

# SADC: EXPORTING PROFESSIONAL SERVICES



## **International Economics**

Strategic Analysis For Growth & Development

**International Trade and Economics Series**  
June 2015

## DISCLAIMER

We endeavour to report accurate information and as such, we use sources which are considered reliable and unbiased. The opinions or views expressed are those of the authors and do not necessarily reflect the opinions and recommendations of the publisher or editors. International Economics and the contributors of this Series shall not be held liable in any way for any inaccuracies, errors, omissions or defamatory statements therein or for any damage arising therefrom or occasioned thereby.

International Economics Ltd and the authors own all rights (including copyright) related to this and previous reviews and the articles incorporated there. Materials may be quoted subject to the inclusion of the author and copyright ownership, and company web site address: [www.tradeeconomics.com](http://www.tradeeconomics.com)

# SADC: EXPORTING PROFESSIONAL SERVICES

Andras LAKATOS<sup>1</sup>

## ABSTRACT

Four SADC Member States are negotiating for trade in services liberalisation with the European Union. The objective of Botswana, Lesotho, Mozambique, and Swaziland is to complement their regional services integration efforts with free trade relations for services and investment with the EU under the Economic Partnership Agreement (EPA). A review of professional services in SADC reveals outdated policies and ill-adapted or poorly implemented regulations of many professions. This article reviews the professional services sector in the Participating SADC EPA (PSE) states and notes that the present negotiations should prompt the four Governments to engage in deep policy reforms not only to enable themselves to benefit from EPA, but more importantly to create competitive domestic markets for their professional services providers.

## BACKGROUND

SADC Member States have been negotiating the reciprocal removal of barriers to trade in services after signing the Protocol on Trade in Services in 2012, with a mandate to progressively negotiate the removal of barriers to the free movement of services. Four member states have decided to proceed with services trade liberalisation with a new partner, the European Union (EU). The objective of Botswana, Lesotho, Mozambique, and Swaziland (the so-called Participating SADC EPA States, or PSE states) is to complement their regional services integration efforts with free trade relations for services and investment with the EU under the Economic Partnership Agreement (EPA), in order to secure more market access for their services than currently available within SADC. The PSE states' services regulations and trade policy practices in key sectors need fundamental changes to meet the ambitious objective of services trade integration both at SADC level and with the EU. A review of professional services, a priority sector on PSE states' trade negotiation agenda, reveals outdated and ill-adapted or poorly implemented regulations of many professions. Negotiations with the EU on removing barriers to trade in professional services should prompt the four Governments to engage in deep policy reforms not only to enable themselves to benefit from EPA, but more importantly to create competitive domestic markets for their professional services providers.

## WEAK PROFESSIONAL SERVICES MARKET IN THE PSE STATES...

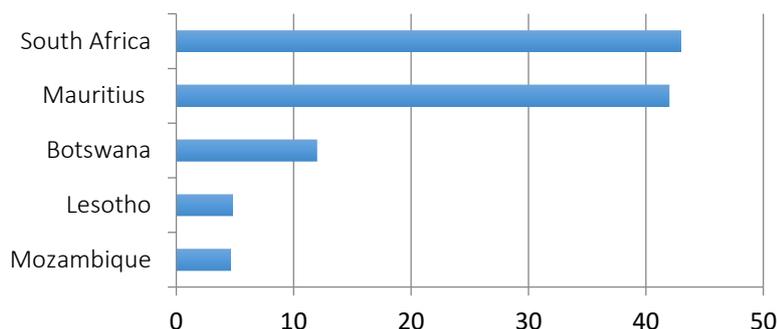
Professional services, such as accounting, legal, engineering or veterinary services are critical factors to the economic development of all countries. Since professional services are inputs into the production of all goods and other services, their choice, quality and prices greatly impact on the competitiveness of businesses, and thus have direct and indirect effects on economic growth. Efficient professional services markets enhance user firms' competitiveness by lowering transactions costs and creating spillovers of knowledge to other industries.<sup>2</sup>

<sup>1</sup> **Andras Lakatos** is a **Senior Economic Advisor** with **International Economics Consulting Ltd**. He recently supported SADC in reviewing their preparation for services commitments in the EPA.

