Conference Paper

Towards a Regional Integration of Professional Services in Southern Africa

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27 - 29 October 2010
Indaba Hotel and Conference Centre
Johannesburg
South Africa

Hosted by

DPRU Development Policy Research Unit

TIPS

TOWARDS A REGIONAL INTEGRATION OF PROFESSIONAL SERVICES IN SOUTHERN AFRICA

Draft October 8, 2010

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Professional services matter for development in Southern Africa.

- Even though the share of business services in the GDP of Southern African countries is small, the sector is among the most dynamic.

- Business services, including professional services, are key inputs for other sectors, including for sectors that are key for regional integration at the Southern African Development Community (SADC) level.

- Greater use of professional services by Southern African firms in all sectors is associated with higher labor productivity. This association between professional service use and productivity is especially strong for small firms.

- The direct and indirect gains from liberalizing professional services are considerable and professional services can become an important source for export diversification in Southern Africa.

- But a large gap looms between the needs of professional services faced by the Southern African countries and the resources available to them to address these needs.

Policy makers in Southern Africa share this view of the professional services sector's critical importance. And, along with reform of backbone services like telecommunications, banking and transport, governments are adding professional services to their list of priorities, including by engaging in international cooperation and trade in professional services and by creating a more integrated regional market.

This chapter delves into the essential issues of these largely unexplored sectors in Africa through extensive information gathering and analysis. It shows why national markets for professionals and professional services in Southern Africa have low performance indicators, while regional markets are fragmented by restrictive policies and regulations.

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To turn this around, the chapter calls, among other things, for policy action in the following areas: education, regulation of professional services, trade policy, and labor mobility at both the national and the international level.

1. Professional services and trade in professional services matter for growth in Southern Africa

Professional services play an important role in the functioning of modern economies. Professional services such as accounting, legal and engineering services contribute directly and indirectly to economic growth, including by lowering transactions costs, and by creating spillovers of knowledge to other industries. 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. Accountancy is critical for accountability, sound financial management, and good corporate governance (Trolliet and Hegarty, 2003). Effective law and justice systems are one of the major structural pillars 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). 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 as well as commercial facilities and communication systems (Cattaneo et al., 2010).

Professional services are among the fastest growing services sectors in many developed and developing economies, including in Southern Africa. While evidence on the state and role of professional services in Southern Africa is scarce and unsystematic, available statistics at a more aggregated level show that "Business services[2]", of which professional services constitute an important part, had a direct contribution of between 6 to over 21 percent of GDP in the examined Southern African countries in 2009.[3] These figures compare rather favorably with the shares of business services in the GDP of both more advanced countries and other developing economies. For example, Lesher and Nordas (2006) show that the shares of business services in GDP in OECD countries ranged from 3% in Greece to almost 13% in France, while World Bank (2010) finds that the share of business services in the GDP of four Eastern African countries ranges from 1.5 percent in Uganda to 3 percent in Kenya. Furthermore, with average annual growth rates of business services outputs of 21% in Zambia and of almost

[2] Business services cover the following services categories: *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.

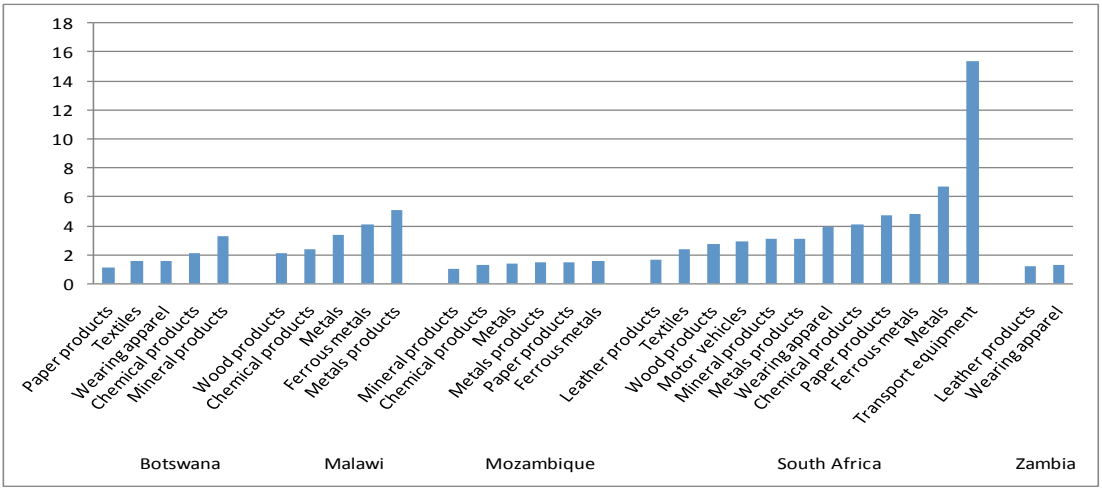
[3] Data is available for Botswana, South Africa and Zambia. In Botswana, banking and insurance services are included in the business services category.

7% in South Africa over the 2000 to 2009 period, the sector seems extremely dynamic in these two countries. [4]

Professional services are key inputs for other sectors, including for sectors that matter for regional integration in Southern Africa. Input-output tables suggest that "Business services" are important intermediate inputs in the production of many agricultural and manufacturing products that are important for regional integration at the Southern African Development Community (SADC) level. Figure 1.1 shows that significant downstream linkages are observed in a broad range of manufacturing (including garments, leather, paper, metal products and chemicals), agricultural products and minerals.[5]

Figure 1.1: Share of Business Services as Intermediate Inputs (%)

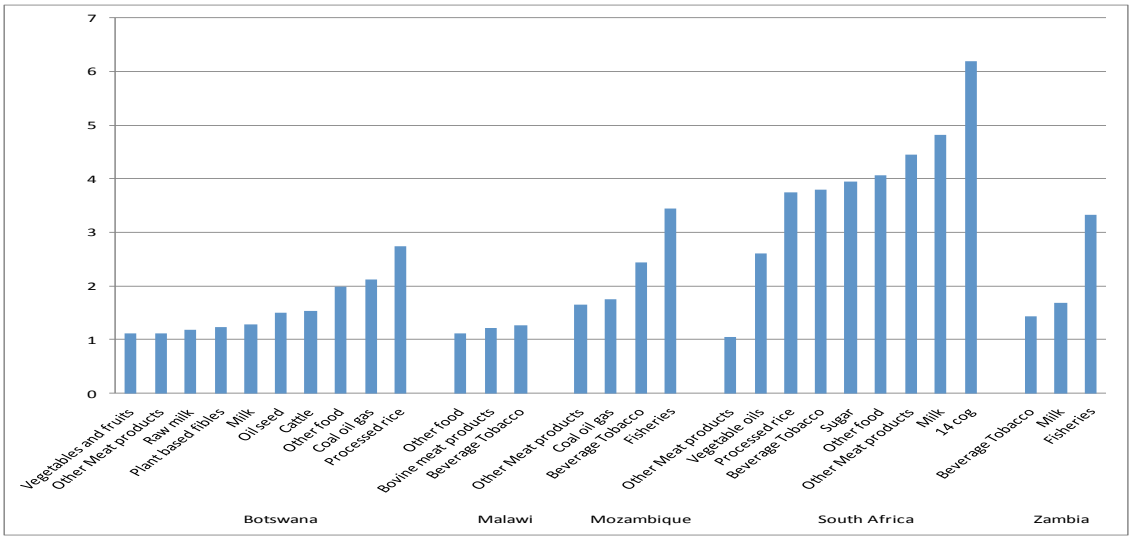
Panel A: In Manufacturing Products



[4] See http://www.zamstats.gov.zm/media/table_1_current.pdf , and http://www.statssa.gov.za/publications/P0441/P04411stQuarter2010.pdf

[5] A simple way of illustrating the interaction between business services and other industries is based on the magnitude of the share of business services costs in the total costs of production of those industries. Figure 1.1 shows the contribution of business services as intermediate inputs in the output of several manufacturing and agricultural sectors in five Southern African countries. While the calculations were performed for all 57 sectors covered by the GTAP 7 input-output tables, Figure 1.1 presents only the sectors with the highest shares of business services as intermediate inputs.

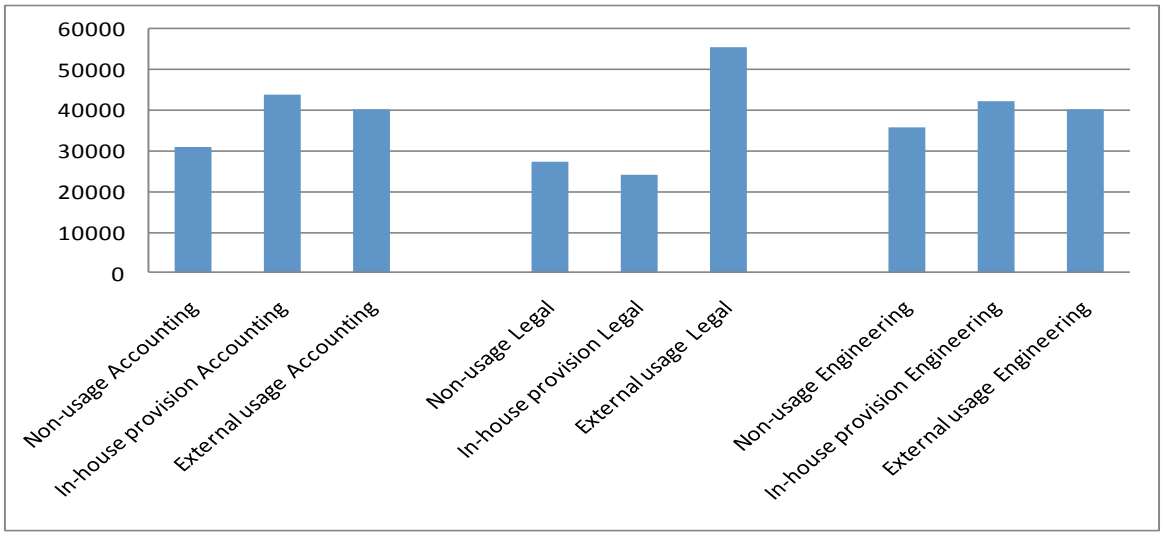
Panel B: In Agricultural Products



Source: GTAP database version 7.

