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Geneva, 4–6 September 2006

**REPORT OF THE EXPERT MEETING ON BUILDING PRODUCTIVE
CAPACITIES**

Held at the Palais des Nations, Geneva,
from 4 to 6 September 2006

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Chapter I

CHAIRPERSON'S SUMMARY

1. The Expert Meeting on Building Productive Capacities focused on the development and effective utilization of productive capacities. Experts agreed that this should be placed at the heart of national and international policies to promote sustained economic growth, wealth creation and poverty reduction in developing countries. The Meeting also considered the role of UNCTAD technical assistance programmes on insurance. Experts noted with appreciation the quality of the resource persons and the insights of private sector participants into identifying key support policy measures in the area of investment and enterprise development to address constraints faced by developing countries and particularly the least developed countries.

A. Building productive capacities

2. Ongoing liberalization reforms in developing countries have not always yielded expected benefits in terms of successful integration into the global economy. Overcoming constraints requires broad-based capacity building at the national level supported by development partners.

3. Experts identified the principal supply constraints affecting capacity building, including: an inadequate regulatory environment; weak public institutional and administrative capacity; poor and inefficient infrastructure; and a limited resource base.

4. Experts recognized that developing countries seek to attract foreign direct investment (FDI) for the package of benefits it brings and the positive impacts it can generate in the host economy. There is broad uniformity among countries in their specific investment frameworks governing FDI, but the variety in country conditions with respect to the general standards and policies that affect investment activity makes this an area of attention for Governments seeking to improve their investment climate for both domestic and foreign enterprises.

5. Experts emphasized the need for effective investment policy measures in the areas of labour, taxation, competition policy, exchange control, and intellectual property protection. In all areas, the effectiveness of measures depends on policy transparency, good governance, economic and political stability, and the ability to generate a culture of change. Experts recognized the useful role of UNCTAD's Investment Policy Reviews and called for effective implementation of recommendations. Several experts reported on the need for follow-up to the Investment Policy Reviews carried out in their countries. The usefulness of the UNCTAD/JIBC Investment Blue Books was noted, as well as that of UNCTAD's investment policy advice and capacity building. In addition, peer mechanisms – an essential component of the New Partnership for Africa's Development (NEPAD) – illustrate the commitment of African countries, under the leadership of the African Union, to promoting good governance. Other new initiatives such as the Investment Climate Facility for Africa can also create new opportunities for investment and trade. UNCTAD should enhance its cooperation with the African Union and NEPAD.

6. Experts pointed out the important role of investment in building productive capacities. They agreed that the Aid for Trade initiative should seek to integrate the

investment component, which should embrace policies promoting technology transfer, enterprise development and the consolidation of productive chains. The recommendations of the WTO task force report on the Aid for Trade initiative were presented at the meeting. The report stressed that developing countries' ability to compete in world markets is undermined by the absence or inadequacy of the basic machinery for trade, such as modern and efficient customs, roads and ports, infrastructure and institutions needed to meet standards in export markets or simply knowledge about market opportunities and how to access them. A number of least developed countries have not yet tapped the benefits of existing preferential market access provisions and cannot benefit from an extension of such privileges without support measures for building productive capacities. The recommendations state that additional, predictable, sustainable and effective financing is fundamental for fulfilling the Aid for Trade mandate. The initiative should focus on building supply-side capacity and trade-related infrastructure, facilitate trade agreements and assist regional integration. UNCTAD should participate actively in the formulation of the Aid for Trade initiative.

7. Experts welcomed the scaling up of ODA flows, but pointed to the need to channel increasing resources to specific infrastructure development and productive capacity building programmes. At the same time, experts noted – as reiterated in Monterrey during the Financing for Development Conference – that there is also a need to improve the type and form of aid and how it is administered to maximize benefits to developing countries. According to the OECD, total assistance for trade capacity building has increased by 50 per cent since the Doha Ministerial Declaration. However, it was noted that these funds support low segments of value chains, and there is need for further upgrading efforts.

8. Experts reviewed policy measures to generate productive capacities. These include horizontal and vertical policies that affect all investment activity, both domestic and foreign. For example, horizontal policies have been adopted by the Government of Ghana to develop productive capacities, and they are linked to the Growth and Poverty Reduction Strategies (GPRS) that provide the general framework for development policy. A memorandum of understanding between the Government and 12 donor countries, with a pooling of dedicated resources, governs its implementation. This is a best practice for reconciling donors' and recipients' objectives. Experts agreed that the issue of support for African countries on technical barriers to trade (TBT) and sanitary and phytosanitary measures (SPS) should be fully addressed.

