Quantifying the Barriers to Services Trade in the Commonwealth

A Focus on Kenya and Rwanda

Commonwealth Secretariat

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Foreword by the Secretary-General of the Commonwealth

That trade is central to achieving inclusive prosperity was recognised when the Sustainable Development Goals were adopted by the international community in 2015. Within this context, intra-Commonwealth trade and investment are of immense importance. In the Commonwealth, we collaborate on policy mechanisms to increase trade through enhanced access to markets. This creates opportunities for higher employment and business growth.

We have established that when Commonwealth countries trade with one another they enjoy a 19 per cent cost advantage over comparable country pairs. This is the product of factors such as our common language, strong cultural connections, similar systems of government and administration, and the Common Law. These combine to make trade among Commonwealth counterparts easier and measurably more efficient.

Now, through more detailed sectoral analysis within traded services sectors such as commercial banking, transportation and distribution, we have examined the degree of regulatory convergence there is among Commonwealth countries. Findings published in this report show how the application of best practice to the measurement and identification of policy barriers to services trade within the Commonwealth could further boost trade and investment, including intra-Commonwealth flows, and help towards lowering services trade costs by reducing regulatory disparities.

Commonwealth countries rely more heavily than the rest of the world on trade in services for employment and foreign exchange earnings, yet surprisingly policy data on these sectors is out of date or completely unavailable for many of our member countries. These knowledge gaps need to be filled, and businesses need readily available information on end-markets in order to leverage new trade opportunities and to achieve export diversification within high value services sectors.

It is pleasing to see that our partners in this research are already building on its findings with, for example, the recent publication by the City of London of 'The Commonwealth Connection: growing trade in services'. When the Commonwealth collaborates and innovates in devising new approaches towards increased trade, immense potential opens up for more inclusive and sustainable prosperity in all our member countries. This is what I mean when I say – as I have on many occasions – that my focus is on putting 'wealth' back into the Commonwealth, and the 'common' back into 'wealth' – for the benefit and wellbeing of each and every one of our 2.4 billion citizens.

The Rt Hon Patricia Scotland QC
Secretary-General of the Commonwealth

Foreword by the Lord Mayor of London

Financial and corporate services are a vital conduit for trade and investment both across the Commonwealth and around the world. At a national level, these sectors are already the largest employers and key drivers of growth in many Commonwealth countries. It is the global nature of this sector, however, that makes trade in services such a vital engine for global prosperity. With the UK the world's leading exporter of financial services, and the City of London its heart, we know this all too well.

Looking back, global trade in services has proved more resilient to recent economic shocks than trade in goods. Looking forward, and in these uncertain times for the international rules-based system, we may come to rely increasingly on cross-border services as the foundation of global prosperity. It is vital, therefore, that we develop environments that encourage increased services trade while protecting the consumer and global economy.

Building an evidence base is the first step to making good policy. By shedding new light onto existing restrictions to services trade, this report plays a vital role in identifying barriers to commerce in two of the Commonwealth's most important markets. I look forward to this work starting a conversation on potential policy responses and am enthusiastic about continuing these discussions when I visit Kenya in October 2019.

I am also encouraged that this report's call for greater understanding on the contribution of services exports in other sectors, and the ability of services to support structural change, income growth and development. Back in April 2018, we were delighted to co-host the Commonwealth Business Forum (CBF) in the City of London with this very aim in mind: highlighting the value of services in supporting the Commonwealth's ambitious development agenda.

This report underlines the importance of regulatory coherence across Commonwealth countries in reducing barriers to trade, much of which appears to have taken place outside formal trade agreement frameworks. As we imagine a future global framework for services trade, we are conscious that formal trade agreements are one of several ways to boost trade and investment. Developing mechanisms to foster cooperation, much of which could build on historic institutional and legal similarities, could be just as impactive and maybe more so.

The 2018 CBF generated momentum around the existence of a 'Commonwealth Advantage': the benefits of a shared language, similar institutions and common legal and regulatory systems mean that intra-Commonwealth trade costs are already 19 per cent lower than the global average. Combining the new intelligence this report provides with innovative thinking around how best to harness this ‘Commonwealth Advantage’ could yield powerful results.

To summarise, I am delighted to have the opportunity to comment on this important work and to praise all those whose hard work has made this possible. My role as Lord Mayor is to promote the value of services as a global good. I can only thank the Commonwealth Secretariat and OECD for making my job much easier!

The Rt Hon The Lord Mayor
Alderman Peter Estlin

Acknowledgements

This publication was authored by Ben Shepherd, Maura Décosterd, Anna Markitanova, Happy Mukama, Agatha Nderitu and Dionysios Stivas, of Developing Trade Consultants.

The authors are grateful to the OECD Secretariat staff who put their expertise and experience at the disposal of this project. It would not have been possible to bring it to completion without their advice, as well as their sharing of their methodology and support resources. We would particularly like to thank John Drummond, Hildegunn Nordas, Janos Ferencz, Frédéric Gonzales and Sebastian Benz. While we are grateful to the OECD Secretariat for assistance, we stress that none of the views or opinions expressed in this report should be imputed to the Secretariat, or to the member countries of the OECD.

Ramesh Chaitoo was responsible for validating the report's findings with the governments of Kenya and Rwanda, and also provided valuable insights and comments. The governments of Kenya and Rwanda have validated the findings of this assignment.

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We are grateful also to participants of the London consultations held on the project concept and the major findings.

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Acronyms and Abbreviations

BaTiS	WTO–OECD Balanced Trade in Services dataset
BoP	Balance of Payments
BPO	Business Process Outsourcing
CMP	EAC Common Market Protocol
EAC	East African Community
EU	European Union
FDI	Foreign Direct Investment
GATS	General Agreement on Trade in Services
GDP	Gross Domestic Product
ICT	Information and Communication Technology
IT	Information Technology
LDC	Least Developed Country
MFN	Most-Favoured Nation
NCM	Non-Conforming Measure
NTM	Non-Tariff Measure
OECD	Organisation for Economic Co-operation and Development
SMEs	Small and Medium Enterprises
STRI	Services Trade Restrictiveness Index
TiVA	WTO–OECD Trade in Value Added dataset
UK	United Kingdom
UNCTAD	United Nations Conference on Trade and Development
US	United States
USA	United States of America
WTO	World Trade Organization

Chapter 1

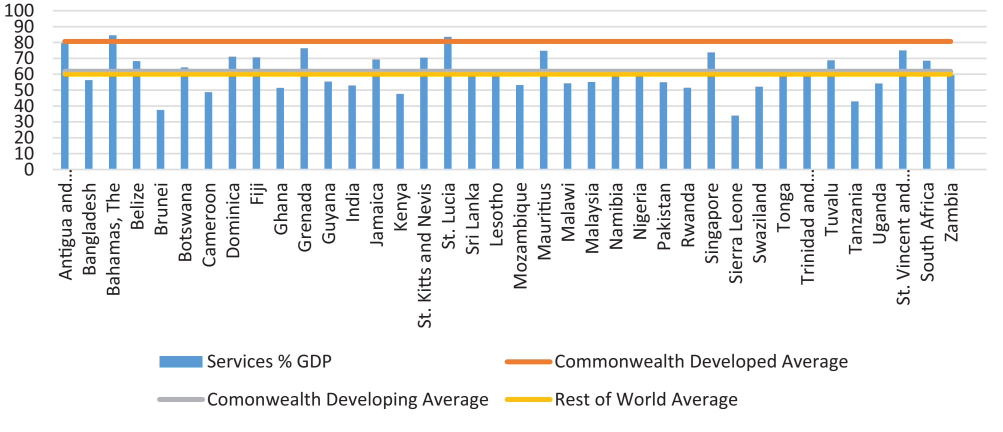
Introduction

The services economy is critically important for Commonwealth developing countries in particular. On average, it accounts for just over 60 per cent of gross domestic product (GDP), although there are considerable variations: in some cases, services make up over 80 per cent of GDP (Figure 1.1). The two countries chosen for this pilot study, Kenya and Rwanda, have services sectors that constitute, respectively, 48 per cent and 52 per cent of GDP—numbers that are fairly typical for countries at their income levels but below the Commonwealth developing country average.

In addition to their standalone role in the economy, many services are also important inputs into the production of other types of economic output, in particular tradable manufactured goods. At the local level, productivity spillovers from services to manufacturing are significant, which in turn means that services policies that promote productive upgrading can in turn spur manufacturing growth and increased trade (Hoekman and Shepherd, 2015). As such, services can be part of a broad-based approach to promoting structural change in developing countries—a point that is particularly true of 'backbone' services like transport and logistics, finance' and telecommunications, which help link local producers with global markets. Indeed, recent research shows that one factor contributing to the relative economic isolation of landlocked countries is restrictive services policies in sectors like transport and communication, which could connect them better to world markets (Borchardt et al., 2017).

In an increasingly globalised world, trade is a more important part of the equation for developing a competitive services sector. Whereas economists have traditionally

Figure 1.1 Services in Commonwealth developing countries, 2015 (% of GDP)



Source: World Development Indicators.

seen services as largely non-tradable, the World Trade Organization (WTO) General Agreement on Trade in Services (GATS) sets out four modes of supply whereby practically any service can be traded in principle, even if trade in fact rarely occurs for certain subsectors, owing to high levels of trade costs. Exporting services, either directly or indirectly through their embodiment as inputs in traded goods, can help diversify a country's economic base and increase its resilience to shocks. Indeed, research has shown that services trade was more resilient than goods trade during the global financial crisis, even though the crisis itself originated in the US financial services sector (Borchert and Mattoo, 2010). It is important to keep in mind, however, that importing services also offers major economic benefits, such as greater competition, higher investment, lower prices, higher quality and increased productivity and competitiveness (EAC and World Bank, 2016).

However, despite the optimism in relation to services trade for development and the significance of services in promoting structural change and economic development, as well as supporting employment, understandings of unnecessarily trade restrictive trade barriers are constrained by a paucity of data on services trade and associated policy measures. The primary reason for this is that, unlike with goods, applied services policies are difficult to categorise and quantify, because they take the form of regulatory measures, not simple taxes (tariffs), and are often applied behind, not at, the border.

The international community's appreciation of the role of services within contemporary trade has nevertheless been transformed since the introduction of trade in value added databases, which more clearly identify their role within value addition processes (the increase of which is the only known way to enhance growth in the long run). However, coverage of Commonwealth member countries within internationally renowned databases is limited. There is a need for more systematic evaluation and expansion of Commonwealth country coverage in globally recognised services policy review mechanisms.

Building on pioneering work by the Australian Productivity Commission, the World Bank and the Organisation for Economic Co-operation and Development (OECD) have both set out to create regulatory databases that can form the basis for Services Trade Restrictiveness Indices (STRIs), disaggregated by GATS mode of supply and by sector. Kenya and Rwanda are both included in the World Bank's STRI, but data are now relatively old (around 2008–2010)—although the World Bank is currently working with the WTO to update data. They are not included in the OECD STRI because the OECD has no mandate to work on these countries.

In the absence of up-to-date and accurate data on policy measures affecting services trade in countries like Kenya and Rwanda, it is simply impossible to undertake quantitative research on services. As a result, governments and stakeholders have little information at their disposal in relation to the development and poverty reduction potential of services, which could also help identify proactive measures to support productivity upgrading and structural transformation.

This study seeks to overcome these important knowledge gaps. First, it demonstrates the feasibility of collecting rigorous, internationally comparable data on policies affecting services trade, in low-income Commonwealth countries. Second, it shows that the data and indices are fully comparable with existing OECD data on 44 developed and emerging economies. Third, the study intends to spur research on trade in services in Commonwealth developing countries, and in particular in Kenya and Rwanda, not only by providing hard data that can be used in quantitative work but also by raising issues of substance and methodology that deserve further investigation.

Against this background, Chapter 2 briefly presents the services economy in Kenya and Rwanda, focusing on recent developments in trade and production. Chapter 3 moves to the methodology for the project and discusses in detail the rationale behind an STRI, as well as the view that the OECD approach is preferable to others. Chapter 4 presents an overview of results in comparative perspective. Chapter 5 looks to complement the STRIs using data on *de facto* constraints affecting services firms in Kenya and Rwanda. Finally, Chapter 6 concludes and offers policy recommendations.

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Hoekman, B. and B. Shepherd (2015) 'Services Productivity, Trade Policy, and Manufacturing Exports'. *World Economy* 40(3): 499–516.

Chapter 2

Services Production and Trade in Kenya and Rwanda

This chapter discusses some of the salient features of services in the two countries under study. The focus is on sectoral characteristics over time, as well as trade relations. The chapter compares services trade integration to the case of goods, and looks in detail at intra- and extra-Commonwealth trade flows.

Box 2.1 Country strategy documents

This chapter draws on the following country strategy documents from Kenya and Rwanda documents to look at the role services play in their development programmes.

EAC and World Bank (2016) *East African Common Market Scorecard 2016*. Washington, DC: World Bank.

Government of Kenya (2010) 'Vision 2030: First Medium Term Plan (2008–2012)'. www.imf.org/en/Publications/CR/Issues/2016/12/31/Kenya-Poverty-Reduction-Strategy-Paper-24065

Government of Rwanda (2013) 'Economic Development and Poverty Reduction Strategy'. www.imf.org/en/Publications/CR/Issues/2016/12/31/Rwanda-Poverty-Reduction-Strategy-Paper-41127

State Department of Trade of Kenya (2017) 'Kenya – National Trade Policy'. www.trade.go.ke/sites/default/files/Kenya%20National%20Trade%20Policy%20%282016%29_0.pdf

UNCTAD (2014) *Services Policy Review: Rwanda*. Geneva: UNCTAD.

Kenya's Vision 2030, which seeks to transform Kenya into a newly industrialising, middle-income country providing a high quality of life to all its citizens by 2030, recognises selected services sectors, specifically tourism, business process outsourcing (BPO), information technology (IT), financial services and education and training, as being among the key services that will drive the economic development of the country. Likewise, Kenya's National Trade Policy (2017) recognises the importance of trade in services and commits to facilitating improvements in the enabling environment for increased trade in services in selected sectors.

Both Vision 2030 and the National Trade Policy place particular emphasis on the distribution sector, which accounts for 15.7 per cent of GDP, 10 per cent of formal employment and 58.7 per cent of informal employment. The Policy

(*Continued*)

Box 2.1 (*Continued*)

notes that the sector lacks a clear legal and regulatory framework, which has impeded its growth. Additionally, it is burdened by cumbersome licensing requirements. The Policy therefore commits to 'providing an enabling legal and regulatory environment to support the growth and development of the distribution and wholesale sub-sector as well as a strong backward and forward linkage between the subsector and productive sectors of the economy'.

Under Vision 2030, the government's aim is to 'achieve a well-functioning financial system in order to accelerate economic growth by encouraging Foreign Direct Investment, safeguarding the economy from external shocks, and establishing Kenya as a leading financial center in Eastern and Southern Africa'. Financial service providers are diverse, including 42 commercial banks, 49 insurance companies, 12 deposit taking microfinance banks and 199 registered savings and credit cooperatives. Among the key targets under Vision 2030 is facilitating the transformation of the banking sector.

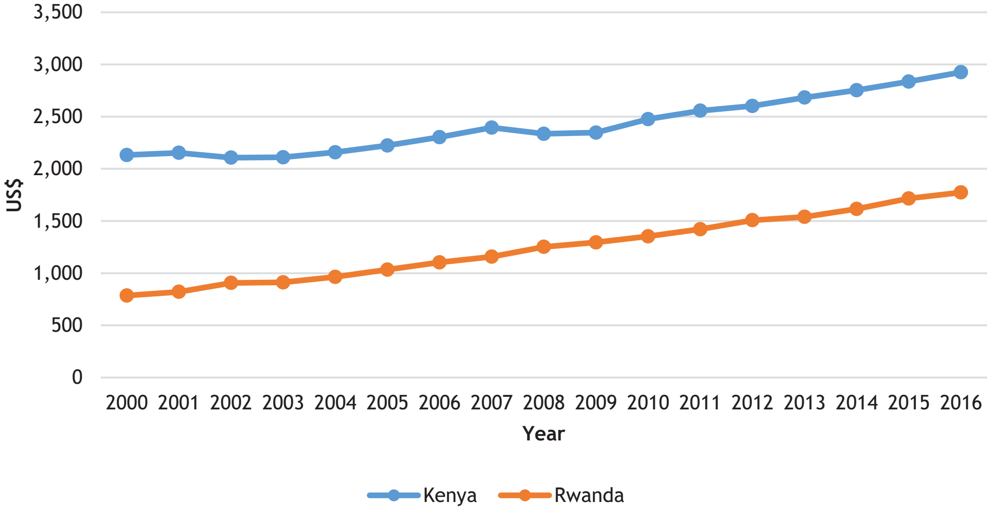
Rwanda's Economic Development and Poverty Reduction Strategy II (2013–2018) targets are heavily dependent on growth in exports from the services sector. The Revised National Export Strategy II has also prioritised exports of services and has developed export strategies for tourism services, information and communication technology (ICT) and BPO services, transport and logistics, distribution services, health and medical services, education services and financial services. Rwanda is among the least developed countries (LDCs) that are supposed to benefit from the WTO LDC Services Waiver as envisaged by Article IV of the GATS but to date has not made use of it. Priority export services sectors in Rwanda that may benefit from this waiver include ICT services (BPO), tourism (tours and travel operations), professional services (accounting services) and cultural services. While Rwanda has clearly done well in articulating sector-specific strategies for the development of the services sector, there is still a need for a holistic national services policy or trade in services strategy to boost services exports. Such a policy or strategy would identify overall services sector goals and measures to complement the existing sector strategies to ensure the overall development of services exports (UNCTAD, 2014).

2.1 Recent trajectory of the services sector

The services sector tends to grow in line with per capita income. But this does not mean countries in the low- and lower-middle-income groups, like Rwanda and Kenya, do not have important services sectors, or that services matter only for the economies of industrialised countries. This section reviews the recent evidence on the development of services in the two countries, focusing on production and aggregate trade, before the next section breaks the picture down into more detailed relationships.

