Harnessing Regional Integration for Trade and Growth in Southern Africa

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Abbreviations and Acronyms

AAHEFA	African Higher Education Financing Agencies
APC	Australian Productivity Commission
ASEAN	Association of Southeast Asian Nations
CEPEJ	European Commission for the Efficiency of Justice
CESA	Consulting Engineers South Africa
CET	Common External Tariff
COMESA	Common Market for Eastern and Southern Africa
EAC	East African Community
ECSAFA	Eastern Central and Southern Africa Federation of Accountants
EPA	Economic Partnership Agreement
FDI	Foreign Direct Investment
FRSSE	Financial Reporting Standard for Smaller Enterprises
FTA	Free Trade Area
GDP	Gross Domestic Product
GEP	Global Economic Prospects
GTAP	Global Trade Analysis Project
GVM	Gross Vehicle Mass
ICA	Investment Client Assessment
IFRS	International Financial Reporting Standards
IIT	Intra-industry trade
IRCC	Import Rebate Credit Certificate
IRR	Internal Rate of Return
LRA	Lesotho Revenue Authority
LPI	Logistics Performance Index
MFN	Most-Favored Nation
NAFTA	North American Free Trade Agreement
NTB	Non-tariff barrier
NRCS	National Regulator of Compulsory Specifications
NTM	Non-tariff measure
OECD	Organization for Economic Cooperation and Development
OSBP	One-Stop Border Post
PPP	Purchasing Power Parity
RIA	Regulatory Impact Assessment
RISDP	Regional Indicative Strategic Development Plan
RTA	Regional trade agreement
RTFP	Regional Trade Facilitation Project
ROO	Rule of Origin
SABS	South African Bureau of Standards
SACU	Southern African Customs Union
SAE	Society of Automotive Engineers
SADC	Southern African Development Community
SADCA	Southern African Development Community Accreditation
SADCMEL	SADC Cooperation in Legal Metrology
SADCMET	SADC Cooperation in Measurement and Traceability
SADCSTAN	SADC Cooperation in Standardization
SAICA	South African Institute of Chartered Accountants

SARS	South African Revenue Service
SARUA	Southern African Regional Universities Association
SMEs	Small and Medium Enterprises
SSA	Sub-Saharan Africa
SSE	Service Supply Employee
SITC	Standard International Trade Classification
SPS	Sanitary and Phytosanitary Standards
SQAM	Standardization, Quality Assurance, Accreditation and Metrology
TBT	Technical Barriers to Trade
TMCM	Trade Monitoring and Compliance Mechanism
UNCTAD	United Nations Conference On Trade and Development
UNIDO	United Nations Industrial Development Organization
VAT	Value Added Tax
VoIP	Voice over internet protocol
WB	World Bank
WEF	World Economic Forum
WITS	World Integrated Trade Solution
WDI	World Development Indicators
WTO	World Trade Organisation
ZIALE	Zambia Institute of Advanced Legal Education

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Chapter 1: Harnessing Regional Integration for Trade and Growth in Southern Africa

I. Introduction

1. **The objective of this report is to provide practical policy recommendations for making regional trade integration in Southern Africa work.** The premise is that regional integration is an important instrument to unleash the economic potential of the region. Adopting a pragmatic approach, the report examines key trends and challenges in Southern African regional trade agreements. Based on a body of new research it provides a wealth of examples on the obstacles encountered by some of the largest firms that trade regionally (e.g. Shoprite, Woolworths), as well as small ones for which the impact of trade barriers is more severe. It also includes survey-based evidence from services providers on the regulatory barriers that they face.

2. **Southern Africa is a highly diverse region with rich assets but also faces common challenges.** The region includes Africa's most advanced country – South Africa – which already has significant manufacturing and services industries as well as superior logistics. And there are the smaller countries, many of which have untapped agricultural potential and natural resources (minerals and water, including for power generation), often with endowments of capable labor that is trained, relatively inexpensive and well-positioned to compete globally. Nevertheless, Southern African countries also face common problems. They often have high rates of unemployment and poverty, particularly among the low-skilled; large informal sectors; and, despite being trade-dependent, need to diversify away from reliance on just a handful of primary commodities to higher value-added manufactures and services. The region is also comprised of a large number of small states, some of which are landlocked. Of the fifteen SADC-member countries, more than half have populations of less than 15 million (see Table 1). On a global scale, the region presents a multitude of mini-markets whose aggregation is complicated by policy and infrastructural barriers. Efficient roads and railways, ports, power networks and even universities are major factors and catalysts when it comes to regional economic integration and these are sometimes lacking in Southern Africa. The region is also geographically remote from the major consumer markets of Europe, America and Japan. It is also far away from China, India, Indonesia and Brazil, the major markets of tomorrow. But the distance from foreign markets is also a comparative advantage for deeper trade integration within the region itself.

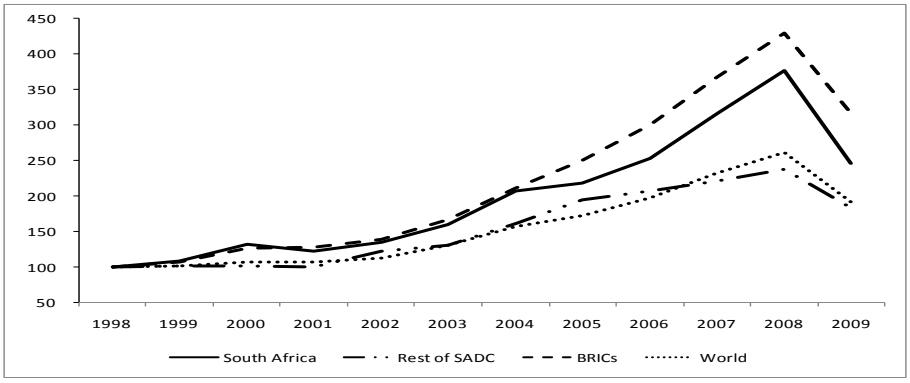
Table 1: Basic economic indicators for Southern Africa, 2009

	GDP (US$ millions)	Population (millions)	GDP per capita (US$)	Average annual growth in GDP per capita 2000-09 (%)	Exports of goods & services (% of GDP)
Angola	75,493	18.5	4,081	7.7	52.2
Botswana	11,823	1.9	6,064	2.7	33.6
D.R. Congo	10,575	66.0	160	0.4	9.6
Lesotho	1,579	2.1	764	2.2	51.2
Madagascar	9,052	19.6	461	0.8	28.2
Malawi	4,975	15.3	326	1.2	20.1
Mauritius	8,589	1.3	6,735	3.3	48.4
Mozambique	9,790	22.9	428	4.6	25.1
Namibia	9,265	2.2	4,267	2.4	46.6
Seychelles	764	0.09	8,688	0.2	119.3
South Africa	285,366	49.3	5,786	2.2	27.3
Swaziland	3,001	1.2	2,533	2.0	59.8
Tanzania	21,623	43.7	509	3.6	n.a.
Zambia	12,748	12.9	986	2.7	29.8
Zimbabwe	n.a.	12.5	n.a.	-5.7	n.a.

Source: World Bank Development Indicators.

3. **The region has been growing and transforming.** From 2000 to 2008, Southern African countries grew rapidly and at much higher rates that the world average, infusing the region with a new commercial vibrancy. Growth was fueled, in part, by the commodity boom which led to very high increases in export values, especially for South African minerals, to new fast-growing markets such as India and China (see Figure 1). Growth also came from other sources. Telecoms, banking and retail flourished. Construction thrived and FDI surged. And for the smaller SACU countries, large increases in revenue transfers were derived on the back of significant increases in a few highly-taxed South African imports (especially motor vehicles and garments). Global markets were, and remain, the primary driver of the region's growth.

Figure 1: South African exports have grown much faster than the world average
Index of non-fuel export growth (1998-2009)



Source: UN Comtrade; data based on SITC Rev 2 (index 1998=100).

4. **The key issue for the region is how to transform its rich diversity into increased competitiveness and employment for all countries.** Under-utilization of Southern Africa's production factors means that there are opportunities for tomorrow. South Africa has the logistics, expertise and the capital to compete globally but these factors need to be combined with cost-effective endowments of labor and natural resources located in the smaller countries. If all countries were to open up to the region, exploiting these advantages collectively would encourage vertical specialization and the emergence of regional value chains thereby creating employment and promoting export diversification.

II. Realizing the vision: what are the barriers to effective trade integration and how much do they cost?

5. **There are many opportunities for Southern African firms to increase trade across regional borders that currently remain unexploited due to high trade costs.** Harnessing regional integration more effectively for both goods and services would reduce trade and operating costs and help all Southern African countries enhance their competitiveness in the world market. By removing trade barriers the market size for any country in the region would be increased allowing the realization of scale economies. And the diversity of the region could be better exploited thereby improving the competitiveness of goods and services on world markets.

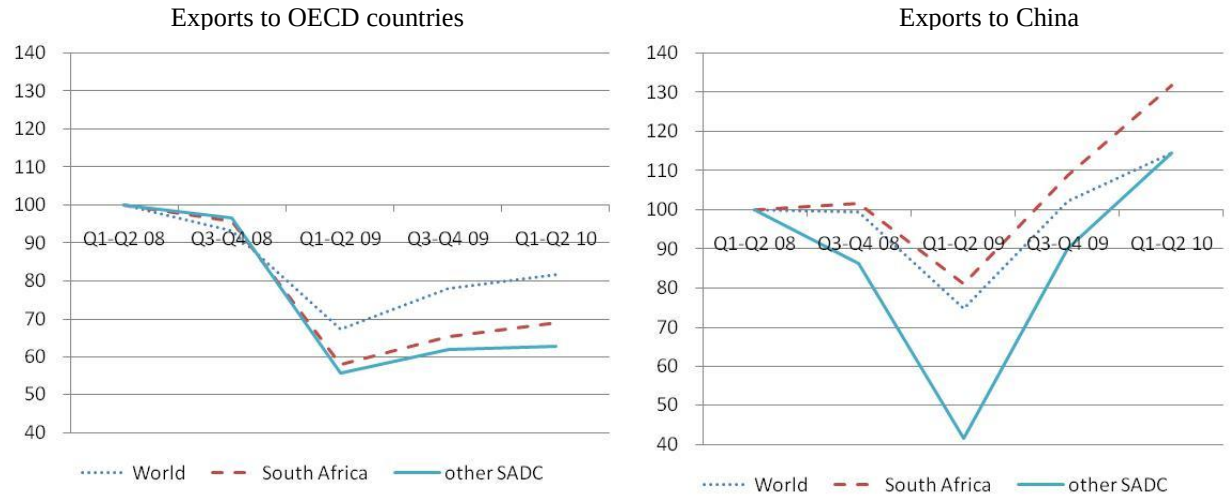
6. **For South Africa, regional integration offers the opportunity to enhance its exports on world markets through the development of more advanced and integrated production networks within the region.** This will be essential to compete at the global level, where competitors are already far ahead in availing themselves of such opportunities. The large economies of Northeast Asia – China, Japan, South Korea – are at the forefront of using regional trade to pursue their respective regional and global trade strategies. Moving aggressively and strategically on this agenda will enable mushrooming of new production and export opportunities for South Africa as well as scaling up existing ones, with commensurate benefits in terms of job creation. The smaller countries with their ample supplies of inexpensive labor could take up the more labor-intensive niches in the production chain, for example in processing agricultural and mineral products and simple light manufactures, and allow the more human capital-intensive production to be established in South Africa.

7. **For the smaller countries, deeper regional integration offers the prospect of improved access to neighboring markets as well as the potential to attract greater SADC-orientated FDI.** In some of these countries, effective exploitation of the regional market is critical to reduce reliance on exports of a single product to a single market. For example, Lesotho has become the largest exporter of clothing under AGOA on the back of Taiwanese investments lured there by tariff preferences in the US market with simple rules of origin and easy access to South Africa's superior transport infrastructure. Yet despite showing some success in the highly competitive international market for these products, Lesotho's clothing exports to the region are negligible. Following the financial crisis, demand for Southern African manufactured exports from traditional OECD markets remains slow to recover. Regional trade could therefore be an important source of Southern African trade growth until demand

from the rest of the global economy rebounds, particularly in products where increased trade with China is not filling the gap (see Figure 2).

Figure 2: Southern Africa exports to traditional OECD markets have experienced sharp declines as a result of the financial crisis and the recovery is now largely based on increased trade in primary commodities with China

Index of export growth (Q1-2 2008 through Q1-2 2010)



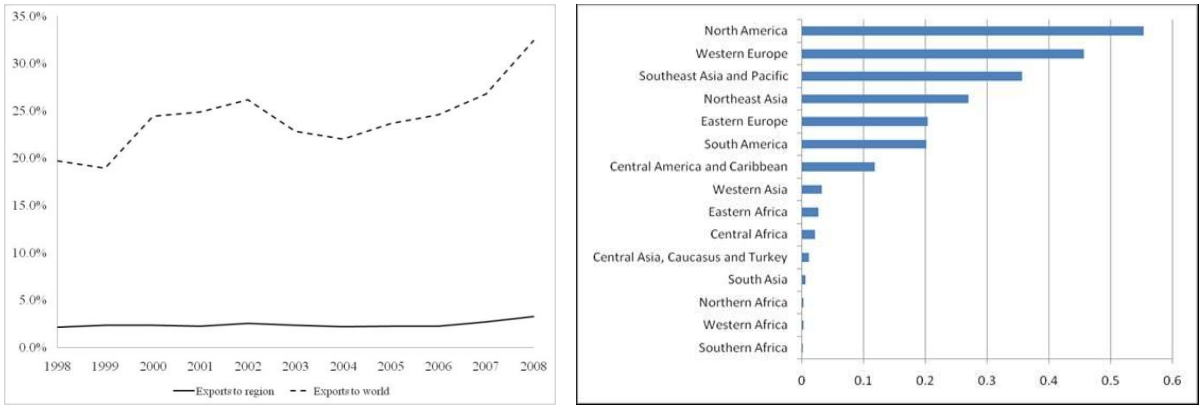
Source: ITC TradeMap.

8. **Implementing this vision is already part of the Southern African regional trade policy agenda but it remains to be realized.** Most of Southern Africa's export growth has failed to create significant employment and has not come from increased regional trade. Compared to other regions, Southern Africa is lagging behind: in Europe regional trade has reached 60 percent of total trade; in North America, 40 percent; in ASEAN, 30 percent; and, in Southern Africa just 10 percent. While Southern African countries have succeeded in increasing their trade with the rest of the world (more than tripling between 2000 and 2008 from US$50 billion to US$153 billion), increased regional trade has therefore only played a relatively small role in this. For example, SADC's exports to the world as a proportion of its GDP have increased from 20 percent to over 30 percent during the last decade, but the share of its exports to the region have grown much more slowly and account for just 3 percent of regional GDP (see Figure 3). Unlike in Asia, where advanced production networks have deepened regionally and underpinned its spectacular global export growth from a poor, underdeveloped agricultural backwater to becoming the global factory over a 50 year period, "factory Southern Africa" has yet to materialize. In the case of Asia, multinationals have been instrumental in the construction of global production chains multi-located in the region. In Southern Africa, by contrast, multinationals have tended to be mono-located production centers with distribution networks in the region. In the 1960s, developing Asian economies lacked natural resources and had high levels of poverty. There seemed to be little prospect of economic advancement. However, Asian economies had ample supplies of inexpensive, productive manpower, not unlike the poorer Southern African countries today. They were also close to an expanding high-income Japan, with firms seeking to expand to lower cost destinations, much like South Africa. Subsequently, intra-regional trade in Asia increased significantly, particularly in the production of parts and components

with each process relocating to the most cost-effective destination in the region. But in Southern Africa production processes have not been broken down into smaller processes due to the persistence of trade barriers which raise trade costs and create uncertainty. And in those few cases where integrated production networks have appeared, they have been stifled by restrictive policies.

Figure 3: Increased regional trade, especially intra-industry trade, could play a stronger role in Southern African export growth

SADC exports as a percentage of GDP *Intra-industry trade by region (Grubel-Lloyd index, 2008)* [1]



Sources: IMF Direction of Trade Statistics; IMF World Economic Outlook Database; and, Brulhart, 2008.

9. **Policy barriers must be removed to tap the opportunities for Southern African firms to increase trade across regional borders.** The world is changing and the ingredients for successful regional integration and global competitiveness in 2011 are not the same as those that were assumed to be indispensable three decades ago. Whereas customs unions and the creation of a common external tariff were once seen as the leading tools for integration, today the process is more likely to be influenced by easy access to quality input services at low cost; efficient regulations in areas such as product standards and rules of origin; the removal of non-tariff barriers to trade; and, streamlined border management. The formula and toolbox for effective regional integration have therefore changed. At the global level, falling trade barriers and logistical costs, technological progress and the continuous decentralization of production networks to the most cost-effective locations will make it ever more difficult for Southern African countries to remain competitive without an outward reorientation of their regional trade policy.

10. **For goods trade, tariffs have been lowered but significant barriers remain that must now be urgently addressed.** While regional integration efforts have made significant progress in lowering tariff barriers (e.g. 85% of intra-SADC trade is now duty free; 98% in SACU) other barriers to trade persist.

[1] Intra-industry trade can be measured using Grubel-Lloyd indices. The Grubel-Lloyd index for each country is calculated as: $GL_i = \frac{[(X_i + M_i) - |X_i - M_i|]}{(X_i + M_i)}$ where i is an industry with exports X_i and imports M_i. For each product the index is then weighted by the share of each country's exports of the product to the region in total exports to the region $\frac{X_i}{X_{tot}}$ (so all weights sum to unity) and then averaged across all products. The Grubel–Lloyd index varies between zero (indicating no intra-industry trade) and one (indicating full intra-industry trade).

These barriers can be broadly grouped into five types and relate to: inefficiencies in transport, border management and logistics; cumbersome fiscal arrangements; restrictive rules of origin; poorly designed technical regulations and standards; and, other non-tariff barriers (NTBs) such as import bans, permits and licensing. These barriers are widespread. NTBs reported by firms in SADC countries affect products that account for one-fifth of regional trade (US$3.3 billion in 2008) – see Table 2. This ignores the impacts of barriers that prohibit trade altogether, constraints that go unreported as well as costs related to inefficiencies in transport, logistics and customs which affect all goods trade. These remaining barriers undermine the predictability of the trade regime and reduce investment in the region.

Table 2: NTBs that have been notified to SADC

Barrier	**Examples of products affected**	**Intra-SADC trade potentially affected (% of total)**
Import bans, quotas & levies	Wheat, poultry, flour, meat, maize, UHT milk, sugar	6.1%
Preferences denied	Salt, fishmeal, pasta	0.4%
Import permits & levies	UHT milk, bread, eggs, sugar, cooking oils, maize, oysters	5.4%
Single marketing channels	Wheat, meat, dairy, maize, tea, tobacco	5.3%
Rules of origin	Textiles & clothing; palm oil; soap; cake decorations; curry powder; wheat flour	3.0%
Export taxes	Dried beans, sheep, wood	4.8%

Sources: Calculations based on complaints made by SADC countries to NTB Monitoring mechanism and UN Comtrade.

11. **The costs associated with these barriers are high, impeding competitiveness and limit opportunities for regional sourcing.** In Southern Africa, borders remain thick and logistical infrastructures, both physical and regulatory, remain weak and underdeveloped. In order to enter new markets, or start exporting new goods and services to existing ones, Southern African firms must overcome trade transactions costs and the higher these are, the less likely it is that firms will be able to export. Unnecessary barriers to trade also shield domestic producers and consumers from import competition and reduce the competitiveness of firms that use inputs subject to trade restrictions in both regional and global markets alike. For example, Shoprite reports that each day one of its trucks is delayed at a border costs US$500. And delays at the Durban Port cost the South African citrus industry US$10.5 million per season (on approximately US$400 million of exports). Differences in VAT systems applied on intra-SACU trade necessitate controls at the borders and cost up to 2 percent of the value of each transaction. Red tape associated with securing regional tariff preferences cost firms up to one-half of the value of duty preferences. Shoprite spends US$6 million per year administering overly complex certificates of origin to secure US$14 million in duty savings under SADC. Woolworths does not use preferences at all. Shoprite also spends US$20,000 per week on import permits to distribute meat, milk and vegetables to its stores in Zambia alone!

12. **Many non-tariff barriers arise where tariff peaks persist.** High tariffs are especially restrictive because concerns of leakage from third countries create the need for additional barriers at the regional

level as well as affecting trade in all sectors as border checks are intensified to prevent transshipments of these products. For example, for trade in textiles and clothing South Africa has been a strong proponent of double transformation rules of origin to protect its textile industry. The source of the problem is the SACU common external tariff that is high on items of clothing (40 percent or more) and on the imported inputs of fabrics used to produce them (around 20 percent). As long as South Africa clothing manufacturers face high cost imports of fabrics it will not be possible for them to compete in the domestic market against duty-free clothing from non-SACU SADC countries made from imported fabrics that pay lower tariffs. Lower, more uniform external tariffs applied by all countries in the region would significantly reduce the need for these types of barriers.

13. **Services are the most important part of Southern African economies and are also important inputs to production in all sectors.** Services are crucial for growth and competitiveness. But progress in liberalizing services trade and improving the efficiency of domestic regulation remains limited, despite often strong imbalances in demand and supply between countries that point to a high potential for regional trade. Greater regional and global integration could alleviate the constraints on the development of key services sectors due to limited endowments of capital and skills in Southern African countries, as well as the smallness of some markets. However, despite the striking growth in tourism exports from some SADC states and the remarkable dynamism of the liberalized telecommunications sector, the gains for the region from international integration seem small so far compared to the unexploited opportunities. Professional services matter for development in SADC and provide a good example of the issues at stake. Business services, including professional services, are among the most dynamic services sectors; and are a key input for other sectors. Also, greater use of professional services by African firms is associated with higher labor productivity. For example, the average labor productivity of Southern African firms that use accounting, legal and engineering professional services is 10 to 45 percent higher than that of firms that do not. But there is a large gap between the potential contribution these services could make and the meager contribution they make today.

14. **Regional cooperation in services could better integrate the Southern African market.** National markets for professionals and professional services in SADC remain underdeveloped, whereas regional markets are fragmented by restrictive policies and regulatory heterogeneity. At the *national level*, price regulations, advertising prohibitions or restrictions on the ownership structure of professional services firms, presumably designed to meet social goals, undermine competition. Furthermore, nationality requirements and discretionary limits through labor market tests on the entry of foreign professionals or ownership restrictions affecting foreign professional services firms prevent SADC countries from taking advantage of gains from trade. Steps must be also taken to relax the explicit trade barriers applied to the movement of natural persons, establishment of commercial presence, and cross-border supply of professional services, ideally to all suppliers on a non-preferential basis. But an effective reform agenda will also require coordination of trade liberalization with domestic regulatory reform and regulatory cooperation at the *regional level*, such as mutual recognition of professional qualifications or development of appropriate regional standards.

III. A strategy for deepening regional trade integration in Southern Africa

15. **The focus for policymakers should be how to maximize the benefits of regional trade integration (e.g. better, more dependable market access; cheaper inputs; access to skills and new business opportunities) while minimizing the costs (e.g. trade diversion; administrative burden; overlapping and complex regulations).** Integration of goods *and* services is needed to generate benefits for all. For goods, a shift in regional trade policy is needed from one with many exceptions that allow for NTBs to where there are general rules with fewer exceptions that are better justified. A shift to a less complex and more predictable trade regime would allow for the simplification of customs and border management procedures that would facilitate and expand trade for regular and reliable traders while allowing officials to concentrate on legitimate concerns regarding issues of dumping, safety and trade policy circumvention. For example, greater disciplines and limits on the use of infant industry protection and simplifying preferential rules of origin would provide benefits to consumers and provide a transparent signal for resource allocation that is less open to industry lobbying. For services, integration of markets would help alleviate skill shortages, particularly in South Africa, and attract investment into the smaller countries. The realization of regional value chains also requires efficient backbone services, such as logistics and professional services.

16. **In most areas of policy reform, barriers to trade integration can be addressed nationally.** Few reforms need wait for regional agreement and much can be done both unilaterally and bilaterally to increase regional trade in goods and services. Most of what is needed to improve any country's international competitiveness and business climate can be done at home. In particular, unilateral action focused on the needs of firms and services providers would do much to take countries further along the road to deeper regional integration by lowering the costs they face as they trade across borders. For example, using regulatory impact assessment more systematically for both new and existing regulations would ensure that each country's regulations are consistent with the public policy objectives they are designed to meet; are minimally trade-distorting; and, that those countries have the capacity to implement them. Unilateral action also does not require all countries to move at the same pace. Countries that wish to reform deeper or sooner can do so and in the process provide valuable experience to other countries on what works and what does not, including through the use of regional knowledge platforms to share good practice in regulatory reform for goods and services.

17. **But for some reforms essential to trade such as standards, regulatory harmonization, mutual recognition, streamlined border management and the consolidation of fiscal arrangements regional integration in Southern Africa can be used more effectively.** Reducing the costs associated with regional trade is a precondition for private investment in regional value chains and a necessary step for all countries to improve their global competitiveness. There are clear benefits from closer regional coordination where a larger market is able to generate scale economies in production and regional value chains but also in regulation and standards, particularly where national agencies face technical skill shortages or capacity constraints. For the smaller countries it may be better to seek closer collaboration within SACU or SADC by relying on fewer regulatory agencies and accredited regional providers of testing, inspection and certification for both goods and services instead of the many national ones that each require recurrent budgets and often have trouble with staffing and skills. The development of appropriate regional standards for goods and services based on internationally-defined standards (where

available), would also reduce the costs of market participants operating across borders in both regional and global markets as well as reduce the scope of capture by national private sector interests. Unlike other regions in Africa, Southern Africa has the distinct advantage that world class customs authority, testing bodies and accreditation services are already available in South Africa. Regional integration could leverage the capacity of these institutions to support exports and capacity in the less advanced countries as well as eliminating the need for double testing or certification on regional trade. Countries could also consider steps towards implementing a regional framework for mutual recognition so that conformity assessment procedures, for example, are recognized in other countries or qualifications and licenses for professional service providers issued by one country are accepted by all. Otherwise, suppliers are obliged to perform additional or repeated tests of their goods and services in regional markets or to invite foreign inspectors, thereby increasing trade costs. For this to be achieved, countries would need to adjust their certification, accreditation and enforcement capacities to similar levels.

18. **Deeper integration will necessarily entail adjustment that could threaten some sector interests and create uncertainty about vulnerability and employment, at least in the short-term. Complementary policies are therefore important to maximize the gains and minimize the losses from more effective regional integration.** A certain amount of specialization will be required for regional integration processes to be able to have any dynamic effect on growth. As with all trade reforms, there will be winners and losers in the short term and adjustments will take place both within and across sectors, skill groups and geographies. Concerns over the costs associated with these adjustments could inhibit countries from taking policies that deepen regional integration, promote international competitiveness and stimulate long-term growth and job creation. Reforming the regulatory infrastructures for both goods and services might also be difficult politically and so there is a need to convince Government agencies, ministries or domestic firms to look past short term adjustment costs in the pursuit of larger, longer term gains that benefit the wider economy. Adjustment costs can be addressed through several policy responses. The first might be to phase reforms gradually, so that costs are spread over time. A second might be to consider interventions that can aid in the adjustment of sectors and labor such as retraining schemes for displaced workers or more effective social safety nets that are closely targeted on the needs of the most vulnerable.

19. **Large increases in the value of regional trade would also raise the possibility of trade diversion so regional trade reform must go hand-in-hand with multilateral liberalization.** Increases in regional trade might be at the cost of trade with more efficient third countries. In other words, while extra output may be generated within member countries because of increased specialization and economies of scale, such efficiency gains may be offset if trade is diverted away from those countries outside the region that have a comparative advantage to those within it. The possibility and the cost of trade diversion depend largely on the difference between trade barriers imposed on imports of goods and services from the rest of the world (e.g. applied MFN tariffs) and those made available to preferred partners. The obvious solution to avoiding trade diversion is to ensure regional and multilateral trade reforms are complementary, and that efforts at the former do not substitute for progress in the latter. The greatest gains will arise from simultaneous removal of trade barriers from all trading partners.

Chapter 2: Deepening Regional Integration to Eliminate the Fragmented Goods Market in Southern Africa

Regional integration efforts in Southern Africa have sought to liberalize trade between countries so as to increase bilateral trade flows; diversify exports by overcoming the limits of small markets; and, deepen specialization through achieving economies of scale. For those countries which are landlocked, another principal reason for integration has been to increase exports outside of the region through improved access to regional routes. However, despite more than a decade passing since the launch of the SADC Trade Protocol, and as SACU celebrates its centenary, the regional market in Southern Africa remains fragmented. While efforts to reduce tariffs have largely been met with success, other forms of trade restriction remain prolific, affecting considerably more than one-fifth of regional goods trade, and are critically hindering the competitiveness of firms and their ability to export to regional as well as global markets. These barriers must now be addressed.

This chapter summarizes new studies on regional trade that fill a number of key knowledge gaps and identify the most restrictive barriers that remain to the expansion of regional merchandise trade in Southern Africa as well as making recommendations on what can be done to remove them. The first section analyzes what regional integration in Southern Africa has achieved so far. It presents the major features of the regional trade arrangements currently in place and their impact on trade flows and export diversification. The second section highlights examples of the costs associated with barriers that persist to regional trade. The third section describes the policies required to optimize the trade gains from regional integration while the fourth section provides recommendations on how these regional integration reforms should be prioritized and implemented.

I. What has regional integration achieved so far in Southern Africa?

(i) Regional and bilateral trade relations

1. An important feature of global trade has been the proliferation of regional trading arrangements (RTAs) and Southern Africa is no exception. Member countries of SACU, SADC and COMESA have over the years engaged in a series of regional trade liberalization activities. SADC has been trading on preferential terms since 2000 and, based on the implementation of tariff phase down commitments under the SADC Trade Protocol, formally launched a free trade area[2] (FTA) in August 2008. Under this, 85% of intra-SADC merchandise trade flows are now duty-free with most of the remaining 15% comprising sensitive products[3] scheduled to be liberalized by 2012 (2015 for Mozambique). A SADC Regional Indicative Strategic Development Plan (RISDP), finalized in 2003, recommended that SADC deepen

[2] The FTA is being implemented by Botswana, Lesotho, Mauritius, Mozambique, Namibia, South Africa, Swaziland, Tanzania, Zambia and Zimbabwe.

[3] The remaining sensitive products mostly comprise textiles/clothing; cotton; cereals; dairy; and, motor vehicles.

regional integration further by establishing a customs union by 2010, followed by a common market in 2015, monetary union by 2016 and finally a single currency by 2018.[4]

2. A sub-set of five SADC members[5] have an established customs union that has been in place for a century. SACU was established in 1910 and since then the agreement governing its operation has been modified twice, first in 1969 and then in 2002. Traditionally (and formally pre-2002) South Africa has been central to decision making in SACU. Under the latest SACU agreement, decisions about the common external tariff (CET) ostensibly require consensus among all members but in practice this objective has not been fully met. For example, the SACU Tariff Board has not yet been established and all decisions are still made by the International Trade Administration Commission of South Africa, only after which do the other SACU members sign off on them before they are implemented. Customs tariffs, customs valuation, trade remedies and excise taxes have been harmonized between SACU members but VAT rates, customs procedures, technical standards, rebates and exemptions differ. Customs tariffs and excise taxes in SACU are distributed through a common revenue pool according to a formula: tariff revenue is distributed among countries according to their share in intra-SACU imports; most excise (85%) is distributed according to a country's share in SACU GDP with the remainder (15%) assigned in inverse proportion to a country's GDP per capita. The formula results in a substantial redistribution of revenue from South Africa to the BLNS countries, with South Africa contributing around 98 percent of payments to the revenue pool but receiving just 50 percent of the allocations made from it.

3. COMESA has had an FTA since 2000. Trade between FTA[6] and non-FTA[7] COMESA countries is conducted on reciprocal terms under the Preferential Trade Agreement. The next step in COMESA's regional integration agenda is the formation of a customs union. After five years of negotiation, COMESA member states agreed to a CET in May 2007 with four bands[8] (with two bands at zero tariff) for raw materials (0%), capital goods (0%), intermediate goods (10%) and final goods (25%) although, for some products, discussions continue on which category they will be classified under. The customs union was formally launched in June 2009, and all tariff lines carrying a rate above or below these rates have been placed on sensitive product lists. Each member state has its own sensitive product list and timetable to adjust to the CET, which should not exceed five years.

4. There are also a large number of bilateral trade agreements between Southern African countries, most of which were signed and implemented long before the SADC Trade Protocol and the COMESA FTA came into effect. To date, these include Botswana-Malawi; Botswana-South Africa; Botswana-Zimbabwe; Malawi-South Africa; Malawi-Zimbabwe; Mozambique-Malawi; South Africa-Namibia; South Africa-Mozambique; Zimbabwe-Namibia; and, Zimbabwe-South Africa.

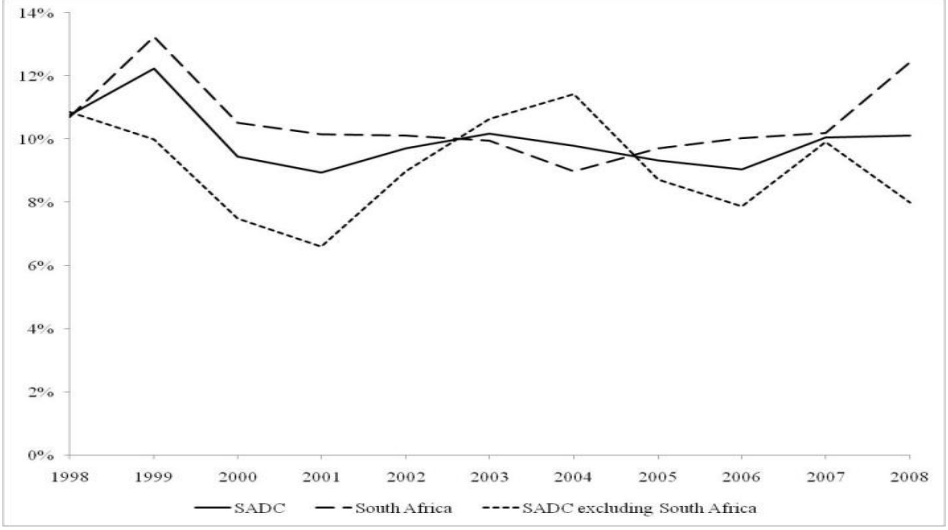
[4] The distinction between the Trade Protocol and the RISDP is that the former is a legally binding instrument, whereas the RISDP is a strategic plan which can be adapted.
[5] Botswana, Lesotho, Namibia, Swaziland (the BLNS countries) and South Africa.
[6] Burundi (since 2005), Comoros, Djibouti, Egypt, Kenya, Libya (since 2006), Madagascar, Malawi, Mauritius, Rwanda (since 2005), Sudan, Zambia, Zimbabwe.
[7] DR Congo, Eritrea, Ethiopia, Seychelles, Swaziland, Uganda.
[8] EAC has three bands (0%, 10% and 25%).

(ii) Impact of regional trade arrangements in Southern Africa

5. Since the mid-1990s, South-South trade among all developing countries has grown faster than world trade increasing, on average, by 13 percent per year compared to the global average of 9 percent, and 10 percent for trade among developed countries. The amount in value terms is equally impressive: South-South merchandise trade in 2007 amounted to US$2.4 trillion - or 20 per cent of world trade.[9] Growth in South-South trade has been accompanied by increased regional trade facilitated through RTAs. By eliminating tariffs and sometimes non-tariff barriers to trade in goods, successful RTAs have had a substantial impact on the expansion of trade in specific sectors among participating countries, as well as between them and the rest of the world. ASEAN and MERCOSUR, for example, have maintained and reached a relatively high degree of regional trade (20-50 percent of their total trade) often through intensified intra-industry linkages. Regional trade among African countries, however, remains relatively low.

6. While regional integration processes in Southern Africa have also sought to liberalize trade between countries so as to increase regional trade flows, statistics show that tariff liberalization has not spurred a growth in intra-regional trade, at least in real volume terms. For example, while SADC exports to the world more than tripled between 2000 and 2008 from US$50 billion to US$153 billion, the share of intra-regional exports remained relatively steady at around 10 percent of total exports: a proportion close to which it remains today (see Figure 4).

Figure 4: The proportion of regional trade in total trade among SADC has remained relatively constant over the last decade



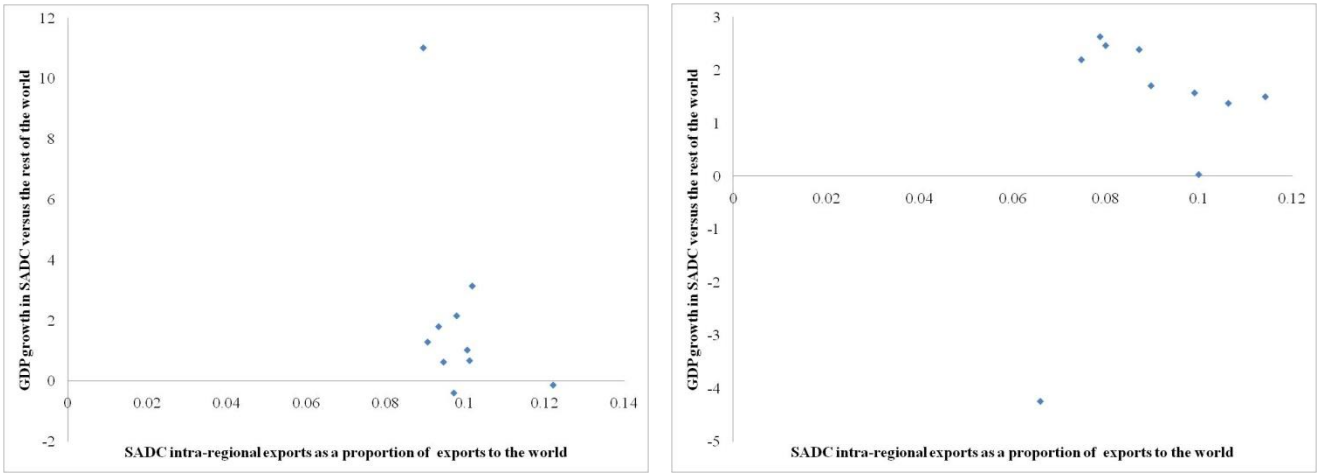
Source: IMF Direction of Trade Statistics.

[9] Most of this growth is accounted for by increases in intra-Asian trade which accounts for 90 percent of South-South trade.

7. It is important to also take into account economic growth rates both at home and abroad in order to determine whether or not regional trade has truly intensified. Gravity frameworks are often used to do this where other standard determinants of trade are controlled for. While regional trade in SADC may have remained relatively constant in proportional terms, if these countries have grown more slowly than the rest of the world then a stable trade share could actually reflect *increased* trade integration. However the evidence points to the opposite finding. Figure 5 plots annual values of income growth in the region versus that in the rest of the world against the share of regional exports in total exports. It can be seen that despite SADC countries growing much faster than the world average over most of the last decade, regional trade has remained relatively constant. In other words, Southern African trade has effectively *de-regionalized.*

Figure 5: Regional trade has lagged behind SADC income growth…
(annual values, 1999-2008)

SADC *SADC excluding South Africa*

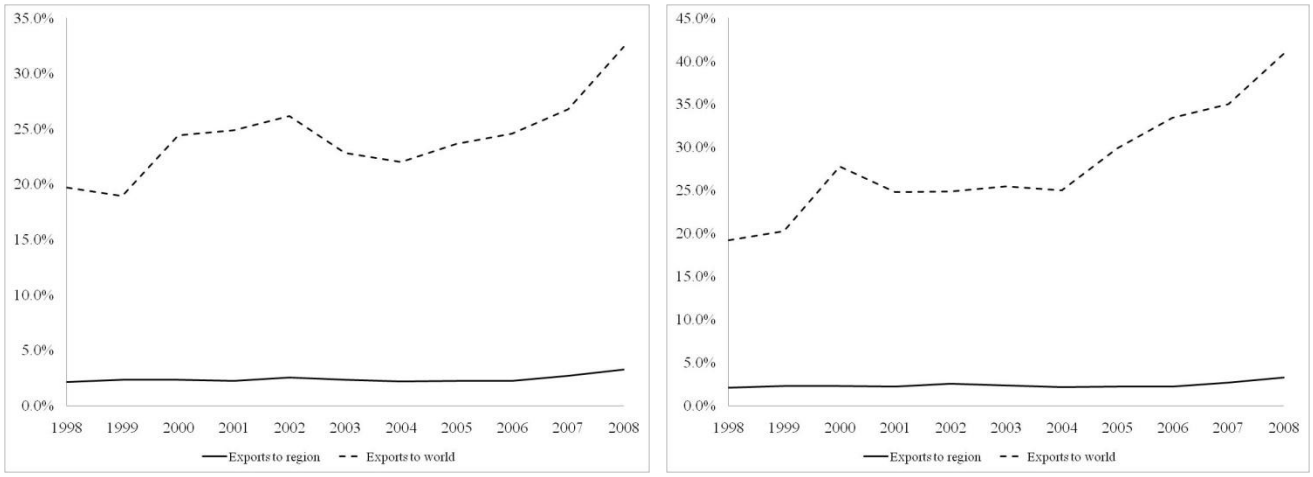


Sources: IMF Direction of Trade Statistics and IMF World Economic Outlook Database.

8. Figure 6 presents a similar finding. It shows that while SADC's exports to the world as a proportion of its GDP have increased dramatically over the past decade, the share of its exports to the region have grown more slowly. SADC exports have been shifting from slower growing regional markets to faster growing areas outside of Africa. The key policy issue for regional integration in Southern Africa, therefore, is why has intra-regional trade failed to increase as a proportion of regional GDP over the last decade, whereas trade growth to the rest of the world has surged? Put another way, why does the Southern African market remains fragmented?

Figure 6: …while exports to the rest of the world have boomed
SADC exports as a percentage of GDP

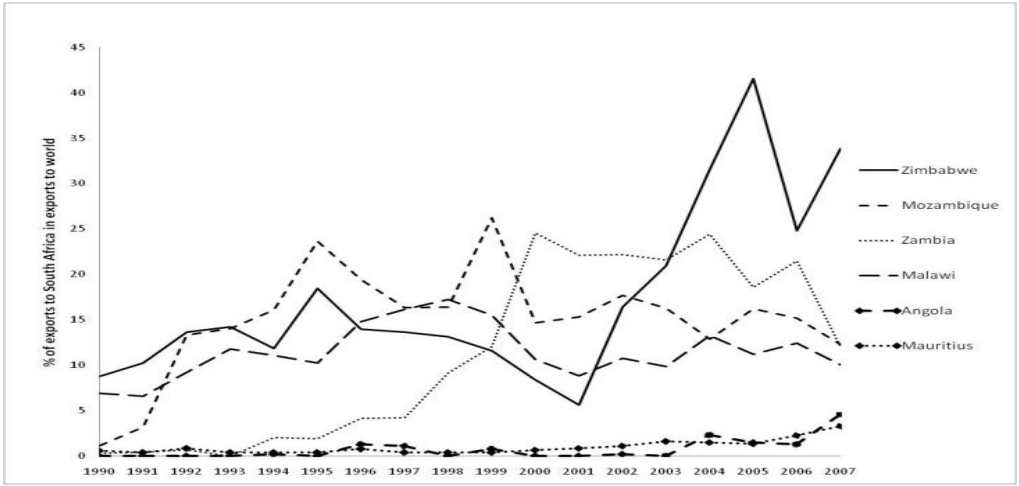
SADC *SADC excluding South Africa*



Sources: IMF Direction of Trade Statistics and IMF World Economic Outlook Database.

9. Despite intra-regional trade remaining low in proportional terms, regional trade is still important for most Southern African countries – see Appendix 1. In addition to SACU countries, which are all highly integrated with South Africa,[10] a number of other SADC countries are also highly trade-dependent on the region. For example, Zimbabwe, Mozambique, Zambia and Malawi each export between 10 percent and 34 percent of their total exports to South Africa alone (see Figure 7). Only Madagascar is less dependent, with exports to the region accounting for less than 3 percent of its exports to the world.

Figure 7: South Africa is an important export market for most Southern African countries



Source: IMF Direction of Trade Statistics.

[10] For example, in 2007 South Africa accounted for 10% of Botswana's merchandise exports; 18% of Lesotho's; 30% of Namibia's and 75% of Swaziland's.

10. UNCTAD (2009) finds that the simple country average of the shares of intra-African trade in African countries' total exports is 21 percent. This makes Africa the second most important export market for most African countries behind Europe. The reason for the discrepancy between this finding and the low aggregate (10 percent) figure is that the largest African exporters trade relatively little with other African countries.

11. Traditional exports of agricultural raw materials and minerals continue to dominate regional trade in Southern Africa. For SADC countries, many of these attracted zero MFN tariffs prior to the implementation of the SADC Trade Protocol in 2000 so the FTA has had negligible impact on these flows.

12. For most Southern African countries, intra-regional exports also tend to be concentrated in just a few products. For example, in 2007 three-quarters of Zimbabwe's exports to South Africa were in nickel, three-quarters of Zambia's exports to South Africa and Namibia were in copper concentrate (which these countries then refine and export as copper) and two-thirds of Mozambique's in natural gas and electrical energy (as part of the Southern Africa Power Pool).

13. For all countries, including South Africa which exports mostly primary commodities to the world, regional integration could be a stepping stone to export manufactures, first to neighboring countries and, then, to world markets. But this appears to have not yet happened. There has been limited impact of regional integration on the structure of both South African exports to and imports from SACU as well as the rest of SADC. In other words, diversification into higher value-added manufacturing exports to the region has only been very modest for all Southern African countries.

14. Using an approach put forward by Edwards and Schoer (2002), Appendices 2 and 3 show South Africa's merchandise exports by destination, disaggregated by factor content (see Appendix 9 for definitions). One might expect that South Africa's exports to developing country partners, such as SADC, would be in relatively high technology and human capital intensive products versus those to developed countries which would be in labor intensive or agricultural products, in line with its comparative advantage vis-à-vis these markets. However, the structure of South Africa's exports by geographical destination generally conforms to that of South Africa's exports overall. There are a few exceptions. First, there is a relatively greater share in its mineral intensive exports to developed countries and, especially, China and India. Secondly, there is a relatively smaller share of technology-intensive exports to developed countries. Thirdly, while the proportion of unskilled labor intensive exports to developed countries has fallen, it remains above the proportion to the world. These are all consistent with comparative advantage. But looking at regional exports to SACU and the rest of SADC, one is still struck by the relatively constant structure of non-mineral exports during the last decade. One might have expected a greater shift away from unskilled labor intensive exports towards more high technology or human capital intensive ones with these countries in light of regional trade liberalization, but this does not appear to have happened.

15. The commodity structure of South African imports is shown in Appendix 4. This shows that imports are more sharply defined along geographical lines than in the analysis of its exports. South African imports from developed countries largely fall within the technology and human capital intensive sectors. As expected, imports from China and India have traditionally been largely unskilled labor

intensive. Regional imports from SADC, which were once largely agricultural and unskilled labor intensive, have shifted to being more mineral based. Appendices 5 and 6 illustrate these changes at the country level and show that this shift towards mineral imports has mainly been driven by changes in the import composition from Zimbabwe (nickel) and Zambia (copper). Two notable exceptions are Mauritius and Madagascar whose main exports to South Africa have shifted towards more labor intensive sectors, namely manufactured clothing. For the former, exports of T-shirts, wool yarn and men's shirts have grown so rapidly that they are now its largest exports to SADC, constituting 15 percent of total merchandise exports to the region. For some of these products there are large margins of preference under SADC (up to 45 percentage points in the South African market for both T-shirts and men's shirts) and Mauritius has been successful in meeting SADC rules of origin requirements (double transformation) to be eligible for these preferences; rules that are often too onerous for lower-income countries in SADC. Among SACU countries the composition of South African imports is also quite different (see Appendices 7 and 8). For example, in recent years most South African imports from Botswana were in mineral-intensive products (e.g. nickel), while from Lesotho they were in agricultural (e.g. water) and unskilled labor-intensive (e.g. trousers and footwear) sectors. Namibia supplies mostly human-capital intensive exports (e.g. stamps and stamped paper) to South Africa and Swaziland mostly technology intensive ones (e.g. soft drinks concentrate).

16. Specialization in trade among Southern African countries has also remained relatively limited despite regional trade liberalization. Table 3 highlights the import and export profiles across the region and shows, with the notable exception of South Africa, that the types of goods exported by the region versus those imported are relatively dissimilar.

Table 3: Specialization in trade with regional partners is low vis-à-vis global trade partners[11]

Complementarity indices	With South Africa	With all SADC countries	With all COMESA countries
Botswana	4.9	5.1	4.3
Lesotho	2.7	2.9	2.5
Madagascar	10.9	13.9	16.9
Malawi	4.3	5.1	6.2
Mauritius	12.3	13.8	12.1
Mozambique	6.2	7.3	8.3
Namibia	8.1	9.3	8.9
Seychelles	5.5	7.7	11.9
South Africa	-	25.2	26.7
Swaziland	5.9	8.9	8.8
Tanzania	4.0	5.4	6.7
Zambia	3.5	4.5	5.8
Zimbabwe	7.5	7.5	7.8

[11] The bilateral complementarity index between two countries *j* and *k* can be defined as: $C_{jk} = 100 - \sum i\left(\left|M_{ik} - X_{ij}\right| \div 2\right)$ where X_{ij} represents the share of good *i* in total exports from country *j* and M_{ik} represents the share of good *i* in total imports to country *k*. The index is a measure of the similarity between the export basket of one country and the import basket of another. The value of the index ranges from zero to one hundred, representing no complementarity and a perfect match, respectively.

17. Assessing the *potential* for increased specialization in regional trade is, however, more difficult. On the one hand, differences between those products regional partners export versus those they import could reflect limited opportunities for exploiting sources of comparative advantage. On the other hand, they could also reflect weak trade integration that has been insufficient to encourage firms in the region to exploit opportunities, for which they have a comparative advantage, in their neighbors' markets.

