Professional Services in Africa:
Time for Action

OECD Global Forum on Trade
Paris, 8 November 2012

Main points

• Professional services matter for development but Sub-Saharan Africa experiences skills shortages and skills mismatches and the markets for professional services remain underdeveloped
• Restrictive trade and migration policies and regulatory heterogeneity fragment the regional professional markets
• Policy action is required in four areas – education, regulation, trade policy and labor mobility – at the national, regional and multilateral levels
• Professional Services Knowledge Platform for COMESA
Professional services matter

- Higher labor productivity (sales/employees) is associated with greater usage of professional services in all East African countries, especially for small firms

Skills shortages, skills mismatches and underdevelopment of professional services in Africa

- Skills shortages
  - Most severe shortages of engineering and accounting professionals
  - Shortages of middle-level professionals (such as technicians or paralegals) and shortages of experienced professionals

- Skills mismatches
  - Jobless professionals despite scarcity

- Underdevelopment of professional services markets
  - Professional services are less efficient, more costly and less widely available than in many other comparable countries (for example, poor quality of auditing and reporting systems, poor enforcement of property rights)
Potential for regional services trade is significant...

- Availability of professionals varies across countries and sectors

... and exports of professional services are beginning to emerge...

Average % of exporters' total revenue obtained from export

<table>
<thead>
<tr>
<th>Service</th>
<th>Sample Size</th>
<th>Average % of Total Revenue from Export</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounting</td>
<td>40</td>
<td>25.1%</td>
</tr>
<tr>
<td>Engineering</td>
<td>34</td>
<td>22.9%</td>
</tr>
<tr>
<td>Legal</td>
<td>54</td>
<td>22.7%</td>
</tr>
<tr>
<td>Architecture</td>
<td>31</td>
<td>18.3%</td>
</tr>
</tbody>
</table>

(sample size in parentheses)
...but fragmented regional markets for professional services in Sub-Saharan Africa

- Foreign accountants are less than 3% of total in Malawi and Zambia and less than 10% of total in Kenya, Tanzania and Uganda but 60% in Rwanda
- Foreign engineers are less than 5% of total in Malawi and Mozambique and 6% of total in Tanzania
- Virtually no foreign professionals in legal services in any of the Eastern and Southern African countries
- Affiliates of Big Four dominate accounting and auditing services
- Limited presence of foreign firms in engineering services
- Complete absence of foreign firms in legal services
- World Bank-supported civil works procurement contracts show lack of integration of EAC market for engineering services
  - Virtually no intra-East African foreign firm participation in these contracts
  - Exceptions: Kenyan firms participate in some Tanzanian and Ugandan projects and Ugandan firms in some Rwandan projects

Circumventing barriers?

Most frequent sub-modes of supply for exporters of professional services

1. Electronically (internet, email) - 25%
   - Express courier - 20%
   - Normal post delivery - 7%

2. Face to face when foreign clients are visiting - 15%

3. Through commercial presence abroad - 7%

4. Travel abroad to negotiate contracts - 6%
   - Travel abroad to provide services directly to foreign clients - 7%
   - Travel to meet foreign clients abroad - 13%

Note: Percentages are taken across the total answers provided by the interviewed exporters of professional services for questions asking for each mode of supply whether they use it or not (448 answers).
Liberalizing services trade would facilitate access...

Typical explicit barriers to trade in accounting services

<table>
<thead>
<tr>
<th>Mode</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mode 1</td>
<td>Not permitted since commercial presence required to perform most accounting and auditing activities</td>
</tr>
<tr>
<td>Mode 3</td>
<td>Foreign ownership restrictions: ownership by non-locally licensed professionals not allowed</td>
</tr>
<tr>
<td>Mode 4</td>
<td>Discretionary limits (labor market tests &amp; econ. needs tests) for foreign-licensed accountants</td>
</tr>
</tbody>
</table>

...but must be complemented by reform to improve the efficiency of domestic regulation to enhance competition

Typical regulation of legal services

<table>
<thead>
<tr>
<th>Entry Regulation</th>
<th>Conduct Regulation</th>
</tr>
</thead>
<tbody>
<tr>
<td>University degree and practical training required</td>
<td>Bar exam requirement and Continuing education obligation</td>
</tr>
<tr>
<td>Compulsory membership in the professional bar</td>
<td>Price regulation: Binding minimum and maximum prices</td>
</tr>
<tr>
<td>Scope of exclusive rights: 9 out of 10</td>
<td>Restrictions on type of corporation</td>
</tr>
<tr>
<td></td>
<td>Advertising is prohibited</td>
</tr>
<tr>
<td></td>
<td>Absence of quality control instruments</td>
</tr>
</tbody>
</table>

• An agenda for regional cooperation
Restrictions on operations hurt professional services providers – the example of East Africa

National reform and regional cooperation could better integrate the market for professional services

National level reforms could include:
- Relaxing entry requirements, e.g. by narrowing the scope of exclusive tasks
- Eliminating restrictions on competition, e.g. price regulation; advertising prohibitions
- Reduce costs of access to & improve quality of education

And at the regional level:
- Removing trade barriers, e.g. allowing commercial presence, movement of natural persons
- Increased regulatory cooperation, e.g. **mutual recognition of professional qualifications**; development of appropriate regional standards
- Creation of regional education and training hubs
Professional services knowledge platform with COMESA

Challenge: integrating markets (expanding trade) while achieving regulatory objectives efficiently

**Filling information gaps**
- Collect and analyze data on:
  - Market structure
  - Trade flows
  - Prices, wages, productivity
  - Domestic regulation
  - Trade barriers
  - Education requirements
  - Immigration rules

**Addressing knowledge gaps**
- Provide information on regulatory experiences and regulatory impact assessments
- Propose guidance on trade and regulatory reforms, including good practice
- Facilitate networking and information exchanges, especially South-South exchanges

**Addressing political economy constraints**
- Translate knowledge into policy choices
- Identify interests and preferences of various actors
- Provide platform for national and regional dialogues

---

Thank you!

Nora Dihel
ndihel@worldbank.org