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Services, development and trade: The regulatory and institutional dimension

Note by the UNCTAD secretariat

Executive summary

Services sectors are essential to the efficient functioning of all modern economies and strengthened productive capabilities and competitiveness. They are expected to play a major role as a key enabler in the emerging sustainable development goals. The quality of policies, regulations and institutional frameworks is a key determinant of services performance and is important in harnessing pro-development benefits of services sector development. Devising adequate policy, regulatory and institutional frameworks that are best fit to national circumstances and priorities is a critical challenge for governments. This process should start with an assessment of services sector performance and the regulatory and institutional frameworks conditioning such performance. UNCTAD services policy reviews serve as a useful toolkit to assist countries in meeting this challenge and devising an appropriate policy mix to improve services sector performance and expert diversification. Lessons can be learned from country experiences towards the identification of best-fit practices for harnessing the services economy and trade for sustainable development.

Introduction

1. The services sectors, including infrastructure services – transport, energy, financial services, and telecommunications and information and communications technology (ICT) – are essential for the efficient functioning of all modern economies and strengthened productive capabilities. They are fundamental inputs to all economic activities, both goods and services, and as such are a direct determinant of countries' competitiveness. Firms today depend on access to high-quality services for their competitive positions. Technological changes are bringing about new services and new ways to trade them, making services a relevant option for export diversification. The increased tradability of services is a major development in the recent history of international trade. Their importance has been further accentuated with the rising prominence of trade within global value chains. There is a large untapped potential for developing countries to capitalize on the service sectors for diversification, structural transformation, and sustained growth and development.

2. Services also contribute to sustainable development by ensuring universal access to basic services. A dynamic service economy can make significant contributions towards the achievement of the post-2015 sustainable development goals, as the achievement of proposed goals and targets implicitly and explicitly relies on universal access to basic services. These include health (Goal 3), education (Goal 4), water and sanitation (Goal 6), energy (Goal 7), and infrastructure and innovation (Goal 9). Many proposed targets also refer to services such as telecommunications, access to financial services, sustainable tourism and transport. Several goals and targets of a cross-cutting nature, most notably Goal 1 on ending poverty, Goal 8 on inclusive and sustainable economic growth and productive employment, and Goal 10 on inequality, as well as environment- and gender-related goals and targets, presume efficient, environmentally clean and equitable functioning of the services sector. Furthermore, trade in general, and trade in services in particular, are expected to play a major role as the "means of implementation" in Goal 17.

3. Policies, regulations and institutions are important in harnessing such far-reaching and multifaceted benefits of services. However, devising adequate policy, regulatory and institutional frameworks that are best fit to national circumstances and priorities in an increasingly open trading environment remains a critical challenge to governments. UNCTAD services policy reviews have served as a toolkit to allow policymakers and regulators to assess the potential of services productive capacities and trade, as well as the robustness of regulations and institutions, in order to identify constraints impeding services sector development and ascertain practical solutions and a suitable policy mix. This note examines recent economic, policy and regulatory trends affecting services, trade and development and introduces services policy review methodologies[1] to discuss some of the lessons learned from country experiences surveyed and studied under the comprehensive work of UNCTAD on services, development and trade, particularly services policy reviews.

I. Trends in the services economy and trade

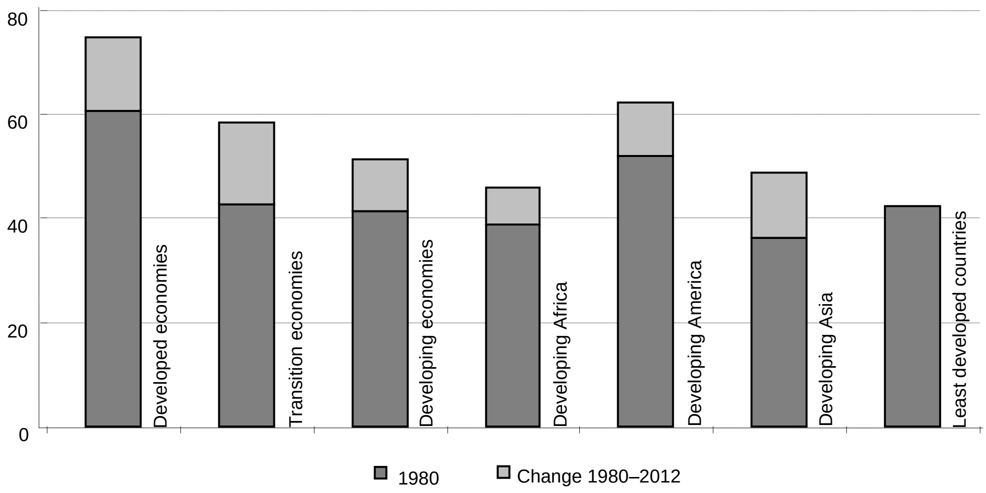
4. The analysis of a long-term trend confirms the "servicification"[2] of national economies in many countries. Between 1980 and 2012, the share of services in gross

[1] UNCTAD, 2014, *Services Policy Reviews: A Detailed Methodology for Reviewing Policy, Regulatory and Institutional Frameworks for Services* (New York and Geneva, United Nations publication).

[2] The growing importance of services in all economic sectors.

domestic product increased for all income categories of countries: from 61–75 per cent for developed countries, and from 41–51 per cent for developing countries (figure 1). While the increased share of services is mainly associated with a declining industrial share in developed economies, the increased share of services in developing countries largely corresponds to a decrease in the share of agriculture. Among developing regions, Latin America and the Caribbean is the one region where services contribute most to output (62 per cent). While services remain substantial, the continued prevalence of agriculture in Africa and of industry in Asia renders the services sector less prominent. It is significant that the share of services is the lowest and is stable at 42 per cent in the least developed countries (LDCs).

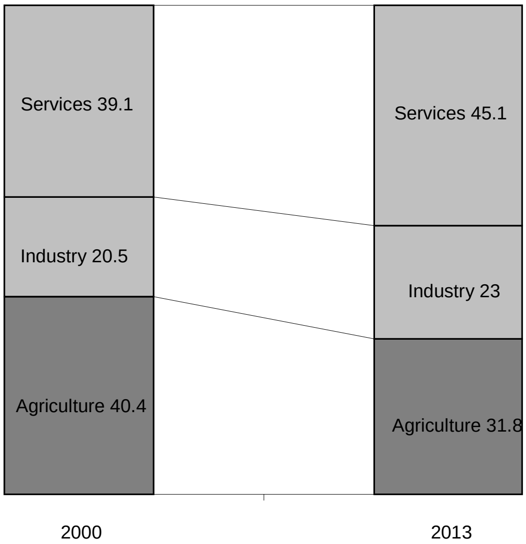
Figure 1
Contribution of services to gross domestic product by region, 1980 and 2012
(Percentage)



Source: UNCTADStat.

5. The services sector is also a major contributor to employment. Since the early 2000s, services have been the primary source of employment. This trend persisted during the wake of the global financial crisis, with a large employment gap worldwide. The broad services sector remains the main job provider globally (figure 2) and is expected to employ 1.5 billion people by 2015.