18. In the production of which exports might these relative comparative advantages lie? Country factor endowments, taken from the Revealed Factor Intensity Indices database, can be used to provide some insights and are illustrated in Table 4. They show, for example, that South Africa has a comparative advantage in the region in relatively skilled labor intensive exports as well as those that are capital intensive and pastureland intensive (dairy). The poorer countries are relatively lower skilled labor intensive. Another example is Swaziland, which clearly has a comparative advantage in the region for timber-related exports.

Table 4: Factor endowments by country

Country	No. of workers (1000s)	Capital stock per worker ($)	Average years of schooling	Arable land per worker (Ha)	Timber resources per worker ($)	Protected areas per worker ($)	Pastureland per worker ($)	Cropland per worker ($)
Botswana	689	22,875	5.4	0.5	394	685	126	1,672
Lesotho	785	9,495	4.5	0.4	9	2	563	633
Mozambique	9,260	764	1.2	0.4	649	17	498	109
Mauritius	515	32,150	5.5	0.2	0	0	1,321	142
Malawi	5,235	1,143	2.6	0.4	382	54	984	94
Swaziland	414	17,757	5.7	0.5	850	0	1,006	1,264
South Africa	17,631	16,978	7.9	0.8	745	123	2,974	1,530
Zambia	4,135	3,997	5.4	1.2	654	185	1,130	232
Zimbabwe	5,434	9,859	4.9	0.6	473	157	785	579

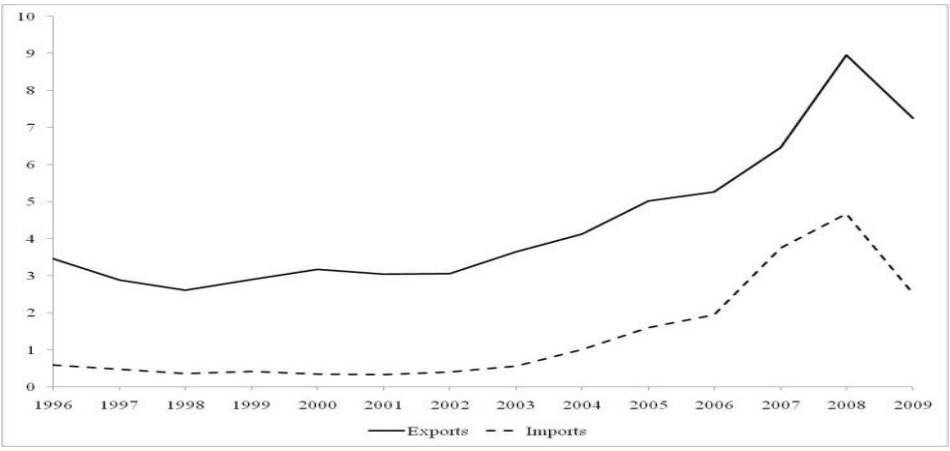
Source: UNCTAD (2010).

19. Specialization can also occur *within* products, not only across them. Indeed, low values for complementarity indices could also be consistent with a high volume of intra-industry trade[12] which in itself would constitute deep specialization and has been one of the major sources of trade growth in other regions likes the EU and ASEAN. But again, statistics shows that intra-industry trade among Southern African countries is also extremely limited and among the lowest in the world.

[12] Intra-industry trade results from specialization within products as well as from specialization at different levels of quality of the same product. The former is the source of trade in components and intermediate inputs that characterizes global production networks. The latter is a source of two-way trade in similar products made possible by differences in quality or branded products that often characterize trade in cars, clothing and food items such as yoghurt, juice and ice cream.

20. The lack of export diversification, specialization and intra-industry trade among Southern African countries means that strong trade imbalances persist between South Africa and the smaller countries (see Figure 8). Regional production chains remain virtually non-existent.

Figure 8: South Africa maintains a trade surplus with the rest of SADC (US$ billions)



Source: IMF Direction of Trade Statistics.

II. What are the costs associated with the fragmented regional market?

21. A lesson from successful regional integration experiences in Asia and Latin America is that to maximize the benefits of RTAs, countries should aim to facilitate trade in the region not only through tariff reductions but also through addressing other at- and behind-the-border issues, such as tackling restrictive product standards, non-tariff barriers and trade facilitation. The key policy issue that arises for regional integration in Southern Africa, therefore, is that the regional market remains fragmented and is some way off better realizing the potential gains outlined in Chapter 1. As already discussed, while South African imports from the region have increased, low value commodities have driven most of this growth; intra-regional trade has diversified only slowly and regional trade as a percentage of total trade has remained relatively constant despite Southern African economies (at least until the financial crisis) growing must faster than the world average. Against this background, much remains to be done in consolidating the various FTAs and to reduce market fragmentation. Notwithstanding sometimes restrictive rules of origin pertaining to preferential treatment, tariffs have been reduced substantially. Yet major obstacles to regional trade remain. In particular other barriers to trade, often not related to tariffs, have become more important.

22. Appendix 10 maps the different types of NTBs reported by SADC countries to both the products they affect and the regional trade in these products. It shows that the set of NTBs that have been notified by firms in SADC affect products which, in 2008, jointly accounted for US$3.3 billion, or one-fifth, of regional trade. In other words, even those NTBs which have been reported (and others may have yet to be notified) affect products in which there is already significant regional trade. This is also a least cost estimate of the impact of NTBs on trade in the region since some barriers are so restrictive that

preferential trade is effectively prohibited (e.g. wheat flour) and, of course, others which affect all trade and not just individual products (e.g. customs delays, transport costs) which are not captured here. So NTBs are widespread in their effect on regional trade, even more so than these figures suggest. The mapping also shows that some sectors are affected more than others by these barriers and individual sectors are often affected by more than one type of barrier. For example regional trade in wheat is affected by import bans, import quotas, import levies, single marketing channels and rules of origin (for flour), although obviously not all countries impose all barriers. NTBs also disproportionately affect trade in agricultural commodities, particularly sugar, maize, wheat, meat products (including poultry) and dairy products. Regional trade in manufactures is mostly affected by restrictive rules of origin as well as standards. Other barriers, such as those related to customs and transit, have the potential to affect all traders, regardless of the sector although here too some appear to be affected more than others.

23. The impact on firms of these remaining barriers is also pervasive. In a recent survey by COMESA (RTFP, 2009), which included five SADC countries, roughly 80 percent of respondents indicated that they faced some level of trade barrier in the region. Over half of the respondents indicated the cost of these was equivalent to 5 percent of the c.i.f. value of their imports. A further 24% of respondents indicated a 5-15% cost attribution to trade barriers; and, 23% faced increased import costs of over 15%. There is also evidence to suggest that barriers persist in all countries throughout the region. In an inventory of NTBs in SADC (RTFP, 2007), all countries were found to maintain at least 'moderate' barriers.

24. Global evaluations of NTBs indicate that they are in most cases more restrictive than tariffs. While quantitative assessment on their impact is challenging, in great part due to large gaps and errors that persist in data on NTBs, there is a growing body of work that attempts to estimate their tariff equivalence. A recent survey of analytical work (Carrere and De Melo, 2009a, b) indicates that on average the tariff equivalent of NTBs is 40 percent, which for most products is higher than the MFN tariff applied by most countries. Making the rather weak assumption that the distribution of NTBs in SADC is the same as in the rest of the world (i.e. with a 40 percent ad valorem equivalence), the SADC NTBs cited above, which affect US$3.3 billion of regional trade, would cost around US$1.3 billion per year – equivalent to more than half the GDP of Lesotho. Regardless of the precise magnitude, these barriers increase costs faced by both consumers of final products and firms that source intermediate inputs from the region. For example, in SADC, Woolworths reports that prices in its franchise outlets in non-SACU SADC countries are 1.8 times higher than those within SACU because of higher expenditures associated with sending goods to these markets as well as the higher costs of doing business in them.

The rest of this section explains these barriers in greater detail and provides examples of the costs associated with them.

(i) Inefficiencies in transport, customs and logistics raise trade costs

25. In order for RTAs to be effective, it is critical that intra-regional trade be able to move without hindrance. Many Southern African countries are landlocked, making road and rail networks very important in linking these countries to the regional market as well as to the rest of the world via the main

ports in South Africa, Mozambique, Angola and Namibia. However, high transactions costs are being incurred from inadequate transport infrastructure; inefficiencies in customs procedures (including delays at road checks, borders and at ports); as well as poor quality and costly logistics due to weak competition among service providers. They serve to raise logistics costs; require suppliers to keep higher levels of inventories; result in a higher percentage of goods not reaching final markets; raise the rate of spoiled agricultural goods; and, ultimately stunt the development of new exported products. They also restrict the potential of countries to scale-up existing production for global markets by first exploiting regional sources of comparative advantage.

26. Transport costs and transit delays in Southern Africa are higher than in most other regions, in particular for the landlocked countries. Table 5 shows the performance of nine SADC countries in terms of the World Bank's Logistics Performance Index (LPI). South Africa performs well in terms of the cost and quality of its transport and logistics, but the other Southern African countries perform relatively poorly and are generally not perceived as being logistics friendly. While transport costs are inevitably high for small countries because of small exported quantities, the transport infrastructure of landlocked countries in Southern Africa is also a significant penalty - 7 percent worse than for coastal countries - but it is not the worst among the dimensions of the LPI. The competence of services or trade processes are a larger penalty: on average about 10 percent worse than coastal countries. Consequently, corridors with infrastructure in average condition can sometimes be as slow as corridors with an infrastructure in bad condition (Arvis *et al.*, 2010).

Table 5: Outside South Africa, logistics are weak in SADC countries

Country	LPI ranking (out of 155 countries)	LPI score	Customs ranking	Infrastructure ranking	International shipment ranking	Logistics quality, competence ranking	Tracking and tracing ranking	Timeliness ranking
South Africa	28	3.46	31	29	31	25	24	57
Mauritius	82	2.72	50	96	33	97	100	127
DR Congo	85	2.68	59	98	109	49	119	94
Madagascar	88	2.66	87	60	53	102	109	128
Botswana	134	2.32	126	119	152	119	99	123
Mozambique	136	2.29	145	124	87	130	135	150
Zambia	138	2.28	111	140	128	149	130	131
Angola	142	2.25	151	149	130	147	106	121
Namibia	152	2.02	152	148	145	144	144	151

Source: World Bank (2009).

27. Each day saved in shipping has been estimated to be equivalent to a cost reduction of 0.8 percentage points of ad valorem tariff (Hummels, 2001). And each day a product is delayed prior to being shipped reduces trade by one percent, equivalent to a country distancing itself from its trade partners by 70 kilometers (Djankov *et al.*, 2006). Shoprite (a South African retailer) reports that each day one of its trucks is delayed at a border costs US$500 (Charalambides, 2010).

28. Port congestion is an important source of delay, particularly at Durban - the busiest container port in Africa. The Citrus Growers' Association in South Africa has estimated that delays at the Port of Durban cost its growers US$10.5 million per season (on approximately US$400 million of exports), based on an average delay per load of 12 hours for each of the 20,000 citrus laden trucks that enter the port during peak season. One measure being used to reduce these costs is to increasingly use the Maputo

port for citrus exports, which can offer a saving of up to US$0.50 per carton loaded from the Maputo Cold Store compared with the cost in Durban (Cargo Info Africa, 2010).

29. Another source of delay within the region concerns the work permit regime for foreign truck drivers crossing the border into South Africa. While long-standing, this requirement was largely unimplemented until 1 July 2010 when the Department of Home Affairs started to enforce it. Until then foreign truck drivers working for Southern African companies could enter the country with a Section 11(2) visitor's visa that was valid for 30 days. Despite forty-four South African companies being granted a three month temporary reprieve to the new arrangement by the Pretoria High Court, foreign drivers will soon be required to obtain work permits that will require companies to prove that the skills being sought outside of South Africa are not available domestically and mandates that each post be advertised locally. There are between 1,600 and 2,000 foreign drivers in South Africa who will require these permits, affecting 6,000-8,000 deliveries per month. This will be costly and adversely affect trade within SADC, in part because the issuing agency for work permits – the Department of Home Affairs – is months behind in processing applications at its new central processing hub in Pretoria. While ostensibly designed to protect employment opportunities, the system also risks South Africa's neighbors reciprocating with similar requirements that will force South African citizens seeking to work in these countries to go through similarly laborious work permit application processes. For example, Angola has already signaled its intention to put in place a similar requirement for South African drivers crossing its border. Such restrictions could significantly impede the movement of trucks in and out of countries and make trade even more difficult for regional exporters than it is now.

30. Aware of the importance of transport facilitation, both SADC and COMESA (which began reforming sooner and has gone further in this area) have adopted measures and rules aimed at liberalizing market access for transport and international road freight, harmonizing rules to ensure interoperability and developing infrastructure.[13] But integration of the transport industry in Southern Africa remains weak – see Box 1. A key issue for the region going forward will be the need to distinguish between developing good transit arrangements and ease of entry into the national transport market: there is no reason why countries such as South Africa could not agree to the former even if they are unwilling to liberalize the latter.

[13] In COMESA, the guiding provisions are contained in the COMESA Treaty as a general chapter on transport while in SADC there is a separate Protocol on Transport, Communications and Meteorology.

Box 1: Weak competition among transport operators in Southern Africa increases costs

Market access for regional transport operators: Market access regulations for transport operators in Southern Africa are mostly governed by a system of permits that are issued for limited periods of time and based on bilateral agreements ostensibly designed to facilitate road transport on all major corridors. Permits are issued at the border by the country of entry but while the bilateral agreements have several common elements, they do not always follow the same format and in most cases the agreements have yet to be fully implemented.

Third country rule: Most bilateral agreements do not allow operation of trucks registered in a third country to transport goods between two other countries even if the third country is used as a point of transit. Within the region, the third country rule is only applied on a reciprocal basis between Zimbabwe and South Africa and, during specified periods of time, Malawi. For other countries, third country operators are prohibited which serves as a protective measure for domestic transport companies and prevents the development of a more competitive regional market for trucking services.

Cabotage: Most bilateral agreements prohibit the carriage of domestic merchandise by foreign operators, although several South African companies have managed to bypass this rule by investing in trucking firms in neighboring countries. In addition, South Africa is one of the few countries that issues cabotage permits, although they are relatively expensive (up to R4,000 plus R4,000 per trailer) and valid only for a limited time (up to a maximum of one year).

Road user charges: All foreign-registered trucks in Southern African countries must pay road user charges. These are collected to pay for road maintenance and are based on the gross vehicle mass (GVM). Domestically-registered vehicles do not have to pay because these charges are supposed to be included in their road taxes and license fees. Both SADC and COMESA recommend cost recovery for transport infrastructure from users, irrespective of where vehicles are registered, but on a non-discriminatory basis. However, differences in the charges levied on foreign-registered vehicles across the Southern African region have been identified as impediments to trade and an integrated regional market for transport – see Table 6. This is because they protect truck operators in some countries (e.g. Mozambique) from foreign competition, often at the expense of transport quality and port volumes.

Table 6: Road user charges in Southern Africa differ by country

US$ per 100km	**Country of destination**					
Country of entry:	**Malawi**	**Mozambique**	**Zambia**	**Zimbabwe**	**South Africa**	**Botswana**
Malawi	-	50	10	10	No user fees: road tolls	User fees, no distance related except for Trans-Kalahari (about US$16/100km)
Mozambique	50	-	50	50		
Zambia	10	50	-	10		
Zimbabwe	10	50	10	-		

GVM restrictions: Differences in the allowable maximum gross vehicle mass has important impacts on the efficiency of regional transport operations. Because of differences in load limits, transport operators can be fined or required to reduce their loads when transporting merchandise across regional borders. For example, the regional recommendation is 56 tons, but Kenya has a lower limit of 48 tons.

Insurance: Different methods are used to provide third party liability insurance across borders. Transporting goods regionally requires transport companies to obtain some form of insurance to cover liabilities that may arise from accidents that occur abroad. However, the lack of a standardized regional third party insurance regime serves to raise costs.

Source: Adapted from Raballand *et al.,* 2008.

(ii) Cumbersome fiscal arrangements necessitate borders

31. Fiscal borders across Southern African countries are unnecessarily complicated, inefficient and contribute to higher trade costs. The three main reasons SACU retains internal border posts, even though it is a customs union, are to capture data on intra-SACU trade for revenue sharing purposes; administer NTBs e.g. infant industry protection; and, because domestic sales taxes have not yet been harmonized, requiring refunds and payments (see Box 2).

32. The costs and delays associated with these procedures reduce trade flows between Southern African countries. Jitsing and Stern (2008) estimate that the costs arising from the application of different VAT systems on intra-SACU trade are up to 2 percent of the value of each transaction. The root cause of these costs arises from the risk of consignments being taxed twice in both the exporting and importing countries as well as delays in receiving VAT refunds.

Box 2: VAT and sales tax in SACU

Botswana: VAT is charged on all goods a standard rate of 12% with the exception of basic foodstuffs which are zero rated.

Lesotho: VAT is levied at a standard rate of 14% and charged at 15% on alcoholic beverages and tobacco and 5% on electricity and telephone calls. Basic foodstuffs are zero rated while services such as education, financial services, passenger transport, insurance services and medical services are exempt.

Namibia: VAT is levied at a standard rate of 15%. Financial services, medical services and education services are exempt.

South Africa: VAT is levied at a standard rate of 14%. VAT exempt supplies include certain financial services, education services, passenger transport and residential accommodation.

Swaziland: Swaziland imposes a general sales tax of 14% for most goods (25% for alcoholic beverages) and 12% on services.

(iii) Restrictive rules of origin limit preferential trade

33. Onerous local content requirements in rules of origin (ROOs) reduce the utilization of tariff preferences offered by RTAs, particularly in labor intensive sectors (e.g. clothing) that use capital intensive inputs not produced competitively in the region (e.g. fabrics) – see Box 3. A recent example of the cost associated with meeting ROOs involves SACU moving to more restrictive rules (double transformation) on selected clothing imports from Malawi, Mozambique, Tanzania and Zambia following the expiration of the MMTZ-SACU Market Access Arrangement at the beginning of 2010. This has resulted in clothing producers in these countries being no longer able to compete in the regional market (e.g. Bidserv in Malawi). It has also further distorted investment decisions as some of these firms have relocated to the BLNS countries as a result of the change to avoid the loss of preferences in supplying the South African market. For other products where ROOs have been so contentious (e.g. wheat flour) or simply not agreed (e.g. certain electrical products for which rules were only finalized as recently as April 2010) preferential trade within the region has been effectively prohibited (Naumann, 2008).

Box 3: Rules of origin in Southern African RTAs

ROOs are particularly restrictive in SADC as they are more product- and process-specific than the simple value-added criterion that can be used under the COMESA FTA, for example.

SADC ROOs have also continued to evolve over the past few years. The treatment of products in some sectors has remained subject to review and negotiation. One of the most contentious issues has been the differentiated treatment afforded to SACU clothing imports from four of the Least Developed Countries in SADC. Mozambique, Malawi, Tanzania and Zambia (MMTZ) have in the past received a derogation to rules of origin (single transformation) under which certain lines of clothing exports from these countries to SACU would qualify for preferences under SADC even if they were cut and sewn (locally) from third country fabric. This derogation from the main rules has however been subject to various restrictions, including quantitative restrictions and administrative arrangements to ensure compliance as well as time limits. It was last granted at the end of March 2007 and was set to run through 31 December 2009. Since then, however, the derogation has not been renewed.

COMESA ROOs have caused problems too. While COMESA has adopted a 35% value-added rule, not all countries have adopted this. Egypt unilaterally imposes a 45 percent local content rule. Until recently, Zambia, Uganda and Malawi did the same. Rules in two sectors have also proven to be particularly contentious under COMESA. For wheat flour, the 35% value added rule has generated difficulties for exporters in Egypt and Mauritius that do not produce wheat grain, but import the raw material from the world market. In periods of high wheat prices, such as those experienced in 2007, this meant that these countries were unable to meet the value added requirement. With palm oil, there have been disputes over ROOs (e.g. Zambia-Kenya) because of difficulties *assigning* value added. These have arisen because a number of products can be produced from the raw material such as cooking oil, soap and margarine.

34. Compliance costs with *administering* certificates of origin also undermine preferential margins and therefore the incentive to trade regionally. Shoprite, for example, spends US$5.8 million per year in dealing with the red tape (e.g. filing certificates of origin; obtaining import permits) necessarily to secure US$13.6 million in duty savings under SADC – see Box 4.

Box 4: Obstacles facing the utilization of tariff preferences in SADC - the case of Shoprite

Shoprite is a South African-based retail and fast food company that operates over 1,200 stores under various names (e.g. Shoprite, OK Furniture, Checkers, Hungry Lion, Usave, House & Home) in 17 African countries as well as in India. The company accounts for 30 percent of South African retail trade.

In 2009, over 15% of Shoprite's revenues came from stores based outside of South Africa. In securing these a key challenge has been administering compliance with the rules of origin to qualify for SADC preferences on consignments sent to its stores outside of SACU. In particular:

- The value of SADC preferences to Shoprite was US$13.6 million in 2009 on US$550 million of exports to the region (implying an average margin of preference of 2.4%).

- The cost of proving eligibility for preferences on this trade was US$5.8 million in the same year. These costs comprised: 40% for staff to maintain customs data for shipments; 40% on in-house clearing and forwarding; and, 20% on the maintenance of a library to demonstrate compliance with rules of origin for suppliers.

Source: Charalambides (2010).

35. Woolworths does not use SADC preferences at all in sending regionally-produced consignments of food and clothing to its franchise stores in non-SACU SADC markets. Instead it simply pays full tariffs because it currently deems the process of administering ROO documentation to be too costly. Estimates indicate that in 2009 it could have benefited from duty savings of US$0.6 million on US$3.2 million of exports to Mozambique, Tanzania and Zambia – a cost saving on imports for franchise holders in these markets of up to 19% and a strong incentive to source more of its products regionally (Charalambides, 2010).

(iv) Poorly designed technical regulations and standards limit consumer choice and hamper trade

36. As tariff barriers have come down on both regional and international trade, the way in which technical regulations and standards are designed and implemented is playing an increasingly important role in trade outcomes. Used correctly, technical regulations[14] and standards are a core part of any country's 'soft' infrastructure. They form an important part of the operating conditions for firms and influence the possible routes to securing market access in both regional and global markets. As information, standards spread knowledge on the requirements for market acceptability, reducing uncertainty for both producers and consumers. Efficient technical regulations and standards therefore have the potential to benefit all countries within the Southern African region, particularly for small firms that often struggle to meet the costs associated with information about potential export markets.

37. However, standards regimes in Southern Africa are not achieving these objectives. Instead they are often characterized by an over-reliance on mandatory inspections and certifications, unique national (rather than regional or international) standards, overlapping responsibilities for regulation and, occasionally, heavy government involvement in all dimensions of the standards system.

38. This creates unnecessary barriers to trade, especially when technical regulations and standards are applied in a discriminatory fashion against imports. Furthermore, when domestic and foreign technical regulations and conformity assessment regimes differ, additional costs are imposed on suppliers that cater for domestic and export markets since they may have to produce under different standards for each and the good or service may be subject to testing at both origin and destination. These costs are further increased if different trading partners themselves impose different requirements.

39. The effectiveness of national standards bodies in Southern Africa varies considerably, from world class leaders to virtually ineffective. For the standards bodies in the smaller countries it would, therefore, be better to seek closer collaboration with South Africa, within the context of SACU or SADC, rather than increasing recurrent budgets to establish independent regulatory agencies and conformity assessment

[14] A technical regulation is a compulsory specification imposed by a government to secure a public policy objective such as health, safety and environmental or consumer protection. In contrast, standards are voluntary and market driven and reflect the demands and tastes of consumers or the technical requirements of industrial buyers. Both technical regulations and standards can of course be technical barriers to trade. For example, when a standard is referred to within a contract of sale, conformity with it becomes mandatory for the purposes of the transactions covered under the contract. In other words, while compliance with a standard can be legally voluntary, it might be *de facto* necessary to ensure sales since voluntary standards can be enforced by the market.

bodies that may otherwise always have trouble with staffing. However, most authorities in Southern Africa still believe that they need to develop regulations and conduct testing themselves.

40. International good practice is to use technical regulations only to ensure core public policy objectives such as maintaining safety. Standards should be used in all other cases, including indicating product characteristics to consumers (e.g. colour, taste, size). By using voluntary standards more intensively, as well as applying more rigorous regulatory impact assessment (RIA), creates a more user friendly system for businesses and traders. But in many Southern African countries, scarce public resources are being wasted on developing and enforcing technical regulations that go well beyond issues of purely public interest into other areas, like quality attributes or even classic protection.

41. One example is shoes in Mauritius where the Chamber of Commerce has proposed the development of a regulation to govern their quality to prevent the entry of low cost Chinese sandals that are perceived to have a tendency to break or tear more quickly than domestically-produced ones. However, these are often the only shoes that the poorest people in Mauritius can afford to buy.

42. Similarly, in most Southern African countries there are also no procedures by which technical regulations are assessed in terms of their consistency with public policy objectives; whether countries and the private sector have the capacity to implement them; or, their impact on trade and competitiveness. The main objective, therefore, should be to make regulations more efficient at achieving public policy objectives while minimizing their impact on trade. In particular, no 'Office of Regulatory Reform' or similar structure exists in any Southern African country to review the justification for both new and existing technical regulations.

43. The absence of RIA causes problems and raises trade costs. For example, in Mauritius the Dangerous Drug Act bans the importation of a list of toxic chemicals, but there is no capacity to test imports of final products containing these, such as paints (Brenton *et al.*, 2009). South Africa has only just started to provide routine impact assessment for new technical regulations, although problems persist with a number of regulations developed before this. For instance, the environmental levy on plastic bags was introduced there to reduce problems associated with litter, but the technical regulation governing it also ended up regulating unrelated issues such as the minimum thickness of the plastic to be used as well as the size of the text that could be printed on the bags.

44. Multilateral accords such as the WTO TBT Agreement as well as regional ones including the TBT Annex to the SADC Trade Protocol advocate that countries adopt international standards where both available and relevant to the country's stage of development, under the assumption that these do not create unnecessary barriers to trade. But in practice, nationally-developed standards and technical regulations often dominate in Southern Africa.

45. An example where a lack of applied harmonization is restricting regional trade is Portland cement. There are at least five types of Portland cement and differences in standards for the product largely concern how these types are classified. While SADC has managed to agree on a harmonized standard (based on the European one) for cement, some member states have not withdrawn their own competing regulations based on old British standards that were developed in the 1950s. The difference in standards (classification of cement) is important in practical terms because it determines the design of buildings that

are built using it. Construction on the first Mozal plant in Mozambique, designed to be built with EU-classified cement, could not use locally-produced material since this was not accounted for in the building plan.

46. A second example in which differences in national technical regulations are restricting intra-regional trade in Southern Africa is the transportation of hazardous chemicals. The classification used to identify these differs among countries. This means that as chemicals cross borders they often have to be reclassified, which can even involve changing the type of vehicle used to transport the chemical at the border. Again, differences do not affect safety of the product, but are simply a matter of classification.[15] South Africa is now proposing to adopt an internationally harmonized technical regulation domestically (based on the UN system for classifying hazardous chemicals) that it then aims to extend regionally by getting industries in neighboring countries to participate.

47. Standards bodies in most Southern African countries are often the same as those that do the conformity assessment and run their own laboratories. This can create (at least perceived) conflicts of interest with frequent allegations from the private sector that testing requirements for technical regulations are set in such a way that the laboratories are guaranteed business. Within Southern Africa, the regulatory function has been split for just one country – South Africa – and this only very recently. Until February 2009, the South African Bureau of Standards (SABS) assumed the responsibility to both develop standards and make them compulsory (in its regulatory division). But it now only develops standards and testing leaving a dedicated regulatory body (the National Regulator for Compulsory Specifications) to do the enforcement work.

48. There is also no country within Southern Africa that bases its conformity assessment on a formal risk assessment of the consequential costs should a good or service fail to meet the requirements of a technical regulation. Consequently, in some Southern African countries there appears to be a tendency to implement technical regulations that are very difficult to justify on scientific and technical grounds as to why protection is required. This is most often the case in those very countries that have national standards bodies with their own laboratory capacity which tend to favor approaches for testing that use them. This is contrary to international best practice and is costly for the country as a whole as it means the government is obliged to keep on providing modern testing equipment; the supplier may have to have the goods tested and re-tested every time they transit a border; and, ultimately consumers pay a higher price for the end product associated with these unnecessary services.

49. Within Southern African countries, the absence of clearly defined principles for regulation, procedures and responsibilities often leads to duplication across ministries and agencies. This is often reflected in the need for permits or licenses to trade from a number of institutions, all of which may ostensibly be designed to achieve similar objectives. For example, in Mauritius the export of fish requires permits from the Ministry of Fisheries and the Ministry of Agriculture which are used to collect information – information that is also recorded by Customs and readily available from them (Brenton *et*

[15] The problem is aggravated by differences that also exist in national regulations. For example, South Africa itself has six national regulations that cover the transport of dangerous chemicals. Transportation of chemicals by rail is governed by one set of rules and road transport by another. Labor used in the transportation of chemicals has yet another set of regulations. Added to this, each municipality can require permits for hazardous materials passing through their jurisdiction. For some, trucks must arrive empty before a permit is issued.

al., 2009). And in South Africa, fixed telephony equipment such as fax machines have to comply not only with technical regulations for safety (administered by SABS) but also overlapping specifications relating to electromagnetic interference and connectivity (administered by the Independent Communications Authority of South Africa). These impose additional costs for traders and the private sector due to creating multiple requirements for the same product, differences in administrative measures and confusion over which technical regulation takes precedence in case of dispute.

(v) Other non-tariff barriers restrict opportunities for regional sourcing

50. Other barriers such as trade permits, export taxes, import licenses and bans also persist. Shoprite, for example, spends US$20,000 per week on securing import permits to distribute meat, milk and plant-based goods to its stores in Zambia alone. For all countries it operates in, about 100 (single entry) import permits are applied for every week; this can rise up to 300 per week in peak periods. Lack of coordination across Government Ministries and regulatory authorities also auses significant delays, particularly in authorizing trade for new products. Another South African retailer took three years to get permission to export processed beef and pork from South Africa to the Zambian market.

51. In SACU, national protection for infant industries has often been used to justify import bans. Seasonal import bans on maize, maize meal, wheat and wheat flour ensure that domestic production is consumed first. Swaziland's imports of wheat flour were effectively prohibited for half of 2009 because no import permits were issued for six months of that year.

52. Export taxes also impose costs and inhibit the development of regional supply chains. A case in point is small stock exports from Namibia. Since 2004 the Namibian Government has established a scheme to encourage local slaughtering. Initially under this scheme quantitative restrictions on live sheep exports were imposed coupled with a discretionary permit system. These have since been replaced by a flexible levy. Under the former arrangement, the quantity of live sheep allowed to be exported from Namibia was set as a function of the number of sheep slaughtered domestically, initially set at 1:1 but later on decreased to 1:6. Under the latest arrangement, quotas for live sheep exports have now been abolished and, instead, replaced with a flexible ad valorem levy of between 15-30 percent.[16] The new arrangement is more restrictive than the old quota system and has virtually closed the border for the export of any live sheep from Namibia to South Africa.

53. The impact of Namibia's export restrictions on the live sheep industry in both Namibia and South Africa has been significant, and particularly adverse on abattoirs situated in the Northern and Western Cape. Examples are numerous. Between July 2004 and May 2008, Namibian exports of live sheep to South Africa decreased by 84%. Total sheep production in Namibia also fell from one million in 2008 to 800,000 in 2009 as traditional sheep framers have switched to alternative activities such as cattle and game farming. There have also been cases of livestock smuggling from Namibia to avoid the tax. In South Africa, 975 full-time jobs are at risk due to the scheme, especially in the bigger abattoirs that focus on slaughtering Namibian sheep during the low season to better utilize slaughter capacity (Talijaard *et al.*,

[16] The levies collected will be pooled into a special fund under the custody of the local Meat Board, and used for the development and promotion of the sheep industry.

2009). In addition, Namibian sheep farmers have become almost entirely dependent on the four Namibian export abattoirs where they were previously able to sell more sheep to the South African market and received a higher price (PWC, 2007). At least 90 percent of the carcasses from sheep slaughtered in Namibia are exported to South Africa, so the small stock export abattoirs in Namibia have essentially been granted an oligopsony where they do not have to perform efficiently or pay a competitive price to producers. These same abattoirs were supposed to do value addition to the primary product for the benefit of the domestic industry but over the past six years have largely failed to do so apart from slaughtering and skinning sheep locally.

(vi) Tariff peaks persist and necessitate NTBs

54. The restrictiveness of ROOs, lengthy delays at borders and other NTBs such as burdensome administrative requirements for customs are often related to the persistence of tariff peaks. South Africa, for example, has the most developed textiles sector in the region as well as a mature clothing industry. Both sectors are facing increased wage costs and so are heavily protected by a high SACU common external tariff. In order not to undermine this protection, South Africa has maintained a restrictive stance on ROOs (requiring double transformation) for preferential imports of clothing from other SADC countries to prevent the use of lower-cost third country fabrics (e.g. from China) entering through SADC countries (with lower MFN tariffs) for sale in South Africa.

55. Large differences in applied MFN tariffs between neighboring countries in the same RTA as well as large gaps in tariffs between similar products therefore create incentives for trade deflection or even fraud, mis-classification and smuggling. These all require additional customs resources and measures to deal with which, in the absence of these problems, could instead be used for trade facilitation.

56. Lower, more uniform tariffs applied across all countries would significantly reduce the need for many of the barriers which persist on regional trade in Southern Africa. While the objective that the SADC FTA cover at least 85 percent of intra-SADC trade by value has been met for most countries, tariff reduction commitments on the remaining sensitive products for which tariff peaks are most commonly found (textiles, clothing, cotton, cereals, dairy, motor vehicles) are starting to lag. Some SADC countries have also failed to formally join the FTA. Malawi still imposes its 2004 tariff commitments on SADC imports, although it has recently announced that it will soon be taking steps to align its tariffs to meet its current obligations (Kandodo, 2010).[17] Zimbabwe is also lagging in its regional tariff reduction commitments and is even proposing to increase duty on competing products imported under SADC to relieve import competition. The proposal will affect imports of food preparations (from duty free under SADC to 10% tariff); piping (to 15%), plastic packaging (to 15%), flexible containers (to 15%), and galvanized steel sheets (to 20%) (Government of Zimbabwe, 2010). Angola has yet not yet presented a market access offer under the SADC Trade Protocol and the Democratic Republic of Congo and Seychelles have yet to accede to it. Madagascar has been suspended following its coup d'état. For all

[17] Specifically, the 2010/11 Budget Speech refers to reducing Malawi's tariffs to zero on imports of raw materials from SADC.

countries, there are also some sectors which will not be liberalized at all or for which regional trade is more closely regulated e.g. sugar (see Box 5).

Box 5: The SADC Sugar Cooperation Agreement

The SADC Sugar Cooperation Agreement under the Trade Protocol outlines the market access arrangements for regional trade in sugar between SADC member states. It is designed as a non-reciprocal market access agreement for non-SACU SADC countries exporting to the SACU market with the goal of full liberalization and reciprocity by 2012. Each non-SACU SADC country is granted access to a portion of the SACU sugar market based on the annual growth in SACU demand. Each country's share of the SACU market is determined by the size of its net surplus (defined as domestic output minus domestic consumption and exports to the EU and US under preferences) relative to total SADC net sugar surplus production, with a guaranteed minimum access of 138,000 tons. In addition, an annual duty-free tariff quota of 20,000 tons of sugar to the SACU market is open to non-SACU SADC net surplus sugar producers. Access is allocated according to the net surplus production of each country relative to total non-SACU SADC net surplus production.

57. Tariff barriers to intra-regional trade also persist in COMESA. While tariff elimination on intra-FTA trade is complete, most COMESA non-FTA members (Democratic Republic of Congo, Comoros, Eritrea, Ethiopia, Seychelles and Uganda) still impose relatively high tariffs on intra-COMESA trade although a few (e.g. Seychelles) have shown a willingness to join the FTA soon.

58. Under SACU - an established customs union - tariff barriers also persevere. The SACU Agreement permits national protection for infant industries in the BLNS countries but not in South Africa. Under the provisions for this, the BLNS countries can impose duties on imports from South Africa provided that the same tariffs are also imposed on imports from the rest of the world. Namibia has used the provision to protect a pasta manufacturer and broilers and maintains protection on UHT milk production even though the SACU-mandated 8 year limit to do this recently expired. Botswana has recently used the provision to limit imports of specific varieties of tomatoes and UHT milk. However, the economic evidence to support infant industry protection based on developing globally competitive firms or creating significant numbers of sustainable jobs remains very weak (see Box 6). The costs associated with this type of protection are also high. Erasmus and Flatters (2003) find that infant industry protection for Namibian pasta increased prices and limited choice, since quality imported pasta made using durum wheat became largely unavailable, but created less than 20 jobs. Flatters (2010) estimates that Botswana protection for its UHT milk production cost consumers there US$16 million per year – equivalent to at least US$160,000 per job saved where the annual wage of factory worker in Botswana is no more than US$1,500. While South Africa is not allowed to protect its infant industries under the SACU Agreement it has managed to shield its mature sectors from intra-SACU competition through imposing antidumping duties (most recently on imports of chicken).

Box 6: Creating comparative advantage: does industrial policy work?

Several countries, including South Africa, have encountered some disappointment with the results of pursuing liberal economic policies, also termed "the Washington Consensus". Although few countries ever followed the pure form of these policies, some countries in East Asia adhered to some (but far from all) of its components and experienced extraordinary rapid growth for a period of three decades or more. Examples include South Korea during the 1960s-70 and Malaysia in the 1970s-80s. But other countries that managed to align their macroeconomic and trade regimes much closer to the idealized consensus failed to experience comparable growth. Consequently in some African countries, and many Latin American ones as well, there is now an understandable search as to why and many policymakers have expressed interest in exploring options for industrial policy which can include the use of infant industry protection.

So, is there a case for government intervention to actively promote particular sectors, at the expense of others?

Almost all countries, including Southern African ones, use one form of industrial policy or another. Market failures often inhibit trade such that left unattended a market system may not yield socially efficient outcomes. The issue, therefore, is not so much one of no intervention versus intervention but rather the form these interventions take.

One view is that export growth and diversification are best promoted by unleashing the power of the market and reducing the role of government as much as possible. In other words, problems with poor trade performance can be associated with "government failures" such as protecting inefficient industries (at the expense of releasing factors of production needed to grow efficient ones); creating barriers to competition; and, rent seeking. Consequently the most appropriate role for government policy is simply to remove these constraints.

The opposite view, similar to that prevailing in South Africa today, assumes that firms may produce tradable goods at an initial cost disadvantage, due to the limited industrial history of the country, for example, but if temporarily nurtured can become more cost efficient to compete with imports in the local market or successfully export. This process requires more activist sector-specific policies to create dynamic scale economies (infant industries). Government interventions therefore require the proper identification of shortcomings and the right combination of policies to deal with them (Rodrik 2004; 2007). However, even here, strategic trade policies (e.g. tariffs) are unlikely to be the most efficient instrument and better policies will always be available.

So has industrial policy worked based on international experience and is it still relevant in an increasingly globalized world?

Pack and Saggi (2006) show that the economic evidence in support of infant industry protection is weak. While government intervention may co-exist with success, in many cases industrial policy has failed to yield any gains and the costs of mistakes (e.g. in providing subsidies) have outweighed the benefits even where industrial policy has been successful. Four main reasons are cited for this. First, governments are ineffective at picking winners. The prospects for most new industries are uncertain and *no one* knows whether or not a particular infant industry will be profitable in the future. Secondly, strategic tariff policy is subject to capture by industrial lobbies or labor unions. Thirdly, the evolution of globalization (i.e. the emergence of international production chains and buyer-led networks) makes industrial policy less relevant since simply achieving low costs is no longer sufficient to realize foreign sales. For example, retailers often place very large orders that are well beyond the production capacities of smaller firms even if they have learned sufficiently to become cost competitive in small quantities. Finally, globally competitive firms increasingly require the ability to adjust rapidly to demands for: improvements in their quality; changes in the characteristics of their existing goods and services; and, very fast innovation to produce new goods and services. Governments are simply too slow to respond.

59. Restrictive tariffs on third country imports also remain. Since extra-regional trade is, and will most likely remain, more important than regional for most Southern African countries, it is essential that regional integration policies be outward-orientated. High external tariffs lead to trade diversion and reduce competitiveness of countries on both regional and global markets.

60. Table 7 illustrates applied MFN tariffs across Southern African countries. It shows that for most countries in the region over one-third of tariff lines are peaks (high tariffs with an ad valorem rate equal to or over 15%). The table also shows that tariff structures vary greatly in terms of their complexity. The most complex case by far is SACU which, despite having 60 percent of its tariff lines duty-free, has 36 non-zero ad valorem tariff bands rising to 100 bands if non-ad valorem rates are included. While significant progress has been made in liberalizing SACU's external tariff structure of the early 1990s, tariff reductions largely stopped post-1999 once South Africa had met most of its WTO Uruguay Round commitments.

Table 7: Most Southern African countries maintain a high number of tariff peaks

Country	**Average applied MFN tariff %**	**# non-zero ad valorem tariff bands**	**Maximum tariff %**	**% of duty-free tariff lines**	**% of tariff peaks ≥15%**
Angola	7.3	6	30	0	10
DR Congo	12.0	3	30	0	35
Madagascar	12.5	3	20	2	38
Malawi	13.0	5	25	10	37
Mauritius	2.9	3	30	88	6
Mozambique	10.1	4	20	3	34
SACU	7.8	36	60	60	21
Tanzania	12.6	9	100	37	41
Zambia	13.8	3	25	19.3	33
Zimbabwe	25.5	18	60	6.2	35

Source: UNCTAD TRAINS

61. The current SACU tariff structure largely reflects the relative strengths of previous sector lobbying efforts, and is riddled with inconsistencies that have inadvertent effects. For example, in 2004 the SACU rates on salmon, trout and smoked fish were 25% while tuna, sole, halibut, lobster and crab were duty free. Rates were 35% for mangoes, 20% for strawberries, 10% for dried apricots, 5% for bananas, oranges, grapes, pears and kiwi while nuts were duty free. Tea attracted lower duty if it was imported in smaller packages (see Edwards and Lawrence, 2010). Tariff rationalization and simplification therefore remain pressing issues for the region as is the persistence of high protection in sensitive sectors, such as textiles and clothing.

62. South Africa, for its part, has chosen a growth and development path that prioritizes upgrading in labor intensive sectors through industrial policy interventions in the economy aimed at generating comparative advantage and promoting value added exports. As part of this, a strategic tariff policy is being advocated in which import duties are decided on a sector-by-sector basis. Duties on mature upstream input industries will be lowered or removed to lower costs for downstream production and tariffs on downstream industries, particularly employment-intensive ones, will be retained or raised, limited of course by binding obligations under the WTO or other regional trade commitments. This

approach assumes all market failures systematically retarding trade growth can be dealt with by strategic trade policy on a sector-by-sector basis. However the types of institutional arrangements needed to pursue it might have a high probability of capture by lobbies and, therefore, a low chance of success. A better alternative would be to provide support without the use of specific trade policies and in a way that has no overt sector bias such as providing information; improving access to credit; or, providing training that benefits all firms and not just those in favored activities.

III. What is being done at the regional level and which further policy reforms are needed to reduce fragmentation in the Southern African market?

63. The previous sections show that intra-regional trade in Southern Africa remains constrained due to remaining barriers. This section explores those reforms already being undertaken at the regional level to address some of these constraints and identifies what more needs to be done to further reduce market fragmentation.

64. Recent analysis suggests that reducing the width of borders to reduce trade costs and enable firms to scale up production is crucial in allowing firms to access both regional and global markets. However, as shown in Figure 9 economic borders in Africa remain relatively thick compared to other parts of the world and, within Africa, borders in Southern Africa are thicker than those in East Africa. How can the width of these borders be narrowed?

Figure 9: Economic borders in Southern Africa remain thick[18]

Source: World Bank (2008b).

[18] The wider the border, the more the country limits trade, travel and the flow of factors of production. The measure uses information for average tariffs (World Bank data), capital openness (Chinn and Ito, 2006), proportion of countries that need a visa to visit that country (Neumayer, 2006) and a press freedom index that includes information such as internet filtering (Reporters without Borders for Press Freedom, 2007).

(i) Reduce inefficiencies in transport, customs and logistics

65. Efficient logistics are critical for trade. In order for RTAs to be effective, intra-regional trade must be able to move at low cost and without incurring significant delays. Efficiency improvements in the transport sector in Southern Africa would therefore have significant effects on reducing import costs and increasing export competitiveness. Easing policy-related constraints would also increase returns to new regional infrastructure investments.

Policy is often as important as infrastructure

66. High transport costs in Southern Africa are a combination of many determinants that are very often country-specific. The problem can be attributed to market structure and regulation (Rizet and Hine, 1993) as well as weak infrastructure and distance to major markets (Pedersen, 2001).

Figure 10: Main regional transport corridors in Southern Africa

Source: TradeMark Southern Africa.

67. In the past it was simply assumed that large investments in improving African infrastructure would reduce transport costs. While such improvements have facilitated road and sea transport (the efficiency of rail transport in the region has deteriorated dramatically over the past decade) and reduced the costs for transport firms operating in these sectors, there has been relatively little impact on transport *prices*. Possible reasons for this included most projects covering only a single transport mode or agency and focusing more on the development of physical facilities rather than policy constraints. For example,

inefficiencies at border crossings and roadblocks are also important and can make a significant contribution to transit delays and costs (Arvis *et al.*, 2007).[19] Regional agreements, corridor operations (see Figure 10) and the streamlining of regulations affecting transport have often been neglected. This means that in addition to improving transport infrastructure, transport prices can also be reduced through ensuring there is strong competition and effective regulation of the providers of key transport services within the region as well as streamlined border procedures.

Reducing border crossing times through streamlining borer management procedures and implementing trade facilitation measures would have the biggest impact

68. Among these policy interventions, lowering border crossing times has been estimated to have the biggest impact on reducing transport prices, at least along the main transports corridors in Southern Africa. Delays at Beit Bridge and Ressano Garcia often take a minimum of four days, for example. The cost of these delays to trucking companies at these borders have been estimated at US$3.5 million each year, equivalent to a 25 percent surcharge on transport along the corridor (Teravaninthorn and Raballand, 2009). Creation of one-stop border posts (OSBPs) would therefore be a good solution for Southern Africa to facilitate trade between South Africa and its neighbors. However, implementation of most OSBPs that have already been agreed (see Box 7) is lagging far behind schedule. OSBPs are also just one part of a more comprehensive border management solution for the region. Rationalizing the number of border agencies involved in cross-border trade as well as the number of requirements for consignments (e.g. import permits) would also shorten the time it takes for goods to cross borders. For example, the OSBP at Chirundu has now been established but the main outstanding issue there is the harmonization of customs procedures. Consequently border crossing times are half what they used to be but only for personal traffic. Crossing times for commercial traffic have stayed largely the same due to different procedures required by the two countries' authorities.

Box 7: One-stop border post initiatives in Southern Africa

Implementing OSBPs has experienced substantial attention in Southern Africa in recent years. The development of OSBPs is an important complement to trade liberalization and regional integration efforts to increase intra-regional trade and alleviating constraints to transit trade for landlocked countries. The main operational principle of OSBPs is that all border agencies from the countries concerned operate side-by-side in the same control zone and coordinate and integrate their activities as much as possible.

Current initiatives to create OSBPs in Southern Africa include those between South Africa and Mozambique at Lebombo/Ressano Garcia; South Africa and Lesotho at Maseru Bridge; Mozambique and Swaziland; Zambia and Zimbabwe at Chirundu; between Zimbabwe and Mozambique at Forbes/Machipanda; along the Trans-Kalahari Corridor; Tunduma/Nakonde between Zambia and Tanzania; Kazingula between Botswana and Zambia; and, Kasumbalesa between DR Congo and Zambia.

[19] For example, along the North-South Corridor, a journey of 3,000 kilometers from Lusaka to the port of Durban by road freight takes on average 8 days to complete, including 4 days of travel time and 4 days spent at border crossings. Thus, even though trucks when moving are running at speeds of 50-60km/h, the effective speed of freight movement is no more than 12km/h. The cost of delays for an eight axle interlink truck has been estimated to be US$300 per day, which given traffic volumes represents a loss of more than US$50 million per year due to border delays (Cudmore and Whalley, 2003).

Improving competition among regional transport operators would also lower costs

69. Road transport in the Southern Africa region is the dominant mode of transport, linking goods and people to the regional market. However, barriers remain at the regional level which constrain opportunities for regional providers. Policy reforms that might ease these constraints are as follows.

70. *Finalize a regional agreement on market access for transport operators*: In an effort to bring some standardization to the many bilateral transport agreements, SADC drafted a multilateral agreement for signature by all member states in 2002. This agreement, based on a similar one is SACU, provides the regulatory framework for liberalizing regional road transport. However some countries remain unwilling to sign the agreement.

71. *Expand the third country rule and cabotage:* Both cabotage restrictions and the third country rule aggravate the problem of scale in the region. For example, one of the reasons trucking costs in Namibia and Botswana are so high is that small local trucking companies do not always manage to fill full loads and, even if they do, they usually do not have any backhaul. This means exporters in these countries may have to pay up to twice for road transport than that charged to a trader in South Africa. Allowing third country operators and cabotage would help overcome these scale-related problems in the transport sector and would lower prices.

72. *Adopt non-discriminatory road user charges:* While efforts have been made to harmonize road user charges across the region (e.g. SADC and COMESA have both recommended that road user charges for trucks be US$10 per 100km) it is most likely that these will remain a matter of negotiation and reciprocity between Southern African countries. This is due, on the one hand, to the different unit costs of road infrastructure between countries linked to traffic volumes and, on the other, to the many different sources of road financing arrangements in place e.g. road tolls in South Africa. What matters most, however, is that foreign users do not pay more than domestic ones.

73. *Harmonize GVM and other transport restrictions:* If all countries in Southern Africa used standard limits, a truck correctly loaded in one country would remain correctly loaded in another. However despite the strong case for harmonizing GVM requirements across the region, progress has been uneven. While most SADC countries have adjusted to the regionally recommended limit of 56 tons, a few have not e.g. Botswana (50,200kg), and often use lower limits to protect their domestic transport sector. There are also other restrictions that differ between countries (e.g. pontoon and bridge restrictions) and some (e.g. Tanzania; Mozambique outside the N4 corridor) do not allow interlink trucks.

