



SERVICES POLICY REVIEWS



**A DETAILED METHODOLOGY
FOR REVIEWING POLICY,
REGULATORY AND
INSTITUTIONAL FRAMEWORKS
FOR SERVICES**





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I. INTRODUCTION

Across countries, services' contribution to income generation, employment creation and foreign exchange earnings has increased significantly over the last two decades. The importance of services in developed countries has grown continuously with services now accounting for over 70 per cent of both Gross Domestic Product (GDP) and total employment. Growth of the sector has also occurred in developing countries, however, the share of services in GDP and employment remains at 50 per cent and 35 per cent respectively.

Since 1990, services exports from developing countries have grown at an average annual rate of 8 per cent and their share of world services exports increased from 23 per cent to 30 per cent between 2000 and 2010. For a growing number of developing countries, services exports contribute significantly to economic growth, and increasingly in new sectors such as business, telecommunications, construction, environmental, distribution, health, education and cultural services.

These figures suggest a large untapped potential for developing countries to advance the development of services sectors. Principal approaches towards this goal include the creation of an enabling environment through improved policy, regulatory and institutional frameworks for the service economy and more liberalized services trade to enhance market access and investment opportunities.

The need to strengthen the service economies of developing countries and countries with economies in transition was recognized by Member States at the UNCTAD XII Conference in April 2008. The Accra Accord recalls that “[t]he service economy is the new frontier for the expansion of trade, productivity and competitiveness, and for the provision of essential services and universal access.” However, while noting that some developing countries have performed well in services trade in recent years, the Accra Accord also recognizes that “positively integrating developing countries, especially LDCs, into the global service economy and increasing their participation in services trade, particularly in modes and sectors of export interest to them, remains a major development challenge.” To help address this challenge, the Accord calls upon UNCTAD to assist developing countries and countries with economies in transition to establish regulatory and institutional frameworks and cooperative mechanisms to strengthen the capacity, efficiency and competitiveness of their service sectors, and to increase their participation in global services production and trade, including by providing support in services policy reviews (SPRs). The UNCTAD XIII Conference in April 2012 reiterates that the development of, and access to, services, supported by adequate regulatory and institutional frameworks, are important for sound socio-economic development. UNCTAD members have therefore requested UNCTAD to continue its work on services.

Important opportunities now exist for developing countries to identify and pursue the best approach to developing their services sectors, suited to their national objectives and evolving capacities. Deliberate policies and reforms, as well as improved institutions, can help create an enabling environment at the domestic level, which coupled with greater openness of services markets, can promote increased investment and trade flows. An enabling environment and liberalized regimes can help attract the needed financial resources, skill-transfer and technologies to modernize services sectors, thereby helping to build supply capacities for the provision of higher quality and higher value added services for both domestic and export markets.

The recent financial and economic crisis affected services trade differently from merchandise trade. Fluctuations in service exports experienced lower magnitudes of decline and recovered more completely. The lower volatility of total services exports highlighted the relative “resilience” of services trade to the crisis. Despite these positive trends, the gains from services trade liberalization continue to manifest unevenly among developing countries. For example, during 2013, developing countries’ total exports of services expanded by 5 per cent, with the African region decreasing by almost 3 per cent. Liberalization of services trade has not generated the trade and development gains anticipated in many developing countries, and some have experienced declines in trade balances, employment and access to basic human services in liberalized sectors.

II. REAPING THE DEVELOPMENT BENEFITS OF SERVICES AND SERVICES TRADE

A dynamic service economy can make significant contributions towards the achievement of national development objectives relating to economic diversification, investment, employment generation, poverty reduction and an overall improvement of social welfare. As such, it can also make significant contributions to the achievement of Millennium Development Goals (MDGs).