Figure 2
Contribution of services to global employment, 2000 and 2013
(Percentage)



Source: International Labour Office, 2014, *Global Employment Trends 2014: Risk of a Jobless Recovery?* Geneva.
Note: Values for 2013 are estimates.

6. In recent years, the estimated share of services in total exports of goods and services has been 25 per cent in developed countries and 15 per cent in developing countries. These values may not reflect the full importance of the services sector for international trade. Services represent a significant part of the value added embedded in exports, which is not captured in trade statistics. Progress has been made in measuring trade in value added terms. Measured in value added terms, services accounted for 45 per cent of the value of world exports in 2009. In fact, for many developed economies, services value added in gross exports represent about 50 per cent.

7. Developing countries expanded services exports faster than developed countries between 2000 and 2013, and their share in world services exports increased from 23-30 per cent**.** The sectoral composition of services exports shows a stark contrast between developed and developing regions (table 1). While transport, travel and other business services are the three largest sectors for both groups, the relative importance of travel and transport is more pronounced in developing countries. By contrast, other business services, financial and insurance services, and royalties and licence fees contribute more to total commercial services exports in developed economies. This suggests the specialization of developed economies in activities with higher value added and, conversely, that of developing economies in traditional services activities. This pattern can be most vividly observed in the case of Africa and LDCs where reliance on travel and transport is particularly great. In Asia, the share of computer and information services has expanded in recent years, while in developing America, other business services have increased in importance.

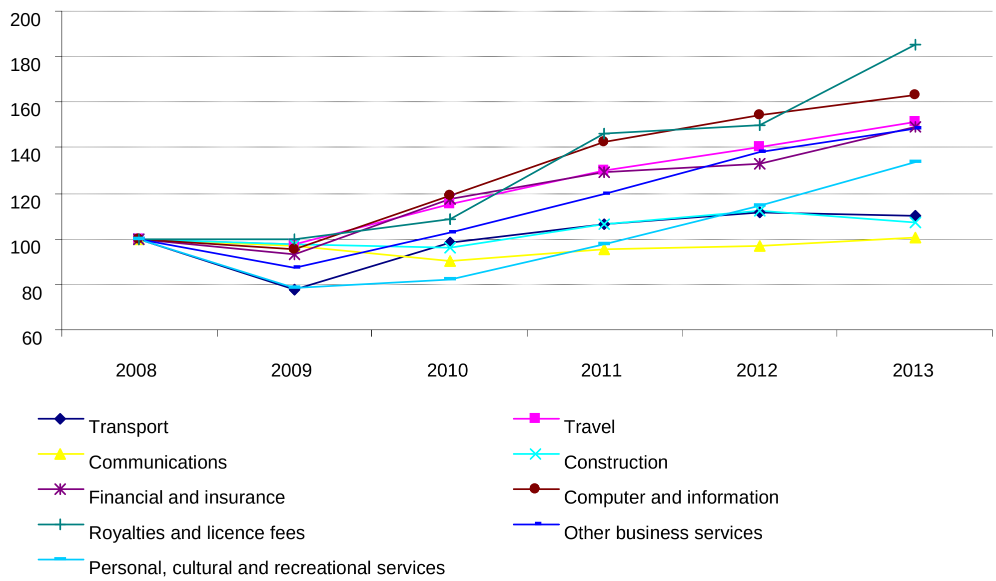
Table 1
Commercial services exports by region and sector, 2013
(Percentage)

Type of services	*Developed economies*	*Developing economies*	*Developing Africa*	*Developing America*	*Developing Asia*	*Least developed countries*
Transport	18.2	21.2	30.3	18.7	20.8	23.8
Travel	21.7	34.1	43.4	39.8	32.5	44.6
Communications	2.9	2.0	5.2	2.3	1.7	7.6
Construction	1.8	3.0	2.0	0.1	3.5	4.6
Financial and insurance	11.4	5.7	3.9	6.1	5.8	3.2
Computer and information	6.3	6.0	1.4	3.5	6.7	1.2
Royalties and licence fees	9.5	1.0	0.3	2.1	0.8	0.3
Other business services	27.3	26.5	12.9	26.6	27.6	14.4
Personal, cultural and recreational	1.1	0.6	0.5	0.8	0.6	0.4
Total	100.0	100.0	100.0	100.0	100.0	100.0

Source: UNCTADStat.

8. The recent sectoral export performance of developing countries appears to confirm the particularly dynamic nature of computer and information, other business services and financial services, along with royalties and licence fees, and travel (figure 3). The fast growth of royalties and licence fees can be attributed mainly to the dynamism of these services in developing America, and computer and information services are driven particularly by Asia. In developed economies, the fastest-growing categories are computer and information, royalties and licence fees, communications and other business services. The remarkable growth of royalties and licence fees is largely a reflection of increased foreign direct investment (FDI).

Figure 3
Exports of commercial services from developing countries by category, 2008–2013
(2008 = 100)



Source: UNCTADStat.

9. In 2013, the world's five largest exporters of commercial services were the United States of America (14.3 per cent of the world total), the United Kingdom of Great Britain and Northern Ireland (6.3 per cent), Germany (6.2 per cent), France (5 per cent) and China (4.5 per cent). The five leading importers were the United States (9.8 per cent), China (7.6 per cent), Germany (7.2 per cent), France (4.3 per cent) and the United Kingdom (4.0 per cent).

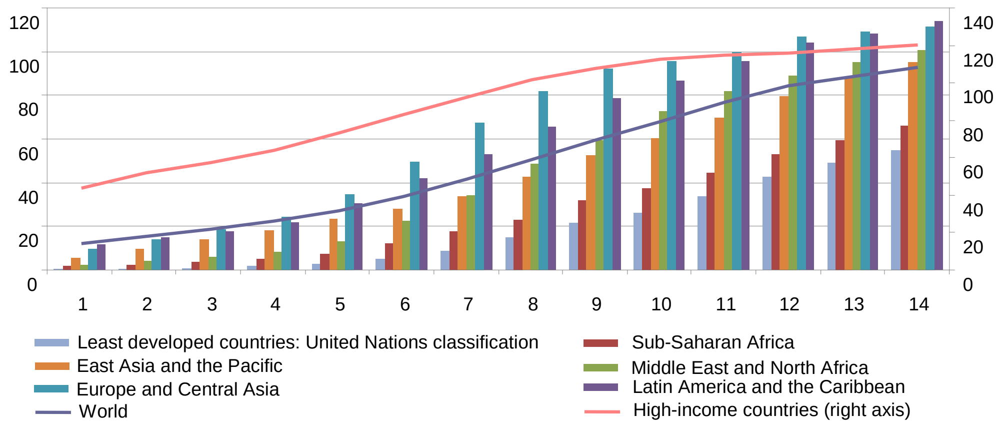
10. Commercial presence through FDI is the major mode of supply in services. FDI in services has grown tenfold within 20 years, to reach almost $1,000 billion in 2010–2012. FDI to services has grown faster than to the primary and manufacturing sectors, with the notable exception of mining and petroleum extraction activities. Inward FDI to financial services amounted to $452 billion in 2010–2012, which represents a sixteenfold increase since 1990–1992. Business activities have also been multiplied by 10. Most of the increase of financial and business services can be attributed to developing and transition economies. Furthermore, FDI into transport, storage and communication services has also increased sharply in this period.