74. *Adopt a standardized regional third party insurance scheme:* There are currently three main systems of third party liability insurance in use for cross-border transport operations in Southern Africa, namely cash payments, fuel levies (SACU) and the Yellow Card Scheme (COMESA). The COMESA Yellow Card scheme is the most successful and is valid in a number of COMESA member states meaning transporters and motorists do not have to purchase insurance coverage at each border. Regional efforts are now focused on expanding the scheme to SACU countries. In the wider SADC region there is not yet a harmonized motor vehicle insurance scheme.

(ii) Rationalize border procedures for indirect taxes

75. In the absence of actually harmonizing *levels* of indirect taxes across countries, addressing bottlenecks to regional trade arising from the *application* of different indirect taxes should be a priority and should start with a process that standardizes procedures for administering VAT at borders; sharing information between countries through a VAT information exchange system; and, creating common arrangements. For example, Lesotho is currently the only country in the region to have a bilateral agreement with South Africa on VAT. This arrangement has facilitated trade between the two countries by removing the need for the importer to pay VAT on imports entering Lesotho and then obtain a refund from SARS. Instead the importer simply submits the invoices to the LRA and the revenue authorities then settle refunds and payments between themselves. This streamlined arrangement means that VAT-related administration costs on trade between Lesotho and South Africa have been reduced: to 0.5% of the value of each transaction versus up to 2% elsewhere in SACU.

76. In other parts of the world some regions have been able to do away with fiscal frontiers altogether. Instead, VAT on goods traded regionally is collected either at the point of sale (origin) or delivery (destination). In the EU, for example, goods supplied between VAT registered traders are exempt with a right to deduct the input VAT (zero-rated) on dispatch if they are sent to another member state and the recipient is able to give a VAT number, which can be checked using a VAT Information Exchange System. The VAT due on the transaction is then payable on the acquisition of the goods by the registered trader in the country where the goods arrive.

(iii) Simplify rules of origin

77. It is apparent that the emergence of domestic content suppliers in Southern Africa, one of the key arguments used in favor of restrictive ROOs, has not occurred in the absence of viable downstream activities. To the contrary, the growth in some countries' clothing exports to the US under AGOA, for example, shows that regional production is responsive to more *liberal* ROOs not more restrictive ones. Increasing exports of final products results in a much larger downstream market that can create opportunities for local input suppliers to invest and replace imported inputs (e.g. Lesotho denim).

78. Consequently, the World Bank has proposed five reforms to ROOs that would encourage the development of new export industries, namely:

i) Providing exporters with a *choice* as to which rule (defined simply and transparently) they apply e.g. either a change in tariff heading test (ideally at a disaggregated product level) *or* a reasonable value-added rule (20 percent);

ii) Eliminating all product- and process-specific ROOs which set out how a product is to be made for originating status to be conferred;

iii) Removing the requirement for certificates of origin for products with nuisance tariffs i.e. those with preference margins below three percentage points;

iv) Enforcing these simplified rules more consistently and effectively at customs to mitigate and concerns over leakage or trade deflection; and,

v) Greater use of risk assessment, especially for large, trusted regional traders who should not require a certificate of origin for each consignment but, instead, should be able to submit these electronically per batch.

79. As part of the COMESA-EAC-SADC Tripartite initiative to create an FTA covering all twenty-six member countries, straightforward ROOs will need to be agreed if this is to be effective. Under this, ROOs cannot simply be harmonized between the existing RTAs because a process rule in SADC, for example, cannot be merged with a value-added one in COMESA. One option to address this issue would be to adopt the simpler EAC or COMESA ROOs which would be a good way to ease procedures at customs, particularly for Southern African countries that are members of two of the three agreements. An alternative would be to design entirely new rules that are simple but might, for example, include transport costs. This is of particular importance to landlocked countries since under simple value addition rules, imports are valued at their factory gate price. Countries with high import container costs can therefore struggle to meet originating status unless import transportation costs are taken into account or transport costs are actively targeted for reduction through increased trade facilitation. However, it should be noted that historically there have been difficulties with agreeing on more liberal ROOs for the region. For example, when the SADC Trade Protocol was negotiated, COMESA members of SADC proposed the simpler COMESA rules then, but South Africa did not accept.

80. In addition to reforming the *rules*, other initiatives to reduce the cost of *administering* ROOs should also be considered. Shoprite, for example, produces up to 8,000 SADC certificates of origin per month, all completed manually with up to 150 certificates of origin required per load. If a regional concession allowing the grouping of HS codes for certificates of origin were granted, this could potentially reduce Shoprite's workload in administering tariff preferences by 40%, saving US$170,000 per year for this retailer alone. A move to an electronic filing and an Authorized Economic Operator Scheme would further cut costs by US$4.4 million per year. In Zambia, Shoprite has become accredited with the Zambia Revenue Authority to use a pre-market approval process (including for import permits). This has reduced the time its trucks must wait at the Zambian border by up to four days – at an average saving US$500 per truck per day.

(iv) Streamline product standards

81. It is important that Southern African countries put in place procedures to ensure that technical regulations are designed and implemented to enhance trade by easing their burden on producers, but without compromising legitimate public policy objectives. The answer, therefore, is not simply a matter of liberalization and deregulation but rather one of *better* regulation and *more effective* regulatory agencies that, while not compromising health and safety objectives defined by national legislation, leads to specification and implementation of regulations in a way that promotes regional competitiveness and growth. The key steps to doing this are as follows.

Increase transparency in standards design and decrease, where appropriate, reliance on technical regulations

82. Governments in Southern Africa should consult with the private sector and other stakeholders more regularly and systematically on standards design and implementation as well as developing a framework for providing information to them. Focal point institutions (at the national level) should be assigned to disseminate information on standards and technical regulations both domestically and regionally. These should also put in place channels to allow firms and individuals to dispute the decisions made by officials in regards to technical regulations, standards and conformity assessment.

Review existing standards, technical regulations, permits and licenses and, for the introduction of new ones, make greater use of regulatory impact assessment

83. There have been recent successes in Southern Africa where RIA has prevented some technical regulations considered unnecessarily burdensome to trade from being introduced. One example of a proposal that was blocked would have mandated the use of (more costly) DOT 4 brake fluids in vehicles in South Africa instead of DOT 3, which is used in most cars in other countries, including the US, without any problems. This compulsory specification for brake fluid was to apply at the point of sale (i.e. not of use) and to have enforced it would not have had any effect on the existing brake fluid used in South African cars. However it would have unfairly discriminated against a major manufacturer and exporter of brake fluid in Durban, which at the time was producing and exporting DOT 3 fluid, mainly to India. The withdrawal of the compulsory specification was to prevent it from unfairly affecting this business, as exports are deemed as 'sales' under South African law and would therefore have been covered by it.

84. Southern African countries should, therefore, set up regulatory review committees to ensure impact assessments are conducted both for existing as well as new technical regulations to determine their costs and benefits; whether the economy as a whole benefits; or, whether less burdensome mechanisms (e.g. standards) could generate equivalent public policy outcomes.

Intensify efforts to harmonize standards and technical regulations at the regional level in those sectors that are likely to bring the greatest gains

85. The SADC Trade Protocol obliges standards bodies to withdraw conflicting national standards when harmonized ones have been agreed (see Box 8). But application remains lacking.[20] Only Namibia and Swaziland, which recently created national standards bodies of their own, have adopted all 78 (to-

[20] To compare with Europe, once an EU standard has been accepted every member state has a specific period of time (6-12 months) to withdraw its national standards and replace it with the regional standard.

date) of the SADC-defined harmonized standards for the region. There are also different ways in which harmonization can be achieved in the region, that differ widely in effect.[21]

86. Where agreement on harmonized standards cannot be reached, the Trade Protocol also urges that mutual recognition be explored so that member states accept as equivalent technical regulations of others, even if they differ, provided that they adequately fulfill the same policy objectives. However mutual recognition is a long way from being accepted in Southern Africa.

87. To increase regional trade, Southern African countries should therefore intensify their efforts to adopt either i) internationally agreed standards where these adequately reflect the circumstances of these countries; or, ii) regionally agreed standards where these have been developed. At the regional level, existing efforts to harmonize standards e.g. SADCSTAN should focus on priority sectors (defined by volume of trade or affecting trade with the most number of countries) to keep costs low and bring the highest benefits. A key constraint in designing and enforcing regional standards is that it requires countries to have strong national standards bodies. Capacity building, therefore, also remains important.

Box 8: Standards harmonization among SADC member states

All the national standards bodies in SADC participate in the SADC Cooperation in Standardization (SADCSTAN). Within it a country can propose a regional standard for a good or service that if accepted by other member states is adopted as a harmonized SADC standard. So far, harmonized standards have been agreed for 78 products and services. Participation in regional standards development has been uneven but is improving. For example, 60-70% of regional standards developed have been to South African standards although increasingly other countries are becoming more active in making proposals such as Mauritius (for agricultural products), Botswana (for construction services) and Zimbabwe. A key challenge, therefore, is participation of the region. There are different levels of standardization competence, skills and knowledge between countries. The national standards bodies in a few SADC countries (e.g. Tanzania, Malawi and Zambia) are also involved with efforts to harmonize standards in other regional groups, namely COMESA and EAC, which has resulted in different harmonized standards being agreed between the RTAs. It will be important for the various regional groups in Southern Africa to coordinate on standards issues so that there is a consistent approach. If the Tripartite FTA is to be effective, harmonization and coordination of standards between these RTAs will be especially crucial.

Another challenge is language. Portuguese, French and English are used in the region so if a SADCSTAN standard is developed in, say, English then Mozambique, for example, is required to translate this into Portuguese and then back into English again before the harmonized standard is agreed. This is a costly process and can cause disputes. For example, a standard on salt developed by Mozambique was translated into English by South Africa but when translated back to Portuguese was objected to by Mozambique on the grounds of it not being the same as the original.

Finally, some regional standards have also been developed without any real sense of prioritization and so are unlikely to bring significant increases in regional trade (e.g. frozen peas and dried apricots).

[21] For example, about fifty international organizations (e.g. the ISO) have developed their own internationally recognized standards, often with strong private sector input, and are encouraging countries to harmonize their national standards and technical regulations with these. In theory, therefore, countries could simply pick from them although these standards are often drawn up by committees dominated by developed countries that may not always reflect the particular circumstances of low income countries. Perhaps as a consequence of this, Ministries and regulatory authorities in Southern African countries have developed their own standards and technical regulations which are sometimes variants of international standards but in other cases are still very much country-specific technical requirements developed in isolation from other stakeholders. These can sometimes, whether intentionally or unintentionally, restrict trade.

Avoid duplication by allowing mutual recognition and encouraging specialization in South Africa for standards accreditation, certification and testing for the region as a whole

88. The success of regional standards harmonization processes such as SADCSTAN will depend heavily on countries' conformity assessment procedures being recognized by other countries in the region i.e. recognition of test data, product certification and accredited competence of conformity assessment bodies. Otherwise, producers are obliged to perform additional or repeated tests of their products in regional markets or to invite foreign inspectors, thereby increasing trade costs and rendering the whole regional harmonization exercise largely worthless. This requires mutual recognition and for this to be achieved countries may need to adjust their certification, accreditation and enforcement capacities to similar levels.

89. Alternatively, economies of scale could be exploited by the smaller countries relying on fewer accredited regional service providers for testing, inspection and certification instead of many national ones. Unlike other regions in Africa, Southern Africa has the distinct advantage that world class testing bodies and accreditation are already available in South Africa. Regional integration could leverage the capacity of these advanced service providers to support exports and capacity in the less advanced countries as well as eliminating the need for double testing on regional trade.[22] There are however several constraints to realizing these objectives. First, while South Africa is self-sufficient for a large part of its laboratory and testing requirements it does still need to rely on the use of overseas facilities for specialty analysis e.g. in certain types of chemicals or specialized textiles. Secondly, the costs of transporting samples from regional partners to South African testing facilities can be high. For example, while samples of Namibian shellfish are often sent to facilities in South Africa to test for contamination before full consignments are exported to the EU, the cost of sending these has been used as an argument to establish nationally accredited facilities in Namibia.

90. A positive development has been the recent creation of SADCA, the regional accreditation structure. This has been tasked with defining a suitable accreditation infrastructure to enable organizations in SADC to access accreditation services from internationally recognized accreditation bodies within their countries and to form a regional accreditation service (SADCAS). In this way, SADCA should facilitate the creation of a pool of internationally acceptable accredited laboratories and certification bodies within the region.

(v) Remove other non-tariff barriers to regional trade and curtail the development of new ones

91. A key consideration is those conditions under which NTMs are needed to achieve legitimate public policy objectives such as health and safety, versus those in which they are not such that they qualify as NTBs and are simply protectionist and impose unjustified burdens on trade. At the multilateral level,

[22] Indeed, SANAS already operates outside of South Africa. For example, the Tanzania Bureau of Standards is in the process of getting its laboratories accredited by SANAS, which is said to be cheaper than obtaining EU accreditation.

some core principles have been specified for NTMs not to be classified as NTBs. These are based on: ensuring transparency; non-discrimination; using international best practice wherever possible (e.g. for standards); and, proportionality to risk. However NTBs may also include those measures that while seeking to achieve legitimate objectives nevertheless impose unnecessary burdens on trade through inappropriate *application*. In other words, the barrier can relate to the administration of a measure as well as the measure itself.

92. RTAs in Southern Africa are aware of this and have developed procedures for reporting, monitoring and eliminating NTBs to regional trade. Key to their success will be identifying the sub-set of NTBs that are the most unnecessarily trade restrictive as well as the establishment of effective institutions and processes to deal with both existing NTBs as well as the incidence of new ones.

SADC is well-placed to eliminate NTBs to regional trade but more needs to be done

93. The SADC Trade Protocol directly addresses NTBs. For example, Article 6 calls for the elimination of all existing forms of NTBs and for Members to refrain from imposing any new ones. The issue of NTBs has also been rising up the SADC political agenda since the Mid-Term Review of the SADC Trade Protocol in 2004. By 2008, SADC Ministers of Trade had identified the following types of NTBs for elimination:

- Cumbersome customs documentation and procedures
- Cumbersome import and export licensing/permits
- Import and export quotas
- Unnecessary import bans and prohibitions
- Import charges not falling within the definition of import duties
- Restrictive single channel marketing
- Prohibitive transit charges
- Complicated visa requirements
- Pre-shipment inspection
- National food security restrictions

94. In some of these areas there has been progress, but in most barriers still remain. For example, the 2007 Audit on the implementation of the SADC Trade Protocol found that all member states were implementing many of the trade facilitation instruments that had been rolled out by SADC. However those governing the creation of a regional customs transit system, for example, have yet to be implemented (see Table 8).

Table 8: Progress has been made in implementing SADC trade facilitation instruments

Instrument	**Bot**	**Les**	**Mal**	**Mau**	**Moz**	**Nam**	**RSA**	**Swz**	**Tan**	**Zam**	**Zim**
WTO Valuation Agreement	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
HS Coding System a) Schedule of Concessions b) Migration to 2007	 Y Ongoing	 Y Y	 Y Ongoing	 Y Y	 Y N	 Y Y	 Y Y	 Y Ongoing	 Y Y	 N Y	 Y Y
SADC Certificate of Origin	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Regulations on SADC ROOs	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
ROOs manual for customs	Y	N	Y	Y	Y	Y	Y	Y	Y	Y	Y
ROOs manual for traders	N	N	N	N	N	N	N	N	N	N	N
SADC SAD	SAD 500	SAD 500	N	N	N	SAD 500	SAD 500	SAD 500	N	N	N
Voucher for correction of SAD	Y	Y	N	N	N	Y	Y	Y	N	N	N
Guidelines for completion of SADC customs documentation	Y	N	N	N	N	N	N	N	N	N	N
SADC Transit Regulations	N	N	N	N	N	N	N	N	N	N	N
SADC Transit Documentation	N	N	N	N	N	N	N	N	N	N	N
SADC Transit Customs Bond Guarantee	N	N	N	N	N	N	N	N	N	N	N
SADC Integrity Plan to fight corruption	Y	Y	Y	Y	Y	N	Y	Y	Y	Y	Y
MOU for SADC customs administrations	Y	Y	Y	N	Y	N	Y	Y	Y	Y	Y
Conformity assessment	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y

Source: USAID (2009).

95. At the country-level there have also been some significant achievements. For example, Mauritius has made strong progress in the automation and streamlining of its customs clearance and port management processes.

96. Nevertheless, success in removing NTBs in other areas has been lacking where efforts have tended to focus, instead, on improving monitoring and reporting of NTBs rather than elimination. Monitoring has taken two main forms:

i) Audits on the implementation of the SADC Protocol on Trade have been undertaken every year since 2007. Their main focus has been on progress in removing tariffs facing regional trade, as per countries' commitments, but they also review NTBs, in particular trade facilitation and ROOs.

ii) A SADC Trade Monitoring and Compliance Mechanism (TMCM) was established in mid-2008. It has two distinct elements: an online NTB Monitoring Mechanism (NTBMM) which records reported NTBs; and, the elimination or reduction of barriers (both tariffs and NTBs) following bilateral negotiation or outcomes from the Dispute Settlement Mechanism.

97. The NTBMM is now well established (see Box 9). However, there have been problems with it including limited private sector awareness of the mechanism as well as misidentification of those barriers reported. The NTBMM once reported that South Africa was maintaining a single marketing channel for maize, whereas this system had been abolished long ago in the 1990s. Another example of misidentification concerns Angola, where weak postal services are cited as an NTB. There have also been other challenges with the system including: administrative lags in responding to complaints; delayed establishment of institutional arrangements to deal with NTBs (such as setting up national NTB focal points); and, a lack of coordination in eliminating reported NTBs across countries (SADC, 2009). There has been very slow progress in resolving the NTBs that have been notified. Within the SADC region, eight complaints were raised against South Africa (forty if complaints from EAC and COMESA countries are included) of which only four have been resolved. The others require more information from the complaining countries but this has not been forthcoming, despite requests from South Africa. For complaints against other SADC member states there has only been one resolution of an NTB reported via the mechanism.

Box 9: The NTB Monitoring Mechanism

The NTBMM is shared between SADC, COMESA and EAC and is a web-based 'post box' where the private sector can report complaints against NTBs to regional trade in the Southern (and Eastern) African region.

Under this, 335 complaints of NTBs were made between 21 January 2009 and 12 January 2010 against barriers originating in 20 countries. The greatest number of complaints were made by Namibia (66), followed by South Africa (46), Zimbabwe (39) and Malawi (30). The three most cited countries for imposing NTBs are South Africa (40 cases), Namibia (36) and Malawi (33).

An assessment of the types of barriers cited in the NTBMM is set out in Table 9. Trade-related administrative barriers are reported most frequently by firms as an impediment to regional trade, followed by import licensing.

Table 9: NTBs cited in the NTBMM

Barrier	**No. of complaints**
Trade-related administrative NTBs	74
Export & import licenses	39
Transit issues	36
Technical barriers to trade	32
SPS measures	28
Rules of origin	26
Clearance procedures	24
Quotas	19
Payments	21
Customs documentation	17
Pre-shipment inspection	8
Customs valuation	6
Immigration requirements for cross-border traders	4
Safeguards	1

Source: Charalambides (2010).

The SADC Action Plan should be more systematically implemented to address NTBs

98. An 'action plan' or 'roadmap' of some description has been an integral part of NTB elimination in several countries and regions that have been successful at dealing with these barriers to trade. For example, the EU adopted a Single Action Plan in 1997 to speed up the realization of the Single Market by eliminating barriers to the movement of goods, services, labor and capital. The plan included putting in place a scorecard of implementation and set out formal infringement procedures. Another example was the ASEAN roadmap for integration which listed precise NTBs to be eliminated, first, by 2010 for the ASEAN-6 and, second, by 2018 for Cambodia, Laos, Myanmar and Vietnam. ASEAN also eliminated NTBs through specific regional initiatives.

99. SADC drafted an Action Plan for NTB removal in 2007 but implementation in some areas has been lacking. The Action Plan included recommendations for NTB notification, monitoring and negotiation as well as dispute settlement and included proposals on categorizing NTBs into those targeted for immediate elimination versus those that should be phased out over an agreed period of time. The main achievements to-date have been the development of the NTBMM as well as agreement on a set of core NTBs with some reporting back on progress made in eliminating these. Implementation of other areas in the Action Plan now needs to be strengthened with particular emphasis on:

- *Removing the remaining core NTBs already identified by the region:* i.e. cumbersome customs procedures; cumbersome import and export licensing; import and export quotas; unnecessary import bans and prohibitions.

- *Categorizing NTMs and NTBs:* In practical terms many measures already indicated by the region as constituting barriers to trade will need to be assessed as to whether they have been accurately categorized as NTBs and, indeed, whether the barriers actually exist. The WTO approach could be adopted to identify those NTMs that have tipped over into becoming NTBs. The categorization should also include 'procedural obstacles' to cover situations where the application of an NTM constitutes the barrier to trade rather than the measure itself.

- *Using a vertical approach:* Action should initially be focused on removing 'easy' NTBs that appear to have a high impact on trade (defined as either affecting the highest volume of trade or the most number of countries' trade) or are, perhaps, less politically sensitive.

- *Naming and shaming:* Targets set for member states to eliminate their NTBs should be accompanied by a mechanism that not only monitors progress in removing barriers but also contributes to enforcement through naming those countries that are slow to reform. The current annual 'Audit' process of the SADC Trade Protocol could be adapted for this purpose.

The effectiveness of other initiatives to remove NTBs should also be enhanced

100. In addition to implementing the Action Plan, there are numerous opportunities to strengthen current SADC initiatives to monitor, report and remove NTBs. The NTBMM is currently being publicized to the private sector in SADC and this is important as it is ultimately importing and exporting

firms that must report the barriers they face on regional trade. But in addition to sensitization, the following steps should also be taken to improve the performance of the NTBMM:

- *Proper identification* of both the barriers and the process appropriate to them being addressed.
- *Prioritization of barriers for removal*, in particular linking these to any proposed in the Action Plan.
- *Development of a pilot* between, say, two countries (e.g. South Africa-Mauritius) to ensure the mechanism is well adapted to the needs of its users, as well as providing valuable demonstration effects to the rest of the region on the benefits of removing NTBs.

The introduction of new barriers must be prevented

101. Any mechanism aimed at removing NTBs will be of little use if new barriers can be freely erected to take their place. New NTBs could be disciplined through the greater use of regulatory impact assessments. In addition there should be strict notification requirements such that information on any planned measure is provided to partners in good time before it is implemented. Another significant problem is that many NTBs in the region are not legislated for at all, so the existing monitoring mechanism must also be strengthened to deal with new barriers that cannot be picked up by RIAs.

(vi) Finishing the tariff agenda

102. While strong progress has been made to reduce tariffs on *regional trade* in Southern Africa, there remains scope for further tariff reductions if all of it is to be truly duty free. This is particularly the case for sensitive products where tariff peaks persist or special arrangements have been put in place that restrict trade and, in many cases, necessitate other barriers e.g. rules of origin.

103. Outstanding regional tariffs should therefore be lowered by: i) fulfilling outstanding regional tariff reduction commitments on sensitive products; ii) bringing all members into FTAs, especially those with outstanding commitments (Malawi and Zimbabwe); and, iii) ensuring regional trade remains duty-free by disciplining infant industry protection and investigating options for a regional competition policy that would negate the need for arbitrary antidumping duties.

104. There also remain opportunities to improve competitiveness in Southern Africa by reducing tariffs on *external trade* across-the-board as well as simplifying MFN tariff structures. Within the SACU CET, for example, the existence of tariffs on imported inputs inadvertently taxes exports, and means bureaucratic and cumbersome rebate schemes are needed to compensate for these.[23] And despite the

[23] South Africa, for example, makes provisions for duty drawbacks and rebates to its exporters under various different schemes such as the 470.03 scheme and item 521. These rebates and drawbacks are only granted where the inputs are directly used in export production and not for the domestic market as well. There are also two specific

provision of rebates, tariff protection continues to tax exports in certain sectors. Edwards and Lawrence (2010) find relatively high implicit taxes for South African exports of leather products (29%), footwear (18%), food (15%) and textiles (10%). In this regard, regional integration should be viewed as an opportunity to lower tariffs facing third country imports, as well as regional ones, due to the increased policy credibility regional commitments can bring. MFN liberalization would also reduce the welfare losses associated with trade diversion. Broad and complex tariff structures are unlikely to allocate resources efficiently so simplification would help to channel resources towards activities in which countries are more competitive and away from those in which they are less.

105. For the SACU CET, one approach to realizing the full gains from liberalization would be, first, to simplify the tariff regime through lowering tariffs in the intermediate and capital goods sectors. This would promote exports by reducing the implicit tax on exports. Secondly, reducing the tariffs on final goods to just one or two ad valorem rates would provide benefits to consumers and provide a transparent signal for resource allocation that is less open to industry lobbying (Edwards and Lawrence, 2010).

export incentive schemes. Under the Motor Industry Development Programme, exporters of vehicles and vehicle parts earn an Import Rebate Credit Certificate (IRCC) based on the value of their exports. These can either be traded or used to rebate duties on imported components or vehicles. The Duty Credit Certificate Scheme, recently replaced by the interim Textile and Clothing Industry Development Programme, allows textiles and clothing exporters to claim a rebate on duty for exports, with the highest support for clothing followed by fabric and yarns (Kaplan, 2003; Edwards and Lawrence, 2010).

IV. Priorities for regional merchandise trade reform and implementing them

106. This report has categorized a wide range of barriers that persist on regional merchandise trade in Southern Africa. Which among these are the most important in terms of their restrictive effect, or perhaps easiest to deal with, that should be prioritized and tackled early on by policymakers?

107. First, one of the biggest issues for regional trade integration in Southern Africa, especially for manufactures and agro-processed products, is undoubtedly ROOs. This issue has gained particular importance in light of the planned Africa-wide Tripartite FTA where one set of rules for all countries will be required. This is generally accepted by all member states in SADC, COMESA and EAC. It is therefore extremely timely to develop a new single set of simplified ROOs, to be adopted by all African RTAs if the Tripartite is to be truly effective in increasing intra-African trade.

108. Secondly, resolving the other types of NTBs, both existing and curtailing the development of new ones, is also very important as these barriers are critically restricting trade in the region, particularly for primary agricultural commodities. Among these, the most serious barriers are import bans, quotas, permits and licensing, often implemented by countries with little or no consultation with their trading partners. In many cases, statutory instruments are not used to restrict imports but there may still be a *de facto* ban. For example, if imports of a product are required to be licensed but a country then decides to temporarily issue no licenses, then imports are effectively prohibited even though a ban has not been formally issued. In dealing with these types of restrictions, the existing framework to remove NTBs in the region (the Non-Tariff Barrier Monitoring Mechanism) is not used as much as it should be. Often, instead of dealing formally with those complaints raised under it at the sector level and across all countries, authorities often make arrangements with individual suppliers to informally resolve complaints. The use of regulatory impact assessment should also be extended.

109. Thirdly, while tariffs have been reduced across the region, barriers arise in those sectors where tariff peaks persist. One advantage is that tariff reform can often be dealt with using "a stroke of the pen" approach, as opposed to some of the other barriers where implementation is more complex, perhaps costly and certainly more involved. High tariffs are also especially restrictive because concerns of leakage from third countries can create the need for additional barriers at the regional level (e.g. ROOs) as well as affecting regional trade in all sectors as border checks are intensified to check for transshipments of these products. Lower, more uniform, external tariffs would significantly reduce the need for many of the barriers which persist on regional trade in Southern Africa as would the development of policies that directly address the difficulties that protected sectors may be facing such as assisting labor in these industries to retrain in tasks where employment opportunities are better.

110. Fourthly, reducing bureaucratic requirements, streamlining border management procedures and implementing trade facilitation measures, including OSBPs, have significant potential to lower border crossing times and reduce transport costs, at least along the main corridors in Southern Africa. There is also increasing political willingness among the member states for this type of reform to go ahead sooner rather than later. For example, the South African Government has recently identified OSBPs as one focus area it wishes to develop for SACU and in the next twelve months will start working on identifying and

implementing potential projects. Namibia has already put forward five proposals on OSBPs for crossings that link it to South Africa and one with Botswana. However, revenue concerns among the smaller SACU countries risk impeding reform. Overcoming this challenge will require the development of better ways to capture trade flows across SACU borders than those currently employed as well as an open discussion about alternatives to the current revenue sharing arrangement, including delinking it from trade flows that might be more effective and sustainable in the long-term.

111. To implement these reforms, South Africa must take the main role in encouraging deeper trade integration in the region, or at least not block measures to do so, if the policy recommendations outlined in the previous sections are to be successfully implemented. South Africa's regional trade policies therefore require urgent attention especially since the neighboring countries could play a key strategic role in promoting its own export growth and diversification strategy.

112. In doing this, however, all countries in the region should avoid making unrealistic commitments, for example in the context of harmonizing external tariffs as part of customs union initiatives with other African partners beyond SACU. Instead they should place primary importance on the most pressing issues, cited above, that are preventing the FTAs that already exist in the region, as well as proposed new ones such as the Tripartite FTA, from working better. For instance, South Africa could underscore its commitment to regional integration by granting its SADC FTA partners more lenient rules of origin in textiles and clothing: a concession that would become more feasible with a lower SACU CET for these sectors.

113. In which areas of trade reform would regional approaches be most appropriate? One advantage to RTAs is their convenience in dealing with more complex trade issues in a simpler setting involving fewer countries. Another is that adjustment costs of trade reforms may be easier to deal with by opening up first to just a subset of countries before to all later on. In other words, regional trade reform can be used strategically to support unilateral trade reform that might otherwise be too difficult on the grounds of adjustment even if removing the barrier would benefit all trade, both regionally and with the rest of the world. So reforms in more complex and sensitive areas might best be tackled at the regional level, first, before learning lessons; dealing with adjustment; and, extending them to all countries on an MFN basis.

114. Nevertheless, not all reforms need wait for regional agreement either and much can be done both unilaterally and bilaterally to increase regional trade. For example, regional harmonization is just one way to deal with restrictive product standards. Countries retain significant scope to unilaterally improve both the quality of their technical regulations and the way these are applied. Another example is trade facilitation which can be, and is being, promoted at the regional level in SADC but countries can still push ahead with reforms bilaterally to increase cooperation and share customs facilities at their borders. Some reforms may even best be tackled outside the regional process. Cooperation on indirect taxes might be more feasible bilaterally instead of regionally. And the issue of tariff peaks must be dealt with unilaterally, particularly by South Africa which under the current SACU arrangement is able to export a diverse range of goods to SADC but behind high and complex external barriers to trade which are costly to consumers and producers in neighboring countries alike.

115. Regardless of the level policy interventions should take place, deepening regional integration will necessarily involve some form of adjustment in all countries concerned. There will be winners and losers

from trade reform in the short term and adjustments will take place both within and across sectors, skill groups and geographies. In the context of South Africa, given the extremely high rates of unemployment there, this could inhibit the country taking policies that simultaneously deepen regional integration and stimulate long-term growth and job creation. Reforming the regulatory infrastructures within countries might also be difficult, at least politically, where there may often be a need to convince Government agencies, ministries or even domestic firms to forfeit short term adjustment costs in the pursuit of larger, longer term gains that benefit the wider economy.

116. Nevertheless the benefits will outweigh the losses, especially if regional integration is undertaken as part of a broader package of trade and investment reforms aimed at opening up globally. And while it is certainly true that South African producers, for example, sometimes entailed painful adjustments following the trade liberalization there in the 1990s, this was often the result of the country protecting many activities that were simply not viable without that protection – or permanent infants (see Edwards and Lawrence, 2010). It is increasingly apparent that protection is simply not efficient at job preservation, making income distribution more equitable or on infant industry grounds. For example, while an average South African worker earns R95,000 per year in the manufacturing sector, South African consumers, many of whom are poor, spend on average R31,000 for each job that tariffs save (Lawrence, 2008). There are very high costs for consumers per job in motor vehicles (R89,000); televisions and communications equipment (R56,000); clothing (R78,000) and food (R75,000) (Edwards and Lawrence, 2010).

117. Concerns over adjustment can be addressed through several policy responses. The first might be to phase reforms gradually, but consistently, so that the adjustment is spread over time. A second is to consider interventions that can aid in the adjustment of sectors and workers. Many aspects of the adjustment process can be dealt with at the national level but there are a number of reasons why a coordinated regional effort to facilitate reform could also be particularly effective. First, in an increasingly integrated regional economy, national interventions to address adjustment issues risk spilling across borders making coordination between countries critical. Secondly, many of the public goods that are required to increase regional trade – for example, one-stop border posts; regional standards and accreditation schemes; reporting monitoring and eliminating NTBs – might best be supervised at the regional level. Finally, policy externalities, including learning from other countries' experiences, can be best managed through a coordinated regional approach.

118. Of course managing such adjustment processes across countries at the regional level raises even greater challenges than doing so nationally across locales within a single country. In particular, financial resources may need to be mobilized to support adjustment processes and to compensate any losers in the short-term. The resources to do this could come from the creation of a regional development fund. This would have the objective of reducing regional disparities resulting from integration through financing regional development projects that enable poorer regions in SADC to integrate with the richer ones through, for example, providing investments in physical infrastructure and institutional capacities. Resources could and should be generated from the member states themselves as well as from development partners as part of the Aid for Trade initiative. In this way, regional integration between SACU and the EU in the context of the EPA, for example, could leverage EU development funds to be used in this way.

V. Conclusion

119. The potential gains from deeper regional integration in Southern Africa should not be overlooked. Regional integration remains a very important instrument for export growth and diversification by allowing for the scaling up of capacities to attain the productivity necessary for countries to compete on world markets.

120. However, past regional integration efforts in Southern Africa have not delivered an integrated regional market in which goods can flow freely between countries. Despite achieving success, for the most part, in reducing tariff barriers to merchandise trade both regionally and to the rest of the world, regional trade as a proportion of GDP has grown much more slowly than trade with the rest of the world. And most Southern African countries continue to remain dependent on a just a handful of primary commodity exports.

121. A fragmented regional market in Southern Africa results from the persistence of obstacles to regional trade that affect products accounting for *at least* one-fifth of intra-SADC trade. Many of these barriers are administrative in nature, often not legislated and necessitated by the persistence of tariff peaks facing third-country imports, particularly in the context of the SACU CET and as a direct result of South African trade policy. In particular, restrictive rules of origin, inefficient administration of indirect taxes, weakness in transport, customs and logistics, poorly designed technical regulations and product standards as well as a host of other non-tariff barriers are critically undermining the impact of existing regional trade integration efforts.

122. The implications of the current system and the barriers remaining to regional trade in Southern Africa is that they impose unnecessary costs for producers that limit trade and raise prices for consumers. Many of these barriers are simply wasteful and do not serve any real purpose other than protecting the domestic market from import competition. Import bans and delays create uncertainty over market access and limit investment. Thick and fragmented borders limit possibilities for regional production chains in which countries can exploit their comparative advantage in specific tasks and intra-industry trade. Finally, the heavy bureaucratic burden imposed on all regional trade flows ties up regulatory and customs resources, limiting their attention on achieving the most pressing public policy objectives such as effective border management. Instead of scrutinizing all consignments, border checks should be focused on those for which the risks are greatest for circumventing national trade policy measures.

123. Southern African countries should therefore move towards greater efficiency in both regional and international trade by tackling these remaining barriers at the unilateral, bilateral as well as regional levels. To be successful, South Africa as the largest economy in the region should take the lead in encouraging deeper integration efforts. The primary focus should be simplifying rules of origin that primarily restrict trade in manufactures and agro-processed goods; tackling the other non-tariff barriers that have already been identified by Southern African countries as a constraint to regional, and mostly agricultural, trade (e.g. import bans, quotas, permits and licensing); implementation of OSBPs; and, reducing MFN tariff peaks, especially in SACU, but also including the reconciliation of outstanding tariff reduction commitments under the SADC FTA, for those member states that have not yet met their obligations under this.

Chapter 3: Developing Services in Southern Africa – How Regional Integration Can Help

I. Overview of Services Trade Policies in Southern Africa

I.1 Gains from Deeper Integration of Services Markets

1. Services and services trade matter profoundly for growth and development in Southern Africa. Services are important inputs into the production of goods and other services and hence influence productivity and competitiveness. Increasing the availability, affordability and quality of services is crucial for economic growth and poverty reduction in all Southern African countries.

2. International trade can play a key role in the development of services sectors in Southern Africa. Opening up to services imports, including through foreign direct investment, can be an effective mechanism to increase competition and efficiency in the provision of services in the domestic economy. Liberalization of services trade can have positive impacts on the production and export of goods and services throughout the economy. In addition, services themselves offer dynamic opportunities for developing new exports, both within SADC—thereby realizing gains from specialization in services—as well as from SADC economies to the rest of the world.

3. Liberalizing services trade is typically more complex than liberalizing goods trade and can require considerable technical capacity. The complexity arises from the necessity for many services sectors to be regulated in order to ensure that they operate efficiently in the face of market failures. The challenge is one of integrating domestic services markets with regional and global markets, while promoting a regulatory environment that delivers competitive services sectors and allows public policy objectives, such as universal access, to be met efficiently. Coordinating services trade liberalization with regulatory reform to make them mutually reinforcing can be vital in mobilizing and sustaining support for reform.

4. While trade barriers would ideally be liberalized on a non-preferential basis, such liberalization may not always be technically feasible nor politically acceptable, especially when impediments arise from differences in regulatory requirements. Deeper regional integration through regulatory cooperation with neighboring partners, which have similar regulatory preferences, can usefully complement non-preferential trade liberalization. Deeper regional integration would also enhance competition between services providers, allowing these providers to exploit economies of scale, which may be especially important in the education of service professionals, and produce a wider variety of services. Regional integration brings further benefits in that a larger regional market is able to attract greater domestic and foreign investment, and regionalization may help to take advantage of scale economies in regulation, particularly where national agencies face technical skill or capacity constraints.

5. This chapter addresses three challenges related to services trade liberalization and regulatory reform in Southern Africa. First, it addresses information gaps on applied trade policies in several services sectors that have been identified by SADC as priority sectors for regional integration. Second, it addresses knowledge gaps regarding the coordination of services trade liberalization with regulatory

reform using as case studies accounting, engineering and legal services. Third, it addresses the role of regional integration in developing and reforming these services sectors.

I.2 An Overview of Services Trade Policies in Southern Africa

6. Services trade matters for development. Greater regional and global integration could alleviate the constraints on the development of key services sectors due to limited endowments of capital and skills in Southern African countries, as well as the smallness of some markets. In addition to the gains potentially flowing from services reform itself, it is important to emphasize that the regional integration of services markets is closely intertwined with the aspired integration of goods markets; particularly with regard to services providing connectivity, i.e. transportation and telecommunications. Chapter 2 section II has demonstrated how costly and low quality logistics services are contributing to the continued fragmentation of goods markets, thus open and pro-competitive services policies would also help realize the envisaged gains from RTAs and trade facilitation.

7. However, despite the striking growth in tourism exports from some African states and the remarkable dynamism of the liberalized telecommunications sector, the gains for the Southern African region from international integration seem small so far compared to the unexploited opportunities. Is this because Southern Africa has failed to liberalize or because it has not reaped the benefits of liberalization? Until now, it has been hard to judge because of the opaqueness of services policies and the absence of any single source of information on policies across countries for even the major services sectors.

8. Comparable information on services regulation in member states is a precondition for effective trade negotiations, thus the lack of requisite data is a major hindrance for a regional integration agenda in services going forward. As a first step in addressing this gap, this section will first provide an analysis of the current state of services trade restrictiveness in SADC economies. The comparative analysis will reveal areas of commonality as well as differences in policies applied by SADC members. It will also help identify policy research issues of relevance to SADC countries.

9. An ongoing research project by the World Bank is compiling data on actual or applied trade policies in services. As part of this project, surveys have been conducted in 11 SADC countries, namely in the Democratic Republic of Congo (hereinafter the DRC), Lesotho, Madagascar, Malawi, Mauritius, Mozambique, Namibia, South Africa, Tanzania, Zambia, and Zimbabwe. A number of other developing countries have also been surveyed and comparable information has been obtained for 24 OECD countries. The focus is on measures affecting the establishment of a commercial presence but will also include restrictions on cross-border services trade and the movement of natural persons where applicable.

10. The survey covers five key sectors: financial services (banking and insurance), telecommunications, retail distribution, transportation, and professional services.[24] In each sector, the survey covers the most relevant modes of supplying that service: cross-border trade in services (mode 1 in WTO parlance) in financial, transportation and professional services; commercial presence or FDI

[24] These sectors are further disaggregated into the following subsectors. Insurance: life, non-life, and reinsurance; telecommunications: mobile and fixed line; transportation: air transport (freight and passengers), maritime shipping, auxiliary port services, road transport, railway shipping, and multimodal transport; professional services: accounting, auditing, and legal services.

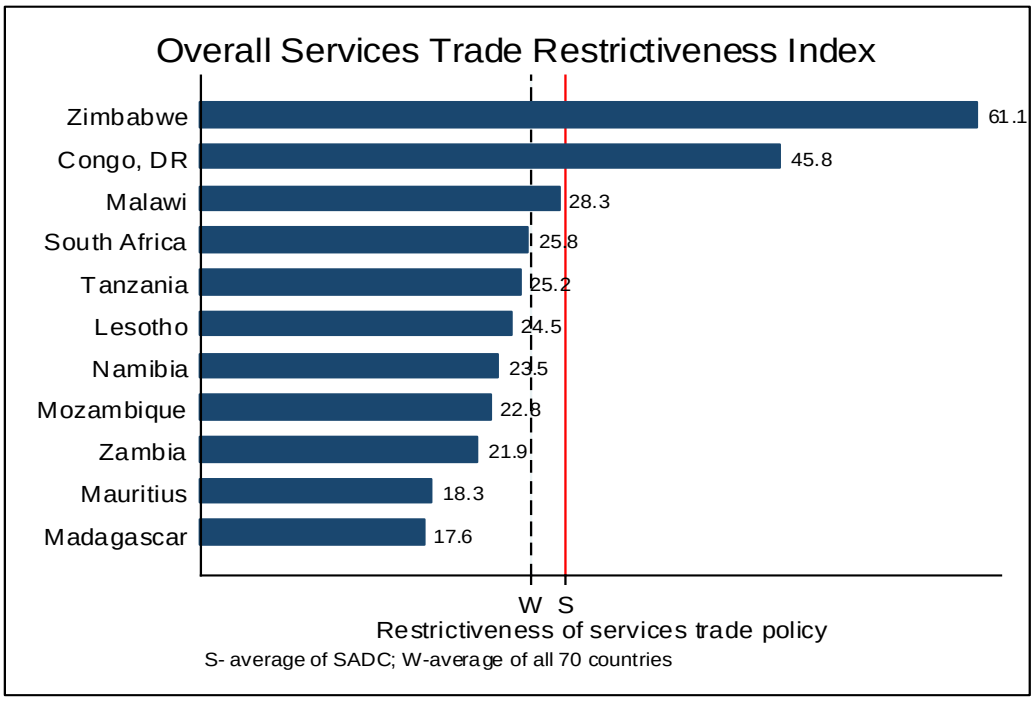
(mode 3) in each services sector; and the presence of service supplying individuals (mode 4) in professional services.

11. In order to facilitate some rough comparisons, results from the surveys are summarized in an index of services trade restrictiveness (STRI). For each sector and mode of supply the openness of policy towards foreign suppliers is mapped on a 5-point scale ranging from 0 (for no restrictions) to 100 (closed), with three intermediate levels of restrictiveness (25, 50 and 75).

12. Sector results are aggregated across modes of supply using weights that reflect judgments of the relative importance of the different modes for a sector. For example, mode 4 (temporary movement of service professionals) is of great importance for professional services but not for telecommunications, in which case mode 3 is the dominant mode of contesting a market. Sectoral restrictiveness indices are aggregated using sector GDP shares of an average industrialized country as weights, with the same sector weights being used for all countries for comparability reasons.

13. Figure 11 provides a comparison of overall restrictiveness of services trade policies for 11 SADC economies. As measured against the broader STRI average of 70 countries, some of Southern African countries, in particular Madagascar and Mauritius, appear remarkably open. Indeed, eight out of 11 SADC countries are close to or more open than the world average. Zimbabwe and DRC are the significant outliers, which lead the SADC average to slightly exceed the world average.

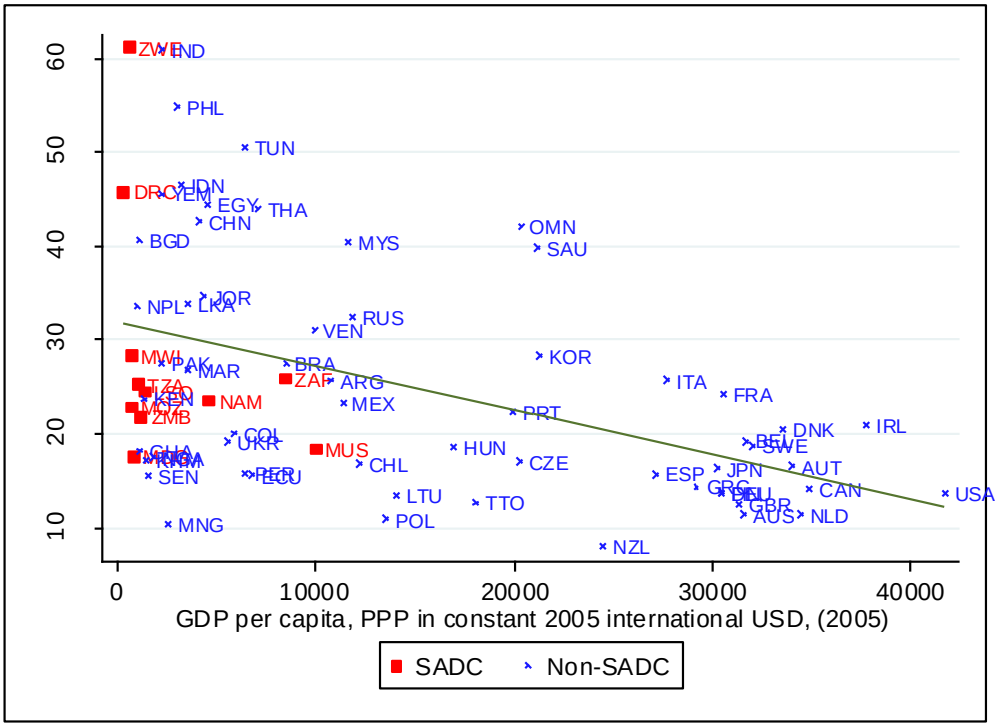
Figure 11: SADC Services Trade Restrictiveness Indices (STRI)



14. Figure 12 is a scatter diagram that plots each country's overall STRI against its per capita income. To facilitate a comparison of how SADC countries fare on a larger scale, a number of other developing and OECD countries are also included. The developed countries are clustered together at the bottom-right showing that they are quite open overall (though some sectors remain restricted). However, there is much

more variation in the restrictiveness of services policies for low income countries. The remarkable openness of most SADC economies is again apparent as most countries (except for Zimbabwe and DRC) lie below the linear trend line, meaning that they are more open than the sample average conditional on their respective level of per capita income. Interestingly, much more restrictive policies today are visible in the fast-growing economies of Asia, including China, India, Indonesia, Malaysia, Philippines and Thailand, as well as in the Middle East, including Egypt, Saudi Arabia and Tunisia.

Figure 12: STRI and Per Capita Income



Note: The country STRI incorporates indices of retail banking (mode1 and mode 3), life and auto insurance (mode 1 and mode 3), reinsurance (mode 1), retailing (mode 3 only), maritime shipping (mode 1 and mode 3), maritime auxiliary services (mode 3), air passenger (mode 1 and mode 3), accounting, auditing, legal services in domestic and foreign law (mode 1, 3, and 4). The information on mode 1 in air passenger transport came from the WTO's QUASAR database.

15. Figures 13-18 summarize information on actual policies in individual service sectors. Overall, the surveys reveal that the Southern African countries have significantly liberalized their services sectors but in some areas protection persists. Public monopolies in telecommunications and finance are in most countries a relic of history. At least some measure of competition has been introduced in both mobile and fixed line services, and in banking too there is openness to the presence of foreign and private banks. In fact, even where countries in other parts of the world have been cautious about liberalization, such as in financial services, SADC countries have opened up both to foreign investment and to cross-border capital flows. In retail services too, with a couple of exceptions, the countries are very open to foreign presence.

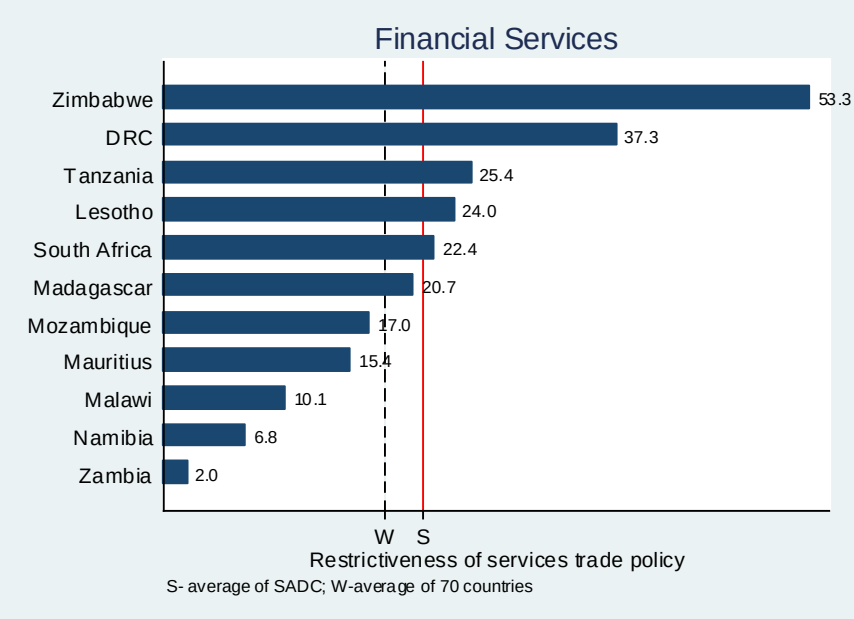
16. However, even though the markets for these services are now more competitive, in most countries they are some distance from being truly contestable. In telecommunications, governments continue to limit the number of providers and SADC policies are twice as restrictive as the global average. Whereas maritime transport is open, in air transport, SADC countries follow the world in protecting airlines and restricting competition. The barriers in telecommunications and air transport may have the effect of deepening SADC countries' isolation from the rest of the world, in a physical as well as an informational sense. Similarly, even though SADC countries resemble the rest of the world in terms of restricting entry of foreign professionals, they may be paying a high cost in terms of depriving their firms of the requisite skills and creating learning opportunities for their own professionals.

