BACKGROUND
The Istanbul Programme of Action (IPoA) identifies productive capacity building as the defining challenge of rapid, inclusive and sustainable development in the decade to come. Progress in productive capacity building is essential for the transformation of LDC economies and moving towards the production of higher added-value goods and services. Enhanced productive capacity in agriculture, manufacturing and services through private sector development is therefore vital to benefit from greater integration in the global economy, adapt and build resilience to climate change and other exogenous shocks, foster inclusive and equitable growth, create decent employment and accelerate poverty eradication.

As progress towards enhancing productive capacity in LDCs has been slow there is a need for a comprehensive strategy in this respect. A policy framework for productive capacity-building in the LDCs should have four main pillars: growth and employment-oriented macroeconomic policies; productive capacity-focused sectoral policies; enabling cross-cutting policies, such as gender equality and women empowerment; and supportive global partnerships. In this respect institutions play a critical role.

In this session particular importance should be attached to the Developmental State. Making state institutions capable of and effective in formulating and implementing development policies that place the development and expansion of productive capacities at the center of such policies is critically important. Furthermore, it is absolutely essential for the relevant domestic public institutions in the areas of trade support and investment facilitation institutions to work in coordination and cooperation in order to build domestic productive capacities and accelerate economy-wide diversification and value addition.

The initial step in promoting the development of the private sector in LDCs requires, among other things, ensuring complementarity between public and private investment to enhance not only the processes of building productive capacities and spurring structural economic transformation but also in enhancing competitiveness and creating new market opportunities. In addition, financial systems, policies and institutions dealing with finance are key for the process of enterprise development and the development of productive capacities in LDCs.
Knowledge and innovation systems are also key in building technological capabilities as a springboard for developing productive capacities and accelerating structural economic transformation in LDCs. Finally, regional institutions, including regional development banks and other institutions, such as EXIM Banks, are equally important in creating regional infrastructure and policy frameworks that are supportive of building productive capacities, diversification and structural transformation in LDCs.

In sum, government and the private sector as well as domestic financial, knowledge and innovation systems and institutions should work closely with the objective of building productive capacities and accelerate structural transformation in LDCs. It is particularly important that domestic financial and knowledge systems are viewed as complementary institutions supporting the process of investment and innovation for productive capacity building and structural transformation, including economic diversification and economy-wide value addition.

**OBJECTIVE**

This session will set the stage for the substantive work of the conference. It will review the shortcomings of current and past development strategies and outline elements of a new framework for productive capacity building.

**ISSUES FOR DISCUSSION**

- What should be the objectives of the policy framework for productive capacity building?
- How can macroeconomic and sectoral policies be more supportive of productive capacity building?
- What types of institutions and institutional framework are necessary and how can the roles and responsibilities of different institutions be harmonized and coordinated to enhance the development of productive capacities in LDCs?
- What is the role of development partners in enhancing the role of institutions?
- How can regional cooperation, including in the context of South-South cooperation contribute to building productive capacities in LDCs?