Both Kenya and Rwanda have experienced rapid economic growth in the 2000s, which has translated into higher per capita incomes (Figure 2.1). Income growth in

Figure 2.1 GDP per capita in Kenya and Rwanda, 2000–2016 (constant 2011 PPP US$)



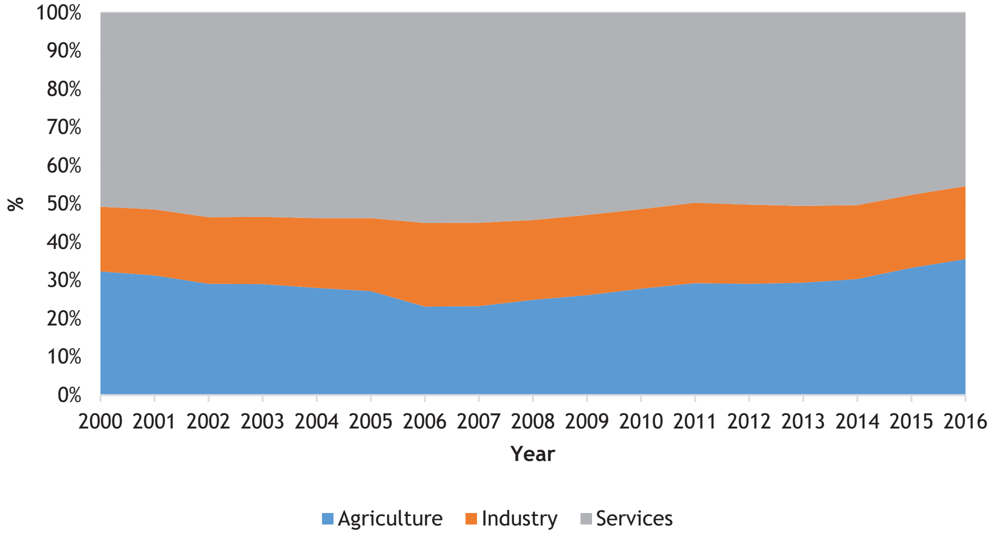
Source: World Development Indicators.

turn is one factor promoting growth of the services sector. Another is technological change, such as the introduction and wide dissemination of mobile phones, which has enabled the widespread use of mobile solutions such as payments systems, thereby increasing demand for and access to other types of services. For example, Argent et al. (2013) describe East African countries as 'the most successful users of mobile money' (p. 4). They report that, in a survey of 52 out of 129 mobile money operators, over 80 per cent of all transactions worldwide occurred in East Africa, with Kenya alone accounting for 34 per cent of transactions and 20 per cent of users.

Kenya is the largest services economy in the East African Community (EAC). The country's services sector amounted to 45 per cent of GDP in 2016 (World Development Indicators). From a development perspective, it is usual to see a larger proportion of industry and services in GDP as the population transitions out of agriculture and into higher value added activities. This pattern is evident in Kenya from 2000 through 2007 but changes in 2008: agriculture as a share of the economy is growing relative to the other two macro sectors, largely at the expense of services (Figure 2.2). In 2008, agriculture contributed just under 25 per cent of GDP, industry 21 per cent and services 54 per cent; by 2016, the figures were 36 per cent for agriculture, 19 per cent for industry and 45 per cent for services, clearly demonstrating the dynamic referred to in the previous sentence.

Although Kenya's services sector accounts for a large share of total economic activity, international trade is relatively limited.[1] This result is in line with the findings of Miroudot et al. (2012), who show that trade costs tend to be high in services sectors, particularly in lower-income countries, which in turn can constrain trade. As a result, Kenya's share in world services imports and exports came to only 0.06 per cent and 0.07 per cent, respectively, in 2016 (WTO, 2017). Total trade in services—that

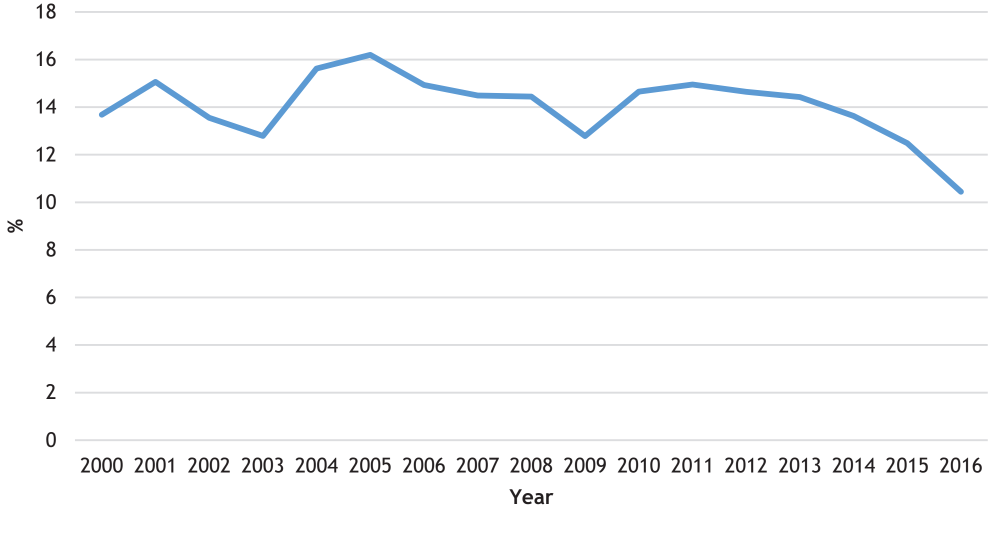
Figure 2.2 Breakdown of Kenya's GDP by macro sector, 2000–2016 (%)



Source: World Development Indicators.

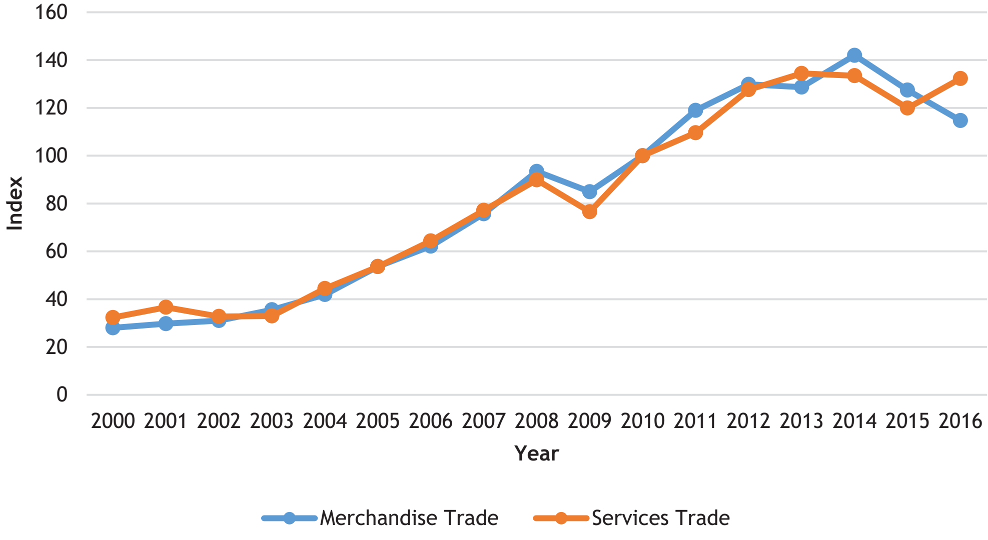
is, aggregating across all sectors, relative to GDP—decreased from 13.7 per cent in 2000 to 10.4 per cent in 2016, the latest year for which data are available (Figure 2.3). These overall data do not distinguish growth patterns among different sectors, a point returned to below. Kenya's National Trade Policy aims to 'promote expansion of trade in services targeting the regional and global market through measures that ensure Kenya remains competitive in the trade in services arena in the global market' (State Department of Trade of Kenya, 2017). The services sector has also been identified

Figure 2.3 Services trade relative to GDP, Kenya, 2000–2016 (%)



Source: World Development Indicators.

Figure 2.4 Kenya's trade in goods and services, 2000–2016, index (2010=100)



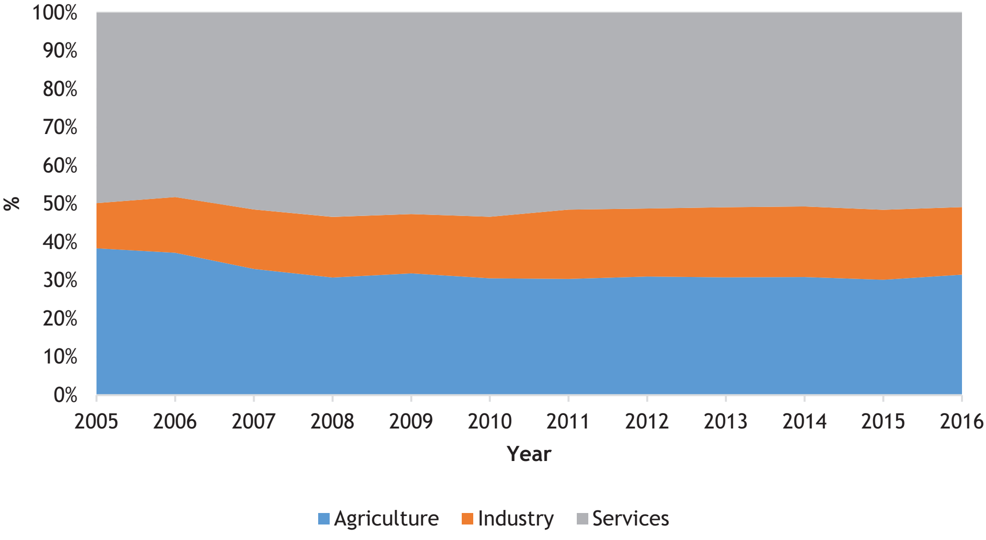
Source: World Development Indicators.

under the National Export Strategy (which is currently under discussion) as one of the key sectors targeted for export-led growth.

Although the above figure indicates that services trade has been growing slower than GDP in Kenya in recent years, it is important to nuance this perspective by comparing it with goods trade performance. Figure 2.4 does just that, by rebasing goods and services trade to be 100 in 2010, to make it possible to interpret changes in percentage terms. Over the past decade and a half, goods and services trade in Kenya have grown in tandem, with 2016 showing significantly faster growth in services than in goods. The conclusion is that integration of services markets in Kenya has been proceeding in much the same way as for goods, with significant growth in trade over recent years, particularly since the early 2000s.

Unlike Kenya, where the services sector has been contracting relative to other activities in recent years, the share of the sector in total value added in Rwanda has remained essentially constant, at around 50 per cent (Figure 2.5). Rwanda aspires to become a knowledge-based, services-led economy by 2020 through the diversification of services, enhancing skill levels, investment in technology and trading of services across the Eastern African region and beyond. The share of agriculture declined sharply between 2005 and 2008 in favour of industry. There is evidence of substantial structural change having taken place in Rwanda, but the pace seems to have slowed in recent years based on these aggregate data. From 2005 to 2010, the share of industry in GDP increased from 12 per cent to 16 per cent, and that of services from 50 per cent to 53 per cent. However, from 2010 to 2016, the share of industry grew by only 2 more percentage points, to 18 per cent, while the share of services fell slightly, to 51 per cent.

Figure 2.5 Breakdown of Rwanda's GDP by macro sector, 2005–2016 (%)

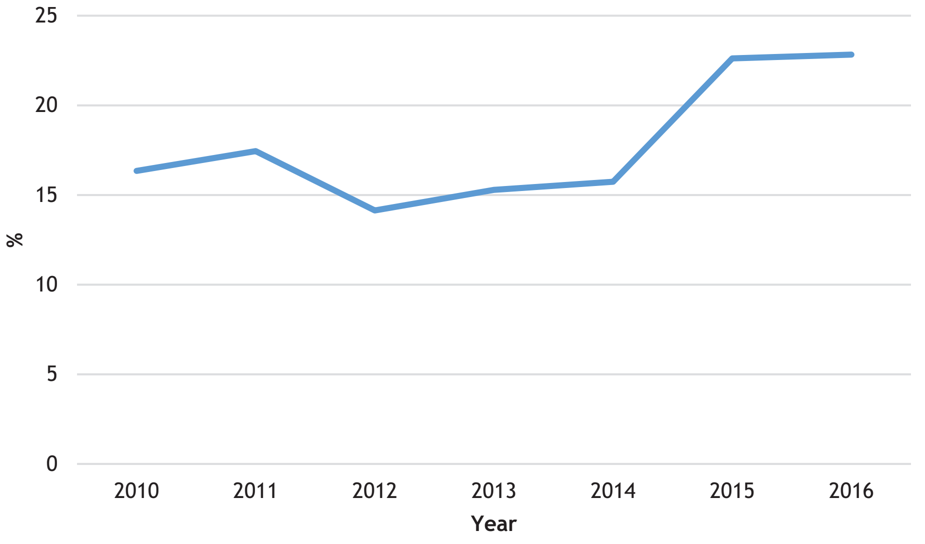


Source: World Development Indicators. Note: Data not available prior to 2005.

Rwanda's shares in world imports and exports in 2016 were 0.02 per cent and 0.01 per cent, respectively (WTO, 2017). Although Rwanda's trade share is more modest than Kenya's—in keeping with its smaller size—services account for a significant share of total economic activity.

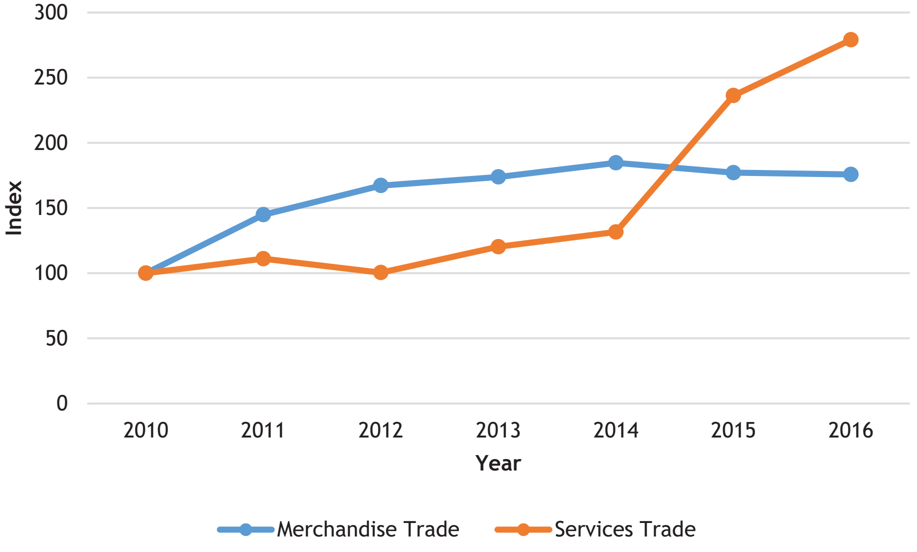
Likely because of high trade costs in services sectors, services trade relative to GDP (Figure 2.6) is smaller than would the sector's proportion in total value added would

Figure 2.6 Services trade relative to GDP, Rwanda, 2010–2016 (%)



Source: World Development Indicators. Note: Data not available prior to 2010.

Figure 2.7 Rwanda's trade in goods and services, 2000–2016, index (2010=100)



Source: World Development Indicators and authors' calculations. Note: Data not available prior to 2010.

suggest. Nonetheless, services trade relative to GDP has been increasing over recent years, which is evidence of increasing integration between Rwanda and the global services economy. The issue of sectoral composition is important, and this is returned to below.

Figure 2.7 compares Rwanda's growth in trade integration in goods and services. Although the growth rate of services trade was initially lower compared with goods, the position has inverted over the past few years, so that services trade is now growing considerably more rapidly than goods trade. Rwanda has been leveraging trade integration to help promote its development objectives, and Figure 2.7 suggests the strategy has moved beyond goods to also include services.

2.2 Commonwealth and non-Commonwealth partnerships in services trade

This section provides further details on Kenya's and Rwanda's services trade in terms of value, evolution and main trade partners. It is worth mentioning that the data on services trade are captured from the Balance of Payments (BoP) statistics. Because these statistics record cross-border transactions of an economy with other countries, they can reflect trade in services only in some modes of supply. Mainly, they record services trade under cross-border supply (Mode 1) and consumption abroad (Mode 2) for some services, such as travel services. Therefore, BoP statistics do not allow for comprehensive measurement of services supplied under Mode 3 or Mode 4.

Box 2.2 Trading services internationally under the GATS

Under the WTO GATS, trade in services is defined as *supply of services* in four modes of supply. Mode 1 is cross-border supply from the territory of one country into the territory of another country. Mode 2 is consumption abroad—that is, the service is supplied in the territory of one country to the consumer of another country. Mode 3 is commercial presence: the service is supplied by a service supplier of one country through commercial presence in the territory of another country. Finally, Mode 4 is the supply of a service through the presence of service suppliers from one country in the territory of another country. Service suppliers may act as independent suppliers or service supplier's employees.

Some services can be provided in all four modes of supply depending on particular circumstances. For example, legal services may be supplied to clients in all four modes:

Mode 1: Legal advice is given to a client based abroad via electronic means.

Mode 2: A client coming from abroad receives legal advice in a lawyer's office.

Mode 3: A law firm establishes a legal entity or branch office abroad to provide legal services.

Mode 4: A lawyer goes abroad to provide legal advice to a client based there.

On the other hand, some services cannot be supplied in some modes of supply, owing to lack of technical feasibility. For example, the services of maintenance and repair of transport equipment cannot be supplied in Mode 1 (cross-border supply) because they would most probably require physical presence of a service supplier near the equipment through Modes 2, 3 or 4.

Another aspect of trade in services is 'servicification'. Servicification refers to the trend whereby manufacturers of goods are increasingly relying on services either as inputs (software installed in a technological product), activities within firms (in-house services that would belong to services industries had they been outsourced) or outputs sold in connection with goods (some manufacturers also provide distribution, transport or maintenance and repair services for equipment) (see National Board of Trade of Sweden, 2016 and Miroudot, 2017). This kind of trade does not constitute a separate mode of supply but is frequently referred to as embodied services trade, in the sense that services are traded indirectly by being embodied in goods that move across borders.

Although availability of trade data on the different modes of supply is very limited, it is possible to construct STRIs that cover all modes. That is because STRIs are based on regulatory data, not trade data. This project therefore covers all modes of supply in its regulatory analysis, even though the review of trade data is more circumspect in this section owing to severe availability issues.

An additional limitation is that neither Kenya nor Rwanda maintains fully disaggregated data on trade in services in their BoP statistics. What this means is that they record exports and imports with an aggregate partner (the world), not individual countries. These data on total services trade are available through multiple sources, but this study uses the World Development Indicators for its most aggregate analysis. An additional problem is that sectoral disaggregation, even with the world as trading partner, is limited. While aggregate data can be useful for some purposes, such as in tracking broad trends over time, they leave a significant gap in understanding in terms of the composition and destination of a country's exports, and the composition and sources of its imports. To try and fill this gap, this study uses the OECD–WTO Balanced Trade in Services (BaTiS) database, which was recently released on an experimental basis. This uses mirroring techniques and modelling to fill in missing observations either by sector or by partner in the bilateral services trade matrix. These data are used in full knowledge that, for Kenya and Rwanda, they are largely constructed using econometric models, not via direct observation. This imposes severe limitations on how strictly they can be interpreted, but they nonetheless shed some light on questions that have to date remained completely obscured.

Box 2.3 Trade data resources for Commonwealth countries

Trade data availability is a serious constraint for empirical work on services. The problem is acute in Commonwealth countries, particularly for low-income countries and small economies. For example, as of 2014, 40 Commonwealth countries reported some export data from their BoP statistics to UN Comtrade, the central international repository for trade data. However, only six—Australia, Canada, Cyprus, Malta, Singapore and the UK—break down total exports into subtotals by trading partner. This kind of bilateral disaggregation is a crucial building block for nearly all empirical work on international trade. The absence of bilateral trade data for the vast majority of Commonwealth countries means it is very difficult to conduct research that includes them and that takes account of their special characteristics.