17. Two other issues deserve attention. First, the generally high degree of de jure openness of SADC's services trade policies may not always imply de facto openness, as most countries still retain a significant degree of regulatory and policy discretion. For example, from retail to banking and insurance, the allocation of new licenses remains opaque and discretionary in many countries. The degree of discretion is probably largest in the realm of immigration, for instance affecting the conditions under which visas can be obtained or renewed. This area is critical to professional services, where trade hinges crucially on the ability of individuals to cross borders and provide services abroad. A key reform issue is how regulatory discretion needed to pursue legitimate domestic policy goals can be reconciled with the need to have clear and predictable rules for foreign (and domestic) service providers. Within a smaller set of countries sharing a geographic and perhaps cultural affinity, it may be more easily feasible to agree on specific conditions under which capital and service professionals may cross borders. Policy uncertainty could therefore be removed at least to some extent for SADC economies, thereby facilitating the regional flow of investment or natural persons as service providers.

18. Second, as discussed in more detail at the end of this section, there is a trend towards reversing the existing openness in certain areas to achieve the objective of "empowering" nationals or a group of nationals. This trend is more stark is countries like Zimbabwe and South Africa but also discernible in other countries like Zambia.

19. In financial services, which include banking and insurance in the survey, most SADC countries are around or at the world average in terms of openness, except DRC and Zimbabwe (Figure 13). In general, foreign banks can provide their services to these countries either through the establishment of a new subsidiary, the acquisition of a private local entity or creating a joint venture with a domestic firm. Furthermore, in all countries with the exception of Madagascar, foreign banks can supply services cross-border to domestic firms. This openness implies a high degree of openness to international capital flows.

Figure 13: STRI in Financial Services



Note: Financial services indices incorporate the indices for banking (mode 3) and mode 1 (deposits and loan only), auto and life insurance in mode 1 and mode 3, and reinsurance in mode 1 only.

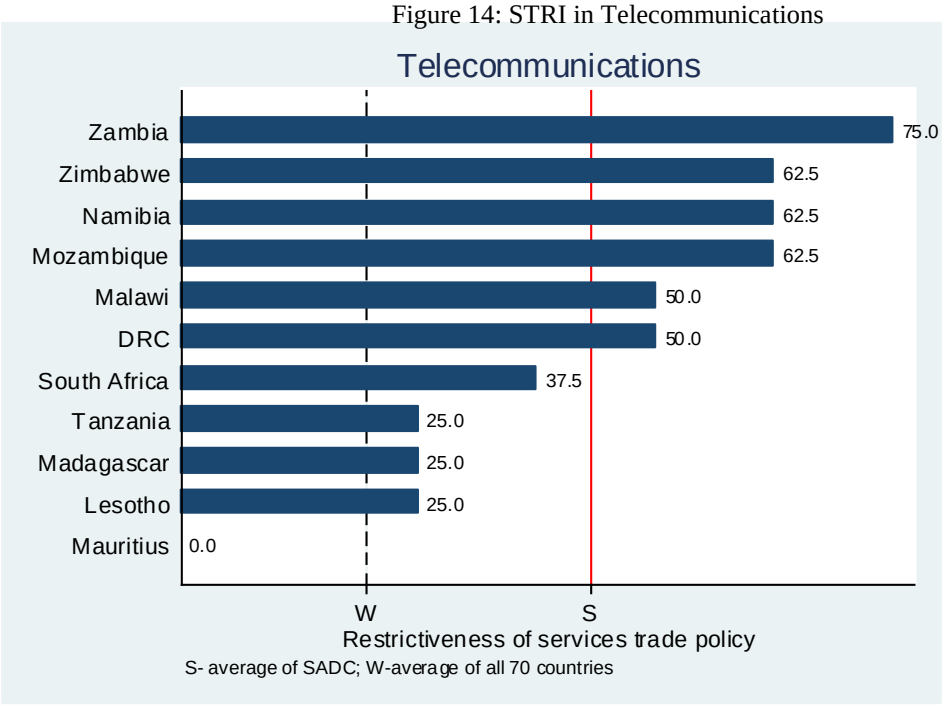
20. In the insurance sector Southern African countries, while very open with respect to the establishment of commercial presence, do not show a clear pattern with respect to the permission of cross-border trade. With the exception of DRC, which is completely closed, foreign insurers can provide their services to all countries either through the establishment of a new subsidiary, the acquisition of a private local entity, or creating a joint venture with a domestic firm. While cross-border re-insurance is invariably allowed, the provision of life insurance and automobile insurance cross-border is not permitted in countries such as Mauritius, Tanzania, Madagascar, Malawi and Mozambique.

21. Overall, in financial services most SADC countries have opened up not just to foreign investment but also to cross-border capital flows where other developing countries have been cautious about liberalization. The implications of this openness for efficiency, stability and access to finance are worth examining in greater depth.

22. Whereas in most sectors the SADC average is not too far from the world average, in telecommunications SADC economies are about twice as restrictive as the world benchmark (Figure 14). This is a sector where enhanced competition has produced huge benefits all over the world and so there must be a presumption that large gains are waiting to be realized. Policies vary widely, with some five countries, including the largest market South Africa, exhibiting fairly open policies. However, there are instances in which the sector appears de jure entirely open yet the license fee is prohibitively high (e.g. Zambia for the international gateway), or the award of new licenses depends on the regulator's pre-assessment of whether or not the market "needs" additional providers (e.g. in Lesotho). While the fixed line subsector is entirely closed in Mozambique and the mobile subsector is effectively closed in Namibia, about two-thirds of the countries allow a majority-owned foreign company to enter their markets.

Countries also score well in terms of transparency, independence of their regulators, and liberal voice-over-internet-protocol (VoIP) policies. Nonetheless, there is a discernible tendency for countries to retain some discretion in policy and to ensure at least minority ownership by nationals.

Figure 14: STRI in Telecommunications



Note: Telecommunications indices incorporate fixed and mobile telecom in mode 3.

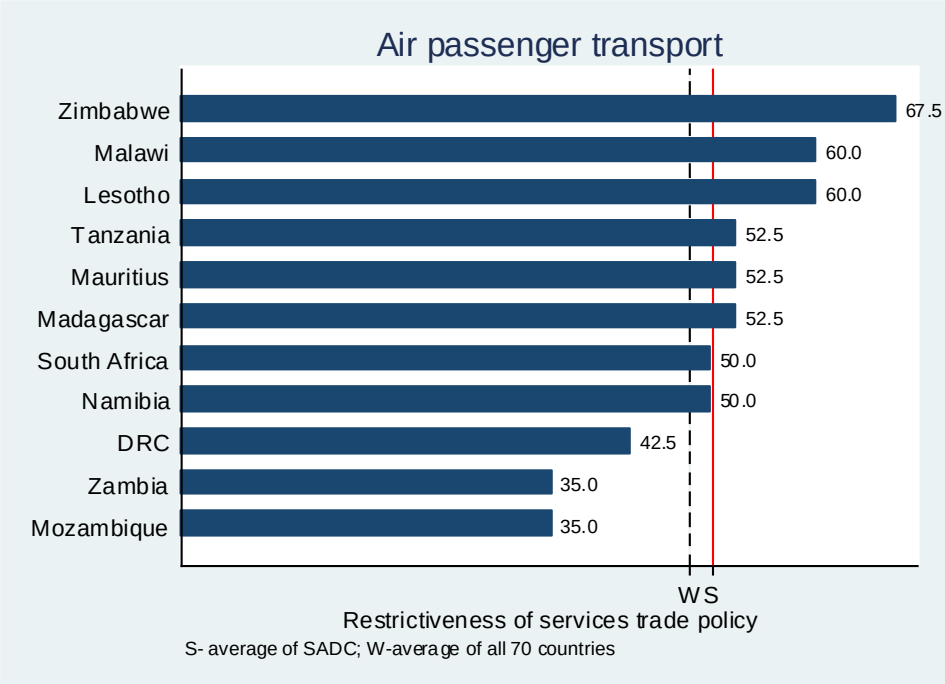
23. Air transport has a long tradition (as elsewhere in the world) of protecting incumbent national carriers and restricting competition on domestic and international routes. In SADC restrictions on foreign investment co-exist with limitations on cabotage and cross-border trade. COMESA has had an open skies policy[25] for more than a decade but implementation has been a challenge.[26] There is, therefore, not a single country that could be said to have a particularly liberal regime, and most countries hover around the world average (Figure 15). Policies are in general more liberal with respect to international air passenger transport than in domestic air transport.

[25] This agreement aimed to liberalize air transport in the region for COMESA airlines, defined as those substantially owned and controlled by a COMESA member state or its nationals. The liberalization agreement provides for the introduction of up to two daily flights between city pairs without the need for a bilateral air service agreement between member states. There is also no restriction on cross-border investment by COMESA nationals or companies in areas such as airport services, maintenance or ground handling.

[26] Well known disputes include those between Ethiopian Airlines and Kenya Airways. Kenya has blocked Ethiopian Airways from flying to three regional destinations (Entebbe, Kigali and Bujumbura) from its Nairobi hub despite Ethiopia allowing it intra-African flights from Addis Ababa. Nevertheless Ethiopia has also prevented Kenya Airways flying to Jeddah and Dubai from Addis Ababa (although these are Middle Eastern Destinations where COMESA open skies policies do not apply).

24. Those measures inhibiting greater trade in air transport services, as well as the noticeable barriers in telecommunications, may deepen SADC countries' isolation from each other and from the rest of the world, impairing their ability to trade, for instance, more time-sensitive and communication-intensive goods. To the extent that the region aims at becoming a platform for global export growth in which inputs from several countries are combined (vertical specialization), policy barriers that suppress the emergence of competitively priced, on-time logistics services appear to be particularly harmful.

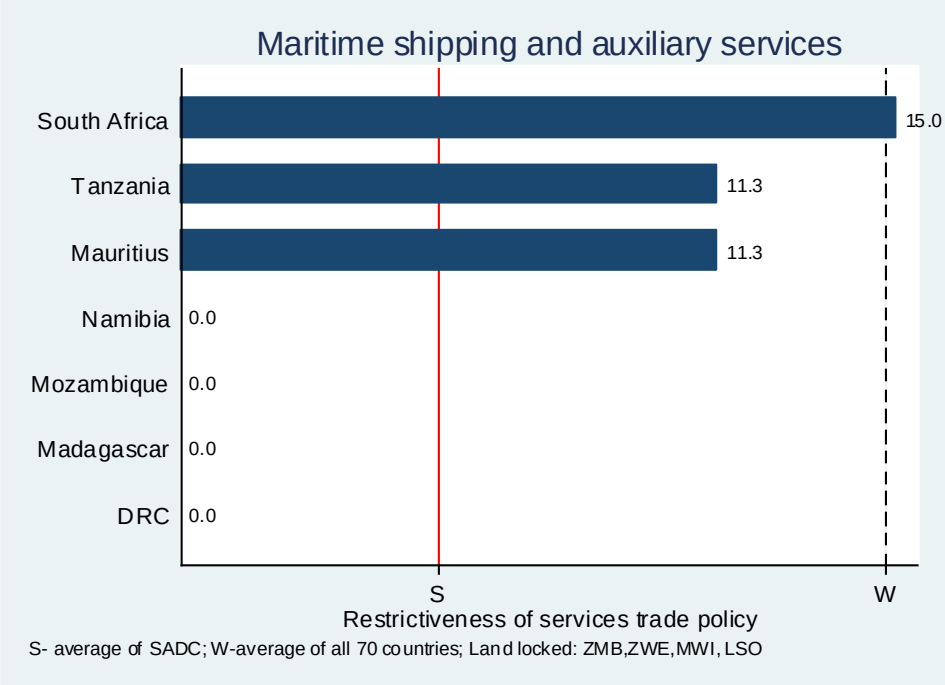
Figure 15: STRI in Air Passenger Transport



Note: Air passenger indices incorporate mode 1 and mode 3 indices. Mode 1 indices come directly from the QUASAR database of the WTO, and mode 3 information is taken from the WB survey.

25. In contrast, few if any restrictions of foreign ownership are to be found in maritime shipping and road transport. Zimbabwe is the one exception where foreign investors cannot acquire a controlling influence in any subsector. In maritime transport, international shipping is today quite open, as are auxiliary port services such as cargo handling, belying the traditional perception that Southern Africa restricts competition in this vital area. In particular, the SADC average of index values is less than half the world average. Figure 16 naturally excludes landlocked countries—notice that the STRI value of even the most restrictive country in maritime shipping (South Africa) is extremely low, reinforcing the finding that SADC economies maintain a quite liberal regime in maritime transport.

Figure 16: STRI in Maritime Shipping Transport

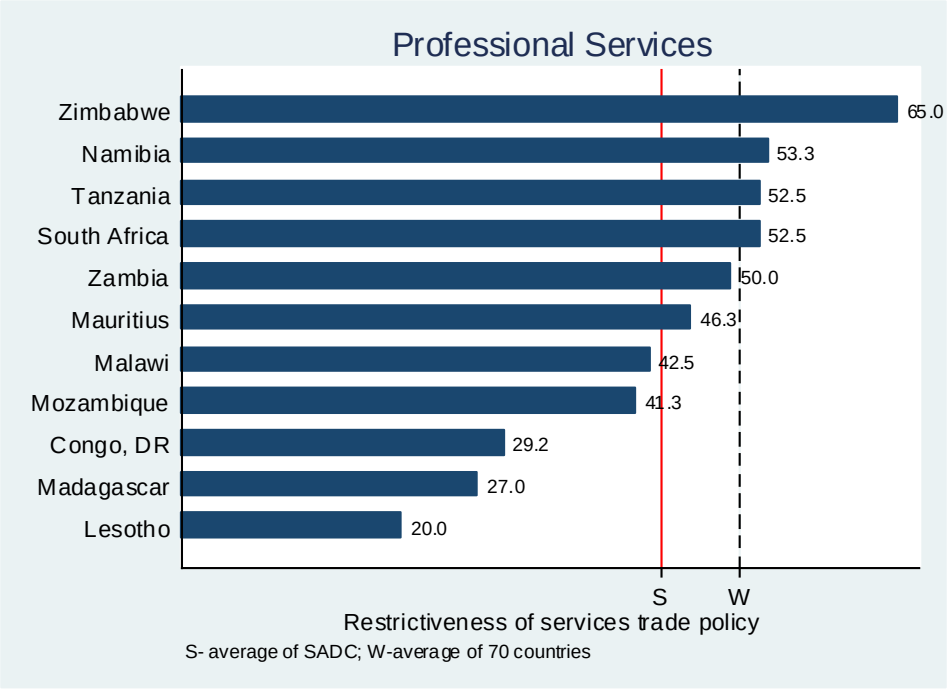


Note: Maritime shipping indices incorporate trade restrictiveness in mode 1 and mode 3, and auxiliary services in mode 3.

26. Professional services remain a bastion of protectionism in SADC as in most countries of the world, even though the professional services STRI average in SADC countries is somewhat below the world average (Figure 17). This reflects the fact that barriers to the movement of natural persons are even more prevalent in many developed countries that are included in the world benchmark. In professional services, even though there is increased scope for international trade through electronic means, there remain restrictions on foreign presence, particularly with respect to individual service providers. DRC, Lesotho and Madagascar appear to be more open than the rest of the group, while Namibia, South Africa, Tanzania, and Zimbabwe seem to be on the more restrictive side.

27. Overall, it is relatively difficult for foreign services providers to engage in the provision of services that require knowledge of local laws and regulations such as auditing or representing someone before a domestic court, whereas all countries permit foreign-licensed lawyers to advise local clients on home country law by virtue of their existing credentials alone. Given the relative scarcity of local skills, the current regulatory regimes may be unduly handicapping Southern African firms and depriving their professionals of learning opportunities.

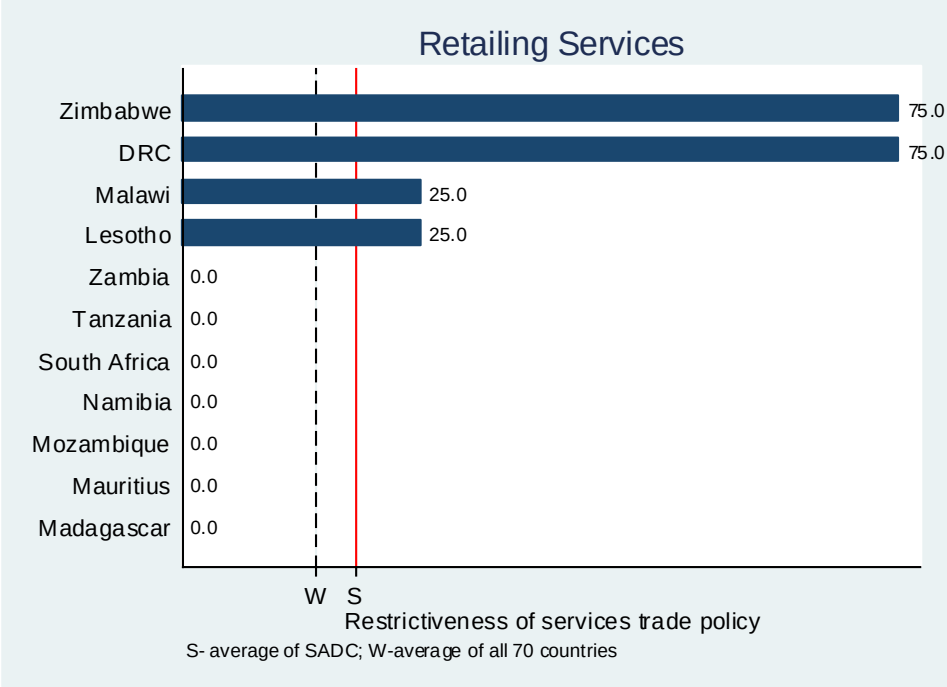
Figure 17: STRI in Professional Services



Note: Professional Services indices incorporate accounting, auditing, and legal advisory services on domestic and foreign law in mode 1, mode 3, and mode 4.

28. In the retail distribution sector, a highly polarized picture emerges. While very few countries restrict foreign investment in retail, DRC and Zimbabwe maintain highly restrictive policies in this sector (Figure 18). With respect to DRC, it is the high score in retail that combines with a high one in financial services to make this country the second most restrictive economy in the sample under consideration (cf. Figure 13). In other countries, we observe very few explicit policy restrictions on the foreign ownership of equity, on the legal form of entry, or on ongoing operations of retailers. However, although policies are in principle open, the licensing regime is discretionary. In particular, in half of SADC countries (six out of eleven) the license issuing entities are city or district councils, with each office in the city or town being competent to decide on the license criteria to be applied.

Figure 18: STRI in Retail Services



II. Developing Professional Services in Southern Africa – How Can Regional Integration Help?

II.1 Making the case for considering professional services

29. Strong professional services spark economic growth while weak professional services impede growth. Improving and expanding these critical services for development gains demands both national and international strategies. These simple but often overlooked pieces of the development puzzle form the basis of this section, which probes the rarely studied relationship between professional services — such as accounting, legal, and engineering services — and their dynamic impact on economic growth in Southern Africa.

30. Consider the following:

- Even though the share of business services in the GDP of Southern African countries is small, the sector is among the most dynamic.

- Business services, including professional services, are key inputs for other sectors, including for sectors that are key for regional integration at the Southern African Development Community (SADC) level.

- Greater use of professional services by Southern African firms in all sectors is associated with higher labor productivity. This association between professional service use and productivity is especially strong for small firms.

- The direct and indirect gains from liberalizing professional services are considerable and professional services can become an important source for export diversification in Southern Africa.

- But a large gap looms between the needs of professional services faced by the Southern African countries and the resources available to them to address these needs.

31. Policy makers in Southern Africa share this view of the professional services sector's critical importance. And, along with reform of backbone services like telecommunications, banking and transport, governments are adding professional services to their list of priorities, including by engaging in international cooperation and trade in professional services and by creating a more integrated regional market.

32. This section delves into the essential issues of these largely unexplored sectors in Africa through extensive information gathering and analysis. It examines the current state of accounting, engineering, and legal services in Southern Africa and analyzes the reasons for their underdevelopment and for the limited trade in these services, particularly at a regional level.

33. This section calls, among other things, for policy action in the following areas: education, regulation of professional services, trade policy, and labor mobility at both the national and the international level. It puts particular emphasis on policy recommendations for enhancing growth and development of these professional services sectors in Southern Africa through deeper regional integration.

II.2 Professional services and trade in professional services matter for growth in Southern Africa

34. **Professional services play an important role in the functioning of modern economies.** Professional services such as accounting, legal and engineering services contribute directly and indirectly to economic growth, including by lowering transactions costs, and by creating spillovers of knowledge to other industries. Business skills and services, such as accounting and legal services can play a critical role in reducing transaction costs and are considered by Collier and Gunning (1999) to be the most significant impediment to economic growth in Africa. Accountancy is critical for cost control, business planning, sound financial management, and good corporate governance (Trolliet and Hegarty, 2003). Effective law and justice systems are one of the major structural pillars of sustainable development and poverty reduction. Access to legal services improves the predictability of the business environment, facilitates engagement in contracts and mitigates investment risks (Cattaneo and Walkenhorst, 2010). Engineering services is a knowledge-intensive sector essential to the productivity and sustainability of various other economic activities. For example, civil engineering is critical for the development and maintenance of a country's physical infrastructure, while electrical engineering is important to the operation of public networks such as utilities as well as commercial facilities and communication systems (Cattaneo et al., 2010).

35. **Professional services are among the fastest growing services sectors in many developed and developing economies, including in Southern Africa.** While evidence on the state and role of professional services in Southern Africa is scarce and unsystematic, available statistics at a more aggregated level show that "Business services[27]", of which professional services constitute an important part, had a direct contribution of between 6 to over 21 percent of GDP in the examined Southern African countries in 2009.[28] These figures compare rather favorably with the shares of business services in the GDP of both more advanced countries and other developing economies. For example, Lesher and Nordas (2006) show that the shares of business services in GDP in OECD countries ranged from 3% in Greece to almost 13% in France, while World Bank (2010) finds that the share of business services in the GDP of four Eastern African countries ranges from 1.5 percent in Uganda to 3 percent in Kenya. Furthermore, with average annual growth rates of business services outputs of 21% in Zambia and of almost 7% in South Africa over the 2000 to 2009 period, the sector seems extremely dynamic in these two countries. [29]

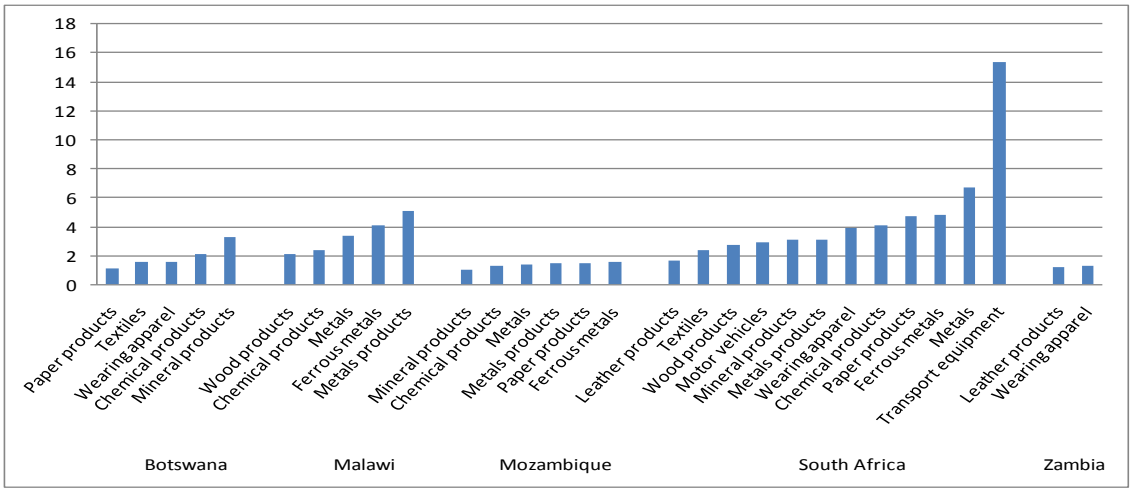
[27] Business services cover the following services categories: *professional services*, computer services, research and development, real estate, rental and leasing, other business services such as advertising, management consulting, services incidental to agriculture, mining, manufacturing, and energy distribution, technical consulting, maintenance and repair of equipment, building cleaning, packaging, and publishing. These services represent important inputs in other sectors and facilitate the transmission of knowledge spillovers.

[28] Data is available for Botswana, South Africa and Zambia. In Botswana, banking and insurance services are included in the business services category.

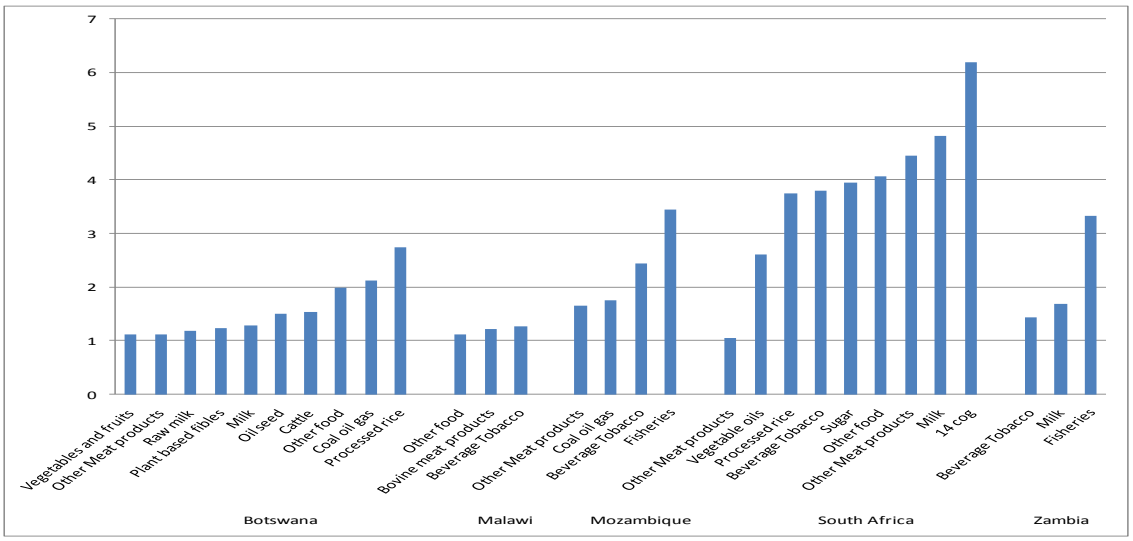
[29] See http://www.zamstats.gov.zm/media/table_1_current.pdf , and http://www.statssa.gov.za/publications/P0441/P04411stQuarter2010.pdf

Figure 19: Share of Business Services as Intermediate Inputs (%)

Panel A: Manufacturing Sectors



Panel B: Agricultural Sectors



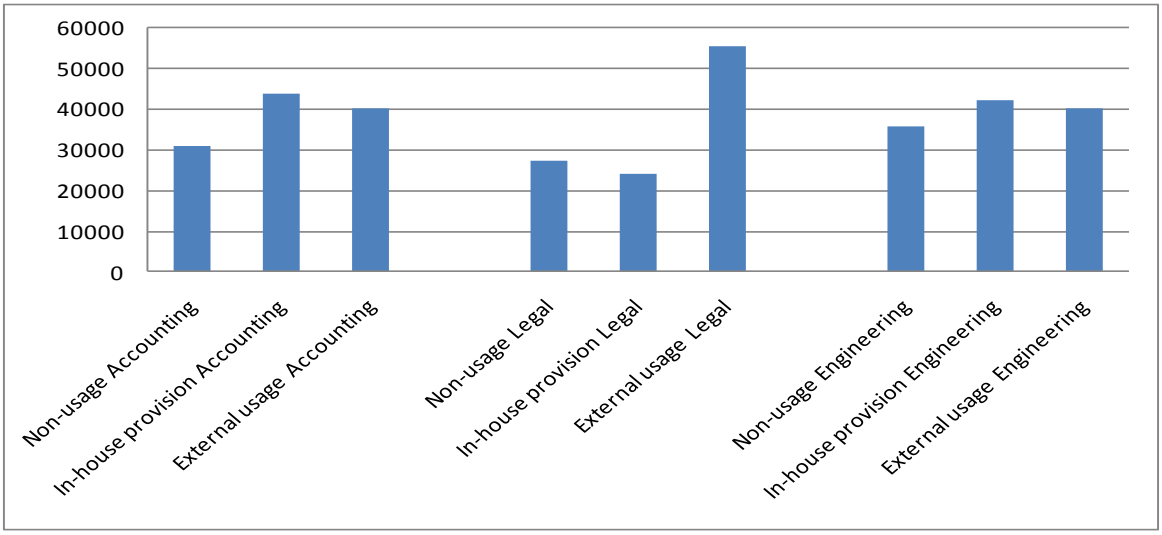
Source: GTAP database version 7. Note: The figures show the share of business services in total costs for a selected set of manufacturing sectors (Panel A) and agricultural sectors (Panel B) in each Southern African country.

36. **Professional services are key inputs for other sectors, including for sectors that matter for regional integration in Southern Africa.** Input-output tables suggest that "Business services" are important intermediate inputs in the production of many agricultural and manufacturing products that are relevant for regional integration at the Southern African Development Community (SADC) level. Figure 19 shows that significant downstream linkages are observed in a broad range of manufacturing (including garments, leather, paper, metal products and chemicals), agricultural products and minerals.[30]

[30] A simple way of illustrating the interaction between business services and other industries is based on the magnitude of the share of business services costs in the total costs of production of those industries. Figure 19 shows the contribution of business services as intermediate inputs to the costs of production of several manufacturing and agricultural sectors in five Southern African countries. While the calculations were performed for all 57 sectors

37. **Higher labor productivity is associated with greater use of professional services.** Data from the World Bank Survey of Users of Professional Services in Southern Africa that covered representative samples of firms across all sectors in Botswana, Malawi, Mauritius, Mozambique, South Africa, and Zambia illustrate the role and the value of using professional services. Firms which use accounting, legal, and engineering services have higher average labor productivity in all six countries than firms without professional services linkages (Figure 20).

Figure 20: Productivity of Users and of Non-Users of Professional services in Southern Africa



Source: World Bank Survey of Users of Professional Services in Southern Africa, 2010.

Note: The figure presents average percentages calculated across all firms in all Southern African countries.

38. **The potential direct and indirect gains for developing countries from liberalizing professional services are considerable.** On the import side, important benefits are expected through greater competition and increased efficiency in the provision of professional services as well as access to missing skills, new work methods and best practice knowledge. An example in legal services illustrates how Southern Africa is already benefiting from liberalization. Many Southern African economies experienced recently growth in power plants and infrastructure development as well as oil and gas work, thereby requiring law practitioners with expertise in these fields. The law firm Denton Wilde Sapte collaborates with firms in Botswana, Mauritius, Tanzania, and Zambia to deliver project-finance advisory services and brings the necessary new expertise and best practice knowledge to these countries (Cattaneo and Walkenhorst, 2010).

39. **Professional services can become an important source of export diversification. S**everal Southern African countries are already benefiting from export opportunities in professional services. Legal process outsourcing already offers new export opportunities to Southern African countries: for example British law firms are outsourcing patent prosecution work to lawyers in South Africa (Wesemann, 2007). Analysts expect that legal process outsourcing, such as document editing and

covered by the GTAP 7 input-output tables, Figure 19 presents only the sectors with the highest shares of business services in total costs.

proofreading, litigation research, and intellectual property work will expand and could become a significant export industry in the coming years. Also, increased international sourcing of engineering services as well as outward investments by the main clients of the engineering services providers, such as construction companies, can generate additional export opportunities for Southern African engineering firms.

40. **Demand for accountancy, legal and engineering services is already important and is expected to increase with economic growth in Southern Africa.** Some observers suggest that the informality and the status of business regulation in Africa restrict demand for professional services. For example, the prevalence of informal arrangements such as handshakes and oral agreements, customs and practices may imply that in case of disputes even if the law is available, recourse to it is usually the last step. Furthermore, in the absence of adequate protection of property rights, individuals and groups will revert to private protection and avoid usage of legal services. Limited or inadequate monitoring of compliance with financial reporting standards or safety standards may suppress demand for accounting and engineering services, respectively. However, the consensus among stakeholders and in the available literature suggest that the accounting, legal, and engineering needs and concerns in developing countries are as pressing – if not more so – as those in developed economies. Also, the higher productivity of Southern African firms that use professional services than that of non-users may suggest that professional services are equally important for the development of the Southern African economies as they are in more developed economies; that similar forces prevail in Southern Africa as in more developed countries. Major economic reforms, large scale privatization programs and the expansion of sectors such as banking and infrastructural services are expected to provide many new opportunities for professionals in Southern Africa.

41. **But a large gap looms between the needs of professional services faced by the Southern African countries and the resources available to them to address these needs.** Even at the current stage demand remains unsatisfied given severe skills shortages and skills mismatches or inadequate quantitative or qualitative regulations applied to both domestic or foreign professionals and firms in the region**.** In accountancy, the reported skills shortages are acute in the non-financial services sector (reflecting problems with skills retention in the government sector in particular), for individuals with at least an undergraduate degree, and for middle-level professionals (accounting technicians). For example, there are jobless accountants in Malawi and in Mozambique despite high demand for (qualified) accountants. The introduction and implementation of international financial reporting standards (IFRS) will most likely accentuate the identified skills shortages and skills mismatches in Southern Africa. In legal services, the extremely high wages earned by legal professionals – which are not necessarily indicative of their scarcity but rather of the power of professional bodies which impose strict entry and conduct regulations that enable incumbents to capture high rents – already limit the potential contribution of the legal sector to economic growth in Southern Africa. Engineering firms in all Southern African countries and sub-sectors are experiencing shortages of skilled engineering professionals. Labor scarcity in the engineering and construction sectors have resulted in delays and lost business opportunities to some of the Southern Africa countries (Development Network Africa, 2009). And notably, the scarcity of middle-level professionals is important in all professional services.

42. **Skilled labor is a complement to unskilled labor in many sectors and in professional services sectors in particular.** Hence, it appears that an important means to increase employment in

Southern Africa where levels of unemployment are extremely high – namely in Botswana, Mozambique, and South Africa - is to increase the supply of skills, including professional skills. Focusing specifically on services offshoring, studies by McKinsey Global Institute (2005) and UNCTAD (2003) suggest that a potential 18 million new jobs may be created in developing countries by services offshoring and each new job could create a further three jobs in the rest of the economy. Table 10 provides a view of unemployment and labor force participation by education level in South Africa. It shows that unemployment is primarily a problem for unskilled individuals (individuals with a Matric or less). Even for those with some education (individuals with a Matric) the unemployment rate remains high. By contrast the unemployment rates for those with some post-Matric education fall significantly, while unemployment rates for workers with a university degree are very low. Thus, one way to reduce unemployment is to increase the supply of skills.

Table 10: Participation, Employment and Unemployment Rates in South Africa by Level of Education (%)

Education Level	Participation	Employment	Unemployment
Men			
Less than a matric	68.47	43.17	36.95
Matric	87.32	59.07	32.35
Some post-matric	92.08	81.04	11.99
Degree	91.01	86.95	4.46
Women			
Less than a matric	59.09	26.97	54.36
Matric	76.44	40.25	47.35
Some post-matric	88.97	71.85	19.25
Degree	88.35	83.69	5.27

Source: March 2005 South Africa Labour Force Survey. Notes: A matric is defined as having completed grade 12 of secondary education, standard 10, form 5 or matric. Post-matric includes individuals who have both grade 12/standard 10 of secondary education and either a certificate or a diploma. Degree includes individuals with a bachelors degree, honors degree or higher degree. All statistics are for the population of 16-64 year olds, and are calculated using sample weights. Unemployment is calculated using the broad definition that includes discouraged workers.

43. **To address skill shortages, skill mismatches and the underdevelopment of professional services, in parallel with reform of backbone services like telecommunications, banking and transport, governments in Southern Africa are also beginning to develop reform strategies for professional services, including by engaging in international cooperation and trade in professional services and by creating a more integrated regional market.** To advance this reform process**,** this section attempts to remedy the large gaps in information on policies and market conditions in professional services. The World Bank undertook a comprehensive data collection exercise in Southern Africa in 2009-2010. To allow for an assessment of the demand and supply for professional services, surveys of users of services as well as providers of services were conducted in Botswana, Malawi, Mozambique, Mauritius, South Africa, and Zambia, and that effort was combined with the collection of information from professional associations and statistical sources in these countries.[31] To allow for policy diagnostics, regulatory surveys were carried out in Botswana, Malawi, Mozambique, Mauritius, South Africa, and Zambia covering entry and conduct regulation applied to domestic and foreign providers in accounting,

[31] Appendix 11 describes in detail the surveys of users and services providers in Southern Africa.

legal, and engineering services. The World Bank also collected information on the costs and procedures to become an accounting, legal, or engineering professional in those countries. The diagnostics based on these different data sources are discussed next.

II.3 The potential for regional integration in professional services is significant given the differences in endowments and levels of development of professional services within Southern Africa

Availability of professionals varies across countries and professions…

44. **There is significant variation in the availability of professionals across Southern African countries and across professions.** While scarcity premia are generally observed across the examined professionals in all countries, there is a wide spectrum of perceived skills shortages, their nature and the underlying reasons with different policy implications for each country's reform agenda. Relative abundance of professionals characterizes Mauritius and South Africa while relative scarcity characterizes Malawi and Mozambique.

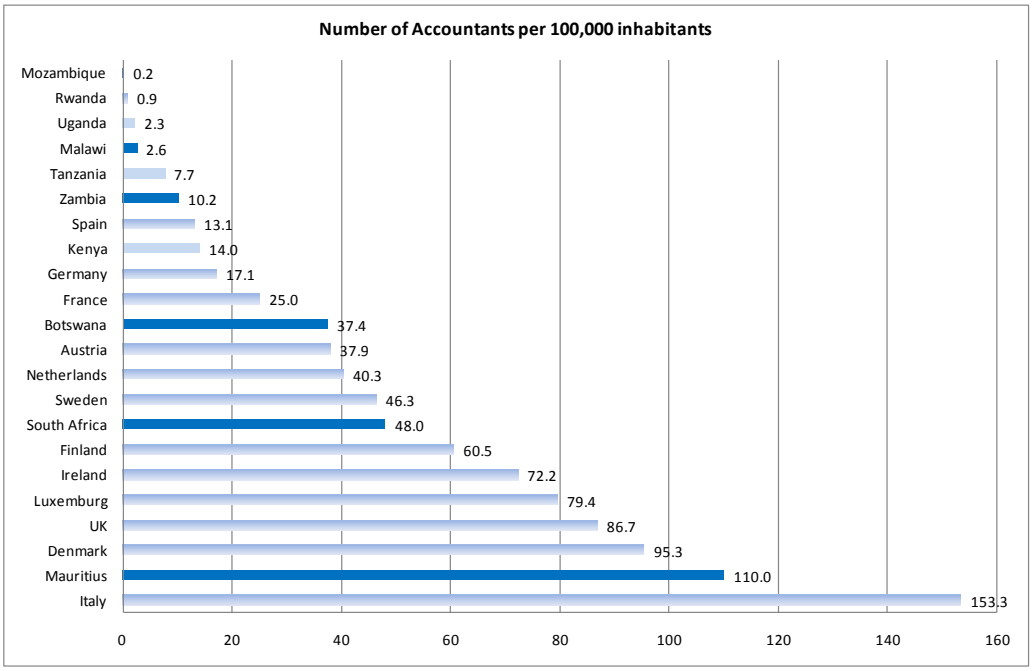
Accounting services

45. **There are huge contrasts regarding the availability of accounting professionals in Southern Africa.** With a professional density of 110 accountants per 100,000 inhabitants Mauritius has more accounting professionals per capita than most developed countries. Compared to most African countries, Mauritius and to a lesser extent South Africa have a relatively well developed market for accounting professionals. By contrast, Malawi and Mozambique are characterized by a very limited availability of accountants – even by African standards (Figure 21).[32]

46. **The skills shortages in accounting are most likely underestimated.** It should be noted that the numbers in Figure 21 do not show how many of the accountants available in each country are in practice, i.e., are providing accountancy services. Given that many accountants work in management and other activities suggests that the skills shortages may be more severe than what Figure 21 shows. For example, the South Africa Institute of Chartered Accountants (SAICA) reports that only about one-third of the accountants in the country are employed or partners in public practice or sole practitioners providing accounting services.

[32] Notice that Figure 21 does not cover accounting technicians. For the Southern African countries who reported data, we discuss the availability of accounting technicians in the text.

Figure 21: Number of Accountants per 100,000 Inhabitants

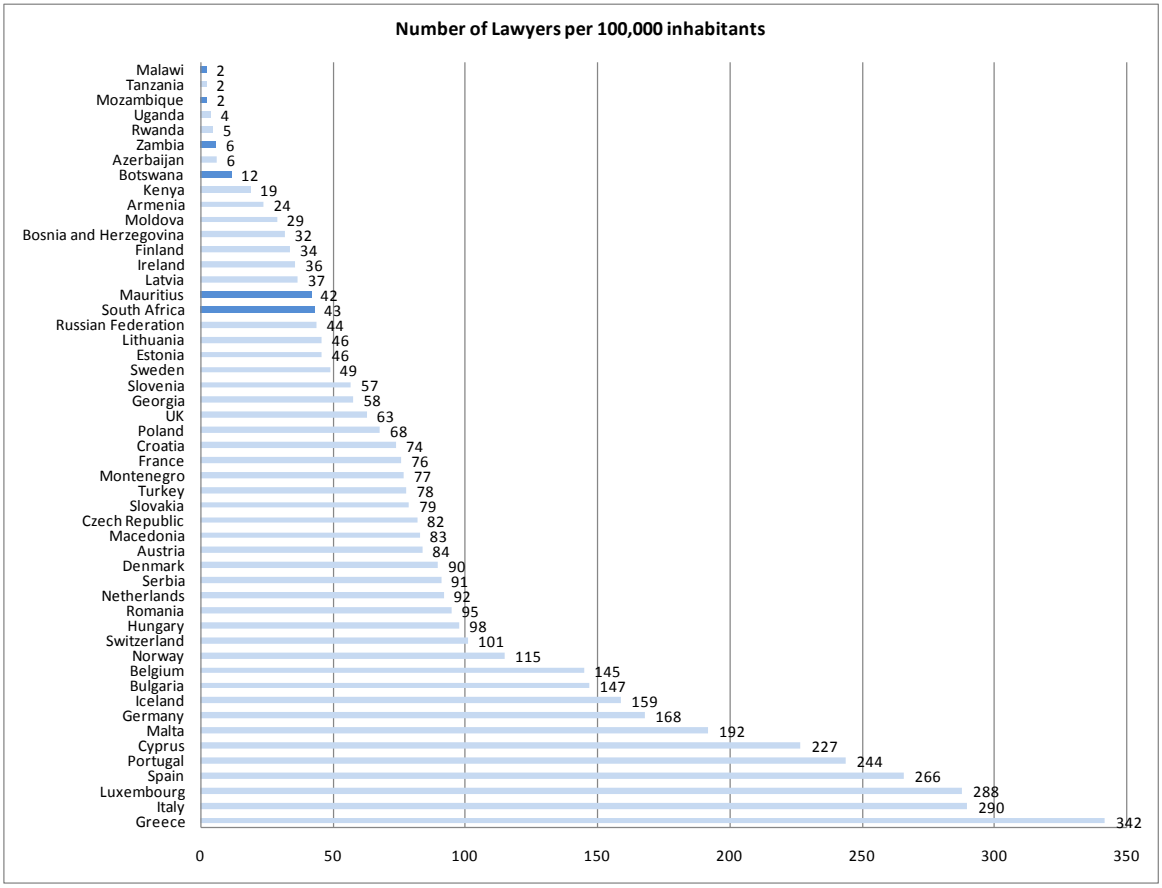


Source: World Bank Regulatory Surveys in Eastern Africa, 2009, World Bank Regulatory Surveys in Southern Africa, 2010, and Paterson et al., (2003).

Legal Services

47. **There is a large difference between most Southern African countries and the rest of the world regarding the availability of lawyers.** The legal profession in all examined Southern African countries is a liberal profession that is carried out independently from the government and the state administration. Lawyers have to be registered with the local bar association in all countries to practice privately but they do not have to be registered in order to be able to practice in public office. Figure 22 presents the density of lawyers per 100,000 inhabitants for a large sample of developing and developed countries. The figure reveals that while the majority of African countries display a density of less than 20 lawyers per 100,000 inhabitants, the ratio seems particularly low in Mozambique and Malawi – even by the standards of developing countries.

Figure 22: Number of Lawyers for 100,000 Inhabitants

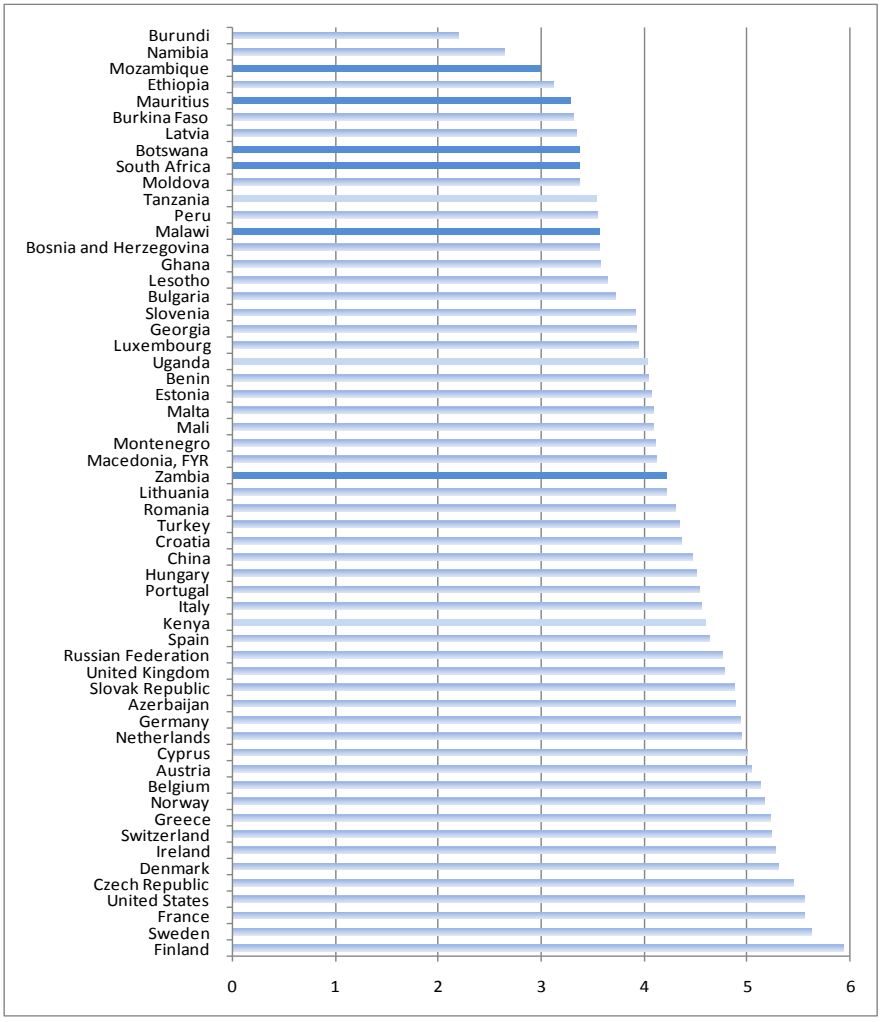


Source: World Bank Regulatory Surveys in Eastern Africa, 2009, World Bank Regulatory Surveys in Southern Africa, 2010, and CEPEJ (2008).

Engineering Services

48. **All Southern African countries are confronted with a limited availability of engineering professionals.** In engineering services, capturing the number of professionals practicing in each of the Southern African countries accurately is more difficult. Although the countries have professional engineering bodies and registration with those bodies is in theory mandatory for engineering professionals, in practice the number of registered professionals represents only a small fraction of those providing engineering services in these countries. Hence, to shed some light on the availability of engineers in Southern Africa we rely on responses to the survey conducted by the World Economic Forum for the yearly Global Competitiveness Report. Respondents were asked to assess the availability of scientists and engineers in their respective countries on the basis of the following ranking: from 1 = nonexistent or rare to 7 = widely available. The results for a large sample of both developing and developed countries are illustrated in Figure 23 which shows that the availability of engineers is particularly problematic in Mozambique, Mauritius, Botswana and South Africa.

Figure 23: Availability of Scientists and Engineers



Source: Global Competitiveness Report 2008-2009, World Economic Forum.

49. ***In terms of country-specific differences*, the more acute skills shortages are observed in Malawi and Mozambique.** The absence of general professional skills in those countries seems to be a constraint for the development of professional services markets as both middle-level (technicians) and higher-level (certified accountants/engineers) professionals are in very short supply. Ideally, policy measures to address professional skills shortages in these countries should be linked to broader issues of skills development and private sector development. In South Africa, although the absolute numbers of available professionals are large, the needs from its growing and increasingly sophisticated economy are also very large. Hence, the country is suffering from acute shortages of chartered accountants, auditors, and engineers. In Mauritius, in contrast accountants seem to be in adequate supply but engineers not so much. This suggests that countries have different priorities in terms of the formation of specialized professionals (or the potential attraction of skills from abroad).

