SERVICES EXPORTS FOR GROWTH AND DEVELOPMENT: CASE STUDIES FROM AFRICA

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CONTENTS

ACRONYMS AND ABBREVIATIONS

ACP	African-Caribbean-Pacific nations
ADC	Automated Direct Credits
ADDIC	Agence pour le Développement Des Industries Culturelles et Créatives (Agency for the Development of Cultural and Creative Industries)
ADIE	Agence De l'Informatique de l'Etat (Agency for State Information Technology)
AfDB	African Development Bank Group
AFRAA	African Airlines Association
AMCON	Asset Management Corporation of Nigeria
ANDS	Agence Nationale de la Démographie et de la Statistique (National Agency for Statistics and Demography)
APEX	Exports Promotion Agency
APIX	National Agency in Charge of Promoting Investment and Major Works
ARPEM	Appui au Réseau Ouest-africain de Pépinières d'Entreprises de la Filière de la Musique
ARPIC	Programme d'Appui au Renforcement des Politiques et Industries Culturelles (Support Program for the Reinforcement of Cultural Policies and Industries)
ARTP	Regulatory Authority for Telecommunications and Postal Service
ASAMA	Association pour la Sauvegarde des Masques (Association for the Preservation of Masks)
ASK	Available Seat Kilometres
ATAG	Air Transport Action Group
ATC	Air Traffic Control System
ATK	Available Ton Kilometres
AU	African Union
AUC	African Union Commission
BASA	Bilateral Air Service Agreement
BBDA	Bureau Burkinabè du Droit d'Auteur
BBEAC	Bureau Burkinabè d'Études et d'Appui-Conseils
BCEAO	Banque Centrale des Etats de l'Afrique de l'Ouest (Central Bank of the West African States)
BIAT	Action Plan for Boosting Intra-Africa Trade
BNB	Bibliothèque Nationale du Burkina
BOFIA	Banks and Other Financial Institutions Act
BOP	Balance of Payments
BOU	Bank of Uganda
BP	Business Processes
BPO	Business Process Outsourcing
BTVET	Business Technical Vocational Education and Training
CAPA	Centre for Asia Pacific Aviation
CATS	Credit Accumulation and Transfer System
CBN	Central Bank of Nigeria
CDC	Centre for the Development of Choreography
CEMAC	Communauté Économique et Monétaire de l'Afrique Centrale (Central African Economic and Monetary Community)
CENALAC	Centre National de Lecture et d'Animation Culturelle
CENASA	Centre National des Arts du Spectacle et de l'Audiovisuel
CEO	Chief Executive Officer
CFAF	Communauté Financière Africaine Franc
CFTA	Continental Free Trade Area
CIBN	Chartered Institute of Bankers of Nigeria
CIMA	Conférence Inter-Africaine des Marchés d'Assurance (Inter-African Conference of Insurance Markets)
CITO	Carrefour International du Théâtre de Ouagadougou
CMMI	Capability Maturity Model Integration (Standard)
CMP	EAC Common Market Protocol
CNAA	Centre National d'Artisanat d'Art
CNAM	Conservatoire National des Arts et Métier

COMESA	Common Market for Eastern and Southern Africa
Comsec	Commonwealth Secretariat
COPC	Customer Operations Performance Center (Standard)
CPC	UN Central Product Classification List
CRR	Cash Reserve Ratio
CS	Computer Services
CSA	Central Statistical Authority
CSO	Civil Society Organisations
CST	Certification of Sustainable Tourism
CTIC	Centre des TIC (ICT Centre)
DAS	Direction des Arts et du Spectacle
DBE	Development Bank of Ethiopia
DCE	Direction du Commerce Extérieur (Department of Foreign Trade)
DCN	Direction de la Cinématographie Nationale
DCPM	Direction de la Communication et de la Presse Ministérielle
DDM	Direction du Développement des Médias
DEP	Direction des Études et de la Planification
DFID	Department for International Development (United Kingdom)
DGA	Direction Générale des Arts
DGCE	Direction Générale des Centres d'Émission
DGCN	Direction Générale de la Cinématographie Nationale
DGESS	Direction Générale des Études et des Statistiques Sectorielles
DGMN	Direction Générale du Musée National
DGPC	Direction Générale du Patrimoine Culturel
DGRR	Direction Générale de la Radio Rurale
DGRTB	Direction Générale de la Radio Télévision du Burkina
DG-SNC	Direction Générale de la Semaine Nationale de la Culture
DGT	Direction Générale du Tourisme
DMB	Deposit Money Bank
DPICC	Direction de la Promotion des Industries Culturelles et Créatives
DRC	Democratic Republic of Congo
DTI	Department of Trade and Industry (of the AUC)
EAA	East African Airlines
EABC	East African Business Council
EAC	East African Community
EAE	Ethiopian Airports Enterprise
EAL	Ethiopian Airlines
EALA	East African Legislative Assembly
EASA	European Aviation Safety Agency
ECAA	Ethiopian Civil Aviation Authority
ECCAS	Economic Community of Central African States
ECCSA	Ethiopian Chamber of Commerce and Sectoral Associations
ECOWAS	Economic Community of West African States
EEA	Ethiopian Economics Association
EEG	Export Expansion Grant
EFInA	Enhancing Financial Innovation & Access
EFY	Ethiopian Fiscal Year
EIA	Ethiopian Investment Agency
EIF	Enhanced Integrated Framework
ENAM	École Nationale d'Administration et de Magistrature
ENFP	Enhanced National Focal Point
EPA	Economic Partnership Agreement
EPRC	Education Policy Review Commission
ERAU	Embry-Riddle Aeronautical University
ESIP	Education Sector Investment Plan
ESPS	Survey to Monitor Poverty in Senegal
ESSP	Education Sector Strategic Plan
ETB	Ethiopian Birr
ETI	Ecobank Transnational Incorporated
ETOA	Ethiopian Tour Operators Association
EU	European Union
FAA	Federal Aviation Administration
FDI	Foreign Direct Investment

FESPACO	Festival Panafricain du Cinéma et de la Télévision de Ouagadougou
FESTIMA	Festival International des Masques et des Arts
FGN	Federal Government of Nigeria
FILO	Foire Internationale du Livre de Ouagadougou
FITC	Financial Institutions Training Centre
FITD	Festival International de Théâtre pour le Développement
FITMO	Festival International du Théâtre et des Marionnettes de Ouagadougou
FMDA	Financial Market Dealers Association of Nigeria
FMITI	Federal Ministry of International Trade and Industry (Nigeria)
FSS	Financial System Strategy
GATS	General Agreement on Trade in Services
GATT	General Agreement on Tariffs and Trade
GDP	Gross Domestic Product
GDR	Global Depositary Receipt
GIZ	Deutsche Gesellschaft für Internationale Zusammenarbeit, GmbH
GOU	Government of Uganda
GSA	General Service Agreements
GSM	Global System for Mobile Communications
GTP	Growth and Transformation Plan
HESFB	Higher Education Students' Financing Board
HRK	Hochschulrektorenkonferenz (German Rectors' Conference)
IATA	International Air Transport Association
ICAO	International Civil Aviation Organization
ICSED	Inclusion of Cultural Services in Export Development
ICT	Information and Communications Technology
ICTSD	International Centre for Trade and Sustainable Development
IDI	ICT Development Index
IFAPA	International Federation of Airline Pilots Associations
IFC	International Finance Corporation
IICD	International Institute for Communication and Development
ILEAP	International Lawyers and Economists Against Poverty
ILO	International Labour Organisation
IMF	International Monetary Fund
INAFAC	Institut National de Formation Artistique et Culturelle
INSD	Institut National de la Statistique et de la Démographie
IPA	Importance-Performance Analysis
IPA	Investment Promotion Agency
IPN	Institut des Peuples Noirs
ISIS	Institut Supérieur de l'Image et du Son
ISO	International Organization for Standardisation
ISOC	Internet Society
ISP	Internet Service Provider
ITC	International Trade Centre
ITES	ICT Enabled Services
ITS	Information Technology Services
ITU	International Telecommunication Union
IUCEA	Inter-University Council for East Africa
JV	Joint Venture
JVA	Joint Venture Agreement
KLM	Koninklijke Luchtvaart Maatschappij (Royal Dutch Airlines)
KQ	Kenya Airways
LC	Limited Company
LCC	Low-Cost Carrier
LDC	Least Developed Countries
LLC	Limited Liability Company
MCT	Ministère de la Culture et du Tourisme
MDG	Millennium Development Goals
MFN	Most-Favoured Nation
MFPED	Ministry of Finance, Planning and Economic Development
MICA	Marché International du Cinéma et de l'Audiovisuel Africain

MICA	Ministry of Industry, Trade and Handicrafts
MNO	Mobile Network Operator
MoFED	Ministry of Finance and Economic Development
MoT	Ministry of Transport
MoTI	Ministry of Trade and Industry
MRO	Maintenance, Repair and Overhaul
MRR	Minimum Rediscount Rate
MT	Metric Ton
MTIC	Ministry of Trade, Industry and Cooperatives
MTTI	Ministry of Tourism, Trade and Industry
NAK	Nuits Atypiques de Koudougou
NASB	Nigerian Accounting Standards Board
NCHE	National Council for Higher Education
NDIC	Nigeria Deposit Insurance Corporation
NEEDS	National Economic Empowerment and Development Strategy
NEPD	Nigerian Enterprises Promotion Decree
NES	National Export Strategy
NEXIM	Nigerian Export-Import Bank
NIPC	Nigerian Investment Promotion Commission
NIS	National Institute of Statistics
NSE	Nigerian Stock Exchange
NSPM	Nigerian Security Printing and Minting
NSPR	National Services Policy Review
NUBAN	Nigerian Uniform Bank Account Number
OECD	Organisation for Economic Cooperation and Development
OEM	Original Equipment Manufacturer
OIF	Organisation Internationale de la Francophonie
ONTB	Office National du Tourisme Burkinabè
OPTIC	Organisation des Professionnels de TIC (Senegalese ICT Business Association)
OSIRIS	Observatory on Information Systems, Networks, and Information Highways in Senegal
PAX	Passengers
PCBF	Programme Canadien de Bourses de la Francophonie
PCI	Presidential Council for Investment
PIC	Public Investment Corporation
POP	Point of Purchase
POS	Point of Sale
PRSP	Poverty Reduction Strategy Paper
PSFU	Private Sector Foundation Uganda
PTF	Partenaire Technique et Financier
RAM	Royal Air Maroc
REC	Regional Economic Community
RENU	Research Education Network Uganda
REPSS	Regional Payment and Settlement System
RPK	Revenue Passenger Kilometre
RTA	Regional Trade Agreement
RTB	Radio Television of Burkina
SAA	South African Airways
SADC	Southern African Development Community
SCADD	Stratégie de Croissance Accélérée et de Développement Durable
SEC	Securities and Exchange Commission
SIAO	Salon International de l'Artisanat de Ouagadougou
SIRESS	SADC Integrated Regional Electronic Settlement System
SITHO	Salon International du Tourisme et de l'Hôtellerie de Ouagadougou
SME	Small and Medium-Sized Enterprise
SNC	La Semaine Nationale de la Culture
SNDES	National Strategy for Economic and Social Development
SOE	State-Owned Enterprise
SP/SNC	Secrétariat Permanent de la Semaine Nationale de la Culture
SSES	Service Sector Export Strategy
SWOT	Strengths, Weaknesses, Opportunities and Threats
TNA	Trans Nation Airways

TVET	Technical and Vocational Education and Training
TWA	Transcontinental and Western Airlines, later Trans World Airlines
UACE	Uganda Advanced Certificate of Education
UAE	United Arab Emirates
UBA	United Bank for Africa
UCL	University College London
UEMOA	Union Économique et Monétaire Ouest-Africaine
UEPB	Uganda Export Promotion Board
UN	United Nations
UNBS	Uganda National Bureau of Standards
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Programme
UNECA	United Nations Economic Commission for Africa
UNESCO	United Nations Educational, Scientific and Cultural Organisation
UPE	Universal Primary Education
UPTOP	Uganda Programme for Trade Opportunities and Policy
USAID	United States Agency for International Development
USEA	Uganda Services Exporters Association
UTAMU	Uganda Technology and Management University
VAS	Value Added Services
VASP	Value Added Services Provider
VAT	Value Added Tax
VUU	Virtual University of Uganda
WA	West Africa
WAEMU	West African Economic and Monetary Union
WAMI	West African Monetary Institute
WAMZ	West African Monetary Zone
WB	World Bank Group
WDI	World Development Indicators
WEF	World Economic Forum
WTO	World Trade Organisation
XOF	West African CFAF (ISO code)

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A volume that charts a new course and breaks new ground as does this one, as the first formal effort dedicated to trade in services by the African Union Commission (AUC), could not have seen the light of day without both foresight and dedicated support on the part of many. The list of those to thank is thus necessarily long, as many deserve credit for having participated in seeing this volume through to a successful conclusion.

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Lastly, the editors would like to acknowledge with gratitude the growing enthusiasm and recognition among officials in the AU Member States and among the many stakeholders of the important role that trade in services can play in the economic future of their individual countries and in the integration of the African continent.

So we close with thanks to many and to all. As is said in an African proverb,

> *If you want to go fast, go alone. If you want to go far, go together.*

Hoping that all in Africa will continue in the quest for greater understanding, appreciation, and valuation of services in Africa's future,

The Editors

Sherry Stephenson and Carolyne Tumuhimbise

December 2015

FOREWORD

The services sector contributes almost half of the African continent's economic output, and it has been growing at about twice the world's average, signifying its transformative potential for the entire continent.

This volume is a compendium of five case studies of successful services exports in Africa. It highlights Air Transport Services in Ethiopia, Banking Services in Nigeria, Business Processing Outsourcing/ICT Services in Senegal, Cultural Services in Burkina Faso, and Higher Education Services in Uganda. The studies are an examination of possible best practices in services exports on the continent, as seen from the suppliers' point view, with a review of the role of government policy and other factors that may have shaped their success. The countries and sectors were selected on the basis of their service sector performance. In some cases (such as for Cultural Services in Burkina Faso), we have looked for non-traditional service sectors, especially where the private sector's role in exploring the foreign market has been a critical success factor. Policy makers will find in this volume a gold mine of effective strategies that can be valuable in stimulating their services exports. Services firms can also learn from these case studies, while researchers and students can benefit from a trove of information to further stimulate research on African trade in services. Further, this compendium clearly demonstrates how public-private partnerships are critical to the growth of the services sector.

The studies find that most of the services exports from African Union members at present go to the regional market but some African countries have already diversified beyond the continent. In addition, they find that while certain initial factors have been key to the competitiveness of services sectors, supportive government policies and a conducive business-enabling environment have also been critical to their growth. This report concludes that the services sector has the potential to become a significant driver of sustained economic growth and structural transformation in Africa. This is a very important finding in light of our Agenda 2063 aspirations.

This publication is timely as the continent advances on the negotiations of the Continental Free Trade Area, which is also looking at liberalizing the continent's services sector. I am confident that this publication will be a successful and positive contribution to the literature in this critical but often overlooked area of the continent's economic structure.

H.E. Mrs. Fatima Haram Acyl

Commissioner, Department of Trade and Industry

December 2015

1. OVERVIEW OF SERVICES EXPORTS FOR GROWTH AND DEVELOPMENT: CASE STUDIES FROM AFRICA

Authors: Sherry Stephenson and Carolyne Tumuhimbise

In the current context of globalised trade, African economies must improve their competitiveness and diversify their economic base. Trade in commodities, though still the prime generator of employment and foreign exchange earnings, can no longer by itself power Africa's development. Export preferences for traditional products such as bananas, sugar, and clothing are eroding; African economies must focus on new, sustainable sources of employment, exports, and growth. The increasingly competitive services trade is an important emerging opportunity to explore.

In January 2012, the African Union Summit of Heads of Government adopted an Action Plan for Boosting Intra-African Trade and a framework to fast track the proposed Continental Free Trade Agreement (CFTA). The plan highlighted trade in services as a promising approach to enhance intra-African trade and increase competitiveness.

African services trade has been largely underexploited to date; therefore, the African Union Commission has undertaken five case studies highlighting successful service export strategies. The papers are designed to raise awareness of the service industry's export potential, and are particularly timely given the decision by the African Ministers of Trade to negotiate services in 2015 in pursuit of CFTA implementation. These case studies are part of an ongoing effort by the African Union Commission to increase awareness of the contribution of services to individual African economies.

The general objectives of these services case studies are threefold:

- To promote knowledge of services trade and of the actual and potential contribution of services exports to economic development and regional integration in Africa
- To obtain data on service sectors and exports for inclusion in a repository of services 'best practices' in Africa and an African Trade Observatory services database
- To illuminate the critical impact of policy choices on successful services sector development and export growth across Africa.

Many are not aware that all African economies already export services in some form. The contribution of these exports to economic growth and trade profiles are even less understood. International trade is now characterised by global value chains, in which services play a key role; Africa has yet to realise its full potential in this arena. Understanding how to successfully promote and leverage services exports may encourage African leaders to shape policies that are service-provider friendly and boost participation in regional and global trade.

Scope and Coverage of Case Studies

Little is written specifically about individual services sectors in African economies. This is a challenge for policy makers; to make better informed decisions on appropriate service-sector policies, they need more information on services and the role they play in national development and international trade.

We analyse five services sectors in five African countries in order to begin to fill this knowledge gap:

- ***Air Transport Services: Ethiopia*** (authored by Wyanie A. Bright and Million Habte)
- ***Banking Services: Nigeria*** (authored by Ramesh Chaitoo and Abiodun Bankole)
- ***Business Process Offshoring (BPO) and Information-Communications Technology (ICT) Services: Senegal*** (authored by Sékou Falil Doumbouya, Abdoulaye Ndiaye, and David Primack)
- ***Cultural Services: Burkina Faso*** (authored by Frederic Thomas and M. Yemdaogo Zida)
- ***Education Services: Uganda*** (authored by Sherry Stephenson and George Walusimbi-Mpanga)

All but Nigeria are least developed countries, significant because the case studies highlight least developed AU members' active engagement and comparative advantage in certain service export markets. This is contrary to the widely held perception that African countries at lower levels of development cannot export services. That is simply not true; services exports often add significantly to national output, employment, and foreign exchange earnings, including in least developed countries.

For each case study, a local expert worked in tandem with an international specialist. A questionnaire tailored to the specific structure of the service sector in question was used as the basis for interviews with national counterparts in each country. The case study research was made possible through the support of international donors, including the European Union (EU), the U.S. Agency for International Development (USAID), Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ), and the United Nations Development Programme (UNDP).

All five case studies follow a similar outline so their findings are as comparable as possible. Content includes:

- Basic data on services in the selected country
- Overview of the selected service sector: market structure and contributions to gross domestic product (GDP), employment, growth, and trade
- Policy and institutional framework for the service sector
- Success stories in exporting the service in question
- Factors affecting comparative advantage in the selected service sector, including skill availability; literacy and training; financial attractiveness; business environment; infrastructure quality, especially in the telecommunications sector; and ease of doing business

- Government policies affecting successful services exports, including how services policy has been incorporated into national economic objectives and strategic planning, and what types of incentive policies the government has adopted to promote the services sector in question
- Analysis of strengths, weaknesses, opportunities, and challenges (SWOT) to encourage service sector development and exports
- Lessons learnt and best practices.

The questionnaire used to obtain this information is included in each of the studies.

Factors in the Successful Development of Services Exports

Although covering very diverse sectors, including two traditionally considered non-traded, the five case studies all underline how services markets developed and which policies enabled their success. The discussion below highlights main services export successes in each of the five sectors, beneficial government policy actions, and potential challenges to further growth. It also indicates which of the four modes of supply, or combination of modes, the country in question has used to export these services. (A typology of these modes can be found at the end of this overview document.) These case studies are a useful first step in compiling a larger body of knowledge on the determinants of services export success within Africa.

Case Study 1: Air Transport Services: Ethiopia

Air transport services directly contribute more than US$ 2 billion annually to the Ethiopian economy. As with all air carriers, Ethiopian Airlines (EAL) has primarily exported air transport services through Mode 1: international passenger and cargo flights (cross border transport). However, EAL also exports services via Mode 2 (servicing foreign aircraft arriving in Ethiopian airports and training foreign pilots) and Mode 3 (investing abroad as a partner in foreign airlines). Recently, EAL has invested in joint ventures in Togo (ASKY) and Malawi (Malawi Airlines). Lastly, EAL sends pilots and experts to implement trainings outside of Ethiopia (Mode 4). According to a 2014 report by the International Air Transport Association (IATA), EAL was ranked as the largest airline in Africa in revenue and profit, as well as the fastest growing.

EAL now flies to more than 56 destinations in Africa, Europe, the Americas, the Middle East, and Asia; it plans to expand to 90 destinations by 2025.

Trade in air transport services generates twice the amount of foreign exchange for Ethiopia as the country’s major export commodity, coffee. The air transport sector is estimated to generate more than 200,000 direct and indirect (induced) full-time jobs; the 500,000 visitors EAL brings into the country annually also generate tourism revenues.

Government Policies that Made a Difference

Many Ethiopian government policies have contributed to the success of the air transport sector. EAL’s technical assistance agreement with Trans World Airlines (TWA) was fundamental in transferring technology, skills, and work and management practices in its 30 years of operation. The government's decision to liberalise air transport services through the Yamoussoukro Decision on Open Skies in Africa (agreement among 44 African countries to deregulate air services and promote regional air markets) was also instrumental in the creation of a liberal and open regulatory framework for the sector. Though a state-owned enterprise, EAL has long operated both independently and competitively: the government permits a free market for air transport services as well as autonomous managerial and operational practices.

Constraints on Future Growth

EAL's successful export growth may be constrained by limited domestic capital available in comparison with other countries that are financially supporting major domestic airlines. Additionally, the financial services sector in Ethiopia lacks efficiency; limited financial intermediation forces the transport sector to raise capital abroad. The Ethiopian economy is constrained by inhibiting financial services regulations and investment restrictions. Finally, the Ethiopian government is perceived as prioritising manufacturing and commodity trading over the service sector; the domestic supporting services EAL requires do not keep pace with global quality improvements.

Case Study 2: Banking Services: Nigeria

Nigeria has become a leader in the African banking industry. Financial services accounted for 2.3% of Nigerian GDP in 2013 and demonstrated 30% growth in nominal terms the same year. In 2013, there were 20 commercial banks with 5,810 branches in Nigeria, compared to 2,193 branches in 2000. Nigeria is also one of the successful exporters of banking services. Nigerian banks' external assets (proxy for exports of banking services) increased significantly from N 250 million in 1980 to N 1,702,513 million in 2011[1]. Of the 20 Nigerian banks, 11 had operations in other African countries as of 2012, with Ecobank Nigeria operating in 35 other African countries. Eight Nigerian banks also had international operations beyond Africa, including in London, Paris, New York, Dublin, Hong Kong, and mainland China.

Most governments only allow banking services exports through commercial presence or foreign direct investment (Mode 3), to limit risk and facilitate regulation. Whilst cross-border supply of financial services (Mode 1) is becoming increasingly possible through the Internet, most governments only allow limited operations in this area, for example, foreign exchange transactions and clearing business among firms (not end consumers). However, the emergence of mobile payments systems through mobile network operators (MNOs) has begun to revolutionise the field. The presumed Mode 1 banking exports are nearly impossible to capture statistically; therefore, the Nigerian banking exports referred to in this case are those under Mode 3.

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[1] In current local currency. However, this large increase can be put into greater perspective by scaling it against the dollar. Between 1980 and 2010 the naira depreciated considerably against the dollar by a factor of almost 350, indicating that the cited external assets increased by a factor of around 20 in constant naira.

Government Policies that Made a Difference

The Nigerian banking sector has witnessed distinct cycles and reforms, with the most recent carried out after 2005 in a phase of bank consolidation. As elsewhere, the industry in Nigeria is highly regulated due to its economic importance. The recent banking reforms have stabilised the banking system and encouraged both the recovery of previous bad loans and fresh capital accumulation.

Other than the creation of an appropriate regulatory framework, there is no evident government policy strategy to support financial or banking services exports; export development programmes usually target goods. One exception to this is the Financial System Strategy (FSS 2020). Although the main focus of this strategy is domestic financial services, it also aims to enhance integration with external financial markets. However, it is unclear if the FSS has yielded any concrete measures to date: The case study did not find any banking or other financial services exports receiving specific attention from relevant agencies.

The case study therefore concludes that Nigerian banks' international expansion appears to have been carried out at their own initiative and without federal government support or facilitation. It suggests that Nigerian banks' success at home (induced by the bank consolidation policy and conducive regulatory environment) was the main factor enabling them to increase the size of their balance sheets and engage in global competition.

Constraints on Future Growth

Despite references to services sector development and trade in recent development plans, and the privatisation and economic deregulation undertaken from 1986, a holistic services development policy is lacking in Nigeria, and the legal framework for individual services markets is sometimes inconsistent. Development and implementation of a directed, economy-wide policy framework would enable the services sector, particularly banking services, to further stimulate economic growth.

Case Study 3: BPO and ICT Services: Senegal

The information and communications technology (ICT) sector is a young one in Senegal, dating back only to the late 1990s. It is estimated that trade in ICT sector-related services was worth US$ 372 million in 2010, approximately 43% of the country's total services exports. ICT-related trade grew 6% annually from 2005 to 2010, constituting a large and growing export market for Senegal. These exports consisted primarily of computer and information services (growth averaging 50% per year), communication services, and 'other business services' (various trade-related and business support services).

BPO and ICT offshoring service exports have been primarily through Mode 1: Senegalese firms electronically export these services to other countries cross-border. One Senegalese firm has also begun to invest in these activities abroad (Mode 3), opening subsidiaries in five other West African countries. Senegalese ICT experts also likely travel regionally to supply their expertise to both the parent company and its subsidiaries, as well as through consulting work (Mode 4), but this has been difficult to document.

Government Policies that Made a Difference

Policies targeting the domestic ICT ecosystem in Senegal greatly contributed to BPO and ICT providers' export success. Key policy steps included liberalising the sale of computer terminals in 1997 and lowering tariffs on computer imports from 26% to 5% in 1999.

Other policies helping to create a more competitive and efficient telecommunications sector included the introduction of a new telecommunication code in 1996, the privatisation of the incumbent telecommunications provider (Sonatel) in 1997, and the pre-commitments on telecommunications services undertaken by Senegal at the WTO in 1997 under the World Trade Organization's (WTO's) General Agreement on Trade in Services (GATS) Protocol IV. The adoption of the WTO Reference Paper on Basic Telecoms, adding an independent telecommunications regulator to the economy was also key. (Senegal is one of only seven Sub-Saharan African countries to do so.) These policies all helped develop the necessary layer of telecommunication network operators and Internet service providers (ISPs) to support the export of BPO and ICT services. These reforms also allowed ICT and BPO service providers to access relatively competitively priced, robust electronic infrastructure to facilitate international viability.

The Government of Senegal supplemented trade policy reform with reform policies in other areas. The Investment Code included proactive foreign investment policies to provide incentives to BPO/ICT firms. The Labour Code was amended to eliminate the distinction between day and night labour rates, enabling workers to work an around-the-clock call centre schedule. A 2011 amendment to the Telecommunications Code required the regulator to define and maintain a list of value-added service categories. These policies and an associated Action Plan constitute a long-term, coherent strategy to develop the BPO/ICT sector.

Constraints on Future Growth

The successful export growth of Senegalese BPO/ICT services may be constrained by a lack of human capital and relevant skills. Senegal's low literacy and low enrolment rates in higher education translate into a lack of engineers and skilled ICT workers, especially in comparison to other BPO/ICT hotspot locations in Africa. Human capital is critical to successful high technology services such as ICT.

The education sector is already a constraint to BPO/ICT export expansion in Senegal; current numbers of engineers and ICT technicians do not meet ICT sector demand. This can only be remedied in the medium- to long-term through proactive government policies improving schools, establishing more universities, and creating training centres for engineers and computer specialists. The French language also constrains future growth; training workers in English could facilitate further expansion of the BPO offshoring industry. Finally, the lack of data parks and software technology centres offering ready-to-use infrastructure for hosting companies (as in Southeast Asia and elsewhere) limits further expansion of ICT/BPO activities in Senegal.

Case Study 4: Cultural Services: Burkina Faso

Cultural services enjoy both a long tradition and regional comparative advantage in Burkina Faso. Burkina Faso has significantly contributed to Africa's cultural sector in recent years, especially in popular film, fashion, and music. Cultural activities in Burkina Faso are diverse and often exported. Prominent examples are:

- Thirteen festivals and cultural events held annually or bi-annually; the best known is FESPACO, the Pan-African Festival of Cinema and Television of Ouagadougou, which began in 1969
- Eight cultural schools and institutions, two of which are very well known in the region: ISIS and Imagine, both film training institutes.

Estimates indicate the cultural sector contributes 2% of Burkinabe GDP; however, this figure does not include tourism revenue from cultural event attendees. Adding this indirect revenue would increase this percentage considerably: Tourists bring foreign exchange to the hotel, catering, transport, and restaurant sectors. The case study estimates that these indirect impacts generate nearly as much as the direct impacts, or around € 20 million annually, making the total contribution of cultural services to Burkina Faso's economy nearly € 40 million (US$ 48 million[2]) annually, approximately 4% of GDP.

Burkina Faso exports its cultural services through all four modes of service supply. However, most exports have been carried out through Mode 2: International tourists come to Burkina Faso to experience its music, dance, and film festivals, and Burkina Faso educates foreign artists and students. Burkinabe artists—musicians, dancers, and film producers—also travel regularly to promote and perform their art, providing exports of Mode 4.

Government Policies that Made a Difference

The Government of Burkina Faso has actively promoted cultural services development in multiple ways, including recognising cultural services in the 1991 Constitution and providing financial support to cultural industries. The government has also encouraged passage of several legislative and regulatory texts supporting development of cultural services; both cultural services and related tourism industries are mentioned as priority sectors in the national Growth Strategy 2011–2015. Finally, numerous public-private partnerships have been undertaken in the cultural services sector.

Constraints on Future Growth

Several significant constraints confront Burkina Faso in its objective to increase exports of cultural services. The country's low rank on the human development index (181 of 187) indicates a lack of the requisite infrastructure to support the growth of the tourism sector. Infrastructure weaknesses include transport, electricity, water and sanitation, and the

[2] In 2015 U.S. dollars.

availability of hotel accommodation. The lack of adequate telecommunications infrastructure inhibits the cross-border sale of music and films.

Financial services also constrain expansion of this sector in Burkina Faso. Cultural activities struggle to obtain credit from commercial banks; therefore, they often must function as partnerships with the government. Banks have difficulty measuring the effective value of business assets such as copyright, licenses, and royalties, paying little attention to equally valuable intangibles such as creativity, invention, originality, and talent—the main assets owned by creative industries. The terms granted to cultural enterprises are often very unfavourable; this almost obliges the government to step in with both financial support and a partnership framework.

Finally, no fewer than 16 government agencies or departments deal with some aspect of cultural services, competing with the Ministry of Culture and Tourism. These agencies sometimes pursue diverging strategies, thus underlining the need to better coordinate a focused intra-government strategy.

Case Study 5: Education Services: Uganda

Education services exports have emerged as a major source of foreign exchange earnings for Uganda following its reform and liberalisation in the early 1990s. The country has traditionally attracted a large number of East African students; West African students have recently begun to enrol as well. Education export earnings were estimated at US$ 36 million in 2010. Uganda's historically dominant institution of higher learning is Makerere University, ranked in the top ten universities in Africa in 2014. Currently there are 36 universities and degree colleges in Uganda sanctioned by the National Council for Higher Education (NCHE).

Uganda has primarily exported higher education services through Mode 2 (foreign students studying in Uganda). However, two Ugandan universities have established branch campuses in neighbouring countries, with a third in process (Mode 3). Some Ugandan professors also teach abroad in exchange programmes (Mode 4). However, there are no online diploma or degree programmes offered by Ugandan educational institutions (Mode 1), meaning that cross-border trade in education services is not yet taking place.

Government Policies that Made a Difference

The adoption of a 1992 white paper laid the basis for educational reform in Uganda, breaking the state monopoly on higher education and allowing for decentralisation and the establishment of private universities. Some two decades later, the large majority of Uganda's universities are now privately owned and operated. The private universities host the large majority of foreign students (84%), with Kampala International University receiving nearly half of the total (fully 44%).

Several government policy documents targeting the education sector have followed the early white paper. Specifically, the Strategic Framework for Marketing Uganda's Higher Education Sector of 2009 made several recommendations to enhance Uganda's higher education sector to contribute to export growth and competitiveness. These included developing a single 'Study in

Uganda' web portal to market Uganda's higher education offerings on the Internet, setting up international student offices in all of Uganda's universities, simplifying the visa application process for foreign students, and revamping the Vice Chancellors' Forum as a decision-making organ for Uganda's higher education providers.

The case study interviews reveal that although the policy framework and objectives for the higher education sector are in place, government support to achieve these objectives has not materialised. The regulatory body for the education sector, the NCHE, has been unable to garner high-level focus on these issues.

Constraints on Future Growth

Despite the traditionally strong tertiary education sector in Uganda, with its diverse range of academic programmes and low tuition cost structure, continued exports of higher education face serious constraints. Only a modest proportion of the government budget (2 to 3% of GDP) is spent on the education sector. This lack of funding means that expansion of higher education services in Uganda is severely constrained by the existing educational infrastructure. Facilities—including libraries, classrooms, and student housing—are all in need of investment and improvements, especially at public universities.

The high cost and limited availability of the Internet on university campuses is another major limiting factor of Ugandan higher education exports. Universities cannot reliably transmit and carry content for online distance learning programmes and research. The telecommunications sector thus also constrains the future growth prospects of education services.

Main Conclusions and Policy Lessons from the Case Studies

The five case studies set out conclusions and recommendations for how governments can develop a more effective services trade policy framework. Best practices in these export success stories, and also less successful outcomes, are highlighted in the studies. This section consolidates the main conclusions and policy lessons under six headings. For details on individual sectors, the reader is encouraged to refer to the full studies included in this volume.

1. **Most services exports from these five sectors are directed at the regional market, but some exports have already been diversified beyond the continent.**

The five countries have had notable success in exporting services in the respective sectors studied. In the case of education services and cultural services, most of these exports have been directed to the regional market within Africa. However, banking services, BPO/ICT services, and air transport services have travelled not only within, but also beyond African borders. BPO/ICT exports from Senegal are going to France and other Francophone locations in Europe. Ethiopian air transport services are directed all over the world, with destinations in Europe, the Americas, and Asia. Banking services from Nigeria are present in international operations in six countries outside of Africa. Exporting services typically begins at the regional level and moves further afield if successful.

2. **Successful exports in one mode of supply have generated services exports in other, complementary modes.**

It is striking to observe that when one mode of supply has generated successful services exports, exports in complementary modes of supply often followed. For example, the successful export of Ugandan higher education services through attracting foreign students has led to three universities establishing branch campuses abroad. EAL's successful export of air transport services has led to the establishment of local training schools for pilots and air transport personnel. Successful Nigerian banking services exports have led to the establishment of foreign branches and subsidiaries, accompanied by the movement of skilled Nigerian banking personnel. This underlines the importance of implementing policies favouring modal neutrality both at home and in common export markets, so that firms can choose the most effective and efficient mode of service delivery.

3. **Initial advantage in the services sector was due to specific factors, in many cases leveraged into bigger export growth and success over time.**

In all five cases certain factors gave each country an initial advantage in their particular sector: location, size, factor endowment, or historical development, as follows:

- **Air transport services in Ethiopia:** First mover advantage with the establishment of Ethiopian Airlines in 1945, and its geographical hub location
- **Banking services in Nigeria:** Inflow of petroleum foreign exchange, providing a surplus of capital in the domestic market to leverage for investment abroad
- **BPO/ICT services in Senegal:** Skilled entrepreneurs with good knowledge of, and connexions to the French market
- **Cultural services in Burkina Faso**: Numerous creative artists and a historical tradition of cultural festivals and activities
- **Education services in Uganda:** Unique position of Makerere University after its 1935 transformation into a Centre for Higher Education in East Africa to serve the needs of the East African region.

All five countries have been able to parlay or leverage these initial advantages into bigger growth and export success over time, some more successfully than others.

4. **Government policy has been critical in helping initial advantages to grow; conversely, the lack of supportive government policy has hampered further growth in services exports.**

In some of the cases studied, the government was proactive in helping initial advantages grow for the specific service sector; in other cases government policy has been neutral or inactive. In the latter cases it is questionable whether the sector's initial success is sustainable.

Whilst government policies were not present during the Senegalese BPO/ICT industry's infancy, the government soon actively targeted the sector with a number of directed support policies. In Burkina Faso the government has been consistently involved from the outset, providing targeted policies and financial support for the cultural services sector.

In other cases, the respective government has developed an appropriate regulatory framework enabling the sector's success. This is the case for air transport services in Ethiopia and banking services in Nigeria where the government has not provided direct support, but has ensured both an open and competitive domestic environment as well as sound regulatory structures.

In the case of higher education services, the Government of Uganda has identified the sector as a policy priority following its initial reform, but has not implemented any specific support policies, putting the further growth of education services exports somewhat into question.

5. **For cases where government policy has actively supported services sector development, services exports have grown impressively. Various types of proactive policies have been shown to play a positive role in this regard.**

For all sectors studied, when government policy proactively targeted services development (whether it be through positive incentives including subsidies, training programmes, and tax incentives; key trade policy decisions and engagement; or sectoral regulatory reform and liberalisation), the sector in question grew substantially.

Exports of Senegalese BPO/ICT services were strongly facilitated by liberalisation and trade commitments in the telecommunications sector in concert with other facilitating policies and investment incentives. Likewise, the liberalisation of an "open skies" policy in the Yamoussoukro Decision provided an impetus to develop Ethiopian air transport services and also served to design a liberal and open regulatory framework. Similarly, regulatory reform, accompanied by strong fiduciary principles and guidelines, created a sound financial environment in which Nigerian banks could first consolidate their capital base and subsequently expand to foreign operations. Targeted policy interventions and government-sponsored private-public partnerships for cultural activities have allowed cultural services to continue to thrive in Burkina Faso. Reform and liberalisation of the Ugandan education sector allowed the establishment of private universities and has enabled the country to attract numerous foreign students, thereby stimulating higher education service exports.

The five case studies demonstrate that supportive government policies and/or an adequate regulatory framework significantly impact the success of services exports.

6. **Constraints and weaknesses of other service sectors threaten to inhibit expansion of successful services exports in the cases studied.**

The future expansion of successful service export sectors is threatened by the weaknesses of complementary service sectors in the home market. In the case of Senegalese BPO/ICT services, a weak education sector limits a sufficient supply of skilled human resources in the form of trained engineers and computer specialists. Inefficiencies in the financial services sector constrain EAL's ability to raise capital and take **out** loans to expand the air transport services sector. The lack of low-cost Internet in the Ugandan telecommunications sector severely constrains further expansion of education services. Exports of Burkinabe cultural services are negatively impacted by the small size and weak infrastructure of the tourism sector; it is difficult to attract larger audiences to various cultural fairs and shows. Thus the entire services environment and the viability and efficiency of related services sectors play a decisive role in the export success and sustainability of each specific service sector examined.

TYPOLOGY OF FOUR MODES OF EXPORTING SERVICES

The examples below are provided purely to illustrate the various ways in which services can be exported and may or may not reflect actual situations.

MODE 1: Cross Border Service Supply, in which the service is sent across the border, most often via the Internet

> Example: Hospital in South Africa sends a medical opinion over the Internet to hospital in Namibia.
>
> Example: Computer company in Egypt sends a software programme to Tunisia.

MODE 2: Consumption Abroad, where the consumer travels from his or her home country to another country to consume the service

> Example: Tourist travels from Cameroon to Botswana for a safari, consuming tourism services there.
>
> Example: Student travels from Zambia to attend university in Uganda, consuming education services there.

MODE 3: Commercial Presence, in which an investor implements a foreign direct investment in another country in a services sector

> Example: Bank in Nigeria invests in a branch in Senegal.
>
> Example: Energy firm in Ethiopia invests in subsidiary in Djibouti to distribute electricity.

MODE 4: Movement of Natural Persons, where a natural person (as opposed to a firm) travels to another country to provide a service, for which he or she receives payment

> Example: Engineer from Kenya travels to Rwanda to provide professional services for the building of a bridge.
>
> Example: Nurse from Botswana travels to Namibia to perform temporary work in a hospital.

2. AIR TRANSPORT SERVICES: A CASE STUDY OF ETHIOPIA

Authors: Wyanie A. Bright and Million Habte

Executive Summary

Services are an important component of Ethiopia's economy, particularly in recent years. According to the new series of the national income accounts of Ethiopia, the service sector accounted for 45.3% of GDP in 2011/12. The services sector is mainly made up of wholesale and retail trade; hotels and restaurants; transport and communications; financial intermediation; real estate; renting and business activities; public administration and defence; education; health and social work, and community, social, and personal services.

The World Bank estimates that 13% of Ethiopia's employed population work in the services sector, while agriculture accounts for 79% of total employment and industry for 7%. This trend is expected to change as the services and industry sectors grow at a faster rate than agriculture. The air transport services sector is captured in the transport and communications subsectors. Economic data of these two subsectors capture virtually all of the sea and air transport services as well as telecommunications services, respectively.

Air Transport Services in Ethiopia

Discussion of air transport services in Ethiopia is primarily about the Ethiopian Civil Aviation Authority (ECAA), Ethiopian Airports Enterprise (EAE), and Ethiopian Air Lines (EAL). In fact, few private service providers exist. ECAA is the regulator under the Ministry of Transport's oversight: it regulates safety, licenses air transport service providers, inspects and licenses airports, licenses aviation personnel, and registers aircraft. EAE controls, manages, administers, and maintains airports, while EAL is the operator, being fully owned by the government. It is one of the most competitive airline service providers on the continent.

Ethiopia has signed more than 106 bilateral agreements with other countries regulating the conditions under which foreign airlines operate within Ethiopia and under which EAL operates abroad.

The investment regulation (Ethiopian Council of Ministers Regulation No. 270/2012) states that only Ethiopian citizens may provide air transport service with capacity of not more than 50 seats, which used to be only 20. This provides EAL with a monopoly on flights having more than such capacity, be it domestic or international.

The Growth and Transformation Plan (GTP) is a five-year (2010-2015) plan developed by the Ethiopian government to improve the economy by achieving annual GDP growth of 11-15% from 2010 to 2015. For air transport services, GTP has it that the major focus for the sector will be on strengthening its competitiveness and expanding passenger as well as cargo services by creating new international destinations. It has developed ambitious goals and targets in specific areas of the service, for example, growth in international and domestic passengers from 15.2 to 37.2 billion seat kilometers, in passengers on international flights from 2.7 to 6.6 million, in international passenger flight destinations from 58 in 2009/10 to 77 at the end of GTP, 2015). The GTP's performance indicators show that such targets are actually being fully achieved.

EAL, the country's sole international air transport service provider, has also its own vision and projections for development reflected in its 'Vision 2025'. As per this vision, the airline is working to achieve an increase in revenue from USD2 billion now to USD10 billion, to reach a USD1 billion profit; to go from 81 international destinations now to 100 destinations internationally; to serve as a mega-carrier with 140 aircraft from what is 65 now; to transport 18 million passengers from what is 6 million now; to transport 820,000 tons of cargo from 200,000 tons now; and to have 17,000 employees from the current 8,000.

The Services in International Trade Policy Perspective

In 2003, Ethiopia applied to join the World Trade Organization (WTO) and the country has been actively involved in discussions with the WTO over the years. When it comes to air transport services, the liberalisation is informed by the principle of gradualism and a progressive approach. Even under the General Agreement on Trade in Services (GATS), the coverage of air transport services is only for three ancillary services: aircraft repair and maintenance services, the selling and marketing of air transport services, and computer reservation system (CRS) services.

Ethiopia's consideration of the service under the umbrella of WTO accession remains to be seen, given that services offer is yet to be submitted to conduct services negotiations in earnest. It will be interesting to see how this process unfolds since Ethiopia has, at least at the regional level, an aggressive interest in the sector.

At the regional level, however, Ethiopia has been an active and aggressive participant in the implementation of the Yamoussoukro Decision as well as the ones revised and delegated to regional blocs such as the Common Market for Eastern and Southern Africa (COMESA). Officials at the airlines see that many African countries are protective of the sector, and plans of previous declarations have not been duly implemented by signatories. In fact, the officials are keen to see not just regional liberalisation measures, but rather at the continental level. However, the geographical and political divisions between African countries have become a challenge for integration. Countries also attach special feeling towards their flag carrier, impeding liberalisation.

Air Transport Services Sector

A number of international airlines provide international air transport services in Ethiopia. Approximately 24% of international passenger air traffic is handled by international carriers, namely, Daallo Airlines, Djibouti Airlines, Egypt Air, Emirates, Airlines, flydubai, Kenya Airways, Lufthansa, Saudi Arabian Airlines, Sudan Airways, Turkish Airlines, and Yemenia. In addition, Air China is scheduled to start in November 2015.

These airlines operate through bilateral air service agreements (BASAs) with the Ethiopian Civil Aviation Authority (ECAA). They operate ticket offices in Ethiopia, or have exclusive general service agreements (GSAs) with local travel agents. EAL's successful reign as a top international air transport provider is evidenced by the company's more than a dozen awards for its international flight services.

Ethiopia has thrived in the air transport services market, while numerous other African countries have struggled or failed. In terms of revenue passenger kilometers (RPKs), EAL is seen as the largest airline in Africa.

EAL's success factors are the following:

Geographical Positioning and Human Capital Development. Ethiopia's location allows EAL to "bet on Africa" as a part of its Vision 2015 strategy. With a young population of more than 1 billion people, Africa is the second-fastest growing continent. Ethiopia looks to capitalise on its African geography to realise revenues from the continent's rapidly rising economies. Ethiopia's East African locale serves as an ideal gateway to Africa from the Middle East and Asia, as a hub for the fastest growing trade lane: China–India–Africa–Brazil. Finally, Ethiopia's chief city and EAL's headquarters, Addis Ababa, is home to key international organisations, most notably the African Union (AU) and the United Nations Economic Commission for Africa (UNECA). These two organisations employ over 2,500 expatriates, and facilitate Ethiopia's rising conference tourism sector. Ethiopia has invested significant resources in the development of air transport services personnel. The Ethiopian Aviation Academy enforces strict educational, physical, and medical standards for students to gain entry. The selection criteria are quite stringent, as students attend the academy at no personal costs, and are guaranteed a job with EAL upon graduation.

Strong Managerial and Operational Practices. The airline fosters a strong corporate culture and is conscious of cost constraints. The airline works to maintain the lowest possible costs, while still operating as a full-service carrier with global standards. The airline has also maintained a long term strategic outlook, utilising visionary goals for up to 15 years. Few airlines and even fewer state-owned enterprises operate with long-term strategic goals. EAL has remained flexible when necessary—adding new routes, embracing technology, and adapting new initiatives. EAL placed its purchase order for ten Boeing's Dreamliner 787-8 aircraft in 2005 and started using them in 2011, making the airline the first in Africa and second in the world to operate the 787 Dreamliner aircraft. EAL maintains strict safety guidelines. It is unique amongst African carriers in that the airline has passed major international safety criteria standards. EAL regularly passes audits measured against International Civil Aviation Organisation (ICAO), Federal Aviation Administration (FAA), and European Aviation Safety Agency (EASA) standards.

Managerial Autonomy. While EAL's board is composed of government officials, the management team is exclusively responsible and accountable for day-to-day operations. EAL has been exempt from the frequent government interference that often plagues many state-owned enterprises (SOEs)—political appointments, governmental mismanagement of finances, and political business decisions. Autonomous management has played a major role in EAL's success. It has allowed the airline to function without limitations, creating opportunities to exploit its maximum capacity. EAL reinvests all profits back into operations. On top of that, EAL has always maintained full transparency. By consolidating its position, Ethiopia is poised to become the market leader in the training and development of air transport personnel to meet the world's requirements. The country has the educational framework in place to develop a cross-cultural and cross-generational training programme for Africa's workforce.

First Mover Advantage. When Ethiopia entered the air transport services market in the beginning of 1940s, the majority of other African countries were still under colonial rule. Ethiopia became the first mover in the space with the founding of EAL in 1945. The first mover advantage has also allowed EAL to gain brand recognition, establish customer loyalty, perfect their services, and gain market share. The same is true for many key and new routes. In addition, EAL has continued to be progressive instead of becoming complacent, as is often the case with many first movers.

In conclusion, lessons for other African countries (not only for this industry but also for other sectors) can be summed up by the following lines.

- Managerial autonomy for SOEs
- Investment in human capital
- Cultivation of competitive advantage in consideration of language skills, geographical positioning, and market requirements.

The strategies that Ethiopia has used in exporting the service sector—providing a service the client needs while in country and developing a means for clients to purchase the service in their home regions—have also paid off.

Introduction

The African Union Commission (AUC), with support from the United Nations Development Programme (UNDP), is dedicated to identifying opportunities for African economies to improve competitiveness and diversify economic development through trade liberalisation. To foster these efforts, the AUC adopted an Action Plan for Boosting Intra-African Trade and a Framework for the fast-tracking of a continental free trade agreement (CFTA). As a result of the action plan, the enhancement of services trade in Africa was prioritised as a critical opportunity. In this context, the UNDP and AUC commissioned a Case Study on Air Transport Services in Ethiopia, as a means to support the country in strengthening domestic regulation of the sector, mainstreaming services into strategies, and assisting Ethiopia with methods to improve policy analysis and formulation in the air transport services sector.

Ethiopia is arguably the continental leader in the air Transport Services sector. The airline operates a fleet of 77 aircrafts, and travels to more than 91 destinations at the moment across Africa, Europe, the Americas, the Middle East, and Asia. It also serves 20 domestic routes. The airline also operates domestic routes within Ethiopia; a wide global cargo network; maintenance, repair, and overhaul (MRO) services; and an aviation academy. Ethiopia is also the home to certain private sector air transport service providers, including charter airlines and providers of auxiliary services. There are more than 30 licensed private airlines in Ethiopia, but only Abyssinia Flight Services, Trans-National Airways (TNA), National Airways, Zemen

Flying, International Cargo Aviation Services, Amibara and Aquarius Aviation PLC are fully operational, providing charter flight services.

Overview and Objectives

African economies must improve their competitiveness and diversify their economic base in the current context of global trade liberalisation, in part due to the erosion of preferences in traditional exports such as bananas, sugar, and clothing. Trade in commodities, though the prime generator of employment and foreign earnings, can no longer sustain African's development by itself. The services sector has contributed a respectable share to the recent growth in Africa—as much as natural resources or other industrial products (even in countries benefiting from trade preferences in these products). Its importance cannot then be overemphasised. The region's relatively small share in world markets is well documented and signals that African economies must invest in new and more sustainable sources of employment, exports, and growth. Against this background, the objectives of the services case studies project in general and the air transport services of Ethiopia in particular are:

- To promote the knowledge and understanding of services trade, to provide a basis for service sector development and enhanced regional integration in Africa.
- To provide information on service sectors and on services exports, to be used for building a repository of 'best practices' on services in Africa and for creating a database on services in the African Trade Observatory.
- To provide information on how services trade is actually being carried out in specific sectors in Africa and what policies have contributed to the success of services exports.

Scope of Work

The case study examines the structure and performance of the air transport services in Ethiopia, particularly in regard to its export of air transport services. The study identifies the emerging opportunities and challenges for the air transport services sector, along with the respective strengths and weaknesses demonstrated in Ethiopia. It also identifies the factors that have led to the successful export of services in this sector as well as constraints to the regional and global competitiveness of expanding the export of air transport services from Ethiopia. On this basis, the study sets out a series of policy recommendations based on lessons learnt and best practices.

Methodology

To effectively address the above scope of work and deliverables, the following methodology has been used.

- Secondary data of previous researches and findings as well as relevant reports from Aviation Authority, the airline, and Ministry of Transport on this specific services sector have been used.
- Available data have been taken from the Ethiopian Central Statistics Agency and Ethiopian Economics Association (EEA), as well as reports by the service provider to regulatory authorities (Aviation Authority) as well as to Ministries of Transport, Trade, Finance, and others.

- Data from international organisations such as the International Air Transport Association (IATA) and the African Airlines Association (AFRAA) have been utilised.
- Key personnel of the aviation service providers have been interviewed.
- Long-term strategic plans of the government (GTP and related documents) and the service providers (Vision 2025) have been consulted.
- The legal and regulatory structure of the service sector has been examined.

Organisation of Report

This report is structured in five broad sections following this introduction. The first section describes the role and contribution of the services sector in Ethiopia. The second section focuses on the air transport sector in Ethiopia, going into the historical background of the sector and assessing defining moments for its current achievements. The third section touches upon key stakeholders, market structure, and the air transport sector's linkage with other sectors of the economy. The fourth section brings to light what factors have shaped the export successes of the air transport services of Ethiopia. An assessment of the sector's strengths and weaknesses has also been made, and possible recommendations provided for actions that could support future growth. The fifth section lists lessons for other African countries to emulate the success and work ethic of the industry in Ethiopia.

The Service Sector in Ethiopia

Basic Data

Services are an important component of Ethiopia's economy, particularly in recent years. According to the national income accounts of Ethiopia, the services sector accounted for 45.3% of GDP in 2011/12. One of the reasons for introducing the Growth and Transformation Plan (GTP) (2010-2015), the country's five-year plan, was to improve the contribution of the productive sectors, such as agriculture and industry, to the economy.[1] This plan provides great detail of the priority sectors that will be given attention at the policy and implementation levels in the industrial and related services sectors. However, the services sector still dominates the economy. In 2011/12, the services sector contributed 58.5% of the growth in GDP, which means that 5.2 percentage points of the 8.9% growth in GDP was the share of the services sector, even if GTP was projecting a 46.3% contribution of services for that period.[2]

Within the services sector,[3] trade, hotel, and restaurant,[4] followed by transport and communications are the most important subsectors. They are followed by public administration

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[1] Report on the Ethiopian Economy, Ethiopian Economics Association, 2013. p. 14.

[2] Ibid. Also, GTP, p. 37.

[3] Unlike international classification of service sectors and subsectors, the Ethiopian services sector is made up of (a) wholesale and retail trade, (b) hotels and restaurants, (c) transport and communications, (d) financial intermediation, (e) real estate, renting, and business activities, (f) public administration and defence, (g) education, (h) health and social work, (i) other community, social, and personal services, and (j) private households with employed persons.

and defence (conflict with neighbouring countries has called into being a higher share of this subsector). The financial and real estate subsectors also have their shares. Quite interestingly, the financial and transport and communication sectors had shown a steady growth in the 1990s. Both sectors contributed 6% to the GDP in the 1990s.[5]

Table 1: The Share of the Subsectors and Their Contributions to the Growth of the Services Sector

Subsector	Share of GDP	Share of value added (growth) in the services sector
Wholesale and Retail Trade	15.9	34.9
Hotels and Restaurants	3.7	8.1
Transport and Communications	4.4	9.7
Financial Intermediation	3	6.6
Real Estate, Renting, and Business Activities	9	19.8
Public Administration and Defence	3.9	8.6
Education	2.1	4.6
Health and Social Work	0.8	1.8
Other Community, Social, & Personal Services	2.4	5.3
Private Households with Employed Persons	0.3	0.6

Source: Ministry of Finance and Economic Development, as adapted from EEA, Report on the Ethiopian Economy.

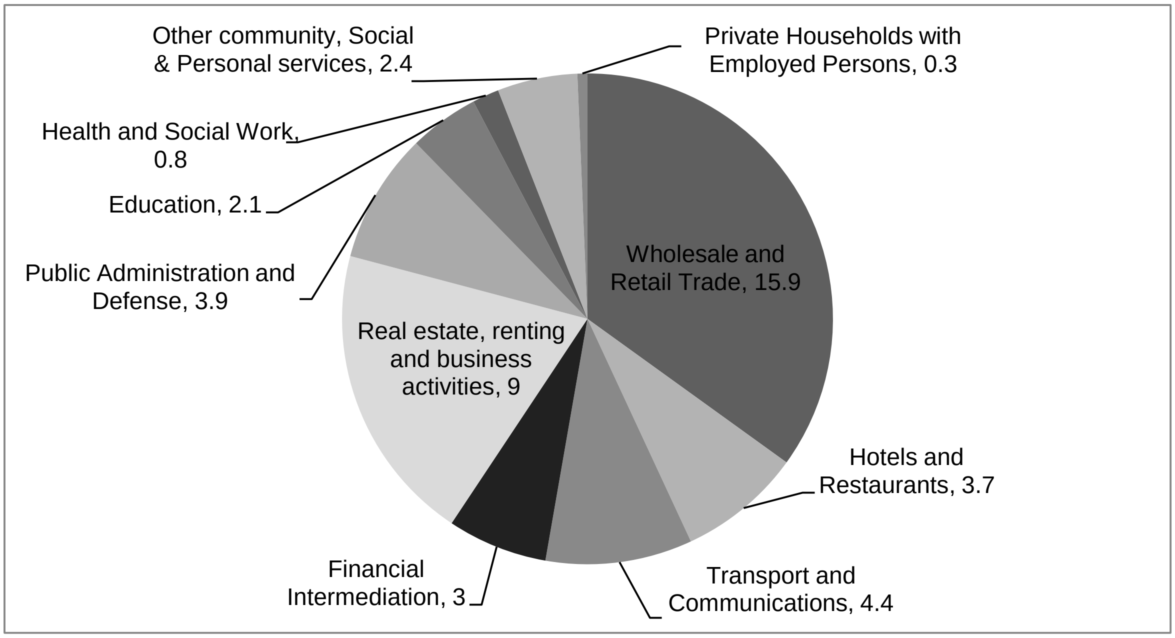
Growth in the financial intermediation subsector has accelerated from a rate of growth of 23.7% in 2010/11 to 28.6% in 2011/12. This is by far the highest growth rate registered amongst subsectors in the fiscal year. Transport, communications, and public administration grew by 10.4, 12.1, and 14.2% respectively.[6]

[4] In the Ethiopian services classification, the subsectors trade (wholesale and retail), and hotel and restaurant services are identified as 'distributive sectors'.

[5] Alemayehu Geda, Readings on the Ethiopian Economy, Addis Ababa University Press, 2011, p. 277.

[6] Ibid., p. 15.

Figure 1: Share of Services Subsectors in the GDP



Services in Trade

Table 2: Net Services 1999/00 – 2011/12 in Millions of Birr

	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12
Net Services	831.6	724.9	893.1	309.8	2,124	2,095	1,282	2,024	1,477	4,021	5,886	11,090	1,292
Travel	-47.7	-159.1	170.5	335.5	868.2	986.6	524.3	612.1	1,383	2,166	2,888	9,266	8,499
Other Transportation	231.3	461.7	658.5	358.7	493.7	611.5	375.0	708.8	1,195	2,324	3,110	5,198	5,781
Government (n.i.e.)	867.7	951.9	962.4	450.8	1,495	1,530	2,417	2,276	1,243	1,671	2,903	3,987	3,485
Investment Income	-390.3	-428.2	-429.7	-225.7	-548.0	-309.5	-14.8	268.2	316.2	-348.0	-724.5	-1,121	-1,659
Other Services	170.7	-101.4	-468.7	-609.5	-184.6	-723.6	-2,020	-1,840	-2,661	-1,793	-2,292	-6,239	-14,813

Source: National Bank of Ethiopia, Balance of Payments, 2013.

The production and trade of services play a key role in the Ethiopian economy. Services are defined as economic activities that are produced and traded, but are invisible and intangible. Services are crucial economic components in their own right, but they are also important inputs to all other businesses. The services sectoral classification list (W/120) was compiled by the World Trade Organization (WTO) in 1991 as a comprehensive list of services sectors and subsectors covered under the GATS. The W/120 list details services subsectors as defined as aggregates of the more detailed categories in the United Nations provisional Central Product Classification (CPC). The services sector is classified as activities in the following areas: business services; communication services; construction and related engineering services; distribution services; educational services; environmental services; financial services; health and social services; tourism and travel related services; recreational, cultural, and sporting services; transport services; and other services not included elsewhere.[7]

Services play an important role in growing economies because rising incomes lead to rising demand for services. Across the world, increasing GDP and income per capita have led to a decrease in the agriculture sector, and an increase in the industrial sector—known as industrialisation, followed by increase in the services sectors—known as post-industrialisation or deindustrialisation.[8] While many growing economies go through the stages sequentially, technological advances have led to certain countries largely circumventing the industrialisation stage and moving directly to post-industrialisation with the focus on services as the economic growth leader. Ethiopia, it would seem, is following this new path.

As Figure 2 illustrates, Ethiopia has seen a trend of increasing GDP generated by the services sector, relative to the agriculture and industry sectors. In Ethiopia's transition from a planned to a market economy, the service sector has grown significantly to meet demand. The Ethiopian Ministry of Finance and Development (MoFED) estimates that services account for 45.3% of the country's GDP, or $18.7 billion USD.[9] The relative share of GDP generated by the services sector is noteworthy as agriculture, historically Ethiopia's major GDP producer, accounts for 43% of the GDP.[10] Industry accounted for 12% of the country's GDP. The trend of services becoming a major contributor to economic growth is in line with global trends, as the WTO states that services is the fastest growing sector of the global economy. However, in Ethiopia, the industry sector is currently growing at a faster rate than the other sectors. Ethiopia's economic growth, measured by GDP at constant basic prices, was estimated at 9.7% for 2012. For that period, the agriculture sector grew by 7.1%, industry by 18.5%, and services by 9.9%.[11]

In 2010, MoFED developed a Growth and Transformation Plan (GTP), a five-year plan with the goal of achieving GDP growth of 11–15% per year from 2010 to 2015.[12] The GTP focuses on the agricultural and industrial sectors. The services sector is only highlighted in the construction, rail services, electricity services, and telecommunications services objectives. Industry, while a major focus, accounts for only 12% of the country's GDP.[13]

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[7] 'Air Transport Services' in Guide to the GATS: An Overview of Issues for Further Liberalization of Trade in Services, World Trade Organization, 2001.

[8] Beyond Economic Growth, The World Bank, 2000.

[9] Brief Note on the 2005 (EFY)*GDP Estimates Series, MoFED, 2013.

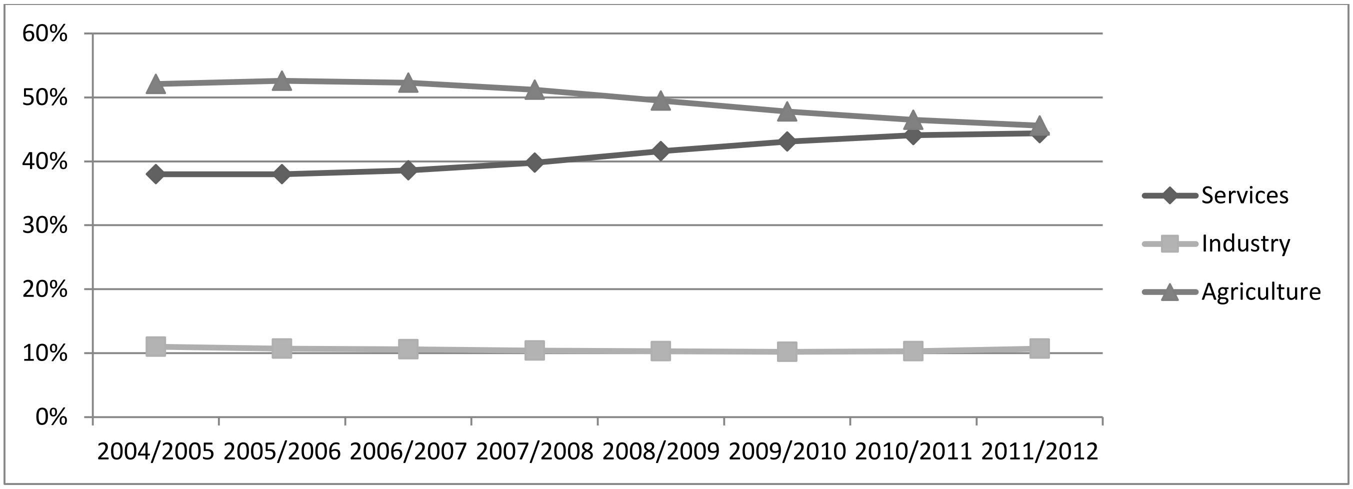
[10] Ibid.

[11] Ibid.

[12] Growth and Transformation Plan, MOFED, 2010

[13] Ibid.

Figure 2: Structural Decomposition of GDP by Main Economic Activity at Constant Prices



*Source: Brief Note on the 2005 (EFY)*GDP Estimates Series, MoFED, 2013.*[14]

The services sector fuels employment, as service jobs largely cannot be mechanised and must be filled by citizens. The services industry often requires more skilled human capital than agriculture and industry, leading to increases in education and human capital investments. The World Bank estimates that 13% of Ethiopia's employed population works in the services sector, while agriculture accounts for 79% of total employment, and industry for 7%.[15] This trend is expected to change as the services and industry sectors grow at a faster rate than agriculture. Employment in the services sector is expected to grow while employment in agriculture and industry declines with technological advances. In most economies, this pattern continues until services tasks are outsourced to regions with lower labour costs.

[14] Brief Note on the 2005 (EFY)*GDP Estimates Series, MOFED, 2013.

[15] Transport Services Balance of Payments Data Report, World Bank, 2013.

Table 3: Transport Services Exports

Year		2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11
Growth (in %)											
Sea Transport											
	Freight	-4.1	22.2	14.3	41.8	-0.7	-13.4	136.5	8.7	35.6	24
Air Transport											
	Passenger	18	13.3	21.4	35.1	23.6	34.8	37	30.1	29.7	53.2
	Freight	-2.6	13.4	33.4	4.2	44.3	29.2	10	46.6	51.5	71.9
	Other	-14.4	-20	12.3	34.4	-20.3	-10	81	150.2	38.3	3.9
Air Total		11	9.8	22.1	31.1	22.5	32.1	35.2	36.8	32.6	51.4
Transport, Total		9.7	12.3	20.5	29	22.1	30.6	37.3	36	32.5	50.2
Share of Exports (%)											
Sea Transport/ Transport Services		3.8	3.4	3.6	3.5	3.8	3.1	2.1	3.5	2.8	2.9
Air Transport/ Transport Services		94.4	92.3	93.6	95.1	95.4	96.5	95.1	95.6	95.7	96.4
	Passenger/ Air	78.3	80.7	80.3	82.7	83.4	85.2	86.3	82.1	80.3	81.3
	Freight/Air	11.3	11.6	12.7	10.1	11.9	11.6	9.5	10.1	11.6	13.2
	Others/Air	10.5	7.6	7	7.2	4.7	3.2	4.3	7.8	8.1	5.6
Transport/ Services Exports		45.5	41.1	36.1	41.2	46.1	52	53.2	53.6	53.9	51.1

Source: National Bank of Ethiopia.

Table 3 shows how important the transport services sector is for services export earnings: It contributes slightly more than 51% of services exports for 2010/11. If one takes a closer look, it is the air transport subsector that takes the lion's share of all this: Air transport contributed 96.4% of transport exports (wherein 81% percent is taken by passenger flights followed by 13.2% of freight and 5.6 % by other services such as MRO services). Sea transport, albeit small (nearly 3%), also contributes to the export of transportation services.

The Air Transport Sector – Origins and Underpinnings

Air Transport Services Policy and Legislation

In large part, Ethiopia's investment code reflects its policy for service sectors. Table 4 details a general legislative structure of service provision in the country as outlined in the investment code (Investment Proclamation No. 769 and Regulation No. 270, 2012).

Trade in services is a complex endeavour involving numerous stakeholders. In Ethiopia, the major participants are the Ministry of Trade, Ministry of Finance and Economic Development, the Ethiopian Investment Agency and relevant industry ministries and organisations. Policy and legislation regarding the services sector is overseen by the Council of Ministers, which includes the Prime Minister, Deputy Prime Ministers, selected ministers, and other parties chosen by the House of Peoples' Representatives. The Council of Ministers consists of approximately 20 members.

Air Transport Services Coverage in Investment Framework

Ethiopian Council of Ministers Regulation No. 270/2012 precludes foreign investment in many sectors, including key sectors in the GTP. Table 4 details the restrictions by sector. The restricted economic environment is challenging, considering that Ethiopia would benefit from more foreign investment, for both economic and knowledge transfer reasons. Even in sectors where foreign investors are allowed to operate, Ethiopian investment laws have minimum capital requirements, equity limitations, and joint venture stipulations. These strict rules have not done much to encourage foreign investment, given the level of bureaucracy involved in these transactions. For example, the Ethiopian investment law allows foreign investment in telecommunications in joint ventures with the government. These transactions must be implemented through a regulation enacted by the Council of Ministers. To date, no such joint venture has been approved and the telecommunications market remains monopolised by the SOE.

Table 4: Market Access Limitations in Services Subsector Participation

Services Subsector	Restricted to Government Investor?	Restricted to Ethiopian Investors?	Restriction Detail
Business services and professional services	No	Partially	• Auditing services are limited to Ethiopians. • Architectural services open to non-nationals with $100,000 USD investment (independently) or $50,000 USD (in collaboration with Ethiopian investors).
Telecommu-nication services	Partially	No	• Joint ventures with the government allowed for non-nationals. Requests must be approved through a regulation of the Council of Ministers. • Government alone can provide postal services except courier services.
Construction and related services	No	Partially	• Non-nationals are allowed to invest in Grade One projects.
Distribution services	No	Partially	• Non-nationals are limited to trade in petroleum and its by-products, LPG, and bitumen. • Non-nationals are limited to the export of hides and skins, precious minerals, forestry products, live animals, and their locally produced items.
Education services	No	Yes	• Provision of kindergarten, elementary, and junior secondary education is not allowed for foreign investors.
Energy services	Yes	Yes	• Government alone can provide the transmission and distribution of electrical energy through the integrated national grid system.
Financial services	No	Yes	• Banking, insurance, and micro-credit and saving services are exclusively reserved for Ethiopian nationals.
Health and social services	No	Partially	• Provision of diagnostic centre service and clinical services are not allowed for foreigners.
Tourism services	No	Partially	• Non-nationals are limited to star-designated hotels and restaurants. • Non-nationals are restricted from travel agency services. • Non-nationals are limited to Grade One tour operation services. • Non-nationals are limited from all tourist guide services.
Transport services	Partially	Partially	• Only the government is allowed to conduct passenger air transport services using aircraft with a capacity of more than 50 passengers. • Only Ethiopians are allowed to conduct passenger air transport services using aircraft with a capacity of less than 50 passengers. • Air cargo service is open to non-nationals.

Source: Ethiopian Investment Agency, Investment Proclamation No. 769/2012 and Regulation No. 270/2012, 2013.

In a survey conducted by the Ethiopian Chamber of Commerce and Sectoral Association (ECCSA) in 2013, the private sector expressed the desire for a less restrictive business environment to attract needed foreign direct investment (FDI). ECSSA argues that, for Ethiopia to achieve necessary improvements in quality and performance of the services, there needs to be significant exposure to foreign business practices and standards.[16]

The Ethiopian Council of Ministers Regulation No.270/2012 identified investment incentives for selected sectors. However, the investment incentives are heavily skewed towards priority subsectors of the manufacturing sector, and not services. The services subsectors eligible for investment incentives, including customs duty, are information technology (IT), hotel and tourism, construction contracting, education and training, and architectural and engineering works. Incentives include exemptions from customs duties and other taxes levied on imports. IT is the only services sector that is eligible for income tax exemption, while 19 manufacturing sectors and 4 agriculture sectors are eligible for the same benefit.[17]

Air Transport Services Coverage in National Development Documents

The Growth and Transformation Plan (GTP)

The GTP is a five-year plan developed by the Ethiopian government to improve the economy by achieving annual GDP growth of 11–15% from 2010 to 2015. The goal of the GTP is to eradicate poverty, while fostering rapid, broad-based, equitable, and sustainable economic growth. The GTP was developed based on the Plan for Accelerated and Sustained Development to End Poverty (PASDEP) and the Millennium Development Goals (MDGs) and the country's National Vision Plan. The major objectives of the GTP are to:

- Maintain at least an average real GDP growth rate of 11.2% per annum and attain MDGs
- Expand and ensure the qualities of education and health services and achieve MDGs in the social sector
- Establish suitable conditions for sustainable nation building through the creation of a stable democratic and developmental state
- Ensure the sustainability of growth by realising all of the above objectives within a stable macroeconomic framework.[18]

In the first two years of the GTP, GDP grew by approximately 10% per year, and by 8.5% in the third year. These figures are slightly lower than the target of 11.2% for the entire GTP period.[19]

[16] WTO Accession of Ethiopia: Regulation and Openness of Ethiopia's Services Sectors: Private Sector Position Paper, ECCSA, 2013.

[17] EIA, 2013.

[18] MoFED, 2013.

[19] MoFED, 2013.

GTP on Air Transport Services

Regarding air transport services, GTP has it that a cargo terminal for storage of perishable agricultural products was constructed at Bole International Airport and a master plan for the airport was prepared.[20]

In addition GTP has put it clearly that the major focus for the sector will be on strengthening its competitiveness and expanding passenger and cargo services by creating new international destinations.[21] Similarly, for the domestic aspect of the sector, the service delivery will be expanded so that it supports the tourism sector.

So, as a strategy:

- Standardised cargo terminal and cooling systems will be built to facilitate the trade in horticulture, meat, and other perishable commodities.
- The capacity of the air cargo system will be improved.
- Construction of airports at different locations in the country will be completed, and operational and technical services will be brought up to international standards.
- Safety and security will be improved by investing in the planes, pilots, and airports. [22]

Table 5: GTP Targets for Air Transport Services in Ethiopia

Description of Targets	2009/10	2014/15
International and domestic passengers (billion seat kilometers)	15.2	37.2
International and domestic passengers (million traveller kilometers)	263	994
Passengers on int'l flights (millions)	2.7	6.6
Passengers of domestic flights (thousands)	428	1464
Int'l passenger flight destinations	58	77
Int'l flights capacity of local airports (regular and temporary)	45,000	67,000
Domestic flights capacity of local airport (of regular and temporary)	49,000	72,000
Accommodation capacity for passengers of int'l flights, all airports (no.)	3.88	30.5
Accommodation capacity of passengers of local flights all airports (no.)	0.96	7.6
Local flights coverage (%)	16	20
Cargo carried from all int'l airports (tons)	119,000	311,000
The number of operators/investors in the sector	21	35
Fatal accidents per 10,000 flights	30	5

Source: GTP.

[20] GTP, p. 21.

[21] GTP, p. 81.

[22] Ibid.

The implementation strategy deployed to attain these targets has been:

- Designing a national aviation capacity building programme
- Benchmarking internationally renowned aviation industries against the regulatory and service delivery systems
- Designing a standardised system of construction and airport classification
- Using market expansion strategies to open up new destinations and flight programmes
- Purchasing new airplanes to improve service quality and efficiency
- Operating safety and facility systems and monitoring systems at the level of international standards.[23]

When one looks at the achievement level against the above targets, one finds that:

- In 2011/12, an improvement in most of the operating parameters has been registered. During 2012/13, the available seat kilometers was 25.755 billion and available ton in km was 5.224 billion.[24] In addition, the landing and take-off time was reduced to 3 minutes against a target of 10 minutes in 2012/13.
- With respect to expanding air transportation services, it was planned to increase international and domestic destinations to 68 and 20, respectively. Accordingly, international destinations increased to 73, while no new domestic destinations became operational during the year.[25]
- In order to increase the number of private operators in the aviation sector, 13 operators were registered, while the plan was to increase these private operators to 30 in the budget year. The plan to increase the number of private operators was not achieved because of the delay in the ratification of the air transport policy.
- With respect to aviation safety and security, it was planned to comply with 85% of ICAO Universal Safety and Security Audit findings and reduce the number of accidents per 10,000 flights to 15. The compliance level was actually 87%, but the number of accidents per 10,000 increased to 33.[26]

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[23] Ibid.

[24] GTP, Annual Progress Report for FY 2012/13, pp. 60-61.

[25] Ibid.

[26] Ibid.

Table 6: Aviation Sector Performance in the GTP Period[27]

Indicator	2010/11 Actual	2011/12 Actual	2012/13 FY		2012/13 performance (%) against	
			Plan	Actual	2012/13 plan	2011/12 performance
Int'l & domestic passengers, available seat km (billion seat kilometers)	18.3	22.1	32	25.8	80.6	116.7
Freight carried, available tonne km (billion tonne km)	3.9	4.6	6.289	5.224	83	113.6
International passenger flight destination lines	63	66	68	73	107.4	110.6
Local flight destination lines	17	17	20	17	85	100
ICAO Universal Safety Security Oversight Audit programme compliance rate, %	87	87	85	87	102.4	100
Plane landing and take-off time (minutes)	15	5	10	3	130	130
Number of private operators/investors in the sector		29	30	13	43.3	44.8
Plane accidents per every 10,000 flights	21	24	15	33	–	37.5

Source: Ministry of Transport

The 'Vision 2025' of Ethiopian Airlines[28]

EAL's Vision 2025 is a 15-year plan beginning 2010 and is anchored in 'supporting Africa's growth and bringing it closer to the world.' The strategic goals are:

- To increase revenue from USD2 billion now to USD10 billion
- To reach a USD1 billion profit
- To go from 81 international destinations now to 100 destinations internationally and 26 domestic
- To serve as a mega-carrier with 140 aircraft from what is 65 now
- 20 million passengers from what is 6.4 million now
- 820,000 tons of cargo from 200,000 tons now
- 17,000 employees from 8,000+ now.

The overarching strategies are:

- Fast, profitable, and sustainable growth
- Cost leadership (through network, new and modern fleet, labour cost, and operational excellence)
- 4-star airline with 5-star service delivery (mainly with African-flavoured Ethiopian hospitality)
- Multi-hubbing in Africa (hub-spoke approach).

[27] FDRE, Growth and Transformation Plan Annual Progress Report for the Fiscal Year 2012/2013, MOFED 2014
[28] Overview of ET, Presentation slides prepared by ET, May 2014.

There are four pillars to support this vision:

- Fleet: current orders of 33 aircraft (B777s, A350s, B787s, and B737s)
- Infrastructure: (new cargo terminal: 1.2 million tons capacity as well as new MRO hangar and apron)
- Human resource development (academy expansion by improving curriculum and in-take, as well as increasing annual in-take capacity to 4,000 trainees)
- Improvement of the systems (ICT, policies, procedures, and process).

On the social responsibility front:

- Provide support for community-based programmes
- Fleet modernisation – average age of 7 years
- The first of its kind in African installation of winglets
- Using best fuel practice
- Member of AirLink – connecting the industry with humanitarian initiatives.

Air Transport Services Coverage in Trade Policy Agreements

World Trade Organization Accession

In 2003, Ethiopia applied to join the WTO and the country has been actively involved in discussions with the WTO over the years. WTO accession is a key component of the country's development agenda, and is specifically detailed in the GTP. In March 2012, the WTO Working Party met to continue the examination of Ethiopia's foreign trade regime. In the spirit of these renewed discussions, Ethiopia has made significant strides towards the country's goal of becoming a member of the WTO. Currently, the country is responding to the questions posed by negotiating countries.[29]

Central to WTO accession is the potential liberalisation of government-prioritised sectors, including telecommunications, financial services, and energy. The government is conducting impact studies on these service industries. All these will be governed by what is outlined under GATS and services commitment the country will make on national treatment and market access. When it comes to air transport services, the liberalisation is informed by the principle of gradualism and progressive approach. Even under GATS, the coverage of air transport services is only for three ancillary services: aircraft repair and maintenance services, the selling and marketing of air transport services, and computer reservation system services.[30] Such modest liberalisation in this particular services sector could mainly be due to the fact that bilateral air service agreements govern many of the routes, the frequency of flights, the type of aircraft, and the tariff rate.[31]

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[29] Ethiopia stumbles on WTO accession, The Ethiopia Reporter, 2014.

[30] GATS annex on Air Transport Services.

[31] Alemayehu Geda, p. 297.

Ethiopia's consideration of the service trade under the umbrella of WTO accession remains to be seen, given that a services offer is yet to be submitted to conduct services negotiations in earnest. It will be interesting to see how this process unfolds since Ethiopia has, at least at regional level, an aggressive interest in the sector.[32]

At the regional level, however, Ethiopia has been an active and aggressive participant for the implementation of the Yamoussoukro Decision[33] as well as the ones revised and delegated to regional blocs such as COMESA. Officials at the airlines see that many African countries are protective of the sector, and plans of previous declarations have not been duly implemented by signatories. In fact, the officials are keen to see not just regional liberalisation measures but liberalisation at the continental level. In addition, they would like to see deeper liberalisation initiatives, including:

- Yamoussoukro implementation, in that full ownership of airlines is allowed
- An African Aviation Policy on regulation, competition, and price that can supersede legislation at the national level, such as the EU has
- An effort to integrate Africa through aviation.[34]

But the divisions amongst African countries, such as North Africa vs. Sub-Saharan, East vs. West, and Anglophone vs. Francophone, have become a challenge for integration, according to the officials. Countries also favour their own flag carriers, impeding liberalisation.[35]

Defining Air Transport Services

WTO Definition (W/120 and UN CPC)

The WTO defines air transport services as activities that directly involve transporting people and goods by air.[36] This sector includes airports, airlines, navigation service providers, passenger services providers, air freight services providers, and manufacturers and maintenance staff of aircraft and aircraft systems.

The air transport services sector is an area of the global economy in which Ethiopia enjoys some notable comparative advantages. The air transport industry in Ethiopia is largely dominated by EAL, which was founded in 1945. As of June 2015, the carrier serves 91 international

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[32] Interview with Mr. Henok Teferra, VP of Communications and Strategies of EAL.

[33] The Yamoussoukro Decision is named after the Ivorian city in which it was agreed. It commits its 44 signatory countries to deregulate air services and promote regional air markets open to transnational competition. Historically, the Decision followed up on the Yamoussoukro Declaration of 1988, in which many of the same countries agreed to principles of air services liberalisation. In 2000, the Decision was endorsed by heads of states and governments at the Organisation of African Unity, and became fully binding in 2002 in pursuing its original intention of liberalising air service among member states.

[34] Interview with Mr. Henok Teferra.

[35] Ibid.

[36] Air Transport and the GATS Documentation for the Second Air Transport Review under the General Agreement on Trade in Services (GATS), World Trade Organization, 2007.

destinations, of which 52 passenger destinations are in Africa while the remaining is distributed among Europe and the Americas, as well as the Middle East and Asia; the airline also operates a cargo network of 24 destinations in 4 continents with 6 wide-body freighters. Nonetheless, there are other privately owned airlines such as Abyssinian Air flight services that provide mainly charter services inside the country.[37] The recent surge of the service sector in the Ethiopian GDP is explained by the good performance of the air transport industry, particularly of its flagship, EAL.

Other Definitions

The United Nations Central Product Classification (UNCPC) has designated a classification for air transport services as follows:

- ***Passenger Transportation by Air.*** This designation includes scheduled and unscheduled flight services. Scheduled passenger transport by air is defined as services provided on regular routes and schedules. Unscheduled passenger air transportation is services provided on a non-scheduled basis, including air sightseeing services and taxi services (but excluding aircraft rentals). Both scheduled and unscheduled air transport services can be provided by any type of aircraft, including helicopters. The transport of passengers' accompanying baggage is included in this designation.
- ***Freight Transportation by Air.*** This designation includes mail transportation by air, containerised freight transportation by air, and other freight transportation by air. Transportation of mail by air includes all scheduled or non-scheduled services. Containerised freight transportation covers the scheduled and non-scheduled transport of items and packages in specially constructed shipping containers. Other freight transportation by air covers the scheduled and non-scheduled air transport of all other items and packages.
- ***Transportation via Space.*** This designation includes the air transport of passengers or freight via space.
- ***Rental Services of Aircraft with Operator.*** This designation includes the rental and leasing services of aircraft (including helicopters) and spacecraft with an operator. These services are generally known as air charger services. The leasing or rental services of aircraft without an operator are excluded.[38]

Similarly, the WTO, based on UNCPC 73, designed a sectoral list, known as W/120, to classify the services sectors and subsectors, per GATS. W/120 categorises air transport services as passenger transportation, freight transportation, rental of aircraft with crew, maintenance and repair of aircraft, and supporting services for air transport.

[37] Ethiopian Airlines Current Commercial Fleet, EAL, 2014.
[38] UNCPC 6424.

Definition Selected for This Study

After a preliminary evaluation of the structure and performance of air transport services in Ethiopia, key subsectors were identified. For the purposes of this study, air transport services will be categorised to include the subsectors currently active in Ethiopia, and the areas with the most potential for further growth. The subsectors will be categorised as follows:

- ***Passenger Transportation.*** International and domestic passenger traffic via EAL, international airlines, and domestic airlines.
- ***Freight Transportation.*** Cargo and mail flight services via EAL, international airlines, and domestic airlines.
- ***Rental of Aircraft with Crew.*** Charter flight services for business, personal, and medical purposes within Ethiopia and regionally.
- ***Maintenance, Repair, and Overhaul Services.*** MRO activities are dominated by Ethiopian Airlines, which maintains and repairs aircraft, engines, and components for its own fleet, as well as for those of other airlines.[39]
- ***Airport Services.*** EAE operates 4 international airports (most notably Addis Ababa Bole International Airport), and eight domestic airports. Airport operations consist of Aeronautical Services (runways, taxiways, lighting, and aerobridge services) and Non-Aeronautical Services (facility operations, support, and rental.[40]
- ***Aviation Education.*** Ethiopia has a strong focus on aviation education, including the training of pilots, cabin crew, maintenance technicians, ground operators, and marketing staff. EAL operates the largest aviation school in the country, but the domestic airlines also operate training academies. Aviation academies in Ethiopia are traditionally feeder programmes, as trainees are employed by the associated airlines upon completion of coursework.
- ***Services Auxiliary to Air Transport.*** These services are related to air transport, but not technically defined as a part of that sector. They include airlines' ticket distribution, ground handling, and air navigation services.

Historical Overview of Air Transport Services in Ethiopia

Ethiopia's air transport services history dates back to the 1920s, when the first aircraft arrived in country. Ethiopia began training pilots in the 1930s, and the Ethiopian Air Force was established during the same period. After the liberation of Ethiopia, Emperor Haile Selassie I asked the United States of America, the United Kingdom, and France to assist Ethiopia's modernisation efforts by supporting the establishment of a national airline. Ethiopian Air Lines Corporation was founded as a commercial aviation corporation in 1945 through an agreement between the Ethiopian government and Transcontinental and Western Airlines (TWA).

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[39] Ethiopian Airlines Annual Report, 2011/2012.

[40] Interview with Ethiopian Airports Enterprise, 2013.

EAL was funded with an initial investment of 2.5 million birr (ETB). It issued 25,000 shares, all held by the Ethiopian government.[41] In one of the earliest aviation technical advisory agreements in Africa, EAL was owned and financed by the Ethiopian government but managed by TWA. EAL held exclusive domestic air transport rights, and TWA functioned as the agent for operations, procurement, human resources, financial management, air traffic control, and maintenance. EAL pilots, technicians, administrators, financial managers, and general managers were all Americans employed by TWA. From the outset, however, it was decided to operate the airline with a full complement of Ethiopian managers, flyers, and other senior staff at the earliest opportunity.[42] The airline had an Ethiopian president and chairman, but the general manager was hired by TWA.

Originally operating only domestic flights, EAL quickly expanded to offer international flights in 1946. The first landing rights negotiations were with Aden, Egypt, Somalia, Saudi Arabia, and Sudan. The first revenue-generating mixed passenger-cargo flight traveled to Cairo, using one of five Douglas C-47 Skytrains acquired from the USA. The predominant destinations during EAL's first year were Asmara, Djibouti, Aden, Khartoum, Cairo, Sheikh Othman, and Nairobi. In 1947, EAL began conducting long-haul flights, with service to Bombay.[43]

In 1950, EAL secured a USD1 million loan from Ex-Im Bank to expand the fleet for additional long-haul service. In 1957, EAL took another loan from Ex-Im bank for GBP8.5 million. With those funds, EAL established its self-owned maintenance facility, added to its fleet, and expanded the route network to Athens and Frankfurt. In the 1960s, EAL added Accra and Monrovia to its destination network, becoming the first airline linking East and West Africa through direct flights. Around this time, Bole International Airport was built to accommodate the larger Boeing 720 jetliner. EAL operated its first jet services in 1963, travelling to Nairobi, Madrid, Asmara, and Athens. In 1965, the airline changed from a corporation to a share company and changed its name from Ethiopian Air Lines Corporation to Ethiopian Airlines. In 1966, EAL altered their relationship with TWA and appointed the Ethiopian deputy general manager. EAL became a member of IATA in 1959 and AFRAA in 1968. In 1970, the TWA contract was again adjusted, and TWA's role was changed from manager to adviser. Since 1971, EAL has been managed and staffed exclusively by Ethiopians. The relationship with TWA was severed in 1975.[44]

During the 1980s, Ethiopia faced severe economic and political crises that included a horrific famine and a devaluation of the local currency. Despite these conditions, EAL maintained its strength, remaining profitable and continuing its noteworthy training and maintenance programmes. In 1982, EAL became the first African airline to order the Boeing 767 and the

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[41] Ethiopian Airlines Corporate History, 2013.

[42] Tekalign Gedamu, *Republicans on the Throne*, a personal account of Ethiopia's Modernization and Painful Quest for Democracy, Tsehai Publishers, 2011, p. 136.

[43] Ethiopian Airlines Corporate History, 2013.

[44] Ibid.

Boeing 767-200ER. EAL made history in 1984 when it set a new distance record for a twin jet, flying 7,500 miles non-stop from Washington, D.C., to Addis Ababa.[45]

In the 1990s, the Ethiopian government was overthrown by the Ethiopian People's Revolutionary Democratic Front, and the country was involved in the Eritrean-Ethiopian War. However, EAL managed to post a profit during that period. The new government maintained EAL's operationally independent stance, and the airline thrived during a difficult time in Ethiopia's history. In 1996, EAL was servicing the Bangkok, Beijing, New York, Durban, Johannesburg, Abidjan, Dakar, Maputo, and Copenhagen markets. EAL introduced a frequent-flyer programme, Sheba Miles, in 1996.[46]

In the 2000s, EAL began a renewal of its fleet. The airline introduced a strategic plan, Vision 2010, in 2005, which aimed to increase passenger traffic to 3 million, revenue to USD1 billion, and employees to 6,000, by 2010. In 2008, EAL collaborated with Ecobank and private investors to establish ASKY, a regional airline operating throughout West Africa. EAL functions as the technical and strategic partner and holds a 40% stake in ASKY. By 2010, EAL had exceeded all the goals set in Vision 2010, and adopted a new strategic plan known as Vision 2025 with even more aggressive goals. The airline joined the Star Alliance in 2011 with Lufthansa as mentor. In 2013, EAL bought a 49% stake in Malawi Airlines, with plans to develop a new regional hub in Lilongwe. The remaining shares are held by the government of Malawi and private investors.[47] The airline is now well established and running under the name of Malawian Airlines - which used to be called Air Malawi.

When Did the Service Sector Emerge as an Important Sector of Economic Activity?

Air transport services emerged as a critical economic sector in the 1920s, when the country acquired its first airplane in 1928. Ethiopia is a founding member of ICAO and is a signatory of the Chicago Convention (1944).[48] EAL was established in 1945, and operations began soon thereafter. After EAL's launch, it remained the only carrier for almost four decades. Private sector participation in air transport services had high potential in the 1960s and 1970s, but the nationalisation of private property by the socialist regime in 1975 kept that option dormant until 1996, entirely closing the sector to private ownership. In 1996, the country introduced a law that partly liberalised the domestic market and also involved Ethiopia in liberal regional air service agreements.[49] This legislation opened, albeit partially, the domestic air transport sector, and there was a move towards liberalising the international air transport sector on a regional basis as per the Yamoussoukro Declaration (1999).

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[45] Ibid.

[46] Ibid.

[47] Ethiopian appoints CEOs for Malawi Airlines, ASKY, Capital Ethiopia, 2013.

[48] Alemayehu Geda, Readings on the Ethiopian Economy, Addis Ababa University Press, 2011, p. 296.

[49] Ethiopian Investment Proclamation No. 37/1996.

The airline has performed quite well since 1992. It has been profitable every year except year 2000, in which the unanticipated fuel price hike plummeted it into loss.[50] It registered a profit even after the September 11 attack on the United States, which caused many airlines to go into bankruptcy. The relatively good rate of growth in passenger numbers and the revenue-enhancing cost-reduction strategy adopted by the airline contributed to the positive rate of return on capital during the last decade.[51]

What Were Some of the Initial Conditions that Supported the Sector?

A key condition for EAL's initial success was the fact that it was founded early, in 1945. As well, the airline had a close working relationship with TWA, giving EAL a solid start. It benefited immensely from the services of American pilots, technicians, administrators, and accountants at the beginning. The existence of the Imperial Ethiopian Air Force in those days, with trained manpower serving the nation, helped in laying the foundation for manning the airlines with national staff members.[52] From 1971 onwards, however, the airline decided to operate without any foreign involvement, and it appointed its first Ethiopian CEO. From that year onwards, the airline has continued to improve in terms of number of trained personnel and numbers of aircraft, domestic airports, and international destinations.[53]

Current Status of the Air Transport Services Sector in Ethiopia

The three key institutional players of the sector are EAE, ECAA, and EAL. ECAA is the regulator; it regulates safety, licenses air transport service providers, inspects and licenses airports, licenses aviation personnel, and registers aircraft. EAE controls, manages, administers, and maintains the airports. EAL is the operator, while remaining fully owned by the government. These parties have all made huge investments in recent years. By ECAA's estimation, ETB6.3 billion has been invested in the development of airport infrastructure in the period between 2004/05 and 2010/11.[54]

Currently, Ethiopia has 4 international airports (Addis Ababa Bole, Dire Dawa, Mekelle, and Bahir Dar) and more than 13 domestic airports. As of the end of 2010, there are 10 functional domestic airports: Arba Minch, Asossa, Axum, Gambella, Gode, Gondar, Jujiga, Jimma, Humera, and Laibela.[55]

In general, the share of investment by EAL is higher than that of EAE, which is in turn higher than that of ECAA. The investments were made in the construction of runways, terminals, and

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[50] Alemayehu Geda, Readings on the Ethiopian Economy, Addis Ababa University Press, 2011, p. 296.

[51] Ibid.

[52] Tekalign Gedamu, p. 135.

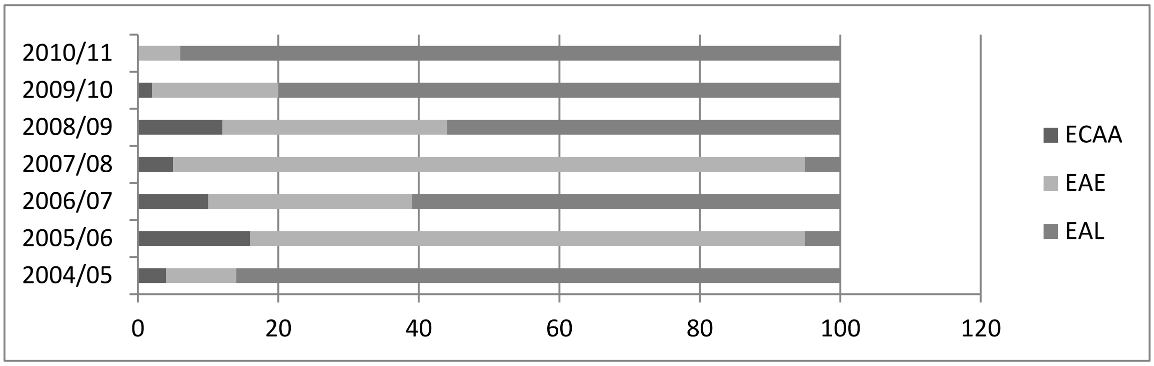
[53] Report on Ethiopian Economy, Ethiopian Economics Association publication, 2012, p. 186.

[54] Report on the Ethiopian Economy, p. 201.

[55] Ethiopian Airports Journal, Volume 2, Issue 1, EAE, 2012.

other construction and navigation facility areas. As a result of these investments, the capacity of both international and domestic airports has been significantly improved.[56]

Figure 3: Investment in Airport Infrastructure (Share in %)



Source: ECAA (as adapted from Report on the Ethiopian Economy, 2012)

Table 7: Investment in Airport Infrastructure (Share in %)

	ECAA	EAE	EAL
2004/05	4	10	86
2005/06	16	79	5
2006/07	10	29	61
2007/08	5	90	5
2008/09	12	32	56
2009/10	2	18	80
2010/11	0	6	94

Source: ECAA (as adapted from Report on the Ethiopian Economy, 2012)

According to Table 7, most of the investments in the industry's infrastructure have been in the airport enterprise (i.e., airport construction) and airlines (i.e., in the purchase of airlines and services that EAL provides, such as pilot training and MRO). The purchase of modern planes (in particular 33 aircraft—B787s, B777s, A350s, B737s) by the airline explains why most of the investment is from EAL in recent years. Again, it is not a coincidence, but rather a result of advance investment, that in recent years the share of passenger transport has grown significantly.

In Ethiopia, air transport services have had a significant impact on the domestic economy, and that impact is steadily increasing. This sector in Ethiopia includes the following types of enterprises:

- ***Airlines.*** In addition to EAL, an SOE that operates international, regional, and domestic passenger and cargo flight services, there are 15 other international airlines providing passenger and cargo services into and out of Ethiopia. Currently, the cargo service is

[56] Ibid.

also proving to be one of the core businesses of the industry contributing 15% of airline's revenue with six dedicated aircrafts for this specific service. There are 6 to 7 domestic airlines that mainly operate charter flight services in country and occasionally operate flights on short-haul regional trips (ECAA 2013).

- ***Airports.*** EAE operates four international airports (most notably Addis Ababa Bole International Airport), and eight domestic airports. Airport operations consist of aeronautical services (runways, taxiways, lighting, and aerobridge services), and non-aeronautical services (facility operations, support, and rental) (EAE 2013).
- ***Maintenance, Repair, and Overhaul Providers.*** MRO activities are dominated by EAL, which maintains and repairs aircraft, engines, and components for its fleet, as well as for those of other airlines (EAL 2012).
- ***Aviation Academy.*** Ethiopia has a strong focus on aviation education, including the training of pilots, cabin crew, maintenance technicians, ground operators and marketing staff. EAL operates the largest aviation academy in the country, but the domestic airlines also operate training academies. Aviation academies in Ethiopia are traditionally feeder programmes, as trainees are employed by the associated airlines upon completion of coursework.
- ***Services Auxiliary to Air Transport.*** These services are related to air transport, but are not technically defined as a part of that sector. This includes airlines' ticket distribution, ground handling, airport services, air navigation services and catering services which also serve third party airlines.

Key Stakeholders

Regulation of the sector involves the Ministry of Transport and the ECAA. Also, the bilateral and regional agreements afford a good account of international regulation of the sector. In previous arrangements, ECAA had the power to control, regulate, and maintain efficient air transport, facilitate the provision of regular air transport, and determine the tariff rate of the commercial aircraft operators.[57] Since the authority kept the domestic flights at a lower rate with the power it had, EAL had been forced to cross-subsidise its domestic services with the profit it makes from the international services.[58] That served as a disincentive for the airline to fully function in domestic operations. The same was true as a constraint for new entrants to the sector.

But with the coming into effect of a new proclamation, Proclamation 273/2002, the role of the authority was rather focused on determining the rules and regulations for air transport, licenses, and certification and regulation of operators, as well as implementation of domestic regulations and international agreements. This served very well for the domestic air transport services. The bilateral and multilateral/regional agreements governed the international aspect of the service in terms of tariff rates, capacity limit, and quality of the services.

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[57] Proclamation No. 111/1977.

[58] Alemayehu Geda, above, p. 301.

Market Structure

International passenger traffic is essential to economic development, as it provides jobs, facilitates trade and investment, and raises a country's global profile. As Africa becomes a larger player in the global economy, international passenger traffic continues to rise. The African middle class has grown considerably and it demands air transport services for business and leisure purposes. Furthermore, the real cost of air travel has fallen significantly, making it more accessible for the general population. AFRAA estimates that 69% of passenger traffic on African airlines is international, consisting of intercontinental and intra-Africa flights.[59]

Ethiopia welcomes approximately 500,000 international visitors annually, and these numbers are expected to rise by 18% annually.[60] The growth in international visitors can be attributed to rising interest in Ethiopian investments, the increase in conference tourism, the emergence of Ethiopia as a tourist destination, and the growing trend of diaspora Ethiopians visiting the country. Another prevalent trend in international passenger traffic in Ethiopia is a new focus on Asia and the Middle East as travel destinations and passenger sources. The Middle East and Asia traffic is growing at a higher rate than North American and European traffic.

International air transport is governed by Bilateral Air Service Agreements (BASAs) between individual countries. BASAs are also referred to as Bilateral Air Transport Agreements (BATAs) and allow air transport services between countries, regulate the airlines that can service specific routes, impose restrictions on traffic rights, and approve commercial fares. A country's success in air transport services is strongly tied to its ability to execute BASAs with other nations. Ethiopia currently has BASAs with 106 countries in six continents.[61]

A number of international airlines provide international air transport services in Ethiopia. Approximately 24% of international passenger air traffic in Ethiopia is handled by international carriers, namely Daallo Airlines, Djibouti Airlines, Egypt Air, Emirates Airlines, flydubai, Kenya Airways, Lufthansa, Saudi Arabian Airlines, Sudan Airways, Turkish Airlines, and Yemenia.[62] These airlines operate through BASAs with ECAA, and have ticket offices in Ethiopia or exclusive general service agreements (GSAs) with local travel agents. In-country revenues generated by these airlines are captured through their ECAA fees and GSA agent revenues.

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[59] 45th AFRAA Annual General Assembly: Report of the Secretary General, 2013.

[60] Ministry of Culture and Tourism website, 2013.

[61] Contracting States with Which Ethiopia Has Entered into Air Services Agreements, ECAA, 2014.

[62] Commercial Air Transport by Foreign Air Operators Within Ethiopia, ECAA, 2013.