11. Services exports through the temporary movement of natural persons (Mode 4) appear to be substantial for developing countries, based on the robust growth in the number of migrants and the value of remittances flows. In 2013, 232,000,000 migrants worldwide sent home an estimated $542 billion, over 80 per cent of which was channelled to developing countries. Developing Asia received most of the global remittances flows estimated at more than $260 billion.

12. Among the services sectors, telecommunications and ICT services are a key enabler of modern economic and social activities and help enhance the competitiveness of an economy. The digital divide between high-income countries and developing regions has narrowed in recent years (figure 4). Four developing regions have higher mobile cellular penetration than the world average, while in sub-Saharan Africa and LDCs, mobile penetration is still relatively low, despite steady growth over the past 13 years. Fixed

broadband Internet penetration is growing steadily in many developing regions. However, once again, sub-Saharan Africa and LDCs are clearly lagging behind.

Figure 4
Mobile cellular subscriptions by region and type of economy, 2000–2013
(Per 100 people)



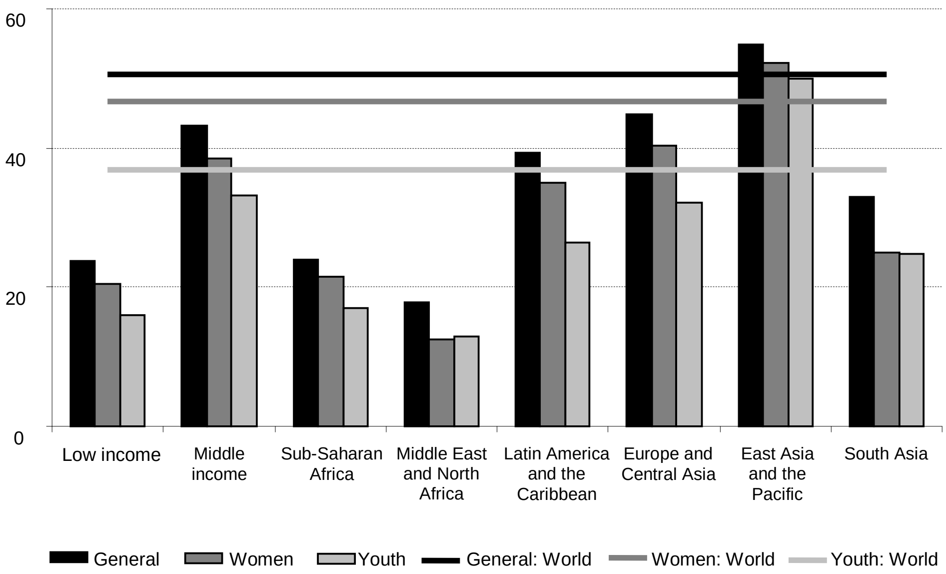
Source: World Bank, World Development Indicators database.

13. Financial services play a pivotal role in the mobilization and allocation of resources for productive investment in the real economy. Increased international financial transactions have become an essential component of the sector. Cross-border exports in financial services reached $445 billion in 2013, 80 per cent of which was accounted for by developed countries. The share of developing countries, however, rose to 19 per cent. Asia accounts for nearly 80 per cent of developing countries' exports, and the largest 10 developing exporters make up 87 per cent.

14. There is a large variation in the degree of financial inclusion around the world.[3] In 2011, only 50 per cent of people over 15 years of age had a formal bank account (figure 5). Over 2.5 billion adults – about half of the world's adult population – did not. There are remarkable disparities in the use of financial services between developed and developing countries. The share of adults in developed countries who have a bank account in a formal financial institution is more than twice that of developing countries. The level of financial inclusion of people and firms varies widely among developing countries by income groups and region.

[3] TD/B/C.I/EM.6/2 and TD/B/C.I/EM.6/3.

Figure 5
Proportion of people with a formal bank account by income and region, 2011
(Percentage)



Source: UNCTAD computation based on the World Bank Global Financial Inclusion (Global Findex) Database.
Note: "General" includes people over 15 years of age; "youth" includes people between 15 and 24.

15. Robust growth in global merchandise trade over the last decade has accompanied the expansion of international maritime transport services. The share of container port traffic of low- and middle-income countries increased between 2000 and 2012 to reach almost 50 per cent of world container port traffic. This reflects the increasing use of containers for dry bulk cargo for international trade in developing countries.[4] The UNCTAD Liner Shipping Connectivity Index, which measures economies' connectivity to global shipping networks, shows that China has been ranked first in liner shipping connectivity since 2004 and that its connectivity has increased by 65 per cent since 2004 (table 2).

[4] UNCTAD, 2014, *Review of Maritime Transport 2014* (United Nations publication, Sales No. E.14.II.D.5).

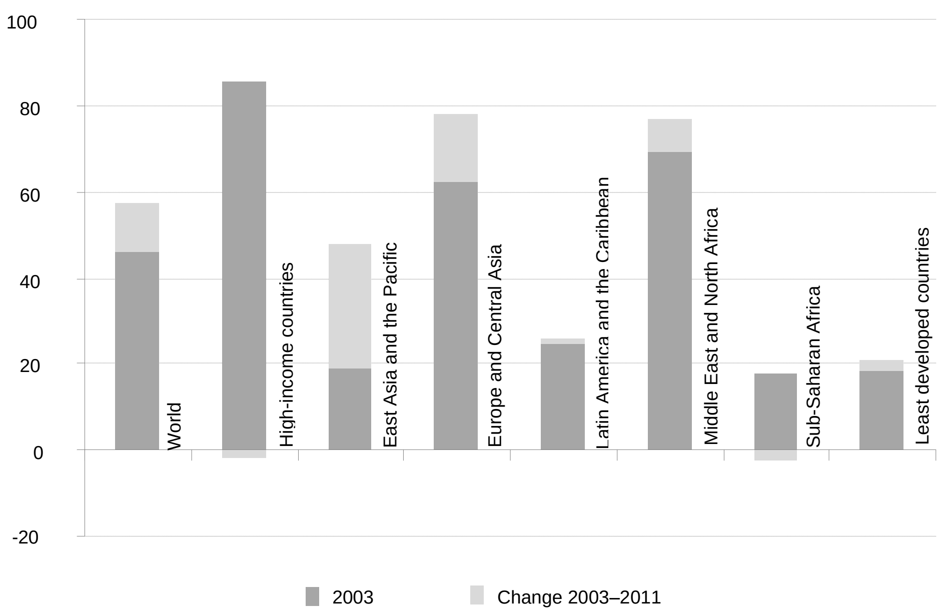
Table 2
Liner Shipping Connectivity Index
(Maximum 100 = 2004)

	2004	*2009*	*2014*
Brazil	26	31	42
China	100	132	165
Egypt	43	52	62
Germany	77	84	94
India	34	41	46
Kenya	9	13	12
Mexico	25	32	40
Netherlands	79	89	94
Nigeria	13	20	23
Thailand	31	37	45
United States	83	82	95

Source: UNCTADStat.
Note: The Index generates the value 100 for the country with the highest average index in 2004.