Higher labor productivity is associated with greater use of professional services. Data from the World Bank Survey of Users of Professional Services in Southern Africa that covered representative samples of firms across all sectors in Botswana, Malawi, Mauritius, Mozambique, South Africa, and Zambia illustrate the role and the value of using professional services. Firms which use accounting, legal, and engineering services have higher average labor productivity in all six countries than firms without professional services linkages (Figure 1.2).

Figure 1.2: Productivity of Users and of Non-Users of Professional services in Southern Africa



Source: World Bank Survey of Users of Professional Services in Southern Africa, 2010.
Note: The figure presents average percentages calculated across all firms in all Southern African countries.

The potential direct and indirect gains for developing countries from liberalizing professional services are considerable. On the import side, important benefits are expected through greater competition and increased efficiency in the provision of professional services as well as access to missing skills, new work methods and best practice knowledge. An example in legal services illustrates how Southern Africa is already benefiting from liberalization. Many Southern African economies experienced recently growth in power plants and infrastructure development as well as oil and gas work, thereby requiring law practitioners with expertise in these fields. The law firm Denton Wilde Sapte collaborates with firms in Botswana, Mauritius, Tanzania, and Zambia to deliver project-finance advisory services and brings the necessary new expertise and best practice knowledge to these countries (Cattaneo and Walkenhorst, 2010).

Professional services can become an important source for export diversification. Several Southern African countries are already benefiting from export opportunities in professional services. Legal process outsourcing already offers new export opportunities to Southern African countries: for example UK law firms are outsourcing patent prosecution work to lawyers in South Africa (Wesemann, 2007). Analysts expect that legal process outsourcing, such as document editing and proofreading, litigation research, and intellectual property work will expand and could become a significant export industry in the coming years. Also, increased international sourcing of engineering services as well as outward investments by the main clients of the engineering services providers, such as construction companies, can generate additional export opportunities for Southern African engineering firms.

Demand for accountancy, legal, and engineering services is already important and is expected to increase with economic growth in Southern Africa. Some observers suggest that the 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 usage of legal services. Limited or inadequate monitoring of compliance with financial reporting standards or safety standards may suppress demand for accounting and engineering services, respectively. However, the consensus among stakeholders and in the available literature suggest that the accounting, legal, and engineering needs and concerns in developing countries are as pressing – if not more so – as those in developed economies. Also, the higher productivity of Southern African firms that use professional services than that of non-users may suggest that professional services are equally important for the development of the Southern African economies as they are in more developed economies; that similar forces prevail in Southern Africa as in more developed countries. Major economic reforms, large scale privatization programs and the expansion of sectors such as banking and infrastructural services are expected to provide many new opportunities for professionals in Southern Africa.

But a large gap looms between the needs of professional services faced by the Southern African countries and the resources available to them to address these needs. Even at the current stage demand remains unsatisfied given severe skills shortages and skills mismatches or inadequate quantitative or qualitative regulations applied to both domestic or foreign professionals and firms in the region. In accountancy, 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). For example, there are jobless accountants in Malawi and in Mozambique despite high demand for (qualified) accountants. The introduction and implementation of international financial reporting standards (IFRS) will most likely accentuate the identified skills shortages and skills mismatches in Southern Africa. In legal services, the extremely high wages earned by legal professionals – which are not necessarily indicative of their scarcity but rather of the power of professional bodies which impose strict entry and conduct regulation that enable incumbents to capture high rents – already limit the potential contribution of the legal sector to economic growth in Southern Africa. Engineering firms in all Southern African countries and sub-sectors are experiencing shortages of skilled engineering professionals. Labor scarcity in the engineering and construction sectors have resulted in delays and lost business opportunities to some of the Southern Africa countries (Development Network Africa, 2009). And notably, the scarcity of middle-level professionals is important in all professional services.

To address skills shortages, skills mismatches and the underdevelopment of professional services, in parallel with reform of backbone services like telecommunications, banking and transport, governments in Southern Africa are also beginning to develop reform strategies for professional services, including by engaging in international cooperation and trade in professional services and by creating a more integrated regional market. To advance this reform process, this chapter attempts to remedy the large gaps in information on policies and market conditions in professional services. The World Bank undertook a comprehensive data collection exercise in Southern Africa in 2009-2010. To allow for an assessment of the demand and supply for professional services, surveys of users of services as well as providers of services were conducted in Botswana, Malawi, Mozambique, Mauritius, South Africa, and Zambia, and that effort was combined with the collection of information from professional associations and statistical sources in these countries.[6] To allow for policy diagnostics, regulatory surveys were carried out in Botswana, Malawi, Mozambique, Mauritius, South Africa, and Zambia covering entry and conduct regulation applied to domestic and foreign providers in accounting, legal, and engineering services. The World Bank also collected information on the costs and procedures to become an accounting, legal, or engineering professional in those countries. The diagnostics based on these different data sources are discussed next.

[6] Annex 1 describes in detail the surveys of users and services providers in Southern Africa.

2. Striking differences but also similarities in the level of development of professional services sectors across Southern Africa

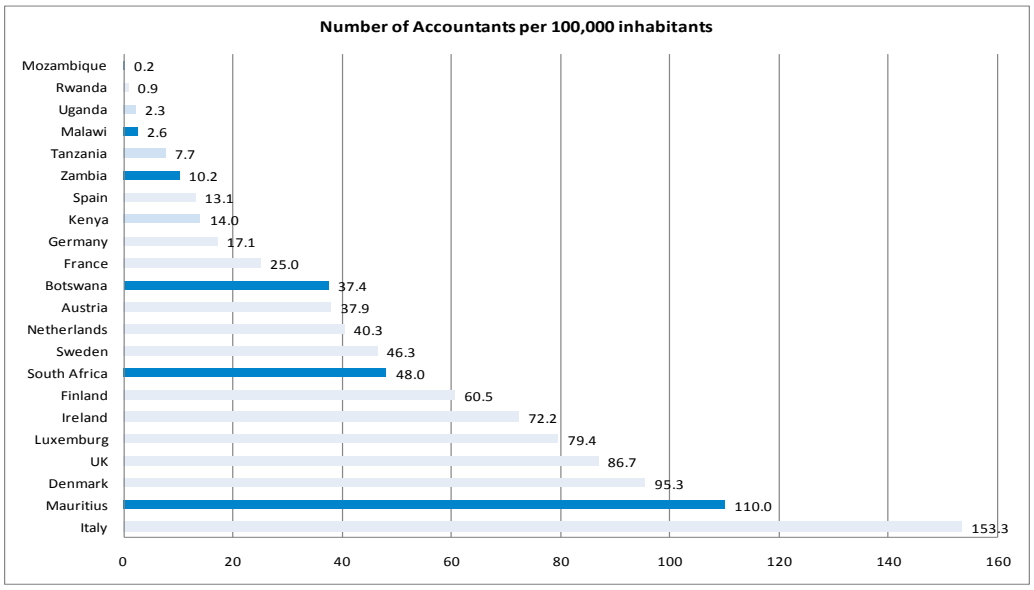
2.1. Availability varies across countries and professions…

There is significant variation in the availability of professionals across Southern African countries and across professions. While scarcity premia are generally observed across the examined professionals 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. Relative abundance of professionals characterizes Mauritius and South Africa while relative scarcity characterizes Malawi and Mozambique.

