

DEVELOPING PROFESSIONAL SERVICES IN AFRICA THROUGH REGIONAL INTEGRATION

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Policymakers in Eastern and Southern African countries have recognized that weaknesses in their services sectors impede growth. Recent studies have revealed a strong relationship between African firms' productivity and their access to services (Arnold et al., 2006). In parallel with reform of backbone services like telecommunications, banking and transport, governments are beginning to prioritize reform of professional services, including by creating more integrated regional markets. However, relative to the process of regional integration in East Africa, regional integration in Southern Africa is much less advanced.

This paper attempts to remedy the large gaps in information on policies and market conditions in professional services, namely accounting, engineering and legal services in Kenya, Rwanda, Tanzania and Uganda in Eastern Africa, and in Botswana, Malawi, Mauritius, Mozambique, South Africa and Zambia in Southern Africa, with the objective of facilitating concrete steps towards reform at the national level and at accelerating regional integration in Africa.

1. Importance of professional services for growth in Eastern and Southern Africa

Professional services play an important role in the functioning of modern economies and are among the fastest growing services sectors in many developed and developing economies. Professional services contribute directly and indirectly to economic growth, including by lowering transactions costs and by creating spillovers of knowledge to other industries.

Accountancy is critical for accountability, sound financial management, and good corporate governance (Trolliet and Hegarty, 2003). While demand for accountancy services is expected to increase significantly in Africa with economic growth and the adoption of international financial reporting standards (IFRS), at this stage several countries experience already severe skill shortages in this sector. The reported skills shortages are acute in the non-financial services sector (reflecting problems with skills retention in the government sector in particular), for individuals with at least an undergraduate degree, and for middle-level professionals (accounting technicians). Moreover, skills mismatches at both technician and skilled professional levels are an issue in most countries. While links to global accounting firms¹ that dominate the global market and influence the structure of services provision are important for the development of the

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¹ The global accounting firms are the Big Four Deloitte Touche Tomatsu, Ernst & Young, Klynveld Peat Marwick Goerdeler, and Price Waterhouse Coopers.

profession in African countries, additional reform at the national, regional and multilateral level can help address these skills shortages and skills mismatches.

Effective law and justice systems are a key structural pillar of sustainable development and poverty reduction. Access to legal services improves the predictability of the business environment, facilitates engagement in contracts and mitigates investment risks (Cattaneo and Walkenhorst, 2010). In developing countries, legal practices have grown during the last decade with market reforms and economic growth. For example, corporate activity in South Africa has attracted lawyers to the practice of mergers and acquisitions. The expansion of the private sector and economic growth present commercial opportunities for law firms in Africa. Moreover, many African countries experienced growth in power plants, infrastructure development and oil and gas work, thereby attracting law practitioners in these fields. For example, the law firm Denton Wilde Sapte has been collaborating with firms in Botswana, Ghana, Mauritius, Tanzania, Uganda and Zambia to deliver project-finance advisory services (Cattaneo and Walkenhorst, 2010). However, the extremely high wages earned by legal professionals - not necessarily indicative of their scarcity but rather of the power of professional bodies which impose strict entry and conduct regulation enabling incumbents to capture high rents - limits the potential contribution of the legal sector to economic growth in Africa. Although the scarcity of lawyers seems less severe than that of engineers or accountants in Africa, the scarcity of middle-level professionals is as important in legal services as it is in other professional services.

While trade in legal services accounts only for a small fraction of the sector's output, it can nevertheless help shape its development. Legal process outsourcing, such as document editing and proofreading, litigation research, and intellectual property work could become a significant export industry. Indeed, legal process outsourcing already offers new export opportunities to African countries: e.g., UK law firms are outsourcing patent prosecution work to lawyers in South Africa (Wesemann, 2007).

Engineering services is a knowledge-intensive sector essential to the productivity and sustainability of various other economic activities. For example, civil engineering is critical for the development and maintenance of a country's physical infrastructure, while electrical engineering is important to the operation of public networks such as utilities, commercial facilities and communication systems (Cattaneo et al., 2010). Demand for engineering services is expected to increase in Africa despite the global economic slowdown, and will create employment opportunities for qualified professionals. However, engineering firms in all examined countries are experiencing shortages of skilled engineering professionals. Labor scarcity in the engineering and construction sectors have already resulted in delays and lost business opportunities for some African countries (Development Network Africa, 2009). Initiatives to build engineering expertise are necessary to help close the skills gaps. Engaging effectively with global engineering leaders is an important means of business development for local engineering firms. Such trade in engineering services can be encouraged by appropriate domestic policies and through international cooperation.

Some observers suggest that informality and the status of business regulation in Africa restrict demand for professional services. For example, the prevalence of informal arrangements such as handshakes and oral agreements, customs and practice may imply that in case of disputes even if the law is available, recourse to it is usually the last step. Furthermore, in the absence of adequate

protection of property rights, individuals and groups will revert to private protection and avoid using legal services. Limited or inadequate monitoring of compliance with financial reporting standards or safety standards may suppress demand for accounting and engineering services.

However, the consensus among stakeholders and in the literature suggest that the accounting, engineering, and legal needs and concerns in developing countries are as pressing – if not more so – as those in developed countries. Business skills and services, such as accounting and legal services can play a critical role in reducing transaction costs considered by Collier and Gunning (1999) to be the most significant impediment to economic growth in Africa. Demand for professional services is expected to increase with growth of the African economies. However, even at the current stage demand remains unsatisfied given skills shortages and skills mismatches or inadequate quantitative or qualitative regulations applied to domestic and foreign professionals and firms.

While evidence on the state and role of professional services in Africa is scarce and unsystematic, available statistics at a more aggregated level show that “business services²”, of which professional services constitute an important part, account for 5 to 21 percent of GDP in the examined African countries in 2009.³ These figures compare favorably with the shares of business services in the GDP of more advanced countries ranging from 3% in Greece to 13% in France (Leshner and Nordas, 2006). With average annual growth rates of business services outputs of 21% in Zambia, 18% in Uganda, 14% in Tanzania, 8% in Kenya and 7% in South Africa during the 2000-2009 period, the sector seems extremely dynamic in these countries.

Business services are important intermediate inputs in the production of many agricultural and manufacturing products that are significant for regional integration at the East African Community (EAC) and Southern African Development Community (SADC) levels. Input-output calculations based on GTAP data show significant downstream linkages in a broad range of agricultural products, minerals, and manufacturing (garments, leather, paper, metal products, chemicals).⁴

Data from the World Bank Survey of Users of Professional Services that cover representative samples of firms across all sectors in Eastern and Southern African countries further illustrate the value of using professional services. The regressions in Table 1.1 show a statistically significant labor productivity advantage for users of accounting and legal services (even after accounting for firm size). Interestingly, the estimates also show that the effect of professional services usage on productivity is stronger for small and medium enterprises (SMEs).

² Business services cover professional services, computer services, research and development, real estate, rental and leasing, other business services such as advertising, management consulting, services incidental to agriculture, mining, manufacturing, and energy distribution, technical consulting, maintenance and repair of equipment, building cleaning, packaging, and publishing.

³ Statistics are available for Botswana, Kenya, Rwanda, South Africa, Tanzania, Uganda and Zambia.

⁴ The importance of business services for other industries is captured by the share of business services costs in those industries’ total production costs. These shares are available from the authors upon request.

Table 1.1: Labor Productivity and Usage of Professional Services

	Dependent Variable is Log of Labor Productivity					
	(1)	(2)	(3)	(4)	(5)	(6)
Acct. Services Usage Dummy	0.418**					
	(0.211)					
Legal Services Usage Dummy		0.453**				
		(0.184)				
Eng. Services Usage Dummy			0.205			
			(0.202)			
Acct. Services Usage * Small Dummy				0.447**		
				(0.213)		
Acct. Services Usage * Medium Dummy				0.206		
				(0.281)		
Acct. Services Usage * Large Dummy				0.732		
				(0.554)		
Legal Services Usage * Small Dummy					0.614***	
					(0.215)	
Legal Services Usage * Medium Dummy					0.032	
					(0.288)	
Legal Services Usage * Large Dummy					0.624	
					(0.391)	
Eng. Services Usage * Small Dummy						0.295
						(0.216)
Eng. Services Usage * Medium Dummy						(0.082)
						(0.307)
Eng. Services Usage * Large Dummy						0.277
						(0.418)
Country Dummies	Yes	Yes	Yes	Yes	Yes	Yes
Sector Dummies	Yes	Yes	Yes	Yes	Yes	Yes
Firm Size Dummies	Yes	Yes	Yes	Yes	Yes	Yes
Observations	512	515	515	512	515	515

Notes: The regressions are estimated by OLS. Standard errors robust to heteroskedasticity in parentheses. *** and ** indicate significance at 1% and 5% confidence levels, respectively. Labor productivity is sales in USD per worker.

Source: World Bank Surveys of Users of Professional Services in Africa, 2009 and 2010.

The analysis of professional services sectors in Africa has been hampered by the lack of information on demand and supply, including data on market conditions and policies in professional services. To address this gap, a comprehensive data collection exercise including the aforementioned enterprise surveys covering users of services, enterprise surveys covering providers of services, regulatory surveys (covering entry and conduct regulation applied to domestic and foreign providers), and surveys of costs and procedures to become an accounting, engineering, or legal professional was undertaken by the World Bank in Eastern and Southern Africa in 2009-2010. The diagnostics based on these different data sources are discussed next.

2. Level of development of professional services sectors in Eastern and Southern Africa

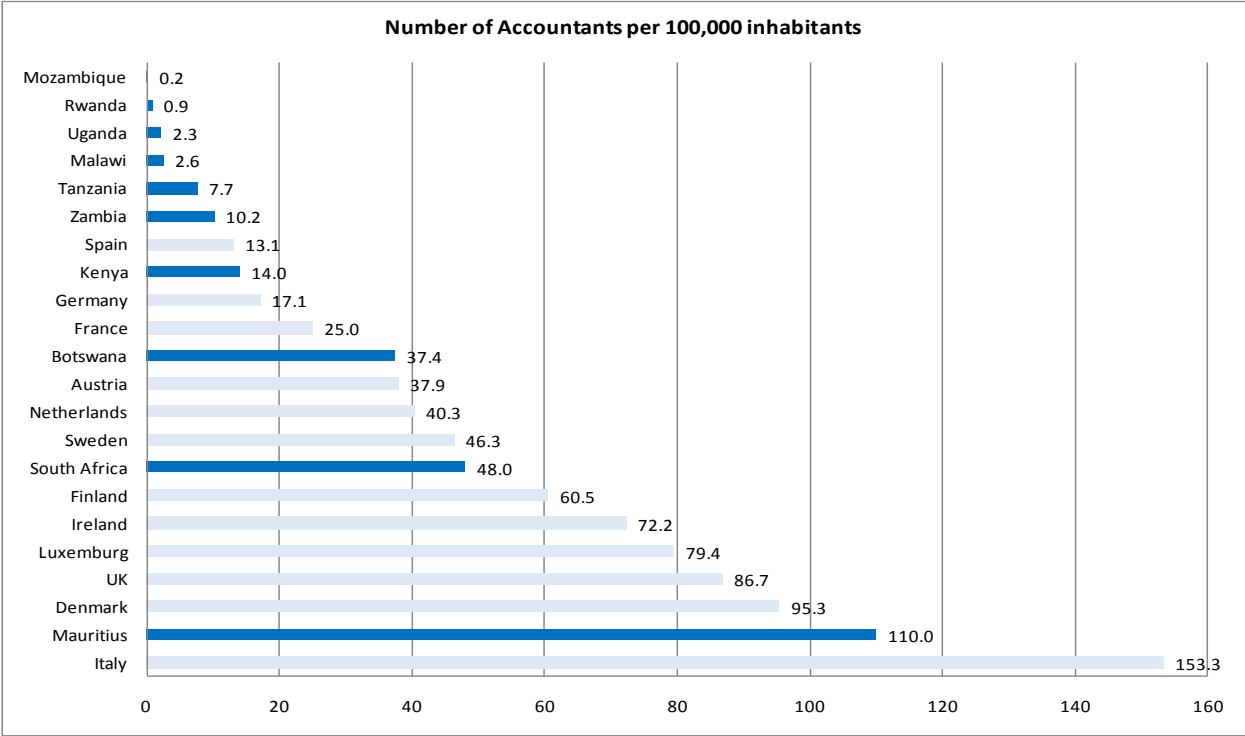
Across the markets for accounting, engineering, and legal professionals in Eastern and Southern Africa, an heterogeneous picture emerges. While scarcity premia are generally observed across

professions in all countries, there is a wide spectrum of perceived skills shortages, their nature and the underlying reasons with different policy implications for each country’s reform agenda.

