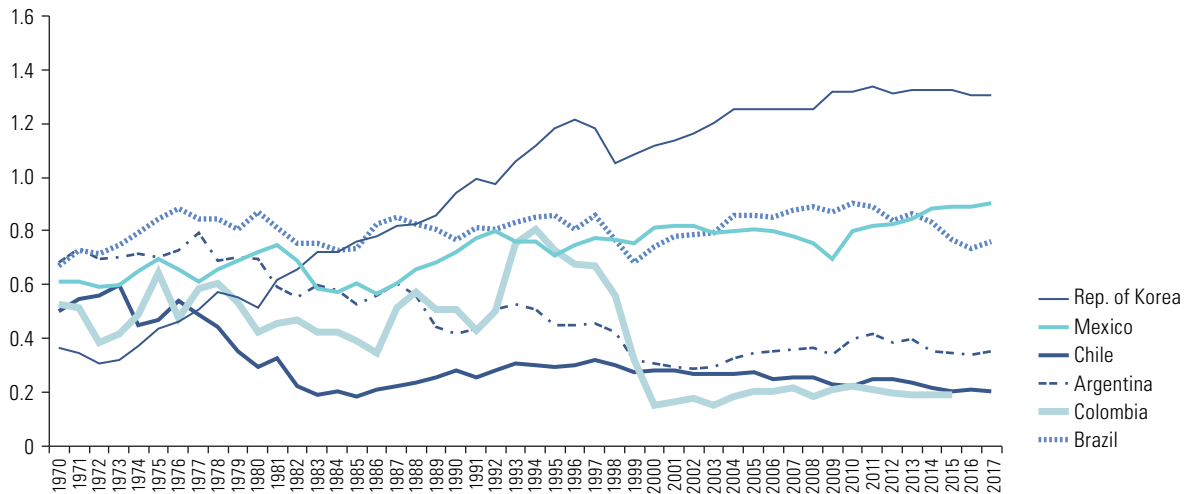
**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of Harvard University, Atlas of Economic Complexity [online database] <http://www.atlas.cid.harvard.edu>.

Another indicator that captures technological and production capacities is the relative share index (see figure I.20). This index measures the share of total manufacturing value added ( $m^i$ ) of engineering-intensive industries in a country,  $i$  ( $e^i$ ) as compared to the share of a benchmark country (the United States).

$$RSI = (e^i / m^i) / (e^{EEUU} / m^{EEUU})$$

**Figure I.20**

Latin America and the Caribbean (selected countries) and Republic of Korea: relative share index for engineering-intensive industries, 1970–2017



**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of United Nations Industrial Development Organization (UNIDO).

The relative share index has the disadvantage of capturing only what is happening in the manufacturing sector, but it has the advantage of complementing the economic complexity index, since it is not based on trade data but rather on production within the manufacturing sector. It can clearly be seen from figure I.20 that, whereas this indicator has followed a positive trend for the Republic of Korea, it has stagnated or followed a downward trend in the Latin American countries, with the exception of Mexico. This supports the information provided by the economic complexity index, which indicates that the region suffers from structural weaknesses that have negative implications for productivity and aggregate demand.

In order to validate these findings regarding the importance of technological intensity and complexity, an econometric exercise can be used to try to account for the labour productivity trends observed in 1996–2019 for 62 countries for which information is available. This exercise employs a random-effects and a generalized least squares linear regression<sup>10</sup> for panel data. To this end, five factors are taken as possible explanatory elements for the determinants of aggregate labour productivity trends:

- (i) External economies associated with a more complex economic production structure: The more complex the economic structure is and the larger technology-intensive structures are, the larger the intersectoral technology flows and the learning flows for the system as a whole. The economy's technological intensity or complexity is measured using three alternative indicators: the economic complexity index that was discussed earlier, the Schumpeterian efficiency index and per capita exports. These last two indicators may be regarded as a reflection of a country's ability to position itself in the world market based on its production and technological capacities, which are what buttress export growth

<sup>10</sup> The same exercise was carried out with fixed effects and produced similar results.

over the long run. The concept of Schumpeterian efficiency refers to a country's capacity for maintaining comparative advantages in patent-intensive sectors, with patents serving as a proxy for the economic structure's technological intensity.<sup>11</sup>

- (ii) Increasing returns in line with Kaldor-Verdoorn's law: Growth spurs "learning by doing," and the accumulation of experience boosts productivity. This variable is captured using the per capita output logarithm.
- (iii) Investment rate: The higher this rate, the faster new generations of capital goods are being incorporated (embedded technical progress), which serves as a vehicle for introducing new product, process and management innovations.
- (iv) A conducive institutional environment for investment and innovation: This variable has to do with the quality of a country's institutional structure and is reflected in the government efficiency index developed by the World Bank.
- (v) Share of income represented by wages (indeterminate effect): as long as this ratio promotes innovations that translate into labour savings (induced technical progress), higher productivity and higher wages will go hand in hand; the opposite is also true: if wage trends do not keep pace with productivity, the relationship will be negative.

The results of this exercise, which are shown in table I.2, corroborate the hypothesis advanced in the literature about productivity and technical progress. The point to be underlined is that productivity responds positively to the technological intensity or complexity of the production structure. This finding was robust for all three of the alternative proxy variables: per capita exports, the economic complexity index and the Schumpeterian efficiency index.

**Table I.2**  
Estimated coefficients in generalized least squares regression model with random effects, 1996–2019

Dependent variable: labour productivity	Coefficient		
	Model 1	Model 2	Model 3
Independent variables			
Schumpeterian efficiency index	6.468*	-	-
Economic complexity index	-	2.355**	-
Per capita exports (logarithms)			3.488**
Government efficiency	4.381**	3.705**	2.523**
Human capital	11.694**	9.885**	5.659**
Per capita income	0.0003**	0.0004**	0.0002**
Investment (gross fixed capital formation)	0.045*	0.038*	-0.005
Share of wages in GDP	-22.386**	-18.516**	-17.872**
Constant	-0.219	1.255	-9.247
Number of countries	62	58	58
Period	1996–2019	1996–2019	1996–2020
Prob > chi2	0	0	0
R2 general	0.7796	0.8010	0.7906

**Source:** Economic Commission for Latin America and the Caribbean (ECLAC).

**Note:** The results are shown for the estimates of the relationship between labour productivity and government efficiency, human capital and per capita income. These estimates have been arrived at using the generalized least squares method with random effects. As an explanatory variable, model 1 includes the Schumpeterian efficiency index, model 2 includes the economic complexity index, and model 3 includes the per capita exports logarithm. The Breusch-Pagan test was used to confirm the significance of the random effects. In model 2, four countries could not be included in the sample, and information for the economic complexity index variable is not available. In the case of model 3, no information is available for the per capita export variable for those countries. \* significance at 90%; \*\* significance at 95%.

<sup>11</sup> Schumpeterian efficiency is defined as the total export share of all the sectors in a country whose share of patents is larger than their share of world trade.

The fact that investment and the level of GDP also have a positive effect on productivity confirms the key importance of the role of investment and increasing returns in driving productivity gains. Education (represented by the human capital index) and the existence of efficient institutions as a necessary context for investment action, especially in relation to innovation, also have positive effects on productivity. The only instance in which fixed capital investment did not have a significant positive outcome was when per capita exports were used as a proxy for the complexity of the production structure; this may be attributable to a high correlation between these two variables, which would reduce the efficiency of the estimator.

Lastly, wages and productivity increases showed a significant negative correlation. This could be a reflection of the trend (as discussed in the literature) of a decoupling between wages and productivity starting in the late 1980s.

While many of these results were to be expected, it is important to underscore the fact that much of the region's problem with low productivity lies in the absence of a productive transformation process that would increase the complexity of the production structure, which could serve as a vehicle for enhancing productivity. If the region wishes to attain higher productivity levels, it must work to increase the sophistication and diversification of its economies and to bring about positive structural change.

## F. Concluding remarks

Viewed from a long-term standpoint, the performance of the Latin American and Caribbean region in terms of growth and productivity has been very weak. With very few exceptions, the growth rate for labour productivity has been very low ever since 1970, and while economic growth rates were high until the mid-1970s, they fell during the external debt crisis of the 1980s and never recovered. This marked a trend change in economic growth, which has remained sluggish since the 1980s.

This poor showing is seen to be even more so when productivity is measured in terms of total factor productivity, which made a negative contribution to growth for the period 1970–2019 as a whole in Latin America and the Caribbean. While the aggregate numbers are the sum of widely varying results for different countries and time periods, the overall picture that they give of the region as a whole is also borne out in each country. Productivity has risen more in some periods than in others, but all the countries have performed poorly overall, especially when compared with countries on the technological frontier, such as the United States, or countries, such as the Republic of Korea, that have been successful in narrowing the technological gaps that used to exist.

A closer look at this poor performance in terms of productivity shows that the countries of Latin America and the Caribbean exhibit three different types of heterogeneity in this connection: (i) heterogeneity between sectors or economic activities; (ii) heterogeneity between companies or businesses, particularly between ones of different sizes; and (iii) heterogeneity between different areas in the same country.

The calculations performed as part of this study confirm that the region's low productivity is associated, among other factors, with its relatively undiversified and technologically unsophisticated (low complexity) production structures. One question that naturally arises is why the countries of the region have perpetuated their less dynamic and less sophisticated production patterns over time rather than shifting (either gradually or rapidly) towards more dynamic sectors. The explanation for this may lie in the tacit nature of knowledge (Hausmann, 2016), which means that experience and accumulated technological know-how may play a very important role in defining and delimiting what people will learn going forward and what structural changes they will make.

Improving productivity levels in Latin America and the Caribbean will therefore depend, in part, on how successful the region is in reducing its sectoral, inter-company and geographical heterogeneities. Furthermore, in addition to reducing the heterogeneity of its levels of productivity, the region will have to reduce the heterogeneity of its productivity growth rates, which means that its success in boosting productivity will depend on whether it can drive up productivity rates in those sectors, companies and geographical areas where those rates are at their lowest. This, in turn, will depend on its ability to foster increasing sophistication, diversification and positive structural changes in its economies. As discussed by Salazar-Xirinachs and Llinás (2023), this can be achieved by means of three complementary lines of productive development policy: (i) measures to increase the productivity of backward sectors, firms and territories; (ii) measures and policies to further improve the productivity of leading sectors, firms and geographical areas; and (iii) measures and policies to generate and speed up virtuous structural change through investment and the development of completely new higher-productivity sectors and activities (Salazar-Xirinachs, Nübler and Kozul-Wright, 2017; Salazar-Xirinachs and Cornick, 2017; Rodrik and Sabel, 2022; Sabel and Ghezzi, 2021; Verhoogen, 2021; OECD, 2022). Just how the region can go about doing this and what steps the countries of the region have been taking in this area are subjects that will be explored in depth in the following chapters.

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## Annex I.A1

### Productivity as a key factor in competitiveness

If a price in a given sector is determined by increases in the price over unit labour costs, then competitive pricing  $q$  is defined as:

$$q = \frac{P^* E}{P} = \frac{(1 + m^*) E \left(\frac{A}{A^*}\right)}{(1 + m)(W/W^*)} \quad (1)$$

where  $A$  is labour productivity,  $m$  is the price increase and  $E$  is the nominal exchange rate. The asterisks denote the foreign country. If the variables refer to the aggregate economy, the result will be the real exchange rate, a synthetic indicator of the competitiveness of prices in the economy. Notice that, if the foreign country has a developed economy, then the ratio  $A/A^*$  is the productivity gap, which reflects the technological gap or how far that economy is from the technological frontier.

The diffusion of pioneering firms' innovations will be influenced by the receiving country's absorption capacity. In extremely simplified terms, this can be written as:

$$\frac{\dot{B}}{B} = \beta \left( B, \frac{\dot{Y}^*}{Y^*} \right) \quad (2)$$

where  $B = A^*/A$  is the technological gap expressed as the differential between the productivity of the country situated on the technological frontier ( $A^*$ ) and the productivity of the lagging country ( $A$ ). There are two factors that determine how that differential will change over time. First, the relative growth rates of the centre and the periphery  $\frac{\dot{Y}^*}{Y^*}$ , which define the relative intensity of the Kaldor-Verdoorn effect, such that  $\beta_{Y^*} > 0$ , and, second, the speed at which the periphery can make use of the technologies being created by the centre at the frontier and diffuse them throughout its own economies by means of adaptations and incremental improvements.

In simplified terms, three types of situations can be identified (although the actual number of possible scenarios and their differing degrees of complexity are much more numerous):

- The larger the gap, the greater the opportunities for imitation, so the gap tends to narrow:  $\beta_B < 0$
- The larger the gap, the more difficult it is to imitate the advanced technology, so the gap widens:  $\beta_B > 0$
- A non-linear relationship: The larger the gap, the greater the diffusion of technology in the periphery up to a certain point, after which the distance is so great that the periphery is incapable of slowing the increase in that gap over time.

## Annex I.A2

### Productivity growth, economic growth and technological spillovers: the Kaldor-Verdoorn law and productivity gaps

The literature discusses productivity gains resulting from increasing returns in terms of the Kaldor-Verdoorn law, with  $(\frac{\dot{A}}{A}) = g_0 + g_1 (\frac{\dot{Y}}{Y})$ , where  $A$  is labour productivity,  $Y$  is output ( $\frac{\dot{A}}{A}$ ) and  $(\frac{\dot{Y}}{Y})$  are proportional growth rates for productivity and GDP, respectively,  $g_0$  is the autonomous rate of increase of productivity over time and  $g_1$  is the Kaldor-Verdoorn coefficient. A value of  $g_1 > 0$  indicates that productivity gains are procyclical and that the increasing returns associated with different internal and external economies of scale predominate, as do the positive effects that GDP growth has on investment decisions and the incorporation of technical progress into new capital goods.

As mentioned earlier, a country's ability to maintain a presence in dynamic markets will depend, in large part, on its ability to prevent the gap between it and the countries located on the technological frontier—that is, the gap between the centre and the periphery—from widening over time. Thus, keeping a close eye on the productivity gap provides an important indication of a country's ability to take advantage of the learning opportunities and the opportunities for technical change afforded by the knowledge being generated at the technological frontier.

## CHAPTER



# A new vision and a new conviction for productive development policies in the region<sup>1</sup>

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### Introduction

- A. The importance of having a vision and working pragmatically to change the economy and steer growth
- B. New rationales for productive development policies
- C. A new purview
- D. The need to prioritize
- E. A new vision
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### Bibliography

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<sup>1</sup> This chapter is largely based on Salazar-Xirinachs and Llinás (2023).



# Introduction

In view of the analysis set out in chapter I, it is crucial for the countries of Latin America and the Caribbean and their territories to work on a productivity agenda.

Increasing productivity requires efforts on numerous fronts, including measures to improve economic fundamentals. These concern aspects such as infrastructure quality, the coverage and quality of the education and health systems, the quality of institutions (including the functioning of the judiciary and measures to reduce corruption and improve productivity in the public sector), the smooth functioning and depth of the capital market, competition policy, and macroeconomic stability.<sup>2</sup> Dealing with these fundamentals entails decades of constant improvement and a long-term perspective, and this is a task that the countries of Latin America and the Caribbean must continue to engage with.

Besides improvements in the economic fundamentals, productive development policies are an area of work that would yield progress within a reasonable time frame. If the countries applied these policies thoroughly and effectively, they would not need to await the outcome of lengthy prior reform processes, or to have an excellent business climate already in place, in order to increase their productivity and thence their growth (Lin and Monga, 2017; Rodrik and Stiglitz, 2024). Given the tragically poor productivity performance of the countries of the region, this is an argument for treating productive development policies as a matter of urgency, although that does not mean neglecting the quality of the business climate, which should be excellent, or foregoing reform of the economic fundamentals.

This chapter describes what “new generation” productive development policies, as they are termed here, consist of. After this introduction, section A provides a historical context for new generation productive development policies. Section B presents some of the rationales underlying the implementation of policies of this type (e.g. collaboration and an emphasis on governance). Section C establishes a new range of action for these policies, and section D addresses the issue of prioritization in the framework of productive development policies and lists a number of sectors that are currently driving or energizing productive development in the region. Section E sets out the new vision for productive development policies being advanced by ECLAC, including a description of the different areas making up these policies. Lastly, section F presents conclusions, putting forward a set of hypotheses concerning the efforts being made in the region in the area of productive development policies, which the following chapters will seek to validate or refute.

## A. The importance of having a vision and working pragmatically to change the economy and steer growth

The history of economic development teaches that “no country has made the arduous journey from widespread rural poverty to post-industrial wealth without employing targeted and selective government policies to modify its economic structure and boost its economic dynamism” (Salazar-Xirinachs, Nübler and Kozul-Wright, 2014, p. 1). Such policies have been known traditionally as industrial policies, and more recently as productive development policies.

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<sup>2</sup> As mentioned in chapter I, when Rodrik and Stiglitz (2024) speak of improving the economic fundamentals, they mean enhancing conditions in the areas of education, governance and macroeconomic stability.

Economic history has clearly shown how the most developed countries implemented such policies at an early stage (Chang, 2002 and 2014; Mazzucato, 2013; Wade, 2014; Cohen and DeLong, 2016). In contrast to *laissez-faire* recommendations, the economic growth of countries such as France, Germany and the United States has been underpinned by major productive development policy efforts clearly aimed at productive transformation and including, when necessary, measures such as the protection of national industries by tariffs and other border measures, the construction of specific infrastructure and the provision of subsidies and tax credits for domestic production.

For example, as pointed out and expounded in detail by Cohen and DeLong (2016, pp. 1–2), “from its very beginning, the United States again and again enacted policies to shift its economy onto a new growth direction—toward a new economic space of opportunity. These redirections have been big. And they have been collective choices. They have not been the emergent outcomes of innumerable individual choices aimed at achieving other goals. They have not been the unguided results of mindless evolution. They have been intelligent designs. And they have been implemented by government, backed and pushed by powerful and often broad-based political forces, held together by a common vision of how the economy ought to change. [...] The new direction has always been selected pragmatically, not ideologically, and presented concretely.”

Also well known are the more recent cases of productive development policies being implemented in Asian countries with their own visions of how their economies should change, albeit in very different historical periods and circumstances. In addition to Japan, these include the “economic miracles” of the last 50 years: China, the Republic of Korea and Taiwan Province of China (Amsden, 1989; Wade, 1990; Rodrik, 1995; Studwell, 2014; Lane, 2022). Other Asian countries such as Indonesia, Malaysia and Viet Nam have also been implementing policies of this type.

Latin America and the Caribbean has been no exception when it comes to implementing productive development policies. For several decades starting before the Second World War, the growth and development vision and efforts of the countries of the region consisted in fostering industrialization through tariff protection. In those years, ECLAC developed that vision as the theory and practice of import substitution industrialization. Many developing countries in Africa and Asia, such as India, implemented similar import substitution industrialization policies based on this vision of fostering industrialization via infant industry protection policies.

The region achieved its highest ever annual per capita income growth rates in the 30-year period from 1950 to 1980 (Bértola and Ocampo, 2013, p. 212), which is not to say that the import substitution industrialization policy was the right one to follow in the decades thereafter. Raúl Prebisch himself pointed out as early as the late 1950s that the model had been suffering from an abuse of protectionism and thence an inability to reorient the production of domestic industries towards international markets. A variety of analyses found that the model had run its course because the strategy prioritized the local market rather than the world market as a source of momentum, which meant that it was doomed to run out of energy sooner or later, depending on the size of each country’s market.

Prebisch dwelt in several of his studies on the limits of industrialization in small markets, or what he termed “watertight compartments,” and that was the basis of his argument for a Latin American common market (Prebisch, 1959). Already in this last-cited work, the author vigorously denounced the course taken by import substitution industrialization in Latin America and the inefficiencies resulting from excessive and abusive protectionism (see Gurrieri, 1982, p. 495). In this and subsequent writings, Prebisch emphasized the importance of promoting competitive industrial exports to the rest of the world.

In the 1970s, moreover, the countries suffered severe external shocks that resulted in currency and balance-of-payments crises, leading to high levels of borrowing that proved unsustainable in the early 1980s when international interest rates rose sharply.

The move towards trade liberalization and export promotion was motivated not only by force of circumstances and the debate about the exhaustion of the existing model, but also by sound and well-documented analyses of the inefficiencies and distortions in prices and incentives caused by the variety of State interventions that characterized the import substitution industrialization strategy (high tariffs, subsidized credit, quantitative credit quotas by sector or portfolio ceilings, price setting for certain products and services, interest rate subsidies and multiple exchange rates, among others). This was true not only of Latin America but of many developing countries in other regions. Some analyses in widely recognized and influential works of the time were those of Little, Scitovsky and Scott (1971), Balassa (1977), Bhagwati (1978) and Krueger (1978).

In addition to the well-founded criticism, there was a sharp swing of the ideological pendulum because of the ascendancy of the “neoliberal order” (Gerstle, 2022). In the economic sphere, the 10 points summarized by John Williamson in 1989, which came to be popularized as the Washington Consensus, were particularly influential in Latin America and the Caribbean.

The combination of rigorous criticism and a substantial dose of ideology about the role of the State and the market led to industrial policies, as they had been developing up to that time, falling into disrepute not only in the region but globally. Williamson’s 10-point list did not include anything about industrial policy or productive development policies or a vision of how to orient or redirect the growth process in a concrete way, for example with a view to making it more inclusive and sustainable.<sup>3</sup> It was an instrumental approach aimed at unleashing market forces and reducing the role of the State in the economy, but without a strategic perspective on the future that should be constructed. More precisely, strategic direction was to come from the market, and the result of these policies was a weakening of the State and neglect of the need for strengthened public institutions, enduring to this day.

For years, there persisted a caricature of industrial policy as an approach that favoured “picking winners” and was highly vulnerable to capture by beneficiary sectors. The criticisms, which were not without merit, were simplified into the extreme position summarized by economist Gary Becker (1985) when he famously said that the best industrial policy was none at all (Juhász and others, 2023). In other words, some economists “threw out the baby with the bathwater,” and that was the spirit and narrative of an era.

Notwithstanding this rhetoric about industrial policies, however, neither developed nor developing countries stopped using some version of them and fostering industrialization. In recent years, industrial policy, in its strong version of high subsidies and protectionist tariffs, has made a potent comeback, even in the United States, which supposedly did not have such policies (Wade, 2014).

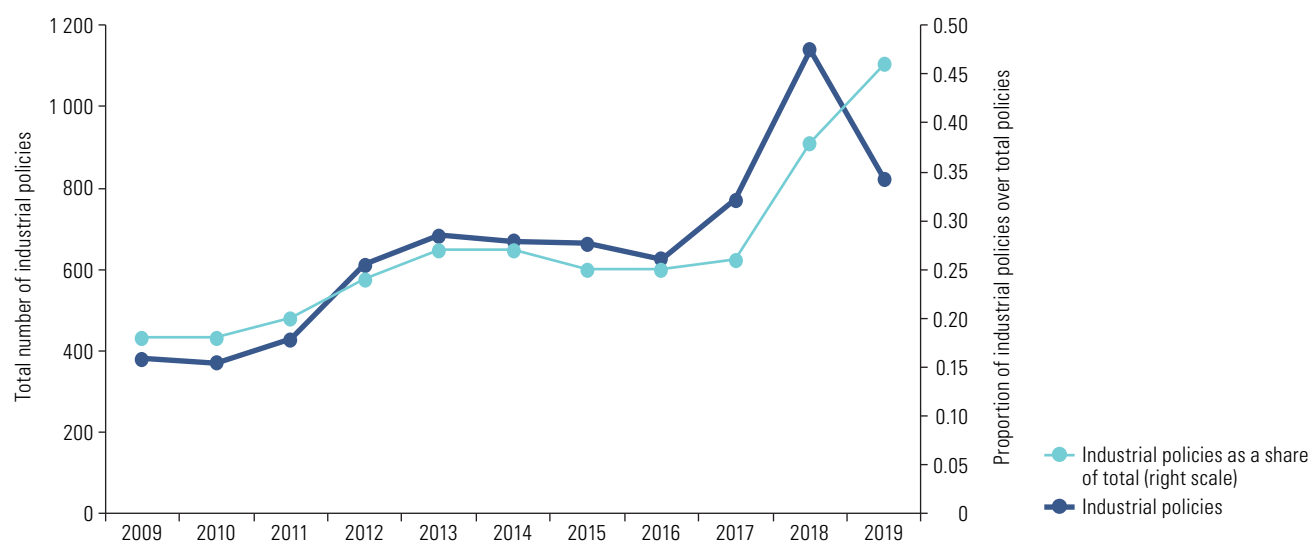
In Latin America and the Caribbean, although the Washington Consensus was enthusiastically embraced, multiple variants of productive development policies continued to be implemented even during the 1980s and 1990s (Rosenthal, 1996; Crespi, Fernández-Arias and Stein, 2014; Cimoli and others, 2017; Salazar-Xirinachs, Nübler and Kozul-Wright, 2014).

<sup>3</sup> The 10 points were: (i) fiscal discipline; (ii) cutting public expenditure; (iii) increasing the tax base; (iv) market-determined interest rates; (v) a free-floating exchange rate; (vi) international trade liberalization (removal of tariffs and quantitative restrictions); (vii) liberalization of inward foreign direct investment; (viii) privatization of State-owned enterprises; (ix) deregulation; and (x) legal security for property rights.

In the late 1990s and early 2000s, it began to become clear that the recommendations of the Washington Consensus would not yield the expected results, and more and more voices were raised to criticize its tenets and offer alternatives (Ocampo, 1998 and 2005; Kuczynski and Williamson, 2003; Hausmann, Rodrik and Velasco, 2005; Rodrik, 2006).

The global financial crisis between 2007 and 2009 was another turning point. First, it greatly weakened the belief that deregulated market outcomes were necessarily always better than some form of State intervention. Then, many countries were led by this to seek new sources of growth more openly by implementing further-reaching productive development policies. This was reflected by an increase both in the number of industrial policies implemented in the most developed countries and in the share of all policies represented by these policies during the second decade of the twenty-first century (see figure II.1) (Juhász and others, 2023).<sup>4</sup>

**Figure II.1**  
Selected countries:<sup>a</sup> industrial policy implementation, 2009–2019  
(Numbers and percentages)



**Source:** R. Juhász and others, “The who, what, when, and how of industrial policy: a text-based approach”, *STEG Working Paper*, No. WP050, Structural Transformation and Economic Growth (STEG), 2023.

<sup>a</sup> Australia, Belarus, Brazil, Canada, China, France, Germany, India, Italy, Japan, Poland, the Republic of Korea, the Russian Federation, Saudi Arabia, South Africa, Spain, Switzerland, the United Kingdom, the United States and Türkiye.

Two other very different factors have contributed to the abandonment of the ideological position that the best of all worlds is the one produced by the market, in favour of a pragmatic, concrete approach to developing competitiveness and steering growth in certain directions by creating spaces of opportunity. These factors are: (i) the belief that the direction of technological change and productive transformation can be influenced, and (ii) the rise of China, its great productive transformation and the attendant technological and industrial rivalry that has ushered in a new era in the geopolitics of the global economy.

Perhaps the clearest example of the potential to influence the speed and direction of technological change was the great productive transformation that turned Europe and the United States into war economies during the Second World War. In the period 1940–1945,

<sup>4</sup> Information on industrial policies was taken from the Global Trade Alert database (see [online] <https://www.globaltradealert.org/>), where it was classified by a machine learning process. To qualify as industrial, policies must be designed to change relative prices between sectors, direct resources to certain specific sectors or change the long-run composition of the production structure. They must also be national or supranational in scope and funded by national or supranational governments. See Juhász and others (2023) for more details of the classification method.

the United States and several European economies were completely reoriented towards military rather than civilian objectives. The peacetime production apparatus was wholly reimagined and transformed. The research and development (R&D) effort, the creation of new technologies and the conversion of certain industries were almost unprecedented in scale. As President Roosevelt declared triumphantly in January 1945, the American people had learned during the war the measure of their productive capacity.<sup>5</sup>

Less dramatic, but far-reaching in its influence on the direction of technological development via programmes, funding, incentives and the creation of human capital, was the arms race during the Cold War. These experiences influenced development economists in those years and created a belief that it was possible to influence both the rate and the direction of economic growth.

The most tangible modern example of the application of this idea is the imperative to move towards greener and more sustainable growth. Pollution, the carbon footprint of fossil fuel-based production methods that have led to climate change, the circular economy approach to production and other related issues have changed the growth paradigm: the aim is no longer just to grow more, but to grow differently, in a way that respects nature and the planet. “Green growth”, the energy transition, electromobility, sustainable agriculture and the circular economy are currently the main motivations for pursuing a major productive transformation in both developed and developing countries.

The war now being waged is what has been called a “war for sustainability” that is leading to the adoption of industrial and productive transformation policies based on regulations, incentives, R&D and new technologies, such as the European Green Deal in the European Union (Tagliapietra and Veugelers, 2020). It entails an intellectual paradigm shift on the subject of growth, as well as a validation of the belief that it is possible to influence the level and direction of growth and possible, indeed imperative, to improve its quality. And the same applies to the goal of making growth more socially inclusive, particularly in developing countries with high levels of poverty and informality.

The other factor that has marked a turning point for production, technology and growth policies is the rapid emergence of China, not only as a major economic and manufacturing power, but increasingly as a technological power. This has fuelled a fierce technological, industrial and geopolitical rivalry which has led to the implementation of explicit industrial policies in developed countries, as occurred in the United States with the Creating Helpful Incentives to Produce Semiconductors for America (CHIPS) Act and the Inflation Reduction Act (IRA) (Artecona, Velloso and Vo, 2023; Bonvillian, 2024), once again in the belief that the pace and direction of technological change can be influenced through industrial and productive development policies.

All this has led to the normalization of industrial policies as part of countries’ toolboxes, confirming the resurgence of policies that actually never went away in most countries during the period of the “neoliberal order” (Gerstle, 2022).

As explained in chapter I, the poor productivity performance of Latin America and the Caribbean and the low economic growth associated with it are a tragedy and represent a crisis of development. However, there is a great deal that the countries can do to break out of this underperformance trap. Economic history shows that it is important for countries to have a pragmatic commitment to changing the economy, redirecting its growth and creating new spaces of opportunity for investment and the private sector. This must be manifested in concrete directions to accelerate technological change, diversify and sophisticate production systems, create jobs and reduce poverty and inequality.

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<sup>5</sup> Roosevelt (1945), quoted by Susskind (2024).

Over time and in different countries, the strategies, policies and institutional and financial capacities for achieving this have varied greatly. We shall now examine the modern view of how effective productive development policies can be devised and how “smart designs” for these policies can avoid the pitfalls of past industrial policies and be effective in redirecting growth towards a more productive, inclusive and sustainable future.

## B. New rationales for productive development policies

In view of what has been said, the issue now is not, and should not be, whether to have productive development policies, but what kind of productive development policies to have and how to implement them. To decide this, it must be recognized that the lessons of experience and the theoretical and conceptual advances contained in the literature on the subject, coupled with changes in globalization, geopolitics and the political and social priorities chosen to spur more inclusive and sustainable growth and influence technological development, have also prompted a change in the logic of productive development policies with respect to the industrial policies implemented decades ago.

A first difference between today’s productive development policies and those of earlier decades is the greater number of objectives being pursued. The mainly economic goals with which they are familiarly associated, such as higher productivity and decent work, have been supplemented by others such as the fight against climate change, the reduction of inequality, value chain resilience, productive self-sufficiency in certain economic activities and geopolitical leadership (Ciarli, Madariaga Espinoza and Foster-McGregor, 2024).

A second difference lies in the type of instruments used, since the main ones were formerly trade policy and fiscal policy. While trade policy, in the form of instruments to protect domestic industries through tariffs and similar mechanisms, is no longer the main industrial policy mechanism (Cherif and Hasanov, 2019), fiscal policy, in the form of tax expenditures and direct production subsidies, is still present in a great number of high-income and middle-income countries alike (Bonvillian, 2024).

Besides these two types of instrument, the new generation of productive development policies emphasize the logic of collaboration to identify and deal with bottlenecks that limit the productivity of the production sector. Accordingly, productive development policies are conceived as multi-stakeholder processes of collaboration between the public sector, the private sector, academia and civil society (Rodrik and Stiglitz, 2024; Salazar-Xirinachs, 2020), but also within the public sector, with an emphasis on multilevel governance (ECLAC, 2017a; Correa, Dini and Letelier, 2022; Sotomayor and others, 2023), and the private sector, in the form of productive linkages.

The theoretical basis for collaboration between economic actors rests on three principles: (i) no one actor has all the necessary information about problems or solutions, so information has to be aggregated; (ii) additionally, perspectives whose aim is the collective discovery of ever more efficient and effective ways of operating need to interact;<sup>6</sup> and (iii) multi-stakeholder collaboration increases stability and social agreement on productive development policies, making it possible to implement further-reaching policy processes with longer lead times, so that the pendulum swings of policy and the volatility of efforts can largely become a thing of the past.

<sup>6</sup> This is what some authors have called “trial and error” or “experimentalist governance processes”, as expanded on in section E.11(b) of this chapter (Sabel, 2012; Sabel and Zeitlin, 2012; Sabel and Jordan, 2015; Cornick, 2017; Salazar-Xirinachs, 2020; Rodrik and Sabel, 2022).

This vision of productive development policies is also associated with the concept of “market governance” (Wade, 1990; Salazar-Xirinachs, Nübler and Kozul-Wright, 2014), based on the idea that productive development is socially constructed via the coordination and alignment of all major stakeholders’ efforts. This new vision transcends the sterile and ideologized old State versus market debate, in which the pro-market position relies on the magic of the market and the pro-State position on the magic of the State. In contrast, the new generation of productive development policies relies on the magic of public-private, private-private and public-public collaboration processes,<sup>7</sup> which include educational and vocational training institutions and civil society. This array of collaboration is also known as the triple or quadruple helix model and focuses on practicalities: solving problems, fostering processes of discovery and accelerating productive learning and productivity growth.

As part of this more institutionalist view of productive development policies, the neoclassical view can be useful as an initial approach and as a logic for analysing the types of intervention required within the framework of these policies. For example, the literature has highlighted the existence of two types of failure that appear to justify interventions to mitigate them and thereby foster productive transformation.<sup>8-9</sup> First, there are appropriability failures, whose existence results in suboptimal levels of investment because whoever carries out the investment cannot fully appropriate its returns. This problem of positive externalities explains, for example, why there are not more exporters in new economic activities (pioneer exporters),<sup>10</sup> why employers do not invest more in training their employees and why there is not greater investment in innovation and entrepreneurship, and it justifies the use of instruments and interventions to bring the numbers closer to their socially optimal level.

Secondly, there are the coordination failures that result in an economic activity not manifesting or not achieving its full productivity potential, as another set of parallel investments or actions are required for this to happen. For example, the lack of a critical mass of people with certain profiles and skills can keep a particular sector from developing, weaknesses in a country’s system of sanitary and phytosanitary measures can limit its capacity to export to promising markets,<sup>11</sup> and a lack of people with the knowledge and skills to provide technology outreach services can hinder the development of a robust outreach market. In all these cases, some intervention is needed to rescue the productive apparatus from an undesirable equilibrium in which certain economic activities are not fully developed.

Dealing with these bottlenecks that constrain the productive transformation process will require the implementation of a whole set of instruments, interventions, government support and, in general, efforts in different policy areas, which will be described further on. According to the new logic of these policies, it is essential for any effort to be made conditional on the attainment of results and targets relating, for example, to productivity, exports or some other productive performance variable (Mazzucato and Rodrik, 2024).<sup>12</sup>

<sup>7</sup> To the authors’ knowledge, the first to use the concept of the “magic of the process” was Jon Azúa, the father of cluster development policies in the Autonomous Community of the Basque Country (see Monge-González, Salazar-Xirinachs and Espejo-Campos, 2018).

<sup>8</sup> See, for example, Juhász, Lane and Rodrik (2023); Cherif and Hasanov (2019); Rodríguez-Clare (2005); and Hausmann and Rodrik (2003).

<sup>9</sup> In addition to these two types of failure, the literature suggests others that provide a conceptual justification for productive development policies. These include failures related to infant industries, the generation of spillovers through linkages, learning by doing and the functioning of credit markets.

<sup>10</sup> See, for example, Sabel and others (2012).

<sup>11</sup> See, for example, Sabel and Ghezzi (2021).

<sup>12</sup> It was by such “carrot and stick” systems that the successful industrial policies leading to the Asian economic miracle were implemented, in contrast to the border protections granted in several Latin America and Caribbean countries, which were not conditional on higher exports or productivity. As Rodrik (2004) points out, during the boom period of the import substitution industrialization model, the carrot prevailed over the stick when it came to implementing industrial policies in the region.

This conditionality may be even stricter when, if fiscal space allows, instruments such as tax credits and subsidies are used, although these should be the exception rather than the rule, given the vision for productive development policies set out here. In this case, for example, such instruments can be designed with sunset clauses to limit their effect to a set period, after which they should expire, which would generate the right incentives and minimize the fiscal cost.

## C. A new purview

Another aspect of modern productive development policies that is important to clarify is their relationship to what has more traditionally been called “industrial policy” and the question of whether these policies should be confined to the industrial manufacturing sector or whether their scope should be broader.

The traditional emphasis of development economics on industrial policy and industrialization was based on the consideration that this sector had at least four characteristics not shared to the same extent by the primary and tertiary sectors: (i) economies of scale; (ii) access to international markets; (iii) the ability to enhance labour with capital and technology, i.e. innovation capacity; and (iv) strong linkages with other sectors. While this was true until about the 1980s, the technological revolutions and their convergence have been substantially changing the production paradigm. For example, the idea that services had little potential for economies of scale and access to international markets was partly based on the observation that the production and consumption of services required physical proximity and therefore had to occur simultaneously, making it a non-tradable sector. The Internet and the digital revolution radically changed this. There are now categories of services that have immense economies of scale and are highly tradable, especially modern services that use information and communications technology (ICT) platforms to sell across borders.

The Internet and the digital revolution also radically changed the idea that technical progress and innovation did not have the same impact on the service sector as on industry. Today, some of the world’s most innovative companies are in the service sector (ECLAC, 2023a). The growing importance of tradable services is borne out by the fact that, since 2000, trade in services has grown at a higher rate than trade in goods (ECLAC, 2017b).

Add to this new vision of the service sector the new reality of China’s emergence as a manufacturing export powerhouse and the automation and robotization of the technological revolution, and two further points become clear. The first is that the viability of relying exclusively on industrialization as the only development strategy has been reduced and, even if it were viable, the potential benefits in terms of job creation have diminished.<sup>13</sup> The road to industrialization has become much harder to follow than it was in the 1950s, 1960s and 1970s. The second point is that there seems to be much more potential for development and good jobs in the service sector than traditionally thought.<sup>14</sup> In fact, there are countries that are beginning to achieve great successes and profits in the production and export of modern services. It is clear from new trends and data that there are considerable opportunities in several subsectors of the service sector as a growth and development strategy.

Something similar can be said of modern agribusiness. Agricultural production is increasingly permeable to the application of more up-to-date technologies, especially digital ones (Sotomayor, Ramírez and Martínez, 2021). Today, when considering the

<sup>13</sup> See, for example, Rodrik (2015).

<sup>14</sup> For example, Rodrik and Sabel (2022) rightly argue that the service sector is strategic for the implementation of productive development efforts because of its capacity to provide high-quality employment.

new production paradigm driven by the fourth technological revolution, we find that this applies not only to industry as such, but also includes many segments of the heterogeneous agricultural sector.

An additional argument for using the term “productive development policies” rather than “industrial policies”, besides its being more precise, is that talking about productive development policies avoids much of the confusion that the term “industrial policies” generates in the public debate. This term is semantically loaded, and its history is a source of controversy because of the import substitution industrialization model, not only in Latin America and the Caribbean but in many developing countries.<sup>15</sup> Moreover, the recent adoption of heavily subsidy-based industrial policies by some developed economies is also beginning to generate heated debate about the risks of a “subsidy war” and potential threats to the multilateral trading system. These are not the kind of policies that ECLAC is arguing for.

The concept of “productive development policies” is thus positioned as an effort to use a set of policies and instruments to influence the level and direction of economic growth, ideally incorporating a wide range of production sectors or activities.

## D. The need to prioritize

Prioritization, or the decision to support specific areas of production, is an issue that has generated a great deal of controversy in the past. As mentioned, opponents of a proactive role for public policy in this area have traditionally argued that the State performs poorly when it sets out to “pick winners”. However, historical and current policy evidence shows that this has been and continues to be standard practice in countries that have successfully implemented productive development policies. Some of the reasons why productive development efforts need to be focused, especially in a Latin American context where the capacity for growth and structural transformation is low, will now be given.

First, as already mentioned, history has shown that in all cases where rapid and convergent growth has been achieved, the State has played a proactive role, whether by creating markets, supporting businesses, encouraging technological modernization, fostering learning processes, removing bottlenecks, helping to provide financing or initiating missions with a transformative intent, among other initiatives. The general historical experience of the most developed countries has been one of proactive States taking a strategic view of the economy and seeking to support (and not replace) the action of the private sector in certain areas.

Second, while the distinction between horizontal measures (considered sector-neutral) and vertical measures (which support specific sectors) may be useful when mapping productive development policy instruments, interventions and efforts, the need to choose between the two is a false dilemma (Chang, 2010; Stiglitz, Lin and Monga, 2013; Salazar-Xirinachs, Nübler and Kozul-Wright, 2014). This is because even policies that are supposedly more cross-cutting favour some sectors over others. For example, there is nothing neutral about basic infrastructure: a highway or a bridge favours a particular region and the sectors of economic activity that are concentrated in that region or have the potential to emerge there. Moreover, such infrastructure favours sectors that are intensive in transport infrastructure to a greater extent than others that do not require it. Likewise, vocational training programmes are focused on resolving

<sup>15</sup> The Inter-American Development Bank made an important early attempt to position the term “productive development policies”, already found in ECLAC (1994), in the book *Rethinking Productive Development: Sound Policies and Institutions for Economic Transformation* (Crespi, Fernández-Arias and Stein, 2014).

bottlenecks and skills mismatches in specific sectors, given that many of them have a strong sectoral character. Even a specific exchange-rate policy favours some sectors over others (exporters versus importers). Thus, even governments that believe they are advocating neutral policies are always fated to choose (Hausmann and Rodrik, 2006), avowedly or otherwise.

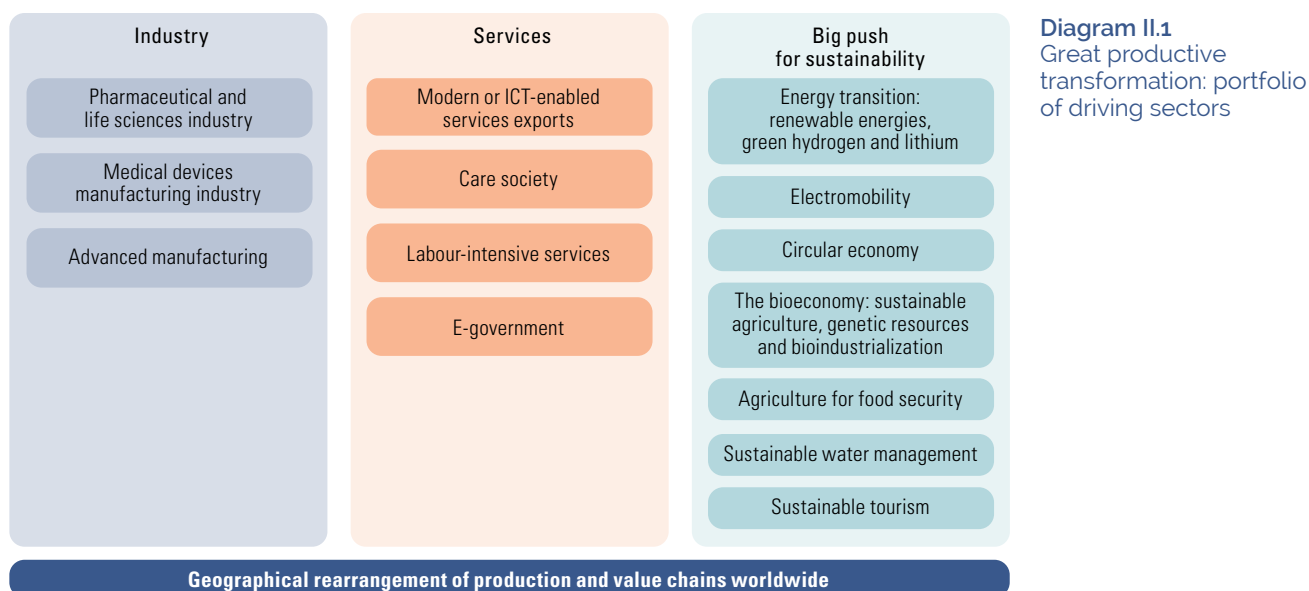
Third, productive development policy approaches have shifted in a direction that blunts the pejorative meaning of the term “picking winners.” As mentioned, the current approach of productive development policies is based more on organizing collective action in specific sectors through collaboration between the public sector, the private sector, academia and civil society than on assigning protectionist measures or outright subsidies to certain sectors of economic activity. Today, productive prioritization means choosing sectors not so much to subsidize or protect, but to develop by supporting the self-managed efforts of key stakeholders, mainly from the private sector, in specific, prioritized activities or territories. The approach to selectivity has shifted from top-down vertical planning mechanisms and selective tariffs or subsidies to a more decentralized, bottom-up approach that uses a broader set of support measures and instruments around a collaborative interplay between firms in strategic areas, sectors or clusters. With these methods involving predetermined, transparent and participatory structures, the problem of capture of the government machinery is considerably reduced, and resource allocation becomes an exercise that is more concerned with the identification of strategies through collective action mechanisms.

Fourth, and as a much more recent development, the idea that the most developed economies did without productive development policies and that this was the model to follow, an unrealistic notion to begin with, becomes completely meaningless in a context where, as mentioned, the most developed countries are implementing productive development policies with a clear focus on sectoral and technological priorities. The productive, social, environmental and geopolitical needs of the present era have shattered the argument for an abstract and seeming neutrality in productive development policies.

It is really a case of relearning lessons, because, as Cohen and DeLong (2016) argue, countries’ progress has come about on the basis of concrete and widely shared visions of the kind of economy they want to have at some point in the future, the kind of sectors they should back and the economic transformations they need to make to move in that direction.

Lastly, transcending the debate about the preference for vertical or horizontal policies, which is actually a reduced conception of the broader vision that has been put forward in this chapter on the subject, insofar as the bottlenecks and challenges are too great for the resources and institutional capacities available to deal with them, policies cannot help but prioritize efforts, first addressing certain issues on which efforts and resources are focused, and leaving possible measures to deal with others for later. This does not preclude governments making every effort to broaden their “bandwidth” so that they can address the challenges of a greater number of productive priorities with increasing effectiveness and efficiency.

Accordingly, ECLAC has prepared an illustrative (not exhaustive) set of 14 key sectors or strategic areas that the countries of Latin America and the Caribbean and their territories can prioritize as part of their productive development policies; ones whose growth- and productivity-enhancing characteristics give them the potential to contribute greatly to productive transformation in the desired direction, including progress towards greater inclusiveness and environmental sustainability (see diagram II.1).



**Diagram II.1**  
Great productive transformation: portfolio of driving sectors

**Source:** J. M. Salazar-Xirinachs and M. Llinás, “Towards transformation of the growth and development strategy for Latin America and the Caribbean: the role of productive development policies”, *CEPAL Review*, No. 141 (LC/PUB.2023/29-P), Santiago, Economic Commission for Latin America and the Caribbean (ECLAC), 2023.

These driving or energizing sectors are grouped into three categories: industry, services and the big push for sustainability. The opportunities presented by the geographical rearrangement of production and value chains globally represent a cross-cutting area, as this is a key trend encompassing several of the other sectors listed.

Sectors can be identified and prioritized in the context of specific conditions in each country, and other sectors and activities may also be added according to the characteristics and priorities of each country or territory. However, all the production activities proposed open up new opportunities to the countries and their territories, not only for investment and growth, but also for collaboration and strategic partnerships in the international arena (ECLAC, 2023a and 2023c).

There are various ways of prioritizing production within the framework of productive development policies. For more than a decade, for example, the European Union has been implementing what are known as “research and innovation strategies for smart specialization”, whereby subnational regions implement collective exercises to prioritize strategic areas or technologies on the basis of their productive or research capabilities (Foray, David and Hall, 2009; Aranguren and others, 2019). Another option is to prioritize on the basis of major challenges or missions that have been identified, in which case sectors end up self-selecting (Mazzucato, 2018 and 2019).

There are two considerations here: the level of government at which prioritization should take place, and who it should be carried out by. National productive development policy priorities are usually set by national governments, with greater or lesser involvement by other actors, depending on circumstances. In subnational (regional and local) territories, priorities are generally set by subnational governments, taking into account the specific productive characteristics of each territory and the institutional capabilities of these governments. However, it is increasingly clear that sectors should ideally be prioritized via collective construction exercises involving representatives from all levels of society: the public and private sectors, academia and civil society. Moreover, as will be explained in greater detail further on, there are numerous advantages to priorities of this kind being set by territories themselves with a place-based policy approach.

However prioritization is carried out, it is important for a portfolio risk management logic to be applied to these choices, i.e. the principle that, for a variety of reasons, some may not work out. Failures are inevitable and should not be taken as an indictment of policies. What is important, besides learning from the failures, is that the gains from the successes should more than outweigh the losses from these.

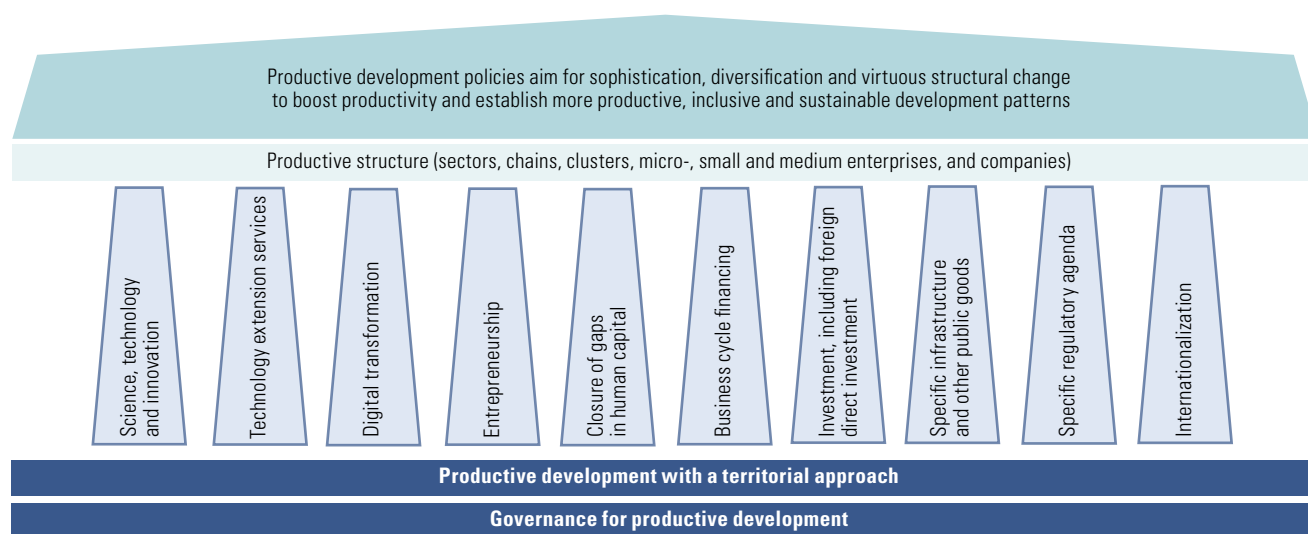
As will be seen below, the method recommended for putting this selectivity into practice is not subsidies, as with straightforward industrial policies, but the development and implementation of sectoral agendas via cluster initiatives or other types of governance systems which do not have high operating costs and whose financing needs, which can be considerable, are determined by the challenge of funding the projects identified by these systems as priorities for the attainment of their growth, competitiveness and productivity objectives.

## E. A new vision

In view of all that has been said, and although exact definitions are not always necessary, we may venture a definition of what ECLAC understands by “productive development policies.” These are horizontal and vertical efforts aimed directly at sophisticating, diversifying and producing virtuous structural change in the productive apparatus, as a vehicle for increasing productivity and thereby achieving more productive, sustainable and inclusive development.

In consideration of the need to delimit the scope of productive development policies, and in recognition of the extensive literature that has identified the different matters such policies should cover, diagram II.2 provides an overview of the policy areas that, from a practical perspective, should be included in productive development policies. These areas are: science, technology and innovation; technology extension services; digital transformation; entrepreneurship; the identification and closing of human talent gaps; financing over the whole life cycle of businesses; investment, including foreign direct investment (FDI); specific infrastructure and other specific public goods; specific regulatory agendas; and internationalization.

**Diagram II.2**  
Definition and scope of productive development policies



**Source:** J. M. Salazar-Xirinachs and M. Llinás, “Towards transformation of the growth and development strategy for Latin America and the Caribbean: the role of productive development policies”, *CEPAL Review*, No. 141 (LC/PUB.2023/29-P), Santiago, Economic Commission for Latin America and the Caribbean (ECLAC), 2023.

