

DEVELOPING PROFESSIONAL SERVICES IN AFRICA: HOW REGIONAL INTEGRATION CAN HELP¹

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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 chapter attempts to remedy the large gaps in information on policies and market conditions in professional services, using as case studies 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 identifying the requirements for reform at the national level and accelerated integration at the regional level. The chapter places trade in services firmly within the broader context of sound domestic economic management.

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. Moreover, in common with services generally, professional services show greater resilience to economic downturns than do manufactures, in part because of their lower demand cyclicality (Borchert and Mattoo 2009).

Accounting, legal and engineering services contribute directly and indirectly to economic growth, including by lowering transactions costs, being key inputs and creating spillovers of knowledge to other sectors. Accountancy is critical for accountability, sound financial management, and good corporate governance (Trolliet and Hegarty, 2003). Effective legal and justice systems and access to legal services improve the predictability of the business environment, facilitate engagement in contracts and mitigate investment risks (Cattaneo and Walkenhorst, 2010). Engineering is a knowledge-intensive sector essential to the productivity and sustainability of other economic activities. For example, civil engineering is critical for the development and maintenance of a country's physical infrastructure, while electrical engineering

¹ This chapter draws on the work on professional services developed in World Bank (2010b) and World Bank (2010c).

is important to the operation of public networks such as utilities or commercial facilities and communication systems (Cattaneo et al., 2010).

Greater usage of professional services is associated with higher labor productivity for firms - particularly small firms - across countries in Eastern and Southern Africa.² Finally, professional services can become an important source for export diversification in Africa.

While professional services are among the fastest growing services sectors in Eastern and Southern Africa³, their weaknesses and underdevelopment are dwarfing their current contribution to growth in the region.

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 and regulations in professional services. To address this gap, a comprehensive data collection exercise including 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, a 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.

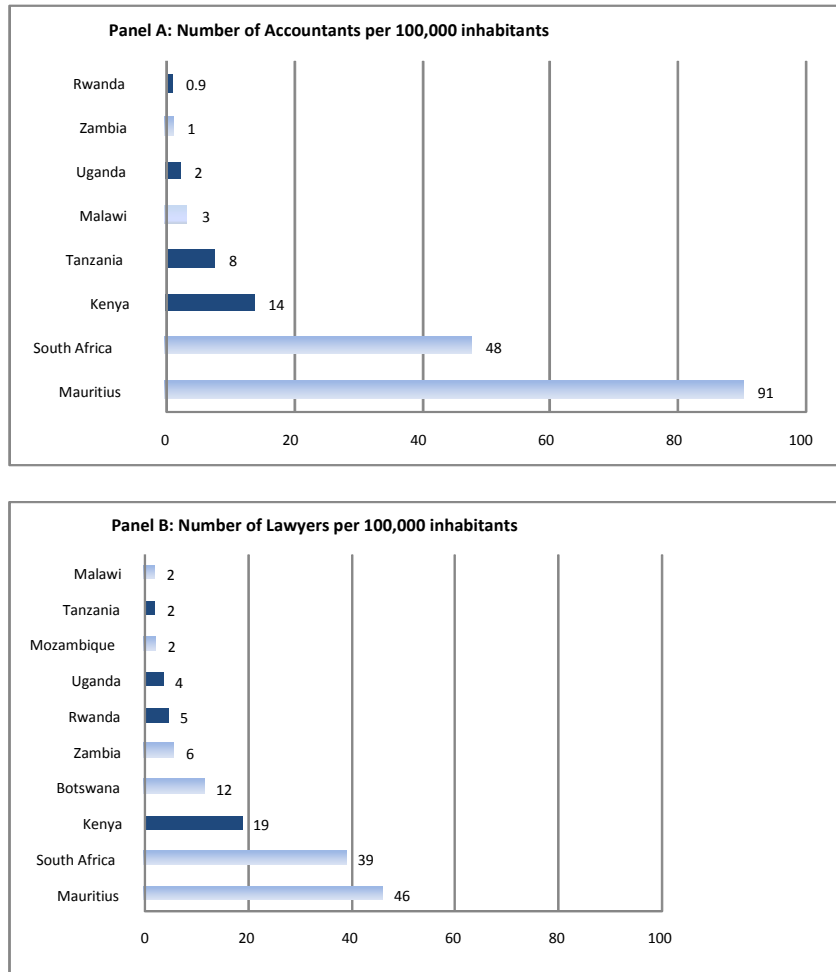
2.1. Availability varies across countries and professions

Eastern and Southern African countries show significant variation in the availability of professionals, with relative abundance in Mauritius, South Africa and Kenya and relative scarcity in Rwanda, Zambia, Malawi and Tanzania. But per capita availability in most Eastern and Southern African countries is only a fraction of that in the more advanced economies of Mauritius and South Africa (Figure 1).