In recent years, following the conclusion of the World Trade Organization (WTO) General Agreement on Trade in Services (GATS) and of a wide array of bilateral and regional trade agreements covering services, trade has emerged as a major contributor to growth in the services sectors of developing countries. The integration of developing countries into the global service economy, including through participation in global services supply chains, requires their designing and implementing appropriate policies and regulatory frameworks, establishing institutional structures, creating an enabling

environment for entrepreneurship, and building competitive services supply capacities. The development of services contributes to countries' overall national development by ensuring universal access to basic services such as health, education, energy, water services and telecommunications. However, to ensure gains from services and services trade liberalization, adequate content, pacing and sequencing of domestic reforms and bilateral, regional and multilateral liberalization remain essential.

For some developing countries with nascent service sectors and limited experience with privatization, emphasis may be placed on creating an enabling environment for domestic services firms, most of which may be small and medium-sized enterprises (SMEs). For others with more developed services sectors, increasing supply capacity and market access are priorities, including to progress in integrating their services industries into global services value chains. Developing national plans to advance service economies thus involves a thorough stock-taking exercise to examine what has been, can and should be done across various policy domains – including privatization, regulation, institutions and international cooperation and trade. An assessment of the services economy is essential in providing insights into strategic national planning for the sector, which ultimately should lead to the development of a services master plan.

A growing number of country studies – including many undertaken by UNCTAD – indicate that an appropriate content, pacing and sequencing of regulatory reform, market opening and flanking policies – including in the areas of investment, competition and consumer protection – are essential in delivering balanced development gains from the liberalization process. Lessons learned and success stories suggest that in many sectors the challenge now facing many developing countries is not 'whether or not to reform' but rather 'when and how to do so'.

Given the multifaceted nature of the service economy, with its successful development strongly affected by diverse resource requirements, inter-sectoral linkages and critical roles played by carefully designed national regulatory and incentive-based policies, many developing countries require technical assistance to identify and construct effective institutional frameworks and policy reform packages needed to ensure development gains from services and services trade liberalization. The SPRs performed by UNCTAD are designed to meet this need. SPRs examine the dynamics of specific national services sectors and outline policy approaches to advance sectoral, and broader national economic and social objectives.

Being able to construct reasonable scenarios on how changing underlying conditions and reforms are likely to impact sectoral performance requires the availability of timely and often detailed data, including based on informal sectoral estimates; knowledge of relevant regulations, institutions and policies affecting

sectoral dynamics; and consideration of challenges and opportunities perceived by sectoral stakeholders. Collecting and synthesizing these various inputs is an empirical process specific to each country and sector. For this reason, the SPR methodology employed by UNCTAD is based on a case-study approach employing both qualitative and quantitative analyses. Moreover, recognizing the difficulties of accessing services data, the methodology relies on the use of various national and international databases, analytical tools and sector-specific questionnaires for use in surveys of national stakeholders. It also encourages national stakeholders to improve data collection, dissemination and analysis activities.

III. THE SPR PROCESS

UNCTAD's SPR work is financed through the General Trust Fund on Services, Development and Trade and the United Nations' Development Account.

A. Purpose

SPRs respond to increased demand, from developing countries and economies in transition, for national services assessment studies. Each SPR guides requesting countries through a systematic review of the economic, regulatory, institutional and trade policy environments characterizing their service sectors with the aim of assisting them to improve regulatory and institutional frameworks and identify trade policy options that advance national sectoral development objectives.

B. Outcome

The outcome of the SPR is a report that provides analysis, recommendations and an action plan to policymakers and trade negotiators to assist them with future development of regulatory, institutional and trade policy regimes.