We shall now briefly describe the importance of each of the areas mentioned within the framework of productive development policies and the challenges that Latin America and the Caribbean faces in each of them, together with some initial proposals for how the countries of the region and their territories can work on these areas within this policy framework.

## 1. Science, technology and innovation

The area of science, technology and innovation (STI) has a central role to play in productive development policies for two main reasons: (i) an extensive conceptual and empirical literature shows a positive relationship between STI investment and productivity growth (Crespi and Zúñiga, 2012; Polder, De Bondt and Van Leeuwen, 2018), and (ii) STI is susceptible to market and governance failures that result in investment in this area being well below the social optimum (Stiglitz, 1989; Klette, Møen and Griliches, 2000).

Latin America and the Caribbean clearly has a great deal of ground to make up when it comes to STI investment, while R&D spending is low in comparison not only with more developed countries, but also with some emerging economies. The gap has been widening in recent years. While R&D expenditure as a share of GDP exceeds 2% in the United States, the European Union, the countries of the Organisation for Economic Co-operation and Development (OECD) and China, in the region it is about four times lower, and it fell from 0.65% of GDP in 2013 to 0.56% of GDP in 2019 (ECLAC, 2022).

More important than the level of STI investment, however, is the impact it can have on productivity. The region therefore faces the dual challenge of increasing investment and ensuring that it translates into productivity gains (ECLAC, 2024a). Key measures include, among many others, better coordinating STI efforts with other productive development policies so that they complement each other; striking a better balance between investment in basic science and applied science; reviewing the incentives for different actors in the innovation ecosystem, and particularly those for researchers and those relating to patent systems; targeting some STI efforts on productive priorities set by productive development policies; and increasing the monitoring and evaluation of these efforts.

## 2. Technology extension services

To deal with the region's productivity challenge, it is not enough to generate knowledge and technology. It is also essential to take technology diffusion and adoption efforts to a higher level and increase their sophistication, so that firms, and particularly micro-, small and medium-sized enterprises (MSMEs), move closer to what economists call the "efficient production frontier". Such efforts are also known as "technology extension services".<sup>16</sup>

As chapter I showed, there is great heterogeneity in productivity between firms, even those that share an economic activity. This suggests that much of the productivity gap could be closed if these firms were able to adopt the technology and knowledge available. However, technology and knowledge diffusion and adoption do not happen spontaneously, since there are a whole series of bottlenecks that constrain them. Hence the need for technology extension services to support and guide companies so that this technology and knowledge appropriation process is facilitated for them (Bloom and others, 2013; McKenzie and Woodruff 2014; Iacovone, Maloney and McKenzie, 2019; McKenzie, 2020).

<sup>16</sup> Technology extension services are generally conceived as part of STI efforts. However, given their importance in closing firms' productivity gaps, especially in developing countries, it has seemed desirable to present such extension services as a dimension separate from other STI efforts.

The knowledge and technology disseminated through technology extension services can be of different types. They may include matters as basic as managerial knowledge, with the aim of improving the management capabilities of those running businesses, but they may also include much more sophisticated technologies, such as artificial intelligence (AI) or robotics.

Although the countries of Latin America and the Caribbean have been increasing their technology extension efforts, these are still marginal in terms of coverage and sophistication.<sup>17</sup> With regard to the latter, the technology extension services implemented in the region consist mostly of transfers of good management practices and are not aimed at the transfer and adoption of more sophisticated technologies. The region therefore faces the challenge of taking technology extension efforts to a higher level and increasing their sophistication, while also seeking to focus these efforts on the production priorities set by productive development policies.<sup>18</sup>

### 3. Digital transformation

The digital transformation efforts of countries and their territories can encompass multiple dimensions. For example, they may be geared, among other things, to increasing the digital connectivity of different actors in society, digitalizing public services and interaction with government under a digital government agenda, or digitalizing the provision of education, health and even justice services. While all these are important, it is essential for a large part of the digital transformation agenda to focus on the issue of productive development and to be aligned with the productive development policies of countries and their territories. This is not always the case, mainly because there is not always a close relationship between the ministries and agencies in charge of digital transformation efforts and those leading productive development policies, or simply because the latter are weak.

Despite the region's progress with digital connectivity, there are still large deficiencies in the use of digital technologies, particularly by the private sector. For example, more than 60% of companies in the region with an Internet presence have a passive presence, i.e. do not even use the Internet for transactions (Vilgis, Jordán and Patiño, 2024). The situation is even less encouraging in the case of MSMEs, as more than 70% do not even have an Internet presence. It should not be forgotten that, in many countries of the region, MSMEs account for more than 98% of the business fabric and generate around 70% of formal employment (Correa, Leiva and Stumpo, 2020). Such a low level of digital technology use in the production sector limits and conditions any improvement in productivity and competitiveness that might be achieved in the region.<sup>19</sup>

If take-up gaps persist for mature technologies, they are even wider when it comes to emerging digital technologies, such as AI. The gap between Latin America and the Caribbean and the countries that are world leaders in AI development is large. For example, in 2023, of the total number of companies developing AI, or having AI-based business models, only 2.8% were in Latin America. Also in 2023, the combined private sector investment in AI of all Latin American countries was no more than 1.7% of the amount invested by the United States and 5% of the amount invested by China.

<sup>17</sup> In Colombia, for example, more than 4,000 enterprises were targeted between 2018 and 2022 under the Factories of Productivity programme, which aimed to strengthen managerial capabilities in different dimensions. However, this number is tiny next to the more than 6 million enterprises that existed at the time in Colombia, including informal ones.

<sup>18</sup> See Llinás (2021) for a more detailed explanation of the advantages of aligning technology extension services with production priorities set under productive development policies, and with cluster initiatives in particular.

<sup>19</sup> For more information on the state of digital connectivity in the region, see the ECLAC Digital Development Observatory [online] <https://desarrollodigital.cepal.org/en/home>.

Closing the digital technology take-up gap must involve raising digital technology extension services efforts to a higher level, making them further-reaching, and coordinating digital transformation efforts with the productive development policies of countries and territories. This also requires specific progress in coordinating the ministries and agencies in charge of digital transformation agendas, on the one hand, and productive development policies, on the other. It must likewise involve strengthening the production of digital goods and services by the region's technology companies.

## 4. Entrepreneurship

From a Schumpeterian point of view, productive development partly depends on the emergence of new firms, especially if they are more efficient. The existence of new, more efficient firms translates into a process of creative destruction, resulting in factors of production being reallocated towards their optimum use, which increases the total productivity of an economy (Aghion, Antonin and Bunel, 2021).

Although Latin America and the Caribbean has the highest rates of entrepreneurship in the world (GEM, 2023), a large portion of the new enterprises created lack strong growth and employment-generating capacities. Moreover, many of them are subsistence-level firms.<sup>20</sup> Accordingly, there needs to be a larger proportion of firms that actually have the capacity to grow.

In an attempt to strengthen business start-up and scaling up capacities, the countries of the region have implemented interventions such as incubators, accelerators and other types of support aimed at increasing the likelihood of success (Mageste and others, 2024). They have also organized entrepreneurship fairs and other types of spaces that connect the needs of the public and private sectors with possible enterprise-based solutions. Efforts have also been made to strengthen early-stage financing.

Despite these efforts, the entrepreneurship ecosystem in Latin America and the Caribbean shows great scope for improvement. Where the propensity to export is concerned, for example, entrepreneurs in the region do not expect a large percentage of their sales to come from customers in other countries, whereas in Europe, the United States and Canada they do (GEM, 2023, p. 63). The same shortcomings can be observed in the innovation capacity of start-ups in the region, stemming from the fact that Latin American start-ups are driven mainly by need rather than opportunity (Lederman and others, 2014). Of course, macroeconomic conditions (such as exchange rates, interest rates and inflation) and those in the entrepreneurship ecosystem (such as the existence of entrepreneurial networks, the availability of financing, and business and financial education) have been identified as key factors in the ability of ventures to grow and contribute to productive development (Valenzuela-Klagges, Valenzuela-Klagges and Irrarrazaval, 2018).

In public policy terms, then, both the economic fundamentals and productive development policies geared towards entrepreneurship need to be addressed. With regard to policies aimed at improving the fundamentals, one of the most urgent must concern the formalization of businesses. Informality in the region needs to be dealt with, firstly because of the high barriers that it creates for access to public policy programmes and financing, and secondly because of the high rates of informal employment that persist there (ECLAC, 2023b). It is helpful to have in place not only measures aimed directly at formalization (such as the simplification of procedures and taxation), but also productive development policies that are geared towards increasing the productivity of enterprises, especially microenterprises, and that have

<sup>20</sup> See Eslava, Haltiwanger and Pinzón (2022) for an analysis of this in Colombia.

a positive impact on the formalization rate via an increased capacity to comply with the accounting requirements and tax and social security obligations that formalization demands (Chong, Galdo and Saavedra, 2008; Salazar-Xirinachs and Chacaltana, 2018; Céspedes Reynaga, 2020). With regard to productive development policies aimed at entrepreneurship, it is vital for interventions to be better targeted so that they support entrepreneurs with a pro-growth attitude and the potential to grow. After all, it is these entrepreneurs, whatever social stratum they may come from, who can significantly increase employment and productivity.

Where incentives are concerned, this means adjusting the operations of incubators, accelerators or similar programmes so that the design of these instruments leads to self-selection by companies, i.e. the applicants are the companies with the greatest growth potential. Examples of this type of instrument are those that use business plan competitions to target support, focusing this on the companies with the best plans and thus the best growth prospects. It will also be vital to reduce excessive bureaucratic impediments not only to the creation of companies but also to their closure, to facilitate the reallocation of factors of production between companies and sectors. In addition, it will be essential for some entrepreneurship efforts to target the productive priorities set by productive development policies. For example, as described by Llinás (2021), entrepreneurship efforts could focus on trying to remedy certain weaknesses or gaps in one or other link of the value chain, as part of cluster initiatives.

## 5. Identification and closure of human capital gaps

One of the main obstacles to productive development is the difficulty of matching the availability and quality of human talent to the current and potential demands of the productive sector.

In practice, this problem comes to light when employers report difficulties in finding workers with the necessary skills and capabilities. Moreover, in a high-technology world where global value chains are being reconfigured, the lack of a skilled workforce also represents a major obstacle to a country becoming an attractive location and benefiting from FDI inflows and vigorous participation in these chains. In the *IMD World Talent Ranking 2023* (IMD, 2023), Chile is the only country in the region that ranks among the top 50 of a total of 64 countries included.

In Latin America, more than 40% of employers struggle to recruit workers because they cannot find the profiles they need (Manpower, 2020). This is despite the fact that high rates of unemployment and informality persist in many countries of the region.

The mismatch between the supply of and demand for talent may have a variety of causes, some of them relating to the supply of training, as this may be non-existent or inadequate or pose problems of quality or relevance. The demand for training may be another factor, with people (especially youth aged between 18 and 25) not opting for certain types of training that are needed. Thus, it is vital to take a diagnostic approach to identifying not only human talent gaps, but the causes underlying them.

These diagnoses are often based on surveys of employers, the training sector and potential workers themselves. In other cases, prospective methods are used to anticipate medium- and long-term labour requirements. Such diagnoses are generally costly and time-consuming, and so fail to keep pace with the speed of technological developments and hence the demand for labour.<sup>21</sup> The challenge of finding more cost-effective mechanisms for carrying out these diagnoses therefore remains.

<sup>21</sup> See CPC/UNDP/CAF (2015) for further details on the application of tools for diagnosing human talent gaps.

Closing human talent gaps may require a range of actions, including the development and adjustment of programmes, the creation of spaces to coordinate the supply of and demand for talent, career guidance, and more active private sector involvement in training.

These efforts to identify and close human talent gaps generally require the coordination of multiple actors from the public and private sectors, academia and civil society, making it essential to design multi-stakeholder governance systems that facilitate these agendas.

Although the problem of human talent gaps can be found generally in different sectors of the economy, it is essential for countries and their territories to focus efforts in this area on the priorities set by productive development policies.

## 6. Financing over the life cycle of businesses

Credit market failures are notoriously associated with information asymmetries that translate into problems of adverse selection and moral hazard, so that credit allocation is related not to the returns and actual repayment capacity of investment projects but to the ability to provide collateral, leading to rationing (Stiglitz, 1993; Yeyati, Micco and Panizza, 2004). This ultimately limits the productive transformation capacity of economies.

Development banks are thus required to act to reduce this rationing, at least in part, through direct or indirect lending and the implementation of guarantee fund systems that cover some of the credit risk (Griffith-Jones and Ocampo, 2018; Ocampo and Torres, 2021). Development banks also cofinance large projects connected to the strategic agendas that may emerge within the framework of the productive development policies of countries and their territories, such as certain specific infrastructure or logistics projects associated with their respective productive commitments.

An additional function of development banks is one of discovery via their scanning and lending operations, in the light of economies' potential for sophistication and diversification (Fernández-Arias, Hausmann and Panizza, 2019). Development banks may play a role here by creating market intelligence on the failures that limit the productive transformation process, making this information a public good that can benefit other market actors.

## 7. Investment including FDI

As diagnosed in chapter I, it is clear that part of the growth problem in Latin America and the Caribbean is the result of investment gaps. As also discussed in that chapter, there is a two-way relationship between investment and productivity: higher investment, and particularly gross fixed capital formation, translates into productivity gains (DeLong and Summers, 1991), and higher productivity increases the return on factors of production, including capital, and thence the incentives to accumulate them.

The potential productivity impact of FDI deserves special mention. Over and above the impact to be expected from any type of investment, FDI has the potential to improve productivity through other channels, especially in the case of greenfield projects. These may include the introduction of new technologies or the upgrading of existing ones, and the creation or strengthening of forward or backward linkages in the value chain (ECLAC, 2024b). A third channel is the effect of increased competition in the domestic market represented by the presence of an international competitor, leading to more efficient allocation of resources. In sum, as a wealth of empirical evidence shows,

FDI has the potential to generate positive effects in the host economy, potentially leading to productivity gains, depending on the sector, the technology and the scale of investment.

It is important to consider, though, that these potential effects from investment and FDI will not necessarily arise spontaneously. It will be necessary to coordinate investment efforts with the productive development policy efforts of countries and their territories (ECLAC, 2024b). Once again, depending on the reasons for FDI, on the sector and on the technology involved, the benefits may be large and fairly automatic, as evidenced by the critical mass of investments made in countries such as Costa Rica and the Dominican Republic, attracted by the availability of suitable human talent at a lower cost than in developed countries. In addition, large countries such as Brazil have the market power to set terms, including incentives and conditionalities, that allow them to maximize the technology and knowledge transfer which might arise from investment. Small countries can work closely with companies to build up local suppliers and maximize the flow of benefits to the local economy once FDI is established, as part of their after-care services (Crespi, Fernández-Arias and Stein, 2014). Successful FDI attraction policies generally involve targeted efforts so that they help to strengthen some export cluster or to fill a gap or strengthen links in existing value chains.<sup>22</sup>

The ability to attract FDI is a powerful productive development tool. However, efforts in this area have not always necessarily been connected to productive development policy efforts. This connection is becoming all the more imperative at a time when many productive development and FDI attraction efforts are being made at the subnational level (ECLAC, 2024b).

## 8. Specific infrastructure and other specific public goods

The lack of a particular type of infrastructure can mean that a certain economic sector or activity does not develop. For example, the lack of an airport or a road may prevent the development of a particular tourist destination, just as the absence of a cold chain or quarantine facilities at a port or airport may prevent a particular agricultural activity from fully developing its productivity. In other words, the absence of these specific types of infrastructure or other specific public goods gives rise to coordination failures that prevent or limit the emergence or development of the full potential of a given economic sector or activity.

This makes it essential for countries' and territories' productive development policies to have instruments and mechanisms in place to identify and provide the infrastructure or other types of specific public good required by the production priorities stemming from these policies. In particular, cluster initiatives and other productive development governance systems can be very useful for dealing with the bottlenecks caused by a lack of specific infrastructure.

## 9. Specific regulatory agendas

The existence or otherwise of sector-specific standards or regulations can often become a bottleneck for the full development of a sector's productivity, and these situations should therefore be addressed in the framework of productive development policies.

<sup>22</sup> See Llinás (2021) for further details on how this is done in the framework of cluster initiatives. Information about the successful development of the medical devices cluster in Costa Rica based on the attraction of FDI can be found in Salazar-Xirinachs (2022).

On the one hand, a particular regulation may be the result of some part of a production sector applying pressure in an effort to protect itself from greater competition, and not necessarily of the application of technical criteria based on an analysis of the cost-benefit ratio for the rest of society. Then the way forward is to abolish or adjust the regulation. On the other hand, the absence of regulation, such as the lack of a public health system that can provide other countries with product safety guarantees, could be limiting the sector's export and thence growth potential. In these cases, the approach should be to strengthen existing regulations and institutional capabilities.

Over and above the foreign trade implications, there is a vast literature exploring the relationship between quality and productivity, particularly with reference to how the quality of exports influences the benefits from exporting (Hummels and Klenow, 2005; Fan, Li and Yeaple, 2018). Hence, efforts to improve not only countries' quality infrastructure, such as laboratories and other compliance assessment institutions, but also the ability of firms to comply with the standards set through technology extension services in the area of quality, become key elements for countries and their territories to consider when developing productive development policies.

## 10. Internationalization

In general, few countries in the region have a domestic market large enough to drive growth and productive transformation on its own. Not even China has based its industrial policies solely on its domestic market, and the countries that have achieved extraordinary growth in recent decades have been those that have managed to bring their output to international markets, growing exports by more than GDP and diversifying them into more complex goods (Hausmann, 2023). It cannot be expected, though, that this internationalization of production will be achieved simply through productive development policy efforts, as a kind of spillover effect. To achieve this goal, it is necessary to work on explicit productive development agendas for internationalization.

Numerous agendas flow from the goal of internationalizing the supply of goods and services within the framework of productive development policies (Hallak and López, 2022). Firstly, as already mentioned, there is the compliance agenda for the standards and regulations, in the sanitary and phytosanitary area for example, that a country must adhere to in order to access the most demanding markets in this area (Sabel and Ghezzi, 2021). Secondly, there are the agendas related to the discovery and understanding of these markets. These agendas could include exploratory missions and a commercial presence in the destination market, which are too costly for most MSMEs to afford individually, so that interventions to develop these markets would be justified, for example within the framework of cluster initiatives (Llinás, 2021).

Most developed countries use various types of instrument to promote their exports in destination markets, including subsidies in the form of export credits and guarantees. The countries of the region therefore need to step up the use of these types of instrument so that they can compete on a level playing field with more developed countries.

Besides all this, considering internationalization in addition to economies of scale allows the discipline of exporting to be treated as an indicator of the productivity improvements resulting from productive development policy efforts, and internationalization as a criterion for applying conditionality when granting assistance.<sup>23</sup>

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<sup>23</sup> See Studwell (2014) for a description of how some Asian countries used internationalization as a conditionality in their industrial policies.

## 11. Cross-cutting issues

Even more important than the individual policy areas described above is the way they connect up. To say that productive development policies in Latin America and the Caribbean need to be improved and raised to a higher level, then, is to advocate increasing and strengthening not only the efforts made in each of the areas dealt with, but also the design and implementation of coherent policies or agendas that strategically combine these efforts.

Two cross-cutting issues, namely the territorial approach and governance, relate to the way resources, actors and efforts associated with the different areas covered by productive development policies are combined.

### (a) Productive development with a territorial approach and the role of cluster initiatives

Salazar-Xirinachs and Llinás (2023) have put forward a whole range of both technical and political reasons for taking a territorial approach to productive development policies. In addition to national agendas for productive development policies, then, subnational (regional and local) governments are called upon to play an important role in productive transformation, in consideration of each territory's capabilities, needs and peculiarities and the requirements of its comprehensive development strategies.

Over and above the reasons put forward by these authors, subnational governments have a role to play in productive development policies because of the ultimate purpose of development. In the final analysis, the development of people and communities aims at well-being and human development. Accordingly, progress in the development processes of territories must necessarily consider the aspect of agency or relative autonomy, since this is the only way to attain the kind of maturity, not only economic but also political and civic, that is capable of achieving higher levels of well-being and realization of the potential of individuals and communities.

The productive development of territories forms part of efforts to achieve all-round development. Relative agency or autonomy in the consideration of their productive development pathways and related policies is thus an aspect to be considered.

The action of subnational (regional and local) governments also helps to complement the productive development policy efforts of national governments. This is achieved by raising national programmes and instruments to a higher level, supplemented by the resources and capabilities of subnational governments. In turn, the essence of subnational governments' action lies in consideration of the special and characteristic circumstances and needs of their own territory, paying particular attention to these specificities, adapting their policies to them and thereby gaining in effectiveness and efficiency. Multi-stakeholder coordination at the regional and local levels is also a hallmark of subnational governments, with special consideration of the needs of smaller companies operating in economic activities that are characteristic of the territory. It is for these reasons that the role of subnational governments in productive development policies has been given increasing consideration in recent decades, not only in the economic development literature, but also in practice. This type of approach is known as "place-based policy" (McCann and Rodríguez-Pose, 2011; Rodríguez-Pose and Wilkie, 2017; Bartik, 2019).

As mentioned, one of the most concrete and effective ways of realizing, combining and targeting productive development efforts at the territorial level is through the use of cluster initiatives.

Here it is important to clearly differentiate between a natural cluster and a cluster initiative (Salazar-Xirinachs, 2020; Llinás, 2021). A natural cluster or agglomeration of firms is an economic phenomenon whereby firms in the same sector or in related and support sectors tend to cluster geographically as an efficiency-seeking strategy to take advantage of what economic theory calls “Marshallian agglomeration economies”. In this case, clustering takes place because of the “invisible hand” of the market.

In contrast, cluster initiatives introduce a dimension of intentionality or a “visible hand”, not only to increase the benefits of natural clusters, but also to generate more value added and accelerate learning, innovation and productivity via collaboration and coordination. The main purpose of this collaboration and coordination is to identify and deal with bottlenecks that limit productivity, these being generally associated with the policy areas outlined in diagram II.2. Thus, cluster initiatives have been defined as organized efforts to increase the growth and competitiveness of clusters within a region, involving cluster firms, government and the research community (Lindqvist, Ketels and Sölvell, 2013, p.1).

Cluster initiatives develop strategic agendas through the organized participation of multiple public, private, academic and civil society actors, who coordinate to work on projects and actions aimed at improving the productivity of firms in the cluster underlying the initiative. This coordination usually takes place in the framework of relatively simple institutional arrangements in which the various actors, and particularly the companies forming part of the different links in the business cluster, are represented; these arrangements might include the general assembly of the cluster, the technical secretariat (led by a cluster manager), the executive committee and various working groups.

Cluster initiatives generally establish a strategic vision and a concrete road map to achieve the objectives of the strategic vision, including a list of projects and actions that are important for its attainment, and that are adjusted over time. Given the need to use resources as strategically as possible, these initiatives combine productive prioritization, a local approach, coordination of multiple actors and a strategic focus, which make them a powerful tool for applying productive development efforts. Moreover, cluster initiatives have proven to be a way of coordinating the efforts of intermediate and local governments with the productive development policy efforts of national governments.

Cluster efforts in Latin America and the Caribbean have increased over recent years (O’Neil and García, 2015; Monge-González, Salazar-Xirinachs and Espejo-Campos, 2018; Aboal, Perera and Rovira, 2020; Llinás, 2021). Even so, there are great opportunities to improve by expanding the use of these types of initiative in all the countries of the region, increasing the resources invested in them, reducing heterogeneity in the quality and ambitiousness of their agendas, strengthening the professional capabilities of the people involved in them and the quality of their management, aligning their efforts with the concept of experimentalist governance (a subject discussed in section E.11(b)) and better coordinating these initiatives with the rest of the productive development efforts being carried out in the respective countries and territories.

It is therefore considered that wider, more thorough and better-coordinated use of cluster initiatives would be a powerful way of accelerating productive development in Latin America and the Caribbean. In December 2023, ECLAC launched the Platform for cluster and other territorial productive articulation initiatives in Latin America and the Caribbean with the aim of raising the profile of these initiatives across the region, strengthening them and taking them to a higher level. At the time of writing this chapter, the platform had an inventory of more than 290 initiatives involving over 53,000 enterprises in 12 countries of Latin America and the Caribbean.<sup>24</sup>

<sup>24</sup> See [online] <https://geo.cepal.org/dp-clusters/index.html?lang=en>.

## (b) Governance for productive development

As mentioned, a central aspect of the new generation of productive development policies is collaboration and coordination among multiple actors in the public and private sectors, academia and civil society. This is because productive development policies and agendas are particularly intensive in coordination between multiple actors and levels. Governance systems and institutional arrangements are therefore needed to facilitate collaboration between key stakeholders in each sector and between national and subnational efforts and resources.

Governance for productive development encompasses not only institutional arrangements and other coordination and collective action mechanisms (such as committees, commissions and working groups at both the national and subnational levels), but also the institutional characteristics, ground rules and incentive systems that enable efforts, actors and resources to be coordinated around strategic productive development agendas (see chapters IV and V).

In addition to multi-stakeholder coordination, and in line with subnational efforts linked to productive development policies, there needs to be coordination between different levels of government, or what the literature has termed “multilevel governance” (Marks, 1993). This approach has recently been applied to the governance of productive development policies in some countries of the region (Correa, Dini and Letelier, 2022; Sotomayor and others, 2023). The best scenario is when the productive development policies of different levels of government produce synergies, and the worst situation has been when the efforts of different levels of government have conflicted.

In the light of this need for multilevel coordination, it is essential to have a more thorough discussion of which specific multilevel governance mechanisms might be best adapted to the different starting conditions and capabilities of each country, region and locality. At issue are not only the institutionalized multilevel governance spaces such as councils, commissions, committees, networks and working groups in which various public, private and civil society actors jointly develop and coordinate policies, agendas and projects at different territorial levels, but also the financing mechanisms that determine what agendas, programmes and tools can receive in the way of concrete support and that serve as incentives for the work of the governance system.<sup>25</sup>

The theory behind the operation and governance of productive coordination systems, and cluster initiatives in particular, has recently developed around the concept of “experimentalist governance” (Salazar-Xirinachs, 2020; Sabel and Zeitlin, 2012) or its analogue, “problem-driven iterative adaptation” (Andrews, Pritchett and Woolcock, 2017). The specific circumstances in which the “governance architecture” of experimentalism works and is particularly suited to productive development policies presuppose the existence of at least five conditions: (i) a widely shared perception of the problem; (ii) a common framework of goals and metrics, subject to review, involving central and local entities; (iii) local units (cluster initiatives in this case) have full freedom to use whatever means they see fit to achieve their goals, within the common framework (they have relative autonomy); (iv) in return for this relative autonomy, local units are asked to report to central units on their progress in achieving the goals and to participate regularly in peer review processes to learn about the achievements, progress and lessons of other local units; and (v) goals, metrics and decision-making procedures are regularly reviewed against the results of the peer review process.

This form of governance is particularly suited to “polyarchic” situations (where effective power is distributed among the various relatively autonomous units) and

<sup>25</sup> The chapters in this publication on subnational productive development policies and governance mechanisms (chaps. IV and V) provide concrete examples of these mechanisms in Latin America and the Caribbean.

situations of strategic uncertainty, i.e. rapidly changing environments such as the competitive situations faced by firms in clusters. This means that effective solutions can only be identified on the basis of a collective process involving the key actors, and not a priori, or even by experts.

Thus, the key to the concept of experimentalist governance is to understand policy management as a collaborative, iterative process in which problems are both identified and solved through collaboration between multiple stakeholders in ongoing iterations that lead to the collective identification of solutions and, more importantly, the sustained implementation of these over time. In other words, it is a model in which recursiveness prevails, i.e. in which implementation, evaluation, adjustment and renewed implementation take place in a continuous iterative process.

While this is a novel approach to public policy, the fact is that there are already several examples of it being used to implement productive development policies in Latin America and the Caribbean. Some of them are: the aerospace cluster in Querétaro (Mexico) (Moreno-Brid and Dutrénit, 2018), the wind energy cluster in Uruguay (Bértola, 2018), the agricultural machinery cluster in Argentina (Arza and others, 2018), the medical devices cluster in Costa Rica (Salazar-Xirinachs, 2022), the high-technology clusters (electronics, biotechnology and the automotive industry) in the State of Jalisco (Mexico) (Ferraro and Rojo, 2018) and the cluster initiatives in the Bogotá region (Llinás, 2021). These and other cluster initiatives that have been successfully implemented for years in several countries of the region have made use of the experimentalist governance approach in one way or another, not always explicitly but in practice. Another example of this approach outside of cluster initiatives is the executive boards model implemented in Peru between 2014 and 2016, which sought to resolve the main obstacles to growth in some sectors by establishing certain institutional arrangements and characteristics (Ghezzi, 2019).

## F. Conclusions

The countries of Latin America and the Caribbean find themselves to varying degrees in a low economic growth and low productivity trap. If this problem is not addressed, it will be difficult for the countries to make progress with other development challenges such as reducing poverty and inequality, creating quality employment, mitigating climate change and its effects and, in general, achieving the Sustainable Development Goals set in the 2030 Agenda. The countries of the region must therefore make it an explicit priority objective to increase productivity within the framework of a specific vision of productive transformation and a clear commitment to bringing about economic change and redirecting growth. This is what all successful, high-performing countries have done, with only the combination of instruments varying from one country to another and over time.

This will obviously require work on multiple fronts, including measures to improve the economic fundamentals and maintain macroeconomic stability. Even so, there is no need for either long delays or radical structural reform before work can begin on an agenda capable of generating immediate productivity gains. The agenda required is one that aims at improving productive development policies and raising them to a higher level in line with the modern view of these policies.

Latin America and the Caribbean is not starting from scratch. As mentioned, the region has made, and continues to make, efforts with productive development policies. However, these efforts have been: marginal, given the productivity challenge it faces and the steps other countries are taking in this area; disjointed, with great

opportunities to improve the coordination of the efforts being made by different ministries, agencies, actors and levels; discontinuous, changing abruptly when there are changes of government, even though these are medium- and long-term agendas and the idea of building on what has already been achieved should prevail; managed in a centralist, top-down way from capital cities, without any major role for local territories and actors; insufficiently evaluated, even though evaluation is essential to identify what works, so that it can be raised to a higher level, and what does not, so that it can be adjusted or discarded; and low-impact, when considered in the light of the region's poor productivity and growth performance. Moreover, they have not necessarily been aligned with the new productive development policy vision proposed by ECLAC and summarized in this chapter.

The following chapters will seek to validate or refute these characteristics, which are presented here as hypotheses.

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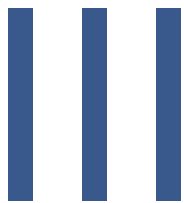
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## CHAPTER



# Analysis of the productive development policies of national governments in Latin America and the Caribbean: an initial exercise to characterize and quantify their instruments

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Introduction

A. Analytical framework for productive development policies

B. Argentina

C. Brazil

D. Chile

E. Colombia

F. Mexico

G. Conclusions, reflections and guidelines

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## Introduction

Chapter II put forward a number of hypotheses regarding the efforts that the countries of Latin America and the Caribbean have been putting into productive development policies. Specifically, it was noted that these efforts are marginal relative both to the productivity challenge being faced and to what other countries are doing in this area. They are also poorly harmonized and coordinated; they have displayed a lack of continuity, undergoing major modifications following changes of government; they have been managed mainly with a centralist approach, with little involvement of the territories; they have seldom been evaluated; they have not always been aligned with the new vision of productive development policies advanced by ECLAC, presented largely in chapter II; and, in general, they have not had the impact expected of them, if measured in light of the region's poor productivity and growth performance.

This chapter seeks to validate or refute some of these hypotheses. To that end, it presents the results of an initial comparative exercise to characterize and, mainly, quantify a significant proportion of the instruments that comprise the productive development policies of a subset of the region's countries: Argentina, Brazil, Chile, Colombia and Mexico. In the future, it is hoped that similar exercises may be carried out for all countries of Latin America and the Caribbean. As explained in detail below, this is an initial attempt at analysis, which is fraught with methodological and data challenges. However, it was considered important to move forward in this direction not only to be able, in the future, to compare productive development policy efforts among the countries of the region and between them and other countries of the world, but also to significantly improve understanding of these efforts and thus be able to give better guidance on how to scale up and enhance them.

The chapter is divided into eight sections. Following this brief introduction, section A sets out the general analytical framework used, from the perspective of the constituent elements of instrument design, and it discusses a number of methodological considerations. Sections B to F then present the analysis performed for Argentina, Brazil, Chile, Colombia and Mexico, respectively. Lastly, section G summarizes the main findings of these analyses and proposes guidelines for the countries and their territories as they tackle the challenges scaling up and enhancing their productive development policies.

### A. Analytical framework for productive development policies

Characterizing and quantifying productive development instruments is a complex and challenging task, not only in the countries of Latin America and the Caribbean, but also in the more developed world.<sup>1</sup> Firstly, a common frame of reference must be established to analyse and quantify the instruments and, in due course, to facilitate comparison between countries.

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<sup>1</sup> For information on this reflection as it relates to countries of the Organisation for Economic Co-operation and Development (OECD), see Criscuolo, Díaz and Lalanne (2022), for example.

## 1. The basic architecture: objectives, institutional framework and instruments of the productive development policy

At least three elements can be identified in any policy:<sup>2</sup>

- (i) The objectives, guidelines, definitions and priorities that constitute the policy aspirations, in other words, the ultimate results desired through policy implementation. These may be either: (i) explicit, usually set out in formal policy documents such as national development plans; or (ii) implicit, deduced from actions already implemented, or being implemented, by executing institutions. The priorities and new vision of productive development policies were described in detail in chapter II.
- (ii) The institutional framework governing the policy's design, set-up, operation, monitoring and evaluation. These different functions may be undertaken by different institutions. For example, the functions of designing and defining general policy guidelines are often undertaken at the ministerial level, while implementation is done by specialized agencies. This institutional framework is a fundamental part of the governance of productive development policies, as described in greater detail in chapter IV.
- (iii) The policy instruments, understood as the tools or mechanisms used to achieve the defined aims.

In general, a productive development policy instrument must not only have a positive effect on the operation of enterprises, either through direct interventions or indirectly through other stakeholders that are part of the productive system (such as universities and technology centres); it must also have been designed explicitly for that purpose. In other words, an objective related to improving the operation of enterprises must be formally established in its original formulation. Some macroeconomic policies affect the operation of enterprises, but they may not have been designed with that purpose in mind, so are not formally part of the mix of productive development policy instruments. Nonetheless, this does not mean ignoring the huge role they play in the operation of firms and the need for adequate coordination between the two policies.

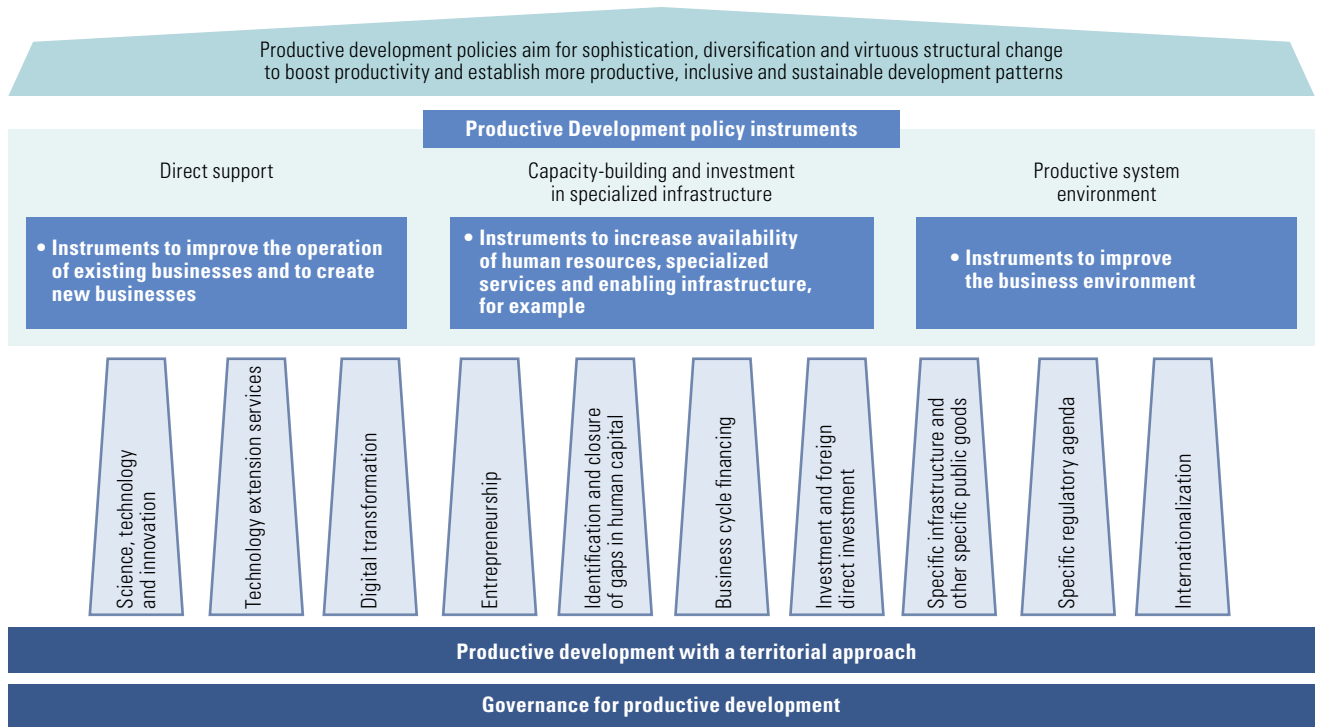
There are also instruments that act directly on firms, in their multiple functions and in the internal value chain. Meanwhile, there are others that affect the environment in which these enterprises operate and, thus, also have an indirect impact on them. The most immediate environment includes the human talent and specific infrastructure necessary for their operation; in these cases, the instruments of productive development policies will foster capacity-building and investment in specialized or enabling infrastructure.<sup>3</sup> The "business environment" is the setting in which business activities take place and instruments aimed, for example, at improving the quality system, or procedures for the creation of new enterprises, are part of the productive development policy. These elements are represented in diagram III.1.

For example, the first type of instrument mentioned includes support in the co-financing (subsidy) of innovation projects executed by firms; the second includes the creation of a technological institute in a university that provides support to firms in a given sector; and the third includes intellectual property protection systems.

<sup>2</sup> For a detailed discussion of these elements, see Peres and Primi (2009), for example.

<sup>3</sup> For a detailed conceptual analysis of business dynamics and the different intervention channels of productive development policy (in this case called "industrial and technological policy") see Álvarez and Sutin (2017).

**Diagram III.1**  
Areas of intervention of productive development policy instruments



**Source:** Economic Commission for Latin America and the Caribbean (ECLAC).

## 2. Elements for the design of productive development policy instruments

The constituent elements of a productive development policy instrument are the objectives, the beneficiaries, the modalities or type of support, and the operational delivery mechanism. In addition, it is necessary to identify the entity responsible for its operation, which will depend on capacities and available resources.

### (a) Objectives

The definition of an instrument's specific objective, or a combination of objectives, emerges from a diagnostic assessment of the problems to be solved. The most traditional approach seeks to solve problems or strengthen operational weaknesses in firms, as well as any market, government or coordination failures that may be detected.<sup>4</sup> However, the personnel responsible for formulating and administering policies and instruments increasingly consider strategic or social objectives as well.<sup>5</sup> Examples of objectives are listed in table III.1.

<sup>4</sup> For a detailed review of the justifications and scopes of productive development policy, see Juhász, Lane and Rodrik (2023), or Cherif and Hasanov (2019), for example.

<sup>5</sup> In a paper commissioned by ECLAC, Ciarli, Foster McGregor and Madariaga Espinoza (2024a and 2024b) use natural language analysis tools to corroborate the inclusion of economic, social and strategic objectives in the most recent productive development policies.

**Table III.1**  
Examples of objectives of productive development policy instruments

Resolution of operational difficulties or weaknesses		
Problems of access to financing	Training needs	Difficulties in internationalization
Lack of innovation	Weaknesses in product or service quality	Production inefficiencies
Strengthening of coordination or governance		
Cluster initiatives	Value chains	Business partnerships
Strategic challenges		
Digital transformation	Environmental sustainability	
Health sovereignty	Food security	

**Source:** Economic Commission for Latin America and the Caribbean (ECLAC).

## (b) Beneficiaries, selectivity or neutrality

The design of the instruments can also be focused or prioritized, favouring specific interests or potential beneficiaries. These priorities may be sectoral, territorial, or by type of enterprise<sup>6</sup> or technology, among other criteria (see table III.2). When priorities of this type are established, they are considered selective instruments, as opposed to horizontal or neutral instruments, which do not differentiate between potential beneficiaries. In practice, it is difficult to identify totally neutral instruments. As discussed in chapter II, policies are increasingly moving towards some form of selectivity or targeting, especially in resource-scarce scenarios, as a way of improving the impact of the instruments in question.

**Table III.2**  
Types of priority, selectivity or targeting of instruments

Sectors (for example, medical devices)	Firms (for example, microenterprises)
Technologies (for example, Industry 4.0)	Territories (for example, region of a country)

**Source:** Economic Commission for Latin America and the Caribbean (ECLAC).

ECLAC has proposed a set of sectors as drivers of economic growth and structural change (see chapter II), which could serve as a reference for countries and their territories when setting production priorities within the framework of productive development policymaking.

## (c) Forms of support

In a broad sense, as noted above, instruments can intervene either directly in firms and other stakeholders in the production system, or else indirectly in the business environment in which firms operate. The latter type of intervention may take the form of laws, regulations or standards, for example.

Among the instruments that provide direct support to firms, the following categories and specific types of support can be identified:

### (i) Financial support

The administering institution provides financing or reduces the financial burden on firms, and the latter must use these resources to solve their problems or finance the necessary investments. In other words, the firm must use the resources received to contract, purchase or finance the necessary activities or investments. The mechanisms for this are:

<sup>6</sup> The Organisation for Economic Co-operation and Development (Criscuolo, Diaz and Lalanne, 2022) does not consider the size or age of the firm as a selectivity criterion, and classifies instruments that use this beneficiary-selection criterion as "horizontal instruments".

- Direct subsidies (provision of non-reimbursable financing).
- Tax incentives (exemptions, discounts, tax credits and other measures).<sup>7</sup>
- Financial instruments (loans, loan guarantees, and so forth).
- Capital contributions (equity stake in a firm, for example, to support new ventures and the creation of new enterprises through venture capital).

In general, the bulk of the budget allocated to productive development policies is concentrated in instruments of this type. In this context, the new ECLAC vision emphasizes the need to strengthen the governance of productive development policies, to ensure that the instruments to be deployed and the budget to be executed are well designed, with conditionalities and exit clauses (as described in chapter II); and that there is sufficient fiscal space to ensure their efficiency, avoid dispersion and guarantee convergence towards the predefined objectives.

### (ii) *Non-financial support (support services)*

This may take the form of technical advice, the provision of information, facilitation of business contacts or training courses, and other measures. The institutions in question deliver support directly to the beneficiary firms, with their own resources (personnel) or by outsourcing (see table III.3).

Type of support	Examples
Direct grants/non-reimbursable contributions	Financing of innovation projects Hiring of consultants Quality certifications Cluster facilitation and management
Tax incentives	Tax incentives for research and development (R&D) Special free trade zone/special economic zone regimes Tax refund for audiovisual productions
Financial instruments	Loans at preferential interest rates Access to guarantees to make it easier to obtain credit
Capital contributions	Venture capital Enterprise creation
Support services	Business development centres Support from export promotion agencies

**Table III.3**  
Examples of instruments  
by type of support

**Source:** Economic Commission for Latin America and the Caribbean (ECLAC).

## (d) Operating mechanism

Every instrument has a set of elements that define how it operates, such as application criteria, evaluation mechanisms, availability of resources, delivery mechanism and conditionalities (see chapter II), timing and the follow-up and monitoring system, among others.

The elements that most clearly distinguish how the instruments operate include the evaluation and selection mechanisms. In general, these can be of two types, albeit with variants:

### (i) *Automatic grants or allocation*

Without prior evaluation, any beneficiary that satisfies the established requirements can avail itself of the instrument. This type is exemplified by many of the tax incentives.

<sup>7</sup> Tax incentives are recorded as government revenue foregone as a result of preferential treatments (Campos, 2022).

### *(ii) Grants or allocation with pre-assessment*

In this case, there are two modalities: the open window, where each beneficiary application is evaluated in advance on its own merit, and the benefit is delivered to the applicant for the duration of the term or the resources allocated to the instrument; and competitive process, where each application is evaluated not only on its own merit, but also in comparison to other applications. The benefit is then assigned in order of priority according to the evaluation, until the resources allocated to the competitive process are used up. An instrument may consider more than one competitive process, either regularly or periodically, or else on an ad hoc basis to meet specific needs.

## 3. Exercise to characterize and quantify productive development policy instruments in five countries

The remainder of this chapter presents an initial exercise to characterize and quantify productive development policy instruments in five of the region's countries, drawing on the results of individual studies commissioned for the purpose: Argentina (Arza and López, 2024), Brazil (Romero, 2024), Chile (Labra, Albis and Santos, 2024), Colombia (Gómez, 2024) and Mexico (Stezano, 2024).<sup>8</sup>

This exercise considered the instrument-design elements described above, along with previous work by ECLAC to map and quantify productive development policy instruments (see, for example, Correa, Dini and Letelier (2022); Gómez (2021); Cassini (2022); and Gligo, López and Said (2021)).

In addition, for the purpose of making international comparisons,<sup>9</sup> the classification methodology proposed by the Organisation for Economic Co-operation and Development (OECD) (Crisuolo, Díaz and Lalanne, 2022) was considered as far as possible. In this case, the most recent quantification exercise (Crisuolo and others, 2023) is limited to the instruments defined as direct support in diagram III.1. In other words, the characterization and quantification exercise presented in this chapter did not encompass the total number of productive development policy instruments, but a subset of them (those that directly support improvement of the operation of existing firms and the creation of new ones). It excludes factors related to the environment or capacity-building, or investment in specialized infrastructure.<sup>10</sup>

As this was the first quantification exercise using a common methodology, it was not free from difficulties, both methodological and in terms of data access. The former include problems in applying criteria that define the limits or boundaries of what an instrument is, and its inclusion or exclusion in a given category. In particular, there was great variety between the categories used by the countries in relation to priorities or the instruments' spheres of action, and the compatibility of these with the selection criteria under the OECD methodology. As a result, to take account of the specific features of developing countries, such as those of the region, and to fully represent

<sup>8</sup> In the period covered (2021–2022), these countries accounted for 79.6% of GDP and 69.7% of the population of Latin America and the Caribbean. In other words, they represent a significant sample of what is happening in the region in terms of productive development policies.

<sup>9</sup> In January 2023, Global Trade Alert launched the New Industrial Policy Observatory, which collects data on the industrial policies being implemented by the countries. This source was not used as a comparison because, in addition to not coinciding in the period analysed, it is biased towards instruments and measures that affect international trade. See Evenett and others (2024) for further details on the Observatory.

<sup>10</sup> For example, in terms of instruments that foster research and development (R&D), the exercise carried out considers support through subsidies and tax incentives for R&D projects undertaken in or for firms, but it does not take into account scholarships for master's or doctoral studies. The latter instruments are commonly used to advance science, technology and innovation in the countries.

the strategic priorities of each country, it was necessary to define new categories, or else use categories that differed between countries. The experience gained with this exercise will enable improvements to be made in future editions.

Another challenge was access to budgetary information, with the granularity needed to identify instruments. This meant that, in practice, the selection of instruments considered did not necessarily represent the total number of instruments available, even when they were mapped. This disparity makes it difficult to compare exercises between countries.

Nonetheless, more than 850 instruments were identified, characterized and quantified in the five countries analysed, in what is the first known exercise on this scale for Latin America and the Caribbean.

When reading and reviewing the results for each country, which are presented below, the elements and considerations listed in table III.4 should be taken as a reference.

**Table III.4**

Latin America and the Caribbean (5 countries): exercise to characterize and quantify productive development policy instruments

Country	Institutions	Number of instruments	Considerations
Argentina	Three ministries: Ministry of Agriculture, Livestock and Fisheries Ministry of Science, Technology and Innovation Ministry of Productive Development	50 programmes (25 that involve subsidies and financial instruments, and 25 tax-related instruments) 257 instruments in the Ministry of Science, Technology and Innovation and the Ministry of Productive Development	The programmes were quantified but only the instruments were characterized Agricultural sector included Subsidies, financial and taxation instruments included Period: 2021–2022
Brazil	Eight ministries: Ministry of Development, Industry and Trade Ministry of Science, Technology and Innovation Ministry of Integration and Regional Development Ministry of Agriculture and Livestock Ministry of Health Ministry of Defence Ministry of Mining and Energy Ministry of Transport	154 instruments	Subsidies, tax, financial and venture capital instruments included Agricultural sector included Period: 2021–2022
Chile	Seven ministries: Ministry of Agriculture Ministry of Science, Technology, Knowledge and Innovation Ministry of Economy, Development and Tourism Ministry of Energy Ministry of Social Development and Family Ministry of Mining Ministry of Labour and Social Security	319 instruments (252 of which are direct support instruments)	Supply, demand and governance instruments included Subsidies, financial, tax and service instruments included Only one tax instrument quantified Agricultural sector included Regional governments included Period: 2020–2023
Colombia	Five ministries and one agency: Ministry of Agriculture and Rural Development Ministry of Commerce, Industry and Tourism Ministry of Information and Communications Technologies Ministry of Science, Technology and Innovation Ministry of Culture Ministry of Labour (National Apprenticeship Service only)	129 (2021) and 115 (2022) instruments	Services category (non-financial support) included, in addition to subsidies, tax and venture capital Financial instruments not included (only related subsidies included) Agricultural sector included Culture sector included Period: 2021–2022
Mexico	Three secretariats and one agency: Ministry of Labour and Social Welfare Welfare Secretariat Ministry of Finance and Public Credit National Council for the Humanities, Sciences and Technologies	10 programmes	Subsidies and financial instruments included Tax instruments not included Instruments that are not included are described (seven instruments to foster the productive environment of the Economy Secretariat) Agricultural sector included Period: 2021–2022

**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of studies of the respective countries.

Lastly, consideration of a period spanning just two years (2021 and 2022) presents a static situation, in which it is impossible to evaluate the evolution of the set of instruments. Furthermore, there is no impact assessment of the instruments, nor is there any investigation of the reasons, constraints or political economy behind the decisions adopted. These issues remain open for possible future lines of research.

## B. Argentina

### 1. Policy framework, institutions and other considerations

Between 2019 and 2023, the Government of Argentina published four strategic planning documents on productive development, which define the strategic objectives and cross-cutting management themes of its productive development policy. Two of these documents are relevant to the period of analysis:<sup>11</sup>

- (i) *Estrategia y acciones para el Desarrollo Productivo 2020–2023* (Ministry of Productive Development, 2021a)
- (ii) *Plan Operativo Anual 2021* (Ministry of Productive Development, 2021b)

With a view to identifying and quantifying the main productive development policy programmes and initiatives, the scope of action of three existing ministries during the analysis period was reviewed:<sup>12</sup>

- (i) Ministry of Agriculture, Livestock and Fisheries
- (ii) Ministry of Science, Technology and Innovation
- (iii) Ministry of Productive Development

In total, 25 programmes involving expenditure on subsidies and financial instruments (public spending) and 25 initiatives with tax expenditures were reviewed.<sup>13</sup>

### 2. Characterization and quantification of productive development policy programmes and instruments

If public spending and tax expenditures are considered, productive development policies that entail direct support to firms and pursue productivity improvement, competitiveness or economic development objectives represented 1.2% of GDP in 2021 and 1% in 2022. Tax instruments accounted for 75% and 87% of spending on productive development policies in those years (see table III.5).

<sup>11</sup> The other two are: *Plan Operativo Anual 2023 and Argentina 2030: Plan para el Desarrollo Productivo, Industrial y Tecnológico* (Secretariat of Industry and Productive Development, 2023a and 2023b).

<sup>12</sup> In the current government, the Ministry of Science, Technology and Innovation became the Secretariat of Innovation, Science and Technology, within the Office of the Chief of Cabinet of Ministers, and the Ministry of Productive Development was merged into the Ministry of Economy.

<sup>13</sup> The Undersecretariat of Public Revenues (Secretariat of Finance, Ministry of Economy) makes an estimate of tax expenditure, which it defines as the amount of revenue that the Treasury forgoes by granting a tax treatment that deviates from that established in general tax legislation, in order to benefit or favour the development of certain activities, areas, taxpayers or consumption (Ministry of Economy, 2022).