2.1. Availability of professionals

Figure 2.1 presents the density of lawyers per 100,000 inhabitants across developing and developed countries. With 110 accountants per 100,000 inhabitants Mauritius has a higher density of accountants than most developed countries. Compared to other African countries, Mauritius and to a lesser extent South Africa, Botswana and Kenya have a relatively well developed market for accounting professionals. In contrast, Malawi, Mozambique and Rwanda are characterized by a very limited availability of accountants – even by African standards.

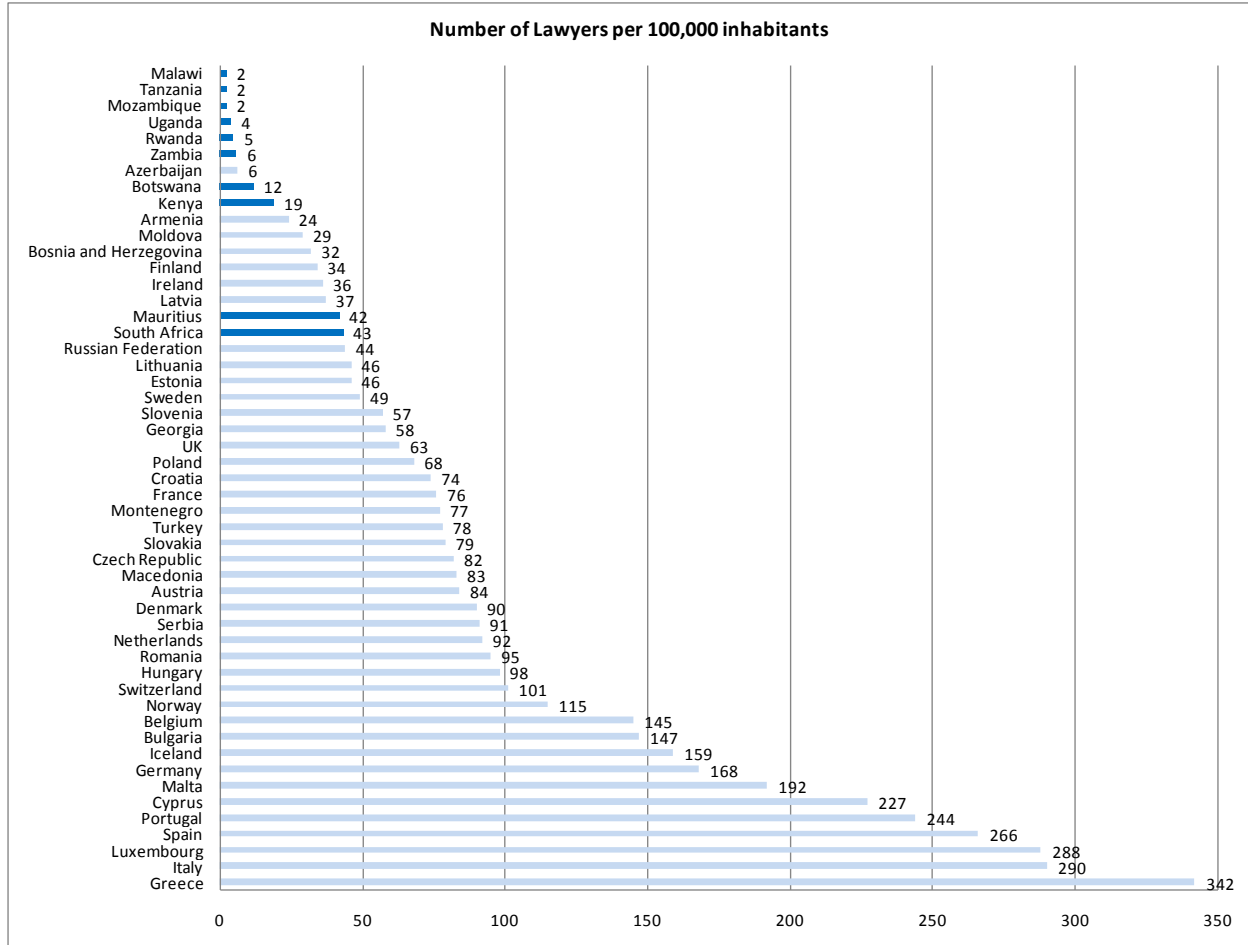
Figure 2.1: Number of Accountants per 100,000 Inhabitants



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

The legal profession in all examined African countries is a liberal profession carried out independently from the government. Lawyers have to register with the local bar association in all countries to practice privately but do not need to register to practice in public office. Figure 2.2 shows that while most African countries display a density of less than 20 lawyers per 100,000 inhabitants, the ratio is particularly low in Malawi, Tanzania and Mozambique.

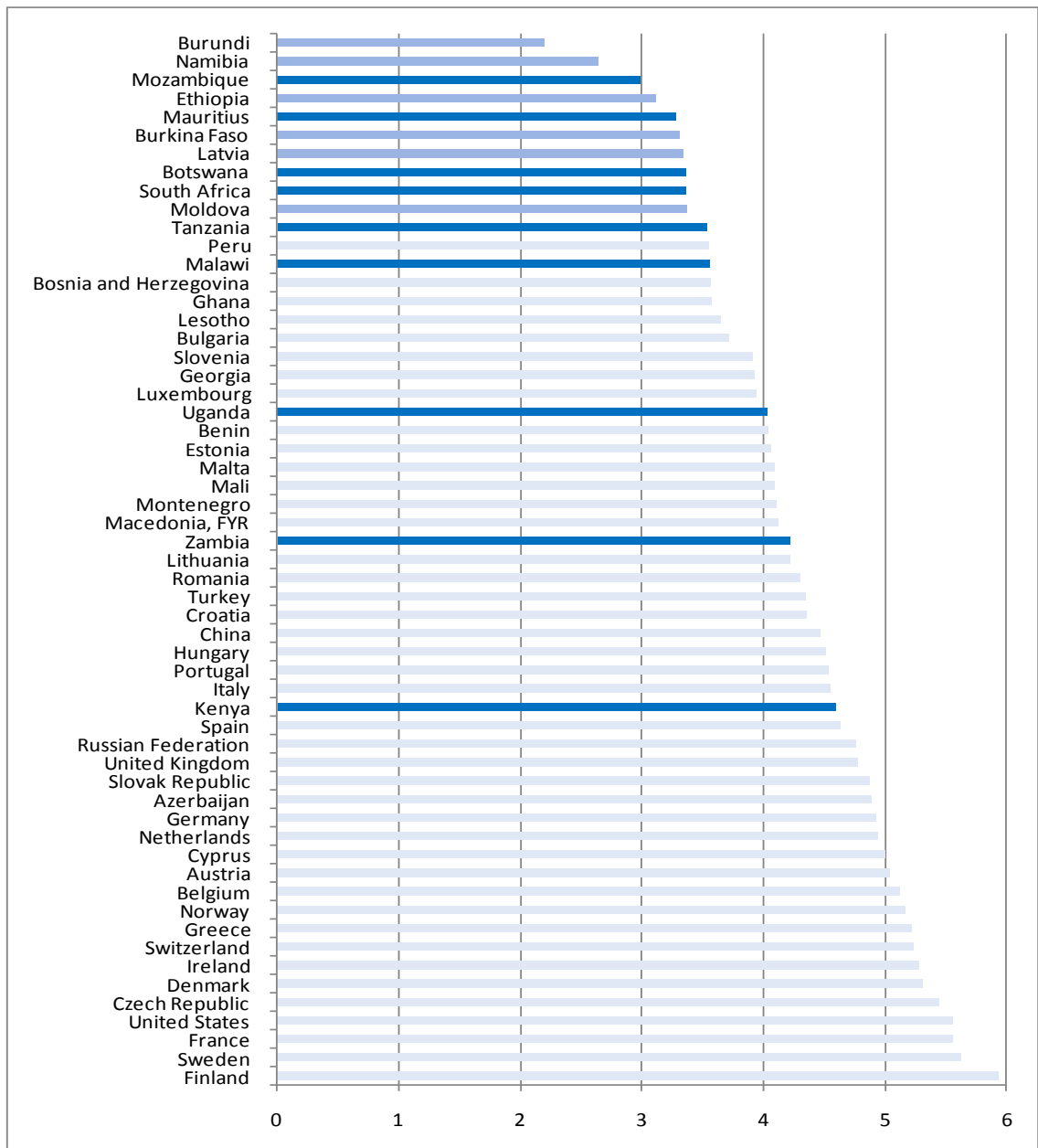
Figure 2.2: Number of Lawyers for 100,000 Inhabitants



Source: World Bank Regulatory Surveys in Africa, 2009 and 2010, and European Commission for the Efficiency of Justice (2008).

In engineering, capturing accurately the number of professionals practicing in each African country is more difficult. Although countries have professional engineering bodies with which registration is theoretically mandatory, in practice the number of registered professionals represents a small fraction of those providing engineering services. Hence, to shed some light on the availability of engineers in Africa we rely on responses to the survey conducted by the World Economic Forum for the yearly Global Competitiveness Report. Respondents were asked to assess the availability of scientists and engineers in their countries based on a ranking from 1 = nonexistent or rare to 7 = widely available. Figure 2.3 shows that the availability of engineers is particularly problematic in Mozambique, Mauritius, Botswana, South Africa and Tanzania.

Figure 2.3: Availability of Scientists and Engineers



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

In terms of country-specific differences, the more acute skills shortages are observed in Malawi, Mozambique and Rwanda. The generalized absence of skills, both middle-level (technicians) and higher-level (certified accountants/engineers) professionals is a constraint for the development of professional services markets in those countries. In South Africa and Kenya, although the

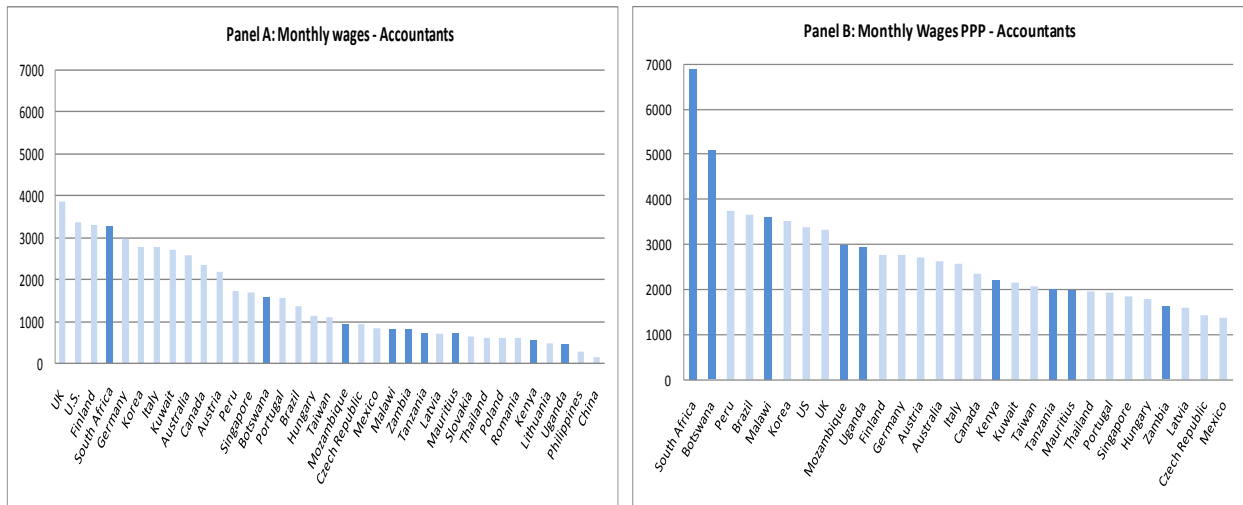
absolute numbers of professionals are large, the needs from their growing and increasingly sophisticated economies are also large. Hence, the countries suffer from acute shortages of chartered accountants, auditors, and engineers. In Mauritius, accountants seem to be in adequate supply but engineers not so much. Thus, African countries have different priorities in terms of the formation of specialized professionals or the potential attraction of skills from abroad.