16. The quality of road infrastructure can be a proxy of inland transport costs, hence of a country's trade competitiveness, particularly for landlocked and transit countries. There is an inverse relationship between the quality of the infrastructure and trade costs. In developing countries, less than half of the roads are paved, although most developing regions, except sub-Saharan Africa, increased their share of paved roads between 2003 and 2011 (figure 6).

Figure 6
Paved roads, global and by region, 2003 and 2011
(Percentage of total roads)



Source: World Bank, World Development Indicators database.

17. The lack of affordable, available and reliable energy sources is the major obstacle to economic development. Indeed, only 30 per cent of the population has access to electricity at a competitive price in LDCs and sub-Saharan Africa, whereas in other developing regions, some 90 per cent of the population enjoys access to electricity.[5] The cost of obtaining a permanent electricity connection for a newly constructed warehouse is above 100 per cent of per capita income in all regions except countries belonging to the Organization for Economic Cooperation and Development (OECD) (table 3). The highest cost is found in sub-Saharan Africa, where the cost represents over 4,000 per cent of income.

Table 3
Obtaining a permanent electricity connection for a newly constructed warehouse

Region	*Distance to frontier*	*Number of procedures*	*Time (days)*	*Cost (percentage of income per capita)*
East Asia and the Pacific	78.76	4.6	77.4	887.6
Europe and Central Asia	64.71	5.9	138	471.1
Latin America and the Caribbean	77.32	5.5	67.4	444.5
Middle East and North Africa	76.03	4.8	84.9	972.5
Organization for Economic Cooperation and Development, high-income countries	81.83	4.7	76.8	73.2
South Asia	62.47	5.9	145.7	1536.2
Sub-Saharan Africa	56.96	5.5	138.3	4348.5

Source: World Bank, 2014, Getting Electricity, Doing Business, Measuring Business Regulations, available at http://www.doingbusiness.org/data/exploretopics/getting-electricity, accessed 24 February 2015.
Note: An economy’s distance to frontier is indicated on a scale from 0 to 100, where 0 represents the lowest performance, and 100, the frontier.

II. Policy and regulatory trends

18. Effective policies and regulations, backed by sound institutions are central to the efficient provision of services and higher welfare. Regulatory systems aim at promoting the development of services sectors, responding to market failures such as information asymmetry and mitigating economically and socially undesirable results. Services performance is sensitive to regulations, as these sectors are highly regulated. However, regulatory systems are not successful in all countries, and significant gaps remain in the quantity and quality of infrastructural services across countries. Many regulatory failures have been experienced.

Telecommunications, and information and communications technology

19. In telecommunications and ICT, the need to adopt appropriate regulatory tools to respond to exponential technology advancement, the proliferation of new business models

[5] World Bank, World Development Indicators database.

and broader public interest are issues facing regulators in today's converged environment.[6] The number of active mobile broadband subscriptions exceeded 2 billion in 2013. Mobile broadband has become more prevalent than fixed broadband. The emergence of broadband communications has changed the way content is packaged and delivered. Networks have become integrated or converged, and new innovative services have emerged. Examples include voice-over-Internet Protocol services such as Skype, and mobile money services. Such rapid technology-driven market changes have called for a "fourth-generation" regulation of the sector. Fourth-generation regulation, which differs from the previous generations of regulatory models, has to deal with an increased range of services and the broader socioeconomic implications thereof, delivered over multiple broadband and converged networks that make up the new digital ecosystem.

20. Ex ante regulations have led to network expansion and the emergence of new services in fixed-line market segments. Measures such as requiring local loop unbundling, publishing a reference interconnection offer and setting technology neutrality have contributed to improved competitiveness of this line of technology. However, their cumulative effects have been slow. By contrast, mobile market regulation adopts a lighter-touch approach to regulation, focusing more on creating opportunities for markets to develop. China, for instance, decided to lighten its regulatory approach by moving from regulated tariffs of telecommunications services to market prices based on customers' needs.[7]

21. Market entry has become easier with the move towards ex post regulation combined with general competition laws and regulations. Many countries have introduced global authorization regimes for some types of ICT services, including unified licences or multi-service licences that allow for service providers to meet market demand with new services. More rigid single-service individual licences have become less popular. In this context, spectrum management has become a critical issue with the rapid growth of mobile broadband application, services and providers. This has created a demand for ever-increasing spectrum bandwidth and a need to sustain growth in mobile data traffic and manage spectrum more effectively. A new model of spectrum regulation is focusing on the evaluation of alternative uses of spectrum, re-use and re-farming, so that frequencies are put to their most efficient and highest valued use over the longer term.

22. Competition is important in nurturing ICT connectivity and paving the way for affordable services. By the end of 2013, mobile and Internet sectors, DSL,[8] cable modem, fixed wireless and mobile broadband all supported competition in 80–95 per cent of countries. Basic telephony remains a monopoly in about 30 per cent of all countries. Many markets are undergoing consolidation, resulting in fewer infrastructure operators and mobile network providers. Global and regional operators with cost and strategic advantages over local incumbents may cross-subsidize offerings from one country to another, undercutting prices and dominating the subsidized market. In particular, securing net neutrality is important, as broadband access providers may discriminate against certain services, applications or content, especially when they compete with the carriers' own offering. Mexico sought to modernize the sector by adopting the new federal telecommunications law to promote competition, for example, allowing 100 per cent

[6] UNCTAD,2013, *Information Economy Report 2013: The Cloud Economy and Developing Countries* (New York and Geneva, United Nations publication, Sales No. E.13.II.D.6); International Telecommunication Union, 2014, *Trends in Telecommunication Reform Special Edition: Fourth-generation Regulation –Driving Digital Communications Ahead*.

[7] WTO, 2014, Overview of developments in the international trading environment: Annual report by the Director-General (WT/TPR/OV/17) 24 November.

[8] Digital subscriber line.

foreign ownership of companies. Other objectives of the law were to improve coverage and service quality, and lower costs and prices.

23. With the increased use of the Internet, consumer protection is more important than ever before: The Internet has become a medium for some to commit fraud, breach privacy, post inappropriate content and commit other cybercrimes. Many countries are adopting regulations specifically designed for ICT customers that are to be enforced by either the ICT sector regulator or a designated consumer protection agency.

24. Universal access bringing broadband networks to an uncovered population of 4.4 billion stands out as the most important regulatory agenda in the sector. Governments and regulators have sought to encourage the private operators to cover a larger range of the population and geographical areas through a variety of measures. These included the use of financial subsidies and incentives encouraging innovation, extending digital literacy and devising a funding mechanism to foster public and private investment in broadband infrastructure, including through investment incentives. Various government schemes have aimed to encourage the installation of broadband infrastructure, including licence-based obligations, provision of grants on a competitive basis and creation of new broadband networks. In South Africa, the new Electronic Communications Amendment Act (2014) improves the governance of the Universal Services and Access Agency (for example, alignment with broad-based black economic empowerment initiatives) and enhances licensing procedures and frequency allocation.

