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# UNCTAD SERVICES POLICY REVIEWS

**Mina Mashayekhi**

Head, Trade Negotiations and  
Commercial Diplomacy Branch, DITC  
UNCTAD



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FAIR FOR TRADE IN SERVICES

# SPR Methodology

## What are SPRs?

- A systematic review of the economic, regulatory and institutional frameworks characterizing the domestic services sectors
- That aims at:
  - promoting coherent and comprehensive national sectoral development plans & strategies
  - identifying trade policy options that advance national sectoral development objectives
- Provides in-depth analysis focuses on a few selected services sectors

# SPR Methodology

## SPR Objectives

1. Manage a successful services reform process, including through multi-stakeholder engagement
2. Ensure sustainable development gains through services reform
3. Strengthen negotiating capacities for services trade negotiations
4. Monitor results achieved through reforms and adjust related policies over time

# SPR Methodology

## SPR Activities

Launch of the SPR

UNCTAD Desk Study

1st Stakeholder workshop

SPR research by national team

SPR validation (2<sup>nd</sup> stakeholder workshop)

Dissemination

Implementation & follow-up

# SPR Methodology

UNCTAD Research & Technical Support



Research by National Experts



Stakeholder Involvement (incl. Focal Point Institution)



# SPR Methodology

In addition to the multi-stakeholder process in individual countries which culminates with the SPR report, UNCTAD organizes two sets of activities based on experience sharing among countries:

## 1. **Study tours** aim to:

- allow the beneficiaries to learn from other countries' experience in implementing policy, regulatory and institutional frameworks supportive of services sector development and increased, sustainable trade;
- promote institutional cooperation between counterpart organizations; and
- assist the beneficiaries with the implementation of the SPR findings and recommendations

## 2. **Regional workshops** bring together officials several countries from a region, including those which have completed SPRs, as well as national and regional research institutes and international organizations to reflect on opportunities and challenges relating to services and services trade and how to develop comprehensive and coherent trade and development strategies for the sector.

# SPRs undertaken to date

## Africa

- Uganda I
- Lesotho
- Rwanda
- Uganda II & Review of implementation of Uganda I on-going)

## Latin America

- Peru
- Nicaragua (on-going)

## Asia

- Nepal
- Kyrgyzstan
- Bangladesh (on-going)

Other general reviews of services sector policies supported by UNCTAD were undertaken by: Angola, Jamaica, Jordan, SADC countries

# Lesotho SPR

- Lesotho has an open economy in which services are the biggest contributor to GDP (59.9% in 2010)
- The country remains a net importer of services though services exports grew by over 9% between 2008 and 2009
- The main sectors (by contribution to GDP) are: education, wholesale and retail trade, financial intermediation, transport and communication
- The SPR focuses on **financial services, professional medical services and tourism services** which were identified as holding potential for growth and development of the economy



# Trends Identified by SWOT Analysis

Strengths	Weaknesses
<ul style="list-style-type: none"> <li>Active engagement of the GoL in the various services sectors (as evidenced by recent sector reforms and initiatives)</li> <li>Reliance on partnerships to improve sector outputs</li> </ul>	<ul style="list-style-type: none"> <li>Small size of market</li> <li>Outdated regulation/legislation and gaps</li> <li>Insufficient access to human and technological resources</li> <li>Limited services provision in rural areas (incl. due to insufficient infrastructure linking urban and rural areas)</li> </ul>
Opportunities	Threats
<ul style="list-style-type: none"> <li>Scope for development of the new/niche services</li> <li>Scope for regional cooperation</li> </ul>	<ul style="list-style-type: none"> <li>Demand-side barriers</li> <li>Limited domestic ownership</li> <li>Insufficient institutional capacity</li> </ul>