Table 8: Freight and Passengers Transported, by Major Airlines in Africa

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Freight, in millions of tons										
Egypt	278	239	249	239	242	287	309	207	195	180
Ethiopia	78	79	83	93	117	133	157	160	228	424
Kenya	77	93	118	142	193	253	301	298	295	272
Nigeria	9	3	9	10	10	10	11	10	10	8
South Africa	688	756	784	891	929	923	1233	939	761	676
Passengers, in '000s										
Egypt	4522	4389	4527	4181	4621	4888	4988	5829	6689	6216
Ethiopia	945	1028	1103	1117	1403	1667	1720	2290	2715	2914
Kenya	1555	1418	1600	1678	2005	2424	2685	2857	2881	2949
Nigeria	507	519	520	520	540	748	1308	1363	1461	1365
South Africa	8001	7948	8053	9160	9879	11845	12933	12870	13135	12504

Source: World Bank Database, 2009

In Table 8, one can see that, compared to peer regional competitors, Ethiopia has shown a stable growth over the years in both freight volume and passenger numbers while the others have also shown increase that saw some stagnation or even decline in some years. For example, over the period of 10 years from 2000 to 2010, Ethiopia has increased its freight volume by 543% and passenger numbers by 300%. The figures for the next best competitors stand at a 353% increase by Kenya Airways for freight and a 269% increase in passengers by Nigeria Airways. It is safe to relate Ethiopia's performance to its huge investment in its airlines services and airport construction. (See Table 7 above on focus of investment.)

All air transit activities in Ethiopia are guided by the Ethiopian Civil Aviation Rules and Standards developed by the ECAA. This document provides guidelines for all parties in the air transport sector, addressing policies and procedures, personnel licensing, approved training organisations, aircraft registration and marking, airworthiness, approved maintenance organisations, instruments and equipment, aircraft operations, air operator certification, commercial air transport by foreign air operators within Ethiopia, aerial work, and aerodromes.[63]

Economic Data

Estimated Revenue Generated by the Sector

Table 9 details the annual revenue estimates for each component of the sector. International passenger services account for the largest component of air transport revenue in Ethiopia. SOE international passenger services revenue is over USD1.3 billion, calculated as EAL revenue from passenger services occurring outside of Ethiopia, or services between Ethiopia and non-

[63] Civil Aviation Rules and Standards, ECAA, 2013.

Ethiopian destinations. Revenue generated by international airlines providing transport services to and from Ethiopia is approximately USD420 million, accounting for the private sector international passenger revenue. Domestic passenger services are defined as flights that transport passengers (Ethiopians, residents, and foreign nationals) within Ethiopia's borders. The SOE revenue is calculated as EAL's domestic flight revenue, approximately USD116 million annually. The private sector domestic flight revenue generated by the privately owned charter airlines—Abyssinia Flight Services, Trans-National Airways (TNA), National Airways, Zemen Flying, International Cargo Aviation Services, Amibara and Aquarius Aviation PLC —is estimated at approximately USD34 million annually.

Cargo and mail services are the second-largest component of air transport services revenue. EAL operates a cargo network extending to more than 22 destinations, and transports the country's national and international mail. From these services, EAL generates approximately USD404 million annually. The domestic airlines also provide cargo services, mostly between Addis Ababa and other domestic locations, producing revenue estimated as USD101 million annually.

The other components of air transport services account for a smaller percentage of the estimated annual revenue. Airport services annual revenue from EAE is approximately USD6.5 million. MRO, while a strategic initiative for EAL, currently only accounts for USD8 million in annual revenue. The private sector does not currently generate revenue from MRO services. Similarly, air transport education, an important strategic initiative, does not generate noteworthy revenue for EAL or the private sector.

Services auxiliary to air transport account for a smaller, but significant portion of the sector's annual revenue estimates. ECAA generates approximately USD9 million annually by issuing licenses and registrations. Travel agencies produce approximately USD47 million annually, through the domestic sale and distribution of domestic and international airline tickets. EAL currently generates approximately USD2 million from ground handling services. The private sector airlines do not generate ground handling services revenue.

Table 9: Estimated Annual Revenue Generated by Air Transport Services Sector (in US Dollars)

	State-Owned Enterprises	Private Sector
Airlines		
International Passenger Services[64]	1,328,720,580	419,595,973
Domestic Passenger Services[65]	115,540,920	33,750,000
Cargo and Mail Services[66]	404,393,220	101,098,305
Airport Operation Services[67]	6,500,000	-
MRO	7,702,728	-
Aviation Education	-	-
Auxiliary Services		
Ethiopian Civil Aviation Agency[68]	8,656,873	-
Travel Agency Services[69]	-	46,863,360
Ground Handling Services[70]	1,925,682	-
Totals	1,873,440,003	601,307,638

Indirect, Induced, and Catalytic Revenue Generated by Air Transport Services in Ethiopia

Indirect revenue includes revenue generated by the activities of suppliers to the air transport industry, including fuel suppliers, airport infrastructure firms, distributors of aircraft parts, manufacturers of goods sold at airports, and business processing services for the air transport industry. Based on industry expertise developed by the Air Transport Action Group (ATAG), indirect revenue for air transport services in Africa is estimated to be approximately 110% of direct revenue.[71]

Induced revenue is defined as revenue generated by the spending of those directly or indirectly employed in the air transport services sector. This includes spending at retail stores, banks, restaurants, and the like. Induced revenue for air transport services in Africa is estimated at approximately 160% of direct revenue.[72]

Catalytic or spin-off revenue is defined as revenue generated by business and personal visitors and cargo transported to a country via air travel. Catalytic revenue includes all visitors' spending—hotel services, restaurants, ground transportation, retail shopping, and medical

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[64] International passenger traffic estimated based on EAL's 2012 actual numbers, and estimated market share for the sector.

[65] Domestic passenger traffic estimated based on EAL's 2012 actual numbers, and estimates for average charter flight hours and costs for the sector.

[66] Cargo traffic estimated based on EAL's 2012 actual numbers, and estimated market share for the sector.

[67] Airport services proceeds based on EAE's estimate for 2012 revenue.

[68] ECAA proceeds based on federal government budget revenue for 2011, adjusted for growth estimates.

[69] Travel agency revenue based on estimates for average ticket charge and volume, and number of travel agencies.

[70] Ground handling estimates based on EAL's 2012 actual numbers.

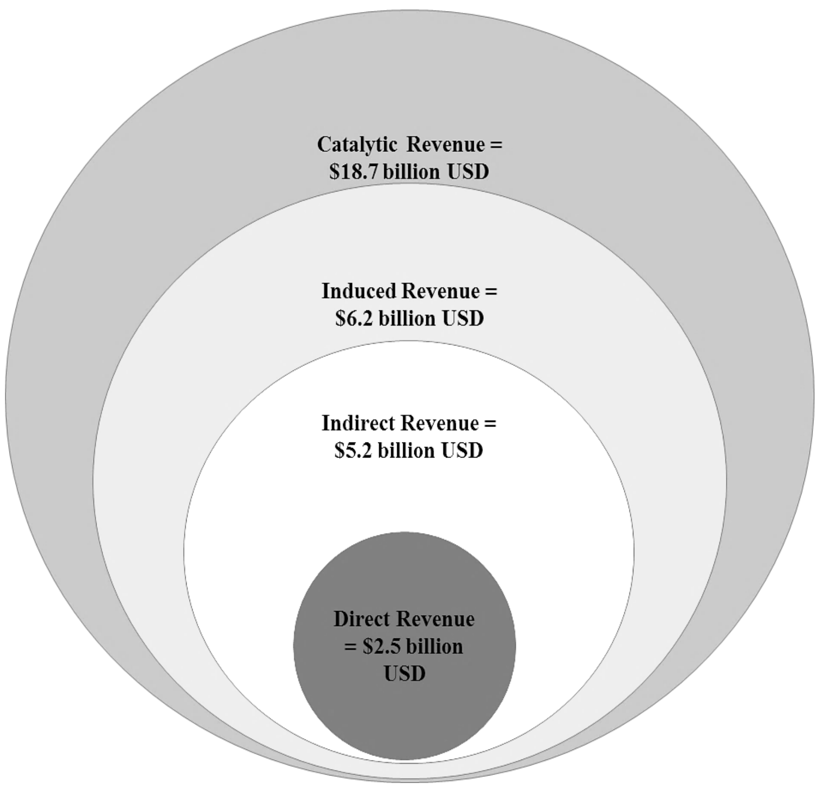
[71] Aviation Benefits Beyond Borders, ATAG, 2012.

[72] Ibid.

tourism, as well as the transactions involved in producing, shipping, and trading air cargo. Catalytic revenue for air transport services in Africa is estimated at approximately 750% of direct revenue.[73] By adding direct revenue to ATAG's revenue estimates for indirect, induced, and catalytic revenue, the total annual revenue estimate for the air transport market is valued at USD32 billion.

Figure 4 highlights the total estimated revenue generated by the air transport services sector in Ethiopia, including direct, indirect, induced, and catalytic revenue. Based on ATAG's estimates, the total annual revenue estimate for the air transport market is valued at USD32 billion. This implies that the air transport services sector has a direct impact on approximately 75% of Ethiopia's GDP. This inference holds when the role the sector plays in revenue production is considered. The air transport services sector is responsible for transporting business and tourism travellers, facilitating FDI, expediting the import and export of goods, reducing the costs of trade, accommodating international organisations, and facilitating humanitarian assistance.

Figure 4: Estimated Direct, Indirect, Induced, and Catalytic Revenue Generated by Air Transport Services in Ethiopia



Source: Ethiopian market and industry estimates based on 2012 actual data.

[73] Ibid.

Estimated Employment Generated by the Sector

Air transport is a major employer in Ethiopia, both directly and indirectly. This encompasses employment within the air transport industry (including airline and airport operations, aircraft maintenance, air traffic control and regulation) and employment activity that directly services air transport passengers (including check-in, baggage handling, on-site retail and catering facilities). Employment directly generated by this industry is estimated at 16,000 full-time employees. While this number may seem low, it is important to note that air transport is a capital-intensive business with highly skilled employees, and productivity per worker in this industry is on average 3.5 times that of other sectors.[74]

Indirect employment is calculated as including employment and activities of suppliers to the air transport industry, including energy jobs generated through the purchase of airplane fuel, IT jobs servicing computer systems for the air transport industry, and construction services related to airports. Induced employment is calculated as jobs that are generated based on the spending patterns of air transport personnel. Catalytic employment includes jobs created based on international travelers that arrive in country by air. When indirect, induced, and catalytic employment is estimated, the total work force related to the air transport industry is estimated at approximately 212,000 full-time employees.

EAL is the major employer in the sector, employing as at June 2015 – 9,082 employees on permanent basis and 2,166 employees on contract basis. EAL does not segregate employees based on function, as many duties are fluid, and employees may work across sectors. All of EAL's employees are attributed to the airline's international passenger services function, as that unit is the major revenue generator. Private sector international passenger services employment is estimated as employees working for international airlines and based in Ethiopia. Domestic passenger services estimates are based on the number of employees working for the privately owned charter flight carriers. The privately owned airlines do not segregate employees based on function, given the fluctuating operating practices of these airlines. All privately owned charter flight carrier employees are attributed to the domestic passenger services function, the major revenue generator. Cargo and mail services, MRO, aviation education, and ground handling employees for EAL and the privately owned airlines are not directly accountable, and are attributed to the passenger services functions. Estimates for airport operations and regulatory services are based on employment figures published by EAE and ECAA respectively. The private sector does not employ individuals in airport operations or regulatory services. Travel agency employment is the largest private sector employment generator in the sector. The travel agencies employ approximately 5,760 individuals in Ethiopia. Travel agency employment figures are all private sector based, as there are no SOEs operational in that sector.

Other Spillovers of the Air Transport Services Sector to the Economy

Air transport services have numerous direct and induced impacts on the economy of Ethiopia. The trade in air transport services is two-dimensional, as air transport services are traded

[74] Ibid.

independently, and are intermediate services for other kinds of trade including tourism, distribution and agriculture. The direct effects of air transport services on the Ethiopian economy include:

- Air transport services, as a standalone service, directly contribute over USD2 billion to the Ethiopian economy annually.
- The air transport sector contributes to national treasuries through taxation and fees charged to private sector carriers and agencies. Air transport is the only transport mode that pays both user charges and taxes.
- The trade in air transport services also has a positive impact by reducing the country's balance of payment ratio.
- The trade in air transport services generates much needed foreign exchange for Ethiopia, approximately twice the amount generated by the export of coffee, the country's major commodity.[75]
- The air transport sector makes positive strides in generating employment opportunities for Ethiopians.
- The air transport sector raises the human capital standards of the country by providing training and educational opportunities for Ethiopians. Investments in air transport infrastructure create additional jobs. For example, the African Development Fund noted that during the Addis Ababa International Airport Development Project, 1996 to 2004, over 980 employees were hired to work on the project. [76]

Catalytic Impact of Air Transport Services on Other Sectors

Air transport services facilitate economic growth, efficiency, poverty reduction, and employment creation through a number of catalytic impacts on the economy. The economic catalytic impacts tend to be challenging to measure, but are estimated to be significantly greater than the direct impacts. The catalytic effects of air transport services on the Ethiopian economy include:

- Air transport services facilitate the transport of business travellers to and from Ethiopia. The sector is notably important for Ethiopia, as it has adopted an outward-facing development strategy, which is heavily reliant on FDI.
- Air transport facilitates Ethiopia's burgeoning tourism sector by bringing over 500,000 visitors into the country annually.[77] Related to this is the revenue generated though goods and services purchased by tourists while in Ethiopia.
- The sector facilitates the rapid shipment of goods, reducing the cost of trade and enabling the development of new export markets such as cut flowers, live animals, and meat products.

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[75] Raising the Profile of Trade in Services in Africa, World Bank, 2013.

[76] Project Completion Report, Addis Ababa International Airport Development Project, African Development Fund, 2006.

[77] Ministry of Culture and Tourism website, 2013.

- Convenient and reasonably priced air transport services make Ethiopia an accommodating location for international organisations, notably the African Union and the United Nations Economic Commission on Africa.
- Air transport provides access to remote areas, opening them up to new markets.
- Air transport improves supply chain efficiency by shortening delivery times.
- Air transport services typically cover the costs of infrastructure investments, as air transport infrastructure has occupancy rates of up to 70%.[78]
- Air transport services facilitate humanitarian assistance.

Success Stories in Exporting Air Transport Services

EAL's successful reign as a top international air transport provider is evidenced by the company's numerous awards for its international flight services, listed in Annex 3.

EAL has developed a set of strategic goals known as Vision 2025. Under Vision 2025, the airline seeks to become the "most competitive and leading aviation group in Africa." The goals include increasing passenger traffic and international destinations. EAL plans to reach those goals by relying on cost leadership, delivering 5-star service and creating multi-hubs in Africa. The airline's strategy for new routes is based on its "betting on Africa" focus. EAL looks to expand throughout Africa to take advantage of the continent's large population, fast economic growth, and business potential in natural resources and fertile land. Given the rise in population, income, and attractiveness of Africa, EAL looks to leverage its geographical position to serve the growing trade routes between China, India, Africa, and Brazil.[79]

Strengths, Weaknesses, Opportunities, and Threats for Further Development of the Sector in Ethiopia

The analysis of strengths, weaknesses, opportunities, and threats (SWOT) highlighted in Table 10 identifies the strengths and weaknesses of Ethiopia as they relate to the air transport services sector. It also identifies potential opportunities and possible threats. Using this analysis to evaluate the air transport services sector in Ethiopia will assist in developing a sustainable niche in the market. It is essential to note that numerous factors must be considered in assessing Ethiopia's competitive potential as a successful exporter of air transport services. Table 10 is based on an aggregate assessment of Ethiopia's performance in the sector thus far and the forecasted potential based on market changes.

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[78] Aviation Benefits Beyond Borders, ATAG, 2012.

[79] Ethiopian Airlines Annual Report 2011/2012.

Table 10: Strengths, Weaknesses, Opportunities, and Threats in Ethiopia's Air Transport Services Sector

Strengths	Weaknesses
• Relatively low labour costs • Strong brand recognition • Good managerial and governance reputation • Strong credibility with international suppliers • Significant tourism potential • Existing investments in human capital development	• Government focus on promoting commodity trade and manufacturing, not equal focus for services • Excessive regulatory restrictions on investment opportunities • Bureaucratic business environment • Challenging financial services regulations • Regional political instability
Opportunities	**Threats**
• Largely Anglophone population • Large diaspora population in target markets • Geographical positioning as gateway to Africa from the Middle East and Asia • Increasing regional demand for air transport services and personnel • 1 billion population size of Africa • Growing domestic and African middle income population • Introduction of Yamoussoukro Decision	• Cannot market as aggressively as better capitalised foreign competitors • Stiff competition from subsidized Middle Eastern carriers—Emirates, Etihad Airways, Turkish Airlines • Pending competition from regional Low Cost Carriers (LCCs) • Rising fuel costs • Weak currency compared to the U.S. dollar or the euro • Brain drain of skilled air transport personnel • Non implementation of yamasucro decision • Denial of access to African airlines by African countries • Terrorism, • Epidemics such as Ebola

Recommendations for Ethiopia in the Air Transport Service Sector

> *"The government is the 100% owner, but the management are aviation professionals and run the airline as an independent business."*
>
> *– Tewolde Gebremariam, CEO of Ethiopian Airlines*

As world economies expand, there will be an unprecedented demand for personnel to fly and maintain airplanes. The 2013 Boeing Pilot & Technician Outlook projects a demand for 498,000 new commercial airline pilots and 556,000 new airline maintenance technicians by 2032.[80] These numbers do not include the projected demand for military, governmental, or charter pilots and technicians.

Ethiopia is poised to become the market leader in the training and development of air transport personnel to meet the Africa and Middle Eastern countries s requirements. The development of a regional aviation academy, one directly owned by the national carrier will enable Ethiopia to

[80] Boeing Raises Forecast for Number of New Commercial Pilots Needed, Boeing, 2013.

gain a stronghold on this growing market need. The country has the educational framework in place to develop a cross-cultural and cross-generational training programme for Africa's workforce. Globally, airlines are expanding their fleets and flight schedules to meet rising demand in emerging markets. To fill the future pipeline, a targeted approach must be pursued. Developing countries can no longer afford to recruit pilots and maintenance technicians from outside the region as it is prohibitively expensive. These countries are now looking to develop a strong foundation to train qualified technical personnel from within the local workforce. A regional aviation academy based in Ethiopia can meet those needs for African and Middle Eastern countries.

A successful model for the export of air transport educational services is showcased at Embry-Riddle Aeronautical University (ERAU), in Daytona Beach, Florida, USA. Embry-Riddle has become known for air transport education, and the school attracts students come from 98 countries around the world. To facilitate the influx of international students, the school provides comprehensive services including immigration support, English lessons, and long-term housing. ERAU works directly with governments that sponsor students at the school to ensure that proper prerequisite measures are taken before students enter ERAU programmes. In addition to the traditional educational programmes at the home campus, ERAU also offers educational hubs in 150 locations in the United States, Canada, Europe, and the Middle East, and online courses.[81]

Movement of Natural Persons

The Movement of Natural Persons provides temporary placement of service suppliers in other countries. This does not include citizens seeking permanent changes in their citizenship, residence, or employment. By embracing Ethiopia's competitive advantage in air transport education and human capital development, the country can possibly export professionals in the long run in a manner that is reciprocally beneficial for citizens, the Ethiopian government, and foreign partners. Similar initiatives have been undertaken with nurses from the Philippines and engineers from Kenya. The Philippines has actually developed the Philippines Overseas Employment Administration to regulate the recruitment, manage the deployment process, offer pre-departure seminars, and manage the reintegration process when employees return from overseas assignments. In addition to improving employment rates and providing better livelihoods for citizens, the Movement of Natural Persons also generates revenues in the form of remittances. Remittances are currently the biggest source of foreign exchange earnings for the Philippines.[82]

Market Liberalisation

African carriers have not yet been able to fully develop networks in support of the continent's demand. The liberalisation of air transport markets is expected to develop air infrastructure, create businesses in the production of goods for new export markets, and promote tourism. The

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[81] International Student Admissions, Embry-Riddle Aeronautical University, 2014.

[82] Raising the Profile of Trade in Services in Africa, The World Bank, 2013.

Yamoussoukro Decision, the guideline in aviation liberalisation in Africa, remains largely unimplemented. Current active airlines fear dominance by non- African carriers in the presence of market access denial by African countries to African airlines while the non-African airlines are granted favourable market access. Ethiopia has ratified the Yamoussoukro Decision, and EAL is working with African partners.

While EAL has pursued an aggressive open skies policy within and outside of Africa, the domestic market is still heavily regulated with respect to commercial aviation. EAL provides all the scheduled domestic flights throughout the country. The domestic airlines— Abyssinia Flight Services, Trans-National Airways (TNA), National Airways, Zemen Flying, International Cargo Aviation Services, Amibara and Aquarius Aviation PLC—only provide charter flight services. Even as domestic routes are unprofitable for EAL, the government maintains tight restrictions on domestic flight services. EAL is also the only domestic carrier that operates international flight services. Proponents of these restrictions state that safety concerns are the principal reason for the regulations. However, as air transport markets worldwide have become more liberalised, there has been no direct association with lower safety standards. In a liberalised market, carriers identify their competitive advantages and focus on them. Liberalising air transport services in country (at least increasing the 50-seat capacity limit) could improve accessibility throughout Ethiopia and boost competition. In studies conducted by IATA, it was found that liberalisation has provided benefits to consumers in price competitiveness and better flight options. Additionally, IATA has found that liberalising air transport, particularly in the major restricted country pair routes, could increase worldwide passenger traffic by up to 63%.[83] Lessons learnt other industries predict that the most efficient, flexible, and responsive firms are best positioned to benefit from liberalisation.

Technical Advisory Services

A burgeoning market exists to provide technical advisory services in the air transport services sector throughout Africa. This includes airline management, MRO, airport management, airline ancillary services, and general management consulting. These services can be performed by governmental organisations or private sector entities.

EAL currently provides technical assistance to other airlines on a secondment basis. EAL sends skilled personnel to other counties to work in various airline industry tasks. However, this model has not yet been fully exploited. As numerous African countries look to enter or re-enter the air transport services industry, they could benefit from technical advisory or management contract services provided by EAL, much as EAL benefitted from the TWA arrangement during the early operational period. Air transport is not an easy business in which to operate, as evidenced by the large number of airline closures across Africa in the last 60 years. A well-developed technical advisory service would meet the needs of these countries, while providing an expanded revenue stream for EAL.

The emerging need for airport management services is another interesting development in Africa. Proper management of an airport goes beyond servicing passengers and aircraft. There

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[83] Airline Liberalisation, International Air Transport Association, 2007.

are also safety and security requirements necessary to meet Transportation Safety Administration and FAA approval. A management contractor that also functions as a security advisor would be a welcome addition to the landscape, as many African countries struggle to meet the necessary security requirements.

Many carriers are now outsourcing their MRO services. While in-house maintenance is still common for national carriers, the introduction of low-cost carriers on the continent will likely change that trend. Industry experts predict an increased share of outsourced maintenance within the next five years. .Ethiopian is providing a profitable MRO and technical support services - engine maintenance support - to many airline operators of Africa and to some extent to the Middle Eastern countries. Rwanda Air, Nova Air (South Sudanese Air), COMAir (Cameroonian Airline) have recently benefited from such services. For an MRO organisation to truly exploit the market, it must have the flexibility and reputation necessary to service aircraft across regions. While original equipment manufacturers Boeing and GE are actively pursuing maintenance facilities in Asia, the African market, with its significant growth potential, remains untapped. The African market is poised for a large-scale MRO services provider, and this would be a fast growing market for the right public or private sector entity.

Factors Shaping Export Success of Ethiopia's Air Transport Service

Ethiopia has thrived in the air transport services market, while numerous other African countries have struggled or failed. As the economies of African countries grow stronger, there will be an exponential growth in the demand for air transport services. Sustainable political security, the discovery of natural resources, increasing trade opportunities, rising income per capita, and renewed focus on tourism will make the African market a strategic market for air transport services for the foreseeable future. Ethiopia, through the country's flagship carrier EAL, is poised to capitalise on this market.

In terms of revenue passenger kilometers (RPKs), EAL is the largest airline in Africa.. Competitors such as SAA is heavily subsidised by the South African government and is undergoing a massive turnaround strategy to support a USD494 million government guarantee granted in 2012. SAA has a history of ongoing governmental assistance, which has enabled the airline to operate unprofitably for years.[84] Royal Air Maroc (RAM), Morocco's national carrier, received a USD193 million bailout in 2011, and has access to an additional USD900 million of government funding. These subsidies were provided to enable RAM to compete with an influx of low-cost carrier (LCC) competition.[85]

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[84] Africa's ailing national airlines survive on USD2.5 billion of government subsidy: Not sound policy, Centre for Aviation, 2013.

[85] Ibid.

Geographical Positioning and Human Capital Development

Ethiopia enjoys considerable competitive advantages in the air transport services market due to the country's geographical position. Situated in the North Eastern corner of Africa, Ethiopia is bordered in the north by Eritrea, in the west by Sudan, in the east by Somalia and Djibouti, and in the south by Kenya. The location allows EAL to "bet on Africa" as a part of its Vision 2015 strategy. With a young population of over 1 billion people, Africa is the second-fastest growing continent. Ethiopia looks to capitalise on its African geography to realise revenues from the continent's rapidly rising economies. Given the projected increase in GDP, rising FDI, and wealth of natural resources, Africa is poised to become the fastest growing geography in air transport. Additionally, Ethiopia's East African locale serves as an ideal gateway to Africa from the Middle East and Asia, as a hub for the fastest growing trade lane: China–India–Africa–Brazil.[86] Finally, Ethiopia's capital, Addis Ababa, is home to key international organisations, most notably the African Union (AU) and the United Nations Economic Commission for Africa (ECA). These two organisations employ over 2,500 expatriates, and facilitate Ethiopia's rising conference tourism sector.[87]

Ethiopia has invested significant resources into the development of air transport services personnel. The Ethiopian Aviation Academy enforces strict educational, physical, and medical standards for students to gain entry. The selection criteria are quite stringent, as students attend the academy at no personal cost, and are guaranteed a job with EAL upon graduation. EAL also operates continuing education programmes for employees in technical and leadership skills. Air transport professionals are highly skilled, and the development of these skills requires numerous resources. The recruitment costs for air transport professionals from outside Africa are exorbitant, so EAL has been able to capitalise on lower local labour costs by training and hiring the necessary staff. EAL's investments in human capital have paid off considerably, as the airline enjoys above-average labour productivity and has won numerous service awards.[88]

First Mover Advantage

When Ethiopia entered the air transport services market in the 1930s, the majority of other African countries were still under colonial rule. Given that other countries were not in the economic or political position to start an airline, Ethiopia became the first mover in the space with the founding of EAL in 1945. When asked by IATA why Ethiopian Airlines is so successful, CEO Tewolde Gebremariam stated, "We have a strong brand in Africa. We have been providing connectivity for a long time and we have a lot of good will from all African countries."[89]

There are often significant advantages, large returns, and great branding opportunities for the first mover that provides a needed service within the requisite scale. Given that countries

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[86] EAL interview, 2013.

[87] Ibid.

[88] Ibid.

[89] Ethiopian Airlines: A glass half full, International Air Transport Association, 2013.

distribute a limited number of BASAs, the first mover is essential to establishing a wide network of destinations. The first mover advantage has also allowed EAL to gain brand recognition, establish customer loyalty, perfect its services, and gain market share. Moreover, first mover airlines that establish hubs in major cities tend to prosper and "crowd out" other airlines seeking to establish hubs in close proximity. By leveraging this first mover advantage, EAL has not only successfully staked its claim on the air transport market, but has also positioned Ethiopia as the regional hub for East Africa.

In addition to EAL's first mover advantage as an African carrier, and first mover as a regional hub, the airline also obtained first mover status in many key routes. The most notable destination is China, which has become increasingly important to the air transport services sector in recent years. In 2013, EAL celebrated 40 years of service to China. When the airline began that route, it was the only African airline and the fourth globally to fly to China.[90] Furthermore, EAL has also become the frontrunner in the intra-Africa air transport services market. EAL anticipated the growth of the regional African market, and moved to establish BASAs with African countries when other airlines were targeting European partners. In the early 1990s, EAL had an intra-African network that spanned 18 countries across the continent.[91]

EAL has been able to maintain its market position because that area provides requisite services for its clientele. The airline has not become complacent, as is often the case with many first movers. However, simply being the first mover in a market does not automatically lead to success. The key for EAL has been strong operational capacity—and this has been present in the company since inception. From the onset of EAL's operations, the company has had market foresight, strong management teams, international-level safety standards, and an aggressive expansion strategy. It has been asserted that EAL was founded with the right business model, which has simply been fine-tuned by subsequent management teams over the last 70 years of operation.

Strong Managerial and Operational Practices

EAL has always been an industry leader in managerial practices. The airline fosters a strong corporate culture and is conscious of cost constraints. The airline works to maintain the lowest possible costs, while still operating as a full-service carrier with global standards. Given that fuel costs are a significant portion of EAL's expenditures, careful budgeting is essential to allow the airline to compete with Middle Eastern carriers on pricing flexibility.

The airline has also maintained a long term strategic outlook, utilising visionary goals for up to 15 years. The airline's introduction of Vision 2025 and its predecessor, Vision 2010, demonstrates the commitment to long-term vision. Few airlines and even fewer SOEs operate with long-term strategic goals. EAL realised the importance of a 15-year strategy, noting that operating with only short-term goals does a disservice to the organisation.[92]

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[90] Ethiopian Airlines Corporate History, 2013.

[91] Ibid.

[92] Ibid.

EAL has remained flexible when necessary—adding new routes, embracing technology, and adapting new initiatives. EAL employs a strategic mix of aircraft leases and purchases, striking a balance between cost savings and technological advancement. EAL has leased 13 of Boeing's Dreamliner 787-8 aircraft, making the airline the first in Africa and second in the world to operate the 787 Dreamliner aircraft.[93] Most importantly, EAL maintains strict safety guidelines. EAL is unique amongst African carriers in that the airline has passed over 80% of the major safety criteria standards. When operating in a critical market like air transport, safety is paramount. Even minor oversights or perceived issues can discourage and frighten customers. EAL operates to a world-class safety standard, in a market that is often apprehensive over safety concerns.[94] EAL regularly passes audits measured against ICAO, FAA, and EASA standards.

The government of Ethiopia was wise in pursuing technical assistance in founding EAL. When Emperor Haile Selassie I asked the USA, the UK, and France to support the launching of EAL, assistance came through an agreement with American carrier Transcontinental and Western Airlines (TWA). While EAL was fully owned by Ethiopia, it was managed by TWA under a technical services agreement. This agreement served two major purposes—it ensured that EAL was operated to international standards, and it allowed sufficient time for the transfer of knowledge between TWA and EAL professionals. Though radical in its time, the agreement was simple in execution and served both parties well. As the capacity of Ethiopian staff was built, the technical service agreement was altered to shift functions and management. In 1975, thirty years after inception, EAL ended its technical assistance relationship with TWA (EAL 2013); however, the management values taught by TWA remain to this day.

Managerial Autonomy

"Ethiopia could export pilots the same way we export coffee."

– Captain Solomon Gizaw, Managing Director, Abyssinian Flight Service

It is rare for an African SOE to operate with full managerial autonomy. A serious problem with most SOEs is that managers lack autonomy to respond to market conditions, and government owners often make key decisions regarding labour supply, supply chain, vendor management, and operations. EAL is one of the few exceptions, as the ownership and management of the airline are completely separate. While EAL's board is composed of government officials, the management team is exclusively responsible and accountable for day-to-day operations. EAL has been exempt from the frequent government interference that often plagues many SOEs—

[93] Ibid.

[94] Ethiopian Airlines: A glass half full, International Air Transport Association, 2013.

political appointments, governmental mismanagement of finances, and political business decisions.[95]

Experts have stressed EAL's autonomous and vision of management, as a model for other SOEs in developing countries. Autonomous management has played a major role in EAL's success. It has allowed the airline to function without limitations, creating opportunities to exploit its maximum capacity. EAL reinvests all profits into operations. There is no unwarranted interference, and management is responsible and accountable for day-to-day operations.

Central to this arrangement is trust between the government and the SOE. EAL has always maintained full transparency, making it easier for the government to accept its expertise. In the current global economy, government entities are expected to be transparent and accountable. EAL lives up to this expectation by regularly publishing financial results, press releases, and operational changes.

Multi-Hub Operation Strategy

EAL's multi-hub strategy is currently being implemented through the airline's partnerships with two regional carriers, ASKY and Malawian Airlines. And currently, it is in negotiations to set up two new hubs: Juba Airport and Democratic Republic of Congo with Central Africa Republic.[96] The strategic partnerships will facilitate EAL's vision by creating large passenger and cargo hubs in West and Southern Africa.

ASKY Airlines commenced operations in 2010 to meet the growing demand for air transport in West and Central Africa. EAL currently owns over 40% of ASKY, while the rest is held by Ecobank, the ECOWAS Bank for Investment and Development, and Banque Ouest-Africaine de Développement. ASKY is based at Lomé Airport in Togo. The airline has a fleet of 7 aircraft and operates more than 200 flights a week to 22 destinations throughout West and Central Africa. ASKY is the second largest carrier in West Africa (after Nigeria's Arik Air). To support the added traffic, given ASKY's operations, Lomé Airport is undergoing an expansion and modernisation project valued at USD150 million. The project includes construction of a new terminal and taxiways, installation of aerobridges, expansion of the cargo capacity, and strengthening of the runway.[97]

In 2013, EAL took a 49% stake in Malawian Airlines; remaining shares are held by the Malawian government and private investors. The Joint Venture (JV) in the East Central African airline is a relaunch of the national carrier. EAL provided two aircraft to Malawian Airlines as part of the deal. EAL CEO Tewolde Gebremariam has stated that the JV is a model for cooperation amongst African carriers to develop an air transport services market to compete with foreign carriers (CAPA 2013). Malawian Airlines began operations on January 31, 2014. The airline has a fleet of two aircraft and operates 20 flights weekly to 6 destinations in Malawi, Zimbabwe,

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[95] EAL interview, 2013.

[96] Ethiopian hopes to establish two more hubs in Central Africa, *Capital Newspaper*, June 2014.

[97] Ethiopian appoints CEOs for Malawi Airlines, ASKY, *Capital Ethiopia*, 2013.

South Africa, Zambia, and Tanzania. The airline has sales offices in all of the destination countries. Given Malawian Airlines' short operating history, there are no data available on trade volume and trends.[98]

In addition to the regional hubs in Lomé and Lilongwe, EAL is also planning to add a hub in the Democratic Republic of Congo. The airline sees this system of building African hubs as a means to win international passenger traffic beyond its base in Addis Ababa and take advantage of the economic growth and increased passenger traffic across the continent. Revenue from these strategic initiatives is still negligible.[99]

Lessons Learnt and Best Practices

Ethiopia's air transport services market is unique in that it was started almost 70 years ago. The long operating history has given the country and the industry ample time to perfect their policies, strategies, and operations. In identifying Ethiopia's best practices in the sector, this report takes a two-pronged approach. Firstly, the best practices in development and operation of air transport services were identified. Secondly, best practices in the export of air transport services were identified.

Operational Best Practices

Ethiopia has been successful in air transport services because of a few key best practices. These guidelines can be adapted for other service sectors across the continent, and adapted based on the stage of development.

- ***Managerial Autonomy for SOEs.*** EAL operates with full managerial autonomy from the government of Ethiopia. This creates a responsible and accountable management team that is free from government intervention, political appointments, or politicians' influence on daily operations. When an SOE that is optimally staffed, funded, and managed, it should be empowered to operate with limited government interference, as unwarranted interference undermines operations, creates unattractive business environments, and erodes performance.
- ***Investments in Human Capital.*** Ethiopia has recognised the importance of developing human capital capacity to meet the requirements of the most relevant services industries. Given the continent's high unemployment rate and low cost of labour, focused human capital development is an ideal solution. By developing a service sector, and taking the relevant steps to train the population to meet that sector's skills requirements, economies can capitalise on their competitive advantages, build the capacity of their populations, and foster self-sufficient services sectors. Further, by enhancing the focused educational or technical offerings, a country can also create demand from foreign students, and create a market for services outsourcing.

98 Ibid.

99 Ibid.

- ***Cultivating Competitive Advantage.*** The key to successful services offerings lies in recognising competitive advantages and fostering them. Services competitive advantages are often difficult to identify in underdeveloped markets. To determine these competitive advantages, countries must assess the prominent skill sets citizens and evaluate trade patterns and partners. Language skills, geographical positioning, and market requirements should also be considered. Once competitive advantages have been identified, the government must take deliberate steps to cultivate the market for these services. This may include entering into technical advisory relationships with experienced service providers, offering tax incentives for relevant parties, or subsidising related training and educational programmes.

Export Best Practices

One of the reasons Ethiopia's air transport services sector has been successful is that EAL has mastered two key strategies—providing a service the client needs while in country, and developing a means for the client to purchase the service in the client's home region.

- ***Consumption Abroad Transactions.*** Central to Ethiopia's success in this sector is the existence of a market for the service. Ethiopia has created an environment in which air transport services thrive. Because of the country's active air transport services sector, the clients—air transport passengers, aircraft, cargo customers and students—all enter the market to purchase services. Additionally, since the market restrictions are generally set by the home market, Ethiopia can develop policies and regulations to foster these businesses. The code sharing agreement it has entered through Star Alliance system — the biggest code share agreement in the industry— has added value for the airline and its customers alike.
- ***Commercial Presence Transactions.*** Ethiopia has identified the most fertile markets in which its air transport services are needed, and has established a commercial presence in those markets. Predominantly, EAL has established regional partners, acquired shares with these partners, and established sales and services offices. But increasingly, the airline is establishing joint ventures and strategic agreements to operate in these markets, further expanding the airline's reach.

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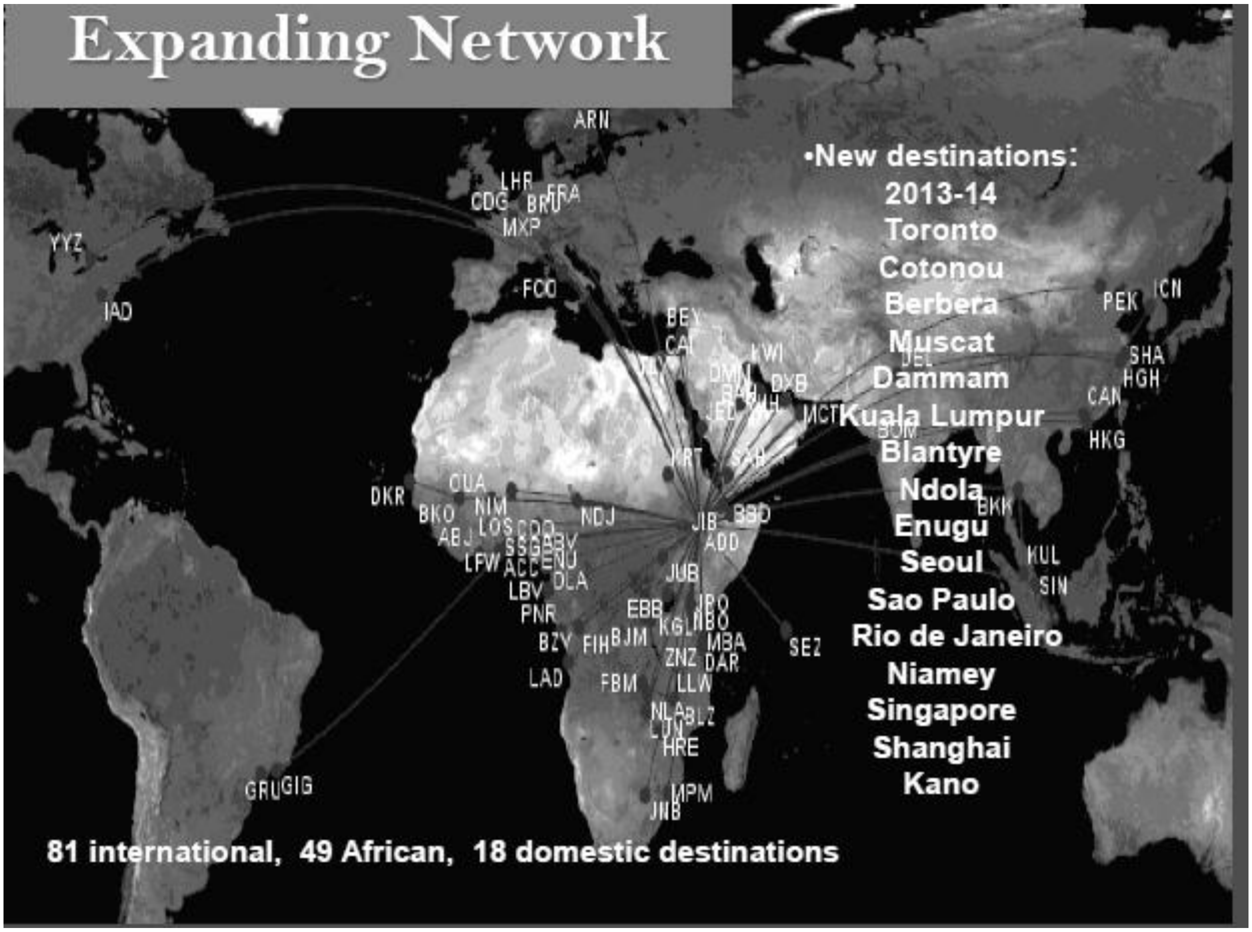
Annex 1: Questionnaire Used for the Case Study on Ethiopian Airlines' Success Story

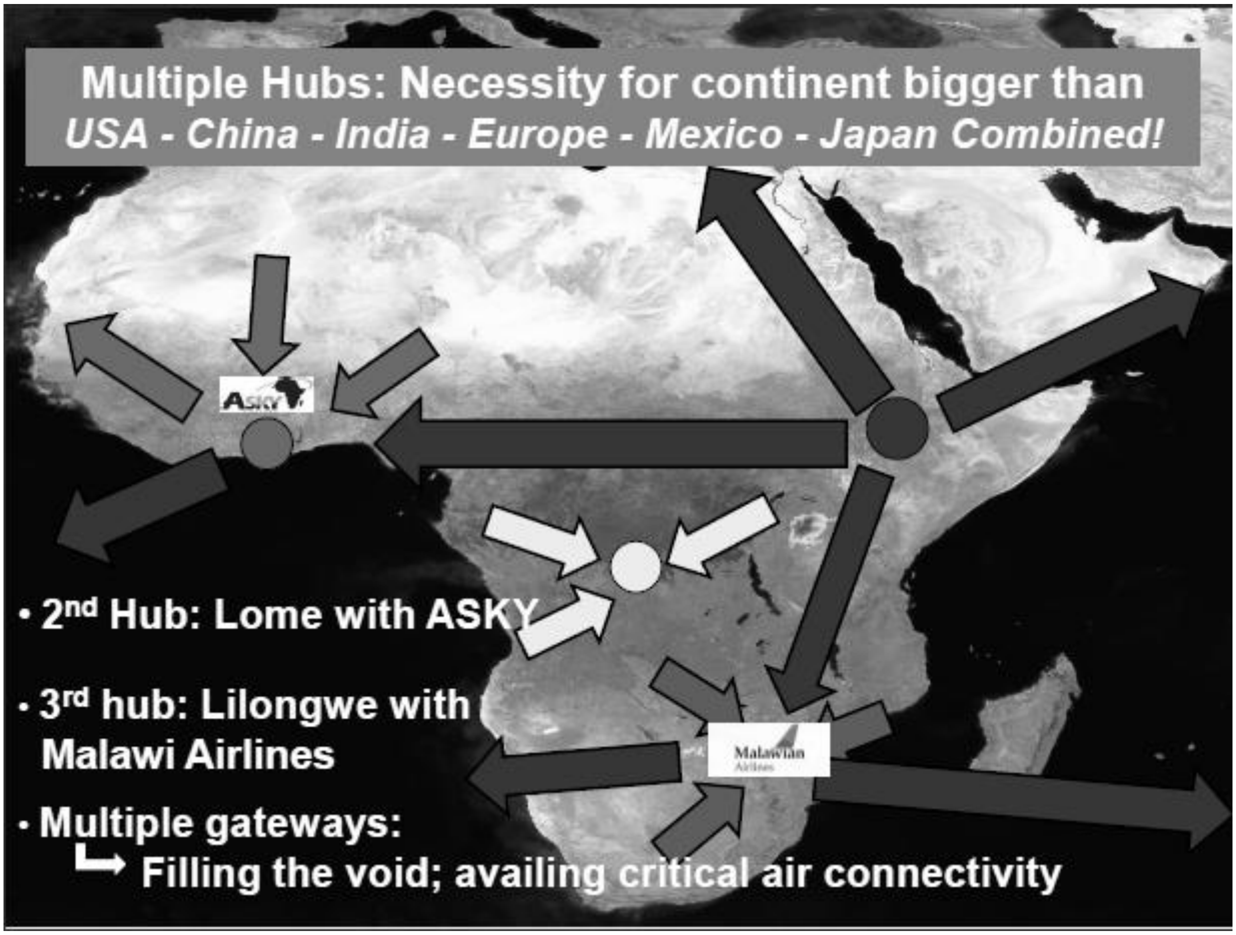
Questionnaire for the success stories and challenges faced by Ethiopian Airlines

1. Are there data on:
   a. The airline industry contribution to the GDP (revenue, employment, forex earned)
   b. The percentage share of Ethiopian air transport in overall African market?
2. What is the share of:
   a. MRO services to overall air transport services exports?
   b. Cargo transportation to overall air transport exports?
3. How is the trend in the growth of Ethiopia's air transport sector for the last five years? If shown on a graph, is it growing? Any data on that?
4. What are the existing policy and regulatory frameworks governing the service sector?
   a. This could be Trade and Industry Policy, Yamoussoukro Decision (Ethiopia is party to the decision), COMESA air transport liberalisation programme, Civil Aviation Rules, National Airport Development Plan, Growth Transformation Plan 2010-2015. What are the roles played by the various policy and legal instruments in the success of sector?
5. What is the role of government in shaping existing services exports? This could include the necessary incentives granted to the airline.
   a. Are there any investment incentives for the service and other types if data is available?
6. Is there any role played by TWA in the development of the sector?
7. Ethiopia, though overall is thought to be a closed economy, was able to liberalise air transport services; could this have influenced its competitiveness?
8. What are the strategies by Ethiopian Airlines:
   a. Like the purchase of new top-of-the-range aircraft, specific routes of profit, and their contribution to success of the sector?
   b. Strategic vision of EAL and future of the sector i.e., market potential and expansion?

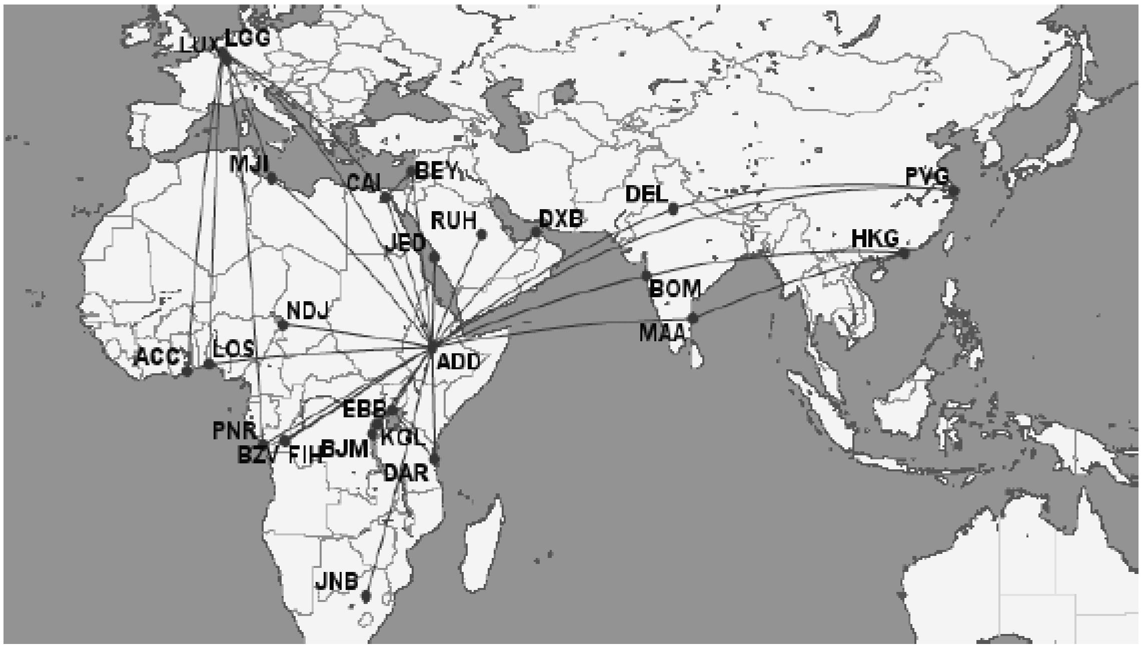
9. What are the core challenges faced by the airline internally and in the export markets? And how do you plan to overcome these challenges?
10. On human capital formation, please provide:
    a. Quantitative and qualitative description of schools and programmes providing relevant skills.
    b. Numbers and trends of how many people have been trained to support the airline sector over time.
11. What are Ethiopia's most profitable routes or markets for air transportation? Are they always the same or different from time to time?
12. Please state breakdown of the Services Sector Statistics, i.e., what is the contribution of air transport to overall services exports?
13. Estimates of contribution of air transport services sector to domestic economy and trade, i.e., to overall service sector?
    a. What is the percentage of the overall services exports?
    b. Also, data presenting trends in growth of the sector, i.e., 2010-2013/4 , has it been growing or not? At what rate?
14. Please provide Ethiopia's Vision 2025 document prepared by the airline.
15. What were some of the initial conditions that supported the sector (linked to endowments or other advantages)?
16. Please highlight any key policy decisions taken in early stages (linked to policy influences and promotion).

Annex 2: Pictorial Representations of Ethiopia's Export Market and Strategy




Multiple Hubs: Necessity for continent bigger than
USA - China - India - Europe - Mexico - Japan Combined!
ASKY
Malawian Airlines
• 2nd Hub: Lome with ASKY
• 3rd hub: Lilongwe with
Malawi Airlines
• Multiple gateways:
Filling the void; availing critical air connectivity

No.1 Freight Operator in Africa



Ethiopian Cargo serves 24 destinations across the world with six dedicated freighters

Annex 3: Selected Ethiopian Airlines Quality Awards

- CAPA Airline of the Year Award at the 2015 CAPA Aviation Awards for Excellence held in October 2015 in Helsinki, Finland,
- Global Growth Company of 2015 from World Economic Forum in September 2015 in Dalian, People's Republic of Chinam
- Ethiopian CEO won International GranPrix Special Award in Milan, June 2015
- Ethiopian Ranked Number 6 among the 22 most dependable airlines in the world in three areas: Ontime performance, low costs to check bags, average age of airline fleet
- Winner of Air Cargo Brand of the Decade for Africa Award from Shipping, Transport, Aviation and Tourism (STAT) in February 2015
- Regional Airline of the Year at the 41st ATW Airline Industry Achievement Awards, February 2015
- African Airline of the Year Award by the African Airlines Association in Algiers, November 2014
- "Best Foreign Airline of the Year from Africa Award", Kuala Lumpur International Airport (KILA) in November 2014
- Best Airline of the Year Award at MICE Magazine's 7th Annual Award Ceremony in Beijing, China in April 2014
- Best Airline in Africa, for second time in a row at the APEX 2014 EXPO in California in September 2014
- Ethiopian Airline CEO Tewolde Gebremariam won 2013 Airline Strategy Awards for Regional Leadership in July 2013
- Passenger Choice "Best Airline in Africa", California, August 2013
- Africa's Best Business Class Airline by Chinese Passengers at the 9th Annual Best Travel Media Award Ceremony in Beijing, 2013
- The Best Airline in Africa for Staff Service – World Airline Awards, 2013
- The Gold Level Performance Excellence Award – Boeing, 2013
- Best Airline Staff Service in Africa – SkyTrax World Airline Awards, 2013
- African Airline of the Year Award – AFRAA, 2013, 2010, and 2009
- African Airline of the Year Award – Pan-African Award Committee, 2013
- Best Cabin Crew in Africa Award – Pan-African Award Committee, 2013
- African Business of the Year Award – The African Business Awards, 2013
- Best Regional Airline in Africa Award – The Passenger Choice Awards, 2013
- Airline Reliability Performance Award – Bombardier Aerospace, 2013, 2012, and 2011
- International Diamond Prize for Excellence in Quality, European Society for Quality Research, 2012
- African Airline of the Year – African Travel Quarterly magazine, 2012
- Transformation Award – Planet Africa Network, 2012
- African Airline of the Year – African Aviation, 2012
- Transport Infrastructure Excellence Awards – The New Partnership for Africa's Development (NEPAD), 2009
- Best Airline in Africa Award – African Travel Award, 2008
- Corporate Achievement Award – Aviation & Allied Business Publication, 2008.[100]

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[100] Ethiopian Airlines Awards, 2014.

3. BANKING SERVICES: A CASE STUDY OF NIGERIA

Authors: Ramesh Chaitoo and Abiodun Bankole

Executive Summary

This case study examines Nigeria's services policy context and in particular, the structure and performance of Nigeria's banking sector with regard to the export of banking services. The study identifies the emerging opportunities and challenges for the banking services sector, along with the respective strengths and weaknesses demonstrated in Nigeria. The study's general objective is the identification of factors leading to the export success of this sector, as well as constraints to regional and global competitiveness regarding increasing banking services exports from Nigeria.

In international trade, services are exported and imported through four modes or means of supply. In the case of financial services, for various reasons regarding risk, most governments only allow banking services through established businesses through a commercial presence (or Mode 3). Whilst cross-border supply (Mode 1) of financial services is becoming increasingly possible through the Internet, due to information and communication technology (ICT), most governments do not allow such, except for very limited areas such as foreign exchange transactions and clearing business among firms, not end consumers. But the emergence of mobile money or at least mobile payments systems through mobile network operators (MNOs) is starting to revolutionise this activity and it may only be a matter of time before cross-border payments via mobile phones are allowed officially by regulators.

Nigeria's Services Sector and Trade in Services

The Nigerian services sector has assumed an important role in the last two decades due to its remarkable development as a significant growth driver. During this period, demand for services has risen sharply, coinciding with growth in the economy and confirming the services sector's high income elasticity, generally, as the consumption of many services such as education, health, and transportation expand in tandem with rising income per capita. The growth of Nigeria's services sector is somewhat insulated from manufacturing and, to a lesser extent, agricultural activities, which have suffered more in respect of supply constraints.

In constant factor cost, the services sector contributed about 25% to the Gross Domestic Product (GDP) in 1985/86 on the eve of the Structural Adjustment Programme. This contribution which reached 26% in 1994, increased to about 30% in 2001, and assumed an upward trend thereafter, reaching its highest point of 42.4% in 2012. Thus, services activities have expanded their influence in the economy over the last 5 years, accounting for almost 40% of the real GDP.

Nigeria's services output is highly diversified, with certain components serving as input for some production activities, and others as final demand. The available data cover 22 subsectors. Of these, significant contributions to services output occur in only six subsectors. In order of ranking, these are wholesale and retail trade, financial services, road transport, building and construction, real estate, and electricity. The rest of the services subsectors, which ordinarily should provide important inputs to other sectors, particularly manufacturing, oil and gas, and agriculture, do not account for a significant share of services output (GDP).

In 2013, Nigeria rebased its GDP from 1990 to 2010 as the base year, and it amounted to N 80.2 trillion (or US$ 509.9 billion) representing an increase of about 89% based on the old GDP estimate for 2013 which was N 42.4 trillion (or US$ 269.5 billion). However, only preliminary figures were released in April 2014 and details were expected to be released later. Nevertheless, the new figures revealed that in 2012 the Nigerian GDP consisted of the following: agriculture, 22.4%; industry, 26.72%; and crude oil and natural gas, 15.89%. Interestingly, now telecommunications and information services comprise 8.73% and music production accounts for 1.2% of GDP. The share of financial services in GDP was 2.29% in 2013; furthermore, the sector grew by 32.3% in nominal terms in 2013.

Overall, according to the new methodology, services comprised 50.9% of GDP in 2012. GDP estimates at the 1990 base year indicated that wholesale and retail trade was the largest component of the services sector. Next in rank were hotel and restaurants and then real estate services. Using 2010 as the new base year, wholesale and retail trade remains the largest component of the services sector, but telecommunication ranks next, followed by real estate services.

In terms of employment, data on the Nigerian labour market as a whole and in the services sector are not collected on a continuous basis, and should be treated with some caution. Data for 2010 show that the wholesale and retail trade sector is the largest with a total employment of 12 million people, which represents 43.6% of the total labour force employed in the services sector. This is followed by the accommodation and food service sector, which employed 2.73 million people (or 9.9%); transportation and storage employed 2 million (7.3%). The education sector employed 1.6 million representing 5.7%. In comparison, only 171,403 people were employed in the financial services sector in 2010.

There are concerns about the accuracy of services trade data for Nigeria. The available data (exports and imports) on Nigeria's services trade for 2003–2011 from multilateral sources (and aggregated data from Nigerian sources, which vary) indicate an increasing trend of overall deficits in services trade for the entire period. Also, whilst imports of services continue to increase, most services exports are flat or actually decreasing. Nigeria even runs a trade deficit in tourism/travel services. This is not an optimistic prognosis for the future. But it does illustrate the fact that Nigeria's economy is predominantly dependent on oil and gas production with very little export diversification in recent decades.

Other data for 2005–2011 for financial services trade also show a trend of significant and increasing deficits in financial services trade for Nigeria over the period. It is not clear what is the reason for this, given the number of foreign locations of Nigerian banks; but it may be due to borrowing overseas (where capital is cheaper) in order to fund their investments in other African economies. But in the final analysis, since it is difficult to be confident about the accuracy of any of the data, one can only speculate about the significance of the trade data.

The Policy Environment for Services

The Federal Ministry of Industry, Trade and Investment is the institution responsible for services by establishing the policy framework for services trade, whilst a myriad of institutions are in charge of services sector development. Nigeria does not have any clear services trade policy agenda. In general, some National Development Plans make reference to services sector development and trade with the degree of detail differing from one plan to another. For instance, the National Economic Empowerment and Development Strategy (NEEDS) mapped out various strategies for individual services related sectors such as the expansion of information and communications, increasing activities in tourism and distributive trade, entertainment, power, education, and construction. However, in spite of these references to services sector development and trade in recent plans, and the implementation of privatisation and economic deregulation undertaken from 1986, a holistic services development policy is lacking and the legal framework for individual services markets is sometimes inconsistent.

The Nigerian banking industry is a highly regulated one because of the importance of the sector in the economy. The key regulators in the Nigerian banking industry are: the Central Bank of Nigeria (CBN), the Nigeria Deposit Insurance Corporation (NDIC) and the Securities and Exchange Commission (SEC).

There is no clear indication or evidence of a strategy or policy of consistent support for services exports, particularly financial or banking services exports, by the Government of Nigeria. The government's export development programmes are usually directed at export of goods, and only a small share is allocated to services. There is a federal Financial System Strategy 2020 (FSS 2020) but this focuses mainly on domestic financial services issues in Nigeria. The second prong of the strategy focuses on enhancing integration with external financial markets, concurrently with strengthening the domestic financial markets. However, the FSS does not seem to be emphasized by any entity or government agency in Nigeria, and it is unlikely that its export element has received any attention by relevant agencies or the banking sector as a whole. The external thrust by Nigerian banks has been at their own initiative and with no support or facilitating mechanisms by the federal government.

The Banking Sector in Nigeria

The banking sector occupies a vital position in Nigeria's financial system and plays a crucial role in the financial intermediation process. Its ability to adequately intermediate between surplus and deficit units has been periodically disrupted as a result of its susceptibility to macroeconomic volatility and systemic distress, making reform in the sector inevitable. Consequently, the Nigerian banking system has witnessed substantial policy and regulatory developments in the last five decades, which can be categorized into seven distinct phases.

The current (seventh) phase of the policy and regulatory development of the banking sector in Nigeria commenced in 2005 and is regarded as the *era of bank consolidation*. The first part of this phase of bank consolidation was designed to ensure a diversified, strong, and reliable banking sector, to ensure the safety of depositors' money, the playing of active developmental roles in the Nigerian economy, and the banks becoming competent and competitive players both in the African and global financial systems. Emphasis was placed on recapitalisation and proactive regulation based on a risk-based or risk-focused supervision framework. The measures required urgent and drastic actions by the CBN to prevent systemic failure in the wake of the global financial crisis. The International Monetary Fund (IMF) concluded in 2013 that the financial sector in Nigeria is no longer at risk of instability.

The total assets of Nigerian banks increased over time, from N 235.8 million in 1960 to N 19.4 trillion in 2011. This resulted from new entrants into the banking market, increased shareholdings, and reinvested profits which are used to acquire more tangible and intangible assets needed for their operation. Deposits money banks (DMBs) have equally been able to attract deposits in the system. These range from the lowest value of N 82.23 million in 1990 to N 4,920.8 billion in 2011. The consistent increase in the total deposits of Nigerian banks justifies the various reforms that have been implemented in the country. Very remarkable is the increase in the commercial banks' deposits from N 946,639 million in 2005 to almost N 5 trillion in 2011 in the post recapitalisation period.

In spite of the tremendous growth in banks and banking activities in Nigeria in the past two decades, the level of access to financial services in the population as a whole is far from optimal. The Enhancing Financial Innovation & Access (EFInA) Access to Financial Services 2012 survey showed that, of a population of 87.9 million, 34.9 million adults are financially excluded in Nigeria. Only about 32.5% are banked, 17.3% have access to informal financial services, and 39.7% have no access to financial services whatsoever. This is mainly because Nigeria has a large rural population (71%). However, mobile phone ownership is about 85% in urban areas and 56% in rural areas, so there is potential to reach those that are currently financially excluded through mobile technologies. The Nigerian government launched an ambitious Financial Inclusion Strategy in October 2012, which seeks to reduce the number of adults excluded from access to financial services to 20% by 2020.

As the World Trade Organization (WTO) pointed out in 2011, although the financial sector in Nigeria has grown strongly since 2003, averaging nearly 4% per year in real terms between 2004 and 2009, the main demand for financial services is from the corporate sector. For most individuals, Nigeria is mostly a cash-based economy and is likely to remain so for some time. Although most banks now offer online and/or mobile phone-based services, and the number of point-of-sale terminals for credit and debit cards is increasing, consumer confidence in the banking system is still lacking. And in the target markets in other African regions, high levels of poverty make it impractical to expect that commercial banks will receive high profits from retail banking. The trend will remain a focus on corporate clients and lending to governments, since government bonds pay relatively well with little risk compared to lending to the private sector or small and medium-sized enterprises (SMEs).

Nigerian Banks and Financial Services Exports

Nigeria is now a leading country in the banking industry in Africa. The banking services sector has become an area in which Nigeria enjoys some notable comparative advantage. In October 2013, there were 20 commercial banks with 5,810 branches, compared to 2,193 branches in 2000. Nigeria is also one of the successful exporters of banking services; and the prime example is United Bank for Africa (UBA), which is a large financial service provider in Nigeria with subsidiaries in 20 Sub-Saharan countries.

The main opportunities for Nigeria's financial services lie in the export of commercial banking services and in capital markets.

External assets of Nigerian banks (proxy for exports of banking services) increased from a paltry N 250.2 million in 1980 to N 194,585.4 million in 2000, and peaked at N 1,702,513.5 million in 2011. Similarly, external liabilities increased from N 88.3 in 1980 to N 34,370.8 million and peaked at N 653,793.7 million in the same period. The global financial crisis seems to have had a negative effect on the import of commercial banking services as it witnessed a decline between 2007 and 2009. It however increased to N 387,635.0 million in 2011, a probable response to the positive world economic outlook recorded during that period.

Conclusions

The small size of many African economies prevents their domestic banks from being able to take advantage of economies of scale. For banks in these countries to be efficient and competitive, they must either export their services or they must consolidate within the region or globally. Continued expansion into other African countries will help Nigerian banks diversify into economies less dependent on oil exports and will spread and diversify risk. Also, given the low level of development of financial services in most African economies, the potential for growth is significant, but it must be developed in line with concerted efforts to increase access to financial services.

The insights of Ecobank regarding regulatory or trade barriers in other African markets indicate that it is important for governments in African regional economic communities (RECs) to better integrate standards and regulations governing the banking industry in order to help reduce costs and increase efficiency of the banking sector. Banks investing in different markets in the same REC still face significant regulatory differences regarding capital requirements, reporting requirements, and licensing requirements, among others, that constrain their ability to seamlessly operate across borders and increase their scale and efficiency.

The reasons for the cross-border expansion of Nigerian banks are similar for all other banks that have cross-border operations. The drivers of cross-border investment are many and often interrelated, but the common ones are the declining opportunities in domestic markets and regulatory factors.

It may be argued that the main factor that shaped the success of Nigerian banks in exporting their services is their success at home in Nigeria, induced by the bank consolidation policy which increased the size of their balance sheets and their ability to take on big businesses and engage in global competition, including establishment of branches or affiliates outside Nigeria.

It would be premature for African countries to try to export financial services and not pay attention to increasing the participation of their own citizens in the formal banking system. It is therefore recommended that all countries should develop a financial inclusion strategy in collaboration with financial institutions and public stakeholders or NGOs.

Cross-border banking will pose an increasing challenge for regulators across Africa. The need for bank regulation and supervision is based on the recognition that bank failure imposes costs on other financial institutions and the real economy that are external to the failing financial institution and thus not internalized by the risk decision takers. Financial integration, however, also implies external costs of bank failure beyond national borders that are not taken into account by national regulators and supervisors. Close cooperation that can help internalize these cross-border externalities is necessary.

Judging from the enthusiasm of several Nigerian banks for cross-border expansion, and the expected increased growth in many African countries, one can only conclude that the opportunities are significant for banks in terms of continued exports of financial services.

Introduction

Overview

African economies are required to improve their competitiveness and diversify their economic base in the current context of global trade liberalisation in part due to the erosion of preferences in traditional exports such as bananas, sugar, and clothing. Trade in commodities, though the prime generator of employment and foreign earnings, can no longer by itself sustain Africa's development. The region's relatively small share of world markets is well documented and signals that African economies must invest in new and more sustainable sources of employment, exports, and growth.

As part of an effort to address the challenges of intra-African trade, and the need to develop strategies to improve the situation, the African Union Summit of Heads of Government in January 2012 adopted an Action Plan for Boosting Intra-African Trade and a Framework for the fast tracking of a continental free trade agreement. A number of issues and priorities were identified to enhance intra-African trade. Among others, enhancing trade in services was seen as an important and emerging opportunity. In this context, the following recommendations were made:

(a) Partners are called upon to assist Regional Economic Communities (RECs) in developing regional frameworks for services trade liberalisation.
(b) The African Union Commission (AUC) and RECs should assist Member States in strengthening domestic regulations in specific service sectors in preparation for regional and continental liberalisation.
(c) The AUC and partners should assist RECs and Member States in mainstreaming services into regional and national export strategies, with a focus on sectors with potential to enhance intra-African trade in services.
(d) RECs and Member States should improve trade in services statistics to aid policy analysis and formulation.

In African RECs, the landscape for financial services is varied and changing rapidly. In May 2010, Common Market for Eastern and Southern Africa (COMESA) member states agreed to commence work leading to negotiation of liberalisation in four priority sectors—communication, finance, tourism. and transport. The four sectors are common for COMESA, the East African Community (EAC), and the Southern African Development Community (SADC). In SADC there is a special protocol on financial services, but real progress in market liberalisation is slow. In West Africa, whilst significant market liberalisation has taken place in telecommunications and the sector has grown tremendously, access to financial services is still very low.

Services development in the Economic Community of West African States (ECOWAS) is focused on ten priority sectors including financial services. In 2009, for regional services liberalisation it was agreed that the member states would build on the commitments made in 1994 in the World Trade Organization (WTO). However, most of the governments were not ready to submit offers and some did so only to comply with the requirement. But the lists did not reflect the level of actual market liberalisation in member states. On the other hand, the eight countries of the Union Economique et Monétaire Ouest-Africaine (UEMOA)[1] use a common currency, the CFA franc, and there is a modern payments infrastructure; but the World Bank reported in 2012 that only about 10% of the UEMOA population have bank accounts. So, the vast majority of consumers have no access to basic transactional instruments such as electronic credits and debits, or even cheques. Economic activity is still driven by cash transactions. This is a recurring problem in much of Sub-Saharan Africa.

Study Objectives

This case study seeks to examine the structure and performance of Nigeria's banking sector, particularly with regard to the export of banking services. The study will identify the emerging opportunities and challenges for the banking services sector, along with the respective strengths and weaknesses demonstrated in Nigeria. The study's general objective is the identification of factors leading to the export success of this sector as well as constraints to regional and global competitiveness with regard to expanding banking services exports from Nigeria. From the information collected through research and analysis, the study aims to set out a series of policy recommendations based on lessons learnt and best practices.

In the context of the General Agreement on Trade in Services (GATS) under the World Trade Organization (WTO), financial services are defined to include two broad categories: (1) insurance and insurance-related services, and (2) banking and other financial services.[2] These are the basis for market liberalisation at the multilateral level and in bilateral free trade agreements and regional integration groups.[3] The categories or subsectors and specific services are based on the nomenclature from the United Nations Central Product Classification (CPC) system. For the purposes of this study on the Nigerian banking sector, the following services will be considered as banking and financial services as per the UN CPC list:

Banking and other financial services (excluding insurance)

(a) Acceptance of deposits and other repayable funds from the public
(b) Lending of all types, including, inter alia, consumer credit, mortgage credit, factoring, and financing of commercial transactions
(c) Financial leasing
(d) All payment and money transmission services
(e) Guarantees and commitments
(f) Trading for own account or for account of customers, whether on an exchange, in an over-the-counter market, or otherwise, of the following:
    - Money market instruments (cheques, bills, certificate of deposits, etc.)
    - Foreign exchange
    - Derivative products including, but not limited to futures and options

[1] Benin, Burkina Faso, Cote d'Ivoire, Guinea-Bissau, Mali, Niger, Senegal, and Togo.

[2] These are outlined in the WTO's Services Sectoral Classification List (MTN.GNS/W/120 of 10 July 1991) that was the basis for the services negotiations in the Uruguay Round and current discussions in the Doha Round.

[3] For a detailed overview and explanation of financial services under the GATS, see WTO, 'Financial Services: Background Note by the Secretariat' (S/C/W/312; S/FIN/W/73), February 3, 2010.

- Exchange rate and interest rate instruments, including products such as swaps forward rate agreements, etc.
- Transferable securities
- Other negotiable instruments and financial assets, including bullion

(g) Participation in issues of all kinds of securities, including underwriting and placement as agent (whether publicly or privately) and provision of service related to such issues
(h) Money broking
(i) Asset management, such as cash or portfolio management, all forms of collective investment management, pension fund management, custodial depository and trust services
(j) Settlement and clearing services for financial assets, including securities, derivative products, and other negotiable instruments
(k) Advisory and other auxiliary financial services including credit reference and analysis, investment and portfolio research and advice, advice on acquisitions and on corporate restructuring and strategy
(l) Provision and transfer of financial information, and financial data processing and related software by providers of other financial services.

In international trade, services are exported and imported through four modes or means of supply. In the case of financial services, for various reasons regarding risk, most governments only allow banking services through established businesses through a commercial presence (or Mode 3). Whilst cross-border supply (Mode 1) of financial services is becoming increasingly possible through the Internet due to ICT, most governments do not allow it, except for very limited areas such as foreign exchange transactions and clearing business among firms, not end consumers. But the emergence of mobile money or at least mobile payments systems through MNOs is starting to revolutionize this activity, and it may only be a matter of time before cross-border payments via mobile phones are allowed officially by regulators. Banking and other financial services can also be supplied to foreigners who visit a country for short periods of time (Mode 2 or consumption abroad); and in principle, there is no real means of preventing consumers from using banking services when they go abroad. The fourth mode of supply (Mode 4) is through the presence of natural persons, but this is difficult to do in the case of financial services, due to potential risk and the preference of consumers (both private and corporate) for dealing with institutions established in their countries rather than in foreign locations.

Scope of Work

The scope of work for this study covers all activities necessary to accomplish the stated objectives of the project. The main tasks/activities were as follows:

(a) Review relevant reports on the state of development of the services sector in Nigeria
(b) Review the development of Nigeria's banking services sector as well as current banking activities
(c) To the best extent possible, estimate the contribution of the banking services sector to the GDP, employment, and trade of Nigeria
(d) Evaluate the factors that have been responsible for the success of the development of a banking services industry in Nigeria, including the role of relevant government promotion and training policies
(e) Review the way in which Nigeria is currently exporting banking services

(f) Evaluate the opportunities for increasing exports of banking services from Nigeria both within and without the African region
(g) Comment on the challenges to further development of the banking services industry and of banking services exports
(h) Recommend ways for promoting sector development and increased export of services.
(i) Review the approaches used by Nigeria in the area of banking services to identify current best practices for the promotion of the export of banking services by other African countries.
(j) Make recommendations on how the competitiveness of the banking services sector can be enhanced through business and trade facilitation, legislative and institutional capacity strengthening, human resource development, among others.

Methodology

The tasks above that constitute the scope of work were conducted through a variety of methods involving investigation of the economic and export performance of the banking sector in Nigeria, based on primary and secondary data gathering as well as interviews with key banking firms, stakeholders, and national policy makers. Three banks were selected as case studies to explore the dynamics of cross-border operations in the Nigerian banking sector. A questionnaire was circulated to them which covered a range of issues regarding the motivation for their investment in other countries; the role of technology, training, and other factors in their competitiveness; and others. Only one bank agreed to provide details on its operations, so information on the others had to be obtained from secondary sources only.

Organisation of the Report

This report is arranged as follows. The first section is the introduction to the study. The second section presents an overview of the services sector in Nigeria, detailing services' contribution to GDP, the role of services in employment creation and trade, and the role that Nigeria's investment law and development strategy play in the development of its services sector. The third section reviews the history of Nigeria's banking system juxtaposed with the regulatory and policy environment, whilst it also describes the current banking services activities in the country through the sector's performance and in terms of personnel development and institutions resposible for its development.

The fourth section examines the economic impact of the banking services sector by discussing the contribution of banking services to GDP, company profit, tax revenue, employment, and external trade in Nigeria. The fifth section discusses case studies of successful exports of banking services from Nigeria and how banking services affect trade in goods. The sixth section assesses factors that account for Nigeria's comparative advantage in banking services—such as factor inputs, technology adoption, government's role, export promotion, on-the-job training, and export market development. This section presents the report's conclusions with respect to the strengths, weaknesses, opportunities, and threats to Nigeria's banking services exports. The final section of this study shares lessons and best practices, and provides recommendations for policy makers.

The Service Sector in Nigeria

Services Sector Performance: Contribution to GDP

The Nigerian services sector has assumed an important role in the last two decades due to its remarkable development as a significant growth driver. During this period, demand for services has risen sharply, coinciding with growth in the economy and confirming the services sector's high income elasticity, generally, as the consumption of many services such as education, health, and transportation expand in tandem with rising income per capita. The growth of Nigeria's services sector is somewhat insulated from manufacturing and, to a lesser extent, agricultural activities, which have suffered more in respect of supply constraints.

In constant factor cost, the services sector contributed about 25% to GDP in 1985/86 on the eve of the Structural Adjustment Programme (Table 1). This contribution, which reached 26% in 1994, was maintained roughly in 1991, but after a slight decline in 1996 increased to about 30% in 2001, and assumed an upward trend thereafter, reaching its highest point of 42.4% in 2012. Thus service activities have expanded their influence in the economy over the last 5 years, accounting for almost 40% of real GDP. This recent contribution of the services sector is inching close to that of Uganda (40%), but is still at a significant distance from Korea and Brazil, which reached 60% and 80% respectively in the mid-1990s. Nigeria's services sector favourably competes with the agricultural sector as the main growth driver in recent times.

Table 1: Size of Nigeria's Services Sector

Year	Total Services Output (N mill)	Total GDP (N mill)	Share of Services in GDP (%)
1985	50190.4	201036.3	24.9
1986	50975.32	205971.4	24.7
1991	69794.6	265379.1	26.3
1996	78536.96	293745.4	26.7
2001	106053.3	356994.3	29.7
2006	192057.1	595821.6	32.2
2012	377416.9	888893	42.4

Source: Central Bank of Nigeria Statistical Bulletin, 2012.

Nigeria's services output is highly diversified, with certain components serving as input for some production activities, and others as final demand. Table 2 shows the composition of the services sector in terms of the share of services value added in GDP. The available data cover 22 subsectors spanning building and construction, wholesale and retail trade, road transport, rail transport and pipelines, water transport, air transport, other transport services, telecommunications, post, electricity, water, hotel and restaurant, financial institutions, insurance, real estate, business services, public administration, education, health, private non-profit organisations, other services, and broadcasting.

Of the 22 subsectors, significant contributions to services output occur in only 6 of them. In order of ranking, these six subsectors are wholesale and retail trade, financial services, road transport, building and construction, real estate, and electricity. The rest of the services subsectors—which ordinarily should provide important inputs to the tangible production sector, particularly manufacturing, oil and gas, and agriculture—do not account for a significant share of services output in GDP. The unimpressive performance, an offshoot of inefficient and ineffective service delivery of the majority of the services subsectors was attributed to government restrictive policies embodied in long periods of market restrictions, dominant government ownership, use of obsolete technology, weak regulatory environment, and poor management.[4]

In 2013, Nigeria rebased its GDP from 1990 to 2010 as the base year, and it amounted to N 80.2 trillion (or US$ 509.9 billion) representing an increase of about 89% based on the old GDP estimate for 2013 which was N42.4 trillion (or US$ 269.5 billion). However, only preliminary figures were released in April 2014 and details were expected to be released at the end of June, so it is not possible to update the information shown in Table 2 below on the contribution of different services sectors to GDP. Nevertheless, the new figures reveal that in 2012 the Nigerian GDP consisted of the following: agriculture, 22.4%; industry, 26.72%; and crude oil and natural gas, 15.89%. Interestingly, now telecommunications and information services comprise 8.73% and music production accounts for 1.2% of GDP. The share of financial services in GDP was 2.29% in 2013; furthermore, the sector grew by 32.3% in nominal terms in 2013. Overall, according to the new methodology, services comprised 50.9% of GDP in 2012. GDP estimates at the 1990 base year indicated that wholesale and retail trade was the largest component of the services sector. Next in rank were hotel and restaurants and then real estate services. Using 2010 as the new base year, wholesale and retail trade remains the largest component of the services sector, but telecommunication ranks next, followed by real estate services.[5]

Table 2: Share of Services Value Added in Nigerian GDP by Economic Activity

Year	Building & Construction	Wholesale & Retail Trade	Road Transport	Rail Transport & Pipelines	Water Transport	Air Transport	Other Transport Services	Telecomm.	Post	Electricity	Water
1985	1.65	13.87	2.46	0.0713	0.21	0.16	0.08	0.06	0.05	0.51	0.1
1986	1.6	14.01	2.13	0.0672	0.15	0.13	0.08	0.06	0.05	0.32	0.11
1991	1.71	13.94	1.83	0.0179	0.11	0.1	0.07	0.05	0.03	0.31	0.14
1996	1.8	13.5	1.92	0.0004	0.1	0.07	0.11	0.06	0.04	0.34	0.15
2001	2.02	12.39	1.87	0.0004	0.09	0.06	0.18	0.67	0.05	3.27	0.14
2006	1.62	14.95	2.4	0.0003	0.06	0.06	0.15	1.77	0.06	3.41	0.13
2012	2.19	19.92	2.41	0.0003	0.05	0.06	0.14	6.98	0.07	2.79	0.16
Year	**Hotel & Restaurant**	**Financial Institutions**	**Insurance**	**Real Estate**	**Business Services**	**Public Administration**	**Education**	**Health**	**Private NGOs**	**Other Services**	**Broad casting**
1985	0.26	1.58	0.13	1.77	0.16	1.12	0.25	0.07	0.005	0.33	0.08
1986	0.26	1.87	0.14	1.75	0.17	1.11	0.25	0.07	0.005	0.34	0.07
1991	0.21	4.41	0.15	1.53	0.14	0.95	0.21	0.06	0.002	0.28	0.06
1996	0.2	4.8	0.15	1.61	0.15	0.94	0.21	0.06	0.001	0.45	0.06
2001	0.2	4.86	0.16	1.69	0.15	0.84	0.19	0.05	0.004	0.73	0.09
2006	0.41	3.77	0.13	1.47	0.12	0.72	0.18	0.04	0.003	0.69	0.08
2012	0.55	3.21	0.16	1.85	0.11	0.62	0.21	0.05	0.004	0.83	0.08

Source: Trade Policy Research and Training Programme (2006) and Babatunde (2011). Data between 2010 and 2011 were computed from CBN Statistical Bulletin, 2012.

Nevertheless, over the last decade, certain changes have taken place in the structure of output in the services economy, prominent among which is the development of the

[4] Bankole, 2004; Bankole and Oyejide, 2005. Electricity services as a share of total output, however, improved from 2001. But whilst government demonstrated renewed efforts to revive the rail system, it has remained inactive for many years with obsolete tracks and equipment. Similarly, water transportation has been hampered by the poor state of water routes.

[5] See speech by Dr. Yemi Kale, CEO of the National Bureau of Statistics, April 6. 2014.

telecommunications sector (due to the entry of the global system of mobile technology), which witnessed stable and sustained real growth. The sector's share of GDP jumped from barely 1% in 2004 to over 6% in 2012. The annual average growth rate of telecommunications activities has been about 25 percent for the last 5 years, a reflection of intense competition among operators, underlined by aggressive market strategies and adoption of new technologies and innovations. Similarly, the wholesale and retail trade sector grew at a rate of about 5% per annum on average in the last 5 years, and accounted for 18%of GDP between 2008 and 2012. This growth trend demonstrates that the telecommunications and wholesale and retail trade sectors are driving the shift in GDP shares from agriculture to services.

Financial institutions' share of services output dropped to 7.6% in 2012 from 11.7% in 2006, whilst its share of GDP also featured a downward trend from 3.7% to 3.2% in the same period (Table 3). Banking sector reforms moved from deregulation to guided deregulation, which made banks adopt merger and acquisition strategies in response to government policy. Strict enforcement of prudential guidelines, incidence of margin loans, and high bad debts and non-performing loans arising from margin exposures have accounted for the recent decline in the contribution of financial institutions to GDP.

Table 3: Share of Services Value Added in Total Services Output

	Building & Construction	Wholesale & Retail Trade	Road Transport	Rail Transport & Pipelines	Water Transport	Air Transport	Other Transport Services	Telecomm.	Post	Elec-tricity	Water
1985	6.59	55.54	9.85	0.29	0.82	0.63	0.33	0.26	0.2	2.03	0.41
1986	6.48	56.61	8.59	0.27	0.6	0.53	0.34	0.25	0.2	1.31	0.44
1991	6.48	52.99	6.95	0.07	0.4	0.36	0.27	0.2	0.13	1.19	0.52
1996	6.73	50.48	7.19	0	0.36	0.25	0.42	0.21	0.16	1.29	0.55
2001	6.8	41.72	6.29	0	0.3	0.21	0.62	2.26	0.17	11.02	0.46
2006	5.03	46.38	7.46	0	0.18	0.18	0.47	5.5	0.19	10.59	0.4
2012	5.17	46.91	5.67	0	0.13	0.14	0.34	16.43	0.17	13.99	0.37
	Hotel & Restaurant	**Financial Institutions**	**Insurance**	**Real Estate**	**Business Services**	**Public Administra-tion**	**Education**	**Health**	**Private NGOs**	**Other Services**	**Broad-casting**
1985	1.05	6.32	0.52	7.1	0.63	4.48	1.01	0.27	0.02	1.33	0.3
1986	1.05	7.57	0.56	7.05	0.67	4.5	1.02	0.27	0.02	1.37	0.3
1991	0.8	16.78	0.57	5.82	0.53	3.6	0.81	0.21	0.01	1.07	0.23
1996	0.76	17.97	0.58	6.01	0.56	3.53	0.8	0.21	0.01	1.69	0.24
2001	0.67	16.36	0.52	5.68	0.51	2.84	0.64	0.17	0.01	2.47	0.29
2006	1.27	11.69	0.41	4.57	0.37	2.23	0.56	0.13	0.01	2.15	0.24
2012	1.29	7.56	0.37	4.36	0.27	1.46	0.51	0.11	0.01	1.96	0.19

Source: Trade Policy Research and Training Programme (2006) and Babatunde (2011). Data between 2010 and 2011 were computed from CBN Statistical Bulletin, 2012.

Nigeria's inefficient power sector is undergoing reforms and restructuring to improve performance in terms of increasing access to electricity, reducing technical and financial losses, and attracting private sector investment. The Nigerian electricity sector reform process commenced in 2000 and was given legal backing in 2005 with the passage of the Electric Power Sector Reform Act (2005), which established the Nigerian Electricity Regulatory Commission (NERC), empowered to license and regulate the generation, transmission, distribution, and supply of electricity; enforce performance standards, and consumer rights and obligations; and determine tariffs. Preferred private sector bidders have taken full possession of the 15 Power Holding Company of Nigeria unbundled entities (10 distribution companies and 5 generation companies).

Nigeria has several natural and cultural tourist attractions, including beaches, overland safaris, national parks, game reserves, water sports, archaeological monuments, and festivals. Despite these, the number of international visitors to Nigeria has remained static over the last 15 years.[6] The total number of international air visitors to Nigeria in 2004 was estimated at 190,000. The level of spending by international tourists in 2004 was estimated to be N 36 billion (US$ 280 million).[7] Notwithstanding the economic benefits offered by the tourism sector, the Nigerian tourism industry is underdeveloped and represents a very small share of world tourism. The poor performance of the tourism subsector has been attributed to inadequate and underdeveloped facilities at tourist centres; low level of awareness of tourist attractions in Nigeria; security concerns; low level of investment; and the poor attitude to recreation and vacations by Nigerians.[8] A new draft tourism policy and tourism development master plan addressed some of these constraints through the establishment of tourism incentives such as tax holidays, import duty exemptions, augmentation of basic infrastructure in tourist sites, demarcation of tourism zones in states, increase in budgetary allocations to government tourism agencies, enactment of laws on tourists' security, and levying taxes on tourism companies to finance the planned tourism development bank.

The transportation sector in the country comprises roads, railways and pipelines, ports, inland waterways, and aviation. The effective modes of transportation in Nigeria are road and air. Rail transportation is moribund, and only has 3,505 kilometers of single narrow gauge track, old locomotive engines, and antiquated coaches and rail cars. No attempt or policy statement has been made to open this transport segment to domestic or international competition. The inefficiencies in the transportation sector—in terms of impassable inland waterways, inadequate port infrastructure, poor and badly maintained road networks, poor interconnectivity of all transport systems, and inadequate and poorly maintained airports—are manifest in the output performance of the transport subsectors. For example, road transport services declined from 7.02% in 2008 to 6.87% in 2012, and air transport from 7.32% to 6.92% in the same period.[9]The underdevelopment of other modes of transportation has resulted in a very short lifespan of paved roads. In view of these challenges, Nigeria currently aspires to develop a multimodal, integrated and sustainable transport system, with greater emphasis on rail and inland waterway transportation.

Services in Employment

Data on the Nigerian labour market as a whole and for the services sector are not collected on a continuous basis, and should be treated with some caution. The data for the services sector shown in Table 4 disaggregate employed persons by gender for the year 2010. The wholesale and retail trade sector is the largest with a total employment of 12 million people, which represents 43.6% of the total labour force employed in the services sector. It is followed by the accommodation and food service sector, which employed 2.73 million people (9.9%); transportation and storage employed 2 million (7.3%). The education sector

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[6] AGORA' 2000, 2010.

[7] Nigeria Tourism Development Master Plan, Ministry of Tourism, Federal Government of Nigeria.

[8] The National Economic Empowerment and Development Strategy. Available at: http://www.nigerianeconomy.com/needs.htm [10 November 2004].

[9] CBN, 2012.

employed 1.6 million, representing 5.7%. In comparison, only 171,403 people were employed in the financial services sector in 2010.

A breakdown of the employment figures by gender indicates female dominance in wholesale and retail trade (69.8%), accommodation and food service activities (82.9%), and human health and social work activities (51.2%). Male workers are prominent in transportation and storage (93.4%); electricity, gas steam, and air conditioning supply (93.5%); water supply, sewage, waste management, and remediation (78.9%); and real estate (95.2%). This relative difference in the male-female dominance ratio could be attributed to the nature of the profession in each of the sectors.

Table 4: Household Distribution of Employed Persons by Economic Activity, 2010

Sector	Male	Female	Total
Electricity, gas steam and air conditioning supply	**142,720**	**9,889**	**152,610**
Waste collection, treatment and supply	**40,503**	**12,809**	**53,312**
Sewage	4,986	852	5,838
Waste collection, treatment and disposal activities, material	13,417	3,285	16,702
Remediation activities and other waste management services	9,618	1,308	10,926
Subtotal	***68,524***	***18,254***	***86,778***
Construction of buildings	668,463	43,502	711,965
Civil engineering	130,398	35,216	165,614
Specialized construction activities	242,951	22,040	264,990
Subtotal	***1,041,811***	***100,758***	***1,142,569***
Wholesale and retail trade and repair of motor vehicles and motor cycles	421,651	311,936	733,587
Wholesale trade, except of motor vehicles and motor cycles	335,976	281,617	617,593
Retail trade, except of motor vehicles and motor cycles	2,887,391	7,858,619	10,746,010
Subtotal	***3,645,017***	***8,452,172***	***12,097,189***
Land transport and transport via pipelines	1,770,780	84,298	1,855,078
Water transport	29,307	13,663	42,971
Air transport	17,442	6,290	23,732
Warehousing and support activities for transportation	42,691	18,712	61,403
Postal and courier activities	16,974	9,026	26,000
Subtotal	***1,877,193***	***131,989***	***2,009,182***
Accommodation	12,894	17,033	29,927
Food and beverages service activities	451,321	2,249,060	2,700,382
Subtotal	***464,215***	***2,266,093***	***2,730,308***
Publishing activities	34,342	9,109	43,451
Motion picture, video, and television programme production	42,680	15,077	57,757
Programming and broadcasting activities	10,308	7,868	18,176
Telecommunications	92,350	71,902	164,253
Computer programming, consultancy, and related activities	67,427	75,623	143,050
Information services activities	28,675	14,151	42,826
Subtotal	***275,782***	***193,731***	***469,513***
Financial service activities, except insurance and pension	107,346	25,707	133,054
Insurance, reinsurance and pension funding, except compulsory	12,894	6,411	19,335
Activities auxiliary to financial services and insurance activities	12,835	6,179	19,014
Subtotal	***133,075***	***38,328***	***171,403***
Real estate activities	65,423	3,274	68,697
Legal and accounting activities	68,556	17,268	85,824

Sector	Male	Female	Total
Activities of head offices, management consultancy activities	21,390	7,789	29,179
Architectural and engineering activities; technical	68,415	21,268	89,683
Scientific research and development	44,607	115,287	159,895
Advertising and market research	5,051	1,717	6,768
Other professional, scientific and technical activities	231,384	80,131	311,515
Veterinary activities	24,415	3,233	27,648
Subtotal	***463,818***	***246,693***	***710,511***
Rental and leasing activities	22,391	11,275	33,666
Employment activities	83,192	33,269	115,461
Travel agency, tour operator, reservation service and related	26,655	3,340	29,995
Security and investigation activities	294,457	24,672	319,128
Services to buildings and landscape activities	68,325	8,356	76,680
Office administrative, office support and other business support	282,337	128,212	410,549
Subtotal	***777,356***	***209,124***	***986,480***
Public administration and defence, compulsory social security	**610,271**	**190,062**	**800,333**
Education	**891,401**	**666,263**	**1,557664**
Human health activities	235,226	263,978	498,304
Residential care activities	44,503	32,058	76,561
Social work activities without accommodation	80,808	84,262	165,070
Subtotal	***360,537***	***379,399***	***739,936***
Creative, arts and entertainment activities	139,243	162,716	301,959
Libraries, archives, museums and other cultural activities	19,445	14,978	34,423
Gambling and betting activities	31,243	8,573	39,816
Sports activities and amusement and recreation activities	13,156	922	14,078
Subtotal	***203,086***	***187,189***	***390,275***
Activities of membership organisations	43,491	13,243	56,734
Repair of computers and personal and household goods	94,558	4,689	99,248
Other personal service activities	1,706,482	1,609,239	3,315,721
Subtotal	***1,844,531***	***1,627,171***	***3,471,702***

Source: National Bureau of Statistics: Labour Force Statistics, 2010.

Nigeria and International Trade in Services

Nigeria's economic growth is mainly driven by strong performance in the agricultural, trade, telecommunications, manufacturing, and film industries. Although agriculture continues to employ close to 70% of the labour force, oil and gas remains the key economic sector. Nigeria's main trade partners are Brazil, China, India, Japan, the United States, and the European Union.

Nigeria's GATS Commitments

Nigeria made commitments in the WTO on a range of services, but overall it has a conservative schedule. In the case of financial services, under the GATS, Nigeria bound without limitation, cross-border supply (Mode 1) and commercial presence (Mode 3) for banking and other financial services (except insurance) as outlined in Table 5. Foreigners (corporations or individuals) may own up to 100% equity in any enterprise.[10] In the case of its services offer in the Doha Round, there is no substantial change for financial services.

Table 5: Nigeria's Commitments on Financial Services in the WTO

A. Banking and other financial services (excluding insurance)		Mode 1	Mode 2	Mode 3	Mode 4
(a) Acceptance of deposits and other repayable funds from the public (CPC 81115-81119)	Market access	None	Unbound with the exception of (c)	None	Unbound
	National treatment	None	Unbound with the exception of (c)	None	Unbound
(b) Lending of all types, including mortgage credit, factoring and financing of commercial transactions (CPC 8113)	Market access	None	Unbound with the exception of (c)	None	Unbound
	National treatment	None	Unbound with the exception of (c)	None	Unbound
(c) Guarantees and commitments (CPC 81119**)	Market access	None	Unbound with the exception of (c)	None	Unbound
	National treatment	None	Unbound with the exception of (c)	None	Unbound
(d) Financial leasing (CPC 8112)	Market access	None	Unbound with the exception of (c)	None	Unbound
	National treatment	None	Unbound with the exception of (c)	None	Unbound
(e) All payments and money transmission services, including credit, payment and similar cards, travellers' cheques and cheques (CPC 81339**)	Market access	None	Unbound with the exception of (c)	None	Unbound
	National treatment	None	Unbound with the exception of (c)	None	Unbound

Nigeria's Services Trade Patterns

Viewed from the perspective of Nigeria's trade balance with the rest of the world, the services account has consistently registered deficits (Table 6). The data indicate a worsening trend, and this poses a danger to future services sector liberalisation as protectionist tendencies may be justified based on the persistent deficits. Between 2001 and 2006, the services trade deficit grew by an annual average rate of 28.5%. This poses a major challenge for policymakers and can strengthen protective tendencies which in turn can constrain Nigeria's service sector development.

Table 6: Nigeria's Trade in Services (USD million)

Year	Import	Export	Services Trade Balance	Average annual growth rate (%)
1985	1642	316	-1,326	-
1986	1195	230	-965	-27.22
1991	2448	886	-1,562	10.11
1996	4215	640	-3,575	18.01
2001	4640	1653	-2,987	-3.53
2006	12772	2299	-10,473	28.51
2009	17567	2228	-15,339	13.56

Source: Computed from the IMF Balance of Payments Statistics (various issues).

[10] WTO document S/DCS/W/NGA, 19 August 2004.

Annex 3 (Table A1) also shows the available data (exports and imports) on Nigeria's services trade for 2003–2011 from multilateral sources. And Table 7 shows total services exports and imports and financial services trade for 2005–2011. It is evident that there is no consistency of the data from different sources. However, Table 7 shows a trend of significant and increasing deficits in financial services trade for Nigeria over the period. It is not clear what is the reason for this, given the number of foreign locations of Nigerian banks; but it may be due to borrowing overseas (where capital is cheaper) in order to fund their investments in other African economies. But in the final analysis, since it is difficult to be confident about the accuracy of any of the data, one can only speculate about the significance of the trade data.

Table 7: Total Financial Services Exported and Imported by Nigeria (US$ 000)

	2005	2006	2007	2008	2009	2010	2011
Total services exports	1,792,590	2,298,660	1,442,890	2,263,750	2,217,870	3,091,938	3,386,875
Total services imports	6,623,500	13,923,900	18,345,200	24,376,700	18,696,600	21,411,480	24,573,304
Financial services exports	10,946	12,042	13,385	14,905	8,081	13,879	15,981
Financial services imports	25,627	30,725	8,765	31,798	49,453	33,852	317,737

Source: ITC, UNCTAD, WTO joint database.

Numerous efforts to obtain data directly from the CBN were unsuccessful, so greater detail in terms of subsectoral trends is not available.[11] Unfortunately, the aggregated data does not allow any real analysis. And there are concerns about the accuracy of services trade data for Nigeria. However, what the available data show is an increasing trend of overall deficits in services trade for the entire period. Also, whilst imports of services continue to increase, most services exports are flat or actually decreasing. Nigeria even runs a trade deficit in tourism/travel services. This does not suggest an optimistic prognosis for the future. But it does illustrate the fact that Nigeria's economy is predominantly dependent on oil and gas production with very little export diversification in recent decades.

Services Policy and Legislation by the Government of Nigeria

Services and Nigeria's Investment Regime

The 1972 and 1977 Indigenisation Decrees existed prior to the enactment of the Nigerian Investment Promotion Commission (NIPC) Decree No. 16 of 1995 and the Foreign Exchange [Monitoring and Miscellaneous Provisions] (FEMMP) Decree No. 17 of 1995, which were introduced to eliminate various restrictions generally placed on foreign private investment. The NIPC decree established the Nigerian Investment Promotion Commission, in charge of coordination, monitoring, encouraging, and providing assistance and guidance to persons wishing to establish and operate businesses in Nigeria. It is also in charge of introducing measures to encourage investment, and improve the environment for investment. It is a major facilitating centre for foreign investment, and other issues such as registration of

[11] Even the African Union Commission (AUC) wrote without success to the CBN to attempt to obtain services trade data from balance of payments (BOP) statistics for analysis by the authors of this report.

companies, business permits, incentives (see text box), and expatriate quotas[12] are in its area of jurisdiction.

The NIPC decree authorizes foreign enterprises to establish businesses in Nigeria through foreign direct investment, subject to the provision of the Companies and Allied Matters Decree of 1990, and registration with the NIPC. The NIPC decree lifted the hitherto 40% limit on foreign equity participation in Nigerian companies and made irrelevant the required approval-in-principle from the Ministry of Finance for the same. In addition, it guarantees any foreign investment against nationalisation or expropriation by the government or any individual, by asserting that no person who owns, whether wholly or in part, the capital of any enterprise may be compelled by law to cede his interest to any other person. According to the decree, foreign companies may invest in any sector except those on the 'negative list,' which features activities in the areas of production of arms and ammunition, narcotic drugs and psychotropic substances, military wear, crude oil or natural gas, and such other areas that the Federal Executive Council may from time to time determine.

Where foreign participation is less than 100% equity holding in the proposed company, a joint-venture agreement (JVA) is required amongst the prospective shareholders that specifies the mode of subscription by parties, board composition, quorum for meetings, and specific actions that would require shareholders' approval by special or other resolutions. The JVA is one of the documents submitted to the NIPC during applications for business permits, and expatriate quotas and it is tied to the importation of the foreign equity, pioneer status, and other incentives.

Table 8: Nigeria's Investment Incentives Relevant to the Services Sector

Sector	Investment Incentives
All Sectors	Tax-related: (i) 30% income tax for companies in all sectors, except petroleum; (ii) 5-year tax holiday on companies investing in pioneer industries; (iii) tax relief on up to 140% of expenses on research and development; (iv) 2% tax concessions for a period of 5 years for industrial establishments that set up in-plant training; (v) 20% of the costs of providing infrastructure that should normally have been borne by government (e.g., electricity) are tax deductible; (vi) tax holidays of up to 7 years on investments in economically disadvantaged areas; (vii) tax concessions for companies with high labour-capital ratio; (viii) 10% tax concession for 5 years on local value-added; (ix) tax credit of 20% for 5 years to industries that attain a certain minimum level of local raw material sourcing and utilisation; capital allowances range from 5% to 30% depending on expenditure.
All Sectors	Others: (i) Unconditional transferability of funds through an authorized dealer in freely convertible currency; (ii) no enterprise shall be nationalized or expropriated by any government of the federation, unless the acquisition is in the national interest or for public purpose, in which case there are legal procedures to follow; (iii) any company incorporated in Nigeria is allowed to have access to land rights for the purpose of its activity in any state in the country.

[12] The existing expatriate quota requirement for foreign nationals working in Nigeria is in the process of being replaced with a work permit.

Sector	Investment Incentives
Industrial Sector	(i) Companies investing in economically disadvantaged areas, benefit from a 100% tax holiday for 7 years and an additional 5% depreciation over and above the initial capital depreciation; (ii) for a 5-year period companies also benefit from tax concessions of up to 30% if involved in local raw material development, 10% if involved in local value added, 15% if involved in labour-intensive processing, 10% if involved in export-oriented activities, 2% if involved in in-plant training; (iii) companies with turnover of less than N1 million are taxed at a low rate of 20% for the first 5 years of operation if they are in manufacturing; (iv) up to 120% of expenses on research and development are tax deductible; (v) up to 20% of the cost of providing infrastructure such as roads, water, electricity, where they do not exist is tax deductible; (vi) all excise duties have been abolished (since 1 January 1999); (vii) 25% import duty rebate; (viii) tax allowance in respect of qualifying capital expenditure incurred within 5 years from the date of the approval of the project; (ix) dividends of companies in the manufacturing sector with turnover of less than N100 million are tax-free for the first 5 years of their operation.
Energy	All investments in this area are considered to be pioneer, and hence benefit from a 5- to 7-year tax holiday.
Tourism	(i) Tax holidays; (ii) longer moratorium and import duty exemption on tourism-related equipment; (iii) tax exemption on 25% of incomes derived from tourists by hotels.
Telecomm.	Rebate and tax relief.
Exporting	(i) Company profits in respect of goods exported are exempt from tax under certain conditions; (ii) profits of companies whose supplies are exclusively input to the manufacturing of products for export are excluded from tax; (iii) export processing zone companies are allowed full tax holidays for 3 consecutive years; (iv) investment tax credits; (v) retention of export proceeds in a foreign currency in a domiciliary account with a Nigerian bank; (vi) export development fund to cover expenses of export promotion activities; (vii) export adjustment fund to compensate exporters for high cost of local production, arising mainly from infrastructural deficiencies; (viii) unrestricted remittance of profits and dividends; and (ix) zero-rated VAT.

Source: WTO 2005, Trade Policy Review, Nigeria. (This is the existing formal regime. New incentives are being worked out by the NIPC.)