Type of expenditure	Amount and distribution (Millions of dollars and percentages of GDP)		Distribution (Percentages)	
	2021	2022	2021	2022
Subsidies and financial	1 445 0.32	799 0.13	25	13
Tax	4 334 0.89	5 451 0.86	75	87
<b>Total</b>	<b>5 779</b> <b>1.21</b>	<b>6 250</b> <b>0.99</b>	<b>100</b>	<b>100</b>

**Table III.5**  
Argentina: amount and distribution of public spending and tax expenditures on direct support productive development policy instruments, 2021 and 2022  
(Millions of dollars, percentages of GDP and percentages)

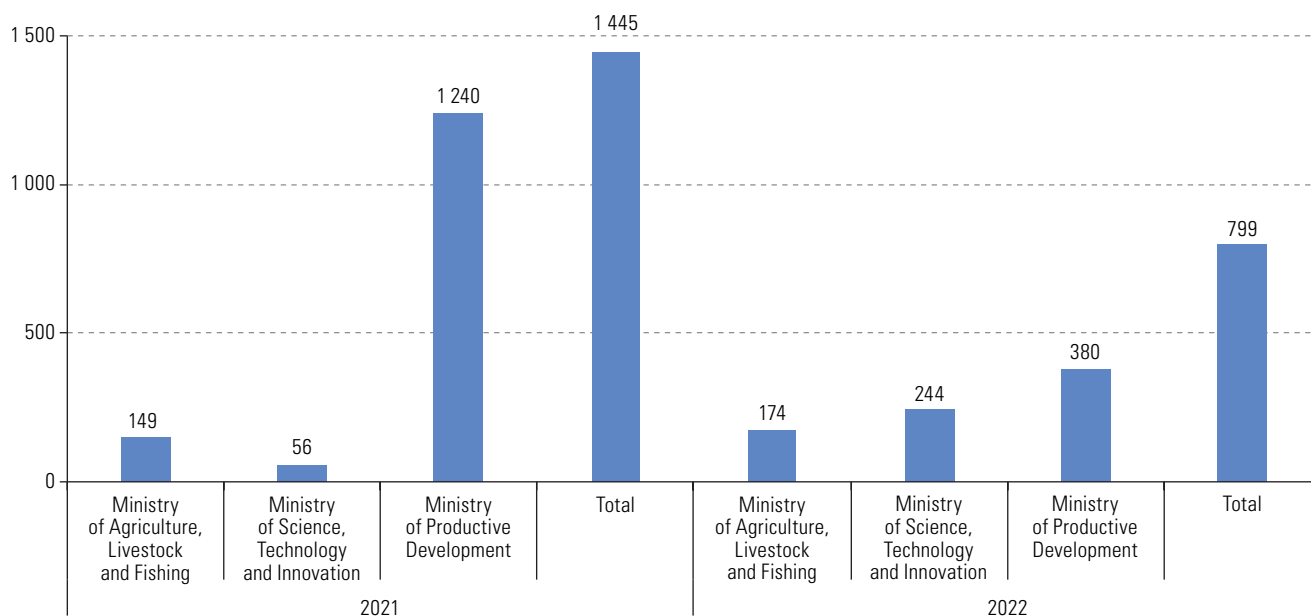
**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of V. Arza and E. López, “Políticas de desarrollo productivo en Argentina”, Santiago, ECLAC, 2024, unpublished, and CEPALSTAT database [online] <https://statistics.cepal.org/portal/cepalstat/index.html?lang=en>.

### (a) Public spending: institutions and programmes

Public spending on productive development policies in the three ministries analysed totalled US\$ 1.445 billion (0.3% of GDP) in 2021, but decreased to US\$ 799 million (0.13% of GDP) in the following year (see figure III.1).

**Figure III.1**

Argentina: accrued public spending on productive development policies by Ministry of Agriculture, Livestock and Fisheries, Ministry of Science, Technology and Innovation, and Ministry of Productive Development, 2021 and 2022  
(Millions of dollars)



**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of V. Arza and E. López, “Políticas de desarrollo productivo en Argentina”, Santiago, ECLAC, 2024, unpublished.

The Ministry of Productive Development accumulates the bulk of spending on this type of policy, accounting for 86% of the total in 2021 and 48% in 2022.

The high level reported in 2021 is explained mainly by the Production Financing programme of the Ministry of Productive Development, which was worth over US\$ 1.014 billion. Table III.6 provides a breakdown of this programme’s different activities, in which the National Fund for Productive Development absorbed 69% of

the total financing. The sharp reductions in 2022 do not necessarily imply a smaller flow of resources for productive development policies, since this depends not only on additional flows, but also on the fund's financial reserve.<sup>14</sup>

**Table III.6**  
Argentina: activities  
of Production Financing  
programme of Ministry of  
Productive Development,  
2021 and 2022  
(Millions of dollars  
and percentages)

Budget Programme Budget activity	2021 (Millions of dollars)	2022 (Millions of dollars)	Variation 2022–2021 (Millions of dollars)	Variation 2022–2021 (Percentages)
<b>Production Financing programme</b>	<b>1 013.8</b>	<b>254.5</b>	<b>-759.3</b>	<b>-75</b>
Programme for Access to Longer-Term Finance for MSMEs (IBRD No. 8.659)	2.9	0.0	-2.9	-100
Global Credit Programme for Reactivation of the Productive Sector (IDB 5057/OC-AR)	210.1	21.2	-188.9	-90
National Fund for Productive Development	696.7	197.3	-499.4	-72
Argentine Guarantee Fund	102.3	34.4	-67.9	-66
Regional Economies Competitiveness Programme (IDB No. 3174/OC-AR)	1.7	1.5	-0.1	-8

**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of V. Arza and E. López, "Políticas de desarrollo productivo en Argentina", Santiago, ECLAC, 2024, unpublished.

**Note:** The amounts shown represent total programme transfers.

### (b) Tax expenditures: regimes and strategic plans

Twenty-five initiatives were identified, of which 17 are economic promotion regimes and eight are specific tax regulations. This set of initiatives generated tax expenditures of US\$ 4.334 billion in 2021 and US\$ 5.451 billion in 2022, remaining broadly stable at around 0.88% of GDP over the biennium (see table III.5).

The two largest regimes are the Tierra del Fuego Economic Promotion Regime, which absorbed 40.7% of resources, and the regime for strengthening micro-, small and medium-sized enterprises (MSMEs), which accounted for 21.5% (see box III.1).

#### Box III.1 Argentina: main economic promotion regimes

**Tierra del Fuego Economic Promotion Regime.** Established by Act No. 19640, grounded in the region's climatic and geographical disadvantages, and having geopolitical, population and manufacturing promotion objectives, the regime includes several tax and customs benefits, including exemption from profit tax, import duties and value added tax, as well as reduced rates for domestic taxes on electronic products.

**Regime for the strengthening of MSMEs.** Title II of Act No. 27264 establishes a special tax treatment aimed at strengthening MSMEs. For the period under consideration, the various benefits include the possibility of computing 100% of the tax on bank account credits and debits as an on-account income tax payment.

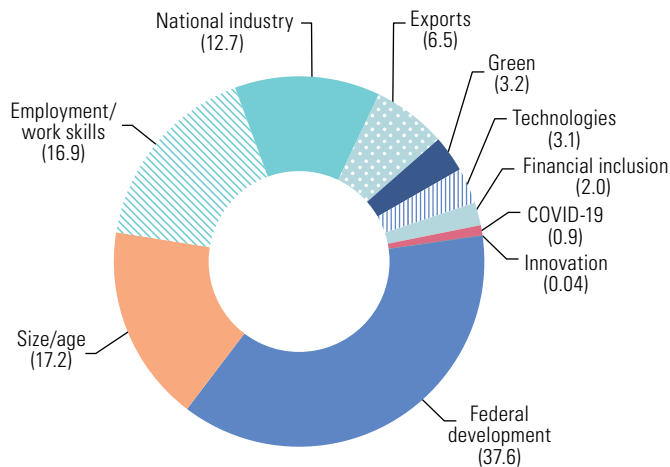
**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of Ministry of Justice of the Nation, "Ley 19640. Poder Ejecutivo Nacional (P.E.N.)" [online] <https://servicios.infoleg.gob.ar/infolegInternet/verNorma.do?id=28185> and Programa de Recuperación Productiva. Act No. 27264 [online] <https://servicios.infoleg.gob.ar/infolegInternet/anexos/260000-264999/263953/norma.htm>.

Among the specific taxes associated with tax expenditures, income tax reduction or exemption accounted for the largest amount (29.5% of the total) in both years analysed. It is followed by value added tax and social security contributions, which represented 19.1% and 14.9% for 2021 and 24.1% and 10.4% for 2022, respectively.

<sup>14</sup> On the basis of data collected in interviews and the authors' estimates, it is calculated that the amount administered by the National Fund for Productive Development and the Argentine Guarantee Fund was approximately 2.5 times more than the budgetary funds accrued for that period in mid-2021; and in 2022 it was over 10 times more, which illustrates the divergence noted in the text.

The five key regimes that absorb nearly 80% of tax expenditure on productive development policies are all over 20 years old, except for the Regime for the Promotion of the Knowledge Economy. This dates from 2019, although it amended another regime originating in 2004, which until then had been confined to the software industry.

The objectives to which most resources are allocated are: federal development, fostering of the competitiveness of small and medium-sized enterprises (including entrepreneurs), generation of employment and job skills, and protection and prioritization of domestic industry (see figure III.2).



**Figure III.2**  
Argentina: distribution of amounts of productive development policy priorities in terms of tax expenditure under national strategic plans, 2022 (Percentages)

**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of V. Arza and E. López, “Políticas de desarrollo productivo en Argentina”, Santiago, ECLAC, 2024, unpublished.

**Note:** The strategies are not mutually exclusive, and all strategies in each initiative have been considered.

## C. Brazil

### 1. Policy framework, institutions and other considerations

Between 2004 and 2014, three productive development policies were launched in Brazil: the Industrial, Technological and Foreign Trade Policy; the Productive Development Policy; and the Greater Brazil Plan. Since 2014, and given the time frame of this analysis (2021–2022), no new national productive development policies were designed.<sup>15</sup>

Consequently, productive development policy instruments were used in accordance with the guidelines and strategies of each ministry and its related institutions:

- Ministry of Development, Industry and Trade
- Ministry of Science, Technology and Innovation of Brazil
- Ministry of Integration and Regional Development
- Ministry of Agriculture, Livestock and Food Supply
- Ministry of Health
- Ministry of Defence
- Ministry of Mining and Energy
- Ministry of Transport

<sup>15</sup> In January 2024, the government launched a new productive development policy, *Nova Indústria Brasil*, which will drive national development until 2033.

The main institutions that foster productive investment at the national level in Brazil are the National Bank for Economic and Social Development (BNDES), attached to the Ministry of Development, Industry and Commerce, and the Research and Projects Funding Authority, under the Ministry of Science, Technology and Innovation.

The Brazilian Agency for Research and Industrial Innovation, which is not attached to any ministry, is a newer institution, created in 2013. Its resources take the form of research and development (R&D) grants for technological development partnering with firms and research centres of excellence.

Owing to Brazil's large regional disparities, its productive development policies are often intertwined with subnational development policies. Banco do Nordeste do Brasil is the main bank fostering regional development in the country.

A total of 154 instruments were considered. Table III.7 lists the key instruments used for productive development policy in Brazil, according to their different ministerial affiliations. Not all of the instruments listed in table III.7 were included in the quantification.

**Table III.7**

Brazil: productive development policy instruments, by type and institution, 2021–2022

Ministry	Tax expenditures	Grants and subsidies	Loans and loan guarantees	Venture capital
Ministry of Development, Industry and Trade	<ul style="list-style-type: none"> <li>Regional development funds (3 instruments)</li> <li>Incentives for the automotive industry (1 instrument)</li> </ul>		<ul style="list-style-type: none"> <li>BNDES (62 instruments)</li> </ul>	<ul style="list-style-type: none"> <li>BNDES Participações S.A. (BNDESPAR) (2 instruments)</li> </ul>
Ministry of Science, Technology and Innovation	<ul style="list-style-type: none"> <li><i>Lei do Bem</i> (1 instrument)</li> <li>Innovation Act (1 instrument)</li> <li>Technology incentive (2 instruments)</li> <li>PADIS grant to the semiconductor industry (1 instrument)</li> </ul>	<ul style="list-style-type: none"> <li>National Council for Scientific and Technological Development (1 instrument)</li> <li>Research and Projects Funding Agency (5 instruments)</li> </ul>	<ul style="list-style-type: none"> <li>Research and Projects Funding Agency (2 instruments)</li> </ul>	
Ministry of Health	<ul style="list-style-type: none"> <li>Incentives for the drug industry (1 instrument)</li> </ul>			
Ministry of Transport	<ul style="list-style-type: none"> <li>Incentives for the naval and aeronautical industries (1 instrument)</li> </ul>			
Ministry of Integration and Regional Development			<ul style="list-style-type: none"> <li>Banco do Nordeste do Brasil (68 instruments)</li> <li>Banco da Amazônia S.A. (BASA) (not included)</li> <li>Banco do Centro-Oeste (not included)</li> </ul>	
Ministry of Defence	<ul style="list-style-type: none"> <li>RETID incentive for the defence industry (1 instrument)</li> </ul>			
Ministry of Mining and Energy	<ul style="list-style-type: none"> <li>Wind turbine industry incentive (1 instrument)</li> </ul>			
Ministry of Agriculture and Livestock	<ul style="list-style-type: none"> <li>Agricultural incentives (1 instrument)</li> <li>Regional development funds (3 instruments)</li> </ul>	<ul style="list-style-type: none"> <li>Brazilian Agricultural Research Corporation (not included)</li> </ul>		
Not attached to a ministry		<ul style="list-style-type: none"> <li>Brazilian Agency for Research and Industrial Innovation (1 instrument)</li> </ul>	<ul style="list-style-type: none"> <li>Banco do Brasil - Plano Safra (not included)</li> </ul>	

**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of J. Romero, "Productive Development Policies in Brazil (2021–22)", Santiago, ECLAC, 2024, unpublished.

In addition to policies implemented through key institutions, some productive development policies are also implemented via the introduction of new laws related to tax incentives.

## 2. Characterization and quantification of productive development policy instruments

Spending on productive development policies in Brazil represented 0.58% of GDP in 2021 and 0.64% in 2022, with tax expenditures, loans and loan guarantees being the two leading types of instrument. Tax expenditures accounted for 61.5% of the resources allocated to such policies in 2021 and 64.4% in 2022, while loans and loan guarantees absorbed 38% and 34.8% of resources in the same years (see table III.8).

Type of expenditure	Amount and distribution (Millions of dollars and percentages of GDP)		Distribution (Percentages)	
	2021	2022	2021	2022
Subsidies	49.68 0.00	94.49 0.01	0.5	0.8
Financial	3 626 0.22	4 280 0.22	38.0	34.8
Tax	5 872 0.36	7 927 0.41	61.5	64.4
Venture capital	4.95 0.00	1.11 0.00	0.1	0.0
<b>Total</b>	<b>9 553 0.58</b>	<b>12 303 0.64</b>	<b>100</b>	<b>100</b>

**Table III.8**  
Brazil: amount and distribution of spending on direct support productive development policy instruments, 2021 and 2022  
(Millions of dollars, percentages of GDP and percentages)

**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of J. Romero, "Productive Development Policies in Brazil (2021–22)", Santiago, ECLAC, 2024, unpublished.

Table III.9 shows the distribution of resources channelled into productive development policies in Brazil, according to the main institutions considered. It also shows the importance of BNDES and Banco do Nordeste do Brasil in terms of the percentage of resources deployed in productive development policies in the country. These resources are allocated through a variety of credit programmes.

Institution	2021	2022
Banco do Nordeste do Brasil	16.6	6.1
BNDES	17.8	26.5
BNDES Participações S.A. (BNDESPAR)	0.1	0.0
National Council for Scientific and Technological Development	0.0	0.0
Brazilian Agency for Research and Industrial Innovation	0.4	0.4
Research and Projects Funding Agency	3.7	2.5
Ministry of Agriculture and Livestock	5.5	10.3
Ministry of Science, Technology and Innovation	28.7	26.1
Ministry of Defence	0.1	0.1
Ministry of Development, Industry and Trade	3.6	6.3
Ministry of Mining and Energy	0.3	0.3
Ministry of Health	13.9	12.7
Ministry of Transport	9.4	8.6
<b>Total</b>	<b>100.0</b>	<b>100.0</b>

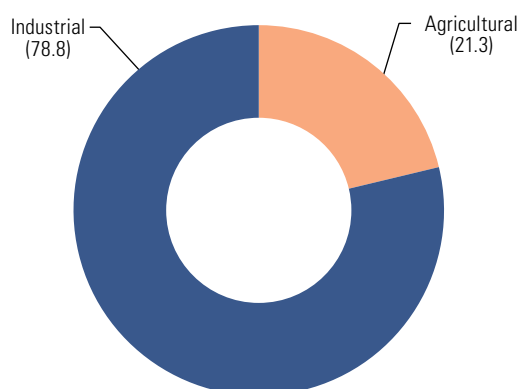
**Table III.9**  
Brazil: distribution of spending on productive development policy instruments among main executing institutions, 2021 and 2022  
(Percentages)

**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of J. Romero, "Productive Development Policies in Brazil (2021–22)", Santiago, ECLAC, 2024, unpublished.

In 2021, resources allocated to innovation by the Ministry of Science, Technology and Innovation represented the largest share of Brazilian productive development policies. These resources were mainly allocated through the *Lei do Bem* and the Innovation Law. In 2022, BNDES was the largest contributor, just ahead of the subsidies provided by the Ministry of Science, Technology and Innovation.

The industrial sector receives the largest share of resources (78%), predominantly tax expenditures, while the agricultural sector mostly receives loans and loan guarantees (see figures III.3 and III.4).

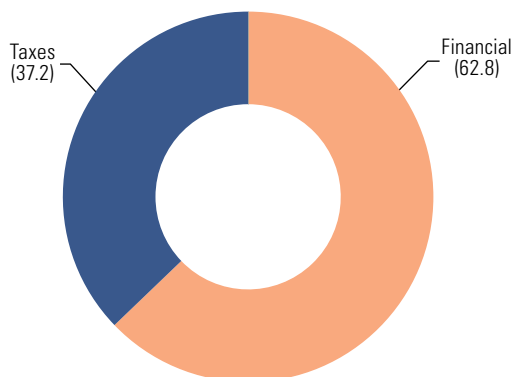
**Figure III.3**  
Brazil: distribution of spending on productive development policies by sector, average, 2021–2022  
(Percentages)



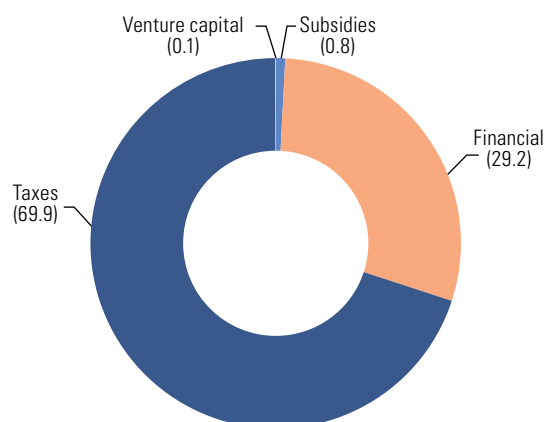
**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of J. Romero, “Productive Development Policies in Brazil (2021–22)”, Santiago, ECLAC, 2024, unpublished.

**Figure III.4**  
Brazil: distribution of spending on productive development policies, by sector and type of instrument, average, 2021–2022  
(Percentages)

#### A. Agricultural



#### B. Industrial



**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of J. Romero, “Productive Development Policies in Brazil (2021–22)”, Santiago, ECLAC, 2024, unpublished.

Table III.10 shows the distribution of disbursements according to their targeting or eligibility criterion. In 2021 and 2022, 67% and 59% of resources, respectively, were targeted by sector, while the innovation criterion accounted for 19.2% and 16.2% in the same years.

Eligibility criteria	2021	2022
Green	1.58	2.30
Innovation	19.24	16.23
Technology	5.10	7.89
Region	16.44	6.10
Digital	0.12	0.29
R&D	8.01	5.98
Sector	67.06	58.65
Size	8.87	4.61

**Table III.10**  
Brazil: distribution of spending on productive development policy instruments, by targeting, 2021 and 2022 (Percentages)

**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of J. Romero, “Productive Development Policies in Brazil (2021–22)”, Santiago, ECLAC, 2024, unpublished.

**Note:** The figures represent the share of resources associated with each criterion individually. However, given the fact that in several policies some of the criteria are applied simultaneously, the table contains some duplication of disbursements. Nonetheless, it serves as an indicator of the relative importance of each criterion.

## D. Chile

### 1. Policy framework, institutions and other considerations

Unlike other countries, Chile does not have a tradition of formulating national productive development plans or policies as formal documents. Although this has not impeded significant results in terms of productive development policies, the proposals of interministerial coordination committees, or the actions of each institution, have to be used to identify the main policy guidelines and, thus, deduce the implicit strategy.<sup>16</sup>

The ministries generally execute policies and instruments through different agencies, although in some cases they execute them directly. The main institution executing productive development policy is the Production Development Corporation (CORFO), Chile’s economic development agency attached to the Ministry of Economy, Development and Tourism. CORFO administers half of all productive development policy instruments (see table III.11),<sup>17</sup> which underscores its essential role in encouraging economic growth and innovation in the country.

CORFO is followed by two institutions attached to the Ministry of Agriculture, which jointly manage 27.4% of the instruments: the National Irrigation Commission and the Agricultural Development Institute.

Regional governments have gained prominence in supporting productive development at the subnational level, thanks to Act No. 21074 on strengthening the regionalization of the country, enacted in 2018. Regional governments manage 6.35% of the instruments which they invest in their regional development and innovation strategies (a detailed analysis of subnational development is provided in chapter V).

<sup>16</sup> Exceptions include: the National Science, Technology, Knowledge and Innovation Policy of the eponymous Ministry; the Committee of Ministers for Sustainable Productive Development, which was created in 2023 to propose the Sustainable Productive Development Policy to the President of the Republic and approve the proposed Sustainable Productive Development Plan; and the National Lithium Strategy, also launched in 2023.

<sup>17</sup> In the first instance, the mapping of productive development policy instruments and institutions considered all supply, demand and governance instruments, including those for capacity-building and specialized infrastructure. Applying these criteria, a total of 319 productive development policy instruments were identified as being in operation between 2020 and 2023; but, to facilitate better international comparison, a subset of 252 direct support instruments spanning 2021–2022 was used.

**Table III.11**  
Chile: selected  
productive development  
policy institutions and  
instruments, 2020–2023  
(Number of instruments  
and percentages)

Executing agency and ministry	Number of instruments	Percentages
CORFO – Ministry of Economy, Development and Tourism	129	51.2
National Irrigation Commission – Ministry of Agriculture	45	17.9
Agricultural Development Institute – Ministry of Agriculture	24	9.5
Regional governments	16	6.4
Foundation for Agrarian Innovation – Ministry of Agriculture	11	4.4
Technical Cooperation Service – Ministry of Economy, Promotion and Tourism	5	2.0
National Mining Company – Ministry of Mining	5	2.0
Energy Sustainability Agency – Ministry of Energy	5	2.0
National Solidarity and Social Investment Fund – Ministry of Social and Family Development	4	1.6
National Training and Employment Service – Ministry of Labour and Social Security	3	1.2
Ministry of Agriculture	2	0.8
Agriculture and Livestock Service – Ministry of Agriculture	1	0.4
Undersecretariat of Energy – Ministry of Energy	1	0.4
Ministry of Energy	1	0.4
<b>Total</b>	<b>252</b>	<b>100</b>

**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of E. Labra, N. Albis and K. Santos, “Aproximación a una cuantificación de la inversión en políticas de desarrollo productivo en Chile”, Santiago, ECLAC, 2024, unpublished.

## 2. Characterization and quantification of productive development policy instruments

Considering productive development policy instruments defined most broadly, encompassing the 319 mapped instruments, which include those relating to supply, demand and governance, total spending on productive development policies in 2020–2023 represented 0.7% of GDP, ranging from a minimum of 0.5% in 2022 to a maximum of 0.9% in 2021.

Within this group, 95.5% of the expenditure targeted supply-side instruments, of which 76.4% provide direct support. This means that the 252 direct support instruments considered represent 72.3% of total spending on productive development policy instruments, in the form of subsidies, tax incentives, financial instruments and support services (in Chile the considered activities are executed by third parties).

Table III.12 shows the details of direct support instruments for 2021 and 2022 to facilitate comparison with the other countries.

**Table III.12**  
Chile: amount and  
distribution of spending  
on direct support  
productive development  
policy instruments,  
2021 and 2022  
(Millions of dollars,  
percentages of GDP  
and percentages)

Type of expenditure	Amount and distribution (Millions of dollars and percentages of GDP)		Distribution (Percentages)	
	2021	2022	2021	2022
Subsidies	1 932.72 0.6	687.22 0.2	84	70
Financial	212.07 0.1	163.08 0.1	9	17
Tax	127.09 0.0	105.56 0.0	6	11
Services (executed by third parties)	23.57 0.0	21.01 0.0	1	2
<b>Total</b>	<b>2 295.45</b> <b>0.7</b>	<b>976.85</b> <b>0.3</b>	<b>100</b>	<b>100</b>

**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of E. Labra, N. Albis and K. Santos, “Aproximación a una cuantificación de la inversión en políticas de desarrollo productivo en Chile”, Santiago, ECLAC, 2024, unpublished.

The total amount allocated to productive development policy instruments that provide direct support to firms, pursuing objectives of improving productivity, competitiveness or economic development, fluctuated between 0.7% of GDP in 2021 and 0.3% of GDP in 2022.

Subsidies accounted for the largest share of spending in both years. In 2021, they represented 84% of the total, while in 2022 their share dropped back to 70%. This reduction, occurring in the year in which a new government took office, contributed significantly to the fall in total spending on productive development policies.

Financing and tax expenditure, while displaying changes in their share of the total, remained stable in absolute terms as a percentage of GDP. Spending on support services, through third parties, represented a small share of total spending.

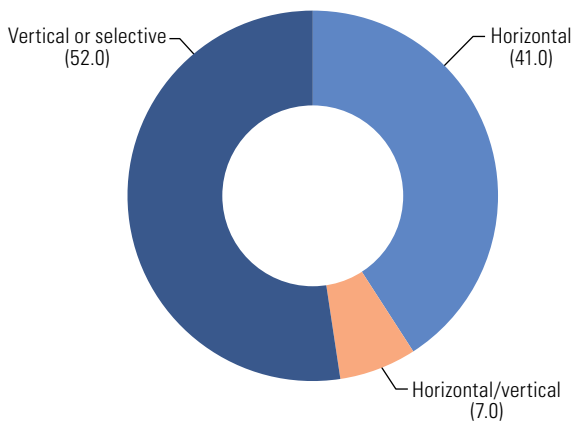
Productive development policy instruments can also be classified by their nature, whether horizontal, vertical (selective), or a mixture of the two. The data available for 2021–2022 show that vertical or selective instruments are the most common, accounting for 52.4% of the total number (see figure III.5). Horizontal instruments, which are applied broadly across multiple sectors, make up 40.9% of the total, while those that combine both horizontal and vertical features account for 6.8%.

**Figure III.5**

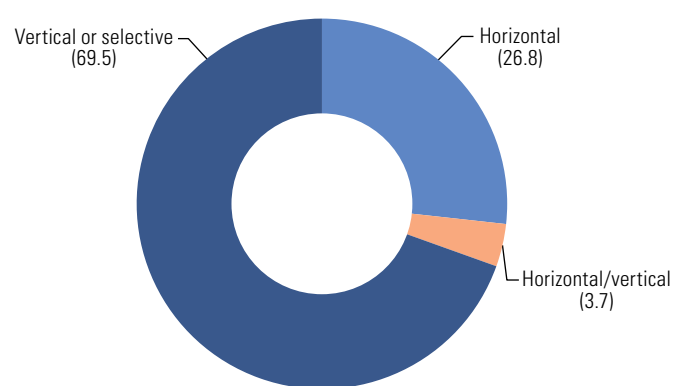
Chile: scope of productive development policy instruments, 2021–2022

(Number of instruments and percentages of budget)

**A. Number of instruments**



**B. Percentage of budget**



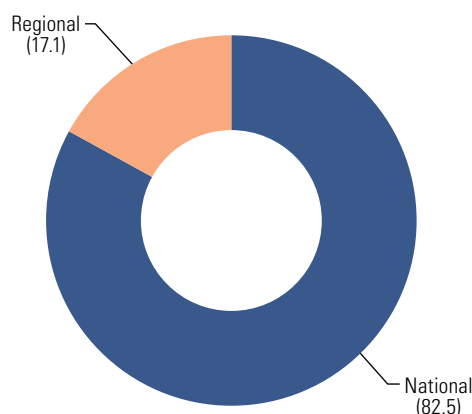
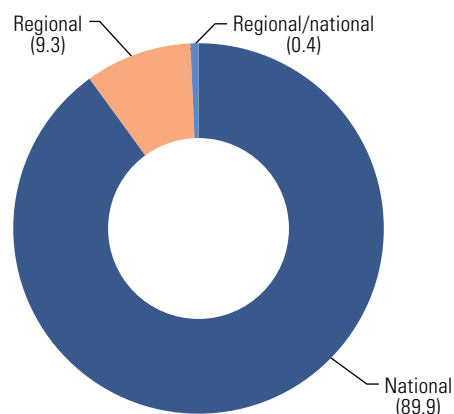
**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of E. Labra, N. Albis and K. Santos, “Aproximación a una cuantificación de la inversión en políticas de desarrollo productivo en Chile”, Santiago, ECLAC, 2024, unpublished.

In terms of the budget allocated, vertical or selective instruments absorb most of the financing, accounting for 69.5% of the total budget allocated to productive development policies in 2021–2022. This reflects the enormous importance assigned to supporting specific sectors of the economy. Horizontal instruments, although numerous, receive only 26.8% of the total budget, while combined instruments (horizontal/vertical) receive just 3.7%.

Chile’s productive development policy for 2021–2022 is clearly inclined towards policies of national scope, with a substantial allocation of resources. Although subnational policies are present and local differences are recognized, they receive a smaller share of the budget, thereby reflecting a predominantly centralized approach. National instruments account for 82.5% of the total and absorb 90% of the total budget allocated to productive development policies in the period considered (see figure III.6).

**Figure III.6**

Chile: territorial focus of productive development policy instruments, 2021–2022

*(Number of instruments and percentages of budget)***A. Number of instruments****B. Percentage of budget**

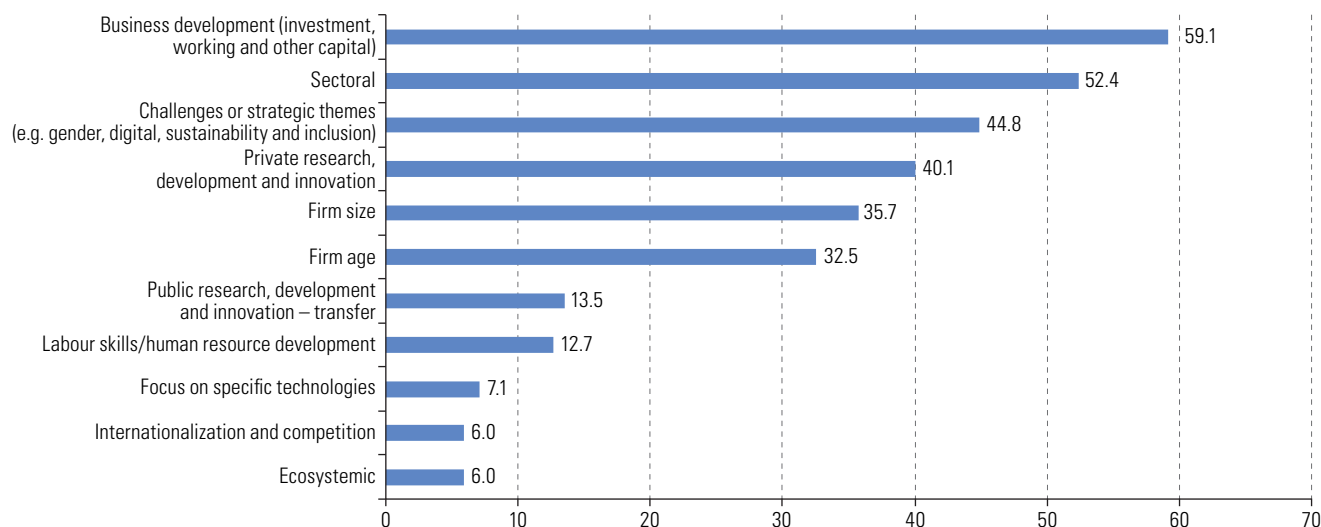
**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of E. Labra, N. Albis and K. Santos, “Aproximación a una cuantificación de la inversión en políticas de desarrollo productivo en Chile”, Santiago, ECLAC, 2024, unpublished.

In contrast, instruments applied at the subnational level are 17.1% of the total. Although fewer in number, their presence underscores the attention given to the specific needs of different regions. However, these subnational instruments only receive 9.4% of the total budget. Instruments applied at both regional and national levels represent just 0.4% of the total number and 0.7% of the budget.

When considering the eligibility criteria of the instruments, in other words the areas or population groups to which public funds are targeted, there is a tendency to prioritize business development (investment, working capital and so forth), to support firms or groups of firms in specific sectors; to subsidize firms’ research, development and innovation (R&D&I) activities; to address strategic policy challenges or themes, and to build R&D&I and public knowledge transfer capabilities (see figure III.7).

**Figure III.7**

Chile: targets or eligibility criteria of beneficiaries of instruments, distribution by number of instruments

*(Percentages)*

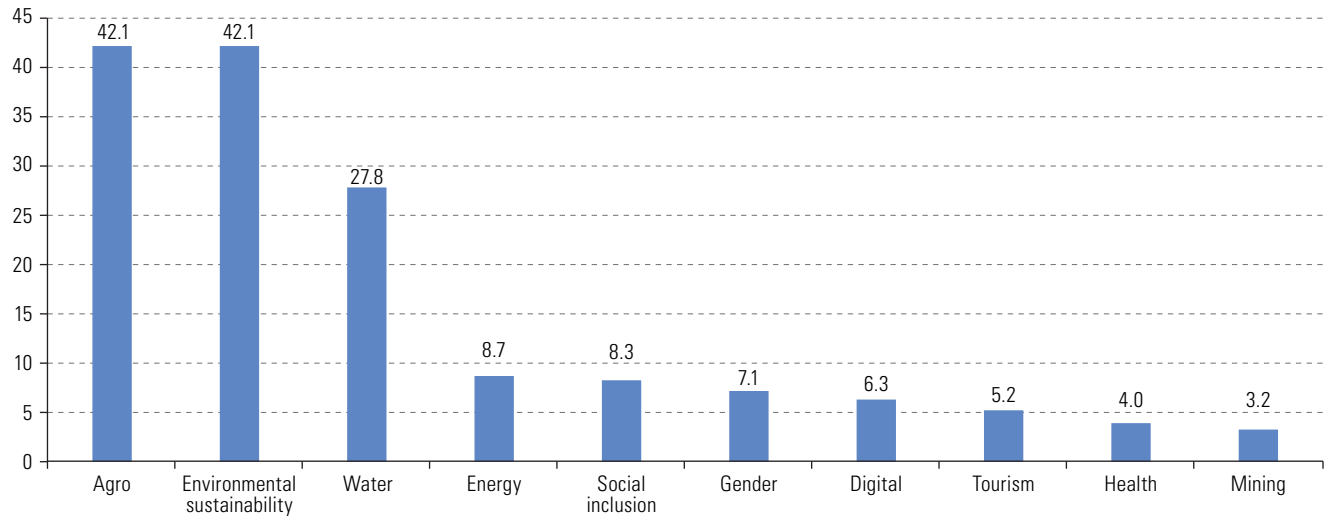
**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of E. Labra, N. Albis and K. Santos, “Aproximación a una cuantificación de la inversión en políticas de desarrollo productivo en Chile”, Santiago, ECLAC, 2024, unpublished.

**Note:** The criteria are not mutually exclusive.

Public financing for productive development includes major new national challenges related to the need for a cleaner energy mix that is less dependent on external sources. These are compounded by problems of environmental sustainability and other challenges (see figure III.8).

**Figure III.8**

Chile: challenges or prioritized sectors, distribution by number of instruments  
(Percentages)



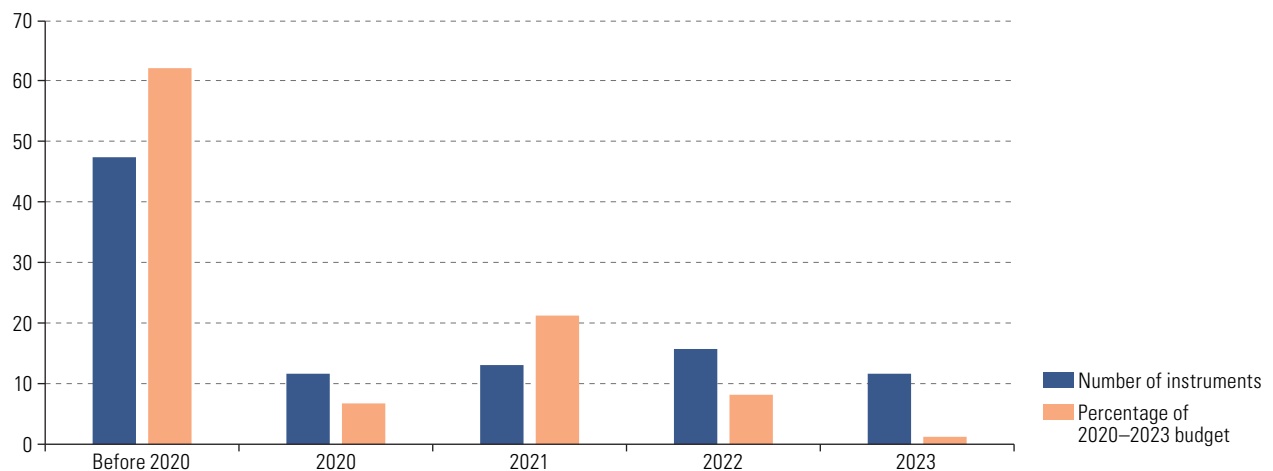
**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of E. Labra, N. Albis and K. Santos, "Aproximación a una cuantificación de la inversión en políticas de desarrollo productivo en Chile", Santiago, ECLAC, 2024, unpublished.

**Note:** The criteria are not mutually exclusive.

In the case of Chile, the fact that data are available for four consecutive years (2020–2023) makes it possible to review the pattern of instrument creation and destruction. Of the instruments in operation in 2023, 47.5% had been implemented before 2020, representing 62.1% of the total budget allocated to productive development policies (see figure III.9).

**Figure III.9**

Chile: distribution of number of and expenditure on productive development policy instruments, by year of instrument launch  
(Percentages)



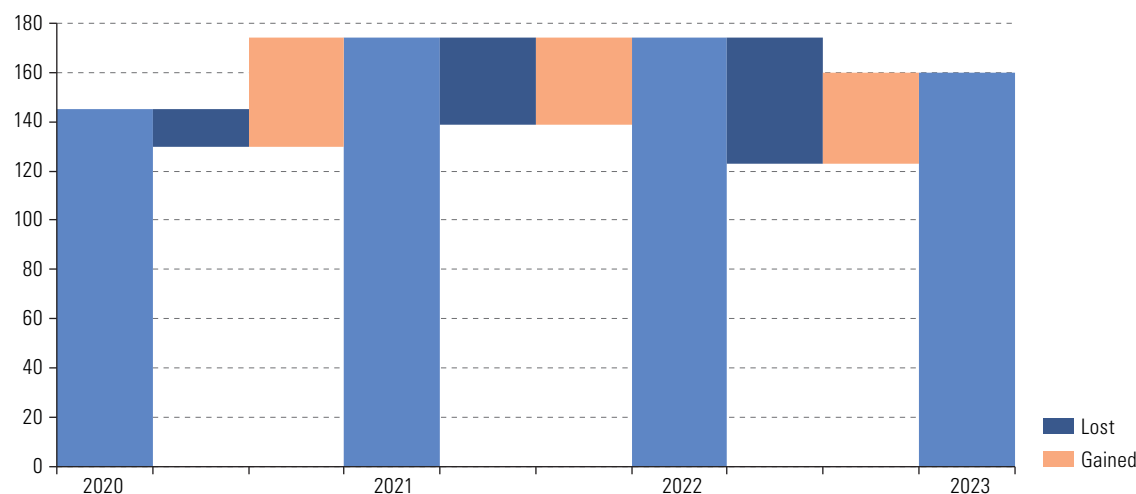
**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of E. Labra, N. Albis and K. Santos, "Aproximación a una cuantificación de la inversión en políticas de desarrollo productivo en Chile", Santiago, ECLAC, 2024, unpublished.

**Note:** The criteria are not mutually exclusive.

Between 2020 and 2021, 15 instruments became inactive and 44 new ones were introduced. In 2021–2022, although 35 instruments were lost another 35 were added, so there was no net change in the total number of active instruments. In contrast, between 2022 and 2023 the balance was negative, with 51 instruments being deactivated and only 37 new instruments added (see figure III.10).

**Figure III.10**

Chile: productive development policy instruments active in each year and number lost and gained in each period, 2020–2023  
(Number)



**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of E. Labra, N. Albis and K. Santos, “Aproximación a una cuantificación de la inversión en políticas de desarrollo productivo en Chile”, Santiago, ECLAC, 2024, unpublished.

It is impossible to make a value judgment on this situation a priori, since it would be necessary to investigate the reasons behind it. Chile in general, and CORFO in particular, have a tradition of experimentation and evaluation that affords great flexibility to create and deactivate instruments, so this could be an explanation. On this path of experimentalist governance, as described in chapter II, successful instruments are maintained and those that have not worked or have completed their time cycle are discarded.

## E. Colombia

### 1. Policy framework, institutions and other considerations

The 2018–2022 National Development Plan defined an important reference framework for the establishment of Colombia’s productive development policy, through the fostering of entrepreneurship, formalization, productivity, and the area of science, technology and innovation. Two complementary policies were issued or were in the process of being implemented in the period analysed:

- 2016 National Productive Development Policy (National Council for Economic and Social Policy (CONPES) 3866)
- 2022–2031 National Science, Technology and Innovation Policy (CONPES 4069)

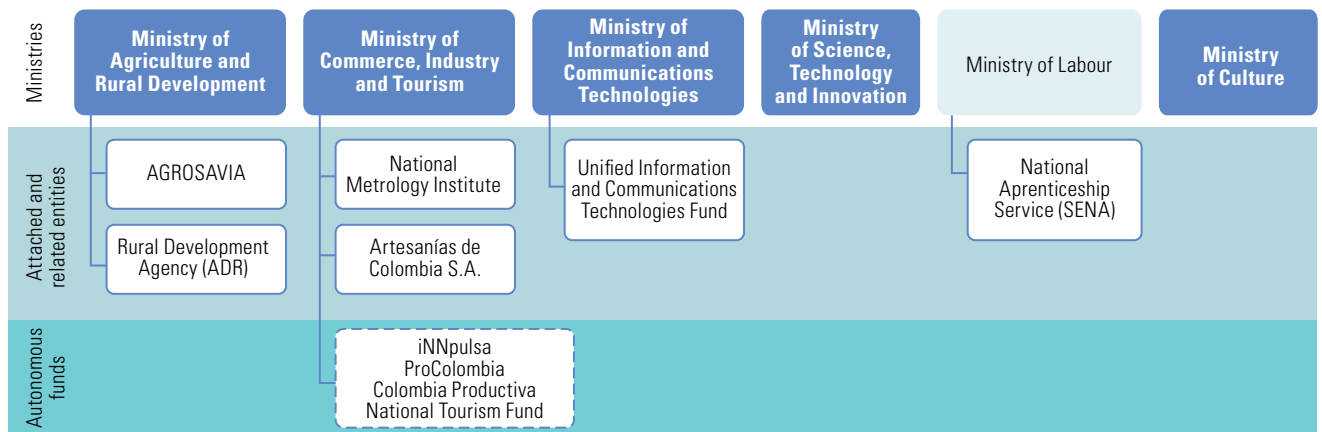
In addition, in 2018–2022 the following policies that included strategies to support productive development in the country were introduced:<sup>18</sup>

- Agricultural Competitiveness Policy (CONPES 4098 of 2022)
- National Policy on the Orange Economy: Strategies to Boost the Culture and Creativity Economy (CONPES 4090 of 2022)
- National Policy on Internationalization for Regional Productive Development (CONPES 4085 of 2022)
- National Intellectual Property Policy (CONPES 4062 of 2021)
- Policy for Reactivation, Repowering and Sustainable and Inclusive Growth: a new commitment for the future of Colombia (CONPES 4063 of 2021)
- National E-Commerce Policy (CONPES 4012 of 2020)
- National Entrepreneurship Policy (CONPES 4011 of 2020)
- National Economic and Financial Inclusion and Education Policy (CONPES 4005 of 2020)
- National Logistics Policy (CONPES 3982 of 2020)
- National Digital Transformation and Artificial Intelligence Policy (CONPES 3975 of 2019)
- National Laboratory Policy: Priorities to Improve Compliance with Quality Standards (CONPES 3957 of 2019)
- Business Formalization Policy (CONPES 3956 of 2019)
- Green Growth Policy (CONPES 3934 of 2018)

The set of entities in which business support instruments were identified is shown in diagram III.2. Five ministries were included (the Ministry of Labour is not included as such, but through the National Apprenticeship Service), along with six attached and related entities, and four autonomous bodies.

**Diagram III.2**

Colombia: public entities of enterprise support system



**Source:** A. P. Gómez, “Estudio del sistema de apoyo a las empresas en Colombia en su dimensión nacional”, *Project Documents* (LC/TS.2021/191), Santiago, Economic Commission for Latin America and the Caribbean (ECLAC), 2021.

<sup>18</sup> In December 2023, the new National Reindustrialization Policy (CONPES 4129) was approved with the objective of increasing the generation of value added in the production of goods and services of the economic sectors that make up the productive base, through a cross-cutting commitment to the territories and their productive fabric, as well as four strategic intersectoral commitments at the national level. The latter include: (i) fair energy transition; (ii) agroindustry and food sovereignty; (iii) reindustrialization based on the health sectors; and (iv) reindustrialization based on the defence for life sector.

In the framework of the aforementioned policies and National Development Plan, 129 productive development support instruments were identified as being available in 2021 and 115 in 2022.

The types of instrument considered included non-financial support, in other words support services for productive development provided directly by government institutions. Financial instruments (loans and guarantees) were excluded, although the subsidies category included those aimed at lowering credit rates, the payment of insurance, or similar items.

## 2. Characterization and quantification of productive development policy instruments

In 2021, a total budget of US\$ 1.266 billion was allocated by the public sector to the 129 productive development instruments analysed, which represented 0.40% of that year's GDP. In 2022, the 115 instruments offered had an allocated budget of US\$ 1.1 billion, equivalent to 0.32% of GDP (see table III.13).<sup>19</sup>

**Table III.13**  
Colombia: amount and distribution of spending on direct support productive development policy instruments, 2021 and 2022  
(Millions of dollars, percentages of GDP and percentages)

Type of expenditure	Amount and distribution (Millions of dollars and percentages of GDP)		Distribution (Percentages)	
	2021	2022	2021	2022
Subsidies	215.25 0.068	186.92 0.054	17	17
Tax	823.03 0.26	692.69 0.20	65	63
Services	202.59 0.06	186.92 0.05	16	17
Venture capital	25.32 0.00	32.99 0.01	2	3
<b>Total</b>	<b>1 266</b> <b>0.4</b>	<b>1 100</b> <b>0.32</b>	<b>100</b>	<b>100</b>

**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of A. P. Gómez, "Aproximación a una cuantificación de la inversión en políticas de desarrollo productivo en Colombia", Santiago, ECLAC, 2024, unpublished, and CEPALSTAT database [online] <https://statistics.cepal.org/portal/cepalstat/index.html?lang=en>.

**Note:** Financial instruments were not included in the quantification.

### (a) Type of instrument

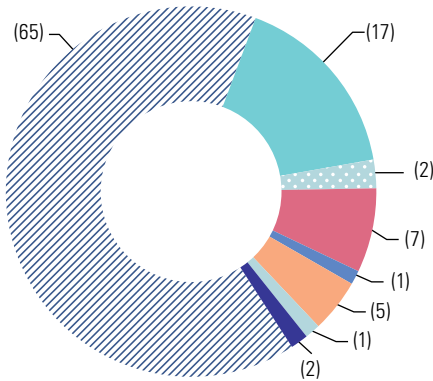
Tax-related instruments, although representing just 8.0% of the total number of instruments, accounted for about two thirds of the total public budget allocated to productive development policies in both 2021 and 2022. The value of tax benefits is actually underestimated, since it was impossible to obtain the total value of tax expenditure for these instruments. Grants and subsidies had the largest allocated budget (17.0% of the total), while the remaining 20.0% was distributed among the other typologies (see figure III.11).

In terms of the number of instruments, 43% were direct services provided by the institutions, such as extension or advisory services (30%), education and training (11%), and information and platforms (12%), which implies relatively low average amounts of expenditure for these instruments (see figure III.12).

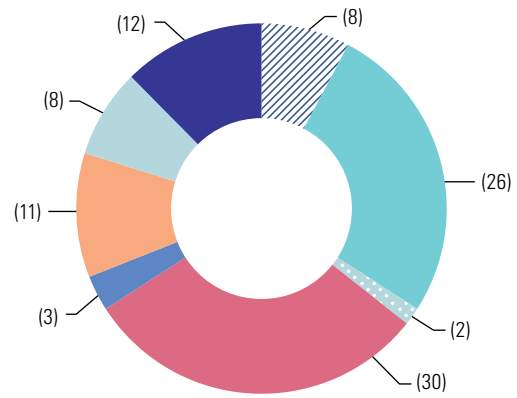
<sup>19</sup> Of the total number of instruments mapped, only five had a budget of US\$ 0 in 2021 and 2022. Of these, three instruments had no budget allocated because investments had already been made in previous years (Maro, Ventanilla Forestal and Datlas Colombia). The other two (tax incentive for exempt income and exemption from income tax for seven years, from the Ministry of Agriculture and the Ministry of Culture, respectively, did not report their budget because it was impossible to measure. In the case of the Free Trade Zones instrument, the budget allocated does not include the total value of the tax benefits. Nonetheless, in this exercise it was possible to confirm the planned and executed budget for more than 98% of the mapped instruments.

**Figure III.11**  
Colombia: distribution of budget and number of instruments by type, 2021–2022  
(Percentages)

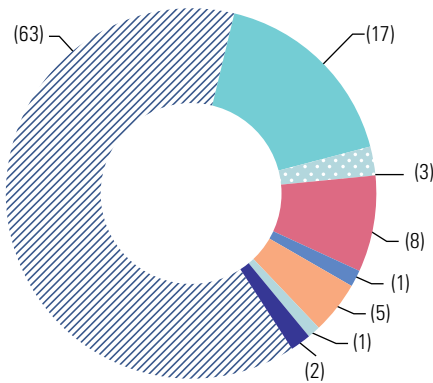
**A. Budget assigned, 2021**



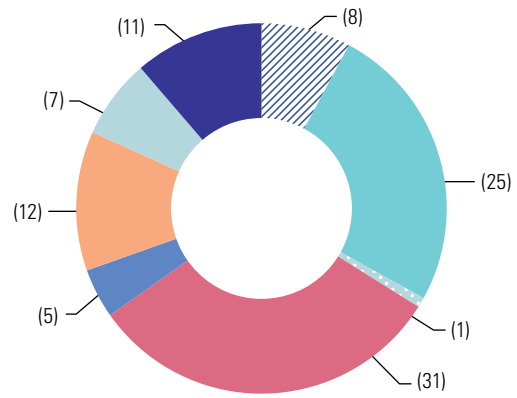
**B. Number of instruments, 2021**



**C. Budget assigned, 2022**



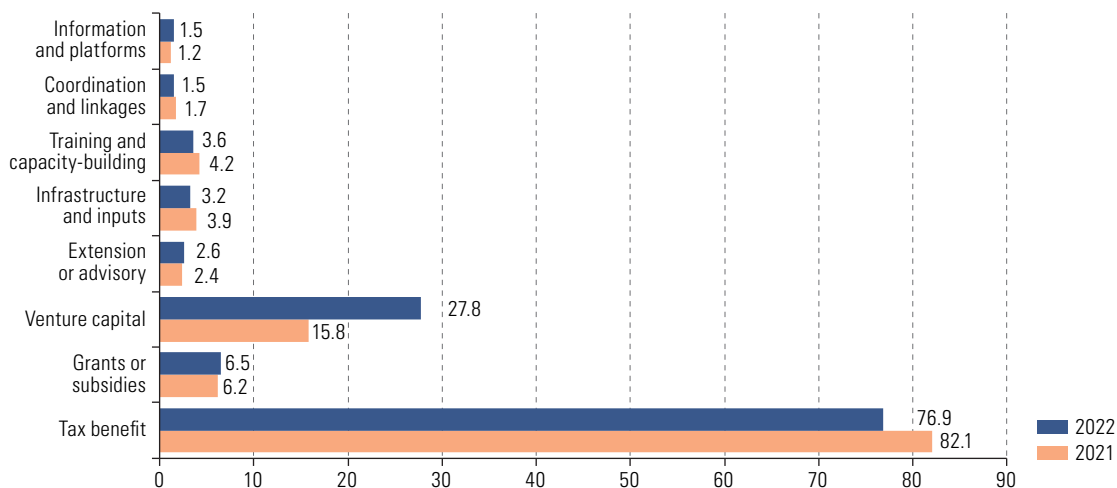
**D. Number of instruments, 2022**



Tax benefit  
  Grants or subsidies  
  Venture capital  
  Extension and advisory  
  Infrastructure and inputs  
 Training and capacity-building  
  Coordination and linkages  
  Information and platforms

**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of A. P. Gómez, “Aproximación a una cuantificación de la inversión en políticas de desarrollo productivo en Colombia”, Santiago, ECLAC, 2024, unpublished.