# Stakeholders' Concerns

- Limited access to services in rural areas (where the majority of the population resides) and more vulnerable consumers (women, poor households, SMMEs)
- Dominant role of foreign services suppliers vis-à-vis domestic suppliers in certain sectors and sub-sectors
- Poverty-related constraints in the consumption of services (e.g. limited capacity to afford services but also competing uses for certain inputs)
- Process for legislative enactment is often slow which does not allow to address legislative gaps or ensure timely amendments
- Scarcity of skills and insufficient number of professionals (e.g. medical professionals) including due to brain drain

# General Recommendations

- Improve infrastructure services (transportation, electricity, water, ICT) that support the services sector broadly through innovative financial models and PPPs
- Collect and publicize up-to-date data on various services sectors
- Put in place the competition law and authority as well as a comprehensive investment code
- Decentralize policy making and implementation to district bodies where possible
- Focus on the development of competitive capacities and secure market access for selected Lesotho's services exports
- Improve Lesotho's business climate by:
  - expediting the coming into force of the new Companies Act,
  - improving security of land tenure for foreigners, and
  - improving the processing of work and residence permits.

# Examples of Sector-specific Recommendations

## Financial services

- Elaborate policies to serve as benchmarks for the legislative development (many Acts have been created in the absence of specific, guiding policies)
- Develop policies on microfinance and consumer protection
- Extend services in rural areas and tailored to SMMEs (implement improvements to existing arrangements for loan management and repayment mechanisms)

## Professional Medical Services

- Implement a retention strategy to curb professionals' exodus
- Form partnerships with countries which can provide health professionals while Lesotho continues to improve training institutions (attention should be given to ensure no discrimination in terms of the hiring and remuneration of such foreign professionals vis-à-vis local professionals)

## Tourism Services

- Develop cooperation with South Africa (between operators but also on policy issues e.g. implement the Agreement on the Facilitation of Cross-Border Movement of Citizens)
- Improve coordination between the various institutions responsible for policy development and implementation

# Rwanda SPR

- Rwanda has witnessed impressive growth which began in 2003 and has been driven largely by strong performance of the industry and services sectors
- Rwanda continues to run a large trade deficit in services trade
- The SPR focusses on **tourism services** and **ICT services** which were identified as holding significant potential to stimulate economic growth and development in Rwanda

# Trends Identified by SWOT Analysis

Strengths	Weaknesses
<ul style="list-style-type: none"> <li>• A culture of progressive reforms</li> <li>• The establishment of the RDB to support the Rwandan private sector</li> <li>• Existence of clear policies and strategies for the tourism and ICT sectors</li> <li>• Rwanda's ICT sector has surpassed other EAC countries in some indicators</li> <li>• Strong emphasis in its development plans on the diffusion of ICT across the economy</li> </ul>	<ul style="list-style-type: none"> <li>• Government sponsored initiatives in favour of SMEs suffer from a lack of resources, coordination and capacity</li> <li>• Insufficient quality of accommodation and food &amp; beverage facilities in tourism routes</li> <li>• Over-reliance on a single tourism product</li> <li>• Cost of certain ICT services remain above those in other EAC countries</li> </ul>
Opportunities	Threats
<ul style="list-style-type: none"> <li>• Scope for expanding the participation of a wider range of enterprises (especially SMEs)</li> <li>• Cooperation at EAC level (e.g. joint tourism marketing initiative, single EAC Visa and recently created platforms )</li> </ul>	<ul style="list-style-type: none"> <li>• Social and environmental challenges to maximizing the gains from tourism</li> <li>• Strong regional competition in ICT</li> </ul>

# Stakeholders' Concerns

- While Rwanda's economy has been rapidly changing and despite various policy strategies - including for the services sector - already being in place, the country still faces challenges in reducing poverty and promoting formal employment as well as difficulties with policy implementation
- The large informal sector remains a challenge despite the Government's efforts to increase tax collection and efficiency
- Rwanda's success in boosting tourist arrivals has not led to proportional increase in its total receipts from foreign travelers
- On a human capacity level, Rwanda's ICT sector is still at an early stage of development