It is important to note that foreign investors can only operate in the country through their subsidiaries incorporated in Nigeria, except in specific cases such as foreign companies (including professional firms such as engineering consultants and technical experts) executing specific individual loan projects, individual government-contracted projects, or foreign state-owned companies engaging solely in export promotion. The first case must be approved by the Federal Executive Council if the project is implemented on behalf of a donor country or an international organization.

Services in the National Development Strategy/Plan

In general, some National Development Plans [13] make reference to services sector development and trade with the degree of detail differing from one plan to another. For instance, the National Economic Empowerment and Development Strategy (NEEDS) mapped out various strategies for individual services related sectors such as the expansion of information and communications, increasing activities in tourism and distributive trade, entertainment industry, power, education and construction; but it did not discuss the trade aspects of these services sectors even as it aimed at deepening Nigeria’s integration with the rest of the world and to maximize the benefits of strategic integration, using regional integration and trade as the two main instruments for maximizing the benefits of

[13] These include the National Economic Empowerment and Development Strategy (NEEDS), Vision 2010, and the *Vision 20:2020* document.

globalisation. In the draft NEEDS II document, the objective of trade policy is to integrate Nigeria's trade into the global trading system; it aims to encourage trade in services, but it does not consider in detail trade in services and link appropriately the reforms in services sectors such as telecommunications, financial services, tourism, energy, and other areas to Nigeria's commitments in multilateral or regional agreements.

Vision 20:2020 and the Transformation Agenda of the Government[14] aim at transforming the country into one of the 20 leading economies of the world, and at diversifying it away from dependence on agriculture and oil and gas production into a services-driven economy. Hence, the services sector was identified as key to achieving national development goals, depending on the already liberal investment regime to provide the required environment for services sector investors; and it was projected that the share of services in GDP would increase to between 45% and 75%, from 34.1% in 2008. With respect to banking, the new draft trade policy mentions that banking consolidation, which has strengthened and increased the capital base of Nigerian commercial banks, will be further pursued in order to promote trade and industrial development.

In spite of these references to services sector development and trade in recent development plans, and the implementation of privatisation and economic deregulation undertaken since 1986, a holistic services development policy is lacking, and the legal framework for individual services markets is sometimes inconsistent (for example, the conflicting understanding of airport concessions and exclusive right to airlift domestic passengers by Virgin Atlantic at the international wing of the Lagos airport). Nigeria thus requires further reforms and speedy legislation to turn it into a services-led economy.

Ministry Responsible for Services Work/Coordination

The Federal Ministry of Industry, Trade and Investment is the institution responsible for services by establishing the policy framework for services trade whilst several different institutions are in charge of services sector development. In effect, the Nigeria Communications Commission (NCC) is charged with developing rules for the efficient operation of the telecommunications industry, whilst the CBN with a few other institutions regulate, monitor, and ensure the ordered development of the financial sector. Similarly, most other services subsectors have certain other ministries, departments, and agencies that are charged with sector development issues. The External Trade Department of the Ministry of Industry, Trade and Investment, whose head of unit is the Director, External Trade, is in charge of trade policy in services, and the Ministry is the lead agency with responsibility for coordinating commercial relations between Nigeria and foreign countries and managing the institutional framework for trade policy in general.

The Enhanced National Focal Point (ENFP) on Multilateral Trade Matters is the nucleus of the framework. The ENFP, in turn, is composed of committees and subcommittees, some of which are on goods, services, and trade-related intellectual property rights. Its main function is to serve as the forum for systematic consultation and collaboration amongst relevant government ministries, agencies, and the private sector for effective management of trade matters. On the basis of its deliberations, it is expected to provide policy advice on

[14] The Transformation Agenda (2011-2015): Summary of the Federal Government's Key Priority Policies, Programmes and Projects: www.statehouse.gov.ng/doc/TransformationAgenda.pdf

matters regarding trade negotiations, agreements, and other trade relations. The ENFP (enlarged in 2001 to include other trade stakeholders such as civil society, the organised private sector, and academia) remains the standing inter-ministerial body charged with trade matters. ENFP's secretariat is the Ministry of Industry, Trade and Investment, through which it communicates its decisions to the Trade Office in Geneva, or the minister and the Federal Executive Council.

The national framework faces operational challenges due to a dearth of funding, particularly for its meetings and studies, to inform decision making. Availability of such funding is usually at the discretion and timing of donor agencies. For instance, the timing of funding precludes the provision of requisite rigorous analytical support for trade negotiations, which in turn adversely affects the ability to effectively participate in multilateral and regional trade negotiations. Inadequate utilisation of training and retraining of staff on trade and trade-related issues has been one of the problems that the ministry faces that is due to the usual inappropriate use of reward and sanction mechanism in the public sector.[15]

Role of Government Policy in Services Exports

There is no clear indication or evidence of a strategy or policy of consistent support for services exports, particularly financial or banking services exports, by the Government of Nigeria. The government's export development programmes are usually directed at export of goods, and only a small share is allocated to services. The Nigerian Export-Import Bank (NEXIM) granted up to 56.6% of its export incentives to services exports in 2011, but these were in the entertainment, transport, and tourism sectors.[16] In addition, the Minister of State for Finance confirmed that the federal government has spent N257.09 billion under its Export Expansion Grant (EEG) programme between 2005 and 2012.[17] In 2012, it paid N30.75 billion compared with N21.92 billion in 2005. Neither the services sector nor the banking sector received grants from this government export promotion facility. This is confirmed by the categories of eligible production sectors for the EEG. These are Manufacturing (processed to finished products), Non-Manufacturing (processed to semi-finished), and Merchant Exporters and Exporters of Primary Products (including commodities and solid minerals).[18]

The International Trade Centre (ITC) has provided technical assistance to Nigeria, but this has all been related to goods, not services exports. ITC's current work in Nigeria addresses particular needs in the supply chain of the sesame seed and shea nut butter sectors.

There is a federal Financial System Strategy 2020 (FSS 2020) but it focuses mainly on domestic financial services issues in Nigeria. The financial services industry is considered to include banking, capital markets, insurance, asset management, pensions, and other financial institutions. The FSS 2020 is supposed to be the 'blueprint for engineering Nigeria's evolution into Africa's major international financial centre (IFC) and for developing the

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[15] Lyakurwa and Oyejide, 2008; Bankole, 2012.

[16] NEXIM Annual Report, 2011.

[17] Dr Yerima Ngama at http://businessnews.com.ng/2012/12/21/export-expansion-grant-eeg-programme-expends-n257-billion-over-seven-years/

[18] http://www.nepc.gov.ng/page_export_expansion_grant_eeg.html

financial sector into a growth catalyst that will enable Nigeria's transformation into one of the 20 largest economies in the world by 2020'.[19]

The second prong of the strategy focuses on enhancing integration with external financial markets, concurrently with strengthening the domestic financial markets. The plan is to focus on initiatives that would enable the financial sector to reinforce the expansion of Nigeria's export base. Simultaneously, it is also planned to adopt initiatives that support exchange rate stability and create an environment that attracts foreign direct investment (FDI) and drives integration with external markets. The integration with external markets is supposed to begin with the regional bloc and later expand to other global economic blocs. These would be achieved by:

- Creating a platform for seamless linkages with international markets
- Pursuing currency convertibility whilst maintaining macroeconomic stability
- Maintaining a healthy foreign reserves level
- Ensuring the progressive unification of trade and commercial laws amongst ECOWAS and African Union (AU) countries
- Creating an environment that attracts global financial services firms and enables Nigerian financial institutions to export their products and services.

However, the FSS does not seem to be emphasised by any entity or government agency in Nigeria, and it is unlikely that its export element has received any attention by relevant agencies or the banking sector as a whole. The external thrust by Nigerian banks has been at their own initiative and with no support or facilitating mechanisms by the federal government.

Banking Services in Nigeria

Issues in Financial Services in Africa

Banking systems in most African economies are not only small, but are also characterised by low intermediation. This can be seen somewhat by loan-deposit ratios which capture one of the main functions of financial intermediaries—putting a population's savings to its best use: in private sector development. As some analysts point out:

> *We see that African banking systems intermediate on average only 74 percent of their deposits, while banks in non-African developing countries intermediate 109 percent of their deposits. …. While in the Republic of Congo the ratio of liquid liabilities to GDP is 33 percent and the loan-deposit ratio is 17 percent, the corresponding ratios in Tunisia are 62 and 107 percent, respectively. It seems that for most banking systems in Africa, especially in Sub-Saharan Africa, the resource constraint is not currently binding: yet, these systems suffer from an intermediation constraint. …. This is consistent with the observation across African economies that banks prefer to invest in government securities rather than private sector loans and that the credit channel of monetary policy only functions weakly. Banks react little*

[19] http://www.fss2020.gov.ng/Pages/default.aspx#

> *to the changes in interest rates by monetary authorities by lending more or less to the private sector, but, rather, they shift assets among government bonds and foreign asset holdings.*[20]

This was also clearly illustrated by other researchers who examined the behaviour of banks in Botswana in the 1990s to mid-2000s which have been consistently highly profitable by global standards.[21] Furthermore, the *African Business* magazine also reported the same behaviour of banks in West Africa in 2012. In Nigeria, despite strong economic growth after the financial crisis, financial services companies have yet to play a full role in the recovery. Many invested heavily in high-yielding government bonds rather than domestic businesses. Government borrowing was 56.5% higher in the first half of 2012 than in the same period in 2011, but a combination of stricter lending criteria and high interest rates have cut many potential private sector customers out of credit.[22]

The problems of low intermediation and low loan-deposit ratios are common in many developing countries. These appear to be symptoms of underdeveloped financial markets. Banks claim that they do not lend more to the private sector because they do not receive worthwhile business proposals. On the other hand, all private sector agencies and most SMEs complain that it is too difficult to get loans. Also, there is a perception that people connected to bankers seem to be able to get loans easily. And indeed, consumer loans and lending to governments seem to bring big dividends to banks in most African and other developing countries. So the incentive to lend to the private sector is weak. At the same time, financial sector regulations are only as effective as the wider body of law and regulations governing commercial transactions. It is generally agreed that weak property rights and poor enforceability of contracts constrain financial market activity in many developing country jurisdictions. Banks argue that one of the reasons for their reluctance to lend is the difficulties in securing collateral and seizing assets in the case of loan defaults. Inefficiencies in the court systems in many countries add to enforcement difficulties.

It is therefore not surprising, as analysts point out from research in a specific database on financial structure and regulatory frameworks with data from 46 of the 53 countries on the African continent, that:

> *African banking is mostly short term, as evidenced by the maturity structure on the asset and liability sides of bank balance sheets. More than 80 percent of deposits are sight deposits or are deposits with a maturity of less than one year; less than 2 percent of deposits have a maturity of more than 10 years. … Almost 60 percent of loans are for less than one year, and less than 2 percent of loans are for more than 10 years. This maturity structure of African banks is consistent with the low level of financial development in the countries and the focus of African financial systems on transaction services and short-term finance.*[23]

The tendency towards short-term financing does not augur well for long-term development prospects and larger investments that need long amortisation periods.

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[20] Financing Africa: Through the Crisis and Beyond, p. 38.

[21] Roman Grynberg and Masedi Motswapong. Botswana's Monetary Policy and Oligopoly in the Banking Sector. Gaborone: Botswana Institute for Development Studies, 2009.

[22] *African Business Magazine*, October 16, 2012: http://africanbusinessmagazine.com/west-africa-potential-remains-untapped

[23] Financing Africa Through the Crisis and Beyond, p. 41

The Nigerian economy has continued to grow rapidly, achieving over 7% growth each year since 2009, despite the challenges during the global financial crisis (thanks mainly to the oil sector). The success in maintaining financial stability after the crisis, and in the face of major external threats, reflects the decisive and broad-based policy response by the government and the CBN.[24] Nigeria has embarked upon major regulatory reforms in the banking sector since 2005 with a view to ensuring a diversified, strong, and reliable banking industry. The 13-point banking sector reform programme, which, inter alia, includes increasing the minimum capital base to N 25 billion and consolidation of banking institutions through mergers and acquisitions, has significantly contributed to the emergence of a sound and efficient financial system in Nigeria.

Nigeria is now a leading country in the banking industry in Africa. The banking services sector has become an area in which Nigeria enjoys some notable comparative advantage. In October 2013, there were 20 commercial banks with 5,810 branches, compared to 2,193 in 2000. Nigeria is also one of the successful exporters of banking services and the prime example is the United Bank for Africa (UBA), which is a large financial service provider in Nigeria with subsidiaries in 20 Sub-Saharan countries, with representative offices in France, the United Kingdom, and the United States. It offers universal banking services to more than 7 million customers across 750 branches. Formed by merger of the commercially focused (old) UBA and the retail focused Standard Trust Bank in 2005, UBA purports to have a clear ambition to be the dominant and leading financial services provider in Africa.

The situation regarding access to banking or financial services in general, however, presents a very dismal picture. The EFinA Access to Financial Services 2012 survey showed that, of a population of 87.9 million, 34.9 million adults are financially excluded in Nigeria. Only about 32.5% are banked, 17.3% have access to informal financial services, and 39.7% have no access to financial services whatsoever. This is mainly because Nigeria has a large rural population (71%). However, mobile phone ownership is about 85% in urban areas and 56% in rural areas, so there is potential to reach those that are currently financially excluded through mobile technologies.[25] Furthermore, the IMF reported in January 2013 that:

> *Access to finance is an important constraint to Nigeria's development, There is negligible intermediation to small and medium-sized enterprises (SMEs) by the formal financial sector. While the microfinance sector has undergone significant changes, it remains characterized by numerous small, financially weak and ineffective institutions.*[26]

The Nigerian government launched an ambitious Financial Inclusion Strategy in October 2012, which seeks to reduce the number of adults excluded from access to financial services to 20% by 2020. In this regard, the CBN has approved a number of initiatives centred around improving financial inclusion such as: (i) the development of Agent Banking Guidelines and tiered Know Your Customer (KYC) requirements to encourage financial service providers to reach out to underserved segments of the population; (ii) the development of a Consumer Protection Framework; and (iii) a national campaign to promote financial literacy.[27] It is

[24] Nigeria: Financial Sector Stability Assessment. IMF Country Report No.13/140, May 2013.

[25] See http://www.efina.org.ng/our-work/research/access-to-financial-services-in-nigeria-survey/

[26] IMF, Nigeria: Financial System Stability Assessment. IMF Working Paper WP/06/214, January 22, 2013, p. 9.

[27] One interesting project is geospatial mapping of financial access points in Nigeria, funded by the Bill and Melinda Gates Foundation.

hoped that these activities will rapidly increase the number of people that have access to finance in the economy.

Furthermore, the MNOs are in a position to contribute to financial inclusion if appropriate strategies are developed at the national level for branchless banking. There are nine MNOs in Nigeria, of which MTN, Globacom, and Airtel account for a combined market share of 85%. In the payments processing segment there are four companies—Interswitch, Valuecard, Cams, and eTranzact—and there has been very significant growth in subscribers in recent years.

Historical Overview of the Development of the Banking Industry

The banking sector occupies a vital position in Nigeria's financial system and plays a crucial role in the financial intermediation process. Its ability to adequately intermediate between surplus and deficit units has been periodically disrupted as a result of its susceptibility to macroeconomic volatility and systemic distress, making reform in the sector inevitable. Consequently, the Nigerian banking system has witnessed substantial policy and regulatory developments in the last five decades, which can be categorised into seven distinct phases.

The first phase occurred between 1892 and 1951, and was regarded as the *era of free banking*, characterised by lack of controls or banking regulations. The requirement for banking regulation was under the companies' ordinance, which allowed individuals or groups to engage in banking business like any other business. This consequently led to a scramble for banking registration, inadequate absorption capacity of financial asset growth by the economy, widespread fraud and banking abuse, and ultimately bank failure and/or voluntary liquidation. The resulting Paton Commission was then set up in September 1948 to investigate the operations of banking business and recommend the extent of controls required.[28] During this phase, banking business was monopolised by foreign banks, namely the African Banking Corporation (the precursor of the former Standard Bank and the present First Bank of Nigeria), the Colonial Bank (which predated the former Barclays Bank and the present-day Union Bank), and the British and French Bank (the forerunner of the present United Bank of Africa). The alleged discrimination against Nigerians by these banks led to the founding of indigenous banks which offered little or no competition to the foreign banks, essentially because of their weak capital base and low managerial capacity. Consequently, all except the three foreign banks failed.[29]

The second phase between 1952 and 1959 was the *first banking boom era*.[30] The first form of regulation of the sector came into existence with the adoption of the Paton Commission's report, which formed the bedrock of the Banking Ordinance enacted in 1952. According to Ogunleye,[31] the ordinance spelt out the conditions that had to be met before a banking license could be granted to any institution to operate as a bank in the country, such as the minimum capital base of ₤ 25,000 and ₤ 200,000 respectively required for indigenous and expatriate banks, prudential requirement, and reserves. The banking ordinance limited

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[28] Nwankwo, 1980.

[29] Soyibo and Adekanye, 1992.

[30] As a result of the significant bank failures during the period, Nwankwo classified the period as the era of bank failure.

[31] Ogunleye, 1999.

banking business to valid license holders, prevented the establishment of unviable banks, and introduced more orderly commercial banking practices. The monopolistic nature of the foreign banks, which enjoyed exclusive patronage from British firms, led to the bank failures of the period.

The *era of banking regulations,* classified as the third phase of banking sector development in Nigeria, occurred between 1959 and 1985. The Banking Ordinance of 1958 and the establishment of the CBN in 1959 marked the commencement of banking system regulation in Nigeria, which then featured minimum capital standards, cash reserve requirements, rigorous screening and stipulations of conditions for bank directorships, restrictions on the opening and closing of branches, acquisition and disposal of assets, liquidity requirements, credit expansion, and sectoral allocation, among others.[32]

Due to the CBN's role of ensuring an orderly development of the financial system, it introduced short-term government debt instruments (Treasury Bills) in 1960 to supplement Commercial Paper, Call Money, and a Bill Finance Scheme in 1962, and Treasury Certificates in 1968. Apart from the 1958 Banking Ordinance, other banking legislation—which aided developments and strengthened confidence in the banking system—included that of 1962 and its 1964 amendments, and the 1969 Banking Decree. This development led to the establishment of more commercial banks. Soyibo and Adekanye[33] noted that under the 1968 Companies Act, foreign-based banks operating in Nigeria were obliged to be incorporated in the country whilst the government implemented the following regulatory measures:

- Acquisition of controlling shares first in the *big three* commercial banks, namely, First Bank, Union Bank, and the United Bank of Africa
- The policy of directed credit
- Strict control of interest rates
- Substantial increase in the required paid-up capital of new banks.

These regulatory measures were adjudged to have stemmed the tide of banking failures that followed the first banking boom and helped to promote the real sector of the economy, and allow Nigerians a greater stake in the economy through enterprise ownership. For example, the Nigerian Enterprises Promotion Decree (NEPD) of 1972, allowed the federal government to acquire 40% equity in the three biggest foreign banks operating in Nigeria. A further amendment of the NEPD in 1977 enabled the federal government to acquire an additional 20% equity in these banks. Foreign equity shareholding in banks and other sensitive businesses was restricted. During the 1970s the federal government acquired controlling equity stakes in the first- and second-generation foreign banks in Nigeria.[34] Most of these were subsequently operated as joint ventures with the foreign shareholders who retained minority stakes.

The *era of banking deregulation,* categorised as the fourth phase in the Nigerian banking sector, occurred between 1986 and 1993. The economic downturn of 1981–1985 necessitated the restructuring of the economy to address perceived systemic distortions. The adoption of the Structural Adjustment Programme in 1986 generally focused on the dismantling of

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[32] Ogunleye, 1999.

[33] Soyibo and Adekanye, 1992.

[34] Brownbridge, 2005.

economic controls. Specifically, the major objective of the deregulation of the banking industry was to enhance economic efficiency and effective resource allocation through service-driven competition and improvement in quality and the spread of banking service delivery. The measures, instruments, and techniques of deregulation and the range of products offered by individual banks changed significantly, resulting in the era of a second banking boom. The key measures introduced by the programme included the following:

a) Relaxation of the conditions for licensing new banks. This led to a phenomenal growth in the number of banks in Nigeria. About 79 new banks were licensed, increasing the total number of banks operating in the country to 120 in 1991.
b) Deregulation of the interest rate regime between January and August 1987. From August 1, 1987, the CBN adopted the policy of fixing only the minimum rediscount rate (MRR) to indicate the direction of interest rate changes during the year, which resulted in the unprecedented rise in lending rates and increased competition for deposits and boosted activities in the money and capital markets.
c) Parastatals withdrew public sector deposits from commercial and merchant banks, which exerted more pressure on banks' liquidity and interest rates.
d) Establishment of the Nigerian Deposit Insurance Corporation (NDIC) through Decree No. 22 of 1988 to insure bank deposits and ensure safe and sound banking practices in collaboration with the CBN. This was in view of falling confidence in the banking system given the fear expressed about the proliferation of banks and the possibility of bank failures.
e) Promulgation of Central Bank Decree No. 24 and Banks and Other Financial Institutions Decree (BOFID) No. 25 of 1991 to strengthen the regulatory and supervisory capacity of the CBN. It gave more regulatory power to the government on such issues as regulation and supervision of the licensed banks, and in particular the granting and revocation of banking licenses and the resolution of the problem of distressed banks. The decree also granted the CBN the autonomous power to increase the minimum paid up capital of both commercial and merchant banks.

Despite the myriad of policies and regulations targeted at the banking sector, it nevertheless showed signs of systemic distress due to a number of factors. These included the creation of risk assets at incredibly low interest rates with or without collateral or adequate cover, creation of liabilities at incredibly high rates, insider abuse (e.g., granting of secured and unsecured loans to dummy organisations and individuals, outright stealing, and very high overhead costs), high rate of loan repayment default by all levels of government, managerial incompetence, general economic downturn and adverse macro-economic conditions, withdrawal of government funds without prior notice, and inadequate regulatory/supervisory capacity, among others.[35] Others included the CBN's adoption of the Basel Committee Report on Prudential Guidelines, the harmonisation of accounting practice by banks through the issuance of the Statement of Accounting Standards for Banks and Non-Bank Financial Institutions (SAS 10), and the directive that required public sector deposits to be transferred to the CBN. These led to the takeover by the CBN of the management of some banks, such as National Bank of Nigeria (NBN), African Continental Bank Plc (ACB), New Nigerian Bank Limited (NNB), Mercantile Bank of Nigeria Plc (MBN), and Pan African Bank Limited (PAB).

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[35] CBN, 2012.

The fifth phase of banking sector development, between 1994 and 1995, was classified as the *era of economy-wide regulation (period of second bank failure)*. In 1994, the CBN announced the revocation of the licenses and winding up of the operations of four banks—Financial Merchant Bank Limited, United Commercial Bank Limited, Capital Merchant Bank Limited, and Alpha Merchant Bank Limited—whilst two banks, Republic Bank and Broad Bank, were suspended from the banking-clearing house pending recapitalisation by their shareholders. The two banks were eventually wound up in June 1995 due to their inability to meet CBN's conditions. Also, about 200 community banks experienced symptoms of distress by September 1995.[36]

The *era of guided deregulation,* which constitutes the sixth phase of banking sector development in Nigeria, occurred between 1995 and 2004 and was announced in the 1995 budget. Major tenets of the new reforms included total deregulation of interest rates in October 1996; increase of minimum paid-up capital of banks in 1997 to N 500 million and later to N 2 billion. Universal banking came into effect in Nigeria on January 1, 2000. The policy accorded banks the right to engage in any financial service ranging from accepting deposits, lending, trading in financial instruments, foreign exchange transactions, underwriting of debts, equity issues, brokerage, real estate mortgaging, leasing, investment managements, and insurance.

The current phase (seventh phase) of the policy and regulatory development of the banking sector in Nigeria commenced in 2005 and is regarded as the *era of bank consolidation*. The first part of this phase of bank consolidation was designed to ensure a diversified, strong, and reliable banking sector, to ensure the safety of depositors' money, the playing of active developmental roles in the Nigerian economy, and the banks becoming competent and competitive players both in the African and global financial systems. It involved encouraging the emergence of regional and specialised banks. Emphasis was placed on recapitalisation and proactive regulation based on a risk-based or risk-focused supervision framework. The key elements of the first part of the bank consolidation exercise were:

- The increase of the minimum capitalisation for banks from N 2 billion (approximately $ 15 million) to N 25 billion (approximately US$ 250 million) with full compliance by the end of December 2005. Only banks that met this requirement were allowed to hold public sector deposits and participate in the Dutch Auction System for buying and selling foreign exchange.
- Consolidation of banking institutions through mergers and acquisitions.
- Phased withdrawal of public sector funds from banks.
- Adoption of a risk-focused and rules-based regulatory framework.
- Adoption of zero tolerance in the regulatory framework.
- Adoption of automation process for reporting of returns.
- Establishment of a hotline, confidential Internet address for all Nigerians wishing to share any confidential information with the Governor of the CBN on the operations of any bank or the financial system.
- Strict enforcement of the contingency planning framework for systemic banking distress.
- Establishment of an assets management company as an important element of distress solution.

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[36] CBN, 1995.

- Resuscitation and enforcement of dormant laws, especially those relating to the issuance of bad cheques and to the vicarious liabilities of bank board members in cases of failings by the banks.
- Close collaboration with the Economic and Financial Crimes Commission (EFCC) in the establishment of the Financial Intelligence Unit (FIU) and the enforcement of the anti-money laundering and other economic crime measures.
- Rehabilitating and effectively managing Nigerian Security Printing and Minting (NSPM) Plc to meet the security printing needs of Nigeria, including the banking system, which constitutes over 90% of NSPM's business.[37] The CBN released guidelines on electronic banking (e-banking) in 2004 that encouraged banks to install automated teller machines for cash withdrawals and use electronic money (e-money) products such as credit cards, debit cards, and digital cash. The CBN promoted the automatic payment system to reduce clearing delays and widespread use of cash transactions, and to enhance monetary policy's transmission mechanism. The CBN also implemented a Real Time Gross Settlement (RTGS) System and appointed seven banks as settlement banks to perform clearing and settlement functions for other banks, whilst it introduced the National Savings Certificate and variations of the cash reserve ratio (CRR) and the Minimum Rediscount Rate (MRR) to enhance liquidity management.

The second part of the current banking reforms commenced in 2009 when three banks (Bank PHB, Spring Bank, and Equatorial Trust Bank) were nationalised by the CBN due to their insolvent status. These banks were amongst the 10 banks that failed the joint stress test conducted on deposit money banks by the CBN and the NDIC in August 2009.[38] The CBN injected N 620 billion in intervention funds for nine of the troubled banks, replaced the top management, and ordered the banks to recapitalise. It simultaneously established bridge banks to take over the assets and liabilities of the three nationalised banks. Other regulations established in the second part of the reforms included the design of the type and format of financial information that must be disclosed by banks in their yearly financial statements, fixing of tenure for chief executive officers of banks to a maximum of 10 years to improve corporate governance, repeal of the universal banking model, categorisation of banks by function and varying levels of capital base.[39] However, a bank or banking group that wishes to retain non-banking business progressed into the holding company model, which can hold investments in the bank and each non-core banking investment in a subsidiary arrangement. The removal of toxic assets or non-performing loans from the books of the banks receiving government support was also key. In addition, foreign-owned banks with a minimum of 5 years operational experience could acquire or merge with a local bank with branches in at least 24 out of the 36 states of the federation. Banks were required to adopt December 31 as the uniform financial year end to eliminate inter-bank transactions that concealed the banks'

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[37] CBN, Annual Report and Statement of Accounts, December 31, 2004.

[38] Although the Equatorial Trust Bank was announced as one of the troubled banks, the CBN revised its position on the bank because of its relatively small market share of less than 1% and absence of margin-related exposures. The banks were Intercontinental Bank Plc, Oceanic Bank International Plc, Afribank Plc, Union Bank Plc, Bank PHB Plc, Finbank Plc, Spring Bank Plc, Equatorial Trust Bank, Unity Bank Plc, and Wema Bank Plc. The bridge banks were Mainstreet Bank Ltd. for Afribank Nigeria Plc, Keystone Bank Ltd. for Bank PHB, and Enterprise Bank Ltd. for Spring Bank Plc.

[39] This policy was seen as a fundamental reversal of the consolidation policy of 2005 and is likely to encourage the development of an increased number of financial institutions in Nigeria.

true financial position, and to adopt a new reporting format for the bank's unaudited and audited financial statements.

This phase of banking reform stabilised the system, and encouraged recovery of the bad loans and the raising of fresh capital. Thus, the Nigerian banking sector has witnessed distinct phases of reforms. The most recent reforms were basically carried out to ensure stability and instill confidence in the banking system. The regulations were adjudged to be successful in some cases and largely seen as a failure in some other situations. An inference that can be made from the sequence of these reforms is that banking regulations must be dynamic to adequately respond to situational challenges and conform to international best practices. It is not yet clear whether these regulatory changes were responsible for the outward orientation of Nigerian banks and whether the markets which these banks targeted are relatively less regulated. These are empirical issues which require discussions with bank operators that will be dealt with in detail in the sections below.

Regulatory Environment

The Nigerian banking industry is a highly regulated one because of the importance of the sector in the economy. Banking services operations in Nigeria are governed by the CBN Act (2007); Banking and Other Financial Institutions Act (BOFIA), (1991 as amended); Money Laundering Act (1995); the CBN Prudential Guidelines; and any other monetary, credit, foreign trade, and exchange policy circulars that may be issued by the regulatory authorities from time to time. The key regulators in the Nigerian banking industry are the CBN, NDIC, and SEC.

The CBN became fully operational on July 1, 1959, with the aim to prevent bank failures and prepare for indigenous control. The CBN is solely responsible for the formulation of monetary, credit, and exchange rate policies, and plays an overall supervisory and regulatory role for financial institutions. Traditionally, the CBN functions as the government's agency for the control and supervision of the banking sector, monitors the balance of payments according to the demands of the federal government, and regulates investment intermediaries and all depository institutions except mortgage firms. It performs banking supervision and examination, grants licenses, and imposes reserve requirements, prudential guidelines, and monetary policy guidelines. In addition to these traditional roles, the CBN engages in compliance-based supervision using the Basel Core Principles.

It has also assisted in the establishment of specialised banks such as the Nigerian Industrial Development Bank (NIDB), the Nigeria Agricultural Co-Operative and Rural Development Bank (NACRDB), the Nigerian Bank for Commerce and Industry (NBCI), the Nigerian Agricultural Insurance Company (NAIC), National Economic Reconstruction Fund (NERFUND), the NEXIM, and the Federal Mortgage Bank of Nigeria (FMBN). These banks are geared towards making cheap credit available to the agriculture and manufacturing sectors and also to address perceived gaps with respect to lending requirements of the real sector by the commercial banks.

The Governor of the CBN is also involved in policy making as a member of the Economic Management Team, which is chaired by the Minister of Finance. The Governor is also a member of the National Economic Council, which includes the state governors, the Minister of Finance, and the Minister of National Planning. The 2007 Act also permitted the CBN to enter into information-sharing agreements with foreign authorities, to develop an electronic payment system, and to license and regulate credit bureaus.

All financial institutions require a license granted by the CBN, which also has the right to revoke licenses. To obtain and retain a banking license, every bank must implement the CBN prudential requirements, based on Basel II. The CBN has also established a committee to plan for the implementation of Basel III. In October 2010, the CBN stopped issuing universal banking licenses and reverted to a system of issuing a different license and different minimum capital requirements depending on the type of financial service provided. Each bank is also required to regularly provide the CBN with data to show it is meeting these requirements. Bank transactions are monitored by the CBN through the enhanced Financial Analysis and Surveillance System (e-FASS). In addition, in 2006 the CBN issued the Code of Corporate Governance in Post-Consolidation Nigeria on corporate governance in the banking sector, which built on its Code of Best Practices for Public Companies introduced in 2003 for all public companies, including banks. In early 2010, the CBN issued guidelines on the minimum information banks are required to provide in their financial statements.[40]

The *Economist* reported that in September 2010, the CBN reversed the previous policy of barring foreign takeovers of domestic banks and would be prepared to sanction foreign takeovers of up to 100% ownership, although it would prefer any foreign investment to be in shared ownership with a Nigerian bank. As of end-March 2011, there were officially four foreign banks incorporated and operating in Nigeria—Stanbic/IBTC; Standard Chartered; City Bank; and Ecobank International. All banks in Nigeria must be incorporated in the country and branches of foreign banks may not operate.

The NDIC was set up in 1988 to provide limited insurance coverage on the deposit liabilities of all licensed banks (including mortgage institutions) due to the perennial distress of the banking sector. The primary mission of the NDIC is to ensure stability and public confidence in the banking sector by guaranteeing payments to depositors in the event of failure of insured institutions and by conducting periodic bank examinations in conjunction with the CBN. A depositor's claim is limited to a maximum of N 200,000 in the event of a bank failure. Some of the measures used by the NBIC to manage distress include moral suasion, imposition of holding actions on distressed banks, granting facilities to banks with serious liquidity problems in collaboration with the CBN, takeover of management and control of distressed banks, acquisition and restructuring of distressed banks, implementation of Failed Banks Decree No. 18 of 1994 intended to assist distressed banks recover their classified assets and punish associated malpractices.

The SEC is fully responsible for the regulation and development of the Nigerian capital market. Banks listed on the Nigerian Stock Exchange (NSE) are also regulated by the SEC, and are expected to comply with its rules and regulations. It licenses stockbrokers and issuing houses. The Federal Mortgage Bank of Nigeria principally regulates and licenses mortgage institutions. The National Board of Community Banks processes applications for the establishment of community banks. The activities of the Nigerian Industrial Development Bank and the Nigerian Agricultural and Cooperative Bank come under the supervision of the Federal Ministry of Industries and the Agricultural Ministry respectively. Banking activities in Nigeria are also influenced by professional bodies such as the Chartered Institute of Bankers of Nigeria (CIBN), the Financial Market Dealers Association of Nigeria (FMDA), and the Nigerian Accounting Standards Board (NASB).

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[40] WTO, Trade Policy Review: Nigeria (Report by the Secretariat), May 2011.

As part of the final resolution of the banking system crisis which emanated from the global financial crisis in 2008/9, the CBN and the federal Ministry of Finance spearheaded the establishment of the Asset Management Corporation of Nigeria (AMCON) to purchase non-performing loans from deposit money banks and recapitalise the affected banks. AMCON, whose Act of Parliament was signed in 2010, is a special purpose vehicle aimed at addressing the problem of non-performing loans in the Nigerian banking industry, among others. It was created to be a key stabilising and revitalising tool established to resuscitate the financial system. Other specific objectives of AMCON include:

- Provision of liquidity to intervention banks and other banks that have huge non-performing assets which have been provided for
- Provision of capital to the intervention banks and the remaining banks
- Facilitation of merger and acquisition transactions, strategic partnerships, and to attract institutional investors
- To increase confidence in the banks' balance sheets and thereby increase credit creation
- To increase access to restructuring/refinancing opportunities for borrowers.

Accordingly, AMCON acquired non-performing assets of some banks worth over N1.7 trillion (US$ 10.7 billion) to boost their liquidity and enhance their safety and soundness. This intervention has significantly reduced the banking industry's ratio of non-performing loans to total credit from 34.4% in November 2010 to less than 5.0% as at December 2012.[41]

New regulatory requirements established at the end of the abolition of universal banking are summarised in Table 9. The regulatory requirements with respect to shareholders' fund vary according to whether the proposed bank is regional, national or non-interest bank. Commercial banks can operate at national, regional, and international levels with paid up share capital of N 25 billion, N 10 billion, and N 50 billion respectively, whilst merchant banks are required to provide a paid-up share capital of N 15 billion.

Table 9: Regulatory Requirements for Nigerian Banks

Capital Requirements	Liquidity Requirements	Prudential Regulations	Lending Limits
Shareholders' fund of a minimum of: N 10 billion for regional bank; N 25 billion for a national bank; N 50 billion for an international bank; N 5 billion for a non-interest bank regional license; N 10 billion for a national non-interest bank; N 15 billion for a merchant bank	- Banks are obliged to hold at least 30% of their deposits as liquid assets (i.e., cash and near-cash items). - At least one-third of liquid assets must be held in Treasury Bills. - CRR is currently 8% of deposits. This is in addition to the 30% liquidity ratio.	- Loans are classified as specialised and non-specialised loans. - Interest income on non-performing assets is recognised on a cash basis and not on an accrual basis.	- A single obligor limit is 20% of shareholders' fund for all banks - A bank cannot lend out more than 10 times its adjusted capital - A holding company and its subsidiaries (related parties) are classified as a single obligor - 33.5% of off-balance sheet engagements are used to determine the single obligor limit - Total off-balance sheet lending cannot exceed 150% of shareholders' fund

Source: First Securities Discount House, 2011.

[41] Alade, 2012.

Current Banking Services Activities in Nigeria

The need to strengthen the Nigerian banking system gave rise to mergers and acquisitions among banks. Significant mergers were recorded at the completion of the first phase of the bank consolidation exercise, and some acquisitions occurred after the commencement of the second phase (see Tables 8 and 9). The most recent mergers and acquisitions are those of Access Bank and Intercontinental Bank, which announced the recapitalization of Intercontinental Bank and the acquisition of 75% majority interest in Intercontinental Bank by Access Bank for N50 billion. After obtaining all necessary approvals from the CBN, Ecobank Transnational Incorporated Plc (ETI) acquired 100% of the outstanding share capital of Oceanic Bank, whilst First City Monument Bank (FCMB) merged with Finbank Plc. The current list of banks in Nigeria is presented in Tables 10-12. Similarly, Union Bank Nigeria Plc embarked on a rights issue of five new shares for every nine shares held after obtaining all necessary approvals. This formed part of the bank's recapitalisation process in which a core investor will take the major stake in the bank. The preferred core investor is a consortium of private equity firms headed by African Capital Alliance.[42]

The CBN adopted a new retail cash policy which stipulates that over-the-counter cash transactions above N 150,000 and N 1,000,000 respectively, for individuals and corporations, attract additional bank charges. The implementation of the policy, which commenced in Lagos, Port Harcourt, Kano, Aba, and the Federal Capital Territory on January 1, 2012, has since become operational across the country. The new cash collection policy is a sequel to the electronic payments directive of the federal government of January 2009. According to the CBN, the new cash collection policy is in line with the country's aspiration to be amongst the top 20 economies of the world by 2020.

Table 10: Mergers and Acquisitions of Nigerian Banks in the Early Phase (2004 and 2005)

	New Banks	Constituent Members
1	Access Bank	Access Bank, Marina Intl. Bank, and Capital Bank Intl.
2	Afribank Nigeria	Afribank Plc and Afribank lntl. (merchant bank)
3	Bank PHB	Platinum Bank Limited and Habib Nigeria Bank Ltd
4	Diamond Bank	Diamond Bank, Lion Bank, Devcom Bank Ltd
5	Fidelity Bank	Fidelity Bank, FSB Intl. Bank, Manny Bank
6	First Bank of Nigeria	First Bank Plc, MBC, Intl. Bank And FSB (merchant bank)
7	Equatorial Trust Bank	Equatorial Trust Bank Ltd and Devcom Bank Ltd
8	First City Monument Bank	First City Monument Bank, Coop Development Bank, Nigeria-American Bank, and Midas Banks
9	First Inland Bank	First Atlantic Bank, Inland Bank, Nigeria Plc, IMB Intl. Bank, and NUB Intl. Bank
10	IBTC Chartered Bank	IBTC, Chartered Bank Plc, and Regent Bank Plc
11	Intercontinental Bank	Citizen International Bank, ACB International Bank, Guidance Express Bank, and Omega Bank
12	Oceanic Bank International	Oceanic Bank Intl. Bank Plc and Intl. Trust Bank
13	Skye Bank	Prudent Bank Plc, Bond Bank Ltd, Reliance Bank Ltd, Cooperative Bank Plc, and ETB Intl. Bank Ltd
14	Spring Bank	Citizen Intl. Bank, ACB International Bank, Guardians Express Bank, Onga Bank. Trans. Intl. Bank, and Fountain Trust Bank

[42] First Securities Discount House, 2011.

	New Banks	Constituent Members
15	Sterling Bank	Trust Bank, Afica Ltd. NBM Bank Ltd, Magnum Trust Bank NAL Bank Plc, and Indo-Nigeria Bank
16	United Bank for Africa	United Bank for Africa PLC, Standard Trust Bank Plc, and Continental Bank
17	Union Bank of Nigeria	Union Bank of Nigeria Plc, Union Merchant Bank Ltd, Broad Bank of Nigeria Ltd, and Universal Trust Bank Nigeria Plc
18	Unity Bank	Intercity Bank Plc, First Interstate Bank Plc, Tropical Commercial Bank Plc, Centre Point Bank Plc, Bank of the North, New Africa Bank, Societe Bancaire, Pacific Bank, and New Nigeria Bank
19	Wema Bank	Wema Bank Plc and National Bank of Nigeria
21	Ecobank Nigeria	Ecobank Nigeria Plc
22	Stanbic Bank	Stanbic Bank
23	Standard Chartered Bank	Standard Chartered Bank
24	Nigeria International Bank	Nigeria International Bank
25	Guaranty Trust Bank	Guaranty Trust Bank

Source: First Securities Discount House, 2011

Table 11: Recent Mergers and Acquisitions in the Bank Consolidation Era

Distressed Bank	New Owners	Acquisition Date
Equatorial Trust Bank	Sterling Bank Plc	2011
First Inland Bank	First City Monument Bank	
Intercontinental Bank Plc	Access Bank Plc	
Oceanic Bank Plc	Ecobank Nigeria Plc	2011
Union Bank Plc	African Capital Alliance Consortium	

Source: First Securities Discount House, 2011.

The Nigerian banking industry also recently switched over to the Nigeria uniform bank account number (NUBAN) structure in its customer records database. A NUBAN code, created for every customer account (current, savings, etc.), is the only account number being used at all interfaces with bank customers and has made Nigeria fully compliant with the 10-digit account number structure required by the West Africa Monetary Institute (WAMI) towards the economic integration of ECOWAS countries. Certain benefits have been derived from the policy. These include a substantial reduction in the volume of items returned unapplied due to wrong account numbers, reduction in the incidence of wrong postings of account numbers by the receiving bank, and reduction in the incidence of delayed presentation of outward Automated Direct Credits (ADC) items.

Table 12: Banks in the Nigerian Banking Sector and Their Foreign Operations (2012)

	Bank	Total Assets (US$ billion)	Foreign Locations
1	Access Bank	11.3	Burundi, Côte d'Ivoire, DRC, Gambia, Ghana, Rwanda, Sierra Leone, Zambia (London, UK, China)
2	Diamond Bank	7.6	Benin, Côte d'Ivoire, Senegal, Togo (Dublin, Ireland)
3	Fidelity Bank	5.9	
4	First Bank	20.6	DRC, Gambia, Ghana, Guinea, Sierra Leone (London, Paris)
5	First City Monument Bank	3.9	
6	Skye Bank	6.9	Gambia, Ghana, Guinea, Sierra Leone
7	Sterling Bank	3.7	
8	United Bank for Africa	14.7	Benin, Burkina Faso, Cameroon, Chad, DRC, Congo, Côte d'Ivoire, Gabon, Ghana, Guinea, Kenya, Liberia, Mali, Mozambique, Senegal, Sierra Leone, Uganda, Tanzania, Zambia (New York, London, Paris)
9	Unity Bank	2.4	
10	Wema Bank	1.4	

	Bank	Total Assets (US$ billion)	Foreign Locations
11	Ecobank Nigeria	8.6	Ecobank Nigeria Ltd Is owned by Ecobank Transnational Inc., which has operations in 35 countries in Africa in the CEMAC, EAC, SADC, UEMOA, and WAMZ regions.
12	Zenith Bank Plc	16.8	Gambia, Ghana, Sierra Leone (London, South Africa)
13	Standard Chartered Bank Plc		
14	Nigeria Intl. Bank Plc		
15	Guaranty Trust Bank Plc	11.2	Gambia, Ghana, Liberia, Sierra Leone (London, Hong Kong)
16	Enterprise Bank Ltd		
17	Keystone Bank Ltd		Gambia, Liberia, Sierra Leone, Uganda
18	Union Bank	6.7	Benin, Ghana (minority stake) (London, South Africa)
19	Mainstreet Bank Ltd	1.8	Ghana (London)
20	Heritage Bank Nigeria		
21	Stanbic-IBTC Bank	3.1	

Source: Bank websites and annual reports.

In comparing the size of Nigerian banks with banks in Southern, Northern, Eastern, and Central Africa, we chose the two biggest commercial banks from South Africa, Egypt, Kenya, and Cameroon (see Table 13). In terms of total assets of Nigerian banks compared to those of these countries, it is clear that Nigerian banks only compete favourably with Kenyan and Cameroonian banks, and not with those of South Africa and Egypt. South Africa's Standard Bank Group had US$ 183 billion total assets in 2012, but this is far less than that of Egypt's Bank Misr, which had US$ 300 billion total assets in the same year. Kenya's two biggest banks' total assets ranged from US$ 2 to 4 billion, whilst the total assets of the two biggest banks in Cameroon were less than US$ 1 billion.

Table 13: The Two Biggest Banks in Selected African Sub-regions

Country	Banks	Total Assets (US$ billion)
South Africa	Standard Bank Group	183 (2012)
	Absa Group	90.9 (2011)
Egypt	National Bank of Egypt	51.3 (2011)
	Banque Misr	300 (2012)
Kenya	Kenya Commercial Bank	4.2 (2012)
	Equity Bank	2.66 (2012)
Cameroon	Société Générale des Banques au Cameroun (SGBC)	0.7
	Banque International du Cameroun pour l'Epargne et le Crédit (BICEC)	0.7
Nigeria	First Bank of Nigeria	20.6 (2012)
	Zenith Bank	16.8 (2012)

Source: Websites of the various banks.

In contrast, South Africa, which has an extensive and established banking system, with the most deregulated banking sector in Africa, still has a highly concentrated banking industry. The Big Four commercial banks—Absa, First National Bank, Nedbank, and Standard Bank—control over 90% of the retail banking market. South Africa had an estimated 4,070 bank branches, 29,513 ATMs, and approximately 355,801 point of sale (POS) terminals in 2012.[43]

Non-interest banking was introduced into Nigeria with the granting of a license to Jaiz Bank in 2011. The model is broadly classified into non-interest banking and finance based on

[43] Fieldgate et al, 2013.

Islamic commercial jurisprudence, and non-interest banking and finance based on any other established non-interest principle. The central theme of the Islamic financial services is that it recognises profit sharing and prohibits the charge of interest on loans. All non-interest financial institutions under this model are required to comply with the guidelines that may be issued by the CBN from time to time. The banking sector has also witnessed the widespread use of mobile/Internet banking activities, automated teller machine services, and the use of debit cards in making payments at POS and point of purchase (POP) terminals. However, as at July 2012, out of 151,717 POS terminals registered on the Nigeria Inter-Bank Settlement System, only 88,622 units had been deployed.[44]

Performance of the Nigerian Banking Services Sector

The total assets of Nigerian banks increased over time, from N 235.8 million in 1960 to N 19.4 trillion in 2011 (Table 14). This resulted from new entrants into the banking market, increased shareholdings, and reinvested profits that are used to acquire more tangible and intangible assets needed for their operation. DMBs have equally been able to attract deposits in the system. These range from the lowest value of N 82.23 million in 1990 to N 4,920.8 billion in 2011. The consistent increase in the total deposits of Nigerian banks justifies the various reforms that have been implemented in the country. Very remarkable is the increase in the commercial banks' deposits from N 946,639 million in 2005 to almost N 5 trillion in 2011 in the post recapitalisation period (Table 14).

The growth rate of commercial banks' total assets and deposits is presented in Figure 1. A negative growth rate in bank deposits was recorded in 1967, 1971, 1978, 1986, 1989, and 2009. The total assets of the commercial banks also recorded negative growth rates in 1962, 1967, and 2010. Nigeria's civil war was responsible for the negative growth rate recorded in 1967. The negative growth rate in total assets in 2010 may be attributed to the global financial crisis that occurred between 2008 and 2010.

Table 14: Selected Indicators of Commercial Banks Growth (N million)

Year	Total Assets (Nm)	Average Annual Growth Rate (%)	Total Deposits (Nm)	Average Annual Growth Rate (%)
1960	235.84		82.23	
1965	434.29	13.0	123.90	8.5
1970	1,151.80	21.5	288.10	18.4
1975	4,308.00	30.2	1,266.80	34.5
1980	16,340.40	30.6	4,845.90	30.8
1985	31,997.90	14.4	7,046.20	7.8
1990	82,957.80	21.0	15,588.80	17.2
1995	385,141.80	35.9	79,469.40	38.5
2000	1,568,839.00	32.4	345,001.40	34.1
2005	4,515,118.00	23.5	946,639.60	22.4
2011	19,396,634.00	33.8	4,920,850.00	39.1

Source: CBN Statistical Bulletin, 2011.

Table 15 indicates the ownership structure of Nigerian banks from 2000 to 2010. The trend in bank ownership shows a combination of two phenomena: an increasing importance of

[44] This is according to the CEO of the Nigeria Inter-Bank Settlement System Plc, Mr. Adebisi Shonubi, in the Punch newspaper online. The article was accessed on January 13, 2014, at: www.punchng.com/business/technology/inactive-pos-terminals-hit-62095-amid-poor-connectivity/

private sector-led industry as against government domineering ownership in the early 1960s up to the mid 1980s, and rising foreign participation in the industry. The first can be attributed to the reforms in the sector, which have cancelled out the proportion of government ownership in the sector, whilst the second can be linked to global competitiveness of banking services. Private ownership thus currently dominates the sector.

Figure 1: Growth of Commercial Banks' Total Deposits and Total Assets

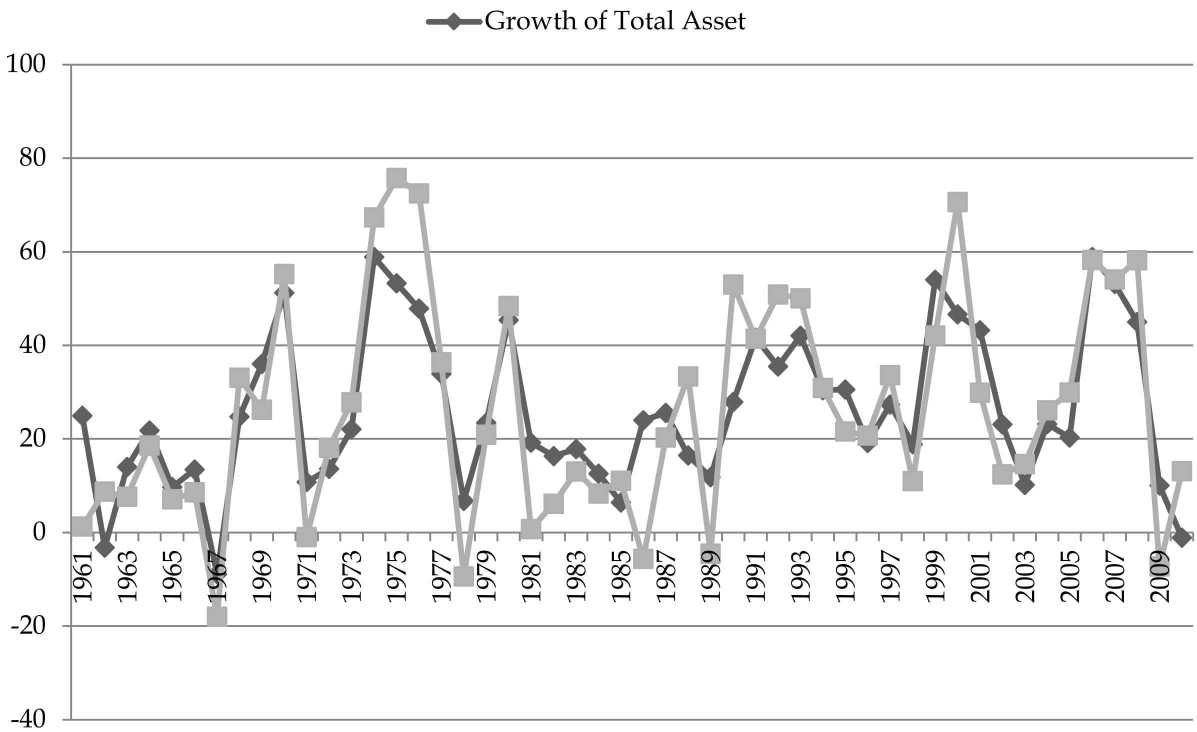

Table 15: Distribution of Number of Banks by Type of Owner, 2000–2010

Ownership Status	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Private	76	77	78	77	77	77	21	20	20	20	20
Government	1	1	1	1	1	1	0	0	0	0	0
Foreign	10	11	11	11	11	11	4	4	4	4	4
Total	**89**	**89**	**90**	**89**	**89**	**89**	**25**	**24**	**24**	**24**	**24**

Source: Data for 2000 to 2006 was sourced from Abel Ezeoha (2007), 'Structural Effects of Banking Industry Consolidation in Nigeria: A Review', Journal of Banking Regulation, Vol 8. The data for 2007 to 2010 was obtained from banks' annual reports procured from Analysts' Data Services and Resources Limited.

Access to Financial Services in Nigeria

In spite of the tremendous growth in banks and banking activities in Nigeria in the past two decades, the level of access to financial services in the population as a whole is far from optimal. Table 16, which compares Nigeria with Mauritius (the most advanced in financial access in Africa), indicates the extent to which Nigeria is behind on most indicators. However, information on deposits and loans is not available for Nigeria.

The characteristics of financial access in Nigeria include:

1. Low access to formal financial services by the adult population.

2. Broadly, access to informal financial services is relatively high.
3. Large unbanked population, excluded from any financial services.
4. Access is skewed towards males; females tend to use informal financial services more.
5. Exclusion levels are higher in rural areas than in urban areas.

Table 16: Access to and Use of Financial Services in Nigeria, 2012

	Nigeria	Mauritius		Nigeria	Mauritius
Commercial bank branches per 1,000 km²	5.96	107.39	Commercial bank branches per 100,000 adults	5.76	21.57
ATMs per 1,000 km²	11.78	217.24	ATMs per 100,000 adults	11.39	43.62
Outstanding deposits with commercial banks (% of GDP)	34.94	166.25	Outstanding loans from commercial banks (% of GDP)	19.79	81.76
Deposit accounts with commercial banks per 1,000 adults	…	2,193.12	Loan accounts with commercial banks per 1,000 adults	…	535.05
Household deposit accounts with commercial banks per 1,000 adults	…		Household loan accounts with commercial banks per 1,000 adults	…	

Source: http:fas.imf.org

At the level of consumers, there are still too many people outside the formal banking system. As mentioned previously, the EFinA Access to Financial Services 2012 survey showed that of a population of 87.9 million, 34.9 million adults are financially excluded in Nigeria. Only about 32.5% are banked, 17.3% have access to informal financial services, and 39.7% have no access to financial services whatsoever. Nigeria's Financial Inclusion Strategy 2012 further points out that 54.4% of the excluded population were women, 73.8% were under 45 years of age, and 34% had no formal education, whilst 80.4% resided in rural areas. Informality and volatility of income flows are important barriers for accessing the services of formal financial service providers that still have to learn how to properly adjust their products to the needs of large parts of the population. These challenges make financial innovation, particularly through ICT, particularly mobile banking, critical in providing a great opportunity to reach scale (mass markets) cost-effectively. But it is clear that the financial services sector still has a long way to go in terms of its development in Nigeria.

Banking Schools and Institutions

Human capital is recognised as an important factor which drives economic growth. This constitutes a significant justification for government's huge expenditure on education particularly at the university level. Many universities offer courses in banking and finance to create adequate numbers of skilled persons to operate banking institutions. In Nigeria, 47 universities[45] award undergraduate and master's degrees; 44 polytechnics and Ccolleges of Technology[46] award national diplomas, whilst 17 polytechnics and colleges of technology have banking and finance courses leading to higher national diplomas. There are also post-university institutions which direct their efforts to making bankers more professional in operations and conduct. Two such institutions in Nigeria are the Chartered Institute of Bankers of Nigeria (CIBN) and the Financial Institutions Training Centre (FITC). The CIBN

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[45] Obtained from National Universities Commission website.

[46] Obtained from the National Board of Technical Education.

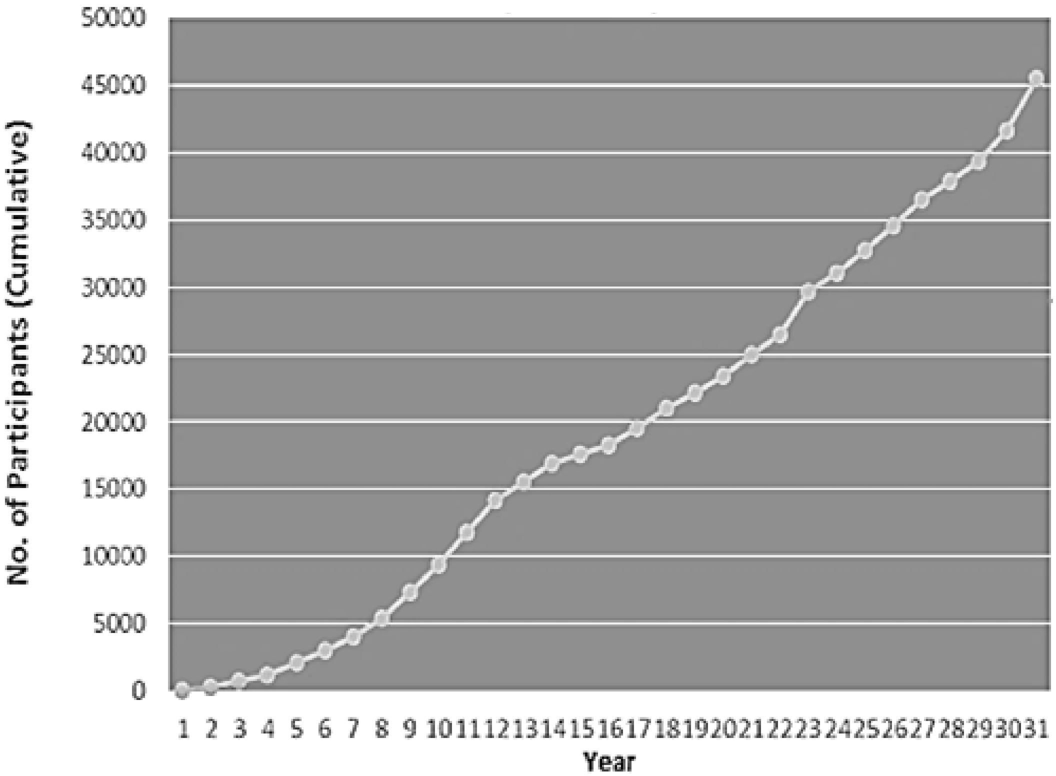
is a membership-driven institute which has corporate and individual members. The corporate members are the CBN, NDIC, all deposit money banks, development banks, mortgage banks, micro-finance banks, and discount houses. Its principal responsibilities include to:

- Determine the standards of knowledge and skills to be attained by persons seeking to become members of the banking profession
- Secure the establishment and maintenance of a register of members of the banking profession in the categories of ordinary members, student members, graduate members, associates, honorary senior members, honorary fellows, and fellows of the Institute, and a register of corporate members.
- Conduct professional examinations leading to the award of certificates as may be prescribed by the Institute
- Ensure the furtherance, maintenance, and observance of ethical standards and professionalism among practitioners of the banking profession in Nigeria.

The FITC was established in 1981 as a non-profit organisation limited by guarantee, based on the Companies Act of 1968, and in response to the recommendations of the Pius Okigbo Committee set up by the federal government to review the Nigerian financial system. It is owned by the Bankers' Committee, made up of the CBN, NDIC, and all licensed banks and discount houses in Nigeria. The centre regularly designs and delivers training programmes in areas of general management, leadership development, banking, and finance. Such training programmes are usually done by FITC in collaboration with experts on particular subjects across industries or training organisations abroad.

Figure 2 depicts the trend of the total number of participants in the training programmes delivered by FITC and related collaborative programmes as at December 31, 2012. The number of trainees peaked at 45,494 in 2012. Using the cumulative number for 2010, the proportion of trained workers represents about 61% of total bank workers. This number is very high and could be partly responsible for the observed professionalism and success of Nigerian banking performance in recent times.

Figure 2: Trend of Total Number of FITC Trainees, 1981-2012



Source: www.fitc-ng.com/about_fitc/index.asp

Data on graduates from banks' training institutions were difficult to find for individual banks. Banks do not report the amount spent on local and overseas training of their staff. However, there are general statements that they engage in training of their staff both locally and abroad.

Table 17 below shows the number and categories of membership of the CIBN, the professional body of bankers. Fellows, honorary fellows, and honorary senior members of CIBN have all grown in number in the last 5 years, whilst associates have somewhat declined. Growth was experienced among those at the top in the banking profession. These are highly experienced personnel that have been responsible for banking sector growth in the last 40 years. The fellows are currently serving members who were primarily trained as bankers, whilst the honorary members are those who, by virtue of their work, experience, and successes in the banking sector, are honoured as CIBN members.

Table 17: CIBN Membership Statistics

Description	2010	2011	2012
Fellows	581	674	737
Honorary Fellows	47	49	54
Honorary Senior Members	641	760	858
Associate Members	4,560	4,586	4,688
Student Members	87,448	89,292	89,607
Ordinary Members			4,629
Others			725
Total	**93,277**	**95,361**	**101,295**
Growth Rates (%)			
Fellows	-3.17	16.01	9.35
Honorary Fellows	-7.84	4.26	10.20
Honorary Senior Members	-35.58	18.56	12.89
Associate Members	31.87	0.57	2.22
Total	**28.04**	**2.23**	**6.22**

In the final analysis, it is safe to conclude that the training of personnel for the banking sector in Nigeria is highly developed and quite extensive. This may be a significant factor in the growth and success of the banking industry in general. Unfortunately, information on intra-corporate movement of senior Nigerian bank personnel and technical staff across countries is not available, so it is not clear to what extent the skills developed in Nigeria are deployed in foreign operations.

Economic Impact of Nigeria's Banking Service Sector

Estimates of the Amount of Revenue Generated by Banking Services

Contribution of Banking Services to GDP

The finance and insurance sector comprises banking, insurance, pension, and stock-broking firms. These firms operate in the various segments of the financial industry such as money markets, capital markets, and the foreign exchange market. They play prominent roles in ensuring efficient financial intermediation in the economy. The banking services sector output is however reported under the total financial institutions output. The contribution of financial institutions to the GDP presented in Table 18 shows a consistent increase from N 548.3 million in 1980 to N 28,537.6 million in 2012. Although the banking sector's contribution to GDP increased considerably over time, the share in total GDP was about 2.0% between 1975 and 1986. This later rose to over 4.0% in 1990 and slightly above 5.0% between 2000 and 2002. It started declining thereafter and stood at 3.2% in 2012.

Table 18: Banking Sector's Contribution to GDP

Year	Amount Contributed (N million)	Percentage of GDP
1980	548.3	1.74
1985	3,171.7	1.58
1986	3,859.8	1.87
1990	11,260.0	4.21
1995	13,567.8	4.82
2000	16,601.8	5.04
2001	17,348.8	4.86
2005	21,430.3	3.81
2010	26,495.5	3.41
2012	28,537.6	3.21

Source: CBN Statistical Bulletin, 2011.

Given the intermediation role that banks are expected to play in the country, the credit allocation of deposit money banks (an indicator of financial deepening) is used as another measure of their contribution to the GDP. The contribution of banking services' output to the GDP can be regarded as low if we take into consideration the myriad of policies that have been implemented in the banking sector. It increased from 12.56% in 1980 to 12.62% in 2005, and recorded the highest value of 36.71% in 2009 (Table 19). Perhaps as a result of the contagion of the global financial crisis, the percentage contribution fell to 29.89 and 28.39 in 2010 and 2011 respectively.

Table 19: Bank Credit as a Percentage of GDP

Year	Credit to Private Sector (N million)	GDP at Current Basic Prices (N million)	CPS/GDP (%)
1980	6234.225	49632.320	12.560
1985	13070.342	67908.550	19.250
1990	33547.700	267549.990	12.540
1995	180004.760	1933211.550	9.311
2000	530373.300	4582127.290	11.570
2005	1838389.900	14572239.120	12.620
2006	2290617.800	18564594.730	12.340
2007	3668657.800	20657317.670	17.760
2008	6920498.800	24296329.290	28.480
2009	9102049.100	24794238.660	36.710
2010	10157021.000	33984754.130	29.890
2011	10660072.000	37543654.700	28.390

Source: CBN Statistical Bulletins.

Contribution of Banking Services to Company Profit Tax Revenue

Table 20 indicates that Nigerian banks contribute substantially to government tax revenues. Though the tax revenues are huge in monetary terms, especially when stated in terms of the amounts paid by individual banks, they nevertheless constitute a small proportion of total government revenue from company profit taxes. In 2012, the total tax collected from banks by the government was about 7% of all company profit tax in the country. One of the case study banks in this study paid about 2%, which is the highest proportion relative to what was paid to government by 17 banks. It is surprising that UBA, which has more Africa-wide network and branches, paid only about 0.06% of taxes, whilst Ecobank paid 0.3%.

Table 20: Share of Banks' Profit Taxes in Government Revenue from Company Tax (%) (2012)

	Banks' Profit Tax (US$ million)	Percentage of Government Revenue from Company Profit Tax
Access Bank Plc	13.02	0.24
Afribank Nigerian Plc (Now Mainstreet Bank)	1.80	0.03
Diamond Bank Plc	34.67	0.63
Ecobank Nigeria Plc	16.63	0.30
Fidelity Bank Plc	22.10	0.40
First Bank of Nigeria Plc	109.88	2.01
First City Monument Bank Plc	9.29	0.17
Guaranty Trust Bank Plc	105.43	1.93
NPF Microfinance Bank Plc	1.00	0.02
Skye Bank Plc	20.09	0.37
Stanbic IBTC Bank Plc	10.12	0.18
Sterling Bank Plc	3.52	0.06
Union Bank of Nigeria Plc	10.87	0.20
United Bank for Africa Plc	3.44	0.06
Unity Bank Plc	4.49	0.08
Wema Bank Plc	9.73	0.18
Zenith Bank Plc	6.77	0.12
Total	**382.85**	**6.99**

Sources: (a) CBN Annual Reports and Statements of Account for Company Profit Tax; (b) banks' annual reports procured from Analysts Data Services and Resources Limited.

Estimates of the Employment Generated by Banking Services

The total number of employees in the Nigerian banking sector increased from 26,234 in 2001 to 36,817 in 2005 (Table 21). The consolidation exercise that occurred in 2005 led to a decline in the number of bank staff in 2006 to 31,656, as banks had to reduce their total workforce and maintain a leaner staff profile. The number increased until 2009, when it peaked at 102,673 workers and thereafter dropped by about 37% to 64,364 in 2010. This was attributed to the nationalisation of some banks in 2009, which led to the retrenchment of many bank employees. A breakdown of each bank's contribution to employment in the banking services sector is presented in Annex 3 Table A8. Bank employees as a percentage of total employment was less than half of one percent, perhaps indicative of inadequate numbers of bank staff, the preponderant use of casual workers to cut operational costs, and overworking of permanent workers.

Nevertheless, the Nigerian Bankers Association has resorted to bringing in expatriates to train bank staff to meet international standards. The banking subsector recruits from a wide range of disciplines at graduate level and trains graduates to meet their requirements. Five per cent of graduate employees have an academic background in banking and finance, others have a background in information technology (10–12%), business administration (10–12%), sciences (15%), mass communication (5–10%) and accounting (20%). The average banking monthly starting salary for a graduate is US$ 660 to US$ 1,180. Table 22 shows banking salary levels for other roles.

Table 21: Contribution of Banking Services to Total Employment in Nigeria

Year	Total Number of Employees in Banks	Total Employment in Nigeria	Percentage of Bank Employees in Total
2001	26,234	39610699	0.07
2002	23,095	40412296	0.06
2003	32,904	41215948	0.08
2004	30,231	41951865	0.07
2005	36,817	43092686	0.09
2006	31,656	44347507	0.07
2007	62,516	45558533	0.14
2008	69,326	46893149	0.15
2009	102,673	48187380	0.21
2010	64,364	49617165	0.13

Sources: (a) Banks' annual reports procured from the Analysts Data Services and Resources Limited for total number of employees in the Nigerian banking sector, and (b) World Bank World Development Indicators 2013 for Total Employment in Nigeria.

Table 22: Average Salary in the Banking Sector

Occupation	Average Monthly Salary in 2009
Professionals (including operations managers)	US$ 1,980–2,300
Customer service	US$ 528–990
Elementary/lower levels	US$ 330–528

Source: Nathan EME, 2010.

Cross-border Activity of Nigerian Banks

After the end of Apartheid, several South African banks, most notably Standard Bank and Absa, started expanding throughout the continent. More recently, two West African banks—Ecobank and Bank of Africa—have begun expanding throughout Sub-Saharan Africa. Similarly, Moroccan banks have started to expand south. Finally, and as consequence of the recent consolidation wave in Nigeria, Nigerian banks have begun to expand throughout West Africa, but increasingly also throughout the rest of the continent. And in recent years, Kenyan banks have started to expand throughout East Africa. The importance of cross-border banking can be illustrated both at the bank and the country level. Several multinational banks are present across the continent. Specifically, Ecobank is now active in 35 countries, whilst South Africa's Standard Bank has expanded into 16 countries. United Bank for Africa operates in 20 African countries. European banks such as Standard Chartered or BNP Paribas continue to be active across large parts of the continent. Some of this expansion has come through merger and acquisition activity, others through greenfield entry.

Nigerian banks' cross-border activities started in 2002, with two banks setting up operations in a few countries in Africa, and increased after the 2004 banking sector consolidation in Nigeria. Following the 2004 increase in minimum capital requirements from N 2 billion (US$ 17 million) to N 25 billion (US$ 210 million), the Nigerian banking system consolidated and the number of banks fell from 89 in 2003 to 24 at the end of 2013. The total assets of the banking sector increased from N 2,767 billion (US$ 23 billion) in 2003 to N 14,932 billion (US$ 127 billion) in 2008. By the end of 2008, more than half of the 20 domestically owned Nigerian banks remaining had subsidiaries in at least one other African country, compared to only two in 2002 (see Table 12 above and Figure 3 below). United Bank for Africa was the leader, with subsidiaries in more than 20 African countries. Although cross-border expansion of Nigerian banks was temporarily halted by the global financial crisis in 2008–

2009, it increased after conditions stabilised following intervention in the banking sector and the strengthening of risk management and supervisory frameworks by the CBN.[47]

The cross-border expansion of Nigerian banks was motivated by several factors that are both economic and ideological in nature. Driven by the need to maximise profit and the value of shareholders' funds, and facing stiff competition in the domestic market, the banks engaged in aggressive regional expansion. Additionally, based on the belief that banking systems in many African countries are still less developed and less capitalised than in Nigeria, and in light of the significant opportunities in financing trade between these countries, Nigerian banks saw an opportunity to leverage their success, experience, and technology platform to deliver services in these markets, where returns are expected to be at least as high as those in Nigeria. At first, the banks' expansion was concentrated on Anglophone countries, suggesting that language and similarities in the legal environment played a role. They have since moved on to some Francophone countries (such as Côte d'Ivoire, Burkina Faso, and the Democratic Republic of Congo). A combination of financial reforms in the host countries and a favourable macroeconomic environment in Nigeria played a role in the expansion, as high oil prices led to the accumulation of significant international reserves of US$ 62 billion—the highest in the history of Nigeria—at the end of 2007.

Some banks pursued a strategy as pan-African or regional banks. With a large asset base, a deep stock market,[48] and resulting efficiency improvements on the home front, the banks developed regional ambitions on the African continent. The desire to establish themselves as regional banks following consolidation contributed to the expansion drive. In 2008, Nigerian banks ranked 1–15 in the African Business Survey[49] in the category of the most capitalised businesses in Africa. Therefore, they were well positioned to play an increasing role in the subregion's financial sector. Rather than depend on host countries to raise capital, many of the banks raised capital in Nigeria, contributing to FDI in the host countries to which they expanded. The non-existence of capital markets in most Sub-Saharan countries to which the Nigerian banks expanded suggests that the parent companies contributed to the host countries' banking systems by raising capital outside, thereby adding to the financial base in the host countries.[50] Nevertheless, the expansion has so far been funded by raising capital from the Nigerian market, and the model of expansion suggests that Nigerian shareholders have funded the cross-border expansion of the banks. Even after meeting the increased capital requirement after consolidation, some banks raised additional capital both domestically and internationally by issuing global depositary receipts (GDRs).[51]

Most Nigerian banks expanded into other African countries following the 2004 consolidation that increased minimum capital requirements more than tenfold. Most banks expanded their operations domestically and internationally by increasing branch networks in the domestic market and opening subsidiaries abroad. Cross-border expansion has taken

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[47] See Sarah Alade, Cross-border expansion of Nigerian banks: has it improved the continent's regulatory and supervisory frameworks? Bank for International Settlements Paper No. 76, February 2014.

[48] Bank stocks constituted over 60% of the Nigerian Stock Exchange at its peak in 2008 with a capitalization of US$ 11 billion (Obosi, 2014).

[49] See *African Business* magazine, December 2008.

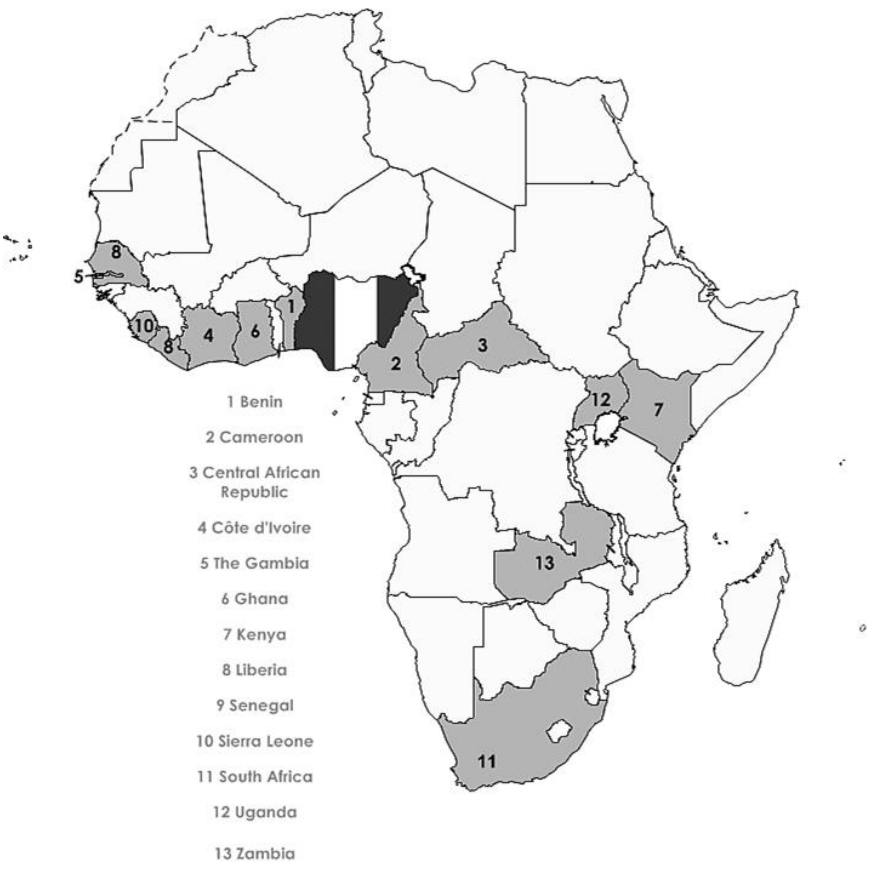
[50] There are a few cases in which partial ownership from the host country was involved.

[51] Alade, 2014.

place through subsidiaries, thus adding to the number of banks in host countries. Nigeria has five foreign-owned banks out of 23 banks in the country—Citibank, Ecobank, Stanbic IBTC, Standard Chartered, and Nedbank. Whilst four of the banks have been operating for a while in Nigeria, Nedbank only started operation in 2013. Therefore, the number of Nigerian banks operating branches in other African countries far exceeds that of the foreign banks operating in Nigeria. Figure 3 shows the foreign operations of Nigerian banks. If Ecobank (although technically Togolese, it obtains most of its capital from Nigerian operations) is added to the picture, it significantly increases the Nigerian banking footprint across the continent.

Economic theory suggests that such cross-border expansion would have many benefits, both for the expanding banks and for the recipient banking system. The main benefits for the parent company are risk diversification and greater profit opportunities for shareholders. The recipient banking systems, on the other hand, would benefit through increased intermediation and improved efficiency resulting from technological advancement, reduced interest rates, and efficiency improvements due to increased competition. Most countries have welcomed the expansion of Nigerian banks into their jurisdictions, as these banks are helping to deepen the banking sector in Africa through branch network expansion, the introduction of new financial products, and the strengthening of the regulatory and supervision framework through the introduction of consolidated supervision and joint supervision of bank branches, which have helped to affect knowledge- and information-sharing among supervisors.

Figure 3: Location of Nigerian Banks in Africa, 2010



Source: Nathan EME, 2010.

Contribution of Banking Services to External Trade

The main opportunities for Nigeria's financial services lie in the export of commercial banking services and in capital markets. Commercial banks have been exporting via Mode 3 (commercial presence), setting up entities or branches abroad. They have been gaining market share from local banks in foreign markets. Export of banking services to Sub-Saharan Africa is already taking place. The analysis of the pattern of extension of bank branches abroad is related to the market access changes in Nigeria's frontline trading partners. Data on Nigerian bank affiliates, branches, and subsidiaries abroad will provide insights into the extent of commercial presence exports of Nigerian banks. In the absence of that, the history of Nigerian banks operating branches abroad, suggesting an aggressive foreign branch network policy, is highlighted in Table 23 on the basis of their external assets and liabilities.

External assets (proxy for exports of banking services) increased from a paltry N 250.2 million in 1980 to N 194,585.4 million in 2000, and peaked at N 1,702,513.5 million in 2011. Similarly, external liabilities increased from N 88.3 in 1980 to N 34,370.8 million, and peaked at N 653,793.7 million in the same period. The global financial crisis seems to have had a negative effect on the import of commercial banking services as it witnessed a decline between 2007 and 2009. It however increased to N 387,635.0 million in 2011, a probable response to the positive world economic outlook recorded during that period.

Table 23: Commercial Banks' External Assets and Liabilities[52]

Year	External Assets (Exports) (N million)	External Liabilities (Imports) (N million)	Net External Reserves (Banking Services Trade Balance) (N million)
1980	250.20	88.30	161.90
1985	414.50	261.40	153.10
1990	6,550.20	248.00	6,302.20
1995	57,257.80	623.60	56,634.20
2000	194,585.40	14,866.80	179,718.60
2001	305,028.50	34,370.80	270,657.70
2002	398,210.00	18,951.40	379,258.60
2003	437,658.60	21,080.80	416,577.80
2004	481,295.50	18,893.50	462,402.00
2005	463,238.70	23,278.40	439,960.30
2006	1,358,276.10	653,793.70	704,482.40
2007	930,748.00	234,499.70	696,248.30
2008	1,506,845.90	227,223.00	1,279,623.00
2009	1,265,643.40	194,561.10	1,071,082.00
2010	1,296,356.90	162,024.10	1,134,333.00
2011	1,702,513.50	387,635.00	1,314,879.00

Source: Computed from CBN, Statistical Bulletins (various volumes).

The banking services 'trade balance' (assets versus liabilities) was positive all through the review period and peaked at N 1,314,879 million in 2011. This shows that Nigerian banks were able to penetrate the economies of some foreign, mainly African, countries. Nigerian banks registered their presence in Benin, Cameroon, Central Africa Republic, the Gambia,

[52] External Assets = Balances held with other banks, offices, and branches of banks outside Nigeria plus bills discounted payable outside Nigeria plus loans and advances to banks outside Nigeria plus investment abroad; External Liabilities = Balances held for other banks, offices, and branches of banks outside Nigeria plus money at call for banks outside Nigeria plus loans and advances from banks abroad.

Ghana, Ivory Coast, Kenya, Liberia, Senegal, Sierra Leone, South Africa, Uganda, and Zambia. Specifically, Diamond Bank has branches in Benin, Liberia, Senegal, and Côte d'Ivoire, whilst First Bank has branches in South Africa, Kenya, and China. Nigerian banks face competition from international banks such as Standard Chartered from South Africa in these foreign markets. In terms of products, Nigerian banks in the region are not offering unique products, but they have potential to gain more market in Francophone West Africa and Lusophone countries which are as yet not fully explored territory.[53]

Other Spill-overs of Banking Services to the Economy

Contribution to Trade in Goods

The Nigerian banking sector is linked to the real sector of the economy via the credit that the sector grants to the latter in medium-term financing arrangements such as overdrafts and medium-term loans. Nigerian banks are known to borrow short and also lend short due to the sources of their deposits, which are mostly current account based. Term deposits are usually obtained at high interest rates and these are also not long tenured. In spite of these shortcomings, Nigerian banks have provided credit to the real sector of the economy as evidenced from Table 24, which reveals the distribution of bank credit to agriculture, manufacturing, and services sectors, as well as export and import trade between 2002 and 2012. Manufacturing traditionally obtained the largest share of credit from Nigeria banks, followed by agriculture and SMEs. This distribution has altered in favour of the services sector, with an average share as high as 35.6% in the 2009–2012 period against 8.5% during 2002–2008.

The manufacturing sector's share of bank credit fell substantially from 58% to about 32% over 2002–2012. Imports have also gained at the expense of agriculture, SMEs, and the export sector. In all, Nigerian banks are providing finance to the country's real sector, even though the little it is providing to agriculture and manufacturing is indicative of high interest rates and short duration of loans, with which these sectors have difficulty in coping.

Table 24: Commercial Banks' Credit to Production of Goods and Services, Export, and Import (N million)

Year	Agriculture	Manufacturing	Services	SMEs	Exports	Imports	Total
2002	59,849.7	233,474.7		82,368.4	26,709.2		402,402.0
2003	62,102.8	294,309.6		90,176.5	34,467.4		481,056.3
2004	67,738.6	332,113.7		54,981.2	31,347.0		486,180.5
2005	48,561.5	352,038.3		50,672.6	26,427.3		477,699.7
2006	49,393.4	445,792.6		25,713.7	52,686.3		573,586.0
2007	149,578.9	487,576.0		41,100.4	66,551.1		744,806.4
2008	106,353.8	932,799.5	1,889,841.7	13,512.2	75,192.3	144,881.2	3,162,580.7
2009	135,701.3	993,457.0	2,081,966.5	16,366.5	45,870.5	1,199,208.2	4,472,569.9
2010	128,406.0	987,641.0	1,743,086.4	12,550.3	44,806.7	898,382.7	3,814,873.0
2011	197,822.9	1,014,504.0	1,568,603.2	38,321.2	61,186.4	909,711.2	3,790,148.9
2012	291,305.4	1,087,355.2	1,219,449.3	14,699.9	55,969.7	732,695.9	3,401,475.5
	Percentage Shares in Total						
Year	Agriculture	Manufacturing	Services	SMEs	Exports	Imports	Total
2002	14.9	58.0	0.0	20.5	6.6	0.0	100

[53] Nathan EME, 2010.

Year	Agriculture	Manufacturing	Services	SMEs	Exports	Imports	Total
2003	12.9	61.2	0.0	18.7	7.2	0.0	100
2004	13.9	68.3	0.0	11.3	6.4	0.0	100
2005	10.2	73.7	0.0	10.6	5.5	0.0	100
2006	8.6	77.7	0.0	4.5	9.2	0.0	100
2007	20.1	65.5	0.0	5.5	8.9	0.0	100
2008	3.4	29.5	59.8	0.4	2.4	4.6	100
2009	3.0	22.2	46.5	0.4	1.0	26.8	100
2010	3.4	25.9	45.7	0.3	1.2	23.5	100
2011	5.2	26.8	41.4	1.0	1.6	24.0	100
2012	8.6	32.0	35.9	0.4	1.6	21.5	100
2002-08	12.0	62.0	8.5	10.2	6.6	0.7	100
2009-12	6.4	33.8	35.6	2.5	2.4	19.3	100

Source: Computed from CBN Annual Reports and Statements of Account, various years.

Success Stories in Exporting Financial Services from Nigeria

In seeking to explore the rationale and motivations for Nigerian banks moving into other national markets, the authors of this study approached First Bank, United Bank for Africa (UBA), and Ecobank Nigeria Ltd. and asked their help as subjects of case studies. These are banks that have significant operations in other African markets. After much deliberation, the first two declined, but Ecobank agreed to our request regarding interviews and responded to a questionnaire. The narrative below is therefore based mainly on secondary research and publications of the financial institutions themselves.

Banks deal with numerous financial services that qualify as exports, whether with respect to cross-border supply, consumption abroad, commercial presence, or presence of natural persons referred to as Mode 4. Out of the various categories of bank services which are traded across country borders (see Introduction for list of tradeable financial products), only for a very few of them is it possible to obtain publicly available data for analysis. In particular, income from foreign exchange transactions is a service area which features in banks' annual reports. Other products for which information is provided in annual reports include investment in subsidiaries abroad (this constitutes commercial presence), and placements or assets in subsidiaries abroad. These are what will be analysed with respect to the three case study banks in the sections below.

United Bank for Africa

The United Bank for Africa Plc (UBA) was incorporated in 1961 and was listed on the Nigeria Stock Exchange in 1970. It was incorporated to engage in banking business and was delisted and relisted as a holding company in 2013 as UBA Holdings Plc in compliance with the holding company structure mandate by the CBN, following the repeal of the Universal Banking Guidelines. In 2005, Standard Trust Bank Plc (STB) merged with UBA under the terms that all assets, liabilities, and undertakings, including real property and intellectual property rights of STB, be transferred to UBA, and the entire share capital of 8 billion ordinary shares of 50 kobo each of STB be cancelled and dissolved without winding up. The mode of the merger was that one ordinary share of 50 kobo each in UBA Plc, was credited and fully paid in exchange for 2 ordinary shares of 50 kobo in STB. Also in 2005, UBA acquired Continental Trust Bank Ltd by paying cash to the owners of the bank.

The UBA has been recognised one of the fastest growing banks in Africa and has also been tagged the Pan African bank in recent times. The bank has branches in 19 African countries and in the United States, UK, and France. Various amounts of investment were channeled into these subsidiaries and branches by the UBA. Table 25 shows the investments in selected UBA subsidiaries abroad for which we were able to obtain data. UBA Ghana appears to be the one with the largest investment. However, in view of the size of the Ghanaian population relative to countries like Kenya, it is expected that UBA investment in other big countries will be larger. It is also noted that investment in the rest of Africa may have started from the West African subregion and then spread into other African countries.

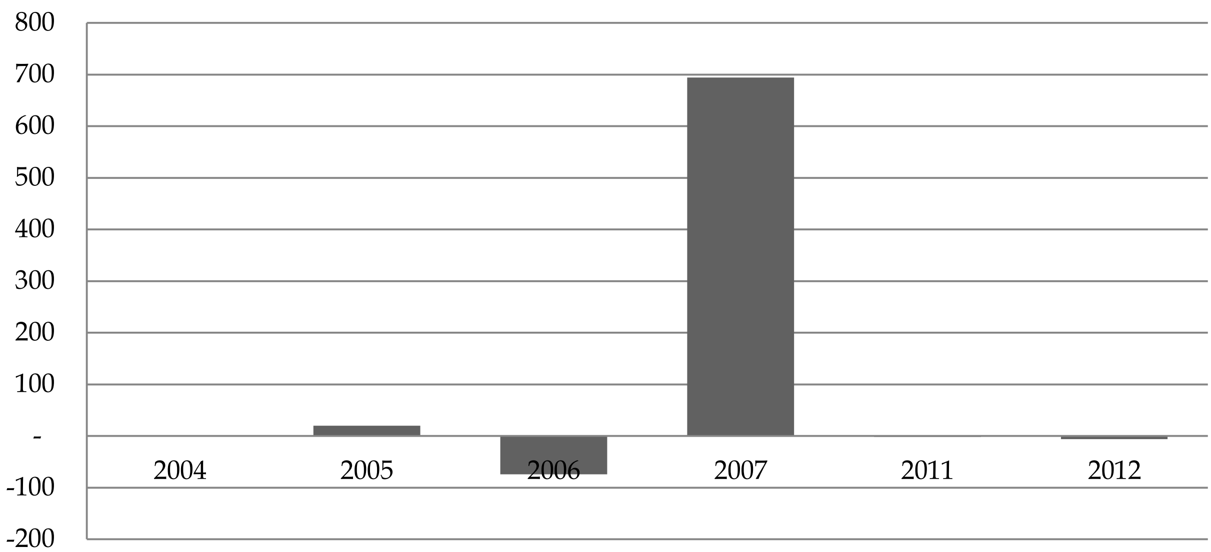
Table 25: UBA Investments in Selected Foreign Subsidiaries

UBA Country Offices	Capital Investment	Year	UBA Shareholding
UBA Ghana	US$ 10 million	2004	NA
UBA Burkina	CFAF 8.566 billion	2011	63.74
UBA Congo	CFAF 10 billion	2011	NA
UBA Chad	US$ 4.29 million	2009	NA
UBA Sierra Leone	US$ 7.5 million	2008	NA
UBA Liberia	US$ 7.0 million	2006	NA
UBA Senegal	CFAF 9.25 billion	2009	NA

Source: Websites of UBA foreign subsidiaries.

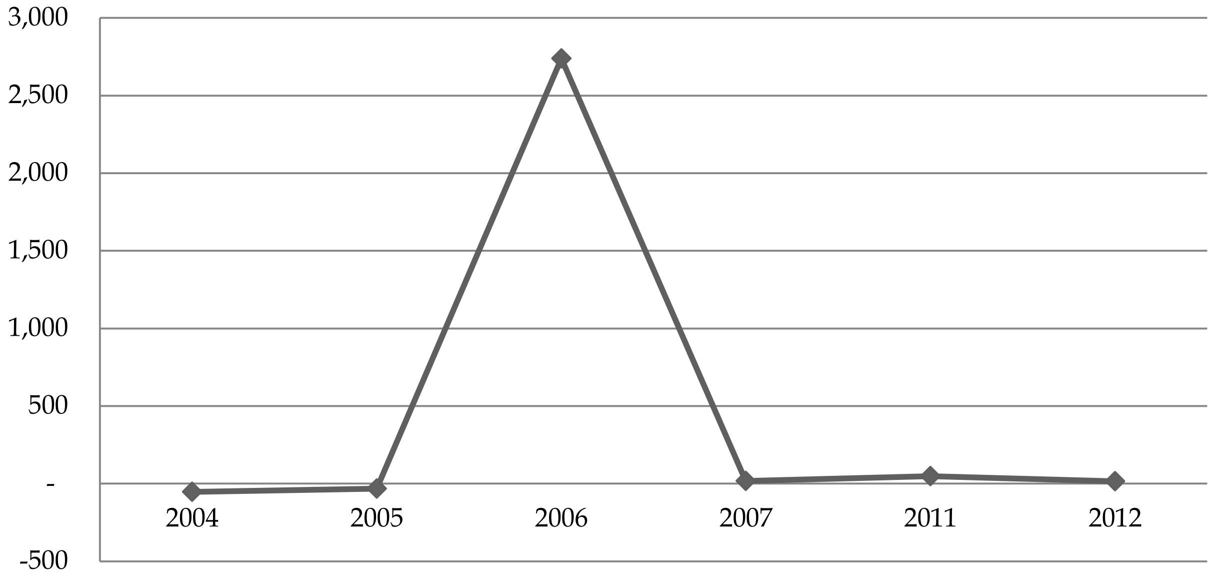
Figure 4 indicates the growth rate of foreign equity of UBA between 2004 and 2012. Only in 2007 was it above 200%. There may have been a deliberate policy to expand shareholding in some countries that is not captured by Table 25 above because of unavailability of data.

Figure 4: Percentage Growth of Foreign Equity of UBA



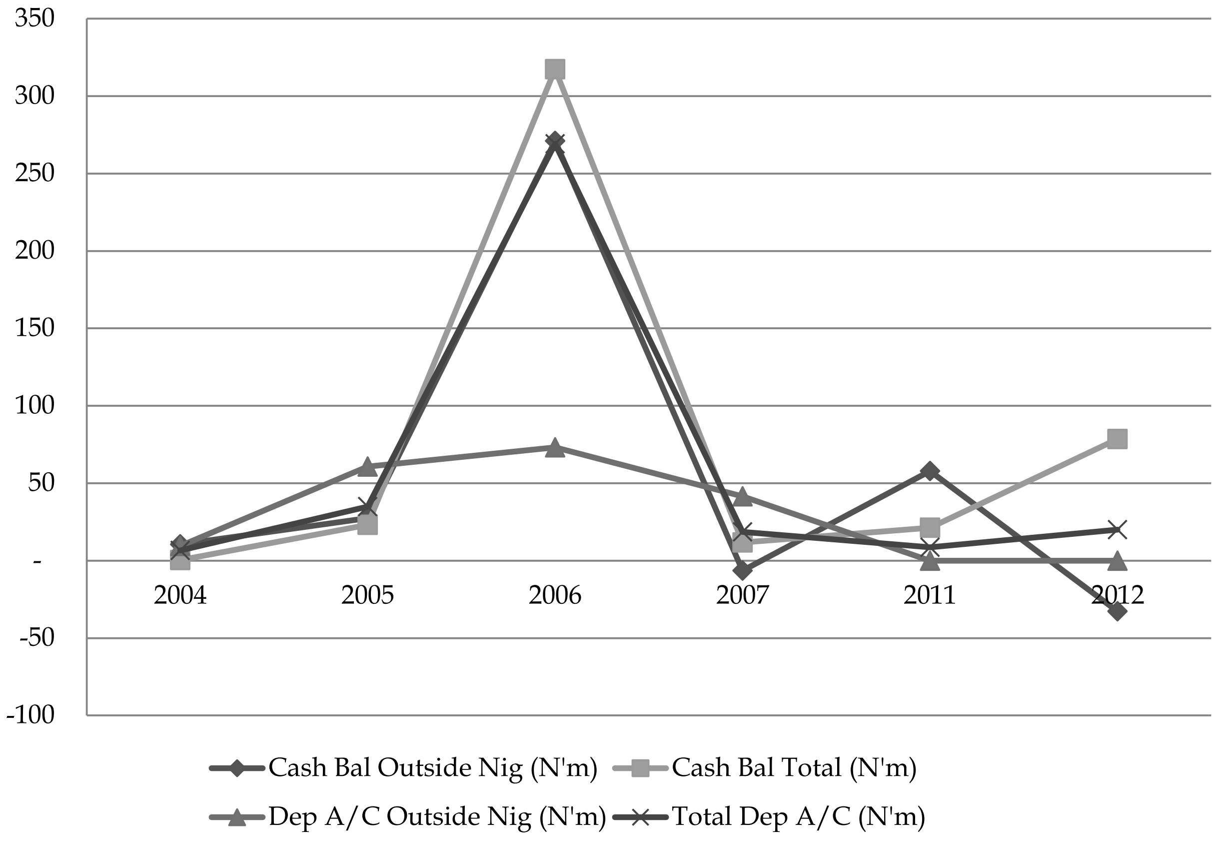
UBA's annual reports, from which Figure 5 was also derived, make clear that growth rates of earnings from foreign exchange deals and international operations stabilised during the period 2004 to 2012 except in 2006, when there was a spike.

Figure 5: Percentage Growth of UBA's Foreign Exchange and International Earnings



The growth of UBA's bank balances shows that only deposits outside Nigeria have been somewhat stable over 2004–2012. The other variables relating to UBA's international operations have also been volatile (Figure 6).

Figure 6: Percentage Growth of UBA's Bank Balances



First Bank Nigeria PlC

First Bank's growth of foreign equity was over 150% in 2009 alone, but this fell drastically in 2011 and assumed another upward trend in 2012 (Figure 7). This growth performance is also not quite as stable as might be expected of a big bank with widely spread foreign affiliates.

Figure 7: Percentage Growth of First Bank's Foreign Equity

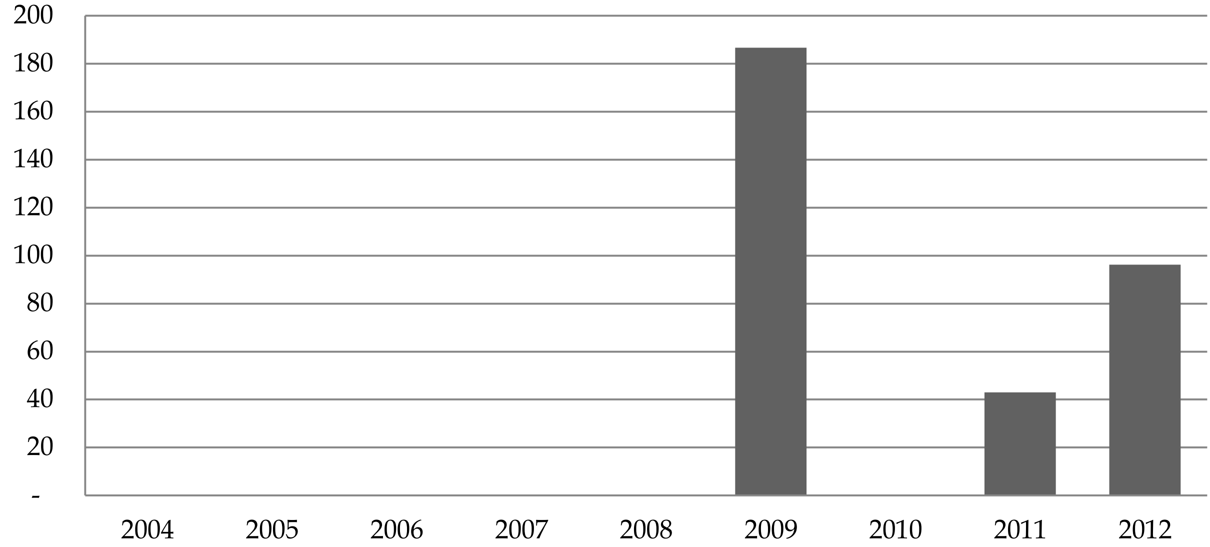
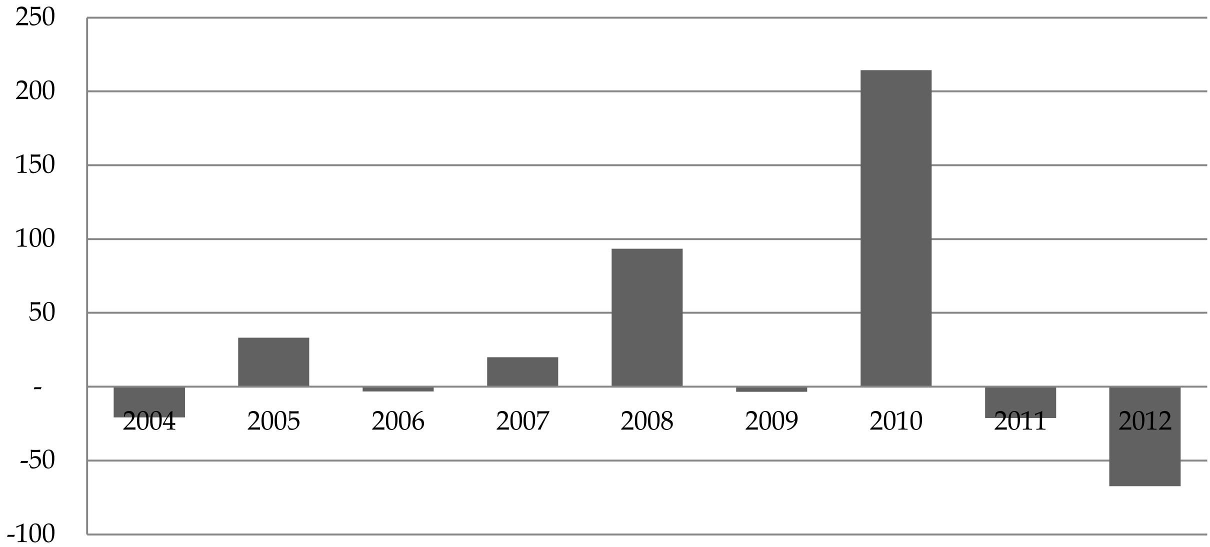


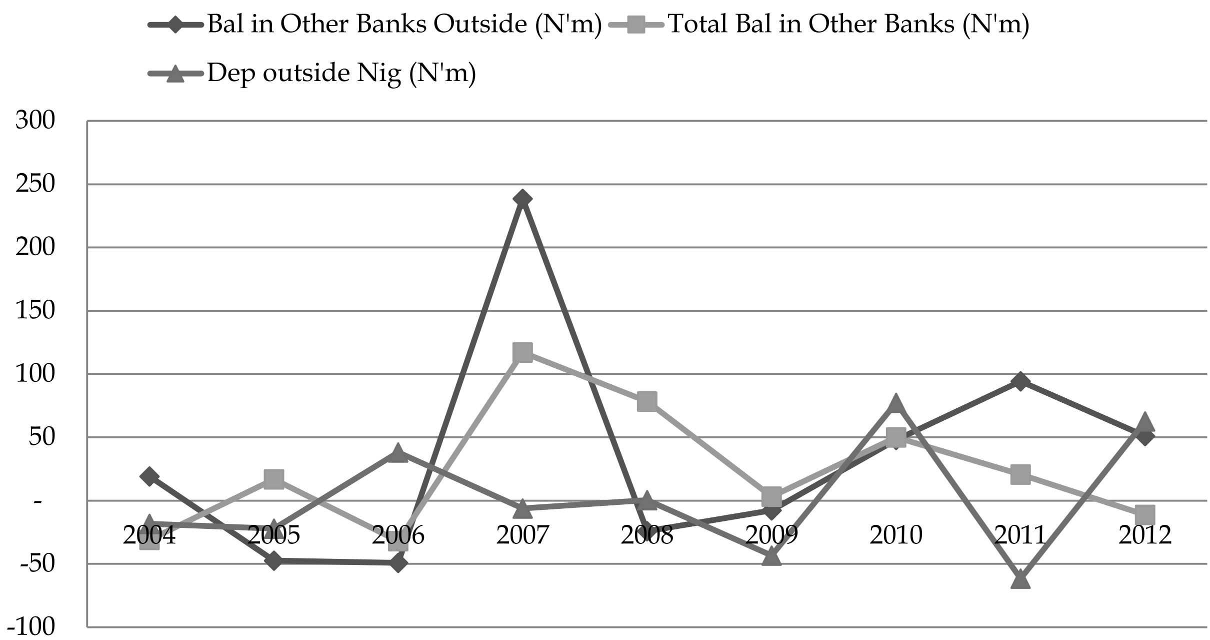
Figure 8 indicates that First Bank's earnings from foreign exchange transactions have been quite volatile and have been falling since 2010. It appears to be the most volatile performance when compared to UBA and Ecobank.