50. ***In terms of sector-specific differences,*** **shortages seem more severe in the accounting and engineering sectors in all Southern African countries.** In addition, there are two worrying points related to the attrition of those types of skills: the declining number of applicants for science, engineering and technology courses, and the very long time taken by engineering students to graduate, for example, in Mozambique where a degree that should be completed in 5 years often takes 8 years to complete. These trends are explained by the general erosion of mathematical skills in all countries so that increasingly more candidates with science backgrounds opt to study and practice commerce, law or other non-science disciplines. The inability of students to acquire certain degrees due to poor secondary education is an issue that needs to be addressed in all countries. Across Southern Africa, lawyers are generally believed to even be in adequate (or in some cases in excess) supply, but lawyers with particular specializations – that are often not available for study in the region - or with high experience levels are often in shortage.

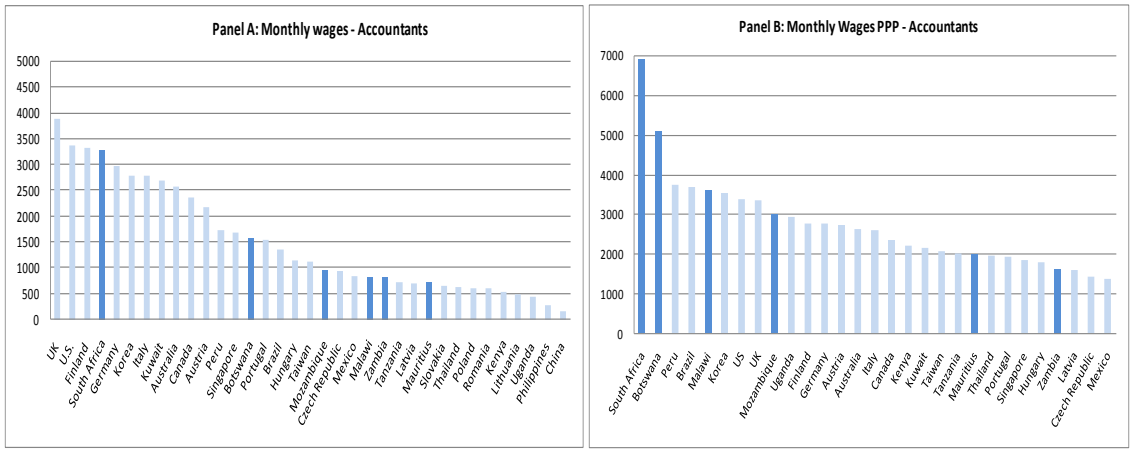
…and wages of professionals also vary across countries and professions

51. **Substantive returns to professionals and wages premia relative to other workers with a university degree validate the professional skills scarcity hypothesis in Southern Africa.** Even though professionals in most Southern African countries receive low nominal wages relative to their counterparts in middle-income and developed countries, once their wages are adjusted for purchasing power, professionals in South Africa, Botswana, Mozambique, and Malawi are comparatively well paid – reflecting perhaps their scarcity relative to demand for their services. The evidence in Figures 24 and 25 suggest that the returns to the accounting and engineering professional degrees in Southern Africa are substantial. The relatively high real wages for these professionals across Southern African countries reflect their scarcity relative to the demand for their services in the region. The presence of wage premia for professionals in accounting, legal, and engineering workers relative to the earnings of other professionals and other workers with a university degree in most Southern African countries further strengthens the professional scarcity hypothesis.[33]

52. **The scarcity of engineering professionals is more pronounced than that of accounting professionals in several Southern African countries.** A more severe scarcity of engineers as compared to that of accountants in Mauritius and Zambia is reflected by the earnings differential between those two types of professionals (compare Panel A of Figure 24 with Panel A of Figure 25 and Panel B of Figure 24 with Panel B of Figure 25).

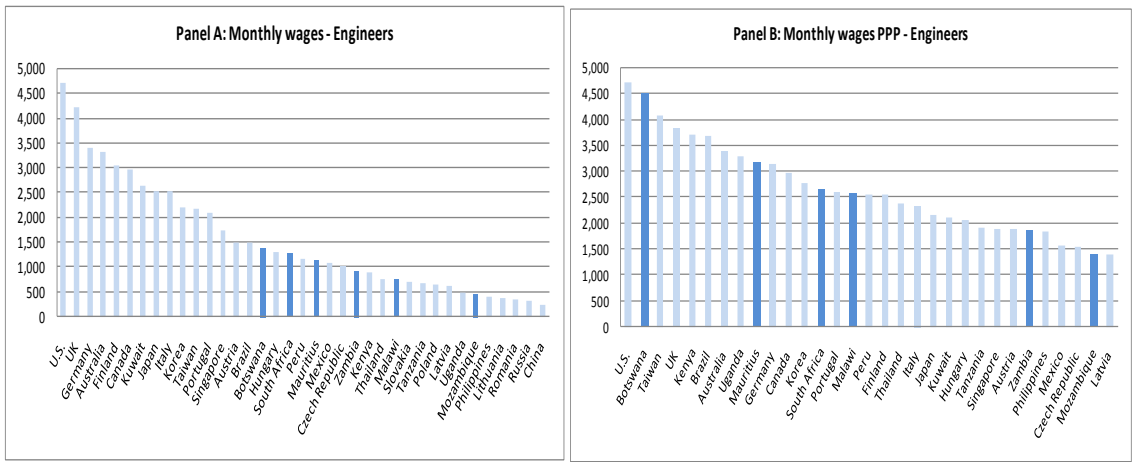
[33] We should note, however, that the interpretation of high wages reflecting skill scarcities can be problematic in certain cases where professionals may be scarce but salaries are not as high as those of other professionals. This could be the case for example in countries where the relatively higher wages of legal professionals are not indicative of their scarcity but rather of the power of professional bodies where entry and conduct regulation enable incumbents to capture high rents.

Figure 24: Monthly Wages – Accounting Professionals



Source: World Salaries and World Bank Survey of Providers of Professional Services in East Africa, 2009 and World Bank Survey of Providers of Professional Services in Southern Africa, 2010.
Note: The average monthly wages are in 2005 USD in Panel A and in international USD (purchasing power parity or PPP USD) in Panel B.

Figure 25: Monthly Wages – Engineering Professionals

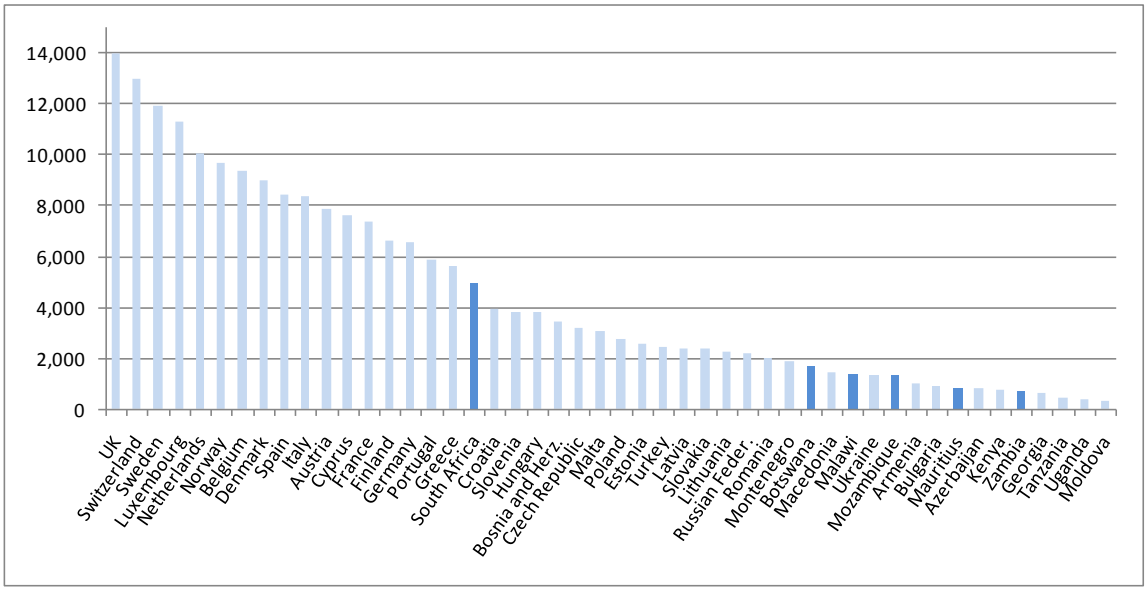


Source: World Salaries and World Bank Survey of Providers of Professional Services in East Africa, 2009 and World Bank Survey of Providers of Professional Services in Southern Africa, 2010.
Note: The average monthly wages are in 2005 USD in Panel A and in international USD (purchasing power parity or PPP USD) in Panel B.

53. **Wage data for lawyers corroborate the scarcity of legal professionals in Southern Africa.** Wage data for lawyers is not available for a comparable sample of countries. However, using information from the European Commission for the Efficiency of Justice (CEPEJ) on the gross salary of a first instance judge at the beginning of his/her career, the gross salary of a judge in the Supreme Court or of the highest appellate court, the gross salary of the prosecutor at the beginning of his/her career, and the gross annual salary of a public prosecutor of the Supreme Court or of the highest appellate court for large sample of European transition and developed countries as well as data from the World Bank Surveys of Professional Services Providers in East Africa and in Southern Africa, we can shed some light on the

earnings of legal professionals in Southern Africa.[34] While results in Figure 26 should be interpreted with care given the different categories of professionals examined in Africa and in the other countries of the sample, we can nevertheless conclude that the nominal wages of Southern African lawyers are significantly lower than those received by legal professionals in many transition countries, but are still higher than nominal wages received by lawyers in East Africa.

Figure 26: Monthly Wages of Lawyers and Legal Professionals



Source: European Commission for the Efficiency of Justice, 2008, World Bank Survey of Providers of Professional Services in East Africa, 2009, and World Bank Survey of Providers of Professional Services in Southern Africa, 2010.

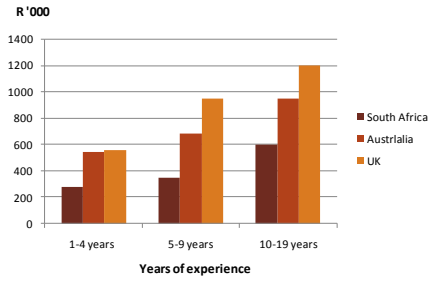
Note: The average monthly wages are in 2006 USD.

54. **The scarcity of lawyers seems less severe than that of engineering and accounting professionals.** While data on the wages of legal professionals adjusted for differences in the cost of living would provide a better indication of the scarcity of those skills, this is not available for the six Southern African countries. However, for South Africa data from Payscale provides some indication on the average salaries of lawyers relative to those of their counterparts in the UK and Australia in nominal terms but also adjusted for the cost of living. Panel A of Figure 27 shows that even when using the upper bound level for South African salaries, they are well below those earned in Australia and the UK. Adjusting for differences in costs of living, the salaries of South African lawyers are at a similar level to those in Australia but are still lower than those in the UK. South African lawyers appear to be less scarce than their engineering and accounting counterparts.

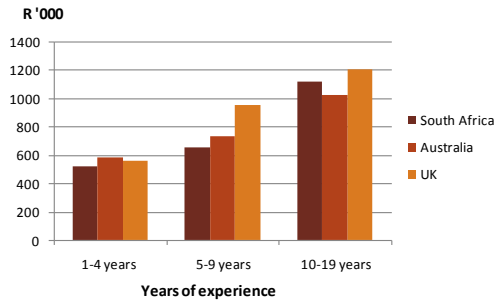
[34] Note that the salaries of legal professionals working in public office may constitute an underestimate of the salaries of lawyers in private practice.

Figure 27: Wages of South African Lawyers

Panel A: Nominal Wages



Panel B: Wages Adjusted for Cost of Living



Source: Payscale (http://www.payscale.com/).

The limited availability of middle-level professionals hurts access to services in all Southern African countries…

55. **Middle-level professionals are an important subsection of skilled workers that can provide services to underserved groups of clients and produce large economic gains.** For example middle-level accounting professionals such as accounting technicians can provide basic record-keeping services needed by small firms. The typical needs of African countries for criminal justice resources are roughly 5% for legal representation, 25% for alternative dispute settlement, and 70% for legal empowerment. Paralegals - non-lawyers that nonetheless engage with clients on a variety of complex law-related tasks - can provide services in alternative dispute settlements and legal empowerment. Similarly, paralegals can play a role in commercial dispute settlement and mediation, where the services of lawyers are not always needed. Notwithstanding such clearly identified needs, inadequate regulation often hampers the development of middle-level professionals.

56. **Middle-level skills shortages are documented in most Southern African countries.** Statistics on the availability of accounting technicians, paralegals, and engineering technicians in Southern African countries are, however, limited. Often this absence of information is linked to the absence of a regulatory framework for middle-level professionals. The available data suggests that Southern Africa is somewhat better endowed with middle-level professionals to provide accounting, engineering, and legal services than Eastern Africa where severe middle-level skills shortages are documented by World Bank (2010). However, middle-level professionals account generally for only half of the total number of professionals in a given sector in Southern Africa. This is significantly below the current needs for middle-level professionals. For example, the Council of the Institution of Engineers of Kenya estimates that the typical engineer-to-technician ratio in Africa is 1 to 5. In addition, each engineer would need to be supported by approximately 15 artisans as helpers. The limited availability of middle-level professionals that hurts access to services is a constraint in all countries. Given the skills shortages faced by Southern African countries, the relatively small proportion of middle-level professionals needs to be addressed since they can play a crucial role in providing services to certain underserved groups of clients.

57. **The formation of middle-level skills should be a priority in all examined countries.** An innovative initiative has been created to encourage the education, training, and development of paralegals in Malawi: the Paralegal Advisory Service. This project offers paralegal aid in criminal cases, and so far 38 trained paralegals have taken part in the project. The project is set up so that candidates receive training from NGOs working in partnership with key stakeholders including Malawi Prisons, Police Services, and the court system. In return, the paralegals are able to work with these same institutions, making the arrangement a positive one for both sides. The program has been so successful that the organization is being transformed into the Paralegal Advisory Services Institute and is introducing similar programs throughout the region and even further abroad in Bangladesh. Southern African countries can put in place similar programs for paralegals or for other middle-level professionals. Since such services are tradable across borders developing further such programs could generate additional trade in educational services via modes 2 (consumption abroad) and 4 (movement of natural persons), further helping economic growth and development across the Southern Africa region.

...as do skills mismatches

58. **Skills mismatches seem to be a serious issue in several Southern African countries**

…in accounting services. Consultations with stakeholders in the accounting sector in Mozambique revealed that multinational auditing and accounting firms face shortages of entry-level accounting and auditing professionals not for the lack of applications but rather because many of the candidates applying do not have the requisite quality of training (Fernandes and Mattoo, 2009). Moreover, those multinational firms also face severe shortages of senior-level local professionals that would be fundamental to monitor the quality of financial reporting (World Bank, 2008a). In Malawi, stakeholders from the public and the private sectors have indicated that the accounting sector in the country suffers from such high skills mismatches that, despite demand, there are many unemployed accountants in the country. In South Africa, the mismatches in accounting are of a different nature: some firms in the private sector hire chartered accountants (CAs) registered with the South African Institute of Chartered Accountants (SAICA) because of their perception of quality but in reality the work that they hire the CA to perform could be performed by a less highly qualified accountant.

…in engineering services. Stakeholders in Mozambique revealed an important shortage of engineers or engineer technicians with knowledge of road maintenance. In South Africa, 97% of the respondents to a recent survey conducted by the Consulting Engineers South Africa on the state of the profession indicated that they are experiencing significant difficulties in the recruitment of qualified and, most importantly, experienced engineers (CESA, 2008).

...and in legal services. Consultations with local legal practitioners in Botswana have revealed that the country has a large number of law practitioners but not enough practitioners with specialized skills. Namely there is a lack of sufficient commercial lawyers, tax lawyers, private equity lawyers, banking lawyers, and stock exchange legislation drafters. Very few specialized courses or training programs in

these fields are currently available in Botswana. The same scenario emerges in Mozambique where there is a huge gap to be filled regarding lawyers with different specializations such as tax lawyers.

59. **South Africa presents another special case of skills shortages.** The skills shortages and mismatches in South Africa are amplified by the country's racial history and the still very small number of black professionals in each of the sectors.

II.4 Regional trade in professional services remains limited due to complex market structures and market fragmentation

i. Complex market structures

On the demand side: Surprisingly large usage of professional services by formal sector firms and vertical segmentation

60. **The usage of externally outsourced accounting, engineering, and legal services is highest for large firms regardless of their sector of activity in all countries**. This pattern is shown in Figure 28. But interestingly, usage of accounting services by small firms is not negligible: more than 50% of small and micro firms in all Southern African countries except Mozambique indicate that they outsource these. The usage of externally outsourced legal services is high for medium and large firms but is much less prevalent among smaller firms in Southern Africa, and the same is true for engineering services (with the exceptions of Malawi and Mozambique).

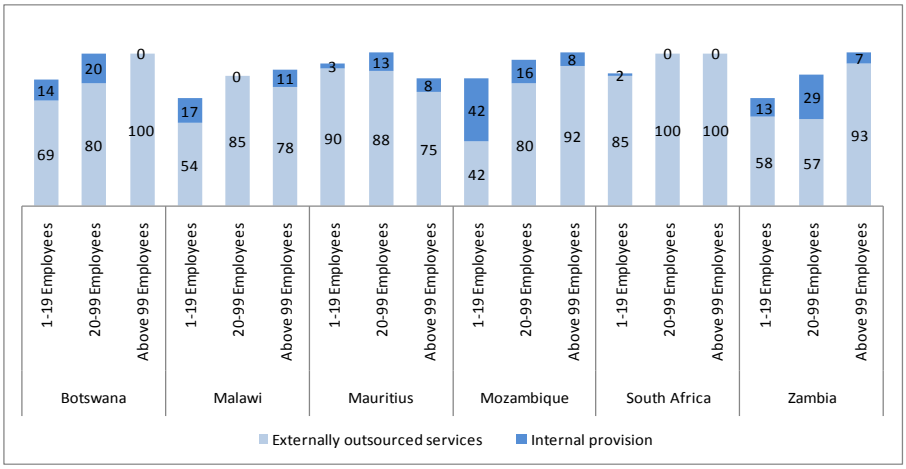
61. **The in-house provision of engineering services in higher than that of accounting and legal services.** Figure 28 also shows that in-house provision - as compared to external outsourcing - of accounting services is much more prevalent for small and medium-sized firms than for large firms in Southern Africa. Surprisingly, the percentage of firms resorting to in-house provision of engineering services is generally higher than that of firms resorting to in-house provision of accounting and legal services, as these services are mostly outsourced. One likely explanation for such high usage is that engineering services include IT services and these are becoming important for a growing share of firms across all sectors in Southern Africa.

62. **The surprisingly high rate of usage of professional services may be explained to a certain extent by sample selection bias and mandatory legal requirements.** The high rate of usage of accounting, and to a lesser extent engineering services, across firms of all sizes in Southern Africa may appear surprising given the still relatively low level of sophistication of those countries' economies (with the exception of South Africa). The fact that the majority of the firms surveyed were located in the capital or second major city of each country and all are formal firms may result in some overestimation of the degree of services usage. At the same time, a large proportion of the demand for accounting and auditing services seems to be derived from mandatory legal requirements, such as financial reporting and taxation.

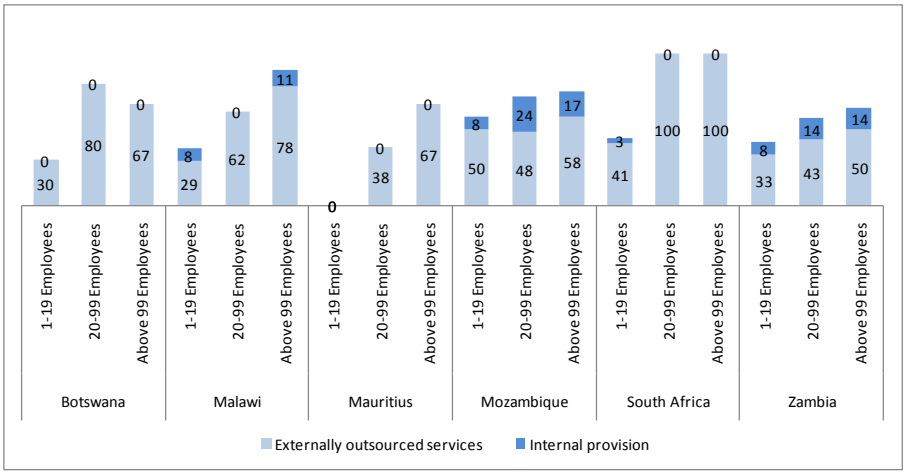
63. **The monotonically increasing relationship between the degree of external usage of professional service and firm size may be explained by prices of professional services.** The monotonically increasing relationship between the degree of external usage of professional services and firm size in Southern African countries for all services shown by Figure 28 is not surprising. This relationship confirms anecdotal evidence for most Southern African countries that the prices of professional services are prohibitive for many small firms.

Figure 28: Usage of Professional Services in Southern Africa by Firm Size

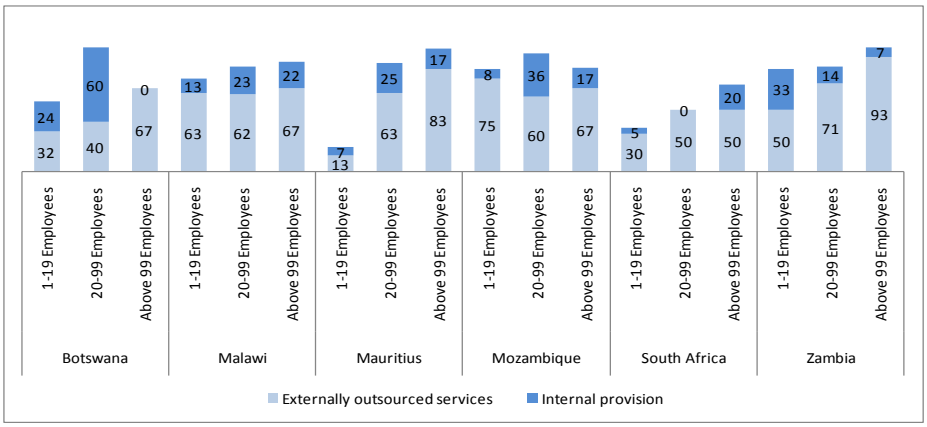
Panel A: Accounting Services



Panel B: Legal Services



Panel C: Engineering Services



Source: World Bank Surveys of Users of Professional Services in Southern Africa, 2010.

64. **Demand for professional services comes from all types of economic sectors but some interesting differences can be highlighted across Southern African countries and professions**.[35] Accounting and auditing firms earn the largest share of their revenue by providing services to the non-financial sector in Botswana, Malawi, Mauritius and Zambia but to the public sector in Mozambique and South Africa.[36] For all Southern African providers of legal services, non-financial institutions seem to be the most important clients, followed by the manufacturing sector and then the banking sector.[37] The demand for engineering services mainly revolves around public sector projects where services are centered on the construction of roads, airports, housing, schools, water and sewerage works. In the Least Developed Southern African countries such as Malawi, Mozambique, and Zambia, the bulk of the work available to consulting engineers seems to be derived from international donor-funded physical infrastructure projects. Engineering firms in all Southern African countries earn on average the largest fraction of their revenues from the provision of services to construction companies and to a lesser extent to transport firms.[38]

The degree of vertical segmentation on the demand side differs across professional services markets, but tends to be homogeneous across Southern African countries.

65. **In accounting services the Big Four have a dominant role.** With the exception of South Africa, in the rest of Southern Africa the Big Four are the only firms competing for listed companies or large corporate entities as clients whereas the remaining smaller accounting services providers target small and medium-sized enterprises (SMEs). In Mauritius, industry insiders revealed that small individual providers serve the SMEs (often by working on a part-time basis in those SMEs) providing drafting and overview of financial statements, tax compliance, and tax advisory services.

66. **The legal markets in Southern Africa do not display a level of vertical segmentation on the demand side comparable to that in accounting and auditing markets.** According to the World Bank Surveys of Providers in Southern Africa, multinationals and large companies represent the major client for more than thirty percent of small legal providers in all countries. In Botswana and Malawi, multinationals and large companies are the major clients for a large fraction of small legal providers. This finding is not surprising, however, given the absence in Botswana and Malawi of law firms with more than 10 lawyers which would be those likely to be serving those types of clients in other countries.

67. **There is some vertical segmentation of demand for engineering services market in Southern Africa.** The World Bank Surveys of Professional Services in Southern Africa show that smaller firms are the major client for more than 20% of small providers of engineering services in all countries. However, large companies and multinationals are the major clients for more than half of the small engineering providers in South Africa, and for more than 40% of providers in Zambia.

[35] Appendix 14 presents detailed figures with the sources of revenue earned across different types of sectoral clients in Southern Africa.

[36] The list of potential client sectors that the surveyed accounting and auditing firms had to consider was: non-financial sector, public sector, and banking and financial institutions.

[37] The list of potential sectoral clients that the surveyed legal firms had to consider was: non-financial sector, telecom/electricity/water sector, banking sector, and manufacturing sector.

[38] The list of potential sectoral clients that the surveyed engineering firms had to consider was: IT companies, water companies, transport companies, and construction companies.

On the supply side: Market structures show elements of both oligopoly and competition

68. The market structures of the professional services sectors in Southern Africa are broadly similar across countries - with some interesting exceptions noted below - and combine elements of both oligopoly and competition, depending on the sector.

69. **Across Southern Africa, the markets for accounting and auditing services are dominated by the large affiliates of the so-called "Big Four".** In South Africa, however, given the much higher level of sophistication and larger size of the market as well as the longer tradition of the accountancy profession there, the market structure in accounting and auditing services is less concentrated. Other international firms such as BDO and Grant Thornton as well as a number of large domestic firms also provide accounting and auditing services. The markets for accounting and auditing services across Southern Africa remain heavily fragmented at the bottom. The market structure in accounting and auditing services in Southern Africa resembles an oligopoly with a (variable) competitive fringe. The comparison of the density of accounting and auditing services providers in Southern Africa (the ratio of the estimated numbers of providers to the total population) to that in more advanced European countries reveals that the Southern African countries exhibit substantially lower densities.[39] To a certain extent this reflects the limited availability of professionals identified earlier but the fact that the density differential is more pronounced for professional services firms than for professionals suggests a higher degree of concentration in the Southern Africa or/and that large firms are outsized.

70. **The legal sector in all Southern African countries is dominated by domestic providers, often individual practitioners or small firms.** In most countries, only a small percentage of lawyers are employed by the largest ten firms in the sector. Despite a recent consolidation movement with a number of high profile domestic law firms completing mergers in South Africa, the concentration in the market for legal services is still low. The only country where a higher level of concentration is observed in the legal services market is Mozambique.[40] Comparing the density of law firms in Southern Africa and that in European countries suggests that all Southern African countries exhibit substantially lower densities of services providers. Again, this finding is not surprising in face of the limited availability of professionals identified earlier.[41]

71. **Across Southern Africa, engineering is mostly dominated by local practices, highly fragmented in terms of organization, size, business culture and management.** But in Mozambique and South Africa the market structure is closer to that of accounting and auditing services, i.e., a small number of large firms dominate these markets. In South Africa, industry consolidation has become a noticeable trend in consulting engineering in recent years and larger firms have come to play an increasingly dominant role.

[39] The density of services providers is the ratio of the number of providers to the total population.

[40] In Mozambique the six largest law offices employ a total of 100 lawyers, which corresponds to almost one quarter of the registered lawyers in the country (Fernandes and Mattoo, 2009).

[41] It should be noted that in Mozambique, and possibly in other Southern African countries, the legal departments of (some of) the Big Four are also important providers of legal services. But those departments may face restrictions in the types of legal services that they can provide. International regulations on independence, such as for example Sarbanes-Oxley, do not allow the legal departments of the Big Four to provide different services to the same client.

ii. Fragmented markets

High levels of emigration of Southern African professionals and moderate immigration of foreign professionals

72. **The high level of emigration of tertiary graduates contributes to the skills shortages identified in Southern Africa**.[42] The emigration levels of tertiary graduates from several African countries are presented in Table 11. As of 2000, 23043 university-educated Mauritians and 10696 university-educated Mozambicans were living in OECD countries, corresponding to 56.2% and 45.1% of all university-educated citizens living in Mauritius and in Mozambique, respectively These skilled emigration rates are extremely high even by African standards. Such emigration trends persist despite severe or emerging shortages in the Southern African home countries. South Africa is also a significant destination for skilled Mozambicans and skilled Zambians. Interestingly, the skilled emigration rates of Botswana are much lower than those of its SADC counterparts. [43]

Table 11: Emigration Rates of African Individuals by Skill Level

	Emigration Rates in OECD Countries in 2000			Number of Emigrants in OECD Countries in 2000			Number of Emigrants in South Africa in 2001		
	Tertiary Education	Secondary Education	Primary Education	Tertiary Education	Secondary Education	Primary Education	Tertiary Education	Secondary Education	Primary Education
Botswana	**3.6%**	**1.0%**	**0.1%**	**940**	**1358**	**474**	**966**	**1295**	**9480**
Malawi	**18.7%**	**2.5%**	**0.1%**	**5474**	**4082**	**3121**	**1699**	**3494**	**14914**
Mauritius	**56.2%**	**9.1%**	**7.5%**	**23043**	**22293**	**34513**	**889**	**1422**	**760**
Mozambique	**45.1%**	**6.3%**	**0.6%**	**10696**	**13183**	**36460**	**2788**	**10167**	**176034**
South Africa	**7.5%**	**0.8%**	**0.3%**	**168083**	**71620**	**28972**			
Zambia	**16.8%**	**1.1%**	**0.2%**	**13739**	**8731**	**5883**	**7852**	**7668**	**4305**
Ethiopia	10.1%	1.3%	0.1%	51392	32025	22215	314	646	219
Ghana	46.9%	2.4%	0.8%	71309	50161	40330	1298	597	375
Kenya	38.4%	3.9%	0.4%	77516	60176	35225	2671	2219	1204
Nigeria	10.7%	0.9%	0.1%	149494	50793	29642	2371	2314	1109
Rep. of Congo	22.2%	2.4%	1.6%	14672	8899	12660	1904	1777	990

Source: Docquier and Marfouk (2004).

73. **The immigration of foreign professionals in accounting and engineering covers some of the observed skills gaps but not uniformly across professions and certainly not uniformly across countries.** Foreign accounting professionals represent a very large proportion of total accounting professionals in Botswana and Mozambique but very small proportions in Malawi and Zambia, as shown by Table 12. Foreign engineers are an important proportion of total engineering professionals in Botswana, Mauritius, and Zambia. Anecdotal evidence for South Africa suggests that the number of foreign accounting and legal professionals practicing in the country is small and that of engineers is higher but much below what might be necessary to help mitigate skills gaps. In legal services (not shown in the table), there are virtually no foreign professionals practicing in any of the countries.

[42] Tertiary graduates include but are not restricted to professionals in accounting, engineering, and law.

[43] The SADC countries are Angola, Botswana, the Democratic Republic of Congo, Lesotho, Malawi, Mauritius, Mozambique, Namibia, the Seychelles, South Africa, Swaziland, Tanzania, Zambia, and Zimbabwe.

Table 12: Foreign Professionals in Southern Africa

	Accounting		Engineering	
	Total Number of Professionals	Share of Foreign Professionals	Total Number of Professionals	Share of Foreign Professionals
Botswana	704	75.9%	543	40.0%
Malawi	360	2.8%	5	0.0%
Mauritius	1389	n.a.	685	24.5%
Mozambique	50	96.0%	913	4.6%
South Africa	22846	n.a.	14474	n.a.
Zambia	1212	2.1%	2535	35.4%

Source: Professional associations in the various countries and background reports.

Limited trade in professional services in Southern Africa

74. **There is some foreign presence in accounting and engineering services in Southern Africa.** As far as commercial presence is concerned, statistics from professional associations reveal that in accounting and engineering services there is some foreign participation in the form of foreign-owned or partially foreign-owned establishments. In accounting and auditing services, firms with foreign affiliation dominate the markets. In engineering, a quarter of all registered engineering firms in Mauritius have foreign participation. In Mozambique, while the majority of engineering consulting firms are domestically-owned, there is some presence of foreign ownership. In Zambia, however, out of 298 engineering firms only 2 are foreign-owned.

75. **Foreign presence in legal services in Southern Africa is moderate.** Foreign law firms are virtually absent in South Africa and Zambia. In South Africa, as of 2008 there were only 3 foreign-owned law practices in a universe of 8,200 registered law practices. But in Botswana although few, foreign-owned law firms are among the five major law firms in the country and in Mozambique the same is verified. In Mauritius, where law firms are a recent development, the majority of law firms are actually foreign-owned.

76. **A relatively small proportion of firms import accounting, engineering, and legal services in the Southern African countries.** These findings of the World Bank Surveys of Users of Professional Services in Southern Africa may be the result of high trade barriers imposed by the examined countries.

77. **Evidence compiled on World Bank supported civil works procurement contracts between 1994 and 2009 reflects a lack of integration of the Southern African market for engineering services.** Domestic companies generally win most of the contracts, except in energy and mining and transportation, and, in some countries, industry and trade and water and sanitation, where non-African companies have the lion's share. Surprisingly, there is virtually no intra-Southern African foreign firm participation in these contracts with the limited exception of South African firms having projects in several Southern African countries and some Malawian projects in Mozambique.

II.5 What are the obstacles to the emergence of strong professional services sectors and increased regional trade in professional services?

78. **Regional trade in professional services remains limited due to skills shortages, skills mismatches, complex market structures and market fragmentation.** The skills shortages, skills mismatches, and the underdevelopment of professional services sectors in Southern Africa highlighted in the previous sections can be explained by a series of problems in the professional education sector. Furthermore, education and professional qualification requirements, domestic regulations, trade policies, and labor mobility policies create additional barriers for individuals and firms to enter the markets for professional services in Southern Africa.

i. Skills shortages and skills mismatches persist at the regional level. Despite the demonstrated need for professional services from an economic development perspective and the demand for those services by formal sector firms, Southern Africa currently experiences skills shortages and skills mismatches in professional services region-wide. Some key reasons for these shortages and mismatches that hurt access to services are as follows.

79. **Covering the cost of professional education is a challenge in all Southern African countries.** Table 13 shows that the most expensive profession for which to study in Southern Africa is accounting, followed by engineering, then law, and that the most expensive country in which to study is South Africa, followed by Botswana, Mauritius, Malawi, Zambia, and finally Mozambique.[44] The average cost of acquiring a professional degree across all countries and professions is more than US$ 22,000. These costs are more than four, often more than six, times larger than the countries' GDP per capita in 2008. In the case of Malawi, the US$ 15,507 cost of becoming an accounting professional through a public university represents more than 50 times the country's GDP per capita. While skill premia are evident and Table 13 also shows that internal rates of return to professional education are very high in all countries, professional qualification seems to be unaffordable for the majority of the population in Southern Africa.

[44]Appendix 13 provides details on the data and the calculations presented in Table 12.

Table 13: Cost of Obtaining Professional Degrees and Internal Rates of Return on Professional Education in Southern Africa

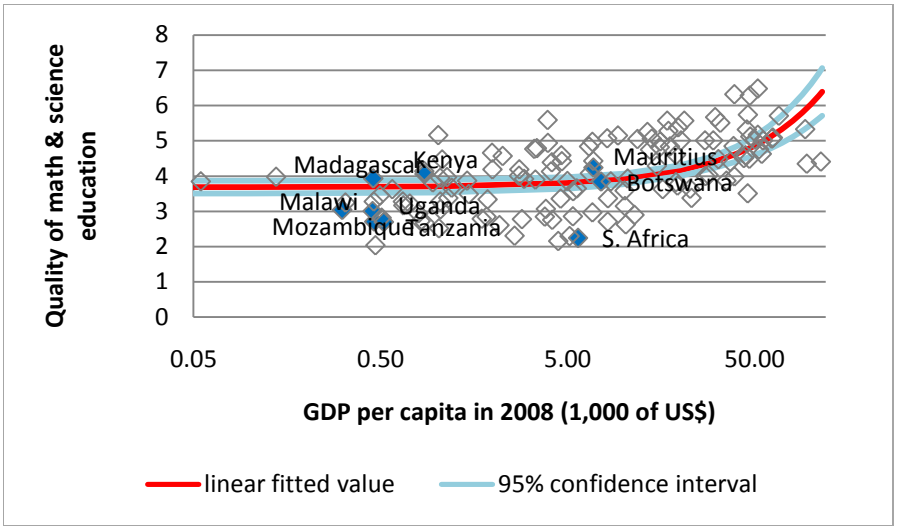
	Profession	Years	Total Costs	Average Costs per Year	NPV of Earnings	IRR
Botswana						
	Lawyer	5	20,904	4,181	305,593	64.8%
	Accountant	4	42,005	7,001	298,004	29.9%
	Engineer	5	40,499	8,100	252,664	34.9%
Malawi						
	Lawyer (pub)	4	14,933	3,733	261,974	42.2%
	Lawyer (priv)	4	19,630	4,907	257,277	34.2%
	Accountant (pub)	4	15,507	3,877	163,262	21.8%
	Accountant (priv)	4	23,486	5,871	155,284	18.0%
	Engineer (pub)	5	10,404	2,081	121,328	49.6%
	Engineer (priv)	5	14,227	2,845	117,505	37.7%
Mauritius						
	Lawyer	4	33,815	8,454	163,318	24.3%
	Accountant	5	43,025	8,605	129,408	15.9%
	Engineer	3	28,835	9,612	271,290	38.6%
Mozambique						
	Lawyer (pub)	4	3,648	912	302,572	155.1%
	Lawyer (priv)	4	14,576	3,644	291,644	50.6%
	Accountant (pub)	4	3,295	824	238,607	112.4%
	Accountant (priv)	4	12,259	3,065	229,643	36.8%
	Engineer (pub)	4	3,351	838	111,426	154.8%
	Engineer (priv)	4	12,321	3,080	102,455	44.8%
South Africa						
	Lawyer (pub)	4	37,900	9,475	844,671	79.1%
	Lawyer (priv)	4	39,360	9,840	842,250	74.8%
	Accountant (pub)	4	37,949	9,487	569,627	46.8%
	Accountant (priv)	4	40,370	10,092	567,206	44.7%
	Engineer (pub)	4	32,434	8,108	196,064	30.4%
	Engineer (priv)	4	35,845	8,961	192,652	28.0%
Zambia						
	Lawyer (pub)	5	7,731	1,546	144,285	78.2%
	Lawyer (priv)	4	20,564	5,141	131,452	33.6%
	Accountant (pub)	5	6,647	1,329	183,164	107.4%
	Engineer (pub)	5	5,793	1,159	217,812	153.2%

Source: World Bank Surveys on Costs of Obtaining Professional Degrees and Qualifications in Southern Africa, 2010.

Notes: Years: Years of education, Total Costs: the present value (PV) of educational costs in USD; Average costs per year: the PV of educational costs per year in USD; NPV of earnings: the PV of lifetime earnings less the PV of educational costs in USD; IRR: internal rate of return of the PV of educational costs and lifetime earnings.

80. **Weaknesses in upstream education limit the ability of students to acquire professional skills, affecting particularly engineering services.** The insufficient number of applicants for science, engineering and technology courses can be explained by the general erosion of mathematical skills – depicted in Figure 29 – so that increasingly candidates with a science background opt to study and practice commerce, law or other non-science disciplines. South Africa performs particularly poorly on this indicator.

Figure 29: Quality of Math & Science Education



Source: Global Competitiveness Report 2008-2009, World Economic Forum.

81. **Limitations in the capacity and quality of available professional education institutions in Southern Africa are an obstacle to the development of professional services sectors in the region.** Tertiary education and professional training are central means by which professionals equip themselves with the necessary skills. A first important issue is whether the education system generates sufficient graduates to meet the demand for professionals and their services. The tertiary gross enrolment ratio provides a general indication on the general availability of graduates in each country. With a tertiary enrollment rate of 12.4% in 2008, South Africa is way ahead of Zambia whose enrollment rate is 1.7%, Mozambique whose enrollment rate is 1% and Malawi whose enrollment rate is just 0.3%.A second important issue is how the type of existing institutions affects the labor market outcomes of graduates.

82. **Differences in university enrolment and the much lower enrolment in middle-level institutions such as polytechnics and professional institutes and the absence of polytechnics altogether in certain countries helps explain the observed middle-level skill gaps in Southern Africa.** To the extent that these differences reflect the differences in how the labor market rewards different types of professionals, this may suggest that, in the context of observed shortages in Southern Africa, inappropriate (too strict) regulation is preventing the emergence of supply of such middle-level skills. In this context it is also worth noting that professional training programs for middle-level professionals are largely absent in legal services.

83. **Skills shortages and mismatches can also be explained by the field of study chosen by students.** In several Southern African countries, private stakeholders and professional associations expressed concerns that students are not making the right study choices. In particular the numbers of students enrolled in engineering studies is insufficient to meet the large demand.

84. **A more crucial bottleneck than just the size of the Southern African higher education systems and the enrolment rates is the capacity of those higher education institutions to produce the necessary number of graduates and graduates of sufficient quality to respond to the needs of professional markets**. In South Africa, the under-resourcing of university departments offering

engineering degrees, in particular the insufficient numbers of professors and their low salaries, are a particularly serious problem contributing to the shortages of engineering professionals.[45] Similarly, in Mozambique it is difficult for universities to find professors in the areas of accounting and engineering since professionals with experience and knowledge prefer relatively lucrative jobs in the private sector (Fernandes and Mattoo, 2009).[46] In Botswana, physical infrastructure and lack of academic staff are crucial capacity constraints to the expansion of training of accounting professionals. In Malawi, due to an inability to retain qualified teachers and to inadequate capacity, public vocational education institutions are unable to produce the necessary number of middle-level skills, especially ICT professionals, electrical installation technicians, steal fixers, and plant operators.

85. **At the same time, private vocational institutions do not emerge due to the high costs of initiating technical programs in face of limited access to credit.** More generally, in other Southern Africa countries, the absence of institutions that offer academic and professional training courses for middle-level professionals (e.g., training programs for paralegals) has been noted as a constraint.

86. **The absence of local higher education institutions may further explain the identified skills mismatches.** The absence in local higher education institutions of certain specialized (post-graduate) courses such as those related to banking, private equity and stock exchange legislation in legal services in Botswana, or courses in aeronautical engineering are a possible cause for the identified skills mismatches. Furthermore, outdated labs and teaching methods – especially in engineering – constitute an additional explanation for the skills mismatches.

ii. Domestic Regulation limits entry and competition and further segments the regional market for professional services

Domestic regulation on the entry and on the operations of professional service firms, presumably designed to meet social goals, often undermines competition

87. **Entry restrictions seem to be quite common across countries in accounting and legal services, with only small variations in the regulation levels across countries, while rather large cross-country differences in entry rules are evident in engineering services**. In Southern Africa, entry regulation is common and significant in all three professional services sectors as revealed by the indexes shown in Figure 30. A higher value of the index indicates a more stringent regulatory stance.[47] Legal

[45] Stakeholders indicated that engineers in practice receive salaries that are three times higher than those of professors of engineering degrees.

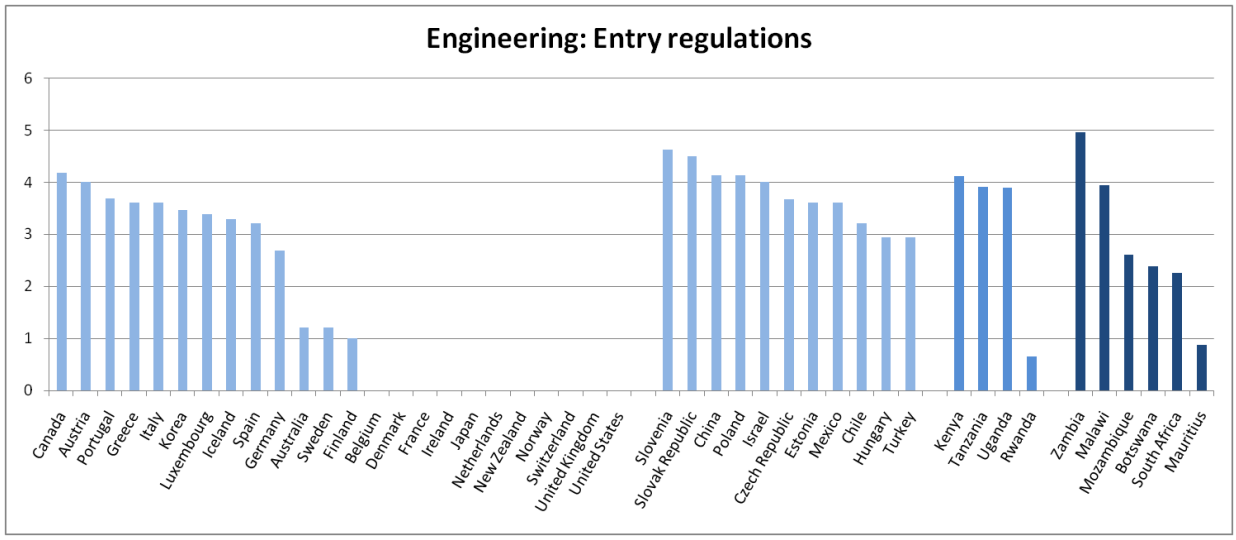
[46] This lack of professors brings a great degree of concern about the quality of newly created private universities due to a 'moonlighting' phenomenon whereby the same professors give lectures at the public university and at the private university and thus have little time to prepare the lectures and even less to pursue their own research. Also very problematic is the private universities' lack resources to maintain laboratories which are needed to provide high quality degrees in fields such as engineering.

[47] The indices shown in Figure 30 convert qualitative information on regulatory conditions in Southern Africa into quantitative indicators for each sector on the basis of the method in Conway and Nicoletti (2006). Entry regulations include barriers to becoming a member of each of the professions. These may take the form of licensing and educational requirements, quantitative constraints on the number of suppliers of professional services and/or exclusive rights granted to suppliers in certain activities. Conduct (or operations) regulations include restrictions on prices and fees, advertising, form of business, and inter-professional cooperation. The qualitative information

services tend to be more heavily regulated than accounting or engineering services in Southern Africa as well as in most other countries in the sample.

Figure 30: Entry Regulations in Professional Services

originates in (i) our regulatory surveys and (ii) the services policy surveys of Borchert, Gootiz, and Mattoo (2010) as described in Appendices 15 and 16. While the figures cover only highly skilled professionals, the text below also describes the regulatory stance for middle-level professionals where relevant.



Source: OECD Regulatory Database on Professional Services, World Bank Regulatory Surveys in East Africa 2009, and World Bank Regulatory Surveys in Southern Africa 2010.
Note: For countries with no bars the index is equal to 0 which corresponds to the least restrictive set of regulations whereas 6 corresponds to the more stringent set of regulations.

88. **With the exception of paralegals, the examined professions are subject to qualitative entry requirements related to education and qualification requirements in most countries.** In general, these qualitative requirements for highly skilled professionals do not vary significantly across countries. The academic pre-qualification requirements for most highly skilled professionals consist of university degrees the exceptions being accountants in Botswana, Malawi, Mauritius, and Zambia where a high school degree is considered sufficient (to be complemented by professional qualifications such as Association of Chartered Certified Accountants (ACCA)). Additional post-graduate specialized courses are required in legal services in Botswana, Mauritius and Zambia.

89. **The required academic pre-qualification needs to be supplemented with practical training of varying duration in almost all professions in order to complete the professional examination.** Exceptions to this training requirement are found only in accounting in Malawi and Mozambique and in engineering in Botswana. The requirement that practical training needs to be conducted under the supervision of a fully qualified senior professional resembles a double-edged sword: on the one hand, it is necessary for young graduates to gain experience but on the other hand the limited availability and frequent lack of interest of experienced professionals to supervise trainees makes it difficult to form accountants, lawyers, and engineers in a short period of time. In Botswana, the local professional accountancy body pointed out that companies wanted fully qualified accountants not trainees. The lack of places for accountant trainees to get their required practical experience was therefore viewed as an important reason behind skills shortages. In Mozambique, universities and the private sector rarely collaborate to arrange internships for engineering students which would help them acquire the practical training that universities cannot provide but employers desperately seek. Thus, qualitative entry restrictions can limit the number of professionals and services. This may be especially the case when the entry restrictions are combined with exclusive tasks for the regulated profession

90. **Other qualitative entry requirements may take the form of membership in a professional association, licensing requirements and continuing education requirements.** Membership in the relevant professional association is mandatory in accounting and legal services, and compulsory licensing is a must in all Southern African countries in accounting. In legal services, compulsory licensing is not necessary in Mauritius nor South Africa. In engineering, licensing requirements are also absent in South Africa and in Botswana, in the latter case given that an engineering board has yet to be established. Continuing education is an obligation to members of the accounting profession in most examined countries, Mozambique being the exception. In contrast for the legal profession, continuing education requirements are entirely absent in Southern Africa, except Botswana, and for the engineering profession they are mandatory only in South Africa and Zambia. There seems to be more variation in the regulation of middle-level professionals: for example, in engineering, the regulatory spectrum for engineering technicians ranges from total absence of entry requirements in Botswana to requirements to pass a professional exam, undertake compulsory training, and even engage in continuing professional development in South Africa.

91. **Are qualitative entry requirements justified?** Public interest theories argue that such qualitative regulatory measures are necessary to guarantee high-quality services and avoid adverse selection. Qualitative entry restrictions may thus be necessary. But private interest theories point out that there is a risk that qualitative regulations may be disproportionate as a result of excessive entry requirements set by rent-seeking professionals and professional associations. In addition, if the profession gains monopoly over the organization of the required training, the education of necessary professionals may be limited.

92. **It is difficult to determine whether the qualitative requirements in the Southern African countries are disproportionate but several examples of restrictive qualitative requirements have been obtained while conducting our regulatory surveys.** For example, restrictions on access to the profession, mainly due to the monopoly of professional associations over training institutions, have been identified in legal services in Zambia, where the Zambia Institute of Advanced Legal Education (ZIALE) is the only institution that provides the post-graduate one-year course necessary for both domestic and foreign candidates to become licensed lawyers in the country.