# Examples of Sector-specific Recommendations

## Tourism:

- Extend support to SMEs linked to tourism sector value chains
- Assess the effectiveness of investment incentives regimes
- Develop a tourism and hospitality guarantee fund (aimed at aimed at reducing loan interest rates and investment risk)
- Establish a tourism and hospitality training levy (finance initiatives aimed at improving skills in the sector)

## ICT Services:

- Provide cheap and reliable broadband connectivity as essential inputs for the development of an outsourcing industry and affordable mobile services
- Collaborate with the private-sector to develop skills tailored to the needs of both existing and up-and-coming businesses in sufficient quantity
- Focus on taking greater advantage of outsourcing opportunities relating to both ICT and ICT-enabled services
- Continue to develop the legal environment: IPR, data privacy legislation

A number of the above strategies are in place but implementation is slow



# Uganda SPR I and II

- Uganda is a landlocked LDC with a predominantly rural population which had made considerable progress in diversifying its economy in the past decade
- Services represent close to 70% of GDP today
- The SPR I focuses on insurance services, professional services (legal, accounting) and construction & engineering services
- The SPR II focusses on distribution services, ICT-related services and services auxiliary to all modes of transport
- A review of the implementation of the SPR I recommendations and action plan is being undertaken

# Trends Identified by SWOT Analysis

Strengths	Weaknesses
<ul style="list-style-type: none"> <li>• Significant reforms, incl. privatization, investment facilitation and trade liberalization undertaken in the last decade</li> <li>• Trade-led growth</li> </ul>	<ul style="list-style-type: none"> <li>• Insufficient infrastructure (incl. services) to support economic growth</li> <li>• Sizeable shortfall on the services account, notwithstanding recent growth in services exports</li> <li>• Size of players often remains small</li> <li>• Delays in the legislative/regulatory processes</li> </ul>
Opportunities	Threats
<ul style="list-style-type: none"> <li>• Participation in several regional trade blocs (EAC, COMESA) make Uganda an attractive destination for investment</li> <li>• Scope for increase in local consumption of various sectors</li> </ul>	<ul style="list-style-type: none"> <li>• Need to strengthen the capacities of professionals to ensure international competitiveness</li> <li>• Legislative developments and reforms are not in parallel with EAC common market liberalization</li> </ul>

# Stakeholders' Concerns

- Compliance with EAC Common Market Liberalization requirements is lacking in some sectors (e.g. the Accountants Act, as well as the Fifth Schedule of the Advocates (Enrolment and Certification) Regulations read together with the Advocates Act were not in full compliance with the EAC Common Market liberalization requirements)
- The country needs to develop regulatory and institutional capacity to deal with regional developments (e.g. Uganda Insurance Commission is seeking to scale up the Insurance Institute of Uganda/enhance the level of professionalism in the insurance industry to match better performers in Kenya and Tanzania)
- Lack of qualified professionals with specialized skills (e.g. insurance sector suffers from a shortage of specialist doctors to assess some incapacities with accuracy)
- Low uptake of technology is also of concern for several sectors (e.g. the inadmissibility of electronic evidence in Ugandan courts and accounts for the backlog of cases the legal sector presently suffers, access to poor technology by logistics service providers leads to delays in customs clearance at the border points )
- Limited access to credit limits the possibilities of small service suppliers

# Examples of Sector-Specific Recommendations

## Accounting

- Conclude MRA with EAC Partner States in 5-yr implementation period for progressive liberalization

## Legal

- Reform the Law Council with a view to developing its independence, autonomy and self-accounting

## Insurance

- Charge a mandatory insurance training levy as part of all premiums
- Establish a special training fund by the Uganda Insurers Association

## Construction

- Consider setting up a State construction company
- Adopt a mandatory sub-contracting policy to enable the local construction firms to participate more in the construction market