Figure 8: Percentage Growth of First Bank's Foreign Exchange Income



The volatility observed above with respect to foreign exchange income is reflected in the balances held in other banks as well as deposits held in banks outside Nigeria (Figure 9). Though these variables are quite volatile, with spikes in 2007, the overall upward trend generally suggests that the growth is constant, implying a strategy of implicit smoothening of exposures in these banks.

Figure 9: Percentage Growth of First Bank's Bank Balances



Ecobank Nigeria

Ecobank began operations in 1986 and was first listed on the Nigerian Stock Exchange in 2006. It started operating as a universal bank from the mid-2000s, providing wholesale, retail, corporate, investment, and transaction banking services to its customers in the Nigerian market. In 2009, Ecobank acquired African International Bank Ltd by paying a total of N 65 million to the shareholders on N 65 per share. In 2012, Ecobank Plc was acquired by Ecobank Transnational Inc. and then became Ecobank Nigeria Ltd. During the fourth quarter of 2011, Ecobank Nigeria acquired 100% of the shareholding in Oceanic Bank, creating the expanded Ecobank Nigeria Plc. As of December 2011, the expanded Ecobank Nigeria controlled total assets valued at approximately US$ 8.1 billion (N 1.32 trillion), making it one of the five largest banks in Nigeria at the time, with 610 free-standing branches, the second-largest bank in the country by branch network.

Whilst Ecobank Transnational Incorporated (ETI), the parent company of Ecobank Nigeria Ltd, is incorporated in Togo, its biggest capital base and operations are in Nigeria, which accounts for 44% of the group's asset base.[54] In the third quarter of 2013, Nigeria also accounted for 41% of Ecobank's revenues and 35% of its net customer loans. Furthermore, its majority shareholders are Nigerian. The institutional shareholders include the Public

[54] When Ecobank was established, it was granted the status of an international organization and a non-resident financial institution by the government of Togo, where it is domiciled, and is therefore not supervised by the Banking Commission of the West African Economic and Monetary Union (WAEMU) in Abidjan.

Investment Corporation(PIC), of South Africa, the Asset Management Corporation of Nigeria (AMCON), and the International Finance Corporation (IFC).

ETI is the most geographically spread bank on the continent. We therefore feel that it presents a good example for studying the rationale for its growth and expansion and its views on trade and investment liberalisation issues in Africa. Furthermore, its somewhat unique origin and business model as a pan-African bank reflect the global realities of the financial services and banking industry in terms of growth and expansion strategies.

The dual objective of ETI is to build a world-class pan-African bank and to contribute to the economic and financial integration and development of the African continent.[55] As a group, ETI's strategy is to build scale through organic growth and acquisitions, and also grow its businesses in existing markets and expand into new markets.

Background on Ecobank Transnational Incorporated

ETI, a public limited liability company, was established as a bank holding company in 1985 in Lomé, Togo, under a private sector initiative spearheaded by the Federation of West African Chambers of Commerce and Industry with the support of ECOWAS. In the early 1980s the banking industry in West Africa was dominated by foreign and state-owned banks. There were hardly any commercial banks in West Africa owned and managed by the African private sector. ETI was founded with the objective of filling this vacuum.

Interestingly, the Federation of West African Chambers of Commerce and Industry promoted and initiated a project for the creation of a private regional banking institution in West Africa. In 1984, Ecopromotions S.A. was incorporated. Its founding shareholders raised the seed capital for the feasibility studies and the promotional activities leading to the creation of ETI. In October 1985, ETI was incorporated with an authorised capital of US$ 100 million. The initial paid up capital of US$ 32 million was raised from over 1,500 individuals and institutions from West African countries. The largest shareholder was the ECOWAS Fund for Cooperation, Compensation and Development (ECOWAS Fund), the development finance arm of ECOWAS. A Headquarters Agreement was signed with the government of Togo in 1985 which granted ETI the status of an international organisation with the rights and privileges necessary for it to operate as a regional institution, including the status of a non-resident financial institution. ETI commenced operations with its first subsidiary in Togo in March 1988.

The ETI Group Today

Today, Ecobank is the leading pan-African bank with operations in 35 countries across the continent (Figure 10), more than any other bank in the world. It currently operates in countries in West, Central, East, and Southern Africa, namely Angola, Benin, Burkina Faso, Burundi, Cape Verde, Cameroon, Central African Republic, Chad, Congo Brazzaville, Democratic Republic of Congo, Côte d'Ivoire, Equatorial Guinea, Ethiopia, Gabon, Ghana, The Gambia, Guinea, Guinea Bissau, Kenya, Liberia, Malawi, Mali, Niger, Nigeria, Rwanda, São Tomé & Principe, Senegal, Sierra Leone, South Africa, South Sudan, Tanzania, Togo, Uganda, Zambia, and Zimbabwe. The ETI Group also has a licensed operation in Paris and

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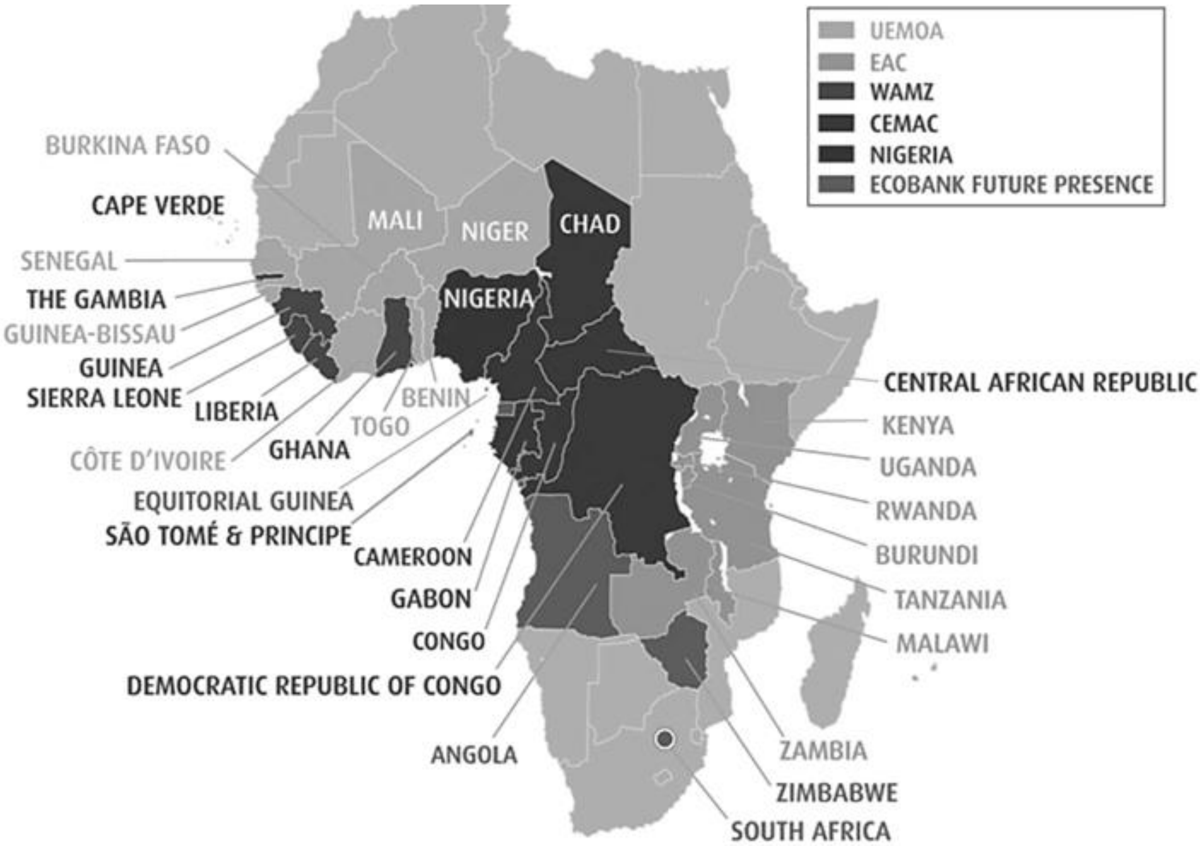
[55] See more at: www.ecobank.com/group/aboutus.aspx#sthash.920iOnqu.dpuf.

representative offices in Beijing, Dubai, Johannesburg, London, and Luanda. The stock of ETI is traded on three African stock exchanges: the Ghana Stock Exchange (GSE), the Nigerian Stock Exchange (NSE) and the BRVM stock exchange in Abidjan, Côte d'Ivoire. ETI had US$ 21.5 billion in assets at the end of September 2013.

Figure 10: Ecobank's African Locations, 2011



Business Segments

The Ecobank Group is a full-service bank focused on Middle Africa. It provides wholesale, retail, investment, and transactional banking services to governments, financial institutions, multinationals, local companies, SMEs, and individuals. Ecobank's services are delivered by three customer-focused business segments, Corporate Bank, Domestic Bank, and Ecobank Capital, all of which are supported by an integrated IT platform operated by *eProcess*, the group's technology subsidiary. Corporate Bank provides financial solutions to global and regional corporations, public corporations, financial institutions, and international organisations. Products focus on pan-African lending, trade services, cash management, Internet banking, and value chain finance. Domestic Bank provides convenient, accessible, and reliable financial products and services to retail, local corporate, public sector, and microfinance customers, leverages an extensive branch and ATM network, as well as mobile, Internet, and remittance banking platforms. Ecobank Capital provides treasury, corporate finance and investment banking, and securities and asset management solutions to corporate and governmental customers. Ecobank also operates within Ecobank Capital a research team based on the ground in key markets that provides unique information support capabilities.

The Ecobank Brand

Ecobank operates as 'One Bank' with common branding, standards, policies, and processes in all countries to provide a consistent and reliable service across its unique network of 1,251 branches, 1,981 ATMs, and 5,249 POS machines servicing over 10 million customers. It operates from an integrated IT platform, with all of its operations successfully migrated onto a single core banking application, Oracle FLEXCUBE. With 18,698 employees as at end of May 2013, the group is the largest employer of labour in the financial sector industry in middle Africa. Table 26 shows key indicators for Ecobank.

Table 26: Overview of Key Indicators for Ecobank Transnational

At End of Year	2012	2011	2010	2009	2008
Assets (in US$ millions)	19 950	17 162	10 467	9 007	8 306
Deposits (in US$ millions)	14 620	12 076	7 925	6 472	5 799
Shareholders' equity (in US$ millions)	2 009	1 354	1 155	1 236	1 158
Number of branches	1 226	1 151	755	746	610
For the Financial Year					
Revenues	1 751	1 196	900	873	826
Profit before tax (in US$ millions)	348	277	169	101	162
Profit after tax ((in US$ millions)	287	207	132	65	111
Basic earnings per share, restated (cents)	1.70	1.76	1.14	0.58	1.39

Source: www.ecobank.com/group/aboutus.aspx

Table 27: Growth and Cross-Border Expansion Trajectory of ETI

May 2013	1. ETI has a total of 1,251 branches, 1,981 ATMs, and 5,249 POS machines servicing over 10 million customers in 35 countries. It had 18,698 employees as at end of May 2013.
2011	2. In October 2011, Ecobank Nigeria takes over Oceanic Bank Ltd to create the second-largest banking distribution platform in Nigeria with over 600 branches and 1,450 ATMs.
2010	3. Ecobank Tanzania commences business and the Group is now fully present in all the countries of the nascent East African Economic Community. Ecobank expands into Zimbabwe, buying Premier Finance Group of Zimbabwe. The group also opens representative offices in Angola and Dubai.
2009	4. Ecobank Gabon, Ecobank Zambia, and EBI SA in France commence operations.
2008	5. Ecobank opens new subsidiaries in Malawi, Congo Brazzaville, Kenya, Burundi, and DR Congo.
2007	6. Ecobank opens new subsidiaries in Guinea Bissau, São Tomé, Central African Republic, Rwanda, and Gambia.
2006	7. ETI is simultaneously listed on three stock exchanges in West Africa, namely the BRVM, the Ghana Stock Exchange, and the Nigerian Stock Exchange. Ecobank starts business in Sierra Leone and Chad.
2004	8. ECV Servicios, a subsidiary of ETI, offers money transfer services in Cape Verde.
2002	9. Ecobank Development Corporation commences operations. Its technology and shared services affiliate, *eProcess*, is established.
2001	10. Ecobank expands into Central Africa. Ecobank Cameroon opens for business.
1999	11. The Ecobank Group extends its network to Guinea, Liberia, Niger, and Senegal. The share capital of ETI was increased and hundreds of private individuals and businesses from and outside the subregion seize this opportunity to invest in the group. Institutional investors, including the IFC and the West Africa Growth Fund, subscribe to the capital.
1998	12. Ecobank opens in Mali. Kingdom Holding Africa invests in ETI. The International Finance Corporation (IFC) subscribes 10% of the capital of Ecobank in Burkina Faso. Ecobank Development Corporation, the investment and capital market affiliate, is created.
1997	13. Ecobank opens in Burkina Faso in April. Group profits exceed USD 10 million. Balance sheet size hits USD 500 million. Shareholders approve a share ownership plan for staff.
1995	14. ETI pays out its first dividends. Ecobank Benin initiates a partnership with Western Union. This is extended to the rest of the Group.
1994	Ecobank's net operating profit crosses the US$ 5 million mark. The Rapid Transfer product is launched and quickly becomes a success.
1990	15. Ecobank Benin and Ghana start operations.

1989	16. Ecobank Côte d'Ivoire and Nigeria open for business.
1988	17. First Ecobank affiliate opens in Togo.
1986	18. Citibank signs a technical assistance agreement with Ecobank. The technical assistance was concluded in December 1988.
1985	19. In October, the Government of Togo signs an agreement granting ETI, the parent company of the Ecobank Group, the status and privileges of a non-resident regional financial institution.

Source: www.ecobank.com/group/ourgrowth.aspx#sthash.lHUhwo5T.dpuf

Table 28 illustrates the extent of Ecobank's operations across Africa and the significance of the Nigerian market compared to all other regions.

Table 28: Overview of Ecobank's Operations by Region (3rd quarter 2013, US$ millions)

	Nigeria	UEMOA	WAMZ	CEMAC	EAC	SADC
Net interest income	349.0	169.5	172.0	60.6	25.6	22.5
Non-interest income	254.0	137.4	107.1	66.5	24.0	30.5
Total Revenue	**603.0**	**306.9**	**279.1**	**127.2**	**49.7**	**53.0**
Operating expenses	(479.6)	(202.6)	(141.5)	(85.9)	(52.4)	(40.6)
Provisions for impairment	(42.0)	(29.2)	(32.9)	(8.1)	(1.9)	(1.8)
Profit before tax	**81.5**	**75.0**	**104.9**	**32.9**	**(4.6)**	**10.6**
Total assets	9,468	5,505	2,863	2,186	910	504
Loans (net)	3,726	3,381	1,222	1,300	436	252
Deposits	6,753	3,953	2,031	1,817	640	344
Cost/income ratio	79.5%	66%	50.7%	67.6%	106%	77%
Loans/deposit ratio	57.9%	87.7%	63.4%	73.3%	70.6%	78.2%
Nonperforming loans ratio	5.0%	5.0%	6.7%	4.2%	9.2%	6.8%

Source: Extracted from Ecobank Group Investor Presentation, November 2013.

3rd Quarter 2013	Nigeria	UEMOA	WAMZ	CEMAC	EAC	SADC	Other
Assets split by cluster	43%	25%	13%	10%	4%	1%	4%
Net customer loans by cluster	35%	32%	12%	12%	4%	2%	2%
Revenue split	41%	21%	19%	9%	3%	4%	3%

Source: Extracted from Ecobank Group Investor Presentation, November 2013.

The Ecobank Group includes the following specialised subsidiaries:

- Ecobank Development Corporation (EDC) – Lomé, Togo
- EDC Investment Corporation – Abidjan, Côte d'Ivoire
- EDC Investment Corporation – Douala, Cameroon
- EDC Securities Limited – Lagos, Nigeria
- EDC Stockbrokers Limited – Accra, Ghana
- Ecobank Asset Management – Abidjan, Côte d'Ivoire
- e-Process International SA – Lomé, Togo.

ETI has extensive acquisition experience, having completed 12 acquisitions of financial institutions in 10 countries across Africa over the last 10 years, including 3 in Nigeria. Table 29 indicates that Ecobank has substantial investments in West, East, and Southern Africa.

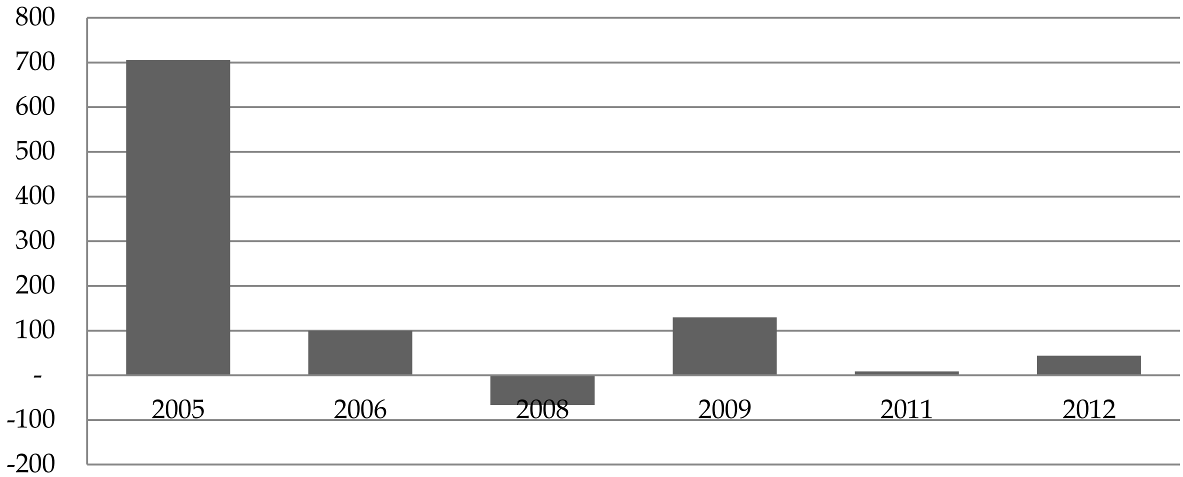
Table 29: Ecobank Investments in Selected Foreign Subsidiaries

	Ecobank Country Office	Capital Investment (US$)	Year	Shareholding of Ecobank Group
1	Ecobank Nigeria	$8.1 bn	1986	NA
2	Ecobank Ghana	$119 mn	1990	NA
3	Ecobank Uganda	$37.3 mn	2009	NA
4	Ecobank Zimbabwe	$42.8 mn	2002	62%

Source: Websites of Ecobank's foreign subsidiaries.

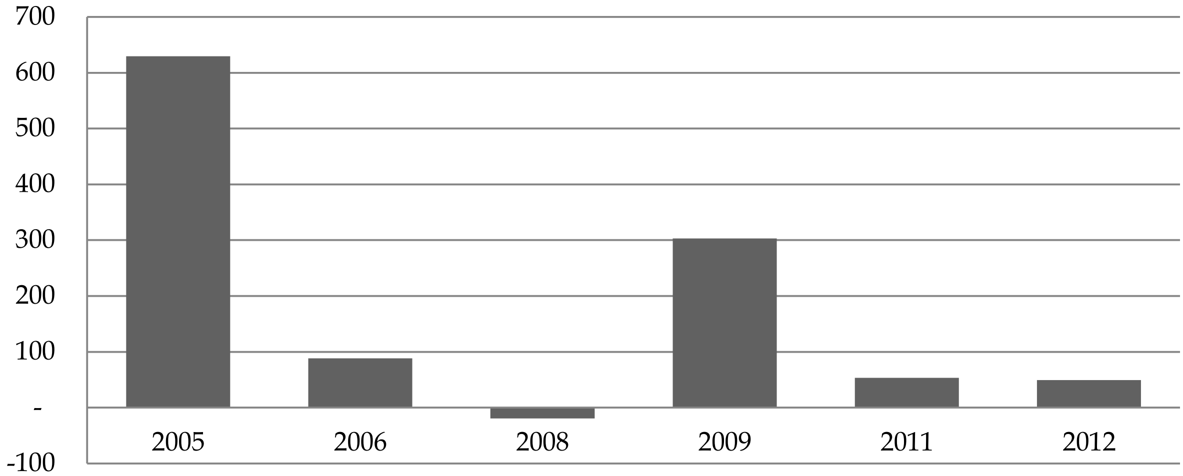
Ecobank's growth of shares in foreign subsidiaries has been stable but on a downward trend between 2005 and 2012. The growth has been marginally positive since 2009 after a reduction of about 50% in 2008 (Figure 11).

Figure 11: Percentage Growth of ETI's Foreign Equities



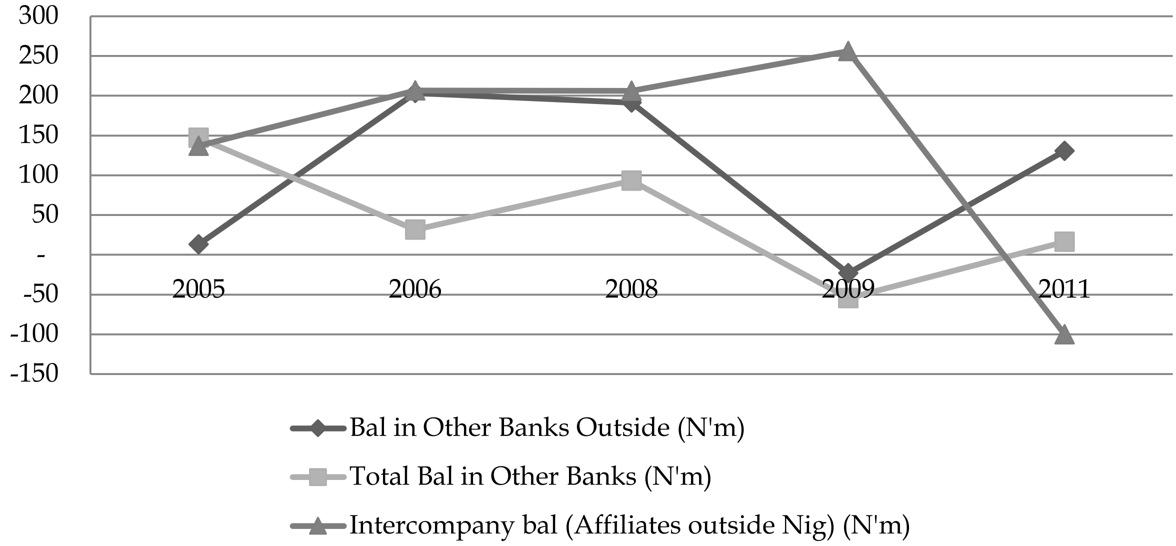
The growth of Ecobank's earnings from foreign exchange transactions (Figure 12) mimics that of equity in foreign subsidiaries. However, the reduction in earnings in 2008 was quite small.

Figure 12: Percentage Growth of ETI's Foreign Exchange Earnings



Ecobank's growth of bank balances outside Nigeria is a rising phenomenon compared to intercompany balances in affiliates outside Nigeria. The latter only experienced a downturn in 2011, but before that time, it performed quite impressively, and grew by more than 200% in 2009. However, in recent years the growth of Ecobank's balances in other banks shows a more volatile picture (Figure 13).

Figure 13: Percentage Growth of ETI's Balances in Other Banks



The use of ICT by Ecobank is helping its expansion programme, since all of its branches and subsidiaries operate from the same platform. In addition, Ecobank has been gearing up to fully participate in the mobile revolution. In October 2013, Bharti Airtel ('Airtel'), a leading global telecoms services provider with operations in 20 countries across Asia and Africa, entered into a partnership with Ecobank to deliver Airtel 'money' across nine African countries where Airtel also has operations. As a result of this agreement, millions of Airtel and Ecobank customers across Africa should be able to access secure, convenient, and instant mobile financial services. In many respects, this is revolutionary in the sense that a commercial bank and an MNO are collaborating instead of competing, and fulfilling the clear potential for cross-border supply of financial services (in the GATS sense of Mode 1) through mobile technology. It is hoped that the regulators will facilitate this rather than make it difficult for both companies. And this will also put pressure on regulators to re-think financial services regulations in a regional sense rather than in national jurisdictions only.

Strengths, Weaknesses, Opportunities, and Threats

Strengths and Opportunities

The small size of many African economies prevents their domestic banks from being able to take advantage of economies of scale. Banks in large markets are able to spread fixed costs and risks over a larger number of customers. Financial markets in many national economies in Africa are quite small. Many commentators might argue that with the exception of South Africa, and perhaps Nigeria and one or two others, Sub-Saharan African countries are just too small to achieve economies of scale in banking services. This might partly explain low levels of financial penetration and high interest margins in many countries. For banks in these countries to be efficient and competitive, they must either export their services or they must consolidate within the region or globally.

New central bank regulations and difficulties in operating outside their domestic environment are not stopping Nigerian banks from making plans for new pan-African growth. For instance, between 2008 and 2011, UBA brought the number of African countries in which it operates from 2 to 19, according to chief executive Phillips Oduoza. Although the rest of Africa today accounts for only about a quarter of UBA's assets and revenues and 13% of its profits, UBA hopes that figure will rise to about 50% as the new operations begin to yield higher returns. Similarly, Segun Agbaje, CEO of GT Bank, says his bank is expanding outside West Africa, where it already operates in six countries. In 2013, he planned to do a small East Africa acquisition for a new subregional operation, based in Kenya. After East Africa—where GT Bank hopes to cover Kenya, Rwanda, Tanzania, and Uganda—GT's next steps are expected to be Mozambique, Cameroon, and ideally Angola, and perhaps new francophone Africa operations, although probably after 2016. Also, Access Bank expects its proportion of profit from international operations, mostly in the rest of Africa, to at least triple to 15% by 2017. The CEO of Access Bank, Aigboje Aig-Imoukhuede, indicated that his bank's acquisition of Nigerian lender Intercontinental in 2012 has brought it into the top 10 banks in Ghana, which he expects will contribute around 10% of group profit by 2017. Bisi Onasanya, CEO of First Bank, Nigeria's biggest bank, similarly expresses regional ambitions and speaks of potential acquisitions in West Africa. First Bank bought Banque Internationale de Crédit, a 23-branch bank in the Democratic Republic of Congo in late 2011.[56]

Nigerian banks acknowledge that in their expansion strategies the banks to beat are from South Africa. South African banks still make the vast majority of their profits in their domestic market. But Standard Bank in particular has refocused its expansion on the rest of Africa. Standard Bank's CEO, Jacko Maree, indicated that 2012 results vindicated his post-financial crisis strategy of scaling up in the rest of Africa and scaling down in London as well as emerging markets. First Rand, South Africa's second-biggest bank, has also looked at commercial bank acquisitions in the rest of Africa in recent years. The group's investment bank, Rand Merchant Bank, launched a 22-person, Lagos-based Nigerian business in February 2013 to cover West Africa.

Continued expansion into other African countries will help Nigerian banks diversify into economies less dependent on oil exports and also spread and diversify risk. Also, given the low level of development of financial services in most African economies, the potential for growth is significant, but it must be developed in line with concerted efforts to increase access to financial services. Judging from the enthusiasm of several Nigerian banks about cross-border expansion, and the expected increased growth in many African countries, one can only conclude that the opportunities are significant for banks in terms of continued exports of financial services.

Challenges or Threats to Nigeria Increasing Banking Services Exports

In a recent report of the COMESA Business Council, the authors point out that:

The banking sector is facing a number of challenges which include but are not limited to: low access to banking services; inadequate funding within the banks; high cost of operations which is casted down to customers; lack of sophisticated financial systems; lack of effective competition among the players; high interest rates; delays in international transfers; high

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[56] Dominic O'Neill, Nigerian banks battle for pan-African dominance, April 2013: www.euromoney.com/Article/3181918/Nigerian-banks-battle-for-pan-African-dominance.html

premiums on conversion of local currencies; lack of clear regulation on mobile banking; and lack of clear transparency guidelines in service offerings, among others.[57]

This list epitomises the state of affairs in almost all financial services markets in Africa. It also sheds some reality on the challenges that need to be addressed in order for the financial services sector to act as a catalyst for other industries and as an engine of growth. It requires changes and concerted action by a range of actors in both the private and public sectors.

Furthermore, as the WTO pointed out in 2011, although the financial sector in Nigeria has grown strongly since 2003, averaging nearly 4% per year in real terms between 2004 and 2009, the main demand for financial services is from the corporate sector. For most individuals, Nigeria is mostly a cash-based economy and is likely to remain so for some time.[58] Although most banks now offer online and/or mobile phone-based services, and the number of POS terminals for credit and debit cards is increasing, consumer confidence in the banking system is still lacking. And in the target markets in other African regions, high levels of poverty make it impractical to expect that commercial banks will receive high profits from retail banking. The trend will remain a focus on corporate clients and lending to governments, since government bonds pay relatively well with little risk compared to lending to the private sector or SMEs in particular.

The Challenges of Mobile Banking

To some extent, the revolution in mobile banking or mobile money that is being driven by mobile telephone companies is a game changer, and especially in countries with dispersed populations. Technology is starting to revolutionise the economics of retail banking, especially in Africa where financial systems face high barriers to further outreach, including high transaction costs. Mobile phone banking offers two clear advantages over other delivery channels. First, it relies to a much greater extent on variable rather than fixed costs, which means that even customers who undertake small and few transactions are viable or bankable compared to conventional banking channels. Second, trust can be built more easily by reducing the risk from the customer's and the service provider's viewpoint.[59] Banks are now trying to play catch up in terms of reaching out to customers, but many do not have the technology platforms to do so. And anyway, credit is still not quite a major activity in mobile money; it is mainly payments and transfers, and relatively small, less risky investments per transaction.

So much has been written and said about mobile money or M-Pesa, or mobile banking in recent years, that the subject has become a bit clichéd. But it is worthwhile to review key aspects since it can have major implications for policymaking and regulation, as well as business models in the financial services and telecommunications industries. Before the evolution of ICT-driven banking products and delivery channels, financial service providers relied on expansion of physical branch networks in order to reach out to rural and marginalised areas. But the dispersed populations in rural areas could not support new

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[57] COMESA Business Council, A Private Sector Report of Regulatory Frameworks in the Financial Services Sector and their Impact on Businesses—Focus Area: Banking Sector and Insurance Services, April 2013.

[58] WTO, Trade Policy Review: Nigeria (Report by the Secretariat), May 24, 2011.

[59] Mas and Radcliffe, 2010.

bank branches, and travel time and costs prevented potential new customers from accessing banking services.

In recent years, the developments in ICT have totally changed the situation and now offer greater opportunities for reaching the unbanked. This is allowing financial institutions of all kinds to shift from brick-and-mortar facilities and very lumpy investments to 'click and mouse' solutions with a range of mobile technologies at much lower cost. The mobile telephone handset, smartphones, and other mobile devices are at the core of this revolution in reaching potential customers. These new channels provide customers with more frequent and convenient access to their accounts. The main mechanisms through which mobile technologies can provide remote financial service delivery include branchless banking, mobile banking, agent banking, e-money, smart phones, agent banking through POS terminals, and shared branching through cellular phones.

In Africa, thanks to the widespread penetration of mobile telephone companies, a rapidly growing number of people are using phones to carry cash and do various financial transactions. From its Kenyan origin, M-Pesa, introduced by Safaricom, is a household word everywhere now, and many other companies have emerged all over Africa. In West Africa, 18 mobile network operators are active in the mobile money business. In Ghana, MTN introduced its Mobile Money product in July 2009 in partnership with several banks. In Zimbabwe, mobile phone subscribers had reached almost 11 million in mid-2012, in a population of 12.5 million. Zimbabwe regulators approved the establishment of mobile banking services by 3 mobile network operators in collaboration with 18 financial institutions, and by Zimswitch with another group of 21 financial companies. The Zimswitch-ZIPIT mobile payment platform is now widespread, and by June 30, 2012, a total of 1.8 million customers were onboard.[60]

More recently on June 4, 2014, Airtel, Tigo, and Zantel announced a pioneering agreement to allow their respective customers in Tanzania to send money to each other whether using Airtel Money, Tigo Pesa, or EzyPesa on their mobile phones. Although it has been possible to send money through various mobile networks, this is the first agreement in Africa to adopt such 'interoperability', whereby MNOs allow their customers to send and receive money across networks and the e-money goes directly to the respective subscriber's e-wallet account. It is expected that this kind of arrangement will soon follow in other countries.

For Nigerian banks investing in other African countries, the adoption of technology platforms to compete with mobile telephone companies will become increasingly important. At the same time, they will have to compete with any local banks that are more technologically driven.[61] Indeed, there are already signs that Nigerian banks find it difficult to make profits in Kenya, since some Kenyan banks and mobile operators are competitive

[60] As related by the Deputy Governor of the Reserve Bank of Zimbabwe at a Symposium for the COMESA Committee of Central Bank Governors on May 24, 2013, in Kampala.

[61] Note that in April 2014, Equity Bank (of Kenya) was issued with a mobile phone service operating license by the Communications Authority of Kenya. This means that the bank can have its own mobile network, through which it can undertake mobile money transfer services similar to Safaricom's M-PESA service.

and technology driven.[62] Therefore, in some markets, Nigerian banks will have to focus on niche services and stick to their core competence.

The Lack of Regional Payment and Settlement Systems

Another trade-related issue at the regional level in most RECs is the high cost of cross-border payments and the long time it takes in some regions to clear accounts for trade transactions. In many instances correspondent banks are used in developed countries and the charges for this service can add up to 5% to the cost of a transaction. Also, the clearance time for a payment can take up to 5 days because it is done manually. This needs to be rectified by the creation of regional payment and settlement systems in all RECs. A few RECs have recently started, or are in the process of developing, regional payment systems, and these should be expedited. The most advanced seems to be the Regional Payment and Settlement System (REPSS) in COMESA that went into operation with Mauritius and Rwanda in late 2012. And in July 2013, the SADC Integrated Regional Electronic Settlement System (SIRESS) started with South Africa, Namibia, Lesotho, and Swaziland as a pilot project.

The Lack of Credit Bureaux

In addition, credit rating agencies either do not exist or have arrived only recently in most African countries, which means that it is difficult to evaluate the underlying riskiness of a bank asset. This undermines the reliability of risk analysis for a parent bank. In emerging countries outside Africa, by comparison, foreign-owned banks, in particular, have tended to underestimate the build-up in credit risk arising from a rapid expansion in credit growth compared with domestically owned banks.

Differences in Regulatory Regimes

The insights of Ecobank, as expressed in its responses to questions regarding regulatory or trade barriers in other African markets, indicate that it is important for governments in African RECs to better integrate standards and regulations governing the banking industry to help reduce costs and increase efficiency of the banking sector. Banks investing in different markets in the same REC still face significant regulatory differences regarding capital requirements, reporting requirements, and licensing requirements, among others, that constrain their ability to seamlessly operate across borders and increase their scale and efficiency.

Lessons Learnt and Best Practices

Key Factors in the Export Success of Nigerian Banks

The 'export' success of Nigerian banks in other African countries, whilst significant, seems to have occurred with little encouragement or policy initiatives from the Nigerian

[62] Nigerian banks in Uganda are also not making profits. In 2013, Ecobank, Global Trust, and UBA all reported losses in Uganda: www.theafricareport.com/East-Horn-Africa/west-african-banks-make-heavy-weather-of-uganda.html, June 17, 2014.

government. The motivations for cross-border expansion stem from a range of factors, but the oil booms and excess liquidity in Nigeria may have been the most compelling. However, regulatory changes in the domestic market have also indirectly contributed to the tendency for Nigerian banks to look towards other (less regulated and less banked) markets for opportunities. The very low level of financial development in much of Africa provides tremendous room for growth of the financial services industry, but poverty levels constrain the pace and consistency of such potential.

The reasons for the cross-border expansion of Nigerian banks are similar for all other banks that have cross-border operations. The drivers of cross-border investment are many and often interrelated, but the common ones are the declining opportunities in domestic markets and regulatory factors. As Kolonga and Chung point out:

> *For the other banks (Ecobank, UBA, and Access Bank), the significant increase in minimum capital, the limited opportunities in the domestic markets, and the emerging ideology to become global players all interacted to propel the banks to seek investment opportunities beyond local borders. Access Bank, like other Nigerian banks expanded after the huge increase in minimum capital, though it attributed its expansion to a desire to follow large clients abroad, to strengthen its domestic franchise and to improve the competitive position.*[63]

It may be argued that the main factor which shaped the success of Nigerian banks in exporting their services is their success at home (in Nigeria) induced by the bank consolidation policy, which increased the size of their balance sheet and their ability to take on big businesses and engage in global competition including establishment of branches or affiliates outside Nigeria. The injection of funds from oil exports into the economy played a big part in providing the domestic capital base for financial sector expansion. But more recently, (since the financial crisis of 2008/2009) some Nigerian banks have been borrowing at low rates in international markets and investing in African economies. Banks need a certain scale to become exporters or to invest abroad, so consolidation of the sector helped provide the impetus for cross-border expansion. Another factor is the relatively high levels of training of professional staff in the banking sector in Nigeria. Skills development is critical for domestic and foreign success. Also, the use of ICT across their operations to increase efficiency and provide consistent standards, management processes, and procedures also assisted in cross-border expansion of Nigerian banks. (Ecobank is a good example of this.) The challenge now is for them to embrace mobile technologies in order to expand their markets. There is one other factor that is critical—the role of the regulator.

The Role of the Regulator

The CBN is an autonomous entity responsible for monetary, credit, and exchange-rate policies, and for regulating the financial sector. Its main objectives are ensuring monetary and price stability, issuing legal tender, maintaining external reserves, regulating the financial system, and acting as banker to the federal government. It should be pointed out that the CBN, as regulator of the financial system, has indirectly played a role in the recent growth and export success of the Nigerian banking sector.

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[63] Inutu Kolonga and Kay Chung, 'The Cross Border Expansion of African LCFIs: Implications for Regional Financial Stability and Regulatory Reform', IMF Research Paper, September 2010, p. 7.

From previous reforms, to the 2005 consolidation exercise that raised the capital base of banks to N 25 billion, and the 2009 intervention by the Nigerian regulators that saved the banking industry from near collapse, the emphasis by the regulators over the years has been on achieving an efficient banking system and strengthening the stability and resilience of the financial system. Measures such as the adoption and implementation of risk-based supervision of banks, the commencement of consolidated and cross-border supervision of banks with group structures, re-focusing the supervisory framework through internal restructuring of the CBN, and adopting a new banking model to safeguard banks against risky proprietary trading and ensure that they concentrate on their core functions, had all been introduced to strengthen the banking system. In fact, if the CBN had not intervened as decisively as it did in 2009, perhaps the whole financial system in Nigeria might have collapsed. In a sector as critical as banking and finance, it is a *sine qua non* to have an effective regulator in order for banks to become financially sound and competitive before they can move into foreign markets.

Nigeria has implemented consolidated supervision in line with the Basel Committee's Core Principles for Effective Banking Supervision. A framework for cross-border supervision for banks was developed and implemented in 2011. The framework sets as a precondition for the presence of Nigerian banks in other countries the execution of a memorandum of understanding with the host regulators. Also, Nigerian banks that operate foreign subsidiaries are subject to higher capital requirements. Even with consolidated bank supervision and collaboration between host/home regulators and supervisory bodies, bank supervision can only be as good as the underlying information and data. Africa covers a wide range of countries with bank supervisory bodies of differing institutional strength. In low-income countries, in particular, timely and good-quality data are often not available to bank supervisors. This includes information on intra-group risk exposure, which reportedly is also an issue in pan-African banking groups.

Reasons for Success in Nigeria

The variables that influenced Nigerian banks' success at home include the following:

Effective Regulation and Supervision of the Banking Industry. The CBN implemented banking services industry remedial programmes such as improved data quality, enforcement of good governance, enhanced risk management and financial crime prevention, risk-based supervision, customer protection provisions, annual performance measurement process for boards of directors, rigorous pre-appointment assessment of their qualifications, and tenure limits for bank CEOs.

Use of Information and Communication Technology (ICT). The adoption of ICT increased efficiency and reduced costs. This included deployment of automated teller machines, electronic funds transfer, Internet banking, automated signature verification that allows clerks to verify signatures at the counters, and the POS terminal.

Capacity Building Programmes. The CBN and NDIC in conjunction with FITC organizes subsidized training progammes and workshops for staff of the commercial banks as part of the capacity building programme in Corporate Fraud Detection, Prevention and Control; Best Practice Audit Reporting; and International Financial Reporting Standards. Others include Basel II & III with Risk Management for Professionals, Syndicated Lending (Techniques & Management), and Managing Banking Operations among others.

Effective Risk Management. This has involved the reduction of non-performing loans whilst not being overly risk averse. It is important for banks in all African countries to improve their intermediation role in the economy and to provide more credit to various sectors and economic agents in society, to promote development and reduce poverty.

Increasing Role in Infrastructural Development. The banks have, for instance, funded a local airport in Lagos, independent power projects, and the Lekki-Epe express road concession, among others.

Effective Cost-Control Measures. Reduction of bloated workforces, pruning down of salary and emoluments of retained staff, and closing of unviable branches have led to higher profits.

Branch Network Expansion. This has enabled the retail strategy of capturing a large market share in the context of the financial inclusion strategy. It has involved deployment of automatic teller machines to complement branching and cash centres.

Promotional Policies. The banks have employed direct marketing, advertising, and high-profile messaging, (for example, promotion of the cashless policy of the Nigerian government).

The findings of this study raise the question whether there are lessons from Nigeria's experience for other African countries that would like to develop their services industries in general, and financial services in particular. However, given the idiosyncrasies of the Nigerian experience, it is not feasible to make prescriptions for other countries, most of which are much smaller in terms of their domestic market and the potential size of their domestic banks. Furthermore, the Nigerian government did not implement any strategy for exporting financial services (such as Mauritius, for instance, is now developing to help increase the entry of their banks on the continent). Neither does it have any active, overarching policy regarding services trade or investment.

Prospects for the Future

As the IMF pointed out, the 2009–2010 Nigerian banking crisis did not lead to systemic contagion across the region. This is partly because the Nigerian banks with the largest cross-border operations, accounting for more than half the foreign subsidiaries, were not among the troubled banks. Another factor that minimised systemic contagion was that the banking systems of the host countries are mainly funded by local deposits, and therefore do not significantly depend on Nigerian funding.

In some countries into which Nigerian banks expanded, the authorities recognised that Nigerian banks have contributed to enhancing the competiveness of the banking system and improving access to financial services. An assessment of banking sector development in Sierra Leone commissioned by the Bank of Sierra Leone, whilst stressing that more needed to be done, acknowledged the contribution of Nigerian banks in the country's banking system development. According to the study, 'new Nigerian banks have enhanced competitiveness significantly, but banking could be more competitive, more cost reducing and credit-risk rating improved. Newer, foreign-owned banks are growing fast, and could come to dominate the system in the near future'.[64] In 2012 in The Gambia, 7 of the total of 12 banks were Nigerian; in Ghana 7 of the 26 banks were Nigerian; in Liberia 4 of the 8 banks were Nigerian; and there were 6 Nigerian banks out of a total of 14 in Sierra Leone.

There is general agreement in the literature that the entry of foreign-owned banks increases competition and efficiency in the banking sector of the host country. This is mainly because the entry may reduce risk exposures for the banks through greater geographical and sectoral diversification, and enlarge the aggregate quantity of capital invested in the banking sector. Researchers and analysts encourage entry of banks as a means of strengthening weak and inefficient banking structures, particularly in emerging economies. This is because banks that are willing and able to expand into other countries are generally assumed to be larger, in healthier financial condition, more professionally managed, and more technically advanced than the average bank in the target country. Thus, there is an expectation that these banks will help raise the standard for all banks in the target country.

Most of the pan-African banks have systemic importance for both the home and host countries. They account for a large share of deposits; they are often important players in the treasury bill markets, foreign exchange markets, and the payments system. Banks are generally well capitalized. But there may be weakness in supervision. The key issue is whether regulations and supervision are keeping up with the innovation and sophistication of activities of foreign banks.

Conclusions

Foreign involvement in the banking sector in most African countries is already high. The available data suggest that there has been a strong increase in foreign interest and investment in the banking sector in most countries in the past 10 years. Almost half of all banks in Sub-Saharan Africa are foreign owned. Moreover, there do not seem to be any explicit ownership or licensing restrictions on foreign banks in most African jurisdictions. (Ethiopia and Eritrea are exceptions.) The relevant question is therefore not whether to further liberalize the financial services sector, but rather how to ensure that liberalization does indeed yield the potential benefits associated with it—such as efficient intermediation by banks, adequate credit to businesses and households, competitive interest rates rather than rent-seeking, and innovative financial services.

All RECs in Africa have either formally committed to closer economic integration or are currently engaged in the process of pursuing regional integration. And in five RECs there is the intent to form a single market and adopt a common currency. There is already a single currency in two subregional groups (CEMAC, UEMOA). It is therefore important to further liberalise financial services markets intra-regionally to integrate financial markets. Merging financial markets in RECs will increase scale, and spread and reduce risks and hence lower the cost of financial services. But it is also important to have regulatory coordination and/or convergence to ensure that there is efficiency in terms of regulatory demands on financial institutions. The initiatives to integrate financial markets in all African RECs should be accelerated, along with simultaneous regulatory collaboration and coordination at the regional level.

[64] Olade, 2014, p. 92.

Financial inclusion is important. It would be premature for African countries to try to export services without having paid attention to increasing the participation of their own citizens in the formal banking system. It is therefore recommended that all countries should develop a financial inclusion strategy in collaboration with financial institutions and public stakeholders or NGOs.

Financial integration has enormous potential benefits for African economies, though risks should not be underestimated. Foreign banks, especially banks from other emerging and developing countries with the necessary expertise, can significantly contribute to the financial innovation necessary for financial deepening in African economies. Foreign banks can also foster competition that provides the necessary incentives for financial innovation. However, benefits from cross-border banking and, more generally, financial integration, can only be reaped in the context of a broader financial reform agenda, including improvements in contractual and information frameworks.

Cross-border banking can be associated with stability benefits but also with stability risks. Foreign banks can bring additional strength to a banking system not only after a crisis, but can also be an important risk diversification tool. These benefits are maximised in the case of a diversified foreign bank population in the host economy. First of all, the presence of foreign banks allows domestic firms to have multiple lending relationships with domestic and foreign banks. When domestic banks are lending-constrained, firms can substitute finance from foreign banks for domestic lending. In addition, even if individual firms cannot obtain more financing from foreign banks following a domestic shock, overall lending in the economy will be less volatile, as only the domestically financed firms are affected.

There are important stability risks as well. First of all, foreign capital is likely to be more mobile than domestic capital, which can introduce an element of volatility. There is also contagion risk: In the same way as cross-border banking insulates the host economy from domestic shocks, it also exposes it to foreign shocks. A credit shock to one economy, for example, can be propagated more easily to the other economy, if both countries are financially integrated.

Cross-border banking will pose an increasing challenge for regulators across Africa. The need for bank regulation and supervision is based on the recognition that bank failure imposes costs on other financial institutions and the real economy that are external to the failing financial institution, and thus not internalised by the risk decision takers. Financial integration, however, also implies external costs of bank failure beyond national borders that are not taken into account by national regulators and supervisors. Close cooperation that can help internalise these cross-border externalities is necessary.

Regulators across the region have started to cooperate more intensely in recent years, signing memorandums of understanding and establishing colleges of supervisors. There is a clear pattern in this cooperation, with much stronger links between neighbouring countries and sub-regions with closer economic and financial integration than between geographically more distant countries. The recently established Committee of African Bank Supervisors, as part of the African Association of Central Banks, can give this cooperation further impetus, by enabling informal exchange of information and experiences, and networking possibilities. But it is important not to ignore the development benefits of cross-border banking when considering it as a potential source of risk. Financial stability is not an objective in itself, but rather a necessary condition for sustainable financial deepening, with the goal of economic development and poverty alleviation.

In conclusion, it may not be as meaningful to focus on the factors that accounted for Nigeria's exports of financial services as lessons for other countries, as to examine the role of banking and financial services in promoting other sectors and development in general.

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Annex 1: List of Services Exported by Nigeria (US$ 000)

Code	Service	2003	2004	2005	2006	2007	2008	2009	2010	2011
'200	**Total services**	**3,473,180**	**3,335,950**	**1,792,590**	**2,298,660**	**1,442,890**	**2,263,750**	**2,217,870**	**3,091,938**	**3,386,875**
2CS	Commercial services	3,473,180	3,335,950	1,432,768	2,056,693	1,097,492	1,833,616	1,759,686	2,629,068	2,314,181
'205	Transportation	361,384	672,805	1,337,510	1,826,820	829,565	1,209,130	1,098,250	1,977,102	1,587,574
'291	Government services, n.i.e.			359,822	241,967	345,398	430,134	458,184	462,869	1,072,693
'247	-- Telecommunication services			20,217	23,550	26,770	29,811	36,595	47,603	49,988
'260	Financial services			10,946	12,042	13,385	14,905	8,081	13,879	15,981
'253	Insurance services	3,924	5,538	571	674	4,541	370	758	1,010	1,645
'243	-- -- Other personal travel			54,486	184,194		568,958	601,779	571,176	623,258
'273	Misc. business, professional & technical services			9,034	9,416	1,783,082	10,434	14,223	18,298	35,736

Sources: ITC, UNCTAD, WTO joint dataset. Calculations based on national source, IMF statistics: www.intracen.org/itc/market-info-tools/trade-statistics/
Figures are in US$ thousands.

Annex 2: List of Services Imported by Nigeria (US$ 000)

Code		2003	2004	2005	2006	2007	2008	2009	2010	2011
'200	**Total services**	**5,714,800**	**5,973,190**	**6,623,500**	**13,923,900**	**18,345,200**	**24,376,700**	**18,696,600**	**21,411,480**	**24,573,304**
2CS	Commercial services	5,714,800	5,973,190	6,383,622	12,115,060	15,552,950	22,576,700	16,487,270	19,941,552	22,472,364
'205	Transportation	1,283,540	1,463,000	2,801,370	3,298,310	4,982,240	6,869,130	6,091,408	8,524,130	8,055,511
'291	Government services, n.i.e.			239,878	1,808,840	2,792,250	1,800,000	2,209,356	1,469,928	2,100,939
'253	Insurance services			4,124	274,685	209,672	1,013,930	391,665	503,357	703,492
'260	Financial services			25,627	30,725	8,765	31,798	49,453	33,852	317,737
'247	-- Telecommunication services			144,707	168,562	191,616	194,844	321,636	272,767	212,120
'266	Royalties and license fees	49,853		67,500	84,277	172,659	190,342	208,413	224,222	213,221
'263	-- Computer services			143,134	165,851	189,533	205,659	180,876	119,711	159,071
'249	Construction services			45,508	53,009	60,259	67,103	43,425	129,431	88,698
'287	Personal, cultural and recreational services			294	342	389	433	11,354	52,641	79,088
'237	-- Business travel			88,551	241,273		928,029	726,924	758,095	1,101,965
'241	-- -- Health-related expenditure			2,092	994,391	1,067,550	1,793,360	882,354	1,000,647	1,101,826
'242	-- -- Personal travel - Education related expenditure			84,437	1,063,580		4,729,890	2,168,697	2,395,521	2,672,267
'243	-- -- Other personal travel			64,537	979,812		2,327,450	1,234,130	1,432,720	1,722,986
'246	-- Postal and courier services			14,312	16,671	18,951	39,638	21,522	12,804	17,327
'264	-- Information services			7,533	9,653	9,975	16,507	5,268	4,484	5,849
'272	-- Operational leasing services			28,780	968,780	50,307	1,002,450	1,184,710	1,114,109	1,868,954
'273	Misc. business, profess. & technical			2,861,110	3,765,110	5,939,978	3,166,170	2,965,577	3,363,063	4,152,253

Sources: ITC, UNCTAD, WTO joint dataset. Calculations based on national source, IMF statistics: www.intracen.org/itc/market-info-tools/trade-statistics/
Figures are in US$ thousands.

Annex 3: Statistical Tables

Table A1: Size of Nigeria's Services Sector (N million)

Year	Total Services Output (N Million)	Total GDP (N Million)	Growth of GDP	Share of services in GDP (%)
1985	50190.4	201036.3		24.9
1986	50975.32	205971.4		24.7
1987	53602.02	204806.5		26.2
1988	57975.31	219875.6		26.4
1989	61879.93	236729.6		26.1
1990	67614.01	267550		25.3
1991	69794.6	265379.1		26.3
1992	72337.46	271365.5		26.7
1993	74892.6	274833.3		27.3
1994	75870.02	275450.6		27.5
1995	77024.07	281407.4		27.4
1996	78536.96	293745.4		26.7
1997	80931.61	302022.5		26.8
1998	84205.64	310890.1		27.1
1999	87054.21	312183.5		27.9
2000	89477.12	329178.7		27.2
2001	106053.3	356994.3		29.7
2002	119516.6	433203.5		27.6
2003	124244.4	477533		26.0
2004	154880.7	527576		29.4
2005	171306.4	561931.4		30.5
2006	192057.1	595821.6		32.2
2007	216074.9	634251.1		34.1
2008	242507.5	672202.6		36.1
2009	269524.3	716949.7		37.6
2010	300860.1	776332.2		38.7
2011	337702.7	834000.8		40.4
2012	377416.9	888893		42.4

Source: CBN Statistical Bulletin, 2012.

Table A2: Share of Services Value Added in the Gross Domestic Product by Economic Activity

	Building & Construction	Wholesale & Retail Trade	Road Transport	Rail Transport & Pipelines	Water Transport	Air Transport	Other Transport	Telecoms	Post	Electricity	Water
1986	1.6	14.01	2.13	0.0672	0.15	0.13	0.08	0.06	0.05	0.32	0.11
1987	1.76	14.97	2.16	0.05	0.14	0.13	0.09	0.06	0.05	0.34	0.12
1988	1.81	15.22	2.04	0.0363	0.15	0.12	0.08	0.06	0.05	0.32	0.13
1989	1.75	14.7	1.93	0.0248	0.12	0.1	0.08	0.06	0.05	0.32	0.13
1990	1.63	13.39	1.74	0.0224	0.11	0.09	0.07	0.05	0.04	0.31	0.13
1991	1.71	13.94	1.83	0.0179	0.11	0.1	0.07	0.05	0.03	0.31	0.14
1992	1.73	14.05	1.9	0.0126	0.09	0.09	0.07	0.05	0.04	0.34	0.14
1993	1.8	14.29	1.97	0.0099	0.11	0.08	0.08	0.05	0.04	0.34	0.15
1994	1.85	14.26	1.99	0.0005	0.1	0.07	0.09	0.06	0.04	0.37	0.16
1995	1.86	13.97	1.97	0.0003	0.1	0.07	0.1	0.06	0.04	0.35	0.15
1996	1.8	13.5	1.92	0.0004	0.1	0.07	0.11	0.06	0.04	0.34	0.15
1997	1.86	13.32	1.93	0.0004	0.1	0.07	0.13	0.06	0.04	0.33	0.15
1998	1.92	13.33	1.94	0.0004	0.1	0.06	0.15	0.06	0.05	0.3	0.14
1999	1.98	13.61	1.99	0.0004	0.1	0.07	0.18	0.06	0.05	0.31	0.15
2000	1.96	13.11	1.94	0.0004	0.09	0.06	0.18	0.06	0.05	0.3	0.14
2001	2.02	12.39	1.87	0.0004	0.09	0.06	0.18	0.67	0.05	3.27	0.14
2002	1.74	10.87	1.83	0.0003	0.07	0.06	0.18	0.69	0.07	3.07	0.12
2003	1.71	10.43	1.68	0.0003	0.06	0.06	0.16	0.79	0.06	3.27	0.12
2004	1.45	12.9	2.38	0.0003	0.06	0.06	0.15	1.14	0.06	3.46	0.12
2005	1.52	13.75	2.38	0.0003	0.06	0.06	0.15	1.4	0.06	3.46	0.12
2006	1.62	14.95	2.4	0.0003	0.06	0.06	0.15	1.77	0.06	3.41	0.13
2007	1.72	16.18	2.42	0.0003	0.06	0.06	0.15	2.24	0.06	3.36	0.13
2008	1.84	17.41	2.44	0.0003	0.06	0.06	0.15	2.85	0.07	3.28	0.14
2009	1.93	18.16	2.45	0.0003	0.06	0.06	0.15	3.6	0.07	3.17	0.15
2010	1.99	18.69	2.41	0.0003	0.05	0.06	0.15	4.48	0.07	3.00	0.15
2011	2.07	19.37	2.40	0.0003	0.05	0.06	0.14	5.63	0.07	2.88	0.15
2012	2.19	19.92	2.41	0.0003	0.05	0.06	0.14	6.98	0.07	2.79	0.16

Table A2 (cont'd): Share of Services Value Added in the Gross Domestic Product by Economic Activity

	Hotel & Restaurant	Financial Institutions	Insurance	Real Estate	Business Services	Public Administration	Education	Health	Private non-Profit Organisations	Other Services	Broadcasting
1985	0.26	1.58	0.13	1.77	0.16	1.12	0.25	0.07	0.005	0.33	0.08
1986	0.26	1.87	0.14	1.75	0.17	1.11	0.25	0.07	0.005	0.34	0.07
1987	0.26	2.04	0.15	1.77	0.17	1.14	0.26	0.07	0.005	0.34	0.07
1988	0.25	2.34	0.16	1.67	0.16	1.09	0.25	0.06	0.004	0.32	0.07
1989	0.23	3.07	0.17	1.57	0.15	1.03	0.23	0.06	0.002	0.3	0.07
1990	0.21	4.21	0.14	1.46	0.14	0.93	0.21	0.06	0.002	0.28	0.06
1991	0.21	4.41	0.15	1.53	0.14	0.95	0.21	0.06	0.002	0.28	0.06
1992	0.21	4.49	0.15	1.56	0.14	0.95	0.22	0.06	0.004	0.29	0.06
1993	0.21	4.6	0.15	1.6	0.14	0.97	0.22	0.06	0.004	0.32	0.07
1994	0.21	4.73	0.16	1.64	0.15	0.98	0.22	0.06	0.003	0.36	0.07
1995	0.21	4.82	0.16	1.66	0.15	0.96	0.22	0.06	0.002	0.41	0.07
1996	0.2	4.8	0.15	1.61	0.15	0.94	0.21	0.06	0.001	0.45	0.06
1997	0.2	4.87	0.16	1.66	0.15	0.93	0.21	0.06	0.001	0.51	0.07
1998	0.21	4.97	0.16	1.71	0.15	0.92	0.21	0.05	0.002	0.59	0.07
1999	0.21	5.12	0.16	1.77	0.16	0.94	0.21	0.06	0.002	0.71	0.08
2000	0.21	5.04	0.16	1.74	0.16	0.9	0.2	0.05	0.004	0.72	0.08
2001	0.2	4.86	0.16	1.69	0.15	0.84	0.19	0.05	0.004	0.73	0.09
2002	0.18	5.18	0.17	1.43	0.13	0.82	0.17	0.04	0.003	0.69	0.08
2003	0.17	4.27	0.12	1.34	0.13	0.75	0.16	0.04	0.003	0.64	0.07
2004	0.37	3.96	0.12	1.34	0.12	0.75	0.17	0.04	0.003	0.64	0.07
2005	0.38	3.81	0.13	1.4	0.12	0.73	0.17	0.04	0.003	0.66	0.07
2006	0.41	3.77	0.13	1.47	0.12	0.72	0.18	0.04	0.003	0.69	0.08
2007	0.43	3.71	0.14	1.55	0.12	0.71	0.19	0.04	0.004	0.72	0.08
2008	0.46	3.66	0.15	1.63	0.12	0.7	0.2	0.04	0.004	0.75	0.08
2009	0.49	3.56	0.15	1.7	0.12	0.68	0.2	0.05	0.004	0.78	0.08
2010	0.50	3.41	0.15	1.73	0.12	0.65	0.20	0.05	0.004	0.79	0.08
2011	0.52	3.29	0.15	1.79	0.11	0.64	0.21	0.05	0.004	0.80	0.08
2012	0.55	3.21	0.16	1.85	0.11	0.62	0.21	0.05	0.004	0.83	0.08

Source: TPRTP (2006) and Babatunde (2011). Data between 2010 and 2011 were computed from CBN Statistical Bulletin, 2012.

Table A3: Share of Services Value Added in Total Services Output in Nigeria

	Building & Construction	Wholesale & Retail Trade	Road Transport	Rail Transport & Pipelines	Water Transport	Air Transport	Other Transport Services	Telecoms	Post	Electricity	Water
1985	6.59	55.54	9.85	0.29	0.82	0.63	0.33	0.26	0.2	2.03	0.41
1986	6.48	56.61	8.59	0.27	0.6	0.53	0.34	0.25	0.2	1.31	0.44
1987	6.74	57.21	8.27	0.19	0.54	0.51	0.33	0.24	0.2	1.3	0.46
1988	6.86	57.71	7.74	0.14	0.55	0.45	0.31	0.23	0.18	1.21	0.49
1989	6.7	56.23	7.39	0.09	0.45	0.39	0.29	0.22	0.18	1.23	0.5
1990	6.44	53	6.9	0.09	0.42	0.37	0.27	0.2	0.16	1.23	0.52
1991	6.48	52.99	6.95	0.07	0.4	0.36	0.27	0.2	0.13	1.19	0.52
1992	6.5	52.71	7.11	0.05	0.35	0.34	0.28	0.2	0.16	1.28	0.53
1993	6.59	52.44	7.21	0.04	0.39	0.28	0.29	0.2	0.16	1.25	0.56
1994	6.7	51.78	7.22	0	0.34	0.25	0.33	0.2	0.16	1.33	0.56
1995	6.78	51.04	7.19	0	0.36	0.25	0.38	0.21	0.16	1.29	0.56
1996	6.73	50.48	7.19	0	0.36	0.25	0.42	0.21	0.16	1.29	0.55
1997	6.95	49.72	7.19	0	0.36	0.24	0.47	0.22	0.16	1.24	0.55
1998	7.08	49.22	7.15	0	0.35	0.24	0.55	0.22	0.17	1.12	0.53
1999	7.11	48.8	7.12	0	0.34	0.24	0.63	0.23	0.17	1.1	0.53
2000	7.19	48.24	7.14	0	0.34	0.24	0.66	0.23	0.18	1.09	0.53
2001	6.8	41.72	6.29	0	0.3	0.21	0.62	2.26	0.17	11.02	0.46
2002	6.29	39.42	6.62	0	0.24	0.22	0.64	2.5	0.24	11.14	0.44
2003	6.58	40.1	6.44	0	0.23	0.23	0.61	3.05	0.21	12.55	0.46
2004	4.92	43.96	8.12	0	0.2	0.19	0.52	3.88	0.19	11.78	0.41
2005	4.99	45.11	7.81	0	0.19	0.19	0.5	4.58	0.19	11.35	0.41
2006	5.03	46.38	7.46	0	0.18	0.18	0.47	5.5	0.19	10.59	0.4
2007	5.05	47.49	7.09	0	0.17	0.17	0.45	6.58	0.18	9.86	0.4
2008	5.09	48.25	6.76	0	0.16	0.16	0.42	7.9	0.18	9.09	0.39
2009	5.14	48.3	6.51	0	0.15	0.16	0.4	9.58	0.18	8.43	0.39
2010	5.14	48.22	6.22	0	0.14	0.15	0.38	11.57	0.17	16.09	0.38
2011	5.13	47.83	5.93	0	0.13	0.15	0.35	13.91	0.17	14.87	0.38
2012	5.17	46.91	5.67	0	0.13	0.14	0.34	16.43	0.17	13.99	0.37

Table A3 (cont'd.): Share of Services/Subsectors in Total Services Output in Nigeria

	Hotel & Restaurant	Financial Institutions	Insurance	Real Estate	Business Services	Public Administration	Education	Health	Private non-Profit Org.	Other Services	Broadcasting
1985	1.05	6.32	0.52	7.1	0.63	4.48	1.01	0.27	0.02	1.33	0.3
1986	1.05	7.57	0.56	7.05	0.67	4.5	1.02	0.27	0.02	1.37	0.3
1987	1.01	7.78	0.58	6.78	0.65	4.37	0.99	0.26	0.02	1.31	0.28
1988	0.93	8.86	0.61	6.33	0.6	4.13	0.93	0.24	0.01	1.23	0.27
1989	0.88	11.73	0.64	6.02	0.57	3.94	0.89	0.23	0.01	1.17	0.25
1990	0.82	16.65	0.57	5.78	0.54	3.68	0.83	0.22	0.01	1.09	0.24
1991	0.8	16.78	0.57	5.82	0.53	3.6	0.81	0.21	0.01	1.07	0.23
1992	0.79	16.84	0.56	5.83	0.52	3.58	0.81	0.21	0.02	1.1	0.24
1993	0.77	16.88	0.56	5.87	0.53	3.55	0.8	0.21	0.01	1.17	0.24
1994	0.77	17.16	0.57	5.97	0.54	3.56	0.8	0.21	0.01	1.31	0.24
1995	0.76	17.61	0.57	6.07	0.55	3.5	0.79	0.21	0.01	1.5	0.24
1996	0.76	17.97	0.58	6.01	0.56	3.53	0.8	0.21	0.01	1.69	0.24
1997	0.76	18.17	0.58	6.2	0.56	3.49	0.79	0.21	0.01	1.89	0.25
1998	0.76	18.33	0.58	6.32	0.57	3.41	0.77	0.2	0.01	2.18	0.26
1999	0.76	18.35	0.58	6.34	0.57	3.35	0.76	0.2	0.01	2.53	0.28
2000	0.77	18.55	0.6	6.41	0.58	3.32	0.75	0.2	0.01	2.66	0.31
2001	0.67	16.36	0.52	5.68	0.51	2.84	0.64	0.17	0.01	2.47	0.29
2002	0.64	18.79	0.6	5.19	0.49	2.98	0.62	0.15	0.01	2.52	0.28
2003	0.64	16.4	0.47	5.14	0.49	2.87	0.63	0.15	0.01	2.45	0.28
2004	1.26	13.49	0.42	4.57	0.4	2.55	0.56	0.13	0.01	2.18	0.25
2005	1.26	12.51	0.42	4.59	0.39	2.4	0.56	0.13	0.01	2.18	0.24
2006	1.27	11.69	0.41	4.57	0.37	2.23	0.56	0.13	0.01	2.15	0.24
2007	1.27	10.89	0.41	4.54	0.35	2.07	0.55	0.13	0.01	2.12	0.23
2008	1.28	10.15	0.41	4.52	0.33	1.93	0.54	0.12	0.01	2.09	0.22
2009	1.3	9.48	0.4	4.52	0.32	1.81	0.54	0.12	0.01	2.06	0.22
2010	1.29	8.81	0.39	4.48	0.29	1.69	0.53	0.12	0.01	2.03	0.21
2011	1.29	8.14	0.38	4.41	0.28	1.57	0.51	0.12	0.01	1.98	0.20
2012	1.29	7.56	0.37	4.36	0.27	1.46	0.51	0.11	0.01	1.96	0.19

Source: TPRTP (2006) and Babatunde (2011). Data between 2010 and 2011 were computed from CBN Statistical Bulletin, 2012.

Table A4: Nigeria's Trade in Services (US$ million)

Year	Import	Export	Services Trade Balance
1985	1642	316	-1326
1986	1195	230	-965
1987	871	225	-646
1988	840	364	-476
1989	1375	552	-823
1990	1976	965	-1011
1991	2448	886	-1562
1992	1810	1053	-757
1993	2726	1163	-1563
1994	3007	371	-2636
1995	4032	534	-3498
1996	4215	640	-3575
1997	4712	786	-3926
1998	4166	884	-3282
1999	3476	980	-2496
2000	3300	1833	-1467
2001	4640	1653	-2987
2002	4922	2524	-2398
2003	5715	3473	-2242
2004	4969	3336	-1633
2005	6623	1793	-4830
2006	12772	2299	-10473
2007	17663	1443	-16220
2008	23755	2264	-21491
2009	17567	2228	-15339

Source: Computed from the IMF Balance of Payment Statistics (various issues).

Table A5: Historical Indicators of Commercial Banks' Growth (N million)

	Total Bank Assets (N million)	**Total Deposits** (N million)
1960	235.836	82.234
1965	434.286	123.902
1970	1151.8	288.1
1975	4308	1266.8
1980	16340.4	4845.9
1985	31997.9	7046.2
1990	82957.8	15588.8
1995	385141.8	79469.4
1996	458777.5	95904
1997	584375	128163.9
1998	694615.1	142252.1
1999	1070020	202152.1
2000	1568839	345001.4
2001	2247040	448021.4
2002	2766880	503870.4
2003	3047856	577663.7
2004	3753278	728552
2005	4515118	946639.6
2006	7172932	1497904
2007	10981694	2307916
2008	15919560	3650644
2009	17522858	3386526
2010	17331559	3830282
2011	19396634	4920850

Source: CBN Statistical Bulletin, 2011.

Table A6: Banking Sector's Contribution to GDP

Year	Financial Institutions' GDP Contribution (N million)	Percentage of GDP
1980	548.3	1.74
1985	3171.7	1.58
1986	3859.8	1.87
1987	4168.4	2.04
1988	5138.6	2.34
1989	7261.0	3.07
1990	11260.0	4.21
1995	13567.8	4.82
1996	14110.5	4.80
1997	14703.1	4.87
1998	15438.2	4.97
1999	15978.6	5.12
2000	16601.8	5.04
2001	17348.8	4.86
2002	22452.8	5.18
2003	20377.3	4.27
2004	20886.7	3.96
2005	21430.3	3.81
2006	22451.7	3.77
2007	23531.7	3.71
2008	24611.8	3.66
2009	25543.4	3.55
2010	26495.5	3.41
2011	27489.6	3.30
2012	28537.6	3.21

Source: Central Bank of Nigeria Statistical Bulletin, 2011.

Table A7: Contribution of Banking Output to GDP

Year	Credit to Private Sector (N Million)	GDP at Current Basic Prices (N Million)	CPS/GDP (%)
1980	6234.225	49632.32	12.56
1985	13070.342	67908.55	19.25
1990	33547.7	267549.99	12.54
1991	41352.458	312139.74	13.25
1992	58122.947	532613.83	10.91
1993	127117.71	683869.79	18.59
1994	143424.21	899863.22	15.94
1995	180004.76	1933211.55	9.311
1996	238596.56	2702719.13	8.828
1997	316207.08	2801972.58	11.29
1998	351956.19	2708430.86	12.99
1999	431168.36	3194014.97	13.5
2000	530373.3	4582127.29	11.57
2001	764961.52	4725086	16.19
2002	930493.93	6912381.25	13.46
2003	1096535.6	8487031.57	12.92
2004	1421664	11411066.91	12.46
2005	1838389.9	14572239.12	12.62
2006	2290617.8	18564594.73	12.34
2007	3668657.8	20657317.67	17.76
2008	6920498.8	24296329.29	28.48
2009	9102049.1	24794238.66	36.71
2010	10157021	33984754.13	29.89
2011	10660072	37543654.7	28.39

Source: CBN Statistical Bulletin, 2011.

Table A8: Total Number of Employees by Bank

Bank	2001	2005	2008	2010
Access Bank Plc		351	1219	1754
Afribank Nigerian Plc (Mainstreet Bank)		3181	3829	
Bank PHB Plc (Keystone Bank)		381	2214	
Chartered Bank Plc	562	734		
Cooperative Development Bank Plc	222			
Diamond Bank Plc		1054		2986
Ecobank Nigeria Plc		680	2865	2770
EIB (Eko) International Bank Plc	553	495		
Fidelity Bank Plc			2707	3810
Finbank Plc (First Inland Bank Plc)			3000	
First Atlantic Bank Plc	155			
First Bank of Nigeria Plc	6182	6988		8154
First City Monument Bank Plc (FCMB)		521	2385	2570
Guaranty Trust Bank Plc (GTB)	347	990	2477	3746
Guardian Express Bank Plc		104		
Hallmark Bank Plc	557	1139		
International Merchant Bank (IMB) Plc	182	137		
Intercontinental Bank Plc		3000	10261	
Liberty Bank Plc	301			
Manny (Manufacturers Merchant) Bank Plc	226			
Oceanic Bank International Plc		1507	11915	
Omega (Owena) Bank Plc	773	750		
Skye Bank Plc			2859	2660
Stanbic IBTC Bank (IBTC-Chartered Bank) Plc		104		2248
Sterling Bank Plc (NAL Bank Plc)	217		1540	1600
Trade Bank Plc	592			
Trans International Bank Plc	522			
Union Bank Of Nigeria Plc	8025	8293	7746	6366
United Bank For Africa Plc (UBA)	4768	3787	6681	12891
Unity Bank Plc				2827
Universal Trust Bank Plc	542			
Wema Bank Plc	1508			1832
Zenith Bank Plc		2621	7628	8021
Total	**26,234**	**36,817**	**69,326**	**64,364**

Source: Banks' annual reports procured from Analysts Data Services and Resources Ltd.

4. BUSINESS PROCESS OUTSOURCING AND INFORMATION TECHNOLOGY SERVICES: A CASE STUDY OF SENEGAL

Authors: Sékou Falil Doumbouya, Abdoulaye Ndiaye, and David Primack

Executive Summary

Services constitute an essential and growing part of the Senegalese economy—domestically in terms of contribution to GDP (59% in 2014), employment (38% of the working population in 2011), and in terms of cross-border exports (commercial services exports grew 7.2% per year from 2010 to 2013, on average).

A number of factors have helped to shape Senegal's success in exporting information and communications technology (ICT) and business process outsourcing (BPO) services, including Senegal's specific commitments on basic and value-added telecommunications under the General Agreement on Trade in Services (GATS), Senegal's additional commitments on the World Trade Organization's (WTO's) Telecommunications Reference Paper, the inclusion of teleservices (i.e., BPO) in the list of sectors to benefit from preferences under the investment code, and the targeting of telecommunications in the list of infrastructure services constraining enterprise growth under the Action Matrix of the Enhanced Integrated Framework.

ICT and BPO Market Structure

According to a 2011 stakeholder mapping of the information and communication technologies (ICT) sector, the distribution of firms by main activity was the following: sales, rental, and repair of equipment (31%); creative activities (radio, television, music) (8%), integration of information systems (8%), software development (7%), computer consulting (5%), Internet service providers (4%), provision of web services (4%), teleservices activities (3%), provision of mobile services (4%), telecommunication consulting (4%), and other (16%).[1] It can be estimated on the basis of this exercise that BPO providers represent 3% of the profession and that information technology services (ITS) providers represent 28% of the profession.

The structure of the ITS market is highly competitive. In contrast, the market structure of the BPO industry is similar to that of an oligopoly, where three firms (PCCI, IBEX, and Call Me) occupy more than 70% of market share (in terms of call centre seats provided).

Overview of the Evolution of BPO and ICT Services in Senegal

Policies that targeted the domestic ICT ecosystem in Senegal played a significant role in underpinning the export success of BPO and ITS providers. Key factors characterising the development of the layer of end users in the ecosystem include: (i) the 9th Orientation Plan for Economic and Social Development (1996–2001), which identified the need to eliminate or reduce tariffs and taxes on ICT; (ii) the establishment of two associations to lobby the government to promote enhanced access to the Internet and its scope of applications: the Observatory on

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[1] 'Other' includes firms that were unable to define their activities based on the classification used by the questionnaire. Unresponsive firms totaled 6%.

Information Systems, Networks and Information Highways (OSIRIS) in March 1998 and the Senegalese Section of the Internet Society (ISOC-Senegal) in February 1999; (iii) the final decision in 1999 to lower tariffs on computer imports from 26% to 5%; and (iv) a complete liberalisation of the sale of terminals.

Factors influencing the development of the layer of telecommunication network operators and Internet service providers (ISPs) can be linked to the introduction of a new telecommunication code in 1996, the privatisation of the incumbent provider (Sonatel) in 1997, and the 1997 pre-commitments undertaken by Senegal at the WTO regarding telecommunication services.

On the layer of providers of value-added services (VAS), Senegal undertook initial commitments in 1995 and deepened these with further GATS commitments in 1997. VAS providers are also subject to the legal regime of the statement of intent in the new telecommunication code (2011), which provides greater scope for innovation in the development and delivery of VAS.

BPO and ICT Services in the Economy

While disaggregated data for BPO and ICT services are effectively not captured in most services statistics, commercial services exports that can be approximated as related to ICT grew an average of 11.5% annually from 2009 to 2013 and constituted 46.6% of total service exports in 2013. These exports are primarily composed of computer, information and telecommunications services (averaging 22.9% annual growth per year during 2009–13) and by 'other business services' (2.0%). The category of 'other business services' includes various trade-related activities and business support services, many of which are commonly outsourced.

The size of the BPO industry in Senegal was estimated in 2008 at 1,200 call centre seats and 2,200 staff. Opportunities for providing a diversified set of BPO and ICT services were often related to the increase in the supply and penetration of mobile telephony and Internet bandwidth. Such opportunities were particularly present for developers of VAS. A 2012 study by Katz and Koutroumpis reported that during the 2004–11 period, every 10% increase in the penetration of mobile phones in Senegal resulted in a 0.44% increase in GDP. The supply and availability of broadband services is also growing in Senegal, and the related services being delivered have a positive and increasingly important impact on people's lifestyles and wellbeing.

The spillover effects resulting from the deployment of BPO and ITS in Senegal are numerous, including most notably their underpinning of the development of Senegal's pioneering ORBUS automated customs clearance system in the context of reforms in trade facilitation, as well as the award-winning Manobi mobile phone-based services, such as providing real-time wholesale farm gate prices to remote farmers.

Lessons and Best Practices

By analysing the experience of Senegal, this study seeks to improve the understanding of possible factors that may help to underpin the growth of ICT and BPO services exports in other African countries. Based on an analysis of strengths, weaknesses, opportunities, and threats (SWOT) analysis, the study highlights several policy lessons.

Labor and Human Capital Endowment. When it comes to services generally, and high-technology services such as BPO and ITS in particular, human capital is perhaps one of the most critical factors for success. The availability and quality of talent and resources is also one of the main reasons behind selecting one BPO location over another and they can meaningfully impact the competitiveness of the ITS sector as well. The cost of labour is another key source of potential comparative advantage, as are cultural affiliations and diasporic communities. Working closely with training institutes to avoid skill mismatches can also contribute to ensuring that the pool of talent has the requisite skills to grow and adapt to new opportunities evolving in the industries.

Electronic Infrastructure. Given the nature of the activities, the importance of ICT and BPO service providers having access to relatively competitively priced, robust electronic infrastructure cannot be overstated. Without some reasonable approximation of such infrastructure, the providers simply will be unable to compete with existing operators in what has become a highly competitive marketplace.

Institutions. Regulatory and contract-enforcing institutions are among key sources of comparative advantage. The main institutions governing ICT and BPO services—such as an independent telecommunications regulatory body alongside one or more ICT business associations—must widely be seen as competent and honest. It is particularly important for the regulatory body to ensure that any ICT service supplier is accorded access to, and use of public telecommunications transport networks and services on reasonable and non-discriminatory terms and conditions.

Similarly, it is important to provide a secure regulatory environment within which firms can operate. This includes putting in place adequate laws and regulations for data protection, e-commerce, and cybercrime. Making sure there is adequate cooperation among relevant ministries, departments, and agencies whose portfolios touch on ITS and BPO activities, can also help to promote more coherent efforts in supporting the success of firms. Providing for effective public-private dialogues, as well as intra-industry dialogues, can also be essential for supporting these objectives.

Investment and Trade Policies. Irrespective of the policy instrument used to achieve it (e.g., through autonomous reforms or negotiated liberalisation, including in the context of regional integration), using trade policies to secure competitive domestic outcomes in basic and value-added telecommunications services is key for underpinning competitive and vibrant ITS and BPO sectors. Possible pre-commitments in trade agreements can also be useful towards this aim.

It is similarly important to ensure that service providers can competitively access needed hardware inputs, for example, by reducing import-related taxes on equipment (e.g., computers, servers, networking equipment).

In terms of market destinations for these exports, a number of barriers have tended to persist, especially in regional trading partners on the continent. In this instance, trade policy can play an important role through negotiations to secure the reduction of these barriers abroad. Such reductions could be implemented via bilateral, multilateral, or even continental negotiations.

Taking into account the potential trade dimensions of key sectoral policies can also play a role in supporting these sectors. For example, within telecommunications policy, one could make sure that BPO and ITS providers are able to directly access telecommunication networks through interconnection with operators, as opposed to the operators retaining exclusive access.

Promoting Proactive Policies. While notoriously difficult to 'get right', the provision of targeted proactive policies to promote ITS and BPO exports have proved essential, both in Senegal and elsewhere.

With respect to investment and tax incentives, the first component is ensuring ICT and BPO services are included on the list of sectors eligible for preferential treatment. This should be not only for large mega-projects, recalling that many of the most innovative services firms are micro and small enterprises. Preferences may include additional post-establishment rights to protect investors as well as exemptions on corporate and payroll taxes, and other taxes charged against income and/or imports. In the absence of technology parks or similarly geographically situated infrastructure facilities, it may also prove useful to avoid requiring physical establishment of premises in any given geographical location.

Making adequate provision for telecommunication services, including specifically BPO and ICT services, in development plans and export strategies is also essential for ensuring a whole-of-government focus in addressing binding constraints that may impede these sectors from flourishing. Similarly, including these sectors in discussions with donors and other development partners—such as the Action Matrix of the Enhanced Integrated Framework (EIF) for LDCs—helps to signal that a country is prioritising these sectors by ensuring that aid can be focused on their specific challenges.

Introduction

The growth of trade in business services, in particular information technology services (ITS) and business process outsourcing (BPO), is now one of the fastest areas of growth in international trade. In 2013, the export of these services was estimated at US$ 648 billion for ICT and US$ 304 billion for BPO services.[2] In Senegal, trade in services related to information and communications technology (ICT) was worth US$ 520 million in 2013 (the most recent year for which figures are available). This represented approximately 47% of cross-border services trade in Senegal in 2013, having experienced strong annual growth of 11.5% over the period 2009–13. ITS and BPO thus constitute important and growing sectors in Senegal.

The rationale for firms to outsource services are varied, amongst others, reducing costs, improving performance, accessing expertise, focusing teams, increasing flexibility, developing innovative processes to improve control, and involving a provider to create value. However, outsourcing abroad can affect the structure of employment in the importing country, carrying adjustment costs that tend to be politically sensitive. There is consequently a risk that these adjustment costs translate into trade restrictions. The potential proliferation of such protectionist measures in key importing countries could thus have a negative impact on Senegal’s future export potential.

Continental integration initiatives—such as the January 2012 decision of the Heads of State of the African Union (AU) to establish a Continental Free Trade Area (CFTA) by 2017 and the Action Plan for Boosting Intra-Africa Trade (BIAT)—provide an opportunity to secure additional export opportunities throughout Africa for BPO and ICT services companies based in Senegal. A possible future agreement on services in the context of the Economic Partnership Agreement (EPA) between the EU and West Africa or the conclusion of the WTO’s Doha Round could also create opportunities for BPO and ITS suppliers from Senegal in European and global markets.

The objective of this study is to examine the structure and performance of the Senegalese ICT and BPO industry, notably in terms of exports. More specifically, the study will identify factors that led to the success of the ITS and BPO sectors in Senegal, as well as constraints on regional and global competitiveness for further enhancing these exports from Senegal. Based on the information

[2] KPMG and HfS, 2013.

gathered through analysis, research, and consultation,[3] the study also will make a series of policy recommendations based on lessons learned and best practice.

This study is part of a wider AU project aimed at providing information on how services trade is actually being carried out in specific sectors in Africa, and the policies that have contributed to the success of services exports. The project also aims at promoting knowledge and understanding of services trade and 'best practices' to provide a basis for services sector development and enhanced regional and continental integration.

The study proceeds as follows: The second section (following this introduction) provides general information on services in Senegal. The third section describes the Senegalese ITS and BPO sectors, whilst the fourth section examines the economic impact of ICT and BPO outsourcing. The factors influencing the comparative advantages of Senegal are discussed in the fifth section. The final sections draw conclusions and lessons, and identify best practices.

The Service Sector in Senegal

Basic Data

Senegal is part of the Economic Community of West African States (ECOWAS). It is externally bounded by the Atlantic Ocean to the west, Mauritania to the north, Mali to the east, and Guinea and Guinea-Bissau to the south. Internally it almost completely surrounds Gambia, except for Gambia's short Atlantic coastline. Senegal covers a land area of almost 197,000 square kilometres (76,000 sq mi), and has an estimated population of 13 million. Senegal's Gross Domestic Production (GDP) was estimated at US$ 15.58 billion in 2014.

Services in GDP

Services have two important characteristics in relation to GDP. The first is the size of the relative share of services in GDP, and the second is the rate of growth of the sector. Figure 1 shows the share of agriculture, industry, and services in GDP over the last 20 years (1995–2014).[4] The share of the services sector has increased slightly from 55% of GDP in 1995/1996 to 59% in 2014, and the pace has accelerated, especially after 1995. The rise of industry, however, has been more stable and its share was around 24% over the same period. The share of agriculture has declined fairly consistently over time, from 20% in 1995/96 to 17% in 2014.

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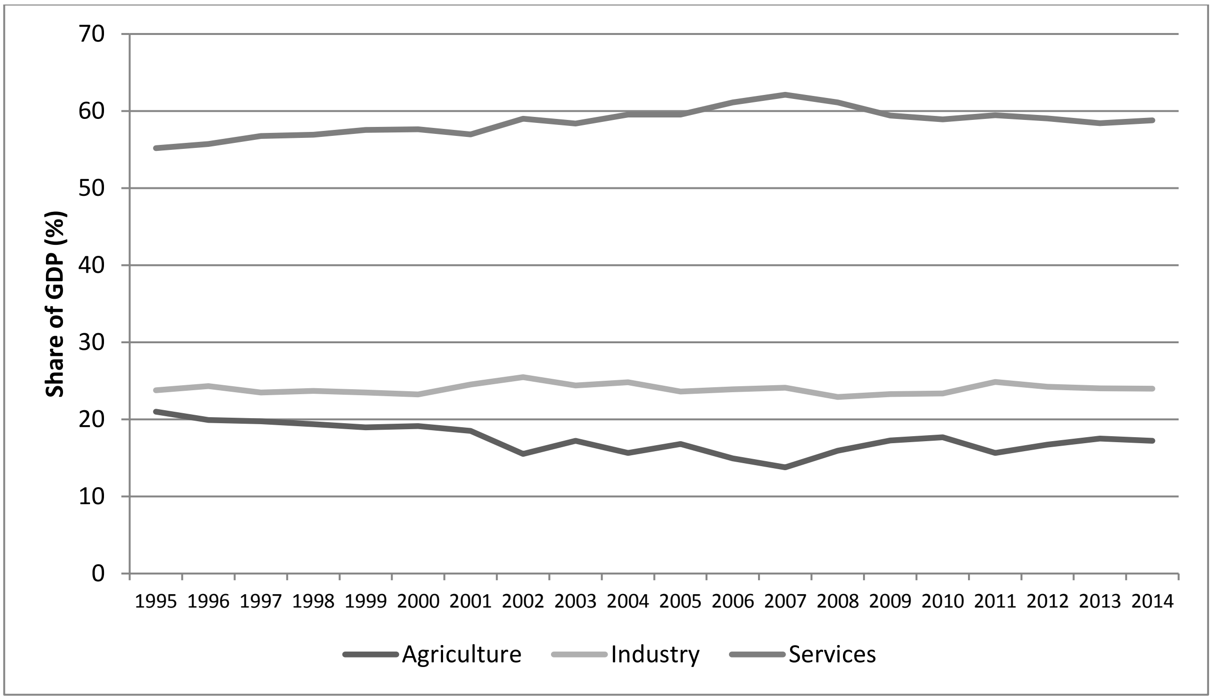
[3] Representatives of 5 BPO firms and 12 IT firms, and 12 stakeholders from an IT industry association, a telecommunications regulatory agency, civil society, sectoral ministries, and a development agency (GIZ) were interviewed.

[4] Data taken from the *World Development Indicators* of the World Bank.

Figure 1: Share of Agriculture, Industry, and Services in the GDP of Senegal, 1995–2014

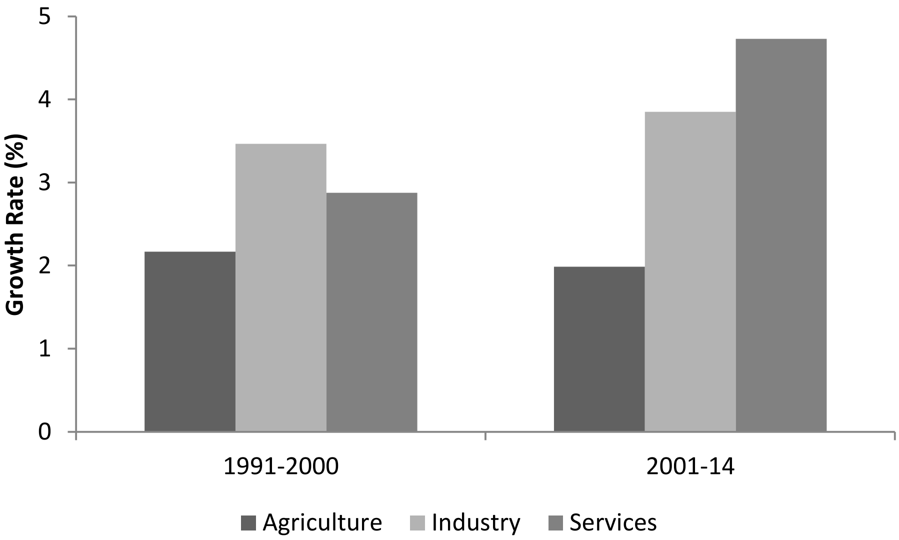


Source: World Development Indicators, World Bank.

According to the World Bank's *World Development Indicators* (2015), at 59% of GDP in 2014, the share of services in GDP in Senegal is higher than the average estimated share in low-income countries (49%) and middle-income countries (53%). Senegal's share corresponds to the estimated average for Sub-Saharan Africa (59%) but remains well below the global average (70%).

Figure 2 presents the average growth rates of agriculture, industry, and services over the same period. It shows even more clearly that the growth rate in services has accelerated while the rate for agriculture has diminished.

Figure 2: Annual Average Growth Rates in Senegal, by Sector, 1991–2014



Source: World Development Indicators, World Bank.

Services in Employment

The service sector plays an important role in job creation in Senegal. According to data from the survey to monitor poverty in Senegal,[5] employment in services accounted for 37.7% of 4.04 million total employment in 2011, against 48.5% for agriculture and 13.8% for industry. This represents a slight increase from the 2006 survey of the National Agency of Statistics and Demography (ANDS), which showed services accounting for 36% of employment.

The share of services in employment in Senegal is higher than the most recent average for Sub-Saharan Africa (30%), but lower than the global average (45%) and the average for North Africa (48.9%). By comparison, the share of services in employment in the EU is 74%.[6]

Because services related to agriculture, hunting, and forestry; services related to fishing; services related to mining; and services related to manufacturing are not counted as part of services for these employment statistics (but rather as part of the primary and secondary sectors), the above share of services in employment should be seen as an underestimate of the true composition.

Services in Investment

Senegal implemented incentive schemes through the Investment Code in February 2004 and the Tax Code in December 2012 in the areas of social services (health, education, and training), installation services to maintain industrial equipment, and telecommunication services for any investment exceeding € 23,000 or 15 million CFA francs.[7] The following service activities are also eligible for any investment exceeding € 150,000: tourism, accommodation and tourism industries, other hotel activities, cultural industries (books, records, movies, documentation centers, audio-visual production centers), port, and airport and rail infrastructure; and implementation of commercial complexes, industrial parks, tourist areas, cyber-villages, and craft centers. Preferences granted by the Investment Code and the Tax Code are numerous: protection against nationalisation, availability of foreign exchange, repatriation of capital and earnings, equality of treatment (national treatment), and customs and tax benefits for new businesses and expansion projects.

Apart from investments approved under the Investment Code regime, it is difficult to find statistics on investment in services in Senegal. According to data from the Agency for Investment Promotion and Major Works (APIX), the majority of investments approved in productive activities (excluding infrastructure) were in the secondary sector, with CFAF 512 billion (70%), followed by the primary sector, which totaled CFAF 134 billion (18%). The tertiary sector registered CFAF 85 billion (12%). Table 1 provides a list of some approved projects in the services sector in 2012.

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[5] National Agency for Statistics and Demography (ANDS), 2013.

[6] International Labour Organisation (ILO), 2014.

[7] Agency for Investment Promotion and Major Works (APIX), 2013b.

Table 1: Examples of Approved Projects in 2012 in the Service Sector

Company Name	Activity	Approved Investments (billions of CFA francs)	Permanent Jobs to Be Created
- TDG Internantional SARL - Setram SARL - Bollore Africa Logistic Senegal SA	Port infrastructure	14.8	147
- First Space Fiber SA - AD Center Services SUARL - Linguistique Communication Informatique Senegal SARL - Case Contacts Senegal SARL	Teleservices	27.6	89
- Event No Limit (ENLS) SARL - Le Djiromait SA - Sotouso SA	Hotels and Restaurants	21	2,286

Source: Dashboard of approved investments in 2012, APIX, 2013b.

Services in Cross-Border Trade

The value of Senegalese services exports in 2012 (based on balance of payments data) reached US$ 941 million against US$ 2,532 billion for goods (see Table 2). The share of services in cross-border trade would therefore represent 27% of exports. This share is low compared to that of goods and reflects the high cost of remote transactions for services, despite the virtual absence of customs duties on them. However, the published share of services should be seen as a minimum because balance of payments statistics do not capture many of the value-added services embedded in exported goods.

Table 2: Profile of Cross-Border Trade in Senegal

	Value (millions of US$)	Annual Percentage Growth		
	2012	2005–2012	2011	2012
Trade in Goods				
Export of goods	2,532	7	18	0
Import of goods	6,434	9	24	9
Trade in Commercial Services				
Export of commercial services	941	5	8	-7
Import of commercial services	1,111	5	11	-7

Source: http://stat.wto.org/CountryProfiles/SN_e.htm

Services in Policies and Regulations

Services feature relatively prominently in Senegal's policies and regulations. At the multilateral level, Senegal is a member of the WTO and in April 1994 undertook specific liberalisation commitments in the following areas (albeit with different degrees of liberalisation): architectural services, medical and dental services, boat rental or leasing services, postal services, courier services, telecommunications services, wholesale services, retail, insurance, banking, hospitality and food services, travel agencies and tour operator services, sporting and other recreational services (recreational fishing, gambling), and related shipping services. In April 1997, following the post-Uruguay Round of negotiations on basic telecommunications, Senegal deepened its commitments on telecommunications. Senegal was one of six Sub-Saharan countries in Africa to endorse the WTO's Reference Paper on Telecommunications.[8]

Senegal also grants preferential treatment to services and service suppliers of insurance and related services for member countries of ECOWAS, the West African Economic and Monetary Union (WAEMU), and the Inter-African Conference of Insurance Markets (CIMA). It also grants preferential treatment to services and service suppliers of banking and other financial services to member countries of ECOWAS and WAEMU. Similarly, Senegal has included in its list of exemptions under GATS Article II (Most Favored Nation), future laws, decrees, and decisions based on bilateral or multilateral agreements that grant cabotage rights to trading partners on a reciprocal basis.[9]

The Investment Code of February 2004 provides for a range of guarantees, including the protection of property, equality of treatment, availability of foreign exchange, and repatriation of profit and earnings. Special tax and customs exemptions are available for certain services activities (depending on the size and nature of the investment), including in the following subsectors: health, education, and training; installation and maintenance of industrial equipment; teleservices; and air and maritime transport. Other service sectors covered by the Investment Code are tourism, accommodation and tourism industries, other hotel activities, cultural industries (books, records, movies, documentation centers, and audiovisual production centers), and port/airport/rail infrastructure; and the development of shopping centres, industrial parks, tourist areas, cyber-villages, and craft centres.

In terms of national economic policy, the services sector also features prominently—as in the 2005 EIF Action Matrix and the National Strategy for Economic and Social Development.[10] For instance, the 2005 EIF Action Matrix suggests a range of measures aimed at removing constraints on the operation and growth of firms by reducing the financial cost of doing business and improving access to competitive legal and infrastructure services (such as water, energy, telecommunications, air/sea/rail/road transport). There is also a sectoral chapter dedicated to tourism services (though surprisingly nothing on ITS or BPO).

As for SNDES, in support of its first strategic pillar (growth, productivity, and wealth creation), it identifies infrastructure services (energy, transport, financial services, and telecommunications) as essential for supporting production, as well as for promoting other services (tourism, crafts, culture, sports, trade, research, and development). Education, health, water, and sanitation, and architectural and landscape services are also identified as essential to support the second strategic pillar (human capital, social protection, and sustainable development).

This cursory review of Senegal's services policies and regulations highlights several interesting components that have helped to underpin the success of the ITS and BPO sectors—namely Senegal's obligations under GATS, including the Annex on Telecommunications; its specific commitments regarding basic telecommunications; and its additional commitments on regulatory

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[8] Five countries in Sub-Saharan Africa, among 69 WTO members, participated in the post-Uruguay Round plurilateral negotiations on basic telecommunications: South Africa, Cote d'Ivoire, Ghana, Senegal, and Mauritius—which resulted in the Reference Paper on Telecommunications. After the conclusion of these negotiations, Uganda also undertook unilateral commitments in basic telecommunications (Doumbouya, 2006). All commitments made under the plurilateral negotiations were multilateralised.

[9] GATS/EL/75 and GATS/EL/75/Suppl. 1.

[10] SNDES, 2013–2017.

principles included in the WTO Telecommunications Reference Paper. In addition, there is the inclusion of teleservices (i.e., outsourcing) in the list of sectors to benefit from the promotional provisions of the Investment Code and the targeting of telecommunications in the list of infrastructure services under the EIF Action Matrix. Other specific measures will be discussed in Section 3.

Business Process Outsourcing and Information Technology Services

Defining BPO and ICT Services

In a study entitled, 'Pre-empting Protectionism in Services: the WTO and Outsourcing', Mattoo and Wunsch (2004) argue that ICT and BPO services are difficult phenomena to define and measure. On the one hand, they cite the difficulty in establishing a correspondence between the services being traded and the existing statistical classifications for them. On the other hand, they point to the difficulty of measuring trade in these services, due to the absence of records for customs officials to review, alongside the difficulty in tracking international financial transactions associated with them.

The outsourcing of business processes (business process outsourcing or BPO)[11] is also known under the name of operational support services (business support services).

Based on available data, Table 3 provides a list of activities of commonly outsourced or off-shored ICT and BPO services. BPO services can be further divided into customer interaction services (mainly provided by call centers), back-office operations (or administrative support), and other services to businesses or independent professionals (or knowledge-process outsourcing).

Table 3 shows that the boundaries between ICT services, customer interaction services, and other components are difficult to trace. It is, for example, common to see that customer support tasks combine several activities such as the maintenance of an internal call center (of the customer), use and updating of customer databases, and technical assistance.

[11] BPO can be defined as a contract between a company and an independent service provider in which the company entrusts the provider with the management, supply, and implementation services of one or several processes or functions (mostly with high computer intensity) of the company.

Table 3: Information Technology and Business Process Outsourcing

1. Information Technology Services (Computer and Related Services)	
Software development and implementation services, data processing and database services, ICT support services, application development & maintenance, business intelligence & data warehousing, content management, e-procurement and B2B marketplaces, enterprise security, package implementation, system integration, SCM, enterprise application integration, total infrastructure outsourcing, web services (e.g., Internet content preparation), hosting of web and application service providers (ASPs)	
2. Business Process Outsourcing	
Customer Interaction Services	Sales support, membership management, claims, reservations for airlines and hotels, subscription renewal, customer services helpline, handling credit and billing problems, etc. Telemarketing and marketing research services
Back-Office Operations	Data entry and handling, data processing and database services, medical transcription, payment services, financial processing (financial information and data processing/handling), human resource processing services, payroll services, warehousing, logistics, inventory, supply chain services, ticketing, insurance claims adjudication, mortgage processing
More Services—Independent Professionals or Businesses	Human resource services (hiring, benefit planning and payroll, etc.), finance & accounting services (including auditing, bookkeeping, taxation services), marketing services, product design and development

Source: Mattoo and Wunsch (2004). This list of activities is not comprehensive and categories do not exclude each other.

Overview of the Evolution of the BPO and ITS Industries

Historical Evolution

Policies targeting the domestic ICT ecosystem in Senegal played a significant role in underpinning the success of BPO and ITS. To simplify, the ecosystem consists of four distinct layers. Furthest downstream is the layer of end users (Layer 1), followed by the layer of network operators (Layer 2), the layer of service platform suppliers and intermediaries (Layer 3), and finally, the layer of content providers (Layer 4). What are the factors that have influenced the evolution of these layers in Senegal?

Layer 1 includes end users whose devices and terminals (transmission equipment, switches, routers and servers, landline, mobile, desktop/laptop, software, MP3 players, digital cameras, and televisions) allow access to basic services offered by network operators or value-added services (VAS) offered by VAS providers (VASPs). In the third quarter of 2013, the penetration rates in Senegal were as follows: 2.6% for fixed telephony, 93.8% for mobile telephony,[12] and 10.5% for the Internet.[13] Key factors characterising the development of this layer include: (a) the Ninth Orientation Plan for Economic and Social Development (1996–2001), which recommended the elimination or reduction of tariffs and taxes on ICT; (b) the establishment of two associations to lobby the government to promote enhanced access to the Internet and its scope of applications—OSIRIS on March 28, 1998, and ISOC-Senegal on February 29, 1999; (c) the final decision in 1999 to lower tariffs on computer imports from 26% to 5%[14]; and (d) a complete liberalisation of the sale of terminals (see Annex 4b).

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[12] This rate was at 10% at the beginning of 2005.

[13] ARTP, 2013.

[14] During the final validation workshop for this study, it was uncovered that Senegal had recently implemented the ECOWAS CET. As a result, the tariffs on computer equipment were increased to the 18% mandated under the CET.

Layer 2 includes telecommunications network operators and Internet service providers (ISPs). Factors influencing the development of this layer include the introduction of a new telecommunications code in 1996, the privatisation of the incumbent (Sonatel) in 1997, and Senegal's pre-commitments in April 1997 on telecommunication services at the WTO (see Annex 4 for details).