A number of options are available to empirical researchers to try and loosen this constraint. First, they can apply mirroring: for instance, if Rwanda's bilateral export data are unavailable, it is possible to approximate them using reported imports from trading partners. This solution is partial, essentially capturing most North–South trade but very little South–South or intra-regional trade. In addition, as of the end of 2017, the OECD and the WTO have made available an experimental dataset (BaTiS) that applies mirroring but also uses econometric models to estimate missing data. This dataset gives the most complete picture currently available of services trade globally, but it is important to stress that, for countries like Kenya and Rwanda, much of the data is modelled rather than directly observed.

(*Continued*)

Box 2.3 (*Continued*)

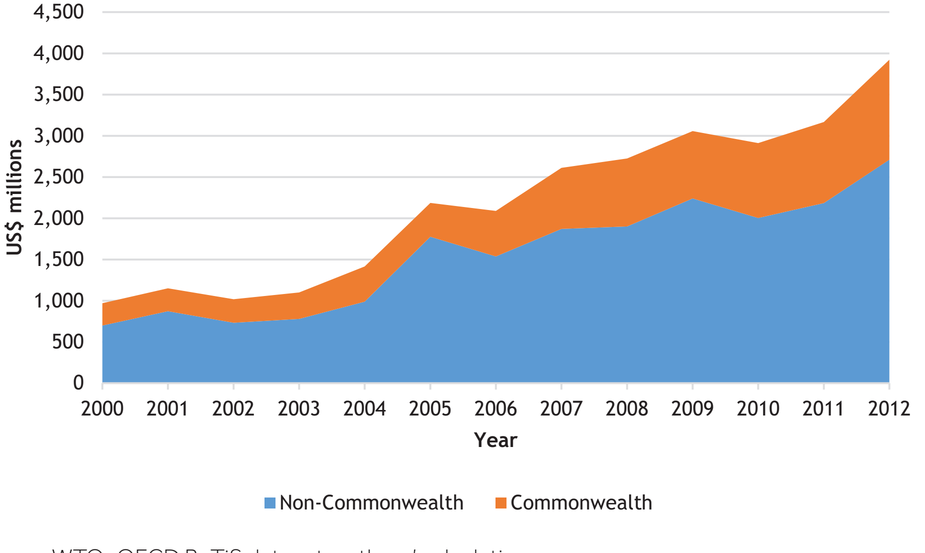
Although data availability is limited for the BoP, which captures trade essentially in GATS Modes 1 and 2, the problem is much worse for the other modes of supply. Mode 3 data are generally maintained only by major economies that are members of the OECD. Mode 4 data are not systematically recorded anywhere. An effort is underway, led by WTO, to produce estimates of services trade by mode of supply for a large number of countries applying a simplified statistical approach, but the dataset is not yet available.

Kenya's services trade has been growing strongly over recent years. Thus, services imports almost tripled in the decade through 2012, the latest year for which disaggregated data are available in the OECD–WTO BaTiS database. Figure 2.8 exploits the disaggregation of trade flows by country to show the development of imports from Commonwealth partners and those from the rest of the world. Over the time period considered, intra-Commonwealth imports grew by 346 per cent, whereas those from the rest of the world increased by 288 per cent.

Kenya's services exports increased strongly through 2012 (Figure 2.9). Exports to other Commonwealth countries increased by 275 per cent, whereas exports to the rest of the world increased by 261 per cent.

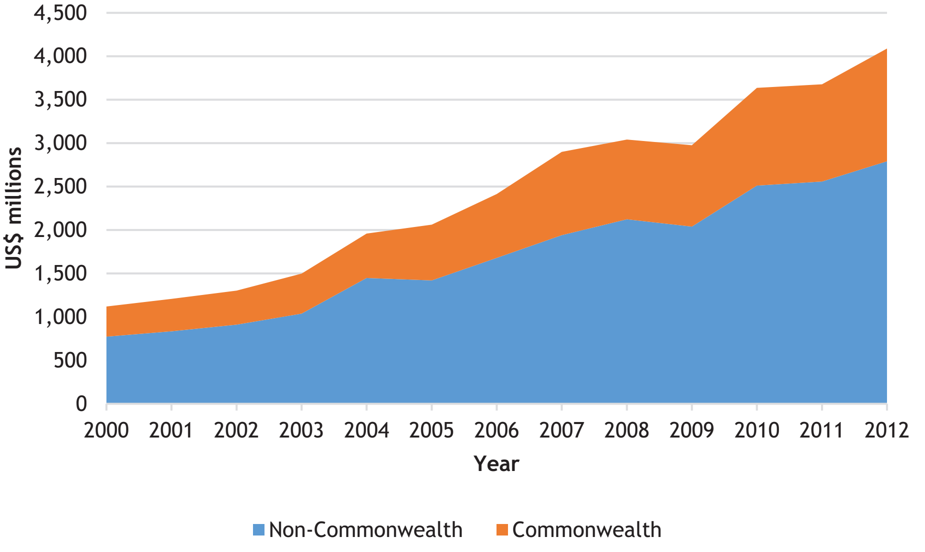
As the observed differences in growth rates between trade with Commonwealth partners and trade with the rest of the world suggest, the Commonwealth as a group represents an increasingly important share of Kenya's total services trade. In 2012, Commonwealth countries supplied 30.9 per cent of Kenya's services imports, and accounted for 31.7 per cent of its exports. Leading Commonwealth partners include

Figure 2.8 Kenya's services imports, 2000–2012 (US$ millions)



Source: WTO–OECD BaTiS dataset; authors' calculations.

Figure 2.9 Kenya's services exports, 2000–2012 (US$ millions)

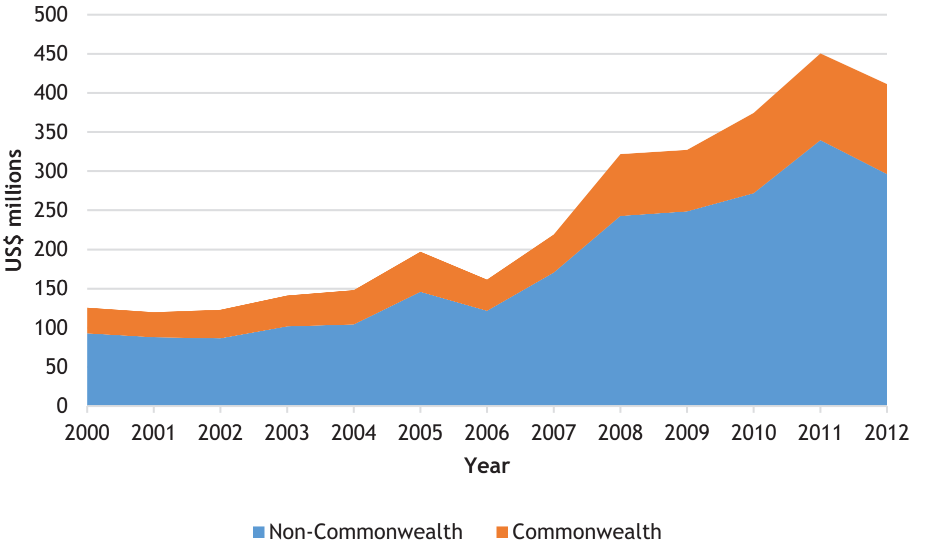


Source: WTO–OECD BaTiS dataset; authors' calculations.

the UK and India on both the import and export sides, whereas the largest trading partners outside the Commonwealth include the USA and the EU (Germany, France and the Netherlands).

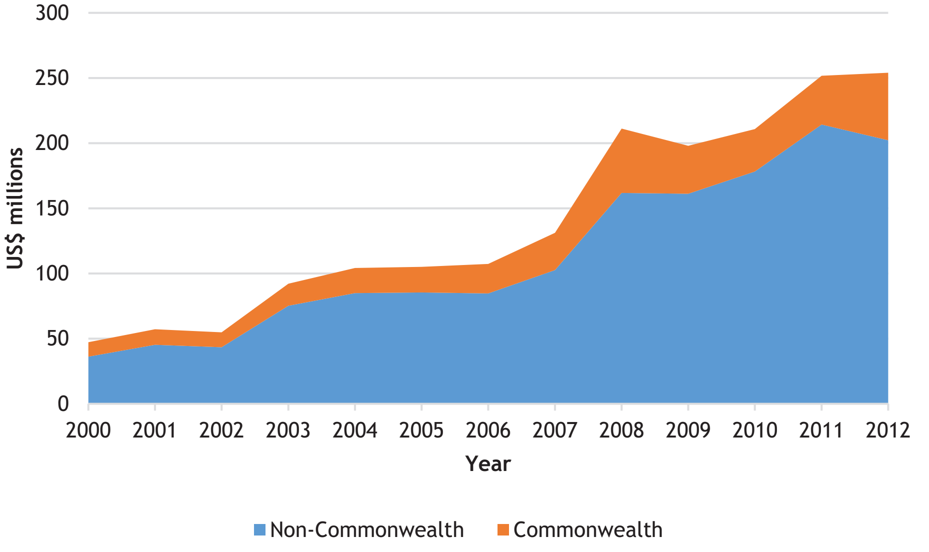
As in Kenya's case, Rwanda's services imports have been increasing in absolute terms (Figure 2.10). The breakdown into Commonwealth and other sources shows that

Figure 2.10 Rwanda's services imports, 2000–2012 (US$ millions)



Source: WTO–OECD BaTiS dataset; authors' calculations.

Figure 2.11 Rwanda's services exports, 2000–2012 (US$ millions)



Source: WTO-OECD BaTiS dataset; authors' calculations.

imports from the former increased by 350 per cent through 2012, whereas for the latter the comparable figure was 319 per cent.

Rwanda's services exports also increased sharply through 2012 (Figure 2.11). Exports to other Commonwealth countries grew by 366 per cent, whereas those to the rest of the world grew by 459 per cent.

In terms of shares of imports and exports, Commonwealth countries represent important sources of imports and destinations of exports for Rwanda, as was the case for Kenya. In 2012, intra-Commonwealth imports accounted for 27.9 per cent of the total, while the corresponding figure for exports was 20.4 per cent. Key Commonwealth trading partners include India, the UK, Kenya and Uganda. Among non-Commonwealth countries, Rwanda has important services trade links with the USA, China and the EU (Germany, the Netherlands, Sweden and Belgium), as well as Switzerland.

This review of the data has shown that Kenya and Rwanda are both active in services trade, and are becoming increasingly so over time as their services sectors grow and become more competitive. The Commonwealth is an important part of an overall pattern of increasing trade integration: for all directions of trade except Rwanda's exports, integration with Commonwealth countries has been growing more quickly than with the rest of the world. The analysis here is necessarily partial, and limited to the BoP statistics. It relies extensively on synthetic data generated by econometric models, as well as data generated by trading partners. Although this exercise is informative, it is an urgent policy priority for Kenya and Rwanda, and indeed for most other Commonwealth countries, to develop the statistical capacity to track trade in services more comprehensively.

2.3 Services and market integration: The regional dimension

Kenya and Rwanda are both members of the EAC. In 2010, the EAC instituted the first common market arrangement in Africa. This is based on the free movement of economic output and agents, including services. Instituting a full common market in services is a very ambitious agenda item, but it highlights the commitment of EAC countries to increasing regional integration, with the aim of promoting economies of scale and developing the competitiveness needed to succeed in world markets. However, it is important to keep in mind that facilitating trade in services is an ongoing commitment, not the putting in place of a one-off set of reforms like instituting a customs union for goods. Indeed, the EU has been working to promote continued reforms to its own single market for services, navigating a complex interplay of domestic political interests and regulatory complexity.

As a measure of transparency and to facilitate peer review and promote progress, the EAC has published two Common Market Scorecards, in 2014 and 2016. These cover services, and identify member country commitments under Annex V of the EAC Common Market Protocol, as well as recent reforms. EAC and World Bank (2016) show that EAC countries have been active in committing to integrating their services markets. The Common Market Protocol (CMP) identifies seven priority sectors: business; communication; distribution; education; financial; tourism and travel; and transport. Within these sectors, Rwanda has committed to open the most subsectors (103 out of a maximum of 136) of any EAC country. Kenya has made commitments in 63 subsectors (Table 2.1). Kenya has committed to liberalise an additional 22 subsectors, taking the total committed under the CMP to 85. This is in line with the EAC Council of Ministers directive that each Partner State commit a minimum of 78 subsectors. In addition, Kenya and Rwanda are both expected to commence negotiations to liberalise five additional subsectors: construction services; environmental services; health-related services; social services; and recreational, cultural and sporting services.

A key contribution of the Scorecard exercise lies in monitoring the extent of compliance with the common market's requirements in different sectors, and across countries as provided for by Article 50 of the EAC CMP. The publications track

Table 2.1 Services subsectors committed under the EAC CMP, Kenya and Rwanda

Liberalised services sectors	Rwanda	Kenya
1. Business services	32	15
2. Communication services	20	17
3. Distribution services	4	3
4. Educational services	5	4
5. Financial services	16	12
6. Tourism and travel-related services	4	3
7. Transport services	22	9
Total number of subsectors committed	103	63

Source: EAC and World Bank (2016).

non-conforming measures (NCMs), which can then be targeted for removal over time. Both Scorecards have focused on four sectors: professional services (legal, accounting, architecture, engineering); transportation services (air and road); telecommunication services; and distribution services (wholesale and retail trade). EAC and World Bank (2016) find that Rwanda had 10 NCMs in 2016, down from 11 in 2014. Kenya had 14, down from 16 in the previous report. Kenya's NCMs were concentrated in professional services and telecommunications, whereas Rwanda's were mainly in professional services and transport.

Monitoring regional integration of services markets is important for the development of the services sector in the EAC. However, it is a different exercise from the one this study intends to carry out. The objective here is to catalogue and quantify the policies Kenya and Rwanda maintain on an applied most-favoured nation (MFN) basis—that is, to those countries with which they do not have a preferential agreement covering services. This is in keeping with the STRI exercises that have been conducted previously by the Australian Productivity Commission, the World Bank and the OECD. Of course, it would possible to extend this work in the future to look at the different rates of restrictiveness of MFN and preferential policies, but first it is necessary to obtain a baseline that can be used for comparison. In terms of economic impact, it is important to note that imports from other EAC countries accounted for only 2.0 per cent of Kenya's total services imports in 2012, while the corresponding figure for Rwanda was 8.2 per cent. As a result, focusing on non-preferential policies ensures that the trade policy measures that affect the overwhelming bulk of imports in both countries are captured.

Note

1 See below for a discussion on the difficulties of measuring trade in services according to the GATS modes of supply in Kenya and Rwanda. The figures quoted in this section represent lower bounds on total services trade.

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Chapter 3

The STRI Methodology: From Regulations to Impacts

The previous chapter outlined the importance of the services sector in Kenya and Rwanda, including as part of their overall stance on economic integration. This chapter turns to the question of how to quantify policies that restrict trade in services. An extended discussion of methodology is necessary, because the question is in fact a challenging one, given the large number of different regulations that affect services, and their complexity relative to the simple tariffs that are common in goods markets. Section 3.1 discusses in intuitive terms the STRI methodology, and specifically the version deployed by the OECD, which is adopted here. Section 3.2 then discusses the choice of sectors for this pilot project. Section 3.3 then presents the data collection methodology for those subsectors.

3.1 Measuring policy restrictiveness in services

Measuring trade restrictiveness for services is different from measuring it for goods. Goods encounter trade barriers from border taxes (customs duties), plus quantitative restrictions (quotas) and other non-tariff measures (NTMs). These measures are typically applied at the border, but some NTMs can be applied behind the border, in the form of regulatory measures and standards that affect trade. In services trade, frictions come primarily from regulatory measures, which are more akin to NTMs in goods. In goods, comparing restrictiveness of tariffs across countries is relatively simple at the product level: it is possible simply to compare tariff schedules, with a higher *ad valorem* tariff indicating a more restrictive policy stance. While issues of aggregation arise in the construction of economy-wide measures of restrictiveness even in goods (e.g. Kee et al., 2009), the situation is much less complicated than in services, owing to the preponderance of tariffs.

Conceptually, three stages are involved in estimating the restrictiveness of trade policy settings in services. First, it is necessary to collect data on a wide range of regulations that affect the ability of service providers to contest markets (entry barriers), and the cost of doing business for providers in the market (ongoing conduct barriers). Individual regulatory measures need to be coded according to a predetermined key so that the qualitative information contained in them can later be transformed into a quantitative scale, where a higher score indicates a more restrictive policy. To provide some intuition, Table 3.1 presents examples of common restrictions affecting particular modes of supply.

Once this data collection exercise has been completed sector by sector—because heterogeneity is more of a factor in services trade than is the case for goods—it is necessary to move to the second step of the methodology—namely, aggregating

Table 3.1 Examples of policy restrictions by mode of supply

Mode	Examples of restrictions
Mode 1: Cross-border supply	• Requirement for foreign service providers to establish a commercial presence, i.e. requiring them to switch to another mode of supply • Restrictions on business outsourcing • Regulations on consumer protection that unduly restrict trade
Mode 2: Consumption abroad	• Travel restrictions to the country where the service supplier is based and the service is offered • Regulations on domestic recognition of documents proving the act of receiving certain services (e.g. domestic recognition of foreign degrees in educational services)
Mode 3: Commercial presence	Restrictions on establishment: • Licences • Quotas on establishment • Restrictions on certain forms of legal entity • Minimum capital requirements • Limitations on the share of foreign capital • Prohibition of foreign direct investment in certain sectors • Location conditions Restrictions on operation: • Local content requirements • Operational permits and licenses
Mode 4: Movement of natural persons	• Visa requirements • Quotas on inflows of temporary workers • Limitation of the maximum period of stay

Source: Authors.

individual policy measures to produce what has come to be termed a Services Trade Restrictiveness Index (STRI). STRIs are sector-specific, and summarise the level of restrictiveness of the full set of regulations affecting that sector, both horizontal measures (i.e. those that affect all sectors) and sector-specific measures. A key issue that arises in this kind of aggregation is weighting: should all measures be given equal weights in the STRI, or are some types of policies more restrictive than others? Various approaches to answering this question are possible, ranging from purely statistical weighting schemes (e.g. Dihel and Shepherd, 2007) to the use of expert judgment.

Third, once the STRIs have been obtained, an econometric model can be used to relate them to economic outcomes of interest, such as prices, costs or trade flows, to produce estimates of the economic impacts of restrictions on services trade. This methodology is originally from the Australian Productivity Commission (see Dee, 2005, for a review).

Since first being deployed in selected sectors in the early 2000s, STRIs have been taken up by leading international organisations active in the trade domain. The World Bank's STRI project covers 103 countries and five sectors (Borchert et al., 2014).

It records policy restrictions in place in around 2008–2010, based on a survey of law firms for developing countries and publicly available sources for OECD countries. The range of policy restrictions captured is relatively narrow, with a focus only on those that embody legal discrimination against service suppliers from other countries. The World Bank is currently updating the database in conjunction with the WTO, but, as of the time of writing, these data are not available.