C. Stakeholder participation

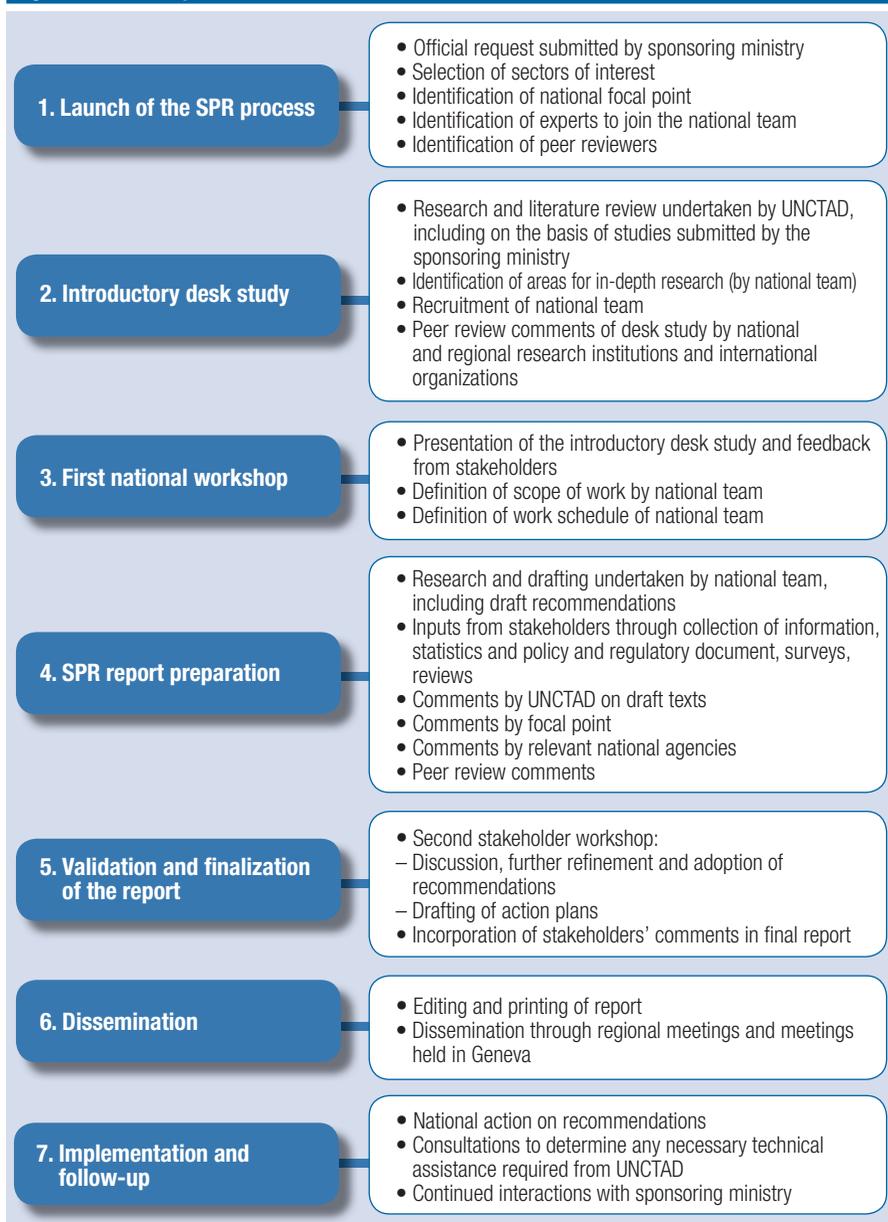
The participation of stakeholders is an integral and essential part of the SPR process. They are involved through interviews, questionnaires and national workshops. They provide inputs to the report and review and discuss recommendations. They also participate actively in the drafting of action plans aiming to designate national entities responsible for leading the implementation of each adopted recommendation, as well as an approximate timeframe of each adopted recommendation.

Box 1. Objectives of SPRs

The objectives of UNCTAD SPRs are to assist developing countries and countries with economies in transition to:

- (a) **Manage a successful services reform process:** The country projects on assessments of service economies and of trade in services carried out by UNCTAD aim to assist developing country Governments and regulatory authorities in designing, pacing and sequencing regulatory, institutional and trade policy reforms.
- (b) **Ensure sustainable development gains through services reform:** Integrated by design, the SPRs extend beyond an assessment of the economic impacts of services reform packages to reveal many of the social and environmental implications of prospective policies to allow for the fine-tuning of reform packages, including through the development of flanking policies, so that balanced developmental gains can be achieved through reform. Special attention is given to ensuring national MDGs are advanced by services sector reform packages. In addition to MDGs 1, 3 and 8 which all SPRs aim to promote, other MDGs are specifically addressed to an extent that varies depending on the specific sector(s) under assessment in a project (i.e., health, educational, environmental services, etc.), including through a comprehensive consideration of relevant universal access criteria and schemes.
- (c) **Strengthen negotiating capacities on services trade negotiations:** Results from UNCTAD SPRs also help trade negotiators to identify and promote conditions for increasing the beneficial participation of their countries in international trade in services through trade negotiations.
- (d) **Monitor results achieved through reforms and adjust related policies over time:** Experience demonstrates that policymaking in any realm is invariably iterative and incremental. For this reason UNCTAD provides continued advisory services to countries participating in its technical assistance projects. In relation to SPRs, UNCTAD will maintain regular two-way contact with project experts and national ministries, and with Geneva-based missions, to assist beneficiaries in achieving benchmarks set for reforms that have been adopted based on project recommendations.