Prior to 1997, Sonatel was the only telecommunications operator authorised to build and manage national transmission links. However, in compliance with its WTO commitments on commercial presence/investment in mobile cellular services (Annex 4b), a Global System for Mobile Communications (GSM) license was awarded in 1998 to Tigo, a subsidiary of Milicom International. In 2007, and as expected by the commitments (Annex 4a), Senegal ended the monopoly of Sonatel on basic services by giving a global license to Expresso Telecom (a subsidiary of Sudatel). The global license allows the use of all network and telecommunications services (global solutions in fixed, mobile, TV).

In the third layer are the companies whose business models are based on the provision and operation of application platforms. It also includes VASPs using the platform (two-sided market) of actors from Layer 2 to make their services available to ordinary users and businesses. Senegal has reinforced the liberalisation of VAS to private operators since 1997 (Annex 4b). VASPs are subject to the legal regime of the statement of intent in the telecommunications code. The new telecommunications code of 2011, following a directive from WAEMU and an additional ECOWAS Telecommunications Act, brought about key reforms in terms of encouraging innovation through Article 34 paragraph 2: 'the Regulatory Authority maintains a list of value-added services'.[15] The Regulatory Authority for Telecommunications and Postal Service (ARTP), reports that the number of VASPs increased from 5 in 2004 to 92 in October 2013.

Notably, service providers could now more easily acquire from ARTP short numbers for the use of their services.[16] The number of short numbers assigned to VASPs has currently reached 293. In 2013, the types of services being delivered by Senegalese VASPs using short numbers were mobile services (37%), Internet services (21%), file transfer and data (12%), call centers (6%), conversion of protocols and codes (5%), online-info (4%), mobile payment (3%), infotel number (3%), access to data services (3%), audiotext (2%), electronic data interchange (1%), and Internet mail (1%).

Finally, upstream of the model are the content providers (Layer 4), which produce and supply various types of content in native format or the format of the mobile terminal (text, audio, image, video). In a contribution to the preparation of the national strategy for the digital economy, Sonatel provided strategic guidance for promoting content generated and delivered locally:[17]

1. Development of websites, and applications and utilities geared towards the needs of local consumers: education, information, weather, geolocation, health, rights and duties of citizens, paperwork, tax returns, taxes
2. Online courses, online documentation
3. Promotion of local culture through extension of audio and video archives, with digital terrestrial television, mobile TV, video on demand
4. Online shopping with appropriate payment systems.

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[15] In the former Telecommunications Code, the regulator, ARTP, would predetermine the list of value-added service categories. This significantly limited the ability of VASPs to develop and deliver innovative services.

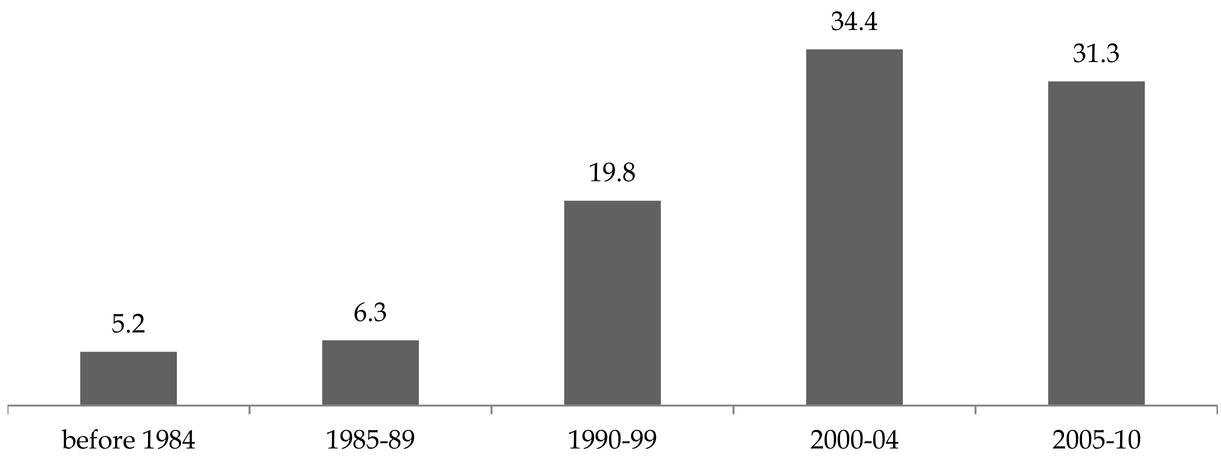
[16] Short numbers are significantly shorter than full telephone numbers, generally used in the delivery of value-added telecommunications services.

[17] Sonatel, 2013.

The ITS Sector

The ITS private sector is a young industry that appears to have emerged with the advent of the Internet in Senegal alongside a number of key policy choices. According to a mapping of the ICT sector conducted in 2011, Figure 3 shows the distribution of the number of companies in the sector by year they were created.[18]

Figure 3: Distribution of the Number of ICT/BPO Firms in Senegal by Year of Creation



The BPO Sector

The BPO sector began to emerge in Senegal in the late 1990s. There were two local pioneering companies at the time, Alphacad and Teleservices SA, created in 1997 and 1998. Alphacad worked mainly on architectural drawings by feeding the old architectural plans of municipalities in France into an architecture application and sending digitised plans via the Internet back to its customers. Teleservices SA entered data from legal texts. Both were working for clients outside of Senegal. In this respect, these export activities were critical in the development of the sector.[19]

In September 2002, a French company, Sénégalaise de Saisie Informatique (SESI) established itself in Dakar to perform data entry of scientific articles. At this time, however, the leading telecommunications companies in Senegal were operating in the field of call centers (based on VoIP), such as Africatel AVS, Call Me of the Chaka Group, PCCI, and Value Center. A 2009 ILEAP report points out that in 2000, there were approximately 35 companies in the field of teleservices and value-added services in general. Besides receiving calls, these teleservice companies also offered services in telemarketing, studies, surveys and polls, and appointment taking.

Market Structure

In 2011, the Economic Development Program of the German Agency for International Cooperation (GIZ)[20] undertook, on behalf of the German government, a mapping of the ICT sector in Senegal. This study showed that in terms of the number of companies, the sector was highly dominated by

[18] According to the mapping report, 3.1% of the 96 companies involved in the survey did not wish to respond.

[19] Sagna, Brun, and Huter, 2013.

[20] PACC-PME/PMF and GIZ, 2011.

firms involved in the wholesale/retail distribution of ICT services rather than by firms providing BPO services. According to the mapping performed on 96 ICT companies, the distribution of firms by main activity was the following: sales, rental, and repair of equipment (31%); creative activities (radio, television, music) (8%); integration of information systems (8%); software development (7%); computer consulting (5%); Internet access providers (4%); provision of web services (4%); teleservices activities (3%); provision of mobile services (3%); other (16%),[21] and NWR (4%).[22] Using the classification of Table 4, it can be estimated on the basis of the 2011 mapping that BPO providers represent 3% of the sector and that ITS providers represent 28%.

The structure of the ITS market is highly competitive. In contrast, the structure of the market for call centres is similar to that of an oligopoly, in which firms like PCCI, IBEX, and Call Me occupy more than 70% of the market share (in terms of call centre employees).

Table 4 provides an overview of some of the major companies in the market. Except for Computers Frontiers and IBEX, these companies are majority owned by Senegalese interests.

Table 4: Some Actors in the ITS and BPO Market

1. Information Technology Services (Computer and Related Services)	
ARC Informatique, Homeview, FINETECH, 2SI, GSIE, People Inputs, Solid, Sesam, GAINDE 2000 Orbus, Sonatel, PCCI	
2. Business Process Outsourcing	
Customer Interaction Services	PCCI, Call Me, Computers Frontiers Senegal, IBEX, Africatel AVS
Back-Office Activities	PCCI, Computers Frontiers Senegal, IBEX, FINETECH, Africatel AVS
Other Services to Companies or to Independent Professionals	PCCI, IBEX, Call Me

Economic Impact of ICT and BPO Services for Senegal

Estimates of Revenues Derived from BPO and ICT Services

National accounts in Senegal do not provide disaggregated value-added data for business services, which is primarily where we find BPO and ITS. Instead, we use here balance of payment trade data to get a sense of the market size of Senegal's BPO and ITS sectors.

Estimates of cross-border outsourcing, which is shown in many studies, often seek to quantify the trade in services that can be regarded as having been adapted to ICT. To estimate the revenue from trade flows in BPO and ITS in Senegal, we will apply the concept of service adapted to ICT, which includes the following categories: communications, insurance, financial services, computer and information services, royalties and license fees, other business services, and personal, cultural, and recreational services.[23]

Table 5 shows an estimated US$ 520 million of trade in services exports tailored to ICT in 2013, which accounts for approximately 47% of Senegal's services exports. Personal, cultural, and

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[21] ICT companies having difficulties defining their activity according to the activity classification of the survey's questionnaire.

[22] Not wishing to respond to the survey.

[23] These are the same categories as in UNCTAD's *2007–2008 Report on the Information Economy*.

recreational services; Telecommunications, computer, and information services; and Other business services experienced the fastest growth in 2013.

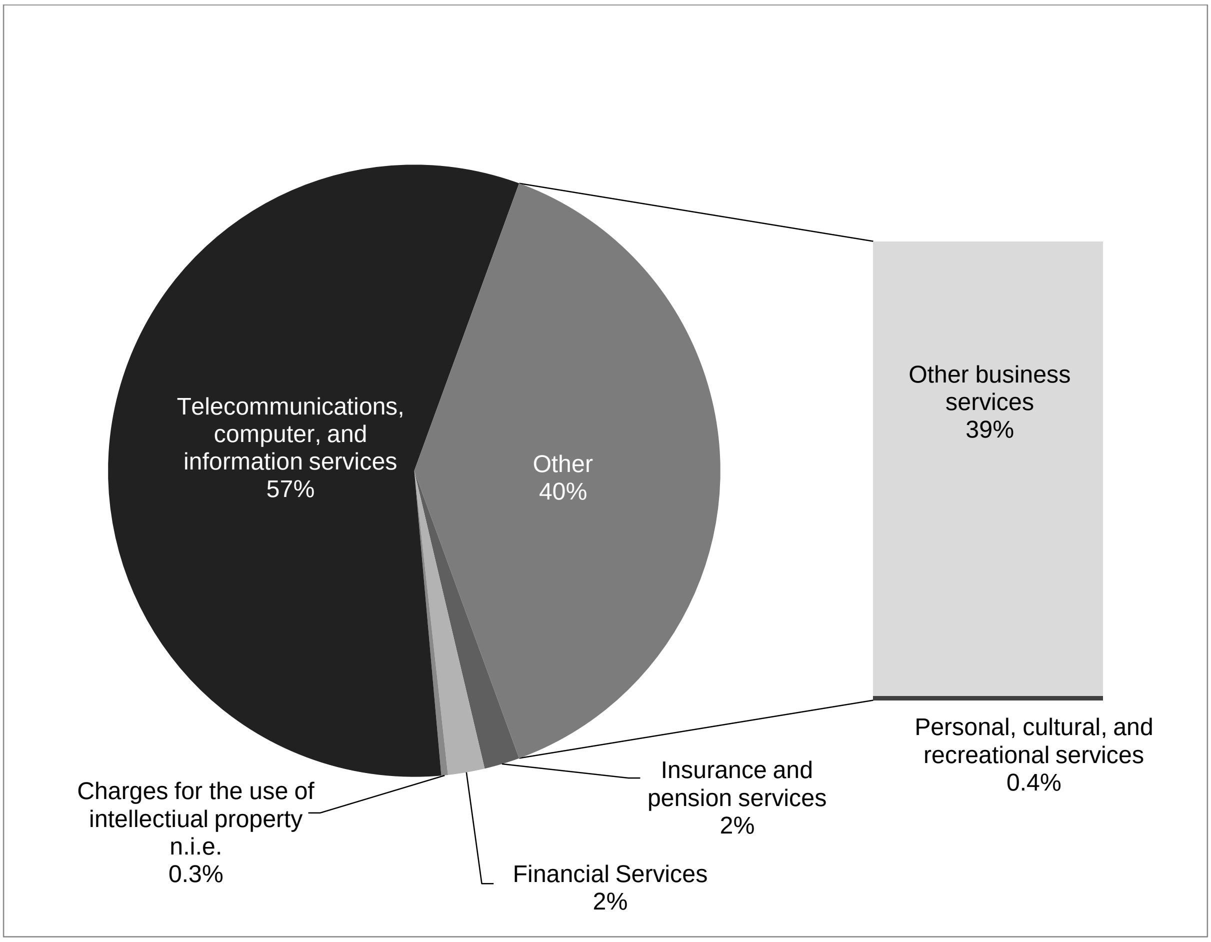
'Other business services' represent a broad array of trade-related activities, such as operational leasing (rentals), and miscellaneous business, professional, and technical services (such as legal, accounting, management consulting, public relations services, advertising, market research, R&D, and engineering services) (see Figure 4). This latter segment comprises 95% of 'Other business services' exports in Senegal. It also includes various outsourced services and support services to companies, however disaggregated statistics on these activities are not available.

Table 5: Trade in Services Exports, Senegal, by sector, 2013, based on balance of payments (thousands of dollars and percentages)

Indicator	Value	Share	Annual Percentage Growth		
	2013	2013	2009-2013	2012	2013
Cross-border trade in services	1 115 167	100,0	7,2	4,8	10,2
Goods-related services	11 930	1,1	1 260,3	2 534,0	- 13,4
Transport	145 002	13,0	38,5	26,5	15,0
Travel	438 689	39,3	- 1,0	- 13,0	7,8
Other commercial services (excluding construction)	519 546	46,6	11,5	17,0	11,8
Insurance and pension services	9 706	0,9	- 2,0	14,5	- 41,9
Financial services	10 088	0,9	36,1	141,9	- 10,5
Charges for the use of intellectual property n.i.e.	1 801	0,2	27,4	142,2	- 46,9
Telecommunications, computer, and information services	296 017	26,5	22,9	23,8	19,5
Other business services	199 904	17,9	2,0	5,1	7,8
Personal, cultural, and recreational services	2 030	0,2	358,6	15,0	1 160,9
Memorandum: Total commercial services	1 176 512	-	6,8	5,0	8,9

Note: Rounding may lead to discrepancies between totals and individual activities.
* *Listed operations refer mainly to Mode 1, but also include a large share of services provided via Mode 4.*
Source: WTO Statistics database (Time Series on International Trade).

Figure 4: Cross-border Exports of 'Other Commercial Services', Senegal, 2013 (based on the balance of payments)



Source: WTO Statistics database (Time Series on International Trade).

The balance of payments subcategory 'Miscellaneous business, professional, and technical services' includes a residual category of 'other services not elsewhere specified'. This subcategory includes a number of outsourced business and business support services.[24]

Estimates of Employment Generated by BPO and ICT Services

Sectoral statistics on employment are not produced annually in Senegal. Estimates of employment generated by BPO and ICT services can be made, with some bias, through available household surveys. The last available survey dates from 2011 (Survey on Monitoring Poverty in Senegal), but it does not isolate employment in the BPO and ITS sectors. The 'Transport and Communication' component, which is the most likely to include an important number of BPO and ITS suppliers, employs 3% of the working population in Senegal (Table 6).

[24] This subcategory can underestimate the support services to companies. Data from the balance of payments on these services are sometimes included in the sector that benefits from them; for example, data from call centres that provide services to the financial sector would be included in the data on financial services.

Table 6: Distribution of Employment by Activity Sector/Branch, 2011

Activity Sector/Branch	Working Professionals	
	Workforce	Percentage
Primary sector	1,962,457	48.5
Agriculture, livestock and forestry	1,847,614	45.7
Fishing	114 843	2.8
Secondary sector	557,851	13.8
Extraction (mine, quarry)	67,427	1.7
Food product manufacturing	102,102	2.5
Manufacturing branches	388,322	9.6
Services	1,522,165	37.7
Water, electricity and gas	12,619	0.3
Buildings and public works	132,053	3.3
Trade / retail	208,696	5.2
Restaurants et Hotels	48,347	1.2
Transports and Communications	121,811	3.0
Banks and Insurance	17,687	0.4
Financial institutions	9,678	0.2
Other market branches	15,529	0.4
Domestic services	56,767	1.4
Public administrations	164,630	4.1
Private administrations	197,505	4.9
International organisations, Embassies	9,152	0.2
Other	527,691	13.1
Total	**4,042,473**	**100.0**

Source: ESPS-II, ANDS, Dakar, Senegal.

The BPO suppliers interviewed for this study consider that there is significant potential for employment creation in the sector, however they felt that the government was not doing enough to exploit this potential, notably due to its own rigidity in outsourcing its own services.

According to a research report of the William Davidson Institute at the University of Michigan (2013), the size of the BPO industry in Senegal is estimated at 1,200 seats and 2,200 staff employed (2008 estimates).

Spillover Effects of BPO and ICT Services on the Economy

One of the most high-profile examples of spillover effects from the deployment of BPO and ICT services in Senegal relates to pioneering work in the area of trade facilitation. With initial support from UNCTAD's Trade Point Programme, Senegal's Ministry of Commerce established the Trade Point Foundation as an independent body for streamlining customs procedures, notably through the use of ICT-based tools and the creation of a 'Single Window'. Towards this aim, GIE GAINDE 2000 was established in 2002 as a public-private partnership between the Senegalese Customs Administration and private sector ICT actors with a mandate to finalise, deploy, and operate the Single Window system, ORBUS.[25] This resulted in a drastic reduction in the time required to complete preclearance formalities, including the processing of requests for permits and certificates for an import or export operation. Wait times were reduced by 70%, from 4 days to half a day, with the time associated with the custom clearance process reduced by 50%, from an average of 18 to just

[25] ORBUS aimed to link electronically all trade facilitation agents, thereby enabling the business community to carry out traditional trade-related procedures virtually, in particular the registration of trade transaction supporting documents and their electronic channeling to the concerned departments.

9 days. Thus the application of ICT-based tools and services to customs procedures resulted in significant economy-wide efficiency gains.

As a result, GAINDE 2000 has received a variety of awards, including the prestigious UN Public Service Award in 2012 for excellence in public service. The ICT solutions developed by GAINDE 2000 are now deployed in Kenya, Togo, and Burkina Faso, and GAINDE 2000 went on to initiate the African Alliance for E-Commerce, which aims to promote one-stop customs clearance in member countries.[26]

Another area where the proliferation of BPO and ICT services has important spillover effects on the economy is value-added telecommunications services resulting from the increased supply of mobile telephony and bandwidth. A 2012 study by Katz and Koutroumpis suggests that during the 2004–2011 period, every 10% increase in mobile penetration resulted in an increase in GDP by 0.44%.[27] As the supply of broadband services grew in Senegal, these services have also had a positive and increasingly important impact on people's lifestyles and wellbeing.[28]

To illustrate the positive impact of such ICT services on the Senegalese economy (and the lifestyle and wellbeing of society), one can cite the strong demand for electronic payment and money transfer services, as well as services to facilitate farmers' real-time access to the prices of agricultural products in wholesale markets. Chaka Computers for example, developed a money transfer system that competes with Western Union in Africa and wherever there is an African diaspora (in particular Europe and North America). Paybox Africa and Ferlo have also implemented electronic payment systems with the banks and the national treasury, thus allowing users to pay phone bills, electricity bills, and even customs duties online.

Manobi, a Senegalese company, was the first in Africa to set up a real-time database for wholesale agricultural markets accessible by mobile phone (i.e., based on mobile SMS services as opposed to the Internet). The simplicity of the system allowed many farmers to access daily information on wholesale markets for their products by paying a small fee. On this basis, they were able to determine the best time to get their products to market. Manobi installed the same system in South Africa and Burkina Faso, and other countries have since followed the same path.

Building on its success in providing market information for agricultural products (mShop), Manobi developed a series of additional mobile phone-based applications, as shown in the text box on the following page.

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[26] Members include Benin, Cameroon, Congo-Brazzaville, Côte d'Ivoire, Gabon, Ghana, Kenya, Libya, Madagascar, Mauritius, Mozambique, and Senegal. Observers include Burkina Faso and WAEMU/UEMOA, with Associate Members Egypt and Mali.

[27] Penetration of mobile telephony increased from 10% at the beginning of 2005 to 94% in the third quarter of 2013.

[28] The impact of bandwidth availability was not seen to have a similar impact on economic growth, however this can occur when Internet penetration rates are low and access is prohibitively costly, combined with low demand stemming from, inter alia, the absence of e-government services and related applications.

Examples of Spillover Effects Resulting from Manobi

- **mSchool:** An interactive ICT platform enabling teachers and students to send SMS warnings regarding the learning conditions in their schools (awarded by the World Bank).

- **mAgri:** A catalogue of integrated services that allow major operators (government, international NGOs, development aid organisations) to quickly deploy field services. Examples include census of producers and precise geo-referencing of their plots; marketplaces for large and small producers, as well as traders, buyers, and importers; price surveys of agricultural products in real time; agriculture information (epidemic alerts, weather forecast, yield calculation) by SMS.

- **mWater:** A range of services accompanying the development of access to water and its responsible management by consumers and operators.

- **mSanitation:** An ecosystem of specialised services to improve people's access to infrastructure and sanitation services.

- **mLocGov:** A platform for local governments to improve their management and build capacity to deliver their services. It integrates management solutions for land tenure, inventory and management of marketed and non-marketed assets, drawing-up of local development plans, tax and fee data gathering and collection, and interaction and communication solutions and services with citizens.

- **m4Dev:** Services for the economic and social integration of vulnerable segments of the population, including the protection of children, women, and individuals in situations of medical dependency.

- **mFleet:** An optimisation tool for fleets of vehicles, to improve key indicators for road transportation business linked with companies' ICT services.

- **mField:** Mobile and geographic convergence solutions aimed at studies, surveys, and field monitoring.

Success Stories in Exporting BPO and ICT Services from Senegal

The ability of a company to succeed in exporting can be explained by both internal and external factors. The companies surveyed for this study unanimously recognised the following external factors influencing their success: the dynamism of the economy, the availability of broadband Internet, the presence of an incubation centre, and the quality of the ICT environment. ICT service providers have increasingly emphasised an additional factor, notably the availability of systems design and network engineers (for conducting systems integration and configuring networks). Amongst internal factors, one observes the dynamism and resourcefulness of pioneering firms and individuals in the sector, who were the first to launch ventures in foreign markets.

The case studies below provide a snapshot of experiences exporting BPO and ICT services from Senegal.

ARC Informatique

ARC Informatique is a limited company (LC) with 100% Senegalese ownership. It began operations in 1993 and currently provides development and implementation of software; outsourcing of infrastructure; web services; business intelligence and data warehousing; web and application service provider hosting; integration of business applications; company security; application software; system integration; computer support services; specification engineering; application design, testing, and maintenance; and content management.

In 2012, a quarter of ARC's domestically generated income came from the sale of services to the financial sector. About a fifth of its total income in 2012 came from exports. Sub-Saharan Africa accounted for approximately 75% of these exports, with Europe and Asia together representing the other 25%. The services sold by ARC are largely delivered electronically—via email and the Internet. This mode of supply accounted for approximately 90% of its export earnings. The presence of a subsidiary in Mali and the temporary movement of its staff to supply services abroad represented 10% of its export earnings.

ARC faces several competitors in the domestic market and saw a decline in its customer base in 2012. The company employed 30 permanent professionals in 2012. The most senior ARC manager has 20 years' experience in ITS in Senegal and 3 years abroad. He has an engineering degree obtained abroad.

FINETECH

FINETECH is a limited liability company (LLC) with 88% of its capital owned and controlled by Senegalese partners. It has only one facility in Senegal and started its activities in 2009. FINETECH currently provides software development and implementation services; data processing and database services; integration of enterprise applications; enterprise security; application software; system integration; computer support services; specification engineering; application design, testing, and maintenance; and content management. FINETECH also conducts back-office activities in the form of financial processing (data and financial information processing and management), but this represents less than 1% of its income.

In 2012, three quarters of FINETECH's domestically generated income came from the sale of services to the financial sector, with the public sector accounting for the remaining quarter. FINETECH's activities, however, are primarily export based: 75% of its revenues were derived from sales abroad; 90% of these customers are based in West and Central Africa. Morocco, Tunisia, and France accounted for 10% of its export markets. Export earnings from cross-border supply accounted for only 20%, while 80% was generated by the temporary movement of its staff to supply services abroad.

FINETECH faces several competitors in the domestic market. In 2012 it employed 20 permanent professionals. The most senior executive at FINETECH has 16 years' experience in ITS in Senegal, with a computer science degree obtained in Dakar.

2SI

2SI is an LLC with 100% of its capital owned and controlled by Senegalese partners. It began operations in 2001 and has two facilities in Senegal. 2SI currently provides development and implementation of software; data processing and database services; web services; hosting of web and application service providers; integration of business applications; application software; systems integration; ICT support services; specification engineering; application design, testing, and maintenance; and content management.

In 2012, 2SI had three main groups of customers: multinational companies operating in Senegal (including banks), the government, and public enterprises. Approximately 60% of 2SI's earnings are generated through exports, with the main markets being a dozen West African countries.

Approximately 20% of 2SI's services are sold cross-border via electronic means, with another 20% accounted for by the temporary movement of its staff to supply (ad hoc) services face-to-face with foreign customers. A further 20% comes from staff going abroad to negotiate future contracts and/or exploring possibilities for establishing subsidiaries. The remaining 40% comes from the temporary movement of staff to directly provide services abroad on the basis of pre-existing contracts.

2SI faces several competitors in the domestic market, and two new competitors (at least) have entered the market in 2012. Despite this, 2SI managed to maintain its customer base for 2012. 2SI employed 30 permanent professionals in 2012. The most senior executive at 2SI has 15 years' experience in ITS in Senegal and 10 years abroad. He has a computer science degree from Senegal.

GSIE

GSIE is an LLC whose capital is 100% owned and controlled by Senegalese partners. It has three facilities including two in Senegal. GSIE began operations in 2000 and currently provides development and implementation of software; web services (e.g., preparation of Internet content); hosting of web and application service providers; e-procurement and inter-company markets; integration of business applications; systems integration; computer support services; specification engineering; and application design, testing, and maintenance.

In 2012, the structure of GSIE's customer base was the following: banking and financial institutions (60%), public sector (30%), and non-financial sector (10%). Approximately 80% of GSIE's earnings are generated through exports. GSIE's customers are located in West and Central Africa. Selling services electronically cross-border accounts for 15% of its export revenues, with commercial presence abroad (i.e., investment) accounting for an additional 10%. The remaining 75% of GSIE's export revenues come from the temporary movement of staff to supply services abroad.

GSIE faces several competitors in the domestic market. In 2012 it employed 20 permanent professionals. The senior manager at GSIE has 15 years' experience in ITS in Senegal and 12 years abroad. He has a computer engineering degree obtained abroad.

Computer Frontiers Senegal

Computers Frontiers Senegal is an LLC whose capital is 49% owned by Senegalese partners and 51% by U.S. shareholders. It is part of a group with a facility in Senegal and nine others outside of Senegal. It began its activities in 2005 in Senegal and currently provides services to interact with customers (customer claims helplines) and back-office activities (payroll, data entry and management, human resources management). In 2012, customer interaction services accounted for 90% of revenues.

The two main customer groups for Computers Frontiers Senegal in 2012 were (1) multinational companies operating in Senegal and (2) U.S. embassies and companies subcontracting with the U.S. government. Exports constituted only 5% of sales in 2012, emanating mostly from West Africa. The bulk of these exports (90%) were generated through the cross-border supply of services via email and Internet, consumption abroad via incoming calls, and the temporary movement of staff to directly provide services.

Computers Frontiers Senegal faces several competitors in the domestic market, with another new entrant arriving in 2012. As a result, its customer base has been declining. In 2012 it employed a dozen permanent professionals. The most senior executive at Computers Frontiers Senegal has 11 years' experience in BPO in Senegal and 6 years abroad, with an ICT diploma from Senegal. The second most senior officer has a degree from a Senegalese school of business and management.

Call Me

Call Me is 100% owned by Senegalese interests and was created in 2002 as a subsidiary of Chaka Group, the Senegalese computer engineering firm. Its creation followed a tender won by the Chaka Group to develop customer relationship software for Tigo Telecommunications Company. Call Me provides business process outsourcing services, including voice services and outsourced appointment-taking for visa applications to embassies. It also provides advisory services (quality management, team training, and performance increase in customer teams). Call Me has numerous customers in Senegal and abroad (France, Belgium, Switzerland). In Africa, Call Me opened subsidiaries in Mali (2003), Côte d'Ivoire (2004), Guinea and Mauritania (2005), and Cameroon (2008). Negotiations are underway to open a subsidiary in Burkina Faso.

Currently, the domestic Senegalese market accounts for approximately 25% of Call Me's turnover, of which 60% is generated from other African markets and 15% from non-African foreign markets. The current distribution of employees is 250 in Senegal, 150 in Mali, 50 in Côte d'Ivoire, 50 in Cameroon, 40 in Guinea, and 30 in Mauritania. Call Me's call centre tools are developed by Chaka Group engineers.

IBEX

IBEX Senegal is an LC with 100% foreign ownership and control, and forms part of a group with a facility in Senegal and 19 others outside of Senegal. It started its activities in Senegal in 2006 and provides the following interaction services: sales support, membership management, claims, subscription renewals, order processing, customer telephone hotlines, and credit and billing issue management. Back-office activities are also provided: data entry and management services, data processing and database services, payment services, financial processing (information and financial data treatment/management), processing checks, credit/debit payment cards services, human resources management, and payroll services. Similarly, IBEX provides other services to businesses or independent professionals: human resource management (recruitment, benefits planning, and payroll), data analysis and extraction, data/knowledge management, marketing services, and design and development of products.

In 2012, IBEX's main domestic customers were multinational companies from the non-financial sector operating in Senegal. Exports accounted for approximately 20% of sales, with customers located in Canada. These exports are delivered electronically through cross-border supply (telephone calls).

IBEX faces a dozen competitors in the domestic market, with one firm having exited the market in 2012. IBEX maintained its customer base in 2012. As noted earlier, IBEX alongside PCCI Group (see below) command 80% of the market share for these services (with IBEX estimated at having 25 to 50%). In 2012, IBEX employed more than 350 customer advisors and approximately 20 supervisors. The most senior executive at IBEX has 4 years' experience in BPO in Senegal and 13 years abroad. The second most senior officer has a degree from a foreign school of business and management.

PCCI Group

PCCI was created by three Senegalese entrepreneurs in October 2001, and since 2002 has been a pioneer in providing offshore services in Senegal. It has established itself as an important global player in the contact centre market.

PCCI's production capacity is on an industrial scale with 700 working positions and 1,300 employees in Dakar. The investment for its infrastructure totalled € 10 million. It provides several categories of services: inbound pre-sales contacts (information on products and services, support to launch communication campaigns, traffic building, location of outlets), outbound pre-sale contacts (qualifying leads, supporting sales force, making appointments, market research, test marketing), inbound sales contacts (commercial service, order taking, reservations), outbound sales contacts (telesales to the general public and businesses, follow-up in the purchasing process, subscription), incoming after-sales contacts (after-sale service, technical support hotline, telephone helpline, consumer services by phone, and e-loyalty program management), outbound customer service contacts (additional cross-sales, billing, debt collection, loyalty campaigns), medium back-office services (activating new accounts, file management, claims processing, end-customer settlement processing, warehousing, light assembly, shipment), and business units support (recovery of clients and arrears, and training in call center management).

PCCI has a subsidiary located in Côte d'Ivoire (300 people) and Cameroon (100 people). Approximately 60% of its turnover is generated from African markets, with the remaining 40% generated from the European market. PCCI employs people of 20 nationalities. Based on the number of seats in operation, its market share in Senegal is estimated at 50 to 60%.

Factors Shaping Export Success in ICT and BPO Services in Senegal

This section draws on the analysis so far to highlight some of the factors that have helped shape Senegal's export success in ICT and BPO services. Alongside additional insights shared by stakeholders surveyed for the paper, we also account for factors identified under A.T. Kearny's Global Services Location Index[29] (see also Annex 2) as contributing to Senegal's attractiveness as a BPO/ICT outsourcing location.

In doing so, we adopt the framework set out by Goswami, Mattoo, and Saez in their 2012 edited volume, *Exporting Services: A Developing Country Perspective.* We examine the role of the following factors:

1. 'Fundamentals'—this includes Senegal's factor endowments, notably skills, cultural endowments, infrastructure, and institutional quality. While accepted as given in the short run, they can be influenced by policy over the longer term.
2. Policies affecting trade, investment, and labour mobility in services, including relevant policy reforms (autonomous or negotiated) influencing the conditions affecting the movement of factors of production, notably here as related to telecommunications.

[29] The annual Global Services Location Index (formerly called the Offshore Location Attractiveness Index) is a tool to help understand and compare factors that make countries attractive as potential locations for offshore services. It measures the viability of countries as offshore destinations based on their financial attractiveness, people skills and availability, and business environment.

3. Proactive policies in services, which include specific interventions to promote exports and/or investment in BPO and ICT services.

The Fundamentals

Labour/Human Capital

Empirical literature points to the availability and quality of human resources as one of the primary factors shaping services export competitiveness. By extension, ensuring the availability of a critical mass of adequately trained labour has been essential for underpinning Senegal's robust BPO and ITS industries.

Population

Although Senegal is relatively small when compared to Egypt, South Africa, and Morocco, its young workforce (15–39 years, which is the most commonly employed age group by BPO centres and ICT firms) is larger than some of its competitors such as Mauritius and Tunisia (see Figure 5a).

Literacy and Education

Regardless of population size, Senegal has a low literacy rate compared to other attractive ICT and BPO locations in Africa (see Figure 5b). In addition, Senegal has a low secondary school and higher education enrolment rate compared to these locations (see Figures 5c and 5d). This can dampen the use and dissemination of online content and applications.

Training Schools

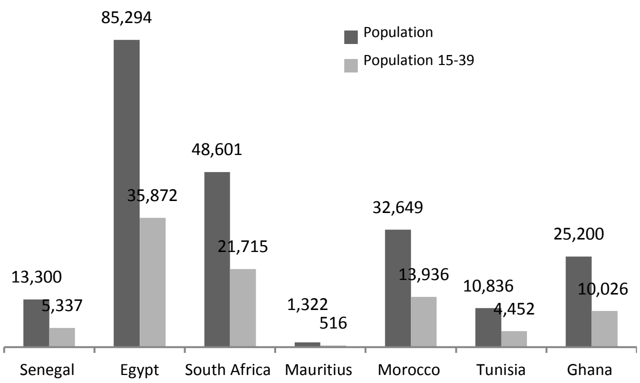
The quality of Senegal's educational institutions ranges from average to strong. While math and science education programs are viewed as being of average quality, Senegal's business and management schools are perceived as being strong (Figures 5e and 5f). In consultations with ICT services providers, notably those working in the field of software development and information systems security, difficulties were highlighted in recruiting quality staff due to the mismatch between what was being taught in schools and the state of technology in those areas. A number of Senegalese schools, however, command a good reputation for the quality of their computer science and engineering graduates—which have become sought after in the domestic market. Unfortunately, the number of graduates from these schools is not adequate for satisfying the export market.

The training schools that having helped to shape Senegal's comparative advantage in ICT/BPO services include (i) the Superior Polytechnic School of Cheikh Anta Diop University of Dakar (UCAD), which graduates several ICT engineers per year; (ii) the Mathematics Department of Gaston Berger University of Saint-Louis; (iii) the Multinational Higher School of Telecommunication, based in Dakar and specialised in telecom training; and (iv) the Centre d'études des sciences et techniques de l'information (CESTI), which specialises in ICT for the media. Other private schools such as ISM and SupdeCo have also developed successful ICT training streams.

One of the main weaknesses of the training being provided for call centres in Senegal is the absence of strong English language components, although a growing number of higher education institutions are offering French/English bilingual programs. An increasing number of higher education institutions are now offering programs exclusively (or predominantly) in English.

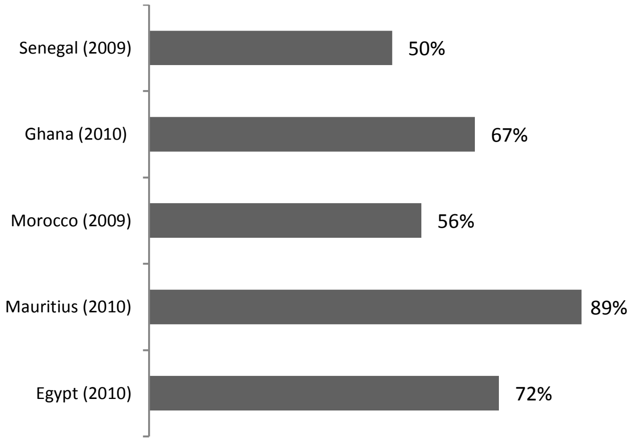
Figure 5: Skill Availability

Figure 5a: Total Population and Population Aged 15 to 39, 2013 (estimates in thousands)



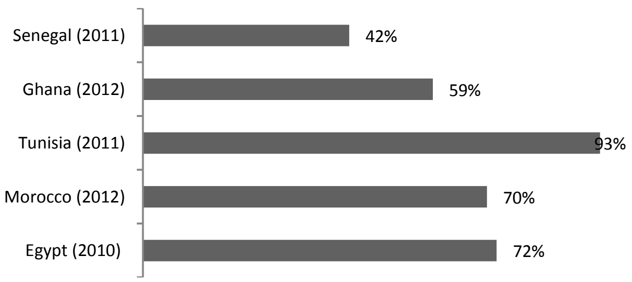
Source: U.S. Census Bureau (http://www.census.gov/population/international/data/idb/informationGateway.php)

Figure 5b: Adult Literacy Rate



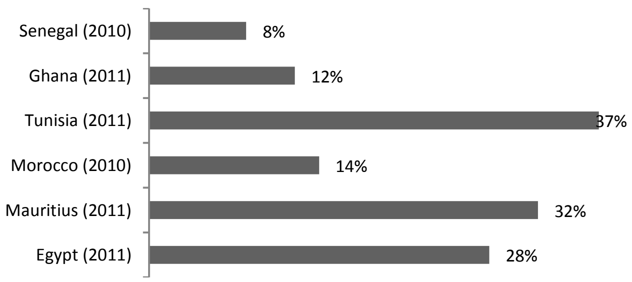
Source: World Bank, World Development Indicators, 2013.

Figure 5c: Gross Enrolment Rate in Secondary School



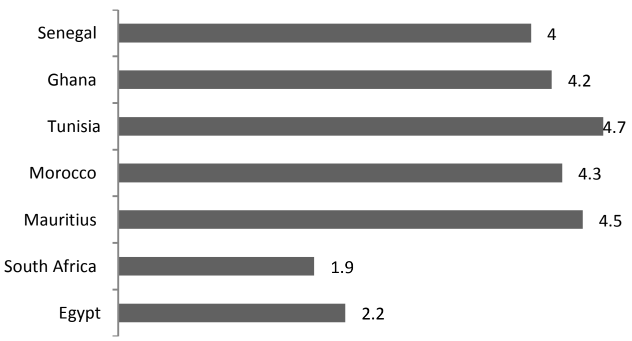
Source: World Bank, World Development Indicators, 2013.

Figure 5d: Gross Enrolment Rate in Higher Education



Source: World Bank, World Development Indicators, 2013.

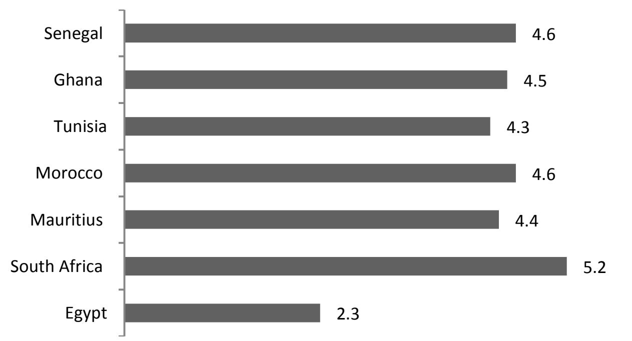
Figure 5e: Quality of Math and Science Education (2013-14, scale 0-7)



Rating scale: 1 = school quality is very poor compared to most other countries, 7 = excellent, among the best in the world, 4 = medium/indifferent

Source: World Economic Forum, Global Competitiveness Report, 2014.

Figure 5f: Quality of Business and Management Schools (2013-14, scale 0-7)



Rating scale: 1 = school quality is very poor compared to most other countries, 7 = excellent, among the best in the world, 4 = medium/indifferent

Source: World Economic Forum, Global Competitiveness Report, 2014.

Due to labour shortages for young graduates, we observe that telemarketing positions in call centres in Senegal are staffed by employees with higher education degrees (Bac+4 and Bac+5), whereas in Europe they are staffed by employees with less training (Bac).

As reported by stakeholders consulted, the higher education system in Senegal has greatly contributed to the emergence and success of ITS start-ups.

Infrastructure and Technological Endowments

Infrastructure and technological endowments are critical to the export of any modern ICT-intensive service, but in particular with regard to ITS and BPO exports. Table 7 shows that the infrastructure for ICT/BPO service delivery (telecommunications networks) has improved dramatically in Senegal since 2002.

Table 7: Access and Use of Telecom Indicators in Senegal, 2002–2012

	2002	2007	2012
Access Indicators			
Fixed telephone lines per 100 inhabitants	2.1	2.2	2.6
Mobile cellular subscriptions per 100 inhabitants	5.1	29.3	87.5
International Internet bandwidth per Internet user (bit/s)	752	2,079	5,363
Proportion of households with computer	1.7	7.8	9.0
Proportion of households with Internet	0.5	1.0	5.8
Use Indicators			
Internet users per 100 inhabitants	1.0	6.6	19.2
Fixed broadband subscribers per 100 inhabitants	–	0.3	0.7
Mobile broadband subscriptions per 100 inhabitants	–	–	3.8

Source: International Telecommunication Union (ITU), Measuring the Information Society, different years.

In terms of 'openness to technology', in 2013 Senegal ranked 95th (out of 148 countries) (see Figure 6a), coming behind Tunisia, Morocco, Mauritius, and South Africa. It scored better than Ghana and Egypt, however.

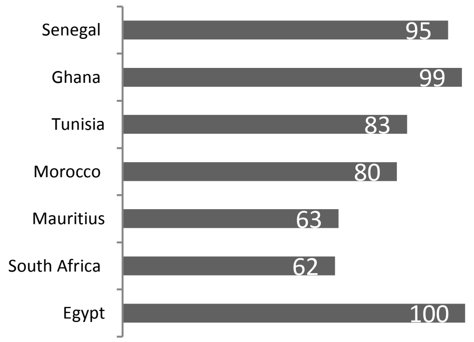
Other measures of infrastructure quality—such as the quality of international Internet bandwidth, the quality of the electricity supply, and the overall quality of infrastructure—highlight some of Senegal's weaknesses relative to other African ICT/BPO performers (Figure 6). While these difficulties are recognised, it should be noted that Senegal was among the first African countries (in the early 1990s) to invest in a rural fiber optic network to provide access to underserved rural areas. It was also the first country in Sub-Saharan Africa to offer asymmetric digital subscriber line (ADSL) data services (in 2003).

In this regard, Senegal has benefited greatly from the national transmission network built by Sonatel, the incumbent provider. Sonatel co-owns several submarine fiber optic cables around the world, including (i) the Atlantis 2 cable, which was the first fiber optic cable landing in Dakar, and put into service in February 2000 between Senegal, Cape Verde,, Spain, Brazil, and Argentina; (ii) the SAT3/WASC/SAFE cable with a length of 28,000 km, the first fiber optic underwater link connecting Europe and Asia, inaugurated in Dakar in May 2002; and (iii) the ACE cable, 17,000 km long with 22 underwater stations, in which Sonatel is the largest investor, with a combined budget of over CFAF 11.9 billion (approximately € 18.2 million). This cable connects 23 countries, including 16 African countries.

With investments such as these, Sonatel has positioned Senegal as the main gateway for Internet transit in West Africa. With an Internet bandwidth of 13.7 Gbit/s in 2012 (against 53 Mbps in 2002 and a forecast of 18.7 Gbit/s in 2013), Sonatel's infrastructure has enabled Senegal's call centres to operate as if they were located in close proximity to the customers and businesses they serve.

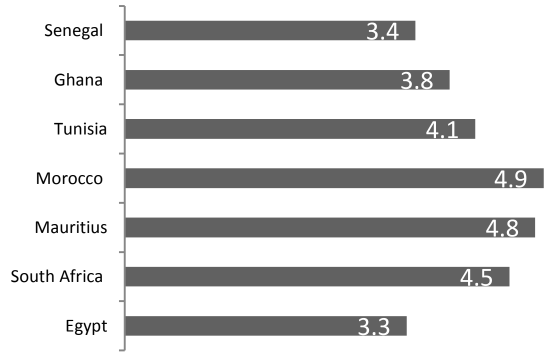
Figure 6: Public Infrastructure Required

Figure 6a: Rank in the Openness to Technology Index (2013) Rank 1 to 148 (1 is the best rank)



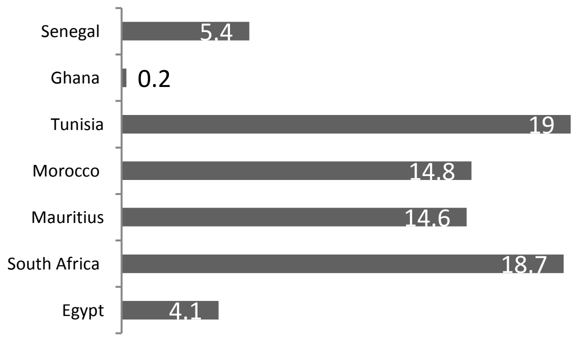
Source: World Economic Forum, Global Competitiveness Report, 2014.

Figure 6b: Quality of General Infrastructure (2013, scale 0-7)



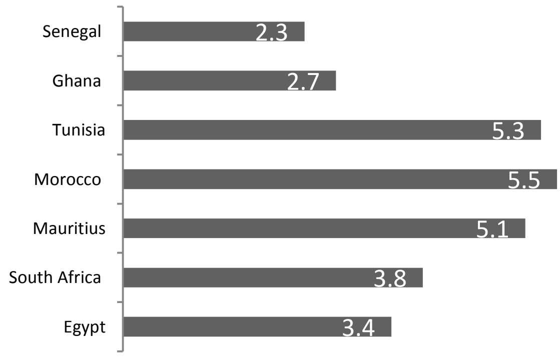
Source: World Economic Forum, Global Competitiveness Report, 2014.

Figure 6c: Quality of international Internet bandwidth (2013 kb/s per user)



Source: World Economic Forum, Global Competitiveness Report, 2014.

Figure 6d: Quality of electricity supply (2013, scale 0-7)



Source: World Economic Forum, Global Competitiveness Report, 2014.

This contrasts with many of the African countries that import BPO and ICT services from Senegal, where the level of broadband infrastructure is quite low. Indeed many of the BPO and ICT stakeholders consulted cited the poor infrastructure elsewhere on the continent as being a significant impediment to their exports (including for the establishment of new call centres).

Institutions

When it comes to services, certain institutions may be relatively more important than others.[30] In the ICT/BPO context, the quality of regulatory and contract-enforcing institutions is especially relevant as a key source of comparative advantage. This is attributable in large part to the intangibility of services—a consumer buying a service primarily delivered online cannot inspect this service before buying it. Effective regulations help to mitigate this uncertainty, as does the knowledge that contracts will be enforced in a relatively predicable and reliable manner.

In Senegal, the main institution governing ICT and BPO services is the regulator, ARTP. ARTP is generally seen as having played an important and positive role in the development of the ICT and BPO sectors in Senegal, especially early on.

In 2008, Senegal adopted a series of laws to fill the legal vacuum created by the advent of ICT, creating a competitive and secure regulatory environment within which its firms could operate. The five laws relate respectively to (i) data protection, (ii) cybercrime, (iii) electronic transactions, (iv) cryptography, and (v) ISOC-Senegal. These laws were supplemented by four decrees concerning electronic commerce, electronic communications, electronic certification, and the implementing decree on the protection of personal data. With this legal framework in place, Senegal and its firms were well positioned to comply with emerging new data protection requirements, such as those the EU has imposed on non-EU states wishing to process European data remotely. Furthermore, in 2015, Senegal submitted a request to the Council of Europe to accede to Convention 108 (Convention for the Protection of Individuals with regard to Automatic Processing of Personal Data) and its Additional Protocol.

Several private-sector ICT service providers have become increasingly critical of ARTP, however, especially in terms of the close relationship it maintains with the incumbent operator, Sonatel. Here they cite a variety of concerns, including (i) an alleged lack of transparency for ensuring that all ICT service suppliers are provided access to public telecommunications transport networks on reasonable and non-discriminatory terms and conditions,[31] (ii) the fact that ARTP's staff is largely made up of former Sonatel employees, and (iii) the lack of skills and equipment to enable ARTP to perform its duties without having to rely too much on Sonatel.

Providers of VAS have also expressed concerns about the lack of regulations for VAS, including with regard to potential anti-competitive pricing. They cite the lack of transparency in revenue sharing with telecom operators (i.e., the inability to verify the revenues being passed to them vs. those kept by the operator). ARTP is currently undertaking a study to consider how to better regulate this area.

From the private sector side, the main institutional actor is the Organisation des Professionnels des Technologies de l'Information et de la Communication (OPTIC). OPTIC effectively serves as the ICT arm of the Conseil National du Patronat (CNP), Senegal's largest business association. Feedback from stakeholders consulted indicates that OPTIC is widely perceived as an effective, competent, and honest representative of industry.

[30] Goswami et al., 2012.

[31] For its part, ARTP indicated it was currently reviewing interconnexion rates as part of a broader review to promote lower costs for VASPs.

The cooperation demonstrated by Senegalese ITS and BPO firms through their association OPTIC has provided an important basis for the sector to proactively advocate for its interests. This includes working closely with government in playing an instrumental role in the industry's policymaking process. OPTIC has also undertaken a range of educational and training initiatives for its members. This includes, for example, preparatory training seminars in project management and PMP/CAPM[32] certification to help ensure a steady supply of quality Senegalese ICT and BPO professionals.

Other 'institutional quality' indicators believed to impact services trade include the degree of corruption, complexity in export procedures, and rigidity in employment law.[33]

With respect to Transparency International's 2013 perception of corruption index, Senegal scored a 41,[34] which ranked it in 77th place out of 177 countries and territories. This was on par or slightly ahead of the scores of North African competitors (Tunisia: 41 and Morocco: 37), but below that of Ghana (46) and Mauritius (52). Other significant African competitors included South Africa (42) and Kenya (27). Stakeholders were of the view that recent changes in government and related legal and institutional measures taken in Senegal were expected to positively impact such perceptions in the future.

In another 'rule of law' indicator, according to the Business Software Alliance, software piracy has historically been very high in Senegal (78% in 2011) and thus constitutes a threat to companies specialising in software development.

While export procedures for services differ markedly from those for goods, Senegal scores well on ease of doing business indicators, notably with regard to regulations related to registration procedures, obtaining permits, and other administrative steps necessary to start an ICT or BPO business (see Table 8). Similarly, in terms of the burden of regulation, Table 8 shows Senegal slightly ahead of a number of its key African ICT/BPO competitors. Service suppliers interviewed for the study found there to be no significant obstacles on this front.

Table 8: Ease of Doing Business

	Senegal	Ghana	Morocco	Mauritius	Tunisia
Starting a business					
Procedures (number)	4	8	5	5	10
Duration (days)	6	14	11	6	11
Cost (% of annual income/capita)	64	16	9	4	4
Regulation					
Burden of government regulation (2013, scale: 0-7)	3.7	3.5	3.5	3.8	3.5
Labour regulations					
Redundancy cost (weeks of salary; average worker with 1/5/10 years' tenure)	10.5	46.2	13.5	6.3	7.8

Sources: World Bank, 2013; http://www.doingbusiness.org; and World Economic Forum, Global Competitiveness Report, 2014.

As for rigidity of employment laws (proxied by redundancy costs), Table 8 would also imply a relative competitiveness in Senegal vis-à-vis other African competitors.

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32 Project Management Professional (PMP) or Certified Associate in Project Management (CAPM).

33 Goswami et al., 2012.

34 Scores run from 0 to 100, with 0 representing the highest perception of corruption and 100 representing the lowest.

Financial Attractiveness

Other factors contributing to Senegal's competitiveness in ITS and BPO exports relates to its financial attractiveness, for which many of the parameters are also given in the short term. Financial attractiveness also remains a key factor in deciding on an outsourcing location. Tables 9 and 10 provide a snapshot of Senegal's financial attractiveness.

Table 9: Average Cost of Labor Indicators in the Surveyed Companies

	Average monthly salary of a BPO director	Average monthly salary of a BPO customer advisor	Average monthly salary of an ITS executive	Average monthly salary of an ITS professional
Euro equivalent	1,216-3,040	198-304	1,064-1,900	608-912

Source: Authors, based on interviews.

Table 10: A.T. Kearney Financial Attractiveness Index (2011)

	Subcategories*			Overall Rank: Financial Attractiveness (2011)
	Compensation Costs	Infrastructure Costs	Tax and Regulatory Costs	
Senegal	**6.96**	**0.6**	**0.51**	**3rd**
Vietnam	7.07	0.53	0.57	1st
Ghana	7.1	0.26	0.67	5th
Tunisia	6.3	0.77	0.57	10th
Morocco	6	0.56	0.51	15th
Mauritius	5.04	0.19	0.76	30th
South Africa	4.4	0.7	0.57	34th

**Compensation costs refers to average wages and median earnings of relevant functions (representatives and call centres' customer advisers, ITS managers, and developers). Infrastructure costs refers to rents, electricity costs, costs of international telecommunications, and travel costs to cities of major clients. Tax and regulatory costs refers to the tax burden relative to the perception of corruption, and the appreciation or depreciation of the currency.*
Source: A.T. Kearney, 2011.

Despite the high comparative advantage of Senegal in term of rents, electricity costs, costs of international telecommunications, and travel costs to cities of major clients, caution is needed to interpret its comparative advantage for Internet prices (Table 11).

Table 11: Broadband Prices, 2012 (US$)

	Fixed Broadband Prices)	Mobile Broadband Prepaid Handset-based Prices (500 MB)	Mobile Broadband Prepaid Computer-based Prices (1 GB)
Egypt	7.60	8.40	4.20
Ghana	43.00	10.60	13.20
Mauritius	12.20	12.2	12.2
Morocco	12.20	49.4	24.7
Senegal	**38.10**	**31.8**	**40.3**
South Africa	28.10	21.9	38.4
Tunisia	7.00	3.6	17.8

Source: ITU, Measuring the Information Society, 2013.
Note: The fixed broadband plan chosen represents an entry-level postpaid plan, with a minimum speed of 256 kbit/s and a monthly usage of (a minimum of) 1 Gigabyte (GB).
Mobile prices are collected for the least expensive plan with a (minimum) data allowance of: (i) 1 GB for computer-based subscriptions and (ii) 250 MB and 500 MB for handset-based subscriptions, providing access to the greater Internet (i.e. any website without restriction) for (a minimum of) 30 days.

Trade, Investment, and Related Policies

From the mid-1990s, the Senegalese government has put in place a range of trade and investment policies to help underpin the growth of the ICT and BPO sectors.

Most notably, Senegal undertook commitments under the WTO's GATS to introduce competition in the telecommunications sector and thus progressively reduced Sonatel's monopoly position. Liberalisation began in 1995 with commitments on value-added telecommunications services and was deepened in 1997 through commitments in basic telecommunication services and further commitments in value-added services (including the complete liberalisation on the sale of terminals). Senegal was also one of only six countries from Sub-Saharan Africa to undertake additional (regulatory) commitments in terms of the WTO's Reference Paper on Telecommunications.

One key result of these actions was that it helped to create competitive-like pressures on Sonatel even before the expiry of their monopoly position. Being keen to demonstrate that competitive pricing could still be achieved within the scope of a monopoly (or partial monopoly), Sonatel progressively reduced its pricing for various services throughout the early 2000s. This included most notably Sonatel's pricing for international bandwidth capacity to ISPs and other resellers.

Not only did these actions help lay the foundation for the flourishing of the ITS and BPO sectors by enabling better and cheaper access to ICT services, they also lent credibility to Senegal's broader thrust of creating a more efficient telecommunications sector for both businesses and consumers. A number of stakeholders consulted felt this was essential for demonstrating the future stability of the sector and influencing both domestic and foreign investment decision making.

Another important policy decision that helped the BPO and ICT sectors to grow was the 1999 decision to reduce import tariffs on computer equipment from 26% to 5%.

Senegal similarly utilised regional integration commitments to promote reforms in the telecommunications sector, with beneficial results in particular for value-added ICT service providers. Following an agreed Telecommunications Directive in the context of WAEMU, as well as an additional ECOWAS Telecommunications Act, Senegal introduced reforms as part of its 2011 Telecommunications Code. These reforms aimed at encouraging greater innovation in the provision of VAS by no longer requiring that the regulator (ARTP) predetermine the list of VAS categories and instead simply requiring that it maintain a list of VAS. This meant that VASPs were less restricted in the services they could design and provide to customers.

The 2011 Telecommunications Code also allowed BPO and ITS providers to directly access telecommunication networks through interconnexion with operators. Previously, only operators had direct access to these networks.

With respect to investment policies, the majority of interventions were proactive policies aimed at promoting exports and thus are dealt with in the subsequent section.

A number of other policy reforms should be noted that have also been key to the success of the BPO and ITS sectors in Senegal.

With respect to labour laws, an important reform that enhanced the relative competitiveness of Senegal's BPO sector was the elimination of differential rates for daytime and night-time labour. By harmonising wages irrespective of the time, Senegalese BPO firms could operate 24-hour operations more competitively and could also offer uniform rates for services across all time zones.

Proactive Policies to Promote Exports and Investments in ITS and BPO

Senegal has put in place several proactive policies to promote exports and investments in ICT and BPO services.

Specific Investment Incentives to Promote the ICT and BPO Sectors. Senegal's investment regime actively promotes the ICT and BPO sectors, notably through the inclusion of 'teleservices' as an eligible sector in the 2004 Investment Code. Two categories of investments are provided for: investments by SMEs (three to five employees) in priority sectors for a minimum amount of CFAF 15 million (approximately € 23,000), and investments by enterprises in eligible activities for a minimum amount of CFAF 100 million (approximately € 150,000). Preferences granted under the regime are numerous: protection against nationalisation, currency availability, guaranteed transfer of capital and earnings, equality of treatment (national treatment), and customs and tax benefits for new businesses and expansion projects. The latter may include exemptions from customs duties, the suspension of value-added taxes, as well as exemptions on employment contributions and other corporate tax deductions.

The investment regime also provides for 'Free Export Enterprise' status to support the ICT and BPO sectors, notably by including 'teleservices' among the eligible list of activities.[35] Provided the eligible firm is exporting at least 80% of its output, the firm can benefit from lower corporate taxes (15% vs. 25%), payroll tax exemptions, and the waiving of registration fees, stamp duty, and business license taxes. The firm can also benefit from the waiving of duties and taxes on capital goods, equipment, raw materials, and finished or semi-finished products needed to set up a production unit. The status is valid for 25 years and may be renewed. However, eligibility also rests on establishing production in a specific geographical area. The latter would perhaps be more compelling if the area was a technology park-type facility, however this is not the case.

Inclusion of ICT and BPO Sector in Development Programs. Telecommunication services also featured prominently in the 2005 Action Matrix of the EIF, notably as part of a proposed range of measures to improve infrastructural services and remove related impediments constraining the operation and growth of firms. Similarly, in 2007, Senegal adopted an Accelerated Growth Strategy, a cluster-based approach to promote sectors with high value-add and export earning potential. Five sectors feature as cluster heads, including agriculture and agro-industry; seafood; cultural tourism/industries and crafts; textiles and clothing; and ICT/teleservices. Again as part of the 2013–2017 National Strategy for Economic and Social Development, telecommunications services were included as part of the first strategic pillar (aimed at promoting growth, productivity, and wealth creation). Maintaining this focus helped to demonstrate Senegal's continued commitment to including ICT and BPO services as central to its longer-term development vision.

Other Promotional Efforts. Another important effort on behalf of the government to promote the ICT sector relates to the setting up of the Centre des TIC (CTIC, ICT Centre) Dakar in 2011. CTIC Dakar was the first accelerator and incubator for ICT entrepreneurs in Francophone Sub-Saharan Africa. It was launched with the support of the ARTP, the State Agency for Information Technology (ADIE), the World Bank, the GIZ, and other, private partners. As a public-private, non-profit organisation, CTIC Dakar relies partially on international donors but also (and increasingly) on collecting a percentage of revenues from CTIC-supported companies. CTIC has two programs: a 3-

[35] The other main eligible activities are agriculture (in the broadest sense, including horticulture, forestry, livestock raising, fishing, and aquaculture) and industry.

year incubator program for existing companies that are already generating revenues, and a 6-month accelerator program for innovative start-ups. In its 3 years in existence, CTIC has already enabled a number of highly successful Senegalese ICT companies.

Strengths, Weaknesses, Opportunities, and Threats

BPO and ITS exports cannot emerge in a vacuum. To flourish, these activities require a robust and fertile ecosystem within which to operate. A number of factors have been identified in this regard that have helped to shape Senegal's success in exporting BPO and ICT services.

This section undertakes a SWOT analysis for Senegal's ITS and BPO sectors. As a diagnostic and planning tool often used by the private sector, it is used here to help frame our conclusions.

While the study has focused on the strengths and weaknesses of Senegal's ITS and BPO export sectors, it has not provided a detailed analysis of opportunities and threats, that is to say, the external factors affecting the evolution of ITS and BPO markets. From a business perspective, such analysis is essential for understanding how to strategically navigate both global and regional trends in the two sectors, and thus deciding where to steer future efforts. Importantly, doing so can help in identifying relevant niche sectors, such as continuing to further penetrate other Francophone markets in Africa for basic BPO and ICT services, as well as providing higher value-added ancillary services, such as training and call centre management.

During the consultations with stakeholders, BPO and ITS providers identified a number of barriers that they were confronting when attempting to export elsewhere on the continent. Future services negotiations involving these countries may be one avenue for addressing them. Table 12 summarises the findings.

Table 12: Perceived Regulatory Barriers in Africa Confronted by Senegal's BPO and ITS Suppliers

Type of Restriction	Type of Services	Respondents' Perception of Degree of Obstruction	Examples of Countries Cited by Respondents Where Obstacle was Encountered
Limitations via economic needs test and quotas on the number of foreign firms that can operate in a market	Development of VAS	Severe	Equatorial Guinea, Morocco
Residency and nationality requirements applied to foreign professionals	Development of VAS	Severe	Equatorial Guinea
Special taxes on foreign service providers	Engineering	Severe	Guinea Conakry
Encouragement or requirement of partnerships with local companies for foreigners to participate in public procurement	Development of VAS	Minor	Equatorial Guinea, Burkina Faso
Regulations on requirements for approval	Money transfer	Severe	CEMAC zone

Table 13 outlines the SWOT analysis undertaken for Senegalese ITS and BPO exporters. The strengths and weaknesses outlined below do not carry equal weight when it comes to expanding trade.

Table 13: SWOT Analysis: Senegal as an ITS and BPO Service Exporter

Strengths	Weaknesses

• Reasonable-to-strong human resource capacities
• Very strong electronic infrastructure
• Excellent financial attractiveness
• High penetration of mobile phones
• Organised and pro-active private sector (OPTIC)
• Incubation centre (CTIC)
• Acceleration centre (CTIC/Jokkolabs)
• Organised civil society (OSIRIS, ISOC, Consumers Associations)
• Robust regulatory environment (telecom regulator, e-commerce, data protection, cybercrime)
• Linguistic proximity with the Francophone world
• Diasporic and cultural relations abroad
• Fixed exchange rate with the Euro
• Clear government priority of the sectors
• A new vision of digital economy defined by public and private sector stakeholders
	• At the institutional level:
	  o Lack of disaggregated ICT statistics
	  o Delay in the validation of new government sector strategy on the digital economy
	  o Insufficient public funding for innovation
	  o Lack of private funding for innovation
	  o Failure of government to outsource own services
	• At the Policy level:
	  o Insufficient trade promotion efforts, including fairs, forums, business trips
	  o Lack of data parks and software technology centres offering ready-to-use infrastructure for hosting companies
	  o Relatively weak regulatory framework for value-added suppliers
	  o Telecommunications Act voted by the Parliament was not yet operational after 3 years ;
	  o No Call for applications for the position of the Director General of the Regulation Authority ;
	  o Most part of financial resources generated by the Telecommunications and ICT sector are not reinvested in that sector;
	• High failure rate of ICT SMEs
	• Non-application of international standards and certification of activities (e.g., CMMI, COPC)[36]
	• Insufficient domestic content development and use of applications
	• Relatively low penetration of high-speed mobile devices (e.g., 3G, HSDPA, LTE)
	• Low literacy rate
	• Software piracy

Opportunities	**Threats**

• Strong demand for BPO and ITS through:
  o Generalization of access to ICT
  o Generalization of best practices in African Public and Private Sector
  o Automatization of customs clearance procedures ➔ GAINDE 2000
  o eGovernment Policy promoting the Digital Economy
  o ICT becoming key competitiveness factor for businesses
• Linguistic proximity with Francophone countries
• Regionalisation (WAEMU, ECOWAS, AU)
  o Development of South-South partnerships
  o Growing the regional market for ITS and BPO
• Inclusion of BPO and ITS in possible trade negotiations, including bilateral, WTO, EPA, and CFTA, to reduce relevant barriers abroad
• Increased need for training in managing call centres and ITS in Africa
  o Standards certifications (e.g. CMMI, COPC) can give greater visibility to Senegalese offerings
• Development of regulatory cooperation with the EU (and other Senegalese BPO/IT export markets) on the protection of personal data
	• Economic crises in many importing countries
	• New EU rules on data protection
	• No linguistic proximity with English-speaking countries
	• Increased competition (Morocco, Tunisia, Mauritius, Madagascar, Ghana, Kenya, South Africa)
	• Subregional instability
	• Government procurement requirements in several importing countries
	• Protectionist reaction from importing countries fearful of losing domestic jobs
	• Inflexibility of the labor code in some importing countries
	• Difficulty in collecting payments from abroad once services delivered
	• Increased tariffs on computer equipment imports with the implementation of the ECOWAS Common External Tariff (CET)

[36] See Annex 3.

The other main conclusion derived from the study, touched cursorily in Section 4, relates to the spillover effects elsewhere in the economy as a result of the presence of competitive and growing ITS and BPO industries. With both forward and backward linkages—in agriculture, industry, and other service sectors—the economy-wide competitiveness effects of maintaining the health and vibrancy of these sectors should not be underestimated. Similarly, as a source of job creation and enhanced productivity, these sectors can assist in essential ways to absorb excess labour supply and provide people with decent livelihoods.

Lessons Learnt and Best Practices

By analysing the experience of Senegal, the study seeks to improve the understanding of possible factors that may help to underpin the growth of ICT and BPO services exports in other African countries. Several policy lessons are highlighted below.

Improve Endowments, Electronic Infrastructure, and Institutions

Labour and Human Capital Endowments

When it comes to services generally, and high-technology services such as BPO and ITS in particular, human capital is perhaps one of the most critical factors for success. The availability and quality of talent and resources is also one of the main reasons behind selecting one BPO location over another and it can meaningfully impact the competitiveness of the ITS sector as well. The cost of labour is another key source of potential comparative advantage, as are cultural affiliations and diasporic communities. The latter two in potential import markets should also be leveraged to the greatest extent possible as a way of gaining entry into new markets and generating new business opportunities. Working closely with training institutes to ensure the avoidance of skill mismatches between what is and will be needed by domestic firms, and what is being provided in local training programs, can also contribute to ensuring that the pool of talent has the requisite skills to grow and adapt to new opportunities alongside those evolving in the industries.

Electronic Infrastructure

By the very nature of their activities, the importance of TC and BPO service providers having access to relatively competitively priced, robust electronic infrastructure cannot be overstated. Without some reasonable approximation of such access, service providers simply will be unable to compete with existing operators in what has become a highly competitive marketplace.

Institutions

Regulatory and contract-enforcing institutions are among the key sources of comparative advantage in ICT and BPO services exports. The main institutions governing these services, such as an independent telecommunications regulatory body alongside one or more ICT business associations, must widely be seen as competent and honest. It is particularly important for the regulatory body to ensure that any ICT service provider is accorded access to, and use of public telecommunications transport networks and services on reasonable and non-discriminatory terms and conditions.

Similarly, it is important to provide a secure regulatory environment within which firms can operate. This includes putting in place adequate laws and regulations for data protection, e-commerce, and cybercrime. Making sure there is adequate cooperation among relevant ministries, departments, and agencies whose portfolios touch on ITS and BPO activities can also help to promote more coherent efforts in supporting firms to succeed. Providing for effective public-private dialogues, as well as intra-industry dialogues, can also be essential for supporting these objectives.

Ensure Supportive Trade, Investment, and Related Policies

Irrespective of the policy instrument used to achieve it (e.g., through autonomous reforms or negotiated liberalisation, including in the context of regional integration), using trade policies to secure competitive domestic outcomes in basic and value-added telecommunications services is key for underpinning competitive and vibrant ITS and BPO sectors. Possible pre-commitments in trade agreements can also be useful in providing firm signals to existing operators of the intention to entice additional entrants (if that is the case), thereby allowing the operators some time to adjust (and potentially moving towards relatively more competitive market outcomes ahead of time).

Of similar importance is ensuring that service providers can competitively access needed hardware inputs—for example, by reducing import-related taxes on equipment such as computers, servers, and networking equipment. Where necessary, adjustments to labour laws may also be important, in particular for ensuring that service providers can send staff abroad to provide services as needed (which is often a function of offering reciprocal incoming arrangements).

In terms of market destinations for these exports, a number of barriers have tended to persist, especially among regional trading partners on the continent. In this instance, trade policy can play an important role through negotiations to secure the reduction of these barriers abroad. This could be implemented via bilateral, multilateral, or even continental negotiations.

Taking account of potential trade dimensions of key sectoral policies can also play a role in supporting these sectors. For example, in telecommunications policy, making sure BPO and ITS providers are able to directly access telecommunications networks through interconnection with operators, as opposed to retaining access exclusively for operators.

Pursue Proactive Policies to Promote Exports

While notoriously difficult to 'get right', targeted proactive policies to promote ITS and BPO exports have proved essential, both in Senegal and elsewhere.

With respect to investment and tax incentives, the first component is ensuring that ICT and BPO services are included on the list of sectors eligible for preferential treatment. This should be not only for large megaprojects, recalling that many of the most innovative services firms are micro and small enterprises. Preferences may include post-establishment rights to protect investors, as well as exemptions from corporate and payroll taxes, and other taxes charged against income and/or imports. In the absence of technology parks or similarly geographically situated infrastructure facilities, it may also prove useful to avoid requiring physical establishment of premises in any given geographical location.

Making adequate provision for telecommunications services—including specifically BPO and ICT services—in development plans and export strategies is also essential for ensuring a whole-of-government focus in addressing constraints that may impede the flourishing of these sectors. Similarly, including these sectors in discussions with donors and other development partners—such as the Action Matrix of the EIF for LDCs—helps to signal that a country is prioritising these sectors, ensuring that aid can be focused on their specific challenges.

While the private sector is the main driver of exports, it is clear that in Africa, the state still has a dynamic role to play. Three major roles can be identified:

- The state as facilitator: to the extent possible, the state should work to remove all legal, fiscal and institutional obstacles for the development of ITS and BPO exports.
- The state as supporter: the state should support ITS and BPO exporters in developing new markets, including through the offsetting and/or sharing of costs related to business development for SMEs (for example, travel costs). SMEs that could be exporting often do not have the means to fully cover such costs.
- The state as a user: in Senegal, as in many African countries, the state is one of the main consumers of services in the local economy. Government procurement can thus serve as a powerful economic lever in developing specific sectors. Similarly, by choosing to outsource various services, such as paying water and/or electricity bills, the state can help in creating the demand for specific IT and BPO services. The state has also demonstrated a dynamic approach to automating certain procedures and making them available online, such as tax and VAT returns and the clearance of goods, all services that have been developed with highly trained local expertise.

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Annex 1: Evaluation Framework for the Location of BPO and ICT Services

A.T. Kearney Global Services Location Index	Gartner's 10 Criteria	Hewitt's International Benchmarking Model	McKinsey's Location Openness Index
Skills and labor availability • Experience of the domestic industry and results of quality assessments • Volume and availability of labor • Education and language • Risk of attrition *Financial attractiveness* • Compensation costs • Infrastructure costs • Taxes and costs related to regulation *Business environment* • Country's environment • Infrastructure • Cultural adaptability • Protection of intellectual property	*Infrastructure* • Energy • Telecommunications • Transport • *Labor reserve* • Quality • Quantity • Flexibility • Work conditions *Education system* • Quality • Number of institutions • New ICT degrees *Costs* • Work • Rent • Infrastructure • Telecom *Political and economical environment* • Government's stability • Corruption • Geographical risks • Financial stability *Language* *Government's support* • Promotional • Institutional • Educational *Cultural adaptability* • Cultural attributes • Adaptability • Proximity • Ease of travel *Global and legal maturity* *Security/confidentiality of intellectual property/data*	*Infrastructure* • Rent • Telecom • Energy *Connectivity* *Skills* • Availability • Quality • Cost *General demographics* *Environment* • Macroeconomic • Business environment • Geographical environment *Poles* *ICTS/BPO incubator industries*	*Infrastructure quality* • Telecom and network • Rent • Transport • Energy *Skills* • Availability • Relevance • Motivation • Accessibility • Learning capacity *Costs* • Work • Infrastructure • Company taxes *Market's maturity* • Share of ITS/BPO services in the total employment in the services sector • Share of ITS/BPO services in the GDP of the services sector • Presence of professional associations *Risk profile* • Regulatory risks • Risks of investing in the country • Data protection *Other incentives* *Environment* • Government support • Business environment • Accessibility • Living environment

Source: Sudan et al., 2010.

Annex 2: The A.T. Kearney Global Services Location Index, 2011

Rank	Country	Financial Attractiveness	People Skills and Availability	Business Environment	Total Score
1	India	3.11	2.76	1.14	7.01
2	China	2.62	2.55	1.31	6.49
3	Malaysia	2.78	1.38	1.83	5.99
4	**Egypt**	**3.10**	**1.36**	**1.35**	**5.81**
5	Indonesia	3.24	1.53	1.01	5.78
6	Mexico	2.68	1.60	1.44	5.72
7	Thailand	3.05	1.38	1.29	5.72
8	Vietnam	3.27	1.19	1.24	5.69
9	Philippines	3.18	1.31	1.16	5.65
10	Chile	2.44	1.27	1.82	5.52
11	Estonia	2.31	0.95	2.24	5.51
12	Brazil	2.02	2.07	1.38	5.48
13	Latvia	2.56	0.93	1.96	5.46
14	Lithuania	2.48	0.93	2.02	5.43
15	United Arab Emirates	2.41	0.94	2.05	5.41
16	United Kingdom	0.91	2.26	2.23	5.41
17	Bulgaria	2.82	0.88	1.67	6.37
18	United States	0.45	2.88	2.01	5.35
19	Costa Rica	2.84	0.94	1.56	5.34
20	Russia	2.48	1.79	1.07	5.34
21	Sri Lanka	3.20	0.95	1.11	5.26
22	Jordan	2.97	0.77	1.49	5.23
23	**Tunisia**	**3.05**	**0.81**	**1.37**	**5.23**
24	Poland	2.14	1.27	1.81	5.23
25	Romania	2.54	1.03	1.65	5.21
26	Germany	0.76	2.17	2.27	5.20
27	**Ghana**	**3.21**	**0.69**	**1.28**	**5.18**
28	Pakistan	3.23	1.16	0.76	5.15
29	**Senegal**	**3.23**	**0.78**	**1.11**	**5.12**
30	Argentina	2.45	1.58	1.09	5.12
31	Hungary	2.05	1.24	1.82	5.11
32	Singapore	1.00	1.66	2.40	5.06
33	Jamaica	2.81	0.86	1.34	5.01
34	Panama	2.77	0.72	1.49	4.98
35	Czech Republic	1.81	1.14	2.03	4.98
36	**Mauritius**	**2.41**	**0.87**	**1.70**	**4.98**
37	**Morocco**	**2.83**	**0.87**	**1.26**	**4.96**
38	Ukraine	2.86	1.07	1.02	4.95
39	Canada	0.56	2.14	2.25	4.95
40	Slovakia	2.33	0.93	1.65	4.91
41	Uruguay	2.42	0.91	1.42	4.75
42	Spain	0.81	2.06	1.88	4.75
43	Colombia	2.34	1.20	1.18	4.72
44	France	0.38	2.12	2.11	4.61
45	**South Africa**	**2.27**	**0.93**	**1.37**	**4.57**
46	Australia	0.51	1.80	2.13	4.44
47	Israel	1.45	1.35	1.64	4.44
48	Turkey	1.87	1.29	1.17	4.33
49	Ireland	0.42	1.74	2.08	4.24
50	Portugal	1.21	1.09	1.85	4.15

Source: A.T. Kearney, 2011.

Annex 3: Standards and Certifications for ITS and BPO

Standards and certifications are increasingly important for securing contracts and expanding markets abroad, though Senegal's success has evolved largely in the absence of widespread certification in either the ITS or BPO sector. While some firms consulted for the study felt Senegal needed to catch up in this regard to maintain its competitiveness, others were of the view that focussing on international business certifications was not a priority at this time, preferring instead to consider more appropriate African standards.

ITS

Quality certifications (such as ISO 9000-3, SEI CMM, and SEI CMMI)[37] are sought by ITS companies to demonstrate a certain level of quality and maturity in their business processes. Not only are these useful for marketing purposes, nowadays, major clients often require them as way of assessing the company's processes and thus gauging their ability to deliver on the project being tendered.

However these certifications are costly and time consuming to obtain. In 2013, data provided by Carnegie Mellon University's Software Engineering Institute (SEI) indicated that no Senegalese ITS company had been certified for Capability Maturity Model Integration (CMMI), though consultations undertaken for this study indicated the presence of a number of CMMI-certified employees.

African Countries with CMMI-Certified Companies

As of late 2013, the following African countries have CMMI-certified companies: Egypt (22), South Africa (5), Kenya (2), Angola (1), Morocco (5), Mauritius (1), and Tunisia (1). For additional details, see https://sas.cmmiinstitute.com/pars/pars.aspx

BPO

The international standard for quality and efficiency of call centres is the Customer Operations Performance Center (COPC) standard. Developed by buyers, providers, and senior managers responsible for operational management, COPC is designed to increase service, quality, customer satisfaction, and revenue, while reducing cost. By early 2014, no Senegalese call centre had achieved COPC certification, though one of the leading firms had initiated the process to obtain certification of its Dakar site.

[37] International Organisation for Standardisation, Software Engineering Institute Capability Maturity Model, and Software Engineering Institute Capability Maturity Model Integration.

Annex 4: Senegal's Specific Commitments on Telecommunications under the GATS

Annex 4a: Senegal's Commitments on Basic Telecommunications

Sectors or Subsectors	Limitations on Market Access	Limitations on National Treatment	Additional Commitments
Local, long-distance and international basic services supplied in public telecommunications networks using any technology, and provided by making available facilities, sale or resale, between fixed points, of public telecommunication services in the following market segments: (a) Voice telephony (b) Packet-switched data transmission services (c) Circuit-switched data transmission services (d) Telex services (f) Facsimile services (g) Private leased circuit services Excluding radio or television programme distribution services.	(1) Exclusively through the Sonatel network, on which Sonatel has a monopoly in international traffic until -31 December 2003 at the earliest and 31 December 2006 at the latest. After 2003 the authorities will examine the possibility of opening up the sector to other operators. (2) None (3) Sonatel's monopoly also applies to local and long-distance traffic until 31 December 2003 at the earliest and 31 December 2006 at the latest. After 2003 the authorities will examine the possibility of opening up the sector to other operators. (4) Unbound	1) None 2) None 3) None 4) Unbound	Senegal undertakes the attached additional commitments on regulatory principles. In this framework, by 31 December 1997 at the latest the authorities will set up a regulatory structure aimed at fostering sound and fair competition among operators. Within a radius of 300 metres around a given point, a public network consumer is authorized to extend access to the service supplied to that consumer to other sites dependent upon that consumer by means of private lease

Annex 4b: Senegal's Commitments on Other Telecommunications Services and Value-Added Services

Sectors or Subsectors	Limitations on Market Access	Limitations on National Treatment
• Paging services • Professional multichannel system services	1) Exclusively through the Sonatel network, on which Sonatel has a monopoly in international traffic. This monopoly should expire on 31 December 2003 at the earliest and 31 December 2006 at the latest. After 2003 the authorities will examine the possibility of opening up the sector to other operators. 2) None 3) For each of these services the authorities restrict the number of operators to three. 4) Unbound	1) None 2) None 3) None 4) Unbound
Mobile cellular services, including mobile data services	1) Exclusively through the Sonatel network, on which Sonatel has a monopoly in international traffic. This monopoly should expire on 31 December 2003 at the earliest and 31 December 2006 at the latest. After 2003 the authorities will examine the possibility of opening up the sector to other operators. 2) None 3) In the course of 1997 the government will select one or two operators following an international call for tenders. 4) Unbound	1) None 2) None 3) None 4) Unbound

Sectors or Subsectors	Limitations on Market Access	Limitations on National Treatment
Mobile cellular services, including mobile data services	1) Exclusively through the Sonatel network, on which Sonatel has a monopoly in international traffic. This monopoly should expire on 31 December 2003 at the earliest and 31 December 2006 at the latest. After 2003 the authorities will examine the possibility of opening up the sector to other operators. 2) None 3) In the course of 1997 the government will select one or two operators following an international call for tenders. 4) Unbound	1) None 2) None 3) None 4) Unbound
Fixed satellite services	1) Exclusively through the Sonatel network, on which Sonatel has a monopoly in international traffic until 31 December 2003 at the earliest and 31 December 2006 at the latest. After 2003 the authorities will examine the possibility of opening up the sector to other operators. 2) None 3) Unbound 4) Unbound	1) None 2) None 3) None 4) Unbound
Mobile satellite services	1) Mobile satellite communication terminals may be used by a visitor to Senegal only: • if the length of stay does not exceed seven calendar days, after which the service supplier must comply with the current regulations in this area in Senegal; and • if the service supplier has undertaken to provide the information concerning the communications to or from such terminals within the time-limit set by the authorities. 2) None 3) In 1997 the authorities will establish the maximum number of licences for operating mobile satellite services in Senegal, including the installation of gangways if necessary. Creation of a permanent establishment (legal person) in Senegal is required. 4) Unbound	1) None 2) None 3) National or foreign service suppliers established on Senegalese territory are subject to the same tax rules. 4) Unbound
Coastal links	1) Unbound 2) Unbound 3) Exclusively public network concessionaire 4) Unbound	1) Unbound 2) Unbound 3) Authorization required 4) Unbound
Electronic mail (CPC 7523)	1) Through specialised link of the public network 2) None 3) Establishment required. Prior government approval; limitation of operators; access through public network; access rights from the public network concessionaire 4) Unbound	1) Through specialised link of the public network 2) Unbound 3) None 4) Unbound
Electronic mail with automatic translation (CPC 7523)	1) Through specialised link of the public network 2) None 3) Establishment required. Prior government approval; limitation of operators; access through public network; access rights from the public network concessionaire 4) Unbound	1) Through specialised link of the public network 2) None 3) None 4) Unbound

Sectors or Subsectors	Limitations on Market Access	Limitations on National Treatment
Protocol conversion	1) None 2) None 3) None 4) Unbound	1) None 2) None 3) None 4) Unbound
Speed conversion	1) None 2) None 3) None 4) Unbound	1) None 2) None 3) None 4) Unbound
Telephone centres (‘téléboutique’) (CPC 7521, 7522, 7523)	1) Through the public network switched exclusively 2) None 3) Establishment required 4) Unbound	1) Through the public network switched exclusively 2) None 3) Authorisation required; caution required 4) Unbound
Sale of terminals	1) Terminals must be approved 2) None 3) None 4) Unbound	1) Terminals must be approved 2) None 3) None 4) Unbound
Communications system engineering services (CPC 8672)	1) None 2) None 3) None 4) Unbound	1) None 2) None 3) None 4) Unbound

Annex 5: Short Version of the Questionnaire Used

The following Annex includes a short version of the questionnaire that was used to interview stakeholders for this study.

General Introduction

The Assembly of Heads of State and Government of the African Union adopted at its 18th Ordinary Session held in Addis Ababa, Ethiopia, in January 2012, the decision to establish a Pan-African continental free trade area (CFTA) by 2017. The session also approved the Action Plan for Boosting Intra-Africa Trade (BIAT). In approving the BIAT Action Plan, the Assembly mandated the African Union Commission, in collaboration with the regional economic communities and development partners, to 'develop a strategy to implement the action plan'.

The BIAT Action Plan provides, in general terms, an indicative list of programmes and activities to be implemented in the short and long term at national, regional, and continental levels. The stepping up of trade in services as a new opportunity for intra-Africa trade is part of the second group of problems and priorities of the BIAT initiative.

Trade Ministry

What is the current status in Senegal of the following programs and activities?

Program/activity	Status
Mainstreaming of the Intra-Africa trade of services sector related to ICT (including tele- services) in national trade and development strategies	
Consideration of strengthening the role of the organized private sector , the informal private sector and women in the ICT sector in the trade policy	
Commitments to liberalize trade in ICT services	

ARTP

1. What are strengths of the ARTP in terms of regulation that contribute or may contribute to the success of the companies exporting ICT related services (including IT services and Business support services)?

2. What are disadvantages (weaknesses) of the ARTP in the regulation that contribute or may contribute to the success of the companies exporting ICT related services (including IT services and Business support services)?

3. According to you, what are the other factors in the domestic environment, which are not under the control of the ARTP (opportunities) that contribute or may contribute to the success of the companies exporting ICT related services (including data Processing services and Business support services)?

4. According to you, what are the other factors in the domestic environment, which are not under the control of the ARTP (opportunities) that contribute or may contribute to the failure of the companies exporting ICT related services (including Data Processing services and Business support services)?

National Agency of Statistics and Demography (ANDS)

1. Is the business directory monitored through the Bank of Economic and Financial Data (BEFD) made public?
2. How does the BEFD cover companies providing information technology services?
3. In which classification of the Nomenclature of Activities of AFRISTAT Member States (NAEMA) or CITI rev3 are companies providing information technology services fall in?
4. Is it possible to extract from the BEFD results tables relating to the activities of companies providing information technology services?
5. To what extent the BEFD covers companies providing Business Processes Outsourcing services?
6. In which classification of the Nomenclature of Activities of AFRISTAT Member States (NAEMA) or CITI rev3 are companies providing services Business Processes Outsourcing services?
7. Is it possible to extract from the BEFD results tables relating to the activities of companies providing Business Processes Outsourcing services?
8. Is it possible to have an Input-Output Table (IOT) or an accounting matrix to estimate intermediate consumption of Information Technology and of Business Processes Outsourcing services?

1. INFORMATION TECHNOLOGY SERVICES (COMPUTER AND RELATED SERVICES)	
Software Development and Implementation Services, Data processing and Database services, IT Support Services, Application Development & Maintenance, Business Intelligence & Data warehousing, Content Management, E-Procurement and B2B Marketplaces, Enterprise Security, Package Implementation, System Integration, SCM, Enterprise Application Integration, Total Infrastructure Outsourcing, Web Services (Internet Content Preparation, etc.), Web and Application Service Providers (ASPs) hosting	
2. BUSINESS PROCESS OUTSOURCING	
CUSTOMER INTERACTION SERVICES	Sales support, Membership Management, Claims, Reservations for Airlines and Hotels, Subscription renewal, Customer Services Helpline, Handling Credit and Billing Problems, etc. Telemarketing and Marketing Research Services
BACK-OFFICE OPERATIONS	Data entry and handling, Data processing and database services, Medical Transcription, Payment Services, Financial Processing (financial information and data processing / handling), Human Resource Processing Services, Payroll Services, Warehousing, Logistics, Inventory, Supply Chain Services, Ticketing, Insurance Claims Adjudication, Mortgage Processing
MORE SERVICES INDEPENDENT PROFESSIONAL OR BUSINESS	Human Resource Services (Hiring, Benefit Planning and Payroll, etc.), Finance & Accounting Services (including Auditing, Bookkeeping, Taxation Services, etc.), Marketing Services, Product Design and Development

BCEAO

1. Is the classification system used for the statistics of the balance of payments based on the fifth or sixth edition of the Balance of Payments Manual? Is the Extended Balance of Payments Services/ EBOPS) Classification used?
2. Can we get the latest detailed balance of payments statistics?
3. Is it possible to extract the IT services exports in the "Data Processing and information services" section?
4. Where are classified the exports of business processes outsourcing companies (such as call center services)?

ADIE/OPTIC/OSIRIS/COMMUNICATION MINISTRY

0. Could you tell us about the mission of your Agency / Association / Directorate?

1. According to you, what are the strengths of companies based in Senegal that contribute or may contribute to the success of ICT services exports (including IT services and support services to businesses)?

2. According to you, what are the disadvantages (weaknesses) of companies based in Senegal that contribute or may contribute to the success of ICT services exports (including IT services and support services to businesses)?

3. According to you, what are the other factors in the domestic environment, which are not under the control of the companies that contribute or may contribute to the success of the companies exporting ICT related services (including Data Processing services and Business support services)?

4. According to you, what are the other factors in the domestic environment, which are not under the control of the companies that contribute or may contribute to the failure of the companies exporting ICT related services (including Data Processing services and Business support services)?

Companies

0. Can you introduce your company?

1. What are the strengths of your company that contribute or may contribute to the success of your exports?

2. What are the disadvantages (weaknesses) of your company that contribute or may contribute to the failure of your exports?

3. According to you, what are the other factors in the domestic environment, which are not under the control of your company that contribute or may contribute to the success of your exports?

4. According to you, what are the other factors in the domestic environment, which are not under the control of your company that contribute or may contribute to the failure of your exports?

5. CULTURAL INDUSTRIES: A CASE STUDY OF BURKINA FASO

Authors: Dr. Frederic Thomas and Mr. Yemdaogo Zida

Executive Summary

This case study, undertaken between December 2013 and January 2014, is part of an effort to address the challenges of Intra-Africa trade, and the need to develop strategies to overcome these challenges. In January 2012, the African Union Summit of Heads of Government adopted an Action Plan for Boosting Intra-Africa Trade and a framework for the fast tracking of a continental CFTA. A number of issues and priorities were identified to enhance intra-Africa trade. Among others, enhancing trade in services was seen as an emerging opportunity and the following recommendations were made:

1. Partners are called upon to assist regional economic communities (RECs) in developing regional frameworks for services in trade liberalisation.
2. The African Union Commission (AUC) and RECs should assist Member States in strengthening domestic regulations in specific service sectors in preparation for regional and continental liberalisation.
3. The AUC and partners should assist RECs and Member States in mainstreaming services into regional and national export strategies, with a focus on sectors with potential to enhance intra-African trade in services.
4. RECs and Member States should improve service trade statistics to aid policy analysis and formulation.[1]

For the last 30 years, service exports of 20 developing countries have indeed grown by over 15% annually.[2] Today, the share of services in Gross Domestic Product (GDP) is disproportionately higher than the share of goods in world trade. Services contribute to 70% of world GDP (WTO) but make up less than 25% of global exports.[3] There is therefore an important potential for the growth of service exports through a facilitation of international trade and investments in trade-related infrastructure which are both linked to the level of development: Developing countries only account for 30% of world services exports today.

Today, information and communication technologies (ICT) allow developing countries to trade what was not tradable before, and offer them, through a lower cost of human resources, the possibility of creating a competitive advantage in a service task. However, the possession of a high-speed network is one of the main prerequisites to effectively bridge these countries to the

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[1] Action Plan for Boosting Intra-Africa Trade (BIAT), UNECA (2012).

[2] Goswami Grover, et al. (2012). Exporting Services: A Developing Country Perspective. World Bank, Washington.

[3] Paugam, J.M. (2013). Trade in Services Can Be a Game Changer for Development.

world market. Despite weaknesses in competitiveness, developing countries can benefit from a unique comparative advantage, namely, their cultural diversity.

While the theory of comparative advantage explains trade as the result of fundamental differences (in technology and relative natural endowments) between countries, the success of countries in exporting cultural goods and services tends to be particularly linked to cultural proximity. Colonial links, contiguity, and a common language all have a positive effect on cultural services exports.[4] However, two major issues have to be taken into account here. First, the fundamental determining factors for services exports differ depending on the categories of cultural goods and services. Second, the services sector and service exports of a number of developing countries are growing faster than their goods exports, making services an increasingly important sector in global affairs.[5] Still, accurate data on cultural services industries is difficult to obtain. The statistical significance of the collected information is dubious, however, as there is no control of the validity and relevance of the provided information, and conceptual issues related to data collection in cultural services remain dramatic. The present report explores the different modes of supply for trade in services, highlighting several areas of cultural services which are usually ignored in the evaluation made by most governments of developing countries. In order to overcome these issues and, in consequence, to improve the understanding of the socio-economic impact of cultural services on local economy, UNESCO[6] and Statistics Canada[7] have released reports that indicate strategies and methodologies for the evaluation and assessment of cultural services in national accounting systems. Additionally, the terms on which credits are granted to cultural enterprises need to be improved.

Despite the lack of statistical evidence of its socio-economic impact, the cultural industries sector appears as an area of the global economy where Burkina Faso enjoys some notable comparative advantage. Burkina Faso's contribution to Africa's cultural sector, particularly popular film, fashion, and music, has been very significant over recent years. This is an aspect of the new global economy and of services trade that Burkina Faso can and has been participating in with relatively low levels of investment. This also represents a window of opportunity, given the significant capability and untapped potential of Burkina Faso in the cultural/creative industries together with the current growth in the global cultural industries, the increasing commercialisation of the arts in the burgeoning digital and knowledge economy, and the widening acceptance of alternative genres around the world. From this standpoint, investing in the cultural industries provides worthwhile returns because it draws on the creativity of regional artists as well as cultural entrepreneurs and communities, and generates high value-added forms of employment, production, and exports. It also aids in strengthening the competitiveness of the tourism sector through market diversification, destination branding, and media value. Finally, the increasing connectedness of Burkina Faso to the world economy

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[4] Rouet et al. (2007). 'International trade flows in cultural goods and services: issues and determining factors', *Culture Studies.*

[5] Goswami et al. (2012), op. cit. p. 13.

[6] http://www.uis.unesco.org/culture/Documents/FCS-handbook-1-economic-contribution-culture-en-web.pdf

[7] http://unstats.un.org/unsd/EconStatKB/Attachment341.aspx

will help generate new opportunities for local businesses, for example, commercial income from media audiences.

In summary, this work makes several important conclusions and recommendations to improve the cultural/creative services industries' competitiveness, visibility, and return on investment. All are presented below within the framework of the different modes of supply for trade in services. For each mode of supply, the following paragraphs provide both issues and factors of success.

Mode 1, Cross-border Supply. As cultural and creative industries in particular and the wider economy in general are undergoing significant changes due to the digital shift, globalisation, and individualisation, there is a clear need to rethink the immediate requirements and therefore the necessary investments and sector developments to be made. This is therefore the opportunity for a country like Burkina Faso to put culture at the heart of other policy areas such as local economic development, education, social participation, access to culture, and tourism. Policy development should therefore accompany:

- Effective integration of "shareability" (incubators, platforms, clusters) into innovation policies and agenda (as innovation is considered as a key factor by the private sector). The growing importance of the sharing economy has to be addressed as an asset rather than presented as a constraint. Made up of players from various fields—such as industry, technology, local authorities, and arts—which can be grouped together on a collaborative platform, successful practices in Burkina Faso have already shown that this truly creative economy ecosystem favours cross-fertilisation and really makes the future.
- The enabling of digital infrastructure and clusters, in particular ability to connect outward. The survey for this study has highlighted that there is mostly a lack of adequate and efficient electronic infrastructures in terms of both quality and quantity. Since foreign companies across the sub-region and beyond already buy advertising on media including cable TV and radio to increase revenue from Burkina Faso, it seems strategic for local cultural services providers to gain better online access in order to move forward.

The objectives are to achieve economies of scale and greater professionalism amongst cultural enterprises and support services (services-related institutions), the cultural services industry being particularly dependent on networking technologies and peer communities, enabling reduced costs, expedited production, and improved product quality.

Mode 2, Consumption Abroad. As everywhere else in the world, we observe a great demand for imported or hybrid cultural products and services, primarily among the younger population that is increasingly attracted to them. In Burkina Faso, this tends to result in part from the deterioration and closure of public cultural buildings and infrastructures all over the country that reduce the visibility and accessibility to national cultural products and services for both locals and visitors, but it also originates from the greater marketing power of western production companies. In addition, culture being often deemed an unprofitable sector, the terms on which credits are granted to domestic cultural enterprises are therefore very unfavourable.

- Adequate policies, such as the coming implementation of a funding mechanism, the Agency for the Development of Cultural and Creative Industries (ADDIC)—associated with the recent creation of the Support Program for the Reinforcement of Cultural Policies and Industries (ARPIC)—should be pursued for better access to finance for cultural enterprises, to overcome in part the funding issues and improve these enterprises' competitiveness in a global, ever-changing environment. This environment requires a deeper understanding of influences and dynamism to ensure that cultural and recreational industries become a real engine of social and economic development.
- Cooperation agreements must be sustainable to build a more business-oriented and long-term vision amongst local stakeholders
- (especially institutions running festivals and others cultural events). The lack of commercial ambition or long-term vision for commercial growth was often observed as one of the main problems for the local cultural events.
- The ability of people to access local cultural services and products has to be improved. There is actually a need to increase the level of professionalism amongst cultural enterprises and support services (services related institutions), and particularly concerning the professional organisations.

While better access to Internet and broadband services might imply a growing consumerism for foreign cultural services driving local ones out, the role that cultural events play in compensating for this trend should be particularly emphasised. But, as indicated above, more efforts have to be made to provide access local cultural services and products. The reinforcement of capacities at each node of the supply chain, as proposed and implemented by the government of Burkina Faso in partnership with the International Organisation of the French-speaking Peoples (OIF), is a first step towards an ambitious policy to increase the competitiveness of the cultural services industry within and beyond the country. In this vein, the current functioning of the leading training schools and institutions also has to be modified to seek better financial return and offer a higher volume of training.

Mode 3, Commercial Presence. As the country grows, so does the success of its cultural services and products with foreign companies, and we observe that despite a limited capacity to establish international brand and credibility, the economic attractiveness of Burkina Faso cultural enterprises expands to the subregion and beyond. The recent Africalia Forum (2014) for the development of strategic, commercial, financial, and technological alliances between foreign and local companies acknowledged the growing interest in local cultural enterprises on the part of foreign companies. However, the existing inadequacy of human and financial resources limits both collaboration and business activities with other enterprises in common projects to provide complementary services and the capacity to establish international brand and credibility.

- Policy development and partnerships should be reinforced by creating international organisations to increase the level of professionalism amongst cultural enterprises and support services (services-related institutions), and particularly with respect to the professional organisations.
- Interventions should also include building the capacities of all actors along the cultural industries supply chain, including the capacity building of sales and commercial officers for the promotion of cultural services enterprises in all Burkinabe embassies.

Mode 4, Presence of Natural Persons. The numerous cultural events that take place in Burkina Faso are not only successful in raising the awareness of Burkinabe nationals of the richness of their cultural heritage, but also (i) attract a growing number of both regional and international visitors, (ii) facilitate transfer of knowledge and experiences, and (iii) increase the visibility of local performers internationally. Actually, key international cultural events are shedding new light on the country, highlighting its cultural endowments and making Burkina Faso a leading reservoir of, and destination for African culture discovery. There is a need for more support for the international recognition of Burkinabe artists and technicians, increasing the demand for their services abroad.

- The current functioning of the leading training schools and institutions has to be more business oriented, promoting better visibility, seeking greater financial return, and preparing a larger volume of trainees.
- Agreement with European and African countries for policy development and cooperation has to be encouraged to allow and facilitate market access and temporary movement for contractual cultural service suppliers.

Introduction

Overview and Objectives

African economies are required to improve their competitiveness and diversify their economic base in the current context of global trade liberalisation, in part due to the erosion of preferences in traditional exports like bananas, sugar, and clothing. Trade in commodities, though the prime generator of employment and foreign earnings, can no longer sustain African's development by itself. The region's relatively small share in world markets is well documented and signals that African economies must invest in new and more sustainable sources of employment, exports, and growth. Among others, enhancing trade in services is seen as an important and emerging opportunity to be explored. Within the adopted Action Plan for Boosting Intra-African Trade and the framework for the fast tracking of a continental CFTA, the implementation of a number of case studies on services was identified as one of the first priorities. The general objectives of these services case studies project are:

- To promote the knowledge and understanding of services trade to provide a basis for services sector development and enhanced regional integration in Africa. Presently there is little knowledge about the services sector in Africa. This situation is a challenging one especially for policy makers, who need more information on the importance of services and the role it plays in national development and international trade to enable them to make better informed decisions on the appropriate policies for the services sector. The services case studies will help to fill this need.
- To provide information on service sectors and on services exports, to be used for building a repository of 'best practices' on services in Africa and for creating a database on services in the African Trade Observatory. While it is known that African countries are at differing stages of development in their respective services sectors, there has been no information available to allow assessment of where they are in terms of national services policies, plans, and strategies. The case studies will serve to build up an

inventory regarding African trade in services and services policies as expressed in national and regional strategic plans, hence providing the context for services sector support and development in Africa.

- To provide information on how services trade is actually being carried out in specific sectors in Africa and what policies have contributed to the success of services exports. The case studies will explore existing patterns of service exports and regional services trade in specific sectors in selected African countries. The case studies will examine how countries have developed their service exports in specific sectors, examining which modes of service supply are used to export, to which markets the exports are destined, and which policies, if any, may have played an essential role in helping to develop these exports. The case studies will allow for comment on the opportunities for greater regional trade and integration in the respective services sectors. This case study on Cultural Services and Burkina Faso is one of the case studies in this project.

Because the cultural industries sector is an area of the global economy in which Burkina Faso enjoys some notable comparative advantage, it is therefore necessary to examine the structure and performance of its cultural industries, particularly in regard to its export of cultural services. We note that the creative industries too have expanded significantly over the last decade, becoming a central interest for the government of Burkina Faso. Therefore, the study tries to identify the emerging opportunities and challenges for both the cultural and the creative industries sectors, along with the respective strengths and weaknesses demonstrated in Burkina Faso. The study also identifies the factors that have led to the successful export of services in these sectors, as well as the constraints to regional and global competitiveness for expanding the export of cultural and creative services from Burkina Faso. It must be noticed, however, that the existence of robust and statistically significant data would have improved our understanding of some aspects of the research questions. Unfortunately, not all public and private entities were inclined to participate in the survey and to provide financial information. This difficulty, which is perhaps inevitable when surveys concern financial issues, confirms the importance for governments to engage economic actors in both discussing statistics and designing national strategies for statistical development. On this basis, the study has, nevertheless, turned up some examples of best practices and lessons learned that a series of initiatives and recommendations for further policy measures would help to replicate.