Accounting services

There are huge contrasts regarding the availability of accounting professionals in Southern Africa. With a professional density of 110 accountants per 100,000 inhabitants Mauritius has more accounting professionals per capita than most developed countries. Compared to most African countries, Mauritius and to a lesser extent South Africa have a relatively well developed market for accounting professionals. By contrast, Malawi and Mozambique are characterized by a very limited availability of accountants – even by African standards (Figure 2.1).[7]

Figure 2.1: Number of Accountants per 100,000 Inhabitants



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

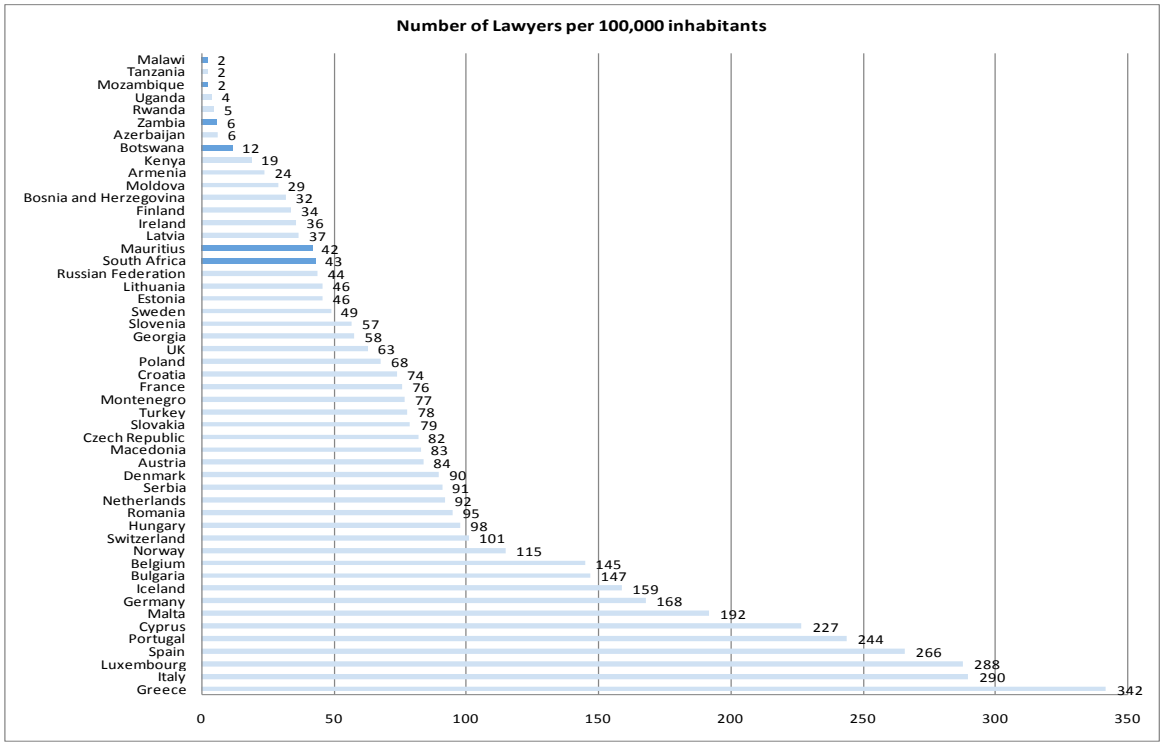
[7] Notice that Figure 2.1 does not cover accounting technicians. For the Southern African countries who reported data, we discuss the availability of accounting technicians in the text.

The skills shortages in accounting are most likely underestimated. It should be noted that the numbers in Figure 2.1 do not show how many of the accountants available in each country are in practice, i.e., are providing accountancy services. Given that many accountants work in management and other activities suggests that the skills shortages may be more severe than what Figure 2.1 shows. For example, the South Africa Institute of Chartered Accountants (SAICA) reports that only about a third of the accountants in the country are employed or partners in public practice or sole practitioners providing accounting services.

Legal Services

There is a large difference between most Southern African countries and the rest of the economies regarding the availability of lawyers. The legal profession in all examined Southern African countries is a liberal profession that is carried out independently from the government and the state administration. Lawyers have to be registered with the local bar association in all countries to practice privately but they do not have to be registered in order to be able to practice in public office. Figure 2.2 presents the density of lawyers per 100,000 inhabitants for a large sample of developing and developed countries. The figure reveals that while the majority of African countries display a density of less than 20 lawyers per 100,000 inhabitants, the ratio seems particularly low in Mozambique and Malawi – even by the standards of developing countries.

Figure 2.2: Number of Lawyers for 100,000 Inhabitants

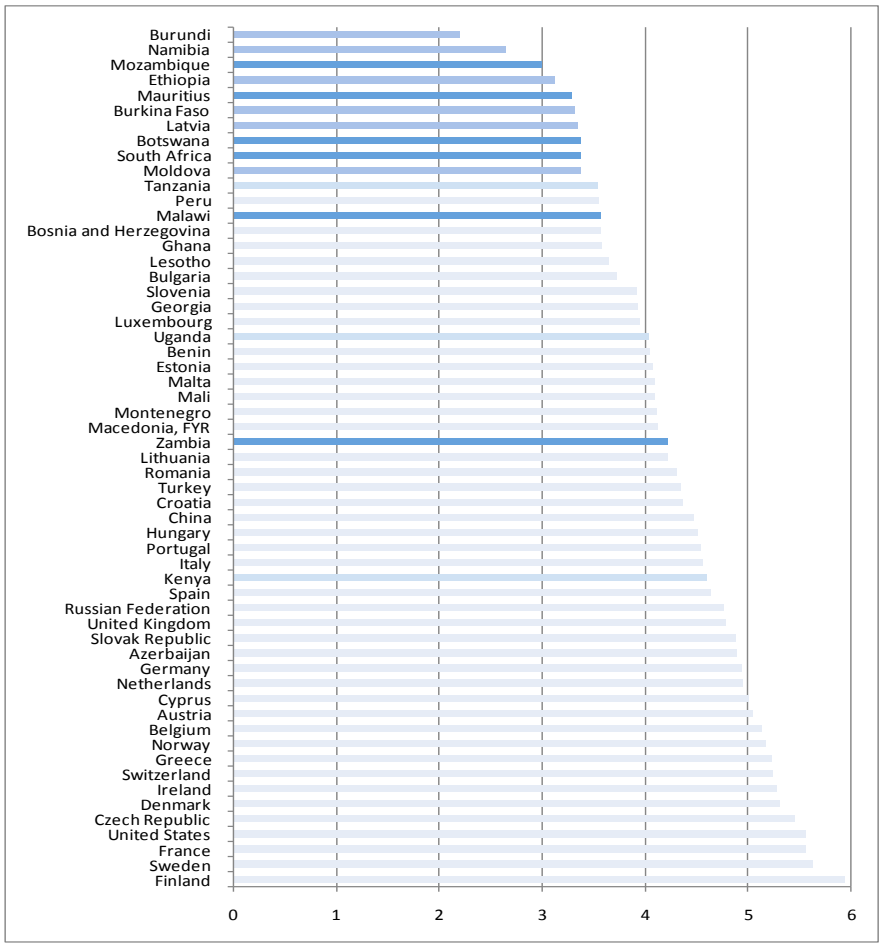


Source: World Bank Regulatory Surveys in Eastern Africa, 2009, World Bank Regulatory Surveys in Southern Africa, 2010, and CEPEJ (2008).

Engineering Services

All Southern African countries are confronted with a limited availability of engineering professionals. In engineering services, capturing the number of professionals practicing in each of the Southern African countries accurately is more difficult. Although the countries have professional engineering bodies and registration with those bodies is in theory mandatory for engineering professionals, in practice the number of registered professionals represents only a small fraction of those providing engineering services in these countries. Hence, to shed some light on the availability of engineers in Southern 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 respective countries on the basis of the following ranking: from 1 = nonexistent or rare to 7 = widely available. The results for a large sample of both developing and developed countries are illustrated in Figure 2.3 which shows that the availability of engineers is particularly problematic in Mozambique, Mauritius, Botswana, and South Africa.

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 and Mozambique. The absence of general professional skills in those countries seems to be a constraint for the development of professional services markets as both middle-level (technicians) and higher-level (certified accountants/engineers) professionals are in very short supply. Ideally, policy measures to address professional skills shortages in these countries should be linked to broader issues of skills development and private sector development. In South Africa, although the absolute numbers of available professionals are large, the needs from its growing and increasingly sophisticated economy are also very large. Hence, the country is suffering from acute shortages of chartered accountants, auditors, and engineers. In Mauritius, in contrast accountants seem to be in adequate supply but engineers not so much. This suggests that 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 the accounting and engineering sectors in all Southern African countries. In addition, there are two worrying points related to the attrition of those types of skills: the declining number of applicants for science, engineering and technology courses, and the very long time taken by engineering students to graduate for example in Mozambique where a degree that should be completed in 5 years often takes 8 years to complete. 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 Southern Africa, lawyers are generally believed to even be in adequate (or in some cases in excess) supply, but lawyers with particular specializations – that are often not available for study in the region - or with high experience levels are often in shortage.

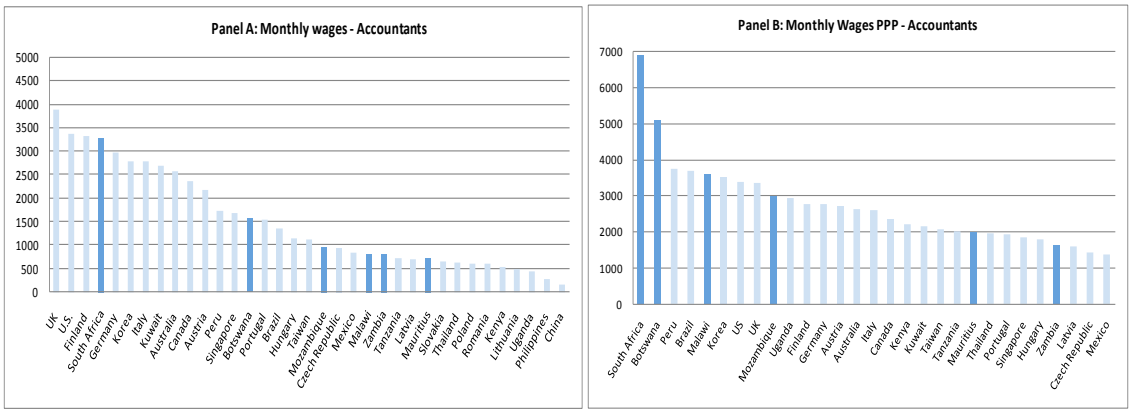
2.2 …and wages of professionals also vary across countries and professions