Figure 1. The SPR process



D. Activities

1. Launch of the SPR

The first step in a SPR involves an official request from a Government to undertake a SPR. Governments can request a SPR for a particular services sector or, alternatively, they may also request a SPR covering the services sector more generally, while specifying one or several sectors of particular focus.

During this first phase, the main counterpart in the Government that will act as focal point, to provide sustained support and collaboration during the review process will also be identified. UNCTAD will then develop terms of reference for the study and identify with the designated focal point, the national expert team which will contribute to the project.

2. UNCTAD desk study

UNCTAD prepares a desk study which provides a comprehensive overview of the service economy of the country and in-depth analysis of the impacts of the regulatory, institutional and trade reforms undertaken to date. The desk study also identifies and analyzes the development and trade-related opportunities and challenges in each of the priority service sectors.

Once the desk study is ready for circulation, a national stakeholder workshop is organized to seek inputs and guidance from stakeholders on the study and next steps of the SPR process.

3. First national workshop

The objective of the first workshop is to raise awareness of the project among national stakeholders and secure their support and commitment for the project. The workshop also allows all the actors that will be involved in the SPR process to meet and agree on each one's role.

The main document discussed at this workshop is the desk study, prepared by UNCTAD, which will constitute the starting point and basis for the drafting of the SPR report. UNCTAD presents the findings of the desk study, including in sector-specific sessions which delve into the key economic, social, development, regulatory and trade specificities of each sector, building on UNCTAD extensive research and analysis of trade and development opportunities and challenges in various service sectors.

UNCTAD also presents the SPR methodology and introduces the team of national experts to the stakeholders. This workshop provides an opportunity for stakeholders to help define the scope of the project, identify major challenges and opportunities in relevant sectors and form new networks among themselves to open new channels of communication. An important output of this activity is the constitution of a broad group of national stakeholders with an appreciation of the importance of the services sector in the economy.

4. SPR report preparation

UNCTAD and the national experts teams work together to prepare the SPR Report. The report contains research and analysis of the service economy and priority sectors. The analysis is deepened through:

- Interaction with national stakeholders, which will allow obtaining recent policy documents, statistics, other data and information pertaining the priority sectors, and;
- Feedback from the stakeholders and peer review team.

The SPR reports include draft recommendations to improve the overall contribution of the services sector to the national economy and to strengthen the trade performance of sectors under review.

Box 2. SPR as an opportunity to review and improve services data

Despite the increased importance of the services sector, the availability of statistical data covering the services sector remains extremely limited in most countries. Increasing demand from policymakers and the private sector has been an important factor in the development of services statistics. However, given the large range of data needed for analyses of service sectors, these data are necessarily collected and maintained by a diverse set of national institutions. As a result, national teams will need to consult various national institutions and private sector organisations, including chambers of commerce as well as trade and industry associations, in order to collect much of the data required for a SPR.

National teams should consult the following sources of services statistics by contacting relevant national institutions (which often vary from one country to another) or by accessing this information from international databases such as those maintained by the United Nations and other international organizations:

- i) National Account,
- ii) National Balance of Payments (BOP),
- iii) Industry Surveys,
- iv) National Population Surveys,
- v) National Tourism Satellite Accounts,
- vi) National Health Accounts,
- vii) National Statistics in other sectors (e.g. Communications, Education, Energy, Transportation, etc.).