Scope of Work

The scope of work for the project was understood to cover all activities necessary to accomplish the project's stated objectives, whether or not a specific activity was cited in the terms of reference. The methodology of approaching firms had to be undertaken through a harmonised survey/questionnaire. The main tasks and activities are described below:

(a) Review relevant reports on the state of development of the services sector in Burkina Faso.
(b) Review the development of Burkina Faso's cultural industries sector as well as current cultural activities.
(c) To the best extent possible, estimate the contribution of the cultural services sector to the GDP, employment, and trade of Burkina Faso.

(d) Evaluate the factors that have been responsible for the success of the development of a cultural services industry in Burkina Faso, including the role of relevant government promotion and training policies.
(e) Review the way in which Burkina Faso is currently exporting cultural services, including through the undertaking of select case studies on domestic firms.
(f) Evaluate the opportunities for increasing exports of entertainment and other cultural services from Burkina Faso both within and without the African region.
(g) Comment on the challenges to further development of the cultural services industry and of cultural services exports.
(h) Recommend ways to promote sector development and increase the export of services. Review the approaches used by Burkina Faso in the area of cultural industries to identify current best practices for the development of the entertainment sector and for the promotion of the export of cultural services by other African countries.
(i) Make recommendations on how the competitiveness of the cultural industries sector can be enhanced through business and trade facilitation, legislative and institutional capacity strengthening, human resource development, etc.

Methodology

The research has been conducted in three ways: desk research to gather secondary data, semi-structured interviews with the local stakeholders and experts, and finally a small-scale survey targeting cultural and creative businesses and institutions.

Recently, a consulting company, Bureau Burkinabé d'Études et D'Appui-Conseils (BBEAC), made a study of the impact of the cultural sector on social and economic development in Burkina Faso (2012) that offers useful insights on the current situation of the cultural industry. Despite having interviewed 500 professionals within 10 of the 13 regions of Burkina Faso, the survey's authors still had to refer to secondary information—such as a government study of living conditions by occupation—to evaluate the number of employees in the cultural sector.[8] Using the recommendations of two UNESCO publications,[9] the methodology consisted of trying to update the results of the BBEAC study cited above, on the impact of the cultural sector on social and economic development in Burkina Faso, and to isolate cultural services from the overall cultural industry. A mapping exercise, undertaken as a first step of the research, was therefore of good help in data gathering. However, the absence of exhaustive and updated directories or sample structures of cultural services in Burkina Faso was considered a serious obstacle to this work. Additionally, given the time constraints and the period of the survey (in the festive season), it was decided to concentrate the interviews in and around Ouagadougou.

To provide respondents with a better understanding of international trade in services, the research team also introduced them to the definition of the four modes of supply (see Section 2.1.4, Services in Trade) by illustrating it with several examples. Then, taking into account the limits of the available secondary data and the specificities of this research, focused on the trade

[8] Institut nationale de la statistique et de la démographie (INSD). Annuaire Statistique 2010.

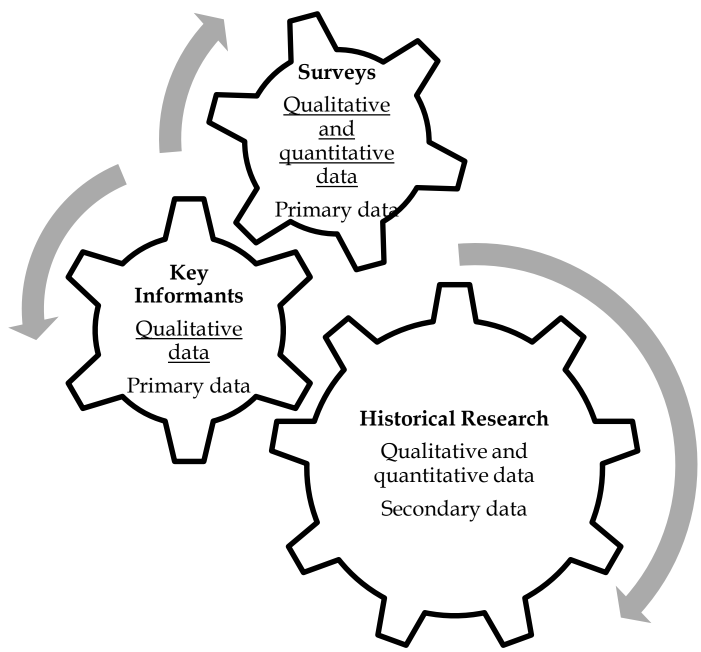
[9] UNESCO, A Framework for Cultural Statistics, 2009; and UNESCO, Measuring the Economic Contribution of Cultural Industries: A Review and Assessment of Current Methodological Approaches, 2012.

in cultural services, the team considered it appropriate to conduct an additional quantitative survey to analyse the structure of the cultural services industry in which which particular attention was given to:

- The modes of supply for international trade in services
- The main cultural services' exports markets or countries
- The share of imports in the operating costs of cultural services suppliers
- The strengths, weaknesses, opportunities, and threats for the Burkinabe cultural services industry
- The perception of cultural services suppliers and program officers of the importance and performance of cultural policies
- The recommendations made by the interviewees to improve the competitiveness of the Burkinabe cultural services industry.

The sources or resource persons were identified from a list established conjointly with the Ministry of Culture and Tourism. By selecting first a representative sample in each category of cultural services, the team went through a top-down value chain approach to evaluate the direct and indirect contribution of the cultural services sector.

Figure 1: Triangulation Method



About 20 qualitative and 42 quantitative interviews were conducted during a 3-week period in late December 2013 and early January 2014. Many companies did not agree to an interview or were not available to respond to a questionnaire in the festive season. The breakdown of the sample is therefore influenced by both the size of each sector of activities and the availability of respondents.

Organisation of the Report

The present report provides African Union members and partners with:

- An overview of the services sector in Burkina Faso
- A description of the key elements of the cultural services sector in Burkina Faso
- The economic impact of the cultural services sector
- A condensed analysis of the main trends concerning the challenges to the sectors' growth, their financial and support needs, and the main barriers to accessing funding
- Examples of successful cultural projects or enterprises and factors underlying such successes
- Specific recommendations to policy makers, institutions, and private enterprises to improve the private sector's competitiveness in the supply of cultural services.

The Service Sector in Burkina Faso

Basic Data

The information on the contribution of the services sector was mostly extracted from both the report from the Ministry of Economy and Finance on the economic and financial situation of Burkina Faso in the third quarter of 2012 and the balance of payments of Burkina Faso for the year 2010 (latest edition available).

Services Share in GDP

Burkina Faso is a landlocked West African country with a population of some 16 million. It ranks 181st globally (out of 187 countries) on the UNDP's Human Development Indicator for 2011 with a score of 0.388, well below the average for Sub-Saharan Africa (0.463). Currently, Burkina Faso's economy is mostly reliant on agricultural production, gold exports, and cotton. The country still remains vulnerable to such exogenous shocks as low rainfall, international financial and oil crises, and regional instability. During 2000–2009, economic growth was thus very erratic because of climatic uncertainties and recurrent exogenous shocks. In real terms, GDP growth averaged 5.2%, with a high of 8.7% in 2005.

According to the Ministry of Economy and Finance, all sectors contributed positively to GDP growth in 2012 with a composition of GDP by sectors[10] of 33% for agriculture, 22.2% for industry, and 44.9% for services. The primary sector contributed 3.3 percentage points to GDP growth and, the secondary sector 0.8 points. Following the recovery from the 2009 international financial crisis, the tertiary sector has maintained its growth trend in 2012 (+6.0%), contributing 3.9 points to GDP growth, with an evolution of its value added for both the market (+5.5%) and non-market sectors (+6.7%). The impact of non-profit activities such as official cultural events—such as the Ouagadougou International Crafts Fair (SIAO) and the Ouagadougou International

[10] As cited in the CIA World Factbook 2013.

Tourism and Hospitality Exhibition (SITHO—were considered as primarily supporting the growth of market services in Burkina Faso.

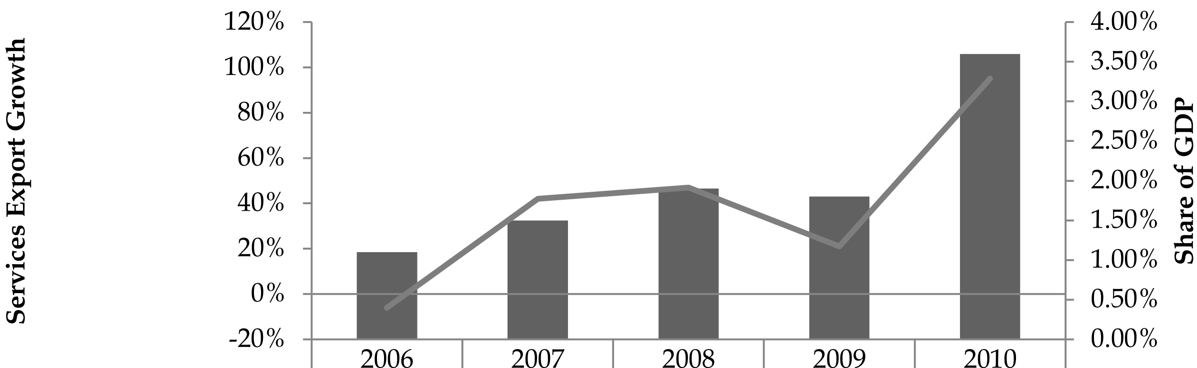
Table 1: Services Exports in GDP (current US$)

	2006	2007	2008	2009	2010
GDP (current US$)	5,462,709,055	5,844,669,738	6,755,823,933	8,350,710,389	8,348,156,389
GDP growth	12.9%	7.0%	15.6%	23.6%	0.0%
Service exports (current US$)	60,523,233	85,797,726	126,233,445	152,850,689	298,118,010
Service exports growth	-6%	42%	47%	21%	95%
Share of GDP	1.1%	1.5%	1.9%	1.8%	3.6%
Contribution to real GDP growth	-0.6%	6.6%	4.4%	1.7%	–

Source: World Bank databank – data.worldbank.org (2012).

Using the World Bank data shown in Figure 2, we observe that the contribution of services exports to real GDP growth has been positive since 2007. The contribution was particularly impressive in 2010, mitigating a sharp economic slowdown in GDP growth probably due to the international financial crisis.

Figure 2: Services Export Growth and Share of GDP



	2006	2007	2008	2009	2010
Share of GDP	1.10%	1.50%	1.90%	1.80%	3.60%
Services export growth	-6%	42%	47%	21%	95%

Source: World Bank databank – data.worldbank.org (2012).

We observe that the GDP growth would have been negative (-3.6%) without the growth in service exports (Table 1). Despite the impact of the international financial crisis in 2009, the amount of services exports grew by 4.6 times between 2006 and 2010, reaching almost € 220 million (CFAF 144 billion). However, the West African Economic and Monetary Union (WAEMU) data in Table 2 show that the country also experienced a similar increasing trend in services imports, leading to a negative balance (CFAF -407 billion in 2012) for the services sector.

Table 2: Balance of Services (CFAF billions)

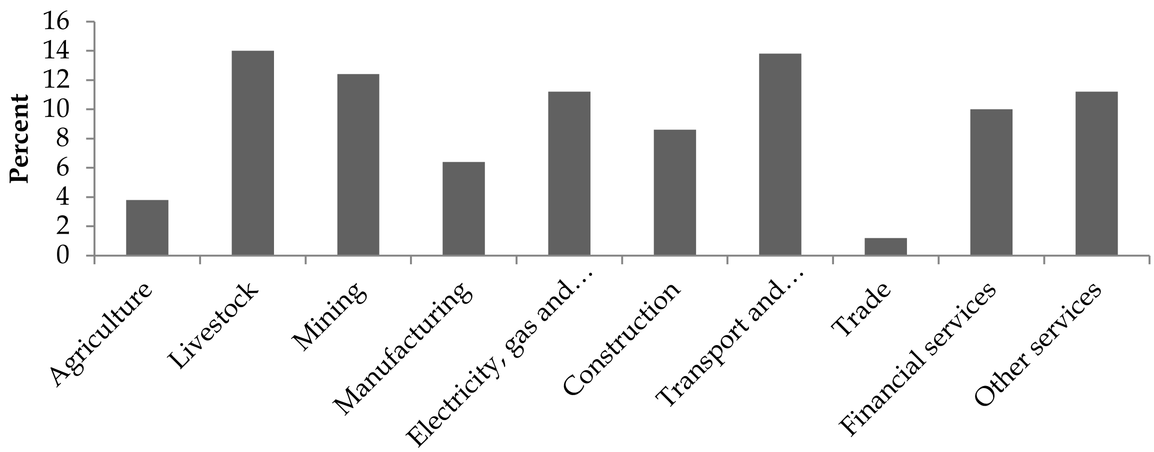
	2009	2010	2011	2012 *	2013 **	2014 ***
Balance of services	**-192.6**	**-265.1**	**-343.1**	**-407.6**	**-420.9**	**-447.2**
Credit	**72.2**	**147.7**	**196.1**	**214.8**	**235.3**	**257.8**
Including travel	31.4	35.8	35.4	43.0	45.6	50.7
Debit	**-264.8**	**-412.7**	**-539.2**	**-622.4**	**-656.2**	**-704.9**
Including Freight and insurances	-116.1	-148.0	-193.1	264.3	274.7	310.9

Source: UEMOA (2013). Évolution de la balance des paiements des pays de l'UEMOA .
** Estimates ** Previsions *** Forecasts*

Comparison of Average Annual Growth Rates (Agriculture/Industry/Services)

Figure 3 compares average real GDP growth of the economic sectors over the past decades. Despite Burkina Faso's leading position in the production of cotton and it being the second largest producer of biotech crops in Africa, it experienced higher growth rates in other economic sectors, rather than in agriculture.

Figure 3: Real GDP Average Growth by Economic Sector, 1994–2008



Source: World Bank, CEM Burkina Faso, and IMF (2009).

The average growth rate of 'Other services', above 10%, confirms the good health of these activities. However, the low average growth rate of 'Trade' highlights that trade openness was particularly limited during the period. Although the country's terms of trade have recovered since the early 2000s, structural deficiencies have led to persistent trade deficits.[11] For the World Bank,[12] Burkina Faso's challenging business environment and poor overall institutional framework discourage entrepreneurs from investing in large-scale trade because of unmanageable risks and hidden costs.

[11] Savadogo, K. (2009).). Le contexte macroéconomique. Background paper for the Burkina Faso Country Economic Memorandum. Washington: World Bank.

[12] World Bank (2011). Yes Africa Can: Success Stories from a Dynamic Continent. Punam Chuhan-Pole and Manka Angwafo, eds. Washington.

Services in Employment

The labour force in Burkina Faso consists mainly of poor, rural workers and unskilled youth.[13] In fact, most of the population in Burkina Faso works in low income and low productivity activities. Data on employment in services are scarce and imprecise. The latest available information on employment in services stopped at 2005 (World Bank) and indicated that employment in services accounts for 12.2% of total employment, with women representing 42% of services employment. In 2010, a demographic and health survey made by the National Institute of Statistics and Demography (INSD) highlighted that respectively 26.6% and 11% of employed women and men were working in the sales and services sectors in 2010.[14]

Table 3: Socio-demographic Characteristics of Workers

Socio-demographic Characteristics	Men (%)	Women (%)
Manager/technician	4	1.5
Employee	1.9	1
Sales and services	11	26.6
Skilled manual workers	10	8.6
Unskilled manual workers	1	0.3
Household workers	–	1.7
Agriculture	65.3	57.3
Others/NSP/missing	6.8	3.1

Source: INSD, EDSBF-MICS IV (2010).

The results of the demographic and health survey were therefore incommensurable with those from the World Bank with the exception that the INSD has grouped "sales and services" together as the World Bank does. (1) The INSD data cited here do not even indicate what percentage of total employment is in services (or "sales and services"). (2) The World Bank percentage for women (42%) is a percentage of all services employment, whereas the INSD percentage for women (26.6%) is a percentage of all women employed in all categories combined. (The women's column adds up to 100%. The men's column adds up to 100%. No relationship can be determined between the INSD figure for men in sales/services (11%) and women in sales/services (26.6%) without having the raw numbers.)

To conclude, employment in the services sector in Burkina Faso offers better perspectives than those in the cotton industry where workers are exposed to pesticides and other chemicals, or in gold mining where children are often used to break rocks, carry heavy loads, and use harmful chemicals including mercury.

Services in Trade

Today, the inconsistency of classifications used in available statistics on trade in services, and the lack of information on modes of supply for trade in services make a proper assessment of trade in services difficult. Gaps exist between what a country's statistics on trade in services

[13] AfDB, OECD, UNDP, UNECA (2012). Perspectives économiques en Afrique, Burkina Faso.

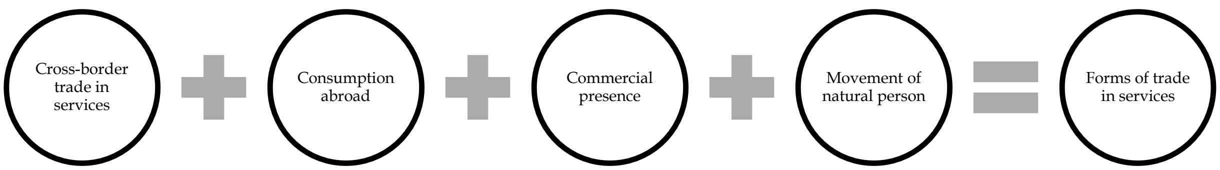
[14] INSD (2010). Enquête démographique et de santé et à indicateurs multiples (EDSBF-MICS IV).

(notably the balance of payments) can cover in terms of detail on international transactions by service sector, and what a country's statistics by mode of supply should provide. Furthermore, service suppliers/consumers may not always be aware of their international supply and consumption of services. Therefore, we address here the General Agreement on Trade in Services (GATS) extension of the definition of trade in services to include the four modes of supply. Then we provide information and statistics on trade in services in Burkina Faso.

Modes of Supply for Trade in Services

A summary view of the GATS four modes of service supply, as described in the *Manual on Statistics of International Trade in Services*, is shown in Figure 4.[15]

Figure 4: The Four Modes of Supply for Trade in Services



Mode 1, Cross-border Supply, takes place when a service is supplied 'from the territory of one Member into the territory of any other Member'. That is, the service is rendered by a resident in one economic territory to a resident of another economic territory, and only the service 'crosses the border'. This is similar to trade in goods where the product is delivered across borders and the consumer and the supplier remain in their respective territories. Examples for cultural services are sound engineering, fashion design services supplied via the Internet or audiovisual services, and the trade of audience attention.

Mode 2, Consumption Abroad, occurs when the service is supplied 'in the territory of one Member to the service consumer of any other Member'. That is, the consumer consumes the service outside his or her home territory: either the consumer or his property is abroad. Examples for cultural services include cultural, festival, and heritage tourism.

Mode 3, Commercial Presence, takes place through 'the supply of a service ... by a service supplier of one Member, through commercial presence in the territory of any other Member'. Commercial presence in a market abroad covers not only juridical persons in the strict legal sense, but also legal entities that share some of the same characteristics, such as representative offices and branches. Examples for cultural services include the establishment of an art gallery or a recording studio abroad.

Mode 4, Presence of Natural Persons, occurs when an individual is temporarily present in the territory of an economy other than his own to provide a commercial service. GATS defines

[15] The manual, published by the UN (editions in 2002 and 2010), was prepared by the Interagency Task Force on Statistics of International Trade in Services, which includes the UN, EU, IMF, OECD, UNCTAD, and WTO. It is found at http://unstats.un.org/unsd/tradeserv/tfsits/manual.htm/.

mode 4 as the supply of a service by 'a service supplier of one Member, through presence of natural persons of a Member in the territory of any other Member'. Mode 4 is generally understood as covering contractual services suppliers, whether (i) employees of a foreign service supplier or (ii) self-employed; (iii) intra-corporate transferees and foreign employees directly recruited by foreign established companies; or (iv) service sellers who enter the host country to establish a service contract or to set up commercial presence. Examples for cultural services include travel abroad by an artist, technicians participating in private projects or festivals, or a band going on tour.

There are several practical considerations:

- Many transactions can be multi-mode transactions.
- Company accounting systems generally don't maintain information by mode of supply.
- Some mode 2 transactions are separately identifiable (transactions of tourists, medical patients, students).
- Some cross-border transactions cannot be separated into modes 1 and 2 (e.g., telecommunications).
- Some transactions are viewed as mode 1 by convention (basic telecommunications, transportation, royalties).

Trade in Services in Burkina Faso

Burkina Faso's current exports are essentially cotton, gold and, to a certain extent, cattle on the hoof, which together represent 78% of total exports. The three products accounted for 10.5% of GDP in 2007 and 15% in 2010, and are exported as raw material, with very little value added from processing. Furthermore, these exports contributed only 0.1% to the GDP growth rate of 7.9% in 2010. The trade in services (as a percent of GDP) in Burkina Faso was 8.53% in 2009, according to a World Bank report published in 2010. In 2012, foreign trade was reported to have contributed negatively to GDP growth up to 1.7 points against 0.7 points in 2011. The import of all major products (goods, food, and petroleum products) that are essential to domestic economic activity, explains this trend. Thus the balance of nonfactor services[16] deteriorated to CFAF -404.9 billion in 2012 against CFAF -342.3 billion in 2011.

Table 4: Evolution of Current Accounts, 2006–2010, CFAF millions

Categories	2006	2007	2008	2009	2010
Goods	-254452	-286584	-401362	-227599	-69050
Services	-167033	-173945 *(-4.1%)*	-211572 *(-21.6%)*	-192078 *(9.2%)*	-261609 *(-36.2%)*
Transports	*-115232*	*-120923*	*-139622*	*-126026*	*-156079*
Travel	*-1142*	*-881*	*-156*	*1119*	*1685*
Other services	*-50659*	*-52141*	*-71794*	*-67171*	*-107215*
Revenues	-1208	-1124	-1640	-2592	-3206
Current uncompensated payments	133382	193266	183278	242820	243998
Current accounts	**-289311**	**-268387**	**-431296**	**-179449**	**-89867**

Source: Ministry of Economy and Finance, (2012). Rapport sur la situation économique et financière du Burkina Faso au troisième trimestre.

[16] "Nonfactor services" refers to services (such as professional consultancies, shipping, insurance, forex earnings) not attributable to any of the conventional factors of production (e.g., labour, capital).

With the exception of the travel component, the services balance remained structurally in deficit for years leading up to and including 2010 (Table 4). The freight category that counts for more than 90% of transports is chiefly impacted by the rising prices of imported goods and the increase in oil prices.

The improvement of the balance of payments travel component (see Table 5) stems primarily from a proportionally greater increase of receipts than expenditures during the period 2004–2010. It is worth noting the high volatility of the expenditures made by business travellers, with a strong rebound in 2010. Additionally, domestic tourism seems to support an important share of the tourism growth in Burkina Faso.

Table 5: Balance of Payments Statistics: Travel Component

Categories	2004	2005	2006	2007	2008	2009	2010
Visitors	**290,005**	**324,342**	**358,683**	**374,265**	**375,564**	**401,308**	**427,026**
International tourism	222,201	244,728	263,978	288,965	271,796	269,227	274,330
Domestic tourism	67,804	79,614	94,705	85,300	103,768	132,081	152,696
Receipts	21,087	23,604	27,495	26,870	27,915	30,180	35,762
Expenditures	20,409	24,113	28,637	27,751	28,071	29,061	34,077
Balance	**+678**	**-509**	**-1 142**	**-881**	**-156**	**+1 119**	**+1 685**
Business trips	+467	-985	+183	-2 268	-1 464	-594	+1 029
Personal trips	+211	+476	-1 325	+1 387	+1 308	+1 713	+656

Source: BCEAO, Balance of Payments.

In conclusion, the improvement of air connexions to Burkina Faso and the impact of major cultural and business events are probably the two main factors leading to a surplus in travel services. However, we observe a mismatch in Table 5 with a decrease of international arrivals in the period 2007 to 2009 while there is an increase of receipts (money flowing into the economy) during the same period. This raises the question as to the actual capacity of the country to correctly collect and compile statistics on tourism.

Services Policy and Legislation by the Government of Burkina Faso

Burkina Faso is currently ranked 167 out of 189 according to the World Bank's 'Doing Business 2015' report. However, in the 2013 report, Burkina Faso was mentioned as one of the 10 economies that made the largest strides in making their regulatory environment more favourable to business and ranked it fourth for countries 'narrowing the distance to frontier'[17] between 2005 and 2011. It is worth remembering that the ease of doing business in a host country depends less on natural assets than on created assets.

Services Coverage in Investment Framework

The government of Burkina Faso revised its investment code in 2010, offering tax and customs exemptions, and exemptions from value added tax (VAT) on operational equipment. The investment code provides additional incentives for investments in the areas of agriculture,

[17] "Frontier" is a synthetic measure based on the most business-friendly regulatory practices across nine areas of business regulation that range from starting a business to resolving insolvency.

silviculture, animal breeding, and fish farming, and for companies investing at least 50 kilometres outside of the cities of Ouagadougou and Bobo-Dioulasso. Since advantages are similar for all sectors, services are not explicitly named in the new investment code. Unfortunately, no figures of the amount of investment in the overall services sector were available in order to evaluate the impact of the investment code's revision. Table 6 shows the rate of FDI, which shows that both the growth rate of FDI and the share of FDI in the GDP were expected to increase.

Table 6: Rate of Foreign Direct Investment, 2009–2014

	2009	2010	2011	2012*	2013**	2014***
FDI/GDP (%)	0.9	0.4	0.4	0.4	0.5	0.8
Growth rate of FDI (%)	-27.8	-43.7	3.4	16.4	40.9	55.4

Source: UEMOA (2013). Évolution de la Balance des Paiements des Pays de l'UEMOA.
** Estimates ** Previsions *** Forecasts*

All investment-specific incentives are outlined in the revised investment code. A threshold of at least 100 million CFAF is however necessary to benefit from financial incentives applied uniformly to both domestic and foreign investors. Additionally, all companies that use at least 50% locally supplied raw materials are exempted from trading taxes and receive a 50% reduction in customs taxes, in addition to the elimination of other duties.

The institutional framework for the promotion of investment is articulated through an investment promotion agency (IPA) and the presidential council for investment (PCI). The principal role of the IPA is investment promotion and facilitation, while the mandate of the PCI is to promote improvements in the investment climate and define a strategy to attract foreign direct investment (FDI).

To conclude, the objective of seeking and attracting investments in specific economic sectors, to increase overall economic growth, is still not sufficiently achieved. Furthermore, the participation of economic actors should be interconnected with each other in both how they compete and collaborate. Considering that the optimal role of a government is to encourage all actors to enhance their aspirations and move to higher levels of performance, we observe that the government of Burkina Faso does not yet promote cluster-based development strategies.[18]

Services Coverage in Trade Policy and Agreements

The Ministry of Trade, Enterprise Promotion and Crafts is responsible for drafting, implementing and administering Burkina Faso's trade policy. It draws up trade policy measures in collaboration with the private sector, trade support structures, the other ministerial departments concerned, and civil society. Once they have been endorsed by the government at the ministry's initiative, laws are sent to the National Assembly for consideration and adoption. Burkina Faso's constitutional provisions guarantee freedom to import, export, and re-export

[18] A cluster is a geographic concentration of related companies, organizations, and institutions in a particular field that can be present in a region, state, or nation. Clusters arise because they raise a company's productivity, which is influenced by local assets and the presence of like firms, institutions, and infrastructure that surround it.

goods and products that are not banned.[19] These provisions are based on those in Article 18 of the WAEMU Customs Code. However,

- To draw up statistics on foreign trade and maintain control of financial movements, the state needs to know the types of goods imported, but nothing is mentioned about services.
- The state also requires that imported goods of a value of CFAF 3 million or more, irrespective of the customs regime requested, must undergo prior inspection of their quality, volume, and price by a specialised inspection firm. Again, nothing is stipulated about the import of services.

To create an environment conducive to Burkina Faso's integration into the regional and international economy, Burkina Faso is a signatory to various agreements:

- Burkina Faso became a signatory of the General Agreement on Tariffs and Trade (GATT) in 1963 and ratified the agreement establishing the WTO, thus becoming a founder member of the WTO on 3 June 1995.
- Burkina Faso is a founder member of WAEMU, and is home to the WAEMU headquarters.
- Burkina Faso is also a member of the Economic Community of West African States (ECOWAS), which is negotiating an Economic Partnership Agreement with the European Union.
- The U.S. African Growth and Opportunity Act (AGOA), the U.S. law on economic growth and opportunity in Africa, is an integral part of the Burkina Faso 2000 Law on trade and development.

According to the WTO,[20] the majority of trade policy instruments, in practice import measures, have been harmonised at WAEMU level. WAEMU now also has a common framework for agricultural and mining policy, as well as for certain services categories, inter alia. Implementation is, however, far from complete in all areas.

Harmonisation of tariff bindings in the WTO is furthermore under consideration by WAEMU members. It is estimated that bindings currently affect around 40% of tariff lines; and for over 27% of the bound tariff lines, the customs duties applied exceed the bound levels, sometimes by as much as 20 percentage points.

To conclude, one of the country's major objectives is to organise and develop the cultural economy, notably by developing business acumen and cultural industries, protecting products and performers, combating fraud and counterfeiting, and taking the cultural dimension into account in other development policies.

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[19] The import and export regime is regulated by Ordinance No. 91-069 of 25 November 1991 and its Implementing Decree No. 91-034 of 27 November 1991, as well as Law No. 15/94 of 5 May 1994 on the organization of competition and consumption, which was amended by Law No. 33-2001/AN of 4 December 2001.

[20] WTO (2010). Trade Policy Review for Benin, Burkina Faso and Mali, 4-6 October.

Services in the National Development Strategy/Plan

In 2011, the Strategy for Growth and Sustainable Development (SCADD)[21] has replaced the Poverty Reduction Strategy Paper (PRSP), which was the central framework of the government's economic and social development policies from 2000 through 2010. The four strategic axes adopted, which constitute the founding blocks of the SCADD, focus on (i) development of accelerated growth pillars, (ii) consolidation of human capital and promotion of social protection, (iii) strengthening of governance, and (iv) consideration of cross-cutting priorities in development policies and programs. The SCADD intends to synergise economic efficiency, environmental sustainability, and social equity to induce a qualitative and sustainable change in Burkina's production system.

While the SCADD dedicated crafts, cultural, and tourism industries as priority sectors, services are not explicitly mentioned; the diversification and the supply of products are considered a greater priority.

Amongst the services sectors, only handicrafts, cultural, and tourism industries are consequently considered to be high priority sectors in the SCADD. In order to provide the cultural and tourism sectors with adequate capacity to compete and contribute more to sustainable development, it is considered that efforts must focus on:

- Development of entrepreneurship and cultural, creative, and tourism industries
- Implementation of effective strategies for promoting cultural and tourism goods and services abroad
- Technical and financial support of leaders in the creation and dissemination of artistic and cultural life, development of cultural and tourism infrastructure, and promotion of cultural and tourist sites and areas
- Implementation of a new policy for tourism infrastructure, improving the quality and diversification of lodging options, and restructuring and rehabilitating tourist sites
- Development of cultural, ecological, and recreational tourism as instruments for strengthening the sector's profitability
- Promotion of domestic tourism as a strategic axis of development of tourism in general
- Advancement of the role of the private sector in the development of tourism and management of the sector, particularly in promotion, training, and building of infrastructure.

[21] See Ministère de l'économie et des finances (2010). Stratégie de croissance accélérée et de développement durable (SCADD), and related documents from the Ministère de la culture et du tourisme, 2010 and 2013.

Table 7: Involved Private and Public Agencies in Cultural Goods and Services

N°	Categories	Concerned Agencies
1	Natural and cultural heritage	DGMN, DPICC, DGPC, Commune de Ouagadougou, Directions régionales
2	Performances and cultural activities	BBDA, DAS, DAPA, DGESS, CENASA, ONTB, FESPACO, SNC, ATB, CITO, CARTEL, Jazz à Ouaga, Espace culturel Gambidi, Maison de la parole
3	Visual arts and crafts	DAS, DAPA, VAO, SIAO, CNAM, DPPIC
4	Books and press	CENALAC, DCPM, IPN
5	Audiovisual and digital media	DCN, DCPM, FESPACO, CSC, CNA
6	Tourism	DGT, ONTB
7	Human resources and funding	DRH, ISIS/SE, DAF, INAFAC, CNAM

Source: Authors.

Services being a crosscutting sector, the responsibility for their coordination goes beyond a single ministry; many departments and institutions contribute to their development. At the institutional level, the implementation and monitoring of government policy on culture and arts is vested in the Department of Culture and Tourism. However, a number of public agencies listed in Table 7 are involved in the management and implementation of cultural services.

The classification in Table 7 follows the categories of cultural goods and services as proposed by UNESCO and adopted by the government of Burkina Faso. The greater number of agencies involved in performances and cultural activities, mostly classified as services, illustrates the importance of the cultural services industry and its activities.

In total there are 16 government agencies and departments, including four main branches, that are involved in the cultural sector's management and development. The four are the Directorate of Cultural Heritage (CPB), the General Directorate of Books and Public Reading (DGLLP), the Directorate General of Tourism (DGT), and the Directorate General of Training and Research (DGFR). Out of the 12 other central departments, 7 can be considered as specific to the cultural sector. These are the Department of Plastic and Applied Arts (DAPA), the Department of Performing Arts (DAS),[22] the Directorate of National Cinematography (DCN), the Directorate for the Promotion of Cultural and Creative Industries (DPICC),[23] the Directorate for Classifying Sites on the World Heritage List (DSC/PM), the General Directorate of Sector Statistics and Studies (DGESS), and the General Directorate of the National Week of Culture (DG/SNC), the only central department located outside of Ouagadougou.

For many years, the public administration in charge of cultural issues was only located in Ouagadougou. For the past few years, Burkina Faso has entered into a decentralisation process. Thus, one regional directorate of the Ministry of Culture and Tourism was opened in each of the 13 provinces. As the culture sector crosscuts many issues, departments from other ministries are completing the work the Ministry of Culture and Tourism.

[22] Direction des arts de la scène.

[23] Created in December 2011, the DPICC is in charge of the implementation of the national strategy for the development of cultural and creative industries.

Cultural Services in Burkina Faso

Defining Cultural Services

The United Nations Central Product Classification (CPC) List

The Central Product Classification (CPC) constitutes a comprehensive classification of all goods and services. It presents categories for all products that can be the object of domestic or international transactions, or that can be inventoried.

For services, CPC Version 1.0 (1998) was the first international classification covering the whole spectrum of outputs of the various industries. In 2002, it intended to incorporate modifications due to major changes in economies worldwide and sustained technological advancement, to serve as an international standard for assembling and tabulating data requiring product detail including tabulations of industrial production, national accounts, service industries, domestic and foreign commodity trade, international trade in services, balance of payments, consumption, and price statistics.

Other basic aims were to provide a framework for international comparison and promote harmonisation of types of statistics dealing with goods and services. It provides a basis for recompiling basic statistics from their original classifications into a standard classification for analytical use.

Table 8: The 10 Sections of CPC

Contents of Sections 0–9	
Goods (Transportable)	0 - Agriculture, forestry and fishery products
	1 - Ores and minerals; electricity, gas and water
	2 - Food products, beverages and tobacco; textiles, apparel and leather products
	3 - Other transportable goods, except metal products, machinery and equipment
	4 - Metal products, machinery and equipment
Services (Primarily)	5 - Construction services
	6 - Distributive trade services; lodging; food and beverage serving services; transport services; and utilities distribution services
	7 - Transport, storage and communication services
	8 - Business and production services
	9 - Community, social and personal services

Source: United Nations CPC List.

For sections 5 through 9, the CPC provides descriptions (explanatory notes) and rules of interpretation of services that are included in each subclass and those that are excluded. Provisional CPC 1.0 was used for the categories of services that were used during the negotiations leading to GATS that were conducted during the Uruguay Round.

GATS Sectoral Classification List W/120

The issue of trade and culture has long been debated in the World Trade Organisation (WTO) and its predecessor, the General Agreement on Tariffs and Trade 1947 ('GATT 1947'), leading to a stalemate in the Uruguay Round of negotiations in connexion with audiovisual products in particular. Because cultural products—not services—are being treated differently from things like steel or wheat, the definition of a culture or cultural service is an important matter, as it concerns the framework of the measurement of trade flows.

In 1991, the GATT secretariat produced a note setting out a classification of service sectors, known as the GNS/W/120 Services Sectoral Classification List, resulting from consultations with member countries. The list identified relevant sectors and subsectors with regard to national services regulations, so that specific commitments on these regulations could be made and negotiated. To enable the clear delineation of each subsector, codes from the Provisional CPC were assigned to each of the subsectors. The major sectors are shown in Table 9.

Table 9: The 12 Major Sectors in the GNS/W/120 List

1. Business services
2. Communication services (including audiovisual services)
3. Construction and related engineering services
4. Distribution services
5. Educational services (including training institutes)
6. Environmental services
7. Financial services
8. Health-related and social services
9. Tourism and travel-related services
10. Recreational, cultural, and sporting services (including entertainment, news agency services, libraries, archives, museums and other cultural services, etc.)
11. Transport services
12. Other services not included elsewhere

Source: WTO (1991) Services Sectoral Classification List.

The WTO (1991) includes cultural services with recreational and sporting services other than audio-visual services. This category comprises entertainment services (theatre, live band, and circus services), news agency services, libraries, archives, museums and other cultural services, and sporting and other recreational events.

Other Definitions

The World Bank

The World Bank[24] defines personal, cultural, and recreational services as subdivided into two components: (a) audio-visual services and (b) other cultural and recreational services. The first component includes services and fees related to the production of motion pictures, radio and television programs, and musical recordings. Other personal, cultural, and recreational services include those associated with museums, libraries, and archives, as well as other cultural, sporting, and recreational activities. Also included are services related to education, such as correspondence courses and education via television or the Internet, as well as services performed by teachers.

[24] Goswami Grover et al. (2012). Exporting services: A developing country perspective. Washington: World Bank, p. 13.

UNESCO

In 2009, UNESCO published a framework for cultural statistics (FCS). It is based on a conceptual foundation and a common understanding of culture to enable the measurement of a wide range of cultural expressions, irrespective of the particular economic and social mode of its production.

The FCS is a classification instrument that makes use of currently available international classification systems such as the International Standard Industrial Classification (ISIC) for cultural production activities, the Central Product Classification (CPC) for cultural goods and services, the International Standard Classification of Occupations (ISCO) for cultural employment, the Harmonised Commodity Description and Coding System (HS) for international flows of cultural goods, and the UN Trial International Classification of Activities for Time-Use Statistics (ICATUS) for cultural participation. It attempts to reflect the widest range possible of activities related to the production, distribution, and use of culture.

Table 10: Framework for Cultural Statistics Domains

CULTURAL DOMAINS						RELATED DOMAINS	
CULTURAL AND NATURAL HERITAGE	PERFORMANCE AND CELEBRATION	VISUAL ARTS AND CRAFTS	BOOKS AND PRESS	AUDIOVIDUAL AND INTERACTIVE MEDIA	DESIGN AND CREATIVE SERVICES	TOURISM	SPORTS AND RECREATION
- Museums (also virtual) - Archeological and Historical Places - Cultural Landscapes - Natural Heritage	- Performing Arts - Music - Festivals, Fairs and Feasts	- Fine Arts - Photography - Crafts	- Books - Newspaper and Magazine - Other printed matter - Library (also virtual) - Book Fairs	- Film and Video - TV and Radio (also Internet live streaming) - Internet Podcasting - Video Games (also Online)	- Fashion Design - Graphic Design - Interior Design - Landscape Design - Architectural Services - Advertising Services	- Charter Travel and Tourist Services - Hospitality and Accommodation	- Sports - Physical Fitness and Well Being - Amusement and Theme Parks - Gambling

Source: UNESCO (2009). Framework for Cultural Statistics, Handbook No. 1.

UNESCO considers that cultural services are those activities aimed at satisfying cultural interests or needs. Cultural services do not represent material goods in themselves, but facilitate their production and distribution. They typically consist of licensing activities and other copyright-related services, audiovisual distribution activities, the promotion of performing arts and cultural events, as well as cultural information and preservation of books, recordings and artefacts (in libraries, documentation centres, and museums).

The following activities are usually included in the definition of cultural services by UNESCO: creative services, intellectual property rights for cultural products (trademarks and copyrights[25]), artistic expression, content services (film production and distribution, graphic design services), and preservation services. One of the most intuitive examples of creative services is a performance, particularly a live performance, that can be bought and sold and involves creative artistic activity.

Definition Selected for This Study

To facilitate local cultural stakeholders' understanding and to ensure continuity with the previous reports and surveys of the cultural sectors in Burkina Faso, we propose to adopt in this study the distribution of activities by cultural sectors used by the government in all recent reports on cultural industries, to which we add the training/advisory services in cultural domains. This classification mostly follows the UNESCO definition with the exception of 'music and sound recording' that UNESCO counts separately:

- Visual arts and crafts
- Audiovisual and interactive media
- Music and sound recording
- Performing arts and cultural events
- Books and press
- Cultural heritage
- Training/advisory services in cultural domains.

Historical Overview

Burkinabe cultural services, including the performing arts (dance, music, theatre, and related arts), have always been one of the most important areas in terms of number of actors and initiatives. In 1969, the development of cinema and audiovisual productions gave birth to the creation of the Pan-African Festival of Cinema and Television of Ouagadougou (FESPACO). Table 11 illustrates the growing importance of cultural events in the Burkinabe economy, providing the names and the starting years of the most important festivals in Burkina Faso. After the founding of FESPACO, it took 14 years before another international festival was created. Since then, several public and then private festivals have been organised, covering all components of Burkinabe cultural activities.

Table 11: The Main Festivals and Cultural Events in Burkina Faso by Order of Creation

Festivals	Starting Year	Latest Edition
FESPACO – Pan-African Festival of Cinema and Television of Ouagadougou	1969 (Every two years)	2013
MICA – International Festival for African Film and Television	1983 (Every two years)	2013
SNC – National Week of Culture	1983 (Every two years)	2012
FITD – International Festival of Theatre for Development	1988 (Every two years)	2012
SIAO – International Crafts Fair of Ouagadougou	1988 (Every two years)	2012
FITMO – International Theatre and Puppets Festival of Ouagadougou	1989 (Every two years)	2012

[25] 'Trademarks' refers to licensing services for the use of trademarks and franchises, whereas 'copyrights' refers to licensing services for the right to use entertainment, literary, or acoustic originals.

Festivals	Starting Year	Latest Edition
Jazz à Ouaga – International Jazz Festival	1992 (annual)	2013
NAK – Nuits Atypiques de Koudougou	1996 (annual)	2013
FESTIMA – International Festival of Arts and African Masks of Dedougou	1996 (Every two years)	2012
Les Rencontres Dialogues de Corps	1997 (Every two years)	2012
Waga Hip Hop – International Hip Hop Festival	2000 (annual)	2013
Kunde d'Or – Music Awards for Burkina Faso	2001 (annual)	2013
Les Récréâtrales	2002 (every two years)	2012
SITHO – International Fair of Tourism and Hospitality of Ouagadougou	2004 (annual)	2013
Le Festival International du Conte Yeleen	2004 (annual)	2013

Source: Authors.

The development of the cultural services industry in Burkina Faso has benefited during the last 30 years from growing governmental recognition of its social and economic values. The policies and the industry have therefore jointly evolved throughout this period.

Probably as a consequence of the growing importance of the cultural services industry in the national economy, with five major festivals and cultural events created within a decade, the 1991 constitution was the first step in promoting training, artistic and scientific creation, and intellectual property, and ensuring the manifestation of cultural activities. Then, several legislative and regulatory texts were implemented:

- The law 032-99/AN (December 22, 1999) – Protection of literary and artistic property, which constitutes the reference text in the field of copyright and related rights
- The law 055-2004/AN (December 21, 2004) – The general code for local authorities in Burkina Faso entrenches the transfer of competencies and cultural resources development to local authorities[26]
- The law 047-2004/AN (November 25, 2004) – Act on the cinema and other audiovisual media, setting the conditions of production, distribution, promotion and exploitation of films and other audiovisual media, as well as on the training for careers related to these activities
- The law 24-2007/AN (November 13, 2007) – Protection of cultural heritage in Burkina Faso
- Government decrees on the status of the artist and entrepreneurship in the field of performing arts
- Many other general texts in the form of codes also govern the cultural services industry (civil code, criminal code, labour code, tax code, investment code).[27]

Following up on the successive steps made in recognising the role of culture in economic and social development, and engaged through the decision of the First Conference of African

[26] More precisely, local authorities are responsible for the creation and management of cultural facilities, cultural and craft promotion, capacity building of local actors, promotion of traditional cultural and artistic potential, and creation and management of sites and monuments.

[27] The general legal framework (codes) is considered by many as too rigid and inappropriate to cultural industries. The main criticisms are that it does not take into account the specificities of the cultural industries, including cultural employment, taxation, investment, and access to credit.

Ministers of Culture to endorse the draft Charter for African Cultural Renaissance (December 2005 in Nairobi, Kenya), the government of Burkina Faso adopted in October 2009 the National Cultural Policy (NCP) based on two main dimensions:

- The protection and promotion of heritage and cultural diversity
- The structuring and development of the cultural and creative industries.

Within the framework of four main strategic objectives, the National Cultural Policy also takes into account the aims of other development strategies such as the national communication policy for development, the national tourism policy, the national policy for youth and employment, and the national environmental policy. These four objectives are:

(a) Preserving cultural diversity to promote and strengthen social cohesion
(b) Strengthening the institutional capacity of the cultural sector
(c) Structuring and developing the economy of culture
(d) Strengthening cultural cooperation and supporting the external diffusion of Burkinabe cultural products and services.

This period coincided with the rise in the budget of the Ministry of Culture and Tourism. In 2010, the ministry had a budget of 7.6 billion CFAF (€11.6 million) against 3.7 billion CFAF in 2007.[28] The ambition to support the cultural sector was reaffirmed in SCADD, adopted in 2010, in which the cultural sector received the core mission to develop cultural industries in order to increase their contribution to economic and social development. It is worth repeating that in the SCADD, the primary focus on future action of the cultural industries is on tourism, while the need for focus on entrepreneurship and funding mechanisms is mentioned as well.[29]

Currently, several technical and financial partners have decided to engage in facilitating the implementation of these cultural policies. With the support of the OIF, the government has set up a Support Programme to strengthen political and cultural industries (ARPIC) for the period 2012–2015, which took over the ARPEM, which was implemented by the association "Culture et Développement" and was funded by the ACP-UE, 2009–2011. A first seminar on managing, financing, and developing cultural industries, co-organised by the OIF and the Ministry of Culture and Tourism, was held in Ouagadougou in October 2012, attended by the leading professional cultural organisations. It appears from this workshop and a feasibility study on a mechanism for funding and supporting cultural enterprises, that the cultural environment is under-estimated and requires a better understanding by the financial institutions.

In December 2013, the government of Burkina Faso, through the Ministry of Culture and Tourism, presented its National Strategy for the Development of Cultural and Creative Industries (SNDICC) as a main instrument for operationalising the last two axes of the National Cultural Policy. It includes the creation of an inter-ministerial committee responsible for reflection on the development of the cultural and creative industries. By taking into account the

[28] Since then, communication has been taken out of the Ministry of Culture and Tourism, and the budget of the ministry is now claimed to be around CFAF 2 billion.

[29] SCADD (2010), p. 46.

creative industries, the government seeks to highlight the growing role that cultural industries are playing in economic development.

Finally, important actions have been undertaken in the framework of cultural cooperation with the objectives of better structuring the sector and supporting the industry players. Several projects and programmes (e.g., PSIC, PASC Regional Fund for Culture) were consequently initiated with the support of the European Union, ECOWAS, UEMOA and OIF. ECOWAS has exempted traditional crafts products from taxes and customs within its borders. WAEMU is currently working on a common cultural development policy for its member states. These actions have resulted in enhancing the number of cultural actors and led to greater community involvement in the development and implementation of cultural projects.

Current Status of Cultural Services in Burkina Faso

Key Stakeholders

Since 2009, the ministry in charge of culture has produced an annual statistical yearbook that provides statistics on public cultural programmes and institutions as well as data on the main actors and activities. However, the involvement of many SMEs and all informal enterprises is not recorded in the yearbook. Yet, two studies that analyse the economic impact of cultural services were conducted in 2009 and 2012 respectively, offering new insights on the cultural industries in Burkina Faso. The first study estimated that the cultural industries (publishing, music, audiovisual and cultural events) generate at least 1,271 full-time jobs and CFAF 2.9 billion (US$ 6.8 million). This information was reproduced in the later report.

According to these surveys, most of companies (70%) that operate in the sectors of writing, audiovisual productions, and music are micro-enterprises (less than 10 employees) and often in the informal economy. Only a few of these enterprises are actually reporting their financial information to the government. Resulting from this serious inaccuracy of the available information, their contribution to the national economy is therefore considered as very limited. As we will observe later, this creates difficulties for these micro-enterprises to access funds. Today, the absence of a reliable measurement of the cultural industry leads to cultural events and festival tourism being considered the fastest growing form of cultural services. It is becoming increasingly popular in rural areas as a means to revitalise local economies.

New information is now available to measure the financial and economic impact of the cultural industry. Thanks to the establishment of the National Bureau of Copyright (NBC) in 1985, progress has been made in the recording of several categories of services providers (e.g., music and literature). The different measures and benefits to encourage cultural services providers to register with the NBC have resulted in a count of 930 members who may receive author's rights for their work in and outside the country.

Table 12: Memberships in the National Bureau of Copyright

Categories of Members	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Music authors	63	101	81	123	142	206	162	240	188	160	312	375
Music authors related rights	NF	NF	NF	108	584	233	111	166	144	96	162	166

Categories of Members	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Literature	9	14	16	25	26	27	19	15	18	16	31	54
Choreography	0	0	0	0	1	0	0	0	0	3	3	0
Drama	1	1	2	2	4	2	0	9	7	7	10	293
Graphic and plastic arts	3	6	9	2	10	2	5	9	13	21	31	42
Total	**76**	**122**	**108**	**260**	**767**	**470**	**297**	**439**	**370**	**303**	**549**	**930**

Source: Bureau Burkinabé d'Études et d'Appui-Conseils (2012). Étude sur les impacts du secteur de la culture sur le développement social et économique du Burkina Faso.

To complete this first inventory of cultural service providers, we propose to use the distribution of activities by cultural sectors (Table 19) used by the government and consulting agencies in all recent reports on cultural industries. It shows that Visual Arts and Crafts is the most important cultural sector in terms of both employment and incomes. The expansion and growing production of the digital film market as well as the growth of radio and TV channels explain the importance of the second sector (Audiovisual and Interactive Media). However, Plastic Arts and Traditional Arts and Crafts, as well as Books and Press, primarily supply products and not services. It is critical to note that the following description of the cultural industries, that follows the distribution found in official documents, concentrates on cultural services only. There are six main distinctive sectors (Visual Arts and Crafts, Audiovisual and Interactive Media, the Music Industry, Performing Arts, Press and Books, and Cultural Heritage) to which two cross-cutting sectors can be added—cultural events and training and advisory services.

Visual Arts and Crafts

As stated above, the supply from these sectors mostly concerns the production of cultural goods only. Despite an important number of actors involved in these activities (Table 13), there are however a number of important missing players in the plastic arts supply chain able to provide services, e.g., art galleries, agents, and auctioneers.

Table 13: Activities of Stakeholders in the Plastic Arts and Traditional Arts and Crafts

Activities	Number	% of Total
Creation/composition/collection	109	67
Conservation/restoration	12	7
Production/publication	34	21
Reproduction	14	9
Manufacture	43	26
Promotion/marketing	49	30
Distribution/sales	77	47
Funding	3	2
Training/advisory services	11	7

Source: BBEAC (2012). Étude sur les impacts du secteur de la culture sur le développement social et économique du Burkina Faso.

Without these cultural services providers, the Burkinabe cultural industry would suffer from a lack of recognition of the value of its cultural productions, and local traditional arts and crafts would not be likely to command their proper prices.

Audiovisual and Interactive Media

Audiovisual media in a broad sense includes motion pictures, television, radio, and other forms of broadcasting. For Lionetti and Patuelli, 'with the introduction of new ITC [International Trade Centre] tools, the definition becomes more problematic because the cultural and creative contents are mixed together and it is difficult to state that a digitalised cartoon film is part of new media or an audiovisual product'.[30] The cultural industry in Burkina Faso is currently discovering the first signs of these new media. Thanks to very competitive training schools such as Imagine and a competitive labour force, Burkina Faso could nonetheless play a major role in the growing global market for new media as Senegal is currently doing for business process outsourcing.

The current media landscape in Burkina Faso is heavily influenced by the Information Code of 1993, which has been widely criticised by media professionals. Despite the criticism, the Code has enabled liberalisation and the proliferation of private radio stations, newspapers, and television stations. Furthermore, the Higher Communications Council (HCC), composed of mostly political appointees, plays a dominant role as the main regulatory body governing and monitoring the media.

Table 14: Activities of Stakeholders in the Audiovisual and Interactive Media

Activities	Number	% of Total Stakeholders Engaged
Creation/composition/collection	27	35.53
Conservation/restoration	9	11.84
Production/publication	32	42.11
Reproduction	15	19.74
Manufacture	8	10.53
Promotion/marketing	36	47.37
Distribution/sales	48	63.16
Funding	3	3.95
Training/advisory services	14	18.42

Source: BBEAC (2012). Étude sur les impacts du secteur de la culture sur le développement social et économique du Burkina Faso.

About 50 production companies are registered in Burkina Faso.[31] Of this quantity, only a few have the reach and the capacity to cover the export markets. As for other categories, many stakeholders are present at different nodes of the supply chain. Burkina Faso is however recognised internationally as a global hub for African cinema, making its technicians particularly sought in the region.

Burkinabe audiovisual and interactive media are particularly well known, thanks to the Pan-African Cinema and Television Festival of Ouagadougou (FESPACO), created in 1969. With production of around 50 films per year, Burkinabe cinematography is currently suffering from a

[30] Lionetti and Patuelli (2010). 'Trading Cultural Goods in the Era of Digital Piracy.' Rimini, Italy: Rimini Centre for Economic Analysis.

[31] BBEAC (2012). Étude sur les impacts du secteur de la culture sur le développement social et économique du Burkina Faso.

lack of funding, a high level of digital piracy, an increase in the number of video rental outlets, a decrease in the number of operational cinemas, and the growing importance of audiovisual media in the daily life of local communities. However, the national production of TV series accounts for only 11.9% of total broadcast drama on national television.

In light of the important Burkinabe diaspora in neighbouring countries (Côte d'Ivoire: 3 to 4 million, Ghana: 2 million, Sudan: 1 million, Mali: 1 million), national TV drama and reality shows represent an opportunity for advertisers to reach an international audience. The business of supplying television services is somewhat unusual in economic terms in that broadcasters operate in what are sometimes called 'dual product' or two-sided markets.[32] Two sorts of output are created: first, content (i.e., television programs, news stories etc., arranged into a schedule); and second, media audiences. Audience attention is routinely packaged, traded, and sold to advertisers, and the commercial income it currently generates accounts for almost 50% of the revenues of the global television industry.[33] Indeed, foreign advertisers represent an increasing part of advertisements on the national channel (Radio Television of Burkina, RTB), leading to an inflow of foreign currency. Such an approach has its importance when talking about broadcasting services as final demand services, although no direct payment is made from the consumer to the supplier. There were 112 radio stations and 14 TV stations registered in late 2012 in Burkina Faso. For *Statistics Canada* (2007), broadcasts can be thought of as the distribution of live or pre-recorded performances to consumers via electronic media (Mode 1). This definition would include radio and television broadcasts, be they over the airwaves, cable, satellite, or Internet.

Music and Sound Recording

Digital piracy is a hot button issue for the music industry, hence its related services are also experiencing a strong decline in terms of activities and incomes. The BBEAC in 2012 counted 29 production companies in the music industry for only two involved in distribution. The music industry is characterised by a large number of small players whose employees are not always declared. Additionally, several associations—e.g., Association des commerçants et vendeurs de K7 et CD du Kadiogo (ASCOVECA), Programme canadien de bourses de la Francophonie (PCBF)—are supporting the sector and its artists.

With the evolution of digital and electronic supports, and considering that trade of music is very closely linked to the use of new digitised tools and alternative platforms for musical content and radio, the Burkinabe music industry is in the early stages of a new era where Internet will play a major role as a distribution and promotion channel. The critical point concerns the place that current services providers will occupy in the new digital landscape and in the electronic trade.

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[32] Doyle (2012). 'Audio-visual Services: International Trade and Cultural Policy'. ADBI Working Paper Series, No. 355.

[33] UK Office of Communications (Ofcom), 2010, 113, cited in Doyle, 2012.

The number of Internet users in Burkina Faso was last reported at 230,562 only in 2010, according to a World Bank report published in 2012. Internet users are those with access to the worldwide network. A lack of Internet access can limit the visibility of some Burkinabe artists.

Table 15: Views Count on YouTube for Top Three Singles by Artist (December 2013)

Rank	Artists	Number of Views on YouTube for Top 3 Videos
1	Floby	343,860
2	Ahmed Smani	176,736
3	Dez Altino	164,530
4	Greg	152,643
5	Sissao	120,655
6	Smockey	101,081
7	Zedess	95,435
8	Faso Kombat	67,772
9	Solo Dja Kabaco	61,826
10	Smarty	55,885

Source: Authors.

It helps to measure how much still needs to be done for the Burkinabe artists to get direct benefits from being viewed online. When a video gets popular enough, it is actually possible to apply for a 'partnership' with a company like TGN or Machinima (or of course, YouTube). The partnership companies then pay the artists to put ads on their videos, and the price of this varies. The average is about USD5/1,000 ad views. Table 15 indicates that Burkinabe artists are not yet massively viewed on the Web but the increased access to the Internet in the subregion should progressively offer them a new source of income. By comparison, with 1.3 million views for just one single in January 2014, the number of viewers for Serge Beynaud from Côte d'Ivoire was similar to those of the top ten Burkinabe singers on YouTube.

An issue of great concern is the high level of imports of cultural goods (CFAF 143 billion in 2011) while exports are limited to CFAF 13 billion (or some € 20 million).[34] This is particularly true for the music industry, where foreign products represent a growing demand among the primarily young population. Since the constructs of individualism and collectivism appear to play a particularly prominent role in consumers' behaviour, cultural traditions are ways to support not only social development but also the consumption of cultural goods and services. The creation of alternative music festivals such as Wagga Hip Hop (2000) confirms the growing interest in a wide range of alternative musical styles. For the reason that they can both represent serious additional opportunities for the local and regional markets (as they are now all over the world) and be a source of wealth and innovative dynamism, they ought to be likewise encouraged along with traditional arts.

[34] BBEAC (2012), op. cit.

Success Story: Biz'Art Productions

Created in 1999, Biz'Art Productions is a privately owned company with the primary goal of significantly contributing to the production and promotion of the performing arts (music) in Burkina Faso. It is mostly famous for the creation and organisation of the Kunde—the equivalent of the national music awards. Last year, about 1,000 people attended the Kunde, including respectively 10% and 20% of internationals and regional visitors.

Biz'Art Productions is also well known by international companies for having developed an operational marketing branch that defines and adapts their marketing strategies to both the local context and the target population. Biz'Art Productions employs 40 people including 17% full-time. It also has a network of 300 people in the three main cities of the country.

Finally, there is an important branch of services within the music industry that needs to be considered as part of cultural services, namely operational marketing. This is all the more important as international companies and institutions call regularly upon national production and communication agencies to adapt and improve their marketing strategies for local markets. Culture acts as an active and explicit component in development strategies and interventions, and it shapes consumer behaviour. National culture has been defined as patterns of thinking, feeling, and acting that are rooted in common values and societal conventions.[35]

Training/Advisory Services

Apart from South Africa, training facilities in the field of film/video/television are very limited on the continent of Africa. Burkina Faso appears therefore as a leader in training and advisory services for audiovisual media in West Africa (Mode 2). There are currently around 10 training schools providing training in all activities related to the cinema, television, and multimedia industries.

Some cultural associations also offer training in the field of performing arts. Thus, the Carrefour international du théâtre de Ouagadougou (CITO) and the Espace culturel Gambidi (ECG) have respectively trained 686 and 206 theatre artists between 2002 and 2009 (CITO), and 2003 to 2009 (Gambidi).[36] Another example is the Maison de la Parole, which has trained over 500 storytellers from Africa, Europe, and beyond, between 1998 and 2013. More information on training schools and institutions is provided in a later chapter.

Performing Arts and Cultural Events

Burkina Faso is a leading country in the promotion and dissemination of Pan-African culture. Cultural events are a tradition in Burkina Faso with at least two cultural events per year (festive season and funerary celebrations) in each of the 8,000 villages of the country.

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[35] Nakata and Sivakumar (2001). 'Instituting the Marketing Concept in a Multinational Setting: The Role of National Culture', *Journal of the Academy of Marketing Science*, 29 (Summer), pp. 255-275.

[36] Centre de formation et recherche en arts vivants, 2011.

Most major events are organised in and around Ouagadougou. Twenty-two of these cultural events can be classified as world-class events and include both public and private organisers. The major operators in the sector of cultural events are the government of Burkina Faso with FESPACO, SIAO, SNC, and the Symposium of Laongo; and the cultural associations with FITD, FITMO/FOB, Récréatrales, Jazz à Ouaga, NAK, Waga Hip Hop, FESTIMA, FIAPO, Rencontres chorégraphiques, Dialogues du corps, Festival Yeleen, FESCO, Wedbindé, Liwaga, and others.

Table 16: Distribution of Active Festivals by Province

Province	Legal Status		Total
	Private	Public	
Boulgou	2		2
Boulkiemdé	2		2
Gourma	1		1
Houet[37]	6	1	7
Kadiogo (Ouagadougou)	13	4	17
Kossi	1		1
Kouritenga	1		1
Mouhoun	1		1
Namentenga	1		1
Oudalan	1		1
Poni	1		1
Sanmatenga	1		1
Soum	1		1
Yatenga	2		2
Total	**35**	**5**	**40**

Sources: BBEAC (2012), and authors.

The mission of both the government and the cultural associations is to promote one or several cultural sectors. Most of the cultural events are privately organised by cultural associations. With 70 registered festivals, only 40 are regularly organised. This is mostly explained by the limited financial capacities of the organisational structures.

[37] Festival Yeleen, Festival Sya Ben, Festival de la Rue, Fitini Show, Gnogon Bèn, Festival de Bolomakoté, and In Out Dance Festival.

Success Story: Cartel[38]

Aware of the difficulties met by new structures and associations in acquiring a structured and professional administration, four theatre companies have joined forces to create Le Cartel and thereby have combined their intellectual, administrative, and technical skills. The flagship project of Le Cartel is called 'les Récréatrales'. Since 2002, the theatre festival Récréatrales is the most important place for African performance artists to work, research, and reflect on their practices. For 10 days, Ouagadougou is transformed into an open air theatre where Africa's best theatre companies, actors, directors, scriptwriters, set designers, and technicians from various African countries and worldwide have been invited to join Récréatrales and participate in a collective process of creating theatre and artworks. These collaborative productions, which are created in the period of three months, focus on the interaction between participants who all have their own expertise. Residents, children, and social workers are all involved. In these neighbourhoods, to participate in the event is more than just theatre. It is another way to face the difficulties of public and daily life. Fun encourages reflection, and reflection leads to behavioural changes.

While all Burkinabe performing arts are highlighted during and thanks to the major cultural events, several structures such as platforms or associations[39] support all year round the activities of those performing traditional and modern arts (Cartel, Plateforme Culturelle, AFRI-FOGO). The longstanding efforts of these actors in supporting performing arts have led to the creation of several structures enabling both the creation and the diffusion of cultural services.

Books and Press

In 1997, the government of Burkina Faso organised a national forum on cultural policy in Bobo-Dioulasso, starting a 12-year process leading to the adoption of the National Cultural Policy in 2009. In this context, the Ministry of Culture and Tourism implemented a national strategy to support book development and promote reading for all.

(a) Libraries: In Burkina Faso, books constitute an invaluable tool for intellectual, moral, and emotional development. In additional to library schools, there exists a national network of public libraries (CELPAC) under the aegis of the Ministry of Culture and Tourism, NGOs, and various institutions. Unlike many other cultural services, most associations of book-related stakeholders have either disappeared or lack financial means to carry on with their activities. Only the Société des Auteurs, des Gens de l'Écrit et des Savoirs (SAGES), created in 2011, seems to emerge today (e.g., exhibition, conference).

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[38] http://www.recreatrales.org/les-recreatrales.html

[39] CITO, l'Atelier Théâtre Burkinabè (ATB), la Fédération du CARTEL, le Centre Burkinabè de l'Institut international du Théâtre (CB-IIT), ECG, la Compagnie théâtrale le Roseau (CTR), l'association SIRABA, la Compagnie l'Œil du cyclone, la compagnie Marbayassa, la compagnie Espoir, le Centre de Développement Chorégraphique (CDC), l'Ecole de Danse Irène Tassembédo (EDIT), l'association des managers du Burkina, l'association Umané Culture, l'association Jazz à Ouaga, le Syndicat national des Artistes Musiciens (SYNAM), l'Association des Jeunes Musiciens du Burkina (AJMB), l'Union Internationale des Marionnettistes (UNIMA), Union des marionnettistes du Burkina Faso (UMAB), l'Association Maison de la Parole, l'Association Wamdé, and others.

(b) Editors and publishers: If there are more than 30 companies claiming the status of publisher today, rare are those with a minimum of organisation: a publishing or literary department service, an art and production department, a commercial service, an accounting service. Two associations, however, group the professionals together, namely the Association of Editors of Burkina Faso (ASSEDIF) and the Association of Editors and Publishers of Newspapers in National Languages (AEPJLN).

(c) Printing companies: There are more than 60 printing companies operating in Burkina Faso, but only a few are able to produce books in large quantities with professional standards and within the envisaged deadlines. Most printing companies rely on foreign experts to solve problems of machine maintenance. In general national printing companies are characterised by:

- Outdated machines (second hand usually)
- Insufficient qualification of employees
- Lack of skilled technicians
- High costs due to distance from source countries for raw materials
- Lack of organisation of the sector
- No payment or late payment
- Lack of rigour and realism at the business planning level.

(d) The media: The media landscape in Burkina Faso has experienced significant growth, both in quantitative and qualitative terms. This was a natural consequence of the ongoing processes of democratisation, decentralisation, and media liberalisation. To enable the free and fair practice of media-related activities, an Information Code was adopted in 1991, and a regulatory body, the Higher Council for Communication (Conseil Supérieur de la Communication), was established in 1995. Today Burkina Faso counts at least five national dailies, but they have very low circulation figures and structural difficulties place the print media in a fragile economic situation. Additionally, low literacy rates and poor economic conditions make the broadcast media the preferred choice for news and entertainment.

Table 17: Activities of Stakeholders in the Book and Press Supply Chain

Activities	Number	% of Total Stakeholders Engaged
Creation/composition/collection	9	19.57
Conservation/restoration	7	15.22
Production/publishing	21	45.65
Reproduction	9	19.57
Manufacture	3	6.52
Promotion/marketing	11	23.91
Distribution/sales	31	67.39
Funding	3	6.52
Training/advisory services	5	10.87

Source: BBEAC (2012).

Cultural and Natural Heritage

Burkina Faso has over 60 ethnic groups offering a large number of opportunities for tourism and recreational activities. In light of an impressive tangible and intangible heritage, a dozen museums are currently operated commercially; 16 are registered across the country. For example, the Manega Museum, located 50 km from Ouagadougou, has welcomed around 25,000 visitors over the last two years. In addition to the museums, there is the heritage of monuments with traditional architecture such as the habitations of the Lobi, Kassena, Bobo, Senufo, and Peul peoples. About 11 major cultural sites are commercially exploited in Burkina Faso[40] to which several crocodile ponds can be added.

Table 18: Number of Commercially Exploited Cultural Sites and Buildings in Burkina Faso

Categories of cultural and heritage sites and buildings	No.
Museums	16
Cultural sites	11
Properties inscribed on the World Heritage List[41]	1
Cultural centres	31
Commercial libraries	13
Public libraries	34

Source: MOCT (2011). Annuaire statistique.

The preservation and promotion of the national resources and heritage has provided employment for a broad range of service providers such as local guides (16), national guides (53), museum curators, and administrators.

While it could be difficult to demonstrate that all parts of the economy can be analysed in terms of their cultural relevance just because they all tend to have significant cultural features in both production and consumption processes, the rich cultural and natural heritage of Burkina Faso is definitively a leading engine in the economic and touristic development of both primary and secondary destinations. It is no coincidence that, within the SCADD, the primary focus for future action of the cultural industries is on tourism. With 433,778 international and domestic visitors to Burkina Faso in 2011, the tourism receipts for accommodation, transport, and excursions have reached more than CFAF 68 billion (€ 103 million). These receipts do not include expenditures on souvenirs. Since they represent an average of 10 to 20% of in-country tourist expenditures, an additional € 5 to 10 million could therefore be added to the amount mentioned above (not taking into account the CFAF 392 million reported by the Ministry of Culture and Tourism in its *Statistical Yearbook*. Actually, it is unlikely that most of the visitors to Burkina Faso declare the purchase of locally produced crafts and souvenirs. Based on the above assumption, the average visitor to Burkina Faso would spend approximately CFAF 10,000 to 15,000 on souvenirs.

Despite beautiful natural assets, Burkina Faso is mostly known for its cultural heritage, positioning its cultural assets as the triggering factor for visiting the country. The important share of both domestic and business tourists reflects the major weight of cultural events in the dynamism of the tourism industry. However, the international arrivals to Burkina Faso, and

[40] Les Sculptures sur granite de Laongo, Village perché de Koro, Village de Koumi, Mare aux hippopotames de Bala, La Guinguette, Cascades de Karfieguela, Lac Tingrela, Pics de Sindou, Les dômes de Fabédougou, Le sanctuaire des Rois Gans, Les Ruines de Loropéni.

[41] Ruins of Loropéni (2009).

particularly those from Europe, have continuously declined over the period 2007–2011. This is of real concern as the connectivity to Europe has been improved over the last few years. Regional instability and dependence on neighbouring tourism assets (Dogon country) are obviously important factors in explaining this trend. Nevertheless, Burkina Faso has to question the competitiveness of its tourism industry and perhaps not rely only on cultural events. According to the Travel and Tourism Competitiveness Index 2013 (World Economic Forum), Burkina Faso ranks 128th worldwide in terms of the competitiveness of its tourism sector, up only 4 ranks from 2011. Burkina Faso ranks best in its travel and tourism framework (120). It ranks worst in its business environment and infrastructure (134) and especially in ICT infrastructure.

To conclude, most of the major festivals organised in Burkina Faso can be considered as flagship projects to be seen as examples. Being originally dedicated to the preservation and the promotion of both African cultural diversity and richness, these cultural events have definitively drawn a worldwide attention to Burkina Faso. Now that these festivals are able to attract visitors to rural areas, it is now time to revitalise the tourism infrastructure. To this end, the priorities are for the government of Burkina Faso not only to provide financial incentives to investors, but also to facilitate the networking of economic actors.

Success Story: FESTIMA/NAK

Started in 1995 by a group of students to preserve the cultural heritage that traditional masks represent, the Festival international des Masques et des Arts (FESTIMA) is now held every two years. While there are other mask festivals, the FESTIMA is considered unique in that it shows off many different styles of masks all at one time in the same place. Masks are mainly from Burkina, but groups from Benin, Côte d'Ivoire, Togo, Mali, Guinea, Senegal, Nigeria, and Switzerland are also involved. Most of the spectators are from the immediate area, but the festival draws more and more groups of international (mostly French) tourists.

With more than 75,000 visitors in 2012, the FESTIMA is now the largest cultural event in Africa for the protection and promotion of African masks. The festival has indeed become a dominant feature in the activity pattern of many people in and outside Burkina Faso, bringing the city of Dédougou to the rank of a tourist destination. With the recent rehabilitation of the road to Dédougou, the capacity of local hotels to welcome more international visitors is now the main constraint on an increase of visitors. The association in charge of the FESTIMA, called the Association pour la sauvegarde des Masques (ASAMA), also supports agricultural programs aiming at conserving varieties and tree species, and increasing yields. Additionally, in 2010 the association made an inventory of masks in 303 villages in Burkina Faso, Benin, Côte d'Ivoire, and Mali (Rapports des sociétés vivantes de masques en Afrique de l'Ouest). To highlight the results of this research, ASAMA expects to build soon an interpretation centre for the history of African masks.

Another association, Benebnooma, that has created the Nuits Atypiques de Koudougou (NAK), has also been involved in numerous social projects that it has funded through its cultural activities. It emerges from the meetings with these associations that their activities became essential to their regions, bringing visitors, incomes, and social support. From each trip to Europe (Mode 4), Saaba—the Art Company of Benebnooma—transferred one third of its benefits to the association for the implementation of social projects (child sponsorship programs, a school for the deaf, informal education, and other activities). At least 500 children are directly supported by the projects and thousands of others are reached indirectly by radio and TV awareness programs.

Market Structure

Providing adequate, tailor-made support mechanisms for the cultural services sector requires an understanding of the cultural services industry, its structure, and the needs and challenges of its businesses. This section concentrates on the market structure only. It seems important to recall first the vulnerability of the Burkinabe cultural sector:

- Cultural products are often short lived with a high-risk ratio of failure over success. The market for cultural products is highly volatile, dependent on fashion and trends with uncertainty in demand. Some sectors are strongly "hit driven" (cinema and music for instance).
- Burkinabe companies evolve in a fragmented market made up of a medley of local languages and cultures or traditions. However that reality is less the case in some subsectors (design, visual arts) and the use of the French language in all WAEMU countries serves to counterbalance this fragmentation.
- This market fragmentation, based mainly on structural constraints linked to the features of local markets, hinders the companies' international development. Education and especially access to a common language can help in competing with international products.

Currently, co-sharing in the ownership of cultural enterprises by foreign companies is mostly nonexistent in Burkina Faso for the reason that most of actors in the cultural services industry are non-profit organisations. However, these structures receive important financial support from the international community, including Technical and Financial Partners (PTFs). This particularity makes the sector predominantly dependent on foreign aid. From several interviews with cultural services providers, the cost of running 'an enterprise' is considered not affordable, compelling them to remain in the nonprofit structure. Overall, most cultural and creative businesses need external finance to:

- Help artists/entrepreneurs to start up
- Finance investment in new products and services
- Access markets
- Invest in growth to scale up and reach a critical size.

Activities that represent the highest share of involved individuals and enterprises are those concerning traditional and local know-how, handed down from father to son in many families, and having access to both local and export markets. These activities correspond to the comparative advantage owned by Burkina Faso thanks to the richness of its culture.

Table 19: Distribution of Activities by Cultural Sectors

Activities	Distribution	Additional information
Visual arts and crafts	29%	93,936 crafts items were exported in 2012 for a total value of CFAF 392 million.
Audiovisual and interactive media	14%	There are about 50 production companies, 14 TV stations, and 143 radio stations.
Music and sound recording	12%	5,512 artists were registered in the National Bureau of Copyright as of December 2012.
Training/advisory services	11%	There are about 10 specialised training schools and institutions.
Performing arts	10%	More than 2,000 artist groups were registered in 2005, of which half are still active.
Cultural events	10%	112 festivals are registered in Burkina Faso, of which 34 are active.
Books and press	8%	There are about 30 publishers and 60 printing companies in Burkina Faso.
Cultural and natural heritage	6%	There are 44 cultural and natural sites including 7 active museums.

Source: BBEAC (2012).

But the distribution of activities by cultural sector doesn't reflect the impact that each sector can have. Thus, the cultural heritage of Burkina Faso is certainly the main triggering factor for outsiders to either visit or consume local products and services. It constitutes the backbone of most cultural products and services.

Table 20: Distribution of Registered Governmental Cultural Institutions and Enterprises in Burkina Faso (2010)

Categories	#
Central and cross-cutting technical services of the Ministry of Culture and Tourism	11
Departments linked to the Ministry of Culture and Tourism	8
Decentralised departments (regional departments of culture and tourism)	13
Professional organisations	49
Cultural enterprises (spaces for creation, production, and distribution)	245
Training schools and institutions	26
Cultural buildings and establishments	56

Source: Ministry of Culture and Tourism (2010).

It is essential to underline that small businesses (less than 10 employees), micro-businesses, and self-employed freelancers essentially dominate the sector. On average these companies employ not more than five persons. There is a "missing middle" syndrome: there are very few medium-sized companies in comparison to the number of SMEs mostly based in and around Ouagadougou (see Table 45 in the annex for details). Only a few actors and major cultural events are located outside of the central region. The common features of micro-businesses and SMEs in the cultural services industry are that:

- There is a lack of business skills and financial support to develop business and growth strategies, perform financial planning and provide marketing.
- They are often dependent on public investment schemes (notably in cinema, but also in a wide range of performing sectors such as dance, opera, theatre).

Finally, it should be stressed that while the cultural market is becoming more and more global, the cultural services industry of Burkina Faso has remained essentially regional or national.

Human Capital Formation

The continuous growth of the cultural services industry in and beyond Burkina Faso requires training schools and centres to ensure a high quality for African cultural products and services. On this issue, Burkina Faso is well known for its cultural schools and institutions in the different fields of cultural services. Interestingly, the institutes and schools largely complement each other, offering everything from basic education to advanced training for students from all over Africa. In the early 2000s, the public school—the National School of Administration and Magistracy (ENAM, in 2004)—and a private school—the Training and Research Centre for the Performing Arts (CFRAV, in 2003)—were opened to train respectively civil servants in the cultural management and advisory services such as technical advisors and guides, and professional artists. Others pioneers in the field of cultural services training include the Centre for the Development of Choreography (CDC), the Atelier Théâtre Burkinabè (ATB), and the Dance School Irène Tassembédo (EDIT).

Table 21: The Main Cultural Schools and Institutions

Acronym	Name	Activities
IMAGINE	Film Training Institute	Private training institute for training and further education in the areas of cinema, television, and audiovisual media.
INAFAC	National Institute of Artistic and Cultural Training	Created in 1963 -- Public establishment, placed under the supervision of the Ministry of Culture and Tourism, providing introductory and advanced sessions in the areas of music, dance and plastic arts.
ISIS/SE	Higher Institute of Image and Sound	Public establishment providing initial and advanced training in the areas of CINEMA and Audiovisual for West African citizens .
ISTIC	Institute of Information and Communication Sciences and Technologies	Training of enforcement officers, supervisors, and senior executives for the management of production and broadcasting companies.
UO/AGAC	Arts, Management and Cultural Administration	Two-year vocational program at the University of Ouagadougou for a master's degree diploma in cultural management and administration.
ENAM	National School of Administration and Magistracy	Training of civil servants in cultural management and advisory services such as technical advisors, and guides.
EDIT	International School for Dance Irène Tassembédo	Training of professional dancers and choreographers.
CDC	Choreographic Development Centre	Encourages creation and dissemination of choreographic works. Contributes to the training and professionalisation of dancers. Welcomes and encourages any initiative in the area of dance.
	La Maison de la Parole	Training of storytellers. Between 2002 and 2009, la Maison de la Parole trained at least 250 storytellers from Africa, Europe, and America.

Source: Authors.

Amongst a dozen acknowledged cultural schools and institutions (out of 26), two in the field of cinema and audiovisual media are today particularly active and well known in West Africa and beyond.

ISIS – Higher Institute of Image and Sound (www.isis.bf)

ISIS is an international and cosmopolitan public institute created in 2006 with the objectives:

- To train professionals and beginners in the field of cinematographic and audiovisual production

- To transfer competencies in scenario, directing, producing, shooting, sound, editing, and multimedia.

For the purpose of accompanying most professionals in the transition to the new information and communication technologies and to upgrade their capacities, the institute has created a training studio with suitable equipment.

IMAGINE – Film Training Institute (www.imagine.bf)

Created in 2003, IMAGINE has already trained more than 900 people from 27 different countries. Admission to IMAGINE requires at least four years of professional experience or initial training. IMAGINE provides:

- Training in all activities related to cinema, television, and multimedia industries. Special emphasis is placed on the training of playwrights, writers, and scriptwriters.
- Training of creative and technical staff (film editors, actors, sound designers, producers, directors of photography, cameramen/women, sound engineers, sound designers, composers, set designers, wardrobe masters/mistresses, promoters, and distributors) to contribute to the further development of the film sector in Africa and to stimulate innovation, inventiveness, and quality in this art discipline.

Despite major efforts to gain financial independence, IMAGINE still relies on foreign aid. Interestingly, the institute was developed to offer free classes to students from all over Africa, a system that now needs to evolve to ensure its financial sustainability. Other cultural schools and institutions do not seem to have such regional coverage and recognition.

Economic Impact of Cultural Services on Burkina Faso

Identifying the reasons for the success or underperformance of Burkina Faso in exporting services remains challenging because of the lack of reliable data. This situation occurs because the stakeholders are not especially keen to take part in surveys and to provide financial information, and the surveys of the INSD and other institutions are not set up to identify cultural enterprises which are, for many, part of the informal economy. For example, the only survey made of employment in the informal economy dates back to the year 2001.

Contribution of Cultural Services to GDP

To provide readers with economic information on the cultural services in a limited amount of time, we recall that we have chosen to review both the methodology of a recent exhaustive study of the cultural industry in Burkina Faso made by the consulting company BBEAC[42] and the sources of information used to gather financial and economic data on cultural services.[43] BBEAC claimed that the cultural sector contributed CFAF 79.7 billion to the GDP of Burkina Faso in 2009 (see Table 22). However, De Beukelaer noted that the BBEAC export figures for

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[42] BBEAC (2012). Op. cit.

[43] UNESCO (2012). Op. cit.

creative goods were greatly at odds with the much smaller figures available from UNCTADstat.[44]

Table 22: Contribution of Culture to GDP (2009)

	Value Added (CFAF/XOF)	Value Added (Euros)	Relative Share of GDP (%)
Visual arts, applied arts, and crafts	54,391,000,000	82,918,545	1.38
Books and press	11,490,000,000	17,516,392	0.29
Heritage	3,201,000,000	4,879,893	0.08
Cinema and audiovisual media	3,402,000,000	5,186,316	0.09
Performing arts	3,586,000,000	5,466,822	0.09
Music and sound recording	1,035,000,000	1,577,847	0.03
Cultural events	811,000,000	1,236,362	0.02
Training and advisory support	1,751,000,000	2,669,382	0.04
Cultural sector	**79,667,000,000**	**121,451,559**	**2.02**
Total GDP	**3,941,000,000,000**	**6,008,015,769**	

Source: BBEAC (2012).

Little was said in the BBEAC survey about the relatively high share of visual arts and crafts that mostly represent the production and sale of cultural goods. In total, the cultural sector was estimated to account for 2.02% of the GDP in 2009.

Cross-Border Trade in Cultural Services

Imports of cultural goods were evaluated at CFAF 143 billion in 2011 (or some € 218 million), while exports were limited to CFAF 13 billion (€ 20 million).[45] However, no data were available regarding the trade in cultural services.

Table 23: Modes of Supply for the Cultural Services Providers

Mode of Supply	Share of Interviewed Stakeholders Doing Business in this Mode of Supply	Average International Contribution to Each Mode of Exports[46]
Cross-border trade in services (Mode 1)	25%	35%
Consumption abroad (Mode 2)	70%	10–15%
Commercial presence (Mode 3)	11%	50%
Movement of natural persons (Mode 4)	55%	1–2%

Source: Authors.

[44] De Beukelaer, Christiaan. 2013. "Culture and Development in Burkina Faso: Social and Economic Impacts Explored." *Cultural Trends* 22 (3-4) (December): 250–258. De Beukelaer makes the comparison in U.S. dollars, providing the BBEAC figure as US$ 26 million and the UNCTADstat figure as US$ 2.3 million (citing UNCTADstat, 2012: unctad.org/en/Pages/Statistics.aspx).

[45] BBEAC (2012). Op. cit.

[46] Soprana, Marta (2011). Services Exports and Developing Countries: Competitiveness Challenges According to Mode of Supply. World Trade Institute. Thesis.

From the survey made amongst 42 local companies, the main identified mode of supply for the export of cultural services is through the consumption of foreign individuals and companies inside Burkina Faso (Mode 2, 70%) which corresponds to cultural tourism and events. Then, slightly more than half of interviewees claim to provide cultural services abroad (Mode 4, 55%). Fewer of the interviewed companies claim to have a commercial presence abroad (Mode 3, 11%) or provide cultural services through the use of ICT (Mode 1, 25%). The latter reflects the poor access to, and low reliability of ICT in Burkina Faso. Respectively 31% and 19% of respondents are using at least two or three modes of supply to customers. This information is at odds with the average international contribution of each supply mode of services trade internationally (Table 23).

Like many developing countries, Burkina Faso has a comparative advantage in the tourism sector and the country also benefits from its attractive cultural assets, especially in music and the performing arts.

Estimated Revenue Generated by Cultural Services

Although they may have a number of other objectives, the cultural services such as festival and cultural events often play an important role in both the economic development of regional destinations and the balance of payments. Thus, it is known that major cultural events have economic benefits for the retail sector as well as the more traditional accommodation, catering, transport, and entertainment sectors.

Figure 5: Different Types of Cultural Services Exports

Production of motion pictures, radio and TV programs
- Copyright (licensing services)
- Advertisements on motion pictures, radio and TV programs by foreign companies
- Production and post-production of services for foreign companies

Festival
- International visitors expenditures
- Resources from Foreign PTFs
- Expenditures by foreign companies

Music recording
- Copyright
- Production and post production of services for foreign customers

Libraries
- Copyright including copyright for translation

Theatre
- International visitors expenditures
- Resources from Foreign PTFs
- Performances abroad

Artistic and cultural training schools
- Fees from foreign students
- Resources from Foreign PTFs

Museums
- Entrance fees from foreign visitors
- Resources from Foreign PTFs

Training and advisory support
- Resources from Foreign PTFs
- Human resources intervening abroad
- Certificates or exportations licences for artefacts

Source: Authors.

The data provided throughout the BBEAC report indicates that the cultural sector contributed CFAF 79.7 billion to GDP in 2009 while exports were limited to CFAF 13 billion (€ 20 million). According to the Department of Cooperation, PTFs donated more than CFAF 9.8 billion between 2005 and 2011 for cultural and leisure activities including 6 billion for culture only. Are these CFAF 6 billion included in exports or not? For a better understanding of this aspect, Figure 5 above highlights the different forms of exports that concern the cultural services industry.

From the interviews made amongst private and public cultural stakeholders, the team has explored the amount of imports necessary to operate their cultural services and the share and value of cultural services exported or sold to international visitors. The data being not as solid as expected for all categories, the team preferred to be cautious on the following conclusions. In developing countries, the requirements for high quality products are reflected in a higher amount of imported inputs or labour to ensure the satisfaction of customers. The results from the interviews seem to confirm this trend, with imports counting more than exports for the companies operating in Burkina Faso. In total, Burkina Faso would have a negative impact on the balance of payments for the sector of cultural services. This situation could be reversed with an improvement of local inputs and labour.

Table 24: Amount of Revenue by Type of Cultural Services

Activities		Amount of Revenue
Ministry of Culture and Tourism	XOF 7,600,000,000	€ 11,586,125*
Production of motion pictures, radio, and TV programs	XOF 2,234,516,667	€ 3,406,499
Festivals	XOF 3,098,947,704	€ 4,724,315
Music and sound recording	XOF 1,106,000,000	€ 1,686,086
Performing arts	XOF 3,586,000,000	€ 5,466,822**
Libraries	XOF 20,000,000	€ 30,490
Theatres	XOF 386,394,167	€ 589,054
Artistic and cultural training schools	XOF 625,180,000	€ 953,081
Museums	XOF 48,079,833	€ 73,297
Training and advisory services	XOF 1,045,000,000	€ 1,593,092
Total	**XOF 19,750,118,135**	**€ 30,108,861**

*Source: Authors, with the exception of *MOCT (2013) and **BBEAC (2012).*

The information regarding the amount of revenue generated by cultural services is also of great concern. Several issues have made the analysis of the sector quite complex. First, there are numerous companies involved simultaneously in many sectors or activities, making the breakdown and the accounting of their revenue difficult to evaluate. Second, not all major companies agreed to answer the questionnaire leading to an extrapolation that can be challenged.

To this framework, we wish to explicitly add that the migration of many Burkinabe to neighbouring countries can in the end provide a substantial contribution to the balance of payments (as a direct and indirect export). The success of Burkinabe TV series such as 'Public Affairs' and TV shows on cable TV represent directly and indirectly an inflow of money for the country. First, there are the fees paid by the diaspora to watch Burkina programs on cable TV. Second, the advertisers from the entire subregion are increasingly looking to advertise the names of their enterprises in spaces where a cultural product or cultural services are broadcast on cable TV or radio. This type of export is often either underestimated or forgotten in the evaluation of the impact of cultural services on the balance of payments. However, the actors are not yet mature enough to share this information, and we were not able to aggregate the amount of these expenditures. Additionally, the presence or the support of private sector, international NGOs, and technical partners to cultural events also represent a money inflow for the country.

In total, we estimate the minimum amount of direct revenue by type of cultural services (only) at 19.7 billions CFAF (€ 30.1 million) for the year 2012. The BBEAC (2012) had evaluated the contribution of culture to GDP to 79.6 billion CFAF (€ 121 million) of which 83% came chiefly from cultural goods: visual arts, applied arts and crafts, and publishing and printing. Cultural services would therefore contribute to approximately one fourth of the impact of culture to GDP. Note, however, that without services there would be no products.

There are virtually no major differences in the measurement of cultural services between the two studies. However, we insist on the fact that the present study does not take into account some information on exports of services, which were not provided by the cultural enterprises:

- The fees paid by the advertisers (companies) from the entire subregion for advertising on the main TV channels the names of their enterprises on spaces when a cultural product or cultural services are broadcast on cable TV or radio
- The fees earned by technicians in participating in the production of motion pictures abroad
- The fees earned by local artists in participating in cultural events abroad
- The revenues.

These results only constitute the direct impact of the cultural services. Especially from the performing arts, information was gathered from the BBEAC report (2012). Amongst others, festivals and other cultural events, and also cultural heritage have thus an indirect impact through the expenditures made by foreign visitors and participants for their stay and activities in Burkina Faso. While organised in a secondary destination, the multiplier effect of the FESTIMA in Dedougou was estimated at five times the revenues of the festival itself (see Table 31). To summarise, the overall impact of festivals would therefore be at minimum about CFAF 15 billion (€ 20 millions) per year.

Festivals. For the year 2012, it was estimated that the top 10 festivals attracted, all audiences combined, more than one and half million visitors. Regional and international visitors represented respectively 7% and 5%. However their share of total revenues from entrance fees is a higher percentage. In total, entrance fees from festivals is estimated to have brought CFAF 780 millions (€ 1.2 millions) in 2012, of which 22% can be considered exports (entrance fees from non-residents).

Table 25: Festival Admissions and Revenues (2012)

	Origin of Visitors			
	Local	**Regional**	**International**	**Total**
Admissions, Top 10 Festivals	1,594,713	127,517	86,411	1,808,642
Share	89%	6%	5%	
Estimates of revenues from admission fees only, for all festivals	XOF 605,400,000	XOF 101,932,000	XOF 72,000,000	XOF 779,332,000
	€ 922,926	€ 155,394	€ 109,763	€ 1,188,084
Share	78%	13%	9%	

Source: Authors.

Cultural Heritage: Museums and Cultural Sites

There were 21 museums and cultural sites recorded by the National Institute of Statistics in 2011[47] of which four are located in Ouagadougou. Statistics were only provided for the eight main museums. It shows a strong decrease in the number of entrances for the year 2011. With the exception of the Museum of Manega, located 50 km from Ouagadougou, most visits to museums are actually seeing a decline in their number of visitors.

[47] Institut national de la statistique et de la démographie (INSD, 2013). Annuaire statistique 2011.

In 2012, foreign visitors to national museums accounted for approximately one fourth of all visitors, but contributed almost half of revenues. Due to climate control problems at the Music Museum for a period of few years, a necessary relocation has unfortunately impacted negatively its number of visitors. A loss of at least a thousand international visitors per year has been observed since 2011.

Table 26: Evolution of Admissions and Receipts at the Main National Museums (CFAF millions)

		2004	2005	2006	2007	2008	2009	2010	2011	2012
Admissions	Tourists	856	2591	2532	2902	3411	4479	6693	4845	6461
		28%	50%	33%	39%	45%	21%	25%	22%	25%
	Students	1616	997	2064	1854	1752	3227	6731	5454	6983
	Others	634	1641	2966	2647	2470	14000	13663	12048	12838
Revenues	Tourists	€ 1305	€ 3950	€ 3860	€ 4424	€ 5200	€ 6828	€ 10203	€ 7387	€ 9850
		54%	71%	56%	62%	67%	36%	44%	40%	44%
	Students	€ 616	€ 380	€ 787	€ 707	€ 668	€ 1230	€ 2565	€ 2079	€ 2661
	Others	€ 483	€ 1251	€ 2261	€ 2018	€ 1883	€ 10672	€ 10415	€ 9183	€ 9785
	Total	**€ 2405**	**€ 5581**	**€ 6908**	**€ 7149**	**€ 7751**	**€ 18730**	**€ 23184**	**€ 18649**	**€ 22298**

Source: Ministry of Culture and Tourism (2012), Annuaire statistique.

While the top eight museums earn approximately € 20,000 per year, an estimate of the total revenue from this sector should be around € 73,000 in 2012 (see Table 19). In the absence of attractive derivative products, the impact of museums on the local economy depends mostly on entrance fees.

Schools and Theatre Classes in Burkina Faso. Since most of classes taught in Burkina Faso were founded on the principle of free access to all, direct revenues generated by schools and theatre come chiefly from the technical and financial partners. The example of Engagement Féminin—a project launched in 2008 by the dance company, Auguste of Ouagadogou (Burkina Faso) and the Association Wa Tid Saou of Bordeaux (France), with support from the CDC—illustrates this trend. Five editions of the programme have been successfully completed. The initiative was established in response to the reality that, despite the growth of contemporary dance on the African continent in recent years, female dancers and choreographers have been largely conspicuous by their absence. Engagement Féminin thus provides a framework for female artists of the West African subregion to access training, artist residencies, and performance tours. By doing so, it enables and encourages freedom of artistic and cultural expression, as recognised by the UNESCO Convention. Engagement Féminin may be seen as an innovative model for artistic and economic empowerment of under-represented artists, and with potential for replication in other artistic disciplines such as music, film, and the visual arts. However, fees are covered by the foreign technical partners. An assumption here is that revenues generated by schools and training institutions simply correspond to their budgets.

Eight of the major public and private schools and institutions agreed to provide their budgets for the year 2012. All together, these schools and institutions managed an amount of CFAF 1.2 billion (€ 1.8 million) for 380 full-time students and a large number of participants in short-time training or workshops. The situation is approximately identical in the theatre sector. The interview of the five major theatres in Ouagadougou indicated estimated revenue of CFAF 280 million for all of them. The extrapolation of this information to the entire sector is about CFAF 388 million (€ 589,000).

Estimated Employment Generated by Cultural Services

In the BBEAC report (2012), after looking closely into how women and men were professionally engaged in cultural activities, the researchers concluded that men hold over 53% of the jobs in the sector. Women, with almost 47% of the jobs, are mainly involved in the production of handicrafts, ceramics, and textiles—the sectors with the lowest incomes. The situation seems different when only looking at the cultural services.

Table 27: Distribution of Cultural Jobs by Gender

Main Activities	Sex		Total	%
	Male	Female		
Clothing manufacture	15,714	11,837	27,551	16.7%
Spinning, weaving, and finishing of textiles	6994	19,127	26,071	15.8%
Manufacture of cork, wooden, and straw articles	9619	15,207	24,826	15.1%
Repair of personal and household articles	9458	1737	11,195	6.8%
Manufacture of ceramic products	754	8507	9261	5.6%
Manufacture of other textile articles	4348	2606	6954	4.2%
Sports, recreation, and play	3220	3333	6553	4.0%
Cinema, radio, and television	5264	-	5264	3.2%
Manufactures, other	3271	745	4016	2.4%
Other	16,310	3249	19,559	11.9%
Total	74,902 *(53%)*	66,348 *(47%)*	141,250	100.0%

Source: BBEAC (2012).

It is not clear, for example, how much of cultural services is reported in the above table, which was obtained through a triangulation process of secondary data. In Burkina Faso, 1,595 people (686 civil servants and 909 persons under contract) were working for the Ministry of Culture, Tourism and Communication in 2010.[48] Following the recent reorganisation of the Ministry of Culture and Tourism, this amount declined to 805 persons in 2011 (375 civil servants and 430 persons under contract). All together, 2,043 people were working directly and indirectly as government officials on the theme of culture and tourism in 2010.[49]

Table 28 indicates the total and full-time employment by sector where companies agreed to participate in our survey. There would be a total of more than 7,500 people working in cultural services, including almost 27% of full-time employment. Unfortunately some of the main stakeholders, including RTB, did not agree to answer our questionnaire. The results differ necessarily largely from those of BBEAC (2012), which counted more than 5,000 people in cinema, radio, and television only. Therefore, the number of people involved in cultural services activities could reach 10,000 employees or more. The research also highlights the question of the sustainability of employment in the cultural services industry in Burkina Faso and the weight of SMEs in employment. This latter represent more than 40% of employment, showing an active network of medium enterprises.

[48] INSD (2013). Op. cit.

[49] Organisation internationale de la Francophonie (OIF, 2009). Profil culturel des pays du Sud membre de la Francophonie. Un apercu de trois pays de l'UEMOA.

Table 28: Total Employment by Type of Cultural Services

Activities	Total Employment		Full-time Employment
Production of motion pictures, radio, and TV programs	1609	21%	699
Festivals	3530	47%	327
Music recording	339	5%	264
Libraries	96	1%	51
Theatre	1038	14%	227
Artistic and cultural training schools	144	2%	54
Museums	667	9%	327
Other	79	1%	79
Total	**7503**	**100%**	**2028 (26.8%)**

Source: Authors.

Table 29: Women and Youth Employment by Types of Cultural Services

Activities	Total	Men	Women	Youth
Production of motion pictures, radio, and TV programs	1576	1020	424	132
Festival	1873	1264	609	-
Music recording	72	60	12	-
Libraries	96	70	26	-
Theatre	1330	784	434	112
Artistic and cultural training schools	180	133	48	-
Museums	737	501	236	-
Other	79	50	29	-
Share of total employment		65%	31%	4%

Source: Authors.

The results also differ with the overall cultural industry since men would represent 65% of the workforce of the sample of interviewed cultural services providers. In conclusion, men seem to work more in the production of cultural services than women do.

Other Spillovers

An estimate of spillovers of services to the economy can first benefit from the work of the BBEAC (2012) that evaluates the economic weight of the cultural industry (goods and services) at CFAF 79.7 billion (€ 121 million). Yet, this work does not take the impact of cultural events, festivals, and heritage into account. These manifestations of culture have actually drawn people with great success to regions that traditionally have a low seasonal tourist appeal.

Cultural Events and Local Economic Impact

They encourage and attract visitors that would otherwise not experience particular regions of Burkina Faso. This extra exposure acts as an indirect form of marketing for the region as a whole, offering for companies an opportunity to reach a previously untapped market. From a touristic point of view, they not only bring new visitors, they also help to keep visitors in the region longer. Statistics on trade in goods are not especially relevant in Burkina Faso. Table 30 shows a strong decrease in the exports of artefacts and other crafts during the last 10 years. Such a decline in the volume of these exports seems impossible given that we observe a general increase in cultural activities over the last decade.

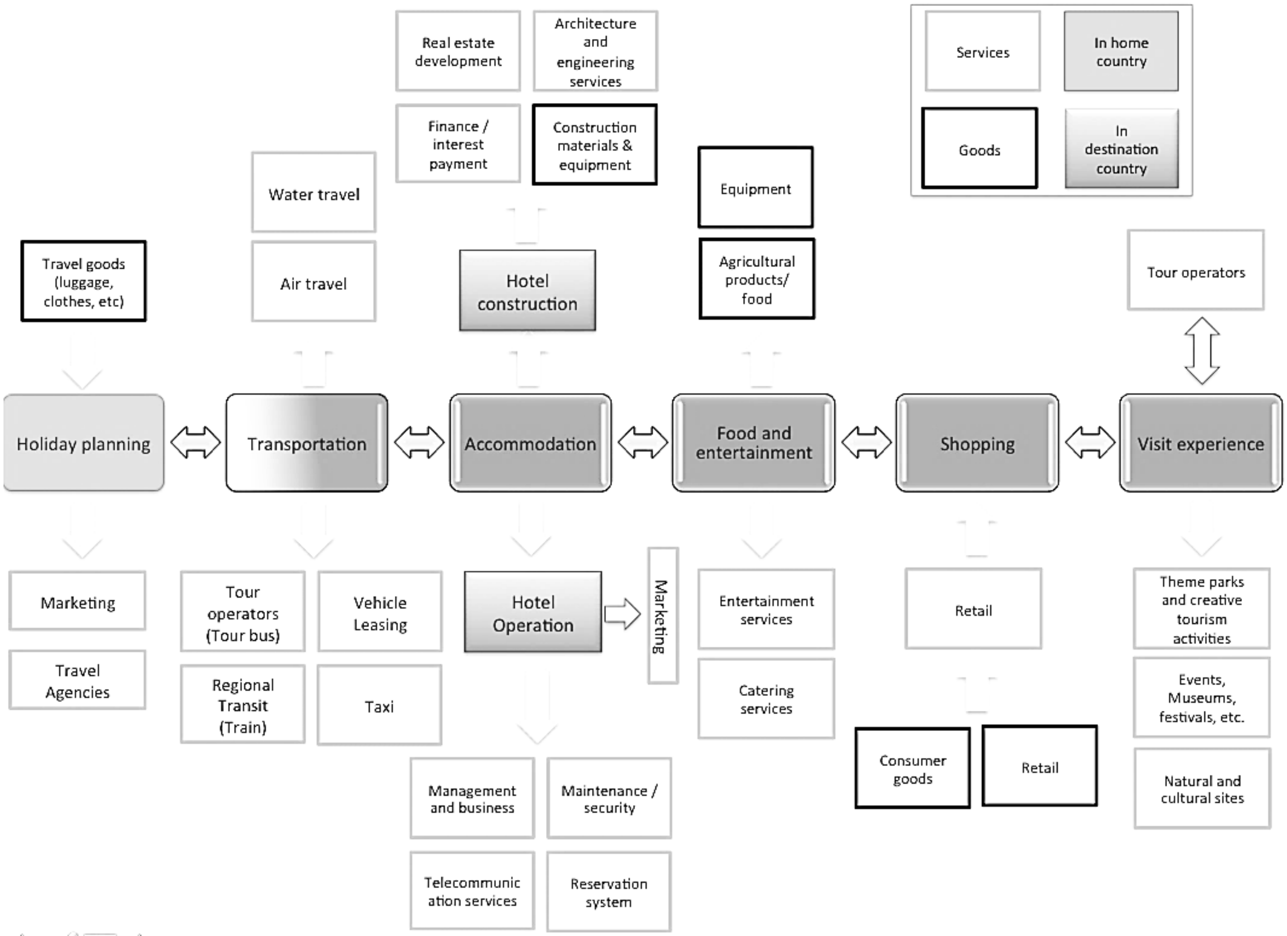
Table 30: Exports of Artefacts and Other Crafts (2002–2011)

Year	Exports (CFAF millions)	Exports (€)	% of All Exports
2002	XOF 485	€ 739,683	0.41%
2003	XOF 395	€ 602,783	0.22%
2004	XOF 435	€ 662,543	0.21%
2005	XOF 426	€ 648,823	0.26%
2006	XOF 434	€ 662,239	0.20%
2007	XOF 371	€ 566,196	0.16%
2008	XOF 275	€ 418,625	0.12%
2009	XOF 325	€ 495,002	0.08%
2010	XOF 194	€ 295,904	0.03%
2011	XOF 202	€ 307,490	0.02%

Source: Authors.