Financial services

25. In financial services, recurrent regulatory failures have had a strong impact on many countries' growth, employment and economic welfare. Efforts continue at all levels to overhaul regulatory frameworks to reduce the probability of future financial crises by shifting the regulatory focus towards macroprudential objectives. They are essentially aimed at internalizing negative externalities created by individual financial institutions. The central reform agenda is based on strengthening bank capital and liquidity standards under Basel III, to be implemented by 2019, which seeks to improve the ability of banks to cover losses. More and more national efforts are being devoted to translating capital requirements and other standards into new national regulatory frameworks, including those affecting the entry and operation of foreign banks, such as enhanced prudential standards for bank holding companies and foreign banking organizations in the United States, and the European Union Directive on markets in financial instruments, known as MIFID 2. In the United States, the implementation of the Volcker Rule – which prohibits deposit-taking banks from engaging in short-term proprietary trading – has been delayed by two years until 2017, because of the time needed for banking entities to adjust their covered fund activities and investments.

26. Increased attention has been given to the regulation of foreign banks through subsidiaries, rather than branching, as allowing the latter would imply accepting home-country regulations, including on capital adequacy requirements. From the host-country perspective, it is easier to exercise regulatory control over banks established within their jurisdiction as subsidiaries. For instance, India has introduced a new scheme for setting up wholly owned subsidiaries. This policy is guided by two principles: reciprocity and single mode of presence. Wholly owned subsidiaries will be given "near national treatment", which will enable them to open branches anywhere in the country on a par with Indian banks. Branch expansion policies that apply to domestic scheduled commercial banks would identically apply to wholly owned subsidiaries of foreign banks, as well.

27. In light of the regulatory flurry, where several major markets have begun to impose requirements that are more stringent than those required under Basel III, it may be

conceivable that new global standards, Basel IV, may soon be emerging. For example, Switzerland, the United States and the United Kingdom have set minimum leverage ratios at above 3 per cent, and other developed countries are calling for more stringent liquidity standards. All of this may be setting the foundations for Basel IV in the near future. More stringent rules might be applied, including a higher minimum leverage ratio, greater restrictions on banks to use their own internal models to calculate their risk-weighted capital requirements, a tougher approach to stress testing and more disclosure requirements.[9]

28. Governments have promoted universal access to basic financial services and financial inclusion through subsidies and a variety of direct interventions. The Expert Meeting on the Impact of Access to Financial Services, Including by Highlighting Remittances on Development: Economic Empowerment of Women and Youth (12-14 November 2014) stressed the importance of new technology and innovative business models in overcoming the barriers to access to financial services. Policies to expand account penetration are especially effective, for example, requiring banks to offer basic or low fee accounts, granting exemptions from onerous documentation requirements and allowing correspondent banking, for instance, through postal networks. Regulation can impose universal services obligations on financial institutions, including priority sector lending, mandatory lending to small and medium-sized enterprises (SMEs), loans to poor people at lower interest rates and no profit margins. On the demand side, improved financial literacy, capabilities and consumer empowerment could increase demand for financial services. Remittances can create an effective demand for formal banking services and are hence instrumental in achieving financial inclusion. Reducing remittance transfer costs to 5 per cent or below by 2030, as suggested by proposed targets of the sustainable development goals, can therefore support access to financial services.

Services under trade agreements

29. The progressive liberalization of services has been pursued at the multilateral level under the Doha Round of the World Trade Organization (WTO).[10] Current negotiating efforts to develop a post-Bali work programme by July 2015 aim at simultaneously addressing all core market access issues in agriculture, non-agricultural products and services. Following the submission of a collective request by LDCs, a high-level meeting was held in February 2015, where developed countries and developing countries in a position to do so made some indication as to sectors and modes of supply where they intend to provide preferential treatment to LDC services and service suppliers. In the meantime, plurilateral negotiations for the Trade in Services Agreement are under way among 23 countries, representing 70 per cent of global services trade. The Trade in Services Agreement is said to be comprehensive in scope and built upon the General Agreement on Trade in Services (GATS) approach to promote the subsequent multilateralization and participation of new members and capture existing autonomous and preferential liberalization.

30. Services have become a major feature of twenty-first century regional trade agreements that are oriented towards deeper and comprehensive integration with a strong

[9] KPMG International Cooperative, 2013, Basel 4 – Emerging from the mist ? September, available at http://www.kpmg.com/Global/en/IssuesAndInsights/ArticlesPublications/regulatory-challenges/Documents/emerging-from-the-mist.pdf, accessed 24 February 2015.

[10] United Nations, 2014, Report by the Secretary-General on international trade and development (A/69/179), 23 July; UNCTAD, 2014, Towards an enabling multilateral trading system for inclusive and sustainable development (TD/B/C.I/MEM.5/5), 29 September.

regulatory focus.[11] These agreements address behind-the-border measures encompassing services and investment among others, and usually lead to the level of commitments deeper than under GATS. Particularly notable is the emergence of two mega-regional trade agreements between the European Union and the United States: the Trans-Pacific Partnership Agreement, and the Transatlantic Trade and Investment Partnership. These emerging agreements have placed a strong emphasis on achieving regulatory coherence among the parties while there exist concerns that upward harmonization of standards might have adverse implications for the capacity of developing country exporters to meet those standards. Various sector-specific regulatory disciplines targeting key services, including financial, telecommunications, ICT, transport and professional services, feature prominently in recent regional trade agreements.

III. Services policy reviews: Elements of a toolkit to enhance regulations and institutions

31. Developing countries can enjoy opportunities to capitalize on services for economic diversification, structural transformation and sustainable development. Sound policies and regulations, as well as strong institutions, can help create an enabling environment at the domestic level. This exercise is particularly challenging, as services are multifaceted and complex in nature. The question arises as to how to identify the best policy and regulatory approach for services, ensure policy coherence and build requisite institutional capacities, while attending to legitimate public interests. Solutions should be tailor made and targeted for each country. Addressing this issue involves a thorough stock-taking exercise on services.

32. UNCTAD services policy reviews are designed to meet such a need as a methodology for taking stock of economic outcomes and institutions governing the sector, identifying binding bottlenecks and suggesting practical, tailor-made solutions. Services policy reviews thereby aim to strengthen the capacity of developing country policymakers, regulators and trade negotiators to build productive and trade capacities in services, enhance economy-wide competitiveness and help them meet economic, human and social development goals. Each review begins by examining the broad economic dynamics of the national services sector as a whole. Subsequently, the review focuses on specific sectors for in-depth analysis. This includes an analysis of strengths, weaknesses, opportunities and threats, or SWOT, to evaluate opportunities and challenges associated with the sector.

33. The services policy reviews are coordinated and conducted by UNCTAD, together with the in-country national expert team composed of experts who will conduct field-based research. The experts – researchers, academics and government representatives – will have a background in economics, law and policy. The participation of national stakeholders is an integral part of the review process in providing essential inputs to the review, as well as validating policy recommendations. Quality control is ensured though the intensive review and commenting process with a peer review team composed of internal and external experts, and through a constant dialogue with national stakeholders. Multi-stakeholder consultations and validation ensures policy relevance and adoption. The major sequential steps in the conduct of services policy reviews are as follows:

(a) Official launch of the review process. The process starts with an official request from the countries concerned. During this first phase, the main focal point in the

[11] UNCTAD, 2014, Services, development and trade: The regulatory and institutional dimension (TD/B/C.I/MEM.4/5) 3 February.

government that will provide sustained support throughout the process is identified. UNCTAD then develops the terms of reference for the services policy review, defining its objective, scope, priority sectors and modalities, and designates, in cooperation with the focal point, a national expert team.