Notwithstanding these efforts, national teams will identify, early in the implementation of the SPR activities, the need for additional data which can only be collected through surveys, questionnaires, visits and interviews with sectoral actors. While the time and resources needed to fully undertake these activities in a comprehensive way are substantial, extending beyond the scope of the SPR, it is expected that selected use of representative surveys, questionnaires, visits and interviews with sectoral actors will be undertaken so that estimates of various important parameters can be made. Moreover, the national teams will also be in a position, at the end of the SPR exercise, to identify those sectors where data gaps are particularly crucial and, where relevant, to make some specific recommendations relating to the improvement of data collection and analysis.

5. Validation and finalization of the report

In the second national stakeholder workshop, stakeholders review a set of recommendations for each sector examined in the SPR. These recommendations, and others proposed by workshop participants, are critically considered and discussed during the workshop resulting in a set of agreed recommendations that are adopted by stakeholders and submitted to the Government for action.

The final recommendations endorsed by stakeholders should include the following three essential elements:

- a set of reforms (or reform measures) to enhance sector performance;
- a set of development objectives that reform are expected to advance, and;
- a core set of indicators against which the effects of proposed reforms can be assessed.

National stakeholders will also develop, during this second workshop, an action plan aiming to designate national entities responsible for leading the implementation of each adopted recommendation, as well as an approximate timeframe and sequence for the implementation of each recommendation.

6. Dissemination

SPR reports are published and disseminated by UNCTAD. Dissemination at the international level will take place through intergovernmental forums organized regionally and in Geneva, which provide an opportunity: (a) to communicate and discuss findings and recommendations with researchers, national decision-makers and trade negotiators in the wider trade and development community, and; (b) for the exchange of success stories and lessons learned among countries. At the national level the published report aims to provide sectoral analyses to policymakers and trade negotiators in order to assist them with future development of regulatory and trade policy regimes. It also provides stakeholders with insights that will inform their positions in the participatory processes that the country has in place for developing its trade policy and negotiating positions.

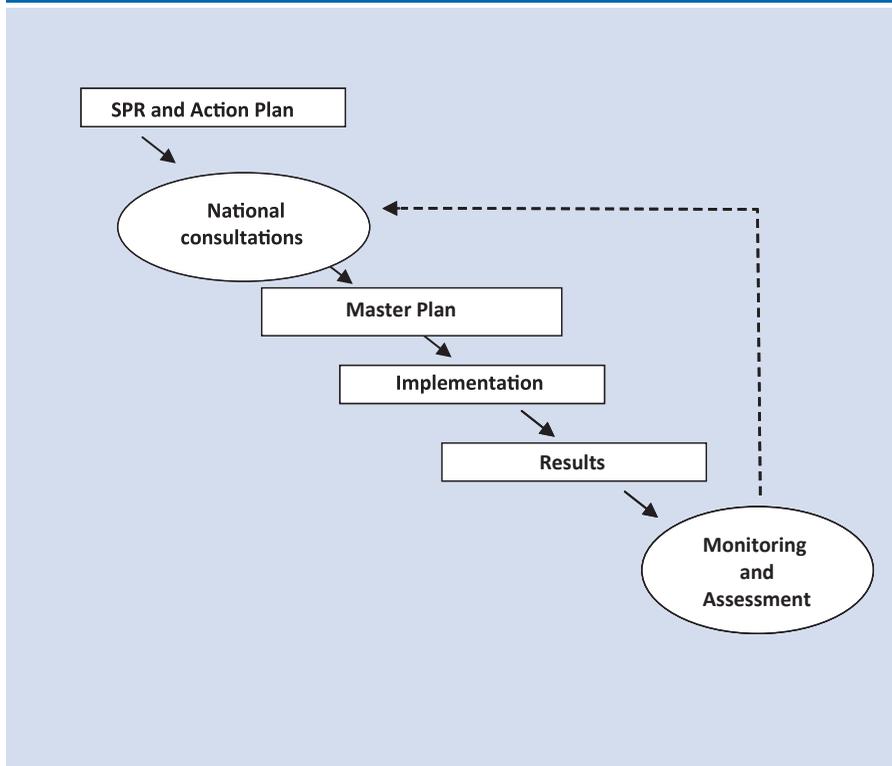
7. Implementation and follow-up

The dissemination of the SPR report should provide the basis for the sponsoring ministry to further engage with the relevant Government entities and other stakeholders in further reforming the service economy and related trade policies so as to leverage the services sector's contribution to the country's overall

development. Where an action plan is developed, this provides concrete steps and timelines for such a reform process, which is expected to contribute to the development of a national services strategy in the form of a Services Master Plan.