The OECD conducts the second major STRI project. This covers 44 countries and 22 sectors. The database and indices are updated annually, starting in 2014. As such, the project represents a more detailed reading of policies in sectoral terms than the World Bank database, and has the advantage of representing a clear moment in time, with regular updates. In addition, it also captures some non-discriminatory policies that affect services trade. This is an important point: as Dee (2005) argues, it is likely that non-discriminatory services policies will have bigger economic impacts than discriminatory measures, because they affect the real resource cost of doing business, not just the ability of incumbent firms to earn economic rents. Whereas the World Bank project relies primarily on law firms to supply information on policy restrictions, the OECD collects data directly, then validates these with government. Based on its greater level of sectoral specificity, its inclusion of some non-discriminatory policies, its data collection methodology and the fact that it is updated regularly, the OECD STRI currently represents the most efficient frontier in terms of quantifying barriers to trade in services. It is applied here to Kenya and Rwanda.

In terms of the three steps identified above, the OECD methodology, which is set out in full in Geloso-Grosso et al. (2015) can be summarised briefly. The first step is undertaken by the team directly, using Excel sheets to code information about possible policy restrictions and to note sources for transparency and dialogue purposes. Most measures are coded as 1 (restriction) or 0 (no restriction); where there is a numerical answer, the methodology applies thresholds for binary scores. One complexity of services regulations is that apparently liberal policies in one area can be rendered *de facto* null and void by a single highly restrictive measure in another area. For instance, if the foreign equity limit for services firms in a particular sector is zero—that is, foreign direct investment (FDI) is not permitted—then a lack of other specific measures dealing with foreign providers does not mean the sector is liberal: in fact, it is completely closed for Mode 3. For this reason, the OECD methodology takes account of dependencies among measures by coding dependent measures as 1 if there is a related measure that has the effect of closing the market. On the flipside, complementary measures are grouped and scored as 0 only if all measures in the bundle are not restrictive.

To aggregate these data into an STRI, the OECD methodology applies expert weights. Specifically, the organisation convened expert meetings for each sector, to bring together experts proposed by member countries, as well as others from the World Bank, the WTO and the Secretariat itself, including specialised departments. Together, these experts concentrated on identifying relevant policy measures for inclusion in the STRI, and deciding on how each measure should be weighted relative to the others.

Finally, to translate the numerical STRI—which ranges between 0 and 1—into an economic impact, Benz (2017) uses the concept of an *ad valorem* equivalent. In essence, his methodology makes it possible to map STRI scores to tariff equivalents. Data availability issues mean it is not possible to do this for every sector. Nonetheless, the results are striking: estimates of tariff equivalents range as high as 2000 per cent, and range between 20 per cent and 300 per cent in most sectors. Consistent with the results of Miroudot et al. (2013), this approach suggests trade costs are typically higher in services than in goods.

An additional way of translating numerical STRIs into concrete economic outcomes is by means of the concept of regulatory heterogeneity. Many services experts believe that differences in regulations between countries, not just their absolute level of restrictiveness, drive observed patterns of trade by influencing trade costs. The OECD Secretariat has developed an algorithm to compute measures of bilateral regulatory heterogeneity using the STRI data. Nordas (2017) shows that a reduction in regulatory heterogeneity of 0.05 points is associated with an increase in services exports of 2.5 per cent, and that the impact is larger with a lower overall level of restrictiveness. Again using the concept of an *ad valorem* equivalent, she goes on to quantify the effect of the average regulatory heterogeneity score in the OECD STRI sample as between 20 per cent and 70 per cent at low levels of restrictiveness.

The OECD's approach is followed here, in the interests of rigour, comparability and transparency. The STRIs constructed in this way measure *de jure* restrictions in place, not other *de facto* impediments that may exist to the operations of services firms. That is an important, but distinct, question—and different data are used to address it in Chapter 5. The second point to note is that the STRIs produced are based on MFN policies—that is, measures that apply to trading partners with whom there is no preferential agreement. Although regional integration is an important dynamic in East Africa, focusing on MFN restrictions not only provides an important baseline with which to compare preferential liberalisation but also identifies policies that cover the overwhelming bulk of imports in both Kenya and Rwanda. This work could be extended in future to look at the impacts of preferential agreements.

3.2 Selection of services sectors in this report

With the aim of looking at links between goods and services trade, an analysis is made of the trade restrictiveness of services sectors that are known to have an impact on the productivity and export performance of industry, particularly manufacturing, including through their involvement in global value chains. Hoekman and Shepherd (2015) use a combination of firm-level and country-level data to show that productivity in services sectors—which is negatively affected by overly restrictive policies—is associated with higher productivity and exports in manufacturing, because the latter uses services inputs extensively. This rationale leads naturally to a focus on backbone services sectors that provide important inputs to other parts of the economy. The potential gains from reforms in these sectors are very high, because they have strong spillovers to the rest of the economy.

To make the point clear, data from the OECD-WTO Trade in Value Added (TiVA) database can be used. The only African country in the database is South Africa, which is taken as a point of reference. Using sophisticated techniques to reconcile national accounts data, input-output data and trade data, TiVA makes it possible to analyse the origin of the value added content of exports. For instance, services value added accounted for 36.7 per cent of the gross value of manufacturing exports in 2011, the latest year for which data are available. Looking deeper into the services sectors that contributed to manufacturing exports in South Africa, it can be seen that transportation and storage accounted for 17.8 per cent of the services total, finance for 11.2 per cent and wholesale and retail trade (distribution) for 32.4 per cent. Together, these three sectors contributed 61.4 per cent of total services value added in South Africa's gross exports of manufactured goods.

Although the TiVA dataset does not cover Kenya and Rwanda, similar information is available from the Eora database. However, this information is presented with the major caveat that data quality are known to be inferior to in TiVA, and much of the information for small, lower-middle-income countries is imputed or estimated rather than observed. With this in mind, however, the Eora data show another way in which the three sectors are integrated with regional and global economies: out of the value of Kenya's and Rwanda's gross exports in these three sectors, foreign value added accounts for 21 per cent and 16 per cent, respectively. In other words, imports of goods and services are part of what facilitates the export success of these sectors.

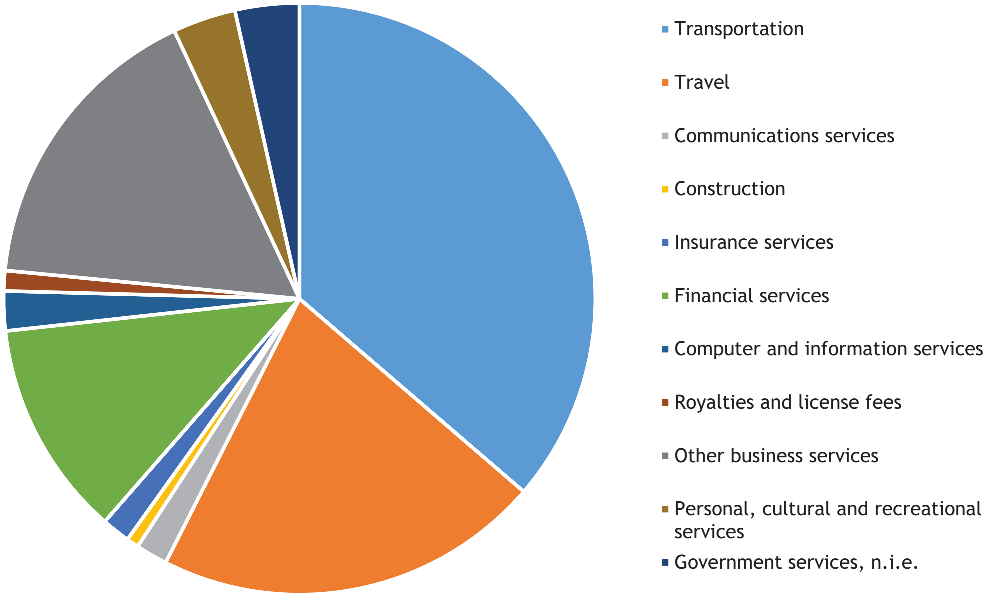
Given its pilot nature, this study can focus on only a limited number of sectors, not the full 22 the OECD considers in its work. There is a strong rationale for focusing data collection on sectors believed to have strong links to the rest of the economy, and where the gains from continued reforms could therefore be particularly high, as well as those sectors that have the strongest regional and global trade links. Based on the above analysis, transport, finance and distribution appear to be the leading priorities for Kenya and Rwanda from the point of view of both likely economic benefits and their potential to promote structural change by helping develop the manufacturing sector.

BaTiS data can be used to look more directly at the importance of these sectors to Rwanda's services trade. The sectoral disaggregation BaTiS uses identifies financial services, and transportation and storage as individual sectors. There is no individual entry for distribution but part of its activities, such as storage and warehousing, are caught under transportation and storage.

Figures 3.1 and 3.2 show that transportation and financial services accounted for significant shares of Rwanda's services trade in 2012. Specifically, they made up 48.1 per cent of imports and 22.3 per cent of exports. They made up the largest traded sectors aside from other business services, which groups together a wide range of activities. The importance of these sectors is quite consistent over time, with the import share in 2000 equal to 53.4 per cent and the export share equal to 24.2 per cent.

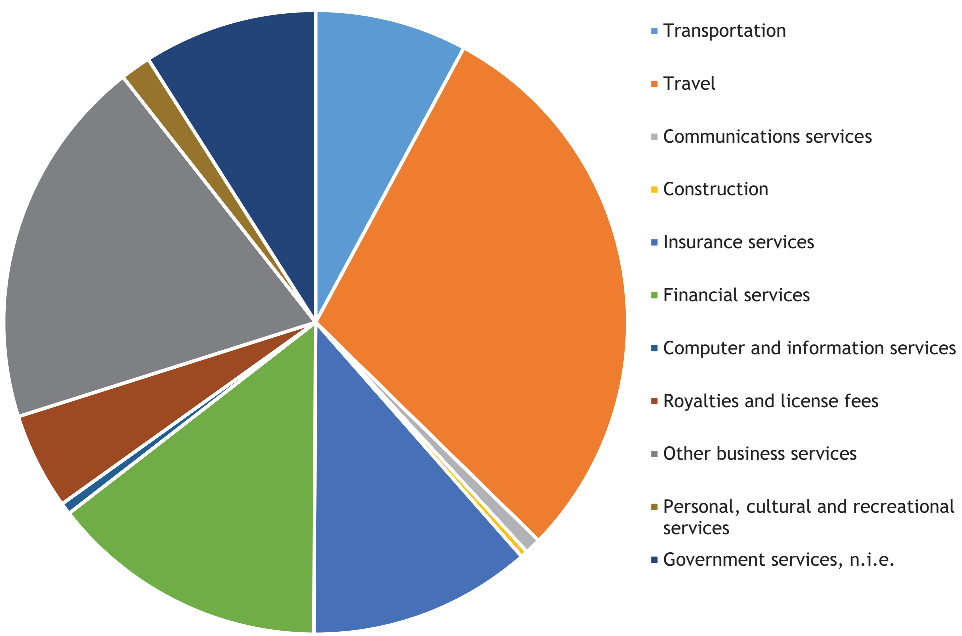
A similar analysis for Kenya shows that transportation and financial services together accounted for 37.0 per cent of imports and 38.7 per cent of exports in 2012 (Figures 3.3 and 3.4). As with Rwanda, in Kenya these sectors play a very significant role in trade.

Figure 3.1 Breakdown of Rwanda's services imports by sector, 2012



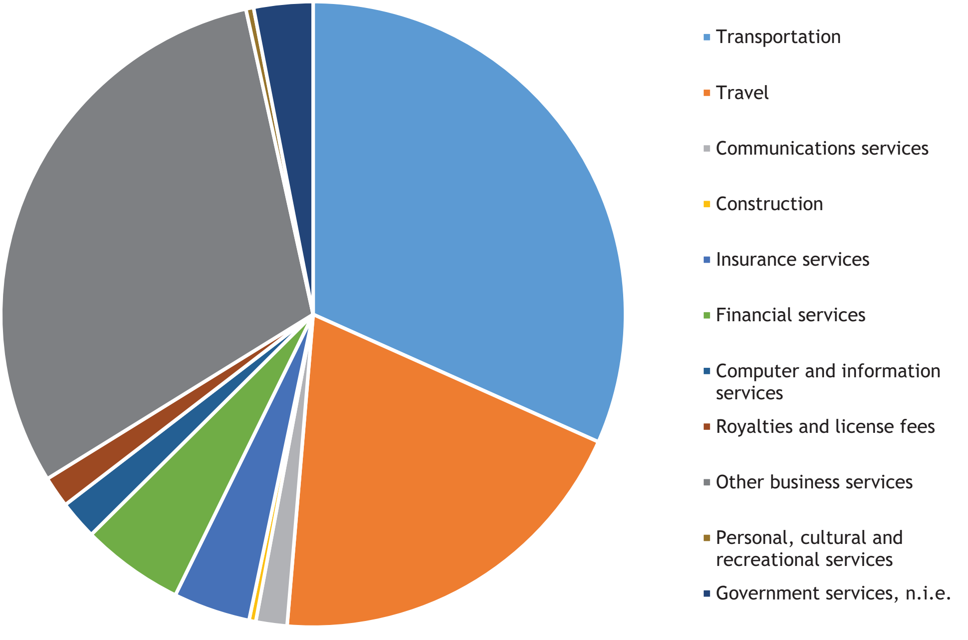
Source: WTO–OECD BaTiS dataset; authors' calculations.

Figure 3.2 Breakdown of Rwanda's services exports by sector, 2012



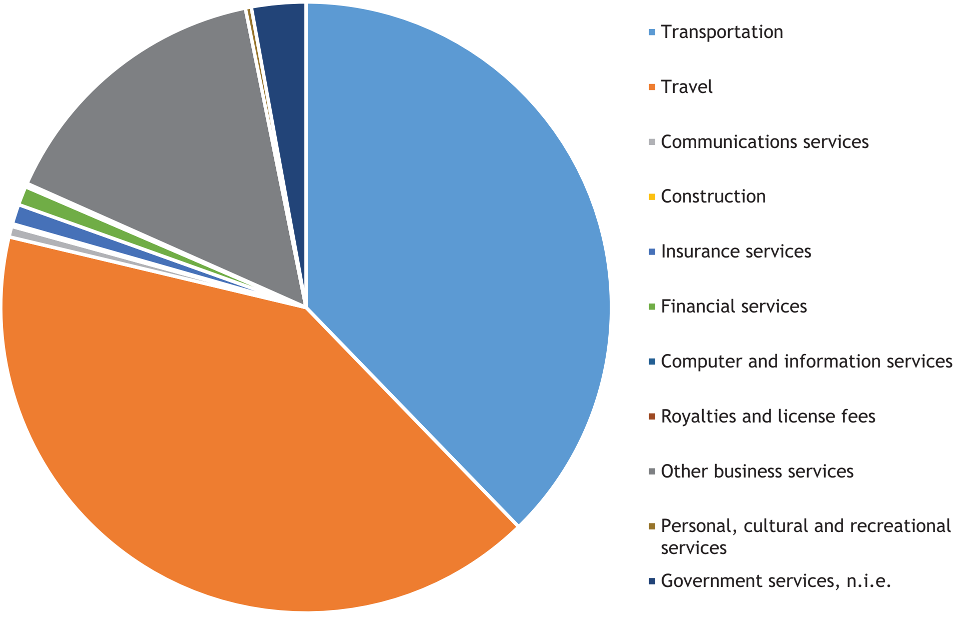
Source: WTO–OECD BaTiS dataset; authors' calculations.

Figure 3.3 Breakdown of Kenya's services imports by sector, 2012



Source: WTO–OECD BaTiS dataset; authors' calculations.

Figure 3.4 Breakdown of Kenya's services exports by sector, 2012



Source: WTO–OECD BaTiS dataset; authors' calculations.

Indeed, transportation is the largest import sector in Kenya, and it comes a close second to travel services in terms of exports. Again, these sectoral shares remain relatively stable even over the medium term. In 2000, transportation and financial services together accounted for 43.6 per cent of Kenya's imports and 37.9 per cent of exports.

This analysis confirms the view that it is appropriate to focus this pilot study on transportation, distribution and finance in Kenya and Rwanda. In addition, Government of Rwanda (2013) identifies financial services, transport and logistics as among its priorities, whereas Government of Kenya (2010) similarly highlights the importance of a productive financial sector, and of reducing costs in transport and distribution.

For STRI purposes, there is a need to map these large aggregates to individual sectors in the OECD scheme. For financial services, the OECD STRI scheme identifies commercial banking, which accounts for the lion's share of activity in this aggregate in developing countries, keeping in mind that insurance is treated as a distinct sector. Distribution is identified as such in the OECD STRI sectoral scheme. For transportation, the best fit appears to be road freight transportation. The other components of transportation in the OECD classification are rail, air and maritime. The last one is clearly not appropriate, as Rwanda is a landlocked country. Air freight is limited to high value to weight commodities, and, although it is developing in Africa, it is not yet as important as other modes. Road transport is responsible for the overwhelming bulk of trade within Africa, in particular between Kenya and Rwanda on the one hand and their regional Commonwealth partners on the other. Road transport, commercial banking and distribution are all included within the priority sectors of the EAC CMP (EAC and World Bank, 2016).

3.3 Data collection methodology

This study is much more limited in scope than the OECD's own data collection effort, which covers 44 countries and 22 sectors. The data collection effort was limited by time and scope to three sectors—commercial banking, road freight transport and distribution—in the two countries being studied: Kenya and Rwanda. Following a project kickoff meeting on 22 January 2018, data were collected and coded through 9 March 2018. Results are based on data available as of April 2018, when validation took place. The coding team worked in tandem with local experts on the ground in Kenya and Rwanda to identify relevant laws, analyse their provisions and resolve points of uncertainty or apparent inconsistency. In all, the team coded responses to 269 possible policy restrictions in each country, for a total of 538 measures in all. The work took account of around 30 relevant pieces of legislation and regulation in Rwanda, and nearly half as many again in Kenya. Access to these legal documents in digital form was facilitated by local experts, who were able to point the coders to the appropriate documents, and also to confirm the empirically important case in which there was no relevant law or regulation dealing with a particular question.

The coding team worked with Excel sheets provided by the OECD Secretariat. These sheets are the same ones the OECD uses in its work, thereby ensuring that the results were fully comparable with theirs. The sheets catalogued the full range of policy restrictions to be assessed for each sector, and enabled the team to record responses that could feed into the quantitative analysis, as well as sources (legal texts) and hyperlinks whenever possible. While Kenya and Rwanda both have a substantial amount of legislation available online, local experts were also able to provide texts that were not generally available, so hyperlinks are not provided in all cases. The exercise is therefore as transparent and replicable as possible.

To give an idea of how the coding process was undertaken, consider the first measure in the commercial banking sector. That measures asks whether or not there is a maximum foreign equity limit imposed. The result is recorded as a percentage—namely, the maximum allowable percentage of a commercial bank that a foreigner can hold. In Kenya, the Banking Act 1989 was consulted. This Act does not impose any limitation on the percentage of a commercial bank that a foreigner can hold, subject only to the general prudential requirement that no individual should hold an interest of greater than 25 per cent. Consistently with OECD practice, which does not treat this kind of prudential limitation as a trade restrictive measure, the result was coded as 100. Indeed, the Act specifically allows foreign commercial banks to have full ownership of commercial banks in Kenya, so there is indeed no effective limit on foreign participation. For this measure, Kenya is therefore scored as having the least restrictive environment possible.