In terms of sector-specific differences, shortages seem more severe in accounting and engineering in all examined African countries. Two additional trends related to the attrition of those types of skills are worrying: the declining number of applicants for science, engineering and technology courses, and the relatively high number of engineering graduates who do not enter the profession after completion of training for example in Mozambique. These trends are explained by the general erosion of mathematical skills in all countries so that increasingly more candidates with science background opt to study and practice commerce, law or other non-science disciplines. The inability of students to acquire certain degrees due to poor secondary education is an issue that needs to be addressed in all countries. Across Eastern and Southern Africa, lawyers are generally believed to even be in adequate (or in some cases in excess) supply, but lawyers with particular specializations - often unavailable for study in the region - or with high experience levels are in shortage.

2.2. Wages of professionals

Professionals in most African countries receive low nominal wages relative to their counterparts in middle-income and developed countries as shown by Panel A of Figures 2.4 and 2.5. But once their wages are adjusted for purchasing power, Panel B shows that professionals in South Africa, Botswana, Malawi, Mozambique, and Uganda are comparatively well paid.

Figure 2.4: Monthly Wages – Accounting Professionals

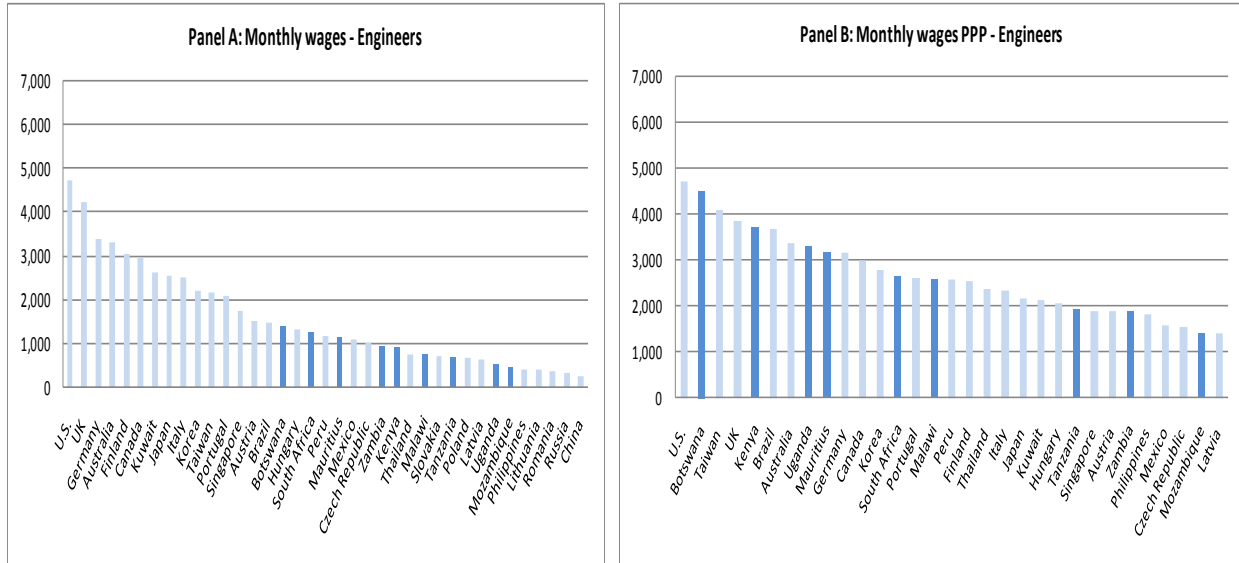


Source: World Salaries and World Bank Survey of Providers of Professional Services in Africa, 2009 and 2010.

Note: Average monthly wages are in 2005 USD in Panel A and in international USD (purchasing power parity USD) in Panel B.

Figures 2.4 and 2.5 suggest that the returns to accounting and engineering professional degrees in Africa are substantial, reflecting the scarcity of those professionals in the region. A more severe scarcity of engineers than accountants in Kenya, Mauritius and Zambia is reflected by the earnings differential between those two types of professionals (compare Panel A across Figures 2.4 and 2.5 and Panel B across Figures 2.4 and 2.5).

Figure 2.5: Monthly Wages – Engineering Professionals



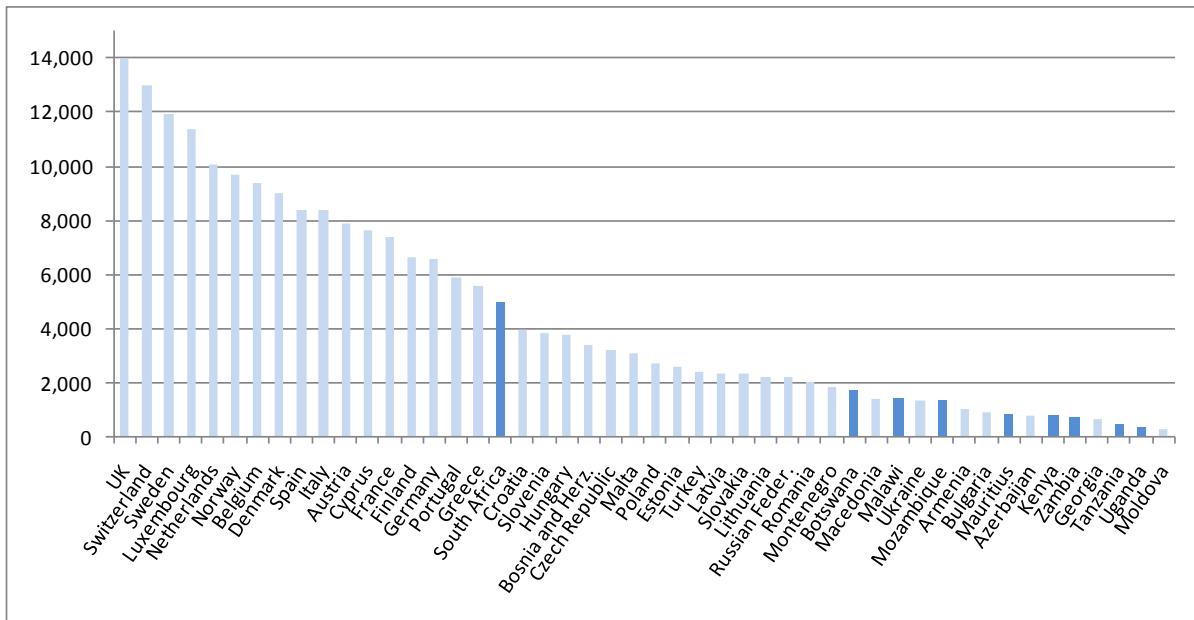
Source: World Salaries and World Bank Survey of Providers of Professional Services in Africa, 2009 and 2010.

Note: The average monthly wages are in 2005 USD in Panel A and in international USD (purchasing power parity USD) in Panel B.

While wage data for lawyers is not available across countries, we can shed some light on the cross-country earnings of legal professionals using data from the European Commission for the Efficiency of Justice (CEPEJ) on the gross salary of a first instance judge at the beginning of his/her career, the gross salary of a judge of Supreme Court or of the highest appellate court, the gross salary of the prosecutor at the beginning of his/her career, and the gross annual salary of a public prosecutor of the Supreme Court or of the highest appellate court for European countries and data from the World Bank Surveys of Professional Services Providers in Eastern and Southern Africa.⁵ While results in Figure 2.6 should be interpreted with care given the different categories of professionals examined in Africa versus other countries, we can nevertheless conclude that Southern African lawyers' nominal wages are significantly lower than those received by legal professionals in many transition economies, but are higher than those received by East African lawyers.

⁵ Note that the salaries of legal professionals working in public office may underestimate the salaries of lawyers in private practice.

Figure 2.6: Monthly Wages - Lawyers and Legal Professionals



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

Note: Average monthly wages are in 2006 USD.

2.3. Limited availability of middle-level professionals

Middle-level professionals which can provide services to under-served client segments and produce large economic gains are a category of professionals sometimes underappreciated. For example, accounting technicians can provide basic recordkeeping services needed by SMEs. Paralegals engage with clients on a variety of complex law-related tasks, including working with lawyers on criminal justice cases, advising clients on law-related issues, and mediating commercial disputes between parties. Indeed, there is a growing role for paralegals in the criminal justice space in Africa.

Statistics on the availability of accounting and engineering technicians, and paralegals in Africa are limited, often due to the absence of a regulatory framework for these middle-level professionals. The existing data tends to suggest that - with the exception of accounting technicians in Kenya - East Africa is facing a middle-level skills vacuum. Southern Africa is somewhat better endowed with middle-level professionals but still they account generally for only half the total number of professionals in a given sector.

Some successful initiatives have encouraged the education, training, and development of middle-level professionals. The Paralegal Advisory Service in Malawi is an innovative program that offers paralegal aid in criminal cases and has so far trained 38 paralegals. Candidates receive training from NGOs working in partnership with key stakeholders including Malawi Prisons, Police Services, and the court system. The paralegals are then able to work with these same institutions, making the arrangement beneficial for both sides. The program has been so successful that the organization is being transformed into the Paralegal Advisory Services

Institute and is introducing similar programs throughout the region and even further abroad in Bangladesh.

2.4. Skills mismatches

Skills mismatches at technician and skilled professional levels are a serious issue across professions in all African countries. For example, accounting associations in Tanzania and Kenya report that there are jobless accountants despite high demand for qualified accountants. Potential explanations include the absence of links between the education system, labor market and professional associations. Consultations with accounting sector stakeholders in Mozambique revealed that multinational auditing and accounting firms face shortages of (i) entry-level accounting and auditing professionals despite many applications as most applicants do not have the requisite training quality (Fernandes and Mattoo, 2009) and (ii) of senior-level local professionals that could monitor the quality of financial reporting (World Bank, 2008). In Malawi, public and private sector stakeholders indicated that the country suffers from significant skills mismatches in accounting. Therefore, despite high demand for accounting professionals, there are many unemployed accountants in Malawi. In South Africa, mismatches in accounting result from private sector firms hiring chartered accountants (CA) registered with the South African Institute of Chartered Accountants (SAICA) because of their perceived quality for work that could be performed by less highly qualified accountants.

Consultations with legal practitioners in Botswana revealed a large number of practitioners in the country but not enough practitioners with specialized skills. Commercial lawyers, tax lawyers, private equity lawyers, banking lawyers, and stock exchange legislation drafters are in shortage. The same scenario emerges in Mozambique where tax lawyers are in acute shortage.

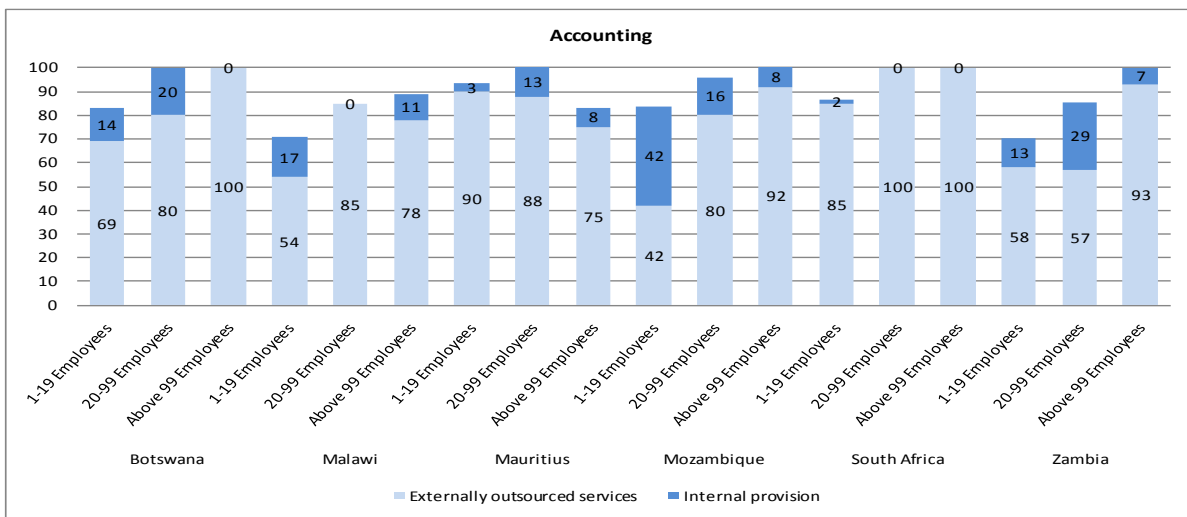
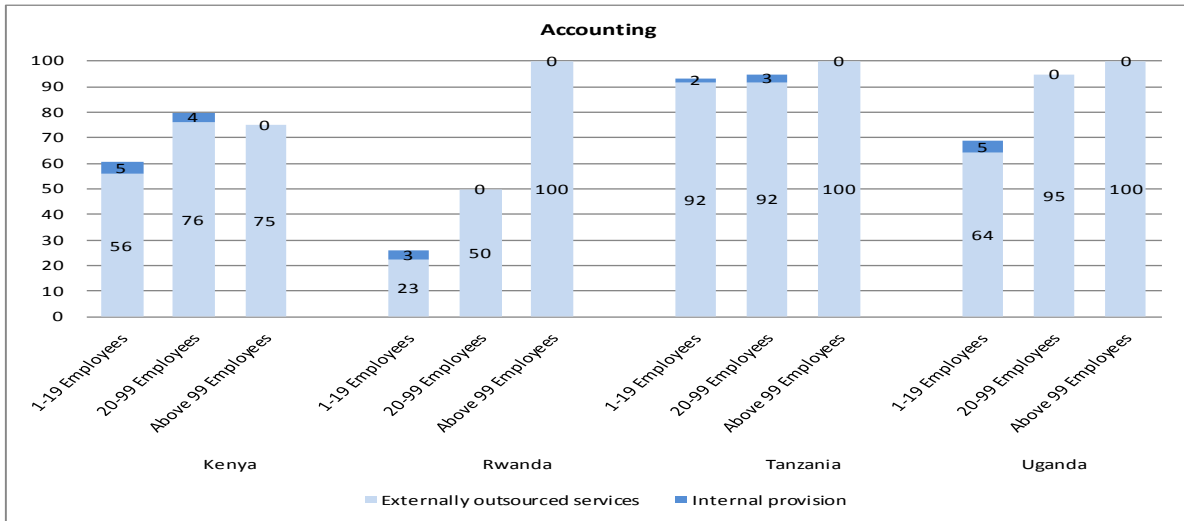
3. Demand for professional services and market structures in Eastern and Southern Africa