Substantive returns to professionals and wages premia relative to other workers with a university degree validate the professional skills scarcity hypothesis in Southern Africa. Even though professionals in most Southern African countries receive low nominal wages relative to their counterparts in middle-income and developed countries, once their wages are adjusted for purchasing power, professionals in South Africa, Botswana, Mozambique, and Malawi are comparatively well paid – reflecting perhaps their scarcity relative to demand for their services. The evidence in Figures 2.4 and 2.5 suggests that the returns to the accounting and engineering professional degrees in Southern Africa are substantial. The relatively high real wages for these professionals across Southern African countries reflect their scarcity relative to the demand for their services in the region. The presence of wage premia for professionals in accounting, legal, and engineering workers relative to the earnings of other professionals and other

workers with a university degree in most Southern African countries further strengthens the professional scarcity hypothesis.[8]

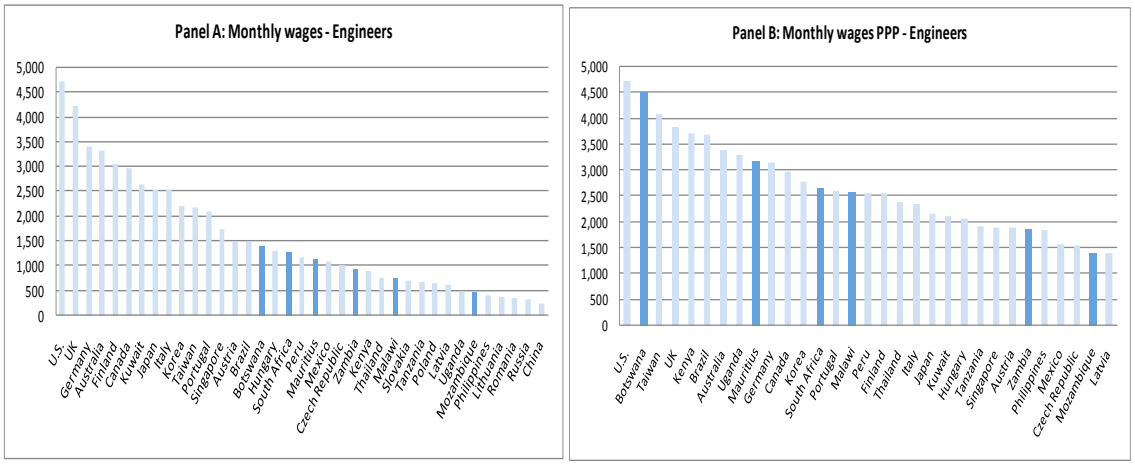
The scarcity of engineering professionals is more pronounced than that of accounting professionals in several Southern African countries. A more severe scarcity of engineers as compared to that of accountants in Mauritius and Zambia is reflected by the earnings differential between those two types of professionals (compare Panel A of Figure 2.4 with Panel A of Figure 2.5 and Panel B of Figure 2.4 with Panel B of Figure 2.5).

Figure 2.4: Monthly Wages – Accounting Professionals



Source: World Salaries and World Bank Survey of Providers of Professional Services in East Africa, 2009 and World Bank Survey of Providers of Professional Services in Southern Africa, 2010.
Note: The average monthly wages are in 2005 USD in Panel A and in international USD (purchasing power parity or PPP USD) in Panel B.

Figure 2.5: Monthly Wages – Engineering Professionals

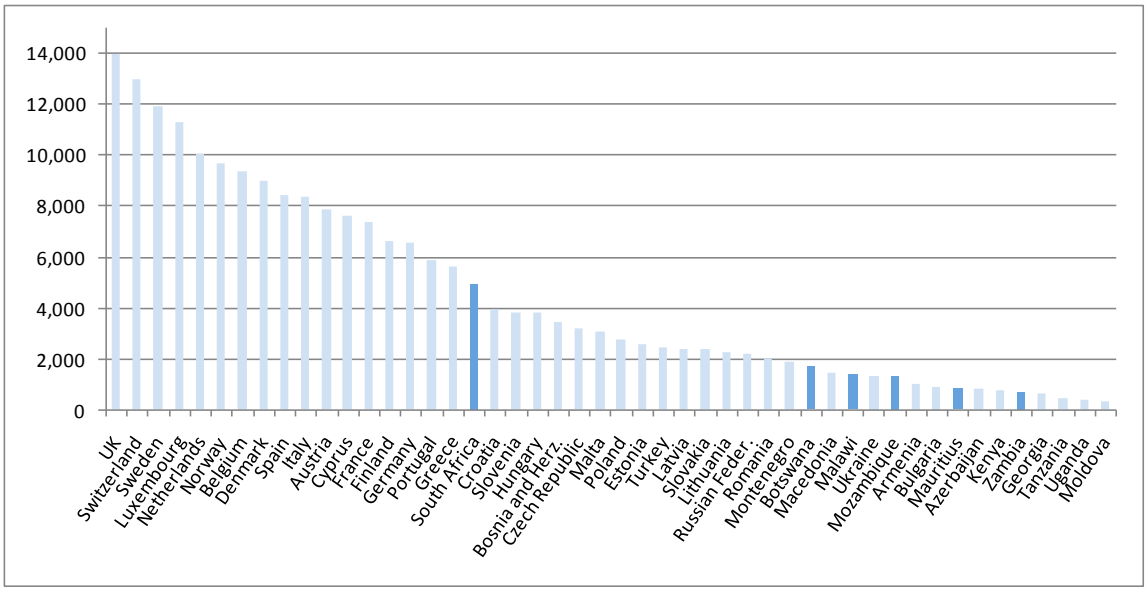


[8] We should note, however, that the interpretation of high wages reflecting skill scarcities can be problematic in certain cases where professionals may be scarce but salaries are not as high as those of other professionals. This could be the case for example in countries where the relatively higher wages of legal professionals are not indicative of their scarcity but rather of the power of professional bodies where entry and conduct regulation enable incumbents to capture high rents.

Source: World Salaries and World Bank Survey of Providers of Professional Services in East Africa, 2009 and World Bank Survey of Providers of Professional Services in Southern Africa, 2010.
Note: The average monthly wages are in 2005 USD in Panel A and in international USD (purchasing power parity or PPP USD) in Panel B.

Wage data for lawyers corroborate the scarcity of legal professionals in Southern Africa. Wage data for lawyers is not available for a comparable sample of countries. However, using information 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 large sample of European transition and developed countries as well as data from the World Bank Surveys of Professional Services Providers in East Africa and in Southern Africa, we can shed some light on the earnings of legal professionals in Southern Africa.[9] While results in Figure 2.6 should be interpreted with care given the different categories of professionals examined in Africa and in the other countries of the sample, we can nevertheless conclude that the nominal wages of Southern African lawyers are significantly lower than those received by legal professionals in many transition countries, but are still higher than nominal wages received by lawyers in East Africa.

Figure 2.6: Monthly Wages of Lawyers and Legal Professionals



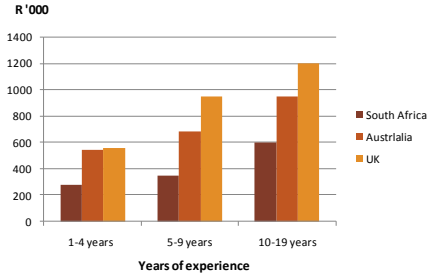
Source: European Commission for the Efficiency of Justice, 2008, World Bank Survey of Providers of Professional Services in East Africa, 2009, and World Bank Survey of Providers of Professional Services in Southern Africa, 2010.
Note: The average monthly wages are in 2006 USD.

[9] Note that the salaries of legal professionals working in public office may constitute an underestimate of the salaries of lawyers in private practice.

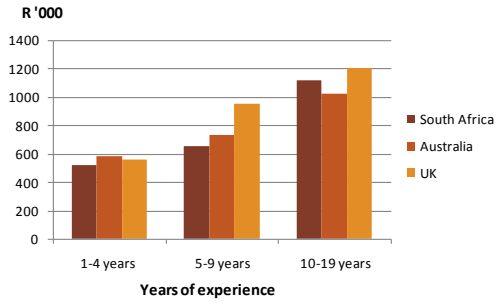
The scarcity of lawyers seems less severe than that of engineering and accounting professionals. While data on the wages of legal professionals adjusted for differences in the cost of living that would provide a better indication of the scarcity of those skills is not available for the six Southern African countries, for South Africa data from Payscale provides some indication on the average salaries of lawyers relative to those of their counterparts in the UK and Australia in nominal terms but also adjusted for the cost of living. Panel A of Figure 2.7 shows that even when using the upper bound level for South African salaries, they are well below those earned in Australia and the UK. Adjusting for differences in costs of living, the salaries of South African lawyers are at a similar level to those in Australia but are still lower than those in the UK. South African lawyers appear to be less scarce than their engineering and accounting counterparts.

Figure 2.7: Wages of South African Lawyers

Panel A: Nominal Wages



Panel B: Wages Adjusted for Cost of Living



Source: Payscale (HTTP://WWW.PAYSCALE.COM/).

*2.3. The limited availability of middle-level professionals hurts access to services in all **Southern African countries…***

Middle-level professionals are an important subsection of skilled workers that can provide services to underserved groups of clients and produce large economic gains but are sometimes underappreciated in Southern Africa. For example middle-level accounting professionals such as accounting technicians can provide basic record-keeping services needed by small firms. The typical needs of African countries for criminal justice resources are roughly 5% for legal representation, 25% for alternative dispute settlement, and 70% for legal empowerment. Paralegals - non-lawyers that nonetheless engage with clients on a variety of complex law-related tasks - can provide services in alternative dispute settlements and legal empowerment. Similarly, paralegals can play a role in commercial dispute settlement and mediation, where the services of lawyers are not always needed. Notwithstanding such clearly identified needs, inadequate regulation often hampers the development of middle-level professionals.