For transparency, Appendices 2 and 3 reproduce the list of laws consulted in each country. Full results of this coding process, which proceeded in a similar way to the above example for the other 537 measures captured in each country, are available on request. For each sector, relevant policy restrictions, the coding applied and the legislation on which the coding is based have been recorded. As is apparent from a review of these two appendices, it is not possible to briefly summarise the process of coding individual pieces of legislation. That is why this section has focused on outlining the general approach and the safeguards put in place to ensure accuracy and consistency.

To ensure maximum consistency, during the coding process particular attention was paid to the most comparable countries in the OECD's dataset—namely, South Africa, India and Indonesia. It was hypothesised that there might be some commonalities in terms of the restrictions low- and middle-income countries apply, and so it was ensured that similar policies in Kenya and Rwanda were coded in line with what is observed elsewhere in the OECD sample.

After coding was completed, the Excel sheets were supplied to the OECD Secretariat. The Secretariat agreed to run its own aggregation and weighting algorithms on the data. Again, this ensured complete consistency and comparability with existing work. Finally, government officials in Kenya and Rwanda were asked to validate the coding and results. No errors were found in the Kenyan coding; consultations in Rwanda necessitated some small changes in the data. Results presented in the following chapter take full account of this validation exercise, and are based on the small number of corrections introduced during that process.

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Chapter 4

Kenya and Rwanda STRIs: Overview of Results

This chapter summarises the STRIs produced by the OECD Secretariat using the raw data collected for this study. The indices are fully comparable with those calculated for the main OECD STRI project. The focus is on comparisons with other Commonwealth countries, but also record overall averages and compare performance with other developing countries for context. In all cases, STRIs range between 0 (no recorded restrictions) and 1 (closed market).

In the three sectors assessed (commercial banking, distribution services and road freight transport services), the findings suggest overall levels of restrictiveness lower than what is observed in major developing countries for which data are available: the scores of both countries are more liberal than those for India within the Commonwealth, and those for Indonesia (all sectors) and Brazil and China (two sectors) outside it. Kenya and Rwanda both have scores that are comparable with those of South Africa in commercial banking and distribution, although they are more restrictive in the case of road freight transport.

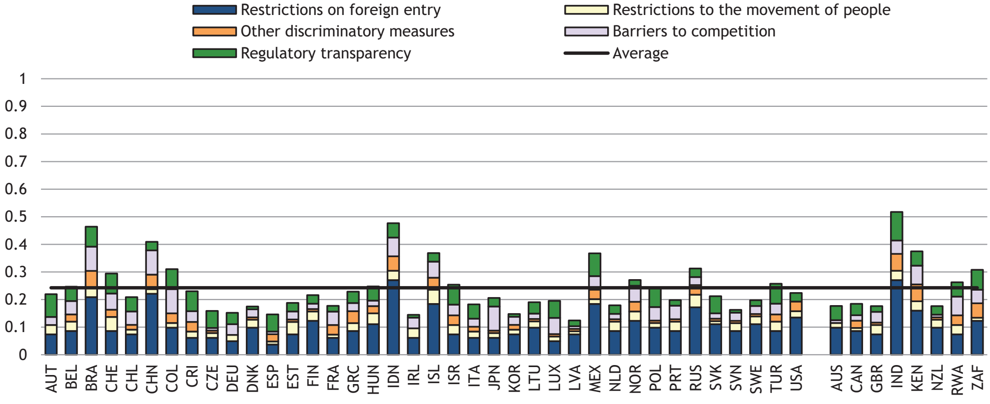
4.1 Commercial banking

Figure 4.1 shows STRIs for the commercial banking sector. Kenya, with a score of 0.37, and Rwanda, with 0.26, are both more restrictive than the average across all countries for which data are available (0.24), but the difference is only slight in the case of Rwanda. Moreover, OECD members dominate the average across all countries. Comparing Kenya and Rwanda with middle-income countries like Brazil (0.46), China (0.41), Indonesia (0.48), India (0.52) and South Africa (0.31) shows that they are generally more liberal or at least comparable in restrictiveness in this sector despite their lower level of per capita income. Indeed, neither Kenya nor Rwanda has restrictions that have historically been common in developing countries, such as restrictions on repatriating profits. The general picture that emerges for this sector is that Kenya and Rwanda are relatively liberal, in particular in comparison with other developing countries for which data are available.

Figure 4.2 zooms in on the Commonwealth countries in the sample, which are mostly developed. In comparison with their Commonwealth peers, Kenya and Rwanda, with scores of 0.37 and 0.26, respectively, are more restrictive than the developed Commonwealth countries: Australia has a score of 0.17, Canada 0.18, the UK 0.18 and New Zealand 0.18. However, both countries are less restrictive than India (0.52), and Rwanda is also less restrictive than South Africa (0.31).

To see where these results come from, individual groups of measures are reviewed separately. In terms of restrictions on foreign entry, Rwanda has the equal lowest score among Commonwealth countries (0.07), whereas Kenya has the second highest

Figure 4.1 STRIs in commercial banking, all countries, 2018 for Kenya and Rwanda, 2017 for others



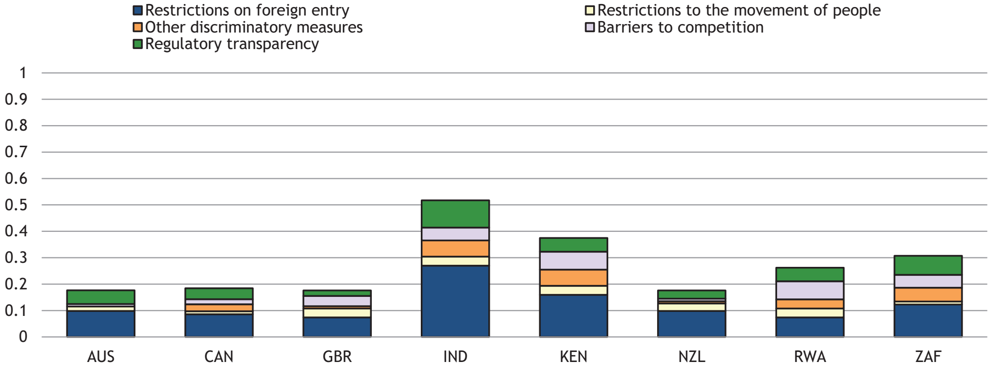
Source: OECD, based in part on data supplied by the authors.

(0.16) after India (0.27). The difference between Kenya and Rwanda is largely because foreign investments in Kenya—regardless of sector—have to be shown to benefit the country, and are subject to administrative discretion;[1] in Rwanda, by contrast, there is no such requirement. However, both countries restrict land ownership by foreigners, and require commercial presence for the provision of commercial banking services.

Both countries have high scores relative to comparators in the area of restrictions on people movements, being equal to India (0.03) and above all other Commonwealth countries in this case. These high scores stem from the use of labour market tests in both countries: for example, Kenya requires firms to show they were unable to fill a vacancy locally before using a foreign transferee or service supplier, and that programmes are in place to provide training to locals.

In terms of other discriminatory measures, Kenya's score is equal highest in the Commonwealth sample (with India: 0.06), whereas Rwanda's (0.03) is below those of

Figure 4.2 STRIs in commercial banking, Kenya and Rwanda plus Commonwealth comparators, 2018 for Kenya and Rwanda, 2017 for others



Source: OECD, based in part on data supplied by the authors.

India and South Africa (0.05) but above those of the other countries. The countries' scores essentially stem from restrictions on public procurement designed to favour local firms in both countries, and differential tax treatment in Kenya.

Kenya and Rwanda have the equal highest (0.07) scores in terms of barriers to competition in the commercial banking sector. In Kenya, banks are subject to regulated interest rates on loans and deposits, and there is public sector involvement in some commercial banks. Rwanda does not regulate rates, but has public sector involvement, and requires approval before banks can issue new products. By contrast, Australia and New Zealand both have very few restrictions on competition, with both countries scoring 0.01.

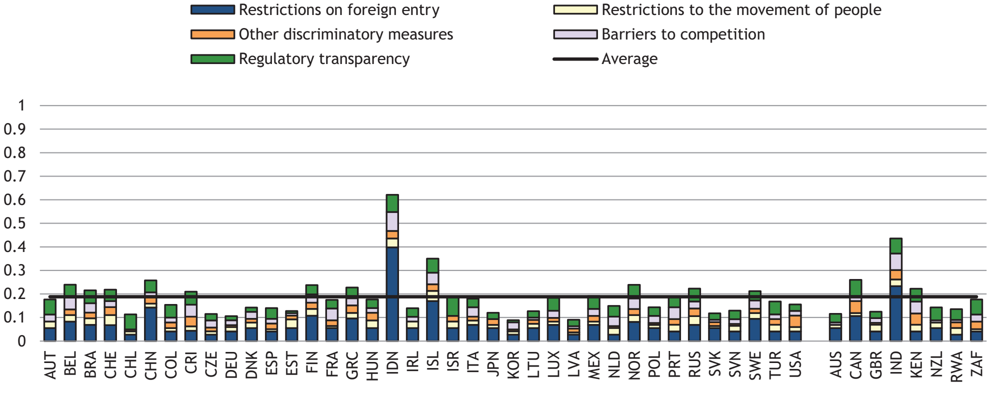
Finally, in terms of regulatory transparency, restrictive measures are relatively limited, on a par with what is observed in Australia (0.05); both countries have lower scores than India (0.10) and South Africa (0.07), which is consistent with a lower level of restrictiveness than those two countries.

Taking these results together, there is evidence that banking sector liberalisation has taken place in both countries, but there is scope for further reform over time. Kenya and Rwanda are both more liberal in this sector than India, and Rwanda is also more liberal than South Africa—the only other Commonwealth developing country in the sample. In both cases, there is scope to look at a range of policy measures affecting the services trade environment, ranging from restrictions on foreign equity (particularly in Kenya's case) to barriers to competition (in both countries).

4.2 Distribution

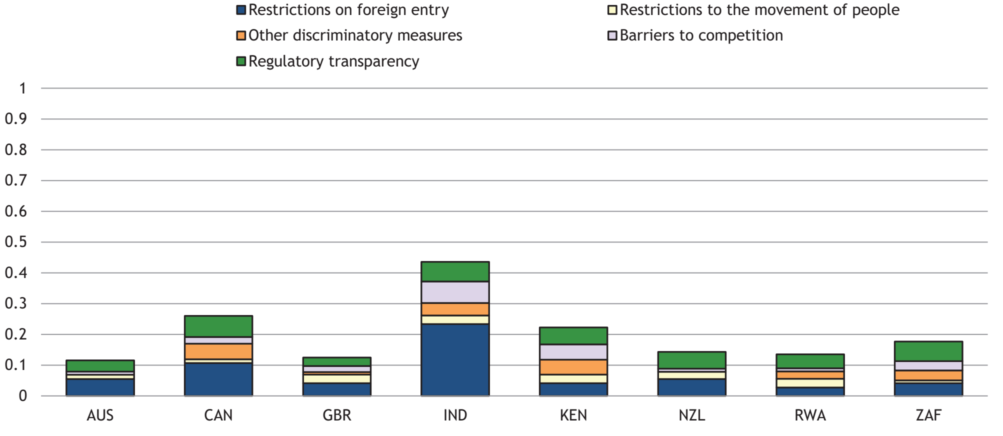
Figure 4.3 shows STRIs for the distribution sector for all countries. Kenya and Rwanda both show a low to moderate level of restrictiveness. Rwanda (0.14) is less restrictive than the sample average for this sector (0.19); Kenya (0.22) is only slightly above. Again, it is important to note that the sample average is largely composed of OECD

Figure 4.3 STRIs in distribution services, all countries, 2018 for Kenya and Rwanda, 2017 for others



Source: OECD, based in part on data supplied by the authors.

Figure 4.4 STRIs in distribution services, Kenya and Rwanda plu Commonwealth comparators, 2018 for Kenya and Rwanda, 2017 for others



Source: OECD, based in part on data supplied by the authors.

member countries. Comparing Kenya and Rwanda with other developing countries shows they are more liberal in this sector than Brazil (0.22), China (0.26), Indonesia (0.62) and India (0.45).

Figure 4.4 zooms in on Commonwealth countries for comparative purposes. Rwanda's STRI score of 0.14 for distribution is lower than those of Canada (0.26), India (0.44) and South Africa (0.18) among Commonwealth comparators.

Taking each group of measures separately, Rwanda's level of restrictions on foreign entry (0.03) is the lowest among the Commonwealth countries for which data are available, and Kenya's is equal second lowest (0.04).

Restrictions on movement of people are the same in both countries (0.03), and equal to what is observed in the UK and India, but higher than in other Commonwealth countries. As in the case of commercial banking, the reason is essentially related to the existence of labour market tests in both countries.

For other discriminatory measures, Kenya has the second highest score (0.05) among Commonwealth comparators, lower only than Canada (0.05; difference not apparent owing to rounding). Rwanda has a mid-range score (0.02), lower than South Africa (0.03), India (0.04) and Canada (0.05) but higher than the other Commonwealth countries in the sample. Both countries maintain public procurement regimes that favour local firms, which is recorded as part of the other discriminatory measures heading,[2] and Kenya also has differential tax treatment for foreign companies.

Restrictions in barriers to competition are equal second lowest among Commonwealth countries in Rwanda (0.02), whereas in Kenya (0.05) they are higher than other Commonwealth countries except India (0.07). The score in Kenya (0.05) is partly because of public sector involvement in distribution services (Uchumi Supermarkets), as well as the selective use of price controls, which restrict competition in the sector. All of these measures are restrictive, and so result in a higher score.

Finally, on regulatory transparency, Rwanda's score (0.05) is less restrictive than those of other Commonwealth countries except Australia (0.04) and the UK (0.03), but Kenya's score is mid-range within the Commonwealth, identical to that of New Zealand (0.05). The primary reason for the difference in the two countries' scores is that it takes much longer to obtain a construction permit in Kenya than in Rwanda, according to the World Bank Doing Business database: 159 days versus just 4. The length of time required to obtain a construction permit in Kenya is higher than the Sub-Saharan African average of 147.5 days.

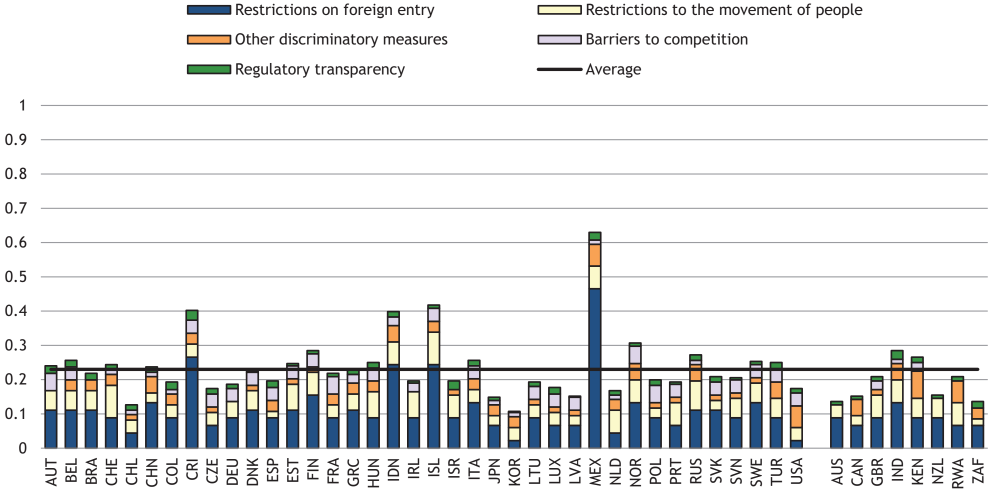
A similar issue for the distribution sector relates to customs procedure: imports take 3.6 days to clear the border in Rwanda, and there is no *de minimis* rule to exempt low value shipments; in Kenya, incoming shipments take 7.5 days to clear, and there is similarly no *de minimis* rule. The average clearance time for Sub-Saharan Africa is 5.7 days, so Rwanda's performance is stronger than regional peers but Kenya's is somewhat weaker. On the other hand, Kenya and Rwanda both have the obligation under their own laws to communicate regulations to the public within a reasonable time before entry into force, and have adequate public comment procedures open to interested parties. In addition, licences in relevant subsectors are awarded based on publicly available criteria. Positive measures such as these push regulatory transparency scores lower—that is, in the direction of indicating fewer restrictions.

Kenya and Rwanda both perform well in terms of policy restrictions affecting trade in distribution services. Rwanda in particular stands out for its low level of restrictiveness, but both countries are far less restrictive than the most closed Commonwealth market, that of India. The comparison across countries and groups of measures shows there is no strict relationship between services trade restrictiveness in this sector and per capita income. Indeed, Rwanda has the lowest income level of the Commonwealth countries considered, but overall a level of trade restrictiveness that is lower than average, and comparable to a liberally oriented developed Commonwealth country like New Zealand. Policy priorities relate to regulatory transparency, particularly time required to obtain permits, in Kenya, as well as public sector involvement in distribution and the use of price controls. In Rwanda, the environment is already quite liberal relative to other countries in the sample.

4.3 Road freight transport

Finally, Figure 4.5 presents results for the road freight transport sector for all countries. Kenya (0.27) is above average (0.23) in terms of its policy restrictiveness, whereas Rwanda (0.21) is below average. Given that the average is largely composed of OECD countries, it is appropriate to compare Kenya and Rwanda with other developing countries. Rwanda has a less restrictive policy environment than Brazil (0.22), China (0.24), India (0.28) and Indonesia (0.40), but is more restrictive than South Africa (0.14). Kenya's policies are more restrictive than developing country comparators other than India and Indonesia. In relation to both countries, middle-income Mexico (0.63)—which is an OECD member—stands out as having a much higher level of restrictiveness: the highest in the sample.

Figure 4.5 STRIs in road freight transport services, all countries, 2018 for Kenya and Rwanda, 2017 for others

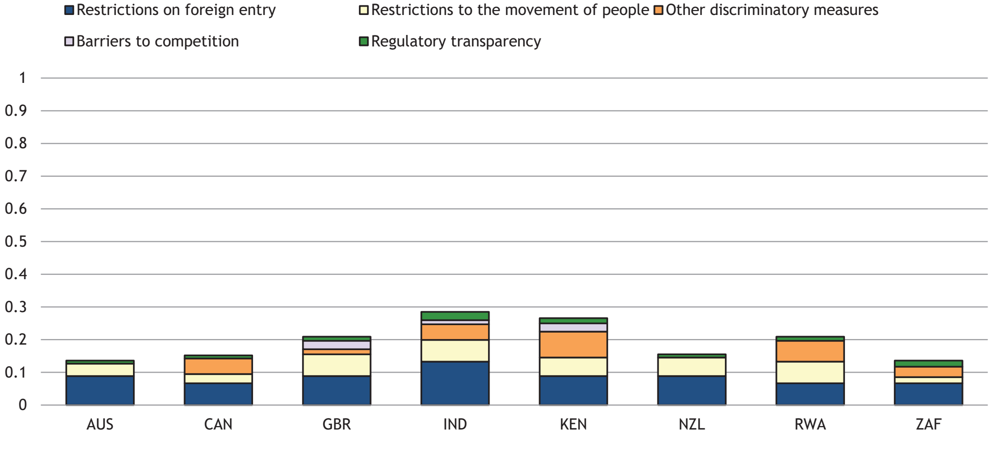


Source: OECD, based in part on data supplied by the authors.