<sup>2</sup> Dihel *et al.*: Developing Professional Services in Africa through Regional Integration, the World Bank, September 15, 2010

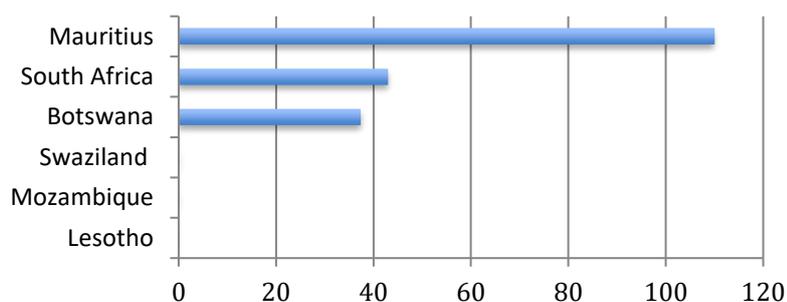
Despite some marked differences between the professional services sectors of the four SADC countries, overall, they all exhibit signs of underdevelopment and face a series of structural deficiencies. The national markets for legal, accounting, human and animal health services are characterised by a scarcity of professionals. The number of lawyers per 100,000 inhabitants in Mozambique is 4.66, 4.82 in Lesotho, 12 in Botswana, and a fraction of that in Mauritius and South Africa, who have 42 and 43 respectively.

Figure 1. Number of lawyers per 100,000 inhabitants



In accountancy, there is a striking difference in the level of development of the sector in Botswana on the one hand, and that of the other three countries on the other. Mozambique and Swaziland face an acute scarcity of accountants (respectively, 0.2 and 0.24 accountants per 100,000 inhabitants)

Figure 2. Number of accountants per 100,000 inhabitants



and Lesotho's market is characterised by extreme scarcity with only 0.03 accountants per 100,000 inhabitants. Botswana is characterised by a relative abundance of service providers with 37.4 accountants per 100,000 inhabitants, close to that of South Africa (43 per 100,000 inhabitants).

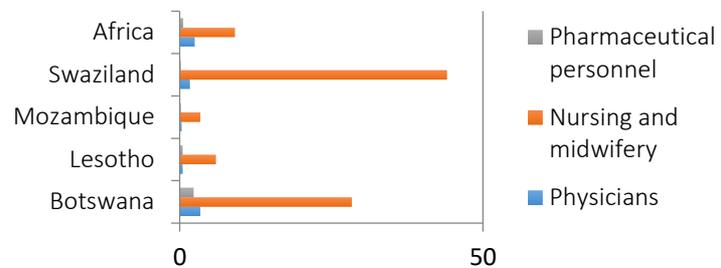
PSE states are no better endowed with veterinarians, with the exception of Botswana who has 133 veterinary surgeons, of which only 37 are in private practice. Mozambique has 46 veterinarians of which only 18 are in private practice and are supported by 188 veterinary paraprofessionals. In Swaziland of the total 35 veterinarians, only 5 are in private practice. Lesotho counts only 19 veterinary surgeons, of which 15 are employed by the Government. Skills shortages are especially acute in Lesotho where the absolute number of veterinarians is far too low for the animal population in the country. However, the low number of veterinary surgeons is compensated by 215 para-veterinarians, of which 150 are employed by the Government and the remaining 65 by the private sector.

The professional/technician ratio shows a more varied picture of the structure of the workforce. In Botswana, 56% of the 1,803 persons working in the accounting sector fall under various categories of accountants and 44% are accounting technicians. In contrast, in Mozambique, there are 3,075 individual accountants, of which two thirds are accounting technicians. In Swaziland, the ratio is even worse, as the number of accounting technicians account for 78% of the 309-member profession. These numbers are in stark contrast with the demand estimated to be 600 Chartered

Accountants and 4,100 accounting technicians. Swaziland's situation is worsened by the fact that it has only 19 auditors and currently no practicing tax advisors.

Many countries all over the world are facing the challenge to meet their required number of health care workers. In the PSE states, the availability of a health workforce in various personnel categories is considerably worse than in other regions of the world, and even when compared to the African average. Lesotho and Mozambique are classified as critical shortage countries, i.e. they don't attain 80% of the minimum workforce density threshold, below which high coverage of essential interventions is very unlikely.