² See World Bank (2010b) and World Bank (2010c).

³ The available data for Eastern and Southern Africa indicates that the average annual growth rates of business services outputs (of which professional services constitute an important part) were of 21% in Zambia, 18% in Uganda, 14% in Tanzania, 8% in Kenya and 7% in South Africa over the 2000 to 2009 period.

Figure 1: Professional Density in Africa



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

2.2. Limited availability of middle-level professionals

Middle-level professionals who can provide services to under-served client segments and produce large economic gains are a sometimes underappreciated category of professionals. 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.

The existing data 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 they account generally for only half the total number of professionals in a given sector.

2.3. 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 reported 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.

2.4. Segmentation of regional markets for professional services in Africa

Data on the presence of foreign professionals in Eastern and Southern Africa (mode 4 in the GATS, see Sampson and Snape 1985) are scarce. Table 1 shows that in Kenya, Malawi, Tanzania, Uganda, and Zambia foreign accounting professionals represent less than 10 percent of the total, but that percentage 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 1), there are virtually no foreign professionals practicing in any of the African countries.

Table 1. 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 (mode 3 in the GATS) , 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 are 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.

3. Explaining skills shortages and the segmentation of markets for professional services in Eastern and Southern Africa

3.1. Explaining the Skills Shortages in Professional Services – Education Issues

Despite the demonstrated need for professional services from an economic development perspective and the demand for them by formal sector firms, Eastern and Southern African countries currently experience skills shortages and skills mismatches in professional services. Some key education-related reasons for these shortages are as follows.

First, professional education is very expensive in all Eastern and Southern African countries. While skills premia for professionals exist and internal rates of return to education are high in the region, the average cost of acquiring a professional degree across all countries and professions is more than USD 22,000. These costs are more than four, often more than six, times larger than the countries' GDP per capita in 2008. This makes attaining professional qualification unaffordable for the majority of the population in these countries, especially given the underdeveloped nature of the markets for educational loans.⁴

Second, the weaknesses in secondary education witnessed across Eastern and Southern African countries limit the ability of students to acquire professional skills. The general erosion of

⁴ See World Bank (2010b) for details on the calculations of costs and rates of return to professional education.

mathematical skills in all countries explains the declining number of applicants in science, engineering, and technology courses, leading to shortages in the engineering sector.

Third, the capacity and quality of professional education institutions are limited. In several Eastern and Southern African countries, institutions that offer specialized post-graduate courses, as well as institutions that offer academic and professional training courses for middle-level professionals are entirely absent.

Fourth, there is an absence of links between educational systems, employers, and users of services. This dynamic leads to unmet needs and unemployed professionals, explaining the attrition of skills in several professions in Eastern and Southern Africa. Stakeholders from the private sector emphasized the severe lack of coordination between employers, professional associations, and education institutions with regards to the content of educational programs for accountants and engineers.

3.2 Explaining the Segmentation of Markets for Professional Services – Domestic Regulation

Domestic regulation on the entry and on the operations of professional services firms often undermines competition and constrains the growth of strong professional services sectors in Eastern and Southern Africa. Domestic entry regulation, such as licensing and educational requirements, quantitative restrictions on the number of suppliers of professional services and exclusive rights granted to suppliers in certain activities, as well as regulations on the operations of firms, such as restrictions on prices and fees, advertising, form of business, and inter-professional cooperation, are particularly heavy when compared to those in emerging economies and in OECD countries (see Figure 2).⁵

In Eastern and Southern Africa, entry regulation is significant in all professional services sectors. The three professions are subject to qualitative entry requirements related to education and qualifications that do not vary significantly across African countries.

Other qualitative entry requirements are present in most African countries. Membership in the relevant professional association is mandatory in accounting and legal services in all countries. 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 yet. 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.