Figure 4.6 extracts data for Kenya and Rwanda, along with their Commonwealth peers. Both countries are generally more restrictive than Commonwealth comparators, with the exception of India; Rwanda's STRI score in this sector is identical to that of the UK.

Taking each group of measures individually, restrictions on foreign entry in Kenya (0.09) and Rwanda (0.07) are generally in line with what is observed in Commonwealth comparators, and lower than in India (0.13). The key measures

Figure 4.6 STRIs in road freight transport services, Kenya and Rwanda plus Commonwealth comparators, 2018 for Kenya and Rwanda, 2017 for others



Source: OECD, based in part on data supplied by the authors.

in this area are again investment screening in Kenya, and restrictions on land ownership in both countries.

Restrictions on movement of people—0.06 in Kenya and 0.07 in Rwanda—are in line with the more restrictive Commonwealth countries in that category for this sector, such as the UK (0.07) and New Zealand (0.06). Scores again relate to requirements mentioned earlier, such as labour market tests.

Other discriminatory barriers are an area that deserves additional attention, as Kenya (0.08) and Rwanda (0.06) both have scores that are higher than those of all other Commonwealth countries. The reason is to be found in differential treatment of foreign businesses under public procurement policies in both countries, and differential tax treatment in Kenya.

In relation to barriers to competition, Rwanda has a score of 0, indicating no restrictions, which is the same as Australia, Canada, New Zealand and South Africa among Commonwealth comparators. Kenya's score of 0.03 is identical to that of the UK. The reason for Kenya's score is price regulation as well as an exemption from transit tolls for locally registered vehicles only in Kenya—that is, road tolls are applied in a way that discriminates against foreign service providers.

Kenya and Rwanda both again show a low to moderate level of policy restrictions in the road freight transport sector, with the environment being more conducive to trade in Rwanda than in Kenya. Although both countries have a relatively liberal stance, they are noticeably more restrictive than, for example, South Africa. While restrictions on foreign entry there are similar, policies in all other areas are less restrictive. Given the importance of road freight transport as a services sector that promotes connectivity, particularly for a landlocked country like Rwanda, it will be important for policy-makers to critically examine the current regulatory stance, as well as practice elsewhere in the region, to see if there is scope for further progress.

4.4 Regulatory heterogeneity with Commonwealth partners

Nordas (2017) shows that the data from the STRI project can be used not only to measure restrictiveness but also to calculate summary measures of regulatory heterogeneity between countries within sectors. Whereas the STRIs are one number per country per sector, measures of heterogeneity are bilateral—that is, they take account of regulations in each country of a pair. OECD calculates two measures of regulatory heterogeneity, one based on differences in scores between countries and the other based on differences in answers to the regulatory questionnaire between countries. The latter approach is used, but indices using differences in scores are also available on request.

The essence of the methodology, as set out in Nordas (2017), is to look at answers to individual questions in the regulatory questionnaires used to build the STRIs. Concretely, the methodology proceeds by creating a matrix where each cell corresponds to a specific answer in the database for a pair of countries. If a country pair has the same answer to a question, the cell is recorded as 0. If they have different answers, it is recorded as 1.

The heterogeneity index is then calculated as a weighted average of the scores in each cell, using the same weights as in the STRIs themselves. To be clear, the index captures regulatory differences in a non-evaluative way: a low score does not indicate that one country's regulations are 'better' than another's in any meaningful way. Rather, the index is an attempt to capture in a rigorous quantitative way the data underlying the widespread belief that regulatory differences contribute to trade costs in services sectors.

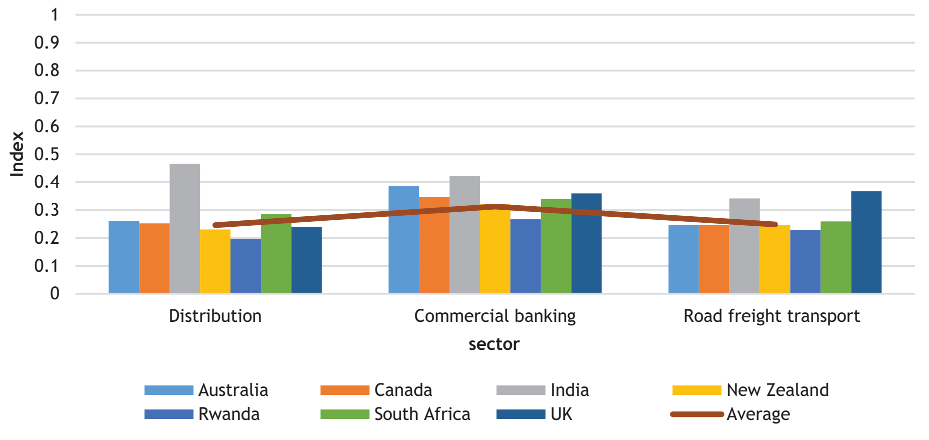
Indeed, Nordas (2017) finds that reducing regulatory heterogeneity by 0.05 points is associated with 2.5 per cent higher services exports, while an average heterogeneity scores of 0.26 is associated with *ad valorem* equivalent trade costs of between 20 per cent and 75 per cent at low levels of the STRI.

For Kenya and Rwanda, the OECD has calculated regulatory heterogeneity measures for each sector with respect to every other country in the full sample. For each country, there are therefore 3 sectors multiplied by 45 partner countries, giving 135 index scores with partners for each of the 2 countries. Appendix 3 reproduces the matrix of scores in full. It is not practical to reproduce the full matrix of heterogeneity at the level of individual measures, as that would entail 538 measures multiplied by 45 partner countries, giving a total of 24,210 scores per country.

To summarise the results of this computationally intensive exercise, graphical methods are used, as for the STRIs themselves. A taller bar indicates a higher heterogeneity score with the country concerned. For comparative purposes, the focus is on the two countries in relation to their Commonwealth peers, with the sample average score by sector also reproduced.

Results for Kenya are in Figure 4.7. Each bar represents regulatory heterogeneity with a particular Commonwealth trading partner, while the line is the average heterogeneity score across all countries in a particular sector. Unsurprisingly, Kenya's regulatory heterogeneity score in all sectors is lowest with Rwanda. This finding suggests that

Figure 4.7 Regulatory heterogeneity indices by sector, Kenya and Commonwealth partners, 2018 for Kenya and Rwanda, 2017 for others



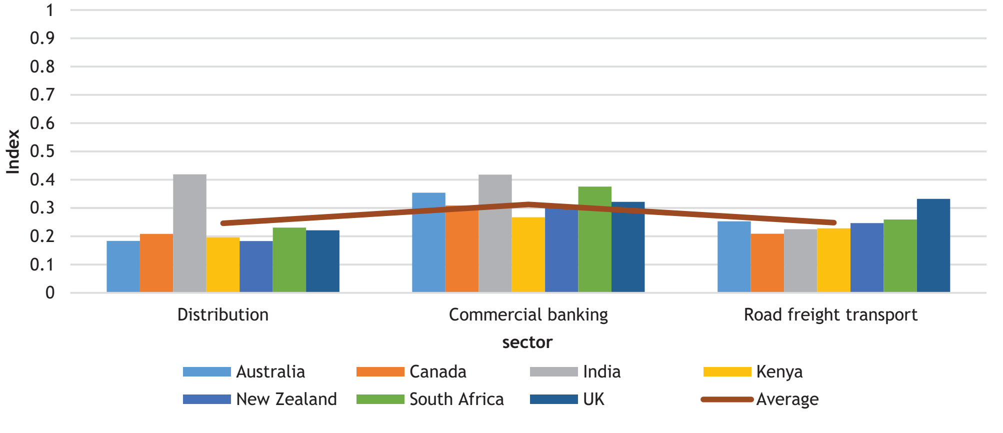
Source: OECD, based in part on data supplied by the authors.

substantial harmonisation has taken place between the two countries within the context of the EAC CMP. To put these results in perspective, however, compare heterogeneity between Kenya and Rwanda in one sector, such as distribution, with scores for EU member states in the same sector. Kenya's heterogeneity score with Rwanda in distribution is 0.196, whereas the lowest intra-EU score, between the Czech Republic and the Slovak Republic, is 0.084. Of course, regulatory heterogeneity varies substantially within the EU, so countries like Germany and Luxembourg, or the Slovak Republic and Sweden, have scores that are comparable to what is observed in Kenya and Rwanda. These findings suggest there is likely substantial space within the EAC to increase regulatory harmonisation among member countries as one way of reducing trade costs, but that the process is very complex from a political economy perspective. Substantial regulatory differences remain even in a setting like the EU, which has been harmonising regulations over a substantially longer period.

In distribution, Kenya's scores are lower than average with respect to New Zealand, Rwanda and the UK, and close to average with the remaining Commonwealth countries except India. In commercial banking, only the score with Rwanda is below the sample average; scores with other Commonwealth countries except India are only slightly higher than average. Finally, in road freight transport, regulatory heterogeneity is lower than average with Australia, Canada, New Zealand and Rwanda, only slightly above average in South Africa and higher than average in the remaining countries.

Figure 4.8 shows comparable results for Rwanda. Whereas Rwanda was always the partner with the lowest heterogeneity index for Kenya, the same is not always true for Rwanda itself. In distribution, its regulations are more aligned with those in Australia and New Zealand than those in Kenya, while the same is true for Canada and India in the case of road transport. This finding supports the judgment above that there is still considerable room to move forward on regulatory harmonisation within the framework of the EAC CMP.

Figure 4.8 Regulatory heterogeneity indices by sector, Rwanda and Commonwealth partners, 2018 data for Kenya and Rwanda, 2017 for others



Source: OECD, based on data supplied by the authors.

In distribution services, Rwanda's scores with all Commonwealth countries except India are lower than the average. In commercial banking, its index score with Kenya, Canada and New Zealand is lower than average; its score with the UK is just above the average; and its score with other countries is higher than average. In road transport, its score with Canada, India, Kenya and New Zealand is lower than average and that with South Africa and Australia is just a little higher than the average; only the score with the UK stands out as substantially higher than average. Overall, Rwanda's average regulatory heterogeneity index scores with Commonwealth partners are lower than Kenya's. This suggests the component of its services trade costs linked to differences in regulatory stance across countries is lower, and correspondingly that it is therefore better able to access foreign markets.

Results from the regulatory heterogeneity exercise suggest there has indeed been some regulatory convergence within East Africa, as would be expected, given the nature and structure of the EAC CMP. However, the process is ongoing and not complete. Interestingly, there is also some degree of regulatory convergence with other Commonwealth countries. This process has clearly taken place outside the strict framework of trade agreements, and likely represents deeper factors like institutional and legal similarities among member countries. However, that process has been stronger in Rwanda than in Kenya, and in particular in the distribution sector, and to a lesser extent road transport.

Notes

1 It appears that Kenyan authorities rarely apply this test in practice to screen investment, but it remains on the statute book. Consistency therefore requires that it be coded as a restriction, so that results are comparable with other countries, like Australia and Canada, which have a screening regime in law even though it is rarely used to stop investments in practice.

2 Local firms appear not to believe they are favored in procurement decisions in practice. However, the restriction is recorded in the laws of both countries, so it is coded accordingly.

Reference

Nordas, H. (2017) 'Services Trade Restrictiveness Index (STRI): The Trade Effect of Regulatory Differences'. Trade Policy Paper 189. Paris: OECD.

Chapter 5

Complementing the STRI: Data on *de facto* Constraints Affecting Services Firms in Kenya and Rwanda

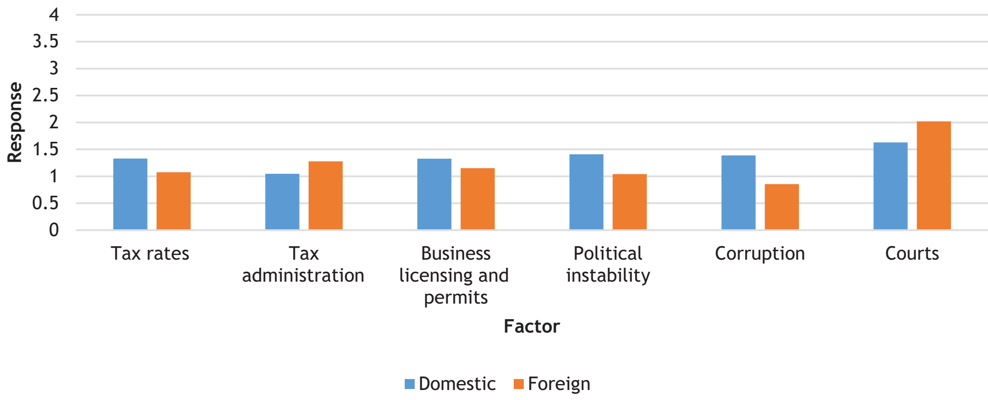
By its nature, the STRI methodology focuses on *de jure* barriers to services trade, in the sense of well-defined legal restrictions that make it more difficult for service providers to enter markets, or to do business there once they do. This focus is entirely appropriate, and reflects the fact that the trade policy community—government, researchers and civil society—is concerned primarily with working collaboratively to improve the policy framework within which business takes place. Trade agreements, whether multilateral like the WTO or regional like the EAC, typically focus on *de jure* restrictions.

However, the business community sometimes emphasises that laws do not represent the full extent of the barriers they face in building and growing their activities. Particularly in countries with serious capacity constraints, there can be a large gap between laws and regulations on the one hand and widespread practices on the other. This study is not primarily about quantifying this second group of issues, but, in the interests of promoting a wide-ranging dialogue, it is possible to present some data from an alternative source that goes some way towards showing the kinds of difficulties services firms in Kenya and Rwanda encounter beyond purely legal ones. The objective here of presenting these additional data is to complement what is in the STRIs, not to take away from those findings in any way.

The World Bank Enterprise Surveys project has surveyed 131,000 firms in 139 mostly developing and transition countries. It covers services as well as manufacturing. The focus here is on surveys of formal sector firms, as this scenario is of most interest to foreign service providers. Note that additional data are available on informal sector firms.

In addition to collecting standard data on firm activities and performance, the survey has a series of questions that ask senior managers to rate the seriousness of various constraints they face in the general business environment. The constraints are shown to them in a random order. These questions go directly to the heart of the kinds of *de facto* barriers sometimes stressed by the business community. This study therefore reviews the available data for Rwanda and Kenya, based on surveys conducted in 2011 and 2013, respectively. A distinction is made between business constraints identified by domestic firms and those identified by foreign-invested firms (defined as those with at least 50 per cent foreign ownership). The reason for this is to shed light not only on the general constraints that services businesses face in the two countries but also on any differential effects between local firms and foreign entrants (the sales of which are, subject to small differences in statistical treatment, effectively Mode 3 imports).

Figure 5.1 Average responses of Kenyan firms on the seriousness of particular business constraints as an obstacle to current operations, 2013, index (0–4)



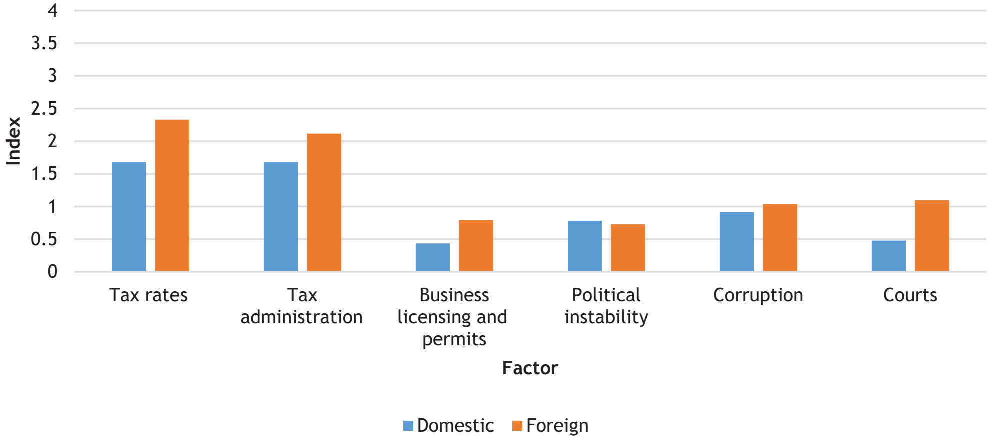
Source: World Bank Enterprise Surveys; authors' calculations. Note: Averages apply sampling weights included in the dataset. Foreign firms are those with at least 50 per cent foreign ownership. Based on the scale in the questionnaire: 0 indicates no obstacle, 1 indicates a minor obstacle, 2 indicates a moderate obstacle, 3 indicates a major obstacle and 4 indicates a very severe obstacle.

The Kenyan Enterprise Survey covers 367 services firms. Figure 5.1 presents results. The most striking feature is that, of the six listed constraints, all are considered minor to moderate obstacles. Interestingly, domestic and foreign-owned firms alike consider the court system to be the most serious constraint to their current operations. This suggests there may indeed be some *de facto* problems in terms of the business environment, in the sense that, although legal obligations may be clear through either regulation or private contract, enforcing them may be more complicated and uncertain.

Comparing results for locally owned and foreign-owned firms is also instructive. Only in the areas of tax administration and the court system do foreign-owned firms report that the relevant factors are more of a business constraint than is the case for local firms; in the other cases, the level of constraint facing foreign-owned firms is noticeably less. In part, this is likely a factor of size, as firms with a significant share of foreign ownership are typically larger than their locally owned counterparts, and thus more able to absorb the costs associated with navigating the business environment. Nonetheless, there is some evidence that foreign-owned service providers have more difficulties with the court system and with tax administration than do local firms, with this rising in the former case to the level of a moderate obstacle to ongoing operations. Again, these findings highlight the complementary importance of *de facto* restrictions on doing business that sit beside the STRI when conducting a full analysis of the environment for foreign service providers within a country. This information is highly complementary, as it suggests that, although Kenyan laws are not overly restrictive by international standards, the position on the ground may be more challenging in some areas for foreign firms.

The Rwandan survey uses a smaller sample than the Kenyan one, by virtue of the country's smaller size. It covers 160 services firms. Figure 5.2 presents results. The first

Figure 5.2 Average responses of Rwandan firms on the seriousness of particular business constraints as an obstacle to current operations, 2011, index (0–4)



Source: World Bank Enterprise Surveys; authors' calculations. Note: Averages apply sampling weights included in the dataset. Foreign firms are those with at least 50 per cent foreign ownership. Based on the scale in the questionnaire: 0 indicates no obstacle, 1 indicates a minor obstacle, 2 indicates a moderate obstacle, 3 indicates a major obstacle and 4 indicates a very severe obstacle.

point that stands out is that tax is more of an issue for Rwandan firms than it is for Kenyan firms, in terms of both rates and the way in which it is administered. In both cases, the obstacle rises in seriousness to the moderate level for foreign firms.