93. **Some professionals have exclusive rights to perform certain services**. Highly skilled professionals in all examined sectors in Southern Africa have exclusive rights to perform certain activities (e.g., auditing for accountants, representation of clients before courts, advice on legal matters for lawyers, feasibility studies, design and planning for engineers). The scope of these exclusive activities seems to be wider in accounting and legal services. In most Southern African countries qualified accounting professionals (most often auditors) enjoy exclusive rights to conduct statutory audits, public sector audits, and non-statutory audits, that is 3 out of 13 possible activities.

94. **The scope of exclusive activities reserved to accounting professionals in Southern Africa is narrower than that observed in the majority of developed and developing countries but higher than in most East African countries**. By contrast, the number of activities reserved to legal professionals is higher ranging from 3 to 9 out of a total of 10 activities. This is in line with the general trend observed across countries in the sample. The number of activities reserved to engineers is actually the lowest, ranging from none to 6 out of a total of 10 activities. The scope of exclusive activities in engineering

services in Southern Africa seems to be lower than that observed in many developing and emerging economies, but wider than the scope of exclusive engineering activities in developed countries.

95. **Are exclusive rights requirements justified?** The argument in favor of exclusive rights is that they can lead to increased specialization of professionals and guarantee a higher quality of service. But the negative price and allocation effects of exclusive rights which act as monopolies can be substantial especially if they are granted for standardized services that can be provided at a lower cost by less-regulated middle-level professionals for example.

96. **Regulation affecting operations of legal and engineering providers (conduct regulation) in Southern Africa is heavier than in most comparators included in the sample as** shown by Figure 31. These outcomes are explained by price regulations, advertising prohibition and restrictions on the business structure of firms and on multidisciplinary activities.

97. **While fees and prices are regulated in legal services, they are freely negotiated in accounting and engineering services in most Southern African countries.** In accounting and engineering services, fees for professional services are negotiated freely between practitioners and clients in almost all surveyed countries. However, there are some exceptions. Accounting and auditing services are subject to binding minimum prices in Zambia, which is very different from international practice. Engineering fees are subject to non-binding recommendations in Botswana, South Africa, and Zambia, which is the same type of regulation that is in place in the small number of non-African countries that regulate prices of engineering services. Fees and prices of legal services are regulated in all Southern African countries except Mozambique: Botswana imposes binding maximum prices while Malawi and Zambia impose binding minimum and maximum prices on many legal services, Mauritius regulates notaries' fees and South Africa makes non-binding recommendations on conveyancing fees. In contrast to the examined Southern African countries, few developed countries regulate fees for lawyers.

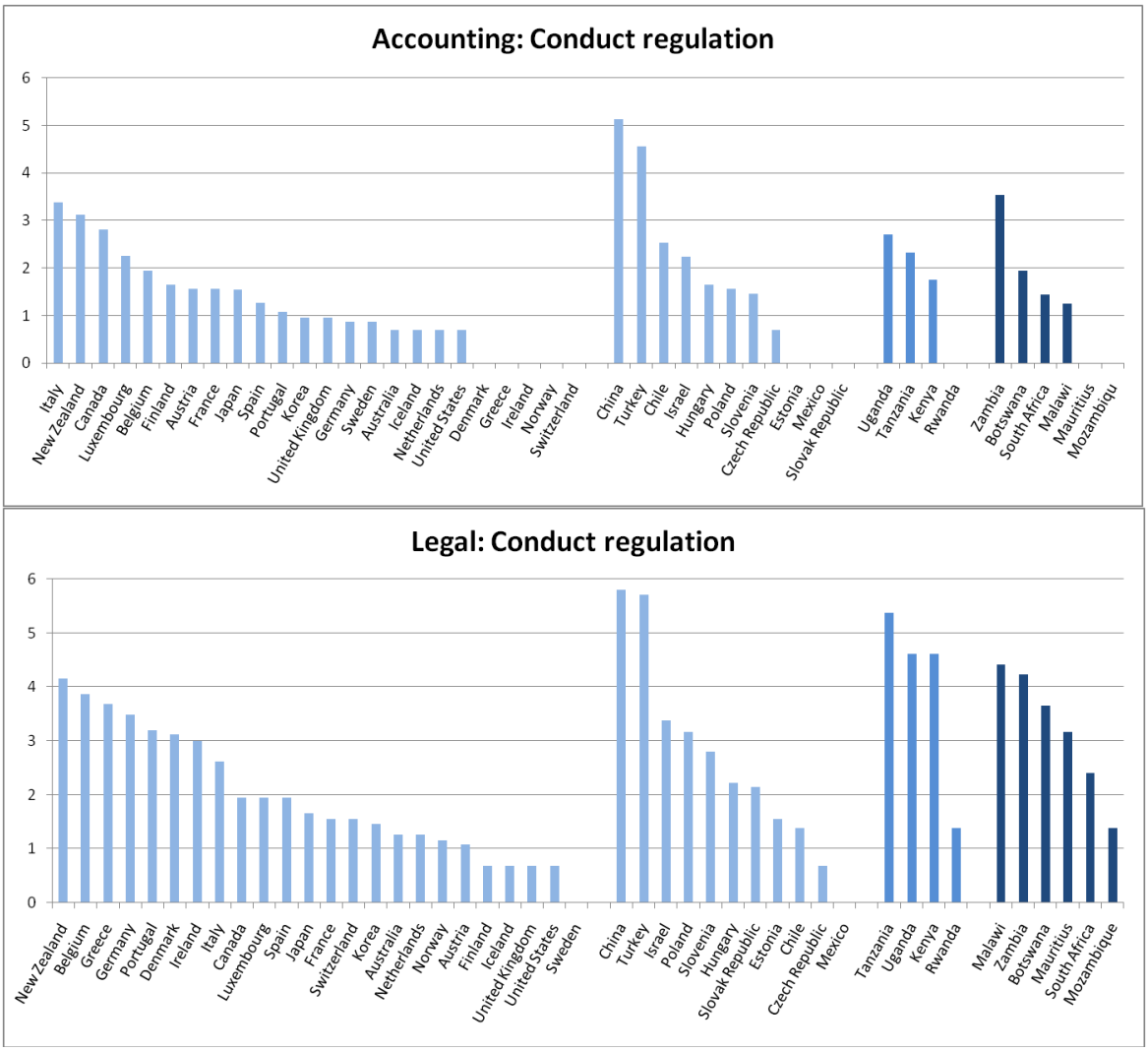
98. **Price regulations restrict competition in several professional services in Southern Africa, with detrimental consequences for consumers.** These price regulations are supported and introduced by national professional associations who claim that they are useful tools to prevent the adverse selection problem. But the consensus in the economic literature is that such regulatory instruments have potentially the most detrimental effect on competition, by eliminating or seriously reducing the benefits that competitive markets deliver for consumers. It is generally accepted that less restrictive mechanisms such as better information on the services provided could be put in place.

99. **In contrast to many developed and developing countries, most Southern African economies impose advertising restrictions on professional services.** Several professions in Southern Africa are subject to advertising prohibitions: accounting services in Botswana, legal services in Botswana, Malawi, Mozambique and Zambia, and engineering services in Zambia. In general, Southern African countries seem to impose more severe regulations on advertising and marketing than most developed and developing economies.

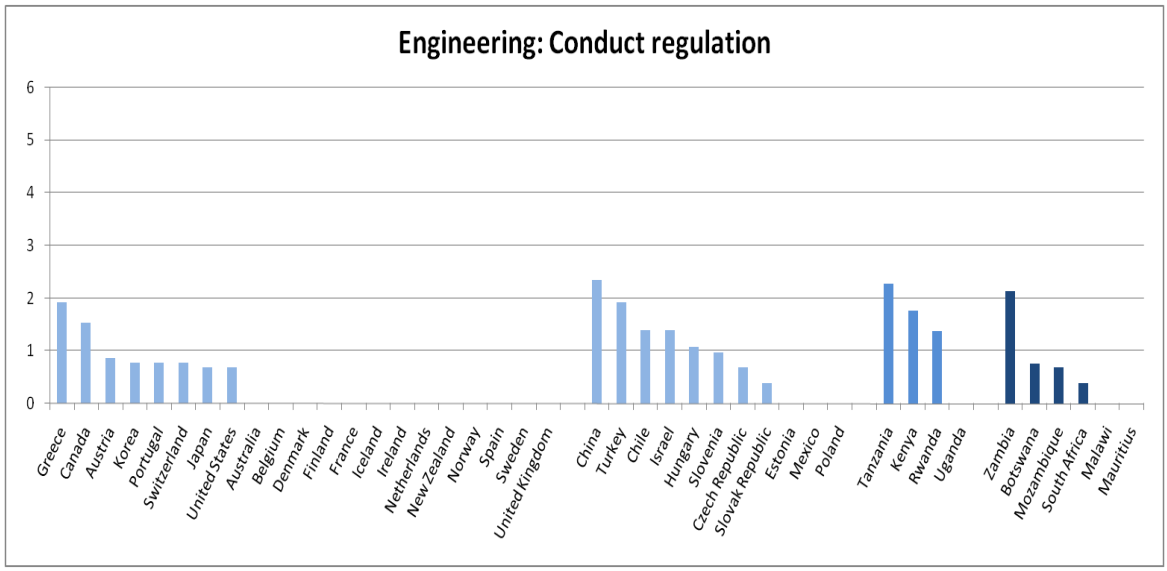
100. **Advertising restrictions limit competition, with detrimental consequences for consumers.** Public interest theories justify advertising restrictions by the need to protect consumers. But private interest theories maintain that there is no justification for prohibiting advertising that is relevant, truthful,

and not misleading.[48] Rather, advertising facilitates competition by informing consumers about different products and allowing them to make better-informed purchasing decisions. It is also stressed that advertising, and in particular comparative advertising, can be a crucial competitive tool for new firms entering a market.

Figure 31: Conduct Regulation in Professional Services



[48] Stigler (1961) has argued that advertising by the providers of services can substitute for a large amount of searching efforts by a large group of consumers.



Source: OECD Regulatory Database on Professional Services and World Bank Regulatory Surveys in Africa, 2009 and 2010. Note: 0 corresponds to the least restrictive set of regulations whereas 6 corresponds to the most.

101. **Restrictions on the business structure and on multidisciplinary activities are present in all professional services sectors in all Southern African countries.** These regulations can restrict the ownership structure of professional services companies, the scope for collaboration within the profession and with other professions and, in some cases, the opening of branches, franchises, or chains.

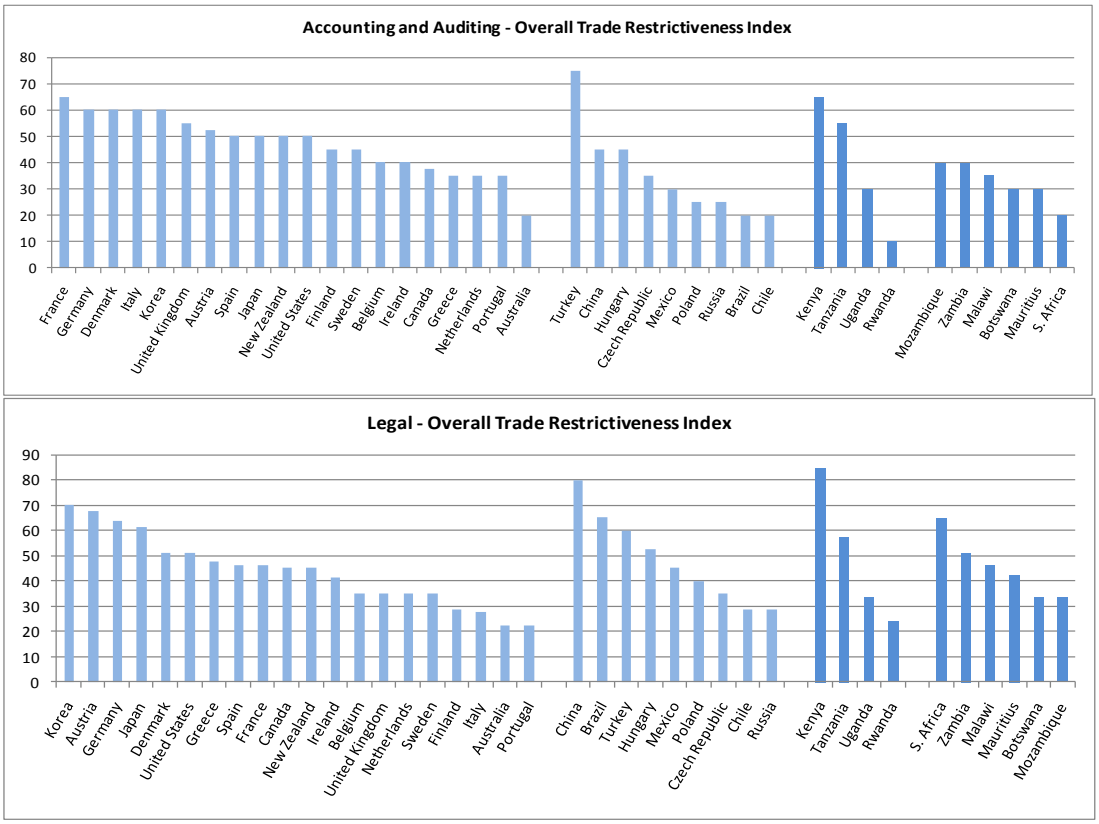
102. **Restrictions on the business structure of professional firms and on multidisciplinary activities limit competition and harm consumers in most Southern African countries.** To justify these restrictions on the business structure, professional associations argue that professionals are more likely to give independent advice if certain forms of intra-professional partnerships are prohibited, while restrictions on multidisciplinary activities prevent potential conflicts of interests that are to the detriment of consumers. But private interest theories stress that these regulations are clearly anticompetitive and may harm consumers by preventing providers from developing new services or cost-efficient business models. As an example, these regulations might prevent lawyers and accountants from providing integrated legal and accountancy advice for tax issues. In general, restrictions on collaboration between members of the same profession seem to be less justifiable than restrictions on collaboration between members of different professions where there is a strong need to protect the independence and liability of professionals.

103. **Professional services firms find restrictions on operations a significant constraint.** Private providers of services in Southern Africa reveal that restrictions on accreditation and qualification requirements as well as licensing requirements are restrictive in the accounting sector. Regulations on advertizing represent the most important constraint in the legal sector while the speed of licensing is the most important in the engineering sector. Another constraint worth noting is the (inappropriate) technical standards in accounting services.

iii. Significant services trade barriers and labor mobility restrictions are in place

104. **Southern African countries differ in terms of their openness to trade. Trade in legal services tends to be more heavily regulated and restricted than trade in accounting/auditing services.** This pattern is revealed by the larger values of the services trade restrictiveness indices (STRI) for legal services than for accounting services shown in Figure 32.[49] This pattern is true not only for Southern Africa but also for most countries in the sample. South Africa, Zambia, and even Malawi are characterized by more severe restrictions on trade in legal services than most countries in the sample. In contrast, South Africa exhibits one of the least restrictive trade policies in accounting and auditing services.

Figure 32: Overall STRI in Professional Services



Source: Borchert, Gootiiz, and Mattoo (2010).
Note: A lower index indicates a less restrictive set of services trade policies.

[49] Figures 32 and 33 show the services trade restrictiveness indicators (STRI) compiled by Borchert, Gootiiz, and Mattoo (2010) described in Appendices 15 and 16. The STRI cover foreign entry restrictions on the movement of natural persons (mode 4) or on the establishment of commercial presence (mode 3). Restrictions on mode 4 include nationality and residency requirements, quotas and economic needs tests, and limits on the type of legal entry or on the scope of business. Restrictions on mode 3 include restrictions on foreign ownership, limits on the type of legal entry or on the scope of business. Trade in engineering services is not covered by Borchert, Gootiiz, and Mattoo (2010).

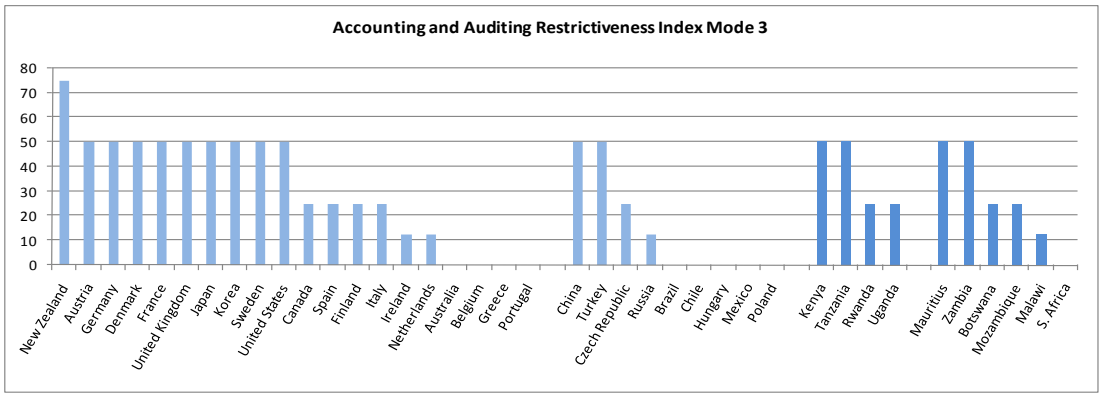
105. Considering separately the restrictiveness of trade across the establishment of commercial presence (mode 3) and the movement of natural persons (mode 4) in professional services some interesting differences can be identified.

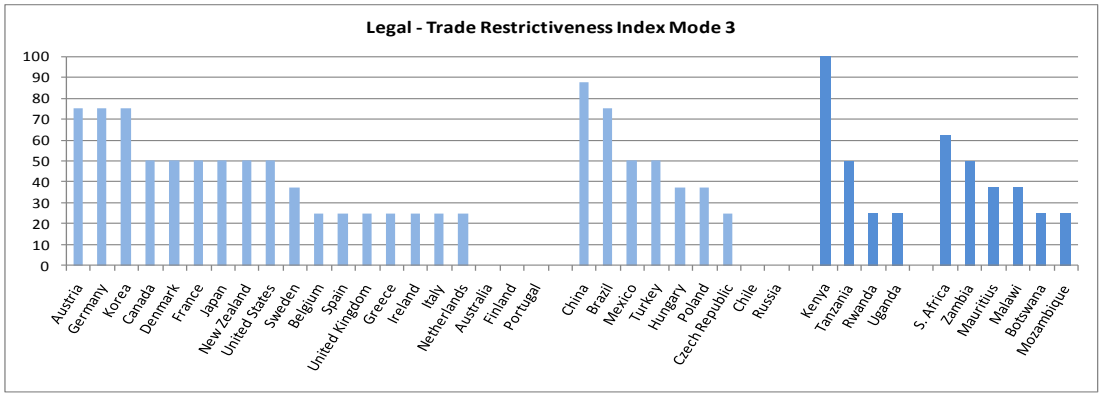
106. **The establishment of foreign law firms is substantially more difficult than that of foreign accounting and auditing firms in South Africa, but also in most other countries in the sample.** This is shown in Figure 33. The degree of protection for mode 3 is, however, not higher in Southern Africa than in the rest of the sample for accounting and auditing services. In fact the restrictions imposed on foreign accounting and auditing firms who want to establish a commercial presence in South Africa and Malawi are lower than those in many OECD countries. Botswana and Mozambique exhibit the most open markets to the commercial presence of foreign law firms across the sample.

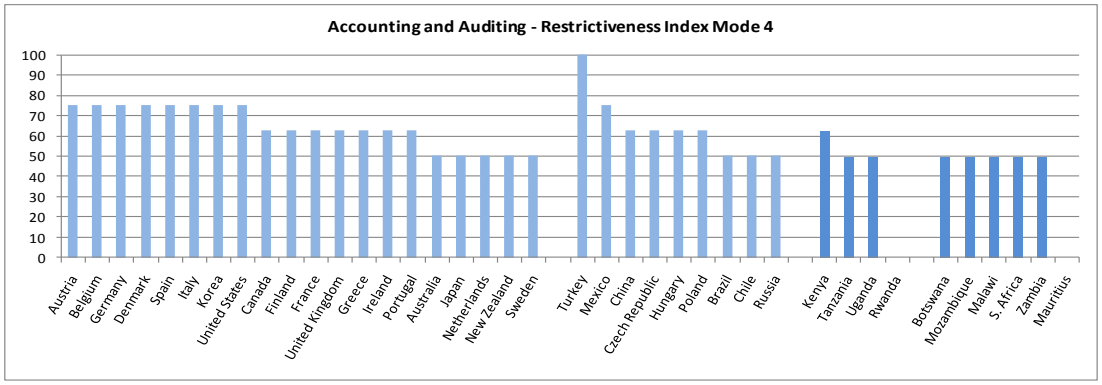
107. **The entry of foreign law firms is restricted in most Southern African countries.** The entry of foreign law firms is not permitted in South Africa. Ownership by non-locally-licensed professionals is prohibited in Zambia and limited in Mozambique. In Mauritius entry is allowed only if the foreign firm sets up a joint venture with a local firm, while in Malawi branches are not allowed. Botswana does not impose restrictions on the entry of foreign law firms, except on the use of a foreign parent firm name.

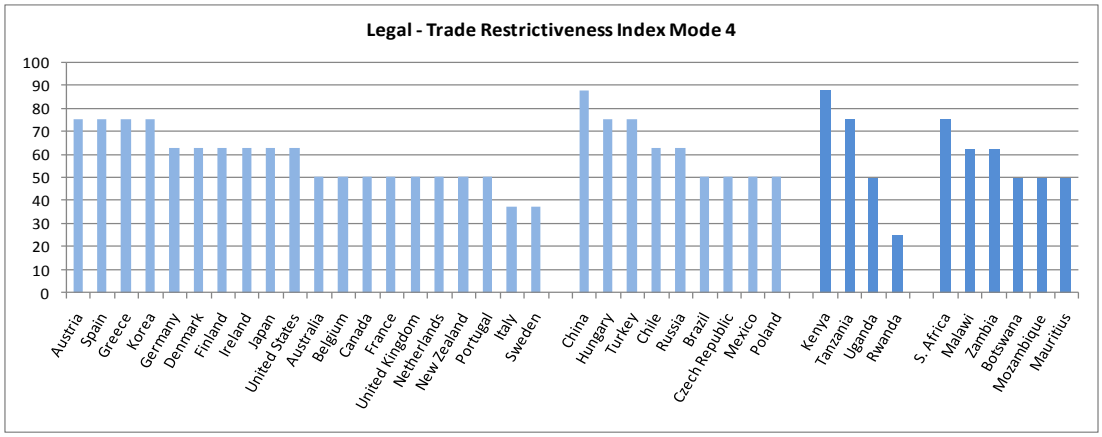
108. **In accounting and auditing the establishment of foreign commercial presence is permitted in all countries but with restrictions.** In Botswana, there are possible limits on the use of a foreign parent firm name. Malawi, Mauritius, Mozambique, and Zambia prohibit ownership or control by non-locally licensed professionals.

Figure 33: STRI in Professional Services by Mode of Supply









Source: Borchert, Gootiiz, and Mattoo (2010).
Note: A lower index indicates a less restrictive set of services trade policies.

109. **The movement of natural persons is substantially more restricted for legal professionals than for accounting/auditing professionals in South Africa, Malawi, and Zambia.** This is shown in Figure 33. Those three countries impose some of the most restrictive barriers to the practice of foreign lawyers in their jurisdictions, only equaled by the barriers imposed by China, Kenya and Tanzania. For foreign accountants and auditors, Mauritius exhibits the most liberal trade policy of the entire sample. Also, it is worth noting that Botswana, Mozambique and Mauritius exhibit larger percentages of foreign professionals in accounting and engineering services. This could be a possible result of the relatively less restrictive policies related to mode 4 in these countries.

110. **Except for Mauritius, all Southern African countries impose discretionary limits (e.g. through labor market tests or quotas) on the presence of foreign accounting and auditing, and legal professionals.** While these countries impose the same requirements to foreign engineers, Malawi exempts those professionals. In Malawi, Mauritius, Mozambique and South Africa, de jure or de facto nationality requirements to practice domestic law exclude participation by foreign professionals. Malawi and Mauritius do, however, make an exception for citizens of Commonwealth countries and common law countries. Foreign-licensed professionals are eligible to provide legal advice on domestic law in Botswana and Zambia subject to residence and education requirements and labor market and economic needs tests. Foreign-licensed lawyers can advise on foreign law in all Southern African countries subject to the discretionary limits in place. In all Southern African countries the entry of foreign accountants is less restricted. Foreign-licensed accountants can practice in all Southern African countries if they are members

of certain professional accountancy organizations (e.g., Scotland, England and Wales, Ireland, the US, Canada, Australia, New Zealand, Hong Kong, Namibia, Swaziland and Zimbabwe) and if they pass additional examinations in South Africa and Zambia, and/or demonstrate that they have practical experience in Mauritius, Mozambique and Zambia.

111. **In contrast, entry conditions through mode 3 as well as mode 4 are much more liberal for engineering** (not shown in the figures). The establishment of foreign engineering firms is not prohibited in any Southern African country and there are no restrictions on the form of entry. Foreign engineers wishing to practice in Southern Africa also face much more liberal entry conditions, with no nationality requirements in any country although Botswana, Malawi and Mozambique impose residency requirements. All Southern African countries automatically recognize academic and professional qualifications obtained in other jurisdictions, and except for Malawi, all other Southern African countries recognize licenses obtained in other jurisdictions.

112. **In terms of immigration policies, the Southern African countries try to rigidly control the movement of skilled workers into and out of their borders, in many cases applying stringent regulations on workers from developed countries as well as on those from within Southern Africa.** Although in most countries there are no overtly discriminatory regulations, the existing policies are aimed more at restricting, rather than facilitating, the free movement of labor. In South Africa the difficulties in obtaining work permits motivate many international firms to set up partnerships with South African firms instead of setting up commercial presence in the country (Black et al., 2006). The immigration law of 2007 in Mozambique is very restrictive and makes hiring foreign workers extremely difficult. Firms can hire foreign workers without requiring a work authorization, if foreign workers account for a smaller fraction of the workforce than that established by the quota system in place: 5% for companies with more than 100 employees, 8% for companies with 11-100 employees, and 10% for companies with up to 10 employees. The quota system applies equally to firms operating in all sectors of activity and more importantly to workers of all skills.[50]

113. **Considering the entry and conduct regulations among the trade barriers in professional services as well as the immigration policies in Southern Africa a few key points emerge:**

- **Legal services tend to be the most heavily regulated type of professional service in terms of entry and conduct, accounting is the second most regulated, and lastly engineering**. This pattern is true in Southern Africa and in all other non-African countries. Interestingly, this pattern is reversed in East Africa where engineering services tend to be more heavily regulated than accountancy services. Explicit trade barriers are also the most restrictive both in terms of modes 3 and 4 for legal services relative to accounting and auditing services.

- **In terms of cumulative and disproportionate qualitative domestic entry restrictions, the most frequent measures are monopolies of professional associations over higher education institutions that provides the necessary degree combined with exclusive rights (in legal services).**

[50] See Fernandes and Mattoo (2009) for a detailed discussion of the immigration policies in Mozambique.

- Several measures are worth noting regarding inappropriate conduct regulation: (i) fixed prices and fees in legal services and in engineering services (even if the latter are non-binding); (ii) advertising prohibitions in legal services in several countries and in accounting and engineering in a couple of countries; and (iii) restrictions on the forms of practice and multidisciplinary activities in accounting and legal services. **Another constraint affecting professional services results from a lack of regulation: the unavailability or limited applicability of competition law to professional services in several countries. Some other restrictive regulatory measures include: inadequate standards that prevent the emergence of middle-level professionals (for example, paralegals), uniform standards applicable to SMEs and large companies in accounting and auditing services (e.g., compliance difficulties with IFRS), inefficiencies related to duplication of education and training determined by non-recognition or partial recognition of professional credentials and licenses obtained in other countries.**

  In terms of trade barriers, the legal sector remains largely closed to foreign participation concerning the provision of domestic law and legal representation in court. Nationality requirements which typically ban foreign entry are imposed by several Southern African countries on providers of legal services. Economic needs tests or labor market tests are applied by all Southern African countries (except Mauritius) in accounting and legal services. Restrictions on the entry of foreign accounting and law firms exist in all countries in various forms (foreign ownership limits or restrictions on the form of entry). All these measures reduce the number of service providers and thus the availability of services provided and consumer choice.

- **Relative to the rest of the sample, Zambia and Botswana impose significant entry and conduct restrictions in all professional services.** Zambia also imposes significant explicit trade barriers particularly to its legal services sector but also to its accounting and auditing services sectors.

- **Mauritius is one of the countries with lightest regulation in accounting and engineering services domestically but also in terms of explicit trade barriers.** South Africa's engineering and legal services seem less heavily regulated domestically than those services in most of the other Southern African countries. However, South Africa's overall regulatory index for legal services remains much higher than the sample average. In contrast, South Africa's explicit trade barriers on legal services are very high from a cross-country perspective.

- **Strict immigration regulations seem to play a role in explaining the shortage of key professionals in Southern Africa.** Overall, explicit trade barriers, regulatory requirements, and immigration policy in Southern Africa impede the supply of services by foreign professionals and segment the regional markets for professional services.

- It is worth noting that while the services restrictiveness index (STRI) for professional services suggests that Southern African countries are fairly open compared to many OECD countries, existing and future opening might not be sufficiently credible if it is not complemented by regulatory reform. Furthermore, fear of a policy reversal may inhibit foreign investment in professional services.

II.6 Recommendations for Policy Action

114. **The national markets for professionals and professional services in most Southern African countries remain underdeveloped with performance indicators below the averages of countries at a similar level of development. Also, the regional markets for professional services and professional education in Southern Africa are fragmented**. The regional markets for professional services are fragmented by restrictive policies, such as nationality requirements and regulatory heterogeneity, relating to licensing, qualification and educational requirements. Strict domestic regulations combined with a lack of regional coordination among Southern African countries further constrains foreign investment and hinders economic growth and development in Southern Africa. These outcomes are the result of constraints that call for policy action in the following areas: education, regulation of professional services, trade policy, and labor mobility. Policy reform at the national and regional levels is key to better integrating the regional market for professional services. While policy action at the national level will differ from country to country given diverse conditions and outcomes in the six examined countries, international and regional cooperation would ideally complement domestic policy measures. Trade liberalization and regional integration can be used to reduce the scope for private interest regulation, enhance competition, and deal with labor mobility issues that are crucial in professional services.

i. Policy Action at the national level

115. **The main focus at the national level should be on the development of framework conditions that address the skills shortages and the skills mismatches and facilitate the growth of professional services in each of the Southern African countries.** Reforms related to education should focus on the following issues:

116. **Financial constraints prevent individuals from acquiring a professional education, so developing new and expanded means of financing higher education such as student loans schemes should be a priority.** Access to professional education could be increased by making financing more easily available for potential students. One of the central problems with financing higher education in Africa is that the total number of students attending university has far outpaced the available funding support, leading to a large supply shortfall. Some countries have handled this challenge better than others: Botswana's funding resources have kept pace with the increase in students whereas Kenya has lagged student growth by a factor of three (World Bank, 2010). Since it is unrealistic to expect the government to provide all of the necessary additional funding, the introduction or expansion of students' loan programs could be a useful instrument to diversify the sources of funding for higher education while also addressing its affordability for individuals.[51] Student loan schemes currently operate in more than 60 countries, including in South Africa and 12 other African countries, and are becoming an increasingly important financing mechanism for higher education (see Box 10).

[51] Successful education systems around the world generally receive funding from students, government, on-campus services, matching grants, donations and gifts, and revenue from research and development (World Bank, 2008).

Box 10: Student Loan Schemes

Until the mid-1990s, there were only a limited number of cost-sharing arrangements between governments and students for financing higher education in developing countries, as governments were reluctant to charge tuition fees or transform their scholarship programs into student loan schemes. However, under pressure from increasing enrollments and in face of increasing per-student costs, cost-sharing arrangements are being embraced by an increasing number of governments in Sub-Saharan Africa (Johnstone, 2001). In Mozambique and South Africa, cost-sharing has taken the form of the introduction of upfront tuition fees at all public institutions. To be equitable, cost-sharing arrangements need to be implemented in parallel with adequate support mechanisms for qualified but needy students through scholarship schemes and student loan programs (Salmi, 2003). Student loan schemes are often underwritten by the national government. Since the late 1990s, the number of World Bank higher education student loan projects and related activities has soared. However, establishing student loan programs that promote accessibility but result in real cost recovery is a challenge. The cross-country evidence shows failures or limited success of student loan schemes in Africa. Some of the factors that contributed to that outcome are: excessive built-in interest rate subsidization, long grace periods, poor execution, and a governance system that allows many students to treat their loans like grants. This undermines governments' ability to generate cash from loans that can then be loaned to other students (World Bank, 2010). Due to the built-in subsidies, recovery ratios for loans in default (the present value of repayments divided by the present value of the disbursed loan) are relatively low, as illustrated in the table below. Recovery ratios in Africa are low in comparison to developed countries likely due to combination of two factors. The first is the relatively weak legal environment in many African countries, which hinders the collection of loans. The second is the structural problem that many students see educational loans as grants. Overall, there is limited hard evidence and the jury is still out on whether student loan schemes can generate sufficiently high loan repayment rates.

Loan Recovery Ratios

Country	Recovery Ratio
Ethiopia	35.24
Ghana	39.13
Kenya	27.93
Mauritius	59.36
South Africa	50.47
Nigeria	10.88
Comparators	
High Income	74.3
Upper Middle Income	50.04
Lower Middle Income	56.09
Low Income	37.19

Source: Hua and Ziderman, 2008

Still there are examples of successful student loan programs and there is some evidence that student loan programs can have positive impacts. A successful example is the South African National Student Financial Aid Scheme which has been able to expand access while generating cost recovery (Johnstone, 2001). This scheme was given the authority to compel employers to withhold student loan repayments owed by employees with payments in serious arrears, thus facilitating the collection of loan repayments. A study for Costa Rica and Mexico (Salmi, 2003) shows that student loan programs can have a positive impact on the quality of higher education through the eligibility criteria imposed on beneficiaries and beneficiary institutions. Moreover, beneficiaries from Mexico's student loan scheme SOFES are shown to have achieved better academic performance than their peers, possibly due to their greater awareness of the price and value of their education (Canton and Blom, 2004).

Student loan programs should be reformed and expanded rather than abandoned. Educational loans are beneficial for both students and governments. Students gain access to funding that they might otherwise not find, and governments are able to train a skilled workforce through a cost sharing mechanism that eases pressure on national accounts. At the same time, raising recovery ratios would enable governments to assist more students. Many pre-conditions are necessary for designing and administering efficient and financially viable student loan programs: transparent

eligibility criteria to ensure that any subsidy element be targeted to the most academically and socially deserving students, a close supervision of the academic performance of the student loan beneficiaries, a carefully designed interest rate and subsidy policy to protect the long term financial viability of the program, and efficient collection mechanisms to minimize default (Salmi, 2003). These pre-conditions mean that the implementation of student loan programs requires institutional capacity which may today be found only in middle-income countries. The implementation of such programs in the near future in low-income countries faces formidable challenges as it requires also a strengthening of the capacity and efficiency of legal systems.

117. **Since weaknesses in upstream school education mean that students are ill-equipped to acquire professional skills, enhancing the quality and capacity of schools, especially in mathematics, sciences, and technical studies, should be a key item on the policy agenda of all examined countries.** International and national experiences related to quality assurance of secondary and higher education could serve as a model to be followed by the Southern African countries. For example, in Europe a major step for improving the quality of higher education programs has been the adoption of a common set of *Standards and Guidelines for Quality Assurance in the European Higher Education Area*. The *Tuning Educational Structures in Europe* described in Box 11 is another useful example in this context. South Africa, whose quality assurance capacity is well ahead of that of its neighbors can play a crucial role in enhancing the educational capacity in the region. Additional guidance is provided by the manual on *Graduate Attributes and Professional Competencies*[52] developed as part of the design and implementation of three international agreements regarding mutual recognition of accredited programs are of particular relevance here: the Washington Accord for engineers, the Sydney Accord for engineering technologists and the Dublin Accord for engineering technicians.

[52] http://www.washingtonaccord.org/IEA-Grad-Attr-Prof-Competencies-v2.pdf.

Box 11: Tuning Educational Structures

The *Tuning Educational Structures in Europe* initiative was launched in 2001 by a large group of universities from the many of European countries. Tuning has not only developed a methodology to (re-design, develop, implement and evaluate study program, it has also served as a platform for developing reference points at subject area level. In 2007 the work of Tuning was validated by some twenty independent international peer review committees for as many subject areas and was highly praised. Over the years the Tuning method has developed into a process of approach which is relevant for all parts in the world. Its usefulness has already been discussed in 19 Latin American countries.

According to the Tuning approach, reference points are expressed in terms of learning outcomes and competences. Learning outcomes are statements of what a learner is expected to know, understand, and be able to demonstrate after completion of a learning experience. According to Tuning, learning outcomes are expressed in terms of the *level of competence* to be obtained by the learner. Competences represent a dynamic combination of cognitive and meta-cognitive skills, knowledge and understanding, interpersonal, intellectual and practical skills, and ethical values.

Competences are developed in all course units and assessed at different stages of a program. Some competences are subject-area related (specific to a field of study); others are generic (common to any degree course). It is normally the case that competence development proceeds in an integrated and cyclical manner throughout a program. To make levels of learning comparable the Tuning subject area groups have not only developed reference points but also cycle (level) descriptors for their academic field, which are also expressed in terms of competences/learning outcomes.

In 2002 Tuning organized a Europe-wide consultation process for at that time seven subject areas including employers, graduates and academic staff / faculty. Such a consultation process was in later years repeated in other regions and countries and extended to students as an important group of stakeholders (19 Latin America countries, Russia, Georgia).

Source: OECD (2008).

118. **Given the capacity constraints and quality limitations of professional education institutions, improving existing institutions and encouraging the creation of new ones is necessary.** There is a need for both horizontal differentiation (for example, the emergence of new educational providers in the same category that are operated by for-profit, non-profit, international or local government entities to respond to the increased demand for access to higher education) and vertical differentiation (for example, the emergence of new types of institutions such as polytechnics, professional institutes, junior colleges for middle-level professionals) to respond to labor market needs for a greater diversity of graduate skills and levels of training. Malawi provides an example of development of middle-level legal professionals that could be a useful model for the other Southern African countries. But it is important to understand why the market is not responding more generally to the increased demand for professional degrees in Southern Africa. Regulatory barriers to the establishment of private (namely foreign private) higher education institutions may play a role but so may be the fact that local demand – particularly in the smaller Southern African countries - is not large enough for profitable entry. There is an important potential role for regional integration to address the capacity and quality issues in professional education as will be detailed below.

Reforms should also focus on incremental, qualitative improvements in domestic entry and conduct regulation.

119. **Some possible directions that Southern African countries may consider individually or collectively to seek incremental, qualitative improvements in domestic regulation are the following**:

- **Disproportionate cumulative entry qualitative requirements should be relaxed.** For example, narrowing the scope of exclusive tasks in certain professions would contribute to accomplishing this goal. The argument in favor of exclusive rights is that they can lead to increased specialization of professionals and guarantee a higher quality of service. But exclusive rights which create monopolies can have adverse price and allocation effects, especially if they are granted for services for which adequate quality can be provided at a lower cost by less-regulated middle-level professionals.

- **Disproportionate restrictions on conduct that limit competition should be eliminated**.
  - Fixed prices: Price regulations are supported and introduced by Southern African professional associations who claim that they are useful tools to prevent adverse selection problems. However, such regulatory instruments can stifle competition and hurt consumers. Southern African countries should adopt less restrictive mechanisms such as better access to information on services and services providers to accomplish the same goals at lower economic cost.
  - Restrictions on business organization: These regulations can restrict the ownership structure of professional services companies, the scope for collaboration within the profession and with other professions and, in some cases, the opening of branches, franchises, or chains. To justify these regulations, professional associations argue that professionals are more likely to give independent advice if certain forms of intra-professional partnerships are prohibited, while restrictions on multidisciplinary activities prevent potential conflicts of interests that are detrimental to consumer welfare. But these regulations tend to be clearly anti-competitive and may harm consumers by preventing providers from developing new services or cost-efficient business models. For example, these regulations may prevent lawyers and accountants from providing integrated legal and accountancy advice for tax issues. In general, restrictions on collaboration between members of the same profession seem to be less justifiable than restrictions on collaboration between members of different professions where there is a need to protect the independence and liability of professionals.
  - Advertising prohibition: Public interest theories justify advertising restrictions by the need to protect consumers. But there seems to be no justification for prohibiting advertising that is relevant, truthful, and not misleading. Southern African countries should liberalize the advertising of professional services provided there are adequate safeguards to prevent misleading advertisements. That will facilitate competition by informing consumers about different products and allowing them to make better-informed purchasing decisions and it maybe a crucial competitive tool for new firms entering a market. Mauritius and South Africa's liberalized but regulated advertizing regime for legal services can be used as a model for the other Southern African countries. Such advertising must be relevant, truthful and not misleading.

120. **Private sector providers, as well as professional associations should engage in the design of regulatory reform and of the trade liberalization strategy.** It might be useful to establish a trade and regulatory coordinating committee to oversee the process towards developing better regulation, greater competition and trade liberalization. In setting up the necessary policies for the development of the services sector, including in professional services, the committee should consider how to use liberalization in the professional services sectors as an element for raising productivity and accelerating growth of services. A taxonomy that takes into account the interaction between trade opening and regulatory reform, unilateral liberalization versus binding commitments, multilateral versus regional liberalization, and political will versus implementation capacity can further guide the elaboration of a negotiating strategy for services in Southern Africa.

ii. Policy Action at the Regional Level

121. **There is limited regional trade in professional services in Southern Africa.** The fragmentation of regional markets for professional services and professional education in Southern Africa by restrictive policies and regulatory heterogeneity prevents countries from exploiting gains from trade based on comparative advantage, as well as gains from enhanced competition and exploiting economies of scale.

122. **Potential benefits from regional integration in Southern Africa are considerable.**

- The differences in national endowments of professionals across Southern African countries and the capacity for professional training, reflected in differences in the earnings of professionals and the costs of training across countries, suggest that there is substantive scope for trade and potentially large gains from eliminating impediments to trade.

- Deeper regional integration would also enhance competition between service providers, allow providers to exploit economies of scale, especially in professional education, produce a wider variety of services, and increase the prospects for attracting domestic and foreign investment.

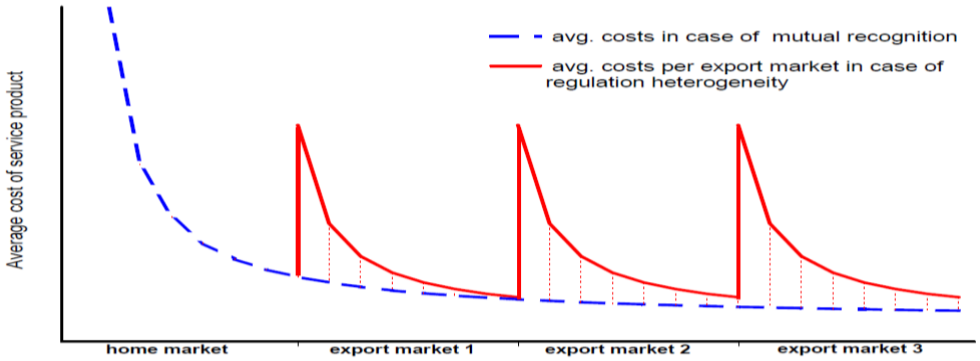
- Regionalism may also make it possible to reap scale economies in regulation and supervision, particularly where national regulatory agencies face skill constraints; it could also reduce scope for the capture of national regulation by private sector interests.

123. **Trade barriers would ideally be liberalized on a most favored nation (MFN) or non-preferential basis since that would generate the largest welfare gains as domestic users of professional services could have access, and domestic professionals could benefit from exposure to the best services providers in the world.** But such liberalization may not always be technically feasible or politically acceptable, especially when impediments arise from differences in regulatory requirements. If reciprocal liberalization at the regional level is politically more feasible, then it may be desirable for Southern African countries to weigh the unquestionable benefits of market opening even in the narrow regional context, against the possible costs of giving a first-mover advantage to what may be a second-best regional service provider.

124. **Deeper regional integration through regulatory cooperation with neighboring partners, which have similar regulatory preferences, can usefully complement non-preferential liberalization.**

Common regional standards on accountancy and auditing reporting, for example, would reduce the costs to market participants of operating across national borders. Regulatory heterogeneity prevents services providers from realizing economies of scale from a larger regional market. Given that most regulatory measures affecting professional services such as qualification requirements or licensing procedures generate fixed costs, they are incurred by firms before entering the market. Moreover, given that each country in Southern Africa has its own qualification criteria, the compliance costs are country-specific and cannot be spread out over provision of professional services in other Southern African countries. Such fixed and country-specific regulation costs can have a serious impact on entry decisions by small and middle-sized firms particularly if firms do not expect large sales in the foreign market. If the Southern African countries adopted common criteria for professional qualifications or recognized (with no hassles) the qualifications and licenses obtained in other Southern African countries, significant efficiency gains would be obtained as shown in Figure 34. To draw an example from the EU, Kox et al. (2004) estimate that the stock of FDI in the EU could increase by 20-35% if regulatory heterogeneity across countries was reduced as a result of a common services regulation directive.[53]

Figure 34: Regulatory Heterogeneity and Regional Integration



Source: Kox et al. (2004).

Policy action is required to (i) relax the explicit trade barriers affecting professional services including through reform of immigration laws and (ii) coordinate liberalization with regulatory reform and cooperation at the regional level.

(i) Relaxing explicit trade barriers:

125. **Relaxing the explicit trade barriers applied by Southern African countries to the movement of natural persons, commercial presence, and cross-border supply of professional services, as well as through discriminatory procurement, is a priority.** Some directions that Southern African countries may consider individually or collectively to improve their commitments to professional markets liberalization are the following:

[53] Nordas and Kox (2007) estimate the impact of regulatory heterogeneity (and regulatory intensity) on services trade flows and find relatively large negative effects on market entry, trade flows and the export performance of firms.

- Relaxing the nationality and residency requirements that are imposed by several African countries especially to the legal profession. Countries should articulate the economic and social motivation for those nationality and residency requirements. The objectives of such requirements may be achieved by less discriminatory measures such as requiring foreign service providers to undergo professional assessment when nationality requirement is used as a tool to ensure professional competence and appointing a representative agent or liability insurance in lieu of physical presence or residency requirement.
- Minimizing restrictions on forms of establishment.
    - Where prohibition on incorporation is absolute such that only sole proprietorship and partnership are allowed, consider introducing "safeguards" on corporate forms that will ensure professionals are made accountable for their services, e.g., by requiring professionals to secure liability insurance, or stipulating that the majority of directors be professionals.
    - Where investments by nonprofessionals are not allowed, consider relaxing the prohibition and substituting it with less restrictive policies such as requiring professionals to have control of operations.
    - Relaxing absolute prohibition of foreigners forming partnerships with local professionals by requiring instead that foreign and local partners be jointly and severally liable, and their liability for the partnership's debts be unlimited.
- Developing transparent criteria and procedures for applying economic needs tests and other equivalent policies. Setting a timeline for easing and ultimately abolishing those restrictions.
- Developing a transparent, consistent, and more liberal framework for accepting professionals with foreign qualifications.
    - Reviewing and considering adjustments in policies where the social and economic motivations are ambiguous, such as requirement of membership in local professional associations, mandatory partnership with, or hiring of, locals of the same profession within the same area of competence.
    - Where foreign professionals are completely barred from practicing, incrementally recognizing professional qualifications from other member countries that are deemed to have similar standards to those applied in the Southern African countries.

(ii) **Coordinating liberalization with regulatory reform and cooperation at the regional level:**

126. **Meaningful competition needs not just the elimination of explicit barriers but also steps to address regulatory heterogeneity**. The regional forum may also offer Southern African countries an opportunity to coalesce around more appropriate standards.

Regulatory cooperation would be particularly useful in the following areas:

A. Mutual recognition of professional qualifications and professional licensing

127. **The model adopted by East Africa could be followed by the Southern African countries.** The five East African countries have taken the first steps towards mutual recognition in professional services in the context of the East African Community Common Market negotiations. The Common Market Protocol, adopted by the Multi Sector Council in 2009, includes an annex on a framework agreement on mutual recognition (MRAs) of academic and professional qualifications. The implementation of a full-fledged MRA would need to cover areas such as education, examinations, experience, conduct and ethics, professional development and re-certification, scope of practice, and local knowledge.

Box 12: Negotiating Mutual Recognition Frameworks: What can Southern Africa learn from other regions?

Countries negotiating an MRA in professional services can learn valuable lessons from other regions, in particular the European Union and NAFTA, which have struggled – not always successfully - to develop mutual recognition frameworks. These efforts have typically involved first identifying a core set of requirements which can be harmonized across countries and provide a basis for eventual MRAs. Here we consider MRAs in accounting in NAFTA. (Useful examples of mutual recognition in engineering services are the Washington Accord for engineers, the Sydney Accord for engineering technologists and the Dublin Accord for engineering technicians. Other regional agreements that have recently attempted MRAs in professional services are ASEAN, Mercosul and APEC, on which we are in the process of acquiring more information.)

The process of creating a mutual recognition framework can be split into primary and secondary issues. The primary items are concerned with accreditation and training standards, and apply to all professions; the secondary items are broadly concerned with sector-specific provisions and issues.

The primary items to consider are:
Education: Establish regionally accepted academic programs required for practicing professionals, and guidelines for the accreditation of schools teaching such programs.
Experience: Establish the type and length of required experience or training necessary, if any, before a student can take the examination or receive a license.
Examinations: Establish examinations that students need to pass before they receive a professional license. In the NAFTA countries, there are separate exams in Mexico from the United States and Canada (due to language differences), but the content of the exams is harmonized across countries.
Examinations are in some ways the most important primary item, in that they gauge a candidate's specific knowledge and readiness to practice the profession. Still, to the extent that examinations cannot fully assess how well educated and experienced an individual is, it may be necessary to independently consider the latter two attributes. These primary factors are often the most difficult on which to reach agreement and implement.
All relevant governmental and professional organizations should be encouraged to take part in defining requirements. Due to the number of organizations involved—five principle groups and numerous subgroups negotiated the primary standards for NAFTA - NAFTA's negotiation and implementation process for primary factors took over 10 years to complete, in addition to the time spent negotiating organizing principles in the NAFTA treaty text itself.