**Figure 3.** Health personnel-to-population ratio (per 10,000 population)



Besides numerical gaps, PSE states also face skills gaps in various service sectors. For example, lawyers in Botswana, Lesotho and Swaziland are mostly trained as attorneys/advocates to represent clients in court or to provide advisory services in private and family law for example. The legal sectors in all PSE states are still organised around bars associated with specific local courts. Regulations do not take account of the emergence of new fields of law, such as business and trade law and the parallel emergence of a new type of lawyer mainly involved in advising on these new areas of law. There is therefore, no place for a distinct category of lawyers practicing international law or advising on foreign law. PSE states lack foreign lawyers practicing in these new areas, which prevents local lawyers benefiting from knowledge spillover. Consultations with the Lesotho Law Society reveal that local lawyers lack the knowledge necessary to participate in litigations relating to international trade, or to represent clients in courts in investor-state dispute settlements. Consultations with the Bar Association of Mozambique also indicate knowledge gaps with respect to gas and oil contracts and the related vast area of international law.

The high share of the state in the provision of some professional services in PSE states inhibits the emergence of competitive markets. As long as the Government remains the main client and the main service supplier, the private sector will inevitably have insurmountable difficulties to emerge as a competitive service industry. For example, while all governments have some role in veterinary services because some veterinary services are public goods, in countries where veterinary services are predominantly supplied on commercial terms, veterinarians in private practices represent the majority of veterinarians (between 50% and 87%). However, in PSE states, the share of private practice is very low: in Botswana, private practice represents less than 28% of the profession's total workforce, while in Lesotho and Swaziland only 21% and 14%, respectively, of veterinary surgeons are working in private practice. Regarding medical and dental services in Mozambique, the role of private practice is by law only complementary to the public, and therefore has limited functions.

### ...DUE TO INADEQUATE EDUCATION AND TRAINING

With the exception of nurses and midwives, whose emigration is due to a number of pull and push factors, the lower-than-optimal numbers of professional services providers in PSE states is largely the result of weaknesses in the education systems. For example, in the accountancy sector, a

highly skilled, labour intensive profession, skills mismatches are a serious issue in most African countries, including in PSE states. Explanations point to weak education, and the absence of links between the education system, labour market, and professional associations. World Bank consultations with accounting sector stakeholders in Mozambique revealed that multinational auditing and accounting firms present in the country face shortages of local entry-level accounting and auditing professionals as most applicants do not have the requisite training quality, and of senior-level local professionals who could monitor the quality of financial reporting.<sup>3</sup>

The problems in education facing PSE states' professional services sectors, include poor basic and secondary education, which do not prepare well for higher-level professional schools and universities. Those who are prepared to continue their education in tertiary education face huge financial costs both at home and even more so in foreign universities. According to Dihel et al., in the SADC region, the professions most affected by expensive studies are accounting, followed by engineering, then law, whilst the most expensive country in which to study is South Africa, followed by Botswana, Mauritius, Malawi, Zambia, and Mozambique.<sup>4</sup> Finally, the capacity and quality of domestic tertiary educational units are limited or even non-existent. There is even no curriculum for some disciplines which are not covered by any educational institution in PSE states. For example, international economic law is not taught in any law faculty in Botswana, Lesotho or Swaziland. In the veterinary sector, the absence of veterinary education in some PSE states also explains skills shortages. In Botswana, there is no university-level veterinary educational establishment (VEE); therefore, veterinarians need costly training outside the country. There are no VEEs in Lesotho or Swaziland either, so veterinarians will only receive animal welfare training if they attend overseas schools. Weak or non-existent domestic professional education explains why some PSE states condition the granting of work permits to the training of local persons by foreign applicants.

### ...AND ISOLATION FROM EACH OTHER,

More trade in professional services would provide PSE states with huge benefits. It would allow them to meet demands that are not met either because of the low number of local service providers or because of missing local skills. More importantly, trade, especially through joint ventures, would allow local professionals to acquire knowledge and build skills, which would also spill over to the entire profession, for example in the case of accounting, to other sectors of the economy.

Although it is almost impossible to precisely measure PSE states' trade in professional services due to lack of appropriate statistical data collection, overall the intensity of trade is very limited as indicated by foreign commercial presence (FDI) and the number of foreign service providers authorised to work either on short-term stay or as employees. The least traded services are legal services in all PSE states, with foreign law firms almost absent. Regarding trade through "mode 4", i.e. services provided by natural persons present in the importing country, there are very few foreign professionals practicing in any of these countries. In Mozambique there are ten foreign lawyers practicing – all from Portugal who arrived before registration of foreigners was suspended – of a total number of 1,203 registered lawyers. All sectors and countries considered, the least open sector to trade appears to be the legal services sector. The number of foreign professionals

---

<sup>3</sup> Ibid.