(b) Desk-based assessment of economic outcomes of the services sector. UNCTAD conducts desk-based research and prepares an initial report that provides a comprehensive overview of the service economy and an in-depth analysis of the existing policy, regulatory and institutional frameworks. This study will constitute the basis for the national report on the services policy review.

(c) Field research and multi-stakeholder consultation. Once the desk-based study is completed, in-country field research is undertaken, and national multi-stakeholder consultations and a first round of national workshops are organized to seek inputs and guidance from key stakeholders. The consultation will be based on the findings of the desk-based study and information from national surveys.

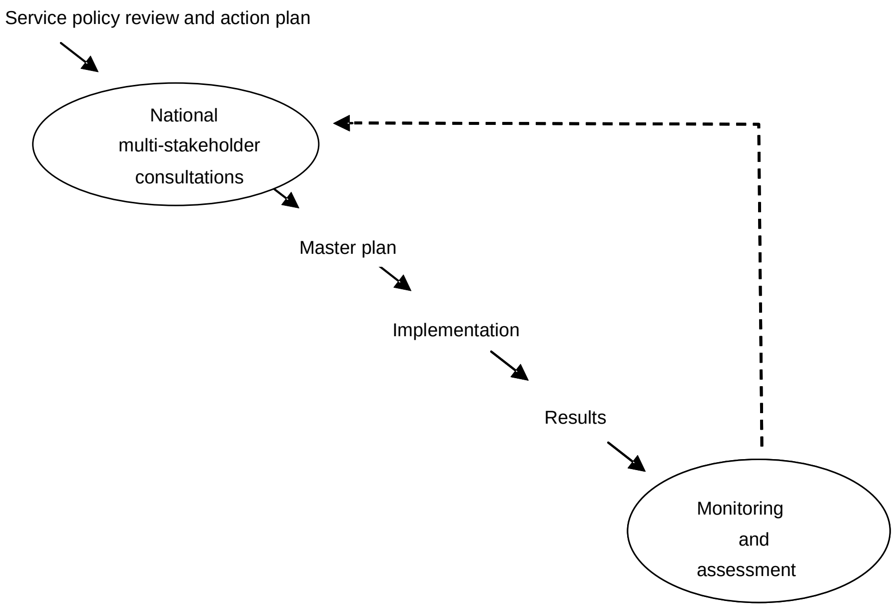
(d) Follow-up investigation and preparation of the synthesis report on the services policy review. Building upon the desk-based study and field research, UNCTAD works together with the national expert team to conduct follow-up investigations and draft the synthesis report. At this stage, the analysis is deepened through the inclusion of up-to-date, quantitative and qualitative data and information collected through in-country field research and multi-shareholder consultations, and continuous interactions for review and comments with the national stakeholders and the external peer review team.

(e) Multi-stakeholder consultations to validate the findings of the services policy review, recommendations and proposed action plan. The synthesis report is put to the review of national stakeholders in another round of multi-stakeholder consultative workshops. The recommendations are critically examined to identify and draw up a set of agreed recommendations for action. National stakeholders also develop an action plan for the consideration of the government.

(f) In-country and cross-country dissemination. Services policy reviews are published for wider dissemination. At the international level, this serves to enrich the wealth of knowledge and promote the exchange of success stories and lessons learned for the identification of national best-fit practices, which would be promoted through dedicated interregional consultative processes, as well as ministerial and technical intergovernmental deliberative processes, such as the UNCTAD Global Services Forum, the Trade and Development Commission and Multi-year Expert Meetings. At the national level, dissemination serves as an essential knowledge base and further stimulates informed and participatory policymaking relating to services.

34. Ultimately, services policy reviews are expected to catalyse and institutionalize an endogenous process of services policy formulation, implementation and review (figure 7). Where an action plan is developed, this provides clear steps and timelines for such a reform process, which is expected to lead to the development of a national services master plan. The sponsoring government ministry can ensure regular monitoring of the implementation of the services master plan and an assessment of the impacts of the implemented measures. The results of such monitoring and assessment can then be presented to the stakeholders, providing the basis for a revision of the services master plan.

Figure 7
Services master plan: From implementation to development



35. Some methodological issues are worth highlighting. First, the assessment of services requires the availability of timely and detailed statistical data. Collecting and synthesizing these inputs is necessarily an empirical process specific to each country and sector. Moreover, recognizing the difficulties of accessing sufficient data for assessments, the methodology relies on the use of various national and international data, analytical tools and sector-specific questionnaires for use in surveys of national stakeholders.

Box 1. Services policy reviews: An opportunity to review and improve services data

The availability of statistical data on services is limited in most countries. At the international level, cross-country, time-series data on services exist in different data sources. These are useful for measuring, computing and assessing key services-related indicators, such as revealed comparative advantage, export concentration, diversification and product space analysis. Useful sources of information include the following:

- UNCTADStat (UNCTAD)
- World Development Indicators (World Bank)
- Balance of payments statistics (International Monetary Fund)
- Trade in Services database (World Bank)
- Trade in Value Added, or TiVA, database (OECD–WTO)

At the national level, given that the large range of data needed for analyses of service sectors is collected by a diverse set of national institutions, national expert teams need to consult various national institutions and private sector organizations, including chambers of commerce as well as trade and industry associations. It is important to identify, early in the implementation of activities relating to services policy reviews, the need for additional data which can only be collected through surveys, questionnaires, visits and interviews with sectoral actors.

36. Second, the services policy review should provide a detailed picture of the policy and regulatory framework applicable to a given services sector and identify possible regulatory gaps and areas of reforms. Attention should be given to whether foreign firms and services are allowed to enter the markets and compete with domestic ones. These require the review of both horizontal and sector-specific legislations. Relevant laws and regulations of general application include laws on foreign investment, commercial enterprises, international transfer of funds, land ownership, current exchange, entry and stay of individuals, competition, government procurement, access to courts and arbitration. In addition, the survey and interviews will provide information on how laws and regulations are applied and work in practice, as well as on other perceived restrictions to services trade and investment.

37. Third, the review also assesses the institutional frameworks governing a given services sector. Analysis should focus on the main government agencies involved in the regulation of the sector and assess their mandate, institutional settings, effectiveness and capacity to formulate, monitor and implement regulations. The review of the manner in which regulators interact with other government entities, including the competition authority, is important in ascertaining their ability to establish policy coherence and identifying their national services interest in international trade negotiations. Surveys and interviews may be conducted to collect information on institutional effectiveness.