3.1. High demand for professional services

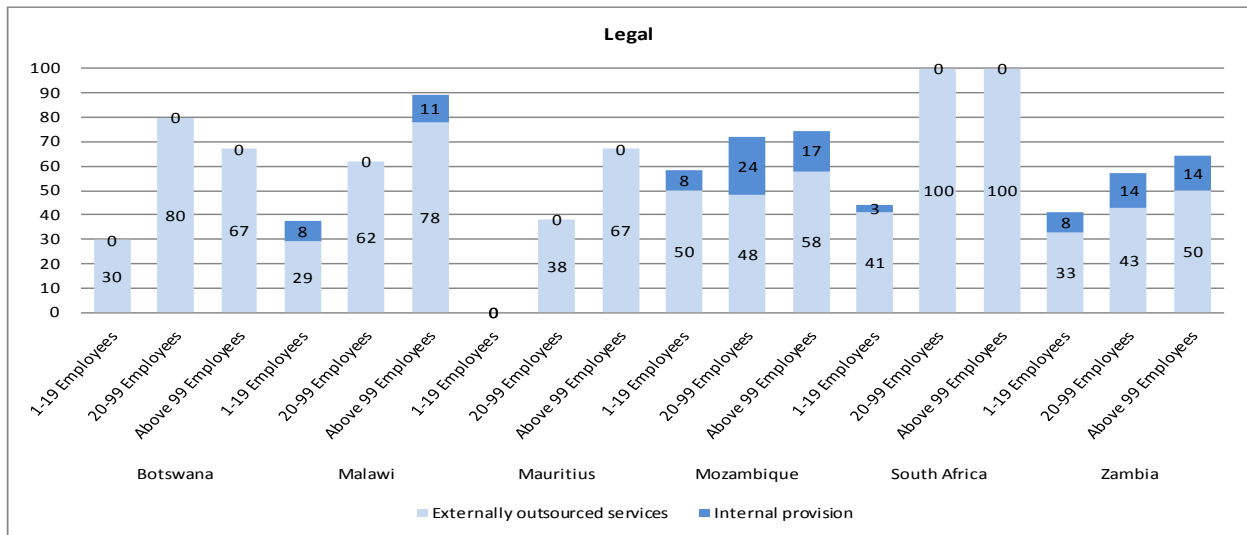
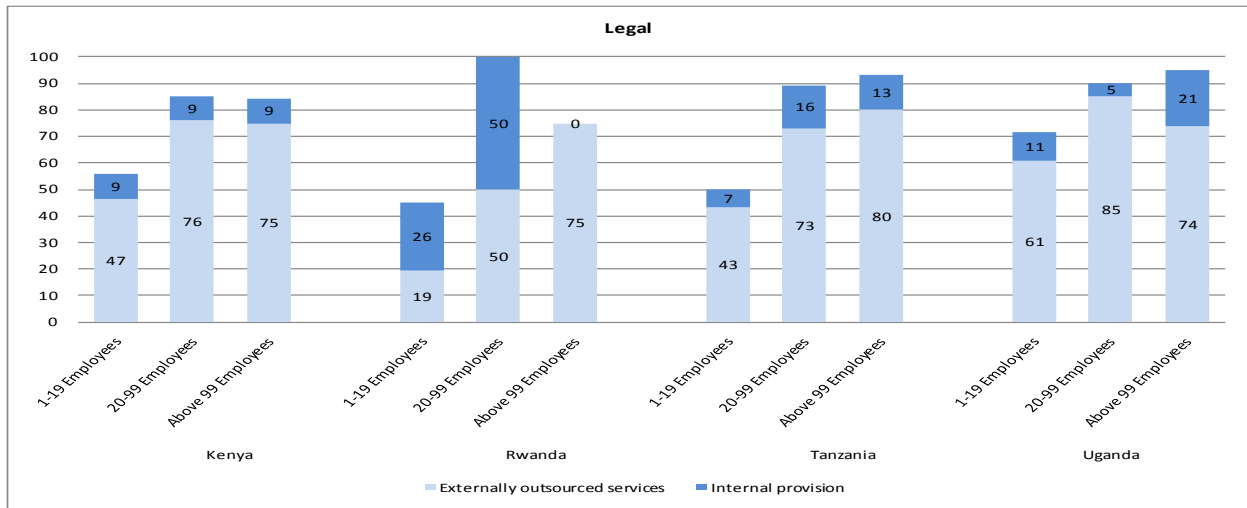
The evidence in Figure 3.1 shows that usage of externally outsourced accounting, engineering and legal services is highest for large firms in all countries. But interestingly, usage of professional services by small firms is not negligible: except for Rwanda and Mozambique, more than 50% of small firms in Eastern and Southern Africa use accounting services. The usage of externally outsourced legal services is however much less prevalent among small firms, and the same is generally true for engineering services.

The high rate of usage of accounting and to a lesser extent engineering services across firms of all sizes may appear surprising given the relatively low level of sophistication of the African economies (with the exception of South Africa). This high rate of usage may be explained to some extent by sample issues. Despite a careful consideration of representative samples of firms across sectors in each of the countries for our surveys, the majority of firms surveyed were located in the capital or second major city of each country and all are formal which may overestimate somewhat the degree of services usage.

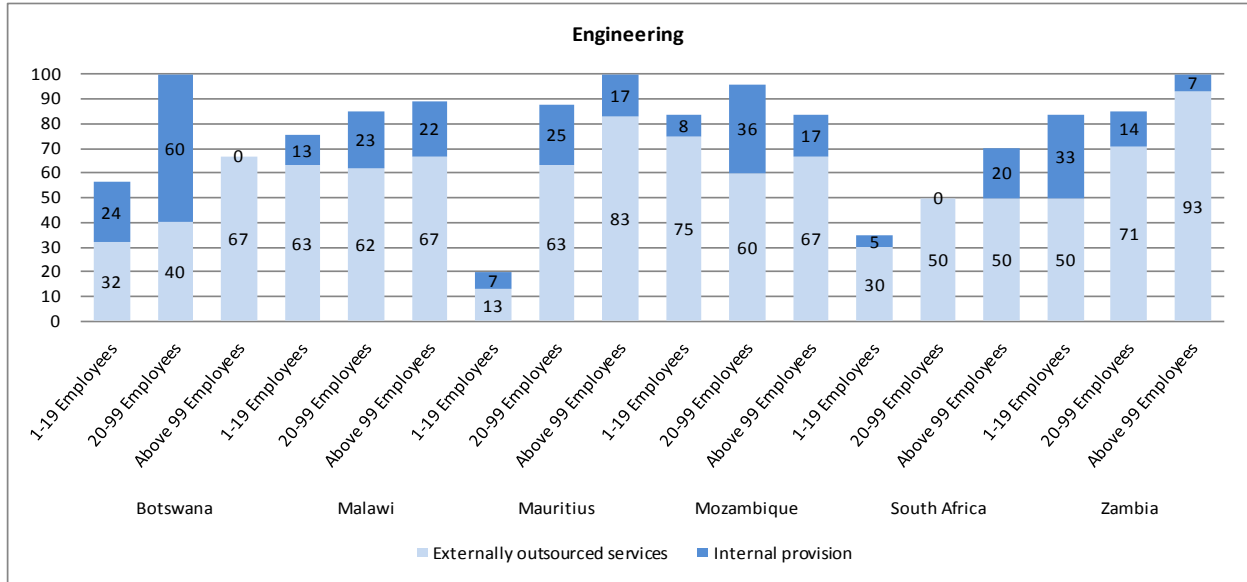
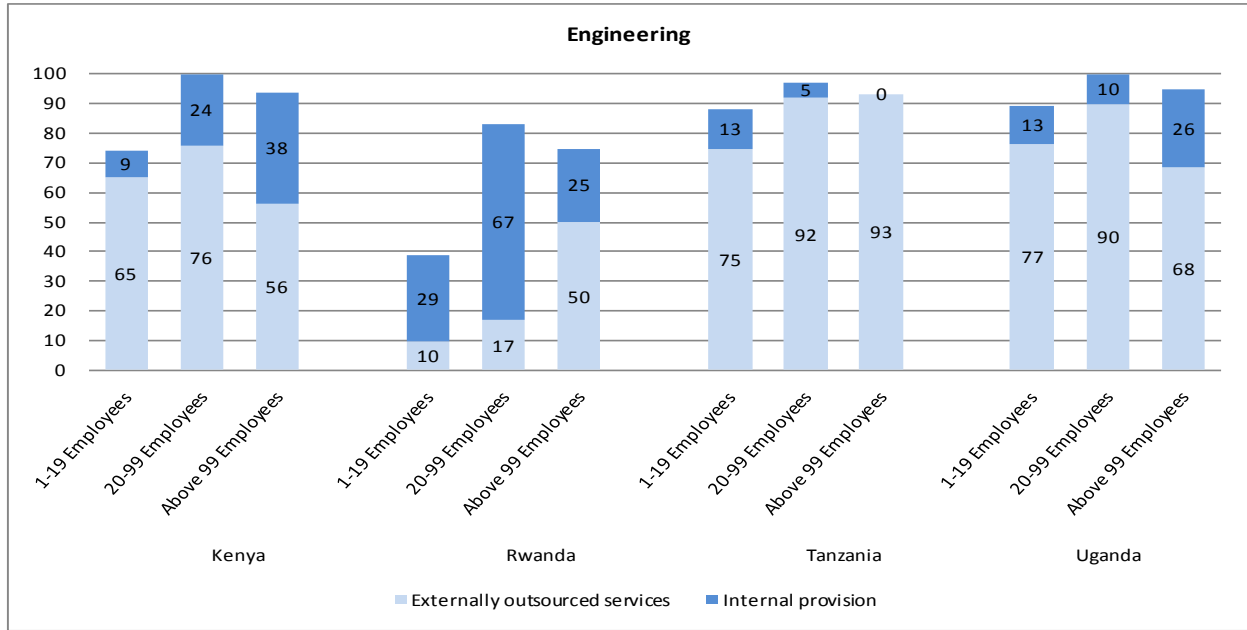
Figure 3.1: Usage of Professional Services by Firm Size
Panel A: Accounting Services



Panel B: Legal Services



Panel C: Engineering Services



Source: World Bank Surveys of Users of Professional Services in Africa, 2009, and 2010.

We observe an inverted U-shape relationship between the degree of external usage of professional services and firm size in Eastern Africa except Rwanda. The external usage of professional services increases with size until a certain point, after which firms choose a more selective outsourcing strategy of professional tasks. This is documented by the decrease in external usage of professional services for large firms relative to medium firms combined with an increase in in-house provision of professional tasks revealed by the relatively higher number of professionals employed by large firms. In Southern Africa, there is a monotonically increasing relationship between the degree of external usage of professional services and firm size. This

finding confirms anecdotal evidence that prices of professional services are prohibitive for many SMEs in the region.