<sup>4</sup> Ibid.

in legal services in PSE states is symbolic, whilst foreign law firms are totally absent from the four markets.

In the “crisis” sectors of medical and veterinary services, the number of foreign professionals is more important. It is especially substantive in Swaziland where 144 of the 194 doctors are foreigners. In Lesotho all doctors are foreigners, as well as two thirds of the country’s dentists. In Mozambique 315 of the 2326 doctors are foreign citizens, and there are 16 foreign dentists in the 169 member profession. Regarding veterinary services, existing trade might be regionally limited to veterinarians providing services in neighbouring countries on short stay or as permanent residents. Botswana and Swaziland have “imported” respectively 22.5% and 40% of their veterinary surgeons, while the proportion of foreign veterinarians in Lesotho is 21%.

The most open sector to trade is the accountancy sector in Botswana. Foreign presence among all categories of professional accountants is important, its share exceeding 64% of membership of the Botswana Institute of Chartered Accountants (BICA). The 24% foreign participation among accounting technicians is also relatively substantial. In Swaziland, 10% of Chartered Accountants (i.e. 7) are foreigners, but none of the accounting technicians are. In auditing, 15 of the 19 practitioners are foreigners.

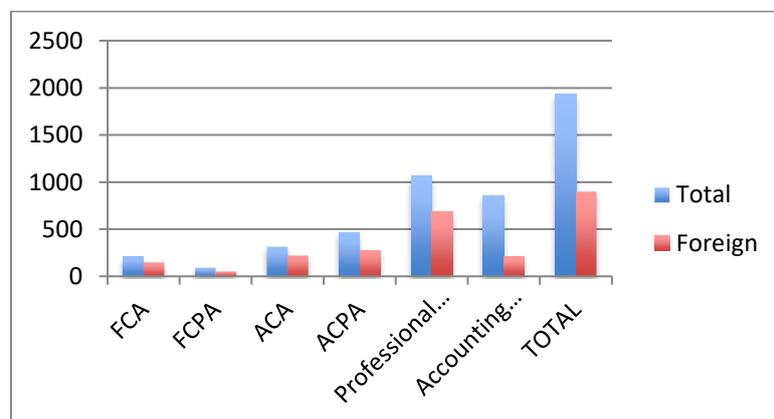
### ...BY RESTRICTIVE DOMESTIC REGULATIONS AND TRADE POLICIES

The present regulations of the professions and horizontal trade policy measures isolate almost all professional services markets of PSE states from each other and from global markets. All PSE states have enacted very restrictive immigration and employment measures seriously limiting the provision of professional services by foreigners. Granting work permits are subject to Economies Needs Tests and Labour Market Tests, the criteria of which are not pre-defined; therefore giving wide discretion to the authorities. Mozambique also applies strict and very low quotas for foreign employees, which vary in accordance with the size of the enterprise. Moreover, private practice in Mozambique is not allowed for foreign health workers.

At sector-level, with few exceptions all watchdogs have adopted entry regulations that

are biased in favour of local professionals. Sector specific regulations are particularly restrictive in the legal sector. Regulation of entry in Botswana, Lesotho and Swaziland is subject to education in the UK or a few former British colonies. In addition, in Botswana the conditions of entry for foreigners include a reciprocity requirement, but even if this is met, the Law Society of Botswana (LSB) often refuses the registration of the applicant. The Mozambique Bar Association’s regulations practically foreclosed the market for foreign lawyers. Among others they require that the foreign applicant have 20 years of prior practice, and that the home country have a bilateral reciprocity agreement with Mozambique, which simply does not exist. On the positive side, Botswana’s accountancy sector benefits from a liberal regime, which is reflected in its trade

Figure 3. Foreign members of BICA at the end of 2014



openness. BICA recognises the qualifications of foreign accountants who are members of sister organisations of the International Federation of Accountants (IFAC).

## ...BUT EPA NEGOTIATIONS SHOULD PROMPT REFORMS

SADC launched its trade in services programme in 2001, which gained momentum in 2012 with the signature of the Protocol on Trade in Services. Under the Protocol, SADC Member States have decided to initiate negotiations on the progressive removal of barriers to trade in services in six priority sectors, which doesn't include professional service.<sup>5</sup> Botswana, Lesotho, Mozambique and Swaziland, which are negotiating the EPA services chapter in parallel with SADC talks, have agreed to consider these six sectors if business services, which includes professional services, are also part of the SADC package.