# Peru SPR

- **Sectors:**

1. Computer and related services, examining in greater detail the sub-sector of software development, with a focus on outsourcing
2. Engineering services, emphasizing aspects related to consulting
3. Accounting and book-keeping , with focus on outsourcing
4. Logistic services

- **Specificity of this request**

- Developing services (Nos. 1, 2 and 3) with a view to maximize export potential through outsourcing
- Developing a sector (No. 4) that is critical to improve the competitive position of the country and to addressing bottlenecks related with merchandise internal and external trade

# Highlights of the SWOT analysis - 1

- **Strengths**
  - i. **Economic performance**
    - e.g. Peru won its first-ever investment rate grade rating from Fitch Ratings in April 2008;
    - GDP expanded for more than 5% in 2003-2008 peaking at 9,8% in 2008, dropped in 2009 but rebounded as early as 2010 to reach growth levels of 6,9% and approximately 6,3% in 2011 and 2012 respectively )
  - ii. **Improvements to the regulatory (enabling) environment for business** (e.g. the National Competitiveness Plan 2011-2013)
  - iii. **Marketing, capacity building and export promotion efforts undertaken by PROMPERU.**
- **Opportunity**
  - Peru is experiencing economic growth and this implies growth of internal demand
- This opportunity can also be perceived as a challenge due to:
  - increased imports of services
  - increased entry of foreign services providers
  - increased competition with domestic services providers.

# Highlights of the SWOT analysis - 2

- Infrastructure and skills gaps, lack of access to finance, lack of innovation and bureaucracy are challenges that diminish trade opportunities for Peru in the services sector
- Lack of a common vision for the development of the services sector
- Weaknesses regarding services data compilation
- Gaps and incoherencies regarding regulatory frameworks
  - Particularly in the logistic sector (where there are no laws for the sector as a whole but only specialized rules which apply to specific services, in particular, to transport services which are mode-specific)
- Lack of specific strategies directed at SMEs
- Weak role and mandate of University boards regarding quality control of professionals in the domestic market
- Lack of analysis of export markets for services (particularly those with whom Peru has signed FTAs)

# Stakeholders' Concerns

- Institutional divergences on the way to promote the services sector
- Lack of international double taxation agreements makes uncertain business ventures to export services
- Lack of transparency regarding:
  - i. information, for the private sector, related to tendering procedures and offers in engineering services
  - ii. commercial intelligence, to take greater advantage of services trade opportunities
  - iii. costs associated with logistics services



# Recommendations

- **Strategic gaps:**
  - Develop strategies linking SMEs to medium and bigger services providers already exporting (for instance in the case of accounting services, for book-keeping functions) to enhance their export prospects or promote use of local service providers for government procurement (in the case of computer services)
- **Institutional:**
  - Initiate the work of the Inter-institutional Services Committee (existing but has never initiated work) to clear divergences on the vision and priority policy objectives for the development of the services sector, using areas of weakness and recommendations of the report
  - Create an institutional setting that would compile services data (aggregated for sectors of specific interest) through surveys to the private sector. These surveys would be mandatory (not used for fiscal control purposes) and lack of response would be subject to penalties.
  - Strengthen the role of University boards, making them assume a more proactive role designing curricula (particularly for engineering and accounting) that caters to the needs of the needs of the growing Peruvian market
- **Regulatory:**
  - Develop a legal and institutional framework to oversee the development of a multi-modal logistic services sector to ensure interconnectivity between transport modes

# Nicaragua SPR

- Sectors
  - Telecommunication services
  - Financial services
  - Road transportation services and
  - Tourism services
- Specificity of this request
  - Enhancing export potential in one sector (tourism), as well as development gains in the sector
  - Developing 3 infrastructure services that are critical to improve the competitive position of the country and to addressing bottlenecks related with merchandise internal and external trade