3.2. Market structures with elements of oligopoly and competition

On the supply side, accounting and auditing services are dominated by establishments of the Big Four multinationals in all African countries. Despite this dominance, in Kenya several local mid-level accounting firms which have entered into partnerships with global networks continue to win contracts from the Big Four. However, accounting and auditing markets remain heavily fragmented at the bottom.

The legal sector in Africa is dominated by domestic providers, often individual practitioners and small firms. The worldwide consolidation trend experienced by many developed and middle-income economies that resulted in a growing number of large multinational law firms with vast international networks is not observable in Africa.

Engineering is dominated by local practices, highly fragmented in terms of organization, size, business culture and management across African countries. The combined capacity of firms, though large, is too scattered to meet demand for large engineering projects. But in Mozambique and South Africa the market structure is closer to that in accounting, i.e., a small number of large firms dominate the markets. In South Africa, industry consolidation is a recent trend in consulting engineering where large firms play an increasingly dominant role.

4. Explaining skills shortages, skills mismatches, and underdevelopment of professional services in Eastern and Southern Africa

4.1. Education issues

Access to professional education is a challenge in all African countries since education is very expensive. While skill premia are evident and the internal rate of return to education is high in all countries, the average cost to acquire a professional education in Table 4.1 being higher than USD 22,000 makes professional qualification unaffordable for the majority of the population in the African countries.

Table 4.1 shows that in Eastern Africa, the most expensive profession for which to study is law, followed by accounting, then engineering and the most expensive country in which to study is Uganda, followed by Kenya, Rwanda, and Tanzania. In Southern Africa, the most expensive profession for which to study is accounting, followed by engineering, then law, and the most expensive country in which to study is South Africa, followed by Botswana, Mauritius, Malawi, Zambia, and Mozambique.

Table 4.1: Costs and Internal Rates of Return of Professional Degrees

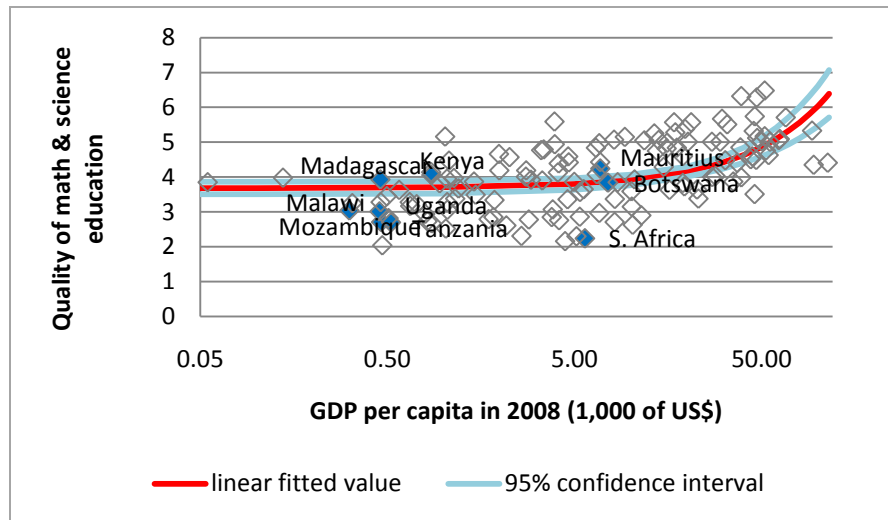
	Profession	Years of Education	Total Costs (USD)	Average Costs per Year of Educ. (USD)	Net Present Value of Earnings (USD)	Internal Rate of Return (%)
Kenya	Lawyer (low)	6	8546	1424	36880	48%
	Lawyer (high)	6	19645	3274	25781	25%
	Accountant (low)	5	6538	1308	38572	69%
	Accountant (high)	5	17298	3460	27811	29%
	Engineer (low)	4	6086	1521	72508	81%
	Engineer (high)	4	17501	4375	61093	35%
Rwanda	Lawyer	10	27992	2799
	Accountant	8	12786	1598
	Engineer (low)	6	16840	2807
	Engineer (high)	6	18188	3031
Uganda	Lawyer (low)	5	15278	3056	41726	21%
	Lawyer (high)	5	17731	3546	39274	18%
	Accountant (low)	6	17253	2875	61083	22%
	Accountant (high)	8	23759	2970	54281	17%
	Engineer (low)	4	12385	3096	75620	33%
	Engineer (high)	4	17025	4256	70979	26%
Tanzania	Lawyer	6	13438	2240	29450	22%
	Accountant (low)	6	10760	1793	49372	35%
	Accountant (high)	6	13401	2234	46730	30%
	Engineer	10	10779	1078	54732	35%
Botswana	Lawyer	5	20904	4181	305593	65%
	Accountant	4	42005	7001	298004	30%
	Engineer	5	40499	8100	252664	35%
Malawi	Lawyer (pub)	4	14933	3733	261974	42%
	Lawyer (priv)	4	19630	4907	257277	34%
	Accountant (pub)	4	15507	3877	163262	22%
	Accountant (priv)	4	23486	5871	155284	18%
	Engineer (pub)	5	10404	2081	121328	50%
	Engineer (priv)	5	14227	2845	117505	38%
Mauritius	Lawyer	4	33815	8454	163318	24%
	Accountant	5	43025	8605	129408	16%
	Engineer	3	28835	9612	271290	39%
Mozambique	Lawyer (pub)	4	3648	912	302572	155%
	Lawyer (priv)	4	14576	3644	291644	51%
	Accountant (pub)	4	3295	824	238607	112%
	Accountant (priv)	4	12259	3065	229643	37%
	Engineer (pub)	4	3351	838	111426	155%
	Engineer (priv)	4	12321	3080	102455	45%
South Africa	Lawyer (pub)	4	37900	9475	844671	79%
	Lawyer (priv)	4	39360	9840	842250	75%
	Accountant (pub)	4	37949	9487	569627	47%
	Accountant (priv)	4	40370	10092	567206	45%
	Engineer (pub)	4	32434	8108	196064	30%
	Engineer (priv)	4	35845	8961	192652	28%
Zambia	Lawyer (pub)	5	7731	1546	144285	78%
	Lawyer (priv)	4	20564	5141	131452	34%
	Accountant (pub)	5	6647	1329	183164	107%
	Engineer (pub)	5	5793	1159	217812	153%

Source: World Bank Surveys on Costs of Obtaining Professional Degrees and Qualifications in Africa, 2009, and 2010.

Notes: Total costs and average costs are in current USD or present value (PV). The net present value of earnings is PV of lifetime earnings minus the PV of educational costs. World Bank (2010b) provides details on the calculations.

Weaknesses in upstream secondary education limit the ability of African students to acquire professional skills, particularly in engineering. The insufficient number of applicants for science, engineering and technology courses can be explained by the general erosion of mathematical skills – depicted in Figure 4.1 – so that increasingly candidates with a science background opt to study and practice commerce, law or other non-science disciplines. South Africa performs particularly poorly on this indicator.

Figure 4.1: Quality of Math & Science Education



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

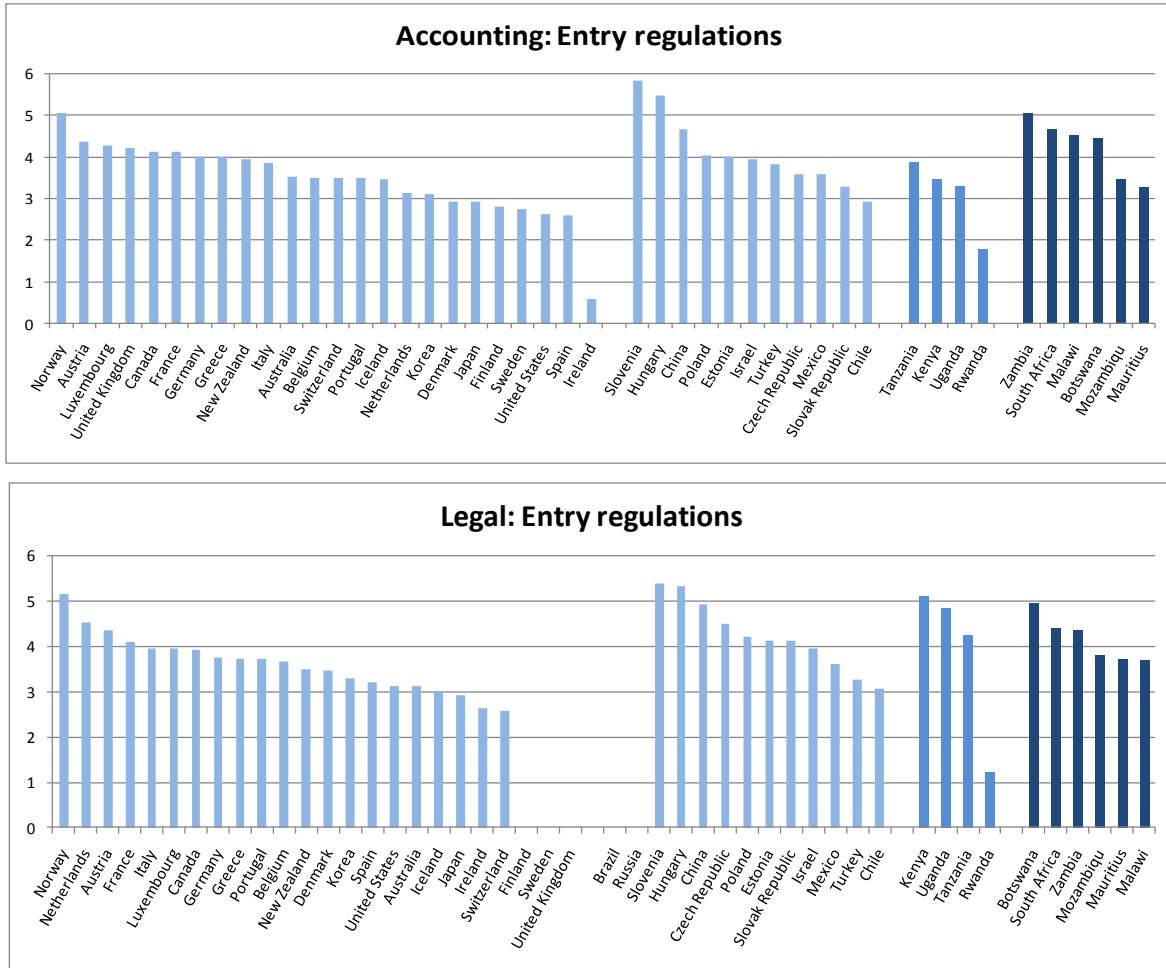
Tertiary education and professional training are central means by which professionals equip themselves with the necessary skills. Professional education institutions in Eastern and Southern Africa suffer from *limitations in the capacity – in terms of physical capacity and professors – and quality* particularly in accounting and engineering. Moreover, the absence of institutions that offer specialized (post-graduate) courses was noted in several countries as an important obstacle to the production of professionals with market-relevant skills, as was the absence of institutions offering academic and professional training courses for middle-level professionals (e.g., paralegals). For example, the absence of courses on banking, private equity and stock exchange legislation was noted in Botswana. Also, the absence of courses in aeronautical and roads engineering are a possible cause for the identified skills mismatches in several African countries. Outdated labs and teaching methods in existing universities – especially in engineering – constitute an additional explanation for skills mismatches.

4.2 Domestic regulation

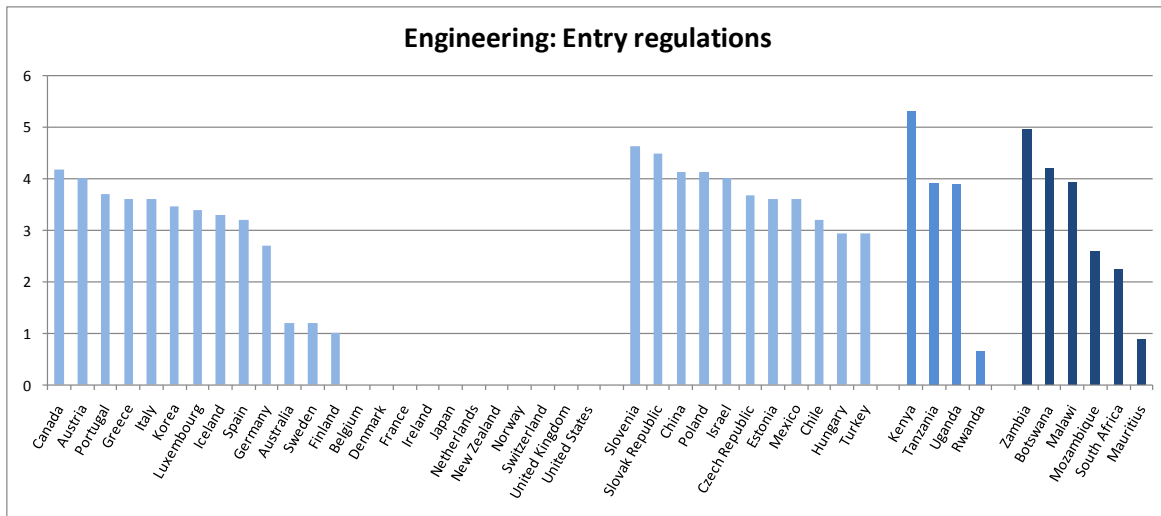
Figure 4.2 shows that entry restrictions are common across countries in accounting and legal services, while large cross-country differences in regulation levels are evident in engineering

services.⁶ In Eastern and Southern Africa, entry regulation is significant in all professional services sectors.