38. The UNCTAD intergovernmental deliberative processes, most notably the Multi-year Expert Meeting on Trade, Services and Development, provide a useful platform for expert deliberation through an exchange of country experiences and lessons learned to identify best-fit practices on services, trade and development. These have served to identify policy recommendations on best-fit practices, and areas for deeper research on issues relevant to services development. Several major research projects were launched, and results published, as a result of these recommendations.[12] Further to the recommendations of the Multi-year Expert Meeting in 2009, UNCTAD conducted a series of surveys of infrastructure regulators and competition authorities[13] (part I on infrastructure regulation and institutions; part II on trade and exports of infrastructure services), which provided useful insights into regulatory and institutional practices and challenges.

IV. Lessons learned on best-fit national practices on services

39. Services policy reviews serve as a useful toolkit to assist countries in devising an appropriate policy mix to improve services sector performance. Reviews have been conducted for Bangladesh, Kyrgyzstan, Lesotho, Nepal, Nicaragua, Paraguay, Peru, Rwanda and Uganda (phases I and II). UNCTAD also has over 20 years of experience in supporting the national assessment of services conducted for selected countries and regions,[14] as well formulating development-oriented trade policies frameworks, which

[12] UNCTAD, 2011 and 2012, *Services, Development and Trade: The Regulatory and Institutional Dimension of Infrastructure Services*, UNCTAD/DITC/TNCD/2010/4/Vol. I, and UNCTAD/DITC/TNCD/2010/4/Vol. II (New York and Geneva, United Nations publication); UNCTAD, 2011, *Services, Trade and Development*, UNCTAD/DITC/TNCD/2010/5 (New York and Geneva, United Nations publication).

[13] UNCTAD, 2014, *UNCTAD Surveys of Infrastructure Regulators and Competition Authorities*, UNCTAD/DITC/TNCD/2013/5 (New York and Geneva, United Nations publication).

[14] For example, India, Jordan, Mexico, the Southern African Development Community and some African countries.

include services.[15] Useful lessons can be learned from these experiences towards the identification of best-fit practices.

Cross-cutting lessons

40. These experiences suggest some elements of national enabling factors in services as follows:

(a) Policy coherence and coordination;

(b) Sound institutions and good governance;

(c) Evidence-based policymaking;

(d) An enabling productive, technology and business environment;

(e) Labour skills development.

41. Policy coherence and coordination. The horizontal and vertical coordination of sectoral policy initiatives is important in formulating a coherent overall national strategy for services sector development. A national agenda formulated in a single policy document that promotes services sector in general and identifies the individual priority sectors in particular, is instrumental in optimizing the overall impact of different policy measures. Services development strategies need to be consistent with other macroeconomic and complementary policies – trade, investment, competition, industrial and social policies. The overall services strategy should factor in different economic attributes of individual services sectors, as some sectors embody higher value added, and more sophisticated skills, knowledge and technology than others; they also make a greater contribution to economic development.

42. In the individual services sector, deploying a package of policy measures in a coherent manner and in the right sequence is important. For instance, a combination of cooperation with the private sector to encourage investment and competition, as well as proactive public policy intervention to build ICT infrastructure and high-end technologies and to create effective demand and education, was instrumental for ICT sector development in the Republic of Korea.

[15] For instance, Angola and Jamaica.

Box 2. Information and communications technology policy in the Republic of Korea

The ICT sector has emerged as the growth engine of the Republic of Korea. For four consecutive years since 2010, the country has ranked first in the ICT Development Index released by the International Telecommunication Union. Since the mid-1990s, the Government has established several master plans for the development of the information society. The Informatization Promotion Fund (1996) created the system of letting profits from ICT fields be reallocated to the ICT sector. It also enabled focused investment in ICT. Furthermore, new financing methods – “invest first, settle later” and matching deposits – attracted private sector investments, using government resources as seed money. The broadband Internet service market was opened without regulation or controls over licensing and pricing. This light-touch approach has encouraged facility-based competition among service providers. Increased competition put downward pressure on tariffs, which in turn created more demand. From 2000 to 2002, the Government offered Internet and computer literacy programmes targeting 10 million people, representing 21 per cent of the population. Inexpensive computers were distributed to allow more people to gain Internet access, and over 4,000 free-of-charge information facilities were set up across the country. All schools were connected with the Internet for free or at discounted rates. This effort created important demand and vital human infrastructure. Since 2013, the Ministry of Science, ICT and Future Planning has been in charge of ICT policy.

43. Sound institutions and good governance. Ensuring policy coherence horizontally and vertically requires an enabling institutional framework so that through cross-ministerial and multi-stakeholder coordination, strategic objectives, priorities and strategies can be defined and resources – human, financial and other – allocated. To be effective, an inter-institutional coordination mechanism would need to enjoy the endorsement at a high political level and be institutionalized with the requisite legal mandate, resources and capabilities This presumes effective institutional capabilities and requires capacity-building support. In Peru, setting up an inter-institutional committee and translating the national agenda into a public instrument can catalyse inter-institutional coordination.

44. Sectoral regulatory agencies are key to the regulation of specific sectors, particularly infrastructure services. While different institutional models are possible, the presence of independent regulators is essential in ensuring a neutral, effective and procompetitive regulation. In telecommunications and ICT services in particular, adjusting the scope of regulatory mandates and enhancing cooperation with other regulatory agencies has been required. In Hong Kong, China, the Communications Authority was created from the merger of the broadcasting and telecommunications regulatory authorities. In Uganda, the development of mobile banking has called for a better coordination among telecommunications, financial and competition regulators, as mobile banking entails various cross-cutting regulatory issues, including consumer protection, interoperability and roaming.

45. International and regional cooperation is increasingly important for regulatory agencies, given the importance of standardization and harmonization under international standard-setting bodies. Regional regulatory cooperation can lead to the development of regional standards and stronger regulatory cooperation in addressing issues such as roaming fees. In Central America, the Regional Technical Commission on Telecommunications coordinates the development and regulatory harmonization of telecommunications in the region.

Box 3. UNCTAD surveys of infrastructure regulators and competition authorities

These surveys provide useful information on the key parameters of regulatory agencies. The results show that independent regulatory agencies appear to be the most autonomous, while independent advisory agencies reporting to government ministries are less so, and regulatory departments within government ministries are among the least independent. Greater independence is found in telecommunications and financial services, whereas transportation and water are considered less independent sectors. Furthermore, agencies mandated by major legislation or by a country's constitution tend to correlate with greater autonomy than others mandated by subsidiary legislation. In most cases, the budget and/or revenue of agencies comes from the government. Transportation and competition authorities receive mostly government funding. Revenues in the energy sector come primarily from sales, and in the telecommunications sector, from licensing fees.

46. Evidence-based policymaking. The availability of reliable data is a prerequisite for evidence-based policymaking. The measures to improve the collection, treatment and analysis of services data should be placed high on the national regulatory agenda. In Brazil, the Integrated System of Foreign Trade in Services and Intangibles, SISCOSERV, provides an innovative approach to this matter and an opportunity for South–South cooperation. This system ensures an adequate classification of services activities based on the United Nations Central Product Classification. It also ensures the collection of statistics on the four modes of trade in services. SISCOSERV is fed by mandatory reporting from economic agents for all services transactions between residents and non-residents. Its operation is facilitated by a strong institutional setting derived from a presidential decree and a country's experience in e-government and e-platforms.