# Highlights of the SWOT analysis - 1

- **Strengths**
  - Economic performance during the crisis
  - Policy framework for the tourism services sector
  - Good articulation of stakeholders' views in the development planning for tourism sector
  - Sustained investment attraction in tourism and telecom sectors
- **Opportunities**
  - Diversification of origin of investments coming to the service sectors
  - Scope for growth (in terms of GDP) of the services sector
- **Challenges**
  - Benchmarking with other regional partners Nicaragua show lower rankings for most of the critical aspects required to develop services capacity (policy, regulatory and institutional frameworks, infrastructure and skills)

# Highlights of the SWOT analysis - 2

- Weaknesses
  - Infrastructure is an important factor leading to lack of supply side capacity in the services sector (affecting the tourism and transport sectors)
  - Problems compiling services statistics (except in the tourism sector)
  - Regulatory gaps and inadequacies
    - Lack of legislation and incoherence between national and regional frameworks for the road transport sector
    - Contradictory regulations regarding transport of passengers through road transportation, affects negatively intraregional tourism and tourism (from abroad) with regional packages
    - Regulatory incoherencies regarding technical standards for communications equipment in the telecom sector
  - Institutional weaknesses
    - Particularly affect the road transport sector (lack of coherence and clear mandates among different agencies responsible for policy making)
    - Informality of services providers
  - Other
    - Areas of deficiency/gap/incoherence regarding the regulatory and institutional framework in the financial sector = supporting role of the sector for productive capacities/universal access/development of less favoured regions and increasing opportunities for social strata with fewer resources
    - Shortage of radioelectric spectrum and anticompetitive practices appear to affect the telecom sector
    - Problems with investment incentives and lack of effectiveness of universal access regulation/incentives affect the telecom sector

# Stakeholders' Concerns

- Telecom operators
  - Taxing/VAT regime affects imports of modern equipment (adopting technology convergence) which in turn affects access to platforms to support innovation and use of ICT for development
  - Lack of capacity of consumers to pay for value-added services
- Road transport regulator
  - Informality of national services providers affect developing/targeting policies to support them
- Consumers of telecom services
  - Concern regarding price transparency and offer
- SMEs
  - Credit is expensive for business ventures in the services sector
  - Lack of commercial intelligence to support internationalization of services companies
  - Excessive red tape increases cost of operation and efficiency in services sectors

# Recommendations

- Create an institutional setting to coordinate policies related to horizontal policies required to develop services capacity (infrastructure, skills upgrade, support policies and incentives)
- Involve the academic community in consultations related to policy making in the services sector to shorten the gap between academic offer and skills required in specific services markets
- Develop multimodal transport legislation
- Ensure a more active role of the state in the promotion of productive capacities and competitiveness through the financial services sector
- Improve the regulatory framework in the telecom sector

# Lessons Learnt

- The services sectors of interest to developing countries are often infrastructure services, new emerging services (e.g. ICT and professional services) and tourism
- Lack of disaggregated services statistics to monitor the evolution of services sectors and assess effectiveness of ongoing reforms remains a challenge
- In many cases, the "skills bottleneck" does not lie in lack of training institutions or study programmes but rather in a mismatch between skills provided and the needs of the market
- Inter-institutional coordination for policy-making and implementation as well as still integrative policy-making (coordinating trade, development and other policy spheres including labour, investment, technology and innovation and industrial policies) need to be strengthened in most countries
- To create an enabling environment for the services sector, to build a climate of trust among stakeholders, and to achieve integrative policy making requires support government support at the highest level

# Lessons Learnt

- The objective of developing a coherent and comprehensive services strategy is challenging due to multiple objectives and priorities to be addressed by the SPR analysis and recommendations
- SPRs can play an important role within a country's broader policy-making which affects the services sector (and which includes *inter alia* national development plan – Vision 2020/2030, strategic services plan, national export strategy, poverty reduction strategy, etc.)
- Focussed support activities are useful to assist with follow-up on the SPR report and implementation of the recommendations and action plan
- Experience sharing among countries on policy, regulatory and institutional issues is an essential approach for promoting sustainable growth of the services sector



**Thank you!**