Figure 4.2: Entry Regulations in Professional Services



⁶ The indices shown in Figures 4.2 and 4.3 convert qualitative information on regulatory conditions into quantitative indicators for each sector using the OECD (2006) method. Entry regulations include barriers to becoming a member of a profession taking the form of licensing and educational requirements, quantitative limits on the number of suppliers of professional services, and/or exclusive rights granted to suppliers in certain activities. Conduct/operation regulations include restrictions on prices and fees, advertising, form of business, and inter-professional cooperation. The qualitative information originates in our regulatory surveys and the services policy surveys of Borchert et al. (2010), as described in the Annex. While the figures cover only highly skilled professionals, the text describes the regulatory stance for middle-level professionals where relevant.



Source: OECD Regulatory Database on Professional Services and World Bank Regulatory Surveys in Africa, 2009 and 2010.

Notes: A higher value of the index indicates a more stringent regulation. For countries with no bars the index is equal to 0.

The three professions are subject to qualitative entry requirements related to education and qualifications that do not vary significantly across African countries. The education requirements for highly skilled professionals consist of university degrees, the exceptions being accountants in Botswana, Kenya, Malawi, Mauritius, Uganda and Zambia where a high school degree is sufficient (to be complemented by professional qualifications such as ACCA). Additional post-graduate specialized courses are required in legal services in Kenya, Mauritius, Tanzania, Uganda and Zambia. The required education needs to be supplemented with practical training of varying duration in most professions and countries before a professional examination can be completed. Exceptions to this training requirement are found in accounting in Malawi and Mozambique and in engineering in Botswana, Rwanda and Uganda.

Other qualitative entry requirements are present in most African countries. Membership in the relevant professional association is mandatory in accounting and legal services. Compulsory licensing is a must in accounting in all countries but in legal services Mauritius and South Africa do not require licensing. In engineering, licensing requirements are also absent in South Africa, Botswana and Rwanda, in the last two countries because engineering boards have not been established. Continuing education is an obligation for accountants in all countries except Mozambique, for lawyers only in Kenya, Tanzania and Uganda, and for engineers only in South Africa and Zambia.

The regulation of middle-level professionals is much more heterogeneous across African countries. For example, the regulatory spectrum for engineering technicians ranges from total absence of entry requirements in Botswana and Rwanda to requirements to pass a professional exam, undertake compulsory training, and engage in continuing professional development in South Africa and Tanzania.

Public interest theories (e.g., Joskow and Noll, 1994) argue that qualitative regulations on entry are necessary to guarantee high-quality services and avoid adverse selection. But private interest theories (e.g., Stigler, 1971; Posner, 1974) point out the risk that qualitative regulations may be

disproportionate as a result of excessive entry requirements set by rent-seeking professionals and professional associations. Moreover, if the profession gains monopoly over the organization of the required training, the education of needed professionals may be limited.

It is difficult to determine whether the qualitative requirements in the African countries are disproportionate. Restrictive qualitative requirements taking the form of restrictions on access to the profession, mainly due to the monopoly of professional associations over training institutions, were identified in legal services in Kenya and Zambia. The higher education institutions that provide the required law degrees are controlled by the professional associations which restrict the number of students. The Kenya School of Law, through which all legal professionals must pass, has a limited capacity of 600 students per year. The Zambia Institute of Advanced Legal Education is the only institution providing the post-graduate one-year course necessary for domestic and foreign candidates to become licensed lawyers in Zambia.

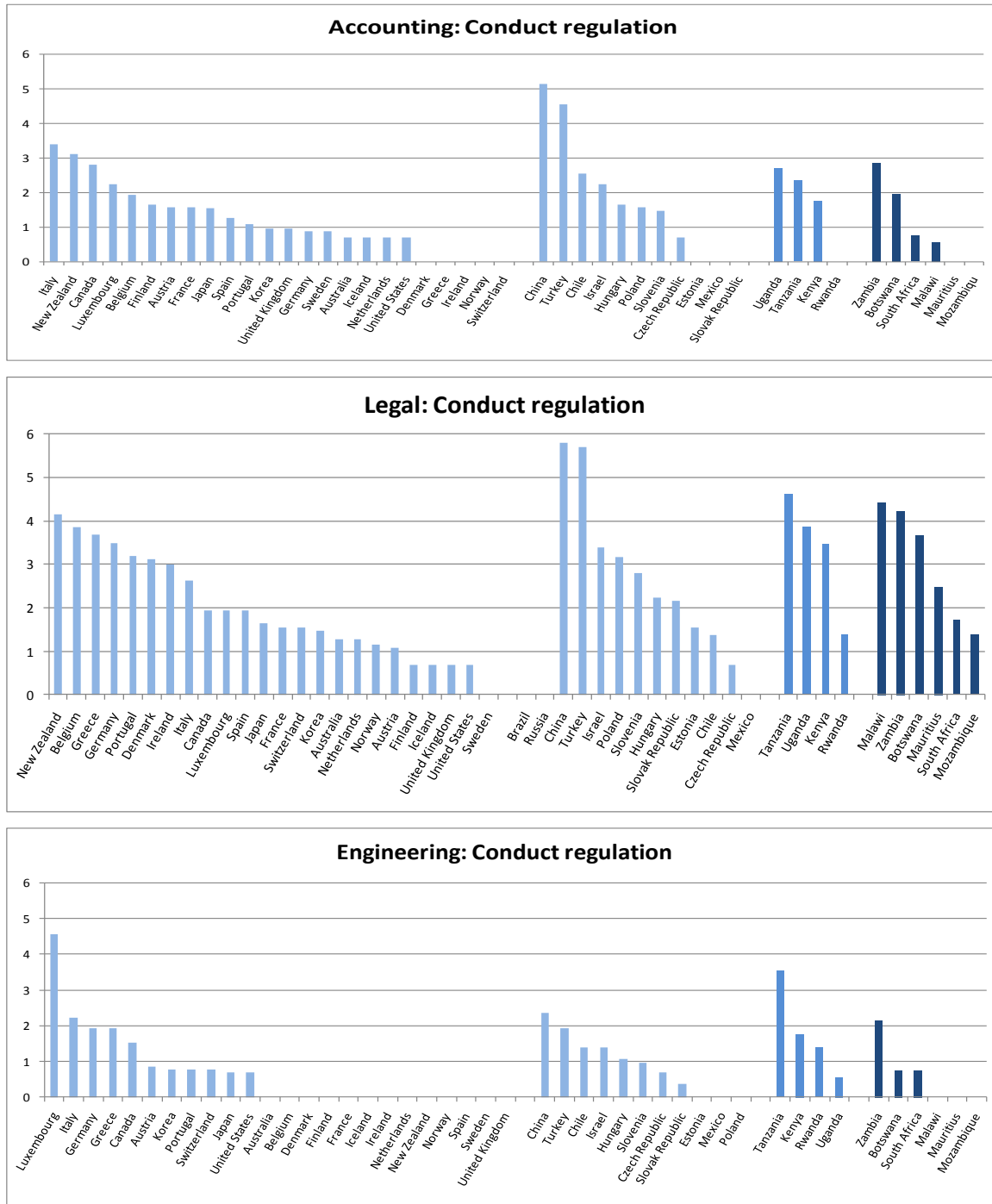
Qualitative entry requirements can thus limit the number of professionals and services available. This may be especially the case when entry restrictions are combined with exclusive tasks for the regulated profession (OECD, 2007).

Highly skilled professionals in all sectors and countries have exclusive rights to perform certain activities: auditing for accountants, representation of clients before courts, advice on legal matters for lawyers, feasibility studies, design and planning for engineers. The scope of exclusive activities is wider in accounting and legal services. In most African countries, qualified accounting professionals (often auditors) enjoy exclusive rights to conduct statutory audits, public sector audits, and in certain cases non-statutory audits, that is 2 or 3 out of 13 possible activities. The scope of exclusive activities reserved to accountants in Southern Africa is narrower than that observed in most developed and developing countries but higher than in most East African countries. In contrast, the number of activities reserved to legal professionals is higher, ranging from 3 to 9 out of a total of 10 activities, in line with the numbers in other countries. The scope of exclusive activities in engineering services in Southern Africa is lower than that in Eastern Africa and other developing countries, but wider than that in developed countries.

The argument in favor of exclusive rights is that they can lead to increased specialization of professionals and guarantee a higher service quality. But negative price and allocation effects of exclusive rights which act as monopolies can be substantial, especially if they are granted for standardized services that can be provided at lower cost by less-regulated or non-regulated providers.

Figure 4.3 shows that the regulation affecting conduct/operations of legal and engineering providers in Eastern and Southern Africa is heavier than in most other countries. This evidence is explained by price regulations, advertising prohibitions, restrictions on firms' business structure and on multidisciplinary activities.

Figure 4.3: Conduct Regulation in Professional Services



Source: OECD Regulatory Database on Professional Services and World Bank Regulatory Surveys in Africa, 2009 and 2010.

Notes: A higher value of the index indicates a more stringent regulation. For countries with no bars the index is equal to 0.

In accounting and engineering, professional services' fees tend to be negotiated freely between practitioners and clients across African countries but accountancy fees are regulated in Zambia and engineering fees are regulated in Botswana, South Africa, Tanzania and Zambia. As opposed

to most developed countries, legal services' fees are regulated in all African countries except Mozambique and Rwanda. Price regulations are supported and introduced by national professional associations who claim they are useful tools to prevent adverse selection problems. But such regulatory instruments can have a potentially detrimental effect on competition, by eliminating or seriously reducing the benefits that competitive markets deliver for consumers (Love and Stephen, 1996). It is generally accepted that less restrictive mechanisms such as better information on the services provided could be put in place.

Several professional services in Eastern and Southern Africa are subject to advertising prohibitions: accounting in Botswana, Kenya, Tanzania and Uganda, legal in Botswana, Kenya, Malawi, Mozambique, Rwanda, Tanzania, Uganda and Zambia, and engineering in Tanzania and Zambia. In general, African countries impose more severe regulations on advertising than most developed and developing countries. Public interest theories justify advertising restrictions by the need to protect consumers. But private interest theories maintain that there is no justification for prohibiting advertising that is relevant, truthful, and not misleading (Stigler, 1961). Rather, advertising facilitates competition by informing consumers about different products and allowing them to make better-informed purchase decisions. Comparative advertising in particular can be a crucial competitive tool for new firms entering a market.