One of the main questions regarding festivals and other cultural services activities concerns their impact on local economies. To calculate the multiplier effect of a festival, the same methodology as a supply chain analysis (Figure 6) was adopted by the team in partnership with the organisers of FESTIMA. Looking only at the expenditures of participants and visitors in the main economic sectors (accommodation, catering, souvenirs), the example of FESTIMA provides us with a good example of the spillovers that cultural activities can make to a local economy. The estimates of the expenditures made by the festival and its visitors reached more than CFAF 200 million for the 2012 edition.

Figure 6: Tourism Supply Chain



Source: Authors.

According to the organisers, the participants made an important share of their expenditures in catering. FESTIMA estimates that all together, exhibitors earn about CFAF 98 million during the festival. With only 10 out of 88 stands being rented by outsiders, most of these incomes are going to local and national suppliers.

Table 31: Contribution to the Local Economy by FESTIMA

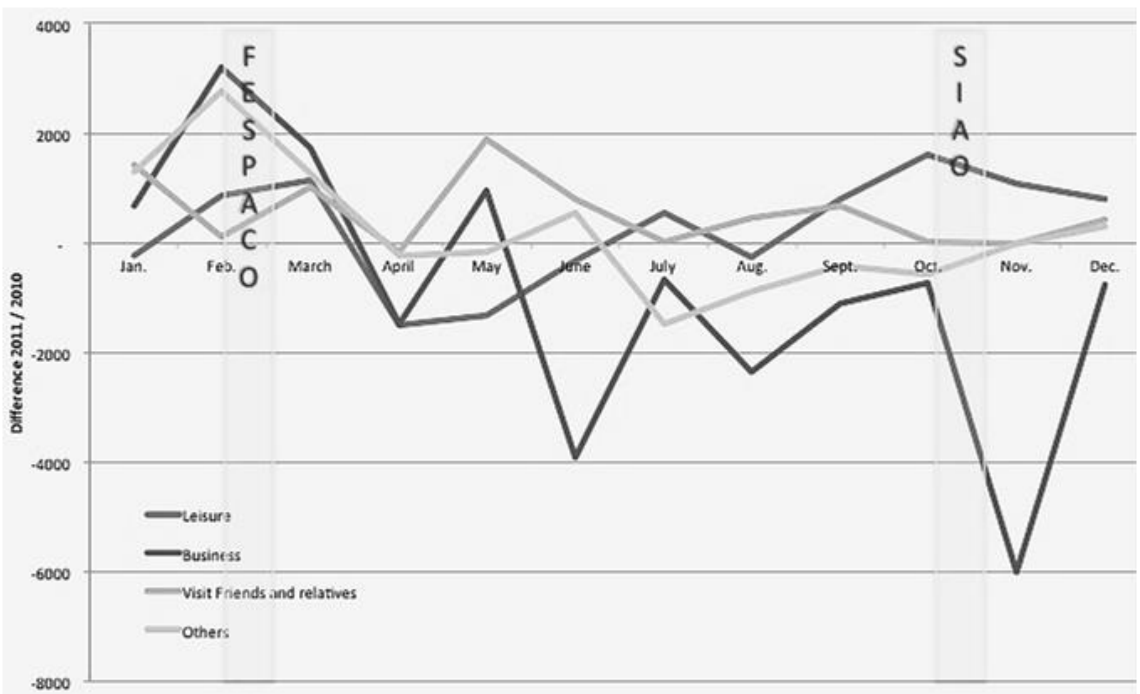
Categories of Expenditures	Amount	
Hotels	XOF 18,325,000	€ 27,936
Catering	XOF 82,723,000	€ 126,110
Exhibitors	XOF 98,000,000	€ 149,400
Transportation by FESTIMA	XOF 7,000,000	€ 10,671
Total	**XOF 206,048,000**	**€ 314,118**

Source: Authors.

The estimates of expenditures in only four categories, to which another CFAF 20 million can be added (e.g., for communications), represent 5 times the revenues of the festival itself. This example highlights the impact that cultural events can have in boosting both local economies and trade in goods. Today, there are about 34 active festivals of which at least three receive more visitors than FESTIMA. From the survey (Table 25), it appears that the top 10 festivals have a total budget of CFAF 2.5 billion (€ 4 million). Because FESTIMA is located in the countryside, its multiplier effect is likely to be lower than in the centre region where Ouagadougou is located (due to a higher general level of prices). Therefore, the total local economic impact of these 10 festivals can be estimated at CFAF 12.5 billion (€ 20 million) at least.

In addition to the numbers of foreign visitors and to their local economic impact, it is interesting to look at the support that festivals can provide to the tourism sector. Thus the following figure, that compares year-on-year arrivals between 2011 and 2010, indicates how two festivals (FESPACO 2011 and SIAO 2010) could have impacted international visitors' arrivals in Burkina Faso.

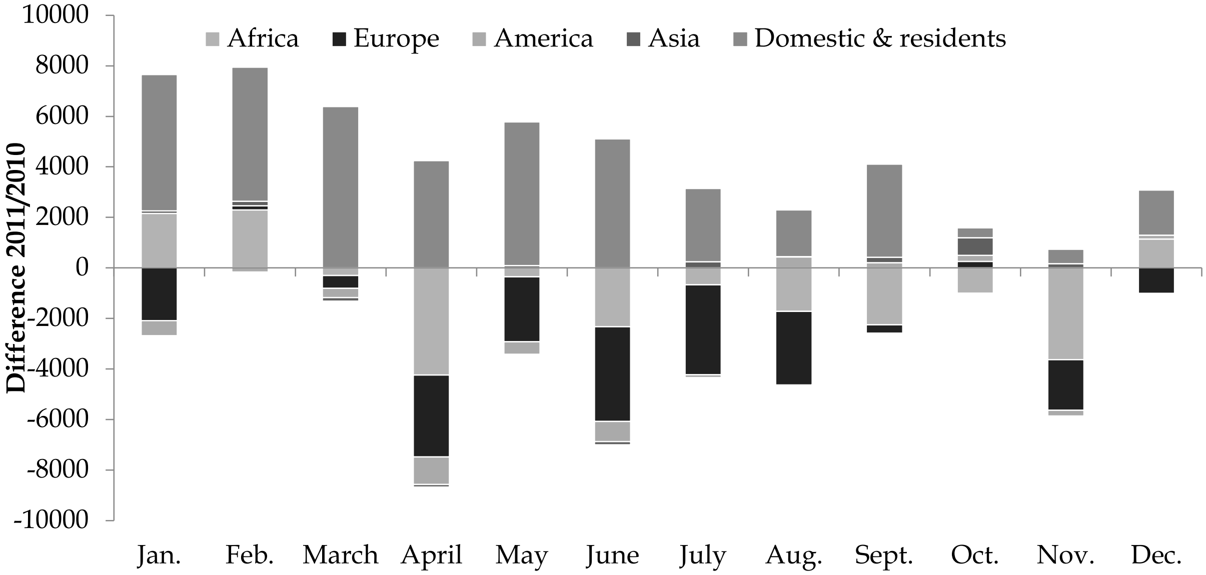
Figure 7: Year-on-Year Differences for Arrivals in Burkina Faso by Category of Visitors (2011–2010)



Source: Ministry of Culture and Tourism data – Annuaire statistique 2013.

We observe that business visitors are the most influenced by these two cultural events. That is to be expected in any festival organised for the private stakeholders more than for the locals or international tourists. The strong decline in visitor arrivals in March 2011 is explained by a period of instability that started in March 2011 and lasted until the improvement in the political situation at the end of 2011.

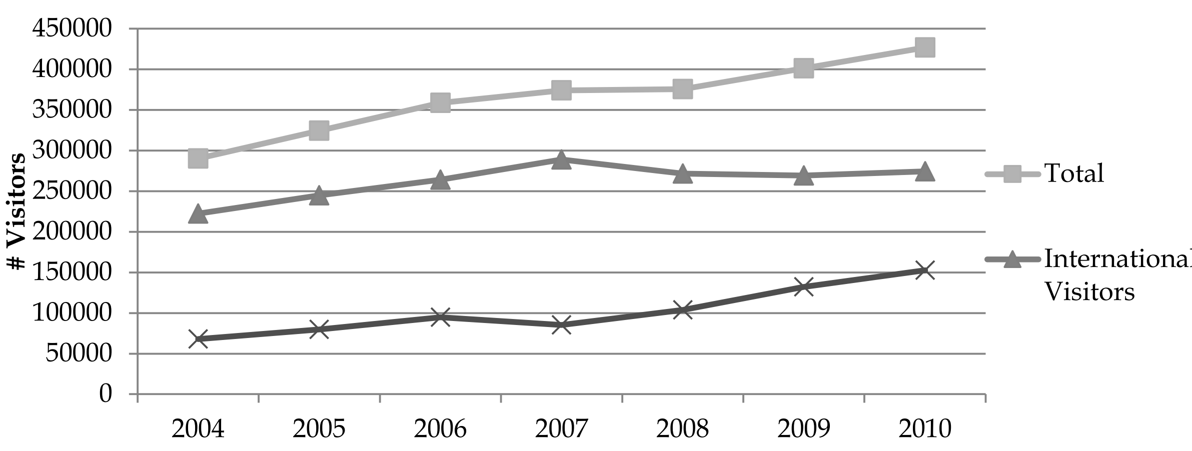
Figure 8: Year-on-Year Differences for Arrivals in Burkina Faso by Origin of Visitors (2011–2010)



Source: Authors, based on Annuaire statistique du tourisme.

The same approach was used for origin of visitors. With the exception of February (FESPACO) and October (Tour du FASO Cycle Race), arrivals from Europe were in strong decline throughout the year. Within a general downward trend for western tourists (Figure 9), festivals and recreational activities alone seemed to drive tourism growth.

Figure 9: Number of Tourists in Burkina Faso (2004–2010)



Source: Authors.

However, all cultural events have need of equipment and support materials such as musical instruments, sound player and recorded sound media, cinematographic and photographic supplies, television and radio receivers, and other related cultural goods. With the exception of musical instruments, most other goods are imported, leading to an important amount of leakage for the management and running of cultural events. We have seen earlier the negative impact of these imports on the balance of payments. In Table 32, we indicate the reasons given by respondents for not purchasing local goods and services (multiple choice).

Table 32: Reasons for Not Buying Local Goods and Services

Imported Goods and Services	Share of Imported Goods	Available Locally	Reason for Not Purchasing Local Goods and Services			
			Low Quality	Insufficient Quantity	Access Issues	Request from Customers
Training	18.9%	71%	0%	29%	14%	0%
Consumables	5.4%	50%	50%	0%	0%	0%
Theatre	2.7%	100%	0%	100%	0%	0%
Artists	21.6%	13%	0%	0%	0%	0%
Sound equipment	5.4%	100%	50%	50%	0%	0%
Programs	8.1%	0%	0%	0%	0%	0%
Cooperation	2.7%	0%	0%	0%	0%	0%
Distribution of films	5.4%	50%	0%	50%	0%	50%
Video material	2.7%	100%	100%	0%	0%	0%
Ticketing	2.7%	0%	100%	0%	0%	0%
CD/DVD	2.7%	100%	0%	0%	100%	0%
Materials	10.8%	25%	25%	50%	0%	0%
Decoration	2.7%	0%	0%	0%	0%	0%
Expertise	8.1%	67%	0%	33%	0%	0%

Source: Authors.

While the cultural services industry effectively contributes to trade in goods, the share of imported goods has to be considered in the near future as an opportunity for local companies. The value of imported goods and services represents 28.6% of the operating costs of the sample. The main criticisms made of local cultural goods and services, as shown in Table 32, seem to be their limited local availability and sometimes low quality or an insufficient quantity.

Success Stories in Exporting Cultural Services from Burkina Faso

To provide the readers with examples of successful exports of cultural services in Burkina Faso, a first step is to define the indicators of success. Should these indicators be based on practices or on financial aspects only? Since the monetisation of services is not always an accurate measure of their value, we therefore propose to include all of these criteria:

- Economic performance
- Contribution to support of other economic activities
- Reinforcement of capacities nationally and in the subregion.

The examples below represent companies or organisations that fulfil at least one of these eligibility criteria. Considering that success should not always be economic, especially when considering culture as a major asset, we have chosen to indicate successful exports of cultural services that either reinforce capacities of technicians throughout the subregion, bring important revenue, or help the preservation and promotion of the African cultural heritage.

Other examples are probably possible, but the timeframe of this survey did not allow the team to interview and review all existing cultural services providers.

Table 33: Examples of Successful Export of Cultural Services

Activities	Operational Marketing	Reinforcement of Capacities	Contribution of Local Economy
Name	Biz'Art Zam Zam Productions	IMAGINE ISIS	FESPACO, FESTIMA, NAK, etc.
Details	Providing technical support to international firms and institutions for the facilitation/ adaptation of their marketing or consumer preference campaigns in Burkina Faso	Building and reinforcing capacities of audiovisual, cinema, and motion picture regional specialists and technicians	Raising value and preserving cultural goods and services, including a strong socio-economic contribution to main and remote areas
Impacts	– Traditional music preservation – High amount of exports (up to 75% of revenue) – Best practice examples for SMEs	– Services quality and competitiveness improvement – High amount of exports	- Creation and reinforcement of comparative advantages - Support to and development of tourism activities - Diversification of economic opportunities

Source: Authors.

Respectively 56% and 65% of interviewed companies have done business with either foreign companies or foreign visitors in 2012. This shows that cultural services in Burkina Faso are already oriented towards exports. However, the top three export markets represent 92% of the business volume and 94% of export sales of these companies. This shows a relative dependence on these markets and a limited number of opportunities. On average, cultural service exports are firstly directed to Europe (France and Belgium) and then to the subregion (Côte d'Ivoire, Benin, and Mali).

The main export markets are only five, of which Côte d'Ivoire is the only African country. It represents two-thirds of exports in both volume and sales for the main export markets of one-third of interviewed companies. European countries are traditionally those inviting and supporting cultural services companies. On the contrary, exchanges with subregional countries are more market oriented. After exporting firstly and mostly to Europe, cultural services companies are also exporting to neighbouring countries, but the quantities and the volumes of sales are less important. on average, they will not exceed one-third of all exports. To conclude, it confirms that the success of countries in exporting cultural goods and services tends to be particularly linked to cultural and geographical proximity.

Table 34: Trade in Services: Main Export Markets – Share of Volume and Sales

Exports	Total	%	Main Export Market			Second Export Market			Third Export Market		
			Share	% Volume of exports	% Sales of exports	Share	% Volume of exports	% Sales of exports	Share	% Volume of exports	% Sales of exports
France	19	26.4	58.3%	49.6%	54.2%	12.5%	21.7%	21.7%	8.3%	17.0%	17.0%
Belgium	13	18.1	4.2%	60.0%	60.0%	37.5%	31.0%	51.4%	8.3%	10.0%	10.0%
Côte d'Ivoire	10	13.9	29.2%	63.0%	63.0%	4.2%	40.0%	40.0%	8.3%	10.0%	30.0%
Benin	6	8.3				4.2%	25.0%	25.0%	8.3%	20.0%	20.0%
Mali	6	8.3				8.3%	22.5%	55.0%	16.7%	16.7%	13.3%

Exports	Total	%	Main Export Market			Second Export Market			Third Export Market		
			Share	% Volume of exports	% Sales of exports	Share	% Volume of exports	% Sales of exports	Share	% Volume of exports	% Sales of exports
Germany	4	5.6	4.2%	36.0%	36.0%	4.2%	24.0%	60.0%	8.3%	15.0%	15.0%
Senegal	4	5.6				12.5%	15.3%	65.3%	4.2%		
Switzerland	3	4.2	4.2%	30.0%	30.0%				8.3%	10.0%	10.0%
USA	3	4.2				4.2%	25.0%	10.0%	8.3%	15.0%	10.0%
Gabon	1	1.4							4.2%	15.0%	15.0%
Nigeria	1	1.4							4.2%	4.0%	4.0%
Canada	1	1.4				4.2%	26.0%	26.0%			
Niger	1	1.4				4.2%	50.0%	50.0%			

Source: Authors.

Trade in cultural services (mode 4) depend primarily on:

- The presence of music and theatre groups to provide live performances (Europe)
- The travel of Burkinabe technicians to festivals and events (MASA, FIMA, FITHEB,[50] etc.) in Africa.

To provide an evaluation of the number of both tours by music and theatre groups, and technicians participating in festivals, events and productions in Africa, remains difficult if not impossible, as no information is recorded on that matter.

Assessment of Strengths, Weaknesses, Opportunities, Threats (SWOT) to Further Development of Cultural Services in Burkina Faso

As a least-developed country, Burkina Faso continues to face major structural challenges and constraints. Regarding its exports of cultural services, particular attention has to be given to each mode of supply to ensure its further and successful development. Table 35 details a list of indicative information on issues and facts that affect the development of the different modes of trade in cultural services, including in Burkina Faso. It goes from the usual weaknesses that affect the least developed and developing countries to the comparative advantage owned by the more developed economies.

[50] Respectively, Marché des arts du spectacle Africain, Festival international de la mode Africaine, and Festival international du théâtre du Bénin.

Table 35: Indicative Information and Needs for Successful Export of Cultural Services

Modes of Cultural Services Export	Indicative information and Needs for Further and Successful Export of Cultural Services
Mode 1: Cross-border supply	1. Increase access to adequate human capital 2. Increase access to adequate efficient electronic infrastructure in terms of both quality and quantity 3. Make services-related institutions play a key role in the development of the service sectors both as regulatory and as contract enforcing institutions 4. Increase access to adequate policies[51] for Burkina Faso to become a successful service exporter 5. Increase the understanding on how Burkina Faso can take advantage of its own history, culture, and endowments
Mode 2: Consumption abroad	6. Increase access to adequate physical infrastructure both in terms of access and costs 7. Improve policy coordination that negatively affects the quality of the service provided 8. Improve the quality of the service provided 9. Increase the attractiveness of the business environment (the easier for travel services to flourish) 10. Increase access to adequate human capital; the role of enterprises is even more crucial than it is for cross-border supply, because travel services require direct contact between service suppliers and consumers
Mode 3: Commercial presence	11. Increase access to adequate resources and managerial skills to establish a commercial presence abroad 12. Improve the establishment of a commercial presence in the subregion by Burkinabe migrants (to better serve the diaspora)
Mode 4: Presence of a natural person	1. Increase access to adequate policymaking in fostering the competitiveness of Burkina Faso in exporting services through mode 4

Source: Adapted from Soprana (2011), Services Exports and Developing Countries: Competitiveness Challenges According to Mode of Supply.

Within this framework, productive capacities of Burkina Faso are limited by weaknesses in terms of infrastructure (transport, electricity, water, and sanitation) and human capital (private and public). Similarly, the landlocked situation of the country imposes additional costs on international trade operations. Five main constraints are raised by the Ministry of Culture and Tourism to explain the need for the cultural industries to get more support from the government:[52]

- A small domestic market
- Dominance of counterfeit and pirated goods on the domestic market
- A difficult subregional and international markets access
- The absence of an organised commercialisation framework
- Weak expertise in production and project management.

To these constraints, we must add cultural industries' lack of visibility in terms of their economic and social impacts. Government support is traditionally based on the recognition of the role that any sector can have in favour of development. The contribution of culture to GDP was calculated for the first time in 2012, thanks to the BBEAC survey, and this contribution was very low (2%). This lack of exposure is a vicious cycle that impedes access to credit for cultural enterprises. Overall, important weaknesses have still to be addressed:

[51] Lack of adequate support from governments as well as lack of coordination between the private sector, institutions, and governments can lead to dispersion of human, financial, and administrative resources.

[52] Ministère de la culture et du tourisme (2013). Stratégie nationale de développement des industries culturelles et créatives.

- First, the lack of available data and financial evidence of the economic and social impact of culture seriously impedes the confidence of banks in cultural enterprises.
- Second, financial operators have difficulty in measuring the effective value of business assets such as copyright, licenses, and royalties. Little attention is paid to equally valuable intangibles such as creativity, invention, originality, and talent—which constitute the main assets owned by creative industries.
- Third, information on the growth potential of the cultural services industry is insufficient.
- Fourth, the dependence on public support has made recourse to private resources less important for years.

Therefore, the terms on which credits are granted to cultural enterprises are very unfavourable to them. There is additionally a need to increase the level of professionalism amongst cultural enterprises and particularly in the professional organisations. The lack of commercial ambition and of long-term vision for commercial growth is often quoted as one of the main problems for these entrepreneurs. Most creative businesses are project based. This often prevents them from developing a long-term 'corporate' vision and resorting to sound business models with clearly pre-identified market opportunities. Also, we observe the absence of derivative products for most cultural enterprises and the non-profit principle of many professional organisations. But for many experts, greater attention needs to be paid to corporate finance if creative businesses want to succeed and attract a wider range of investment sources (e.g., equity finance). These illustrate why creative businesses are generally perceived as 'high risk' and why they find it difficult to access funding opportunities both at start-up and growth stages.

As creative businesses are built on personal talent, it is quite easy to enter the market at production level. What is more difficult is to access the market at distribution level. Micro and small businesses find it difficult to get beyond the start-up stage and develop into medium or larger sized companies with adequate business strategies. For the BBEAC (2012) there is a tremendous cultural wealth that can be tapped into, but that has not been sufficiently exploited in spite of the great existing demand among primarily the young population. Interestingly, cultural segmentation and strong linguistic bonds should increase market access opportunities and decrease distribution and marketing costs. Instead, we observe an increase of consumption of imported cultural goods and services in Burkina Faso.

As in many other countries, the Burkinabe cultural dynamic is built around two main streams: traditional and modern hybrid. The latter combines traditional and modern elements (shape, practice, etc.) including new messages, products, and methods of broadcasting. The consequence is that imported cultural goods and services will attract progressively the primarily young population to the detriment of traditional cultural practices and products.

Table 36: SWOT Analysis: Burkina Faso as a Cultural Services Exporter

Strengths	Weaknesses
• Comparative advantage in labour-intensive services • Strong entrepreneurial dynamism • Relatively low labour costs • Historical and cultural linkages with potential target markets • Existence of creative energy • Abundance of historical, artistic, cultural, and natural endowments (particularly important for tourism) • Strong political interest and funding of cultural events • Constant interest and support from technical and financial partners • Improving business environment • Uniqueness of local traditions and culture • Existence of rules of law • Preservation of cultural and natural heritage • Reinforcement of the social fabric	• Lack of adequate quality of human capital in both private and public sectors (following the decentralisation process) • Poor standard of electronic and physical infrastructure • Market fragmentation • Limited financial and administrative resources • Lack of adequate instruments and methodologies for market intelligence • Lack of knowledge of, and respect for both rules of law and labour code • Obsolescence of some facilities such as theatre and maintenance constraints • Absence of brand and difficulties in establishing credibility with international suppliers • Burdensome business environment and lack of investment incentives for the cultural industries • Government resources still focus on promoting merchandise trade (example: Enhanced Integrated Framework projects[53]) • The lack of an exhaustive overview of cultural activities • The weak coordination and consultation of the sector • The limited and often difficult access to financing and subsidies • Insufficient numbers of foreign tourists • Too strong a reliance on the state and international partners • Absence of law on the status of the artist • Strong interest in imported cultural services
Opportunities	**Threats**
• Language skills offer opportunities for BPO and audiovisual services • Numerous cultural events • High demand for cultural education professionals in Africa • Large diaspora in potential target markets • The digital economy is turning traditional business models upside down • Regionalisation (WAEMU) and globalisation • Growing interest in African cultures	• Lower financial support from technical and financial partners • Marketing power of international companies • Increasing cost of business • Increasing international competition • Unfair competition from other countries • Brain drain • Subregional instability • Digital piracy • Difficulties in starting a business (rank: 125th) and trading across borders (rank: 174th) – Doing Business 2014

Source: Authors, and Politique Sectorielle 2011-2020 du Ministère de l'industrie, du commerce et de l'artisanat, 2012.

While public funding has been very important for the sustainability of the sector—in particular for some subsectors such as heritage, film, television, museums, and performing arts—the deterioration and the closure of public and cultural buildings such as cinemas all over the country, are also an indicator of the economic concerns met by the cultural services industry, and unfortunately such issues reduce the visibility of national cultural products and services. In Europe, the sector benefits from support through privileged regulation (such as reduced VAT rate, tax reliefs, broadcasting quotas to ensure market access for local language production, and minimum prices).

[53] www.wto.org/english/thewto_e/minist_e/min09_e/eif_e.pdf

Moreover, the unequal distribution of cultural activities, jobs, and incomes within and around the main economic centre does not enable the cultural enterprises to have a diversity of markets, structures, and the infrastructure necessary for cultural goods production to receive due recognition. To achieve cultural development throughout Burkina Faso appears as one of the most important priorities and opportunities for the expansion of the cultural economy. This is all the more true because local production is often too expensive and of too low quality to compete with imported cultural goods and services. In the end, the drop in household incomes with the international financial crisis and the increase in digital piracy exert downward pressure on the price and the quality of local cultural goods.[54] The existence of an important Burkinabe diaspora in the subregion is therefore one of the key factors for extending the local market.

Table 37: Engagement of Cultural Services Providers in ICT and Alliances

Activities	Engagements			
	Web Technology	Web Communities	Importance of Network	Already Engaged in Alliances
Production of motion pictures, radio, and TV programs	88%	82%	88%	41%
Festivals	100%	100%	75%	75%
Music recording	100%	100%	100%	100%
Libraries	100%	50%	100%	50%
Art galleries	100%	86%	100%	71%
Theatre	100%	75%	75%	50%
Artistic and cultural training schools	100%	75%	100%	50%
Art performances	100%	100%	100%	100%
All activities	**95%**	**83%**	**90%**	**57%**

Source: Authors.

While, the digital economy is turning traditional business models upside down, the digital shift is an opportunity to address structural weaknesses in distribution, and to conquer new markets through new marketing techniques and a better understanding of consumer behaviour. However, this digital shift corresponds to specific new financing needs, for instance in relation to the digitisation of creative content and its distribution online. The pace of the technological development is a challenge, as it requires companies to quickly rethink their business models and adapt their promotion, marketing, and distribution strategies to the digital environment.

Finally, given the contradictory information for determining the quality of cultural policies that the team received from different sources, it was decided to look at alternative approaches to analysing it. For doing so, an Importance-Performance Analysis (IPA) was employed. The key objective of IPA is diagnostic in nature, facilitating the identification of attributes for which, given their importance, a product or service underperforms or overperforms. In its essence, IPA combines measures of attribute importance and performance into a two-dimensional grid (see Figure 10) in an effort to ease data interpretation and derive practical suggestions. Performance

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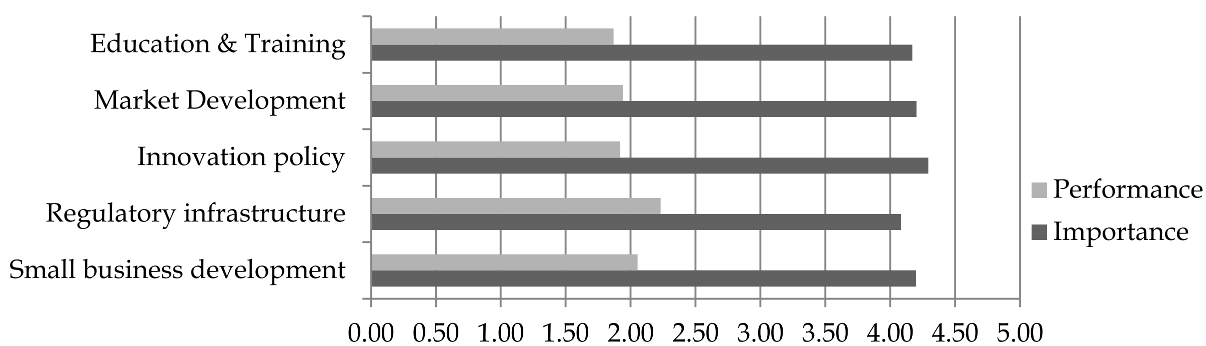
[54] OIF (2009). Op. cit.

is then measured using the same set of attributes, so that importance and performance can be directly compared within the same attributes via the IPA grid.

Stakeholders were asked to measure the ability of the cultural industries or the government to lead to a sustainable competitive advantage of the sector. From the answers, we provide the reader with a priority ordering for the cultural industries' stakeholders to debate and modify, and to adopt actions and policies that can help to address challenges in cultural services exports. We have used a five-point Likert scale ranging from 1 'strongly disagree' to 5 'strongly agree' for importance statements and a five-point Likert scale 1 'poor performance' to 5 'high performance' for performance statements.

Figure 10 displays the data means for both importance and performance for each of the five identified areas of strategy. It shows that respondents consistently rated importance higher than performance for items in each area. The most important issues for Burkina Faso are those related to 'Education and Training' and 'Innovation and Policy', where the largest gaps between importance and performance are observed. Definitively, in a changing world, there is a need to rapidly adapt policies and train people to fill the new technical needs. Finally, the issues concerning the regulatory framework were considered to be relatively less important (and also the best performing).

Figure 10: Importance-Performance Indicators for Cultural Policies



	Small business development	Regulatory infrastructure	Innovation policy	Market Development	Education & Training
Performance	2.05	2.23	1.92	1.94	1.87
Importance	4.20	4.09	4.29	4.20	4.17

Source: Authors.

Factors that Have Shaped Burkina Faso's Comparative Advantage in Cultural Services

In their foreword to the World Bank report, 'Exporting Services: A Developing Country Perspective' (2012), Canuto and Lin highlight three sets of factors having a major role in enabling developing countries to succeed in exporting services. First, the fundamentals, which include a country's factor endowments (especially human capital), infrastructure (particularly telecommunication networks), and institutional quality (especially the regulatory environment for services); second, policies affecting trade, investment, and labour mobility in services; and third, proactive policies for services designed to promote exports or investment. Nevertheless, it must be recalled that different services have different roles to play in the economy, have dissimilar market structures, are governed by different sets of regulations, and rely on different modes of supply in competing in the international market.[55] Thus, the determinants of service exports are likely to vary across subsectors and, in this particular aspect, the cultural services is not an exception.

Endowments

Labour/Human Capital

Human capital is lacking in technical capacities in Burkina Faso.[56] However, the cultural heritage includes a number of tangible and intangible assets that have helped to shape a comparative advantage in cultural services. Its organisational specificities, and particularly the emergence of the 'groupements naam' movement[57], have allowed a good and responsible management of the cultural diversity. Traditional mechanisms of conflict prevention through mediation, identity formation, endogenous development approaches, beliefs, systems of social sanctioning that allow for sustainable development, the role of local knowledge systems in agriculture, and the importance of culture in the social autonomy of women all together are social elements of culture that play a major role in development. The preservation, recognition, and promotion of these elements are therefore a must to ensure the continuity of social cohesion and the conservation of the comparative advantage that Burkinabe human capital represents. It is furthermore repeated, throughout the UNCTAD Creative Economy Reports (2008, 2010), that culture and cultural industries can play a role in social and human development. In this vein, cultural traditions can therefore represent not only a way to support social development in rural areas, but also be of great potential benefit for boosting the economy. Accordingly, the recent emergence of several platforms and associations to facilitate entrepreneurship and competitiveness in the cultural industry can be, amongst others, correlated to some traditional ways of mediation and interaction.

Burkina Faso possesses rich human capital for cultural goods production and exports but much less for cultural services. It can be explained by the novelty that cultural services exports represents for a country like Burkina Faso. Developing countries have to build their capacities to add value to, and promote their cultural heritage.

Statistics on cultural actors underline their presence in all aspects of daily life and the growing number of performances made by theatre and dance companies stimulates local creativity.

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[55] Goswami et al. (2012), op.cit. p 13.

[56] OIF, 2009. Op. cit.

[57] The 'groupements naam' are peasant mutual assistance organizations based on the traditional age-set associations of Mossi culture.

Infrastructure and Technological Endowments

The International Telecommunication Union (ITU) has recently published a report (2012) called 'Measuring the Information Society', in which Burkina Faso ranks 151 out of 155 in 2011 in terms of ICT development. This makes Burkina Faso one of the least connected countries, and therefore the country is not able to be competitive for BPO-related intellectual property nor to best prepare for the current technological shift.

Table 38: ICT Development Index (IDI)

IDI rank	IDI Use	IDI skills	IDI Access
151	144	154	141

Source: International Communication Union (2012), Measuring the Information Society.

While access indicators to ICT are very low for Burkina Faso, with a significant gap between rural and urban areas, the worse rank appears to be in the skills of the labour force. The low access to ICT can be illustrated through the cost of fixed telephony, which is less affordable in Burkina Faso than in most countries in the world, but major price reductions did occur between 2010 and 2011. Additionally, the country has one of the most expensive purchasing power parity–adjusted, fixed-broadband services in the region.

Table 39: Indicators of Access to ICT

Fixed-telephone subscriptions per 100 inhabitants		Mobile-cellular subscriptions per 100 inhabitants		International Internet bandwidth bits/s per Internet user		Percentage of households with computer		Percentage of households with Internet access	
2010	2011	2010	2011	2010	2011	2010	2011	2010	2011
0.9	0.8	34.7	45.3	2,027	2,183	2.1	2.8	2.0	2.4

Source: International Communication Union (2012), Measuring the Information Society.

Differences also appear in the power sector where inhabitants in Burkina Faso consume on average six times less electricity than in Ghana (50 vs. 300 kilowatt-hours of electricity per year). The unpredictability of power supply in many African countries is one of the main hindrances to economic growth. The reasons for this irregularity of supply are numerous and diverse. In Burkina Faso, the power production is from thermal and hydro sources. Its production and distribution are handled by the National Society for Electricity in Burkina Faso (SONABEL[58]), a state-owned trading enterprise with a view of reaching 65% of covered households by 2015. However, only 25% of households had access to electricity in 2009, including respectively 70% and 3% in urban and rural areas.

Institutions

Cultural activities, scientific creation, and intellectual property were first officially supported in the 1991 constitution. Then, several legislative and regulatory texts were implemented to

[58] Société Nationale d'électricité du Burkina Faso.

improve and support the development of the cultural services industry. Additionally, many other general texts in the form of codes also govern the cultural services industry (civil code, criminal code, labour code, tax code, investment code). However, because cultural services is a cross-cutting sector, the responsibility for its coordination goes beyond a single ministry, and many departments and institutions contribute to its development. At the institutional level, the implementation and monitoring of government policy on culture is vested in the Ministry of Culture and Tourism. However, as stated earlier in this study, a number of agencies are also involved in the management and implementation of cultural services exports. Amongst cultural services exports, there are several examples of public-private partnerships in particular in the organisation of cultural events (e.g., FESPACO, SIAO, SNC). In mid-2012, with the support of the OIF, the government set up a Support Programme to strengthen political and cultural industries (ARPIC). The program proposes primarily five services to cultural stakeholders:

- Advisory services to cultural stakeholders in the management and sustainability of their projects and structures
- Surveys concerning the economics of culture and the development of cultural industries
- Guidance services in the strategic development of cultural enterprises
- Training sessions on the management of cultural enterprises
- Management of a resources centre on cultural entrepreneurship.

A few years ago, Burkina Faso entered into a decentralisation process that transfers a share of the public administration for cultural issues to each of the thirteen provincial administrations.

Finally, the following table from the interviews made with public and private stakeholders offers the reader a summary of useful insights on their perception of the local assets and resources. We observe strong divergences from one activity or one sector to another. For example, the interviewed music recording companies are definitively unsatisfied with the quality and availability of all local resources and services.

Table 40: Satisfaction with Local Resources and Services

Activities	Percentage of stakeholders satisfied with—				
	Quality of local resources	Availability of local resources	Training schools	Policy	Infrastructure
Motion picture, radio, TV program production	82%	59%	35%	6%	6%
Festival	75%	75%	50%	0%	25%
Music recording	0%	0%	n.c	0%	0%
Libraries	50%	0%	50%	0%	0%
Theatre	86%	71%	14%	57%	57%
Artistic and cultural training schools	75%	75%	50%	25%	25%
Museums	100%	50%	50%	0%	25%
Other	100%	50%	50%	0%	0%
Average	**79%**	**57%**	**36%**	**14%**	**19%**

Source: Authors.

On average, government policies and infrastructure are the items most severely criticised by stakeholders. Only 14% of interviewees are satisfied with the current policy on cultural services. Surprisingly, the quality and availability of human resources are more appreciated than the schools and institutions that are supposed to train them. There is clearly an issue with the number and capacities of local resources, the training being considered responsible for the situation.

Trade, Investment and/or Labour Mobility Policies

Relevant Reforms in Trade, Investment and/or Labour Policies

Amongst the outputs expected from implementing the Accelerated Growth Strategy and Business Environment Support Programme (PASCACAF), are economic diversification and promotion of the country's exports to increase business opportunities for economic operators. As concerns improvement of the business environment, Burkina Faso has, since the inception of the Doing Business Better Programme, initiated reforms to facilitate private sector development, with the support of PTFs. According to the African Bank for Development (2012) obstacles to private investments include the high cost of factors of production, difficult access to financing, low labour qualification, and the absence of legal and institutional mechanisms that encourage private sector business opportunities in infrastructure financing and management based on the public-private partnership (PPP) approach.

Targeted Government Policy Interventions to Promote Cultural Services Exports

The government of Burkina Faso has adopted an Outline Act on Education and a National Cultural Policy, which notably call for the promotion of artistic and cultural education. Thus the Ministry of Culture and Tourism is working to include artistic and cultural modules in school curricula, in collaboration with the Ministry of Education. Burkina Faso is also an OIF beneficiary through an initiative devoted to the design and implementation of a programme for the development of cultural industries. As stated earlier in this study, there are several public schools in charge of building and improving the capacities of artists in Burkina Faso.

Specific Investment Incentives to Promote FDI in Cultural Services

The government of Burkina Faso wishes to attract more foreign direct investment (FDI) and has been implementing reforms over the years to make Burkina Faso more attractive to international investors. The provisions of the investment code apply to all company projects of production, conservation, processing, and service. Any person or entity, regardless of nationality, is eligible.

The tax rate on company profits is 40%. If approved, industrial and mining enterprises (only) may be exempt from profit taxes for the first five years of operation. There are no specific investment incentives for foreign cultural firms and no policy to encourage the interconnexion of economic actors in how they compete and collaborate. Considering that the optimal role of a government is to encourage all actors to enhance their aspirations and move to higher levels of performance, we observe that the government of Burkina Faso does not yet promote cluster-based development strategies.

Inclusion of Cultural Services in Export Development Programmes (ICSED Programmes)

Cognisant of the fact that Burkina Faso's economic operators have not yet exploited the full potential of trade with other countries, the government has designed a Trade Promotion Strategy and an associated action plan. With African Development Bank support, the government has also prepared a national policy on quality and a related action plan, as well as a sector policy on the promotion of trade, industry, and handicrafts and its implementation plan. Furthermore, it conducted an organisational audit of the Ministry of Industry, Trade and Handicrafts (MICA) that revealed the institutional weaknesses of the ministry and defined its new structures by area of competence (trade, industry, crosscutting business promotion activities, and handicrafts). A capacity building plan was also prepared for the ministry.

During implementation of the reforms resulting from the above studies, the ICSED Programmes will support the following measures: (i) conduct of a study on new production sectors to broaden the production base of the economy, (ii) implementation of the trade promotion policy action plan with a view to increasing the volume of exports, (iii) setting-up of a Standardisation, Certification and Metrology Authority to promote the quality of Burkina Faso exports, (iv) setting-up of an Export Promotion Support Fund (FAPEX) to support private exporters, and (v) transformation of the National Foreign Trade Authority (ONAC) into an Exports Promotion Agency (APEX). To improve the business environment and continue providing reform support in this area, the programme will support the following measures: (a) establishment of structures and preparation of rural land tenure guides and tools, (b) establishment of a one-stop shop for foreign trade using the ORBUS system,[59] and (c) adoption of a strategy to establish public-private partnerships and its action plan. To help implement the measures adopted under this first component of the Programme, the technical and operational capacities of MICA have to be developed based on the recommendations of the organisational audit conducted in 2010.

Training and/or Other Support Programs for Cultural Services

Coinciding with the implementation of the UNESCO convention on the protection and promotion of diversity of cultural expressions, the OIF has sought to reinforce its activities for the creation of a favourable environment for diversity of cultural expression in which all cultural expressions could genuinely develop and thrive; OIF indicated that it was open to discussing amendments. Within this framework, the OIF and the government of Burkina Faso have signed a cooperation agreement for the period 2012–2015 to reinforce the capacities of policy and decision makers, cultural operators, and certain domains of culture and cultural industries:

- Strengthening the capacities of governance at the Ministry of Culture and Tourism
- Diversifying the sources of financing of cultural programmes and activities and significantly increasing of their resources

[59] The ORBUS System is designed to facilitate foreign trade procedures by introducing e-trade among parties to foreign trade transactions. The system relies on technological infrastructure and a services mechanism. It has recently been renamed the Virtual Import/Export Operations Information System (SYLVIE).

- Professionalising artists and cultural entrepreneurs, and evolving participatory processes
- Opening up culture at social, financial, and political levels for its due recognition and development.

A series of workshops and activities are therefore going to be conjointly implemented by the government and the OIF for the remaining period of the programme. Each of the four main axes will include a renewable one-year action plan agreed by all stakeholders.

Other Promotional Efforts

The government sponsors most of the major festivals. This situation eases media coverage both nationally and internationally. In addition, the government offers logistic support, providing transportation and materials such as the sound system. It also helps the organisers to apply to Partenaire Technique et Financier (PTFs) to obtain funds and technical support.

It is deeply recognised by the government that the festivals and the cultural events contribute strongly to the image of the country. There is no specific policy and very few funds for encouraging promotional efforts abroad, but all public and private cultural services stakeholders are working together to improve the visibility of these events.

Lessons Learnt and Best Practices

Looking at existing comparative advantages and current innovative support programmes or initiatives of the cultural services industry in Burkina Faso, the following paragraphs attempt to describe best practices for other African economies and the next steps to be undertaken, before proposing a more complete list of both general and specific recommendations to its further development.

In Burkina Faso, tourism, crafts, and established cultural festivals are thus foregrounded as cultural industries with potential to support accelerated growth and sustainable development. Access to finance being the priority for cultural enterprises, and to ensure that cultural and recreational industries become a real engine of social and economic development as expected in the SCADD, the government of Burkina Faso intensively consulted and supported the sectors over the last few years. Following the adoption of the National Cultural Policy (2009), the government released in November 2013 a support strategy for the development of cultural and creative industries. Throughout numerous conversations with artists, managers, and interlocutors in the cultural field, there seems to be a striking unanimity that funding and financing are pressing issues. Recently, the stakeholders have argued for a 1% levy on cinemas, nightclubs, and other venues, and through ad hoc levies on imported cultural goods, to fund projects in the field of culture and to help the sector gain greater autonomy. This funding and technical support mechanism for the cultural and creative industries of Burkina Faso is the Agency for the Development of Cultural and Creative Industries (ADDIC). Endowed with management autonomy, under the technical supervision of the Ministry of Culture and Tourism, the ADDIC aims to be a sustainable funding mechanism for cultural development activities. Its three main objectives are:

- To ensure the provision of financial support for cultural stakeholders
- To ensure the reinforcement of technical capacities of cultural stakeholders
- To establish a supporting information tool for the cultural and creative industries.

The ADDIC will respond to the same principles as other national funding mechanisms for the private sector. Subventions from the government and contributions from the copyright office and several technical and financial partners will feed the ADDIC. Its size should increase thanks to the small interest rates of the credits. Additionally, the recent creation of the Support Program for the Reinforcement of Cultural Policies and Industries (ARPIC) should help the private sector both to conform with the access procedures to the ADDIC and to reimburse it. This support mechanism will offer the cultural industries a chance to improve their entrepreneurial skills and to better access the export market. Several regions in Europe have successfully used EU regional funds to set up venture capital funds for creative industries. The IFCIC model in France[60] provides a specific example of a guarantee mechanism that encourages investment in cultural and creative industries.

Additionally, there is another important aspect of the Burkinabe cultural services industry that needs to be highlighted. To overcome difficulties met by new structures and associations to acquire a structured and professional administration, two or three platforms were created during the last decade including Cartel and Plateforme Culturelle. Fitting into the growing concept of the sharing economy, these platforms help, inter alia, to:

- Reduce the carbon footprint by sharing assets (high idling capacity), saving space, and reducing waste
- Renew belief in the importance of the community with a sense of togetherness, intimacy, and trust
- Decrease costs of business by sharing skills and staffs
- Increase happiness and contentment due to positive social interactions.

To enable the cultural services industry to benefit from these best practices in and outside Burkina Faso, improvements in technologies and policies are needed to increase efficiency and facilitate platform implementation and networking activities. In a social and economic environment where peer-to-peer practices are on the increase, an opening for the cultural industry is to tap into the sharing economy:

- Adapt the business model to become a service: sell access to goods instead of ownership of those goods
- Connect buyers and sellers by encouraging and motivating virtual market places
- Enable customers to give feedback and build value via an online platform (from collaborative consumption to collaborative creation). Doing so, it will also create a long-term, extended relationship with customers and improve services.

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[60] http://www.ifcic.eu/

Policy developments should therefore accompany “shareability” for it to be effectively integrated into innovation policies and agenda (as innovation is considered a key factor by the private sector). More financial support from public authorities should be encouraged to sharing economy start-ups, such as the above-mentioned platforms, and on market data collection. The rise of the sharing economy is not always accepted by incumbents and top-level corporate mind-set, leading to important challenges to overcome. But the sharing economy constitutes the future of the world economy, and the cultural services industry is particularly concerned with peer communities and network technologies. It is also important to recognise that local and regional authorities are often better placed to establish and manage many of these schemes because of their proximity to a sector that is by its very nature extremely fragmented and essentially composed of a large number of micro-enterprises. However, capacity building must be realised at the institutional level and this is especially true within an ongoing process of decentralisation.

Policy Recommendations

Cultural services exports can traditionally be achieved through four potential modes of supply. An improvement of the competitiveness of the cultural services industry in Burkina Faso must address specific and common issues and needs met by the private sector, the institutions and the government:

- Reducing information asymmetry and fragmentation
- Encouraging institutional and governmental support
- Improving infrastructure
- Improving market intelligence, efficiency and productivity
- Improving the attractiveness of the business environment
- Increasing financial and human resources
- Improving the quality of human capital and services
- Improving service provided and providing high-quality services
- Promoting brand, know-how and credibility abroad
- Supporting firms in accessing foreign markets and in establishing commercial presence abroad

The specific features of the cultural services industry in Burkina Faso, as described in this report, and its problems in accessing finance, grabbing the interest of the local and regional markets, meeting international quality standards call therefore for the following recommendations.

To create a competitive location, skills, and a conducive business environment:

- To facilitate the availability of human capital and adequate skills (services are more skills-intensive than other sectors).
- To ensure the quality of institutions and rule of law, for example by getting the national anti-piracy committee for literacy and artistic works set up.
- To protect and develop the intangible assets (i.e., corporate intellectual property such as copyright, business methodologies, and brands). Thus, it is necessary to revise the law in order to reinforce copyright protection in the digital environment.

- To improve market intelligence and productivity.
- To create a supportive environment for services Innovation for Export, such as the enhancement of international sales and marketing capability in the domain of services within the Exports Promotion Agency (APEX).
- To enable digital infrastructure, in particular the ability to connect outward. Firms exporting services need access to high-quality electronic infrastructure that does not necessarily have to cover the general population of the exporter country: the government may be able to create special economic regimes, such as IT parks or software technology parks (STPs).
- To support the creation of business-oriented collaborative start-ups and platforms. The Burkinabe cultural services industry is too much oriented towards philanthropy and not enough towards making business (in a responsible way).
- To reduce the administrative burden by decreasing the number of documents needed for licenses and permits, and ensuring contract enforceability.

To build efficient export-promotion architecture for cultural services:

- To stimulate incubators and clustering of enterprises as stipulated above (to support the creation of collaborative start-ups and platforms).
- To assist enterprises in scouting possible partners in the domestic markets for the creation of consortia or temporary associations of enterprises (to overcome financial and human resources restrictions) with the aim of establishing together a commercial presence abroad.
- To assist enterprises in scouting possible partners in target markets (to overcome financial and human resources restrictions).
- To disseminate market intelligence information to enterprises interested in establishing a commercial presence abroad.
- To attract FDI and support innovation. Openness to foreign investment is also relevant, because in some cases this investment provides the crucial first spark. The question is more about the commercial exploitation of culture by foreign firms. The tourism industry appears to demonstrate numerous successful practices that facilitate access to cultural products and services in developing countries.
- To build the capacities of all actors along the cultural industries supply chain, including the capacity building of sales and commercial officers on cultural services enterprises' promotion in all Burkinabe embassies.
- To improve trade data collection: The balance of payments only registers transactions between residents and non-residents, and important aspects of trade in services taking place through commercial presence or the presence of natural persons are either not captured or difficult to identify separately. Moreover, the divergence of coverage with the classifications used for available trade in services statistics, and the lack of information on modes of supply, make a proper assessment of trade in services difficult. At a disaggregated level, it would be desirable to have information on flows by mode of supply and trading partner, to be able to analyse the origin of the service or service supplier and its territorial presence at the moment of the transaction. Thus, to measure trade in cultural tourism services, one should consider the travel item of the balance of payments. International visitor and cultural sector-specific surveys need to be carried out on a regular basis via detailed face-to-face interviews. It is therefore recommended:

- To allocate adequate human, financial, and materials resources
- To implement functioning statistical collection mechanisms
- To standardise definitions, methodologies of data collection procedures, methods of analysis, and dissemination of data and common classification systems
- To provide computer hardware and software as well as training in critical areas of information technologies
- To encourage better cooperation with surveys from the private sector
- As the sector is important to the SCADD, it is important to encourage and facilitate academic research and cross-cutting analysis on cultural services and creative industries.

To ensure and develop the sustainability of existing cultural events and enterprises:

- To encourage the implementation of environmental, social, and economic (ancillary expenditures) assessments of cultural events and enterprises. Festival in general might cause some general negative social and environmental effects, but also costs related to cleansing, crime, traffic congestion, noise, and air pollution.
- To propose investment incentives in secondary destinations for the development of the tourism sector.
- To establish agreements with training schools to let students work in hotels, restaurants, and travel agencies.
- To improve tourism marketing by creating or upgrading travel services websites presenting accommodation and transport services in particular.
- To get quality certifications of international standard.
- To upgrade the skills and competences of employees in relation to target niche/markets.
- To establish close relationships with academia to ensure that the educational system prepares for the labour market.
- To innovate and upgrade accommodation infrastructure.
- To provide travel packages comprehensive of accessory services such as local transport and guide or education or health-related services.
- To improve hygiene standards.
- To carry out in-depth research on foreign markets to identify opportunities and niches and, if possible, adapt the supply of the service to the target market.
- To promote the 'industry brand' with brochures and participation in trade fairs (both domestically and abroad).
- To publish advertisements in specialised travel magazines to promote the tourism industry.
- To establish long-term collaborations with foreign institutions in target markets.
- To follow up on the Declaration of Ouagadougou (FESPACO, 2013) asking notably the African Union to act in the domain of culture and more particularly in the field of cinema.

Table 41: Practical Tools for the Private Sector to Increase Its Competitiveness in Exporting Cultural Services

Competitiveness Issues	Solutions
<u>**The Private Sector**</u> **1. Competitiveness to cross-border supply** a. Limited capacity to invest human resources to investigate market opportunities abroad and regulatory conditions in target markets (internal) b. Limited capacity to establish international brand and credibility (internal) c. Limited access to financing for export and business development (internal) d. The quality of human capital (external) e. The attractiveness of the business environment (external) **2. Travel and tourism competitiveness (consumption abroad)** a. Reputation b. Quality of service **c.** Human capital **3. Competitiveness in establishing commercial presence abroad** a. Inadequacy of human and financial resources as well as the quality of the service provided b. Burdensome and discriminatory regulations on commercial presence in the host country c. Lack of institutional and governmental support for mode 3 service exports **4. Competitiveness in the presence of natural persons** a. Low availability of labour	a. Promote brand, know-how and credibility abroad – Participate to trade fairs and other promotional events – Adopt international standards – Participate in quality-related competitions – Get quality certifications of international standard – Improve tourism marketing by creating or upgrading travel services websites presenting accommodation and transport services in particular b. Improve market intelligence and productivity – Join trade associations/institutions and platforms (such as Cartel, Plateforme Culturelle) to make use of resources and information provided by them – Create platforms or clusters in each specific sector to make use of common human resources with expertise in trade in service, legal issues, regulations, and taxation system to identify target markets and evaluate cross-border supply business opportunities abroad c. Increase financial and human resources (by creating or joining platforms) – Collaborate with other enterprises in common projects to provide complementary services or competitive packages of services – Establish collaborations and consortia with other firms for specific projects to create a greater pool of human and financial resources – Establish links with migrants in target markets to identify opportunities for financial collaboration d. Improve the quality of human capital – Establish closer relationships with training schools and institutions through technical seminars, on-the-job training, and enterprises-sponsored internships – Organise training courses to upgrade the skills of local workers and trainers – Establish agreements with training schools to let students work in hotels, restaurants, and travel agencies e. Improve the attractiveness of the business environment – Join institutions to voice the concerns and needs of the cultural services industry to policymakers on the quality and access to infrastructure and essential services – Participate in surveys and specify problems and needs to inform institutions and policymakers, so they can design an efficient strategy to improve the business environment – Continue the current dialogue with institutions and policymakers (through ARPIC)

Competitiveness Issues	Solutions
force with adequate skills and competences b. Low level of adoption of internationally recognised quality assurance standards	– Lobby the government to improve infrastructure such as roads and railroads – Lobby the government to improve health conditions f. Improve service provided, and provide high-quality services – Establish enterprise/self-employee capacity to supply markets abroad and identify areas where improvements are needed (e.g., credibility, qualifications) – Upgrade the skills and competences of employees in relation to target niche/markets – Establish close relationships with academia to ensure that the educational system prepares for the labour market – Innovate and upgrade accommodation infrastructure – Provide travel packages comprehensive of accessory services such as local transport and guide or education or health-related services – Improve hygiene standards – Carry out in-depth research on foreign markets to identify opportunities and niches and, if possible, adapt the supply of the service to the target market – Adopt international standards and qualifications (especially in construction and environmental services) – Establish credibility as business partner g. Improve infrastructure – Lobby the government to improve infrastructure such as roads and railroads h. Encourage institutional and governmental support – Lobby the government, directly and through institutions, to ensure the creation of financing programs such as ADDIC in support of service outward FDI – Carry on the lobbying of the government, directly and through institutions, to promote the reliability and credibility of the country's nationals as business partners

Table 42: Practical Tools for the Institutions to Increase the Private Sector's Competitiveness in Exporting Cultural Services

Competitiveness Issues	Solutions
<u>**The Institutions**</u> **1. Competitiveness to cross-border supply** a. Lack of coordination and lack of adequate institutions and	a. Reduce fragmentation and increase efficiency (amongst institutions) – Improve coordination among institutions and with government and create a single or a limited number of institutions, each with specific regulatory competences and coordinated by a single authority to ensure a common strategy – Avoid excessive fragmentation and collaborate with other

Competitiveness Issues	Solutions
associations that support and pursue the interests of service exporters b. Lack a strategic vision for services export promotion and development c. Limited knowledge or technical capacity to deliver relevant and customer-oriented support for services exporters d. Limited financial, organisational, and technical strength for business advocacy **2. Travel and tourism competitiveness (consumption abroad)** a. Dispersion of human and financial resources, lack of coordination, asymmetry of information, and inability to tackle problems adequately b. Lack of promotion efforts and low reputation of the Burkinabe travel services of the country c. Weak market intelligence to understand more clearly the needs of enterprises and lobby the government to address such needs **3. Competitiveness in establishing commercial presence abroad** a. Lack of assistance in terms of market intelligence, training programs, and promotion of collaborations among enterprises b. Lack policies in support of service outward FDIs **4. Competitiveness in the**	institutions and associations— through existing platforms – Strengthen negotiating capacity by increasing representation/membership, improving human capital, and improving coordination – Increase the membership by promoting the institution to the enterprises operating in the cultural services sector at issue and merging with other institutions with similar competences and scope (avoid duplication of activities) b. Improve reputation and establish international credibility (with enterprises) – Promote the 'industry brand' with brochures and participation in trade fairs (both domestically and abroad) – Publish advertisements in specialised travel magazines to promote the tourism industry – Establish collaborations with foreign institutions in target markets c. Provide market intelligence (with enterprises) – Organise seminars and meetings with potential customers – Collect and disseminate data on potential target markets – Organise training courses on market intelligence and domestic regulations in foreign markets for enterprises – Carry out market intelligence regarding the competences and skills in the country as well as possible shortages of labour force – Carry out marketing intelligence regarding target markets and their shortages of labour force d. Improve human capital (with enterprises) – Organise training courses to upgrade the skills of labour force – Provide assistance to enterprises – Establish collaborations and linkages with international networks in quality assurance (e.g., International Network for Quality Assurance Agencies in Higher Education) – Establish specific bodies to carry out accreditation based on international standards e. Reduce information asymmetry (with policymakers) – Design road maps on the evolution of the industry – Make surveys to inform governments of problems and needs of enterprises and to advise them on appropriate negotiating objectives for trade in services – Act as a single voice to lobby the government in favour of the tourism industry f. Support improvements in quality of service – Provide market support in the form of information on target markets, incentives for innovation, collective participation in trade fairs, and issuance of quality certifications

Competitiveness Issues	Solutions
presence of natural persons a. Fragmentation and weak coordination among themselves, leading to dispersions of human and financial resources b. Low focus on solving problems related to the quality and skills of the labour force **c.** Low support for enterprises and professionals that aim at exporting their services abroad through mode 4	g. Improve business environment – Reduce the administrative burden by decreasing the number of documents needed for licenses and permits and ensuring contract enforceability – Act as a single point of reference for administrative problems h. Assist firms in accessing foreign markets – Organise training courses to improve the managerial skills and competences of enterprises (ARPIC) – Study foreign markets and identify opportunities abroad – Disseminate market intelligence information to enterprises interested in establishing a commercial presence abroad – Assist enterprises in scouting possible partners in the domestic markets for the creation of consortia or temporary associations of enterprises (to overcome financial and human resources restrictions) with the aim of establishing together a commercial presence abroad – Assist enterprises in scouting possible partners in target markets (to overcome financial and human resources restrictions) – Assist firms in lobbying the government – Establish a dialogue with enterprises to understand the issues, needs, and interests they want to be presented to the government – Encourage the government, on behalf of enterprises, to implement policies to promote service outward FDI and to enter into negotiations with other countries to reduce barriers to commercial presence in their domestic markets

Table 43: Practical Tools for the Government to Increase the Private Sector's Competitiveness in Exporting Cultural Services

Competitiveness Issues	Solutions
<u>The Policy Makers</u> **1. Competitiveness to cross-border supply** a. Lack a strategic approach for the development of the service sector and analytical capacity to assess gains and losses from liberalisation in services b. Lack information regarding the domestic capacity of promising	a. Increase efficiency (internal) – Capture statistics on trade in services – Promote specific policies for the cultural services sector based on information gathered through statistics and the dialogue with institutions and the private sector b. Reduce information asymmetry (with institutions and enterprises) – Collaborate more closely with institutions, associations, and enterprises – Capture statistics on export of services – Gather information on the needs, performance, and interests of domestic travel services – Gather information on potential target markets

Competitiveness Issues	Solutions
services sectors and services regulations in target markets c. Most developing countries prefer to concentrate their efforts on promoting manufacturing industry rather than services **2. Travel and Tourism competitiveness (consumption abroad)** a. Poor access and quality of physical infrastructure b. Low quality of the education system and labour force with competences in travel services c. Low level of tourism competitiveness **3. Competitiveness in establishing commercial presence abroad** a. Lack of funding and promotion for facilitating investment abroad b. Lack of market access, existence of burdensome and discriminatory barriers to the establishment of commercial presence in target economies **4. Competitiveness in the presence of natural persons** a. Impact of visa-related issues and discriminatory treatment of foreign service providers b. Lack of quality of the domestic human capital to satisfy the needs of the target markets **c.** Lack of skills and competences of the domestic labour force in order to strengthen the	c. Establish international credibility (with enterprises) – Promote the 'country brand' to generate visibility – Promote the use of international standards – Promote country capacity as provider of mode 4 services through awareness programs, televised advertisements, participation in trade fairs, and Internet advertising, which highlight the quality, reliability, skills, and competences of the country's labour force – Sign agreements with host countries for the recognition of qualifications d. Support market access (with enterprises) – Create financing programs specifically dedicated to supporting enterprises with limited financial capacity to export cultural services – Accelerate liberalisation commitments in order to help domestic enterprises access potential target markets – Reinforce APEX as a one-stop shop to provide information to cultural service exporters on regulations, taxation system, and statistics regarding potential target markets – Carry out in-depth market research on the capacity of the domestic market as well as on target markets to identify potential promising niches and establish priorities and interests to defend at the negotiating table – Negotiate bilateral agreements to reduce barriers to either the movement of natural persons or the establishment of Burkinabe cultural services' commercial presence abroad e. Improve the quality and supply of human capital (with enterprises) – Support the education system to guarantee greater access to tertiary education and achieve a better teaching level – Attract diaspora back in the domestic market through incentives for the creation of new cultural services export-oriented companies – Introduce changes in teaching courses to support the needs of the cultural services industry – Promote foreign language proficiency – Support greater collaboration between training schools, institutions, and the private sector, also with introduction of cultural services specific courses – Introduce training courses specialised in tourism, health care, and education – Promote foreign languages proficiency (English and other languages of target markets) to increase range and quantity of foreign consumers – Develop local training programs for the specific skills required in the target markets f. Improve infrastructure (with enterprises)

Competitiveness Issues	Solutions
credibility and reputation of the country as a mode 4 service exporter	– Ensure greater and better Internet penetration at aggregate level – Create cultural services clusters with efficient and cost-competitive physical and electronic infrastructure and better socio-economic conditions – Increase access to road, railroad, and air transport (especially connecting cultural/historical/ natural attractions, hospitals, business venues, and training centres to hotel accommodations) – Upgrade quality of road and railroad transports – Upgrade quality of hospitals and education centres g. Promote the country – Establish agreements with neighbouring countries which are more competitive in travel activities in order to offer combined travel packages, to increase travel services exports – Promote the country's tourism industry through awareness programs, televised advertisements, participation in trade fairs and Internet advertising – Improve the reputation of cultural services providers such as vendors, travel guides, and teachers by promoting the use of international certifications or recognised certifications of quality – Interact more closely with institutions and enterprises h. Assist enterprises in establishing commercial presence abroad – Identify potential partners in target markets to help enterprises establish a commercial presence abroad – Provide financing to enterprises which aim at establishing a commercial presence abroad – Collect and disseminate information to institutions and enterprises on potential opportunities, regulations on equity, and barriers to establishment of commercial presence in target markets – Promote managerial skills and competences through the establishment or improvement of business management courses in the education system – Support clustering and networking programs to help enterprises overcome competitiveness issues arising from lack of sufficient human and financial resources

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Annex 1: Additional Tables

Table 44: UNESCO's List of Core Cultural Services

Audiovisual and related services		**Community, social, and personal services**
		Recreational, cultural, and sporting services
		Audiovisual and related services
		Sound recording services
		Audio post-production services
		Motion picture, videotape and television programme production services
		Radio programme production services
		Audiovisual production support services
		Motion picture and television programme distribution services
		Film and video post-production services
		Other services related to the production of motion pictures and television and radio programmes
		Motion picture projection services
		Videotape projection services
		Broadcasting (programming and scheduling) services
		Leasing or rental services without operator
		Leasing or rental services concerning televisions, radios, video cassette recorders, and related equipment and accessories
		Leasing or rental services concerning videotape
Royalties and license fees	**Copyrights**	**Licensing services for the right to use non-financial intangible assets**
		Licensing services for the right to use computer software
		Licensing services for the right to use entertainment, literary, or acoustic originals
		Licensing services for the right to use other non-financial intangible assets
	Cultural services	**Recreational, cultural, and sporting services**
		Performing arts event promotion and organisation services
		Performing arts event production and presentation services
		Performing arts facility operation services
		Other performing arts and live entertainment services
		Services of performing artists
		Services of authors, composers, sculptors and other artists, except performing artists
Personal services		**Library and archives services**
		Library services
		Archive services
		Recreational, cultural and sporting services
		Museum services except for historical sites and buildings
		Preservation services of historical sites and buildings

Table 45: Distribution of Cultural Enterprises in Burkina Faso (2010)

Categories	#
Central and cross-cutting technical services of the Ministry of Culture and Tourism	11
Departments linked to the Ministry of Culture and Tourism	8
Decentralised departments (regional departments of culture and tourism)	13
Professional organisations	
• Cultural heritage	2
• Performing arts (Theatre)	6
• Performing arts (Dance)	1
• Performing arts (Music)	9
• Performing arts (Storytelling and puppet shows)	2
• Plastic arts, traditional arts and crafts	3
• Cinema and audiovisual media	14
• Publishing (book) and press	7
• Scenography	1
• Multi-fields	4
Cultural enterprises (spaces for creation, production, and dissemination)	
• Collect, production, and commercialisation of handicrafts and fine art objects	
o Production and exhibition areas for handicrafts and artefacts	10
o Art galleries	4
o Exporters of fine art objects	15
• Music enterprises	
o Recording studios	16
o Production companies	30
o Distribution companies	10
o Dubbing companies	2
• Cinema and audiovisual enterprises	
o Motion picture studios	58
o Distribution companies	5
• Sale or lease of sound and audiovisual materials	16
• Cultural engineering	5
• Enterprises of the book and press sector	
o Publishing companies	15
o Printing companies	43
o Libraries	13
o Newspapers	15
Training schools and institutions	
• Performing arts	12
• Plastic arts, traditional arts and crafts	9
• Cinema and audiovisual	2
• Publishing (book) and press	1
• Training institutions in management and administration of cultural activities	2
Cultural buildings and establishments	
• Cinemas	9
• Cultural centres	31
• Museums	16

Source: Ministry of Culture and Tourism, 2010.

Table 46: Number of Visitors to Museums

N°	Museum	Visitors	2004	2005	2006	2007	2008	2009	2010	2011	2012
Région des Hauts Bassin											
1	**Musée provincial Sogossira Sanon**		**1606**	**1 197**	**2 138**	**1 472**	**1 281**	**2 443**	**4 502**	**2 273**	
		Tourists	156	609	512	351	478	641	496	338	
		Students	1116	267	664	579	442	805	3042	1014	
		Others	334	321	962	542	361	997	964	921	
2	**Musée de la musique d'hier à aujourd'hui**		**1 500**	**1 700**	**2 608**	**3 100**	**3 150**	**3 700**	**5 300**	**2 573**	
		Tourists	700	850	908	1350	1650	1500	2500	1183	
		Students	500	630	1000	975	1000	1300	2000	1200	
		Others	300	220	700	775	500	900	800	190	
Région du Centre Nord											
3	**Musée communal de Kaya**				**263**	**323**	**492**	**1 161**	**991**	**1 442**	**1188**
		Tourists					73	84	95	71	162
		Students					150	133	215	1 240	878
		Others					269	944	681	131	148
Région du Centre Ouest											
4	**Musée Rayimi de Koudougou**								433	2204	1623
		Tourists							361	257	202
		Students							40	1792	1108
		Others							32	155	313
Région du Sud Ouest											
5	**Musée du Poni**			**1 160**	**1 812**	**1 560**	**1 560**	**2 080**	**1 805**	**2 000**	**1380**
		Tourists		1 000	1 200	1 160	1 300	1 500	1 500	1 000	900
		Students		100	400	300	160	400	200	800	300
		Others		60	212	100	100	180	105	200	180
6	**Musée de la Femme (Dano)**									**165**	**0**
		Tourists								15	0
		Students								100	0
		Others								50	0
Région du Plateau Central											
7	**Musée de Manéga**			**2172**	**2204**	**2431**	**2450**	**12651**	**12925**	**12336**	
		Nationals		1040	1092	1230	1240				
		Foreigners		1132	1112	1201	1210				
Région du Centre											
8	**Musée National**			**5 225**	**6 983**	**7 510**	**6 543**	**2 460**	**2 631**	**1 594**	**4909**
		Tourists						1 289	957	**759**	**1454**
		Students						589	1234	**548**	**2483**
		Others						582	440	**287**	**972**

Annex 2: Questionnaire for the Private Sector

ETUDE DE CAS SUR LES SERVICES CULTURELS AU BURKINA FASO

ENQUÊTE SUR LES EXPORTATIONS DE SERVICES CULTURELS - BURKINA FASO

L'objectif de cette étude est d'examiner la structure et la performance des industries culturelles du Burkina Faso, en particulier en ce qui concerne ses exportations de services culturels. Elle vise à identifier les opportunités et les défis émergents pour le secteur des industries culturelles, ainsi que ses principales forces et faiblesses.

TOUTES VOS REPONSES SONT TOTALEMENT CONFIDENTIELLES À LA RECHERCHE ET VOTRE NOM NE SERA NI COMMUNIQUÉ, NI UTILISÉ. SOYEZ DONC ASSURÉS QUE LES RENSEIGNEMENTS QUE VOUS FOURNIREZ RESTERONT ANONYMES.

Votre secteur (s) d'activités

☐ Cinéma et audiovisuel (cinéma, vidéo, radios et TV)

☐ Patrimoine (produits dérivés et services des musées et des sites culturels)

☐ Arts de la scène (théâtre et arts apparentés, danse, spectacle de musique)

☐ Musique enregistrée (chaine du disque)

☐ Formation artistique et culturelle

☐ Livre, édition et presse (livre, édition, journaux, magazines, et presse en ligne) ;

☐ Festivals et événements culturels

☐ Arts plastiques et appliqués (photographie, peinture, sculpture, dessin, artisanat d'art, art capillaire et vestimentaire, arts décoratifs)

☐ Tourisme culturel

☐ Autres (s'il vous plaît, préciser) __________________

1. Informations générales

Nom de l'entreprise/structure /association ______________________________

Nom du répondant : ______________________________ Profession : ________________________

Lieu: ____

Téléphone fixe / Mobile :________________________ Email : ___________________________

Capital de l'entreprise : ____ % National/domestique ___ % africain ___ % international

2. Modes de fourniture de services culturels

La distinction fondamentale entre les catégories d'exportation concerne la nature des produits de la société. Ainsi, tous les services culturels liés au tourisme et / ou l'entrée des personnes sur le territoire national, et toute entrée financière associée directement à un service culturel (annonceur étranger, exposant, etc.) doivent être considérés comme des exportations dans la balance des paiements.

Catégories	*Réponse*	*Nature/Détails*
Commerce transfrontalier de services (TV satellite, etc.)	☐ Oui ☐ Non	
Consommation/dépenses par des étrangers (concert, festival, etc.)	☐ Oui ☐ Non	
Présence commerciale à l'étranger (filiales)	☐ Oui ☐ Non	
Mouvement de personnes physiques (prestation de services à l'étranger)	☐ Oui ☐ Non	

3. Contribution économique de votre entreprise/association/évènementiel/musée

Cette section vise à évaluer les détails de vos activités de commerce international de services pour 2012 (2013 lorsque possible), y compris :

- La valeur des exportations de tous les services / pour les 3 principales destinations /consommateurs

- Votre contribution à l'emploi

3.1 Les estimations du montant total des recettes générées directement : _________________ CFAF

3.2 Pour les festivals / Musées et autres activités récréatives, les estimations du nombre total de visiteurs en 2012 ? (sinon, aller à la question 3. 4)

National : _____ régional : ______ International: ______

3.3 Quel est le prix d'entrée de votre festival/ musées ou toute autre activité de loisir pour les visiteurs?

Nationaux : ___ CFA Régionaux : _____ CFA Africains : ____ CFA Internationaux: _____ CFA

3.4 Avez-vous effectué des transactions avec des entreprises situées à l'extérieur du Burkina Faso ?

☐ Oui ☐ Non ☐ Ne sais pas

3.5 Faites vous des affaires avec des visiteurs régionaux et internationaux?

☐ Oui ☐ Non ☐ Ne sais pas

3.6 Quelle est la part de vos services culturels exportés ou vendus à des visiteurs internationaux ?

____ % services

____ % de la valeur monétaire de vos exportations

3.7 Top 3 pays / marchés d'exportation :

% Du volume ⇨ (1) ___________ (_ %) (2) __________ (_ %) (3) ___________ (_ %)

% Des ventes ⇨ (1) ___________ (_ %) (2) __________(_ %) (3) __________ (_ %)

3.8 Pourriez-vous décrire d'autres effets / impacts indirects qui sont associés aux exportations de vos services culturels ? ____

____

3.9 Les estimations de vos coûts d'exploitation (impact local) _________________ CFAF

3.10 Les estimations de biens/services importés pour exploiter des services culturels: ________ CFAF

3.11 Les estimations de la part des biens/services importés dans les coûts d'exploitation ? ____ %

3.12 Types de produits / services et pays d'origine

3.12.1 Bien / service 1 : ___________ Origine : __________ Valeur: __________ CFAF
3.12.2 Bien / service 2 : ___________ Origine : __________ Valeur: __________ CFAF
3.12.3 Bien / service 3 : ___________ Origine : __________ Valeur: __________ CFAF

3.13 Ces produits/services sont ils produits/vendus localement ?

3.13.1 Produit / service 1 : ☐ Oui ☐ Non ☐ Ne sais pas
3.13.2 Produit / service 2 : ☐ Oui ☐ Non ☐ Ne sais pas
3.13.3 Produit / service 3 : ☐ Oui ☐ Non ☐ Ne sais pas

3.14 Si les produits / services sont assurés / offre locale, quelles sont les raisons de leur non utilisation ?

3.14.1 Produit / service 1 : ☐ faible qualité ☐ offre insuffisante ☐accès ☐Autre: _____
3.14.2 Produit / service 2 : ☐ faible qualité ☐ offre insuffisante ☐accès ☐Autre: _____
3.14.3 Produit / service 3 : ☐ faible qualité ☐ offre insuffisante ☐accès ☐Autre: _____

3.15 Estimez l'emploi généré par votre entreprise: ___ Employés/__ Hommes/ __ Femmes/__ Adolescents.

3.16 Part de l'emploi à temps plein : ____ % (nombre d'employés pour des événements culturels : __)

4. Facteurs/moteurs de succès à l'exportation

4.1 Etes-vous satisfaits de la qualité des ressources humaines locales ? ☐ Oui ☐ Non ☐ Ne sais pas

4.2 Les ressources humaines qualifiées sont elles suffisamment disponibles ?

☐ Oui ☐ Non ☐ Ne sais pas

4.3 Les écoles/institutions culturelles sont -elles suffisamment efficaces pour répondre à vos besoins ?

☐ Oui ☐ Non ☐ Ne sais pas

4.4 Les politiques du travail suivent-elles le développement et les besoins des industries culturelles ?

☐ Oui ☐ Non ☐ Ne sais pas

4.5 Les infrastructures et moyens technologiques disponibles sont ils suffisants pour faire du Burkina Faso un marché compétitif et un environnement des affaires dynamique?

☐ Oui ☐ Non ☐ Ne sais pas

Si non, pourquoi? ____

4.6 Pensez-vous que vous pourriez bénéficier davantage de la technologie web comme Internet pour vous connecter directement aux consommateurs ? ☐ Oui ☐ Non ☐ Ne sais pas

Si oui, comment? ____

4.7 Êtes-vous déjà engagé dans les communautés web telles que YouTube, Twitter, Flickr, Facebook, MySpace et Second Life ? ☐ Oui ☐ Non ☐ Ne sais pas

4.8 Pensez-vous que les réseaux ou alliances de personnes/entreprises sont une bonne stratégie pour accroître l'efficacité des entreprises et améliorer leur communication? ☐ Oui ☐ Non ☐ Ne sais pas

4.9 Avez-vous déjà essayé de former des alliances stratégiques pour accéder aux marchés étrangers ? ☐ Oui ☐ Non ☐ Ne sais pas

Si non, pourquoi? ____

4.10 Suggérez des recommandations pour accroître la compétitivité des industries culturelles ?

5. Analyse SWOT

Par ordre d'importance pour chaque catégorie ci-dessous, pourriez-vous s'il vous plaît fournir une liste d'un maximum de trois éléments liés à **l'exportation de services culturels** du Burkina Faso ?

Forces: 1. 2. 3.	Faiblesses: 1. 2. 3.
Opportunités: 1. 2. 3.	Menaces: 1. 2. 3.

6. La politique du gouvernement

Un large éventail de mesures (et stratégies politiques) sont disponibles pour les gouvernements afin de stimuler les industries culturelles (Throsby, 2010) et nous proposons maintenant de mesurer la capacité des industries culturelles à conduire à un avantage concurrentiel durable. En utilisant une analyse importance/performance (IPA), nous proposons de développer un ordre de priorité pour les politiques actuelles ou à venir d'appui au développement des industries. Nous utilisons une échelle de Likert de cinq points allant de 1 «fortement en désaccord » et 5 «tout à fait d'accord» pour les politiques publiques en matière d'industries culturelles et une échelle de Likert de cinq points 1 "mauvaise performance" à 5 "haute performance" pour les niveaux de performance des mesures et actions.

	Stratégies Politiques actuelles du gouvernement ou à encourager	**Importance pour le secteur**	**Performance Actuelle**
Développement des petites entreprises	Provision d'une assistance et/ou d'incubateurs d'entreprises au démarrage des PME.	☐1 ☐2 ☐3 ☐4 ☐5	☐1 ☐2 ☐3 ☐4 ☐5
	Faciliter l'accès au financement, y compris la micro-finance (démarrage et la constitution d'un capital d'exploitation)	☐1 ☐2 ☐3 ☐4 ☐5	☐1 ☐2 ☐3 ☐4 ☐5
	Provision d'informations et d'ateliers pour le développement des compétences entrepreneuriales	☐1 ☐2 ☐3 ☐4 ☐5	☐1 ☐2 ☐3 ☐4 ☐5
	Assistance dans des domaines tels que la convergence et la numérisation des opérations commerciales	☐1 ☐2 ☐3 ☐4 ☐5	☐1 ☐2 ☐3 ☐4 ☐5
	Autre (s'il vous plaît préciser) :	☐1 ☐2 ☐3 ☐4 ☐5	☐1 ☐2 ☐3 ☐4 ☐5
Infrastructures règlementaires	Une règlementation en terme de droit des contrats pour permettre le fonctionnement efficace des industries culturelles	☐1 ☐2 ☐3 ☐4 ☐5	☐1 ☐2 ☐3 ☐4 ☐5

	Une règlementation en terme de droit d'auteur y compris l'exigence d'une gestion efficace des droits numériques	☐1 ☐2 ☐3 ☐4 ☐5	☐1 ☐2 ☐3 ☐4 ☐5
	Législation antitrust et réglementation de la concurrence (contrôle du marché par les multinationales)	☐1 ☐2 ☐3 ☐4 ☐5	☐1 ☐2 ☐3 ☐4 ☐5
	La politique des industries culturelles s'inscrit dans un système de gouvernance culturelle	☐1 ☐2 ☐3 ☐4 ☐5	☐1 ☐2 ☐3 ☐4 ☐5
	Autre (s'il vous plaît préciser) :	☐1 ☐2 ☐3 ☐4 ☐5	☐1 ☐2 ☐3 ☐4 ☐5
Politique d'Innovation	Subventions aux projets de recherche et développement	☐1 ☐2 ☐3 ☐4 ☐5	☐1 ☐2 ☐3 ☐4 ☐5
	Partenariats public / privé pour de nouveaux investissements en entreprises	☐1 ☐2 ☐3 ☐4 ☐5	☐1 ☐2 ☐3 ☐4 ☐5
	Faciliter les transferts de connaissances - favoriser la communication directe entre interlocuteurs (B2B)	☐1 ☐2 ☐3 ☐4 ☐5	☐1 ☐2 ☐3 ☐4 ☐5
	Incitations à l'investissement, subventions et autres dispositifs pour attirer les entreprises étrangères et stimuler les groupements	☐1 ☐2 ☐3 ☐4 ☐5	☐1 ☐2 ☐3 ☐4 ☐5
	Autre (s'il vous plaît préciser) :	☐1 ☐2 ☐3 ☐4 ☐5	☐1 ☐2 ☐3 ☐4 ☐5
Développement de marchés	Provision d'informations et de services sur le développement des marchés	☐1 ☐2 ☐3 ☐4 ☐5	☐1 ☐2 ☐3 ☐4 ☐5
	Encourager la création d'organes consultatifs au bénéfice de l'industrie	☐1 ☐2 ☐3 ☐4 ☐5	☐1 ☐2 ☐3 ☐4 ☐5
	Développement de segments de marché spécifiques	☐1 ☐2 ☐3 ☐4 ☐5	☐1 ☐2 ☐3 ☐4 ☐5
	Autre (s'il vous plaît préciser) :	☐1 ☐2 ☐3 ☐4 ☐5	☐1 ☐2 ☐3 ☐4 ☐5
Éducation & Formation	Intégration des arts créatifs dans les programmes prescrits par l'État (à tous les niveaux)	☐1 ☐2 ☐3 ☐4 ☐5	☐1 ☐2 ☐3 ☐4 ☐5
	Fourniture de ressources pour les écoles telles que les matériaux d'art visuel, instruments de musique, etc.	☐1 ☐2 ☐3 ☐4 ☐5	☐1 ☐2 ☐3 ☐4 ☐5
	Formation dans les arts et la culture au profit des enseignants	☐1 ☐2 ☐3 ☐4 ☐5	☐1 ☐2 ☐3 ☐4 ☐5
	Le financement de programmes pour faire venir des artistes professionnels dans les écoles	☐1 ☐2 ☐3 ☐4 ☐5	☐1 ☐2 ☐3 ☐4 ☐5
	Partenariats avec des organismes culturels publics et privés pour faciliter les visites scolaires	☐1 ☐2 ☐3 ☐4 ☐5	☐1 ☐2 ☐3 ☐4 ☐5
	Programmes de vacances pour les enfants tels que les camps de musique ou les randonnées culturelles	☐1 ☐2 ☐3 ☐4 ☐5	☐1 ☐2 ☐3 ☐4 ☐5
	Programmes extra-scolaires utilisant les arts/culture pour éduquer les enfants en matière de santé et autres questions de sensibilisation	☐1 ☐2 ☐3 ☐4 ☐5	☐1 ☐2 ☐3 ☐4 ☐5
	Autre (s'il vous plaît préciser) :	☐1 ☐2 ☐3 ☐4 ☐5	☐1 ☐2 ☐3 ☐4 ☐5

6.1 En conclusion, que peux faire le gouvernement pour faciliter votre travail ou aider au développement de votre entreprise ?____ ____

6.2 Qu'attendez vous de la déclaration de Ouagadougou sur le cinéma lors du FESPACO en 2013?____

6. HIGHER EDUCATION SERVICES: A CASE STUDY OF UGANDA

Authors: Sherry Stephenson and George F. Walusimbi-Mpanga

Executive Summary

The African Union Commission (AUC) has earmarked the enhancement of trade in services as an important emerging new opportunity and has adopted the Action Plan for Boosting Intra-African Trade as a first step towards a Continental Free Trade Agreement (CFTA) which, amongst others, is anchored in trade in services.

This case study on Uganda's higher education, one of five commissioned by the AUC, was conducted with assistance from the United States Agency for International Development (USAID) to promote knowledge and understanding of higher education as a basis for sector development and enhanced regional integration; provide information on the export of higher education by selected universities and institutions of higher learning to help support the establishment of an African Trade Observatory; evaluate the effectiveness of the Government of Uganda's policy in fostering the export of higher education; review the regulatory and institutional context for the export of higher education by focusing on the role of the National Council for Higher Education (NCHE) and the Inter-University Council for East Africa (IUCEA).

The study was compiled using a combination of approaches. Primary data was collected through face-to-face interviews with 20 key-informant respondents drawn from 13 institutions, namely a public university, its semi-autonomous business school, 7 private universities, 2 government institutions, and a regional organization. The case study lays special emphasis on distance education; therefore all of Uganda's virtual universities have been covered to understand their challenges in delivering study programs to students in other countries using online distance media. A total of 18 meetings were held to collect field data. Literature reviews of previous studies, reports, policy documents, and other secondary data helped in reviewing Uganda's export performance in the higher education sector.

The study noted that globally, education is the second largest sector after healthcare, with total global expenditure on education estimated at US$ 4.5 trillion in 2012. The global education market is reported to be growing at an annual compound rate of 7% over the period 2012–2017 and is projected to peak at US$ 6.3 trillion by 2017.

Whereas the export of education has traditionally relied on the mobility of natural persons (students and teachers), emerging global trends increasingly point to a paradigm shift towards the mobility of providers in different countries as well as through distance learning programs. This shift had created new possibilities, namely joint degrees between universities, dual degree programs, universities setting up branch campuses abroad, colleges offering local and foreign qualifications, distance and e-learning programs, and franchising courses to universities abroad.

There are factors which have favored Uganda as a destination for international students. They include a long-established tradition of foreign enrolment in Uganda's universities and institutions, comparatively low tuition fees, the low cost of living in Uganda relative to other countries in the region, and Uganda's attractive university entry requirements. There is a strong relationship between the patterns of foreign student enrolments and university rankings, which favor Ugandan universities, given that Ugandan universities, especially Makerere University, have consistently featured prominently in the global universities ranking reports. In addition, Uganda has benefitted from enhanced cross-border student mobility driven by the EAC integration process.

Although the absolute number of foreign students enrolled in universities and other tertiary institutions of learning in Uganda has increased over the years, in relative terms the share of foreign students as a portion of the total number of students studying in Uganda has declined slightly since 2006. The study highlights policy issues underpinning the difficulties facing Ugandan universities in the effort to expand foreign enrolment. Key among these are limited budget allocation, the existing trend of declining foreign student enrolment, slow uptake for distance delivery of higher education, inadequate presence of Ugandan university campuses abroad, and the lack of reliable statistics.

To effectively exploit her export potential for higher education in the region, Uganda will need to introduce concrete government support policies for higher education, namely:

(a) A deliberate government support policy for exporting higher education and providing tax relief to private universities is needed.

(b) To promote distance online higher education programmes, all universities should be granted discounted access to the Internet backbone.

(c) To improve the collection of higher education data, broaden the scope of the Computerised Education Management and Accounting System (CEMAS) to cover the entire higher education sector. CEMAS and the Research Education Network Uganda (RENU) should be consolidated into a common platform, instead of being developed as separate and competing platforms.

(d) Focus on quality assurance through effective regulation and quality assurance controls, especially for private providers, and broaden NCHE oversight of remedial and other pre-entry procedures.

(e) Proactively support an EAC 'Common Higher Education Area', pursue mutual recognition of accreditation of higher education institutions and programmes in the EAC, and support the proposed Credit Accumulation and Transfer System (CATS) and the EAC Qualifications Framework.

(f) Revamp the Vice Chancellor's Forum as a proactive advocacy platform for higher education providers to engage with government on key policy issues affecting the sector.

Introduction

Overview and Objectives

Within the Action Plan for Boosting Intra-African Trade framework to fast track the achievement of a CFTA, the AUC has earmarked the enhancement of trade in services as an important emerging new opportunity.

The overall purpose of this case study, one of five such studies the African Union Commission has commissioned as part of this project, is to:

(a) Promote the knowledge and understanding of services trade in general and of higher education in particular as a basis for sector development and enhanced regional integration

(b) Provide information on higher education in Uganda, with emphasis on the export of higher education by selected universities and institutions of higher learning in Uganda, with a view to helping support the establishment of an African Trade Observatory by compiling best practices and success stories in the sector as part of efforts to establish an African trade in services database

(c) Examine the performance of Uganda's higher education sector, with specific attention to Uganda's export of higher education services

(d) Evaluate the effectiveness of government policy in Uganda for the purpose of fostering exports of higher education services.

Scope of Work

Following an overview of the services sector in Uganda, this case study examines the situation of education services, with a particular emphasis on higher education. The policy context for higher education in Uganda is also reviewed in the study through an investigation of the role that government policy has played to support or not the efforts of higher education institutions to export educational services. The role of the National Council for Higher Education is also highlighted in the policy discussion, as well as that of the Inter-University Council for East Africa.

The study further sets out the strengths, weaknesses, challenges, and emerging opportunities in the export of higher education by Uganda. It identifies the way in which Ugandan universities and institutions of higher learning can act in order to expand the enrolment of foreign students in university programmes in Uganda, and discusses the current difficulties and factors that are holding Uganda back in this effort. The study makes policy recommendations on the basis of the information provided by the higher education institutions that were interviewed for the research, and highlights their experiences and lessons learnt. Finally, the study concludes by suggesting some best practices for those countries that wish to improve their regional and international position in the area of educational services.

The UN's Provisional Central Product Classification (CPC) and the Services Sectoral Classification List (W/120)[1] in the WTO General Agreement on Trade in Services (GATS) define Educational Services as encompassing five broad categories, namely: (a) Primary Education Services, (b) Secondary Education Services, (c) Higher Education Services, (d) Adult Education Services, and (e) Other Education Services.[2] This GATS classification and nomenclature was the basis for undertaking commitments on education services in the Uruguay Round and offers in the ongoing Doha Development Round at the multilateral level, and served as the basis for the commitments Uganda has undertaken within the EAC under the Common Market Protocol (CMP).[3]

This study reviews Uganda's higher education and training services sector as defined by the UN CPC and the W/120 of the GATS. The study focuses primarily on institutions of higher education, but it also covers post-secondary education as provided by degree and diploma awarding institutions. In addition, it covers continuing education in general and technical disciplines, as well as refresher and training programmes of these continuing education institutions, as provided for by the universities and colleges as set out in the Universities and Other Tertiary Institutions Act, 2001.

In its scope of coverage of higher education, the study considers the export of higher education through all four modes of supply as provided for in the GATS. These include the following types of higher education exports:

- ***Mode 1 or Cross-Border Supply.*** This would consist of Ugandan institutions providing distance learning web-based programmes over the Internet to students living in other countries, in exchange for payment. (To date there have been no Ugandan exports of higher education services through Mode 1; however opening up this area of education services exports is a major area of focus at present in policy discussions.)
- ***Mode 2 or Consumption Abroad.*** This consists of foreign students enrolling to study physically in universities in Uganda. The payment of their tuition fees and other education-related expenditures constitutes exports of higher education services by Uganda. (This mode of education exports has been the most prominent by far to date.)
- ***Mode 3 or Commercial Presence.*** This consists of Ugandan universities establishing branch campuses abroad for the purpose of offering university courses that are accredited by the home institution in Uganda. The fees paid to attend classes on these campuses constitute exports of higher education services by Uganda. There are three branch campuses of Ugandan universities abroad at present, but no statistics are available on how much these branches earn in foreign exchange. The study does explore, however, how Ugandan universities have begun to think of using Mode 3 approaches to expand their export outreach through, amongst others, establishing

[1] MTN.GNS/W/120, 10 July, 1991.

[2] See also S/C/W/49, 23 Sept. 1998 for a detailed, albeit out-of-date, overview of educational services in a GATS context.

[3] Educational services are designated as priority sectors in both the EAC CMP under implementation since 1 July 2010 and in the ongoing Common Market for Eastern and Southern Africa (COMESA) trade in services negotiations.

branch or satellite campuses, franchising, twinning, and other types of collaborative arrangements.

- ***Mode 4 or Supply by Natural Persons.*** This consists of Ugandan professors or administrators going to a foreign country to teach courses or provide advice on university administrative services. Their earnings constitute exports of higher education services by Uganda. (Whilst this does happen in practice, it is extremely difficult to document, and it is not a major focus of the study.)

With regard to Mode 1 or cross-border trade, the recent publication, *An Assessment of Uganda's Export Potential for Education Services in the EAC & COMESA Regional Markets,* noted the importance of embracing information technology (IT) as a deliberate policy to increase the export of higher education through distance learning. The report further noted that on average, only 16% and 5% of the universities in Uganda offer postgraduate and undergraduate distance programmes, respectively, for students within Uganda.[4]

The present study puts special emphasis on distance education. In this respect, the study reviews the extent to which Uganda is developing higher education exports using Mode 1, cross-border supply. The scope for the study has been deliberately stretched to cover virtual universities, and to explore how universities are targeting the delivery of content to students in other countries using online distance media.

Methodology

The study has been conducted using a combination of approaches aimed at reviewing the economic performance of Uganda's economy with special attention to the export performance of the higher education services sector. Literature and secondary data have been used to establish the export performance of the higher education sector in Uganda. Previous studies, reports, and policy documents undertaken in the higher education sector have been reviewed. Publications and policy statements of the NCHE, the statutory regulator for higher education in Uganda, as well as the IUCEA, have been extensively utilised with emphasis given to the trade aspects of these documents.

A self-administered questionnaire was developed and used to collect primary data through face-to-face interviews with key respondents from nine selected universities earmarked for the study. Thirteen institutions, including one public university and its semi-autonomous business school, seven private universities, two government institutions, and one regional organisation, designated as key respondents, were visited for interviews. A total of 18 meetings with these respondents were conducted to collect the field data for this case study.

Historical information has been extensively used in the study, given that Uganda has long been considered the preferred higher education destination in the EAC. The study reviews the role of the Inter-University Council of East Africa (IUCEA), an important organ of the EAC for higher education, as well as its programs.

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[4] Bakunda, G., and G. Walusimbi-Mpanga. An Assessment of Uganda's Export Potential for Education Services in the Regional Markets (EAC and COMESA), Private Sector Foundation Uganda (PSFU), 2005, p. 42.

Because education is designated as one of the priority sectors in the EAC Common Market Protocol and the COMESA trade in services negotiations, the study focuses on the likely implications of Uganda's liberalisation commitments for the export of higher education in the region.

Organisation of the Report

The report is arranged as follows. The first section provides an introduction to the case study and details the scope for the study, along with the methodology selected for its execution. The second section sets out a brief global overview of trade in services. It also provides the current context for the higher education reforms that are taking place in countries around the world.

The third section 3 reviews Uganda's trade in services sector and provides a sectoral overview using the basic data on the sector. It summarises Uganda's policy framework for trade in services. The framework includes the Vision 2040 document, the National Development Plan, National Trade Policy, National Export Strategy (NES), and the Services Sector Export Strategy (SSES). It is interesting that both the NES and SSES earmark services, and education services in particular, as being central to Uganda's export diversification efforts. At the regional level, the EAC Treaty lists Education and Training as one of the 17 mandatory areas of cooperation amongst the EAC Partner States, whilst the EAC CMP includes education amongst the list of priority sectors.

The fourth section examines Uganda's education services in detail. It covers the historical development of education in Uganda and sets out the entire profile of Uganda's education services. This chapter details the policy and institutional framework of Uganda's education sector, detailing the various policy reforms the sector has undergone, leading to the current status of higher education in Uganda.

The fifth section includes an analysis of Uganda's higher education that helps explain the current state of Uganda's competitiveness in the export of higher education, particularly in relation to its neighbours in East and Central Africa, both in terms of its traditional advantages as well as the current significant challenges that the sector is facing. The chapter takes note of the declining trends in enrolment of international students and changes with respect to the profile of foreign students studying in Ugandan universities. It puts forward factors to explain the reasons behind this worrying development.

The sixth section sets out a profile of eight of Uganda's major universities that have been exporting higher education services and some of the measures that underpin their recruitment of international students. Notably, Uganda's private universities are increasingly becoming the country's biggest destination for international scholars compared to the past, when public universities were dominant in this respect. The most strategic source countries for international students are increasingly further afield in the Horn of Africa and West Africa, as opposed to the traditional sources in Kenya and Tanzania.

The final section lays out policy recommendations based on the findings of the case study and in light of the lessons learnt. It is a call for action to policy makers committed to a future thriving higher education sector in Uganda.

Global and Country Context

Trade in Services: The Global Context

The services sector forms an important component and growing proportion of gross domestic product (GDP) in several economies in both industrialised and developing or emerging economies. It accounts for about two thirds or more of GDP in OECD countries, and an increasing proportion in the poorest countries—now slightly above 40%.[5] Services play a critical role in the functioning of modern economies. They are increasingly vital in the production of goods and services. Professional services are also amongst the fastest growing services sectors in many countries, contributing directly and indirectly to economic growth by lowering transaction costs and creating spillovers of knowledge for other industries. *Other Business Services* (a GATS services category) are currently the fastest growing component of world trade, being used as inputs in nearly all productive economic activities.

Services account for 60% of global production and employment.[6] They make up nearly half of the value of world trade, measured on a value-added basis and the service sector receives two-thirds of foreign direct investment flows. Global services exports grew by 11% in 2011, up from 10% in 2010.[7] In the EAC, services consistently contributed more than 50% of GDP value-added in the period 2006–2009.[8] In most non-oil producing sub-Saharan African countries, the services sector accounts for the largest part of GDP.

Services have been shown by many authors to be both a necessary and critical determinant of economic growth. More open markets for services can result in improved access for goods, lower prices, and higher quality inputs for firms in the production process.[9] The provision of services such as clean water, effective sewerage, a stable supply of energy, and access to quality and affordable education, and health services is critical to increasing welfare and alleviating poverty. Services sectors—including education, telecommunication, energy, transport, health, and business services—are important inputs into the production of goods and other services and hence influence productivity and competitiveness of a given sector of the economy. Thus, increasing the availability, affordability, and quality of these services is crucial for economic growth and poverty reduction in all developing countries.[10]

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[5] De Vylder, S., 2007. See also Analysis of Australia's Education Exports: http://www.dfat.gov.au/publications/stats-pubs/analysis-of-australias-education- exports.pdf, visited on Feb. 21, 2014.

[6] WTO, 2010.

[7] UNCTAD, 2011.

[8] Society for International Development, 2012.

[9] Hoekman and Mattoo, 2009.

[10] Brenton et al., 2010.

Global and Regional Trends in Transnational Education

The education sector (including expenditure on national education systems), is presently the second largest sector globally after healthcare, with total global expenditure estimated to be US$ 4.5 trillion in 2012.[11] In 2011, there were 4.3 million students in higher education studying in countries other than their own. This category of students nearly doubled in size between 2000 and 2010, growing from 2.1 million to 4.1 million, equivalent to an average annual growth of 7.1%.[12] The value of the global education market is forecast to increase at an annual compound growth rate of 7% between 2012 and 2017, owing to demographic changes and high levels of expenditure by emerging economies. This will result in a global market of US$ 6.3 trillion for education services by 2017. For example, in Australia, exports related to education services accounted for a 36% share of total services exports, that is, about AUS$ 19.1 billion in 2010. South Asian countries account for more than 82% of Australia's export market in education services.[13]

The Organisation for Economic Cooperation and Development (OECD) estimates that the number of post-secondary students enrolled abroad was set to grow from 3.7 million in 2009 to 6.4 million in 2025.[14] China is projected to experience the highest growth in tertiary enrolments of any country in the world over the next decade (2010–2020), from 24% to 38%, followed by India, which is expected to reach 23% from 16%.[15] In 2012 there were nearly 14 million international students studying at American colleges and universities, whilst Australia had 515,853 full-fee paying international students according to Open Doors.

There were 380,376 African students on the move in 2010, representing nearly a tenth of all international students worldwide and 6% of all African students. France was reported to be the destination of choice for the greatest number of African students studying abroad with a share of 111,195 (29.2%); followed by South Africa with 57,321 (15%); the United Kingdom, 36,963 (9.7%); the United States, 36,738 (9.7%); Germany with 17,824 (4.7%); and Malaysia with 14,744 (3.9%). African students, mainly from the Maghreb and other Francophone sub-Saharan countries represented 43% of all foreigners studying in France in 2011–12. Although France is the biggest recipient of Africans studying abroad, recent trends are increasingly demonstrating a south-to-south drift. Between 2006 and 2010 there was a fall of 1% in the number of African students enrolled in France, but a 28.8% increase in those choosing South Africa and 19.3% more studying in the United Kingdom.[16] India and Nigeria are expected to experience the

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[11] Alpen Capital. Gulf Cooperation Council (GCC) Education Industry Report, 2010: http://www.alpencapital.com/includes/GCC-Education-Industry-Report-September-2010.pdf

[12] OECD. Education at a Glance 2013: http://www.oecd-ilibrary.org/education/education-at-a-glance-2013

[13] See Analysis of Australia's Education Exports: http://www.dfat.gov.au/publications/stats-pubs/analysis-of-australias-education- exports.pdf, visited on Feb. 21, 2014.

[14] Canada. Canada's International Education Strategy, 2014, p. 9.

[15] British Council and Oxford Economics. The Shape of Things to Come: Higher Education Global Trends & Emerging Opportunities to 2020, 2012.