**Figure III.12**  
Colombia: average expenditure allocated to productive development support instruments, by type, 2021 and 2022  
(Millions of dollars)



**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of A. P. Gómez, “Aproximación a una cuantificación de la inversión en políticas de desarrollo productivo en Colombia”, Santiago, ECLAC, 2024, unpublished.

In the biennium analysed, it was common for instruments that provided advisory services to go hand-in-hand with other services, such as training, support for linkages, or information and platforms. A total of 30.8% of the instruments provided extension or advisory services as the main channel, and a similar proportion (22.5%) also provided this as a secondary service. This means that about half (53.3%) of the productive development support instruments reached beneficiaries with an offer of advisory or extension services.

### (b) Sectors

At the sector level, nearly half of the budget in the two years analysed was allocated by the Ministry of Science, Technology and Innovation, although this ministry offered only 12 instruments. The Ministry of Culture absorbed 14.2% of the budget on average in the two years, with just eight instruments. The trade, industry and tourism sector shared nearly 11.0% of the total planned budget, offering more than 60 instruments in each year, while the agricultural sector accounted for 14.5% of the planned budget and offered 24 instruments on average in the two years (see table III.14). The large shares of the Ministry of Science, Technology and Innovation and the Ministry of Culture reflect the fact that they include tax benefits for which, owing to their allocation mechanism, it is possible to ascertain the planned budget.

**Table III.14**

Colombia: number of instruments and public budget allocated nationally to support mapped productive development instruments, by sector or entity, 2021 and 2022

Sector and entity	Total mapped						No tax benefits			
	Number		Dollars		Percentage of total		Dollars		Percentage of total	
	2021	2022	2021	2022	2021	2022	2021	2022	2021	2022
Agriculture	26	22	181 945 958	160 745 156	14.4	14.6	181 945 958	160 745 156	40.9	39.4
Ministry of Agriculture and Rural Development	17	13	123 572 605	121 052 432	9.8	11.0	123 572 605	121 052 432	27.8	29.7
Rural Development Agency	6	6	58 003 185	39 568 200	4.6	3.6	58 003 185	39 568 200	13.0	9.7
AGROSAVIA	3	3	370 169	124 525	0.0	0.0	370 169	124 525	0.1	0.0
Trade, industry and tourism	69	60	134 869 074	127 538 576	10.7	11.6	134 686 682	127 307 862	30.3	31.2
Ministry of Commerce, Industry and Tourism	56	46	98 382 940	95 724 710	7.8	8.7	98 200 548	95 493 996	22.1	23.4
Bancoldex S.A.	2	2	31 554 869	27 759 334	2.5	2.5	31 554 869	27 759 334	7.1	6.8
Artesanías de Colombia	6	6	4 900 854	4 039 124	0.4	0.4	4 900 854	4 039 124	1.1	1.0
National Metrology Institute	5	6	30 411	15 408	0.0	0.0	30 411	15 408	0.0	0.0
Ministry of Science, Technology and Innovation	12	12	629 261 981	595 006 534	49.7	54.1	22 146 898	18 029 888	5.0	4.4
Ministry of Information and Communication Technologies	5	5	11 351 659	12 281 877	0.9	1.1	11 351 659	12 281 877	2.5	3.0
Ministry of Culture	9	8	219 361 377	121 793 833	17.3	11.1	5 699 860	7 184 288	1.3	1.8
National Apprenticeship Service	8	8	89 377 224	82 146 214	7.1	7.5	89 377 224	82 146 214	20.1	20.1
<b>Total</b>	<b>129</b>	<b>115</b>	<b>1 266 167 273</b>	<b>1 099 512 190</b>	<b>100.0</b>	<b>100.0</b>	<b>445 208 281</b>	<b>407 695 286</b>	<b>100.0</b>	<b>100.0</b>
<b>Percentage of GDP</b>			<b>0.40</b>	<b>0.32</b>			<b>0.14</b>	<b>0.12</b>		

**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of A. P. Gómez, "Aproximación a una cuantificación de la inversión en políticas de desarrollo productivo en Colombia", Santiago, ECLAC, 2024, unpublished.

If instruments providing tax benefits are not included in the aggregate planned budget, as seen on the right side of table III.14, the amount allocated decreases by more than 60% in each year, to US\$ 445.2 million in 2021 and US\$ 407.7 million in 2022. This would make the budget allocated to the country's productive development policy the equivalent of 0.14% of GDP in 2021 and 0.12% in 2022.

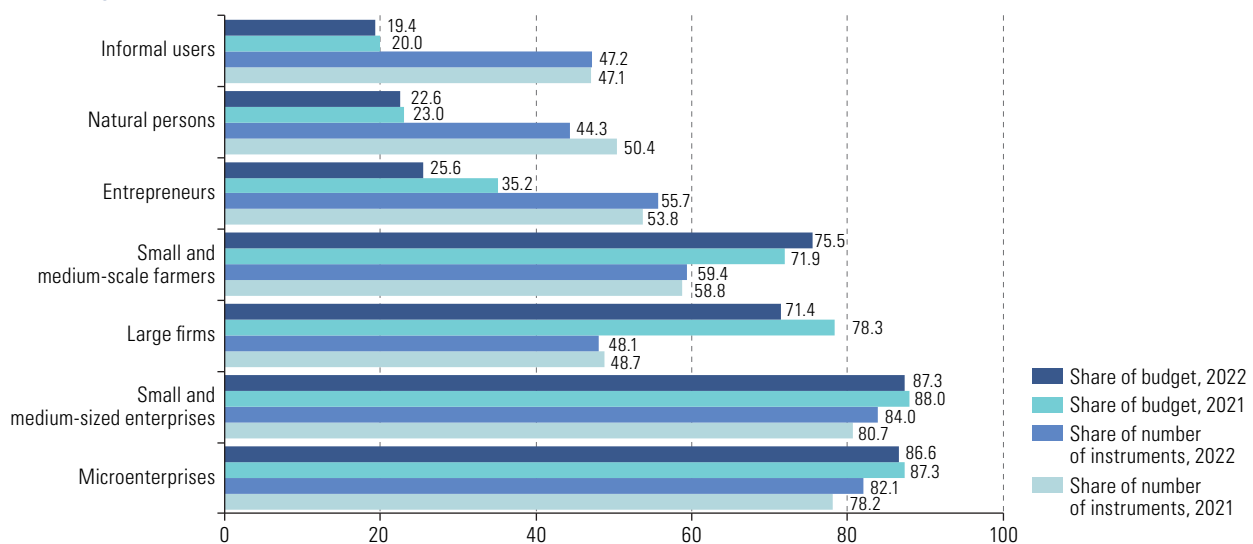
Lastly, only 60% of the instruments were more than three years old in 2021 and 2022, revealing a high rate of turnover. Only 11 instruments in 2021 and 8 in 2022 were created or adjusted to respond to the economic emergency generated by the coronavirus disease (COVID-19) pandemic.

### (c) Target population

More than four fifths of the instruments, in both 2021 and 2022, focused on serving MSMEs. Nearly half served the informal population, mainly in the agriculture and livestock and the trade, industry and tourism sectors. A similar proportion served individuals and entrepreneurs (see figure III.13).

**Figure III.13**

Colombia: distribution of number and budget of productive development support instruments, by beneficiary, 2021–2022  
(Percentages)



**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of A. P. Gómez, “Aproximación a una cuantificación de la inversión en políticas de desarrollo productivo en Colombia”, Santiago, ECLAC, 2024, unpublished.

The distribution of the budget was more heavily concentrated in MSMEs and small and medium-scale agricultural producers than among entrepreneurs, individuals and informal users. This mainly reflected tax benefits, since they accounted for the largest share of the budget and, by nature, targeted operating and formal businesses (see figure III.13).

### (d) Strategic area

On average in the two years, nearly one third of the instruments aimed to support firms in improving their general competitiveness and productivity, and had a similar percentage of budgeted resources (30.2%). Of these, the Bancoldex fund of funds,<sup>20</sup> tax benefits and incentives for the culture sector (see box III.2), and interest rate subsidies for rural credit, absorbed the largest budget share.

<sup>20</sup> For the last five years, Bancoldex has been managing a venture capital instrument known as Bancoldex Capital Fondo de Fondos, which pools its own resources with those of public investors (82.3%), and those of private sector investors, for the purpose of investing in private equity, venture capital and private debt funds to finance MSMEs, large companies and entrepreneurs.

**Box III.2**

Colombia: productive development policy instruments in cultural sector

The Ministry of Culture is tasked with formulating, coordinating, executing and monitoring Colombia's cultural and creative industries policy. Between 2021 and 2022, it offered eight continuous instruments across the two years (plus one that was offered in 2021 only), aimed mainly at MSMEs and entrepreneurs.

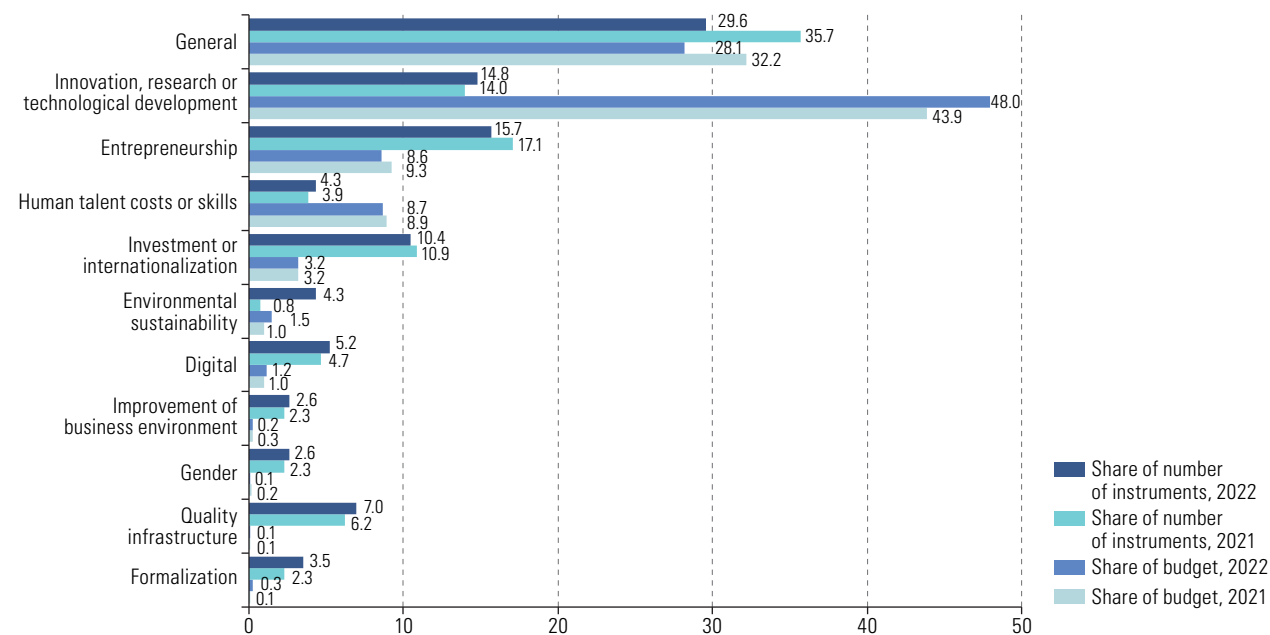
- Three instruments provided tax breaks. While it was impossible to estimate the expenditure corresponding to the income tax exemption, the income deduction for culture, creativity and the orange economy, as well as the Audiovisual Investment Certificate, were assigned by a competitive process, after the quota had been defined by the respective body in each case.
- One instrument was credit, which was offered through Bancoldex and operated only in 2021. For this purpose, the Ministry of Culture allocated a budget to subsidize the spread between the market rate and the rediscount rate offered by financial intermediaries for special credit lines, which then place them in the market to finance productive activities.
- Three instruments co-financed projects, two of them through the Film Development Fund, which collects the parafiscal fee paid by exhibitors, distributors and producers for the exhibition of national and foreign films in Colombia (Act No. 814 of 2003).

**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of A. P. Gómez, "Aproximación a una cuantificación de la inversión en políticas de desarrollo productivo en Colombia", Santiago, ECLAC, 2024, unpublished.

Instruments focused on innovation, research and technological development accounted for 14.4% of the total number, on average, but absorbed nearly half of the total budget (see figure III.14). This was because this strategic area includes tax benefits in the sphere of science, technology and innovation.

**Figure III.14**

Colombia: distribution of number and budget of instruments, by strategic area, 2021–2022  
(Percentages)



**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of A. P. Gómez, "Aproximación a una cuantificación de la inversión en políticas de desarrollo productivo en Colombia", Santiago, ECLAC, 2024, unpublished.

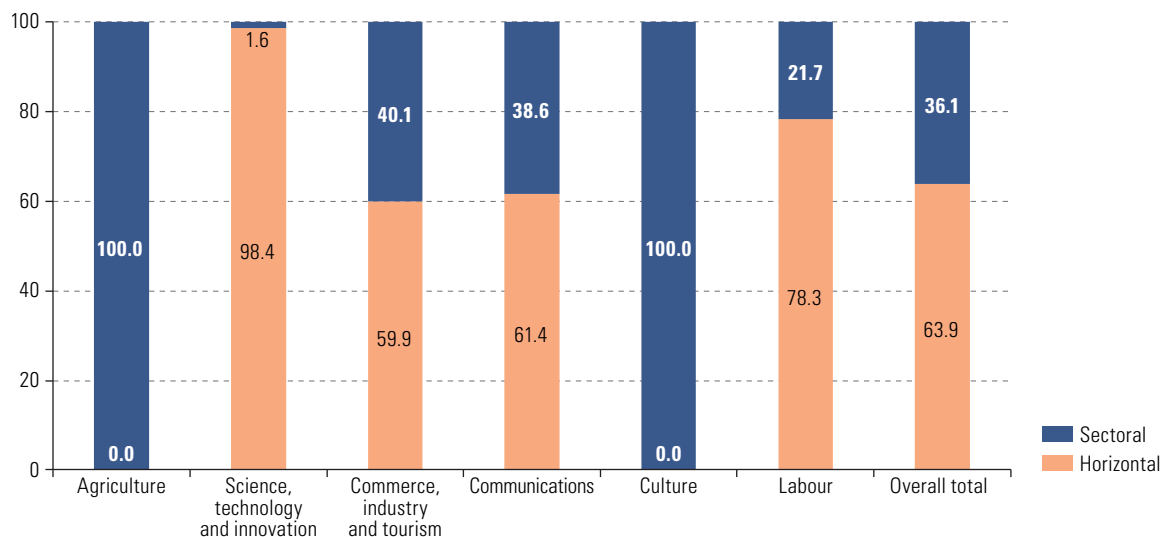
Instruments aimed at fostering entrepreneurship or affecting the costs and skills of human talent each absorbed over 8.0% of the total budget. The other strategic areas represented a larger share of the number of instruments than of the allocated budget.

### (e) Sectoral scope

In total, roughly two-thirds of the budget allocated to productive development in 2021 and 2022 was channelled through instruments that provided support across all sectors of the economy. This reflected the instruments of the Ministry of Science, Technology and Innovation, the Ministry of Labour (through the National Apprenticeship Service) and the Ministry of Information and Communication Technologies, in which 98.4%, 78.3% and 61.4% of the allocated budget, respectively, was of horizontal scope. In contrast, the Ministry of Agriculture and the Ministry of Culture, given their sectoral nature, targeted the budget of the instruments they offered on specific sectors according to their mission. In the case of the trade, industry and tourism sector, the different areas were addressed through Artesanías de Colombia and autonomous bodies, the National Tourism Fund and Colombia Productiva (see figure III.15).

**Figure III.15**

Colombia: distribution of instrument budget, by scope and sector, average 2021–2022  
(Percentages)



**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of A. P. Gómez, “Aproximación a una cuantificación de la inversión en políticas de desarrollo productivo en Colombia”, Santiago, ECLAC, 2024, unpublished.

## F. Mexico

### 1. Policy framework, institutions and other considerations

In 2019, the Secretariat of Economy announced a new productive development policy; and in 2022 it presented the strategy titled *Rumbo a una política industrial* (Towards an industrial policy).<sup>21</sup>

<sup>21</sup> Although an official announcement was made, on the closing date of this publication, the productive development policy had not been implemented.

The strategy considers five sectors and their corresponding subsectors, which were selected for their current and future economic relevance, growth rate and importance for the labour market:

- (i) Agrifood sector (food industry, technical upgrading of agricultural production)
- (ii) Electrical-electronic sector (household appliances, communication and measurement equipment, computer hardware, manufactured goods for export, semiconductors)
- (iii) Electromobility sector (auto parts, batteries and their components, light and cargo vehicles, public transport vehicles)
- (iv) Medical and pharmaceutical services sector (medical devices, medicines and related products)
- (v) Creative industries sector (film and television industries, video games, live entertainment, virtual platforms, fashion)

The official document containing this proposal does not announce any new instruments exclusively oriented to this vision of productive development policies.

The analysis of the 2021–2022 productive development policy identified 10 instruments or programmes implemented by the following institutions:<sup>22</sup>

- Secretariat of Labour and Social Security
- Secretariat of Welfare
- Secretariat of Finance and Public Credit, acting through:
  - Nacional Financiera (NAFIN): a development bank oriented increasingly towards advancing MSMEs.
  - Banco Nacional de Comercio Exterior (BANCOMEXT): a development bank specialized in fostering the export and import activities of Mexican firms.
  - Rural Sector Capitalization and Investment Fund (FOCIR): a venture capital fund that seeks to stimulate private investment in productive projects in the rural and agribusiness sectors.
- National Humanities, Science and Technologies Council (a decentralized federal government agency).

Tax instruments were not included in this analysis because of the difficulty in obtaining figures disaggregated by productive development policy instruments.

## 2. Characterization and quantification of productive development policy instruments

The 10 selected instruments received public financing of US\$ 2.824 billion in 2021 and US\$ 3.040 billion in 2022 —budgets representing about 0.21% and 0.22% of GDP, respectively (see table III.15).

Subsidies absorbed the largest share of spending, accounting for more than 87% of the resources of the instruments analysed for 2021 and 2022.

<sup>22</sup> The Secretariat of Economy maintains its function in terms of coordinating actions and providing leadership to the national government in productive development policies, but it does not have instruments to provide direct support to firms, such as those considered in this quantification exercise. Instead, it carried out actions aimed at improving the environment and conditions of some productive sector or subsector, especially manufacturing.

Type of expenditure	Amount and distribution (Millions of dollars and percentages of GDP)		Distribution (Percentages)	
	2021	2022	2021	2022
Subsidies	2 479 0.18	2 652 0.19	87.80	87.20
Financial	321.94 0.02	362.00 0.03	11.40	11.90
Venture capital	23.88 0.00	26.22 0.00	0.85	0.86
<b>Total</b>	<b>2 824</b> <b>0.21</b>	<b>3 040</b> <b>0.22</b>	<b>100</b>	<b>100</b>

**Table III.15**  
Mexico: amount and distribution of spending on direct support productive development policy instruments, 2021 and 2022  
(Millions of dollars, percentages of GDP and percentages)

**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of F. Stezano, "Aproximación a una cuantificación de la inversión en políticas de desarrollo productivo en México", Santiago, ECLAC, 2024, unpublished, and CEPALSTAT database [online] <https://statistics.cepal.org/portal/cepalstat/index.html?lang=en>.

**Note:** Tax instruments were not included in the quantification.

Measured by the amount of resources managed, the leading programmes were *Sembrando Vida* (Sowing Life), run by the Ministry of Welfare, and *Jóvenes Construyendo el Futuro* (Youth Building the Future), coordinated by the Secretariat of Labour and Social Security. The budgets of these two programmes jointly accounted for 86.47% and 85.16% of the total financing of the selected instruments in 2021 and 2022, respectively (see table III.16).

**Table III.16**  
Mexico: productive development policy instruments, 2021 and 2022  
(Millions of dollars and percentages)

Institution	Programme/instrument	Annual budget 2021 (Millions of dollars)	Distribution (Percentages)	Annual budget 2022 (Millions of dollars)	Distribution (Percentages)
Secretariat of Welfare	<b><i>Sembrando Vida</i> programme</b> Reforestation and intercropping programme, which supports rural communities and producers	1 426.55	50.51	1 486.05	48.88
Secretariat of Labour and Social Security	<b><i>Jóvenes Construyendo el Futuro</i> programme</b> On-the-job training, for up to 12 months, for young people between 18 and 29 years of age who receive a monthly scholarship and public health insurance	1 015.80	35.96	1 103.04	36.28
BANCOMEXT (Secretariat of Finance and Public Credit)	<b>Export financing operation</b> Facilitates access to financial services in strategic sectors.	134.91	4.78	152.58	5.02
BANCOMEXT (Secretariat of Finance and Public Credit)	<b>Complementary financial services</b> Facilitates access to financial services in strategic sectors, improving borrowing conditions	31.29	1.11	37.27	1.23
NAFIN (Secretariat of Finance and Public Credit)	<b>Financing and technical assistance operation</b> Fosters access to credit and guarantees, as well as training and technical assistance, for the purpose of providing financing either directly or through financial intermediaries	122.96	4.35	135.84	4.47
NAFIN (Secretariat of Finance and Public Credit)	<b>Operation as federal government financial agent</b> Seeks to expand development bank credit	11.90	0.2	13.85	0.46
NAFIN (Secretariat of Finance and Public Credit)	<b>Fiduciary services</b> Facilitates access to financial services in strategic sectors, with greater private sector participation through fiduciary services	18.89	0.67	20.43	0.67
National Humanities, Science and Technologies Council	<b>National Strategic Programmes for science, technology and linkage with the social, public and private sectors</b> Programmes that advance research efforts on national issues	36.27	1.28	62.77	2.06
FOCIR (Secretariat of Finance and Public Credit)	<b>Venture capital investment</b> Fosters long-term investment in the rural and agro-industrial sector	23.88	0.85	26.22	0.86
FOCIR (Secretariat of Finance and Public Credit)	<b>Advancement of capitalization in the rural and agro-industrial sector</b> Auxiliary programme focused on the implementation of training and technical assistance programmes to improve financial literacy	1.98	0.07	202	0.07
<b>Total</b>		<b>2 824.45</b>	<b>100.00</b>	<b>3 040.09</b>	<b>100.00</b>

**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of F. Stezano, "Aproximación a una cuantificación de la inversión en políticas de desarrollo productivo en México", Santiago, ECLAC, 2024, unpublished,

*Sembrando Vida* and *Jóvenes Construyendo el Futuro* are two of the current government's emblematic programmes, absorbing a large proportion of the total budget of the ministries that administer them. In 2021 and 2022, the *Jóvenes Construyendo el Futuro* programme represented, on average, 87% of the budget of the Secretariat of Labour and Social Security, while the *Sembrando Vida* programme absorbed between 15% and 10% of the budget of the Secretariat of Welfare.

*Jóvenes Construyendo el Futuro* is a job-training programme that aims to foster learning among young people aged between 18 and 29 years, of all educational levels. It enables them to receive job training in a workplace of their choice for up to 12 months, while receiving a monthly stipend and medical insurance from the Mexican Social Security Institute. It is a labour-training instrument in the form of a direct incentive to firms to develop human capital and reduce labour costs (STPS, 2023).

*Sembrando Vida*, in contrast, is oriented towards productive development and includes objectives in support of green initiatives related to environmental sustainability. Its purpose is to reactivate local agrarian and rural economies through multiple mechanisms in support of tree planting by producers and producer communities. The programme has over 455,000 beneficiaries with permanent jobs and has been present in 21 of Mexico's States. It is a productive development instrument that supports small-scale producers and enterprises, including the hybrid forms of communal and *ejido* property<sup>23</sup> that exist in Mexico (Secretariat of Welfare, 2023).

When considering the objectives of the instruments, there are seven selective instruments that provide support to beneficiaries who satisfy certain characteristics: types of activity, such as exports or participation in international value chains; business segments, such as exporters or MSMEs, or specialization in cross-cutting knowledge topics in science, technology and innovation.

In terms of the eligibility criteria for selecting support beneficiaries, the selected instruments are differentiated as follows: seven are selected by criteria related to the level of maturity of the enterprise; one is selected by sector criteria; one in relation to the cost of labour; and one by green production criteria.

In terms of selectivity, 9 of the 10 instruments are selective (involving a prior competition and selection process), and the other one is non-selective (automatic support to beneficiaries who satisfy eligibility criteria).

## G. Conclusions, reflections and guidelines

The previous sections presented, in highly summarized form, the key results of the exercise to characterize and quantify productive development policy instruments in each of the five Latin American and Caribbean countries considered: Argentina, Brazil, Chile, Colombia and Mexico.

### 1. Conclusions and reflections

A first set of conclusions and reflections arises from the process underlying this exercise:

- (i) Reaching a consensus on a unique definition of productive development policies and the instruments that these policies encompass still poses a major challenge. The boundaries of the definitions are blurred and, even when a consensus seems to have been reached, conceptual and methodological differences reappear. As long as this is a conceptual discussion, it will probably be necessary to accept

<sup>23</sup> *Ejidors* are federally owned lands that are assigned to producers to be worked on.

these grey areas and live with definitions that are somewhat ambiguous and have fuzzy boundaries. This conceptual problem, however, makes measuring, characterizing and quantifying the productive development policy instruments and other efforts, operationally more complex. Pure conceptual definitions clash with a complex and nuanced reality, which in many cases requires case-by-case decisions on inclusion or exclusion. Hopefully, this process will be refined and improved in future iterations.

- (ii) The main constraint faced in this exercise was the difficulty of accessing budgetary information on the instruments. In general, the information is not readily available at the desired level of granularity. Institutional budgets subsume activities in programmes or projects, which makes it difficult to identify the instruments in question. Quantifying tax incentives requires special studies and estimations, while the task of allocating expenditures to direct support, that is support services provided by government institutions, is generally not performed. For that reason, it was not considered in several of the countries. The exercise undertaken is neither perfect nor complete. Many of the gaps are due to the lack of information in the institutions themselves, which to some degree reflects a weakness in the management capacity of productive development policy instruments.
- (iii) Closely related to the above is the fact that there is no single institution from which to request this information. Some institutions have a more defined role than others in the implementation of productive development policies, such as the ministries of industry, production or trade; but in a broad definition of productive development policies, as proposed by ECLAC, these are not the only stakeholders. The mere fact that this exercise to characterize and quantify productive development policies required identifying the institutions and contacting them separately is the best proof of the need for better coordination and governance of the policies.
- (iv) Nonetheless, this initial exercise is highly valuable since it opens up a research avenue that should be explored further in the future, in order to gain a better understanding of the efforts made on productive development policies by the region's countries.

A second set of conclusions and reflections arises from both the quantitative results of the exercise and a qualitative analysis.

### (a) Amounts

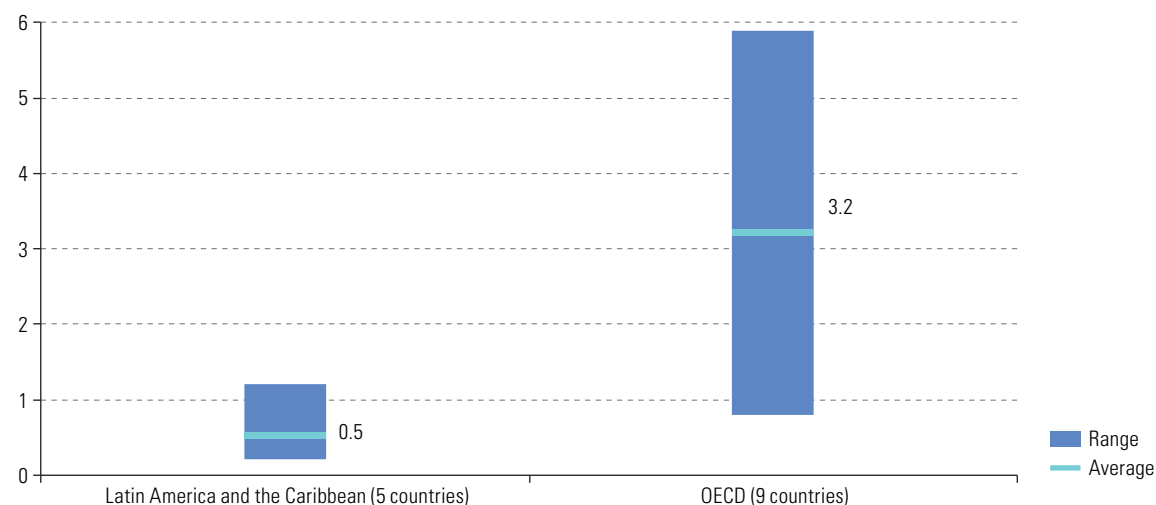
The five countries analysed allocated public resources equivalent to between 0.2% and 1.2% of GDP, and averaging 0.5% of GDP, in the five instrument categories considered. Since this was an exercise that suffered from data access shortcomings, these amounts should be viewed as a minimum. In the case of Mexico, for example, tax instruments were not considered,<sup>24</sup> while in Colombia, financial instruments were excluded from the analysis.

Even considering these limitations, the amounts that the governments of the five countries allocate to productive development policy instruments seem small compared to those of OECD countries. In the quantification exercise performed by OECD in nine countries (Criscuolo and others, 2023), expenditure on productive development policy instruments, including subsidies, tax and financial incentives, averaged 3.25% of GDP in 2021. Moreover, this exercise deliberately excluded the agricultural sector, which would increase the figure sharply (see figure III.16 and table III.17).

<sup>24</sup> These include the Manufacturing, Maquiladora and Export Services Industry programme.

**Figure III.16**

Latin America and the Caribbean and OECD: public funding for direct support productive development policy instruments, 2021–2022  
(Percentages of GDP)



**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of studies of the respective countries and CEPALSTAT [online database] <https://statistics.cepal.org/portal/cepalstat/index.html?lang=en> for Latin America and the Caribbean data; and C. Criscuolo and others, “Quantifying industrial strategies across nine OECD countries”, *OECD Science, Technology and Industry Policy Papers*, No. 150, Organisation for Economic Co-operation and Development (OECD), June 2023, for OECD data.

**Note:** The figures for Latin America and the Caribbean refer to the 2021–2022 average; those for OECD, to 2021 (excluding the agricultural sector).

**Table III.17**

OECD (9 countries):<sup>a</sup> spending on productive development policy instruments, 2021  
(Percentages of GDP and percentages)

Type of instrument	Average expenditure (Percentage of GDP)	Distribution (Percentages)	Distribution without export financing (Percentages)
Subsidies	0.45	13.8	20.9
Tax	1.0	30.8	46.5
Financial	1.8–0.7 <sup>b</sup>	55.4	32.6
<b>Total</b>	<b>3.25</b>	<b>100.0</b>	<b>100.0</b>

**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of C. Criscuolo and others, “Quantifying industrial strategies across nine OECD countries”, *OECD Science, Technology and Industry Policy Papers*, No. 150, Organisation for Economic Co-operation and Development (OECD), June 2023.

<sup>a</sup> Canada, Denmark, France, Ireland, Israel, Italy, the Kingdom of the Netherlands, Sweden and the United Kingdom.

<sup>b</sup> Export financing is not included.

As in the case of the OECD analysis, there is wide variation between countries in Latin America. In the United Kingdom and France, subsidies and tax instruments together amounted to 2.3% and 2.2% of GDP, respectively, while in Ireland they totalled 0.6% and in Canada 0.8%. In Latin America, the quantification of these same instruments varied between 0.6% in Chile and 0.2% in Mexico in 2021.

In the OECD study, financial instruments represented 1.8% of GDP, on average, dropping to 0.71% when export financing is excluded. In this case, there is also wide variation, as is true of the Latin American countries. In Canada, for example, export financing alone accounts for 4.46% of GDP. In the Latin American countries with information available, financial instruments represented between 0.02% and 0.22% of GDP.

### (b) Instrument type

In general, except in Chile, tax instruments predominate in the countries evaluated. In Argentina and Brazil, where all three instruments (subsidies, tax and financial) were quantified, tax instruments accounted for between 61.5% and 87% of spending, depending on the year and the country. In Colombia and Mexico, the comparisons do

not consider all instrument types. In Colombia, tax instruments represented 64% on average, but in this case financial instruments were not quantified. In Mexico, when comparing subsidies with financial incentives, the former predominate in the period analysed, and the same occurs in Chile, with between 84% and 70% of the total, in 2021 and 2022.

Brazil is where financial instruments are most important, accounting for 38% of total spending on productive development policy instruments in 2021 and 34.8% in 2022. This highlights the importance of development banks in the country, with institutions such as BNDES and Banco do Nordeste do Brasil.

On average in OECD (see table III.17), financial instruments (which in this case include venture capital) predominate when export financing is considered; and tax instruments predominate otherwise. Subsidies account for between 14% and 21% of the total, depending on whether or not export financing is included.

In the cases of Chile and Colombia, the quantification of instruments included the category of non-financial support or support services provided by government institutions either directly or through third parties. In Colombia, the services quantified represent 16.5% of the total, on average. In Chile, 1.5% is allocated to this category, with the specific feature that the services considered are executed through to third parties, mainly by awarding funds competitively.

In Brazil, Colombia and Mexico, instruments were identified that support entrepreneurship by participating in firms with venture capital, although these mechanisms represent a smaller percentage of the total amount of resources allocated to productive development policies.

If, however, the number of instruments is used to evaluate their variety, subsidies and financial instruments are generally the most numerous, but they do not absorb the largest amount of expenditure. For example, in Colombia, tax-type instruments, representing 8.0% of the total number of instruments, accounted for two thirds of the total public budget allocated to productive development policies; and the real figure is even higher, since the value of fiscal expenditure on these instruments is underestimated.

### (c) Objectives, targeting and priorities

Identifying common patterns in these characteristics is more complex, either because of the methodological constraints referred to above, or because of the real differences that exist between the countries.

In Brazil, 57% of the resources seem to be targeted according to a sectoral criterion, with 17% allocated to innovation. In Colombia, in contrast, nearly two thirds of the budget does not have a sectoral focus and between 44% and 48% seems to be allocated to innovation, boosted by the tax benefit granted for R&D. In Argentina, 38% of tax expenditures are earmarked for territorial development.

Clearer patterns can be identified in policy areas in which interventions are weaker. The low priority given to digital transformation is striking. Although all countries have working agendas on digitalization, these generally focus on areas such as infrastructure and access, digital government, regulations and training of personnel, without developing a battery of instruments to support enterprise digitalization. This situation can be seen clearly when quantifying the instruments of productive development policies targeting this issue.

In general, there is no clear alignment between the instruments and the definition of production priorities. To confirm this assertion, however, a more in-depth analysis is needed.

### (d) Coordination and continuity of efforts

Productive development policies require a systemic approach (see section A), because they involve multiple institutional stakeholders and coordination at the highest level to make them more effective. The difficulty in this process is that many ministries do not see themselves as part of these policies.

The need for coordination becomes even clearer when considering not only the number of institutions included in this analysis (for example, 15 in the case of Chile), but also the number of instruments: 154 in Brazil, 319 in Chile and 129 in Colombia. This is a challenge both for the executing institutions and for those tasked with coordinating productive development policies systemically.

In addition, resources are dispersed widely among multiple instruments, which results in efforts that are highly fragmented and of reduced potential impact, in addition to imposing a heavy administrative burden and making it difficult to coordinate efforts.

The new challenges in terms of productive development policies require active and coordinated participation by multiple ministries. Health sovereignty, for example, which involves developing a local pharmaceutical and medical device manufacturing industry, and which has been defined as a priority in the productive development policies of some of the region's countries, requires participation by the ministries of health, production and commerce, and science and technology, at least. Progress towards electromobility, another sector prioritized by several countries, requires coordination between the ministries of transport, environment, energy, production and commerce, and others.

Moreover, while firms must also group together and coordinate, in general there is a limited range of instruments to facilitate or encourage partnership, coordination and the generation of effective governance. This may be a consequence of methodological constraints on measuring activities of this type.

One of the hypotheses put forward at the start of this chapter in relation to the productive development policy efforts being implemented in the region concerns their discontinuity owing to changes in government. Although this exercise was not designed to be able to evaluate this situation, especially because it considers a semi-static situation with only two years of data, at least two situations were detected that corroborate this. In Chile, there was a change of government in 2022, and the amounts allocated to productive development policy in that year fell by roughly half, relative to GDP, owing mainly to a cut in subsidies. In Mexico, meanwhile, in the process of selecting programmes to be evaluated for 2021–2022, another similar group of programmes was identified that had been in effect until 2018 but was then discontinued (Stezano, 2024).

## 2. Guidelines

The start of this chapter revisited a number of hypotheses put forward in chapter II on the productive development policy efforts being deployed in the region. In general, the results of the analyses presented provide data that tend to support these hypotheses. Thus, there are great opportunities for improvement in the way these efforts are being undertaken. Considering both the results of the exercise to characterize and quantify productive development policy instruments, as well as some previous reflections (ECLAC, 2022; Salazar-Xirinachs, 2023; Salazar-Xirinachs and Llinás, 2023), a set of guidelines for enhancing the effectiveness of productive development policies in the region is summarized below.

### (a) Increase productive development policy efforts, in line with the new vision being proposed

The quantification exercise presented in this chapter highlights the need to intensify the efforts that the countries and territories of the region are making in terms of productive development policies, and to improve coordination and increase the resources allocated to these efforts. This poses a major challenge, since, in a scenario of scarce resources and multiple priorities, it is not only a matter of “doing more” with more resources, but also of “doing better” with the resources that are available. However, as has been argued in this document, scaling up productive development policies does not primarily involve attempting to emulate the cascade of subsidies and tax credits granted in other parts of the world. Instead, in line with the new vision of productive development policies proposed by ECLAC, the emphasis should be on implementing or strengthening governance schemes that make it possible to coordinate multiple stakeholders, resources and efforts around strategic agendas in terms of productive development policies. This means, for example, scaling up and improving the use of cluster initiatives or other productive harmonization initiatives that make it possible to work on strategic agendas centred on the productive priorities defined in these policies.

Implementing initiatives of this type is relatively inexpensive, since it involves having teams that convene and lead coordination spaces or mechanisms supported by stakeholders from the public, private, academic and civil society sectors. However, it is important to be clear that work in these spaces or mechanisms gives rise to the need for projects and actions that enable progress to be made towards achieving the strategic vision for these clusters or sectors. These may include the implementation of a quarantine treatment centre for the export of certain types of fruit, the establishment of a research agenda to improve the bovine genetics of a territory, or the deployment of technological extension efforts to improve the productivity of the firms in a cluster. Funding sources will therefore be needed to meet these requirements. In other words, cluster initiatives generate requirements in terms of investment and public goods to make the cluster competitive.

### (b) Establish production priorities and align productive development policy efforts with them

The research also showed that there are opportunities for improvement in terms of defining production priorities and aligning efforts and resources around these priorities, within the framework of productive development policies.

In line with the need for prioritization discussed in chapter II, that chapter proposes an illustrative —but not exhaustive— set of 15 growth-driving sectors that the countries of Latin America and the Caribbean and their territories can prioritize within productive development policies. These are sectors that, because of their growth- and productivity-enhancing characteristics, have the potential to contribute substantially to shifting production patterns in the desired direction, including a focus on greater inclusiveness and environmental sustainability. It should be recalled that sectors should be defined and prioritized in the context of the specific conditions of each country or territory, and that other sectors and activities can also be added according to each country’s respective characteristics and priorities.

The exercise to quantify the region’s productive development efforts, presented in this chapter, showed that, while many countries and territories establish priorities in their productive development policies, these priorities are not always consistent with the way resources are used for productive development. It is therefore essential to align the resources and efforts deployed in productive development policies with

the production priorities defined in them. This entails working on multiple fronts. It is important, for example, that the prioritized sectors be included as priorities in national and territorial development plans. It is also essential that governance mechanisms are used to ensure this alignment. This means using not only mechanisms such as multi-stakeholder coordination bodies (e.g. councils, committees and round tables) to work on strategic agendas on production priorities, from which, as noted above, the need to finance projects and actions would arise, but also mechanisms such as incentive systems to align resources and efforts around the production choices, as discussed in greater detail in chapter IV.

### (c) Increase impact by reducing fragmentation

Policy design should aim to generate non-inertial changes in the production structure. This requires identifying elements that are capable of triggering a substantive structural change and working on them. Identifying these elements and advancing with this change is not a trivial matter. The systemic nature of the problem makes it necessary to intervene both in the components and in the relationship between them. Close collaboration and ongoing coordination between the private sector, the academic sector, civil society and governments, at both the national and subnational levels, facilitates the prioritization of policy interventions to be deployed.

One way to increase the impact of productive development interventions and instruments is to define a consolidated and limited set of them, through a process of iteration and ongoing evaluation. In contrast, the research presented in this chapter revealed a multiplicity of instruments and efforts deployed by the countries and their consequent fragmentation. This diminishes the potential impact of these efforts, and also imposes heavy administrative burdens that undermine their cost-effectiveness. Therefore, to increase the impact of productive development policy efforts in the region, it will be necessary to reduce their dispersion and fragmentation.

### (d) Ensure continuity of productive development policies

The research described above noted the lack of continuity in many of the productive development policy efforts that the countries have been making. This is worrying because these agendas are, by nature, medium- and long-term, and their impacts are cumulative; so efforts must be permanent and the idea of “building on what has been built” should prevail.

It is therefore necessary to design mechanisms to ensure the continuity of productive development policies. In many cases, more than the amount of support, the productive sector tends to value policy stability. This requires continuous commitments towards programmes and their respective budgets, maintained through several governments—something that is not always easy to agree upon in public administration.

This much-desired continuity requires multiple efforts. For example, it is necessary to generate pacts or agreements that guarantee a solid legitimization of priorities, targets and strategies, seeking to stimulate the empowerment and participation of private stakeholders, the academic sector and civil society in managing productive development policies and programmes. In addition, technical institutions need to be created and consolidated, with resources and a certain degree of autonomy from the respective policy governing bodies. This would reinforce the continuity of the work plans that are rolled out with the objective of implementing the policies. Measures to help reduce the turnover of personnel tasked with managing these policies can also be included, such as strengthening the civil service, with a view to stabilizing professional teams and reducing the impact of government changes.

### (e) Improve capacity to evaluate productive development policy efforts

Insufficient capacity and the absence of a tradition of evaluation routines is a glaring weakness in the region. It is necessary to complete the “policy cycle” with the evaluation stage, since, as noted above, this is fundamental for implementing several of the foregoing guidelines. Improved evaluation capacities will enable better policy design and implementation, as well as strengthen arguments to maintain such policies in the context of changes of government or to dismantle others that remain only because of inertia. On the basis of the results of the evaluation, the instruments that have the greatest impact can be consolidated. This would also make it possible to avoid dispersion and fragmentation of the instruments. This important topic is discussed in further detail in chapter IV.

### (f) Improve coordination and harmonization of productive development policy efforts

The quantification of productive development policy efforts performed in this chapter also showed that the region’s countries have been implementing these policies through numerous ministries, agencies and instruments. Therefore, in accordance with the aforementioned guidelines, they need to be harmonized and coordinated to avoid duplication, fill gaps and maximize synergies between them. To this end, in keeping with the new vision of productive development policies advanced by ECLAC, it is essential to strengthen governance systems that support this harmonization and coordination, as also discussed in greater depth in chapter IV.

### (g) Identify the best instrument designs in the different areas of productive development policy

Chapter II described a series of policy areas in which productive development policies could be pursued. The quantification performed in this chapter showed that the countries are making efforts in many of these areas. However, given the lack of evaluation noted above, little can be said about their effectiveness.

Nonetheless, it will be essential to move towards a more exhaustive compilation of the different types of instrument and effort that the countries and territories of the region, and elsewhere in the world, are implementing in the different areas of these policies. This would make it possible to delve more deeply into the different policy options available when designing productive development policies. It would also enable countries and their territories to experiment with different designs and discover those that best suit their respective institutional capacities. ECLAC will work on this front as part of its agenda aimed at deepening the “whats” and the “hows” that underlie productive development policies.

In terms of identifying the most suitable instrument designs, it will also be essential to have institutions and organizations with the capacity to implement processes of design, administration, monitoring and evaluation of productive development policies that translate into effective interventions in their areas of competency. To this end, it will be essential to strengthen the technical, operational, political and prospective capabilities of the institutions in charge of these policies in the region (Salazar-Xirinachs, 2023).

It is rare to find an integrated management process that embraces the full cycle of design, implementation, interaction and ongoing adjustment in an appropriate governance mechanism. An iterative process of this type, observing “experimentalist governance”

principles, is the most effective way to foster productive development policies under the conditions of rapid change and uncertainty associated with the technological revolution, rearrangements in value chains, changing competition conditions and other factors (ECLAC, 2022).

#### (h) Create collaborative links between countries to strengthen productive development policies by developing common strategies

Given the need to boost the countries' efforts on productive development policies, consideration should be given to collaboration between countries and territories in Latin America and the Caribbean. Productive development policies could be strengthened by developing shared agendas on issues of common interest, such as the strengthening of certain value chains that can take advantage of the scale that the regional market would allow. In particular, collaboration between cluster initiatives operating in different countries and working in similar or complementary sectors should be encouraged.

#### (i) Leverage opportunities arising from the productive development policies fostered by countries outside the region

As a complement to the foregoing, with the return of productive development policies at the global level, it is important that any integration in terms of trade and investment between the region and the rest of the world should also consider collaboration on productive development policies. For example, ways should be explored to ensure that at least part of the relocation benefits that the more developed countries are granting to firms returning to their territories can also be granted to investments made by those countries' firms in Latin America and the Caribbean. In addition, cooperation should be sought with these countries to strengthen the productive capacities of the countries of the region, as is exemplified by the CHIPS ITSI Western Hemisphere Semiconductor Initiative of the United States, which seeks to improve semiconductor assembly, testing and packaging capabilities in key partner countries, starting with Mexico, Panama and Costa Rica.

#### (j) Coordinate efforts to attract foreign investment with productive development policies

In line with what is proposed in ECLAC (2024), it is essential to frame efforts to attract foreign direct investment within the productive development policies of the region's countries and their territories. In this regard, it will be essential that the production priorities defined in accordance with these policies serve as a basis for attracting foreign direct investment, offering foreign investors facilities to resolve bottlenecks through productive development agendas that can be deployed through cluster initiatives, for example.

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CHAPTER

# IV

## Productive development policy: institutions and governance in Latin America and the Caribbean

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Introduction

- A. Conceptual elements for an analysis of the institutions involved in productive development policies
- B. Map of government bodies responsible for productive development policies in Latin America and the Caribbean
- C. Conceptual elements for the analysis of productive development policy governance
- D. Map of the governance of productive development policies in Latin America and the Caribbean
- E. Summary and guidelines

Bibliography



## Introduction

In chapter II of this document, a number of factors relating to institutional structures and governance were identified as possible reasons for the relative ineffectiveness of the productive development policies being pursued by the countries of the region. Mention was made, in particular, of a lack of close coordination among the various stakeholders, which has resulted in the dispersion—and thus lessened effectiveness—of their efforts; excessive centralization, which limits policymakers' ability to design and implement policies suited to the specificities of different areas; a lack of the types of systematic evaluation and monitoring procedure needed to permit the implementation of experimentalist forms of governance involving a recursive re-examination of the state of play as a basis for fine-tuning policy implementation efforts; and a lack of policy continuity, which interferes with the introduction of long-term strategies.

In the light of those observations, this chapter will look at the different stakeholders involved in productive development policies and their interrelationships. The term "stakeholders," as used here, refers to the companies, workers, public agencies, academic institutions and members of civil society involved in the formulation and implementation of these policies. This chapter will devote special attention to public sector stakeholders and, more specifically, national and subnational government entities. The term "interrelationships" is used to refer to the interactions between these stakeholders and the reciprocal ties that they establish as they take decisions and carry out collective production activities.

The analysis of this last aspect is informed by considerations relating to policy governance, with governance being defined as a new management style that fosters cooperation among the various components of society: public stakeholders, private stakeholders, academia, workers and civil society (see section IV.C). As noted in chapter II, this definition of governance encompasses institutional arrangements for coordination and collective action (such as committees, commissions or working groups at the national or subnational level), institutional characteristics, rules of play and incentives for pooling stakeholders' efforts and resources for the purpose of advancing shared, strategic productive development agendas.

The importance of analysing the actions of stakeholders and their interrelationships stems from three main considerations. First of all, although it may seem obvious, the stakeholders in question are leading the effort to design and apply productive development policies and are therefore the ones that determine how forcefully these policies are being promoted. Secondly, the changes in production patterns that these policies are designed to bring about by generating and disseminating new types of knowledge are inherently collective processes in which it is of key importance to understand who is leading those processes and how they interact with one another. Lastly, the scaffolding that underpins the relationships among these different stakeholders is closely linked to a broader issue, one that is described in the literature as "political development," or the capacity for governability that is developed by each society.

The following discussion will provide an overview of some of the considerations relating to the second and third factors listed above, that is, the inherently collective nature of development processes and the connection between political development and productive policies. A good starting point may be a definition of the term "productive development," which can be understood as referring to an increasing level of sophistication, diversification and structural change—in other words, the transformation of an economy's production patterns in ways that bring about gains in

productivity that, in turn, increase the population's well-being.<sup>1</sup> The backbone of these processes is knowledge: its generation, dissemination, adaptation and assimilation. Especially during times of rapid scientific and technological change such as the present, which necessarily entail the convergence of different skills and disciplines, associative strategies that foster dialogue and collective action appear to offer the best prospect for bringing about the types of change that are needed.

These processes are highly complex because they involve so many stakeholders that are taking action at different levels of the State based on differing rationales. Many different authorities and agencies that are based on a hierarchical structure are acting within self-organized spaces and working alongside businesses that function on the basis of the logic of the market and that, at the same time, are building reciprocal, trust-based relationships (Crouch and others, 2004).

Some authors use the metaphor of a global network of local systems to describe and analyse this matrix of stakeholders and relationships (Bianchi and Labory, 2014) or characterize society in general as a collective of assemblages and subassemblages that are constantly replicating themselves (Sotomayor and others, 2023, p. 19). Whatever analogy is chosen, it is clear that it is a polycentric, multilevel system composed of heterogeneous stakeholders. The central challenge is to determine how to activate them and how to foster their convergence around an agreed form of cooperation (shared agendas or visions) that will pave the way for reciprocal interaction (Sotomayor and others, 2023).<sup>2</sup>

The more numerous and heterogeneous the stakeholders are, the more complicated collective action becomes and the more important the mechanisms that they use to coordinate with one another and work together. As one step towards arriving at an understanding of these phenomena, this chapter will map out the different government actors responsible for productive development policy at the national level and the coordination mechanisms in which they take part.

The foregoing is what links up this examination of productive development policymakers and their interrelationships with the broader concept of political development. What this is intended to show is that the improvement of these policies has a value that transcends the specific goal of overhauling an economy's production patterns because it prompts an increase in "the capacity of societies to organize for political action and for States to govern," which is how Hagopian (2000, p. 902) defines political development.<sup>3</sup>

Mapping out the relevant government agencies and their coordination mechanisms, which, as mentioned earlier, will be the focus of the following sections, is a first step towards gaining an understanding of these phenomena. Other researchers will need to revise and complete this preliminary outline and, most importantly, take the analysis of the workings of these entities further<sup>4</sup> in order to arrive at a systematization of good practices and devise tools that will help the governments of the region to make

<sup>1</sup> Productive development has also been defined as the process that enables an economy's production sectors to increase their absolute contribution to the well-being of the population (Dini, Oddone and Rodríguez, 2024, p. 24).

<sup>2</sup> The abundant body of literature on factors that facilitate or interfere with these processes via their impact on transaction costs and the consolidation of mutual trust includes: Arriagada, Miranda and Pavez (2004); Becattini (2000); Bellandi (2003); Bianchi and Miller (2000); Boscherini and Poma (2000); Camagni (1989); Camuffo and Grandinetti (2006); Coleman (1990); Di Tommaso and Rabellotti (1999); Durston (1999); Forni, Siles and Barreiro (2004); Grootaert and others (2003); Llinás (2021); Marshall (1920); Pietrobelli and Rabellotti (2007); Poma (2013); Porter (1990 and 1998); Putnam (2000); Rullani (2000); Salazar-Xirinachs and Llinás (2023); and Schmitz (1995, 1999 and 2000).

<sup>3</sup> Other authors describe it as "the development of the institutions, attitudes and values that form the political power system of a society" (Burnell, 2009, p. 410) that will then help to improve the lives of the people who are the focus of that development process (Kingsbury, 2007, p. 12).

<sup>4</sup> It will be important to gain a fuller understanding, for example, of how decisions are reached, what routines are adopted and how they are modified, what operating capacities are in place (in terms of financial resources, professional skills and working tools) and what interests and incentives motivate these entities to behave in a cooperative or autarkic manner.

headway in fostering productive development. Nonetheless, this provisional outline will serve as a basis for drawing some preliminary conclusions and formulating some initial recommendations.