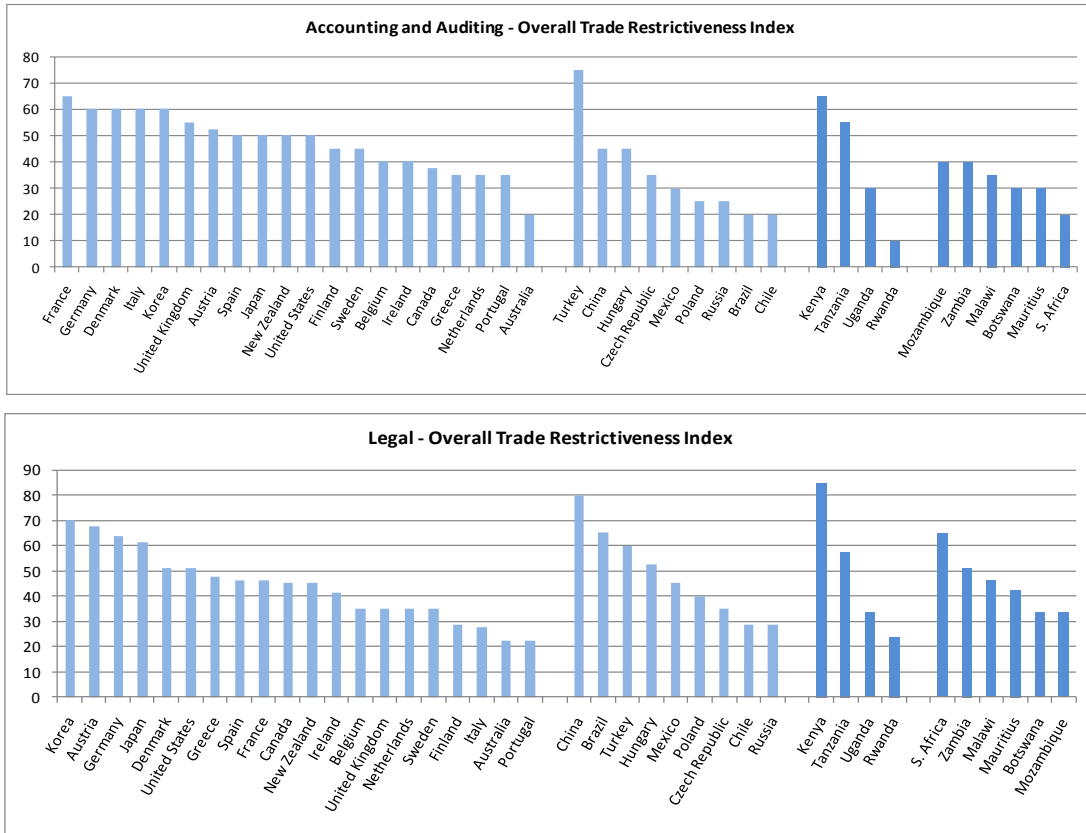
Restrictions on the business structure permitted are present in all professional services in most African countries. These regulations restrict the ownership structure of professional services companies, the scope for collaboration within the profession and with other professions and the opening of branches, franchises, or chains. To justify these regulations, professional associations argue that professionals are more likely to give independent advice if certain forms of intra-professional partnerships are prohibited, while restrictions on multidisciplinary activities prevent potential conflicts of interests in the detriment of consumers. But private interest theories stress that these regulations are clearly anticompetitive and may harm consumers by preventing providers from developing new services or cost-efficient business models.⁷ For example, these regulations might prevent lawyers and accountants from providing integrated legal and accountancy advice for tax issues. In general, restrictions on collaboration between members of the same profession seem to be less justifiable than restrictions on collaboration between members of different professions where there is a need to protect the independence and liability of professionals.

4.3. Trade barriers

Figure 4.4 shows that trade in legal services tends to be more heavily regulated and restricted than trade in accounting/auditing services in Africa and elsewhere. Kenya, South Africa, Tanzania and Zambia are characterized by more severe restrictions on trade in legal services than most countries in the sample. In contrast, South Africa and Rwanda have some of the least restrictive trade policies in accounting/auditing services.

⁷ See OECD (2007) on the impact of regulations affecting business organization and multidisciplinary practices in legal markets.

Figure 4.4. Overall STRI in Professional Services



Source: Borchert, Gootiiz, and Mattoo (2010).
 Note: a larger index value indicates a more restrictive trade policy.

Considering separately the restrictiveness of trade across mode 3 and mode 4 of supply of professional services, some interesting differences are identified in Figure 4.5. The establishment of foreign law firms (mode 3) is substantially more difficult than that of foreign accounting/auditing firms in Africa, but also elsewhere. However, Botswana, Mozambique, Rwanda and Uganda exhibit the most open markets to the presence of foreign law firms across the sample. Also, the restrictions imposed on foreign accounting/auditing firms who want to establish a commercial presence in South Africa, Malawi, Rwanda or Uganda are lower than those in many OECD countries.

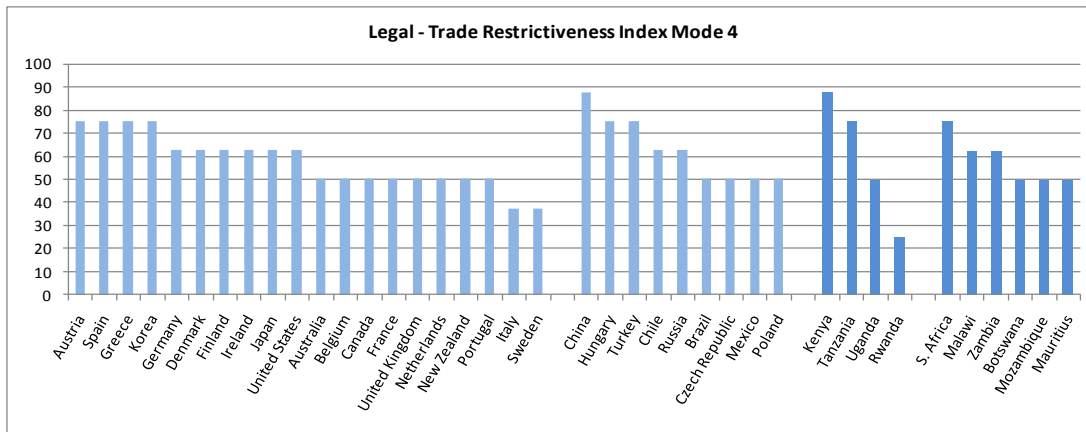
The entry of foreign law firms is simply not permitted in South Africa while ownership by non-locally-licensed professionals is prohibited in Zambia and limited in Mozambique. In Mauritius entry is allowed only if the foreign law firm sets up a joint venture with a local firm, while in Malawi branches are not allowed. Local members of international networks face restrictions on using the network’s brand name or the foreign parent’s name in Botswana, Kenya, Tanzania and Uganda.

In accounting and auditing, the establishment of foreign firms is permitted in all countries but with restrictions. Kenya, Tanzania, Malawi, Mauritius, Mozambique, and Zambia prohibit ownership or control by non-locally licensed professionals. In Kenya, Uganda and even the more liberal Rwanda, branches of foreign firms are prohibited. In Tanzania, ownership by foreign

nationals is limited to 50%. Botswana and Tanzania impose restrictions on the use of the foreign parent firm name.

Figure 4.5: STRI in Professional Services by Mode of Supply





Source: Borchert, Gootiiz, and Mattoo (2010).

Figure 4.5 also shows that the movement of natural persons (mode 4) is substantially more restricted for legal professionals than for accounting/auditing professionals in Kenya, Tanzania, South Africa, Malawi, and Zambia. Those countries impose some of the most restrictive barriers to the practice of foreign lawyers in their jurisdictions, only equaled by the barriers imposed by China. For foreign accountants/auditors, Mauritius and Rwanda exhibit the most liberal trade policies of the sample.

In Kenya, Tanzania, Malawi, Mauritius, Mozambique and South Africa, de jure or de facto nationality requirements to practice domestic law exclude participation by foreign professionals. Kenya, Malawi and Mauritius do, however, make an exception for citizens of East African, Commonwealth, and common law countries. In Botswana and Zambia, foreign-licensed lawyers can advise on domestic law subject to residence and education requirements and discretionary limits (e.g., labor market and economic needs tests). In Kenya, Tanzania and Uganda and across Southern Africa foreign-licensed lawyers can advise on foreign law subject to discretionary limits.

The entry of foreign accountants is less restricted across African countries. Foreign-licensed accountants can practice in most countries if they are members of certain professional accountancy organizations (e.g., Scotland, England and Wales, Ireland, the US, Canada, Australia, New Zealand, Hong Kong, Namibia, Swaziland and Zimbabwe) and they pass additional examinations in Kenya, South Africa and Zambia, and/or demonstrate that they have practical experience in Mauritius, Mozambique and Zambia. Except for Mauritius, all African countries impose discretionary limits on the presence of foreign accounting professionals.

Entry conditions through mode 3 and mode 4 are much more liberal for engineering. The establishment of foreign engineering firms is not prohibited in any African country and the form of entry is not restricted. Foreign engineers wishing to practice in Africa face no nationality requirements although Botswana, Malawi and Mozambique impose residency requirements. Rwanda, Uganda and all Southern African countries automatically recognize academic and professional qualifications obtained in other jurisdictions, and all other African countries (except Malawi) recognize licenses obtained in other jurisdictions.

In terms of immigration policies, Eastern and Southern African countries apply stringent regulations to the movement of skilled workers into and out of their borders. In South Africa, the difficulties in obtaining work permits lead many international firms to set up partnerships with local firms instead of setting up commercial presence in the country (Black et al., 2006). The immigration law of 2007 in Mozambique is very restrictive and makes hiring foreign workers extremely difficult.

Considering the severity of entry and conduct regulations in professional services along the severity of trade barriers and immigration policies in Eastern and Southern Africa some points emerge:

- Legal services are the most heavily regulated professional service in terms of entry and conduct, followed by accountancy, then engineering in Southern Africa and in non-African countries. In East Africa, engineering services tend to be more heavily regulated than accountancy services. Explicit trade barriers in terms of mode 3 or mode 4 of supply are also more restrictive for legal services than accounting services.
- The most frequent cumulative and disproportionate domestic entry restrictions are the monopoly of the professional association over the higher education institution that provides the necessary degree combined with exclusive rights (in legal services).
- Several inappropriate conduct regulation measures are noteworthy: (i) fixed fees in legal and engineering services (even if the latter are non-binding); (ii) advertising prohibitions in legal services; and (iii) restrictions on forms of practice and multidisciplinary activities in accounting and legal services. Other restrictive regulatory measures include the unavailability or limited applicability of competition law to professional services, inadequate standards that prevent the emergence of middle-level professionals, uniform standards applicable to SMEs and large companies in accounting and auditing services (e.g., compliance difficulties with IFRS), inefficiencies related to duplication of education and training determined by non-recognition or partial recognition of professional credentials and licenses.
- Regarding trade barriers, the legal sector remains largely closed to foreign participation concerning domestic law and legal representation in court. Nationality requirements which ban foreign entry are imposed by several countries on providers of legal services. Economic needs tests or labor market tests are applied by several countries in accounting and legal services. Restrictions on the entry of foreign accounting and law firms exist in all countries in various forms (foreign ownership limits or restrictions on the form of entry). All these measures reduce the number of service providers thus the availability of services provided and consumer choice.
- Kenya, Tanzania, Zambia and Botswana impose significant entry and conduct restrictions in all professional services. Zambia also imposes significant explicit trade barriers to accounting/auditing and legal services. Mauritius and Rwanda impose the lightest regulation in accounting and engineering services domestically but also in terms of explicit trade barriers. South Africa's engineering and legal services are less heavily regulated domestically than engineering and legal services in other African countries (though legal services are more

regulated than in non-African countries). In contrast, South Africa’s explicit trade barriers on legal services are very high from a cross-country perspective.

4.4. Segmentation of regional markets for professional services in Africa

Data on the presence of foreign professionals in Eastern and Southern Africa is scarce. Table 4.2 shows that in Kenya, Malawi, Tanzania, Uganda, and Zambia foreign accounting professionals represent less than 10 percent of the total, but the share is high in Botswana, Mozambique and Rwanda. Foreign engineers are an important proportion of total engineering professionals in Botswana, Mauritius, and Zambia but a small proportion in Tanzania. In legal services (not shown in Table 4.2), there are virtually no foreign professionals practicing in any of the countries.

Table 4.2. Foreign Professionals in Eastern and Southern Africa

	Accounting		Engineering	
	Total Number of Professionals	Share of Foreign Professionals	Total Number of Professionals	Share of Foreign Professionals
Kenya	5266	6.1%	n.a.	n.a.
Rwanda	89	59.6%	n.a.	n.a.
Tanzania	3121	5.3%	8408	6.3%
Uganda	699	8.6%	n.a.	n.a.
Botswana	704	75.9%	543	40.0%
Malawi	360	2.8%	5	0.0%
Mauritius	1389	n.a.	685	24.5%
Mozambique	50	96.0%	913	4.6%
South Africa	22846	n.a.	14474	n.a.
Zambia	1212	2.1%	2535	35.4%

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

Regarding commercial presence, statistics from professional associations reveal some foreign participation in accounting and engineering services. In accounting/auditing services, firms with foreign affiliation (i.e., with foreign equity or with foreign partners) dominate the markets. In engineering, 25% of registered firms in Mauritius and 35% of registered firms in Tanzania have foreign participation. In Mozambique, there is some foreign ownership although most engineering consulting firms are domestically-owned. In Zambia however, out of 298 engineering firms only 2 are foreign-owned. Foreign law firms are virtually absent in most African countries. In South Africa out of 8,200 registered law practices in 2008 only 3 are foreign-owned. But in Botswana although few, foreign-owned law firms are among the five major law firms in the country and in Mozambique the same is verified. In Mauritius, where law firms are a recent development, the majority of law firms is actually foreign-owned.