The secondary items to consider are:
Professional conduct and ethics: This is especially important in professions such as accounting and law. Standardizing expectations for professional conduct can help avoid conflicting cultural mores across the region.
Professional development: Different countries have different expectations on professional development and recertification, so standardizing these expectations is also important.
Local knowledge: Some knowledge of the country in which a professional practices can be beneficial. This can be tested in the examination, or by requiring relevant academic coursework, or some work experience in, the foreign country.

In general, the first step it to establish the least rigorous standards that can be accepted by countries in each category. Some countries may need to raise their standards beyond their current level, and others to lower them; however, in many countries minimum standards are already quite close (for example, each NAFTA country required a specialized designation in order to practice as a professional accountant). Once this base line negotiation is complete, more specific standards of interest to countries in the region can be added in each category. In addition, it is important to note that in many cases a common set of standards is not necessary for mutual recognition; a country must merely accept the validity of the other countries' standards.

Once a common set of standards has been negotiated and accepted, the new standards must be implemented. This can take as long to accomplish as the negotiation process, depending on the influence and status of various stakeholders in each country. Countries could establish specific targets and dates for which certain standards are implemented. In addition, countries can negotiate interim agreements allowing a certain restricted degree of regional professional practice to take place until the full set of standards is implemented.

Establishing a mutual recognition framework is a challenging and time consuming process, but can also be a worthwhile one.

B. Developing appropriate standards

128. **Inappropriate standards often stifle demand for services in areas such as accounting and engineering.** While uniformity of standards may improve the quality, completeness, and comparability of the reported information, and international standards remain appropriate in specific cases, it seems that applying common standards to large firms and SMEs can prevent some smaller firms from using auditing and accounting services. Indeed, a single standard may be appropriate if there is little demand for service variety, network effects are unbounded, and there is no anticompetitive risk from having a single standard. However, if the market requires variety to satisfy different types of users, then a single standard may not be appropriate.

129. **There are both benefits and costs from implementing uniform, international standards.** In the accounting sectors of the six Southern African countries, IFRS for corporate accounting are applied to different degrees and covering different types of firms but the level of compliance and understanding of those standards varies widely across countries. The expected benefits from the introduction of IFRS are more comparability of the African countries' financial reports to other countries; more transparency that make firms more attractive for investors and for credit providers; and an improvement in governance by making accurate and transparent financial reports available to corporate management, shareholders, and regulators. However, there are several problems associated with the introduction of IFRS for all categories of firms (Box 13).

130. **Complying with IFRS may be excessively costly for certain types of firms, even taking into account the provision for small firms to use a simplified standard**.

Box 13: Accounting standards in Southern Africa

In Botswana, the Companies Act of 2007 requires that public interest entities and non-exempt corporations above a certain size threshold comply with IFRS. Since Botswana did not have a local generally accepted recordkeeping principles (GARP), the government decided to prescribe the use of IFRS as the accounting standard, but the problem was that the government did not understand what IFRS are, neither did banks' finance and credit divisions, and even professional accountants had difficulties in fully understanding IFRS due to their complexity. The requirement of IFRS was dependent on size thresholds (based on assets and turnover) that were defined initially by the Botswana tax authorities that wanted to have as many companies as possible with audited accounts to ensure more tax revenues. Those thresholds were too low they implied that too many firms would be subject to IFRS - which could actually lead the system to collapse for shortage of qualified accountants that could prepare accounts according to IFRS. To address the situation, the BIA intervened with an appeal to the president of Botswana through a High Level Consulting Committee to increase the size threshold definitions.[54] The President agreed and a November 2008 amendment increased the thresholds required for companies to have mandatory audits of their accounts: from 2M pula to 5M pula of assets and from 5M pula to 10M pula of turnover. To date, the companies act is, however, not yet fully enforced, i.e., the registrar of companies is not systematically enforcing the requirement of IFRS audited accounts. Once enforcement is full the shortage of accountants in the country will become even more pressing. Companies spend large sums in getting their accounts done according to IFRS (30000 to 40000 pula).

In Malawi, the professional accountancy body SOCAM directed since 2001 all companies in Malawi to comply in full with IFRS as per World Bank (2007), the ROSC for Malawi. However, the Companies Act of 1984 does not require the application of IFRS nor any other accounting standards.[55] Given that the SOCAM directive did not come with penalties for non-compliance and the absence of a regulator in Malawi that could monitor compliance, the directive has not been enforced. Hence, some corporate entities of all types and sizes prepare their financial statements according to IFRS but are faced with application difficulties and compliance gaps. The ROSC recommendations were that the Companies Act should be amended to require preparers of financial statements to comply with properly defined accounting standards ensuring penalties for noncompliance and that IFRS should be prescribed only for public interest entities that need to be defined in the Malawi context but could include exchange listed companies public companies financial sector institutions and perhaps large non public companies. This is quite different from the SOCAM directive of IFRS for all companies which would indicate that the standards are appropriate to the conditions of all firms in Malawi. Stakeholders in Malawi believe that a serious challenge with internationally-determined standards is that they are too complex and costly for SMEs to comply with. Malawi has adopted IFRS for SMEs and work is in progress to develop even less burdensome standards for much smaller entities.

In Mauritius, the Financial reporting Act of 2004 prescribes that all public interest entities need to comply with IFRS for financial reporting. A public interest entity is any entity with an annual revenue exceeding 250M rupees or an entity that meets any 2 of the following conditions: *(a)* it has an annual revenue over 150 million rupees; *(b)* it employs over 100 persons; *(c)* it has total assets greater than 100 million rupees or total liabilities greater than 30 million rupees. Hence, for smaller firms compliance with IFRS is not mandatory.

In Mozambique, a new national accounting standard was introduced on Jan. 1 2007 to respond to the growing demands by the users of financial reports in face of the process of globalization of economic activities. The objectives of this new standard were to improve the quality of accounting and the presentation of financial information, and to come closer to IFRS. As of 2008 IFRS were required for the accounting of the central bank, the banking sector, and foreign exchange houses. The Mozambican government plan of transition to IFRS is such that by 2009 all insurance companies and large firms should adhere to IFRS, by 2011 all medium firms should adhere to IFRS. Most stakeholders in the country believe that it is too ambitious to have all large firms adhere to IFRS by 2009 and it may be an illusion to think that medium firms in Mozambique will be able to adhere to IFRS by 2011 (given that IFRS differ from the Mozambican standards in various important respects). The plan to implement IFRS will increase the demand for accounting services in the country, further contributing to the severity of the skills

[54] This appeal was chosen as to avoid the matters taking too long to be resolved through Parliament.

[55] Companies are required to keep proper accounting records that give a true and fair view of the company's affairs and need to prepare financial statements in accordance with the act to explain their transactions but do not need to follow any particular accounting standards.

shortage. Many stakeholders argue that the major problem for the implementation of IFRS will be insufficient human resources with capacity. Others believe that accountants can assimilate IFRS through courses but the major problem will be technology, i.e., the costs and complexity of the software adjustments needed to implement IFRS. The major problem is the appropriateness of these standards for any but the largest Mozambican firms, as it is widely believed that for SMEs in Mozambique even the national accounting standards are too complex.

In South Africa, the corporate law amendment act of December 2007 introduced differential accounting standards: (i) IFRS is required for public and widely-held entities and (ii) IFRS for SMEs is required for private/limited-interest or widely-held entities that have not issued securities to the public and/or do not hold assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses. A third tier framework for non-public entities was being developed as of 2009 to replace the IFRS for SMEs. A working group comprising a wide range of interested parties (including preparers and users of Financial Statements of non-public entities and banks) issued an exposure draft entitled "Proposed Framework for Non-public Entities" for public comment in February 2009. The exposure draft has now been reissued taking into account extensive comment received from the public. The revised exposure draft of the "Reporting Framework for Non-public Entities" (RFfNPEs) provides a simpler reporting framework (numbering about ¼ of the pages of IFRS for SMEs), alleviating the reporting burden in several key areas.

In Zambia, the Companies Act of 1994 requires that companies' financial statements give a true and fair view but did not require compliance with IFRS or any accounting standards as per World Bank (2007), the ROSC for Zambia.[56] Starting in 2005, the professional body ZICA issued a directive whereby IFRS were to be applied by all commercial entities in Zambia. However, this directive lacked clear legal backing as there was institution that would monitor and ensure compliance. Adopting IFRS was ZICA's response to Europe's adoption of IFRS in 2005 and also to a 2000 directive that many other ECSAFA members had already adopted. But although prescribing IFRS, ZICA did not provide any guidance on implementing standards and on how to deal with the complex aspects of IFRS like fair values, leaving each company to do whatever its auditors allow. There was a lack of clear understanding of the international standards by some preparers and auditors of financial statements. Hence, the wholesale adoption of IFRS in 2005 did not take into consideration the relevance of IFRS to the local environment. Stakeholders argued that the requirements of IFRS were too onerous for most of the local companies, mainly small and medium enterprises with limited resources. As of 2009, the Zambia revenue authority demands audited accounts from SMEs, but firms making less than 200 Billion K do not need to comply. ZICA is currently in the process of classifying the definition of SME according to various acts of parliament.

131. **Small and middle-sized firms across Southern African countries noted the excessive costs of complying with IFRS.** Dual standards that are tailored to the specific needs of firms by size would be worth considering in Southern Africa. Currently, in most jurisdictions SMEs are subject to relaxed regulations as determined at the national or international level, taking on board specific economic and local conditions. For instance the Financial Reporting Standard for Smaller Entities (FRSSE) developed by the UK Accounting Standards Body (ASB) is applicable to SMEs in the UK.[57] Such Financial Reporting Standard for Smaller Entities (FRSSE) will continue to be an option for qualifying entities in many EU countries even after the introduction of the International Financial Reporting Standards (IFRS) for SMEs developed by the International Accounting Standards Board (IASB).

132. **The development of an appropriate standard is desirable at a regional rather than the national level in order to exploit economies of scale in regulatory expertise, prevent fragmentation of the market by differences in standards, and limit the scope for regulatory capture.** A regional

[56] The Banking and Financial Services Act, the Insurance Act, and the Public Finance Act also did not prescribe IFRS.

[57] http://www.frc.org.uk/asb/technical/frsse.cfm.

accounting standard would therefore present Southern African countries with an opportunity to address the need for a balance between stringency and access, between integration and local appropriateness, and between rules and discretion. Recent developments in the Southern Africa region have been moving in this direction. The new set of accounting standards developed by South Africa's SAICA - the "Reporting Framework for Non-public Entities" - will be applied domestically but is also scheduled to be adopted for small and medium enterprises (SMEs) by the Eastern Central and Southern African Federation of Accountants (ECSAFA), a regional body that serves as a forum for regional cooperation on accounting standards.[58]

133. **However, it is crucial for the national professional accountancy bodies of the Southern African countries to engage with policy-makers and other national stakeholders to incorporate such regional accounting standards for SMEs into their national legislations.** One important issue that will need to be addressed is the national definition of an SME that may need to differ across countries to appropriately reflect the level of development of its private sector. To facilitate this process, an ECSAFA – World Bank initiative is currently developing training modules for the implementation of regional reporting guidelines by SMEs.

134. **Differentiated accounting standards for different types of firms - say large versus SMEs - may be most efficiently delivered by different classes of accounting professionals.** As in the case of accounting standards, regional cooperation in the development of an appropriate qualification for middle-level accounting professionals would be beneficial for the integration of the market for professional services in Southern Africa providing opportunities for middle-level professionals to move within the region in response to demand. All countries could benefit from the implementation of the common training standards for accounting technicians such as the Occupational Standards for Accounting Technicians in the ECSAFA Region.

C. Regional cooperation on the removal of restrictions on the free movement of labor, including visa and immigration laws and regulations and labor policies.

135. **The mobility of business people is a key factor in the promotion of free and open trade.** It is not in the Southern African countries' interest to cut themselves off from the regional and international markets for skills. While there may be an interest in limiting the entry of foreign professionals in order to create opportunities for domestic professionals, such restrictions could undermine growth by penalizing the users of professional services. Restrictions on foreign entry also stifle the flow of information about new services and their benefits and deprive local professionals of valuable learning opportunities.

[58] ECSAFA's mission is to build and promote the accountancy profession in the Eastern, Central and Southern regions of Africa. Currently the national accountancy bodies of Botswana, Malawi, Mauritius, South Africa, and Zambia are full members of ECSAFA while the national accountancy body of Mozambique that is in the course of formation has a temporary membership status.

136. **Enhancing business mobility by exchanging information on regulatory regimes and streamlining immigration processes for business travelers and workers and temporary residence of business people are key areas that need to be addressed to create a truly integrated market within Southern Africa.** At the regional level, the Southern African Development Community (SADC) has tried to regulate labor mobility, but so far has not been able to adopt any regional labor mobility agreements, mostly due to the disagreements among national governments. The experience of regional groupings such as the EU or the APEC Business Mobility Group that have made considerable progress in this area could provide practical guidance for the implementation in Southern Africa of commitments related to the free movement of labor and harmonization of immigration policies.

D. Regional cooperation in developing means of financing higher education as well as in the improvement of existing institutions of professional education and the emergence of new ones.

137. **To address the affordability of higher education, the development and management of student loan schemes at the national level seems to be one desirable option.** Regional cooperation in terms of sharing information and experiences to increase the recovery rate of loans while increasing students' access to higher education within and outside the region, could improve the impact of such loan schemes in Southern Africa. The recent partnership between the Kenya Higher Education Loan Board, the Tanzania Higher Education Students Loans Board, and the Students Finance Agency for Rwanda under the aegis of the African Higher Education Financing Agencies (AAHEFA) to tackle students' loan schemes regionally is a useful example from East Africa that could be followed by the Southern African countries.

138. **The absence of institutions that offer specialized (post-graduate) courses (e.g., in legal and engineering services) has been noted in several Southern African countries, as has the absence of institutions that offer academic and professional training courses for middle-level professionals.** Where the market of a given country such as Malawi or Mozambique is too small to justify the creation of missing institutions or courses, policies to facilitate access to foreign training likely at the regional level are needed - including the portability of course credits and scholarships.

139. **The SADC Protocol on Education and Training (Article 7) recommends that tertiary education institutions reserve at least 5% of admissions for students from other SADC countries.** But while the SADC countries have agreed to facilitate the mobility of students and staff within the region for study, research, and teaching purposes, it is unclear how the Protocol is being implemented in practice and whether it is benefiting all SADC countries. Only South Africa receives a significant number of foreign students, representing about 8% of total enrollment (DNA, 2010). A 2007 audit by the SADC Secretariat showed that students from Malawi, Mozambique, and Zambia represented only a small percentage of foreign students being trained in South Africa.[59] The movement of students within the

[59] The audit identifies 565 students from Malawi, 923 students from Mozambique, and 1315 students from Zambia registered in South African public universities in 2005 which represents, respectively 1.6%, 2.6%, and 3.7% of the 35725 foreign students from SADC countries being trained in South Africa. Botswana in contrast accounts for almost 20% of the foreign students in South Africa.

SADC region is limited by the lack of an institutionalized system for student movement.[60] At the post-graduate level, anecdotal evidence suggests that South African universities often require students from several countries (e.g., Mozambique) who already have a university degree to do an additional year of studies in order to be eligible to pursue a masters' degree. This happens despite the statement in the SADC protocol that all SADC countries' university degrees should be recognized within the SADC region. The system of credits in higher education to be implemented at the SADC level is a right step to improve the mobility of students within the region.

140. **Specialized courses for which a need has been expressed in Southern Africa (for example, legal courses focusing on e-commerce, technology transfer and multilateral investment, financial services law, medical law and ethics, arbitration, international litigation, etc) could be designed and implemented at the regional level.** Regional institutions could exploit economies of scale and recoup the large fixed costs of establishing training programs produce students with the necessary specializations for the SADC region. Indeed, the SADC Protocol on Education and Training recognizes that while undergraduate training should be the responsibility of each SADC member country, cooperation and mutual assistance should happen, at least in some fields of study. The Protocol also states that SADC countries agree to establish Centers of Specialization in the region at existing institutions that will be strengthened to be able to offer regional programs in critical and specialized areas.[61] SADC countries would agree to support these Centers of Specialization by sending students there and by providing scholarships. However, the 2007 audit shows that regional cooperation in higher education and training within the SADC has so far been weak, on an ad hoc basis depending on individual student initiative.[62] The 2007 audit does indicate that some SADC countries have institutions that are presently not being fully utilized and that could cater for the needs of other SADC countries. Within SADC, South Africa has the highest potential to become regional hub for higher and professional education but Botswana, and Mauritius have also been suggested as possible hubs.

141. **The prospects of South Africa becoming a regional education hub are thwarted, however, by the current inability of the South African education system to keep up with internal demand due to capacity constraints in terms of professors and space.** Stakeholders from higher education institutions in the accountancy field in South Africa mentioned that they cannot focus on foreign students given that the institutions are busy and facing difficulties just coping with the domestic students. In particular, stakeholders pointed to the important capacity constraints in terms of senior professors that are necessary for the various areas in the accountancy degree (accounting, auditing, taxation, and financial management) and that currently are not available in sufficient numbers and thus work in several universities. They also pointed to the lack of foreign professors that might help address these capacity constraints. Stakeholders mentioned the existence of the University of Fort Hare that focuses on foreign students and on the production of good professionals to send back to their own countries.

[60] Mozambican students seem to be particularly hurt in this regard as their mother tongue differs from that of most other SADC countries and their secondary school training is not viewed by other countries such as South Africa as providing students with adequate training to pursue university studies.

[61] The regional programs would consist mostly of post-graduate fields of study, but some critical courses such as engineering could also be offered at the undergraduate level in Centers of Specialization.

[62] For example the lack of harmonization of term times within the SADC region and the lack of harmonization of courses hampers the transfer of students across regional higher education institutions.

142. **Botswana has taken the initiative of investigating the prospects for becoming a regional hub for education in Southern Africa.** Recognizing that demand for tertiary education is diverse and growing, Botswana is planning to develop a second university in the country with a special emphasis on upgrading, expanding and diversifying science, engineering and technology education. While the main objective is to produce domestic skills, Botswana is also considering the internationalization of the university. Given that Botswana's tertiary education system faces increased demand from qualified national and international applicants, it is proposed that the admission quota for international applicants be set at 10% in line with the requirements of the SADC Protocol on Education and Training. Botswana presents a number of advantages at the macro and the private sector levels to be an education center. However, several issues related to accountability, recognition of qualifications, lack of flexibility in delivery of education and specialization may limit Botswana's interest and success in becoming a regional educational hub in Southern Africa.

143. **The 2007 audit suggests that Mauritius could become a regional hub for vocational training of middle-level professionals.** Although so far Mauritius has not focused on vocational training in any of the professions that are the focus of this chapter, its experience with training of middle-level professionals for the hospitality industry and for information technology could have spillovers to the areas of accounting, engineering, and legal services and, in the long term, could become a regional hub for the training of middle level professionals. Only a truly regional drive initiated perhaps within the realm of SADC with involvement of the Southern African Regional Universities Association (SARUA), and with possible support from international institutions would stand a chance to succeed at the creation of one or more regional hubs for professional education in Southern Africa.[63]

[63] The SARUA is a platform for dialogue and collaboration on higher education at the regional level in Southern Africa.

III. Epilogue - How feasible is regional integration in professional services in southern Africa? Is there interest to engage in international cooperation?

144. **To sum up, reforms at the national level should focus on the development of framework conditions that address skill shortages and skills mismatches and attempt to facilitate the growth of professional services across the Southern Africa region.** Reforms should also focus on incremental, qualitative improvements in domestic regulation including relaxing disproportionate entry requirements and eliminating disproportionate restrictions on competition, namely those relating to: price regulations; restrictions on the ownership structure of professional services firms; the scope of collaboration within the profession and with other professions; and, advertising prohibitions.

145. **For services trade reform at the international level, trade barriers should ideally be liberalized on an MFN basis since this would generate the largest welfare gains for all countries.** Examples of possible reforms to reduce the explicit trade barriers prevailing in Southern Africa are: i) relaxing nationality and residency requirements; ii) developing transparent criteria and procedures for applying any quantitative restrictions on the movement of professionals such as economic needs tests; iii) developing a transparent and consistent framework for accepting professionals with foreign qualifications; iv) minimizing restrictions on the forms of establishment allowed (e.g. by replacing a prohibition on partnerships between foreign professionals and local professionals by joint liability of foreign and local partners and unlimited liability for the partnership's debts). The reduction of explicit trade barriers should be complemented with a reform of immigration laws.

146. **While trade barriers should ideally be liberalized on a non-preferential basis, such liberalization may not always be technically feasible nor politically acceptable, especially when impediments arise from differences in regulatory requirements.** Deeper regional integration through regulatory cooperation with neighboring countries, which have similar regulatory preferences, can thus usefully complement non-preferential trade liberalization of professional services.

147. **It may, therefore, be useful for Southern African governments to engage in deep regulatory cooperation at the regional level and to use trade liberalization and regional integration to reduce the scope for private interest regulation and enhance competition to facilitate the growth of professional services.** The Common Market Protocol signed by the East African countries could provide a useful model for the SADC countries. The Southern African governments could engage with donors to secure technical and financial assistance to strengthen the capacity of regulatory associations, and to develop appropriate regulation (for example, in the context of the EPA negotiations).

148. **While the economic benefits from regional integration are evident, the pace of integration is largely dependent upon Southern African countries' political motivation and conviction that such liberalization is beneficial to their domestic constituencies.** An important aspect to improve such prospects is the promotion of more frequent and more open dialogue between the key stakeholders involved in professional services: the professional bodies, the private sector covering both providers as well as users of services, the higher education institutions, and the trade negotiators.

149. **Of particular relevance is the role that the private sector can play as a catalyst for reform to address the skills shortages in Southern Africa.** That requires the private sector to be well informed of the potential benefits from regional liberalization for example. Some promising signs were found in

discussions with stakeholders from large law firms in South Africa that revealed great support for the liberalization of the regional market for legal services. But smaller law practitioners that may fear the market being flooded by foreign lawyers would need clarifications about what their comparative advantage may remain under a liberalized market.

150. **The Southern African countries have committed themselves (at least on paper) to pursue regional integration in the context of SADC.** SADC launched its FTA in 2008. The FTA aims at liberalizing intra-regional trade in goods and services. Specific strategies to achieve this objective include: elimination of tariffs, adoption of common rules of origin, harmonization of custom rules and procedures, attainment of internationally accepted standards, harmonization of sanitary and phytosanitary measures, and liberalization of trade in services.

151. **While progress in the area of goods trade liberalization has been steady, especially on tariffs, developments in the area of services are much less advanced.** At this stage, the FTA agreement does not include any concrete measures for services liberalization. Given that services contribute 35-70% to SADC countries' GDP it is clear that what has been left out is quite significant. Moreover, services are also important intermediate inputs in the production of several goods that are being traded at the regional level. Inefficient services sectors may hamper the competitiveness of such goods and limit the benefits from regional integration.

152. **The negotiations on services in SADC have been ongoing for the last ten years.** The discussions have centered on the framework agreement for the negotiations. SADC member countries have focused on external modalities for liberalization. In simple terms, the focus has been on "negotiating how to negotiate". SADC has identified six sectors for immediate trade liberalization according to the Services Protocol. These sectors are regarded as the backbone of the SADC economy. They are (i) financial services (including insurance and banking); (ii) construction and related engineering services; (iii) distribution services; (iv) tourism and travel related –services; (v) energy; and (vi) communication services. Other sectors are scheduled to be liberalized in a later round of negotiations. These include: (i) business services (including professional services and computer services); (ii) educational services; (ii) environmental services; (iv) health-related and social services; (v) recreational, cultural and sporting services; and (vi) transport services.[64]

153. **Without addressing services liberalization, deeper regional integration remains unachievable.** While recognizing that there is a varying degree of political will and commitment among the Southern African countries, the information provided in this chapter is a first step towards facilitating more informed choices as countries contemplate reform and international integration.

[64] A SADC Trade Negotiation Forum (TNF) and a workshop focusing specifically on services trade looking at how to approach the negotiation of the first six (as highlighted above) and to negotiate the guidelines for negotiations was organized on 7-9 June 2010 in Johannesburg.

Chapter 4: Conclusion

1. In this dynamic and rapidly changing region, deeper integration of markets would lower trade costs and relax the constraints faced by many firms in accessing the essential services and skills that are needed to diversify into higher value-added production and trade.

2. Regional integration offers opportunities for employment creation across the region; can help address skill gaps between countries; and, can boost productivity. Harnessing regional integration more effectively, for both goods and services, would help all countries lower their cost base thereby enhancing global competitiveness. The report has made practical policy recommendations on how regional trade integration in Southern Africa can be made to work better. It presented new information on obstacles faced by firms that trade regionally (e.g. Shoprite; Woolworths) as well as providers of professional services (accountancy, engineering and law).

3. For goods trade, tariffs have been lowered but significant barriers remain and must be urgently addressed. Under the SADC free trade agreement 85 percent of trade is now duty-free. However, just the limited set of NTBs reported by firms in SADC affect *one-fifth* of recorded regional trade (US$3 billion). This ignores those impacts of barriers that prohibit trade entirely as well as costs related to inefficiencies in transport, logistics and customs which affect all goods trade. These remaining barriers undermine the predictability of the trade regime and reduce investment in the region.

4. The costs associated with these barriers are high, impede competitiveness and limit opportunities for regional sourcing. Shoprite reports that each day one of its trucks is delayed at a land border costs US$500. And delays at the Durban port cost the South African citrus industry US$10.5 million per season. Different VAT systems applied on intra-SACU trade necessitate borders and cost up to 2 percent of the value of each transaction. Shoprite spends US$6 million/year administering overly complex certificates of origin to secure US14 million in duty savings under SADC; Woolworths does not use preferences at all. Shoprite also spends US$20,000/week on permits to distribute meat, milk & vegetables to its stores in Zambia alone.

5. Services are also an important input to production and thereby crucial for cost competitiveness, but progress in liberalizing trade and improving the efficiency of domestic regulation remains limited. Greater regional and global integration could alleviate the constraints on the development of key services sectors, such as professional services, due to limited endowments of capital and skills in Southern African countries, as well as the smallness of markets. Lowering costs for all firms also requires better access to quality services at low cost. However, despite the striking growth in tourism exports from some Southern African countries and the remarkable dynamism of the liberalized telecommunications sector, the gains for the region from international integration are so far small compared to the unexploited opportunities.

6. National reform and regional cooperation could better integrate the Southern African market for services. National level reforms to reduce market fragmentation would include relaxing entry requirements for service providers (e.g. narrowing the scope of exclusive tasks) and eliminating restrictions on competition (e.g. through easing price regulation or relaxing advertising prohibitions). At

the regional level, trade barriers should be removed – ideally to all foreign suppliers on a non-preferential basis - by allowing commercial presence or facilitating the movement of natural persons. Increased regulatory cooperation and harmonization would also facilitate services trade e.g. mutual recognition of qualifications or development of appropriate regional standards.

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Appendix 1: Regional trade among Southern African countries

Country	Main regional export destinations (% of world exports)	Main regional import sources (% of world imports)	Exports to Southern Africa (% of world exports)	Imports from Southern Africa (% of world imports)
Angola	SACU (1%)	SACU (7%)	1.52%	7.23%
Botswana	South Africa (6%) Zimbabwe (6%)	South Africa (86%) Zimbabwe (2%)	12.38%	88.82%
Comoros		SACU (8%) Kenya (5%) Madagascar (3%) Mauritius (4%)	1.22%	20.94%
DRC	Zimbabwe (3%) Zambia (2%)	SACU (17%) Kenya (7%) Zambia (7%) Zimbabwe (4%)	6.08%	39.56%
Lesotho	South Africa (18%)	South Africa (78%)	18.21%	78.30%
Madagascar	Mauritius (2%)	Mauritius (7%) SACU (5%)	2.39%	14.02%
Malawi	SACU (12%) Egypt (9%) Mozambique (4%) Zimbabwe (4%)	SACU (36%) Mozambique (6%) Tanzania (5%) Zambia (8%) Zimbabwe (4%)	33.10%	61.26%
Mauritius	Madagascar (5%) SACU (2%)	SACU (10%)	8.67%	12.67%
Mozambique	SACU (15%) Malawi (2%) Zimbabwe (3%)	SACU (42%)	20.37%	44.82%
Namibia	South Africa (24%) Angola (6%)	South Africa (82%)	32.16%	83.69%
Seychelles	Mauritius (4%)	SACU (12%) Mauritius (2%)	5.96%	14.77%
South Africa	Zambia (2%) Zimbabwe (2%) Mozambique (2%)	Zimbabwe (1%) Angola (1%) Libya (1%)	11.45%	4.12%
Swaziland	South Africa (75%) Mozambique (5%)	South Africa (88%)	86.27%	89.22%
Tanzania	SACU (3%) Malawi (3%) Zambia (3%)	SACU (12%) Kenya (8%) Zambia (5%)	16.29%	25.94%
Zambia	SACU (21%) Tanzania (6%) DRC (5%)	SACU (51%) Tanzania (3%) Zimbabwe (3%)	39.03%	61.87%
Zimbabwe	SACU (33%) DRC (5%) Zambia (4%)	SACU (58%) Mozambique (3%) Zambia (4%)	47.36%	68.73%

Sources: IMF Direction of Trade Statistics and UNCOMTRADE for BLNS countries using data for 2006 for Botswana and Namibia; 2004 for Lesotho; and, 2005 for Swaziland. Empty boxes indicate a low significance of all regional trade partners.

Appendix 2: Composition of South Africa's merchandise exports by destination and factor usage classification

(Share of merchandise exports to each destination)

	1996	1999	2000	2002	2004	2006	2007	2008
Developed countries								
Agriculture	14.2	13.6	14.5	14.5	11.5	8.6	9.1	8.9
Minerals	24.0	33.0	23.0	23.5	31.1	39.7	40.3	39.0
Unskilled labor intensive	20.7	13.5	15.0	14.4	12.1	9.7	9.4	7.6
Technology intensive	11.8	12.7	15.7	15.7	12.3	13.5	13.7	13.6
Human capital intensive	29.3	27.1	31.8	31.9	32.9	28.5	27.5	30.9
Low and middle income countries								
Agriculture	21.8	20.4	18.8	19.4	15.6	14.1	10.8	13.1
Minerals	17.1	19.5	23.3	22.5	21.9	27.5	32.7	31.9
Unskilled labor intensive	6.5	6.8	7.0	6.2	5.3	4.6	4.3	4.0
Technology intensive	29.9	29.7	26.6	26.0	27.9	27.0	24.3	25.3
Human capital intensive	24.7	23.7	24.3	25.9	29.2	26.9	27.9	25.7
Non- SACU SADC countries								
Agriculture	20.3	21.7	16.7	21.7	16.5	14.9	11.4	16.3
Minerals	9.5	10.1	21.5	15.9	19.0	17.5	17.7	19.1
Unskilled labor intensive	8.5	8.6	8.9	7.8	7.5	6.7	6.6	5.9
Technology intensive	33.0	33.4	28.5	27.9	30.6	34.5	36.4	32.6
Human capital intensive	28.6	26.2	24.5	26.7	26.5	26.3	27.9	26.2
China								
Agriculture	7.1	8.7	7.9	9.0	4.9	4.6	3.9	5.2
Minerals	74.7	68.2	45.1	54.3	48.0	66.9	67.7	72.9
Unskilled labor intensive	3.2	2.6	4.4	3.5	1.6	1.5	0.7	0.6
Technology intensive	9.7	14.4	13.7	9.7	15.3	8.7	5.4	6.4
Human capital intensive	5.2	6.0	28.8	23.5	30.2	18.4	22.3	15.0
India								
Agriculture	7.9	7.2	12.1	11.8	13.6	7.8	6.9	3.7
Minerals	36.3	36.8	29.3	42.1	19.1	27.1	52.2	45.2
Unskilled labor intensive	11.9	1.7	1.6	2.0	2.8	6.3	5.7	4.6
Technology intensive	30.5	39.2	40.3	36.2	45.2	41.4	21.5	35.5
Human capital intensive	13.4	15.0	16.7	8.0	19.4	17.4	13.7	10.9

Source: UN Comtrade using ISIC Rev. 2 classifications. Agriculture and minerals aggregate primary commodities and manufactures in these sectors.

Appendix 3: Composition of South Africa's merchandise exports to SACU by factor usage classification

(Share of merchandise exports to each destination)

	2000	2001	2002	2003	2004	2005	2006	2007	2008
Botswana									
Agriculture	21.1	20.4	21.2	19.5	19.2	20.9	21.1	17.1	16.9
Minerals	7.7	7.9	12.3	9.2	18.4	10.1	9.9	23.0	27.0
Unskilled labor intensive	16.3	14.8	13.4	15.3	13.8	15.3	17.1	12.8	10.7
Technology intensive	22.5	22.9	20.1	20.9	19.9	20.8	22.7	20.9	20.6
Human capital intensive	32.4	34.0	32.9	35.1	28.6	32.9	29.1	26.3	24.9
Lesotho									
Agriculture	26.3	39.0	31.5	31.8	33.7	..	..	..	..
Minerals	37.7	13.4	16.0	14.6	17.0	..	..	..	..
Unskilled labor intensive	11.6	19.0	14.6	21.8	18.5	..	..	..	..
Technology intensive	6.5	8.9	15.6	11.1	7.1	..	..	..	..
Human capital intensive	18.0	19.7	22.4	20.7	23.8	..	..	..	..
Namibia									
Agriculture	19.5	16.0	16.1	18.0	22.1	21.3	19.7	19.4	18.9
Minerals	6.8	15.6	18.8	16.2	6.8	5.6	6.5	14.9	11.0
Unskilled labor intensive	20.4	16.9	17.0	15.1	19.0	19.2	18.7	17.6	18.5
Technology intensive	19.1	19.6	20.8	21.5	19.9	20.0	21.8	19.6	20.9
Human capital intensive	34.3	31.9	27.3	29.2	32.2	33.9	33.3	28.4	30.7
Swaziland									
Agriculture	25.6	25.2	20.9	19.3	17.3	19.4	20.6	25.6	..
Minerals	7.6	19.1	15.2	11.4	10.9	16.6	22.5	20.2	..
Unskilled labor intensive	14.4	15.3	12.2	11.2	11.5	10.7	11.5	12.3	..
Technology intensive	26.3	19.5	25.1	31.2	29.3	26.4	24.7	21.6	..
Human capital intensive	26.1	20.8	26.5	26.9	30.9	27.0	20.8	20.2	..

Source: UN Comtrade using ISIC Rev. 2 classifications using mirror data i.e. reported imports for each country from South Africa. Agriculture and minerals aggregate primary commodities and manufactures in these sectors.

Appendix 4: Composition of South Africa's merchandise imports by source and factor usage classification

(Share of non-fuel merchandise imports from each source)

	1996	1999	2000	2002	2004	2006	2007	2008
Developed countries								
Agriculture	8.7	7.2	6.8	6.0	5.5	5.8	6.4	6.4
Minerals excluding fuel	3.6	3.7	4.0	3.7	3.5	3.5	3.8	5.1
Unskilled labor intensive	12.6	14.0	13.2	13.3	13.2	10.8	10.7	10.3
Technology intensive	51.0	48.1	46.3	47.0	47.0	46.3	46.5	50.2
Human capital intensive	24.1	27.0	29.7	30.0	30.7	33.6	32.7	28.0
Low and middle income countries								
Agriculture	36.7	29.5	25.2	25.6	22.4	15.5	17.4	16.8
Minerals excluding fuel	5.3	5.9	7.5	7.5	7.8	8.8	9.3	9.3
Unskilled labor intensive	23.6	23.5	23.6	21.1	22.1	23.8	19.9	18.1
Technology intensive	18.9	25.4	25.8	27.9	28.5	26.2	27.3	31.1
Human capital intensive	15.6	15.8	18.0	17.9	19.3	25.8	26.2	24.6
Non-SACU SADC countries								
Agriculture	34.1	40.8	43.8	43.2	33.8	10.7	10.8	11.1
Minerals excluding fuel	6.3	10.2	13.5	26.3	41.5	36.5	43.0	41.0
Unskilled labor intensive	31.4	25.2	19.1	18.2	13.7	26.8	23.1	21.4
Technology intensive	4.8	12.7	13.7	5.9	4.1	2.7	3.8	9.5
Human capital intensive	23.4	11.0	9.9	6.4	6.9	23.3	19.3	17.0
China								
Agriculture	7.3	8.4	6.7	5.9	4.2	4.1	4.6	4.4
Minerals excluding fuel	5.2	4.0	4.9	3.9	3.8	3.9	4.3	4.2
Unskilled labor intensive	42.1	35.3	39.0	35.4	38.1	34.9	28.0	24.5
Technology intensive	25.5	34.7	29.3	30.5	32.3	33.3	35.3	37.6
Human capital intensive	19.9	17.6	20.0	24.3	21.6	23.8	27.8	29.3
India								
Agriculture	30.5	29.1	23.6	29.6	17.2	15.3	17.6	12.6
Minerals excluding fuel	3.3	3.5	4.9	3.5	4.5	3.2	3.7	3.6
Unskilled labor intensive	32.7	30.9	32.8	29.4	29.8	20.6	23.7	25.5
Technology intensive	20.2	20.5	23.2	22.3	22.1	21.4	23.6	26.7
Human capital intensive	13.3	15.9	15.5	15.1	26.5	39.5	31.4	31.5

Source: UN Comtrade using ISIC Rev. 2 classifications. Agriculture and minerals aggregate primary commodities and manufactures in these sectors.

Appendix 5: Composition of South Africa's merchandise imports from non-SACU SADC countries by factor usage classification

(Share of non-fuel merchandise exports to each destination)

	1996	1999	2000	2002	2004	2006	2007	2008
Angola								
Agriculture	69.6	7.5	0.3	0.0	25.9	0.6	0.5	0.0
Minerals	4.6	6.5	4.5	2.0	2.3	1.2	8.5	0.1
Unskilled labor intensive	12.6	18.6	16.0	12.3	4.2	17.7	16.4	20.4
Technology intensive	3.7	51.7	72.9	81.5	43.6	56.5	69.4	58.9
Human capital intensive	9.4	15.6	6.3	4.2	24.1	24.0	5.1	20.6
Madagascar								
Agriculture	82.3	91.2	54.5	24.6	43.8	35.8	22.2	16.5
Minerals	1.0	1.7	3.7	2.8	0.5	1.7	0.2	7.4
Unskilled labor intensive	4.6	4.5	16.9	10.3	14.7	43.4	68.0	52.9
Technology intensive	5.6	0.7	15.8	58.5	32.7	6.3	4.9	20.8
Human capital intensive	6.5	1.8	9.0	3.9	8.4	12.9	4.7	2.5
Mozambique								
Agriculture	74.2	24.4	28.0	51.3	56.2	51.2	56.8	54.9
Minerals	3.8	0.9	1.4	13.4	8.3	16.3	13.9	17.6
Unskilled labor intensive	9.8	9.1	10.0	13.7	10.6	8.6	10.0	14.2
Technology intensive	4.8	45.6	45.7	4.3	5.4	9.5	12.6	10.1
Human capital intensive	7.3	20.1	14.9	17.3	19.5	14.5	6.7	3.2
Mauritius								
Agriculture	4.7	5.4	5.2	8.8	5.6	8.1	6.9	4.4
Minerals	4.4	8.3	9.1	3.2	2.4	7.0	1.8	1.3
Unskilled labor intensive	27.6	20.7	33.4	48.8	65.6	69.0	73.8	84.1
Technology intensive	49.6	49.5	20.8	22.8	19.4	9.5	15.1	7.7
Human capital intensive	13.7	16.1	31.4	16.4	7.0	6.4	2.4	2.6
Malawi								
Agriculture	37.4	23.1	42.5	44.0	64.2	67.4	70.5	44.9
Minerals	0.2	0.3	1.3	1.6	1.7	2.4	1.9	1.1
Unskilled labor intensive	57.9	75.7	54.5	52.2	31.6	29.3	23.8	15.5
Technology intensive	0.6	0.7	0.7	1.1	1.7	0.5	1.1	38.3
Human capital intensive	3.9	0.3	1.1	1.0	0.8	0.4	2.7	0.1
Seychelles								
Agriculture	58.6	76.9	91.1	19.2	6.4	3.5	7.0	35.4
Minerals	4.6	0.0	0.1	0.0	0.0	0.0	0.0	0.1
Unskilled labor intensive	0.1	0.9	0.2	1.8	12.0	1.3	5.5	21.1
Technology intensive	31.7	19.2	7.1	74.7	80.5	91.9	79.6	34.3
Human capital intensive	5.1	2.9	1.5	3.6	1.0	3.4	7.8	9.1
Tanzania								
Agriculture	78.8	31.4	40.0	63.7	24.2	16.9	18.0	23.1
Minerals	2.0	13.5	5.0	0.0	0.1	2.8	0.6	0.5
Unskilled labor intensive	1.4	25.9	25.5	20.9	40.2	38.9	39.8	35.6
Technology intensive	8.6	17.3	8.0	5.0	2.4	3.2	3.8	4.1
Human capital intensive	9.2	11.9	21.6	10.4	33.1	38.2	37.8	36.7
DR Congo								
Agriculture	0.2	4.9	9.8	9.5	23.7	2.6	1.4	9.7
Minerals	4.4	42.8	63.5	31.1	58.2	69.3	36.9	29.2
Unskilled labor intensive	47.4	12.8	0.5	2.4	8.5	10.5	29.8	14.4
Technology intensive	0.3	12.6	2.4	13.4	1.3	2.9	2.4	29.9
Human capital intensive	47.6	26.9	23.8	43.6	8.4	14.7	29.5	16.9

	1996	1999	2000	2002	2004	2006	2007	2008
Zambia								
Agriculture	35.6	39.4	29.4	49.8	30.4	9.3	10.5	9.3
Minerals	32.8	38.9	42.4	29.3	56.1	76.7	75.1	73.3
Unskilled labor intensive	7.6	5.4	8.5	9.9	6.0	1.7	1.2	0.6
Technology intensive	16.8	12.5	13.8	8.8	6.6	11.7	12.6	15.2
Human capital intensive	7.2	3.8	5.9	2.2	0.9	0.6	0.5	1.6
Zimbabwe								
Agriculture	56.6	55.4	53.0	41.0	31.3	14.3	9.9	12.0
Minerals	7.5	11.2	13.0	35.8	51.7	75.3	80.4	80.1
Unskilled labor intensive	16.1	13.4	15.4	12.7	9.0	6.1	4.7	3.4
Technology intensive	7.7	6.0	8.0	3.5	1.9	1.0	1.9	2.2
Human capital intensive	12.1	14.0	10.7	6.9	6.1	3.3	3.1	2.3

Source: UN Comtrade using ISIC Rev. 2 classifications. Agriculture and minerals aggregate primary commodities and manufactures in these sectors.

Appendix 6: South Africa's main merchandise imports from non-SACU SADC countries at HS6-digit level, 2000-08

Source	2000		2008	
	Product	% of total South African imports from source	Product	% of total South African imports from source
Angola	270900 Petroleum	85.8%	270900 Petroleum	96.7%
DR Congo	260500 Cobalt ores	20.4%	260300 Copper ores	15.9%
	790310 Zinc dust	18.5%	710231 Diamonds	15.7%
	810510 Cobalt matte	17.1%	842919 Bulldozers	11.2%
	860400 Railway maintenance vehicles	14.1%	874641 Cranes	8.8%
	010600 Live animals	8.2%	740200 Copper	8.4%
Madagascar	090700 Cloves	13.2%	611010 Wool pullovers	10.5%
	030613 Frozen shrimp	13.2%	843010 Pile drivers	8.1%
	530410 Sisal	11.2%	611020 Cotton pullovers	8.0%
	820760 Tools for boring	8.5%	030613 Frozen shrimp	7.6%
	081190 Frozen fruits & nuts	6.6%	261000 Chromium ores	7.5%
Malawi	090240 Black tea	15.3%	880230 Aircraft	36.5%
	240120 Tobacco stemmed	7.9%	520100 Cotton	12.9%
	620342 Men's trousers	6.4%	090240 Black tea	11.0%
	620590 Men's shirts	5.3%	621132 Men's cotton garments	7.0%
	620690 Women's blouses	4.6%	400129 Rubber	4.7%
Mauritius	611420 Cotton garments	12.2%	610910 T-shirts	21.0%
	902211 X-ray machines	7.7%	620342 Men's trousers	13.9%
	852520 Transmission equipment	6.8%	620520 Men's cotton shirts woven	7.7%
	520932 Dyed twill	5.3%	610510 Men's cotton shirts knitted	5.4%
	902219 X-ray machines	4.6%	611020 Cotton pullovers	4.9%
Mozambique	842620 Tower cranes	11.7%	271111 Natural gas	42.1%
	030613 Frozen shrimp	7.1%	271600 Electricity	39.0%
	520100 Cotton	5.5%	271000 Petroleum	4.0%
	842920 Graders	4.4%	230230 Brans	1.8%
	401110 Rubber tyres	2.9%	520100 Cotton	1.1%
	620520 Men's cotton shirts	2.9%	080300 Bananas	0.9%

Source	2000		2008	
	Product	% of total South African imports from source	Product	% of total South African imports from source
Seychelles	230120 Fish meal	73.4%	230120 Fish meal	19.8%
	270810 Pitch from tar	16.5%	890392 Motorboats	16.7%
			902610 Instruments for measuring the flow of liquids	6.7%
			030349 Frozen tuna	6.2%
			870322 Automobiles	5.1%
Tanzania	710310 Precious stones	15.8%	271000 Petroleum	36.0%
	080130 Cashew nuts	13.9%	710310 Precious stones	29.3%
	030613 Frozen shrimp	10.6%	090240 Black tea	7.7%
	530410 Sisal	7.7%	240120 Tobacco	5.9%
	560819 Netting	7.7%	710231 Diamonds	3.2%
Zambia	740811 Copper wire	20.9%	740811 Copper wire	33.8%
	520100 Cotton	17.8%	260300 Copper ores	21.6%
	740311 Copper cathodes	9.4%	740311 Copper cathodes	14.2%
	854459 Electric conductors	7.9%	854460 Electric conductors	13.4%
	120100 Soya beans	4.9%	520100 Cotton	3.3%
Zimbabwe	520100 Cotton	10.3%	750110 Nickel mattes	32.1%
	240110 Tobacco unstemmed	7.6%	260400 Nickel ores	30.8%
	270400 Coke	6.9%	750210 Nickel unwrought	14.1%
	240120 Tobacco stemmed	3.8%	240120 Tobacco stemmed	3.7%
	440710 Wood	3.2%	520100 Cotton	2.7%

Source: UN Comtrade. Imports as reported by South Africa.

Appendix 7: Composition of South Africa's merchandise imports from SACU by factor usage classification
(Share of non-fuel merchandise imports from each source)

	2000	2001	2002	2003	2004	2005	2006	2007	2008
Botswana									
Agriculture	13.7	16.6	13.0	10.7	14.4	16.8	26.8	16.5	7.8
Minerals excluding fuel	1.6	2.6	2.8	1.2	3.3	18.9	16.1	33.3	57.3
Unskilled labor intensive	19.9	22.4	19.9	23.0	24.3	20.6	29.1	29.7	19.7
Technology intensive	21.3	21.7	20.3	9.4	16.6	11.8	13.1	10.8	10.4
Human capital intensive	43.5	36.7	44.0	55.6	41.5	31.9	15.0	9.7	4.9
Lesotho									
Agriculture	29.1	32.2	29.9	47.6	31.3	..	..	..	..
Minerals excluding fuel	1.1	0.8	6.2	2.6	4.8	..	..	..	..
Unskilled labor intensive	41.3	45.9	51.1	34.6	43.6	..	..	..	..
Technology intensive	1.0	0.4	2.8	2.1	1.1	..	..	..	..
Human capital intensive	27.6	20.6	10.1	13.1	19.1	..	..	..	..
Namibia									
Agriculture	30.6	42.2	29.2	43.3	47.7	51.9	45.8	36.0	25.7
Minerals excluding fuel	8.3	6.7	10.5	8.2	6.4	8.1	8.4	22.4	14.2
Unskilled labor intensive	13.4	5.5	23.6	2.4	11.3	1.6	1.6	4.7	1.2
Technology intensive	4.3	4.9	4.8	5.5	4.3	4.5	4.0	2.7	3.0
Human capital intensive	43.4	40.6	32.0	40.6	30.3	33.9	40.1	34.1	55.9
Swaziland									
Agriculture	51.4	59.7	28.8	39.5	7.3	34.4	46.1	12.9	..
Minerals excluding fuel	0.6	1.1	1.3	0.6	0.2	0.6	1.0	0.6	..
Unskilled labor intensive	16.6	24.1	35.4	47.2	9.5	19.0	20.0	5.9	..
Technology intensive	19.4	8.6	19.7	8.0	41.6	35.9	24.8	52.9	..
Human capital intensive	12.0	6.5	14.7	4.8	41.5	10.1	8.1	27.7	..

Source: UN Comtrade using ISIC Rev. 2 classifications using mirror data i.e. reported exports for each country to South Africa. Agriculture and minerals aggregate primary commodities and manufactures in these sectors.