The sponsoring ministry should ensure that regular monitoring of implementation of the action plan is undertaken and that an assessment of the impacts of the implemented measures be carried out. Technical assistance from UNCTAD can be requested for the implementation and follow-up phase.

Figure 2. From implementation to the development of the Services Master Plan



IV. THE SPR REPORT

A SPR leads national policymakers and other stakeholders to examine a range of important issues for the services sector(s) under study within the context of the overall policy framework for the services economy.

Each SPR report begins by examining the broad economic – and associated social and environmental – dynamics of the national services economy as a whole. Subsequently, the review focuses on a specific sector(s) selected by the requesting country for in-depth study.

The SPR assesses the impacts of economic and demographic changes, and of regulatory, institutional and trade reforms on future performance of the services sector(s) in a national economy. Issues examined include:

- National development objectives for the sector;
 - Areas of effectiveness and weakness in the current policy framework for the sector;
 - Regulatory and institutional challenges inhibiting sectoral development;
 - Innovative approaches to strengthening backward and forward inter-sectoral linkages within the national economy;
 - The likely impacts of sectoral reforms on access to essential services, especially for the poor;
 - Prospects for trade liberalization to generate increased efficiency, employment and access to foreign markets, particularly among SMEs;
 - The extent to which domestic reform and trade liberalization can affect social policy objectives, e.g., in areas such as education, health and culture;
 - The effect of varied liberalization options – autonomous, bilateral, regional and multilateral – on the development of domestic supply capacity and SMEs, considering that some services activities may require a certain degree of protection before achieving international competitiveness;
 - Short-term adjustment costs and how to address them;
 - The impact of trade liberalization on foreign and domestic investment; and
 - The overall impact of domestic reform and trade liberalization on sectoral development.
-

Structure of the SPR report

A typical SPR report consists of a comprehensive introductory chapter, a chapter which reviews the service economy of the country, one or several chapters focusing on the priority service sectors, and a closing chapter that presents the overall recommendations, sector-specific recommendations and action plan.

The introductory chapter presents the objectives of the paper and the methodology used. It also provides the rationale for the SPR and how the Government hopes to integrate the findings of the study in its policy-making. Finally, the chapter presents the expected outcomes of the SPR process.

The subsequent chapter provides an overview of the country's service economy, including by discussing the sector's economic performance and contributions to GDP, trade, foreign investment, and social performance indicators (e.g. linkages to poverty reduction, employment of women, infrastructure services, health and education). The chapter also provides an overview of the relevant institutions which govern the national services sector.

The report then includes one or more chapters on the selected priority sectors. Each sector-specific chapter begins with a description of that sector's economic impact (including its contribution to GDP and employment) and the country's strategy for the sector through the analysis of sector policies. National and trade objectives for the sector are then discussed including any quantitative targets, as well as the sectoral performance by sub-sector in terms of output, employment, trade and investment. This chapter also describes the economic actors (parastatals or private firms, domestic or foreign firms, etc.) in the selected service sectors and will be based on interviews with some of these agents. A principal objective of these sectoral analyses will be to identify the factors that play a major role in the structuring of supply by service providers and in the development of demand by final users (industrial firms, municipalities, commercial establishments and residential consumers). Particular attention is paid to the specific situation of SMEs. The analysis also draws the relevant linkages to national development strategies and objectives (e.g. Vision 2020 or 2030 documents and other MDG targets) and between services sectors and between the services economy and other sectors of the economy. Data should be presented to demonstrate the role each sub-sector plays in meeting various development objectives, including the provision of adequate services for industrial and social development, attracting domestic and foreign investment, using trade as an engine of national development and generating employment opportunities and poverty alleviation.