The World Bank Surveys of Users of Professional Services in Eastern and Southern Africa show that only a small proportion of firms import accounting, engineering, or legal services in Eastern and Southern African countries which may be a consequence of high trade barriers in place.

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

5. Recommendations for policy action

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

5.1. Policy action at the national level

Reforms at the national level should focus on the development of framework conditions that address skills shortages and skills mismatches and that attempt to facilitate the growth of professional services.

Education reforms should focus on the following issues.

- Financial constraints prevent individuals from acquiring a professional education, so *developing new and expanded means of financing higher education* such as student loans schemes) should be a priority.

Access to professional education could be increased by making financing more easily available for potential students. A central challenge with financing higher education in Africa is that the total number of students attending university outpaces the available funding support, leading to a large supply shortfall. Some countries have handled this challenge better than others: Botswana's funding resources have kept pace with student growth whereas Kenya's have lagged student growth by a factor of three (World Bank, 2010a). Since it is unrealistic to expect governments to provide all necessary additional funding, the introduction or expansion of students' loan

programs could be useful to diversify the sources of funding for higher education while also addressing its affordability for individuals. Student loan schemes currently operate in more than 60 countries, including South Africa and 12 other African countries, and are becoming an increasingly important financing mechanism for higher education (World Bank, 2010a).

- Weaknesses in African educational systems mean that students are poorly equipped to acquire professional skills, so *enhancing the quality and capacity of schools (especially in mathematics, sciences, and technical studies)* should be a key item on the policy agenda.

International and national experiences related to quality assurance of secondary and higher education could serve as a model for African countries. For example, in Europe a major step for improving the quality of higher education programs has been the adoption of a common set of *Standards and Guidelines for Quality Assurance in the European Higher Education Area*. The *Tuning Educational Structures in Europe* is another useful example. South Africa, whose quality assurance capacity is well ahead of that of its neighbors, can play a crucial role in enhancing the educational capacity in the region.

- Given the capacity constraints and quality limitations of professional education institutions, improving existing institutions and encouraging the creation of new ones is necessary.

There is a need for both horizontal differentiation (e.g., new educational providers in the same category operated by for-profit, non-profit, international or local government entities to respond to the increased demand for higher education) and vertical differentiation (e.g., new types of institutions such as polytechnics, professional institutes, junior colleges for middle-level professionals to respond to labor market needs for a greater diversity of skills and training levels). Malawi's development of middle-level legal professionals could be a useful model for the other countries.

Reforms should focus on incremental, qualitative improvements in domestic regulation.

- a. Disproportionate cumulative entry requirements should be relaxed. For example, narrowing the scope of exclusive tasks in certain professions would contribute to this goal. Exclusive rights can lead to increased specialization of professionals and guarantee a higher quality of service but if they create monopolies they can have adverse price and allocation effects, especially when granted for services for which adequate quality can be provided at a lower cost by less-regulated middle-level professionals.
- b. Disproportionate restrictions that limit competition should be eliminated.
 - Price regulations are supported and introduced by professional associations who claim that they are useful tools to prevent adverse selection problems. Countries should adopt less restrictive mechanisms such as better access to information on services and services providers to accomplish the same goals at lower economic cost.
 - Countries impose restrictions on the ownership structure of professional services firms; the scope of collaboration within the profession and with other professions; and, in some cases, the opening of branches, franchises, or chains. These countries should eliminate regulations that are clearly anticompetitive and that may harm consumers by preventing providers from developing new services or cost-efficient business models.

- Advertising prohibitions are imposed by most examined African countries on many of their professional services sectors. These countries should allow advertising of professional services that facilitates competition by informing consumers about different products and that can be used as a competitive tool for new firms entering the market.

6.2. Policy action at the international level

The fragmentation of regional markets for professional services and professional education by restrictive policies and regulatory heterogeneity prevents countries from taking advantage of gains from trade based on comparative advantage, as well as gains from enhanced competition and economies of scale.

The potential benefits from regional integration in Eastern and Southern Africa are considerable.

- The differences in national endowments of professionals, in the capacity for professional training, reflected in differences in professionals' earnings and the costs of training across countries, suggest that there is substantive scope for trade based on comparative advantage and potentially large gains from eliminating trade impediments.
- Deeper regional integration would enhance competition between service providers, allow providers to exploit economies of scale, especially in professional education, produce a wider variety of services, and increase the prospects for attracting domestic and foreign investment.
- Regionalization may make it possible to reap scale economies in regulation and supervision, particularly where national regulatory agencies face skill constraints; it could also reduce scope for capture of national regulation by private sector interests.

Policy action is required in the following key areas.

(i) Steps must be taken to relax the explicit trade barriers applied by African countries to the movement of natural persons and commercial presence of professional services.

Examples of possible reforms are:

- Articulating the economic and social motivation for nationality and residency requirements;
- Developing transparent criteria and procedures for applying any quantitative restrictions on the movement of professionals, such as economic needs tests;
- Minimizing restrictions on the forms of establishment allowed;
- Developing a transparent and consistent framework for accepting professionals with foreign qualifications.

The reduction of explicit trade barriers should be complemented with the reform of immigration laws.

(ii) Trade liberalization should be coordinated with regulatory reform and cooperation at the regional level.

Trade barriers ideally would be liberalized on a most-favored-nation or non-preferential basis because that would generate the largest welfare gains. But such liberalization may not be technically feasible or politically acceptable, especially when impediments arise from differences in regulatory requirements. Deeper regional integration through regulatory cooperation with neighboring partners who have similar regulatory preferences can usefully complement non-preferential trade liberalization. Regional integration also would enhance competition among services providers, enable those providers to exploit economies of scale in professional education, and produce a wider variety of services. Regional integration brings further benefits in that a larger regional market is able to attract greater domestic and foreign investment; and regionalization may help take advantage of scale economies in regulation, particularly where national agencies face technical skills or capacity constraints.

Regulatory cooperation to overcome regulatory heterogeneity within the EAC and SADC would be particularly useful in the following areas:

A. Mutual recognition of professional qualifications and licensing

The model adopted by East Africa could be followed by Southern African countries. The five East African countries have taken the first steps towards mutual recognition in professional services in the context of the EAC Common Market negotiations. The Common Market Protocol, adopted by the Multi Sector Council in 2009, includes an annex on a framework agreement on mutual recognition (MRA) of academic and professional qualifications. The implementation of a full-fledged MRA would need to cover areas such as education, examinations, experience, conduct and ethics, professional development and re-certification, scope of practice, and local knowledge.⁸ If African countries adopted common criteria for professional qualifications or recognized (with no hassles) the qualifications and licenses obtained in other African countries, significant efficiency gains would be obtained. Kox et al. (2004) estimate that the stock of FDI in the European Union could increase by 20-35% if regulatory heterogeneity across countries was reduced as a result of a common services regulation directive.

B. Developing appropriate standards

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

⁸ See Peek et al. (2007) for NAFTA's experience with MRAs.

In the accounting sectors of most African countries, IFRS for corporate accounting are applied to different degrees and covering different types of firms but the level of compliance and understanding of those standards varies widely across countries.⁹ The expected benefits from the introduction of IFRS are more international comparability of the African countries' financial reports, more transparency making firms more attractive for investors and credit providers, and improvements in governance by making accurate and transparent financial reports available to corporate management, shareholders, and regulators. However, there are several problems associated with the introduction of IFRS for all categories of firms. Several African SMEs noted the excessive costs of complying with international standards.

The development of an appropriate standard may be desirable at a regional rather than national level in order to exploit economies of scale in regulatory expertise, prevent fragmentation of the market by differences in standards, and limit the scope for regulatory capture. A regional accounting standard would present African countries with an opportunity to address the need for balance between stringency and access, between integration and local appropriateness, and between rules and discretion. Recent developments in Southern Africa have been moving in this direction. The new set of accounting standards developed by South Africa's SAICA - the "Reporting Framework for Non-public Entities" - will be applied domestically but is also scheduled to be adopted for SMEs by the Eastern Central and Southern African Federation of Accountants (ECSAFA), a regional body serving as a forum for regional cooperation on accounting standards.

Differentiated accounting standards for different types of firms - large versus SMEs - may be most efficiently delivered by different classes of accounting professionals. Regional cooperation in developing an appropriate qualification for middle-level accounting professionals would be beneficial for market integration providing opportunities for those professionals to move within the region in response to demand. All countries could benefit from the implementation of common training standards for accounting technicians such as the Occupational Standards for Accounting Technicians in the ECSAFA region.

C. Removal of restrictions to free movement of labor

Regional cooperation in removing restrictions on the free movement of labor (including visa and immigration laws) is crucial for Africa. The mobility of businesspeople is a key factor in the promotion of free and open trade. While EAC and SADC have tried to regulate labor mobility, so far none of the groupings has adopted a regional labor mobility agreement, mostly due to disagreements among national governments.¹⁰ The experience of the EU or the APEC Business Mobility Group that have made considerable progress in this area could provide practical guidance for the implementation of commitments related to the free movement of labor and harmonization of immigration policies in Africa.

D. Financing higher education and improving professional education institutions

Regional cooperation in terms of sharing information and experiences to increase the recovery rate of loans while increasing students' access to higher education could improve the impact of student loan schemes in Africa. The recent partnership between the Kenya Higher Education

⁹ See Guggiola (2010) for EU's experience with IFRS adoption.

¹⁰ See Musonda (2006) and Shitundu (2006).

Loan Board, the Tanzania Higher Education Students Loans Board, and the Students Finance Agency for Rwanda under the aegis of the African Higher Education Financing Agencies to tackle students' loan schemes regionally is a useful example from East Africa that could be followed by Southern Africa.

The absence of institutions that offer specialized (post-graduate) courses (e.g., in legal and engineering services) was noted in many African countries, as was the absence of institutions offering academic and professional training courses for middle-level professionals. Where the market of a given country (e.g., Malawi, Mozambique, Rwanda) is too small to justify the creation of missing institutions or courses, policies to facilitate access to foreign training are needed - including portability of course credits and scholarships. The system of credits in higher education to be implemented within SADC is a right step in this direction.

Specialized courses for which a need was expressed in Eastern and Southern Africa (e.g., legal courses focusing on e-commerce, technology transfer, etc) could be designed and implemented at the regional level. Regional institutions could exploit economies of scale and recoup the large fixed costs of establishing training programs produce students with the necessary specializations for the EAC and SADC regions. South Africa has the highest potential to become a regional hub for higher and professional education.

7. Conclusion

Eastern and Southern African governments should engage in deep regulatory cooperation at the regional level and use trade liberalization and regional integration to reduce the scope for private interest regulation and enhance competition to facilitate the growth of professional services. The various governments could engage with donors to secure technical and financial assistance to strengthen the capacity of regulatory associations, and develop appropriate regulation (e.g., in the context of the European Partnership Agreement negotiations).

While the economic benefits from regional integration are evident, the pace of integration is largely dependent upon the members' political motivation and conviction that such liberalization is beneficial to their domestic constituencies. To improve such prospects, the promotion of more frequent and open dialogue between the key stakeholders involved in professional services - professional bodies, private sector providers and users of services, higher education institutions, trade negotiators – is important

The Eastern and Southern African countries have committed themselves (at least on paper) to pursue regional integration in the context of the EAC and SADC. The adoption by the five East African Heads of State of the Common Market Protocol in 2009 initiated the integration process in professional and other services in Eastern Africa. Kenya, Rwanda, Tanzania, and Uganda have scheduled commitments in accounting and engineering services, and have adopted the annexes on removing restrictions on the free movement of workers and on the right of establishment, and the annex on mutual recognition of academic and professional qualifications.

The Southern African countries have also committed themselves to pursue regional integration in the context of the SADC that launched its Free Trade Agreement (FTA) in 2008 aimed at liberalizing intra-regional trade in goods and services. However, the FTA does not include any concrete measures for services liberalization. SADC negotiations on services have been ongoing for ten years centering on the framework agreement for the negotiations, i.e., “negotiating how to

negotiate”. SADC has identified six backbone sectors which call for immediate trade liberalization in terms of the services protocol including construction and related engineering services but sectors such as Business services (that include other professional services) are scheduled to be liberalized only in later rounds of negotiations.

While recognizing that there is a varying degree of political will and commitment among the Eastern and Southern African countries, the information provided in this paper is a first step towards facilitating more informed choices as countries contemplate reform and regional integration in professional services sectors.

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