Middle-level skills shortages are documented in most Southern African countries. Statistics on the availability of accounting technicians, paralegals, and engineering technicians in Southern African countries are, however, limited. Often this absence of information is linked to the absence of a regulatory framework for middle-level professionals. The available data suggests that Southern Africa is somewhat better endowed with middle-level professionals to provide accounting, engineering, and legal

services than Eastern Africa where severe middle-level skills shortages are documented by World Bank (2010). However, middle-level professionals account generally for only half of the total number of professionals in a given sector in Southern Africa. This is significantly below the current needs for middle-level professionals. For example, the Council of the Institution of Engineers of Kenya estimates that the typical engineer-to-technician ratio in Africa is 1 to 5. In addition, each engineer would need to be supported by approximately 15 artisans as helpers. The limited availability of middle-level professionals that hurts access to services is a constraint in all countries. Given the skills shortages faced by Southern African countries, the relatively small proportion of middle-level professionals needs to be addressed since they can play a crucial role in providing services to certain underserved groups of clients.

The formation of middle-level skills should be a priority in all examined countries. An innovative initiative has been created to encourage the education, training, and development of paralegals in Malawi: the Paralegal Advisory Service. This project offers paralegal aid in criminal cases, and so far 38 trained paralegals have taken part in the project. The project is set up so that candidates receive training from NGOs working in partnership with key stakeholders including Malawi Prisons, Police Services, and the court system. In return, the paralegals are able to work with these same institutions, making the arrangement a positive one 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. Southern African countries can put in place similar programs for paralegals or for other middle-level professionals. Since such services are tradable across borders developing further such programs could generate additional trade in educational services via modes 2 (consumption abroad) and 4 (movement of natural persons), further helping economic growth and development across the Southern Africa region.

2.4….as do skills mismatches

Skills mismatches seem to be a serious issue in several Southern African countries

…in accounting services. Consultations with stakeholders in the accounting sector in Mozambique revealed that multinational auditing and accounting firms face shortages of entry-level accounting and auditing professionals not for the lack of applications but rather because many of the candidates applying do not have the requisite quality of training (Fernandes and Mattoo, 2009).Moreover, those multinational firms also face severe shortages of senior-level local professionals that would be fundamental to monitor the quality of financial reporting (World Bank, 2008). In Malawi, stakeholders from the public and the private sectors have indicated that the accounting sector in the country suffers from such skills mismatches that, despite high demand there are many unemployed accountants in the country. In South Africa, the mismatches in accounting are of a different nature: some firms in the private sector hire chartered accountants (CAs) registered with the South African Institute of Chartered Accountants (SAICA)

because of their perception of quality but in reality the work that they hire the CA to perform could be performed by a less highly qualified accountant.

…in engineering services. Stakeholders in Mozambique revealed an important shortage of engineers or engineer technicians with knowledge of road maintenance. In South Africa, 97% of the respondents to a recent survey conducted by the Consulting Engineers South Africa on the state of the profession indicated that they are experiencing significant difficulties in the recruitment of qualified and, most importantly, experienced engineers (CESA, 2008).

...and in legal services. Consultations with local legal practitioners in Botswana have revealed that the country has a large number of law practitioners but not enough practitioners with specialized skills. Namely there is a lack of sufficient commercial lawyers, tax lawyers, private equity lawyers, banking lawyers, and stock exchange legislation drafters. Very few specialized courses or training programs in these fields are currently available in Botswana. The same scenario emerges in Mozambique where, there is a huge gap to be filled regarding lawyers with different specializations such as tax lawyers.

South Africa presents another special case of skills shortages. The skills shortages and mismatches in South Africa are amplified by the country's racial history and the still very small number of black professionals in each of the sectors.

3. High usage of professional services and complex market structures in Southern Africa

3.1. On the demand side: A surprisingly large usage of professional services by formal sector firms and vertical segmentation

The usage of externally outsourced accounting, engineering, and legal services is highest for large firms regardless of their sector of activity in all countries. This pattern is shown in Figure 3.1 . But interestingly, usage of accounting services by small firms is not negligible: more than 50% of small and micro firms in Southern African countries except Mozambique indicate that they outsource those. The usage of externally outsourced legal services is high for medium and large firms but is much less prevalent among smaller firms in Southern Africa, and the same is true for engineering services (with the exceptions of Malawi and Mozambique).

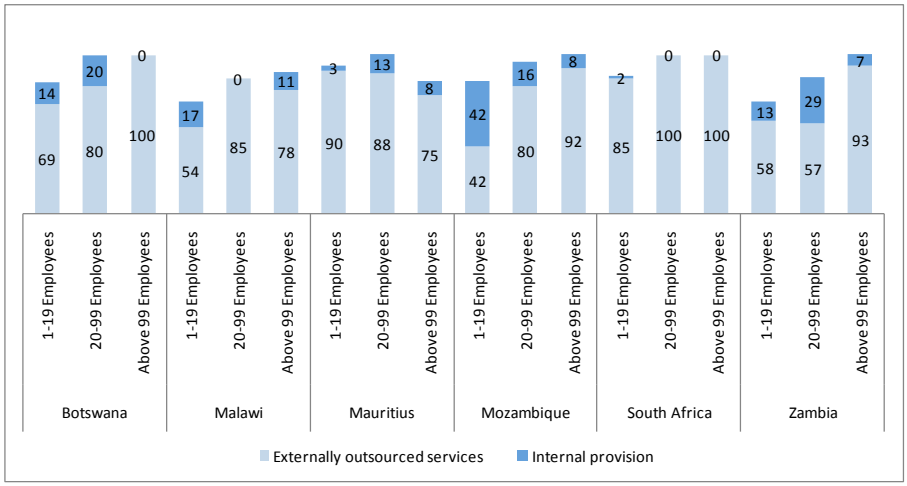
The in-house provision of engineering services in higher than that of accounting and legal services. Figure 3.1 also shows that in-house provision - as compared to external outsourcing - of accounting services is much more prevalent for small or medium-sized firms than for large firms in Southern Africa. Surprisingly, the percentage of firms resorting to in-house provision of engineering services is generally higher than that of firms resorting to in-house provision of accounting and legal services, as these services are mostly outsourced. One likely explanation for such high usage is that engineering services include IT services and those are becoming important for a growing share of firms across all sectors in Southern Africa.

The surprisingly high rate of usage of professional services may be explained to a certain extent by selection bias and mandatory legal requirements, The high rate of usage of accounting and to a lesser extent engineering services across firms of all sizes in Southern Africa may appear surprising given the still relatively low level of sophistication of those countries' economies (with the exception of South Africa). The fact that the majority of the firms surveyed were located in the capital or second major city of each country and all are formal firms may result in some overestimation of the degree of services usage. At the same time, a large proportion of the demand for accounting and auditing services seems to be derived from mandatory legal requirements, such as financial reporting and taxation.

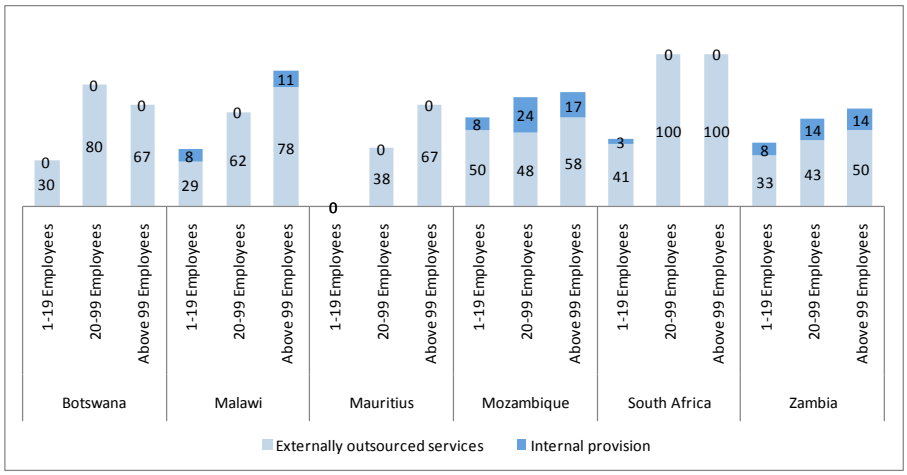
The monotonically increasing relationship between the degree of external usage of professional service and firm size may be explained by prices of professional services that are prohibitive for small firms. The monotonically increasing relationship between the degree of external usage of professional services and firm size in Southern African countries for all services shown by Figure 3.1 is not surprising. This relationship confirms anecdotal evidence for most Southern African countries that the prices of professional services are prohibitive for many small firms.