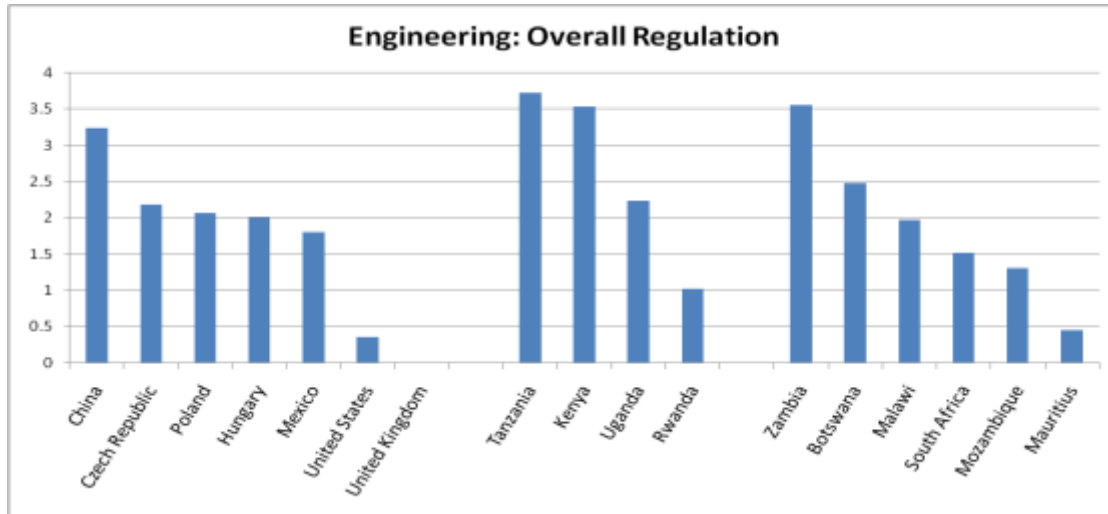
⁵ The indices shown in Figure 2 convert qualitative information on regulatory conditions into quantitative indicators for each sector using the OECD methodology described in Conway and Nicoletti (2006).. Entry regulations include barriers to becoming a member of a profession taking the form of licensing 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. The data, indices and a detailed description of the methodology will be available at www.professionalservicesreform.com.

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.

Furthermore, 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.

Figure 2: Overall Regulatory Indices for 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.

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.

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.

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.

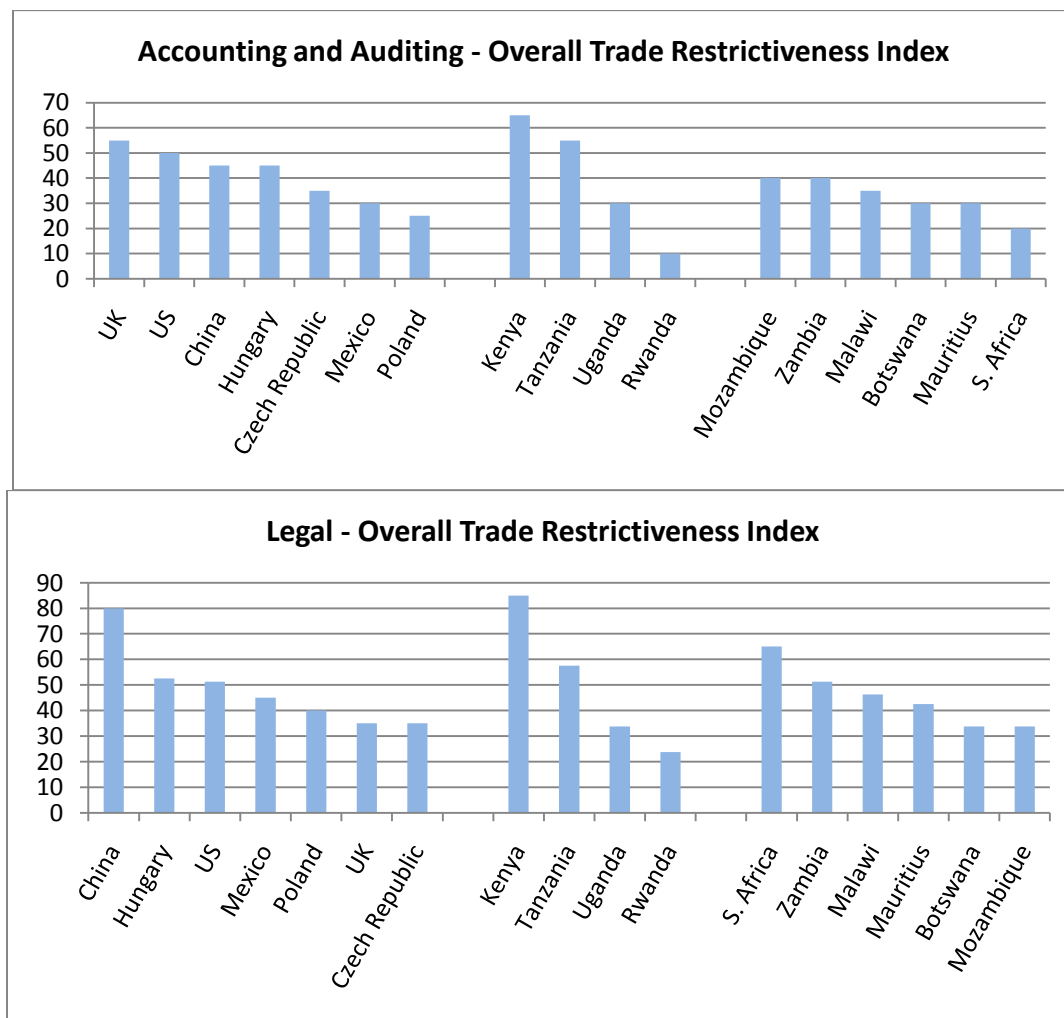
Several professional services in Eastern and Southern Africa are subject to advertising prohibitions: accounting in Botswana, Kenya, Tanzania and Uganda, legal in Botswana, Kenya, Malawi, Mozambique, Rwanda, Tanzania, Uganda and Zambia, and engineering in Tanzania and Zambia. In general, African countries impose more severe regulations on advertising than most developed and developing countries.