The second point to emerge is that foreign firms in nearly all areas report a higher level of business obstacles than do their locally owned counterparts. Although business licensing and the court system are not major obstacles to business, the difference in perception between locally owned and foreign-owned firms is striking. Having said that, the absolute levels at which obstacles are assessed in all areas other than tax suggest that the business climate in Rwanda is in fact very accommodating, including to foreign-owned service providers. In all cases except the two tax questions, business obstacles are rated lower in Rwanda than in Kenya. This is in keeping with results from the STRI, which suggest a generally supportive policy environment in the services sectors studied, and one that is more liberal than in nearby Kenya.

Taking the results for the two countries together, there are indications that, although the business environment, particularly in Rwanda, is generally supportive of services firms, it is in most cases more difficult for foreign service providers to navigate rules and procedures than it is for locally owned firms. In part, this may reflect information costs, but, if so, there is a role for increased transparency in promoting a shared understanding of rules and procedures among all firms, irrespective of origin. While trade agreements will continue to focus on the types of *de jure* restrictions highlighted in the STRIs, it is important to look at how these policies and regulations interact with the environment on the ground to produce observed outcomes in terms of trade and investment. Policy-makers can leverage both sets of results in a complementary way to support a dialogue with local firms and foreign providers in the interests of creating a level playing field that supports competitiveness, productivity upgrading, structural transformation and increased regional and global integration of services markets.

Chapter 6

Conclusion and Policy Implications

Services are becoming more important to trade and production all over the world. Kenya and Rwanda, particularly the latter, are by no means exceptions to this general pattern. In addition to their presence in direct exports, services are also increasingly embodied in manufactured goods that are in turn exported. Key backbone services like transport, communications, logistics and distribution, and finance are therefore vital for countries looking to compete in world markets.

The findings presented in this publication are based on new data on services trade policy restrictions in Kenya and Rwanda covering commercial banking, distribution and road freight transport. These sectors were chosen because of their economic importance to the two countries, which is reflected in the prominence given to them in policy and strategy documents from the region. These results are a clear testament to the feasibility and policy interest of collecting data on services trade restrictions in developing countries and LDCs.

Data on policies affecting services trade are out of date or not available at all for many Commonwealth countries. As a result, research and policy analysis of services is greatly hampered, and it is more difficult for businesses to assess the regulatory environment overseas as it affects their ability to sell into foreign markets. Given these major knowledge gaps, we have shown that well-established methodologies exist that can help close these gaps.

Developing a competitive services sector is an important part of structural transformation in developing countries, including Kenya and Rwanda. Sectors like the three examined here can be produced and exported directly, but are also used intensively by other sectors, particularly manufacturing. Without competitive services offerings in these key areas, it will be difficult for downstream firms to themselves be productive and win export market share.

To systematically record and quantify policy restrictions affecting the selected services markets, this study has adopted the approach used by the OECD in creation of their STRI. The advantage of using an established methodology is that results are directly comparable with what has already been collected for other countries. In addition, there is an existing, rigorously tested, body of knowledge in relation to weighting and aggregation of individual policies into summary STRIs. By leveraging this knowledge and experience in the present project, it has been possible to focus on the most relevant policies, and thus collect and analyse the necessary data rapidly and at reasonable cost.

Results from the exercise are highly informative. In all three sectors, Kenya and Rwanda have low to moderate levels of policy restrictiveness compared with the other countries for which data are available, and are typically less restrictive in their policy settings than major developing countries. Rwanda stands out as having a relatively liberal policy stance, as it is less restrictive than observed on average across all countries for which data are available in distribution and road freight transport, and only a little more restrictive than average in commercial banking. In commercial banking and distribution, policy settings in both countries are reasonably comparable to what is seen in higher-income South Africa.

Looking more closely at particular types of policies that affect services trade, it is clear that a number of the most important factors that push Kenya's and Rwanda's STRI scores above what is seen in high-income Commonwealth comparators are in fact cross-cutting issues, rather than sector-specific ones. On the positive side, entry by foreign firms is not highly restricted in either country, and common restrictions some other developing countries apply, such as restrictions on repatriation of profits, are absent. Nonetheless, Kenya applies a discretionary test based on economic need, which could have the effect of discriminating against foreign firms; although investments are rarely rejected in practice, the legal capacity to do so reduces business certainty and could still negatively affect services sector investment. For movement of people, both countries apply labour market tests that require, for example, that a company be unable to fill a vacancy locally before it can resort to a foreign service supplier or intra-corporate transferee. Other cross-cutting discriminatory measures include public procurement in both countries, which is designed to favour local firms, and a difference in tax treatment of foreign and local businesses in Kenya. Regulatory transparency is an interesting point of contrast between the two countries: whereas licences for activities like construction are delivered quickly in Rwanda, much longer delays tend to be the norm in Kenya. The latter country could benefit from reducing these delays.

Whereas economists typically suggest that countries flatten and gradually reduce their tariff schedules in goods markets, advice for services markets is much more complex. The reason is that it is regulatory measures, not simple discriminatory taxes, that are an issue. This report has shown that both countries have some restrictive measures. However, before reforms can be undertaken, it is important to arrive at a clear assessment of the costs and benefits of existing regulations relative to feasible alternatives. Such an exercise is not conducted here but, as a result of the data collection and coding process at the core of the STRI, both countries are now better placed to conduct it themselves. As a general proposition, some may see cases of direct discrimination against foreign service providers as justified because they support local industrial development, or small and medium enterprises (SMEs) in particular: this is a traditional argument for protection. It is likely, however, that alternative policies with lower economic costs are available, such as SME-specific improvements in the business and investment environment, or even certain targeted subsidies. This is not to suggest a wholesale repeal of the measures coded in the STRI as restrictive, simply that they be assessed rigorously for the economic costs and benefits, including their effects on international trade.

A key point of comparison for this pilot will be results from the World Bank–WTO STRI update. It is not currently clear when the launch date for results from this project will be, but it will be important to engage with the project team to ensure their data (gathered from law firms via surveys) are comparable with those presented here (collected directly). Also, we understand that that project intends to aggregate results using the OECD and World Bank methodologies, which will provide two different cuts of the data. Broadly speaking, the OECD STRI includes a wider range of policy measures than the World Bank STRI, which focuses more closely on measures that explicitly discriminate against foreign providers. It is important for measurements of services trade restrictiveness to also take account of selected non-discriminatory measures that increase the real resource cost of doing business. But, ultimately, there is an empirical question to be answered as to which approach yields the best results in terms of explaining trade flows and other economic impacts. Comparing the results here with the broader dataset assembled by the World Bank–WTO project will therefore be an important analytical priority in the future.

Moving forward, the intention of this study is to provide a point of departure for engagement with policy-makers and stakeholders in Kenya and Rwanda. A key final step in production of the STRIs is validation by the two governments, which it is hoped will take place during 2018. In addition, this will enable the recording of views expressed by government and firms (local and foreign) in terms of the *de jure* and *de facto* restrictions on services trade in the three sectors under consideration here. Although this study has taken some first steps towards loosening the data constraint in relation to laws and regulations affecting services trade, a matter of vital importance for both countries will be the development of capacity to record disaggregated trade in services data. Empirical researchers, as well as policy-makers and stakeholders, in both countries would benefit greatly from this development.

As members of the EAC, Kenya and Rwanda are both moving forward to liberalise trade not only on an MFN basis but also specifically within the region. The Scorecard process, which tracks progress, is a very positive step for transparency. Although this analysis is based on MFN, not regional, policies, both countries could benefit greatly from redoubling their efforts to reduce or eliminate the barriers to intra-regional services trade identified in the EAC Scorecard.

6.1 Key findings

The key findings from the application of the STRI to commercial banking, distribution services and road freight transport services within the Commonwealth beginning with Kenya and Rwanda can be summarised as follows:

- **Economic contribution of services trade:** Commonwealth member countries rely heavily on services as a source of economic activity, employment and foreign exchange earnings, but data on flows and information on policy barriers remain extremely limited. An absence of clear and transparent information on policy and regulatory frameworks can impede services trade flows and hold back analytical work.
- **Services trade policy barriers:** It is possible to apply best international practice as embodied within the OECD's STRI framework to the developing Commonwealth,

which involves a detailed review process of legal and regulatory frameworks at the sectoral level, as well as consultative processes with governments directly, as opposed to responses received from law firms in country.

- **Trade-related effects:** It is possible to derive estimations for services trade barriers and their level of restrictiveness *vis-à-vis* other OECD members. Applying best practice to the measurement and identification of policy barriers to services trade within the Commonwealth could boost trade and investment, including intra-Commonwealth flows, and help reduce regulatory heterogeneity, which in turn lowers services trade costs.
- **Regulatory heterogeneity:** Kenya's regulatory heterogeneity score in all three sectors is lowest with Rwanda. This finding suggests that substantial harmonisation has taken place between the two countries within the context of the EAC CMP. Overall, Rwanda's average regulatory heterogeneity index scores with Commonwealth partners are lower than Kenya's, which suggests that the component of its services sector trade costs linked to differences in regulatory stance across countries is lower, and correspondingly that it is better able to access foreign markets.

6.2 Recommendations

In terms of recommendations, the following can be formulated based on a review of the evidence in the three sectors under consideration:

1. **Trade statistics:** Develop the capacity to track services trade by partner country and sector. This information is a vital input into any serious analytical work on services trade, and is a necessary precursor to statistical analysis that could support policy change to facilitate trade, and enable analysis of trade effects induced through services trade policy changes.
2. **Expand STRI coverage:** The pilot has clearly established the feasibility and interest of calculating STRIs for developing Commonwealth countries. However, overall, 22 sectors are included within the STRI, ranging from the digital network (computer services, telecommunications, broadcasting, motion pictures, sound recording), transportation and distribution supply chain (air, maritime, road freight and rail freight transportation, courier services, distribution services, cargo-handling, storage and warehouse, freight forwarding, customs brokerage), market bridging and supporting services (legal services, accounting services, commercial banking, insurance), to physical infrastructure services (construction, architecture services, engineering services), for 44 countries covering 80 per cent of global services trade. Expanding the initiative to cover additional sectors and developing Commonwealth members would help improve the quality of economic policy-making, and facilitate trade both within the Commonwealth and the rest of the world.
3. **Use the STRIs as a basis for regulatory audits:** This study has collected a large amount of data on regulatory measures affecting services trade in three sectors.

Considerably more could be collected over time if the study is expanded. An important use of the data is to examine current regulatory measures, and undertake a rigorous cost-benefit assessment of them. The aim should be to develop a regulatory structure that is effective, in the sense that it achieves important social goals, and efficient, in the sense that it does so at minimum economic cost, including disruptions to international trade. Looking at alternative regulatory measures that could achieve the same goals but with lower economic costs is an important part of the process. The OECD's STRI database provides a rich source of practice in other countries that can be drawn on to inspire local reforms.

4. **Regulatory transparency:** Kenya and Rwanda both have the obligation under their own laws to communicate regulations to the public within a reasonable time before entry into force, and have adequate public comment procedures open to interested parties. In addition, licences in relevant subsectors are awarded based on publicly available criteria.

5. **Leverage regional initiatives:** The EAC has a well-established set of priorities in services, which in some cases can also support relaxation of MFN policy measures. The EAC Scorecard is a very positive initiative to promote transparency, so both countries should press forward with reforms aimed at eliminating the barriers identified in the Scorecard. The EAC CMP is also a positive platform for promoting regulatory harmonisation. The data suggest that Kenya and Rwanda could both benefit more from reducing differences in key regulations with their trading partners, including intra-regionally.

6. **Address cross-cutting policies:** Some of the key policy restrictions identified here are cross-cutting in nature, which is not unusual in the developing country context; indeed, compared with other developing countries for which data are available, Kenya and Rwanda do not have overly restrictive cross-cutting measures, as a general rule. Engaging with stakeholders and partners to envisage ways of reducing discrimination against foreign service providers could yield significant economic benefits by facilitating additional investment, people movement and cross-border trade.

7. **Engage with stakeholders to address sector-specific policies:** The analysis here has also highlighted some sector-specific policies that contribute to restrictiveness in the two countries. Reform requires detailed analysis and consultation. But issues like discriminatory tolls for road freight transporters, and public sector involvement in commercial banks and distribution companies, could benefit from further consideration with the aim of ensuring effective and efficient sectoral regulations.

8. **Further incorporate the services dimension into development strategies:** Both countries already recognise the importance of services as an agent of structural change. But in the absence of trade in value added data, the contribution of services to exports in other sectors, particularly manufacturing, is not well understood. It is difficult to compete in world markets without competitive backbone services sectors. Developing this understanding and highlighting the ability of services

to support structural change, income growth and development will be key to moving forward on a broad based agenda to leverage services as one part of the two countries' overall economic strategies. Moving forward on this agenda item would also support future trade policy reforms, and would position the countries more actively in services negotiations in regional and multilateral forums.

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Appendix 1

STRI Scores and Components

Country	Sector	Restriction on foreign entry	Restrictions movement of people	Other discriminatory measures	Barriers to competition	Regulatory transparency	STRI
AUS	Commercial banking	0.098	0.017	0.000	0.010	0.052	0.177
AUT	Commercial banking	0.074	0.034	0.000	0.029	0.083	0.220
BEL	Commercial banking	0.086	0.034	0.026	0.049	0.052	0.247
BRA	Commercial banking	0.209	0.034	0.061	0.088	0.072	0.464
CAN	Commercial banking	0.086	0.011	0.026	0.019	0.041	0.184
CHE	Commercial banking	0.086	0.051	0.026	0.058	0.072	0.294
CHL	Commercial banking	0.074	0.017	0.017	0.049	0.052	0.208
CHN	Commercial banking	0.221	0.017	0.052	0.088	0.031	0.409
COL	Commercial banking	0.098	0.017	0.035	0.088	0.072	0.310
CRI	Commercial banking	0.061	0.023	0.035	0.039	0.072	0.230
CZE	Commercial banking	0.061	0.017	0.009	0.010	0.062	0.159
DEU	Commercial banking	0.049	0.023	0.000	0.039	0.041	0.152
DNK	Commercial banking	0.098	0.028	0.009	0.029	0.010	0.175
ESP	Commercial banking	0.037	0.011	0.026	0.010	0.062	0.146
EST	Commercial banking	0.074	0.045	0.009	0.029	0.031	0.188
FIN	Commercial banking	0.123	0.034	0.009	0.019	0.031	0.216
FRA	Commercial banking	0.061	0.011	0.035	0.049	0.021	0.177
GBR	Commercial banking	0.074	0.034	0.009	0.039	0.021	0.176
GRC	Commercial banking	0.086	0.028	0.044	0.029	0.041	0.228
HUN	Commercial banking	0.111	0.040	0.026	0.019	0.052	0.248
IDN	Commercial banking	0.270	0.034	0.052	0.068	0.052	0.476
IND	Commercial banking	0.270	0.034	0.061	0.049	0.103	0.517
IRL	Commercial banking	0.061	0.034	0.000	0.039	0.010	0.145
ISL	Commercial banking	0.184	0.051	0.044	0.058	0.031	0.368
ISR	Commercial banking	0.074	0.034	0.035	0.039	0.072	0.254

(Continued)

Country	Sector	Restriction on foreign entry	Restrictions movement of people	Other discriminatory measures	Barriers to competition	Regulatory transparency	STRI
ITA	Commercial banking	0.061	0.023	0.017	0.029	0.052	0.182
JPN	Commercial banking	0.061	0.017	0.009	0.088	0.031	0.206
KEN	Commercial banking	0.160	0.034	0.061	0.068	0.052	0.375
KOR	Commercial banking	0.074	0.017	0.017	0.029	0.010	0.148
LTU	Commercial banking	0.098	0.023	0.009	0.019	0.041	0.190
LUX	Commercial banking	0.049	0.017	0.009	0.058	0.062	0.195
LVA	Commercial banking	0.074	0.011	0.009	0.010	0.021	0.124
MEX	Commercial banking	0.184	0.017	0.035	0.049	0.083	0.367
NLD	Commercial banking	0.086	0.034	0.009	0.019	0.031	0.179
NOR	Commercial banking	0.123	0.034	0.035	0.058	0.021	0.271
NZL	Commercial banking	0.098	0.028	0.009	0.010	0.031	0.176
POL	Commercial banking	0.098	0.017	0.009	0.049	0.072	0.245
PRT	Commercial banking	0.086	0.034	0.009	0.049	0.021	0.198
RUS	Commercial banking	0.172	0.045	0.035	0.029	0.031	0.312
RWA	Commercial banking	0.074	0.034	0.035	0.097	0.052	0.292
SVK	Commercial banking	0.111	0.011	0.009	0.019	0.062	0.212
SVN	Commercial banking	0.086	0.028	0.009	0.029	0.010	0.163
SWE	Commercial banking	0.111	0.028	0.009	0.029	0.021	0.197
TUR	Commercial banking	0.086	0.034	0.026	0.039	0.072	0.257
USA	Commercial banking	0.135	0.023	0.035	0.000	0.031	0.224
ZAF	Commercial banking	0.123	0.011	0.052	0.049	0.072	0.308
AUS	Distribution services	0.055	0.014	0.000	0.010	0.036	0.115
AUT	Distribution services	0.055	0.028	0.000	0.030	0.064	0.177
BEL	Distribution services	0.082	0.028	0.024	0.050	0.055	0.239
BRA	Distribution services	0.069	0.028	0.024	0.040	0.055	0.216

(*Continued*)

Country	Sector	Restriction on foreign entry	Restrictions movement of people	Other discriminatory measures	Barriers to competition	Regulatory transparency	STRI
CAN	Distribution services	0.107	0.012	0.051	0.022	0.069	0.260
CHE	Distribution services	0.068	0.043	0.034	0.026	0.049	0.219
CHL	Distribution services	0.027	0.014	0.008	0.000	0.064	0.113
CHN	Distribution services	0.143	0.016	0.027	0.020	0.051	0.258
COL	Distribution services	0.041	0.014	0.024	0.020	0.055	0.154
CRI	Distribution services	0.044	0.019	0.041	0.051	0.055	0.210
CZE	Distribution services	0.027	0.014	0.016	0.030	0.027	0.115
DEU	Distribution services	0.041	0.019	0.008	0.020	0.018	0.106
DNK	Distribution services	0.055	0.023	0.016	0.030	0.018	0.143
ESP	Distribution services	0.041	0.009	0.024	0.020	0.046	0.140
EST	Distribution services	0.055	0.037	0.016	0.010	0.009	0.128
FIN	Distribution services	0.108	0.029	0.026	0.035	0.040	0.238
FRA	Distribution services	0.055	0.009	0.024	0.050	0.036	0.175
GBR	Distribution services	0.041	0.028	0.008	0.020	0.027	0.125
GRC	Distribution services	0.096	0.023	0.032	0.030	0.046	0.227
HUN	Distribution services	0.055	0.033	0.032	0.020	0.036	0.176
IDN	Distribution services	0.398	0.037	0.032	0.080	0.073	0.621
IND	Distribution services	0.233	0.028	0.040	0.070	0.064	0.436
IRL	Distribution services	0.055	0.028	0.000	0.020	0.036	0.140
ISL	Distribution services	0.170	0.043	0.028	0.049	0.060	0.350
ISR	Distribution services	0.055	0.028	0.024	0.000	0.082	0.189
ITA	Distribution services	0.069	0.019	0.016	0.040	0.036	0.180
JPN	Distribution services	0.055	0.014	0.024	0.000	0.027	0.121
KEN	Distribution services	0.041	0.028	0.048	0.050	0.055	0.222
KOR	Distribution services	0.027	0.014	0.008	0.030	0.009	0.089