Figure 3.1: Usage of Professional Services in Southern Africa by Firm Size

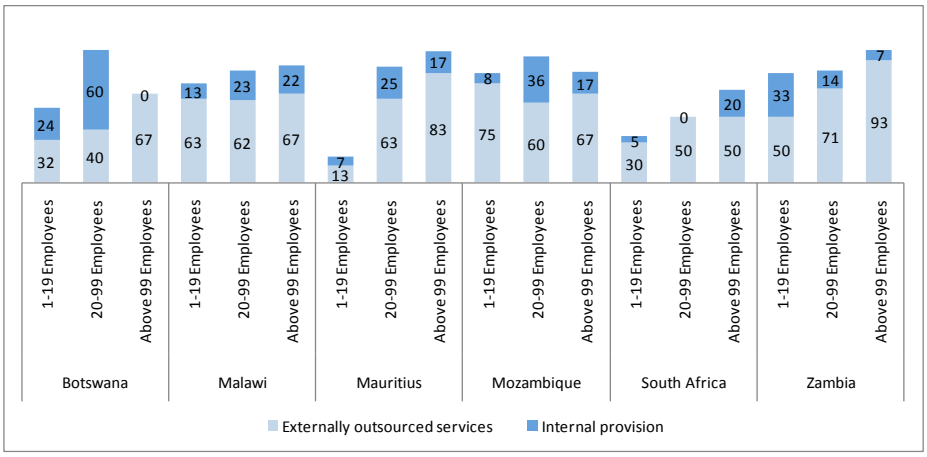
Panel A: Accounting Services



Panel B: Legal Services



Panel C: Engineering Services



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

Demand for professional services comes from all types of economic sectors but some interesting differences can be highlighted across Southern African countries and professions.[10] Accounting and auditing firms earn the largest share of their revenue by providing services to the non-financial sector in Botswana, Malawi, Mauritius and Zambia but to the public sector in Mozambique and South Africa.[11] For all Southern African providers of legal services, non-financial institutions seem to be the most important clients, followed by the manufacturing sector and then the banking sector.[12] The demand for engineering services mainly revolves around public sector projects

[10] Annex 4 presents detailed figures with the sources of revenue earned across different types of sectoral clients in Southern Africa.

[11] The list of potential client sectors that the surveyed accounting and auditing firms had to consider was: non-financial sector, public sector, and banking and financial institutions.

[12] The list of potential sectoral clients that the surveyed legal firms had to consider was: non-financial sector, telecom/electricity/water sector, banking sector, and manufacturing sector.

where services are centered on the construction of roads, airports, housing, schools, water and sewerage works. In the less developed Southern African countries such as Malawi, Mozambique, and Zambia, the bulk of the work available to consulting engineers seems to be derived from international donor-funded physical infrastructure projects. Engineering firms in all Southern African countries earn on average the largest fraction of their revenues from the provision of services to construction companies and to a lesser extent to transport firms.[13]

The degree of vertical segmentation on the demand side differs across professional services markets, but tends to be homogeneous across Southern African countries.

In accounting service the Big Four have a dominant role. With the exception of South Africa, in the rest of Southern Africa the Big Four are the only firms competing for listed companies or large corporate entities as clients whereas the remaining smaller accounting services providers target small and medium enterprises (SMEs). In Mauritius, industry insiders revealed that small individual providers serve the SMEs (often by working on a part-time basis in those SMEs) providing drafting and overview of financial statements, tax compliance, and tax advisory services.

The legal markets in Southern Africa do not display a level of vertical segmentation on the demand side comparable to that in accounting and auditing markets. According to the World Bank Surveys of Providers in Southern Africa, multinationals and large companies represent the major client for more than thirty percent of small legal providers in all countries. In Botswana and Malawi, multinationals and large companies are the major clients for a large fraction of small legal providers. This finding is not surprising, however, given the absence in Botswana and Malawi of law firms with more than 10 lawyers which would be those likely to be serving those types of clients in other countries.

There is some vertical segmentation of demand for engineering services market in Southern Africa. The World Bank Surveys of Professional Services in Southern Africa show that smaller firms are the major client for more than 20% of small providers of engineering services in all countries. However, large companies and multinationals are the major clients for more than half of the small engineering providers in South Africa, and for more than 40% of providers in Zambia.

3.2. On the supply side: Market structures shows elements of both oligopoly and competition

The market structures of the professional services sectors in Southern Africa are broadly similar across countries - with some interesting exceptions noted below - and combine elements of both oligopoly and competition, depending on the sector.

[13] The list of potential sectoral clients that the surveyed engineering firms had to consider was: IT companies, water companies, transport companies, and construction companies.

Across Southern Africa, the markets for accounting and auditing services are dominated by the large affiliates of the so-called "Big Four". In South Africa, however, given the much higher sophistication and larger size of the market as well as the longer tradition of the accountancy profession, the market structure in accounting and auditing services is less concentrated. Other international firms such as BDO and Grant Thornton as well as a number of large domestic firms also provide accounting and auditing services. The markets for accounting and auditing services across Southern Africa remain heavily fragmented at the bottom. The market structure in accounting and auditing services in Southern Africa resembles an oligopoly with a (variable) competitive fringe. The comparison of the density of accounting and auditing services providers in Southern Africa (the ratio of the estimated numbers of providers to the total population) to that in more advanced European countries reveals that the Southern African countries exhibit substantially lower densities.[14] To a certain extent this reflects the limited availability of professionals identified earlier but the fact that the density differential is more pronounced for professional services firms than for professionals suggests a higher degree of concentration in the Southern Africa or/and that large firms are outsized.

The legal sector in all Southern African countries is dominated by domestic providers, often individual practitioners or small firms. In most countries, only a small percentage of lawyers are employed by the largest ten firms in the sector. Despite a recent consolidation movement with a number of high profile domestic law firms completing mergers in South Africa, the concentration in the market for legal services is still low. The only country where a higher level of concentration is observed in the legal services market is Mozambique.[15] Comparing the density of law firms in Southern Africa and that in European countries suggests that all Southern African countries exhibit substantially lower densities of services providers. Again, this finding is not surprising in face of the limited availability of professionals identified earlier.[16]

Across Southern Africa, engineering is mostly dominated by local practices, highly fragmented in terms of organization, size, business culture and management. But in Mozambique and South Africa the market structure is closer to that of accounting and auditing services, i.e., a small number of large firms dominate the markets. In South Africa, industry consolidation has become a noticeable trend in consulting engineering in recent years and larger firms have come to play an increasingly dominant role.

[14] The density of services providers is the ratio of the number of providers to the total population.

[15] In Mozambique the six largest law offices employ a total of 100 lawyers, which corresponds to almost one quarter of the registered lawyers in the country (Fernandes and Mattoo, 2009).

[16] It should be noted that in Mozambique, and possibly in other Southern African countries, the legal departments of (some of) the Big Four are also important providers of legal services. But those departments may face restrictions in the types of legal services that they can provide. International regulations on independence, such as for example Sarbanes-Oxley, do not allow the legal departments of the Big Four to provide different services to the same client.

4. The mobility of professionals and the segmentation of regional markets for professional services

4.1. High levels of emigration of Southern African professionals and moderate immigration of foreign professionals

The high level of emigration of tertiary graduates contributes to the skills shortages identified in Southern Africa.[17] The emigration levels of tertiary graduates from several African countries are presented in Table 4.1. As of 2000, 23043 university-educated Mauritians and 10696 university-educated Mozambicans were living in OECD countries corresponding to 56.2% and 45.1% of all university-educated citizens living in Mauritius and in Mozambique, respectively. These skilled emigration rates are extremely high even by African standards. South Africa is also a significant destination for skilled Mozambicans and skilled Zambians. Interestingly, the skilled emigration rates of Botswana are much lower than those of its SADC counterparts. [18]

Table 4.1: Emigration Rates of African Individuals by Skill Level

	Emigration Rates in OECD Countries in 2000			Number of Emigrants in OECD Countries in 2000			Number of Emigrants in South Africa in 2001		
	Tertiary Education	Secondary Education	Primary Education	Tertiary Education	Secondary Education	Primary Education	Tertiary Education	Secondary Education	Primary Education
Botswana	**3.6%**	**1.0%**	**0.1%**	**940**	**1358**	**474**	**966**	**1295**	**9480**
Malawi	**18.7%**	**2.5%**	**0.1%**	**5474**	**4082**	**3121**	**1699**	**3494**	**14914**
Mauritius	**56.2%**	**9.1%**	**7.5%**	**23043**	**22293**	**34513**	**889**	**1422**	**760**
Mozambique	**45.1%**	**6.3%**	**0.6%**	**10696**	**13183**	**36460**	**2788**	**10167**	**176034**
South Africa	**7.5%**	**0.8%**	**0.3%**	**168083**	**71620**	**28972**			
Zambia	**16.8%**	**1.1%**	**0.2%**	**13739**	**8731**	**5883**	**7852**	**7668**	**4305**
Ethiopia	10.1%	1.3%	0.1%	51392	32025	22215	314	646	219
Ghana	46.9%	2.4%	0.8%	71309	50161	40330	1298	597	375
Kenya	38.4%	3.9%	0.4%	77516	60176	35225	2671	2219	1204
Nigeria	10.7%	0.9%	0.1%	149494	50793	29642	2371	2314	1109
Rep. of Congo	22.2%	2.4%	1.6%	14672	8899	12660	1904	1777	990

Source: Docquier and Marfouk (2004).

The immigration of foreign professionals in accounting and engineering covers some of the observed skills gaps but not uniformly across professions and certainly not uniformly across countries. Foreign accounting professionals represent a very large proportion of total accounting professionals in Botswana and Mozambique but very small proportions in Malawi and Zambia, as shown by Table 4.2. Foreign engineers are an important proportion of total engineering professionals in Botswana, Mauritius, and Zambia. Anecdotal evidence for South Africa suggests that the number of foreign accounting and legal professionals practicing in the country is small and that of engineers is higher but much below what might be necessary to help mitigate skills gaps. In legal

[17] Tertiary graduates include but are not restricted to professionals in accounting, engineering, and law.