9. Experts emphasized that countries adopting vertical policies with a focus on specific sectors should ensure that this is consistent with their national investment strategy. A well designed incentive scheme can be helpful to the success of investor targeting. In addition, business incubators and technology parks may also be effective instruments for building productive capacity by promoting innovation and cluster development and sustainable economic development through technology diffusion and its commercialization.

B. Role of enterprise competitiveness policies

10. Experts reviewed areas of enterprise policy that could most benefit from technical assistance in terms of helping local firms to build capacity. At the enterprise level, absorptive capacity is strongly dependent on interactions with the firm's environment, e.g. the availability of educated persons with management and engineering skills, the quality of basic public services and advanced infrastructure (universities, a diversified financial sector, specialized research and training institutions, etc.) and the underlying incentive system of the

institutions involved. Improving absorptive capacity consequently entails efforts across a wide range of areas, from entrepreneurship and enterprise development to technology and education policy.

11. Experts also stressed the need for policy makers in developing countries to pay more attention to the SME sector and to strengthening entrepreneurship. Experts noted that the development of competitive indigenous enterprises, suppliers and SMEs would improve the investment environment of a country. This would in turn facilitate FDI attraction and greater business linkages for growth and development. Provision of a range of good infrastructure facilities, promotion of an innovation and R&D environment, public-private sector partnership, and development of efficient distribution systems were suggested as areas that need attention in an effort to build SMEs' productive capacities.

12. Experts identified the role of entrepreneurship as crucial for building productive capacities and noted the effectiveness of the EMPRETEC programme in many countries in unleashing entrepreneurial potential, introducing behavioural change and promoting the entrepreneurial culture. EMPRETEC is an integrated capacity-building programme of UNCTAD designed to help existing and promising entrepreneurs to build innovative and internationally competitive SMEs through specific entrepreneurial skill training and advisory services. Furthermore, the programme directly addresses supply-side constraints, creating the conditions in developing countries and economies in transition to enable them to benefit from trade liberalization, FDI and emerging opportunities created by globalization. Since 1988, the EMPRETEC programme has enhanced individual entrepreneurial capabilities of over 80,000 entrepreneurs in 26 countries, and assisted them in accessing beneficial links with larger national and foreign companies. EMPRETEC also puts in place long-term support systems to facilitate the growth and internationalization of ventures. Experts called on UNCTAD to increase its efforts to strengthen the EMPRETEC programme and expand it to other developing countries and economies in transition, and invited development partners to provide appropriate support.

13. Successful experiences in building productive capacities through business linkages were highlighted. Linkages programmes – such those implemented by Thailand and Indonesia – can increase the capabilities of suppliers and expand their business opportunities. Experts pointed to the need to understand better what kind of institutional set-up and concrete mechanisms can be put in place in order to promote mutually beneficial and sustainable linkages. Experts also acknowledged that technology transfer can facilitate linkages. Innovation and industrial policies, investment targeting and home country measures to support internationalization are important in this regard.

14. Experts noted that developing countries' SMEs have proven capable of becoming global players themselves, thereby contributing to local capacity building through South-South cooperation. UNCTAD should assist in developing a better understanding of the conditions under which the potential benefits of developing countries' outward investment could be maximized and the risk factors minimized.

C. Public/private partnerships and international cooperation

15. Public/private dialogue can increase corporate awareness and encourage dialogue among stakeholders and also trigger socially responsible actions by companies. National business councils can be effective in promoting dialogue, particularly when local enterprises

and other stakeholders are involved. The recognition of the private sector as a credible partner in the creation of productive capacities was emphasized.

16. Experts pointed to the need to strengthen the private sector in developing countries and to generate an attitudinal change in respect of work and a culture of change. They also pointed to a general shift to private-sector-led strategies and provided examples of successful partnerships between the private and the public sectors in developing countries.