The sector-specific chapters also focus on a review of sector policy measures, regulations, and institutions. Sector objectives and reforms, as embodied in key policy documents, are critically reviewed. The regulatory environment (including regional regulation where relevant) is described and analyzed with the objective of providing a clear understanding of the laws and regulations determining the functioning of sectoral activity. Any regulatory gaps receive particular attention as they could be the basis for recommendations. Similarly, sector-specific institutions are reviewed and analyzed to determine the adequacy of the institutional environment and any specific (human, financial, or substantive) challenges that the country is facing in this area.

Box 3. The inventory of regulations and institutions affecting sectoral activity

The SPR should provide a detailed picture of the regulatory framework and national institutions that characterize the selected services industries. Attention should be given to how the sectors' operators are regulated – parastatals only, mixed participation of public and private firms, limited number of licenses, price regulation, regulation by type of output, regulation by limitation on geographical presence – and how this has changed or is changing. Particular attention should also be given to the participation of foreign service providers in these sectors and to the limitations placed on their participation. In this connection, the SPR report identifies regulations that discriminate between domestic and foreign service providers as regards conditions of market access, taxation, etc. Some presentation of regulations on foreign direct investment, joint ventures, and the like are also made, pointing out in particular where foreign firms are allowed to participate and where they are not. Likewise, the report reviews how the entry of employees of foreign service providers is regulated through visas, work permits, and temporary permits, as well as the larger issue of the role of foreign workers in the national economy. Finally, the role of regulations that support universal access to services is discussed in detail.

Finally, the sector-specific chapters also provide an analysis of the trade liberalization (whether on an autonomous basis or as the result of bilateral, regional or multilateral trade negotiations) undertaken by the country in each priority sector. All relevant trade measures and liberalization commitments are identified, including their main features, the date of their entry into force, their resulting effect on the regulatory framework of the sector, and, to the extent possible, their positive or negative impacts on the supply of, and demand for, the priority services, including through the four modes of services trade. In particular an assessment is provided on the effectiveness of the current regulatory and institutional frameworks in a liberalized trade environment. This analysis includes an examination of all the relevant texts of trade and related agreements (e.g. investment or broader regional integration agreements), as well as any pertinent literature assessing and analyzing their effects.

The sector-specific chapters conclude with an analysis of the strengths, weaknesses, opportunities and threats (SWOT) that the country faces in developing its service sectors. The SWOT should seek to evaluate opportunities and barriers associated with improved development of the selected service sectors, identify a set of policies to improve performance of the sector, reveal the main development objectives and elaborate stakeholders' policy recommendations.

A final chapter presents overall recommendations for the services sector before providing the sector-specific recommendations. The recommendations relate, *inter alia* to socio-economic and political opportunities and challenges, increasing the linkages between the services sector and the rest of the economy so as to improve the development impact of reform/liberalization in service sectors and sub-sectors, and areas for regulatory and institutional change. It also provides an action plan which details specific short, medium and long-term actions to solve the problems identified with indicative timelines for the completion of such actions and identifies the entities that will be responsible for undertaking the various actions.

ANNEX

SPRs undertaken by UNCTAD:

- Uganda (UNCTAD/DITC/TNCD/2010/1)
- Kyrgyzstan (UNCTAD/DITC/TNCD/2010/2)
- Nepal (UNCTAD/DITC/TNCD/2010/3)
- Rwanda (UNCTAD/DITC/TNCD/2010/6)
- Lesotho (UNCTAD/DITC/TNCD/2012/1/Rev.1)
- Jamaica (UNCTAD/DITC/TNCD/2013/9)
- Peru (UNCTAD/DITC/TNCD/2013/11)
- Uganda II (UNCTAD/DITC/TNCD/2013/12)
- Nicaragua (UNCTAD/DITC/TNCD/2013/13)

The above-mentioned reports are available at: <http://www.unctad.org/sprs>

Forthcoming:

- Bangladesh
 - Paraguay
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