(*Continued*)

Country	Sector	Restriction on foreign entry	Restrictions movement of people	Other discriminatory measures	Barriers to competition	Regulatory transparency	STRI
LTU	Distribution services	0.055	0.019	0.016	0.010	0.027	0.127
LUX	Distribution services	0.069	0.014	0.016	0.030	0.055	0.184
LVA	Distribution services	0.027	0.009	0.016	0.010	0.027	0.090
MEX	Distribution services	0.069	0.014	0.024	0.030	0.055	0.192
NLD	Distribution services	0.027	0.028	0.008	0.040	0.046	0.149
NOR	Distribution services	0.081	0.029	0.026	0.045	0.057	0.239
NZL	Distribution services	0.055	0.023	0.000	0.010	0.055	0.143
POL	Distribution services	0.055	0.014	0.008	0.030	0.036	0.144
PRT	Distribution services	0.041	0.028	0.024	0.050	0.046	0.189
RUS	Distribution services	0.069	0.037	0.032	0.030	0.055	0.223
RWA	Distribution services	0.027	0.028	0.024	0.020	0.046	0.145
SVK	Distribution services	0.055	0.009	0.016	0.010	0.027	0.118
SVN	Distribution services	0.041	0.023	0.008	0.020	0.036	0.129
SWE	Distribution services	0.095	0.025	0.018	0.035	0.040	0.212
TUR	Distribution services	0.041	0.028	0.024	0.020	0.055	0.168
USA	Distribution services	0.041	0.019	0.048	0.020	0.027	0.156
ZAF	Distribution services	0.041	0.009	0.032	0.030	0.064	0.177
AUS	Road freight transport	0.089	0.038	0.000	0.000	0.009	0.136
AUT	Road freight transport	0.111	0.057	0.000	0.051	0.022	0.241
BEL	Road freight transport	0.111	0.057	0.032	0.038	0.019	0.256
BRA	Road freight transport	0.111	0.057	0.032	0.000	0.019	0.218
CAN	Road freight transport	0.066	0.028	0.047	0.000	0.009	0.152
CHE	Road freight transport	0.089	0.095	0.032	0.013	0.016	0.244
CHL	Road freight transport	0.044	0.038	0.016	0.013	0.016	0.127
CHN	Road freight transport	0.133	0.028	0.047	0.013	0.016	0.237

(Continued)

Country	Sector	Restriction on foreign entry	Restrictions movement of people	Other discriminatory measures	Barriers to competition	Regulatory transparency	STRI
COL	Road freight transport	0.089	0.038	0.032	0.013	0.022	0.193
CRI	Road freight transport	0.266	0.038	0.032	0.038	0.028	0.402
CZE	Road freight transport	0.066	0.038	0.016	0.038	0.016	0.174
DEU	Road freight transport	0.089	0.047	0.000	0.038	0.013	0.187
DNK	Road freight transport	0.111	0.057	0.016	0.038	0.003	0.225
ESP	Road freight transport	0.089	0.019	0.032	0.038	0.019	0.196
EST	Road freight transport	0.111	0.076	0.016	0.038	0.006	0.247
FIN	Road freight transport	0.155	0.066	0.016	0.038	0.009	0.285
FRA	Road freight transport	0.089	0.038	0.032	0.051	0.009	0.218
GBR	Road freight transport	0.089	0.066	0.016	0.025	0.013	0.209
GRC	Road freight transport	0.111	0.047	0.032	0.025	0.013	0.228
HUN	Road freight transport	0.089	0.076	0.032	0.038	0.016	0.250
IDN	Road freight transport	0.244	0.066	0.047	0.025	0.016	0.399
IND	Road freight transport	0.133	0.066	0.047	0.013	0.025	0.285
IRL	Road freight transport	0.089	0.076	0.000	0.025	0.006	0.196
ISL	Road freight transport	0.244	0.095	0.032	0.038	0.009	0.418
ISR	Road freight transport	0.089	0.066	0.016	0.000	0.025	0.196
ITA	Road freight transport	0.133	0.038	0.032	0.038	0.016	0.256
JPN	Road freight transport	0.066	0.028	0.032	0.013	0.009	0.149
KEN	Road freight transport	0.089	0.057	0.079	0.025	0.016	0.266
KOR	Road freight transport	0.022	0.038	0.032	0.013	0.003	0.108
LTU	Road freight transport	0.089	0.038	0.016	0.038	0.013	0.193
LUX	Road freight transport	0.066	0.038	0.016	0.038	0.019	0.177
LVA	Road freight transport	0.066	0.028	0.016	0.038	0.003	0.152
MEX	Road freight transport	0.465	0.066	0.063	0.013	0.022	0.630

(*Continued*)

Country	Sector	Restriction on foreign entry	Restrictions movement of people	Other discriminatory measures	Barriers to competition	Regulatory transparency	STRI
NLD	Road freight transport	0.044	0.066	0.032	0.013	0.013	0.168
NOR	Road freight transport	0.133	0.066	0.047	0.051	0.009	0.307
NZL	Road freight transport	0.089	0.057	0.000	0.000	0.009	0.155
POL	Road freight transport	0.089	0.028	0.016	0.051	0.016	0.199
PRT	Road freight transport	0.066	0.066	0.016	0.038	0.006	0.193
RUS	Road freight transport	0.111	0.085	0.047	0.013	0.016	0.272
RWA	Road freight transport	0.066	0.066	0.063	0.013	0.013	0.222
SVK	Road freight transport	0.111	0.028	0.016	0.038	0.016	0.209
SVN	Road freight transport	0.089	0.057	0.016	0.038	0.006	0.206
SWE	Road freight transport	0.133	0.057	0.016	0.038	0.009	0.253
TUR	Road freight transport	0.089	0.057	0.047	0.038	0.019	0.250
USA	Road freight transport	0.022	0.038	0.063	0.038	0.013	0.174
ZAF	Road freight transport	0.066	0.019	0.032	0.000	0.019	0.136

Source: OECD, based in part on data provided by the authors.

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Appendix 4

Regulatory Heterogeneity Scores by Partner and by Sector, for Kenya and Rwanda

Reporter	Partner	Sector	Regulatory heterogeneity
KEN	AUS	Distribution	0.260
KEN	AUT	Distribution	0.253
KEN	BEL	Distribution	0.336
KEN	BRA	Distribution	0.294
KEN	CAN	Distribution	0.252
KEN	CHE	Distribution	0.239
KEN	CHL	Distribution	0.244
KEN	CHN	Distribution	0.292
KEN	COL	Distribution	0.252
KEN	CRI	Distribution	0.235
KEN	CZE	Distribution	0.269
KEN	DEU	Distribution	0.238
KEN	DNK	Distribution	0.255
KEN	ESP	Distribution	0.243
KEN	EST	Distribution	0.285
KEN	FIN	Distribution	0.312
KEN	FRA	Distribution	0.299
KEN	GBR	Distribution	0.240
KEN	GRC	Distribution	0.288
KEN	HUN	Distribution	0.274
KEN	IDN	Distribution	0.370
KEN	IND	Distribution	0.466
KEN	IRL	Distribution	0.285
KEN	ISL	Distribution	0.351
KEN	ISR	Distribution	0.250
KEN	ITA	Distribution	0.309
KEN	JPN	Distribution	0.288
KEN	KOR	Distribution	0.284
KEN	LTU	Distribution	0.283
KEN	LUX	Distribution	0.338
KEN	LVA	Distribution	0.260
KEN	MEX	Distribution	0.165
KEN	NLD	Distribution	0.226
KEN	NOR	Distribution	0.294
KEN	NZL	Distribution	0.230
KEN	POL	Distribution	0.284
KEN	PRT	Distribution	0.323

(*Continued*)

Reporter	Partner	Sector	Regulatory heterogeneity
KEN	RUS	Distribution	0.296
KEN	RWA	Distribution	0.186
KEN	SVK	Distribution	0.288
KEN	SVN	Distribution	0.243
KEN	SWE	Distribution	0.367
KEN	TUR	Distribution	0.210
KEN	USA	Distribution	0.280
KEN	ZAF	Distribution	0.287
RWA	AUS	Distribution	0.174
RWA	AUT	Distribution	0.216
RWA	BEL	Distribution	0.243
RWA	BRA	Distribution	0.274
RWA	CAN	Distribution	0.199
RWA	CHE	Distribution	0.181
RWA	CHL	Distribution	0.177
RWA	CHN	Distribution	0.254
RWA	COL	Distribution	0.177
RWA	CRI	Distribution	0.227
RWA	CZE	Distribution	0.202
RWA	DEU	Distribution	0.219
RWA	DNK	Distribution	0.198
RWA	ESP	Distribution	0.148
RWA	EST	Distribution	0.197
RWA	FIN	Distribution	0.271
RWA	FRA	Distribution	0.261
RWA	GBR	Distribution	0.211
RWA	GRC	Distribution	0.222
RWA	HUN	Distribution	0.208
RWA	IDN	Distribution	0.368
RWA	IND	Distribution	0.409
RWA	IRL	Distribution	0.172
RWA	ISL	Distribution	0.293
RWA	ISR	Distribution	0.174
RWA	ITA	Distribution	0.240
RWA	JPN	Distribution	0.227
RWA	KEN	Distribution	0.186
RWA	KOR	Distribution	0.180
RWA	LTU	Distribution	0.206
RWA	LUX	Distribution	0.272
RWA	LVA	Distribution	0.183
RWA	MEX	Distribution	0.208
RWA	NLD	Distribution	0.209
RWA	NOR	Distribution	0.209
RWA	NZL	Distribution	0.173
RWA	POL	Distribution	0.218
RWA	PRT	Distribution	0.248
RWA	RUS	Distribution	0.235
RWA	SVK	Distribution	0.192

(*Continued*)

Reporter	Partner	Sector	Regulatory heterogeneity
RWA	SVN	Distribution	0.194
RWA	SWE	Distribution	0.225
RWA	TUR	Distribution	0.172
RWA	USA	Distribution	0.220
RWA	ZAF	Distribution	0.221
KEN	AUS	Commercial banking	0.387
KEN	AUT	Commercial banking	0.396
KEN	BEL	Commercial banking	0.356
KEN	BRA	Commercial banking	0.354
KEN	CAN	Commercial banking	0.347
KEN	CHE	Commercial banking	0.385
KEN	CHL	Commercial banking	0.398
KEN	CHN	Commercial banking	0.372
KEN	COL	Commercial banking	0.390
KEN	CRI	Commercial banking	0.369
KEN	CZE	Commercial banking	0.354
KEN	DEU	Commercial banking	0.444
KEN	DNK	Commercial banking	0.359
KEN	ESP	Commercial banking	0.397
KEN	EST	Commercial banking	0.449
KEN	FIN	Commercial banking	0.338
KEN	FRA	Commercial banking	0.389
KEN	GBR	Commercial banking	0.359
KEN	GRC	Commercial banking	0.379
KEN	HUN	Commercial banking	0.337
KEN	IDN	Commercial banking	0.452
KEN	IND	Commercial banking	0.422
KEN	IRL	Commercial banking	0.393
KEN	ISL	Commercial banking	0.357
KEN	ISR	Commercial banking	0.331
KEN	ITA	Commercial banking	0.431
KEN	JPN	Commercial banking	0.385
KEN	KOR	Commercial banking	0.355
KEN	LTU	Commercial banking	0.352
KEN	LUX	Commercial banking	0.471
KEN	LVA	Commercial banking	0.382
KEN	MEX	Commercial banking	0.323
KEN	NLD	Commercial banking	0.371
KEN	NOR	Commercial banking	0.375
KEN	NZL	Commercial banking	0.322
KEN	POL	Commercial banking	0.397
KEN	PRT	Commercial banking	0.416
KEN	RUS	Commercial banking	0.395
KEN	RWA	Commercial banking	0.296
KEN	SVK	Commercial banking	0.380
KEN	SVN	Commercial banking	0.327
KEN	SWE	Commercial banking	0.445
KEN	TUR	Commercial banking	0.303

(*Continued*)

Reporter	Partner	Sector	Regulatory heterogeneity
KEN	USA	Commercial banking	0.339
KEN	ZAF	Commercial banking	0.339
RWA	AUS	Commercial banking	0.325
RWA	AUT	Commercial banking	0.326
RWA	BEL	Commercial banking	0.284
RWA	BRA	Commercial banking	0.432
RWA	CAN	Commercial banking	0.299
RWA	CHE	Commercial banking	0.361
RWA	CHL	Commercial banking	0.317
RWA	CHN	Commercial banking	0.397
RWA	COL	Commercial banking	0.312
RWA	CRI	Commercial banking	0.301
RWA	CZE	Commercial banking	0.272
RWA	DEU	Commercial banking	0.388
RWA	DNK	Commercial banking	0.289
RWA	ESP	Commercial banking	0.273
RWA	EST	Commercial banking	0.344
RWA	FIN	Commercial banking	0.349
RWA	FRA	Commercial banking	0.358
RWA	GBR	Commercial banking	0.312
RWA	GRC	Commercial banking	0.319
RWA	HUN	Commercial banking	0.281
RWA	IDN	Commercial banking	0.423
RWA	IND	Commercial banking	0.409
RWA	IRL	Commercial banking	0.268
RWA	ISL	Commercial banking	0.346
RWA	ISR	Commercial banking	0.323
RWA	ITA	Commercial banking	0.336
RWA	JPN	Commercial banking	0.304
RWA	KEN	Commercial banking	0.296
RWA	KOR	Commercial banking	0.215
RWA	LTU	Commercial banking	0.272
RWA	LUX	Commercial banking	0.328
RWA	LVA	Commercial banking	0.302
RWA	MEX	Commercial banking	0.348
RWA	NLD	Commercial banking	0.283
RWA	NOR	Commercial banking	0.305
RWA	NZL	Commercial banking	0.278
RWA	POL	Commercial banking	0.354
RWA	PRT	Commercial banking	0.323
RWA	RUS	Commercial banking	0.347
RWA	SVK	Commercial banking	0.327
RWA	SVN	Commercial banking	0.299
RWA	SWE	Commercial banking	0.279
RWA	TUR	Commercial banking	0.283
RWA	USA	Commercial banking	0.353
RWA	ZAF	Commercial banking	0.385
KEN	AUS	Road freight transport	0.247

(*Continued*)

Reporter	Partner	Sector	Regulatory heterogeneity
KEN	AUT	Road freight transport	0.320
KEN	BEL	Road freight transport	0.354
KEN	BRA	Road freight transport	0.272
KEN	CAN	Road freight transport	0.247
KEN	CHE	Road freight transport	0.278
KEN	CHL	Road freight transport	0.278
KEN	CHN	Road freight transport	0.288
KEN	COL	Road freight transport	0.320
KEN	CRI	Road freight transport	0.244
KEN	CZE	Road freight transport	0.367
KEN	DEU	Road freight transport	0.354
KEN	DNK	Road freight transport	0.345
KEN	ESP	Road freight transport	0.351
KEN	EST	Road freight transport	0.351
KEN	FIN	Road freight transport	0.367
KEN	FRA	Road freight transport	0.348
KEN	GBR	Road freight transport	0.367
KEN	GRC	Road freight transport	0.297
KEN	HUN	Road freight transport	0.342
KEN	IDN	Road freight transport	0.288
KEN	IND	Road freight transport	0.342
KEN	IRL	Road freight transport	0.408
KEN	ISL	Road freight transport	0.348
KEN	ISR	Road freight transport	0.215
KEN	ITA	Road freight transport	0.351
KEN	JPN	Road freight transport	0.297
KEN	KOR	Road freight transport	0.272
KEN	LTU	Road freight transport	0.335
KEN	LUX	Road freight transport	0.373
KEN	LVA	Road freight transport	0.335
KEN	MEX	Road freight transport	0.174
KEN	NLD	Road freight transport	0.275
KEN	NOR	Road freight transport	0.415
KEN	NZL	Road freight transport	0.247
KEN	POL	Road freight transport	0.351
KEN	PRT	Road freight transport	0.405
KEN	RUS	Road freight transport	0.247
KEN	RWA	Road freight transport	0.215
KEN	SVK	Road freight transport	0.345
KEN	SVN	Road freight transport	0.313
KEN	SWE	Road freight transport	0.453
KEN	TUR	Road freight transport	0.184
KEN	USA	Road freight transport	0.256
KEN	ZAF	Road freight transport	0.259
RWA	AUS	Road freight transport	0.241
RWA	AUT	Road freight transport	0.329
RWA	BEL	Road freight transport	0.297
RWA	BRA	Road freight transport	0.247

(*Continued*)

Reporter	Partner	Sector	Regulatory heterogeneity
RWA	CAN	Road freight transport	0.196
RWA	CHE	Road freight transport	0.244
RWA	CHL	Road freight transport	0.206
RWA	CHN	Road freight transport	0.256
RWA	COL	Road freight transport	0.228
RWA	CRI	Road freight transport	0.250
RWA	CZE	Road freight transport	0.275
RWA	DEU	Road freight transport	0.326
RWA	DNK	Road freight transport	0.272
RWA	ESP	Road freight transport	0.237
RWA	EST	Road freight transport	0.282
RWA	FIN	Road freight transport	0.373
RWA	FRA	Road freight transport	0.332
RWA	GBR	Road freight transport	0.320
RWA	GRC	Road freight transport	0.209
RWA	HUN	Road freight transport	0.269
RWA	IDN	Road freight transport	0.180
RWA	IND	Road freight transport	0.212
RWA	IRL	Road freight transport	0.259
RWA	ISL	Road freight transport	0.383
RWA	ISR	Road freight transport	0.228
RWA	ITA	Road freight transport	0.288
RWA	JPN	Road freight transport	0.269
RWA	KEN	Road freight transport	0.215
RWA	KOR	Road freight transport	0.165
RWA	LTU	Road freight transport	0.297
RWA	LUX	Road freight transport	0.278
RWA	LVA	Road freight transport	0.259
RWA	MEX	Road freight transport	0.136
RWA	NLD	Road freight transport	0.222
RWA	NOR	Road freight transport	0.266
RWA	NZL	Road freight transport	0.234
RWA	POL	Road freight transport	0.278
RWA	PRT	Road freight transport	0.304
RWA	RUS	Road freight transport	0.218
RWA	SVK	Road freight transport	0.278
RWA	SVN	Road freight transport	0.282
RWA	SWE	Road freight transport	0.301
RWA	TUR	Road freight transport	0.237
RWA	USA	Road freight transport	0.253
RWA	ZAF	Road freight transport	0.247

Source: OECD, based in part on data supplied by the authors.