Chapter IV is composed of five sections in addition to this introduction. Section A describes the approach used to study the government institutions involved in productive development policy, while section B explores the situation in Latin America and the Caribbean by sketching out a preliminary map of these institutions in the 33 countries of the region. Section C discusses the main concepts pertaining to the subject of governance, defines the terms employed in the analysis that follows and draws an analytical distinction that will be helpful in addressing the subject of productive development in the region. Section D outlines the most recent research findings of ECLAC on national and multilevel mechanisms for the coordination of productive development policies. Lastly, section E sums up the analysis and offers the governments of the region a number of recommendations concerning approaches for strengthening the institutional structure for productive development policies in Latin America and the Caribbean.

## A. Conceptual elements for an analysis of the institutions involved in productive development policies

### 1. The literature

The literature on the relevant institutions defines them in a number of different ways. Douglas C. North (1990), for example, says: “Institutions are the rules of the game in a society or, more formally, are the humanly devised constraints that shape human interaction.” The concept, as used here, however, is more akin to what North himself (1993) calls “organizations” or “agencies”: “groups of individuals bound by some common purpose to achieve objectives” or what Arrighetti and Seravalli (1998) call “intermediate institutions”, which they use to refer to a combination of organizations and rules of the game. This concept, in turn, is closely related to the one used by Elinor Ostrom (1990), who includes rules, decision-making and conflict-resolution mechanisms, sense of identity, sanctions and organizations in what she terms the “design principles”<sup>5</sup> of the local institutions responsible for a society’s collective resources.

Various authors have underscored the importance of institutions in political development (Pye, 1965; Huntington, 1968; Sartori, 1969) and their role in acting as a catalyst for the creation of democratic spaces that contribute to countries’ development (Lijphart, 1977).

More recently, the concept of “institutional capacity” has been used to describe the strength exhibited by institutions capable of governing and effectively fulfilling their purpose (Evans, 1995; Fukuyama, 2004; Besley, Marshall and Persson, 2023). They note that it is not enough for these institutions to exist; they must effectively do what they were created to do.

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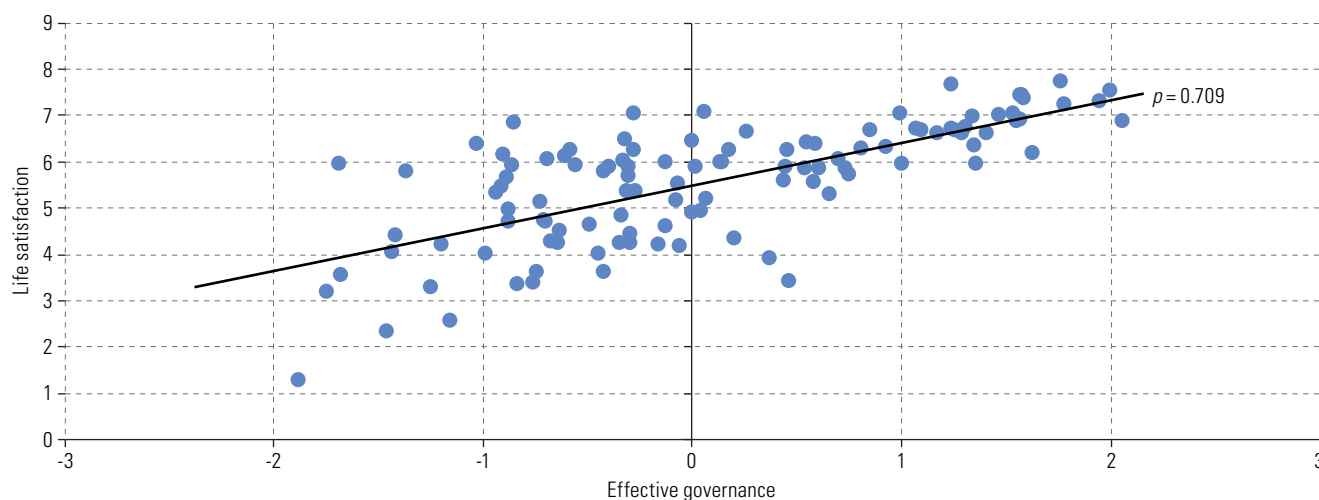
<sup>5</sup> This author studied the way in which groups of interdependent economic actors manage to self-organize in order to produce public goods and preserve them over lengthy periods of time. In this context, she used the concept of “design principles” to identify the essential elements or conditions that help to explain how these actors succeed in preserving public goods through collective action.

The idea of institutional capacity is closely related to effective governance, which encompasses the quality of public services, the skills and capabilities of government employees, the civil service's freedom from political pressure and the credibility of the government's commitment to its stated policies. In fact, empirical evidence has been gathered which points to a close correlation between effective governance and the life satisfaction of the population (see figure IV.1).

**Figure IV.1**

World (138 countries): life satisfaction and effective governance, 2022

(On a scale from 0 to 10, normalized around a mean of 0)



**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of J. F. Helliwell and others, *World Happiness Report 2023*, Sustainable Development Solutions Network, 2023, and Varieties of Democracy (V-Dem).

A study on productive development institutions in Latin America and the Caribbean should not be limited to national governments as a whole, but should also focus on the various spheres of government representation, including the different branches of government, subnational governments and the various government ministries and agencies. The following section will detail the wide range of government institutions directly involved in productive development policy in the countries of the region, including the entire array of ministries and specialized public agencies. The discussion will focus, in particular, on two main areas: an analysis of the degree of institutional fragmentation that exists with a view to gaining an understanding of the extent to which it plays a role in the fragmentation of productive development policy efforts; and the identification and characterization of the mechanisms being used to coordinate the work of the agencies in charge of these policies, which may provide some indication of how deconcentrated or decentralized these policies are. The examination of the accompanying monitoring and evaluation systems may open up new lines of research and new avenues for the provision of technical support in this connection.

## 2. Categories of productive development policies and of government bodies

In order to understand how institutions (in the sense of organizations) work, it is necessary to look closely at their structure, culture, powers, internal environment and

ability to change and adapt to their surroundings (Ferrante and Zan, 1994). This line of inquiry should be explored in a future medium- or long-term study.<sup>6</sup>

For the time being, an effort has been made to draw up a map of the main government agencies at the national level in the 33 countries of the Latin American and Caribbean region that promote productive development policies. In order to accomplish this, the various organizations have to be identified and classified by type, and the frequency with which each type of organization is found to exist has to be analysed.<sup>7</sup> The main findings of that analysis will be discussed here, and an effort will be made to determine whether the fragmentation of government agencies responsible for productive development policies is the reason for the uncoordinated development and application of these policies, which, as mentioned in chapter II, is considered to be one of the main causes of their relative ineffectiveness in many countries of the region.

The institutional map differentiates among four types of government body:

- (i) Sectoral ministries: ministries that deal exclusively with a specific sector or function of productive development (such as tourism or employment).
- (ii) Multisectoral ministries: ministries that work in more than one area that is related to productive development (such as a ministry that is responsible for both tourism and agriculture).
- (iii) “Supra-ministries”: ministries that, in addition to dealing with at least one area of productive development, also perform other functions that extend beyond that sphere and concern, for example, social, macroeconomic or other issues.
- (iv) Specialized bodies: technical institutions (agencies, services or institutes) that focus on a specific aspect of productive development policy. In some cases, these bodies are also the lead agency for the policy in question. In those cases, they will be dealt with in the following analysis together with the relevant ministry or ministries. In most instances, however, they are attached (although with differing degrees of autonomy) to a ministry that defines policy and guides their work. In those cases, these bodies are analysed separately.

In order to calculate the frequency of these four kinds of institution, the major types of activity carried out to support productive development have to be grouped into categories. The very broad definition of productive development policies initially used in this and earlier chapters, whereby these policies may concern any production sector in the economy and an entire range of policy actions, poses a formidable methodological challenge, since virtually all ministries have a direct or indirect impact on productive development processes. Without overlooking these significant contributions, however, in order to estimate the frequency of the different types of institution that are more specifically concerned with productive development policies, two criteria will be used for the purposes of the analysis presented in this chapter.

The first limits the discussion to only those activities that are directly and principally concerned with the development of production capacities. As mentioned above, it is clear to see that practically all areas of government contribute in one way or another to productive development. There is no question as to the fact, for example, that an improvement in the health of the population will contribute not only to people’s quality of life, but also to their ability to perform productive work. It is also evident that certain types of the regulatory functions performed by some ministries may spur or hold back

<sup>6</sup> A review of the history of these institutions may help to delve more deeply into an analysis of the lack of continuity in productive development policies, which, as discussed in chapters II and III, is one of the weaknesses of these policies in Latin America and the Caribbean.

<sup>7</sup> Section IV.B is based on the study carried out by Andrea Heredia (2024).

the development of sectors dealing with, for example, the production of pharmaceuticals or medical devices. Nevertheless, the core function of the ministries working in these areas and their chief areas of responsibility are not the development of production capacity. Much the same can be said of ministries of defence, transport, energy, the environment and others.<sup>8</sup>

The second criterion was used to identify analytical categories in cases where at least one of a country's sectoral ministries is explicitly and exclusively assigned to this subject. This has been interpreted as a non-subjective indication of a country's interest in this specific field. Thus, for example, the issue of industrial policy has been used as a category in the calculation of frequency because there is at least one country in the region that has a ministry that is explicitly and exclusively responsible for that area. However, although vocational training is of central importance in productive development policies, it has not been used as a category because none of the countries in the region has a ministry that is solely and explicitly concerned with that area of activity, which is usually entrusted to special-purpose organizations working under the aegis of labour or education ministries.

Table IV.1 provides examples of some of the sectoral ministries included in the nine categories defined for the purposes of this study.

**Table IV.1**  
Latin America and the Caribbean: sectors and examples of sectoral ministries responsible for productive development policies, 2024

Category	Example
Agriculture	Ministry of Agriculture and Rural Development of Colombia
Fishing	Ministry of People's Power for Fishing and Agriculture of the Bolivarian Republic of Venezuela
Tourism	Ministry of Tourism of Ecuador
Industry and commerce	Ministry of Commerce and Industry of Panama
Micro-, small and medium-sized enterprises (MSMEs)	Ministry of Entrepreneurship, Microenterprise and Small Enterprises of Brazil
Foreign trade	Ministry of Foreign Trade of Costa Rica
Science, technology and innovation	Ministry of Science, Technology, Knowledge and Innovation of Chile
Information and communications technologies (ICTs)	Ministry of Information and Communications Technology of Paraguay
Labour	Ministry of Labour and Employment Promotion of Peru

**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official information from the countries.

The fact that a given area of activity is not used as a category in calculating the frequency of different kinds of government body is not intended to be seen as a sign that value is not being attached to its contribution to productive development. It is simply not being used as a classification parameter. For example, in most countries of the region, fostering investment is a crucial component of productive development policies, but it is generally led by multisectoral ministries that are also dealing with other areas.<sup>9</sup>

<sup>8</sup> This selection process could be based on objective criteria, such as the estimated amount of funding channelled by each ministry into programmes that are explicitly designed to develop the capacity of production sectors. Because of time constraints, however, it was decided that this initial filter would be determined by the expert panel in charge of this study. It can therefore be regarded as a preliminary approach that can be improved upon at a later date. In some cases, such as that of the education sector, the dividing line is very tenuous and, although this sector was not included in the categories of functional areas for this study, consideration might be given to its inclusion in subsequent studies along these lines.

<sup>9</sup> In some cases, ambiguous situations may exist. For example, in Honduras, the Executive Secretary of the National Investment Council (CNI) has ministerial rank.

Using this typology<sup>10</sup> and the different spheres of activity discussed above, a map of the institutions devoted to productive development policies in the 33 countries of the region will be constructed in the following pages. This mapping exercise is intended to illustrate the differences in the way that the work in this area is divided up and these bodies' differing degrees of specialization.

## B. Map of government bodies responsible for productive development policies in Latin America and the Caribbean

The panoramic view afforded by this mapping exercise reveals a level of complexity that corroborates the validity of the systemic approach outlined earlier. The most salient preliminary results are as follows:

- (i) The institutions concerned with productive development are highly fragmented (as was, to some extent, expected). This does not, however, provide information about how this characteristic may tie in with the lack of coordination of productive development policies.
- (ii) The countries have differing mixes of the four types of body included in the typology but, on average, the macro bodies (multisectoral ministries and supra-ministries) predominate among the entities responsible for the implementation of productive development policies.

A first takeaway from these observations is that prudence is called for in avoiding simplistic policy recommendations concerning some optimal institutional form of organization that would apply to all countries in all circumstances.

In total, there are 181 ministerial bodies (96 in Latin America and 85 in the Caribbean) and 16 specialized bodies (13 in Latin America and 3 in the Caribbean). Figure IV.2 shows that 69% of the countries have five or six government bodies that deal with productive development policies, with the largest number of such bodies (9) being found in Cuba. The per-country average does not vary a great deal from one subregion to another: in Latin America, the average is 5.6 ministerial bodies per country, while in the Caribbean it is 5.3.<sup>11</sup>

There does not appear to be any clear correlation between the number of ministries and the size of the country. On average, there are 0.3 ministries for every million people in the region. There is, however, a significant difference to be noted between Latin America (0.3) and the Caribbean (2.0), which can be accounted for primarily by the difference in the sizes of these two subregions' populations.

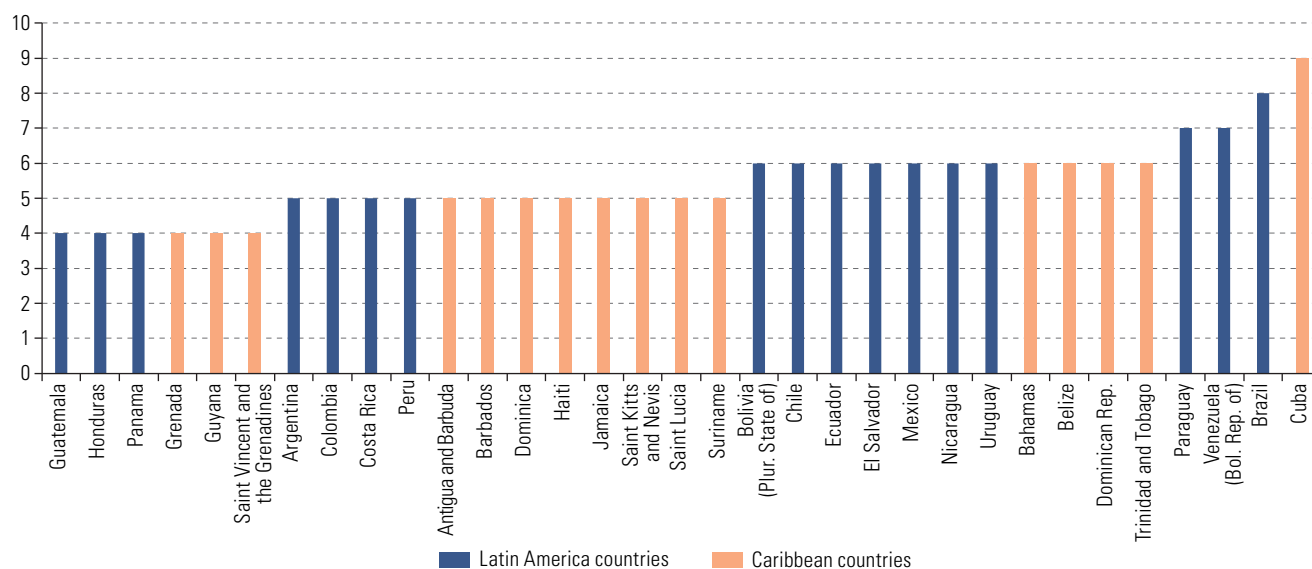
Table IV.2 illustrates the distribution of the various government ministries and ministerial bodies in the 33 countries of the region. The colours shown below are used to differentiate the various institutional structures used by the countries of Latin America (panel A) and the countries of the Caribbean (panel B).

<sup>10</sup> For now, State-run enterprises have not been included in the study because their inclusion would have required more time and resources than were available for this study.

<sup>11</sup> The difference between the means is not statistically significant at a 95% confidence interval.

Figure IV.2

Latin America and the Caribbean (33 countries): number of ministries concerned with productive development policies, 2024



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official information from the countries.

Table IV.2

Latin America and the Caribbean (33 countries): types of government body concerned with productive development policies, 2024

#### A. Latin America (17 countries)

Country	Agriculture	Fishing	Tourism	Industry	MSMEs	Foreign trade	Science, technology and innovation	ICTs	Employment
Argentina	a					a			
Bolivia (Plurinational State of)									
Brazil				a		a			
Chile									
Colombia									
Costa Rica									
Ecuador		a			a				
El Salvador								c	
Guatemala									
Honduras				a	c	a			
Mexico									
Nicaragua						c	c	c	
Panama				a		a			
Paraguay							c		
Peru		a	b		a	b	c	c	
Uruguay								c	
Venezuela (Bolivarian Republic of)							c		

■ Sectoral ministry ■ Multisectoral ministry ■ Supra-ministry ■ Specialized agency

## B. The Caribbean (16 countries)

Country	Agriculture	Fishing	Tourism	Industry	MSMEs	Foreign trade	Science, technology and innovation	ICTs	Employment
Antigua and Barbuda	a			a		a			
Bahamas								c	
Barbados				a			a		
Belize									
Cuba									
Dominica				a	b	a			b
Dominican Republic				a		a		c	
Grenada	a						a		
Guyana								c	
Haiti									
Jamaica									
Saint Kitts and Nevis									
Saint Lucia									
Saint Vincent and the Grenadines	a			a	b		b		a
Suriname									
Trinidad and Tobago				a		a			

■ Sectoral ministry ■ Multisectoral ministry ■ Supra-ministry ■ Specialized agency

**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official information from the countries.

**Note:** When a letter “a” or “b” appears in a box, it means that the ministry or agency responsible for that area is also responsible for the other area(s) in that row that are marked with the same letter. For example, in Argentina, the agricultural sector is overseen by the same supra-ministry that is responsible for foreign trade. The letter “c” indicates that the body or agency responsible for the area in question is attached to the Office of the President.

A frequency analysis turns up some repeated patterns in the distribution of the various types of government body. To estimate the presence of each type of agency, the number of areas covered by each type of body in each country has been calculated. In the region as a whole, these calculations point to a preponderance of multisectoral ministries. As illustrated in table IV.3, such ministries cover 44% of all the areas included in the nine categories that have been defined. Sectoral ministries and supra-ministries have very similar shares (26% and 24%, respectively), while specialized bodies that are lead agencies for such policies account for a smaller portion (6%).

Ministries	Latin America	The Caribbean	Latin America and the Caribbean
Sectoral ministries	34	17	26
Multisectoral ministries	45	42	44
Supra-ministries	12	39	24
Specialized agencies	9	2	6

**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official information from the countries.

**Table IV.3**  
Latin America and the Caribbean (33 countries): areas of activity overseen by different types of government body, by region and subregion, 2024 (Percentages)

Table IV.3 also reveals some differences between subregions: sectoral ministries are much more common in Latin America (34%) than in the Caribbean (17%), while supra-ministries are much more common in the Caribbean (39%) than in Latin America (12%). There is also a notable difference in terms of specialized agencies, which cover 9% of the areas of activity in question in Latin America but just 2% in the Caribbean.

A comparison between the areas covered by specialized agencies and sectoral ministries as a group, on the one hand, and those covered by “macro” institutions (multisectoral ministries and supra-ministries), on the other, also points to some interesting differences: while Argentina functions entirely on the macro level in this respect, and macro institutions cover 89% of the areas in question in the Plurinational State of Bolivia, specialized agencies and sectoral ministries are particularly prevalent in these areas in Brazil, Nicaragua and Panama (78% in all three cases).

When the data are broken down by areas of activity, it becomes clear that the presence of macro institutions is clearly predominant (over 70% in all cases) in sectors that are solely concerned with production in the strict sense of the word (agriculture; fishing; industry; micro-, small and medium-sized enterprises (MSMEs) and foreign trade) and even more strikingly so in the sectors of industry and commerce (as much as 97%) (see table IV.4).

**Table IV.4**

Latin America and the Caribbean (33 countries): areas of activity overseen by different types of government body, by sector, 2024  
(Percentages)

Ministries	Agriculture	Fishing	Tourism	Industry	MSMEs	Foreign trade	Science, technology and innovation	ICTs	Employment
Sectoral ministries	30	6	42	3	3	3	31	37	79
Multisectoral ministries	58	70	18	81	63	68	17	13	3
Supra-ministries	12	12	21	16	25	29	48	43	18
Specialized agencies	0	12	18	0	9	0	3	7	0

**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official information from the countries.

Specialized agencies and sectoral ministries, meanwhile, are especially active in service sectors; science, technology and innovation; ICTs and employment, accounting for 79% of the coverage in this last sector. When the two subregions are looked at separately, these trends are, with a few exceptions, more pronounced.<sup>12</sup>

Specialized bodies that serve as lead agencies<sup>13</sup> for such policies play a special role. A total of 16 such agencies have been identified, with tourism in the Latin American countries being the area in which they make the greatest contribution, accounting for 29% of the coverage of such activities.

Before considering the conclusions that can be drawn from this analysis up to this point in the discussion, this overview of the institutional structure underpinning productive development policies needs to be filled out with an examination of specialized agencies that do not act as lead agencies in these policy areas (see table IV.5). These are agencies that are attached, in various ways, to a higher-level lead agency (usually a ministry) that establishes the lines of policy for the sector and sets the boundaries of the spheres in which these specialized agencies can act. The following discussion will therefore focus on specialized agencies whose main function is to implement the policies defined by the ministry to which they report.

<sup>12</sup> In Latin America, sectoral ministries play a large part (53%) in the supervision of the agricultural and livestock sector, whereas, in the Caribbean, macro institutions cover 100% of activities in the area of science, technology and innovation.

<sup>13</sup> Agencies that are officially assigned policymaking responsibility in their field.

**Table IV.5**

Latin America (17 countries): specialized agencies not performing policy lead functions, by sector, 2024  
(Number of agencies)

Country	Crop-farming	Stock-raising	Fishing	MSMEs	Science, technology and innovation	Tourism	Exports	Foreign direct investment	Industry and MSMEs		Employment and vocational training
	Research, innovation and technology					Promotion			Business development		Training
Argentina	1		1	1	1	1		1			1
Bolivia (Plurinational State of)	1						1		1		
Brazil	1			1	1	1		1	1		1
Chile	2		2		1	1		1	1	2	1
Colombia	1						1		2		1
Costa Rica	1				1			1			1
Ecuador	1		1					1			1
El Salvador	1							1	1		1
Guatemala	1										1
Honduras	1				1			1			
Mexico	1		1								
Nicaragua	1										
Panama	1				1			1			1
Paraguay	1							1			1
Peru	1			1			1				1
Uruguay	1			1	1			1	1		1
Venezuela (Bolivarian Republic of)	1										1
72	18		5	4	7	6	9	1	7	2	13
72			34				16		9		13

■ Research, innovation and technology ■ Promotion ■ Business development ■ Training

**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official information from the countries.

The map that has been drawn up is incomplete because it proved impossible to include the Caribbean owing to the unavailability of the necessary information for that subregion and because information was lacking on a number of factors that play an important role in productive development policy, such as forestry, phytosanitary measures, regulatory standards and inspection procedures. Despite these shortcomings, this preliminary map does provide an initial picture of this segment of the institutional framework for productive development policy.

The institutional map identifies 72 specialized bodies that have responsibilities concerning the implementation of productive development policies, thus attesting to the fact that a sizeable number of governmental organizations are working to change the region's production patterns.

All the Latin American countries have at least one specialized agency of this type. Chile has 11, while Argentina and Brazil each have 7. The number of institutions in this area in the countries of the region depends on numerous factors having to do with each country's history and political development. Chile, for example, has a wide array of specialized institutions that do not act as lead agencies, some of which have been in place for decades, while others have been created much more recently. Mexico, however, has been doing away with some of the specialized bodies that it had established in past decades.

Table IV.5 illustrates the distribution of these specialized bodies among the various spheres of action, which, for the sake of simplicity, have been grouped into four macro areas:

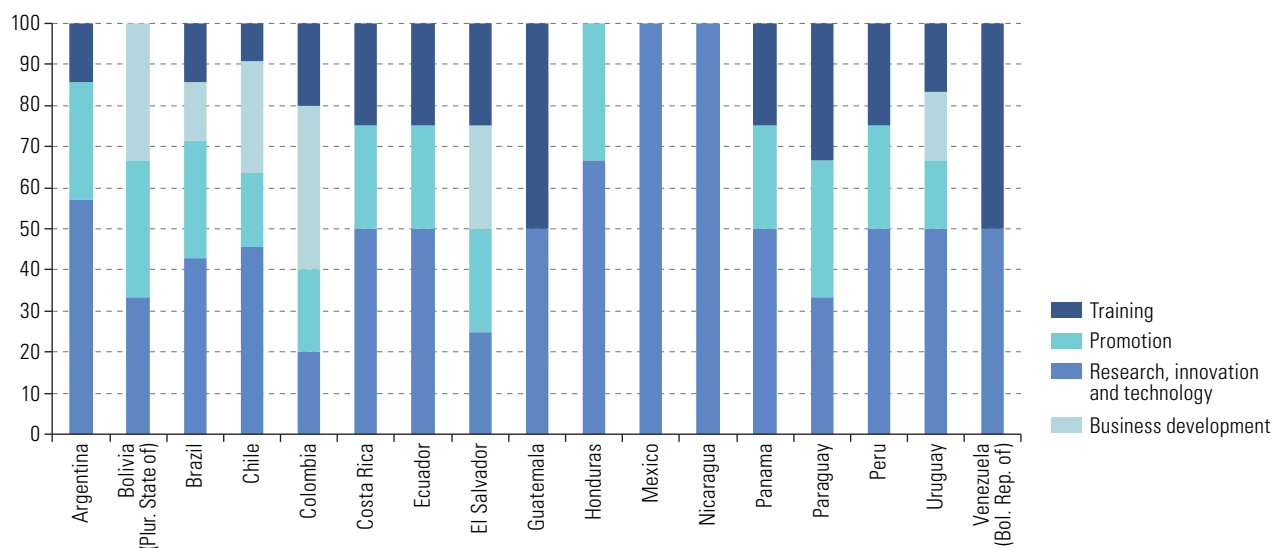
- (i) Research, innovation and technology: programmes designed to foster innovation, science and technology in the fields of agriculture, fishing, industry, MSMEs and programmes fostering science and technology in general. This category also includes initiatives for the promotion of business innovation and start-ups.
- (ii) Promotion: the promotion of tourism, exports and foreign direct investment (FDI).
- (iii) Business development: activities focusing on strengthening the production capacities of MSMEs and industries.
- (iv) Training: activities dealing primarily with vocational training.

Determining to which of these four macro areas some of the organizations should be assigned entailed a certain degree of approximation because some specialized bodies work in more than one sphere of action. In such cases, the institution in question was placed in the macro area that its mission statement indicated was its main focus.

Just slightly fewer than half of these institutions (47%) work in the area of research, innovation and technology, many of them in the agricultural sector. Another area in which specialized bodies make a significant contribution is that of training, with 76% of the Latin American countries having a specialized agency operating in this field, and the same percentage have a specialized body or bodies working to promote exports and FDI. Fewer specialized institutions provide support for tourism, MSMEs and industry, with such organizations existing in 35% of the countries studied.<sup>14</sup>

Figure IV.3 illustrates the percentage distribution of the four macro areas in each of the relevant countries. As shown in the figures, only 5 of the 17 Latin American countries have specialized agencies in all four macro areas.

**Figure IV.3**  
Latin America (17 countries): main specialized agencies, by sphere of action, 2024  
(Percentages)



**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official information from the countries.

<sup>14</sup> In some countries, such as Colombia, Peru and the Plurinational State of Bolivia, the same agency that promotes investment and exports also provides support to the tourism sector.

A summation of the findings presented in this section, particularly in terms of the types of institution working in these areas and their frequency, may help to enrich the discussion on public policy institutions and policy fragmentation, even though the conclusions may be preliminary.

First of all, the data compiled on the number of government bodies working in these areas attest to the existence of a considerable degree of fragmentation in the institutional structure for productive development policy, although those same numbers do not provide compelling evidence for the conclusion that there are too many institutions of this type.<sup>15</sup> In fact, if the number of government bodies of this type that have been identified (197)<sup>16</sup> is compared to the number that would signal an extreme degree of fragmentation (297),<sup>17</sup> it can be seen that there is considerably less fragmentation in the region than what would be considered to be the theoretical maximum. This situation is not surprising, since, as was explained in chapter II, productive development policies encompass such a wide range of areas that they have to be addressed by many different agencies.

Furthermore, although the more agencies there are, the denser the grid of interrelationships, there is evidence to suggest that this does not necessarily interfere with the coordination of collective action in implementing productive development policies. There are a number of other factors, particularly ones having to do with the surrounding environment (social capital) and stakeholder motivation (incentives), that give reason to hesitate before assuming that a lack of coordination is attributable to the number of stakeholders involved.

Problems with coordination that may arise when new sectoral ministries are established<sup>18</sup> can be addressed by strengthening governance mechanisms. This can be accomplished, for example, by creating coordination mechanisms, introducing incentives for collaborative action, establishing joint work platforms<sup>19</sup> or simply modifying decision-making routines and mechanisms without altering the way in which the various institutions are organized.<sup>20</sup>

In fact, the recent COVID-19 pandemic demonstrated that productive development institutions can, given the appropriate incentives, modify their operational routines, overcome problems such as a lack of coordination and the absence of dialogue among local stakeholders and develop ways of continuing to learn as they go and adjust their strategies without modifying their institutional structure (Dini and Núñez, 2021). Although the pandemic was an especially serious and exceptional situation, it has demonstrated that, with the proper motivation, it is possible for productive development institutions to adjust their behaviour and to adopt ways of operating that are based on coordination, dialogue with all concerned (especially local stakeholders) and an experimentalist approach. This type of motivation does not have to stem from a dramatic crisis such as the pandemic, however; it could also be generated by collective initiatives with strong political backing from both the public sector and society as a whole.

<sup>15</sup> It is important for the reader to bear in mind that only institutions at the national level have been considered.

<sup>16</sup> This breaks down into 181 ministerial offices plus 16 specialized lead agencies.

<sup>17</sup> The equivalent of one entity per sphere of action in each of the 33 countries.

<sup>18</sup> Sectoral ministries are often established as a way of signalling a government's commitment to addressing a given issue.

<sup>19</sup> One example of a coordination platform would be the logistics centres or digital hubs that have recently been launched by the regional governments of Arica and Parinacota in Chile and by the government of the Department of Risaralda in Colombia. See, among others, Martínez and Cortés (2023).

<sup>20</sup> It may be useful to specify that institutional fragmentation and the fragmentation of support measures are two quite different, although interrelated, things. The fragmentation of support measures is frequently associated with an excessive number of instruments or tools. This problem can be addressed by setting up one-stop shops, single windows or joint platforms (see Thorrens, 2020a and 2020b, and Slachevsky and others, 2023). In addition to facilitating entrepreneurs' access to these instruments, this will oblige suppliers to coordinate with one another by combining their different offerings, eliminating possible overlaps and providing new tools for serving potential beneficiaries that are not being served by any of the participating institutions.

## C. Conceptual elements for the analysis of productive development policy governance

The term “governance,” as used here, refers to a new mode of governing that differs from the traditional hierarchical model and instead encourages cooperation among the various stakeholders in society, including members of the public, private and academic sectors, the labour force and civil society (Mayntz, 1998; Brower Beltramin, 2016). The importance of this concept is a direct consequence of the systemic nature of society and, more specifically, of the characteristic way that power is distributed in production processes, as was discussed in the introduction to this study.

In this sense, in line with the definition used by Salazar-Xirinachs and Llinás (2023) and with what has been said in chapter II, governance involves all the elements that encourage or support this new management style, generating centripetal forces that spur a convergence of the different stakeholders’ wills, resources and knowledge, and marshalling them for collective action. More specifically, it entails the use of formal or informal incentives to activate and guide decision-making by the institutions that are promoting productive development policies, the legal framework and, more generally, the rules, regulations and laws that define those institutions’ spheres of action, routines and the nature of their interactions. This is in addition to the more traditional coordination mechanisms, such as committees, working groups and councils of various types. This section deals precisely with these latter elements and will devote particular attention to the channels and modes for interaction between the national and subnational institutions that promote productive development policies in Latin America and the Caribbean.

As is also true of the institutions described in the preceding section, in this case, as well, these research findings are just the first step towards developing a longer-term line of inquiry and course of action.

### 1. Reasons for having coordination mechanisms and their aims

Ensuring that the actions of the various institutions involved in promoting the productive development policies of a given country or region are coherent—or, at least, as coherent as possible<sup>21</sup>—has been an ongoing challenge for policymakers. Processes of change have always demanded an effort on the part of the various parties involved to reach consensus around the objectives of the steps they are taking, their shared goals and the course of action to be followed and to synchronize their implementation plans and jointly determine the guidance and oversight mechanisms to be used in order to keep track of the progress made and adjust the agreed strategy as needed.

Ensuring that account is taken of the legitimate interest of subnational stakeholders in assuming a role in guiding the implementation of productive development policies at the subnational level is also important. The challenge of coordinating the productive development effort therefore also entails ensuring the coherence of the actions taken by institutions at the various national and subnational levels of government.

One key consideration derives from the fact that, no matter how evident the benefit of pooled, coherent action may be, efforts to coordinate the measures taken

<sup>21</sup> Given the difficulty of attaining a perfect coordination of multi-stakeholder, multilevel agendas, Llinás (2021) advises channelling effort into ensuring that instances of a lack of coordination and mismatched actions are kept within reasonable bounds.

by the various stakeholders run up against a number of impediments, which include not only individuals' egos and desire to take centre stage, but also the legitimate desire of individual stakeholders to defend their own spheres of independent action and command respect for their specialized skills and experience (Llinás, 2021). Unless these kinds of situation are handled properly, the fragmentation of efforts and resources will once again ensue, thereby reducing the effectiveness of the productive development policies that are in place.

Many different factors will influence the types of solution adopted by different countries to improve the coordination of policy action in this sphere, including the way in which the government is structured, its policy priorities, the available resources, the features of the most prominent institutions and the social capital of the various areas involved.

The available technologies are another determinant, since they may enhance the potential effectiveness of the institutions involved in applying productive development policies, although they may also pose fresh challenges in terms of coordination. Digital technologies, for example, reduce the cost of dissemination and can significantly increase the coverage of support measures. In terms of coordination, it is important to bear in mind that the new productive paradigm that has been taking shape over the past few decades is not so much the outcome of a new technology but rather the outcome of the convergence of robotics, macrodata, the Internet of Things, 3D printing and a number of other technologies. This convergence is what is giving rise to new products, new production and business models, and smart factories and products.<sup>22</sup> It should also be reflected in the design and management of productive development policies that will both encourage coordination among the public, private, academic and civil society stakeholders through networks, digital platforms, cluster initiatives and other mechanisms and that will drive the implementation of governance mechanisms that transcend the public sector's traditional, specialized organizational structure and engender a new form of organization centred around the aims and goals of the effort to bring about a transformation of the region's production patterns.<sup>23</sup>

In sum, the governance of the institutions and groups involved in the application of productive development policies should be oriented towards key objectives that will further these policies' success in transforming the production sector: the improvement of operational coordination, the reduction of the risks of policy capture and the promotion of transdisciplinarity.

Section IV.C.2 will discuss some of the components of a conceptual framework for an analysis of productive development policy governance. These elements relate to the concepts of multilevel governance, place-based governance and experimentalist governance that were mentioned in chapter II.

In view of the importance taken on by the relationships between stakeholders at different levels of the State in the design and management of productive development policies, particular emphasis will be placed on multilevel governance. Some observations will be made regarding this concept's implications for policy management (coordination and interlinkage) models. Section IV.D will provide an overview of some of the empirical data offered by research on the five specific cases of Argentina, Chile, Costa Rica, Mexico and Uruguay.

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<sup>22</sup> For information on trends in new technologies, see the annual McKinsey reports (for example, McKinsey, 2023), and for a discussion of their implications for the redesign of governance systems for productive development policies, see Casalet (2017).

<sup>23</sup> The marshalling of collective efforts is a core element of the science, technology and innovation policies being pursued in the United States and Europe. See, among others, Uyarra, Sörvik and Midtkandal (2014) and Casalet (2018).

## 2. Multilevel governance, place-based governance and experimentalist governance

The concept of multilevel governance was originally developed by Gary Marks (1993), who discerned the beginnings of a new type of interaction between local and central governmental entities in his study on the European Community. That interaction involved a system of ongoing negotiations among governments at various levels (supra-national, national, regional and local). This type of multilevel governance has arisen as a consequence of the emergence of new institutions and the handover of decision-making authority to different officials or agencies when certain functions are transferred from the central government to local or supra-national governmental levels.

As observed in a recent ECLAC study (Sotomayor and others, 2023), multilevel governance has clear-cut advantages in terms of the efficiency of the State and its proximity to the interests of the populace. The starting point for this multilevel approach is the premise that the distribution of authority over multiple systems or jurisdictions is more efficient and normatively superior to the model in which the central government has a monopoly on power. Aside from many other benefits, working with decentralized jurisdictions provides a more accurate reflection of the preferences of the citizenry, heightens the credibility of political commitments and incentivizes jurisdictional competency and, hence, innovation and experimentation (Marks and Hooghe, 2004).

There are two types of decentralized model for State action within the framework of this approach: (i) formal models, in which jurisdictional responsibilities are assigned to federal, departmental and municipal agencies; and (ii) ad hoc models, in which organizational arrangements are devised for specific purposes and do not necessarily match up with formal structures for the jurisdictional distribution of power (Sotomayor and others, 2023).

The idea of multilevel governance has been gaining ground in recent years owing to the (re)discovery<sup>24</sup> of subnational levels of government as leading players in the development process and public policy. As noted by McCann and Rodríguez-Pose (2011): “The often previously neglected role of space has now become centre stage in many debates, as our understanding of the role played by localities and regions in fostering economic growth and prosperity has increased.”

These same authors are also the ones who, in line with the concept of place-based policies mentioned in chapter II, argue that greater emphasis needs to be given to place-based governance because the economic, social, cultural and institutional context of a given location is a highly important aspect of all economic and social behaviour. Place-neutral policies, meanwhile, wind up benefiting the more prosperous regions over other regions, even if that is not the intention, because the former are better able to capitalize on State action. Thus, place-neutral policies are actually not neutral at all.

In order to ensure that regions figure prominently in the process, the place-based approach takes account of the need for the participation of various levels of government (in other words, multilevel governance) as a key factor in facilitating government action. Multilevel governance is based on the establishment of open-ended agreements that can then be adapted to the specific traits of the location in question.<sup>25</sup> The core feature of place-based governance is the importance of drawing on local knowledge

<sup>24</sup> In view of the importance that various lines of inquiry have attributed to the interconnection of the surrounding setting, civil society, culture, history and economic development of a given region ever since the 1970s and 1980s, it is more accurate to speak of the rediscovery of these subnational levels.

<sup>25</sup> This feature is also a characteristic of experimentalist governance, which is described below.

and capacities and building upon them before integrating them into other levels of government so that all the parties involved can work together for the common good.

Two factors are essential in order for the place-based approach to be effective: conditionality and outcome indicators (McCann and Rodríguez-Pose, 2011). The idea of conditionality in this context refers to the establishment of binding agreements among the different levels of government that will result in each of the relevant institutions fully performing its assigned functions. The importance of having outcome indicators stems from the need to transition from a culture of audit and control to one of monitoring and evaluation. The place-based approach also focuses on the management of public and private goods (such as land, water sources, roadways and connectivity, among others) at the subnational level. Lastly, the forging of agreements around the outcomes being sought by the policies in question and the implementation of mechanisms for tracking progress towards the achievement of those outcomes are also key elements.

These last elements are emphasized in the experimentalist governance approach described in chapter II. This term was originally proposed by Sabel and Zeitlin (2012) to refer to a paradigm shift in the way decisions concerning government action are reached. This novel approach entails the establishment of inherently provisional frameworks for action that are under continual review and discussion by the stakeholders in question.

One of the central aspects of experimentalist governance is its recursiveness: the objectives of a given policy effort, the arrangements made in order to carry it out and the policy actions that are taken are all subject to an ongoing learning and adjustment process and are constantly being compared with alternative approaches to determine which approach will be most effective in attaining the policy objectives.

The theoretical definition of experimentalist governance entails the following four characteristics:<sup>26</sup>

- (i) The objectives are jointly defined on a provisional basis by local units (provinces, departments) and central units (States, transnational organizations) working together and in consultation with civil society.
- (ii) Local units have the necessary autonomy to pursue those objectives in the manner that they deem fit.
- (iii) As a condition for being accorded that autonomy, local units must regularly report on their performance and coordinate with their peers as a basis for an ongoing learning process in which alternative paths towards the achievement of the stated objectives are constantly being examined and compared. When the indicators fail to show that progress is being made, local units are expected to demonstrate that they are taking corrective action.
- (iv) Objectives, indicators and decision-making procedures are regularly reviewed by a constantly expanding circle of stakeholders that will then take action to address any problems that are detected during the review process.

Experimentalist governance functions within a polyarchical framework in the sense that there is no one single decision maker but rather a number of autonomous local units that work together to address the problems that arise. No one unit is able to impose its own approach without taking the views of the others into account.

This form of governance is also inherently deliberative because traditional decision-making procedures are constantly being questioned and re-examined with a view to finding other approaches that will serve the collective interest.

<sup>26</sup> These features are the core components of the theoretical definition of experimentalist governance as presented in the literature. In a later section of this document, this concept will be applied to the actual situations in the countries of the region as a means of exploring their characteristics, similarities and differences.

Experimentalist governance differs from what has become known as the “new public management style”, which is based on a top-down approach, but it also differs from what is referred to as “interactive governance”, which places decision-making responsibility in the hands of the community or the population at large. Instead, with experimentalist governance, aims and goals are determined on the basis of a multilevel logic and a fluid, network-based governance structure.<sup>27</sup>

Given the emphasis of this approach on institutional learning, an in-depth analysis of the systems in place for monitoring and evaluating productive development policies is called for. Although, given the complexity of the subject, it cannot be thoroughly explored in this chapter, the discussion presented in box IV.1 attempts to characterize some of the main coordinates that provide direction for an analysis of this line of reasoning in the course of ongoing research.

#### Box IV.1

##### Coordinates for development of strategies for evaluating and monitoring implementation of productive development policies

As discussed in chapter II, one of the shortcomings of the efforts now being made to further the productive development of the countries of the region is that little is being done to evaluate those efforts. This is of fundamental importance because, first of all, there is no magical or one-size-fits-all solution for the implementation of productive development policies, and a trial-and-error approach must therefore be used (Rodrik, 2004) in order to determine what works and can be scaled up, what does not work and, thus, what can be adjusted and what needs to be discarded. Secondly, in line with the experimentalist approach to governance, in which the identification of bottlenecks and of solutions for them is an iterative process, mechanisms for monitoring and evaluating progress in order to provide feedback for that iterative adjustment process are essential. Therefore, a failure to monitor and evaluate productive development policies (or a failure to do so thoroughly) curtails the effectiveness of those efforts.

It is important to point out that the monitoring of public policies and their evaluation have different purposes. Whereas monitoring is an ongoing process of gathering information about the implementation of programmes and policies with a view to improving the way they are being conducted, the evaluation process involves a systematic, impartial assessment of a policy's or a programme's design, implementation or results (OECD, 2002). Research concerning the monitoring and evaluation systems of Argentina, Brazil, Chile, Colombia and Mexico has shed light on the following elements:

- **Definition of policy components and difficulties in policy assessment.** In order for a productive development policy to be correctly designed, the inputs to be invested in it, the outputs and procedures involved in its implementation and the outcomes being sought must all be clearly defined (ECLAC, 2018). This process is based on non-linear causal relationships that must be constantly reviewed as part of the experimentalist approach to governance. A lack of clarity about these elements and how they relate to one another is one of the bottlenecks that is holding back the development of systems for monitoring and evaluating productive development policies. If the Latin American countries can define these components more clearly, they will be able to begin to make greater use of results-based policy management approaches and policy management procedures that, within a context of experimentalist governance, will make progressive improvements in the effectiveness and efficiency of productive development policies (ECLAC, 2024)<sup>a</sup>.
- **Comparison of budget-focused and learning-based approaches.** Currently, the findings of policy evaluations are primarily used for purposes of maintaining transparency and accountability and as a means of auditing disbursements. For example, in Chile and Mexico, evaluations are used as an input for decision-making about the budget for the programme or initiative concerned, but not as an input in the formulation and consideration of the budget of the country's government as a whole. However, the evaluation process is, by definition, a learning process, a way of learning from the mistakes that are made and then making changes in order to achieve better policy results. With experimentalist governance, the generation of such inputs by means of the monitoring and evaluation of policies constitutes a learning process.

<sup>27</sup> For further details, see Salazar-Xirinachs (2020) and Salazar-Xirinachs and Cornick (2017).

- **Place-neutral biases in policy assessments.** Subnational governments are not fully involved in designing and developing monitoring and evaluation systems for productive development policies. One of the main challenges is to integrate these stakeholders into the governance of the system so that the generation of knowledge can be adapted to accommodate the experiences and demands of regional or other subnational units, which will also pave the way for the creation of subnational evaluation systems. Regional and local levels of government have to be given scope for autonomy, innovation and proactivity (Amaya and Aquilino, 2022). Colombia has had experience with an evaluation system that has incorporated subnational components, and it would therefore be useful for future studies to look into what has been learned in the course of its integration of subnational governments into the evaluation process.<sup>a</sup>
- **Evaluating policies versus evaluating policy instruments.** Evaluations tend to focus on sectoral instruments instead of adopting a strategic approach encompassing the entire range of instruments that are available to each country. This lack of an overall analysis detracts from efforts to design effective productive development policies. However, some strategic evaluation processes have been undertaken that do merit discussion. In Chile, what are known as “sectoral evaluations” are then fed into an overall strategic evaluation of public policy. The evaluation conducted of the country’s export promotion policy is one example. In Mexico, what are known as “strategic evaluations” of sets of policy instruments that are undertaken in order to determine how well they are aligned with sectoral plans have enabled the country to make improvements in such sectors as health care, labour and social security.
- **The challenge of developing a culture of evaluation.** The creation of such a culture entails the use of policy monitoring and evaluation systems as a means of improving public action in order to achieve the desired results rather than as a “blame game” or as a bureaucratic exercise. The current resistance to the introduction of these systems is probably due to the lack of clear-cut mandates for programme evaluation, the absence of explicit strategies for designing or redesigning programmes and formulating outputs, and mistrust on the part of both government authorities and technical personnel of evaluation systems that are perceived as being aimed at assigning blame for any shortcomings.
- **Limited coordination between sectoral entities and policy evaluation mechanisms.** The development of proper monitoring and evaluation systems requires a form of governance capable of establishing links between sectoral entities in the relevant areas (education, health care, labour, industry, tourism, science and technology, stock-raising and others) and coordination units (for example, the Secretariat for Economic Affairs in Mexico, the National Public Policy Evaluation Board in Argentina and the Ministry of Finance in Chile). In the case of productive development policies, this is particularly complex because the instruments are scattered among various ministries and offices. This means that the mechanisms that coordinate the evaluation and monitoring system are the ones that conduct the evaluations, but they do so without working closely with the sectoral agencies concerned, which in all likelihood results in a lack of ownership of the outputs of the evaluations on the part of the personnel and agencies responsible for designing and implementing these policies.

In the light of the above, it is clear that the countries and their subnational units need to work on scaling up their capacity for the monitoring and evaluation of productive development policies. Accordingly, ECLAC plans to pursue a more in-depth exploration of the work being done by the countries of the region on the monitoring and evaluation of these policies and, as part of this effort, will also work on assisting the countries and their subnational units to determine how to go about building these capacities in a more cost-effective manner.

**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official information; D. Rodrik, “Industrial policy for the twenty-first century”, *CEPR Discussion Paper*, No. 4767, London, Centre for Economic and Policy Research (CEPR), 2004; Organisation for Economic Co-operation and Development (OECD), *Glossary of Key Terms in Evaluation and Results Based Management for Sustainable Development*, Development Assistance Committee (DAC), Paris, 2002; and ECLAC, “Panorama de la gestión pública en América Latina y el Caribe: un gobierno abierto centrado en el ciudadano”, *Project Documents* (LC/TS.2017/98/Rev.1), Santiago, 2018; ECLAC, *Panorama de la Gestión Pública en América Latina y el Caribe, 2023: un Estado preparado para la acción climática* (LC/PUB.2023/27-P), Santiago, 2024; and P. Amaya and N. Aquilino, “Evaluar desde América Latina y el Caribe”, *Red Latinoamericana de Seguimiento, Evaluación y Sistematización (ReLAC)*, 2022, unpublished.

<sup>a</sup> Véase Comisión Económica para América Latina y el Caribe (2024), *Panorama de la gestión pública en América Latina y el Caribe, 2023: un Estado preparado para la acción climática*, Santiago, 2024.

<sup>b</sup> The National Management and Results Evaluation System (Sinergia) of the National Planning Department works with substantive divisions to follow up on each of the specific issues to be addressed. Since 2014 (Decree No. 1290/2014) a subnational system of this type has been in place to follow up on development plans at the subnational level.

In sum, while the three approaches to governance described here (multilevel, place-based and experimentalist governance) address the issue from different standpoints, they all clearly share three important elements<sup>28</sup> for the development of an effective form of governance:

- Stakeholder participation. In order to have an effective form of governance, the necessary capacities (resources) have to be made available, responsibilities have to be distributed and assigned, and channels for reciprocal dialogue and interaction have to be created.
- Recursiveness. Because of the complexity of the processes of change called for by productive development policies, flexible working systems need to be created that are based on the organized capacity of stakeholders to re-examine those systems and adjust their actions accordingly on an ongoing basis.
- An integrated regional and local vision. Stakeholders that are deeply rooted in their communities need to be encouraged to take part in a shared effort to engender a dialogue in which local expertise and the more general view of national policy actors can be brought together in order to design policies and programmes that consider and place value on local specificities without falling prey to localisms or autarkies.

Using these three elements as a foundation, section IV.C.3 presents an analytical framework for looking at the interconnection between governance and the decentralization process as it relates to productive development policies, which is moving forward at widely differing paces in the countries of Latin America and the Caribbean. In a later section, this analysis will help to distinguish between the different multilevel governance models being implemented in the region.

### 3. Implications of multilevel governance as a management model

This section enters in more detail into the relationship between coordination and decentralization. The two processes do not necessarily occur in harmony and the way they are balanced influences the sort of governance that can be achieved at different tiers of the State. Decentralization refers to the transfer of authority, responsibility and resources from a central body to local or subnational entities. Coordination, meanwhile, refers to the harmonization of policies, coherence between them and their alignment between central bodies and local or subnational entities.

Decentralization has been increasing in the region, as described by Cabrero Mendoza and Zabaleta Solís (2009), who argue that subnational governments have begun to pursue an array of their own agendas, while all levels of the national government have begun integrating civil society stakeholders and institutions. The multiplication of these agendas, although a natural process per se, has brought adverse consequences (duplication of efforts, confusion over strategic targets, dispersion, and so on) and, accordingly, increased the need for coordination. The authors show that advances in the decentralization process and the fact that local governments have greater autonomy than in the past do not, by themselves, produce a multilevel coordination model as described in section IV.C.2 (stakeholder participation, recursiveness and integrated territorial vision). From this starting point, Cabrero Mendoza and Zabaleta Solís (2009)

<sup>28</sup> There are also two other elements: political will and budget. The political decision to undertake a form of governance in which both local and central units take part is the first step. The next is to allocate the budgetary resources needed to create these governance mechanisms and to ensure their effectiveness and sustainability.

identify four different scenarios that reflect four modalities of policy management, based on four combinations of the duo of decentralization of decisions and coordination of stakeholders (see table IV.6).

	Low level of decentralization	High level of decentralization
Low level of coordination	Hierarchical coordination	Dispersion
High level of coordination	Donor–recipient model	Multilevel governance

**Table IV.6**  
Typology management of coordination bodies by level of coordination and decentralization

**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of E. Cabrero Mendoza and D. Zabaleta Solís, “¿Cómo construir una mística intergubernamental en la política social? Análisis de cuatro experiencias latinoamericanas”, *Revista del CLAD Reforma y Democracia*, No. 43, February 2009.

The hierarchical or top-down coordination model (with a low level of both coordination and decentralization) prioritizes control by the national or central power, which makes the decisions for the territory where measures are to be applied (Cabrero Mendoza and Zabaleta Solís, 2009). The subnational government limits itself to administering programmes and ensuring that they are completed, that money is spent appropriately, and that rules and standards are met (Agranoff and McGuire, 2001). In this case, the transfer of power and responsibilities from the central to the subnational powers is limited or non-existent: the central or national government centralizes the decision-making power and coordinates with territories on the implementation of measures. Examples of this type of coordination could be programmes designed and financed by the central government that afford minimal resources or effort to coordination with territorial agents, which are not involved in the design or planning of the measures to be implemented, but merely in applying them locally.