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.

3.3. Explaining the Segmentation of Markets for Professional Services – Trade Barriers

Trade barriers limit competition and the efficiency of professional service providers in Eastern and Southern Africa (for a broader discussion of the gains from services trade liberalization see OECD 2002, Trachtman 2003 and Dihel and Dee 2006). 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 (see Figure 3).

Figure 3: Overall restrictiveness Indices for Professional Services



Source: Gootiiz and Mattoo (2009).

Note: a larger index value indicates a more restrictive trade policy.

The establishment of foreign law firms (mode 3 of trade in services in GATS) is substantially more difficult than that of foreign accounting/auditing firms in Africa, but also elsewhere in the world. A few of our examined African countries - Botswana, Mozambique, Rwanda and Uganda

- exhibit the most open markets to the presence of foreign law firms across a large number of countries. However, the entry of foreign law firms is prohibited 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 African countries but with restrictions. Malawi, Rwanda or Uganda have lower restrictions than those in many OECD countries. 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.

The movement of natural persons (mode 4 of trade in services in GATS) 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. 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.

The entry of foreign accountants and auditors is less restricted across African countries. In fact, Mauritius and Rwanda exhibit the most liberal trade policies towards the movement of foreign accountants among all countries. 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.

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.

4. Implications 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 suggest 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.

4.1. Policy action at the national level

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

Education reforms need to 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) is 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)* needs to be a key item on all countries' policy agendas.

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* (European Association for Quality Assurance in Higher Education, 2005). The study *Tuning Educational Structures in Europe*⁶ is another useful example. South Africa, whose quality

⁶ See more information at <http://unideusto.org/tuning/>.

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 African countries.⁷

Reforms need to focus on incremental, qualitative improvements in domestic regulation.

- a. Disproportionate cumulative entry requirements need to 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 need to be eliminated.
 - Price regulations are supported and introduced by professional associations who claim that they are useful tools to prevent adverse selection problems. Countries need to 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 need to 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 need to 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.

⁷ 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 Africa region and even further abroad in Bangladesh.

4.2. 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 and 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 called for in the following key areas.

(i) Steps need to 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 needs to be complemented with the reform of immigration laws.

(ii) Trade liberalization needs to 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 would also 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 constraints⁸.

Regulatory cooperation to overcome regulatory heterogeneity within the East African Community (EAC) and the Southern African Development Community (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.⁹ 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 international 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 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.

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.

⁸ See World Bank (2010d) for a discussion on the role that international trade agreements, particularly the Economic Partnership Agreements (EPAs) that are currently being negotiated with the European Union (EU), can play in supporting coordinated trade and regulatory reforms in Africa. The study discusses the key issues that EPAs will have to address if they are to support the development of service sectors in Africa, while recognizing that EPAs might not necessarily be the most effective way to pursue service sector reform for all African countries.

⁹ See Peek et al. (2007) for NAFTA's experience with MRAs.

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 the EAC and the 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 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.

Also, 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 in order to 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.

5. Conclusion

Eastern and Southern African governments need to 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 their professional services sectors. The various governments could engage with donors to secure technical and financial assistance to strengthen the capacity of regulatory associations, and develop appropriate regulation (for example 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

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

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 the 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 chapter serves as a pointer towards more informed choices as countries contemplate reform and regional integration in professional services sectors.

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