17. Experts called for a more detailed look at the problems that have arisen in practice in the privatization process and the lessons to be learned for efficient administration of that process, as well as the need for accompanying policy and regulatory institutions. They also noted the useful role of public/private sector partnerships in infrastructure development. Experience has demonstrated that, while private participation can relieve Governments of major capital expenditures, it also places increasing demands on the institutional capacity of Governments to regulate the sector, monitor the performance of private partners concerning their contractual commitments, and establish an effective competition authority. An appropriate and well functioning regulatory environment in infrastructure can help mobilize local and foreign investment. Examples of success stories in this area were reviewed, particularly in the construction and/or rehabilitation of roads, airports and ports. UNCTAD should examine further the issue of promoting FDI in infrastructure.

18. In addition, experts stressed the importance of synergies between ODA and FDI, particularly for the development of hard infrastructure. Initiatives by NEPAD to create a facilitating body for the investment of funding by donor and development agencies in infrastructure projects in Africa were noted. Some experts pointed to developing countries' needs in the area of energy, telecommunications, information technology and financial services.

19. Experts recognized the useful role of the United Nations Industrial Development Organization (UNIDO), the International Trade Centre (ITC), the International Labour Office (ILO) and the World Customs Organization (WCO) in building productive capacities and delivering technical assistance to many developing countries. Representatives of these international organizations agreed to the principle of seeking better coordination and enhanced partnership. ITC reported on recent efforts to initiate effective partnerships, in particular with UNCTAD. ITC insisted that building productive capacities and enhancing market access are two sides of the same coin and that both must work in parallel in order to be effective in terms of development. UNIDO reviewed its main technical assistance programmes, particularly those for cluster development. It also announced its intention to enhance South-South cooperation and the establishment of a new centre in China, on the model of the one established in India. It was agreed that, while the unique role of each programme was recognized, there should be a UN response based on a common set of principles. Experts recognized UNCTAD's lead role in the upstream area, mainly policy analysis and research. Some overlapping might occur in technical assistance at the country level, particularly with bilateral aid programmes. In this respect, recipient countries have an important role to play in coordinating the work of the various multilateral and bilateral agencies that provide them with technical assistance.

20. UNCTAD's commendable role, through its technical assistance and capacity building under the São Paulo Consensus, was fully recognized and appreciated. Experts urged that focused technical assistance and capacity building be provided in the area of customs,

trade facilitation and partnership development in regional economic communities, particularly in Africa.

D. The role of insurance

21. Experts recognized the important role of insurance in development. Today, more than 90 per cent of private flows to developing countries come from private sector funding, and for this, insurance is a key requirement. Experts noted the challenges that developing countries, and particularly Africa, face in the area of insurance.

22. To strengthen the infrastructure necessary to make insurance services and capital available to their economies, developing countries need to take action to address: insurance education for consumers, the industry and government; improvements in communication and information technology; increased training of human resources for insurance; additional capacity of insurance supervisory authorities; and provision of computer software for insurance SMEs at a cost they can afford.

23. The insurance industry provides society with the tools to manage risks. It identifies risk and calculates its cost, allowing society to budget for this in development projects. Insurance identifies existing risks and prevents losses, as well as providing an early warning mechanism for emerging risks. Finally, insurance and reinsurance can complement the state social security system.

24. UNCTAD presented five technical assistance programmes for Africa: Development of Affordable Software for African Insurance Authorities and Markets; Development of an African Centre for Catastrophe Risks; Capacity-building for African Insurance Supervisory Authorities; Development of Life Insurance and Pensions for Africa; Capacity-building for African Insurance Training Institutes.

25. Development partners were urged to formally consider support for capacity building in the area of insurance, in particular for the five technical assistance projects for Africa elaborated by the UNCTAD Insurance Programme.

Chapter II

ORGANIZATIONAL MATTERS

A. Convening of the Expert Meeting

26. The Expert Meeting on Building Productive Capacities was held at the Palais des Nations, Geneva, from 4 to 6 September 2006.

B. Election of officers (Agenda item 1)

27. At its opening meeting, the Expert Meeting elected the following officers to serve on its bureau:

Chairperson: Ms. Sarala M. Fernando (Sri Lanka)

Vice-Chairperson-cum-Rapporteur: Mr. Frederik Arthur (Norway)

C. Adoption of the agenda and organization of work (Agenda item 2)

28. At the same meeting, the Expert Meeting adopted the provisional agenda circulated in document TD/B/COM.2/EM.19/1. The agenda for the Meeting was thus as follows:

1. Election of officers
2. Adoption of the agenda and organization of work
3. Building productive capacities
4. Adoption of the report of the Meeting

D. Documentation

29. For its consideration of the substantive agenda item, the Expert Meeting had before it a note by the UNCTAD secretariat entitled “Building productive capacities in developing countries” (TD/B/COM.2/EM.19/2).