The donor–recipient model of coordination (high level of coordination and low level of decentralization) is characterized by interdependence between the resource provider (central or national government) and subnational governments. In this model, decisions are ultimately the outcome of negotiation between these parties, and subnational governments have margins that are not non-existent but are not clear enough to introduce visions of their own. This results in unstable equilibria that depend greatly on the characteristics of the stakeholders involved (capabilities, experience, resources, and so on).<sup>29</sup> This model differs from the previous one in that, although the decisions are made by the central body, the coordination instances with the local or subnational level allow the territories to influence, for example, how they adapt measures according to their needs or to express their wishes at the policy design stage, among other possibilities.

The dispersion model (high level of decentralization and low level of coordination) is characterized by a lack of synergy, many contradictory programmes and initiatives, and uncoordinated efforts. The level of centralization is high in this model, but there are no specific coordination mechanisms thereafter. Decentralization is interpreted by the central government administration more as “passing down responsibility” than as the responsibility of decentralizing by building coordination mechanisms. As some authors note, this may result in a return to centralism (Cabrero Mendoza and Zabaleta Solís, 2009). This model involves a significant transfer of power and responsibility from central entities to local or subnational entities. However, it suffers from a lack of alignment, coherence and policy coordination between central and local bodies, and may even lead to local policies being inconsistent with or contradicting policy implemented at the national level, or vice versa.

<sup>29</sup> Agranoff and McGuire (2001) introduce a new aspect into the donor-recipient model by debating the degree of decision-making freedom of local governments. For that reason, they propose that, as in the top-down model (hierarchical coordination), all the actions pursued by subnational governments must ultimately be consistent with the objectives of the national government.

Lastly, the concept of multilevel governance (high level of both decentralization and coordination) indicates a high degree of decentralization, but with sufficient coordination mechanisms to enable collaboration and communication (Cabrero Mendoza and Zabaleta Solís, 2009). In multilevel governance, all participants feel the benefits of coordination and, because the divisions between levels of government are informally erased, the package of public services is coherent and integrated into a seamless whole, regardless of what level of government carries out which part (Cabrero Mendoza and Zabaleta Solís, 2009). In this model a great deal of power is transferred from the central government to local or subnational entities, as in the dispersion model, but, unlike in that model, the coordination mechanisms are numerous and powerful enough to align central units with local or subnational entities, and vice versa. Well-oiled coordination mechanisms have positive implications for citizens because they avoid duplication of effort and combine the State's financial and human resources in a more appropriate manner.

Among other experiences, Cabrero Mendoza and Zabaleta Solís mention the coordination systems of the European Union as an example of multilevel government.<sup>30</sup> In this case, the coordination modality is based on incentives that foster multilevel alignment and coordination of action by territorial stakeholders, rather than orders and sanctions issue by central bodies. For example, regional entities can only apply to the science, technology and innovation funds administered by the European Union by presenting projects that are aligned with the smart specialization strategies set out by the region they belong to. The rationale of this incentive is to ensure, on the one hand, that supranational funds support only initiatives aligned with regional priorities and, on the other, that the efforts of local stakeholders on the ground converge towards the shared priorities set forth in smart specialization strategies.

## D. Map of the governance of productive development policies in Latin America and the Caribbean

The following pages set forth the results of two investigations, one on the identification and characterization of the coordination instances for ministries involved with productive development policies, and the other offering a more in-depth review of the experiences of some Latin American and Caribbean countries.

### 1. Instances of coordination in Latin America and the Caribbean

Official information about the situation in terms of governance mechanisms for productive development in Latin America and the Caribbean is scarce and fragmented.

Unlike in the case of entities responsible for productive development policies, which are mapped in section IV.B, it is more difficult to accurately track all the bodies that perform a coordination function because, on the one hand, non-formal instances often tend to proliferate and, on the other, formally constituted bodies are not always fully operational. A detailed map thus requires a different methodological approach, which inevitably includes a thorough review of individual instances, taking into account their legal basis, powers, capabilities and experience.

<sup>30</sup> See Uyarra, Sörvik and Midtkandal (2014) and Llinás (2021).

This document takes a step in this direction and offers an initial register of the most significant instances, and puts forth a first analytical typology, based on a review of the legal standing of bodies engaged in the coordination of productive development policies. The reflection concludes in section IV.D.2, which expands the information, synthesizing the results of more in-depth research conducted for five countries and ordering them using the conceptual categories presented in section IV.C.

The information serves to describe 74 coordination bodies that bring together a considerable number of national and subnational institutions<sup>31</sup> in the 15 countries of Latin America and the Caribbean for which official information was found. This characterization focuses on three aspects of their operation:

- Scope: whether they coordinate bodies at the national level only or are engaged in multilevel coordination.
- Main role: whether this is consultation, proposals, or participation in decision-making on the productive development policies under their remit.
- Composition: whether they comprise only public sector bodies or whether their regulatory underpinning includes the option for other stakeholders.<sup>32</sup>

With respect to the first point, all 15 countries analysed showed a clear preponderance of coordination bodies composed of national-level stakeholders (see figure IV.4). These represent 72% of the identified instances. Although the research was not exhaustive, it is striking that entities seeking multilevel collaboration were found in fewer than half of the countries analysed.

With regard to the role played, 95% of the bodies identified fulfil a consultative function and of these, 51% perform this function exclusively. Thirty-five per cent perform a proposal-making role, the great majority of them in combination with an advisory function. Only one body plays an exclusively propositional role, and one other combines a consultative with a deliberative role (see figure IV.5).

Lastly, 10 entities perform a decision-making role, of which 6 also have advisory and propositional functions. It is interesting that only 5 of the 21 multilevel entities identified perform a deliberative role, which suggests that, so far, decentralization processes have achieved only partial goals.

Regarding composition, the legislative instruments that underpin the bodies identified<sup>33</sup> indicate that 57% of them are mixed—that is, made of both public and non-public parties—while 36% comprise public bodies only.<sup>34</sup> Mixed composition is more common among national bodies, almost 60% of which include other members, whether from the business or academic communities or civil society. Though more could be documented with more in-depth analysis, these data would seem to confirm an openness to dialogue and multi-stakeholder collaboration on the definition or management of productive development policies.

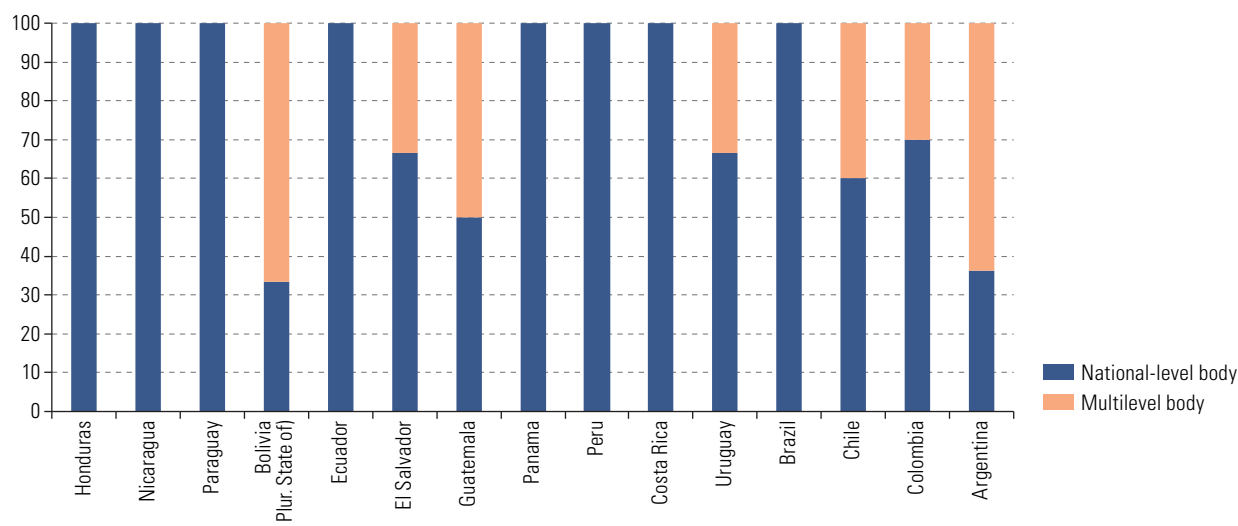
<sup>31</sup> It was not possible to calculate the exact number of members because the research focused on analysis of the legal documents by which instances are established. In several cases, these documents do not determine their exact composition, but leave flexibility to adjust to the circumstances.

<sup>32</sup> Usually representatives of the private sector, but sometimes also from the academic sector or civil society.

<sup>33</sup> This means that the information is certainly true from a legal perspective. A further stage of the research would need to verify actual compliance with the standard.

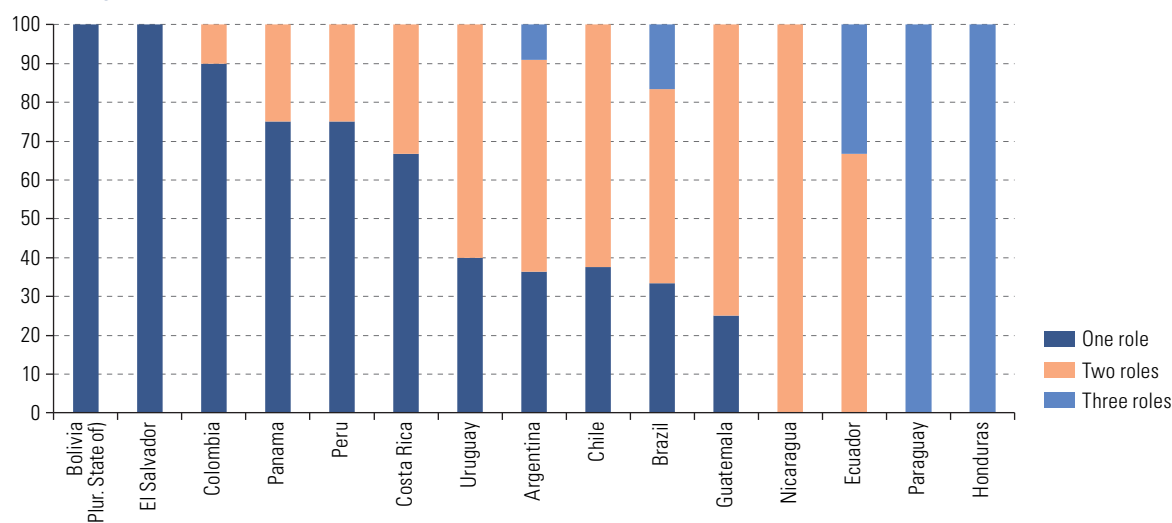
<sup>34</sup> The remaining 7% are bodies in which the decision on composition is passed to the representatives of the public bodies which make them up. In these cases, the type of composition cannot therefore be established in advance.

**Figure IV.4**  
Latin America (15 countries): bodies engaged in national or multilevel coordination for productive development policies, 2024  
(Percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official information.

**Figure IV.5**  
Latin America (15 countries): bodies engaged in coordination of productive development policies, by number of roles performed, 2024  
(Percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official information.

In a very summarized manner, this overview shows a great proliferation<sup>35</sup> of coordination bodies,<sup>36</sup> dominated by ministerial entities. The majority have a mixed composition, which suggests openness to dialogue between the public sector and the rest of society. However, the predominant roles show a clear slant towards consultation and, to a lesser extent, making proposals. It is much less common to find coordination bodies with deliberative functions.

<sup>35</sup> It should also be considered that this approach has captured only part of the universe of formal coordination instances in which central level bodies are involved. Given that there are more bodies of this sort that it was not possible to register, that there are also formal coordination bodies made up exclusively of subnational stakeholders and that there are numerous coordination bodies that are not strictly formal, it is clear that the universe of coordination bodies makes up a very broad group that is heterogeneous, diffuse, intertwined and difficult to interpret.

<sup>36</sup> The effective capacity to perform this function must be researched taking into account the results actually achieved, the resources mobilized and the operating modalities, among other things.

With regard to multilevel coordination, two pieces of data show that decentralization is still very incipient: one is the low number of coordination bodies that include stakeholders from the territorial level (in most cases of the countries studied, there was no record of formal coordination bodies that did so), and the other is that less than a quarter of the multilevel coordination bodies play a deliberative role.

## 2. Case studies: the experiences of Argentina, Chile, Costa Rica, Mexico and Uruguay

More in-depth investigations were carried out for five Latin American countries (Argentina, Chile, Costa Rica, Mexico and Uruguay) in order to expand the initial perception and capture additional elements to evaluate the variety of solutions that have been adopted to coordinate the stakeholders involved in productive development policies and record some of the problems they face.<sup>37</sup>

The interpretation of the information available for these countries refers to the analytical distinction made in section IV.C.3, based on the combination of the coordination and decentralization variables, according to which only management modalities with a high level of both decentralization and coordination may be said to show “multilevel governance.” The other modalities reflect forms of governance in which local stakeholders achieve greater prominence (dispersion), or where unstable negotiation-based balances arise (donor-recipient coordination), or the central State exercises hierarchical predominance (hierarchical coordination).

Although different governance models coexist in each country, since each coordination body has its own rationale and is the product of a particular history, donor-recipient coordination models seem to predominate, as shown in table IV.7.

**Table IV.7**

Latin America (5 countries): predominant trends in modalities of coordination of productive development policies, 2024

Country	Coordination/decentralization	Management models
Argentina	High level of decentralization with coordination mechanisms present	Donor-recipient coordination mechanisms coexist with multilevel governance
Chile	Incipient process of decentralization with various coordination mechanisms present	Donor-recipient coordination mechanisms coexist with multilevel governance
Costa Rica	Low level of both decentralization and coordination	Hierarchical coordination
Mexico	Low level of coordination and high level of decentralization	Dispersion
Uruguay	Low level of decentralization and high level of coordination	Donor-recipient coordination

**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of in-house research.

**Note:** This table was prepared on the basis of information compiled in case studies that were carried out for the writing of this document. The management models described are theoretical and were formulated for the analysis of public policies in general, using the concepts presented in section C.3 of this chapter. This section adapted these to productive development policies and applied them empirically to the cases studied.

This result may be partly explained by the structure of the State. Of the five countries analysed, two (Argentina and Mexico) are federal in structure, while the other three (Chile, Costa Rica and Uruguay) are unitary. Of the unitary States, Chile and Uruguay have intermediate administrative tiers (regions in Chile and departments in Uruguay) which have their own authorities appointed by popular vote. Costa Rica, conversely, has no such entities. In this situation, the margin for building multilevel governance is obviously smaller (see box IV.2).

<sup>37</sup> The main research work was carried out by the following ECLAC consultants: Lorenzo Cassini (Argentina), Iván Silva (Chile and Costa Rica), Federico Stezano (Mexico) and Micaela Camacho (Uruguay).

**Box IV.2**

Latin America and the Caribbean (18 countries):<sup>a</sup> references to country structures

Review of the data available concerning the structure of 18 countries in the region yields the following conclusions:

- Of the 18 countries studied, only Argentina, the Bolivarian Republic of Venezuela, Brazil and Mexico are federal in structure. The rest are unitary and have varying degrees of decentralization in decision-making, resources and responsibilities.
- The great majority (14) of the countries selected have three levels of government (including the national level). The other four countries (the Dominican Republic, Ecuador, Panama and Peru) have a fourth level of government below the municipal level in the hierarchy.
- Regarding entry to power at the second tier of government (departmental, provincial, regional or federative entity), governors are appointed by the Executive Branch in five countries from Central America and the Caribbean (the Dominican Republic, El Salvador, Guatemala, Honduras and Panama). In these cases, the third tier of government (municipal) is elected by popular vote.

**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official information.

<sup>a</sup> Argentina, the Bolivarian Republic of Venezuela, Brazil, Chile, Colombia, Costa Rica, Cuba, the Dominican Republic, Ecuador, El Salvador, Guatemala, Honduras, Mexico, Panama, Paraguay, Peru, the Plurinational State of Bolivia and Uruguay.

A second key element is the absence of explicit decentralization policies, or the weakness of such policies where they do exist: the case of Chile shows (as will be seen below) how, even in a unitary State, multilevel coordination bodies can be put in place by means of a sustained and coherent strategy.

A third factor that affects the achievement of good coordination between entities responsible for productive development policies is the very mixed nature of subnational stakeholders. In particular, local or intermediate governments, especially in less dynamic territories, may display very different levels of capabilities and competencies, which often makes it difficult for them to engage actively in coordination bodies.

Specific considerations in relation to the five countries analysed are summarized below.

### (a) Argentina

The case of Argentina presents advantages for decentralization because of its existing federal structure. Several mechanisms for the coordination of productive development policies have been identified, all differing in their level of centralization and coordination. The main mechanism consists of the Federal Councils, which convene representatives of provincial and national governments to address a specific topic. In 2023, there were 63 Federal Councils, of which 13 were devoted to productive development policies. Round tables and networks are also spaces for consensus-building between representatives of the provincial and national spheres, but they are the product of one-off measures which are not continued over time. National multilevel management funds are intended to develop a specific economic activity or territory, and provincial governments are involved at the stage of implementation. As for strategic plans, which are tools aimed at one area of production, some have been prepared in consultation with the corresponding provincial governments and include some sort of specific or targeted intervention depending on the territory. There are also formal agreements between the federal and provincial levels in which joint actions are established, sometimes including transfers from the federal to provincial governments. Lastly, multilevel relationships are often generated through direct dialogue, that is, through informal communication channels which are used sometimes more and sometimes less intensively and with varying degrees of commitment with respect to changes in authorities, both provincial

and national. Despite the existence of multiple formal coordination mechanisms and advanced decentralization processes, owing above all to the country's federal structure, it is important to clarify that great inequalities remain in the government resources at the disposal of each province in Argentina. These inequalities mean that some provinces face greater limitations when it comes to taking advantage of the potential benefits of coordination and decentralization of responsibilities for productive development policies. Although provinces have power over their natural resources, they may be limited by their own governmental capacity to manage them through productive development policies. Furthermore, the Federal Councils function in a variety of ways; some are real bodies for decision-making between different levels of government, while others are more of a formality and depend more on decisions taken at the State level.

## (b) Chile

Chile has institutions with interesting experiences in coordinating productive development policies at the territorial level. This has taken place in the framework of a strengthened regionalization process that gathered pace after the constitutional reform of 2018, which included the election of regional governors by popular vote (replacing the former intendants who were appointed by the President) and the establishment of a formal procedure for transferring powers (including those relating to productive development policies) from national bodies to the regional governments. Although some of these coordination bodies, such as National Sector Commissions,<sup>38</sup> are relatively long-established, the decentralization process under way has led to the institution of new coordination mechanisms involving stakeholders from different levels of the State. These include Regional Committees on Science, Technology, Knowledge and Innovation, Regional Training Committees of the National Training and Employment Service and Regional Productive Development Committees under the aegis of the Production Development Corporation (CORFO).<sup>39</sup> These last Committees were set up in 2015 in three regions, in order to experiment with new models of decentralized management of the support instruments provided by CORFO itself and by the Technical Cooperation Service (SERCOTEC). Based on a review of the achievements, potential and limitations of this experience,<sup>40</sup> the current government decided to replicate the model countrywide.<sup>41</sup> Although the decentralization process through the Regional Productive Development Committees is still partial, the experiment is explicitly aimed at strengthening the powers of regional governments in a framework of multilevel coordination, innovating on the now-consolidated tradition of coordination by sector. From this perspective, it is a concrete experience of construction of multilevel governance.

## (c) Costa Rica

In the case of Costa Rica, the focus of productive development policy over the past decade has been building up national productive capacities by attracting FDI, and until recently afforded no particular attention to specific needs of the various territories. As mentioned earlier, Costa Rica has no intermediate administrative entities with the

<sup>38</sup> The National Sector Commissions are an important coordination body mentioned in Sotomayor and others (2023).

<sup>39</sup> The composition of the Regional Productive Development Committees may vary from one region to another, but, in general, the governing body, chaired by the regional governor, is made up of representatives from two national productive development institutions (CORFO and SERCOTEC) and regional representatives of the Ministry of Economy, Development and Tourism, academia and the private sector. Its main function is to manage the resources that CORFO, SERCOTEC and the regional government itself invest for the productive development of the region.

<sup>40</sup> See Slachevsky and others (2023).

<sup>41</sup> At the time of writing, 13 Regional Productive Development Committees were active, but the national authorities and regional governments had mapped the route to set up three Committees that were still needed. ECLAC has supported this process by assessing previous experiences and participating in the discussion on the management model of the new generation of Committees.

capacities or powers to design and pursue productive development policies, or to collaborate in national policies. Although the economic model has achieved considerable growth on the back of a combination of free trade agreements with sectoral efforts to attract investment and develop specific human resources and value chains, Costa Rica continues to suffer from profound inequalities between regions and between rural and urban areas. In 2001, article 170 of the Constitution was reformed to give municipal governments (the second tier of the State organizational structure) a transfer from the national government of 10% of the ordinary revenue calculated for the financial year. However, this rule did not have the desired effects because it was only partially complied with and because the institutional model was based on hierarchical coordination, in which the national government remained heavily involved in the formulation and implementation of measures at the municipal level. However, the topic returned to the fore recently and in 2022 new legislation<sup>42</sup> was adopted, with incentives for channelling FDI flows to areas outside the Great Metropolitan Area. It is still too early to assess the effectiveness of this step, as the administrative regulations to put it into operation were only adopted in February 2023.

#### (d) Mexico

Until 2018, Mexico had productive development policies coordinated between the national government and federal entities, basically through four federal programmes: the Mixed Funds programme, the Innovation Stimulus Programme, the Institutional Regional Promotion Fund for Scientific, Technological and Innovation Development, and the Programme for the Development of the Software Industry.<sup>43</sup>

In the four programmes mentioned, the management model and the capacity for coordination between the federal and the national levels were based on each State's different planning capacities and links with local businesses, the academic sector and other local stakeholders. This is because access to the funds depended on the States' ability to design productive development policies both linked to their own objectives and aligned with the federal government. States that had these capacities for policy design were also those with the greatest capacity for coordinating with local networks of productive and technological sectors. Lastly, the programmes existing until 2018 in Mexico were not sufficient to strengthen States with weaker capacities, nor to establish management models based on multilevel governance. Currently, given the lack of coordination bodies for productive development policies at different levels of government, the model is more akin to dispersion, that is, there is a low level of both coordination and centralization and what subnational states do is up to them, while there are no coordination bodies seeking to foster synergies with other States or with the federal level.

#### (e) Uruguay

In the case of Uruguay, the most important instance for coordination of productive development policies is the Network of Economic Development Offices and Directorates, which fosters coordination of the departmental level (intendencias) with the national level (the Planning and Budget Office). The study carried out shows that it is a suitable institution for the work proposed, especially because it has played an important role in generating trust to carry out common projects. However, these advances have been partly overshadowed by the marked unevenness of departmental capacities in terms of productive development policies. The economic development directorates of each

<sup>42</sup> Act on strengthening territorial competitiveness to promote investment attraction outside the Great Metropolitan Area (No. 10234).

<sup>43</sup> See Stezano and Padilla (2013).

department differ in length of time established, the capabilities of their technical staff, the ability to formulate projects and even the power to define expenditures. While some directorates are able to carry forward projects and align them with the strategic goals of the department and country, others confine themselves to solving temporary problems without providing adequate follow-up. These issues have clear effects on the different departmental governments' ability to attract national and international funds. Lastly, the existing mechanism is not able to reverse geographical heterogeneities and thus establish multilevel governance. Because the nature of the policy management modality depends on uncertain negotiations between the national entity and subnational stakeholders, the model may be viewed as a donor-recipient one.

This preliminary reconstruction reveals a variety of forms and methods which it is difficult to represent schematically. However, the information compiled does show that the balance between coordination (in particular, the analysis focused on coordination between intermediate and central governments) and the decentralization typical of more mature forms of multilevel government may take different material forms, adapting to the different structures of the State and existing institutional structure, as suggested by the experiences of the Federal Councils of Argentina, on the one hand, and the Regional Productive Development Committees of Chile, on the other.

## E. Summary and guidelines

Institutions and governance are two key factors for scaling up and improving productive development policies in Latin America and the Caribbean, and thus for enhancing their contribution to the population's well-being. To the extent that this is achieved, thereby strengthening stakeholders' participation in society and their capacity for joint action, it also contributes to the consolidation of democracy.

This chapter has attempted to draw up and analyse a first map of the main public sector stakeholders who are responsible for productive development policies in the region and the coordination bodies in which they participate. This has been done with two aims. The first has been to help fill a gap in the information about who does what in terms of productive development policies in the region; although the maps drawn are incomplete and thus, open to improvement, they are also unprecedented and represent a valid starting point for advancing research and action, as well as study and technical support for the governments of Latin America and the Caribbean, in order to build upon and improve the information presented here, more thoroughly document particular experiences, systematize and disseminate best practices, and contribute to strengthening institutions and governance by means of ad hoc recommendations.

Meanwhile, on the basis of these maps, it has been attempted to validate the hypotheses put forward in chapter II about the factors that may explain the limited effectiveness of the productive development policies implemented in the region. At least three of the factors mentioned there have been addressed: lack of coordination, heavy centralism and the failure to assess policies and adjust them iteratively.<sup>44</sup>

<sup>44</sup> A fourth crucial topic is the continuity of productive development policies. This is of special importance because the structural changes that these policies are intended to produce can usually only be generated and consolidated over the medium or long terms. In general, the government bodies studied in this chapter provide a means to afford stability to productive development actions, but, in practice, their real capacity to manage them for long enough depends on a wide range of factors, such as the stability of staff, the availability of their operational capabilities (and resources) and coherence with the political mandates that guide their action and define their powers. Therefore, beyond the mere existence of the government entities mapped here, more in-depth research, which could be carried out within the framework of future studies, is necessary to analyse their contribution to policy continuity.

Key findings are summarized below.

Firstly, it could be stated that this diversity of stakeholders who contribute in diverse ways to the design and implementation of productive development policies forms a seemingly characteristic polyarchy by comparison with other areas of State action, such as education, energy or justice, which have single, clearly identifiable points of reference.

The boundaries of productive development policies are all the less clear because the productive development process itself precludes defining desirable goals and approaches in a single fixed manner.<sup>45</sup> Its pillars (referred to in the text as “themes” or “areas of action”) differ from one country to another, depending on several factors, including the productive structure, institutional capacities, resources and priorities.

It is important to understand that the decision on the establishment of a government entity (where it is evaluated, among other things, whether it is necessary at all and whether it should be mono- or multisectoral) is influenced by different factors, some objective and others subjective. The objective factors include, for example, the availability of natural resources in the country, the climate and, in the short term, the endowment of productive factors. The subjective factors include the development goals, when the productive development stakeholders of each country or region have agreed upon and prioritized them in a consensual manner, and the political priorities established at a given time. This means that ministerial organization, inevitably, can vary over time and shifts with the slow transformations of the structure and more rapid political decisions. The history of this evolution and its causes has not yet been written, but it is clear that there must be a balance between the legitimate will of political actors to set a specific course for their government’s actions and the need for stability of the major lines of productive transformation that require medium and long-term time horizons.

Secondly, the map of the 197 government entities confirms a high degree of fragmentation in the institutionality of productive development policies, but does not indicate conclusively whether an excess of institutions compromises policy effectiveness or coordination capacity. Clearly, the more stakeholders there are involved, the higher the transaction costs for reaching agreements and defining joint actions. But how much of this affects the coordination capacity will depend on other factors, such as the social capital of the territory or country, the regulatory framework and policy incentives for collaboration between the different entities linked to productive development policies. The point is that coordination will be a permanent challenge, given that it is impossible to amalgamate all the fronts to be addressed within the framework of productive development policies in a single ministry or government entity, and will thus require effective governance mechanisms to foster and consolidate.

Thirdly, analysis of the types of government body suggests a preponderance of macro-level entities (especially multisectoral ministries). A possible explanation for this is that governments do this to improve the coordination of the stakeholders responsible for different areas of action. The assumption that the party in charge of the macro-level body will build up relations with those responsible for the different topics in the portfolio is based on a hierarchical rationale which is supposed to facilitate setting common goals and establishing more effective modalities for decision-making. This is a logical hypothesis, but it must be validated empirically, by clarifying governments’ real motivations and comparing the performance of different types of ministry. Furthermore, some of the results suggest that certain issues have been important enough to prompt the creation of a ministry for the respective sector. This may be the reason for the formation of

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<sup>45</sup> The very decision to use nine areas of action to analyse the universe of stakeholders in productive development policies is quite subjective, as mentioned in the text, and, therefore, could be changed in future research.

sectoral ministries to address agricultural or employment and training issues in the region, for example. In other areas of action, such as science and technology or ICT policies, the driving force may be recent political decisions reflecting commitments to strengthening public intervention in areas considered strategic.

As mentioned in the text, these observations warrant caution when it comes to making recommendations, especially in relation to general proposals on the best sort of institutional organization for different countries, historical contexts or areas of work.

A fourth finding emerges from the map of specialized entities. In this regard, the research documents an institutional framework that is more joined up than might be expected after years during which it was seriously questioned whether the State should play a role in productive development at all. The 88 institutions identified (16 governing policies and 72 implementation) likely represent an incomplete picture of the regional situation (especially given the lack of data on the Caribbean), but they represent a solid indication of structured processes of policies aimed at productive transformation.<sup>46</sup> This is, in itself, reason enough to take a closer look at these entities in order to understand their connection with the business and academic world, their working methodologies and their effective contribution to productive development.

The second part of the chapter is focused on governance. Attention therefore returns to the problem of coordination and harmonization, which has proven to be the leitmotiv in the construction and implementation of effective productive development policies.

Of the different coordination mechanisms covered by the proposed concept of governance, this chapter has focused on coordination instances, based on the information available for a group of 15 countries. In the future, in addition to exploring the information underpinning this preliminary map in greater breadth and depth, the other governance mechanisms of productive development policies should be studied, taking into account the characteristics, rules of play and other incentives that allow coordination of the stakeholders within the framework of these policies.

The map of coordination bodies and their preliminary characterization constitute a fifth major outcome, revealing data that point to their successes and weaknesses. Of the 74 coordination bodies identified, 72% are composed exclusively of national-level entities. Of these, just under 60% are mixed —i.e. comprising public and private stakeholders—, which would suggest a certain propensity towards openness to dialogue with other State entities regarding the design of national strategies and policies, but mainly in consultative roles or making proposals.

Multilevel coordination bodies are much fewer in number and, in fact, were not found at all in almost half of the countries analysed. More than half of those that do exist perform exclusively advisory functions and only 24% perform a deliberative function. Analysis of the five countries that were studied in more depth confirms the perception that only very partial progress has been made in decentralizing productive development policies. Only in a few cases (experiences were identified of this type in Argentina and Chile) has it been possible to build multilevel coordination capable of combining the capacities and competencies of subnational stakeholders with mechanisms that enable them to integrate their action with the national level.

It is suggested in the text that the three main factors behind the limited progress of multilevel coordination bodies are: (i) the unitary organization of States in most of the Latin American countries, which includes presidential appointment of subnational authorities in at least 40% of them; (ii) the lack or fragility of explicit

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<sup>46</sup> Obviously, the number of institutions is only a preliminary indication of the country's real capital of knowledge and experience. Specific, in-depth research is necessary to evaluate this corpus of knowledge.

decentralization policies; and (iii) still very uneven levels of subnational government capacity (which is also the result of weak decentralization policies that fail to adequately support the weakest regional policies), which weakens the operational capacity of coordination bodies.

Accordingly, with a view to making Latin American and Caribbean productive development policy entities into stronger institutions, ECLAC, together with the governments of the region, has launched a series of concrete initiatives aimed at establishing or consolidating coordination bodies at the regional, national and subnational levels:

- Support for clusters and other territorial productive coordination initiatives with the creation of an online platform that collates some 300 of this type of initiative and institution.<sup>47</sup> This platform enables collective action, such as matchmaking between companies from different countries or regions, the dissemination of good practices in the management of partnering programmes and the formation of incubators for territorial productive coordination initiatives.
- Promotion of a productive development network among subnational governments in Latin America and the Caribbean, set up as a permanent technical-political body to support experience-sharing and joint projects in areas such as science and technology policies at the subnational level, the financing of productive development policies and the development of programmes to strengthen the formation of company networks.
- The application of digital technologies to facilitate the generation of coordination bodies between productive development policy stakeholders, such as digital hubs, single windows or digital assistance networks.

## 1. Guidelines for strengthening productive development institutions and governance in Latin America and the Caribbean

To conclude this chapter, some guidelines are formulated below to guide the countries of the region and their subnational territories towards the objective of scaling up and improving productive development policies. In line with the central topic of this chapter, the focus is on guidelines considered of special importance to enhance the institutions and governance of productive development policies. As well as time, persistent efforts on multiple fronts and strategies will be needed to make progress in this direction.

### (a) Establish or strengthen coordination mechanisms, at both the national and territorial levels, of stakeholders from the public, private, academic and civil society sectors, to design and implement productive development policies

To this end, it is proposed to move in the following directions:

- Support, where necessary, the formation and consolidation of coordination bodies at the highest possible political level, at the national, intermediate and local tiers.
- Ensure that representatives of the different types of stakeholder participate in the different bodies that are created for the design and implementation of productive development policies.

<sup>47</sup> This subject is analysed in greater depth in chapter V.

- Align coordination bodies working on complementary productive development agendas. As the systemic vision proposed in this chapter suggests, and in line with Llinás (2021), the institutional framework for productive development must be understood as an “arrangement of institutional arrangements”. Therefore, the great challenge of these agendas is how to ensure that this whole set of institutional arrangements works in a relatively coordinated manner. This speaks, as Llinás (2021) suggests, to the importance of strengthening leadership skills in productive development as one of the fronts of research and action by ECLAC, as well as for countries and subnational entities.
- Stimulate or strengthen collaborative behaviour by entities and stakeholder related to productive development policies through governance mechanisms additional to coordination bodies, such as standards (rules of play), practices or routines,<sup>48</sup> and incentives. Peru’s executive round tables (Ghezzi, 2019) are a good example of a coordination mechanism in which dialogue routines help to solve problems at the technical level,<sup>49</sup> preventing them from moving up the hierarchy.
- Regarding incentives, as explained above, European funds for the implementation of research and innovation strategies for smart specialization (RIS3) are an example of a supranational cash subsidy, which makes access to productive development financing conditional upon the adoption of collaborative behaviours between different stakeholders at different levels for the design of productive development policies.<sup>50</sup> Governance mechanisms of this sort can facilitate cooperation, complementing the role played by coordination bodies.
- Map coordination bodies and their operating modalities to identify proposals for improvement and, where necessary, measures that contribute to simplifying this relational framework by eliminating redundant or inoperative bodies.
- Establish platforms to compile all productive development support from national and subnational governments and other stakeholders. As noted earlier, this not only facilitates access to support and its use by potential clients (companies, universities, individuals and others), but also encourages coordination between different ministries, entities and other stakeholders, facilitating the identification of duplication, gaps and potential for synergy between different stakeholders.<sup>51</sup>
- Study ways to reengineer the institutional structure of national government entities to transition them from the current structure divided into sectors and functions towards one based on the strategic projects and goals agreed upon with the stakeholders of the country’s public, private, academic and civil society.
- Strengthen the technical, operational political and prospective (TOPP)<sup>52</sup> skills of the different stakeholders involved, in order to facilitate management of the transformations underlying productive development policy agendas. To implement this approach in the case of productive development, it is

<sup>48</sup> In this context, practices and routines are considered synonymous.

<sup>49</sup> See an example of such routines in the case of the executive round tables in Peru in Ghezzi (2019), and of the practices established in the framework of the Compliance and Performance Management Unit (PEMANDU) of Malaysia in Sabel and Jordan (2015).

<sup>50</sup> See a description of how this alignment occurs in the European case in the framework of RIS3 strategies in Llinás (2021).

<sup>51</sup> Two examples of this type of platform that operate in Colombia are ArCo and the Digital Hub of Risaralda Digital. The first is a coordination methodology that the National Planning Department uses to manage productive development programmes offered by the different government entities operating at the national level (see [online] [https://www.dnp.gov.co/LaEntidad\\_/subdireccion-general-prospectiva-desarrollo-nacional/direccion-innovacion-desarrollo-empresarial/Paginas/metodologia-de-articulacion-arco.aspx](https://www.dnp.gov.co/LaEntidad_/subdireccion-general-prospectiva-desarrollo-nacional/direccion-innovacion-desarrollo-empresarial/Paginas/metodologia-de-articulacion-arco.aspx)). The second is a platform provided by the Regional Competitiveness and Innovation Commission of the Department of Risaralda, aimed at affording visibility and coordinating the productive development efforts at the departmental level (see [online] <https://hubccr.org/>).

<sup>52</sup> See Salazar-Xirinachs (2023).

key to identify the competencies to be developed, so that training and capacity-building programmes aimed at policy practitioners will be as effective as possible. Within the framework of productive development policies, technical capabilities mainly concern the ability to identify problems affecting the productive sector and to design instruments, interventions and efforts to solve them. Operational capabilities concern the capacity to manage programmes, instruments and efforts within the existing administrative and institutional framework. Prospective capabilities concern knowledge of technology and market trends, in addition to the ability to generate future scenarios and ways to achieve them. Political capabilities are linked to the ability to establish and maintain relationships between the different stakeholders working on these agendas, as well as managing coalitions to shift political balances that may be preventing the improvement of productivity.

- At the territorial level, make use of cluster initiatives, as described in chapter II, as an institutional technology that has proven effective in coordinating and joining up the different stakeholders from the public, private, academic and civil society sectors around strategic agendas to improve the productivity of the businesses that make up economic clusters at the local level.<sup>53</sup>

### (b) Adopt the experimentalist governance approach for productive development policies

The complexity of transformation processes imposes a capacity to adapt based on the analysis of stakeholders' experiences, on observation of the evolution of the context and on the iteration of solutions. This experimentalist governance approach, described in this chapter and in chapter II, applies to both the design and implementation of productive development policies, programmes and instruments, and of the institutions and governance mechanisms that underpin them and the coordination bodies in which they participate. In other words, an iterative approach must be adopted to develop institutions and governance for productive development policies, which must in turn be open to ongoing adjustment and iteration.

### (c) Scale up and strengthen monitoring and evaluation capacity for productive development policies

As indicated in the text, it will be key to deepen efforts to monitor and evaluate these policies. The following proposals are made to this end:

- Shift from a budgetary rationale to a training rationale, focusing the evaluation on identifying learning to make productive development policies more effective or efficient.
- Include regional stakeholders in the construction of monitoring and evaluation systems.
- Complement the evaluation of productive development instruments or programmes with the evaluation of productive development policies overall.
- Find more cost-effective ways to carry out evaluation exercises. To achieve this, it will be key to use new digital technologies, such as artificial intelligence.

<sup>53</sup> For more detail, see Llinás (2021) and Salazar-Xirinachs (2020).

#### (d) Ensure that productive development policies continue over time

The complexity of the structural transformation processes that productive development policies are intended to achieve means that these processes are inevitably long-lasting. In this scenario, the following measures should be considered in order to project policies over the medium and long terms and prevent them from veering off track with changes in government:

- Create compacts or agreements to generate solid legitimization of the goals prioritized and the strategies adopted to achieve them.
- Foster participation by private sector stakeholders, the academic sector and civil society in the design and management of productive development policies and programmes.
- Foster the empowerment of the private sector and its leadership (or co-leadership) in conducting agendas and initiatives aimed at bringing productive development policies to fruition. Examples worth mentioning are the many—mainly private sector-led—cluster initiatives being pursued throughout the region. There is also the case of the National Competitiveness and Innovation System of Colombia, which, despite some setbacks, has been contributing for almost two decades to developing shared strategies between the public sector and private actors, such as the Private Competitiveness Council and the Colombian Confederation of Chambers of Commerce (Confecámaras).

#### (e) Strengthen territorialization of productive development policies

As proposed by Salazar-Xirinachs and Llinás (2023), it is crucial that much of the action in relation to productive development policies take place in the territories. It will therefore be essential to ensure a more prominent role for subnational stakeholders. Although this topic will be discussed in greater depth in chapter V, the following proposals are warranted here:

- Strengthen the institutional capacities of local stakeholders to work on deep-reaching productive development agendas.
- Review the legal framework to accelerate and deepen the process of decentralizing powers relating to productive development policies to subnational parties.
- Increase resource transfer to subnational governments to finance productive development policies. Territories must also seek complementary sources of funding for these agendas, not only from public resources, but also from other stakeholders.
- Generate or enhance instances for participation by the private, academic and civil society sectors with a view to the consensual definition of productive development agendas and goals for the respective subnational level.
- Encourage the formation of territorial bodies that support collective action between municipalities or smaller territories for the pursuit of productive development policies.

#### (f) Establish or strengthen multilevel governance schemes for productive development policies

To this end, it is proposed to:

- Redefine the role of national bodies in the design and management of subnational productive development programmes, with emphasis on the role

of fostering and supporting territories with lower capacities, as well as fostering collective action between intermediate governments and innovative methods in productive development policies.

- Establish instances for shared management of productive development programmes led by national entities operating at the subnational level.
- Set up other types of multilevel coordination scheme, as described above, in terms of standards (rules of play), routines and other types of incentive, to facilitate the alignment of efforts between the national and subnational levels.
- Foster actions aimed at decentralizing productive development policies from the capitals of regions, departments, States or provinces towards their respective municipalities.

Pursuing the agenda proposed will require a great effort on the part of the countries of Latin America and the Caribbean and their subnational levels. In this, they may rely upon the support of ECLAC, not only to pursue the lines of research outlined here, but also to support the process of political and institutional development configured in this agenda, which is essential to improve and scale up productive development policies, and thus achieve the ultimate objective of higher levels of well-being and prosperity in the region.

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CHAPTER

# V

## Productive development policies at the subnational level

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Introduction

- A. Characterization of the subnational governments of some countries in the region
- B. Expenditure and functions of subnational governments for productive development
- C. Productive development policy instruments used by subnational governments
- D. Cluster and other territorial productive development initiatives
- E. Summary and guidelines

Bibliography



## Introduction

Chapter I discussed how underlying the low productivity typical of the Latin American and Caribbean countries is highly uneven productivity at the subnational level, whereby the coexistence of areas with high and very low levels of productivity translates into low average productivity overall at the country level. This finding, in part, has led ECLAC to emphasize that “productivity is local and it is generated locally” (ECLAC, 2024b).

Chapter II put forward some elements of a hypothesis describing the efforts made by the countries of the region regarding productive development policies, pointing out opportunities for scaling up and improvement. In particular, these efforts have largely taken a centrist, top-down approach instigated by the central government, without affording any great role to intermediate or local entities in policy design and implementation.

This is despite the fact that, as Salazar-Xirinachs and Llinás (2023) argue, there are reasons, both technical and political,<sup>1</sup> for seeking a better balance between top-down and bottom-up approaches, whereby much of productive development policy action is instigated at subnational government levels.

In line with the political arguments raised by these authors, political development is closely linked to the relative power assumed by subnational governments.<sup>2</sup> In particular, the available information indicates that, where subnational (regional) governments manage to consolidate power, democracy is also stronger. Figure V.1 illustrates this phenomenon and the relationship between indices of electoral democracy, on the one hand, and, on the other, of the relative power of authorities elected at the regional level compared to non-elected public servants working in the same region and appointed largely by the national government.

With regard to resources, to a certain extent the share of subnational governments in total public expenditure reflects their degree of autonomy (via-a-vis the national government) to implement policies aligned with their communities’ needs, priorities and preferences. The data indicate that countries where subnational governments have more power are also those with the greatest participation in total spending (see figure V.2).

At the same time, the dispersion shown in figure V.1 indicates that if relative power of subnational governments is to truly strengthen democracy, it must be accompanied by other conditions; in particular, subnational governments must have the necessary resources and technical ability to manage their powers effectively. Strong accountability and transparency mechanisms are also needed to prevent corruption and abuse of power (Finot, 2001). Public participation and cooperation between different levels of government are also essential to ensure that decentralization not only distributes power but contributes to more equitable and efficient governance.

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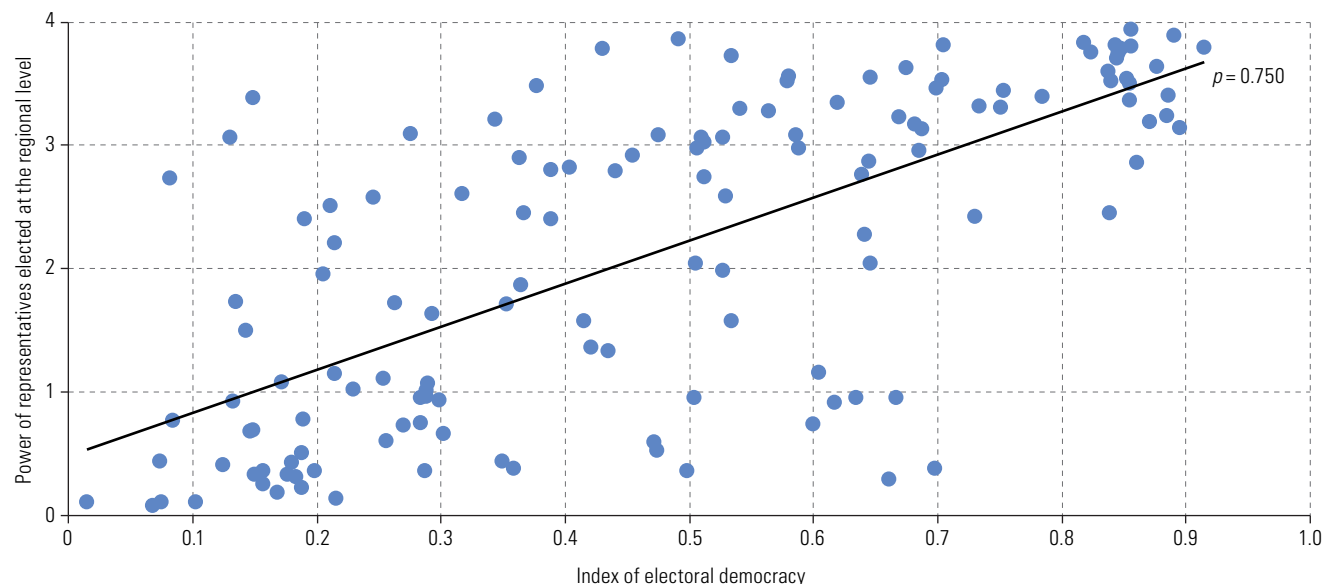
<sup>1</sup> Among the technical reasons these authors mention, a bottom-up approach can add local capacities and resources to those of the national level, thereby increasing the sum of efforts devoted to productive development. Adopting this perspective also makes it possible to take into account the economic and institutional diversity of the different territories. As for political reasons, they refer to the growing interest of local stakeholders in playing a more active role in policies aimed at improving their areas, in addition to the fact that under a local approach the furthest behind areas can be addressed specifically in order to leave no one behind.

<sup>2</sup> As noted in chapter IV, political development may be viewed as the capacity of societies to organize for political action and for States to govern (Hagopian, 2000, p. 902), or as “the development of the institutions, attitudes, and values that form the political power system of a society” (Burnell, 2009, p. 410). That political development is always geared towards increasing the well-being of the population at which it is directed (Kingsbury, 2007, p. 12). One aspect of this process is the construction of democratic systems, for which there is evidence of a positive and significant correlation with higher levels of well-being (Owen, Videras and Willemsen, 2008; Prati, 2022; Bromo, Pacek and Radcliff, 2024; Bellinger, Kriekhaus and Son, 2024).

**Figure V.1**

World (137 countries): index of national electoral democracy and relative power of representatives elected at the regional level, 2023

(Scale of 0 to 4)



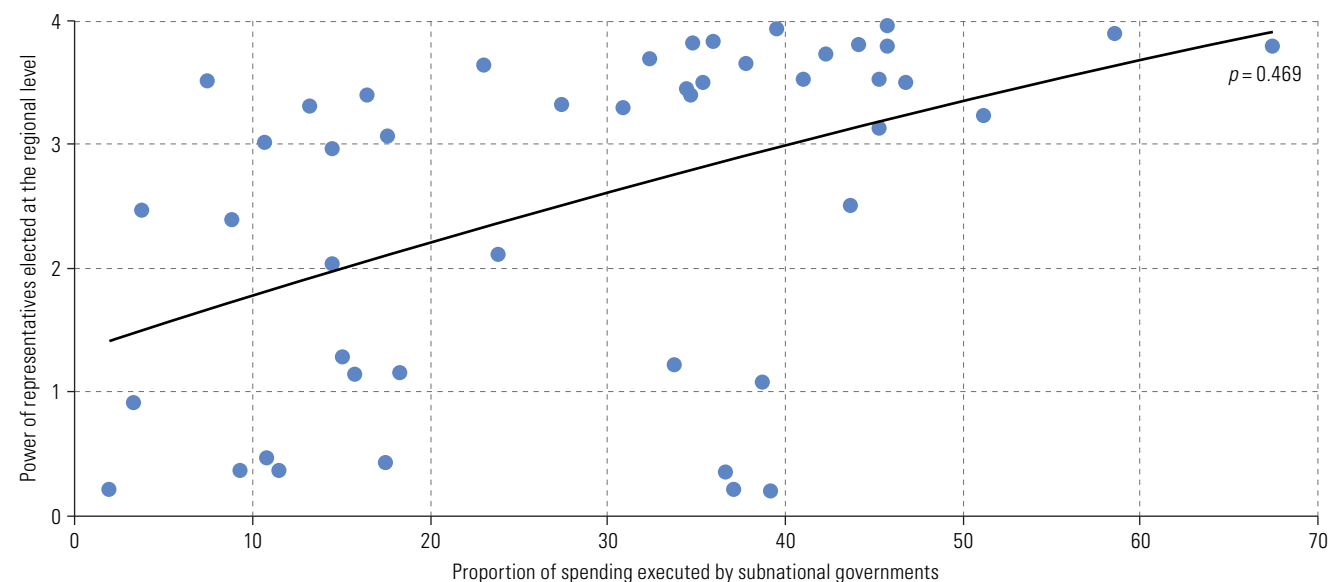
**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of data from Varieties of Democracy (V-Dem) project.

**Note:** The power of representatives elected at the regional level was measured by a survey of experts in the political systems of the countries, in which a question is asked about the relative power of these representatives on a scale of 0 to 4, where 0 is "All or nearly all elected offices are subordinate to non-elected offices at the regional level", and 4 is "All or nearly all non-elected offices are subordinate to elected offices at the regional level".

**Figure V.2**

World (47 countries): relative power of representatives elected at the regional level and spending executed by subnational governments, 2019

(Scale of 0 to 4 and percentages)



**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of data from Varieties of Democracy (V-Dem) project and International Monetary Fund (IMF).

**Note:** The power of representatives elected at the regional level was measured by a survey of experts in the political systems of the countries, in which a question is asked about the relative power of these representatives on a scale of 0 to 4, where 0 is "All or nearly all elected offices are subordinate to non-elected offices at the regional level", and 4 is "All or nearly all non-elected offices are subordinate to elected offices at the regional level". Data for the United Arab Emirates have been omitted as an outlier value.

Thus, political development is not achieved simply by representatives of the national government directing resources towards different subnational areas, even according to criteria that have been agreed upon, nor by giving a local focus to national government policies and adjusting them to local realities.<sup>3</sup> The best case scenario is where subnational governments themselves, elected by the public, develop their own policies with substantial autonomy from the national level —although in coordination with it— and engaging local stakeholders,<sup>4</sup> always ensuring probity and the best use of public resources. This requires a process of subnational institution-building that includes professional training, human and financial resource endowment, and the establishment of monitoring procedures and administrative standards that ensure adequate feedback on the process and effective oversight of the actions of the subnational executive branch.

Subnational governments act on a wide range of policies, including development policies, which can be key to activating development processes in different intermediate areas. When policies are designed and implemented by subnational (regional and local) governments, they are operated by players who are closer to the productive apparatus and can, therefore, more accurately gauge its needs and strengths, and consider taking action specifically geared to the diversity of economic sectors, the types of business in the area and the relationships between the productive agents operating there. Returning to the political reasons mentioned by Salazar-Xirinachs and Llinás (2023), a greater role for local stakeholders, enabling the implementation of productive development policies that include their points of view and experiences, also affords greater policy legitimacy and thus stability, while galvanizing their energies and resources for processes of productive transformation in ways that would otherwise be difficult to achieve. In particular, productive development policies carried out by local (municipal) governments have greater “capillarity”, i.e. the ability to permeate the productive fabric and reach segments that policies designed and implemented by the national government would find harder to access.

The rest of this chapter further explores some of the ideas raised in chapter II regarding the role that subnational governments in Latin America and the Caribbean play or should play in the design and implementation of productive development policies. To this end, section A summarizes some important elements of the regulatory framework that defines the powers of subnational governments in relation to productive development policies for some countries in the region. Section B presents a preliminary diagnosis of the efforts by those governments in terms of productive development policies, and section C analyses the different types of productive development programmes or instruments formulated by subnational governments, on the basis of the study of three countries for which more in-depth analysis could be carried out. Section D returns to the topic of cluster initiatives and other local coordination initiatives, as an example of collective construction and implementation of collaborative strategic agendas at the subnational level. Lastly, section E presents the conclusions and guidelines for the countries of the region, particularly their subnational levels, on how to strengthen productive development policies at that level.