A logical sequence of negotiations would be to give priority to the regional opening of professional services markets under SADC, but since EPA negotiations are already on the move, PSE states need to think ahead and consider whether it would not make sense to liberalise their trade barriers on a Most-Favored Nation (MFN) (i.e. non-preferential) basis rather than risking incoherent preferential trade regimes, one for the EU and another one for SADC. Economic theory would also suggest that MFN liberalisation would generate larger welfare gains. Another aspect of both the EPA and SADC negotiations is that liberalisation of the professional services markets cannot be achieved without a substantive relaxation of domestic regulations and a series of agreements on mutual recognition of professional qualifications, which would require enhanced regulatory cooperation between the PSE states and other SADC members at the regional level.

Such deep domestic regulatory reforms might prove to be difficult to achieve without the consent of the entrenched self-regulating bodies. For the reforms to be successful, wide consultative mechanisms should be put in place that include all members of society.

### ABBREVIATIONS

<b>ACA</b>	Associate Chartered Accountant	<b>IFAC</b>	International Federation of Accountants
<b>ACPA</b>	Associate Certified Public Accountants	<b>LSB</b>	Law Society of Botswana
<b>BICA</b>	Botswana Institute of Chartered Accountants	<b>MFN</b>	Most-Favoured Nation
<b>EPA</b>	Economic Partnership Agreement	<b>PSE</b>	Participating SADC EPA
<b>EU</b>	European Union	<b>SADC</b>	Southern Africa Development Community
<b>FDI</b>	Foreign Direct Investment	<b>VEE</b>	Veterinary Educational Establishment

<sup>5</sup> The six priority sectors are communication, construction, energy related, financial services, tourism, and transport services.



## HOW CAN WE HELP?

### Support C-level executives and boards to prepare for different challenges

*International Economics* can help facilitate internal discussions on strategy by providing technical insights, developing dashboards of key performance measurements, and giving advice to executive boards on building resilience to possible disruptions related to exogenous trade shocks, such as Brexit or Donald Trump's Presidency. We work closely with our clients to brainstorm and identify challenges and opportunities based on our professional experience.

### Map market access

In order to quantify the potential costs to your business in engaging in trade, including tariffs, standards, and customs procedures, among many others, we (i) undertake a mapping of which terms are most at risk of changing and by how much, depending on the type of agreements; and (ii) quantify and forecast the potential effect on your business using predictive analytics to generate insights into future outcomes.

### Navigate through trade and investment agreements

With more than 400 trade agreements and 2,400 investment agreements already in place, *International Economics'* team is able to navigate through them, guiding and identifying which specific agreement will better suit the interests of our client. Additionally, we have developed optimization techniques, through the use of sophisticated rules and algorithms, to analyse the Free Trade Agreements (FTAs), which are growing in space, depth and complexity, in order to offer insights into investment and trade decisions. With increasing fragmentation of global production networks and the need for careful evaluation of supply chain risks, the tools developed by *International Economics* offer a solid foundation for the adoption of critical decisions by businesses.

### Prepare briefings and strategic papers

Our clients need to prepare strategic position papers to assess the issues and prepare responses, whether it be internal restructuring, supply chain re-engineering or addressing policy risks. We assist our clients with short, impactful, and relevant position papers, including setting out the possible impacts of risks at different business levels (policy, financial, structural, etc.) and provide the latest thinking on the issues to date, based on a holistic economic framework.

### Undertake a full economic and legal review of the trade and investment exposures to worldwide events

We conduct independent and objective reviews of the impact of different worldwide events on your business and industry. We use deep learning tools, large multi-country macro models and the latest unstructured data to offer insights into the risks, exposure assessments and likelihood of disruptions to supply chain. These provide our clients with a competitive advantage as they prepare mitigation strategies and leverage identified opportunities. We work with our clients to develop the right strategies and make breakthrough decisions.

### Brexit: Help the private sector position itself during the UK's trade negotiations

Brexit will affect our clients' business strategies, supply chains, funding, tax positions, regulations, growth and opportunities. *International Economics* works with public affairs companies and specialized firms to offer the full range of trade-related technical support and advice to help companies position themselves and ensure that their interests are addressed in the negotiations.

#### Contact Us:

Kerry O' Donoghue (Brussels)  
Senior Manager  
o.donoghue@tradeconomics.com

Natalie Donikian (Mauritius)  
Public Affairs Manager  
donikian@tradeconomics.com

 @TradeEconomics

 InternationalEconomicsLtd

 trade-economics