E. Adoption of the report of the Meeting (Agenda item 4)

30. At its closing meeting, the Expert Meeting authorized the Rapporteur to prepare the final report of the Meeting under the authority of the Chairperson.

Annex
ATTENDANCE¹

1. Experts from the following States members of UNCTAD attended the Meeting:

Algeria	Iran (Islamic Republic of)
Angola	Italy
Bangladesh	Jordan
Belarus	Madagascar
Belgium	Mali
Benin	Mexico
Bolivia	Mozambique
Brazil	Myanmar
Cambodia	Nepal
Cameroon	Peru
Chile	Philippines
Colombia	Republic of Korea
Ecuador	Republic of Moldova
Egypt	Russian Federation
Ethiopia	Saudi Arabia
Finland	Sri Lanka
France	Switzerland
Germany	Thailand
Ghana	Uganda
Honduras	United States of America
Hungary	Viet Nam
Indonesia	Zambia

2. The following intergovernmental organizations were represented at the Meeting:

African Union
Economic Community of West African States
European Free Trade Association
World Customs Organization

3. The following United Nations agencies were represented at the Meeting:

Economic Commission for Africa
Economic Commission for Europe
International Trade Centre

¹ For the list of participants, see TD/B/COM.2/EM.19/INF.1.

4. The following specialized agencies and related organizations were represented at the Meeting:

International Labour Organization
 United Nations Food and Agriculture Organization
 United Nations Industrial Development Organization
 World Intellectual Property Organization
 World Trade Organization

5. The following non-governmental organizations attended the Meeting:

Exchange and Cooperation Centre for Latin America
 Institute for Agriculture and Trade Policy

6. The following Panellists attended the Meeting:

Mr. Kwasi Abeasi, New Partnership for Africa's Development (NEPAD), Johannesburg
 Mr. Fernando Ballesta Sánchez, Head of the Investment Promotion Area, INFO Murcia, Spain
 Mr. Federico Bonaglia, Economist, OECD Development Centre, Paris
 Mr. Dumitrache Dima, Director General, Foreign Trade Centre (ANEIR), Bucharest
 Ms. Patricia Francis, Executive Director, International Trade Centre, Geneva
 Mr. Aleardo Furlani, Chief Executive Officer, [INVENT SAS](#) and [INNOVA SPA](#), Italy
 Mr. Daniel Hagan, Director, Policy Planning Monitoring and Evaluation Division, Ministry of Trade and Industry, Accra
 Mr. Ayman Hamdy, Managing Director, Transtechno GmbH, Luzern
 Mr. Winfried Kalhoefer, Project Manager, Business Development and Infrastructure, InWent, Internationale Weiterbildung und Entwicklung gGmbH (Capacity Building International), Bonn, Germany
 Ms. Catherine Lezon, Deputy Secretary General, International Association of Insurance Supervisors (IAIS), Basel
 Mr. Ferdinand Montcho, Director of Economic and Trade Relations, Ministry for Foreign Affairs, Cotonou
 Mr. Rizar Indomo Nazaroedin, Director for Bilateral and Multilateral Cooperation, Indonesia Investment Coordinating Board, Jakarta
 Ms. Nguyen Thuy Huong, Head, Statistics and Policy Division, Foreign Investment Agency, Ministry of Planning and Investment, Hanoi
 Mr. Lameck Nthekela, Regional Representative, Botswana Export Development and Investment Authority (BEDIA), London, United Kingdom
 Mr. Herbert Oberhänsli, Head, Economics and International Relations, Nestlé, Vevey
 Mr. Karl-Oskar Olming, Specialist Business Development Services, International Labour Office, Geneva
 Mr. Vittaya Praisuwan, Director, International Affairs Division, Board of Investment, Bangkok
 Mr. Roland Rasamoely, Secretary General, African Insurance Organisation, Douala, Cameroon

Mr. Ricardo Salcido, Executive Director, National Council for Foreign Industry,
Mexico DF

Mr. Jebamalai Vinanchiarachi, Principal Adviser to the Director General, UNIDO,
Vienna

Mr. Joachim Wenning, Chief Executive Officer, NEWRE, Munich Reinsurance
Group, Geneva

Mr. Solomon Wole, Director, Enterprise Ethiopia, Addis Ababa

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