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<sup>3</sup> This is, nevertheless, a more desirable situation than where the government pursues its own policy indiscriminately throughout the national territory, without any consideration for regional and local conditions.

<sup>4</sup> As argued in chapter IV, the desirable scenario may be said to be achieved when decentralization of powers is combined with coordination of functions.

## A. Characterization of the subnational governments of some countries in the region

In order to analyse the role of subnational governments in establishing productive development policies, the first step is to understand the structure of the States. In the context of this document, subnational governments are at the second and third levels of this structure.<sup>5</sup> The second administrative tier takes different names depending on the country, for example, they are called provinces in Argentina, regions in Chile, federative entities in Mexico, and departments in Colombia and Uruguay. The governing entity of these tiers will be termed simply “intermediate government”. The third tier of the State structure refers to the concept of local government and corresponds to municipal governments. In general, much of the reflection will focus on intermediate governments, notwithstanding many of the approaches apply to local governments as well.

The following pages present some elements of the regulatory framework and the State structure that clearly condition the room for manoeuvre (attributes and powers) of intermediate governments to implement development policies (including productive development policies). Attention is focused on five countries: Argentina, Chile, Costa Rica, Mexico and Uruguay.<sup>6</sup>

Table V.1 summarizes some data that illustrate the differences in the structure of the State in the countries considered. Table V.2 enters into more detail regarding the powers of intermediate governments in terms of productive development policies in the five countries mentioned.

**Table V.1**  
Latin America (5 countries):  
type of State  
and administrative  
divisions, 2024

Country	Type of State	Denomination of intermediate government	Number of intermediate entities
Argentina	Federal	Province	24
Chile	Unitary	Region	16
Costa Rica	Unitary	Province and planning region	7 provinces and 6 planning regions
Mexico	Federal	Federative entity	32
Uruguay	Unitary	Department	19

**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official information.

**Table V.2**  
Latin America (5 countries): references to legal framework and to intermediate government powers regarding productive development policies, 2024

Country	Elements of the legal framework	Main powers of intermediate governments in relation to productive development policies
Argentina	Constitution of the Nation: establishes the power that the provinces delegate to the Nation in articles 121 to 129	All matters not delegated to the federal State are the responsibility of the provinces; they organize their institutions and policies through their own Constitution.
Chile	Political Constitution of the Republic, articles 110 and 111 Act No. 19130 for municipal elections (1991) Act No. 19175, constitutional framework law on government and regional administration (1992) Act No. 20390, constitutional reform for the election of governors (2009) Act No. 21074, new powers and financing system of the regions (2018)	Formulation of regional policies to promote productive activities, including start-ups, innovation, training, science and applied technology. Establishment of strategic regional priorities for promoting productive activities and enhancing innovation for competitiveness. Approval of the regional tourism development plan. Promotion and design of projects and measures to promote production activities that have been established as regional priorities. Promotion and support for the establishment of local offices for productive development and innovation for competitiveness, in coordination and by signed agreement with municipalities. Promotion of scientific and technological research, and development of higher education and vocational and technical secondary education in the region.

<sup>5</sup> As seen in chapter IV, some countries have a fourth tier in their State structure (parish or cantonal), which is not taken into consideration here.

<sup>6</sup> These countries have been chosen owing to the availability of information at the subnational level. In future research, this analysis may be expanded to gradually include the other countries in the region. Some information about Colombia is also included later in this chapter.

Country	Elements of the legal framework	Main powers of intermediate governments in relation to productive development policies
Costa Rica	In relation to the provinces: article no. 168 of the Constitution In relation to the establishment of planning regions: Executive Decree No. 7944-P (1978) and Executive Decree No. 16068-PLAN (1985)	The planning regions were established for the purpose of carrying out research and economic development planning activities, but they do not have elected political authorities.
Mexico	Mexican Constitution, articles 117 and 118	All powers that the Constitution does not explicitly grant to federal officials are the responsibility of the States, within the limits established under the Constitution itself. State Constitutions empower States in a similar manner to the federal Constitution with respect to federal public powers. Among the powers regulated by State Constitutions is the authority to promote economic development.
Uruguay	Constitution of the Republic art. 262, 1997 Reform, section XVI on the government and the administration of departments, articles 262 to 306 Framework Act on the government and administration of departments No. 9515, of 1935	The Constitution of the Republic establishes that the government and administration of departments, with the exception of public safety services, will be exercised by a departmental board and an intendant. The departmental board exercises legislative and oversight powers in the department government.

**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official information.

The greatest decentralization of development policies—or the greatest autonomy achieved by intermediate governments—occurs in the federal States. In the two federal States analysed (Argentina and Mexico), those possibilities of action are enshrined in the Constitution. Argentina's Constitution provides that the provinces shall retain all the powers not delegated to the federal government by that Constitution, and those expressly reserved by means of special agreements existing at the time of its establishment (art. 121). The Constitution also grants the provinces the power to define their own local institutions (art. 122) and dictate their own Constitutions.

Similarly, Mexico's Constitution states, in article 124, that the powers not expressly granted under that Constitution to federal officials are understood to be reserved for the States, within the limits established under the Constitution itself (arts. 117 and 118), such as, for example, minting currency and contracting loans with foreign nations, among other powers that the Constitution reserves for the federal level.

The unitary States (Chile, Costa Rica and Uruguay) display significant differences in their definitions of the powers of intermediate governments, especially in matters of productive development policies. Costa Rica stands out as having the opposite situation to that of the federal countries. Its respective constitutional provision (art. 168) establishes seven provinces, among the subnational divisions, but these play no specific political and administrative role, and their only relevance is in distribution for electoral purposes. In the late 1970s, six planning regions were created for research and economic development planning purposes; they do not necessarily coincide with the provinces, however, and have no constitutional rank or elected authority.

As for Chile, since the end of the military government in 1990, progress has been made towards decentralization and regionalization, which has gathered pace since the adoption of Act No. 21074 and the reform that led to regional governors being elected by popular vote. In particular, Act No. 21074, in addition to explicitly defining the responsibilities of regional governments in relation to productive development policies, establishes the organization of these governments by defining a structure of six thematic divisions<sup>7</sup> and establishing a mechanism for transferring powers from national level institutions to the regional governments in these matters. This last point is especially important for two reasons. First, because it refers to developing the capacities

<sup>7</sup> The six thematic divisions are: regional planning and development, regional budget and investment, development and industry, infrastructure and transportation, social and human development, and administration and finance. In particular, the Development and Industry Division is to propose, promote and execute plans and programmes of regional scope to stimulate the development of science, technology and innovation for development and new business capabilities, facilitating the uptake of new information technologies to underpin sustained, integrated and sustainable growth of the respective region, proposing and promoting productive development instruments (Act No. 21074).

of intermediate governments. In this regard, the procedure for transferring powers explicitly indicates that this transfer from the national to the regional level must ensure the resources to enable the regional governments to fulfil the new tasks assigned to them. Second, because it establishes that intermediate government capacity-building for public policies and, specifically, for productive development policies, can occur only if the national entities that had hitherto centralized all productive development programmes and instruments simultaneously change their operating modalities.

In Uruguay, the powers formally assigned to departmental governments originate from the Framework Act on the government and administration of departments (Municipal Framework Act No. 9515, of 28 October 1935), whose article 36 explicitly mentions, among the responsibilities of intermediate governments, the promotion of crop and livestock farming, and the development of industries, of commerce and of development, social security, credit and savings institutions. These functions are added to other typically municipal functions, such as public health and sanitation policy (including waste collection), public roads (including lighting), cemetery services and so on. This prompted the opinion in a recent report that describes Uruguay's departments as a rarity in the region, being halfway between an intermediate level (State or province) and a local level (municipality) of government (Martínez, Radics and Viscarra, 2020). In this case, powers in relation to productive development policies have been expanded more through actions than through a formal transfer of the respective powers (RODDE, 2020). Lastly, it should be noted that, unlike in Chile, Uruguayan law does not establish a single means of organization for all intermediate governments; accordingly, each department has established departmental development offices or directorates with different names, functions and internal organization.<sup>8</sup>

In short, it could be said that the legal frameworks in force in the countries of Latin America and the Caribbean afford subnational governments different margins for manoeuvre, but all give them the powers to participate actively in fostering productive development policies. Subnational governments need to be empowered and adequately prepared to perform this function, within the framework of a relationship of dialogue and cooperation with national government entities, as a necessary condition to achieve more stable policies that are in line with the needs and possibilities of their respective areas and make good use of local resources and capabilities.

The following sections offer a deeper analysis of the capacities and experiences of subnational governments in terms of productive development policies. Section B begins with the study of these governments' expenditures on productive development.

## B. Expenditure and functions of subnational governments for productive development

In Latin America and the Caribbean there are nearly 400 intermediate administrative divisions (States, departments, regions and provinces, among other names), of which around 270 have intermediate governments elected by popular vote (Fretes, 2018; Radics and others, 2022, p. 11). The region also has some 17,000 local divisions (municipalities, parishes, districts, cantons, communes or other denominations), generally administered by local governments, of varying size and complexity, elected by popular vote.

In 2019, subnational governments in the region executed around 15.2% of total government spending, a relatively low figure compared to 28.6% in the case of the

<sup>8</sup> Thus, for example, Montevideo has established a Department of Economic Development and Regional Integration, Canelones set up a Production Cabinet that includes the General Directorate of Economic Development, the Rural Development Agency and the Investment Promotion Agency, and Cerro Largo has a Territorial Development Secretariat. Each of these divisions has its own functions which only partially coincide with one another.

countries of the Organisation for Economic Co-operation and Development (OECD) (Radics and others, 2022, p. 14; OECD, 2024). Nevertheless, the current panorama of the region shows a trend towards greater relative autonomy, both political and financial, of the subnational levels. The share of these governments in total spending doubled in the period from 1985 to 2019 (Radics and others, 2022, p. 18). In addition, there are new subnational governments elected by popular vote (such as the regional governments of Chile, whose governors have been elected in this manner since 2021).

Subnational government spending goes to a wide range of functions, including the provision of education, health, sports, public safety and urban development services. One of the items in which subnational governments participate is productive development policy. Although subnational public spending is not —nor should it be— the only source of resources for productive development policies, given that often other stakeholders from the private, academic and civil society sectors also contribute to it, public resources at the subnational level are essential for furthering these agendas.

In general, local and intermediate governments approach productive development policies differently, showing a kind of specialization along the lines of the “comparative advantages” that each level of government has. The advantage of local governments stems from their greater proximity to the population and to the realities of local productive systems. This is important, for example, when implementing programmes aimed at growing microenterprises, training and other matters (Correa and Dini, 2019; Montero, Medina and Correa, 2024).

The comparative advantage of intermediate governments stems from their role as intermediaries between national and local governments,<sup>9</sup> ensuring that the support that the national government is able to provide effectively reaches all localities via the link established by national and intermediate governments, on the one hand, and local and intermediate governments, on the other. This helps to ensure that policies are relevant on the ground. Intermediate governments can also foster joint action between municipalities that share interests or needs and help to avoid forms of competition that would be detrimental to the common interest.

Meanwhile, as discussed in chapter IV, multilevel governance, through dialogue between different levels of government, helps to reduce tensions or conflicts between the intermediate level itself and the next level of government operating in that division. It thus contributes to ensuring respect for the relative autonomy of intermediate and local governments.

As seen in section V.A, in some countries, national laws governing the functions of subnational governments and their organization make explicit references to the specialization of functions for productive development. Where this does not occur, an implicit specialization derives from the development plans or strategies of the various levels of government or from their actions. Thus, for example, local governments’ municipal development plans tend to afford great importance to topics such as start-ups, training, public-private and public-public coordination, partnerships, tourism and rural development, among other things (Correa and Dini, 2019; Montero, Medina and Correa, 2024), while national governments tend to specialize, unlike subnational governments, in issues that require large economies of scale, such as science, technology and innovation (Cassini, 2024). Without attempting to provide an exhaustive list or outline rigid divisions between the different levels of government, table V.3 shows some examples of functions in which the different levels may have a comparative advantage in relation to productive development policies. While it is true that certain local and regional governments often lack the human and financial capacities to perform some of these functions, this means only that financing and capacity-building at this level remain a challenge.

<sup>9</sup> Studies that have analysed the impact of different factors (such as, for example, economies of scale and interregional externalities) on the decentralization of development policies indicate that the decision to decentralize policy is not an obvious step, but depends, among other factors, on the geographical, institutional and economic context and the issues to be addressed (Pelkmans, 2006; Ederveen, Gelauff and Pelkmans, 2006).

**Table V.3**  
Implicit specialization of functions in productive development policies, by level of government

	International relations	Major infrastructure	Internationalization	Regulations and standards	Science, technology and innovation	Attraction of foreign direct investment (FDI)	Prioritized sectors	Clusters	Small and medium-sized enterprises (SMEs)	Technical education	Training	Agriculture	Tourism	Microenterprises	Formalization	Start-ups
National government																
Intermediate government																
Local government																

**Source:** Economic Commission for Latin America and the Caribbean (ECLAC).

It is important to look at the explicit or implicit specialization by government level in certain types of productive development policy in order to strike a better balance between the functions of the players operating at different levels of the State. This is consistent with building multilevel governance for productive development policies which, as mentioned in chapter IV, requires decentralization of functions and coordination between the stakeholders involved, to promote synergies between levels of government and pool the efforts of private and public actors, the academic sector and civil society. In turn, this will help to deepen democracy and give subnational communities more freedom to shape their development patterns.

Two further points warrant attention in relation to the specialization of functions. The first is that higher-level governments can usually support lower-level governments in carrying out each function, for which the functions performed by lower levels of government must also exist at the level of government immediately above. For example, if the local government level has offices for microenterprises, intermediate governments must also have microenterprise experts to support local-level officials in these tasks, systematizing their experiences and disseminating good practices and promoting interaction between locations, among other functions. Another example might be a foreign direct investment (FDI) office within the regional government, whose actions can be coordinated at the national level, collecting and disseminating best practices, and bringing together offers and opportunities for investment and FDI attraction,<sup>10</sup> among other tasks. In summary, the national level can have experts on all topics and support intermediate governments on some of them, while intermediate governments can have specialists and work on some of the topics, and in turn support local governments in functions where they have a comparative advantage.

The second additional point is that all three levels of government should have productive development strategies built into their development plans and acting at their respective scales. Ideally, each agenda should take into account the strategies adopted at higher levels of government, in order to avoid contradictions and facilitate synergies.

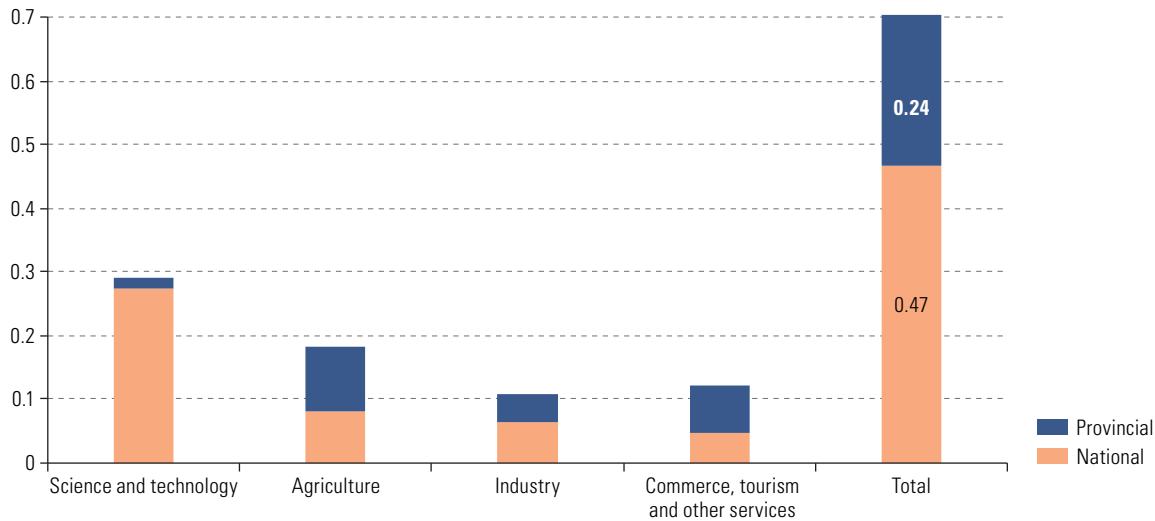
The general picture from a qualitative evaluation of subnational productive development policies may be complemented using the quantitative information available for a limited number of countries in the region. Quantitative information on spending by subnational governments on productive development policies shows both commonalities and specificities. There follows an analysis for the subnational governments—specifically intermediate governments—of five countries in the region: Argentina, Chile, Colombia, Mexico and Uruguay. These countries were selected for a first approach to studying the work of subnational governments because their contribution to productive development policies can readily be quantified. Expansion of these analyses to the other countries in the region could be considered in future work.

<sup>10</sup> See ECLAC (2024a).

As a federal country, Argentina has broadly decentralized productive development policies. In 2022, provincial governments spent an amount equivalent to over 51% of the resources contributed by the national government to these policies (see figure V.3). Intermediate governments specialize in policies relating to agriculture, commerce, tourism and other services, which contrasts with the national government's specialization in science and technology and industry. This reflects comparative advantages at the national and provincial levels of government.

**Figure V.3**

Argentina: spending on productive development policies, by government level, 2022  
(Percentages of GDP)



**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of L. Cassini, "Estudio sobre política de desarrollo productivo desde las gobernaciones provinciales de la Argentina", 2024, unpublished.

The efforts the Argentine provinces devote to their productive development also vary in intensity (see figure V.4). On average the provinces spent 1.8% of their budget on productive development policies in 2022, but in some this figure exceeded 4%, while others spent less than 0.5%. This difference may be partly explained by per capita income levels: the provinces that expend greater efforts on productive development policies (Misiones, San Luis and La Rioja) are also some of the ones with the country's lowest per capita income (Cassini, 2024).

For Uruguay, thus far the only information on spending is from the Departmental Development Directorates of each intendency. According to the Network of Departmental Development Offices (RODDE, 2020), these Directorates have focused on economic development issues, especially rural development and increasing employment by strengthening small producers, start-ups and micro-, small and medium-sized enterprises (MSMEs). Accordingly, the expenditure associated with these units may be seen a first approximation to the measurement of each department's productive development policy efforts.

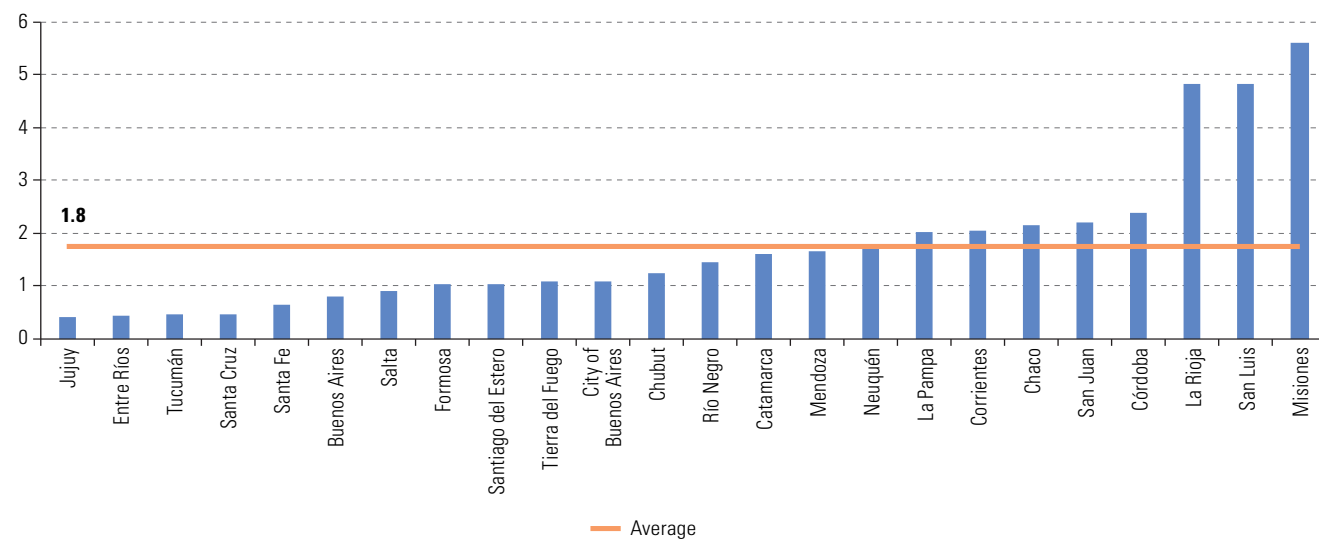
The share of these Departmental Development Directorates in total expenditure by intermediate governments averages 2% for 17 of the 19 departments (see figure V.5).<sup>11</sup> This figure is similar to that of the intermediate governments of Argentina. However, unlike in Argentina, in Uruguay there is no correlation between the departments' level of per capita income and the productive development policy effort reflected in the Directorates' share in each intermediate government's total expenditure. More detailed information on the use of resources is needed in order to arrive at hypotheses and recommendations. This difference could be explained by the structure of Uruguay's intermediate governments, which, as seen in section A, is very different from one department to another.<sup>12</sup>

<sup>11</sup> Maldonado and Rocha are not included owing to lack of information.

<sup>12</sup> According to RODDE, the number of directorates per intendency varies from 7 to 23 (RODDE, 2020, p. 23).

Figure V.4

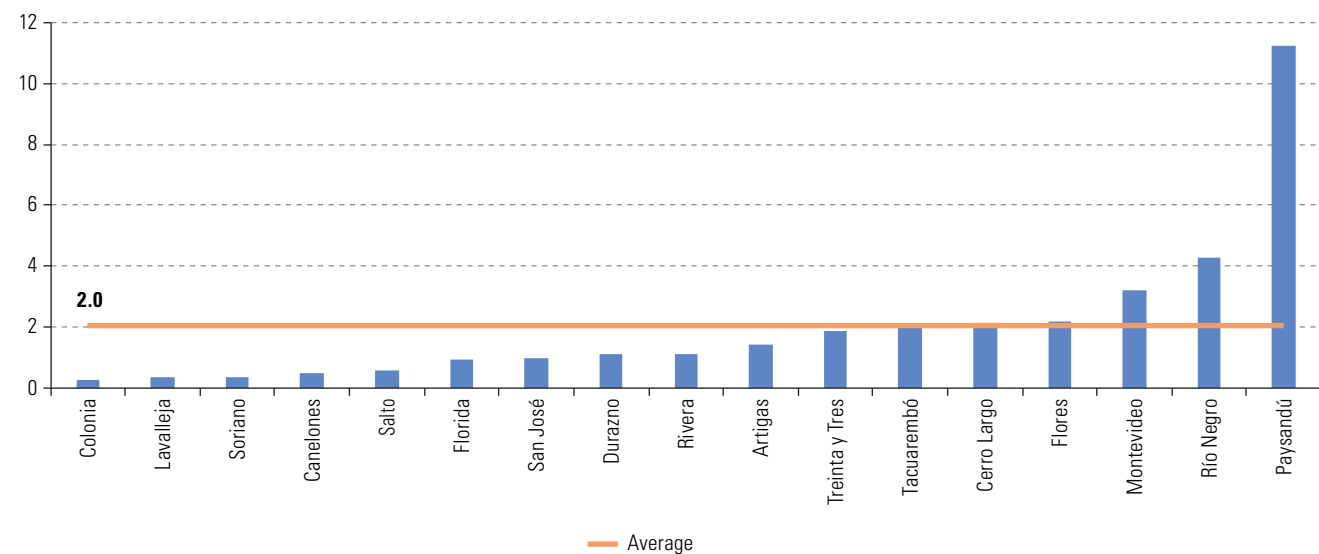
Argentina: spending on productive development policies by provincial governments, 2022  
(Percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of L. Cassini, “Estudio sobre política de desarrollo productivo desde las gobernaciones provinciales de la Argentina”, 2024, unpublished.

Figure V.5

Uruguay (17 departments): share of Departmental Development Directorates in total expenditure of departmental intendancies, 2016–2018 average  
(Percentages)

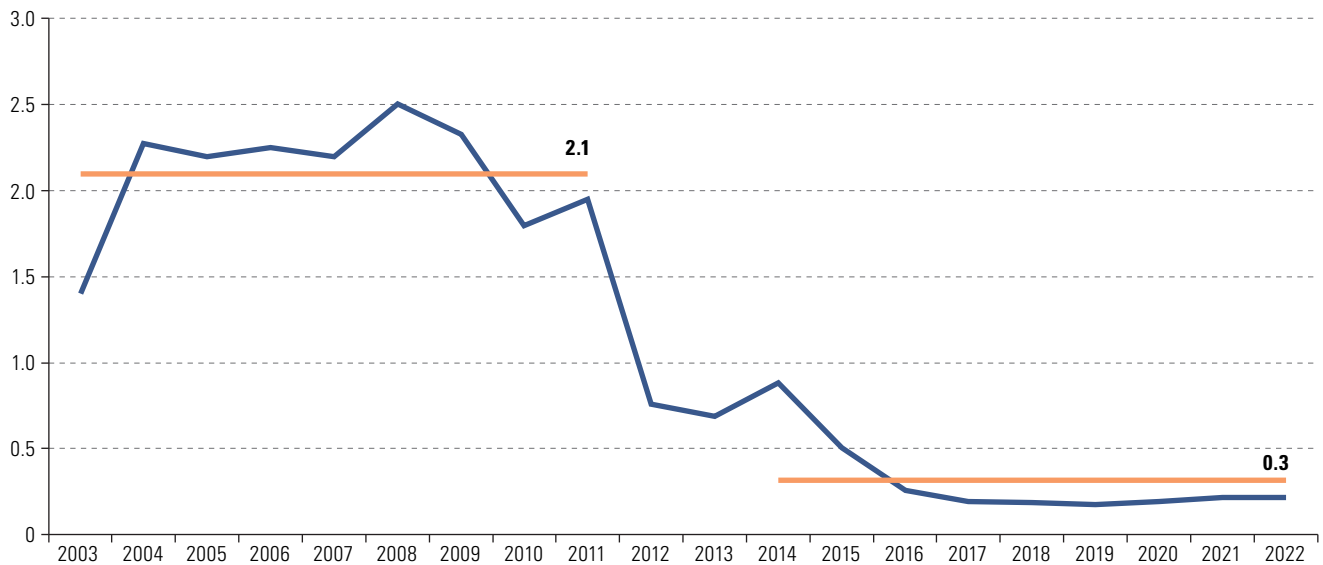


Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of RODDE (2020).

In the case of Mexico, there is a historical series with public finance data from 2003 to 2022 (see figure V.6). The combined amounts allocated to both investment and subsidies for productive development policies show a significant drop between the two decades,<sup>13</sup> from 2.1% of total spending in 2003–2011, to just 0.3% in 2014–2022. This decrease in productive development investment and subsidies occurs across most of the States and while the amounts involved are considerable, a comprehensive enough analysis to interpret them convincingly would require information that is not currently available. On average, investment items and subsidies represent only 0.2% of total expenditure by intermediate governments, a value much lower than that spent in Argentina and Uruguay on items that are, in principle, equivalent.

**Figure V.6**

Mexico: budgetary effort of federal entities in productive development policies, 2003–2022  
(Percentages of total public spending)



**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of G. Peredo 2024, “Gasto en desarrollo productivo en los gobiernos subnacionales de México”, unpublished, 2024.

**Note:** Simple average for 32 federal entities.

Budgetary efforts do not correlate with any socioeconomic measurement in the Mexican States, so it is not possible for the time being to venture any data-based hypothesis to explain why some State governments invest more than others in productive development policies.

Chile and Colombia share a particular feature that requires them to be discussed independently from the other countries. The statistics in these countries are not from subnational government budgets, but from national funds that finance investment projects and include subnational governments in the resource allocation processes. Both the National Regional Development Fund of Chile and the General Royalties System of Colombia are national funds which are executed, to a large extent, by intermediate or local governments. These resources are not intended to finance the operation of subnational governments but are used for local development projects.<sup>14</sup>

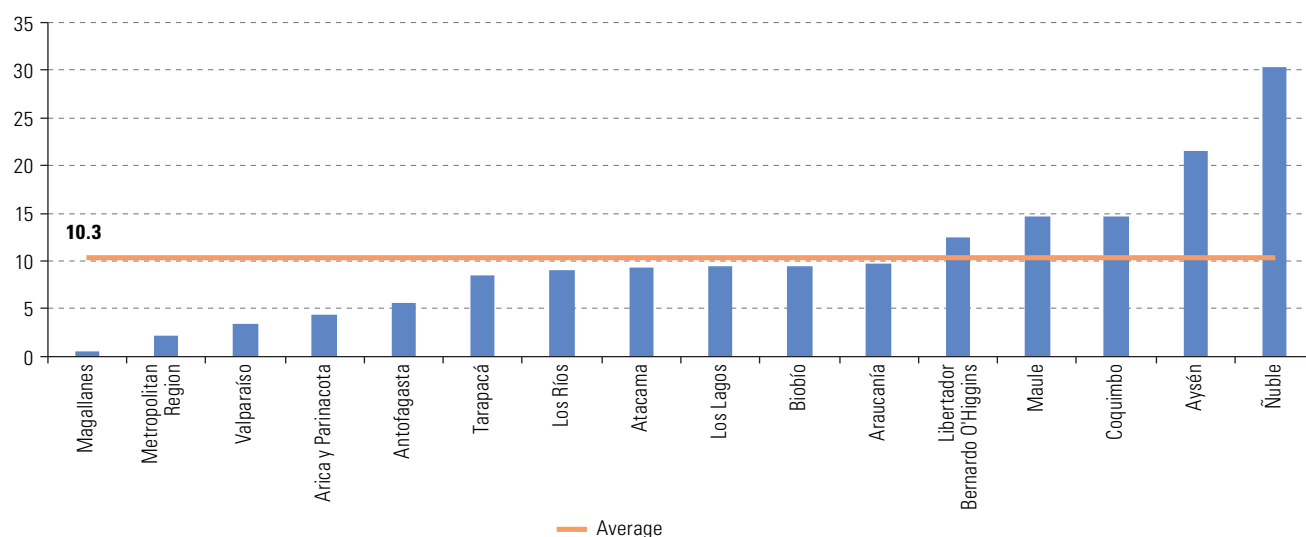
<sup>13</sup> The investment considers spending on the following items: agricultural and forestry development; industrial and commercial development; tourism development and promotion; studies, formulation and evaluation of productive projects not included in items mentioned earlier in this chapter; execution of production projects not included in items mentioned earlier in this chapter; and miscellaneous production projects and development actions. Subsidies include two items: production subsidies and investment subsidies. The “miscellaneous subsidies” item could include amounts for productive development, but these could only be identified via scrutiny of individual subsidies not undertaken in Peredo’s first exploratory study (2024). This exercise remains to be carried out in due course in order to complement the data.

<sup>14</sup> See a more detailed description of both funds in Yáñez and others (2024) and Gómez (2023).

In Chile, regional governments allocated, on average, 10.3% of the National Regional Development Fund to productive development policies between 2017 and 2019 (see figure V.7).<sup>15</sup> As in Argentina, in Chile there is some correlation between lower regional income level and greater emphasis on productive development policies. Ñuble, for example, the region that allocated the greatest budgetary effort to productive development policies in the period, had the lowest per capita GDP of Chile's 16 regions. The Metropolitan region and Magallanes and Antofagasta, the three with the highest per capita GDP, place little emphasis on projects relating to productive development policies.

**Figure V.7**

Chile: National Regional Development Fund investment going to productive development policies, by region, 2017–2019 (Percentages)



**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of R. Yañez and others, "Financiamiento e institucionalidad de las políticas de desarrollo productivo del nivel regional en Chile", *Project Documents* (LC/TS.2024/69), Santiago, ECLAC, 2024.

Colombia's General Royalties System makes use of different funds to finance projects that are evaluated by different decision-making bodies, as determined by the regulations of each specific fund. The funds within the system that contribute most to productive development policies are the Science, Technology and Innovation Fund and the Regional Compensation Fund.<sup>16</sup> In the first of these, resource allocation is based on open national tenders,<sup>17</sup> which preliminary analyses suggest tends to concentrate resources in the departments with greater economic and institutional capacities (Gómez, 2023). The second of these funds, which finances local impact projects in the poorest municipalities, assigns the responsibility for resource allocation to the corresponding municipality.

<sup>15</sup> Until 2020 there were no elected regional governors in Chile; this practice began after the 2021 election. However, there were elected regional councillors, who are involved in the formulation and approval of projects under the National Regional Development Fund (Yañez and others, 2024).

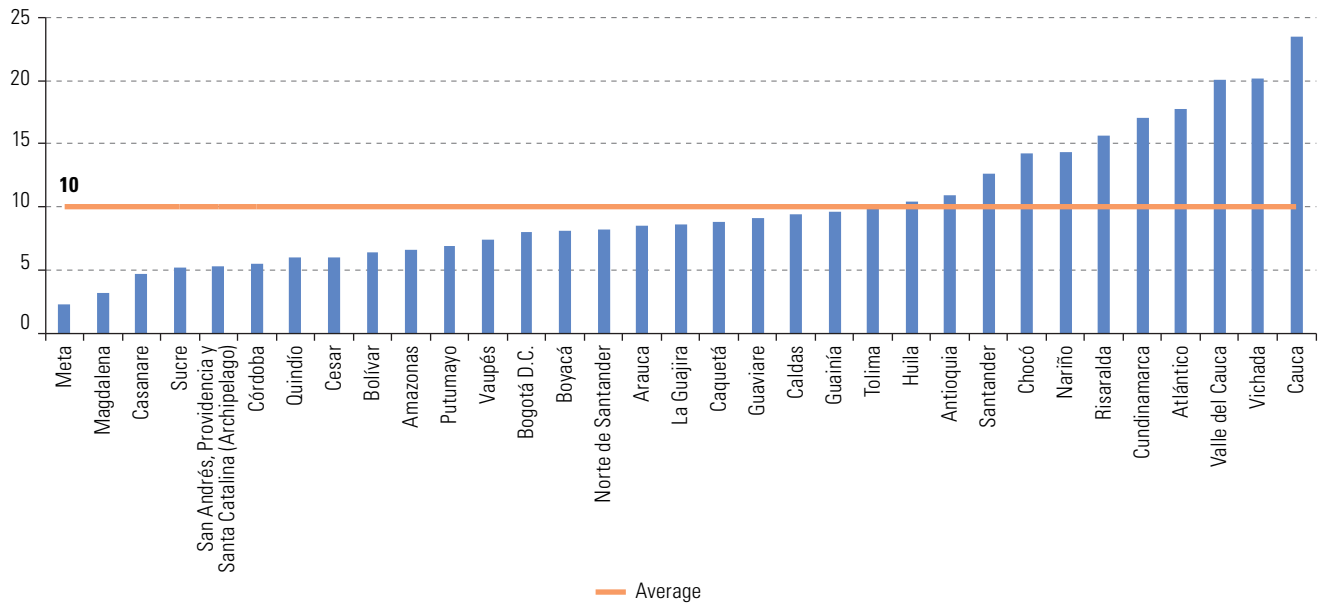
<sup>16</sup> Research carried out by Paola Gómez estimates that between 2012 and 2020, the General Royalties System contributed an annual average of US\$ 196 million to financing productive development initiatives. Of these, 54% came from the Science, Technology and Innovation Fund. The Regional Compensation Fund, which paid out a total of US\$ 316 million in the period analysed, financed around 18% of productive development initiatives (Gómez, 2023).

<sup>17</sup> In the past few years, major changes have been made to the regulations of the Science, Technology and Innovation Fund. Two stand out: (i) in 2019, all stakeholders in the National Science and Technology System were allowed to formulate and present projects directly to the Ministry of Science, Technology and Innovation, as part of its open national tenders process; and (ii) in 2022 it was established that the funds would not be divided between the departments, but would form a nationwide pool to which stakeholders from different sectors from across the country could apply, without geographical distinction (Gómez, 2023).

Of the General Royalties System's total resources, on average, in the period studied, the departments allocated 10% to productive development policies<sup>18</sup> (see figure V.8).<sup>19</sup> As in Argentina and Chile, in Colombia there is a correlation —albeit tenuous— between the lower income and relative effort on productive development policies. High-income departments, such as Casanare, Meta and Bogotá D.C., invest less than the average on productive development policies. Meanwhile, low-income departments, such as Vichada, Nariño or Chocó, expend an above-average effort on these policies. Cauca is the department to have invested most General Royalties System funds (more than 20%) in productive development policies, and, although it is not one of the poorest departments, its per capita income is below average.

**Figure V.8**

Colombia: General Royalties System investment in productive development policies, by department, 2012–2020 (Percentages)



**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of A. P. Gómez, “Fondos regionales de desarrollo productivo: análisis del Sistema General de Regalías (SGR) de Colombia”, *Project Documents* (LC/TS.2023/24), Santiago, ECLAC, 2023.

The information presented thus far reveals profound differences in the five countries examined in terms of the effort allocated to productive development policies by intermediate governments. The most extreme example is Uruguay, where the Departmental Development Directorates in the intermediate governments that make the greatest investment efforts on productive development policies invest over 30 times more, in percentage terms, than the Directorates that allocate the least to these policies. In the other countries, the difference between the greatest and least investment efforts by intermediate governments is a factor of around 10. The explanation for the differences may lie, in small part, in the per capita income of each subnational area. Data in the cases of Argentina, Chile and Colombia indicate a trend whereby subnational areas with lower per capita GDP allocate, on average, a greater proportion of their budgets to finance productive development policies. This hypothesis has not been verified yet in the cases of Mexico and Uruguay, and it must be studied in more depth to be able to validate it. Another lead arises from analysis of Uruguay, which indicates that part of the explanation could lie in the differences between intermediate

<sup>18</sup> A total of US\$ 1.766 billion was allocated between 2012 and 2020.

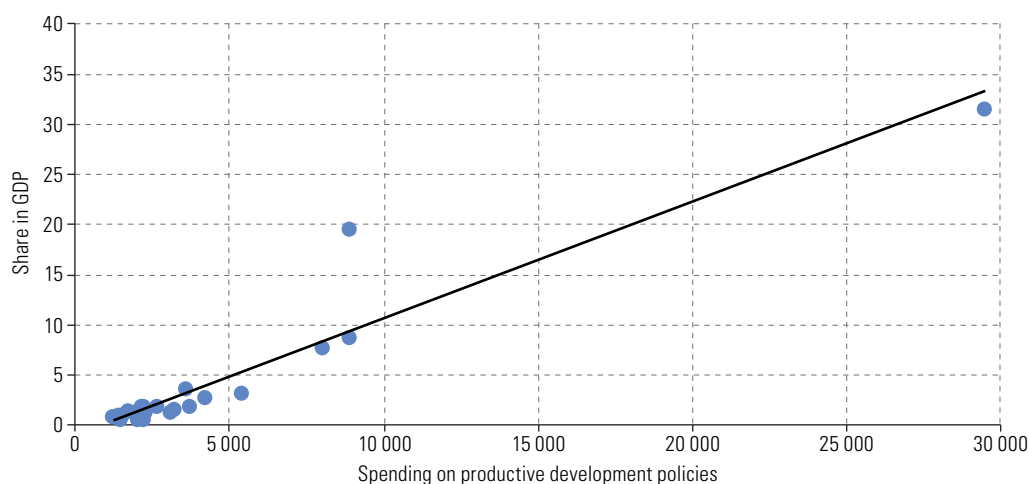
<sup>19</sup> Spending on productive development policies includes 3 sectors and 16 subprogrammes of the Unified Investment and Public Finance System. See more details in Gómez (2023, p. 43).

governments' organizational modalities and capacities. In conclusion, these factors (per capita GDP and organizational modalities of intermediate governments) could help to explain the differences in the efforts expended on productive development policies, but a conclusive result would require more in-depth analyses to investigate the impact of other socioeconomic and institutional variables.

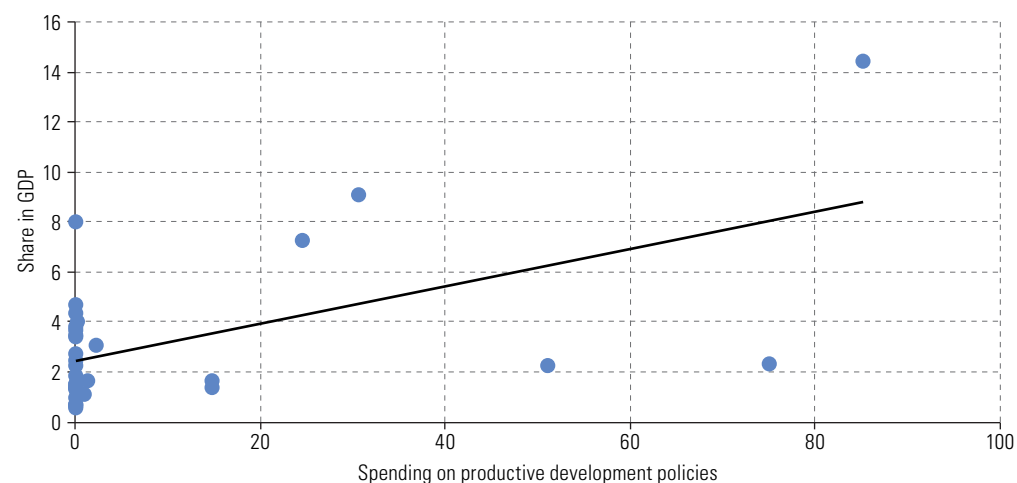
A final observation concerns the budgetary effort of intermediate governments on productive development policies in absolute terms. In this regard, the relationship between total spending by intermediate governments on these policies and the contribution of their localities to GDP is not as clear as might be expected. In two cases it is positive, in one it is negative and in two others it is not statistically significant.<sup>20</sup> The analysis also shows that the magnitude of the correlation varies in the five countries, and is highest in Argentina (see figure V.9).<sup>21</sup> In countries where this correlation is low (Colombia and Uruguay) or negative (Chile), productive development policies may be expected to have a positive effect on convergence between the most and least developed areas.

**Figure V.9**  
Latin America (selected countries): correlation between share in national GDP and subnational spending on subnational productive development policies, 2019–2022 (Percentages and millions of dollars)

#### A. Provinces of Argentina, 2022



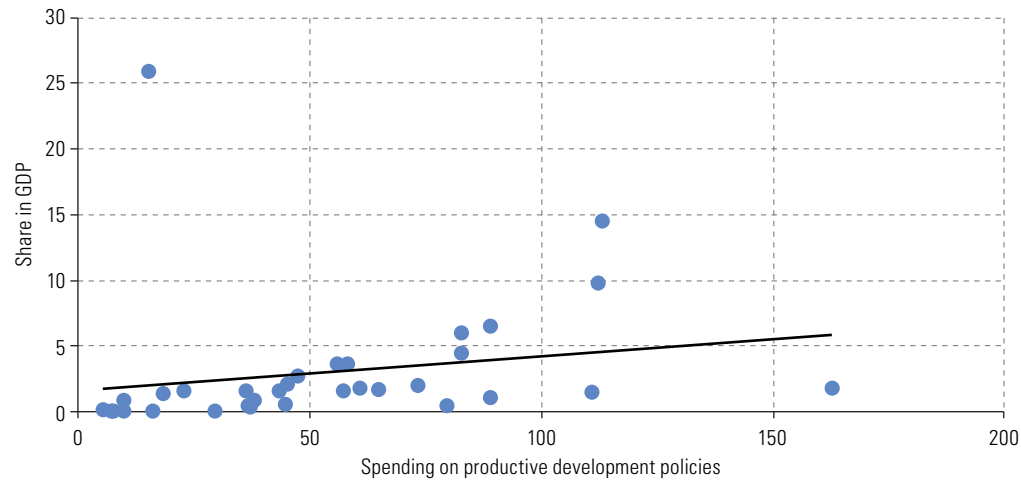
#### B. Federal entities of Mexico, 2022



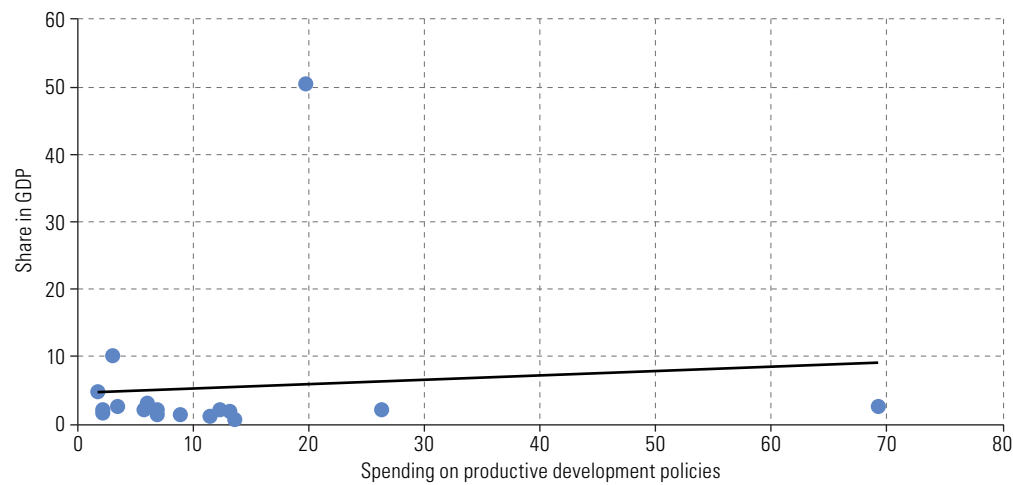
<sup>20</sup> In Argentina and Mexico, the correlation is statistically significant at the 1% level, while in Chile, Colombia and Uruguay the correlation is not statistically significant.

<sup>21</sup> The only case that shows a negative correlation is Chile, where the Metropolitan Region is an outlier that, when omitted, results in a change in direction of the trend.

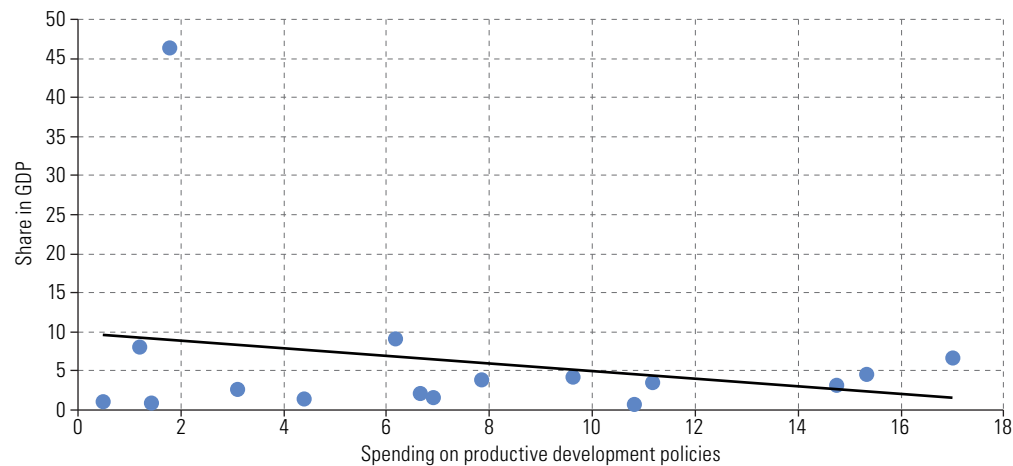
## C. Departments of Colombia, 2012–2020



## D. Departments of Uruguay, 2019



## E. Regions of Chile, 2019



**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of Red de Oficinas de Desarrollo Departamental (RODDE), *Capacidades institucionales para el desarrollo territorial: el caso de las direcciones de desarrollo departamental*, Montevideo, May, 2020; A. P. Gómez, "Fondos regionales de desarrollo productivo: análisis del Sistema General de Regalías (SGR) de Colombia", *Project Documents* (LC/TS.2023/24), Santiago, ECLAC, 2023; L. Cassini, "Estudio sobre política de desarrollo productivo desde las gobernaciones provinciales de la Argentina", 2024, unpublished; G. Peredo, "Gasto en desarrollo productivo en los gobiernos subnacionales de México", 2024, unpublished and R. Yañez and others, "Financiamiento e institucionalidad de las políticas de desarrollo productivo del nivel regional en Chile", *Project Documents* (LC/TS.2024/69), Santiago, ECLAC, 2024.

**Note:** For Mexico and Uruguay, the share in GDP refers to 2021 and 2014, respectively.

Given the relationship between the resources invested in productive development policies and the size of the economy (and population) in different local areas, it could reasonably be assumed that, although the hypothesis raised above suggests that poorer areas allocate more of their budget to productive development policies, these resources still might not be sufficient to close the gap vis-à-vis other areas. Indeed, a larger proportion of a smaller amount may still come to a smaller amount. This is important because it speaks to the ability of intermediate governments' productive development policies to close equality gaps with other similar administrative divisions within the country.

Of the five countries examined, Chile is the only one in which closing gaps between local areas seems to be a deliberate budgeting criterion, because of the distribution criteria of the National Regional Development Fund (Yañez and others, 2024). This said, further analysis is undoubtedly required to determine the degree to which subnational investment in productive development policies helps to reduce or widen these gaps.

A final element to consider in this section concerns the role of local governments in productive development policies. Some preliminary considerations are outlined below.

As mentioned, given their proximity to the population, local governments are better able to reach smaller, less productive agents. However, local conditions and the action of local governments are always more difficult to identify and analyse than those of intermediate governments, because socioeconomic statistics are generally not representative at the local level, except in some topics and for a few countries. There is no information on local production, value added, employment, number of firms or their characteristics. Nor are there, to date, compilations of local government budgets allocated to productive development policies. Because of the lack of information at the local level, studies on local economic development and the respective policies have had to be based on more qualitative information.

Municipal (or district, communal or cantonal, among other names) development plans are normally prepared by the elected authorities of local governments and published as a guide for local authorities during a specific period, usually their term of office. These plans are legally mandated in many of the region's countries, and they address all dimensions of local development and local government action. Consequently, they also include local economic development and productive development policies, making them an important source of information for the study of local government action in relation to productive development policies.

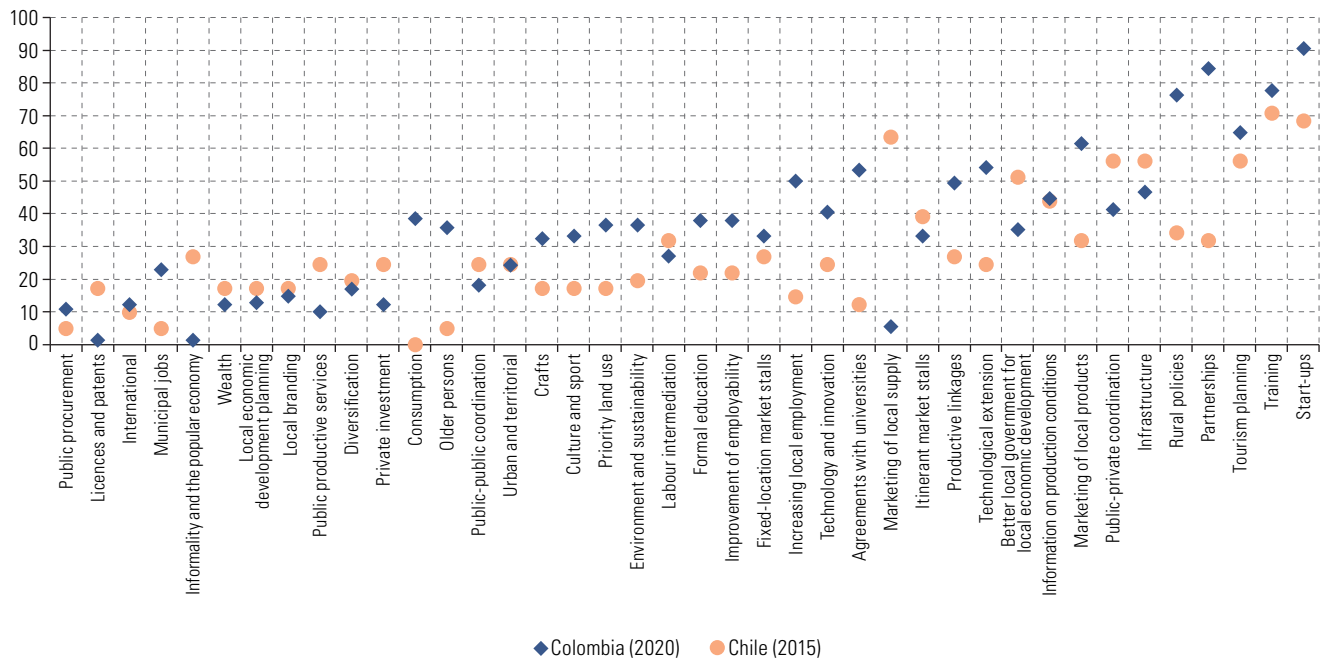
Of the five countries, studies have been carried out in Chile and Colombia on the action of local governments in terms of productive development policies (Correa and Dini, 2019; Montero, Medina and Correa, 2024).<sup>22</sup> These studies show that, in both countries, local governments tend to concentrate on certain categories of action. Of 40 categories considered by the authors, the efforts most mentioned in municipal development plans concern start-ups, training, tourism, partnerships (including the social and solidarity economy), rural policies, specific infrastructure for productive development, public-private dialogue (working groups or other coordination bodies), short marketing circuits, local institution-building for local economic development (increasing the number of professionals, creation of offices, improvement of local statistical, economic and productive information) and technology extension aimed at microenterprises and small businesses (see figure V.10). Of these actions, those relating to start-ups and training are the most common, with a mention in 90.5% of local development plans in Colombia, and in 68.3% in Chile.