47. An enabling productive, technology and business environment. Coordinated supply-side measures to build productive capabilities of services and potential stand out as the major national enabling factor concerning services. The development of productive clusters can promote cooperation and coordination among firms and create economies of scale to reduce operational costs and enhance competitiveness, with a view to achieving better integration of higher value added segments of regional and global value chains. Such policies are particularly supportive of SMEs, such as those in computer-related services. Enhancing a national innovation system is also an important factor enabling the integration of firms in higher value added segments of global value chains. The services policy review of Peru recommended the establishment of a centre of technological innovation for software as a strategy for the development of computer-related services. Formalizing the informal economy can help create an enabling environment, as informality affects many microenterprises and SMEs, and formalized SMEs can create stronger linkages with the rest of the economy. Tax reforms reducing the tax burden on informal SMEs and other incentives for formality, such as extending social protection coverage, can be pursued.

48. Labour skills development. The shortage of a qualified workforce remains the key impediment to the development of knowledge and technology-intensive services such as computer-related, business and professional services. A sound education strategy to better match required skills and labour demand is pivotal for the development of these sectors and upgrading of product activities. Policies to develop both technical and higher education are thus important. A strong link and dialogue between academic, business and policymaking bodies facilitates the identification of skills gaps and academic solutions, for example, postgraduate programmes. Agreements with foreign universities to allow academic exchanges and the promotion of international accreditations for national universities would strengthen academic programmes and their recognition. English language skills are of

particular importance to reinforce labour supply, particularly in information technology-enabled services.

Selected sectoral issues

49. As regards telecommunications, one of the most important items on the regulatory agenda is progressing towards universal access to bridge the digital divide, for which a variety of measures may be used – universal access obligations, incentives and funds. In Paraguay, access limitations are compounded by high transport costs associated with its landlocked position. The country is dependent on neighbouring countries to interconnect with submarine cable networks. The National Telecommunications Plan addressed this issue by setting investment targets and promoting public–private partnerships for long-distance fibre optic cables that ensure broadband access. The strategy entails subsidies through the Universal Service Fund to install the necessary infrastructure. Demand for telecommunications services can also be stimulated by providing free Wi-Fi networks and subsidized connections, promoting training and education, making use of public procurement and encouraging government use of these services (for example, e-government initiatives).

50. Coordination of sectoral regulation with competition policies has become increasingly important. In Uganda, coordination of the telecommunications regulator with the competition authority is highly relevant. The competition authority issues non-binding preliminary opinions for consideration and action by sectoral regulators. In Paraguay, the competition law is recent but it also requires coordination with the National Telecommunications Commission, commonly known by its Spanish acronym CONATEL. Regulatory measures should include access at competitive rates to existing networks, the elimination or reduction of exclusivity arrangements, and the promotion of ex ante and ex post competition. The simplification of administrative procedures for granting licences and authorizations facilitates the entry of new operators. In Nicaragua, this simplification may include the creation of a single licence for telecommunications services providers.

Box 4. Rwanda services policy review on the information and communications technology sector

The ICT sector in Rwanda has shown strong development since 2008. Rwanda Vision 2020, the country’s development agenda, calls for efforts to widen access to ICT among the population and promote it for e-services, including governance, education and capacity-building. The Government has followed the recommendation of the review by setting up the National Backbone project for increased broadband connectivity and infrastructure in all parts of the country. Since 2011, the national fibre-optic backbone network already has links to all 30 districts and nine border posts. The Government also negotiated with three fibre-optic submarine cable companies to finance the extension of fibre-optic cables and to increase fibre bandwidth capacity to public institutions. The landlocked condition of the country, however, affects the ICT sector, with increased costs of connection to international communication backbones such as the East African Submarine Cable System known as EASSy, resulting in higher ICT services costs in Rwanda than in other countries of the East African Community.

51. As for financial services, the financial sector in Paraguay has expanded at an average rate of 9 per cent in the last 10 years. Despite this progress, the sector has fallen short of achieving financial inclusion and facilitating the channelling of resources to SMEs. The Central Bank is setting up a credit bureau to balance information asymmetry that contributes to increased financial spread, drafting a guarantee fund act and cooperating with

the Secretariat of the Consumer Protection Office to launch financial education projects. In addition, the Central Bank created basic savings accounts that facilitate access to banking deposits by not requiring minimum amounts to open them or minimum average balances. The accounts can be opened without the physical presence of the client, through electronic media such as mobile telephones.

52. Financial services in Nicaragua are small and concentrated. The sector contains only seven active banks, four of which control over 90 per cent of the market. After liberalization and closure of the Development Bank, the supply of credit and other financial services did not spread to the majority of the population and SMEs. Financial depth (total credit/GDP) was 27 per cent in 2012, well below 40–50 per cent in other countries of similar size. Instead, financial institutions have focused on carefully selecting potential customers, offering mostly consumption and trade credit, rather than supporting investments and productive activities. The services policy review of Nicaragua suggested that the existing public Bank Produzcamos, its main objective being to support productive micro, small and medium agricultural and industrial companies, be transformed into a fully fledged development bank. Since Bank Produzcamos has limited resources, the new development bank would preferably be endowed with a mixed capital base.

53. In Lesotho, the level of financial inclusion is relatively high at 81 per cent but the disparity between urban and rural areas is great: 58 per cent in urban areas compared with 30 per cent in rural areas. There remains a lack of specialized institutions providing easily accessible capital to small, medium-sized and micro enterprises (SMMEs). As a result, the Financial Institutions Act (2012) strives to address the weaknesses identified by the services policy review of Lesotho, and seeks to revamp the existing fragmented regulations. The new Act has instituted a new version of financial institutions reporting system to improve data collection and analysis. The Credit Reporting Regulations (2013) aim to address shortcomings identified in the services policy review regarding the lack of a central credit repository that prevents individuals and SMMEs from accessing credit for their investments. A national identification system for individuals and the preparation of financial statements in SMMEs is necessary to adequately demonstrate their credit histories and increase credit accessibility. Furthermore, in collaboration with four commercial banks, the Government has established a partial guarantee fund to facilitate the extension of credit to SMMEs by assuming and sharing the risks associated with non-performing loans.

V. Conclusion and issues for discussion

54. UNCTAD services policy reviews have provided a methodology for countries to review and assess their services economy and trade and to devise appropriate best-fit policies and regulations, and build sound institutional frameworks to harness the potential of services for development. Some of the lessons reviewed indicate areas of commonalities and divergence in national experiences and approaches taken. The exchange of experiences, success stories and lessons learned will be useful for a better understanding of factors affecting the identification of best-fit policies regulations and institutions.

55. Some of the questions that may be addressed by the experts include the following:

(a) In what way do services, economy and trade contribute to the post-2015 sustainable development goals?

(b) What are the main binding constraints to the development of services and services trade?

(c) How do policies and regulations affect services performance?

(d) What are the roles of regulatory institutions and governance frameworks?

(e) How to enhance the competitiveness of services enterprises, particularly SMEs?

(f) How best to ensure universal access to essential services, including financial inclusion?

(g) What is the best way to approach trade liberalization and regulations?

(h) What data are needed for informed services policymaking, and how can the collection of services-related statistics be improved?