[18] The SADC countries are Angola, Botswana, the Democratic Republic of Congo, Lesotho, Malawi, Mauritius, Mozambique, Namibia, the Seychelles, South Africa, Swaziland, Tanzania, Zambia, and Zimbabwe.

services (not shown in the table), there are virtually no foreign professionals practicing in any of the countries.

Table 4.2. Foreign Professionals in Southern Africa

	Accounting		Engineering	
	Total Number of Professionals	Share of Foreign Professionals	Total Number of Professionals	Share of Foreign Professionals
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.

4.2. Limited trade in professional services in Southern Africa

There is some foreign presence in accounting and engineering services in Southern Africa. As far as commercial presence is concerned, statistics from professional associations reveal that in accounting and engineering services there is some foreign participation in the form of foreign-owned or partially foreign-owned establishments. In accounting and auditing services, firms with foreign affiliation dominate the markets. In engineering, a quarter of all registered engineering firms in Mauritius have foreign participation. In Mozambique, while the majority of engineering consulting firms are domestically-owned, there is some presence of foreign-owned ownership. In Zambia, however, out of 298 engineering firms only 2 are foreign-owned.

Foreign presence in legal services in Southern Africa is moderate. Foreign law firms are virtually absent in South Africa and Zambia. In South Africa, as of 2008 there were only 3 foreign-owned law practices in a universe of 8,200 registered law practices. 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.

A relatively small proportion of firms import accounting, engineering, and legal services in the Southern African countries. These findings of the World Bank Surveys of Users of Professional Services in Southern Africa may be the result of high trade barriers imposed by the examined countries.

Evidence compiled on World Bank supported civil works procurement contracts between 1994 and 2009 reflects the lack of integration of the Southern African market for engineering services. Domestic companies generally win most of the 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-Southern African foreign firm participation in these contracts with the limited exception of South African firms having projects in several Southern African countries and some Malawian projects in Mozambique.

5. Explaining skills shortages, skills mismatches, and the underdevelopment of professional services in Southern Africa

The skills shortages, skills mismatches, and the underdevelopment of professional services sectors in Southern Africa highlighted in the previous sections can be explained by a series of problems in the professional education sector. Furthermore, education and professional qualification requirements, domestic regulations, trade policies, and labor mobility policies create additional barriers for individuals and firms to enter the markets for professional services in Southern Africa.

5.1. Explaining the Skills Shortages in Professional Services in Southern Africa – Education Issues

Covering the cost of professional education is a challenge in all Southern African countries. Table 4.1 shows that the most expensive profession for which to study in Southern Africa is accounting, followed by engineering, then law, and that the most expensive country in which to study is South Africa, followed by Botswana, Mauritius, Malawi, Zambia, and finally Mozambique.[19] 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. In the case of Malawi, the USD 15,507 cost of becoming an accounting professional through a public university represents more than 50 times the country's GDP per capita. While skill premia are evident and Table 4.1 also shows that internal rates of return to professional education are very high in all countries, professional qualification seems to be unaffordable for the majority of the population in Southern Africa.

[19] Annex 3 provides details on the data and the calculations presented in Table 4.1.

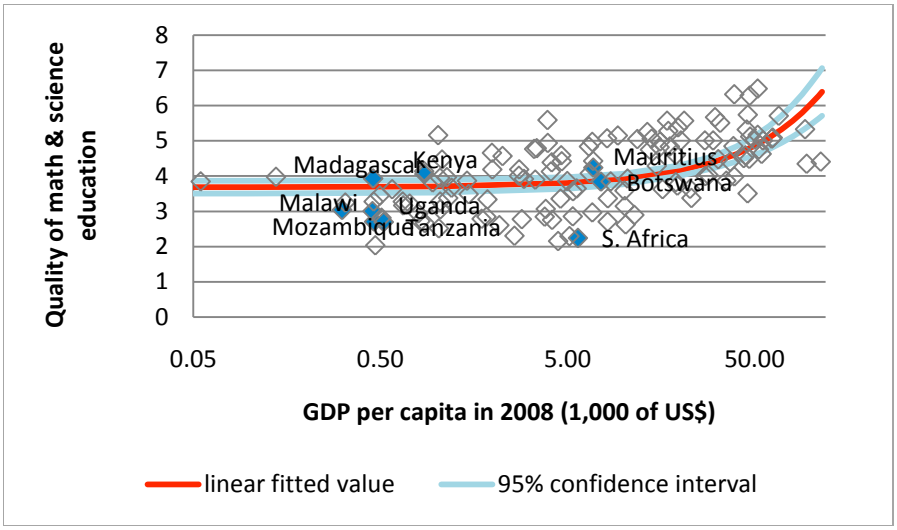
Table 4.1: Cost of Obtaining Professional Degrees and Internal Rates of Return on Professional Education in Southern Africa

	Profession	Years	Total Costs	Average Costs per Year	NPV of Earnings	IRR
Botswana						
	Lawyer	5	20,904	4,181	305,593	64.8%
	Accountant	4	42,005	7,001	298,004	29.9%
	Engineer	5	40,499	8,100	252,664	34.9%
Malawi						
	Lawyer (pub)	4	14,933	3,733	261,974	42.2%
	Lawyer (priv)	4	19,630	4,907	257,277	34.2%
	Accountant (pub)	4	15,507	3,877	163,262	21.8%
	Accountant (priv)	4	23,486	5,871	155,284	18.0%
	Engineer (pub)	5	10,404	2,081	121,328	49.6%
	Engineer (priv)	5	14,227	2,845	117,505	37.7%
Mauritius						
	Lawyer	4	33,815	8,454	163,318	24.3%
	Accountant	5	43,025	8,605	129,408	15.9%
	Engineer	3	28,835	9,612	271,290	38.6%
Mozambique						
	Lawyer (pub)	4	3,648	912	302,572	155.1%
	Lawyer (priv)	4	14,576	3,644	291,644	50.6%
	Accountant (pub)	4	3,295	824	238,607	112.4%
	Accountant (priv)	4	12,259	3,065	229,643	36.8%
	Engineer (pub)	4	3,351	838	111,426	154.8%
	Engineer (priv)	4	12,321	3,080	102,455	44.8%
South Africa						
	Lawyer (pub)	4	37,900	9,475	844,671	79.1%
	Lawyer (priv)	4	39,360	9,840	842,250	74.8%
	Accountant (pub)	4	37,949	9,487	569,627	46.8%
	Accountant (priv)	4	40,370	10,092	567,206	44.7%
	Engineer (pub)	4	32,434	8,108	196,064	30.4%
	Engineer (priv)	4	35,845	8,961	192,652	28.0%
Zambia						
	Lawyer (pub)	5	7,731	1,546	144,285	78.2%
	Lawyer (priv)	4	20,564	5,141	131,452	33.6%
	Accountant (pub)	5	6,647	1,329	183,164	107.4%
	Engineer (pub)	5	5,793	1,159	217,812	153.2%

Source: World Bank Surveys on Costs of Obtaining Professional Degrees and Qualifications in Southern Africa, 2010.
Notes: Years: Years of education, Total Costs: the present value (PV) of educational costs in USD; Average costs per year: the PV of educational costs per year in USD; NPV of earnings: the PV of lifetime earnings less the PV of educational costs in USD; IRR: internal rate of return of the PV of educational costs and lifetime earnings.

Weaknesses in upstream education limit the ability of students to acquire professional skills, affecting particularly engineering services. 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.

Limitations in the capacity and quality of available professional education institutions in Southern Africa are an obstacle to the development of professional services sectors in the region. Tertiary education and professional training are central means by which professionals equip themselves with the necessary skills. A first important issue is whether the education system generates sufficient graduates to meet the demand for professionals and their services. The tertiary gross enrolment ratio provides a general indication on the general availability of graduates in each country. With a tertiary enrollment rate of 12.4% in 2008, South Africa is way ahead of Zambia whose enrollment rate is 1.7%, Mozambique whose enrollment rate is 1% and Malawi whose enrollment rate is 0.3%.A second important issue is how the type of existing institutions affects the labor market outcomes of graduates.

The differences between the university enrolment and the much lower enrolment in middle-level institutions such as polytechnics and professional institutes and the absence of polytechnics in certain countries can help explain the observed middle-level skill gaps in Southern Africa. To the extent that these differences reflect the differences in how the labor market rewards different types of professionals, this may suggest that, in the context of observed shortages in Southern Africa, inappropriate (too strict) regulation is preventing the emergence of supply of such middle-level skills. In this context it is also worth noting that professional training programs for middle-level professionals are largely absent in legal services.

Skills shortages and mismatches can also be explained by the field of study chosen by students. In several Southern African countries, private stakeholders and professional associations expressed concerns that students are not making the right study choices. In particular the numbers of students enrolled in engineering studies is insufficient to meet the large demand.

A more crucial bottleneck than just the size of the Southern African higher education systems and the enrolment rates is the capacity of those higher education institutions to produce the necessary number of graduates and graduates of sufficient quality that respond to the needs of professional markets. In South Africa, the under-resourcing of university departments offering engineering degrees, in particular the insufficient numbers of professors and their low salaries are a particularly serious problem contributing to the shortages of engineering professionals.[20] Similarly, in Mozambique it is difficult for universities to find professors in the areas of accounting and engineering since professionals with experience and knowledge prefer relatively lucrative jobs in the private sector (Fernandes and Mattoo, 2009).[21] In Botswana, physical infrastructure and lack of academic staff are crucial capacity constraints to the expansion of training of accounting professionals. In Malawi, due to an inability to retain qualified teachers and to inadequate capacity, public vocational education institutions are unable to produce the necessary number of middle-level skills, especially ICT professionals, electrical installation technicians, steal fixers, and plant operators.