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<sup>22</sup> The studies mentioned analyse the plans of the municipalities that are provincial capitals in Chile and subregional capitals in Colombia.

**Figure V.10**

Chile and Colombia: frequency of local economic development measures contained in municipal or communal development plans of subregions or provincial capitals, by category, 2015–2020  
(Percentages)



**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of F. Correa and M. Dini, “Local economic development policies in Chile’s municipalities: beyond welfarism”, *CEPAL Review*, No. 127 (LC/PUB.2019/6-P), Santiago, ECLAC, April 2019 and S. Montero, A. Medina and F. Correa, “Avances institucionales y desajustes territoriales en la planeación municipal del desarrollo económico local en Colombia”, Santiago, ECLAC, unpublished, 2024.

**Note:** The data from Correa and Dini (2019) were adjusted to reflect only the content of the communal development plans of the provincial capitals or subregions.

There are also differences within countries and between locations. In the case of Chile, the variables underlying the efforts in a greater number of categories by certain local governments include: the total municipal budget, being the regional capital and whether the plan has been prepared by an external consultant or by municipal officials themselves (Correa and Dini, 2019, p. 69). With a larger budget, the local government can expend efforts on a broader range of productive development policies. On the second point, the data indicate that if a municipality is the capital of the intermediate subnational level (region), it tends to plan productive development policy efforts in a smaller number of categories. One possible explanation for this is that the national government’s productive development policy action at this level is concentrated in the regional capitals, so that the respective local governments refrain from action on this front, because it is already covered by the national government. Lastly, plans prepared by consultants tend to be more extensive in terms of productive development policies (i.e. they include more lines of action), possibly because they are more specialized in this area (some local governments have only very weak capacities to design and implement productive development policies) or possibly because they are not constrained by having to implement what is proposed and planned (local governments can be more cautious when planning as they are aware of their restrictions when it comes to implementing what is planned).

In the case of Colombia, there is a statistically significant relationship between the local government’s institutional strength in terms of economic development and the number of actions proposed in municipal development plans (Montero, Medina and

Correa, 2024).<sup>23</sup> Local governments in Colombia typically have strong local economic development institutions. In 2024, 62.2% of the local governments studied by Montero, Medina and Correa had an Economic Development Office; this is a high figure compared to Chile, where only 10.1% of local governments studied had such an office (Correa and Dini, 2019, p. 64). The greater degree of development of Colombian local institutions could, in principle, explain why local governments in Colombia cover local economic development policies more broadly than local governments in Chile.

Given the limited resources of local governments in both countries, multilevel collaboration agreements have been used as one of the forms of institution-building for the implementation of productive development policies at the local level. In both countries, such agreements finance the creation and maintenance of local offices with financing mostly from higher-level governments, though sometimes with shared financing. In Colombia, this modality of multilevel governance has underpinned a significant number of Municipal Agricultural Technical Assistance Units, which are established in collaboration with the Ministry of Agriculture and Rural Development (Montero, Medina and Correa, 2024). In Chile, this modality has financed municipal offices with personnel covering a wide variety of topics, including agricultural development (PRODESAL programme), labour intermediation (Strengthening Municipal Labour Information Offices programme), female start-ups (Working Women and Heads of Household programme) and training (+Capaz Programme) (Correa and Dini, 2022). The legal reform proposed in Chile in 2018, which is still in the process of implementation, included intermediate governments in this multilevel governance mechanism and mandated them to support the establishment of offices of this sort by agreement with local governments (Correa and Díaz, 2022).

Although partial, the empirical information presented in this section provides some interesting elements for reflection that may be useful to recapitulate before moving on to the next topic. One of these is the possibility of subnational governments playing important roles in productive development policies, based on their specific comparative advantages: the capacity for bridging the national and local levels, in the case of intermediate governments, and proximity to the population, in the case of local governments. These potentialities, however, are only partially and unevenly realized in the countries analysed. The data on the budgetary effort made by intermediate governments indicate that their contribution to productive development policies is not trivial (as a percentage of total expenditures), although it is very mixed from one country to another. Meanwhile, in the case of subnational areas with small economies, the resources invested may not be sufficient to close the gaps vis-à-vis more developed regions (even if their efforts exceed those carried out by the larger economies in relative terms). Lastly, identification of the areas of productive development action by local governments shows significant differences between Chile and Colombia in terms of how they organize to perform these roles. This suggests that experiences can be analysed and compared to suggest strategies to strengthen local governments' ability to pursue productive development policies.

<sup>23</sup> This relationship is statistically significant at the 5% level, controlling for other relevant variables. Institutional strength is measured by the presence of a secretariat of economic development (or a department with a similar name, but always aimed at local economic development) in the local government organizational chart, in a sample of 145 local authorities.

## C. Productive development policy instruments used by subnational governments

This section will look at the productive development policy instruments being used by subnational governments to further the application of these policies in their jurisdictions. Data on this subject are available for three countries of the region: Argentina, Mexico and Uruguay.

A total of 14 different types of policy instrument were examined, and the percentage of subnational governments making use of each of these instruments in each of the countries was calculated (see table V.4). In each case, only those programmes or instruments that are being used directly by the subnational government in question or for which that government is clearly playing a leadership role were considered. Thus, for example, guarantee funds that are made available to the region or province in question are not considered unless the subnational government is the one that has arranged for their creation and use. By the same token, public enterprises and public banks are not included in the analysis unless they are owned or managed by the subnational government concerned.

**Table V.4**

Argentina, Mexico and Uruguay: subnational government use of each type of productive development policy instrument, 2024  
(Percentages)

	Argentina	Mexico	Uruguay
Subsidies for science and technology or for productive development (including trade promotion and the attraction of investment)	88	100	95
Productive development credit programmes	42	94	47
Subnational government guarantee funds	38	0	5
Specialized agencies running science and technology, productive development, investment or export programmes	63	100	53
Research or innovation centres	4	100	32
Public banks run by subnational governments	42	0	0
Public enterprises run by subnational governments	100	0	0
Public universities run by subnational governments	38	100	0
Institutions run by subnational governments that provide vocational training or short courses	100	100	0
Technical schools attached to a subnational government	100	100	26
Local public procurement programmes	83	0	37
Tax exemption programmes	83	0	37
Infrastructure programmes	...	69	100
Regulatory agencies	0	0	0

**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of consulting reports.

**Note:** Although provincial governments invest in productive infrastructure (such as irrigation works, flood works, industrial parks or industrial natural gas distribution networks), accurate data on their efforts in this respect could not be obtained because their budgetary information is not broken down in a way that would make that possible.

Two important conclusions can be drawn from the data presented in table V.4: (i) each of the three countries uses a different mix of policy instruments; and (ii) the frequency with which each instrument is used also varies significantly from one country to the next.

With regard to the first point, it can be seen that Argentina uses 12 of the 14 (92%) policy instruments that were covered in this analysis, whereas the corresponding percentages for Mexico and Uruguay are close to 60% and 64%, respectively.

The situation in terms of the frequency of use is strikingly different. In Mexico, seven of these policy instruments are used in practically all of the States, but this is true of only three instruments in Argentina and two in Uruguay. Future studies will have to try to identify the factors that account for these differences. For the time being, one factor that can be ruled out in all three countries would appear to be differences in per capita income.

Uruguay is the only one of the three countries in which the political structure is that of a unitary State, and its subnational (departmental) governments therefore have less autonomy in developing or implementing productive development policies. Some of the productive development policy instruments that were considered in this analysis actually are being used at the departmental level, but this is being done under the direction of national government agencies. Both the State banking system and the telecommunications, energy and other public enterprises are deconcentrated and have offices throughout the country. In the case of the public university, which is attended by a majority of tertiary-level students in the country, the deconcentration process is at an early stage. The intendancies have very little influence over the operations of any of these entities at the departmental level, which poses a special challenge for subnational governments in terms of their coordination.

At the same time, however, departmental governments have been expanding their scope of action in the area of economic development, as evidenced by the country's recently established departmental development divisions (RODDE, 2020). The country's budget law for 2020–2024 (Act No. 19924 of 18 December 2020) stipulates that at least 3% of the Domestic Development Fund is to be used for productive development initiatives in the country's departments. Although no conclusive study has yet been done to determine the impact of this provision, it is expected to help to bring about a change in the intendancies' strategic decisions that will help to balance out their structure of expenditure by increasing the percentage of funding devoted to the implementation of productive development policies. Currently, as may be seen from table V.4, the intendancies' main focus in terms of the development of the production sector is on infrastructure programmes and productive development subsidies, which are in place in almost all departments.

One critically important aspect of the situation that was identified by the key stakeholders who were interviewed is that the implementation of productive development programmes or policy instruments by the departmental governments appears to be primarily reactive in nature. Decisions as to which instruments to use or how much funding to allocate do not appear to be driven by strategies agreed upon by the stakeholders at that level; instead, action in support of the production sector is demand-driven or takes the form of isolated projects that tend to lack continuity over time. Without a strategy at the departmental level with clear-cut, agreed goals and without political leadership on the part of departmental authorities in coordinating the efforts of national and subnational agencies working at that level and in ensuring the continuity of development initiatives, the available capacities cannot be used to their full advantage and the implementation of projects that will move productive transformation processes forward becomes much more difficult.

This analysis also shows up marked differences between Mexico and Argentina, the two countries with a federal governmental structure. In Mexico, there is a striking uniformity in the range of policy instruments that are employed by all the States, regardless of their level of development. Of the eight policy instruments used in that country, six are applied in all the States, a seventh is used in 94% of them and the eighth in 69%.<sup>24</sup> In order for this finding to be interpreted correctly, further study will

<sup>24</sup> This analysis is based on studies of subnational governments' use of productive development policies which, in the case of Mexico, are based on Stezano (2024), who, in turn, based his study on a desk review of public information provided in official reports and on websites.

be needed in order to gauge the actual scope of application of each instrument by determining, for example, how much funding is being channelled into it or how many companies are taking part in a given initiative in each State. Such a study would be able to show whether this uniformity is real in a substantive sense or not.

In Argentina, the provincial governments appear to be more active in terms of their implementation of productive development policies, judging by the quantitative analysis presented in section B and by the fact that they are employing almost all of the policy instruments listed in table V.4. Notably, all, or almost all, of the provinces have public enterprises, vocational training programmes or vocational short courses, technical schools, local public procurement programmes and tax exemption programmes, in addition to productive development subsidies.

The purpose of a full 27% of the public enterprises, most of which were founded in the last 20 years, is to speed up the pace of the productive development process. They include manufacturing firms, agricultural enterprises, and mining and quarrying companies. Many (40%) of them supply basic services (e.g. water, electricity, transportation and telecommunications) but, even in these cases, they fulfil a key role in creating the necessary conditions for productive development to take place. This is true, for example, of telecommunications companies, which provide the Internet service that is essential for the digital transformation of the production sector, and of electrical power companies that foster the development of renewable energy sources.

The provincial governments administer the country's primary and secondary schools and play a central role in the provision of technical and vocational training. All the provinces have technical secondary schools, institutions of higher learning (at the tertiary level) and vocational training institutes. Nine of the 24 provinces have a provincial public university. A very large proportion (88%) of the provinces also have specialized agencies in the field of science and technology whose work supplements national institutions' efforts in this area. The provincial governments appear to focus on fostering innovation in technology companies and technological projects.

Tax exemption programmes are in place in a full 83% of Argentina's provinces, where they are made available to selected sectors which the provincial government is working to promote. Businesses making up the knowledge economy, such as software firms and computer service providers, are usually the main recipients of these tax breaks. The same percentage (83%) of the provinces have local procurement laws that give preference to businesses located in the province when the time comes to select which companies will serve as suppliers of the goods and services needed by the provincial government.

In sum, the information provided in this section underscores two main points: (i) not all the countries use the entire array of productive development instruments that are available to them; and (ii) the group of policy instruments used in Mexico is more uniform than it is in Argentina and Uruguay. While these preliminary findings will need to be reviewed, expanded upon and looked at more closely in future studies, they nonetheless provide inputs that will be employed in section E to point to possible lines of action for strengthening the role of subnational governments in the promotion of productive development policies.

## D. Cluster and other territorial productive development initiatives

The types of programme that national, subnational and local governments may introduce in order to promote productive development include cluster initiatives and other sorts of local initiatives designed to coordinate territorial productive development efforts, as

mentioned in chapter II. The documentation on these types of initiative is not yet as precise as it is for other types of policy instrument, but they are in place in various areas at the subnational level in the region, with examples including the programmes in operation in the provinces of Córdoba and Mendoza in Argentina, in the city of Quito in Ecuador and in the States of Chihuahua, Durango, Puebla, Nuevo Leon and others in Mexico.

ECLAC has devoted particular attention to these initiatives because meeting the challenges involved in bringing about an inclusive, sustainable form of productive transformation (see chapter II) necessarily entails a strategic convergence of the efforts and capacities of all productive development stakeholders at both the national and subnational levels, especially in situations marked by insufficient institutional coordination, as discussed in earlier chapters.

Initiatives focusing on the harmonization of local productive development activities are a targeted, effective response to the needs that exist in this respect, as they serve as examples of how to go about initiating and leveraging collective action on the part of the various stakeholders in a given location or sector. Thus, they are not just another type of policy instrument but are instead a mode of institutional organization that makes it possible to link up numerous different instruments and efforts in order to further strategic agendas. When public, private, academic and civil society sectors work together to advance these types of initiative, they end up developing shared strategic agendas that enable them to make better use of the knowledge, experience and resources of all parties involved and to pursue those agendas in a participatory manner within the context of an experimentalist governance approach (see chapter IV). With this approach, which entails an ongoing review of the results being achieved, it becomes possible to continuously improve the participants' joint actions on the basis of that review and to then adjust the corresponding work plans accordingly.

Generally speaking, collective local productive initiatives all share three main features:

- The core component of the initiative is a collective, strategic plan or action aimed at furthering the productive development process and, more generally, at improving the participating companies' performance.
- Strategic plans are defined and implemented by means of participatory mechanisms that provide for multi-stakeholder structures for coordination and collaboration among representatives of the public and private sectors, academia and civil society.
- A certain degree of proximity in productive capacity exists within the sector or location concerned among all the participants.

Initiatives having these features may also have different characteristics and names. In its Platform for cluster and other territorial productive articulation initiatives in Latin America and the Caribbean,<sup>25</sup> ECLAC has, thus far, mapped the following modes of collective action:

- Cluster initiatives: These generally involve a number of fairly large producers (and, in some cases, institutions) that work in a defined geographical area and in the same value chain (or chains), including related or support sectors. Their objective, as mentioned earlier, is to develop and implement shared strategic agendas that will boost their productivity and generally improve the performance of the companies in an agglomeration economy or cluster. In general, this objective is pursued through a convergence of efforts with two main aims: to increase the companies' productivity and to enhance the business environment for the cluster in question by, among other things, promoting the development of specific public goods (Llinás, 2021). These efforts are channelled through joint projects and collective actions.

<sup>25</sup> See [online] <https://geo.cepal.org/dp-clusters>.

- Value chain initiatives:<sup>26</sup> These initiatives consist of the participatory formulation and implementation of shared agendas for the further development of productive actors operating in the sectors that make up a given value chain. Their objective is to strengthen the chain as a whole, starting with input suppliers, moving on to the production of the main good or service involved and continuing on from there to include the marketing segment. For the most part, these value chains encompass various locations and may even link up different clusters. Their agendas address cross-cutting issues and do not provide for location-specific measures; instead, their chief aims have to do with the development of collective sectoral goods, such as modifications of regulations, the establishment of quality standards, training programmes and research.
- Local productive initiatives:<sup>27</sup> These efforts are undertaken by stakeholders in a given community that work together to develop and implement shared agendas for improving the performance of the businesses and institutions operating in that community. Their chief objectives are to develop local collective goods, which means that they benefit all the productive actors in the specific location concerned and only those productive actors. The emphasis is on cross-cutting issues or objectives of interest to the various sectors in the location in question (for example, a local brand name and identity).
- Business network initiatives:<sup>28</sup> These initiatives focus on forming associative groups of companies within a given location. They are usually horizontal in nature, are oriented towards the development of their members' production capacities and consist of a limited number of productive actors but may, in some cases (especially in the agricultural sector) include dozens of member businesses. Their main objectives are to build up the participating businesses' production capacity through collective action aimed at providing highly appropriable benefits (although their activities may also generate significant externalities) in such areas as market or technological development.
- Supply chain initiatives: This kind of initiative is designed to strengthen the linkages between an anchor company,<sup>29</sup> which is usually a large firm, and its suppliers, which are usually micro-, small and medium-sized enterprises. These linkages benefit both sides of this equation. The anchor firms may, among other things, be able to reduce their inventories, gain greater access to specific expertise and shorten their processing times, while the benefits for suppliers may include access to an attractive market, to information and to new knowledge.

ECLAC developed the Platform as a means of promoting territorial productive coordination initiatives and supporting the efforts of all Latin American and Caribbean stakeholders to further these initiatives by giving them greater visibility and facilitating the sharing of information. The Platform, which has an interactive map that allows for the georeferencing of the initiatives being pursued in the region, came online on 12 December 2023 and includes more than 290 initiatives involving over 53,000 firms and around 23 supporting institutions in 12 countries of the region.<sup>30</sup>

<sup>26</sup> Regardless of their official titles, such initiatives as Chile's support programmes for its wine tourism and creative economy value chains are included in this category, as are Costa Rica's Cybersec Cluster Programme and Ecuador's financial sector support programme, among others. In all these cases, the scope of the strategic agendas being advanced by these initiatives extends beyond the local venue and provides for actions to address issues of interest to all the members of the value chain.

<sup>27</sup> Such as the Multisector Enterprise Association of the Valle del Cauca in Colombia or the *Barrios Comerciales* (Commercial Districts) programme in Chile. Although these initiatives have been launched by commercial firms, their strategies are aimed at developing their community's or district's social, cultural and economic ecosystem.

<sup>28</sup> The business networks included on the Platform for cluster and other territorial productive articulation initiatives in Latin America and the Caribbean are mainly those that are supported by the Production Development Corporation (CORFO) of Chile, which include a women-led architectural services network, the collaborative information and communications technology firms of the Valparaíso region and an associative network focusing on the improvement of agricultural businesses of Quillota.

<sup>29</sup> In some countries this type of actor may be referred to as a "lead company" or "keystone company".

<sup>30</sup> Most of the territorial productive coordination initiatives are promoted by national public institutions. The institutions that are supporting the largest number of such initiatives are CORFO in Chile and Colombia Productiva. In Chile and Colombia, as well as in Costa Rica, the Dominican Republic, Ecuador and Peru, the government agencies that work to further these types of initiative are all national institutions. In other countries, this area of activity is shared by national, subnational and local organizations (Argentina), while, in others, this work is done only by subnational entities (Mexico).

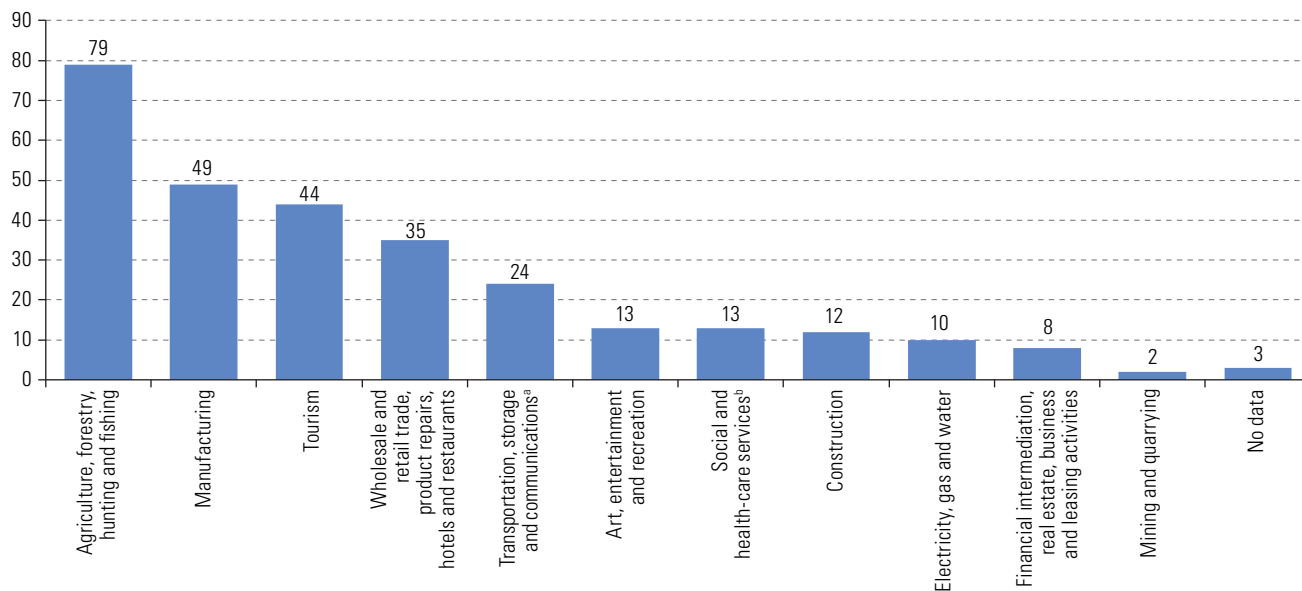
While partial in scope, this analysis nonetheless points up some of the important features of these initiatives. In terms of their composition, three fourths of the initiatives included on the Platform are cluster initiatives, between 15% and 20% are local production projects and slightly less than 10% are value chain, business network or supply chain initiatives. The main sectors targeted by these initiatives are agriculture, forestry, hunting and fishing (27%), manufacturing (17%), tourism (15%) and commerce, product repair, hotels and restaurants (11%) (see figure V.11). Their strategic focuses are chiefly to open up access to new markets and to promote business internationalization (27%), to spur the creation of production linkages or to strengthen them (18%) and to improve commercial and tourism offerings and boost sales (15%).

Only a third of these initiatives have established a legal personality of their own, but about 70% of them have introduced internal regulations that set out collective management procedures and rules. In 69% of the cases, a majority of the persons taking part in the initiatives are representatives of local institutions, while representatives of national agencies are in the majority in less than one third of them. In 75% of these initiatives, a majority of the members of their governing bodies are from the private sector, while in 18% of them, public sector representatives are in the majority. As for their funding, the public sector is the main source for 51% of them (42% at the national level and 9% at the subnational level) and the private sector provides most of the funding in 18% of the cases.

**Figure V.11**

Latin America and the Caribbean (12 selected countries): distribution of territorial productive coordination initiatives, by economic sector, 2024

(Percentages)



**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of data from the Platform for cluster and other territorial productive articulation initiatives in Latin America and the Caribbean.

<sup>a</sup> Includes informatics, the production of text and audiovisual materials, software and telecommunications.

<sup>b</sup> Includes hospitals and clinics, beauty centres, medical and paramedical services, emergency services, laboratories, public administration, defence, mandatory social security, teaching and other community, social and personal services.

The Platform for cluster and other territorial productive articulation initiatives in Latin America and the Caribbean includes a section that provides information on programmes carried out by the institutions in the region that support these initiatives. The following discussion will refer to seven of the productive development initiatives being promoted by public institutions in Argentina, Chile, Colombia, Costa Rica and Mexico (see table V.5).

While most of these programmes are being supported by national agencies, there are no radical differences between the methodologies used by them and those used by subnational governments, and a description of their main features will therefore help to round out the analysis of these governments' work in this area.<sup>31</sup>

**Table V.5**

Latin America (selected countries): programmes implemented by institutions that support cluster initiatives and other territorial productive coordination initiatives

Programme	Country	Institution	Programme starting date	Scope	Total number of initiatives supported by the programme
Córdoba Cluster	Argentina	Córdoba Competitiveness Agency	2023	Province of Córdoba <sup>a</sup>	16
Local Development Initiatives	Argentina	DIPROSE, Ministry of Economic Affairs of Argentina	2009	Argentina	40
Comprehensive Risk Management Programme for the Rural Agro-industrial System	Argentina	DIPROSE, Ministry of Economic Affairs of Argentina	2021	Argentina	14
Integrated Local Programmes	Chile	Production Development Corporation (CORFO)	2016 <sup>b</sup>	Chile	65
Clúster Más Pro programme <sup>c</sup>	Colombia	Colombia Productiva	2013 (initially managed by iNNpulsa)	Colombia	135
National Cluster Programme	Costa Rica	Ministry of Economic Affairs, Industry and Commerce in conjunction with the Ministry of Labour and Social Security and the Ministry of External Trade	2022	Costa Rica	8
State of Durango Regional Cluster Network	Mexico	Government of the State of Durango	2018	State of Durango	6

**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of data from the Platform for cluster and other territorial productive articulation initiatives in Latin America and the Caribbean.

<sup>a</sup> The municipality also has its own programme for promoting cluster initiatives. That programme is overseen by the municipal agency Córdoba Acelera.

<sup>b</sup> The first version of the Integrated Local Programmes dates back to 2000, but major adjustments were made in the regulations governing the programme in 2016 (see Cáceres and Dini, 2022).

<sup>c</sup> The programme was originally named *Rutas Competitivas* (Competitive Paths).

A first point of interest that emerges from a reading of the available data has to do with the length of time that these programmes have been running: three of the initiatives covered by this analysis have been in place for about three years, while another three have been in operation for a decade or more. This shows that interest in associative projects is nothing new in Latin America and the Caribbean,<sup>32</sup> as shown in the territorial initiatives of the National Division for Sectoral and Special Programmes and Projects (DIPROSE) in Argentina, the Integrated Local Programmes of CORFO in Chile and the Clúster Más Pro programme in Colombia. And that interest is continuing to grow, as indicated by the more recent experiences of DIPROSE in the area of comprehensive irrigation management, the Córdoba Cluster Programme in Argentina and the National Cluster Programme in Costa Rica.

Secondly, a comparison of these cases shows how adaptable this approach is, as it can be used by agencies at different levels in a variety of sectors. Six of the programmes have been administered by national organizations, while, in the other two, the same approach has been employed by subnational bodies (the State of Durango and the Province of Córdoba).

<sup>31</sup> The Chamber of Commerce of Bogotá is an example of a local actor that promotes this type of initiative. Its work, which is regarded as an iconic experience by virtue of both its scope and its duration, is analysed by Llinás (2021).

<sup>32</sup> The literature on the region indicates that there has been an interest in associative programmes for over two decades now. See, among others, Dini (2004), Giuliani, Pietrobelli and Rabellotti (2005) and Dini, Ferraro and Gasaly (2007).

Another facet of the adaptability of the approach used for territorial productive coordination initiatives has to do with the core objectives of these programmes. Table V.6 shows how all the programmes focus on partnerships but each in a different way. For example, the Córdoba Cluster Programme, the National Cluster Programme of Costa Rica, the programme run by the State of Durango in Mexico and the local development programme of the Ministry of Agriculture of Argentina mainly deal with what can be regarded as cluster initiatives in a strict sense, that is, projects carried out by groups of companies in specific sectors and locations. The integrated development programme of the Ministry of Agriculture of Argentina, meanwhile, works to carry out associative development initiatives in which the sectoral dimension does not figure prominently. In this case, the focus is on organizing joint projects to be conducted by companies and research institutes that deal with environmentally oriented technological development and innovation, rather than sectoral coordination and convergence.

**Table V.6**  
Chief aims of the programmes

Programme	Description of the programme's chief aim
Córdoba Cluster Programme (Argentina)	Promote the formation, consolidation and advancement of clusters in the Province of Córdoba by means of organized, structured efforts on the part of the public, private and academic sectors to boost productivity and competitiveness.
Local development initiatives of the Provincial Agricultural Services Programme of the Ministry of Economic Affairs (Argentina)	Launch a strategic planning process for furthering rural economic development in different value chains and locations within the country. This process is aimed at eliciting the participation of rural businesses and producers, processing industries, marketing firms, logistics companies and the main private stakeholders, business institutions, universities, technology support agencies and governmental bodies for the purpose of: <ul style="list-style-type: none"> <li>• Defining a medium-term strategic vision for the development of a given value chain (cluster) or a specific geographical location (microregion) and programming and executing a series of actions and projects in order to move that development process forward.</li> <li>• Establishing a permanent dynamic mechanism within these value chains or microregions for dealing effectively and systematically with any future challenges that arise within the socio-productive environment.</li> <li>• Creating a proactive institutional environment that will provide for the representation of all participants and foster mechanisms for keeping track of programmed actions and ensuring the regular review of the strategic path being followed, the ongoing dissemination of information and the future evaluation of the value chain's or microregion's performance, as appropriate.</li> </ul>
Comprehensive Risk Management Programme for the Rural Agro-industrial System	Identify means of reconciling small agricultural producers' needs for technological innovations with the outputs of research and development efforts of science and technology institutions. This approach will be used in an effort to facilitate access to innovations that can help businesses to become more competitive and establish a position for themselves in desirable markets. The aim is to promote technologies that do not harm the environment and that contribute to climate change adaptation, mitigation and resilience.
Integrated Local Programmes (Chile)	Coordinate and link up actions and projects designed to enhance a given location's competitiveness and promote the sustainable productive development of value chains with a potential for upscaling and for having a strategic impact on the regional or local economy.
<i>Clúster Más Pro</i> programme (Colombia)	Create synergies for the promotion of the country's productive development. In the different events that it organizes, Colombia Productiva places emphasis on various productive transformation goals.
National Cluster Programme (Ministry of Economic Affairs, Industry and Commerce of Costa Rica)	Promote cluster initiatives as a mechanism for furthering competitiveness, innovation and strategic production linkages with a view to making a contribution to the country's sustainable development and the consequent creation of more and better jobs.
Regional Cluster Network of the State of Durango (Mexico)	Organize the different economic sectors in the State of Durango into clusters that can then form strategic alliances with one another that will help to advance the regional development process in the State and to create synergies at the State, regional, national and international levels.

**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of data from the Platform for cluster and other territorial productive articulation initiatives in Latin America and the Caribbean.

Table V.7 shows the combinations of support instruments used by these organizations to promote territorial productive coordination initiatives.<sup>33</sup>

<sup>33</sup> Other forms of support not covered in the eight cases analysed here include, for example, concessional short- and medium-term financing and tax credits in the form of tax deductions for investments made by cluster projects. For a more thorough survey of the various forms of support, see Williams (2016).

Table V.7

Instruments used to promote territorial productive coordination initiatives

Programme	Co-financing	Technical assistance	Direct support	Information	Coordination	Training
Córdoba Cluster Programme (Argentina)	X		X	X		X
Local development initiatives of the Provincial Agricultural Services Programme of the Ministry of Economic Affairs (Argentina)	X		X		X	X
Comprehensive Risk Management Programme for the Rural Agro-industrial System of the Ministry of Production	X		X			
Integrated Local Programmes (Chile)	X		X	X	X	X
Clúster Más Pro programme (Colombia)	X	X	X			X
National Cluster Programme (Ministry of Economic Affairs, Industry and Commerce of Costa Rica)			X	X	X	X
Regional Cluster Network of the State of Durango (Mexico)	X		X	X	X	

**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of data from the Platform for cluster and other territorial productive articulation initiatives in Latin America and the Caribbean.

These support instruments are as follows:

- **Co-financing:** this is provided in the form of grants to cover some of the expenses incurred in the course of managing these initiatives, such as the wages of the initiative's coordinator (for example, the cluster manager) and his or her team. These kinds of resource are also usually used to co-finance components of the work plan for the initiative, such as trade or technology missions, the contracting of specialists and certain types of studies. Co-financing grants may also be used to fund investments in specific public goods that require considerable resource inputs, such as the start-up of meteorological information services for agricultural ventures, the establishment of technology centres and the organization of research agendas.
- **Technical assistance:** the specialized advisory services provided for these initiatives usually deal with the identification of business opportunities that will help them to design (or re-design) their collective strategy.
- **Direct support:** staff of the institution promoting a given territorial productive coordination initiative may assist the various firms interested in these collective actions to meet with one another, help to monitor the work plan and the performance of the responsibilities assigned to the various participants and support conflict resolution processes, among others.
- **Information:** information that is useful to the companies involved, especially regarding access to new markets, may be provided.
- **Coordination:** contacts with other support institutions and collaboration with them may be facilitated.
- **Training:** this may be provided for persons involved in coordinating or promoting these initiatives.

As may be seen from table V.7, direct support is the most commonly used instrument. In some cases, one of the reasons why this support instrument is employed so frequently is that, owing to budgetary constraints, the institutions promoting a given territorial productive coordination initiative may not have enough funding to co-finance the activities involved in the initiative and will therefore use the time of staff members to support the initiative and facilitate contact and collaboration with other institutions that have the resources and capacity to provide support. Another more substantive reason,

however, is that building relationships of trust requires the mediation of a technically solid and morally credible external figure that can rally the participants and create an environment in which they can begin to talk to one another and work together. Private sector entities often assume this role and provide assistance or actually lead these territorial productive coordination initiatives.<sup>34</sup>

One last consideration has to do with the resources invested in these initiatives by the institutions covered in this analysis. These agencies have fairly small budgets (ranging from tens of thousands of dollars to slightly over US\$ 3 million), and the level of funding at their command obviously influences the type of support that they can provide. The institutions that, as discussed earlier, primarily rely on the work of their staff members to promote these territorial productive coordination initiatives generally have budgets nearer the smaller end of this spectrum, while agencies with bigger budgets are the ones that, in addition to direct support, co-finance administrative expenditures and other measures and projects. The former group of organizations illustrate what Llinás (2021) is saying when he observes that these programmes can be launched with no more than a modest investment. In all cases, however, the implementation of territorial productive coordination initiatives will, sooner or later, require the necessary resources to carry out the activities that the members of these initiatives have agreed to pursue. If the institution leading the initiative cannot provide the required resources, then those resources will need to be supplied by the group of firms that are heading up the initiative or by some other institution that is working in the area concerned, including, possibly, a national, subnational or local government agency. The presence of entrepreneurs with enough funds to co-finance such an initiative and of supporting institutions that are active in the location in question points to the presence of more mature institutional and productive ecosystems. It is less likely that these conditions will be found in more underprivileged areas, which may need the resources and institutional capacities of outside sources.

This last point implicitly poses a question that is relevant to the discussion around productive development efforts at the subnational governmental level: Is there some set of minimum economic and institutional conditions that a given district or location must exhibit in order for it to be feasible to use territorial productive coordination initiatives as an instrument for the establishment of local productive development policies? As a first step towards answering this question, it can be noted that the existence of a diverse range of methodologies for carrying out the five types of collective action mentioned earlier makes it possible for territorial productive coordination initiatives to be undertaken in various types of situation involving very different production structures and degrees of institutional development. For example, cluster initiatives require the presence of a critical mass of businesses in related sectors and are therefore suited to economic areas populated by numerous business enterprises, whereas it may be more effective to promote business networks or local production projects, which do not require as great a critical mass, in economically less developed areas.<sup>35</sup> In other words, what is actually important is for stakeholders to work together to draw up strategic agendas for boosting productivity in the production areas that are a priority for the district or location concerned. The fact remains, however, that the presence of (public or private) actors that can lead these processes is essential in all cases.

The vitality exhibited by cluster initiatives and other territorial productive coordination initiatives in the region notwithstanding, a critical analysis of their actual impact and more thorough efforts to research and disseminate best practices for their implementation are nonetheless called for. These are items that should figure on a research agenda entailing a medium- and long-term commitment and the participation of leading

<sup>34</sup> The Chamber of Commerce of Bogotá, as mentioned earlier, is one case in point.

<sup>35</sup> In the last chapter of Llinás book on cluster initiatives (2021), he shifts his emphasis from the concept of cluster initiatives as such to the more general idea of associative initiatives in a broader sense.

stakeholders in these initiatives. For the time being, however, this section will close with a consideration of a series of particularly important issues relating to the role of subnational governments in productive development policies. First of all, it is essential to undertake an in-depth examination of the connection between these territorial productive coordination initiatives and other national or subnational productive development policies. Particularly when these initiatives are being promoted by national agencies, there is a risk that they will not be fully integrated into local productive development agendas. This would not only lessen the transformative power of these initiatives, but it would also deprive them of a broader strategic horizon and a comprehensive vision of the location's potential and of possible synergies with other programmes or initiatives.<sup>36</sup> There is also the possibility that territorial productive coordination initiatives promoted by the national government may not necessarily fit in with other national productive development policies.<sup>37</sup>

A final consideration refers to the importance of thinking about the scope or scale of these initiatives. The capacities needed to undertake complex innovations involve scales that often exceed the scope of individual territorial productive coordination initiatives. The aggregative methods which emblematic regional cluster initiatives in Cataluña and the Basque country have used to gradually bring in new sectors as a means of obtaining the necessary skills and resources needed to implement the strategic innovations called for in new internationally competitive scenarios is therefore of interest.<sup>38</sup> In Latin America, the Ministry of Integration of Brazil is taking a similar course of action by launching its National Integration Paths programme to spur collective efforts by local productive development projects<sup>39</sup> in order to increase their critical mass.

## E. Summary and guidelines

This chapter has addressed the efforts being made in the countries of Latin America and the Caribbean at the subnational level on productive development policies, especially the role played in this area by intermediate governments. The analysis covered a subset of countries, on the basis that this is a first exercise in this direction that will have to be further pursued in order to better understand the efforts under way at the intermediate government level in the other countries in the region.

Section V.A looked at the different regulatory frameworks that define and delimit the powers and capacities of intermediate governments in terms of productive development policies. The picture emerging from the review of five countries in the region (Argentina, Chile, Costa Rica, Mexico and Uruguay) is very uneven. The region has a mix of federal States, in which the responsibility for policy design lies with the intermediate governments and only residually with the federal government, and unitary States, where the powers of intermediate entities (when they exist as governments elected by popular vote) are based on a transfer of powers and resources from the central level. The comparison between Chile and Uruguay shows that there are marked differences even among unitary countries. In Chile, the transfer of powers from the central level to intermediate governments is regulated by law, as is the organization of regional governments. In Uruguay, conversely, activities in relation to productive

<sup>36</sup> In the case of Chile, this could be one of the reasons why the mix of policy tools used by CORFO has evolved. After using instruments such as the Associative Development Projects, which are similar to what has been described in this study as business network initiatives, for decades, it then launched its Integrated Local Programmes, one of whose explicit objectives is the integration of the various productive development promotion and innovation policy instruments (Rivas, 2012).

<sup>37</sup> For a more detailed explanation of this situation in Colombia, see Llinás (2021).

<sup>38</sup> For a description and analysis of cluster initiative policy in the Basque Autonomous Community, see Monge-González and Salazar-Xirinachs (2016).

<sup>39</sup> These local production development projects are similar to what has been described here as “cluster initiatives”. For further information, see [online] <https://www.gov.br/mdr/pt-br/assuntos/desenvolvimento-regional/rotas-de-integracao-nacional>.

development policies have come about in a de facto manner, and the lack of explicit indications as to the organization of municipalities has generated a notable asymmetry between the different departments.

Although these different legal frameworks leave subnational governments clearly differing spaces for manoeuvre to formulate and implement productive development agendas, it is also useful to recall the recommendation by Llinás (2021) that subnational governments should be empowered to contribute actively to these processes, regardless of what national governments may or may not do in terms of productive development policies.

In light of the foregoing, section V.B studied the spending and functions of subnational governments in Argentina, Chile, Colombia, Mexico and Uruguay. The qualitative elements found support the hypothesis of relative specialization between the different levels of government in terms of productive development policies. Meanwhile, quantitative analysis of the respective fiscal efforts by intermediate governments in these countries indicates significant differences as to the percentage of spending that these government entities allocate to financing of productive development policies on average. In Argentina, an exhaustive examination of provincial expenditures placed this value at an estimated 1.8% of the total budget, while a similar analysis for Mexico yields a significantly lower figure, around 0.2%.

The differences in expenditure on productive development policies by the intermediate governments of Argentina, Mexico and Uruguay were also studied. Although the gap between the upper and lower investment levels by intermediate governments was significant in all three cases, the gap in Uruguay tripled that of Argentina and Mexico. It was also seen that, in some countries, regions with lower per capita GDP tend to allocate a higher percentage of spending to productive development policies than regions with higher per capita GDP.

The cases of Chile and Colombia served to examine the contribution made by development funds to subnational government productive development policies, which came to around 10% of these funds in both cases. This is a clear indication that issues other than productive development, such as general-use infrastructure and upgrading public services, are the main priorities on these governments' agendas. In both cases, regional and departmental per capita GDP is found to be negatively correlated with their budgetary efforts on productive development policies.

The study of the budgetary efforts of intermediate governments concludes with an analysis of absolute expenditures on productive development policies. Here, although this value correlates positively with the region's or province's share in the national economy in four of the five cases considered, it is not statistically significant in two and is negative (and not significant) in the fifth. This would indicate that the size of the administrative division is not a good indicator of absolute spending on productive development policies. The two countries that show a positive and statistically significant correlation are Argentina and Mexico. In these cases, the correlation may indicate that the differences in the absolute values of the resources invested by intermediate governments in productive development policies reflect the fact that, despite the greater relative effort made by the less developed regions, they still invest less than more developed regions, thereby contributing to increasing the gaps between poorer and better-off regions.

Regarding local or municipal governments, although there is no information available on budget spending on productive development policies, municipal development plans in Chile and Colombia show a relative local government specialization in topics such as start-ups, training, tourism, partnerships (including the social and solidarity economy), rural policies and specific infrastructure. The available studies indicate that the greater the available budget and institutional strength of the local governments in terms of economic development, the more diverse the productive development actions they pursue.

In short, the results reported in section V.B support some important considerations about productive development policies at the subnational level: (i) the decentralization of the respective powers is a necessary—but not a sufficient condition—to ensure that intermediate governments acquire leadership in this field; among other things, they must have the political will to work on these agendas; (ii) productive development policies compete with other development agendas and the limited amount of funds that are sometimes allocated to them may have to do with major unmet demands in relation to social well-being (in education, health and other areas), or a lack of appreciation of the galvanizing effect that productive development programmes can have on other areas of development; (iii) in cases where positive and significant differences are seen between the amounts invested in the productive development policies of the most and least developed regions, these can contribute to increasing gaps between them, even if the less developed regions invest more in relative terms; and (iv) in the case of local governments, institutional capacity (in terms of budget and human resources) has a decisive influence on the capacity to address the challenges of productive development.

Section V.C offers a first attempt to systematize the productive development programmes and instruments adopted by intermediate governments. The information collected, although partial, underpins some interesting conclusions. First, the range of instruments used by intermediate governments to promote productive development policies is broader in some countries (Argentina) than in others (Mexico and Uruguay). Second, differences have been observed within the countries themselves. In particular, analysis of frequency of the use of instruments indicates that both Argentina and Mexico show great uniformity in the use of a broad group of productive development policy instruments between provinces and States with very different degrees of development. Correctly interpreting this result will require analysis of the resources invested and the capacities effectively deployed by intermediate governments on the different instruments, which could be the subject of future research. The situation in Uruguay is more heterogeneous; however, it will have to be evaluated taking into account the strong nationwide presence of national-level institutions for productive development.

Lastly, section V.D analysed initiatives to coordinate local production. These are strategies aimed at productive development and based on a local, participatory approach, in which subnational entities play a key role. Analysis of the experiences recorded in the Platform for cluster and other territorial productive articulation initiatives in Latin America and the Caribbean, which ECLAC has launched to promote these initiatives, shows that the approach is flexible, to the extent that it can take different forms in practice, adapting to the economic and institutional specificities of the particular region or province.

## 1. Guidelines to consolidate and deepen the role of subnational governments in productive development policies

In line with the arguments of Salazar-Xirinachs and Llinás (2023), it is crucial that much of the action in terms of productive development policies take place at the subnational level and that subnational stakeholders play a leading role in it, but there is still a long road ahead to bring this about. Although, as seen throughout the chapter, the region's subnational governments already contribute actively to establishing productive development policies in their domains, the reality is that their contribution is still sometimes insufficient, be it because of lack of knowledge, motivation, resources or institutional capacities, or because of norms that discourage or limit more active engagement.

To remedy this situation, work is needed on different fronts to simultaneously address various aspects of productive development. Six guidelines are proposed below that point in that direction: (i) strengthen intermediate governments' powers and capacities in relation to productive development policies; (ii) scale up efforts aimed at productive development policies at the subnational level; (iii) rethink the functioning of national productive development bodies, specifying the role they can play in strengthening the localization of productive development policies; (iv) promote measures specifically aimed at strengthening the capacities of local players in productive development policies; (v) strengthen multi-stakeholder and multilevel coordination bodies or mechanisms; and (vi) consider measures to support the development of cluster initiatives and other territorial productive coordination initiatives.

### (a) Strengthen intermediate governments' powers and capacities in relation to productive development policies

As noted in this chapter, intermediate governments are crucial to the creation of productive development policies because they can coordinate the local and national levels, promoting synergies between the actions of the different intermediate governments and play a supporting role for local governments in relation to productive development policies. The work that intermediate governments can do in this area consists essentially of leading the collective construction and implementation of deep-reaching productive development strategies for their areas. This involves convening representatives from the public, private, academic and civil society sectors to define, among other things, a strategic vision, goals, priorities in terms of production, projects and actions, as well as governance mechanisms to facilitate this work and enable the identification, better use and combination of these stakeholders' knowledge, resources and efforts in order to promote and sustain the productive transformation process. To strengthen their capacities in these areas, actions are needed in several directions simultaneously:

- Strengthen the productive development institutions of intermediate governments, increasing (where necessary) their professional staff and establishing specialized entities operating with relative autonomy under their coordination.
- Systematize and disseminate good practices in productive development policies among the professional staff of intermediate governments and put in place professional training programmes with theoretical and practical approaches to strengthen their capacities, especially technical, operational, political and prospective capacities as defined by Salazar-Xirinachs (2023) and as defined in chapter IV, and the leadership capabilities for productive development.
- Review the legal framework to specify and strengthen the powers of subnational governments in relation to productive development policies.

### (b) Scale up efforts aimed at productive development policies at the subnational level

To increase the efforts made by the countries of the region in terms of productive development policies, it is essential to scale up the efforts made at the subnational level. To achieve this, all the stakeholders involved must step up their contribution to the common objectives and goals that have been reflected and prioritized in the respective local productive development strategies. In this regard, at least the following actions should be considered:

- Increase budgetary efforts by subnational governments on productive development policies through a set of measures combining placing greater resources at their

disposal (through conditional transfers or the establishment or strengthening of subnational productive development funds) with awareness-raising, technical support and training to sensitize local stakeholders regarding the importance of productive development policies.

- Increase investments by other stakeholders. These may include contributions from the private sector, either with funds from business associations or chambers, or through the creation of parafiscal mechanisms geared towards prioritized objectives and targets. Important contributions may also come from entities in the academic sector and development or research centres, among others. In other words, these agendas must operate under the rationale of all parties pulling together.

### (c) Strengthen the role of national productive development policy institutions in the localization of those policies

The existence of national institutions specialized in productive development is a very important asset for implementing productive development policies. Chapter IV showed that the region is very heterogeneous in this regard. It is also important to create and strengthen institutions of this sort to consolidate the localization of productive development policies, as they provide the related support to subnational governments. Pursuing these actions requires rethinking how national institutions operate, seeking to decentralize their functions while reinforcing their strategic capacities. More specific actions are proposed below:

- Accelerate and deepen the process of decentralization of powers and resources in relation to productive development policies to subnational entities (especially intermediate governments), where necessary defining formal transfer protocols from the national level to the intermediate level.
- Strengthen the capacities of intermediate governments in relation to productive development policies in less developed localities.
- Strengthen synergies and collective actions between the productive development policies of different intermediate governments.
- Promote technical assistance agreements to support intermediate governments (especially in less developed regions) in implementing programmes in specific thematic areas, such as sustainable agriculture, sustainable tourism, circular economy, investment promotion, improvement of quality standards, economic restructuring and reduction of gaps in human talent.
- Formulate, gain experience with and disseminate new working methodologies in relation to productive development among intermediate government personnel.
- Create or expand national funds to foster the coordination of productive development policies at the national and subnational levels, through contributions made conditional upon coordination between these different levels of action, as described in chapter IV.

### (d) Strengthen the capacities of local stakeholders in relation to productive development policies

As noted earlier, productive development policies need local stakeholders actively involved to ensure that productive development measures include all the economic players operating in the locality, especially those that are small, informal and poorly organized, making them easier to overlook. To this end, the following is proposed:

- Organize professional training events to disseminate the productive development programmes and policies that national and intermediate institutions are conducting in their jurisdictions, especially in relation to start-ups, business formalization, support for cluster and other coordination initiatives, and vocational training, among others.
- Strengthen the institutional framework of local governments in relation to economic and productive development, encouraging the creation of specialized offices (productive development secretariats or departments).
- Promote the formation of territorial bodies, such as networks of municipal productive development offices, to foster the exchange of experiences and the implementation of common projects, affording special attention to including smaller localities.
- Include representatives of localities in the formulation of productive development policies at an intermediate level and in the management bodies of those policies.
- Support the strengthening of local business associations, so that they can expand their coverage and reach smaller and even informal businesses.

#### (e) Create or strengthen multi-stakeholder and multilevel coordination bodies

Returning to the central theme of chapter IV, it is key that national, intermediate and local stakeholders join and participate in multilevel and multi-stakeholder dialogue and coordination. As a complement to the guidelines formulated in chapter IV, the following lines of action may be considered:

- Generate or enhance instances for participation by the private sector, academia and civil society with a view to consolidating social dialogue between these stakeholders and the intermediate government to jointly define productive development agendas and targets.
- Create or strengthen incentives and conditions to foster collaboration between the stakeholders involved in the productive development of the same jurisdiction.

#### (f) Create or strengthen cluster initiatives and other territorial productive coordination initiatives

Cluster initiatives and other territorial productive coordination initiatives are a vehicle to strengthen national and subnational productive development policies within an intermediate area. In line with Llinás (2021), these initiatives enable trust-based joint action by stakeholders from the public, private, academic and civil society sectors to design and implement strategies aimed at increasing the diversification and sophistication of production chains within a given subnational area, by means of projects and measures managed in a participatory manner. The following are some of the lines of action that may be considered for this approach:

- Develop or strengthen cluster initiatives or other territorial productive coordination initiatives to work on specific strategic agendas for the production priorities that subnational levels establish within the framework of their productive development strategies. These initiatives can be supported or strengthened by programmes implemented by both national and subnational governments, including co-financing for the development of strategic agendas or road maps (Llinás, 2021), for managing the initiative (the cluster manager, for example) or for projects to generate specific public goods needed by firms in the clusters to improve their productivity.

- Use cluster initiatives and other territorial productive coordination initiatives as a spearhead to bring national and subnational productive development policies to fruition in the locality. As noted earlier, these initiatives are often not necessarily joined up with other productive development policies that are ongoing at the national and subnational level, and it is essential to strengthen that connection. Accordingly, these initiatives must be seen not as just another instrument, but as an institutional technology to conjoin multiple other instruments and policies.
- Establish or support gatherings between leaders of territorial productive coordination initiatives and the corresponding subnational governments to analyse the contribution that these initiatives make to bringing their local area's productive development strategies to fruition.
- Intensify the research agenda on territorial productive coordination initiatives and programmes that support them in order to expand the stock of good practices and accelerate collective learning.
- Generate incentives to encourage firms involved in territorial productive coordination initiatives to adopt measures in line with a more inclusive and sustainable development model, including, for example, the uptake of circular economy and gender parity principles.
- Foster regional strategies among territorial productive coordination initiatives in different Latin American and Caribbean countries, to promote the development of the digital economy, sustainable productive transformation and the reduction of gaps in human talent.
- Strengthen collaboration between territorial productive coordination initiatives in the Latin American and Caribbean region and those in other world regions, especially those involved in the European Cluster Collaboration Platform.
- Consolidate the Platform for cluster and other territorial productive articulation initiatives supported by ECLAC to make it into a virtual community working continuously to stimulate dialogue, experience-sharing and joint action among the firms and entities involved in these initiatives.

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For Latin America and the Caribbean to break from the trap of low growth and low productivity in which it is mired, the region will need to build more sophisticated and diversified economies and bring about virtuous structural change. This will entail a long-term effort, not least the continued improvement of economic fundamentals. To this end, the Economic Commission for Latin America and the Caribbean (ECLAC) has urged the countries of the region to scale up and enhance their productive development policies, adopting a new approach that differs substantially from what has hitherto been referred to as “industrial policies”. The region will not have to start afresh in that regard but there is plenty of room to improve efforts.

As parts of its analysis of what needs to be done and how to do it, ECLAC presents this *Panorama of Productive Development Policies in Latin America and the Caribbean*, in which it not only offers an initial study of current efforts in the region, but also proposes more than 80 recommendations to guide countries and their territories in this transformation towards a more productive, inclusive and sustainable future.



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