Appendix 8: South Africa's main merchandise imports from SACU
at HS6-digit level, 2000-08

Source	2000		2008	
	Product	% of total South African imports from source	Product	% of total South African imports from source
Botswana	870120 Road tractors	13.2%	750110 Nickel mattes	46.4%
	283620 Disodium carbonate	9.8%	710812 Gold	8.1%
	870323 Automobiles	7.5%	620469 Women's trousers	4.6%
	630260 Kitchen linen	3.0%	853690 Electrical switches	3.1%
	852810 Television receivers	2.9%	620349 Men's trousers	2.5%
Lesotho*	852810 Television receivers	27.3%	852810 Television receivers	18.5%
	640419 Footwear	15.0%	220190 Water	17.4%
	620349 Men's trousers	14.7%	610462 Women's trousers	12.4%
	220190 Water	10.3%	640420 Leather footwear	11.2%
	640610 Shoe uppers	7.0%	610463 Women's trousers	6.6%
Namibia	490700 Stamps, stamped paper	29.3%	490700 Stamps, stamped paper	53.6%
	710231 Diamonds	12.7%	220300 Beer	5.8%
	710813 Gold	7.9%	260800 Zinc ores	4.9%
	220300 Beer	4.6%	710813 Gold	3.8%
	271000 Petroleum	4.4%	790112 Zinc	3.1%
Swaziland**	210690 Food preparations	16.5%	330210 Soft drinks concentrate	35.9%
	470311 Chemical wood	10.8%	382390 Chemical products	24.3%
	170111 Raw cane sugar	9.3%	470311 Chemical wood	3.2%
	330210 Soft drinks concentrate	6.8%	291631 Benzoic acid	2.8%
	610990 T-shirts	4.6%	841810 Refrigerators	2.4%

Source: UN Comtrade. Exports to South Africa as reported by BLNS. * Lesotho data is for 2004 instead of 2008.
** Swaziland data is for 2007 instead of 2008.

Appendix 9: Classification of goods by factor usage ISIC Rev. 2

Code	Product
	(1) *Agricultural commodities*
11	Agriculture
12	Forestry and logging
13	Fishing
	(2) *Mineral commodities*
21	Coal mining
22	Petroleum and natural gas
23	Metal ore mining
29	Other mining
41	Electricity, gas and steam
	(3) *Agricultural resource intensive manufactures*
311-312	Food
313	Beverages
314	Tobacco manufactures
323	Leather goods
3311	Sawmills, planning and other wood mills
3411	Pulp, paper and paperboard
	(4) *Mineral resource intensive manufactures*
3512	Fertilizers and pesticides
353	Petroleum refineries
354	Misc. petroleum and coal products
361	Pottery, china, earthenware
369	Building products and minerals (non-metallic)
372	Non-ferrous metal basic industries
	(5) *Unskilled labor intensive*
321	Textiles
322	Wearing apparel, excluding footwear
324	Footwear, excluding rubber and plastic footwear
3312-3319	Rest of wood and cork excluding furniture and 3311
332	Furniture and fixtures, excluding those primarily metal
3522	Drugs and medicines
356	Plastic products n.e.s.
362	Glass and glass products
3811	Cutlery, hand tools, general hardware
3812	Furniture, fixtures primarily of metal
3841	Ship building and repair
3849	Transport equipment n.e.s.
390	Rest of other manufacturing, excluding jewelry (3901)

Code	Product
	(6) *Technology intensive*
351	Rest of industrial chemicals, except 3512
3529	Chemical products n.e.s.
3813	Structural metal products
382	Machinery excluding electrical
3831	Electrical industrial machinery
3839	Electrical apparatus and supplies n.e.s.
3845	Aircraft
3851	Professional, scientific equipment
3852	Photographic and optical goods
	(7) *Human capital intensive*
3412-3419	Rest of paper and paper products excluding 3411
342	Printing, publishing and related
3521, 3523	Rest of other chemical products excluding 3522 and 3529
355	Rubber products
371	Iron and steel basic industries
3819	Fabricated metal products n.e.s.
3832	Radio, television, communication equipment
3833	Electrical appliances and housewares
3842, 3843, 3844	Railroad equipment, vehicles, bicycles
3853	Watches and clocks
3901	Jewelry and related articles

Sources: Nordas (1996), Tsikata (1999) and Allenyne and Subramanian (2001).

Appendix 10: Mapping of NTBs reported by SADC countries to products and potential trade affected

NTB	**Products affected**	**Value of intra-SADC trade 2008 US$ millions (% of total non-fuel intra-SADC trade)**
Import bans	Wheat	83.71
	Beer	46.81
	Poultry	43.79
	Wheat flour	15.40
	Meat products	69.22
	Maize	228.45
	Milk (sterilized, UHT)	36.59
	Total	*523.97 (3.2%)*
Import quotas	Maize	228.45
	Wheat	83.71
	Maize meal	24.24
	Flour	16.46
	Cement	143.71
	Sugar	93.86
	Salt	46.43
	Poultry	43.79
	Eggs	9.26
	Tobacco	150.90
	Fruit & vegetables	172.34
	Total	*1013.153 (6.1%)*
Import levies	Milk (sterilized, UHT)	36.59
	Pasta	15.34
	Sorghum	19.62
	Wheat	83.71
	Chicken & eggs	16.54
	Dairy	144.41
	Pork & poultry	54.87
	Beer	46.81
	Total	*417.89 (2.5%)*
Preferences denied	Salt	46.43
	Fishmeal	0.02
	Pasta	15.34
	Total	*61.79 (0.4%)*
Import permits & licensing	Milk (sterilized, UHT)	36.59
	Bread	35.10
	Eggs	9.26
	Sugar	93.86
	Fruit & vegetables	172.34
	Livestock	26.58
	Liquor	35.06

NTB	Products affected	Value of intra-SADC trade 2008 US$ millions (% of total non-fuel intra-SADC trade)
	Cooking oils	255.60
	Maize	228.45
	Oysters	0.01
	Total	*892.85* *(5.4%)*
Single marketing channels	Wheat	83.71
	Meat	69.22
	Dairy	144.41
	Maize	228.45
	Tea & tobacco	183.81
	Sugar	170.92
	Total	*880.52* *(5.3%)*
Rules of origin	Textiles & clothing	306.60
	Semi-trailers	37.47
	Palm oil	28.42
	Soap	46.96
	Cake decorations	0.04
	Rice	53.65
	Curry powder	0.01
	Wheat flour	15.40
	Total	*488.55* *(3.0%)*
Export taxes	Dried beans	15.28
	Live animals, hides & skins	26.58
	Sugar	93.86
	Tobacco	150.90
	Maize	228.45
	Meat	69.22
	Wood	194.90
	Coffee	12.73
	Total	*791.92* *(4.8%)*
Standards/SPS/TBT	Milk	36.59
	Meat	69.22
	Canned tuna	1.46
	Beer	46.81
	Honey	0.05
	Maize bran	3.91
	Cotton cake	71.62
	Poultry	43.79
	Batteries	21.27
	Sugar	93.86
	Coffee	12.73
	Ostriches	3.85

NTB	Products affected	Value of intra-SADC trade 2008 US$ millions (% of total non-fuel intra-SADC trade)
	Total	*405.16* *(2.5%)*
Customs-related	Wine	39.44
	Electronic equipment	2.4
	Copper concentrate	491.40
	Salt	46.43
	Cosmetics	41.08
	Medicines	232.86
	Total	*853.61* *(5.2%)*

Sources: Calculations based on complaints made by SADC countries to NTB Monitoring mechanism and UN Comtrade.

Note: Volumes of trade do not reflect those actually affected by NTBs since not all countries in SADC impose all these NTBs. Typically just one or a few countries impose each barrier. The volumes, therefore, should simply be interpreted as an indication of how important to regional trade the products affected by NTBs in SADC are.

Appendix 11: Business Surveys of Services Users and Providers

For the purposes of this report, the World Bank conducted in 2010 two types of firm-level surveys covering on the one hand services users and on the other hand services providers in Botswana, Malawi, Mauritius, Mozambique, South Africa, and Zambia. The survey instruments were developed by the World Bank and the surveys were implemented by TNS opinion in all countries.

A. Services Users Survey

The sample design was developed so as to be representative of the economy of each of the countries in terms of sectors of activity and size categories (measured in terms of number of employees). The frames (universes) used to draw the samples were the most recent available lists of firms from official sources such as local statistical institutes or business registers. The distribution of firms across sectors and size categories in the sample was chosen to be proportionate to the universe distribution, within the constraints of a fixed number of firms to be covered per country. Within each sector-size category cell the firms to be part of the final sample were chosen randomly from the universe of firms in that cell. Due to budget constraints, within each country, only firms in the main capital city (and vicinity areas) were covered. The surveys covered a total of 51 firms in Botswana, 50 firms in Malawi, 51 firms in Mauritius, 49 firms in Mozambique, 71 firms in South Africa, and 50 firms in Zambia. The distribution of firms across sectors and size categories in the final sample is shown in the table below.

Table A.1: Service Users in Southern Africa

	BOTSWANA Users Survey - Sample Distribution				
	1-4 employees	5-19 employees	20-99 employees	more than 100 employees	Total
Mining					
Agribusiness	1	1	1	0	3
Manufacturing	1	3	1	2	7
Construction	0	2	1	0	3
Services	16	13	2	1	32
Total	18	19	5	3	45
	MALAWI Users Survey - Sample Distribution				
	1-4 employees	5-19 employees	20-99 employees	more than 100 employees	Total
Mining					
Agribusiness	0	1	2	1	4
Manufacturing	1	2	4	3	10
Construction	0	0	1	2	3
Services	11	9	6	3	29
Total	12	12	13	9	46
	MAURITIUS Users Survey - Sample Distribution				
	1-4 employees	5-19 employees	20-99 employees	more than 100 employees	Total
Manufacturing	3	1	2	3	9
Construction	1	0	2	2	5
Services	12	13	4	7	36
Total	16	14	8	12	50

	MOZAMBIQUE Users Survey - Sample Distribution				
	1-4 employees	5-19 employees	20-99 employees	more than 100 employees	Total
Mining	0	0	1	0	1
Agribusiness	0	0	2	0	2
Manufacturing	0	8	17	8	33
Construction	0	1	0	1	2
Services	1	2	5	3	11
Total	1	11	25	12	49
	SOUTH AFRICA Users Survey - Sample Distribution				
	1-4 employees	5-19 employees	20-99 employees	more than 100 employees	Total
Mining	1	0	0	0	1
Agribusiness	2	0	0	0	2
Manufacturing	4	4	1	1	10
Construction	3	2	1	0	6
Services	34	11	2	1	48
Total	44	17	4	2	67
	ZAMBIA Users Survey - Sample Distribution				
	1-4 employees	5-19 employees	20-99 employees	more than 100 employees	Total
Mining	0	0	0	1	1
Agribusiness	0	1	1	2	4
Manufacturing	3	4	1	1	9
Construction	0	2	0	2	4
Services	3	11	5	8	27
Total	6	18	7	14	45

The main objective of this survey was to examine the sources of demand for accounting, legal, and engineering services. The survey included questions on how much firms spent on external accounting, legal, or engineering services, whether any of those services were imported, and what specific sub-categories of those services were purchased. For firms that did not purchase any type of professional services, the survey asked the reasons for that choice. The survey also asked about the frequency with which professional services were acquired and asked the firms to judge the value of acquiring each type of professional services for their management and performance. For accounting services in particular, the survey asked whether different sub-categories of services were obtained as a result of statutory obligations and for which entities the documents were prepared. The survey also asked about each firm's labor force composition, particularly the numbers and types of professionals (accountants, lawyers, and engineers) employed. Finally, the survey obtained information on each firm's total employment, type of ownership, export status (and for exporters which were the destination countries), and total revenues. All these questions were asked for a single point in time for each firm.

B. Services Providers Survey

The sample design was developed so as to cover accounting, legal, and engineering services sectors and all size categories (measured in terms of number of employees) within those sectors. The frames (universes) used to draw the samples were the most recent available lists of firms from official sources such as local statistical institutes or business registers. In each of the professional services sector, the distribution of firms across size categories in the sample was chosen to be proportionate to the universe distribution, within the constraints of a fixed number of firms to be covered per sector and country.

Within each professional services sector-size category cell the firms to be part of the final sample were chosen randomly from the universe of firms in that cell. Due to budget constraints, within each country, mainly firms in the main capital city (and vicinity areas) were covered. The surveys covered a total of 45 firms in Botswana, 44 firms in Malawi, 45 firms in Mauritius, 44 firms in Mozambique, 59 firms in South Africa, and 40 firms in Zambia. The detailed distribution of firms across professional services sectors and size categories is shown in the table below.

Table A.2: Service Providers in Southern Africa

	BOTSWANA Providers Survey - Sample Distribution				
	1-4 employees	5-19 employees	20-99 employees	more than 100 employees	Total
Accounting	3	4	6	1	14
Legal	5	5	5		15
Engineering	4	5	5	2	16
	MALAWI Providers Survey - Sample Distribution				
	1-4 employees	5-19 employees	20-99 employees	more than 100 employees	Total
Accounting	1	5	5	1	12
Legal	1	12	4		17
Engineering	6	5	3	1	15
	MAURITIUS Providers Survey - Sample Distribution				
	1-4 employees	5-19 employees	20-99 employees	more than 100 employees	Total
Accounting	2	11	1	1	15
Legal	4	10	1		15
Engineering	4	2	8	1	15
	MOZAMBIQUE Providers Survey - Sample Distribution				
	1-4 employees	5-19 employees	20-99 employees	more than 100 employees	Total
Accounting		7	6		13
Legal	7	11			18
Engineering		5	6	2	13
	SOUTH AFRICA Providers Survey - Sample Distribution				
	1-4 employees	5-19 employees	20-99 employees	more than 100 employees	Total
Accounting	5	6	8	1	20
Legal	4	5	8	3	20
Engineering	2	10	6	1	19
	ZAMBIA Providers Survey - Sample Distribution				
	1-4 employees	5-19 employees	20-99 employees	more than 100 employees	Total
Accounting	3	4	2	1	10
Legal	5				5
Engineering	6	5	12	2	25

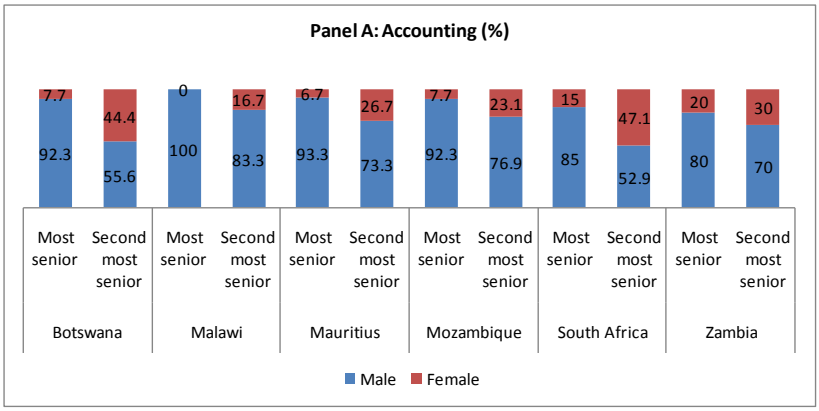
The main objective of this survey was to examine the business environment conditions in which providers of accounting, legal, and engineering services operate and how those affect their performance. The survey included questions on the distribution of firm revenues across sub-categories of services, on the types of

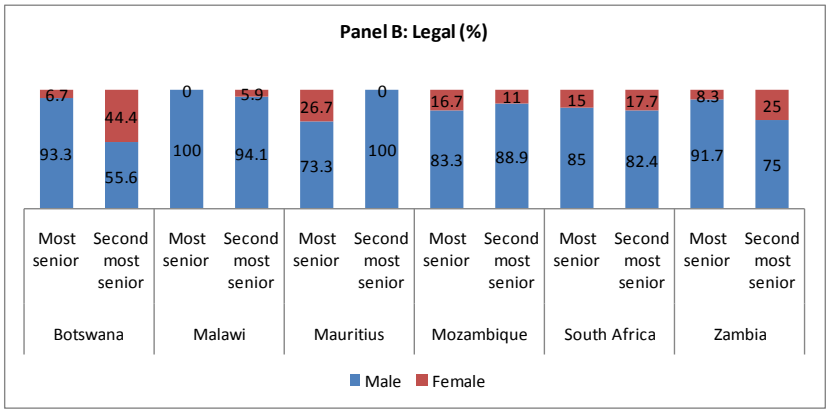
clients, whether any of the services were exported and for exporters which were the destination countries, and what mode of delivery was used. The survey also asked the firms to judge the degree of obstacle that domestic regulations related to competition, related to qualification requirements and licensing procedures, related to public procurement, and related to registration procedures/permits/other administrative steps necessary to start a business represent for its operations and growth. The survey also asked the firms to judge the degree of obstacle that regulations related to ownership/establishment of affiliates, related to competition, related to qualification requirements and licensing procedures represent to owning a firm in a foreign country or entering as a supplier into a foreign market.

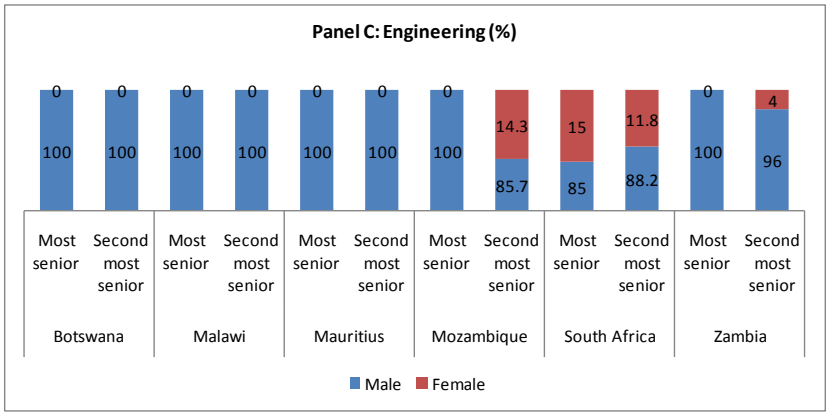
The survey asked questions related to the degree of competition faced by the firm in the domestic market. The survey also asked about the labor force composition of the firm, the numbers and average salaries of different types of employees (e.g., partners, managers, senior professionals, junior professionals) and the professional experience and qualifications of the most senior partners of the firm. Finally, the survey obtained information on each firm's total employment, type of ownership, total revenues and total costs. All these questions were asked for a single point in time for each firm.

Appendix 12: Gender imbalances

There is consistent evidence of gender imbalances at the managerial level of professional firms in all examined countries (Panels A, B and C). Female engineering professionals in senior positions seem totally absent in Botswana, Malawi and Mauritius. Botswana performs best among all Southern African countries in terms of female accounting and legal professionals in senior positions.







Source: World Bank Surveys of Providers of Professional Services in Southern Africa, 2010.

Appendix 13: Costs and Procedures to Become a Professional

For the purposes of this report, the World Bank conducted in 2009-2010 surveys on the costs and procedures to become an accounting, engineering, or legal professional in Botswana, Malawi, Mauritius, Mozambique, South Africa, and Zambia. The survey instruments were developed by the World Bank and in each of the countries the data was collected by local consultants from a set of domestic students in the three professional fields and from a set of domestic professionals. The data collected was subsequently confirmed against published information by professional associations or higher education institutions where possible, and by relevant stakeholders.

The objective of this survey was to allow an in-depth assessment of the costs and procedures necessary to become a full member of the accounting, engineering and legal professions in each of the countries. The survey asked about:

- the costs of and the time necessary for obtaining a qualifying degree to legally practice as an accountant, engineer, or accountant obtaining the detailed decomposition of costs into the cost of the degree, tuition fees, and living expenses;
- the cost of and time necessary for evaluating the (domestically obtained) education credentials in order to be able to enter into the profession;
- the costs of and the time necessary for obtaining any required specialized degree in addition to the qualifying degree in order to enter into the profession obtaining the detailed decomposition of costs into the cost of the specialized course, tuition fees, and living expenses;
- the costs and duration of undertaking the practical training/internship necessary to become a full member of the profession;
- the costs of taking the professional examinations necessary to become a full member of the profession;
- the costs of and the time necessary for obtaining the necessary licenses to legally practice as a professional;
- the costs of obtaining membership in the professional association in order to legally practice covering the initial registration and the annual subscription;
- the costs of obtaining continuing education and the number of required such courses per year.

For each country and profession, the detailed costs necessary for the various steps to becoming a professional were added as described in World Bank (2010).

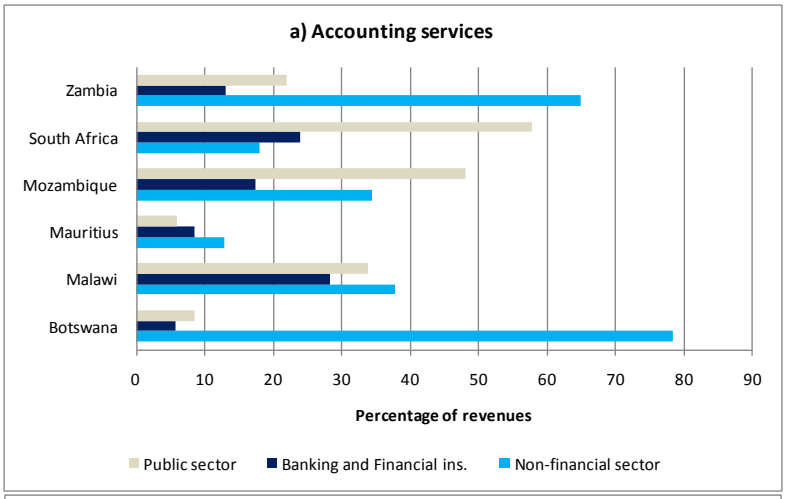
The model used to derive present values and internal rates of return for accountants, engineers, and lawyers in each country is a discounted cash flow analysis and follows OECD (2009).

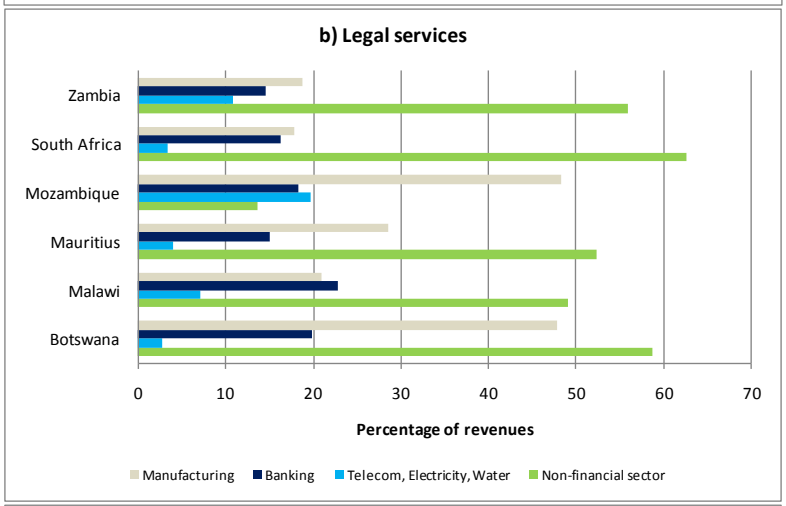
For each profession in a given country, the present value of educational costs is inputted as a negative, and the median annual wages (equal to the median monthly wages for each profession based on the World Bank Surveys of Providers of Professional Services in Southern Africa, 2010 multiplied by 12) are derived for each year. These are then discounted using a fixed interest rate of 5% following OECD (2009) as this is the rate that one can expect to receive "under normal circumstances, by investing in long-term government bonds in most countries."[65]

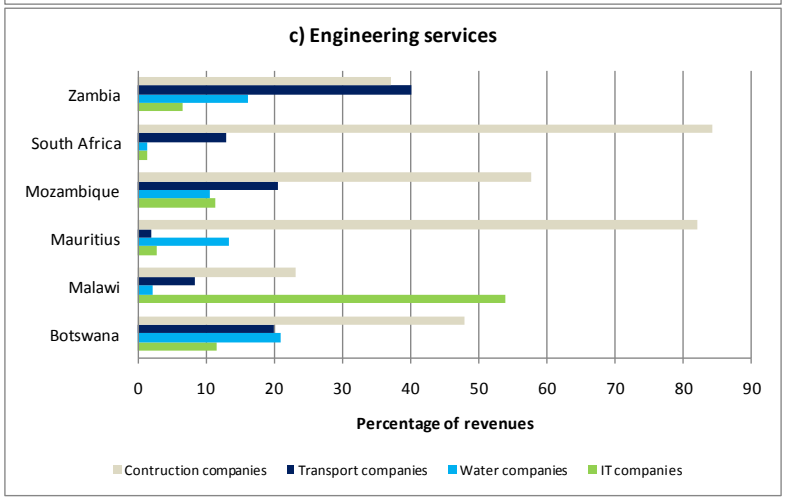
[65] OECD Technical Annex, 2009, p. 54.

Appendix 14: Sectoral Profile of Clients and types of services demanded in Africa

Sources of Revenue Earned by Type of Client Sector for Providers of Services







Source: World Bank Surveys of Providers of Professional Services in Southern Africa, 2010.
Note: The share of revenues concerns revenues in the domestic market.

Appendix 15: Regulatory and Market Structure Surveys

For the purposes of this report, the World Bank conducted in 2009-2010 regulatory and market structure surveys in accounting, legal, and engineering services in Botswana, Malawi, Mauritius, Mozambique, South Africa, and Zambia. The survey instruments were developed by the World Bank and in each of the countries the data was collected by local consultants from professional associations and was subsequently confirmed by private sector providers and other relevant stakeholders and against the review of relevant laws and regulations where possible.

The objective of the regulatory survey was to collect information on the regulatory frameworks in place in the selected professional services sectors. The survey included questions on the entry restrictions applying to domestic providers related to required academic qualifications, professional qualifications, standards, exclusive and shared exclusive rights, and restrictions on the number of providers (individuals and firms) allowed. The questions on academic and professional qualifications covered both middle-level and highly skilled professionals. The survey also included questions on conduct regulation related to fees and prices, advertising possibilities, types of ownership allowed for service firms, multidisciplinary practices, location and diversification possibilities, and the use of quality control instruments. The survey also asked whether any of these conduct regulations were discriminatory towards foreign providers. The information collected through this survey is presented in a separate Regulatory Database.

The analysis of regulations also made use of the services policy surveys conducted by the World Bank and described in Gootiz and Mattoo (2009). The policy summaries for accounting and legal services collected through the services policy surveys are summarized in the tables below. While the original data collection effort covered only accounting and legal services, for the purposes of this project a similar policy survey was applied to engineering in Botswana, Malawi, Mauritius, Mozambique, South Africa, and Zambia.

The objective of these surveys was to understand the explicit trade policy barriers to professional services. These surveys collected information on entry restrictions applying to foreign providers related to (i) restrictions on the movement of professionals such as nationality or residency requirements, quota/labor market tests/economic needs tests, recognition (or lack thereof) of degrees and qualifications and of licenses obtained abroad, and (ii) restrictions on foreign ownership and market entry conditions fir service firms such as limited forms of entry, ownership limits, limits on the control by foreign professionals not licensed to practice in the host country, license requirements, prohibited activities in general and in procurement in particular, and (iii) restrictions on cross-border trade in professional services.

A. Policy Summaries – Accounting Services

	Botswana	Malawi	Mauritius	Mozambique	South Africa	Zambia
Movement of Natural Persons - Accounting	The Botswana Institute of Accountants recognizes professional qualifications obtained from certain foreign accountancy professional bodies. Labor Market Test & Economic Needs Test. Minimum wage/wage parity requirement.	Automatic recognition of foreign license granted (accountants are not regulated in Malawi). Labor Market Test & Economic Needs Test.	Registration with the Mauritius Institute of Professional Accountants is automatically granted if a member of an approved accountancy body. Otherwise, must have 3 years of work experience but foreign experience is recognized.	Accounting technicians ("tecnicos de contas") can engage in all kinds of accounting services, but "accountants" cannot advise on tax matters. For accounting technicians, the national union of employers in commerce, insurance and services must give a favorable opinion. Education requirement but foreign degree is recognized if deemed equivalent to local degree. Some professional experience required. 2 years of local training in Mozambique under the supervision of a professional with at least 5 years of experience is necessary, but training may be waived. There is a quota for foreign employees at company level depending on company size. However, it is possible to hire foreigners outside quota by obtaining a work contract authorization from Ministry of Labor, in which case Labor Market Test applies.	Members of the Institutes of Chartered Accountants in Australia, Canada, the UK, New Zealand, Hong Kong, Namibia, Swaziland and Zimbabwe can become members of the South African Institute of Chartered Accountants by passing the conversion exam and satisfying SAICA as to the relevance of their practical experience. Those licensed in other countries will need to have their degrees evaluated, complete a specialist course, pass exams, and meet the 3-year training requirement (foreign training may be sufficient depending on the decision of the Training Requirements Committee). There is a quota on foreigners but it varies from time to time. Labor Market Test & Economic Needs Test. Minimum wage/wage parity requirement. Duration of stay initially allowed differs case by case. Extension possible.	Education requirement - If the applicant has foreign qualifications, he/she has to take some courses prescribed by the Zambia Institute of Chartered Accountants. 3 years of work experience may be required depending on where the applicant is licensed but foreign experience is recognized. Must pass an exam. Labor Market Test & Economic Needs Test.
Establishment of Commercial Presence - Accounting	No restrictions, except for a possible limit on use of foreign brand name. License required.	OPEN. No restrictions.	Ownership by non-locally-licensed professionals limited to 50%. License required, but approval not automatic. Cannot serve state-owned firms, where public money is concerned.	Ownership by non-locally-licensed professionals limited to 99% - At least one shareholder must be licensed and registered in the Ministry of Finance. License required. There is a quota for foreign employees at company level depending on company size. However, it is possible to hire foreigners outside quota by obtaining a work contract authorization from Ministry of Labor, in which case Labor Market Test applies.	No specified limit on ownership by foreign nationals, but Black Economic Empowerment (BEE) program which encourages equity ownership of 25% by historically disadvantaged groups (non-discriminatory) may apply.	Ownership by non-locally-licensed professionals not permitted. License required.

Source: Borchert, Gootiz and Mattoo (2010).

B. Policy Summaries – Auditing Services

	Botswana	Malawi	Mauritius	Mozambique	South Africa	Zambia
Movement of Natural Persons - Audiitng	The Botswana Institute of Accountants recognizes professional qualifications obtained from certain foreign accountancy professional bodies. Labor Market Test & Economic Needs Test. Minimum wage/wage parity requirement.	Must first become a full (non-practicing) member of the Society of Accountants in Malawi (SOCAM) and then become a practicing member. Residency requirement, but possible to register as a non-resident member if already a member of a recognized professional body and is engaged in public practice in partnership with a registered resident. Work experience required but foreign experience is recognized. Must pass an exam on company and tax laws of Malawi. Labor Market Test & Economic Needs	Must first register with the Mauritius Institute of Professional Accountants. Must have passed exams held by a professional accountancy body with auditing as one of the subjects. 2 to 3 years of work experience required but foreign experience is recognized.	Must be employed by a firm in Mozambique that is licensed by the Ministry of Finance to be able to provide services. Education requirement but foreign degree is recognized if deemed equivalent to a Mozambican degree. Proven technical/professional experience required but foreign experience is recognized. SSE not allowed. There is a quota for foreign employees at company level depending on company size. However, it is possible to hire foreigners outside quota by obtaining a work contract authorization from Ministry of Labor, in which case Labor Market Test applies.	To register as an auditor in South Africa, should fulfill the qualification requirements and be a resident in South Africa. An auditor not registered in South Africa may perform audit services under the direction, control, supervision of or in association with a registered auditor who assumes responsibility. There is a quota on foreigners but it varies from time to time. Labor Market Test & Economic Needs Test. Minimum wage/wage parity requirement. Duration of stay initially allowed differs case by case. Extension possible.	Must first be registered as a chartered accountant in Zambia. 7 years of experience required but foreign experience is recognized. Must pass an exam. Labor Market Test & Economic Needs Test.
Establishment of Commercial Presence - Auditing	No restrictions, except for a possible limit on use of foreign brand name. License required.	Limit on ownership by non-locally-licensed professionals. At least one partner must be locally resident for about 244 days each year. License required.	License required, but approval not automatic. No restrictions on firm name, but it must first be approved by the Financial Reporting Council. Cannot serve state-owned firms, where public money is concerned.	Ownership by non-locally-licensed professionals limited to 99% - At least one shareholder must be licensed and registered in the Ministry of Finance. License required. There is a quota for foreign employees at company level depending on company size. However, it is possible to hire foreigners outside quota by obtaining a work contract authorization from Ministry of Labor, in which case Labor Market Test applies.	All partners or shareholders of an auditing firm must be auditors registered in South Africa (which requires being resident in the country), and registered auditors cannot share fees with a person who is not registered in South Africa.	Ownership by non-locally-licensed professionals not permitted. License required.

Source: Borchert, Gootiz and Mattoo (2010).
Note: SSE designates a service-supplying employee i.e., an employee of a foreign service supplier located abroad that enter the country to supply services in the country to fulfill a contract in that country.

C. Policy Summaries – Legal Advice on Domestic Law and Legal Representation in Court

	Botswana	Malawi	Mauritius	Mozambique	South Africa	Zambia
Movement of Natural Persons - Legal Advice on Domestic Law and Legal Represent. in Court	Foreign-licensed professionals eligible to practice subject to certain conditions: 1) Must be a citizen of a country that provides reciprocity to citizens of Botswana; 2) Must be ordinarily resident in Botswana or intend to reside permanently in Botswana; 3) Education & exam requirements - May be waived if qualified to practice in certain Commonwealth countries or a prescribed country with sufficiently analogous system of law. Foreign lawyers are not permitted to enter and work in Botswana as an ICT, SSE or IP. Automatic recognition of foreign license is also possible, but only if qualified to practice as an advocate in a Commonwealth country or a country prescribed by the Parliament. In this case, the foreign advocate may only practice temporarily for the purpose of a specific case as instructed either by the Attorney-General or an attorney in Botswana. Labor Market Test & Economic Needs Test. Minimum wage/wage parity requirement.	Nationality requirement, but limited exceptions apply to those who are licensed in the UK (who would need to pass an exam in Malawi) and those with a law degree from the University of Malawi. In this case, prior residency for 3 months required. Labor Market Test & Economic Needs Test. A foreign-licensed lawyer who is not Malawian may be admitted temporarily for the purpose of legal representation in court in a particular matter only.	CLOSED - Nationality requirement. The only exception is if a foreign lawyer's giving advice on Mauritian law is necessarily incidental to the practice of foreign/international law, and the advice is expressly based on advice given by a law practioner licensed in Mauritius.	To engage in legal representation in court, must become a member of the Mozambican bar. To provide legal advice on domestic law, two options - i) become a member of the Mozambican bar by fulfilling all requirements as a regular Mozambican applicant to practice independently OR ii) provide consulting or advisory services without becoming a member of the bar, under the condition that he/she provide services as an employee of a firm in Mozambique on an exclusive basis. Education requirement - Must obtain an equivalence certificate from the Ministry of Education to have a foreign degree recognized. Subject to a reciprocity agreement (covering only Portugal) for the purpose of becoming a member of the Mozambican bar. 2 years' training under a locally-licensed advocate in Mozambique required in order to be admitted to the Mozambican bar. There is a quota for foreign employees at company level depending on company size. However, it is possible to hire foreigners outside quota by obtaining a work contract authorization from Ministry of Labor, in which case Labor Market Test applies. Mozambican and foreign employees are entitled to receive equal salary and benefits for equal work, but this is not an immigration requirement.	CLOSED. Citizenship or permanent residency required.	Allowed subject to certain conditions, which differ based on whether the license is from a common or a non-common law country. Education requirement only if from a non-common law country - foreign degree recognized if deemed equivalent to one from local university. 6 months to 2 years of training in Zambia required. Attending a 1-year post-graduate course the Zambia Institute of Advanced Legal Education may be done in lieu of practical training. 3 years of work experience required but for those licensed in common law countries, foreign experience is recognized. Must pass exams. Labor Market Test & Economic Needs Test.
Establishment of Commercial Presence - Legal Advice Domestic Law and Legal Represent. in Court	No restrictions, except for a possible limit on use of foreign brand name. License required.	Branch not allowed. Limit on ownership by non-locally-licensed professionals.	Allowed only if the foreign firm sets up a joint law venture with a local firm. This joint venture cannot provide legal services in foreign and international law. Branch not allowed. Limits on ownership by foreign nationals and non-locally-licensed professionals, but no specific cap. License required.	Ownership by non-locally-licensed professionals limited to 99% - At least one owner should be a member of the Mozambican bar. There is a quota for foreign employees at company level depending on company size. However, it is possible to hire foreigners outside quota by obtaining a work contract authorization from Ministry of Labor, in which case Labor Market Test applies. No restrictions on name, except if the local office is an entity separate from the foreign parent firm, it can only use the parent's name if the parent is a shareholder in it. License required.	CLOSED. Foreign firms cannot practice local law or work in association with a local firm, although they could employ locally licensed attorneys. Must instruct a South African firm for local legal proceedings.	Ownership by non-locally-licensed professionals not permitted, since a legal practitioner cannot enter into a partnership or share fees with an unqualified person. License required.

Source: Borchert, Gootiz and Mattoo (2010).

Note: ICT designates an intra-corporate transferee, i.e., an employee of a multinational firm transferred from an office in one country to an office in another country. SSE designates a service-supplying employee i.e., an employee of a foreign service supplier located abroad that enter the country to supply services in the country to fulfill a contract in that country. IP designates an independent professional, i.e., an individual that enters the country to sell services directly to firms, people, or government agencies including to fulfill contracts, and to be employed by services providers within the country.

D. Policy Summaries – Legal Advice on Foreign Law

	Botswana	Malawi	Mauritius	Mozambique	South Africa	Zambia
Movement of Natural Persons - Legal Advice on Foreign Law	Automatic recognition of foreign license granted for all countries. Foreign lawyers are not permitted to enter and work in Botswana as an ICT, SSE or IP. Labor Market Test & Economic Needs Test. Minimum wage/wage parity requirement.	Automatic recognition of foreign license granted. Labor Market Test & Economic Needs Test.	Automatic recognition of foreign license granted for all countries.	Automatic recognition of foreign license granted for all countries. There is a quota for foreign employees at company level depending on company size. However, it is possible to hire foreigners outside quota by obtaining a work contract authorization from Ministry of Labor, in which case Labor Market Test applies.	Automatic recognition of foreign license granted. There is a quota on foreigners but it varies from time to time. Labor Market Test & Economic Needs Test. Minimum wage/wage parity requirement. Duration of stay initially allowed differs case by case.	Automatic recognition of foreign license granted for all countries. Labor Market Test & Economic Needs Test.
Establishment of Commercial Presence - Legal Advice on Foreign Law	No restrictions, except for a possible limit on use of foreign brand name. License required.	Branch not allowed.	Must be qualified, licensed, or regulated in the home jurisdiction. Cannot provide advice or legal services on, or in relation to, Mauritian law. Must have a physical establishment in Mauritius. License required (must register as a foreign firm, but approval not automatic, and there is a difference in the criteria for foreign and domestic applicants). Must have in the office at least 2 lawyers licensed in the home jurisdiction.	There is a quota for foreign employees at company level (5% for companies with more than 100 employees, 8% for companies with 11-100 employees, and 10% for companies with up to 10 employees). However, it is possible for an employer to hire foreigners outside these quotas by obtaining a work contract authorization from the Ministry of Labor. License required.	Branch not allowed. No specified limit on ownership by foreign nationals, but Black Economic Empowerment (BEE) program which encourages equity ownership of 25% by historically disadvantaged groups (non-discriminatory) may apply.	Ownership by non-locally-licensed professionals not permitted, since a legal practitioner cannot enter into a partnership or share fees with an unqualified person. License required.

Source: Borchert, Gootiz and Mattoo (2010).

Appendix 16: Regulatory indices

A. DOMESTIC REGULATORY INDICES

The indices for entry and conduct regulation in professional services sectors in Southern Africa are calculated according to the tables presented below. Qualitative information is coded by assigning a numerical value to each of the possible responses to a given question (see the 'coding of data' portion of the tables below) while quantitative information is subdivided into classes using a system of thresholds (see the 'question weights' and the 'weights by theme'). The index for each profession is calculated as the simple average of the indicators of entry and conduct regulation.

Panel A: Entry regulation

	Weights by theme (b_j)	Question weights (c_k)	Coding of data					
Licensing:	2/5		0	1	2	3	>3	
How many services does the profession have an exclusive or shared exclusive right to provide?		1	0	1.5	3	4.5		6
Education requirements (only applies if Licensing not 0):	2/5							
What is the duration of special education/university/or other higher degree?		0.33	equals number of years of education (max of 6)					
What is the duration of compulsory practise necessary to become a full member of the profession?		0.44	equals number of years of compulsory practise (max of 6)					
Are there professional exams that must be passed to become a full member of the profession?		0.22	no			yes		
Quotas and economic needs tests	1/5		0			6		
Is the number of foreign professionals/firms permitted to practice restricted by quotas or economic needs tests?		1	no 0			yes 6		
Country scores (0-6)			$\Sigma_j b_j \Sigma_k c_k$ answer$_{jk}$					

Panel B: Conduct regulation

	Weights by theme (b_j)[1]	Question weights (c_k)	Coding of data						
Regulations on prices and fees	0.38								
Are the fees or prices that a profession charges regulated in any way (by government or self-regulated)?		1	no regulation 0	non-binding recommended prices on some services 1	non-binding recommended prices on all services 2	maximum prices on some services 3	maximum prices on all services 4	minimum prices on some services 5	minimum prices on all services 6
Regulations on advertising	0.23		no specific regulations		advertising is regulated		rtising is prohibited		
Is advertising and marketing by the profession regulated in any way?		1	0		3		6		
Regulation on form of business	0.19								
Is the legal form of business restricted to a particular type?		1	no restrictions 0		partnership and some incorporation allowed 2		incorporation forbidden 5		sole practitioner only 6
Inter-professional cooperation	0.19								
Is cooperation between professionals restricted?		1	all forms allowed 0		generally allowed 3		only allowed with comparable professions 4.5		generally forbidden 6
Country scores (0-6)			$_jb_j \Sigma_k c_k$ answer$_{jk}$						

Source: http://www.oecd.org/dataoecd/25/19/42220487.xls

B. Services Trade Policy Restrictiveness Indices

The indices of the restrictiveness of explicit trade barriers in professional services (henceforth STRI) are computed making use of the services policy surveys conducted by the World Bank described in Borchert, Gootiiz, and Mattoo (2010) as presented below. The indicators are computed for 4 subsectors: accounting, auditing, domestic law, and international law.

The STRI was created using an expert judgment approach. This method applies a score to a summary or bundle of measures which we call "policy summary". The policy summaries reflect the perceived overall restrictiveness in a given subsector and a given mode of supply (1, 3, or 4). The policy summaries cover a defined set of potential restrictions, of which only restrictive measures are listed and scored. The table below shows the measures covered and the rules applied to the policy summary. A benefit of the policy summary is that it can account for idiosyncratic and qualitative information that are provided by the survey and that affect the degree of openness. The qualitative policy information would surely escape any fixed algorithm that attempts to turn policy information into binary scores.

The expert judgment approach has both strengths and weaknesses. The main strength is that it can better capture aspects of policy that are rich but difficult to quantify. The main weakness, as the name suggests, is that it is subjective and based on expert judgment. Subjectivity arises because the score per policy summary can change depending on the experts' perspectives. Another of its strengths, however, is that it largely avoids potential double counting and the usage of fixed weights per individual measure. These are weaknesses that are commonly pointed to earlier approaches known as bottom-up scoring pursued by the Australian Productivity Commission and more recently by the OECD.

The bottom-up scoring approach would assign a score of restrictiveness to each individual measure and would then aggregate using weights per measure and/or per category of measures. In order to do so, all measures have to be binary or have to be converted into a binary measure, potentially causing a loss of qualitative information. The weights per measure are determined either subjectively or by statistical methods but would at any rate be fixed, irrespective of the inherent relationship among the measures considered. In that regard, one worrisome problem of the bottom-up approach is that it treats all restrictions (entry, operational, regulatory) as additive. However, not all measures can reasonably be added up. For instance, if foreign suppliers are not allowed to enter in a market, then the restrictions on operations and regulatory environment should not matter. In other words, the weight of subsequent categories should be different depending on the policy regime. For example, the restriction on operations should take a weight of zero if initial entry is not allowed and higher weight if entry is allowed. Therefore, considering a fixed weight per measure is not ideal.

Also, the conventional bottom-up approach may potentially double count the restrictiveness by adding up different but redundant measures. For example, suppose that a foreign equity limit is 49%, then it is safe to assume that foreign investors are not allowed to exercise corporate control via majority ownership. However, if there is also a requirement that the majority of the board of directors must be nationals, then the bottom-up approach would add this as another restriction, thereby essentially double counting the restrictiveness even though the equity restriction preempts the board restriction. In contrast, by assigning a score to a policy summary, rather than scoring individual measures, largely avoid the risk of mechanically double counting measures or adding non-binding restrictions. Also, we do not lose the rich information and extensive comments provided by government officials and survey respondents. As a result, the STRI broadly captures the restrictiveness of policies in terms of explicit measures such as quota as well as de facto restrictions such as approval of the President for licensing.

Upon having a policy summary per subsector-mode, the assigned score maps the perceived restrictiveness of each summary onto a 5-point scale ranging from 0 to 1, with three intermediate levels of restrictiveness (0.25, 0.50, and 0.75). The scores are defined as follows:

- 0.00: open without restrictions;
- 0.25: virtually open (only notifications required, minimal discretion)
- 0.50: some significant restrictions (e.g., only minority foreign equity participation allowed);
- 0.75: virtually closed (e.g., providing loans from abroad requires proof of domestic unavailability of like service);
- 1.00: completely closed.

When there is only one measure that is restrictive, the scoring rule in the table applies, but when two or more measures are in place, the scores reflect the restrictiveness of the key measures. More specifically, since the restrictiveness index is assigned to a policy summary for a subsector-mode combination, if one policy variable within the summary changes, the index may or may not change. Not all changes in policy information will trigger a change in the STRI. The change in STRI will depend on the type of variable and the number of variables that are restrictive.

Moreover, the measures covered can be divided into two tiers in terms of impact on market entry by foreign supplier. The first tier measures include those that affect market entry decisions most significantly, such as the limit on foreign ownership and the number of licenses allowed. The second tier measures are those that affect operations of service providers, such as the board of directors and repatriation of earnings. If the first tier measures are not restrictive and the only restrictions are in the second tier measures, then the final score will reflect the restrictiveness of the second tier measures. If multiple measures of the first and second tiers are restrictive, then the index will reflect the most restrictive measure (0 to 1) of all.

Note that for the overall STRI computed across all modes of supply of accounting and legal services across borders each subsector (accounting, auditing, domestic law, and international law) receive an equal weight whereas different modes receive different weights: mode 1 receives a 0.2 weight whereas mode 3 and mode 4 receive each a 0.4 weight.

Scoring Rules for the Policy Summary

Note for interpreting the table: Only measures that are included in the policy summary are scored. The scores reflect the overall restrictiveness of key policy measures applied to a subsector-mode (and not to individual measures). When there is only one measure that is restrictive, the following scoring rule applies, but when two or more measures are in place, the score reflects a judgment of the aggregate effect of the measures.		
MODE 1: Accountancy and Legal	**Assumptions:** A. Foreign law or accounting firms intend to provide legal or accounting services via telephone, email, mail, or fax. B. Foreign firms already possess qualified professionals who are certified and qualified to provide the type of services in accounting, auditing, or foreign legal law. C. The clients in the home country are domestic or foreign firms (non-legal and non-accounting firms). If there is a restriction on clients, such as non-professional firms cannot obtain this services from abroad, trade through mode 1 would be considered restrictive. **Note:** The mode 1 measures in the survey do not cover the regulatory requirements on licensing, qualification, and other regulatory conditions that may prevent the foreign firms from providing services.	
	Cross border trade not allowed	1
	Staffed with professionals licensed to provide the service	
	Demonstration of domestic unavailability of service required	0.75
MODE 3: Accountancy and Legal	**Assumptions:** A. Foreign accounting or legal firm, which has commercial presence in the home country, wishes to provide services through commercial presence in host country B. Foreign professionals, who wish to establish commercial presence as a partner, joint-owner, or shareholder are assumed to possess necessary skills, qualifications, and experience to provide services in their home jurisdiction. **Notes:** A. If local qualification is necessary for partners to set up a partnership and the conditions for meeting local qualification are burdensome (as this can be revealed from the mode 4 regime), it is considered restrictive. B. Separate legal entity is defined as "having a separate office from the parent company", but it is considered not a locally incorporated entity.	
	Establishing commercial presence- not allowed	1
	Greenfield branch- not allowed	0.25
	Separate legal entity- not allowed	0.25
	Ownership by foreign nationals or by non-locally licensed professionals not permitted or foreign ownership of less than 50% allowed (assuming entry through other forms allowed, such as association with local partners)	0.5
	Association with locally-licensed professionals as partners or shareholders not permitted	0.5
	Significant discrimination in licensing criteria for foreign and domestic applicants	0.5
	Explicit limit on number of licenses	0.5

	Difference in licensing criteria	0.25 or 0.5
	Hiring of locally-licensed professionals as employees not permitted	0.25
	Restrictions on name or brand international name	0.25
MODE 4: Accountancy and Legal	**Assumptions:** For professionals who wish to supply services through mode 4, the following assumptions have been made. The foreign professionals A. Are natural persons, who intend to provide services temporarily in a host country as defined in the GATS Annex on Movement of Natural Persons. The professional is not seeking citizenship, residence, or employment on a permanent basis. B. Foreign professionals are already qualified and licensed to provide services in their home jurisdiction. **Notes:** In mode 4 qualification section, we are seeking to identify the additional licensing requirements that the foreign professionals have to fulfill to provide services in a foreign jurisdiction, where they did not obtain the qualifications. Also, if Mutual Recognition agreements are required, it is not treated as restrictions.	
	Market closed - Nationality of host country required	1
	Must be resident to be licensed or to work as a professional	0.25
	Automatic recognition of foreign license granted	
	Foreign-licensed professionals eligible to practice subject to conditions	depends
	Quota for Foreigners - ICT, SSE, and IP	0.5
	Labor Market Test - ICT, SSE, and IP	0.5
	Economic Needs Test - ICT, SSE, and IP	0.5
	Education - Foreign degree not recognized	0.5
	Work experience or training - Foreign training not recognized	0.5
	Passing a professional exam required	depends
	If entry not allowed through SSE or IP (Entry allowed only through ICT)	0.5
	If entry not allowed through SSE or ICT (Entry allowed only through IP)	0.25
	Minimum Wage/Salary or Wage Parity Requirement - ICT, SSE, and IP	
	Duration of stay initially allowed - ICT, SSE, and IP	
	Possibility of extension of stay - ICT, SSE, and IP	