[16] Marshall, J. 'International Mobility of African Students', *University World News*, Issue No. 279, July 2013.

highest growth with respect to outbound student mobility globally for the period 2010 to 2020, with the other likely fast growers being Malaysia, Nepal, Pakistan, Saudi Arabia, and Turkey.[17]

The African countries hosting the largest number of African students studying abroad in 2010 were Morocco with 39,865 students (10.5%); Nigeria with 34,274 (9%); Algeria with 22,465 (5.9%); Zimbabwe with 19,658 (5.2%); Cameroon with 19,113 (5%); and Tunisia with 18,438 (4.8%); the other strong sources being Kenya, Senegal, Egypt, and Botswana. UNESCO records show that Kenya has consistently been the largest source of students studying abroad in East Africa with a total of 13,748 students, equivalent to over 52% of all East Africans heading overseas in pursuit of higher education in 2010.[18]

The Context for New Reforms in Higher Education

The opening of economies, the technology improvements, and the new needs derived from globalisation and a more integrated international market have resulted in a new way of thinking about education services. Besides the importance of this sector on its own, there is a strong intrinsic relation between the skills and training required and the needs of a new workforce that are forced to operate in a global scenario. Education services are no longer destined to be provided just for the local market; higher education services and vocational and training services can be viewed very much as an export sector and an important earner of foreign exchange, replacing or supplementing the more traditional views of exported products and services. In this respect, William G. Tierney and Christopher Findlay[19] have identified some of the trends taking place during this 'next wave of globalisation of education'.

In their work, Tierney and Findlay also point out that the potential gains from the export of higher education services can be quite large.

The New Paradigm: Focusing on Programme and Provider Mobility

It is possible to identify two waves of globalisation of education services according to Tierney and Findlay. The first one involved primarily the movement of natural persons: students (Mode 2) and teachers (Mode 4), whilst the second wave involved the other two modes of supply, namely moving whole institutions abroad and offering joint degree programmes by institutions of different countries, also through distance learning programmes. Following interpretations by Knight,[20] this second wave has resulted in a paradigm shift from student mobility to programme and provider mobility. Both providers and programmes are currently extremely mobile in the global context. Possibilities amongst domestic and foreign universities are broader, and the variety of offers is extremely wide. Amongst them it is possible to mention

[17] British Council and Oxford Economics. The Shape of Things to Come: Higher Education Global Trends & Emerging Opportunities to 2020, 2012.

[18] UNESCO, 2011.

[19] Tierney, William G., and Findlay, Christopher. *The Globalization of Education: The Next Wave*, Pacific Economic Cooperation Council and the Association of Pacific Rim Universities, 2008.

[20] Knight, J. 'Cross-Border Higher Education', in Findlay, C., and Tierney, W.G. (eds), *Globalization and Tertiary Education in the Asia Pacific: The Changing Nature of a Dynamic Market*, World Scientific, 2010.

(a) joint degrees between different universities, (b) dual degree programmes where both institutions provide an award, (c) universities establishing branch campuses abroad, (d) colleges offering both local and foreign qualification, (e) distance and e-learning programmes, and (f) selling or franchising courses to universities abroad.

These new options open up a universe of different types of relationships that universities may establish between themselves, where cooperation is very important. International strategies are diverse and vary, depending on the focus placed either on student mobility or on the programme and provider mobility. Furthermore, the stage of development of a country will have an impact on the choice of model. In this respect, Macaranas[21] argues that whilst emerging economies may prefer the 'buy' options, institutions in mature economies need to think of how their associations add value in overall terms.

Besides all of these possibilities, another element has been incorporated, and it goes beyond the traditional teaching system, which consists of including research activities as part of the programmes. In this regard, cooperation for international research is both widening and deepening, as global issues demand this international approach. Amongst the advantages derived from cooperation and cross-border projects there are the following: studying problems in situ; obtaining economies of scale; avoiding costly duplication; providing research students with an international experience enriching their outlook; combining research beneficiaries and avoiding problems of free-riding and underfunding; taking advantage from differences in relative costs in research inputs; gathering the insights from comparative studies; and reducing technology transfer costs.

Other trends observed in the globalisation of tertiary education in the Asia Pacific in the early years of the 21st century have to do with the decreasing role of the state in the education sector. Although public provision of education at all levels was predominant in the past, privatisation has caused a dramatic fall in state dominance, particularly for tertiary education and vocational training. Today's tendency in educational institutions around the world is to share the education platform between public and private providers, allowing the student the choice of the provider that best suits his or her needs (and often financial capabilities). As a result of the emergence of private education institutions or partially private institutions, the role of governments shifts from education provider to regulator. Furthermore, the extent of private contributions is increasing since the sources of funding have also diversified. And the provision of the remaining public funding is shifting to the consumer (i.e., the student) rather than to the providers.

The globalisation of education services brings advantages to the training that a global workforce must receive in order to deal with the demands of the international market. But at the same time, this wave of globalisation of education implies a strong competition amongst local providers, whilst setting challenges not just for institutions in this more competitive new environment but also for governments that must manage more complex programmes and universities with diverse institutional relationships. The allocation amongst the parties of the

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[21] Macaranas, Federico M. 'Business Models in Asia-Pacific Transnational Education', in Findlay and Tierney (eds), 2010.

risks arising from the internationalisation strategy is a key issue in determining the success or failure of the globalisation of a country's education services sector.

Whilst challenges for institutions mainly have to do with institutional and regulatory issues, governments must carry out policy making at the domestic and regional levels. One concrete challenge for institutions, when opened up at the global level, is related to the capacity for training and keeping an academic staff with a high research profile. Another possible situation for an institution is dealing with new ways of funding. When funding sources diversify, the institution needs to project its teaching and research activities accordingly, and when possible, develop partnerships with the private sector for research cooperation.

With regard to challenges at the domestic level, these are diverse, and differ according to the stages of development of the country concerned. In high-income countries such as Japan, it is interesting to note that some challenges in education result from demographic changes and the failure of the education systems in Japan to match the decline of student population.[22] This challenge was addressed by attracting a larger number of international students to study in domestic institutions.

In general terms, several types of domestic policies may constitute impediments to exports of education services. Considering Mode 2 and Mode 4, the modes involved in the first wave of globalisation of education services, many policies can be cited that constitute barriers to the export of these services. Some barriers to Mode 2, affecting foreign students' entry, can include: quotas, limits on the number and type of courses foreign students are allowed to take, discriminatory enrolment criteria, restrictions applied by local institutions when recruiting foreign students, restrictions on students when trying to access the labour market for part-time work during study, and restrictions on access to tuition or other subsidies. Amongst the barriers to Mode 4 operations, which affect the exit of local teachers to deliver courses abroad, it is possible to mention the following: exit restrictions on domestic teachers, education or employment requirements bonding teachers to operate locally for a minimum period of time, and restrictions on transfers of funds overseas by domestic teachers. Dee argues that impediments on exports have a tremendous impact on the globalisation of education services, stating that, 'if an economy with sample average barriers to the inward movement of students were to liberalise completely, it would attract about 250 percent more students—more than twice as many'.[23]

Impediments to Mode 1 transactions are considered low. However, some countries tend to maintain high barriers to Mode 3 transactions. Both restrictions on commercial presence (that is, restrictions on the ability of foreign educational institutions to open branches or campuses in the domestic market) and restrictions on study abroad have a negative impact on tertiary

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[22] Pokarier, C. 'Japanese Higher Education', in Findlay, C., and Tierney, W.G. (eds), *Globalization and Tertiary Education in the Asia Pacific: The Changing Nature of a Dynamic Market*, World Scientific, 2010.

[23] Dee, Phillippa. 'International Student Movements and the Effects of Barriers to Trade in Higher Education Services', in Findlay, C., and Tierney, W.G. (eds), *Globalization and Tertiary Education in the Asia Pacific: The Changing Nature of a Dynamic Market*, World Scientific, 2010.

education services imports. According to Dee,[24] restrictions on commercial presence are much more common than restrictions on study abroad.

However, the author claims that there is a relation between these kinds of restrictions. Students from economies where there are high restrictions on commercial presence tend to seek enrolment abroad if they are able. Dee argues that if barriers to FDI imports of education services were liberalised completely, it would result in 60% fewer students outbound to study abroad. Globalisation of education services has become an important feature of the modern world economy. In order to take full advantage of the opportunities offered by this now-tradable service, it is necessary to overcome some of the challenges of defining institutional type and quality of programmes, funding for research, designing migration policies in host economies, and fostering international cooperative arrangements.

The Service Sector in Uganda

Sectoral Overview

Services comprise the largest part of Uganda's economy, accounting for close to 45.5% of the country's GDP in 2012. The services sector is Uganda's most significant sector, due to its contribution to GDP, its importance as a source of foreign exchange, and its role as a major employer. The share of services to total GDP has been growing steadily, rising from 41.2% in 2001/2 to 52.4% in 2010/11.In contrast, the share of agriculture has continued to decline, falling from 15.7% in 2007/08 to 15.1% in 2008/09, despite employing over 80% of the population.[25]

Services have consistently exhibited dynamic growth rates in Uganda, with an average annual growth rate of 17% over the 5-year period 2006/7 to 2011/12.[26] With respect to external trade, services exports have been relatively steady, especially in the period 2000–2012, in which services registered an annual average growth of 18.3%. This was higher than the LDC and EAC Partner States' average export growth over the same period. Services exports are estimated to have totaled to about US$ 2 billion in 2012, demonstrating the importance of services as a stable source of external revenue for Uganda. By the end of 2012, Uganda's services exports comprised mainly travel (tourism) 56.6%, construction 12.3%, transport 7.9%, financial and insurance 2.8%, IT enabled services (ITES) 2.8%, communications 1.2%, cultural and recreation 0.4%, and others 16%. In terms of sectoral performance, major services subsectors in the country include retail and wholesale trade; tourism; education; health; information and communications technologies (ICT) and related services; financial services; water and sanitation; construction and engineering services; and professional services. The service sector has also had a significant direct contribution to job creation in Uganda, and provides crucial inputs for the rest of the economy.

[24] Ibid.

[25] Uganda. Ministry of Finance, Planning and Economic Development. The Background to the Budget 2011/12 Fiscal Year: Promoting Economic Growth, Job Creation and Improving Service Delivery, 2011.

[26] Uganda Bureau of Statistics (UBOS). Statistics Abstract, 2012.

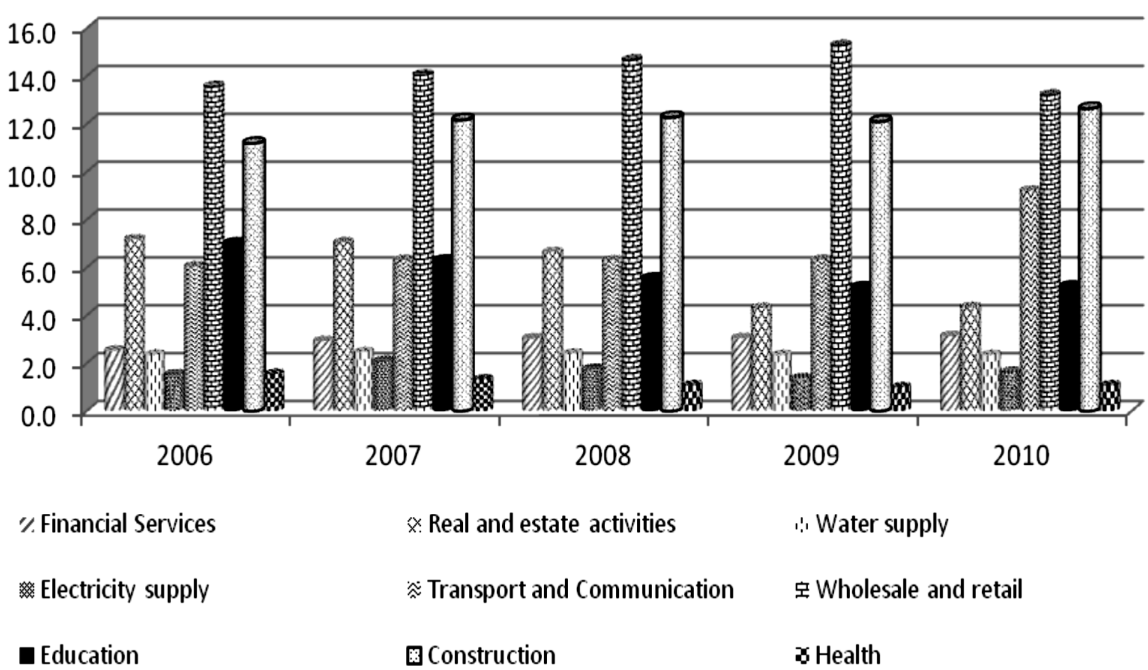
Education services have traditionally been an important source of economic activity in Uganda, but its contribution has recently been in decline, as shown in Figure 1. The education sector accounted for up to 5.3% of the country's total GDP in 2008/09. Its share of total GDP has traditionally exceeded 5%, making it the sixth-largest productive sector after agriculture, construction, manufacturing, distribution, real estate, and transport/communication. The education sector is a major employer in the Ugandan economy. Household surveys conducted in 2002/3 and 2005/6 reported the education sector accounting for 2.8% and 2.6% of total employment, respectively, with Uganda's total labor force reported to have increased from 9.8 million to 10.9 million workers over that period.

At a rate of 2.6% as shown in the 2005/06 household surveys, the education sector employed 270,000 people, making it the fourth-largest employer in the economy.

The share of education services has recently declined in importance in Uganda, dropping from 7% of GDP in 2006 to around 4% in 2011. This is a worrying tendency in terms of the role that the education sector is now playing in the economy. This same trend will be reflected later on in this study with respect to the numbers of foreign students enrolled in institutions of higher education in the country.

The education services sector presents a potential export avenue for Uganda, given that services are not affected by many of the non-tariff types of challenges faced by goods exports, including documentation requirements, border post delays, roadblocks, and bribery. Such technical barriers, amongst others, are non-existent to cross-border trade in services, although other types of administrative barriers and discriminatory policies may exist, such as those described in the previous section.

Figure 1: The Share of Key Services Subsectors in Total GDP at Current Prices



	2006	2007	2008	2009	2010	2011
Financial Services	2.5	2.9	3.0	3.0	3.0	2.9
Real Estate Activities	7.2	7.0	6.6	4.3	4.2	4.0
Water Supply	2.4	2.5	2.4	2.3	2.2	1.9
Health	1.2	1.2	1.0	0.9	0.9	0.7
Electricity Supply	1.5	2.1	1.8	1.4	1.6	1.3
Transport & Communication	6.0	6.3	6.3	6.3	9.2	9.2
Distribution Services, Wholesale and Retail	13.6	14.1	14.7	15.3	15.7	17.3
Education	7.0	6.1	5.6	5.2	5.3	4.0
Construction	11.2	12.2	12.3	12.1	12.0	13.1

Source: *UBOS, Statistics Abstract, 2012.*

Uganda's Policy Framework for Trade in Services

Vision 2040 and the National Development Plan

Although the Vision 2040 document of the Ugandan government does not make specific proposals for reforms of trade in services, it sets a growth trajectory for the contribution of services to reach 56% of GDP by 2040, premised on a predicted major shift in employment away from agriculture towards services. For this transformation to happen, the document acknowledges that it will require deliberate policy measures as well as intensified investment in human capital and digital and educational infrastructure.[27] Vision 2040 earmarks ITES as a key growth pillar on Uganda's road map for transformation to a middle-income economy by 2040. The document seeks to harness opportunities, improve competitiveness and strengthen the fundamentals for transformation in the ICT business in general, and ITEs in particular. It forecasts that by 2040, about 40% of Uganda's total exports will be comprised of ITEs, with the EAC being the principal export target market and the EU members the other primary export markets. Uganda's National Development Plan (2010) earmarks ITES as a primary growth sector, especially due to its transformational effects following the liberalization of its various sub-sectors such as computer use and Internet services.[28]

The EAC Treaty and the EAC Common Market Protocol

In the EAC, trade in services is being given increasing prominence as a means to promote regional integration objectives. The EAC Treaty provides for the establishment of an export-oriented economy, allowing for the free movement of services to attain the Community's development goals. The treaty enjoins EAC partner states to adopt measures to achieve a number of freedoms and rights, including the free movement of services through the conclusion of a Common Market Protocol (CMP). In addition, the treaty designates education and training amongst the areas in which EAC partner states undertake to cooperate in order to achieve the objectives of the community.[29]

[27] See http://npa.ug/wp-content/themes/npatheme/documents/vision2040.pdf

[28] See http://npa.ug/development-plans/ndp-201011-201415/

[29] See also Chapter 16: Article 102(2) of the treaty.

The EAC CMP commits EAC partner states to a progressive regional integration agenda whose critical objectives include the elimination of all barriers to trade in services.

The Protocol initially requires all Partner States to "remove all measures that restrict the movement of services and service suppliers, harmonize standards "commits Partner States to open up seven broad sectors.

The CMP designates education services, including higher education, among the seven priority sectors in which all five EAC partner states are required to make liberalisation commitments.

Priority Services Sectors in the EAC Common Market Protocol

1. Business & Professional Services
2. Financial Services
3. Education Services
4. Transport Services
5. Communication Services
6. Tourism Services
7. Distribution Services

National Trade Policy

The National Trade Policy (NTP) specifically highlights the importance of services as the main contributor to GDP and a significant contributor to employment. The NTP, however, makes note of the existence of a gap in the capture of services trade statistics that requires special attention to realise the full potential that trade in services can make to Uganda's economy.

The National Export Strategy

The National Export Strategy (NES) identifies services as a key area for Uganda's efforts in export diversification that is earmarked to improve the country's unfavourable terms of trade and chronic trade deficits.

Baseline Survey of the Services Sector in Uganda

A baseline survey, supported by USAID, to establish a comprehensive database of Uganda's trade in services was conducted in 2002 by Nathan Associates in collaboration with the Uganda Services Exporters Association (USEA). This survey identified 4 specific service subsectors amongst the 12 main GATS sectors, which 'could generate a competitive advantage if systematically supported and promoted in the short- to medium-term'.[30] These were (a) education services; (b) tourism—earmarking a uniquely Ugandan tourism package combining Gorilla tourism, white water rafting, mountaineering, bird watching, and the unique cultural, community, and religious-historical experiences of Uganda; (c) services related to HIV/AIDS awareness and control; and (d) the '*Kyeyo*' services subsector—targeting labor externalisation to take advantage of Uganda's highly educated, English-fluent, youthful unemployed population. The survey noted a number of challenges to improving the international competitiveness of Uganda's services sector, particularly the lack of clear regulatory frameworks and government's failure to put in place initiatives to attract FDI as a catalyst for the export of services in most subsectors. The report also noted the government's inadequate support for Uganda labor externalisation, despite its recognised potential as a foreign exchange source for the economy, as has been demonstrated in other low-income countries like the Philippines.

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[30] USEA & Nathan Associates Inc, Baseline Survey of the Services Sector in Uganda (May–June 2002), July 2002.

Services Sector Export Strategy

As a follow-on to the *Baseline Survey of the Services Sector in Uganda*, a Services Sector Export Strategy (SSES) was formulated in 2005 by the Uganda Export Promotion Board. The SSES was aligned with Uganda's overall strategy of export diversification and value addition to boost non-agricultural output and productivity for sustainable economic growth and poverty reduction. Specifically, the SSES was aimed at diversifying Uganda's export base and its competitiveness beyond tangible goods, in order to help mitigate the effects of fluctuations in global commodity prices on export performance, reduce the economy's dependency on any single commodity, and shift production toward the value-added end of the market. In focusing specifically on services, the SSES was meant to be the road map for Uganda's deliberate promotion of trade in services.[31]

The SSES targeted five priority subsectors derived from the 2002 baseline survey, namely (a) higher education, (b) migrant labour—'*Kyeyo*', (c) health service expertise and management of communicable diseases, (d) niche tourism, and (e) ITES. Unfortunately, nearly a decade since it was developed, the SSES has not been subjected to a deliberate evaluation to determine its success or failure. However, both the National Export Strategy and the 'Marketing Uganda's Higher Education' Project subsequently developed by the UEPB, in 2008 and 2011 respectively, picked up higher education as a special area of focus.

Education Services in Uganda

Historical Development of Education in Uganda

Education in Uganda began in the early colonial days largely as an initiative of voluntary organisations, in particular the Church Missionary Society and the White Fathers. Good education facilities at that time were only available to a small elite group, largely members of royal families and the families of other notables. In 1925 the colonial authorities began to exercise control over education by establishing a Directorate of Education, and rapidly expanded the education system in the 1950s and 1960s. After Uganda's independence in 1963, the Castle Commission provided the main guidelines for educational development. The commission laid emphasis on the quality of education, educational opportunity for all of the population, the raising of standards for agricultural and technical education, expansion of girls' education, and provision of adult education. The Castle Commission Report guided Uganda's educational system for 27 years until 1990. Attempts to reform the education policy through the Education Policy Review Commission of 1978 were interrupted by the Liberation War of 1979, which prevented implementation of the commission's report.

Uganda follows the 7-4-2-3 British education system, which has been in existence since the early 1960s. It consists of 7 years of primary education, followed by the lower secondary cycle of 4 years and the upper secondary cycle of 2 years, and then 3 to 5 years of university study.

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[31] See UEPB, Services Sector Export Strategy, March 2005, p. 13.

Primary Education

This is the first phase in the current education system, for pupils between the ages of 6 and 14 years. With normal annual progression, primary school should last 7 years. Primary education is largely intended to prepare students to contribute to the social, political, and economic well-being of the country and the world. The curriculum at primary level is therefore designed to provide a functional and practical education to meet the needs of children who complete primary school 7 and to enable them to continue with secondary education. Primary education is now universal, free, and compulsory in Uganda. At the end of primary 7, pupils sit their first major national exams, the Primary Leaving Examinations (PLE), with four examinable subjects—English, Mathematics, Science, and Social Studies. On successful completion of the primary school cycle, students proceed to either secondary school or vocational (technical) school.

Secondary Education

Secondary education is divided into lower secondary (Ordinary level) and high school (Advanced level). O level, which begins at about age 14 upon the successful completion of the PLE, comprises 4 years of school, after which students sit for the Uganda Certificate of Education examinations in at least eight subjects. High school, which follows thereafter, takes up to 2 years, after which students sit for the Uganda Advanced Certificate of Education (UACE) examinations in at least three subjects. A European Commission–funded study commissioned by the Private Sector Foundation-Uganda (PSFU) in 2009, reported that the majority of Uganda's secondary schools were involved in the export of education, as they were educating contingents of foreign students.[32] The study further revealed that in 2004/5, close to 28,000 international students were studying in Uganda's secondary schools, representing 8.3% of the total number of students enrolled in its secondary schools.

The report highlighted the EAC region as a strategic source of international students for Ugandan secondary schools. Kenya and Tanzania were identified as key sources of students for Uganda's secondary schools in the PSFU education market assessment study, with 60% and 16% of the total international enrolment in secondary schools originating from Kenya and Tanzania respectively. The Democratic Republic of Congo (DRC) and Southern Sudan were earmarked in that report as key future sources of international students.[33] The study noted that private education providers were the principal drivers of the export of education services at all levels of education and pointed out the limited international orientation, particularly amongst public higher education institutions.

Vocational Education

Vocational training is a very important option, especially for children who are practical learners or keen to enter a specific trade. There are many courses on offer, with popular options being

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[32] Bakunda, G., and G. Walusimbi-Mpanga. An Assessment of Uganda's Export Potential for Education Services in the Regional Market (EAC & COMESA), PSFU, 2005, p. 36.

[33] Ibid.

tailoring, hairdressing, catering, carpentry, and automobile mechanics. Government has been keen to expand access in the business, technical, and vocational education and training (BTVET) subsector. The aim is to produce a competent and flexible workforce with relevant skills to contribute to sustainable economic growth and social transformation. It also seeks to ensure the sustainability of the universal primary education policy, which is rooted in the Universal Post Primary Education and Training Programme. The programme aims at improving transition of Primary 7 leavers to post-primary education and training (i.e., secondary education and BTVET).

Higher Education

Uganda's higher education sector was autonomously liberalised in 1995 and the establishment of private universities was allowed for the first time. This marked an important change in the way that tertiary educational institutions would subsequently evolve in Uganda. By 2011, there were 164 higher education institutions of learning in the country, including 32 universities with a student enrolment of 140,096, and about 58 business institutions with a student population of 25,084.[34] Higher Education recorded an increase of 18% in the number of institutions established in the period 2006–2010 (from 148 in 2006 to 181 in 2010). The number of universities also increased from 26 to 32. It is reported that most of this growth is attributed to private higher education. The share of private fee-paying students in public universities was reported to be 80.2% by 2005/6, at the end of the first 10 years since Uganda liberalised its higher education with the adoption of the white paper on education.

Education institutions in Uganda are either public or private, with the latter now dominating the higher educational offerings. The private sector is reported to own over 72% of the tertiary institutions and the public sector 28%; the market share of the private providers consists largely of non-profit owners such as religious institutions.[35]

Uganda's educational policy was liberalised prior to the services commitments made under the EAC CMP. Thus Uganda used its CMP commitments to bind its levels of openness in higher education services at the commencement of the CMP implementation. This openness to private providers and foreign universities and students, as set out in Uganda's EAC Schedule of Services Commitments, was meant to encourage the establishment of branch campuses in Uganda and project a positive image for students from Uganda's East African neighbours.

Policy Framework for Education in Uganda

The Education Sector Investment Plan, 1998–2003

The Education Sector Investment Plan (ESIP) is the sectoral development framework that seeks to achieve equitable access to education at all levels, including quality and the enhancement of the education services delivery in the country.

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[34] UBOS, 2012.

[35] NCHE, 2010.

The Education Sector Strategic Plan, 2004–2015

The Education Sector Strategic Plan (ESSP) was developed in 2003 to build on ESIP's achievements, particularly to implement the Universal Primary Education (UPE) program, maintain an efficient sector, and build an education system relevant to Uganda's national development aspirations. The ESIP, although highly successful in achieving its goals of increasing access, mobilizing resources, and being a sector-wide approach, had not been able to fully address some of the major issues facing the sector, such as the improvement of education quality, the delivery of education services (including the devolution of responsibilities to the districts), and capacity development in strategic planning and programming.

The ESSP, therefore, provided the additional framework for policy analysis and budgeting in order to address three critical concerns, namely: (a) failure by primary schools to provide adequate literacy, numeracy, and basic life skills to Ugandan children; (b) failure by secondary schools to produce graduates with skills and knowledge required to enter the workforce or pursue tertiary education; and (c) inability by universities and technical institutes to afford students from disadvantaged backgrounds access to tertiary education or to respond adequately to the aspirations of a growing number of qualified secondary school graduates.

Early Childhood Development Policy

The Early Childhood Development (ECD) policy was developed to mainstream early childhood development into Uganda's education policy planning framework. Prior to joining primary school, children between the ages of 3 and 6 are required to attend pre-primary (pre-unit) for 1 or 2 years. The main objective of pre-primary education is to address the total development of a child, including physical, spiritual, social, and mental growth, brought about through formal and informal interaction—with the parents and the community—taking a leading role. Pre-primary education focuses on health, nutrition, care, and basic education. Programs are run through partnership with the government, district-based agencies, local communities, and external agencies.

The Government White Paper on the Education Policy Review

In 1987, the government of Uganda constituted the Education Policy Review Commission (EPRC) under the well-known educationist Prof. William Senteza-Kajubi to undertake an extensive education policy review, probably Uganda's most extensive. The EPRC's objectives included (a) appraising the existing education system from pre-primary to tertiary levels, recommending measures and strategies for its improvement; (b) reviewing and reformulating whenever necessary the aims and objectives of the entire school spectrum at each level of the education system; (c) advising on the most effective approach to integrating academic with commercial and technical subjects in accordance with the Resolutions of the 40th International Conference of UNESCO; (d) recommending measures to improve the management of schools and tertiary institutions in order to maximise cost effectiveness; (e) reassessing the system of financing schools and tertiary institutions and recommending cost reduction and efficiency improvement measures in delivering education services; and (f) assessing the role of the private sector in the provision of education at all education levels.[36]

The EPRC's recommendations were the basis for the 1992 White Paper on Education[37] on which the current policy for the education sector is based. The white paper highlighted the absence of a national policy on higher education, and the lack of up-to-date and reliable statistics on the number of students studying at home and abroad, and the institutions in which they are enrolled. The white paper recommended the establishment of the National Council for Higher Education (NCHE) as a statutory regulator for higher education with a mandate for systematic coordination and implementation of higher education policies and measures.

The white paper was a key trigger for the liberalisation of the provision of higher education through its guidelines for government on the procedure and process of setting up private tertiary institutions and for appraising the proposals to establish private higher education institutions.

Strategic Framework for Marketing Uganda's Higher Education Sector

The Strategic Framework for Marketing Uganda's Higher Education Sector is a two-phase, joint undertaking of the Uganda Export Promotion Board (UEPB) and the Commonwealth Secretariat (Comsec). Under the framework, UEPB, with assistance from Comsec, developed a project to market Uganda's higher education services. The project was developed against the background of two prior studies, the *USAID Baseline Survey of Uganda's Services Sector* (2002) and the *Assessment of Uganda's Export Potential for Education Services in the Regional Markets (EAC and COMESA)* (2005). Both studies confirmed the potential for education exports to contribute to Uganda's economic growth and export development. In addition, education was earmarked amongst the priority sectors in the NES (2007) and SSES (2009), as we have seen in Chapter 3.

The project to market Uganda's higher education services was designed to be implemented in two phases. It focused on licensed and operational Ugandan universities and has as its objective to enhance the capacity of Uganda's higher education sector to contribute to export growth and competitiveness within a comprehensive framework on a sustainable basis. Phase 1 of the project reviewed, amongst others, (a) Uganda's comparative advantage, (b) the current status of university education in Uganda in the export context, (c) global trends in the export of higher education and Uganda's relative positioning, and (d) Uganda's capacity to become a regional hub for higher education.

The project made a number of short- and long-term recommendations that were meant to be implemented in two phases. These included (a) developing a single 'Study in Uganda' web portal to market Uganda's higher education on the Internet, (b) setting up international student offices at all of Uganda's universities to provide and coordinate student support services to international students, (c) speeding up and simplifying the visa application process at the

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[36] See also Uganda, Government White Paper on the Education Policy Review Commission Report – Education for National Integration & Development, 1992, p. 90.

[37] Ibid.

Immigration Directorate, (d) revamping the Vice Chancellors' Forum as a strategic decision making representative organ for Uganda's higher education providers to advocate for tax reforms and investment in the higher education sector.

Although, most universities have since opened offices for international students in an effort to implement the Phase 1 actions, most of the recommendations from the findings of this study have remained unimplemented. Fortunately, the Commonwealth Secretariat is about to embark on a review of the implementation of the Phase 1 recommendations and the feasibility of starting to implement Phase 2 of the Framework. This renewed interest in extending technical assistance to Uganda on exporting higher education has coincided with the UEPB's plans to review both the SSES and the NES.

Institutional and Regulatory Framework for Higher Education in Uganda

The National Council for Higher Education

The NCHE was established by the Universities and Other Tertiary Institutions Act of 2001 to regulate the establishment and management of higher education institutions in Uganda, guide the establishment of institutions of higher learning, and ensure that quality and relevant education is delivered. This scope covers all aspects of the institution's work, including staffing, educational facilities, governance, financial resources, and management of physical facilities.

The NCHE's mandate includes (a) promotion and development of the processing and dissemination of information on higher education in Uganda; (b) advising the Minister on the establishment and accreditation of public and private institutions of higher education; (c) establishing an accreditation system for all institutions of higher learning; (d) accreditation of institutions of higher learning and academic and professional programmes in those institutions, in consultation with professional associations and regulatory bodies to ensure the provision of quality higher education; (e) licensing all institutions of higher education established under the Act; (f) receiving and investigating complaints relating to institutions of higher education and taking appropriate action; (g) monitoring, evaluating, and regulating institutions of higher learning; (h) in co-operation with the relevant government departments, evaluating the private sector and the different institutions of higher education with respect to overall national manpower requirements and recommending solutions to meet national manpower needs; and (i) strengthening inter-university collaboration by establishing a Uganda Higher Education Network.

Inter-University Council for East Africa

The IUCEA was established as the Inter-University Committee (IUC) for East Africa in 1970, following the dissolution of the University of East Africa and the establishment of the University of Dar es Salaam, Tanzania, and the University of Nairobi in Kenya. It is one of only two surviving bodies created under the aegis of the original East African Community to facilitate collaboration amongst the three universities of Uganda, Tanzania, and Kenya.

The IUC survived the collapse of the East African Community and continued to coordinate the activities of the three universities until 2002, when a protocol was signed by the EAC heads of state of Kenya, Tanzania, and Uganda to revitalise the IUC with a new mandate to oversee the development of higher education in the region. To facilitate the alignment of the IUCEA within the legislative framework of the new EAC, the East African Legislative Assembly, the Inter-University Council for East Africa Act was created in 2009. The Act establishes the IUCEA as an organ of the Community amongst whose functions are (a) strengthening regional cooperation through networks linking universities and other institutions of higher learning in the EAC and globally; (b) initiating the development of higher education institutions in the region; and (c) encouraging collaboration in research and hence contributing to the development of centres of excellence in higher education and research.[38] The IUCEA Act also opened up the membership of the IUCEA from its three founding members (all public universities) to over 90 members at present, including universities, university colleges, and other degree-awarding institutions in the EAC, most of which are privately owned and managed.

The IUCEA is a strategic body for Uganda's higher education given that the EAC region has been and for the foreseeable future will remain the biggest source of foreign students for Uganda's universities and colleges. In addition, the IUCEA provides a unique place for Uganda's higher education to begin harnessing 'the second wave of globalisation of higher education' as described by Tierney and Findlay.[39] With the mobility of programmes and institutions emerging as the most critical factor in this new scenario, regional institutions, and particularly the IUCEA, are set to become critical catalysts for success and growth in exporting higher education. There is need for the IUCEA to focus more on mobility of programmes and higher education providers than on its narrow traditional role of overseeing the exchange of students and staff.

Although the courses offered in universities across the now five EAC states are similar in both name and content, they are not harmonised, and require different entry qualifications and durations of study. As part of the EAC's efforts to create a 'common higher education area'[40] by 2015, the IUCEA has identified the significant discrepancies in how higher education programmes are constituted—in terms of credit hours and learning outcomes—as the biggest challenge to achieving effective student mobility in the EAC. The IUCEA is nearing the conclusion of a protracted process designed to lead to the establishment of a regional higher education qualifications system together with a credit transfer framework, expected to take effect in 2015. This credit transfer system will be aimed at easing mobility of students amongst universities and countries in the EAC region.

The proposed reforms being advanced by the IUCEA will provide a framework to facilitate comparability of learning outcomes and compatibility of qualifications obtained in universities in the EAC partner states, for the purpose of mutual recognition and greater student mobility across borders in the region. This should facilitate open and flexible learning paths, and in the process increase access to higher education for non-traditional learners within each country and

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[38] Inter-University Council for East Africa Act, 2009, Part II: 6.

[39] Tierney, William G., and Christopher Findlay. *The Globalization of Education: The Next Wave*, 2008.

[40] The EAC partner states are working towards having a 'common higher education area', a fully harmonised system of learning for all spheres of education services by 2015.

across the region.[41] In addition, when fully developed and effectively implemented, the system will increase access to higher education for non-traditional mature learners in each country, and will free higher education from the rigidity of time schedules of university programmes of study by allowing students to accumulate credits over longer periods. Higher education students under this new system will be able to learn under different delivery modes at different stages of their academic careers.[42]

The reforms being put in place by the IUCEA will open up new market possibilities for Ugandan higher education institutions in particular, and for others elsewhere in the EAC. However, in a region that is becoming characterised by a proliferation of higher education providers, it will be necessary to ensure academic quality and excellence in order to attract students in a more competitive environment in which students in the East Africa region will be able to more freely transfer credits and make choices between providers.

Higher Education Exports from Uganda

Contribution of Education Services Exports to Uganda's Economy

Following its reform and liberalisation in the early 1990s, the education sector has emerged as a major source of foreign exchange earnings for Uganda. The sector has attracted a large number of foreign students from neighbouring countries in the EAC and beyond, and according to a 2011 NCHE report, *The State of Higher Education and Training in Uganda,* foreign student entries in the country have been growing at an average rate of about 7% annually.

Foreign exchange earnings from the export of education services to the region were estimated at US$ 36 million in 2010.[43]

Uganda's Higher Education Foreign Enrolment Profile

There are few tertiary educational institutions in Uganda that provide disaggregated data on foreign students. *The State of Higher Education & Training in Uganda,* 2011, shows that in 2010, Kenya was the biggest source of foreign students studying in Ugandan universities and colleges of higher learning, with the majority of the remainder originating from Tanzania, Rwanda, Burundi, South Sudan, Somalia, and the DRC. Close to 90% of the foreign students in Uganda in 2010 were enrolled at universities and affiliated colleges, with the remaining foreign students enrolled mainly at commerce and business schools, management and social development schools, and theological colleges.

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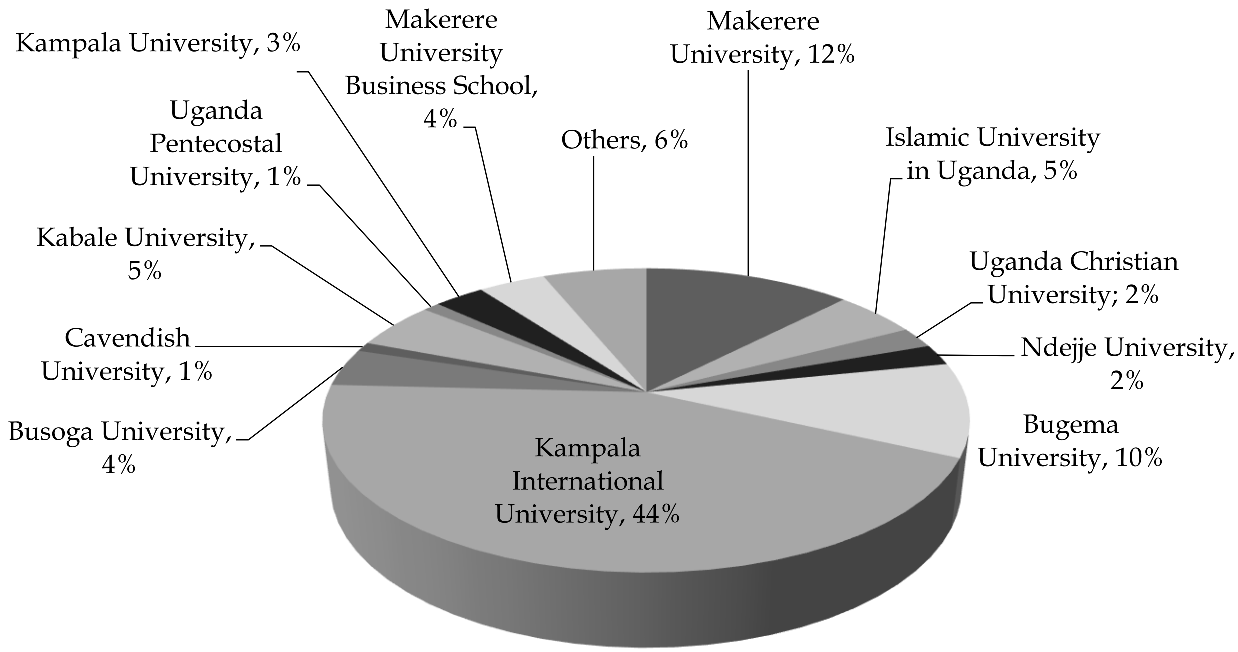
[41] IUCEA. Draft Qualifications and Credit Transfer Framework Document, 2014.

[42] 'East African Students to Benefit from Harmonised Credit Transfer Scheme', *The East African*, No. 1021, May 24–30, 2014, p. 29.

[43] UEPB, 2011.

Figure 2: Enrolment of Foreign Students in Ugandan Universities and Colleges



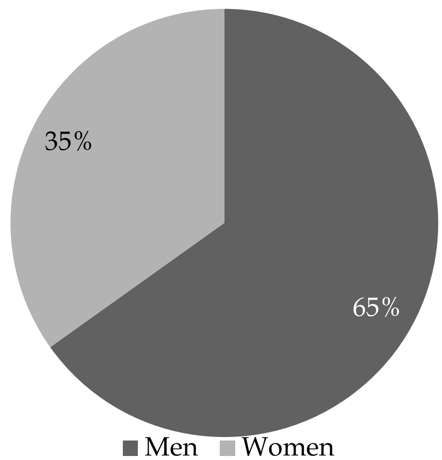
Source: NCHE, The State of Higher Education and Training in Uganda, 2011.

Kampala International University (KIU) has the highest enrolment of foreign students, representing nearly half (44%) of the total foreign student population studying in the country (Figure 2). KIU is followed by the Business School at Makerere University, with 16% of the total, and by Bugema University with 10%. The Islamic University in Uganda and Kabale University each have 5% of total foreign student enrolment. The other private universities in Figure 2 all represent a more modest foreign student enrolment of between 1 and 2% of the total.

In terms of gender, nearly two-thirds of foreign students enrolled in Ugandan tertiary educational institutions are men, with about one-third being women, as shown in Figure 3. The only two categories in which female foreign students studying in Uganda outnumber their male counterparts are (a) media colleges, with 2% of the student population being foreign females and only 1% foreign males, and (b) management and social development, where 6% of the students in Uganda in this academic area are female foreign students whilst 4% are male foreigners.[44]

[44] NCHE. The State of Higher Education and Training in Uganda, 2011.

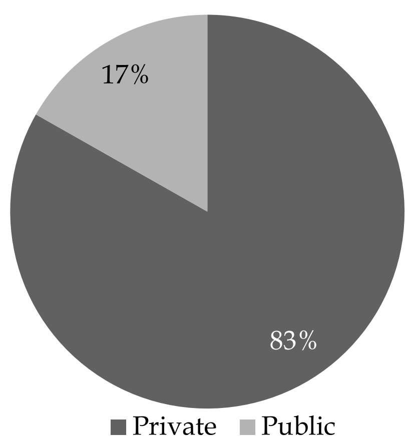
Figure 3 : Foreign University & College Students in Uganda by Gender (2011)



Source: NCHE, The State of Higher Education and Training in Uganda, 2011.

The large majority of foreign students in Uganda are enrolled in private universities and private educational institutions (83% of the total in 2011), as seen in Figure 4. This may be because there are many more private universities now in Uganda than public ones, or because entry into the private institutions is easier for foreign students.

Figure 4 : Enrolment of Foreign Students in Public and Private Universities and Colleges, 2011



Source: NCHE, The State of Higher Education and Training in Uganda, 2011.

Strengths, Weaknesses, Opportunities, and Threats

This section assesses the strengths, weaknesses, and opportunities of, and threats to, further expansion of higher education services and exports for Uganda.

Strengths and Opportunities

A long-established tradition of foreign enrolment in Uganda's universities and institutions of higher learning, and the historical basis of Uganda's educational system in the British system, increases acceptance of Ugandan universities and admissibility of Ugandan diplomas and certificates regionally and internationally. A UEPB-Comsec project to market Uganda's higher education, carried out in 2010, attributed Uganda's attractiveness to a well-established tradition of using English as a language of instruction across the entire education spectrum. In addition, Uganda's traditionally strong education system, with a diverse range of academic programmes, various types of universities, and a wide range of graduates, offers additional advantages for foreign students.[45]

Low Cost, High Quality Higher Education

The NCHE's reports show that foreign enrolment in Uganda's universities has historically been attributed primarily to the high quality of its education and the use of English as a language of instruction in Uganda's schools and universities. In addition, the comparatively lower tuition fees charged put Uganda in a much better competitive position relative to other countries in the region. An assessment of tuition fees, registration costs, and other sundry expenses amongst universities in Burundi, Kenya, Rwanda, Tanzania, and Uganda—conducted as part of the UEPB-Comsec 2010 project to market Uganda's higher education—revealed that Uganda's universities were the lowest in cost, together with universities in Rwanda and Burundi.[46] The study attributed Uganda's competitive edge to its low cost of living, which makes Uganda a more affordable destination for international students when compared to other countries in the East African region.

An EPRC study compared the tuition structures of the five major regional universities in East Africa for similar courses offered to foreign students in 2011.[47] The study reported that tuition fees at Uganda's Makerere University were significantly lower than any other in the entire region. Makerere University's tuition fees for a Bachelor of Commerce degree were reported to be US$ 1,464 per annum, well below fees for a similar programme in major universities in other EAC partner states. Although tuition for the Law degree at the National University of Rwanda was quoted at less than the other universities, including Makerere, the tuition structure of the course in Rwanda excluded functional fees. This made Makerere University the lowest-cost supplier in the region for the Law academic programme, as well as for Engineering and

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[45] UEPB and Comsec. Marketing Uganda's Higher Education, Final Project Report, 2011, p. 9.

[46] Ibid.

[47] Othieno, L., and D. Nampewo. Opportunities, Challenges and Way Forward for Uganda's Trade in Education Services Within the East African Community, EPRC, 2011.

Computer Science. The study findings also indicated that Makerere University charged the lowest tuition for its programmes in Surgery and Medicine, and Agriculture and Food Science at US$ 1,977 and US$ 1,971 per annum respectively, compared with US$ 2,208 charged at the National University of Rwanda, and US$ 5,042 at the University of Nairobi, for Surgery and Medicine respectively.[48]

Flexible Admission Requirements

In terms of university admission requirements, Uganda's university requirements are more attractive to students seeking to access university education in Uganda from abroad.[49] The basic requirement for admission to Uganda's universities is two principal 'A' Level passes. In comparison, foreign students seeking admission to universities in Tanzania—with the exception of those admitted through the public universities' exchange programme run by IUCEA—have to sit for the matriculation examination. This may partly explain the lower foreign enrolment numbers in Tanzania's tertiary institutions. Several of the countries in the region (Kenya for example) do not have 'A' Levels in their education systems. To deal with this situation and facilitate the acceptance of foreign students from such countries, several of Uganda's private universities—namely, Uganda Christian University, Kampala International University, Cavendish University, and Bugema University—have established bridging programmes to enable foreign students to catch up and meet the entry requirements for Uganda's universities. Students from Kenya, Southern Sudan, Somalia, and the DRC, who may otherwise be ineligible, are able to top up their scores and qualify for admission by taking advantage of these bridging arrangements, which often take 1 year before formal admission can be obtained.

Liberalisation of the Education System

With the adoption of the 1989 recommendations of the Education Policy Review, in the White Paper on Education in 1992, Uganda became a trail blazer in the liberalisation of higher education in the East African region. As a result, it embarked on the establishment of institutions to provide policy oversight in higher education ahead of most of its neighbours.

In addition, the liberalisation of the provision of higher education opened up the space for private (for profit) providers. As mentioned earlier in the study, this has led to the proliferation of private universities. The long-established role of church institutions and other faith-based, not-for-profit providers as the original providers of all education services—many years before the colonial state showed an interest in carrying out a role as a regulator and provider of education services in 1925—has meant that Uganda has traditionally benefitted from having a more vibrant education sector than its neighbours.

There is a relationship between the pattern of foreign student enrolments and university rankings, given that students tend to seek enrolment in institutions of high repute on the continent, as well as at the global level. Institutions with better rankings over the years have

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[48] Ibid.

[49] Maviiri, J. Trading or Sharing—Emerging Opportunities and Challenges for Cross Border Higher Education in East Africa, Catholic University of Eastern Africa, Nairobi, 2008.

tended to attract more students locally, in the region, and at the international level.[50] Despite its challenges, Makerere University has over the years consolidated its position at the top of the rankings amongst the region's universities. The 2014 list of the Center for World University Rankings (CWUR) ranks Makerere University as 7th best on the African continent and the best in East, Central, and West Africa. The CWUR ranks universities on the quality of education, alumni employment, quality of faculty, publications, influence (measured by the number of research papers published in reputable journals, number of citations, and broad impact), and patents (number of international patent filings). South Africa, Egypt, and Uganda are the only African countries represented in the top 1,000 universities ranked on this index, with Makerere ranked 891st worldwide.

Makerere University has long held a reputation of excellence, dating from 1922 when it was established as a constituent of University College London. From its early years, Makerere has been at the summit of higher learning for the entire region, having what has remained the premier medical school, the leading veterinary school, and the leading schools in economics, the arts, and now computing and IT. The universities of Nairobi and Dar es Salaam in the other major EAC countries of Kenya and Tanzania, respectively, only had constituent colleges. This favoured position has had positive knock-on effects in Uganda as a higher education destination for international students wishing to be associated with what in the olden days was fondly referred to as Africa's Harvard.

However, these trends are now undergoing a significant challenge as the quality of higher education in Uganda is coming under many threats, especially with stagnant growth in the facilities and constraints on human resource capacity. These challenges will be discussed in more detail in the next section.

Ugandan universities, both public and private, feature prominently in the 2014 Webometrics global ranking of universities (see Table 1). Webometrics is the largest academic ranking of higher education institutions. The ranking has been carried out semi-annually since 2006. The web-indicators underpinning the report are publicly available web-based proxies used for a comprehensive, deep evaluation of the university's global performance taking into account its activities, their outputs, relevance and impact.

Table 1: Webometrics Ranking of East Africa's Universities Regionally and Globally

University	Country	Sub-Saharan Africa Rank	Africa Rank	World Ranking
University of Nairobi	Kenya	7	9	907
Makerere University	Uganda	10	13	1,134
Kenyatta University	Kenya	16	22	1,983
University of Dar es Salaam	Tanzania	21	31	2,319
Mbarara University of Science & Technology	Uganda	40	63	3,404
Strathmore University, Nairobi	Kenya	46	77	3,850
Sokoine University of Agriculture	Tanzania	52	90	4,221
Muhimbili University of Health & Allied Sciences	Tanzania	56	97	4,575

[50] Ibid.

African Virtual University	Kenya	58	102	4,669
Uganda Christian University	Uganda	77	151	7,591
Kigali Institute of Science & Technology	Rwanda	104	190	9,126
United States International University	Kenya	115	208	9,847
National University of Rwanda	Rwanda	118	212	10,028

Source: Webometrics, http://www.webometrics.info, accessed November 24, 2014.

Enhanced Cross-Border Student Mobility Driven by EAC Integration

The EAC has, since the early 1960s, prioritised higher education as demonstrated by the establishment of the IUCEA which was, and remains, headquartered in Uganda. 'Brand Uganda' has benefitted from hosting both this institution and Makerere University. The implementation of the EAC CMP, designating education amongst its priority sectors, means that future proactive policy measures can only be to Uganda's advantage. One of the strategic objectives of the CMP is to turn the five partner states of the EAC (Burundi, Kenya, Rwanda, Tanzania and Uganda) into a 'common higher education area' by 2015. The process of concluding negotiations to establish a regional qualifications framework and a Credit Accumulation and Transfer System (CATS) is aimed at realising this ambitious objective.

The Research Education Network for Uganda and Its Relationship with Google

Similar to universities and research institutions in other countries in East Africa, Ugandan universities and research institutions have constituted themselves as a network, the Research and Education Network for Uganda (RENU). Similar networks have been established elsewhere, including KENET, RwEdNet and TERNET in Kenya, Rwanda and Tanzania respectively. However, what makes RENU unique is the collaboration between universities and research institutions on one side and Google on the other. RENU's urban infrastructure for high-speed Internet access has been constructed by Google. This collaboration with a global technology business makes its business model potentially more sustainable and aligns the higher education and research sector with business and private sector requirements and needs. RENU provides a unique opportunity to its member institutions to access Africa-Connect, a networked community of research institutions and universities in 25 countries through the UbuntuNet Alliance. It also provides to its members a gateway for capacity building partnerships with institutions in the United States, Europe, South America, and elsewhere, which eases access to research funding and high-end expertise, as demonstrated by RENU's collaboration with Google, Network Startup Resource Centre (NSRC) based at the University of Oregon, and the International Network for Access to Scientific Publications (INASP) based at Oxford University.

Weaknesses and Threats

Limited Budget Allocation

Uganda's budget allocation for the education sector, one of its key service exports, does not reflect the status of the sector as a strategic exporter. In the early years of independence, public expenditure on education stood at an average 4% of Uganda's GDP. By the early 1980s it had fallen to less than 1% of GDP. Over the past decade, public expenditure on education, both as a share of GDP and as a share of total public expenditure, has continued to decline. As a share of total government expenditure, public funding of the education sector has fallen from 24% in 2001/02 to less than 15% in 2012/13.

In terms of the allocation of public funding, tertiary education has been reduced more significantly than primary education, which has been receiving the largest share. The concentration of spending on primary education as a bottom-up developmental approach has been justified by the government of Uganda within the overall context of poverty eradication.

Available data indicate that amongst the larger EAC partner states, Uganda allocates the least budgetary resources to education at present. And within this small envelope, only a paltry portion of the allocation remains available for tertiary and higher education, given government's preference for expenditure on universal primary and secondary education. It is striking to compare the situation of Kenya and Tanzania in Table 2 with that of Uganda in terms of public sector budget allocation for education, as these two countries have traditionally been the biggest sources of foreign students for Uganda's universities.

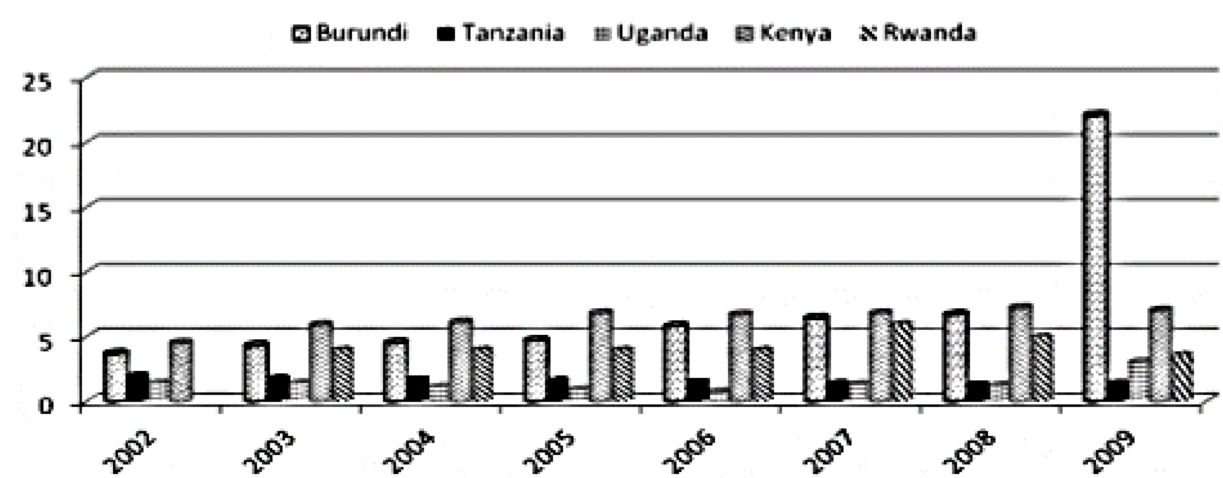
Table 2: Education Sector Budget Allocation by 3 EAC Partner States (%)

	2007/8	2008/9	2009/10	2010/11
Uganda	16.8	15.4	15.3	16.8
Kenya	27.4	26	26.7	26.7
Tanzania		19.4	18.5	

Sources: Uganda MFPED, compiled from Background to the Budget (2007/8–2011/12); Kenya Ministry of Finance, Budget Outlook Papers (2007/8–2011/12); and Government of Tanzania, Background to the Budget and Medium Term Framework (2009–2011/12).

Likewise, Uganda's ratio of education sector expenditure to GDP is amongst the lowest in the region, with the exception of Tanzania. During the period between 2002 and 2008, Uganda spent less than 2% of GDP for the education sector, and it was not until 2009 that this spending rose to 3.1%. Together with Tanzania, Uganda has spent the least amount on the education sector as a percentage of GDP amongst the five EAC members since 2002, as Figure 5 shows.

Figure 5: Education Expenditure as a Proportion of GDP in the EAC (%)



	2002	2003	2004	2005	2006	2007	2008	2009
Burundi	3.7	4.3	4.5	4.7	5.8	6.4	6.7	22.1
Tanzania	2.0	1.8	1.7	1.6	1.5	1.4	1.3	1.4
Uganda	1.5	1.5	1.2	1.0	0.8	1.4	1.3	3.1
Kenya	4.5	5.9	6.1	6.8	6.7	6.8	7.2	7.0
Rwanda		4.6	4.6	4.0	4.0	6.0	5.0	3.6

Source: EAC Secretariat Statistics, 2011.

This trend suggests that if Uganda wishes to deliberately enhance the development of exports in education services, and particularly its higher education services, as a major strategic export, it must substantially increase public investment and budgetary allocation to the sector, at least to the level of Kenya's education sector budget relative to GDP (around 7% in 2009).

Declining Foreign Student Enrolment

Although the absolute number of foreign students enrolled in tertiary institutions in Uganda has increased over the years, in relative terms, the share of foreign students in the total number of students studying in Uganda has slightly declined since 2006. Whilst foreign students represented around 9.5% of total students enrolled in Ugandan universities in 2006, this percentage had fallen to 9% in 2011. According to a report by the NCHE, this downward trend can be explained by the perception of the declining quality of higher education in Uganda, which may be a result of funding and other related issues. Recent statistics indicate that Kenya has consistently remained the largest source of students from East Africa enrolling abroad—that is, beyond the East African region—with a total of 13,748 students heading abroad in pursuit of higher education, more than 52% of all East Africans.[51] This means that Kenya as a source for higher education students for universities in the region is not yet saturated. Uganda therefore needs to take deliberate measures to maintain, develop, and consolidate its share of this export market in the neighborhood to retain its traditional position as the preferred destination for foreign students from Kenya.

Whereas Uganda has traditionally been the destination of choice in East Africa for higher education, exporting education services through Mode 2, 'consumption abroad', involving large numbers of foreign students coming to Uganda, this situation is changing. Deliberate policy interventions to foster the development of tertiary education have been introduced by its EAC neighbours (in particular the governments of Kenya, Tanzania, and Rwanda). Foreign students made up around 12% of Uganda's total university student population in 2004. Although the absolute numbers of foreign students have increased over the past decade, their relative percentage has fallen, and at present foreign enrolment represents less than 9% of Uganda's total university and college student population. As discussed above, Uganda's neighbours in the East African region have been spending more on education in general as part of their fiscal policy, with deliberate public investment in tertiary education. As a result, the pull factors for Uganda's exports of higher education are increasingly being counteracted, which is reflected in

[51] Society for International Development. The State of East Africa, 2012—Deepening Integration, Intensifying Challenges, 2012, p. 44.

Uganda's declining market share of foreign students from Uganda's traditional sources in Kenya and Tanzania.

Given that Uganda's higher education sector was liberalised some two decades ago, it would not appear that declining foreign student market share and declining higher education market share for the country are a result of stifling policy restrictions, but rather of other factors. If deliberate measures are not taken to respond to these developments, Ugandan universities may soon lose their captive market status to competition elsewhere in the region, and Uganda will not be able to retain the attraction it previously had for foreign students, despite its lower tuition fees and costs. With a declining market share in its traditional source countries, Uganda's foreign students are now being drawn relatively less from Kenya and Tanzania and more from further afield, namely the Horn of Africa, Central Africa, Southern Africa, and Western Africa, presenting different types of challenges in determining entry equivalencies and common academic standards.

Officials at KIU and Cavendish University have pointed out the critical nature of immigration issues such as entry visas in the context of growing numbers of West African students coming to study in Uganda. They are requesting deliberate policy measures to expedite visas and facilitate foreign enrolment from these new sources.

Slow Uptake for Distance Delivery of Higher Education

Although Uganda has two universities that exclusively deliver their programmes by long distance means, including by virtual means, these being UTAMU and the Virtual University of Uganda, these web-based programmes are only destined for students within the country. Uganda does not yet export any higher education services cross-border to foreign students in other countries in the East African region (Mode 1 of services trade). Uganda is still leagues behind South Africa, considered to be Africa's giant with respect to online education. South Africa's prominence is attributed to deliberate efforts to develop massive online open courses (MOOCs), available to students both inside and outside the country.

Distance education programmes represent 40% of all education programmes dispensed by South African universities.[52] Studies of Uganda's higher education and its prospects for growth in the region have attributed the dismal performance of the sector in recent years in part to the failure of universities to harness distance learning as the new frontier for growth. An assessment of Uganda's export potential for education services in the EAC and COMESA regional markets conducted in 2005, noted that 'countries with high international enrolment are those which harnessed technology to increase their capacity to effectively deliver distance education'. The study revealed that only 5% of the universities in Uganda offered postgraduate and undergraduate distance programmes respectively.[53]

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[52] Marshall, J. 'International Mobility of African Students', *University World News*, Issue No. 279, July 2013.

[53] Bakunda, G., and G. Walusimbi-Mpanga. An EU Assessment of Uganda's Export Potential for Education Services in the Regional Markets (EAC and COMESA), PSFU, 2005, p. 42.

Inadequate Presence of Ugandan University Campuses Abroad

Only three universities in Uganda—all of them private—have established some kind of physical institutional presence with academic programmes outside the country (exports of higher education services through Mode 3 or commercial presence). They are KIU, Bugema University, and Cavendish University. KIU established a university campus in Dar es Salaam, Tanzania, 6 years ago and is in the process of constructing another in Nairobi, Kenya. Bugema University has a study centre in Eldoret in western Kenya and Cavendish University has established a study centre in Juba, Southern Sudan. These three universities also carry out active outreach programmes to attract and educate foreign students. However, these initiatives are done entirely under the initiative and financing of the universities themselves, and not in the context of a supportive government policy.

Lack of Reliable Statistics

Marketing Uganda's Higher Education, published by Comsec in 2011, noted that the absence of credible data for an accurate assessment of the scales of activity with respect to international students was the biggest challenge in marketing Uganda's higher education. The report emphasised the importance of universities providing actual data to the NHCE, pointing out that 'by not providing actual data across a range of indicators, universities are undermining the case to attract investment into higher education'.[54] The NCHE, whose statutory mandate includes tracking enrolment and fees, amongst other data, does not publish up-to-date statistics on educational institutions in Uganda. Its latest annual report, *The State of Higher Education and Training in Uganda,* is now 4 years old, having last been published in 2011 with data collected in 2010. An additional difficulty is obtaining statistics on the trade aspects of higher education. When the NCHE publishes its statutory reports, these are short on trade aspects of higher education exports, since the NCHE's mandate is shaped not as a trade-facilitating higher education regulator but a government policy enforcer.

The lack of up-to-date statistics extends to both public and private universities as well as self-accounting tertiary institutions. The situation amongst public universities and other public tertiary institutions is so bad that a key respondent to this study at the MFPED attributed the reluctance of the universities surveyed to provide data for this study to a 'critical shortage of reliable comparable data'. According to the same official, there are inconsistencies in reports provided on the same aspect from different units of the same institution.

In an effort to address the lack of reliable comparable data for public universities and other public tertiary institutions, the MFPED is in the advanced stages of implementing the Computerised Education Management and Accounting System (CEMAS) in Uganda's eight public universities—Makerere University, Makerere Business School, Kyambogo University, Busitema University, Uganda Management Institute, Mbarara University of Science and Technology, Gulu University, and Muni University. This US$ 10 million 3-year project is designed to automate core business processes in Uganda's public universities and tertiary institutions. The project is aimed at streamlining and strengthening financial and education

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[54] UEPB and Comsec. Marketing Uganda's Higher Education, Final Project Report, 2011, p. 20.

management processes leading to increased efficiency, effectiveness, transparency, and accountability in the target institutions.[55]

The goal of CEMAS is to establish a reliable, robust, and high-performing integrated financial and education management system in public universities and self-accounting tertiary institutions in Uganda. When fully implemented, CEMAS will (a) enable real-time access to reliable information for decision making; (b) streamline business process and control; (c) be deployed as the main system for educational management and accounting; and (d) harmonise reporting by all public universities and self-accounting tertiary institutions. Although originally conceived from a financial management review, the system has been upgraded to address the need for qualitative financial and non-financial management Information, turning CEMAS into a holistic management information system.[56]

CEMAS has a robust interface that links the offices of the academic registrars in the target institutions and, when fully implemented, will provide accurate, real-time student information at the click of the mouse, from application and registration to examination scheduling, timetabling, and grading, to alumni affairs. In addition, the system is designed to have a number of access portals for the various stakeholders, namely students, parents, alumni, and the public.

The key benefits of CEMAS will include (a) quality and timely reporting, (b) improved financial and education management for public universities and self-accounting tertiary institutions, (c) standardisation of processes and reporting across public universities and other tertiary institutions, and (d) improved exchange of information amongst public higher education institutions and other stakeholders. Although belated, CEMAS is a measure in the right direction. Its shortcoming, however, is its exclusive application to public higher education institutions. In its current form, it will not capture data from the private institutions that have become the most numerous and the most vibrant portion of the higher education sector in Uganda, and the largest contributors to higher education exports.

Success Stories in Exporting Education Services from Uganda

This section provides a summary of the situation of the major Ugandan universities, both public and private, with regard to educational profile and position with respect to enrolment of foreign students and policies in this regard. Eight universities are profiled as well as a few colleges and schools within them. Information is based on interviews and publicly available sources.

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[55] MFPED, Accountant General's Office. Report of the Task Force on the Review of Financial Management in Public Universities, 2009.

[56] Ibid.

Makerere University

Makerere University, a public university based in Kampala, is the largest university in Uganda, the oldest one in East Africa, and one of the most highly esteemed universities in Africa. It was founded in 1922 as a technical college, and became a Centre of Higher Education for East Africa in 1935. In 1949, it was upgraded to a University College affiliated with University College London, offering courses leading to the general degrees of that institution. The establishment of the University of East Africa in 1963 ended Makerere University's special relationship with University College London; Makerere began awarding degrees of the University of East Africa along with the other constituent colleges, the University of Nairobi and University of Dar es Salaam, in Kenya and Tanzania respectively.

In 1970, Makerere University became an independent national university of the Republic of Uganda, offering undergraduate and postgraduate courses with its own awards. In 2011, the university was transformed from a faculty-based institution into a collegiate university with nine constituent colleges and a semi-autonomous school, the Makerere University Business School (MUBS). Makerere University has expanded tremendously and currently has a total student enrolment of nearly 40,000, of which 35,000 are undergraduates, with the rest in graduate programmes.

Makerere University Business School

MUBS is an affiliated institution of Makerere University. MUBS, unlike other constituent colleges and schools of Makerere University, has a separate campus, along with four satellite regional campuses in Jinja, Arua, Mbale, and Mbarara. MUBS has applied to the NCHE to become an independent public university. In the meantime, the school is financially independent with a separate budget, and is autonomous with respect to teaching and examinations; however, admissions and the awarding of degrees are still Makerere University's mandate.[57]

MUBS, in its previous form as Makerere University's Faculty of Commerce, was the first institution of higher learning in Uganda to pilot private sponsorship for students as an alternative to government sponsorship through state scholarships, as recommended in the 1992 Government White Paper on Education. Upon its successful introduction at MUBS, it spread as a common practice in the higher education sector countrywide. Makerere University runs a strong staff development and exchange programme with a number of institutions abroad as part of its academic reward package.

MUBS has a rich, collaborative programme in academics, research, and training with more than 22 institutions in North America, Europe, and Asia.

MUBS collaborates with the Chinese Government and the Justice K.S. Hegde Institute of Management in Nitte, Karnataka, India. In 2010, MUBS signed an MOU with the Government of the Peoples' Republic of China (PRC) to provide a framework for specific forms of

[57] See www.mubs.ac.ug

educational cooperation between Uganda and the PRC. This MOU covers, amongst other activities, (a) training Chinese language instructors, (b) providing Chinese language teaching resources, (c) holding the HSK Examination (the Chinese proficiency test), and (d) administering tests for the certification of Chinese language teachers. Within this framework, MUBS signed an MOU with Shenyang University on November 25, 2014, to establish a Confucius Institute for Culture and Chinese Language at MUBS, to begin the teaching of Chinese at MUBS.

The College of Health Sciences at Makerere University has also signed agreements with Xiangtan University in China under the same arrangement.

In North America and Europe, collaborating institutions include the Icelandic International Development Agency (ICEIDA); Southern University, Baton Rouge (USA); Morehouse College (USA); Syracuse University (USA); Drake University (USA); University of Stirling (Scotland); the Institute of Commonwealth Studies, University of London (UK); and the NPT Institute (Netherlands). The MUBS exchange programme with Drake University has a three-week stay by Drake students at MUBS and a two-week stay in the United States by MUBS students.

On the African continent and in the EAC in particular, MUBS has an elaborate exchange and research collaborative programme with a diverse range of institutions of higher learning. These institutions include the University of Witwatersrand and the University of Swaziland in South Africa and Swaziland respectively. In the EAC, MUBS has an exchange and research collaboration with the University of Dar es Salaam; the University of Nairobi, and Utalii College Nairobi; and the National University of Rwanda and the Kigali Institute of Science and Technology; in Tanzania, Kenya, and Rwanda, respectively.

Makerere University and MUBS are suffering a consistent decline in foreign enrolment. Although Makerere University has an established, 80-year tradition of enrolling foreign students in its programmes, the university—like other public universities—has a substantially lower intake of international students in comparison with the domestic students. Foreign enrolment at Makerere University in general, and at its semi-autonomous Business School (which pioneered private sponsorship for higher education in Uganda), has consistently been declining. This trend has not been mitigated by the fact that Makerere University is Uganda's sole beneficiary of the student exchange scheme for the EAC overseen by the IUCEA.

Data collected for this survey revealed that international enrolment at Makerere University declined from 3,699 in 2009 to 971 by the end of 2013. That is a drop to 26% of the number of international students in 2009. Statistics from the School Registrar's office at MUBS indicate that over the last 5 years, the number of foreign students at MUBS has dropped by 50% from 503 to 254. Out of a total of 15,536 enrolled students (including 14,806 undergraduates and 730 graduate students), at the end of the 2012/13 academic year at MUBS there were only 254 international students. This number included 133 Tanzanians, 88 Kenyans, and 33 coming from non-EAC countries.

This dismal performance in foreign enrolment, despite the impressive pedigree of Uganda's public universities—especially that of Makerere University—is attributed to overcrowding when compared to institutions of comparable rank in Tanzania and Kenya. In addition, Uganda's public universities have been found to have inadequate interaction between students and their professors, which makes them less attractive to international students, who seek a more enriching student experience abroad. Other studies of higher education indicate that a high proportion of lecturers and professors at Uganda's public universities were part timers.[58]

Kampala International University

KIU is the largest private university in Uganda. It was established in 2001 and received its university charter in 2009. It reported a total enrolment of close to 16,500 students in Kampala and at its campus in Bushenyi, in the western part of Uganda. In addition to the two fully fledged campuses, KIU has four study centres in Bukwo, Tororo, Lira, and Kabale. It offers degree and diploma programmes in many academic areas and is the only private university in Uganda—in addition to public universities Makerere University and the Mbarara University of Science and Technology—to offer degrees in Medicine. Foreign students have been a mainstay of the university programmes at KIU. In 2000, foreign students made up 80% of the student body. This situation has, however, been reversed slowly but surely over the past 15 years. Currently Ugandan students comprise 60% of the total student population and foreign students have fallen to 40%. However, much of the revenue of KIU still comes from its foreign student population.

Whilst a substantial number of foreign students in the past came from Kenya, this situation has changed owing to a number of policy interventions by the government of Kenya to minimise its higher education leakages and keep students at home. Presently, an increasing number of foreign students are from Nigeria, followed by Rwanda, Burundi, and the DRC. At present KIU draws students from more than 35 countries including the Philippines, India, and Pakistan, as well as North Africa (Algeria and Egypt).

To deal with the diversity of its incoming foreign students, KIU has developed a number of in-service programmes to increase the eligibility for admission of new foreign applicants. KIU runs the Access Programme, a bridging programme, and various tutorials. Tuition is the same for foreign and Ugandan students. KIU established a branch campus in Dar es Salaam, Tanzania, in 2008, and is currently constructing another branch campus in Nairobi, Kenya. These are independent but affiliated institutions, under the umbrella of KIU. The KIU Dar es Salaam campus is regulated by the Tanzanian authorities, but the degrees are awarded by KIU.

KIU has an active outreach programme to attract foreign students. In addition to its in-country campus offices, KIU has liaison offices in Juba, South Sudan; Nairobi, Kenya; Dar es Salaam, Tanzania; Bujumbura, Burundi; Lusaka, Zambia; and Lagos, Nigeria. KIU officials carry out promotional tours, often together with their counterparts from other East African countries. KIU officials believe that more foreign students could be attracted to Uganda if there were deliberate government support for higher education and extension of government assistance towards the cost of student facilities and accommodation.

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[58] UEPB and Comsec. Marketing Uganda's Higher Education, Final Project Report, 2011, p. 10.

Uganda Christian University

Uganda Christian University (UCU) is a private, church-founded university affiliated with the Anglican Church, established in 1997 and located in Mukono town, one hour outside of Kampala, with five in-country branch campuses. It has several degree programmes and a very active International Students Desk. The university has strong ties with the United States, and its first vice chancellor a decade ago was from the United States.[59]

UCU's international students are from nine countries mainly in the East African region. The director of student affairs, interviewed for this study, reported that increasingly, UCU's students were coming from further afield, from Zimbabwe, South Africa, West Africa (Sierra Leone and Nigeria), the United States, and Canada. However, students from the United States and South Africa needed to undertake a bridging programme to meet the statutory university entry requirements. In addition, students from South Sudan (with Arabic as their primary language of instruction) require a 1-year English Proficiency Programme to successfully pursue their university studies at UCU.

UCU has been running exchange programmes with several universities in the United States for more than 7 years. Between 20 and 40 students (on average 30) are enrolled on these exchange programmes each semester. Some of the graduates then choose to stay on and finish their degrees at UCU. However, when they stay on in Uganda, they usually need to have a provisional job in order to pay for their studies.

Institute of Petroleum Studies Kampala

Locally, UCU collaborates with the Institute of Petroleum Studies Kampala, an NCHE-licensed higher education institution. Through this partnership, UCU offers both undergraduate and graduate programmes in Oil & Gas Management. The undergraduate programmes include the BSc in Oil & Gas Management (3 years), Diploma in Oil & Gas Management (1 year), and Oil & Gas Essentials (6 weeks). The postgraduate courses include the Certificate in Oil & Gas Studies (6 months), MBA Oil & Gas, and LLM Oil & Gas (15 months). This collaboration with the Institute of Petroleum Studies Kampala is open to both domestic and international applicants.[60]

UCU has a very active International Students Desk with a full-time staff deployed to ensure effective integration of foreign students into the university community and Uganda during their stay at the university. Amongst the Desk's programmes are (a) organizing scheduled visits to places in Uganda, (b) sponsoring an International Student Week annually, and (c) encouraging integration through sports activities and a Saturday night dinner. UCU would be happy to welcome more international students and believes that government policies could play an important role in helping to improve the attractiveness of Ugandan private universities. UCU offers scholarships to all students for study at UCU, on merit, and without discrimination between locals and foreigners. The basic requirement is a GPA higher than 4.0.

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[59] Also visit www.ucu.ac.ug

[60] See www.ipsk.ac.ug

Council for Christian Colleges & Universities Higher Education Association

UCU is a member of the Council for Christian Colleges and Universities (CCCU) Higher Education Association, which has 185 intentionally Christ-centred institutions around the world. UCU's collaboration with the CCCU fraternity started in 2004 at the commencement of the Uganda Studies Programme at UCU.

Bugema University

Bugema University is a private university founded by the Seventh Day Adventist Church as Bugema Missionary Training School, a training school for teachers and pastors for the Church in East Africa, in 1948. The institution was upgraded to Bugema Missionary College and a full Adventist seminary, Bugema Adventist College, granting the Bachelor's degree in Theology by 1974. In 1994, Bugema Adventist College became a fully fledged university. The Adventist Accrediting Association in 1995 recommended accreditation for Bugema University's Bachelor of Theology, Bachelor of Business Administration (Management and Accounting), and Bachelor of Arts (Religion). Bugema University is located in Luwero District, 34 kilometers from Kampala. The Adventist Accreditation Association and International Board of Education recommended the adoption of a collegiate system with five schools—School of Arts and Social Sciences, School of Business, School of Education, School of Business, and the School of Theology. Bugema University was granted a license by the Ministry of Education and Sports in 1997. It currently offers 19 degree programmes and several vocational and professional certificates. Bugema University was granted a Charter on April 26, 2010. It has applied to the NCHE to begin offering PhD programmes.[61]

International enrolment has been a traditional institutional policy at Bugema University since its establishment prior to being elevated to a university. This may explain the fact that it has consistently had more international students than Ugandan nationals. More than 62% of its 5,100 students (4,823 undergraduates, 277 graduate students) enrolled by the end of the 2012/13 academic year were international students (that is, 3,171 international students, including 3,066 undergraduates and 105 graduates). The international students at Bugema University are drawn from 18 African countries. The majority come from the EAC (52.2%); countries further afield include the Comoros, Madagascar, DRC, and Zambia. Most international students at Bugema University are attracted to degree programmes in Education, Finance and Accounting, Management, and Development Studies.

Bugema University has active promotional efforts to attract foreign students, mainly through its liaison offices in Siaya, Kenya; Kigali, Rwanda; and Bujumbura, Burundi; and by using its international and exchange students to transmit informational brochures when they return home. Bugema University is one of three Ugandan universities with a physical presence abroad through its campus in Eldoret, Western Kenya. In 2013, 400 students were awarded degrees from this campus. Domestically, Bugema University runs three off-campus study centres in the border towns of Kasese, Arua, and Mbale, deliberately placed near the DRC and Kenya to take

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[61] See www.bugemauniversity.ac.ug

the university closer to its foreign student sources without being abroad. Bugema University collaborates with Central Luzon State University in the Philippines and has joint degree programmes with this university, including PhD programmes in Development Education, Environment Management, and Rural Development. Bugema University collaborates with several universities in the United States, with which it carries out student and staff exchanges. There is no difference in tuition cost between nationals and foreigners. Foreign students are also eligible for a work programme but not for scholarships, and are chosen for the work programme on the basis of merit.

Cavendish University Uganda

Cavendish University Uganda (CUU) is a private university established in 2008. It opened with 45 students on the premises formerly occupied by Makerere High School, next to Makerere University's main campus on Makerere Hill. CUU's main campus is presently located on Ggaba Road (Nsambya), opposite the United States Embassy. It is affiliated with Cavendish College London and is part of the Cavendish University Africa Group, which has campuses in Zambia, Tanzania, and Ghana. Cavendish University Uganda began operations in 2008.[62]

The bulk of CUU's international students are from the Great Lakes region and the Horn of Africa. The deputy director responsible for administration and operations, interviewed for this study, reported that increasingly, the CUU foreign legion of students was coming from the Great Lakes region, particularly Eastern DRC, and recently from the Horn of Africa and Southern Sudan. The statistics provided by the university for this study indicate that out of a total of 6,670 students enrolled at CUU in 2013, 2,931 (nearly 44%) were foreign students coming mainly from Southern Sudan, Somalia, Rwanda, DRC, Nigeria, Kenya, Burundi, Tanzania, Eritrea, and, India. More than 84% of these came from Southern Sudan (1,873) and Somalia (599) combined!

CUU probably has the most intensive academic programme of all the universities in Uganda's higher education sector. The programme is deliberately packaged to shorten the duration of stay for both foreign and working students. CUU runs a two-semester modular academic calendar, with three intakes in January, April, and September, and a 2-week break between semesters and another 2 weeks as an end-of-year festive season break. With 5 modules set as the maximum load per semester, it is possible for a student to complete 15 modules in one academic year, which means that a 3-year university programme can be completed in 2 years, barring any retakes. This minimises the accommodation and upkeep costs for students and reduces the period working students must seek leave from work in pursuit of their academic careers.

Cavendish University Foundation Programme

Besides the intensive programme that shortens the stay for foreign students and consequently reduces the cost of its programme to serious foreign students, CUU runs a special bridging

[62] See www.cavendish.ac.ug

programme—the Cavendish University Foundation Programme (CUFP)—as a remedial measure for its foreign students from Sudan, Somalia, Eritrea, DRC, Rwanda, and Kenya who don't meet the minimum statutory entry requirements. Many applicants, particularly from Sudan, Somalia, Eritrea, DRC, and Rwanda, have not had English as a language of instruction in their previous academic lives and therefore require special help to meet the English proficiency demands of their academic courses. In addition, CUU also recognises KIU's remedial Access Programme designed for the same purpose.

CUU currently runs two in-country study centres in Soroti and Kisoro. The Kisoro study centre in southwestern Uganda serves Ugandans in that part of the country but also targets students from Rwanda and eastern DRC in close proximity to Kisoro. CUU opened a study centre in Juba for its students from Southern Sudan in September 2013. Although a comparatively newcomer to the sector, having only been operational for 5 years, the profile of the foreign students at CUU demonstrates the need to diversify source markets with the declining number of students from traditional sources, as is illustrated by the cases of Kenya and Tanzania.

Uganda Technology and Management University

Uganda Technology and Management University (UTAMU) is a private university, established in September 2012, to expand access to distance online degree programmes in Uganda. Amongst the founders of UTAMU is Prof. Venansius Baryamureeba, the immediate former vice chancellor of Makerere University, and Prof. Jude Lubega, who previously served as the deputy dean of the School of Computing at Makerere University. UTAMU offers both degree and diploma programmes. The learning system and all of its programmes are online with four computer labs equipped with modern computers available to the students full time.

Some of the programmes have domestically developed content, provided by UTAMU professors; other programmes have content developed by universities in India. All modules are offered online including PowerPoint presentations, videos of the lectures, online papers, assignments, and virtual discussion sessions. A face-to-face lecture session in person is offered to the learners once a week. About 10% of UTAMU students are currently taking its courses remotely (i.e., outside of Kampala but within Uganda); the rest of the students are physically present at the university for their programmes. UTAMU collaborates locally with Mbarara University of Science and Technology. There are 74 students currently enrolled in this joint programme.

UTAMU has a collaborative programme with Amity University in New Delhi, and Ugandan students can study online for various degrees from Amity University including the MBA, Master's in Finance, and Master's in Information Technology. All of the teaching is done from India (in this case Uganda is importing education services using Mode 1 rather than exporting services via Mode 2). Students must be registered at UTAMU in order to take the distance courses with Amity, and UTAMU pays a fee to Amity, depending on the course in question. The students have the option of studying for the degree anywhere with a computer and reliable connectivity, but must take their exams onsite at UTAMU. Amity University uses satellite transmission from India to transmit the online programmes. Within a few years, UTAMU hopes to displace Amity University by offering its own online degree programmes.

At present there are no international students in UTAMU's academic programmes. However, the university has plans to expand its online learning programmes, extending them across borders, in order to offer its courses and programmes to students in other countries. This will necessitate content creation, since the success of such an effort is dependent upon the quality of the courses offered. Financial incentives are necessary to get the lecturers to prepare such content.

UTAMU has applied to the government of Uganda for a radio and TV license in order to transmit its courses to the population more widely. Its goal is to make its online educational degree programmes as widely available as possible. UTAMU recognises the opportunity presented by the June 2015 international 'digital migration' deadline to which all African countries have committed. Digital migration will create enormous opportunities for distance online delivery of programmes. The shift from analogue to digital systems will potentially transform every television set into a computer that could be utilised for learning purposes and not merely for entertainment.[63]

Virtual University of Uganda

The Virtual University of Uganda (VUU) is a private, not-for-profit institution licensed by the NCHE in 2012. Having amongst its founders Prof. Michel Lejeune, the first vice chancellor of Uganda Martyrs University and a former executive director of NCHE, the VUU was established in 2011 with an initial investment of US$ 25,000. It is a non-residential university offering graduate programmes to working professionals exclusively online. Although VUU's administration offices are physically located in Muyenga-Kampala, the classrooms, meeting rooms, registry, and library are fully virtual using a Moodle platform hosted in the Netherlands. Moodle, or Modular Object-Oriented Dynamic Learning Environment, is a virtual learning environment. VUU's online library presently provides access to 5 million books and articles for its students. VUU sources its tutors and staff nationally, regionally, and internationally as the need demands. The tutors are then contracted to provide their services for online learning.

VUU's graduate offering includes a Postgraduate Diploma and Executive MBA for professionals wishing to upgrade their skills in the fast-changing business world. The courses in this programme are Strategic Leadership and Management Skills, Managing People in Organisations, and Putting the e into Business: Technology Management, amongst others. VUU also offers a Postgraduate Diploma and MSc in ICT for Development. This programme is for professionals working in the development sector seeking to upgrade their ICT skills and for ICT professionals wishing to upgrade their key competencies in the development context.

VUU's Diploma and MA in International Development is for development professionals wishing to specialise in development studies but holding a different undergraduate specialisation, or for expatriate employees of NGOs, embassies, or development organisations wishing to pursue a qualification in international development. The aim of the programme is to equip professionals with a thorough knowledge of the theories and methods of development as

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[63] See www.utamu.ac.ug

well as skills in managing development in a sustainable fashion to make a lasting contribution to the global standards set by the Millennium Goals Initiative.[64]

Strategic Capacity Building Programmes in e-Learning

VUU has deliberate collaborations with Ugandan universities to assist them in 'making the jump from brick to click' by embracing online delivery of academic programmes and courses (including undergraduate courses). VUU collaborates with four Ugandan public universities—Gulu, Busitema, Muni, and Mbarara University of Science and Technology. VUU offers a number of courses tailored to suit the online transition needs of the universities with which it collaborates. The courses are Moodle Management for Senior University Administrators, Online Teaching Using Moodle for University Lecturers, and Cloud-Based Management Systems for University Administrators, amongst others.

Moodle Management for Senior University Administrators

This capacity building course targets computer-literate senior university administrators responsible for continuous content delivery for online courses. Administrators learn the technicalities of advanced content provision online, including setting up examinations, quizzes, forums, and wikis; how to work closely with the academic staff tutoring the courses or providing content to improve the students' online learning experience; how to provide online student support; and how to set up course libraries using open access materials; amongst others. Moodle managers trained by VUU attend a week-long, in-house session at VUU and continue training online for a further two weeks, receiving a Certificate in Moodle Administration at the end.

Online Teaching Using Moodle for University Lecturers

This course offers interested lecturers an opportunity to hone their teaching skills in an online environment. Tutors learn how to tailor their existing content for online delivery. This includes managing the learning environment as an 'editing' or 'non-editing' lecturer; participating in wiki's and discussion forums; setting, marking, and commenting on assignments and examinations; and setting up chat sessions with students. Those who complete the programme are awarded a Certificate in Moodle Teaching at University Level.

Cloud-Based Management Systems for University Administrators. The course provides instruction in using simple, affordable cloud-based applications (off the shelf and freely available) to transform a department into a paperless environment with immediate, seamless communication and information sharing. Using cloud-based university management systems makes it possible for minutes of staff meetings, boards, and senates; notices; timetables; and other information to be uploaded as PDFs to specially customised and easy-to-manage websites with instantaneous access.

[64] Also visit www.virtualuni.ac.ug

Using Social Media for University Public Relations. This programme is tailored for university public relations officers and individuals responsible for the dissemination of official information for their institutions. Participants in this programme are taught how to set up, customise, and manage official social media pages on Facebook, Twitter, Google accounts, and blogs. In addition, they learn how to maximise their online presence using inexpensive target ads on Facebook and Google Ads.

Policy Recommendations

This report has shown that although Uganda has traditionally enjoyed many advantages and has been known as a centre of excellence for university education in the East African region for many years, it is currently facing several critical challenges to this position. Increasingly, students are being drawn from regions further afield, posing new types of problems in terms of their integration into Uganda's educational system.

The report has identified and documented several reasons for this situation. These include a lack of financial support of the government of Uganda for the educational sector, as well as the failure to implement the policies that have been developed in order to actively support the expansion of exports of higher education by Ugandan universities, whether public or private. Official statements of intent for priority treatment of the sector have not been translated into concrete policy actions. On the contrary, the report has shown that expenditure on education by the government has continuously declined and is now considerably lower than in the other EAC countries other than Tanzania. In contrast to Kenya and Rwanda, which have been actively pursuing support policies for higher education, Uganda has stood still. Thus both university facilities and infrastructure for student housing as well as teacher salaries, have stagnated and declined in relative terms in Uganda, thus negating the relative advantage of Uganda in lower tuition costs.

The lack of high-speed Internet connectivity has also been crippling to the development and expansion of Uganda's education exports. Universities are still waiting for government support in the area of Internet development and the provision of high-speed cable. Because of the lack of IT development and web connectivity, currently there are no cross-border distance learning programmes being provided by Ugandan universities, which are thus lagging considerably behind in this area.

Whilst still relatively strong, Uganda's traditional advantages in the sector of higher education appear to be seriously under threat. This section sets out policy recommendations for the sector, based on the information obtained in the numerous interviews in the field with officials and administrators at several of Uganda's universities, as well as with the NCHE. These are set out with the intention that they will serve as a wake-up call for those with regulatory and decision-making responsibility in this important sector, and with the intention of providing suggestions on potential best practices for other governments in Africa that may wish to develop their tertiary educational institutions both to contribute to their economic development and to enhance their export possibilities.

1) **Put in place a deliberate government support policy for higher education exports.** To foster great education exports, there is need for a deliberate government policy to support the efforts of universities in securing Uganda's current sources of foreign students and in diversifying these sources, as demonstrated by the success of KIU and Bugema University. It would be useful in this regard to extend the scope of the annual NCHE Higher Education Fair to include key export destinations.

2) **Develop policy focus for higher education.** Education should be viewed not merely as a public good but also as a foreign exchange earning service export. The policy focus should not be limited to government or public institutions but should include all higher education providers—both public and private. The British Council with its mandate to promote British universities and colleges in key export destinations provides a good example to benchmark whilst developing a promotion strategy for actively supporting and promoting higher education exports.

3) **Commit more resources to higher education.** If education is a priority sector for economic development, the government budget expenditure should reflect this priority. A greater percentage of the budget should be devoted to the education sector, both for infrastructure improvement (facilities and student housing) and for the provision of high-speed Internet connectivity to both public and private institutions.

4) **Provide tax relief to private universities.** The NCHE has recommended that the government of Uganda in the medium term could consider reducing taxes imposed on private universities. Public universities are currently exempted from these taxes, but private universities are not, putting them at a distinct disadvantage. Such tax relief could be in the form of tax rebates. The government could also consider waiving the Value-Added Tax on utilities and other procurements for tertiary educational institutions. Private universities have been the ones that have seen the fastest growth in the numbers of foreign students in recent years in Uganda.

5) **Promote distance online higher education programmes.** At present, public policy does not include deliberate measures to promote and focus on developing distance online learning programmes. These programmes, when embraced, will be cheaper to deliver and will enable institutions to share their faculty and equipment. Distance delivery is the cheapest way to access educational products and materials worldwide. Online programmes will open up new opportunities and provide universal access to education, particularly for excluded working adults. A study by the Comsec noted the inadequate utilisation of online educational programmes in Uganda, owing to the lack of resources committed to their development.

   Such a policy requires an implementation strategy developed with the active participation of the operators, the universities and colleges, in order to be fully operational. VUU provides a nucleus around which deliberate measures for inter-university collaboration to embrace distance delivery of higher education can be developed. The Formations Ouvertes et à Distance (FOAD) initiative in Francophone West Africa, an initiative of the Agence Universitaire de la Francophonie—where distance education provided by countries including Cameroon and Senegal has enabled students to follow courses through digital campuses—is a good precedent to follow.

6) **Grant all universities discounted or subsidised access to the Internet backbone.** The government should support universities (both public and private) as the Research and Education Network for Uganda (RENU) to access the national Internet backbone with adequate bandwidth to transmit educational content for the online distance learning programmes and for research. This is a critical and fundamental element for the ability of Uganda or any African country to develop its education sector and to provide for online courses that allow for cross-border exports of education services.

7) **Broaden the scope of CEMAS to cover the higher education sector.** In the medium term, the government should take deliberate measures to broaden the scope of the Computerised Education Management and Accounting System (CEMAS) to start collecting statistics from the entire higher education sector, including from the private providers.

8) **Develop synergies between CEMAS and RENU.** Over the medium- to long-term, the government should consider consolidating CEMAS and RENU into a common platform, instead of developing them as separate and competing platforms. This would solve the problem of accurate, real-time information on the higher education sector and provide affordable, reliable high-speed Internet connectivity to deliver online content and research. The partnership of CEMAS and RENU with Google will provide a good foundation for an all-inclusive collaboration between the providers, government, and a credible world-class multinational which, when harnessed, would guarantee successful execution.

9) **Put in place effective regulation and quality assurance controls, particularly for private providers.** The exponential growth of the higher education sector, particularly the private providers in the region, as nominally demonstrated by the 30-fold growth of the IUCEA's membership from 3 to 90 member institutions, has triggered concern with regard to quality assurance. This regional expansion in private provision of higher education has set a two-fold challenge of maintaining the standards in public universities and guaranteeing the standards of the private providers. Given that all accredited providers are members of the IUCEA, the responsibility for quality assurance is as much a task of the NCHE and regulators in each of the partner states as it is the IUCEA's.

10) **Allow NCHE oversight over remedial and other pre-entry procedures.** With the trend of Uganda increasingly drawing its international students from farther afield in the Horn of Africa, DRC, and West Africa, and away from its close neighbours in the EAC, there will be a growing demand for and proliferation of bridging programmes and pre-entry examinations, particularly for applicants without minimum requirements. The responsibility to accredit and administer these pre-entry processes should be made part of the NCHE's broadened mandate, as is the case with similar arrangements such as the Test of English as a Foreign Language, the Graduate Management Admission Test, and others in the United States and UK.

11) **Pursue mutual recognition of accreditation of higher education institutions and programmes in the EAC.** This should be done as a first step towards developing a 'common higher education area'. Mutual recognition agreements will help in removing the regulatory requirement that universities and other institutions of higher education that operate across borders have to apply for fresh accreditation and licenses whenever

they set up new operations and campuses. The mandate of the IUCEA may need to be amended to empower it to operate as the statutory body responsible for verification and certification of academic qualifications in the EAC. Such an EAC-wide Qualification Framework with the strategic objective of consolidating the EAC into 'a common higher education area' by 2015 would work in Uganda's best interest, with the opportunities it will create for programme and institutional mobility.

12) **Embrace the EAC Qualification Framework.** There is need to fully embrace the proposed EAC Qualification Framework under the IUCEA with a broader scope including both overseeing the Credit Accumulation and Transfer System (CATS) and mutual recognition of accreditation of higher education institutions and programmes.

13) **Provide full support for the proposed CATS.** Once well established and effectively implemented, the CATS will facilitate the mobility of learners across the region and thereby support the mobility of programmes. There are well-founded fears expressed by the key higher education institutions surveyed for this study that the NCHE has not fully embraced the proposals for a CATS and the EAC Qualification Framework being championed by the IUCEA. The new export possibilities—besides the value addition in enhancing Uganda's value proposition in the provision of higher education offered by this initiative—demand Uganda's and the NCHE's full support.

    CATS has the added value of actively encouraging inter-university collaboration, research partnerships, and recruitment and sharing of international students amongst IUCEA member institutions in the region and amongst Ugandan accredited institutions of higher learning. According to the British Council's report, *The Shape of Things to Come: Higher Education Global Trends and Emerging Opportunities to 2020,* [65] international collaboration is increasingly emerging as a key driver for growth in transnational education. Collaboration enhances the quality of research, improves efficiency and effectiveness, and responds to global challenges.

14) **Revamp the Vice Chancellor's Forum.** An active and proactive Forum would play the advocacy role for higher education providers and engage with government on key policy issues affecting higher education. The Forum can conveniently be used as a platform for inter-university collaboration in higher education research partnerships, international recruitment, and other areas.

[65] Published by the British Council and Oxford Economics, 2012.

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Annex 1: Field Questionnaire

AFRICAN UNION

الاتحاد الأفريقي

UNION AFRICAINE

UNIÃO AFRICANA

Addis Ababa, ETHIOPIA P.O. Box 3243 Tel. : (251115) 517700 Fax : (251115) 517844

QUESTIONNAIRE FOR CASE STUDY ON EDUCATION SERVICES UGANDA

As part of an effort to address the challenges of Intra-African trade, and the need to come up with strategies to improve the situation, the African Union Summit of Heads of Government in January 2012 adopted an Action Plan for Boosting Intra-African Trade and a Framework for the fast tracking of a continental free trade agreement (CFTA). Services are considered by the African Union Commission (AUC) and the Economic Commission for Africa (ECA), as a major area of growth potential for the future. As such, enhancing trade in services is an important, emerging opportunity. As part of the need to raise the profile of the services sector, the AUC with the support of key donors: USAID, UNDP, GIZ and the EU is undertaking a series of case studies on the service sectors for selected African countries.

This Questionnaire administered on behalf of the African Union Commission's Department of Trade and Industry with support from USAID will assist to collect information on the education sector in Uganda, by examining the operation of universities and other educational establishments, together with the policies that affect their performance. The goal of the questionnaire is also to identify the way in which universities and educational establishments are offering programs and reaching out to foreign students either at home or abroad, thus contributing to the export of educational services by Uganda. This case study will include recommendations for policy improvements and interventions to address the challenges of universities and educational institutions as they seek to enhance their exports of education services.

The African Union Commission is grateful for the time and effort that you will allocate to respond to these questions, and thanks you in advance for your assistance and cooperation with the consultants engaged to conduct this exercise.

Kindly return the completed questionnaire to the experts engaged to carry out this case study below. If you have any questions do not hesitate to contact them for clarification.

Dr. Sherry STEPHENSON - USAID Consultant & International Services Expert, Tel: +1202 415 0347, Email: sherry.stephenson@gmail.com

Mr. George F. WALUSIMBI-MPANGA, USAID Consultant & National Services Expert Tel: +256 752 436 380, Email: g.walusimbimpanga@gmail.com

Name of Institution	
Address	
Details of Respondent completing the questionnaire	**Name**:
	Designation:
	Office Tel:
	Mobile:
	Email:
Date	

SECTION I: ENROLMENT

1. What is the number of total students at the institution?

    Undergraduate ____

    Degree/Diploma Program _______________________________

    Graduate: Masters ______________ PhD __________________

2. What is the number of foreign students enrolled in your programs?

    A. Foreign Undergraduate Students

Overall : Number________ % of all undergraduates______________

From East Africa[66] _________ _______________

From elsewhere in Africa _________ _________________

From outside Africa __________ _________________

Note: Could you please indicate in a separate list the number of foreign students by country of origin.

B. Foreign Graduate Students (If applicable)

[66] East Africa includes the other member states of **the East African Community** (EAC) namely; Burundi, Kenya, Rwanda and Tanzania

1. Overall : Number________ % of all graduate students____________

From East Africa _________ _________________

From elsewhere in Africa _________ _________________

From outside Africa __________ _________________

2. Note: Could you please indicate in a separate list the number of foreign students by country of origin.

3. What has been the change in these numbers over the past decade?

A. Total student enrolment

2000____________ 2005 ____________ 2010/12 _____________

B. Total number of foreign students

2000_________2005 ___________ 2010/12 ______________

C. Total number of foreign students by program

(1) Undergraduate Programs

2000 ___________ 2005 ____________2010/12 ______________

(2) Graduate Programs

2000 ___________ 2005 ____________2010/12 ______________

4. Has there been a specific attempt to attract foreign students to study at your institution?
Yes ______ No __________

A. If so, has this been focused on :

i. From East African countries _________________
ii. Students from other African countries __________________

iii. Students from outside Africa ____________________________
iv. All the above? ____________________________________

B. If so, since when has this institutional policy been in place?

SECTION II: OUTREACH

5. Does your institution have joint Degree/ Diploma awarding programs with universities abroad? Yes ______ No __________

If so, what is the :

i) Number ____

ii) Discipline areas and partner universities / schools

____

____

____

If so, in what year were these joint degree programs established?

____

6. Does your institution have exchange programs with universities abroad?
Yes _______________ No ________________

If so, what is the:

i) Number ____

ii) Name of partner universities / schools for exchange programs

____

____

____

If so, when were these exchange programs established?

____

7. Does your institution have any branch campuses abroad (i.e. that are part of the university proper)? Yes ___________ No ___________

   If so, please indicate in which countries these are located.
   ____
   ____

8. Does your institution offer any online degree programs?
   Yes ______________ No _______________

   If so, please, indicate the number of foreign students enrolled in these online degree programs? Number ______ % of Total _______

   From East Africa _________ _______________

   From elsewhere in Africa _________ ______________

   From outside Africa ______________________

   Note: Could you please indicate in a separate list the number of foreign students by country of origin.

9. Does your institution collaborate with educational or research institutions in any other type of joint program abroad?

Yes ______ No _________

If so, please describe.

____
____
____

If your institution does not have any joint degree programs, exchange programs, or branch campuses abroad at present, is this an objective for future outreach?
Yes ____________ No __________ .

If so, kindly provide details of these collaborations.

____
____
____
____

10. Does your institution allow or encourage professors to go abroad on sabbaticals to teach in foreign universities / schools? Yes ______ No __________

SECTION III: COSTS / REVENUES

11. What is the average tuition charged by your institution for a full-time student?
    i) Undergraduate ___________________________________
    ii) Graduate ____________________________________

12. Is there any difference in tuition charged to Ugandan students and to foreign students?
Yes________No____________

If so, please indicate the average tuition charged to:

i) Foreign undergraduate students ____

ii) Foreign graduate students ____

13. Are there any scholarships granted to students?

Yes_________ No___________

i) If so, are these reserved only for Ugandan students, or are foreign students also eligible for scholarships?
ii) If so, what percentage of students might receive financial aid?
a. Ugandan? _________ b. Foreign? ______________

14. What is the cost, on average, to educate a student at your institution?
(best estimate) ____

15. How has this changed over the past 10 years?

2000 _________ 2005 ____________ 2010/12 _______________

16. Does the Ugandan government contribute to the costs of education at your institution?

Yes ___________ No __________

If so, what percentage of costs does it cover? ___________________

17. Are there other types of government support that you have received that have facilitated the operation of your university?
Yes _________________ No ____________________

If so please elaborate below.

SECTION IV: GOVERNMENT POLICY / COORDINATION

18. From your perspective, does the Ugandan Government have a clearly defined policy toward higher education? Yes ________ No _________

If so, what do you feel are its main objectives?

19. In practice, does your institution work closely with the government – [Ministry of Education and Sports and the National Council for Higher Education (NCHE)] in the design of the following:

i) Objectives for the expansion of higher education in Uganda?
ii) Educational programs and degrees?

Yes _______________ No ___________________

If so, how is this process carried out? Through Committees / Consultations, etc?

20. From your perspective, does the Government of Uganda support attracting greater numbers of foreign students to study in Uganda and the expansion of Ugandan educational programs abroad? Yes _________ No __________

If so please elaborate below.

21. In what ways does the Government of Uganda, provide support for the realization of your objectives in higher education? Please list the main types of policies that you think are most useful.

    i) ____

    ii) ____

    iii) ____

22. What do you think the Government could do to better serve your interests? Please be as specific as possible with regard to new policies and / or policy reforms.

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