At the same time, private vocational institutions do not emerge due to the high costs of initiating technical programs in face of limited access to credit. More generally, in other Southern Africa countries, the absence of institutions that offer academic and professional training courses for middle-level professionals (e.g., training programs for paralegals) has been noted as a constraint.

The absence of local higher education institutions may further explain the identified skills mismatches. The absence in local higher education institutions of certain specialized (post-graduate) courses such as those related with banking, private equity and stock exchange legislation in legal services in Botswana, or courses in aeronautical engineering are a possible cause for the identified skills mismatches. Furthermore, outdated labs and teaching methods – especially in engineering – constitute an additional explanation for the skills mismatches.

5.2. Explaining skills shortages and the underdevelopment of professional services in Southern Africa – Domestic regulation

Domestic regulation on the entry and on the operations of professional service firms, presumably designed to meet social goals, often undermines competition

Entry restrictions seem to be quite common across countries in accounting and legal services, with only small variations in the regulation level across countries, while rather large cross-country differences in entry rules are evident in engineering services. In Southern Africa, entry regulation is common and significant in all three

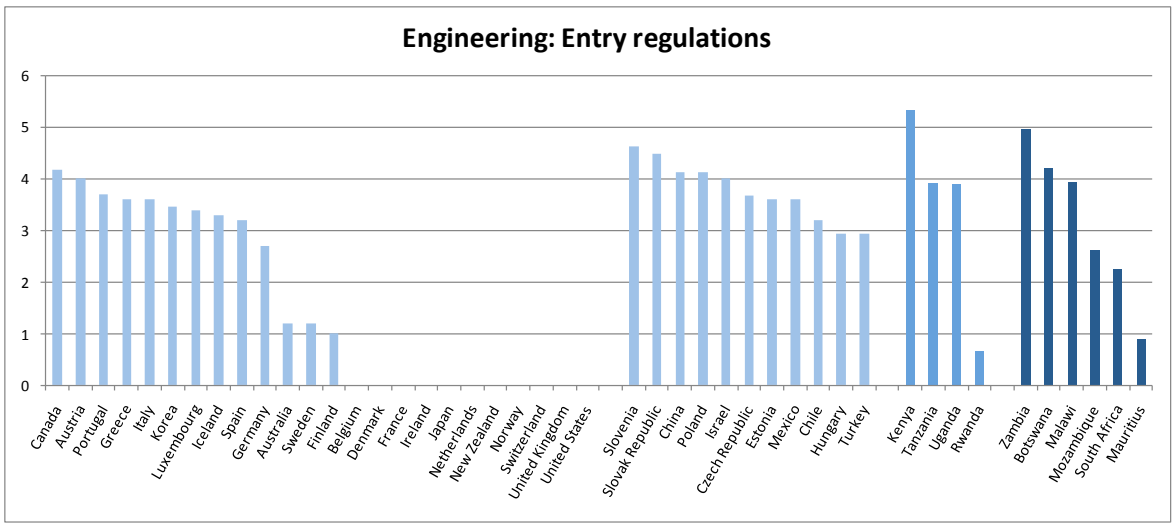
[20] Stakeholders indicated that engineers in practice receive salaries that are three times higher than those of professors of engineering degrees.

[21] This lack of professors brings a great degree of concern about the quality of newly created private universities due to a 'moonlighting' phenomenon whereby the same professors give lectures at the public university and at the private university and thus have little time to prepare the lectures and even less to pursue their own research. Also very problematic is the private universities' lack resources to maintain laboratories which are needed to provide high quality degrees in fields such as engineering.

professional services sectors as revealed by the indexes shown in Figure 5.1. A higher value of the index indicates a more stringent regulatory stance.[22] Legal services tend to be more heavily regulated than accounting or engineering services in Southern Africa as well as in most other countries in the sample.

Figure 5.1: Entry Regulations in Professional Services

[22] The indices shown in Figures 5.1 and 5.2 convert qualitative information on regulatory conditions in Southern Africa into quantitative indicators for each sector on the basis of the method in OECD (2006). Entry regulations include barriers to becoming a member of each of the professions. These may take the form of licensing and educational requirements, quantitative constraints on the number of suppliers of professional services and/or exclusive rights granted to suppliers in certain activities. Conduct (or operations) regulations include restrictions on prices and fees, advertising, form of business, and inter-professional cooperation. The qualitative information originates in (i) our regulatory surveys and (ii) the services policy surveys of Borchert, Gootiz, and Mattoo (2010) as described in Annexes 5 and 6. While the figures cover only highly skilled professionals, the text below also describes the regulatory stance for middle-level professionals where relevant.



Source: OECD Regulatory Database on Professional Services, World Bank Regulatory Surveys in East Africa 2009, and World Bank Regulatory Surveys in Southern Africa 2010.
Note: For countries with no bars the index is equal to 0 which corresponds to the least restrictive set of regulations whereas 6 corresponds to the more stringent set of regulations.

With the exception of paralegals, the examined professions are subject to qualitative entry requirements related to education and qualification requirements in most countries. In general, these qualitative requirements for highly skilled professionals do not vary significantly across countries. The academic pre-qualification requirements for most highly skilled professionals consist of university degrees the exceptions being accountants in Botswana, Malawi, Mauritius, and Zambia where a high school degree is considered sufficient (to be complemented by professional qualifications such as Association of Chartered Certified Accountants (ACCA)). Additional post-graduate specialized courses are required in legal services in Mauritius and Zambia.

The required academic pre-qualification needs to be supplemented with practical training of varying duration in almost all professions in order to complete the professional examination. Exceptions to this training requirement are found only in accounting in Malawi and Mozambique and in engineering in Botswana. The requirement that practical training needs to be conducted under the supervision of a fully qualified senior professional resembles a two-edged sword: on the one hand, it is necessary for young graduates to gain experience but on the other hand the limited availability and frequent lack of interest of experienced professionals to supervise trainees makes it difficult to form accountants, lawyers, and engineers in a short period of time. In Botswana, the local professional accountancy body pointed out that companies wanted fully qualified accountants not trainees. The lack of places for accountant trainees to get their required practical experience was therefore viewed as an important rationale for skills shortages. In Mozambique, universities and the private sector rarely collaborate to arrange internships for engineering students which would help them acquire the practical training that universities cannot provide but employers desperately seek. Thus, qualitative entry restrictions can limit the number of professionals and services. This may

be especially the case when the entry restrictions are combined with exclusive tasks for the regulated profession

Other qualitative entry requirements may take the form of membership in the professional association, licensing requirements and continuing education requirements. Membership in the relevant professional association is mandatory in accounting and legal services, and compulsory licensing is a must in all Southern African countries in accounting. In legal services, compulsory licensing is not necessary in Mauritius nor South Africa. In engineering, licensing requirements are also absent in South Africa and in Botswana, in the latter case given that an engineering board has yet to be established. Continuing education is an obligation to members of the accounting profession in most examined countries, Mozambique being the exception. In contrast for the legal profession, continuing education requirements are entirely absent in Southern Africa and for the engineering profession they are mandatory only in South Africa and Zambia. There seems to be more variation in the regulation of middle-level professionals: for example, in engineering, the regulatory spectrum for engineering technicians ranges from total absence of entry requirements in Botswana to requirements to pass a professional exam, undertake compulsory training, and even engage in continuing professional development in South Africa.

Are qualitative entry requirements justified? Public interest theories argue that such qualitative regulatory measures are necessary to guarantee high-quality services and avoid adverse selection. Qualitative entry restrictions may thus be necessary. But private interest theories point out that there is a risk that qualitative regulations may be disproportionate as a result of excessive entry requirements set by rent-seeking professionals and professional associations. In addition, if the profession gains monopoly over the organization of the required training, the education of necessary professionals may be limited.

It is difficult to determine whether the qualitative requirements in the Southern African countries are disproportionate but several examples of restrictive qualitative requirements have been obtained while conducting our regulatory surveys. For example, restrictions on access to the profession, mainly due to the monopoly of professional associations over training institutions, have been identified in legal services in Zambia, where the Zambia Institute of Advanced Legal Education (ZIALE) is the only institution that provides the post-graduate one-year course necessary for both domestic and foreign candidates to become licensed lawyers in the country.

Some professionals have exclusive rights to perform certain services. Highly skilled professionals in all examined sectors in Southern Africa have exclusive rights to perform certain activities (e.g., auditing for accountants, representation of clients before courts, advice on legal matters for lawyers, feasibility studies, design and planning for engineers). The scope of these exclusive activities seems to be wider in accounting and legal services. In most Southern African countries qualified accounting professionals (most often auditors) enjoy exclusive rights to conduct statutory audits, public sector audits, and non-statutory audits, that is 3 out of 13 possible activities.

The scope of exclusive activities reserved to accounting professionals in Southern Africa is narrower than that observed in the majority of developed and developing countries but higher than in most East African countries. By contrast, the number of activities reserved to legal professionals is higher ranging from 3 to 9 out of a total of 10 activities. This is in line with the general trend observed across countries in the sample. The number of activities reserved to engineers is actually the lowest, ranging from none to 6 out of a total of 10 activities. The scope of exclusive activities in engineering services in Southern Africa seems to be lower than that observed in many developing and emerging economies, but wider than the scope of exclusive engineering activities in developed countries.

Are exclusive rights requirements justified? The argument in favor of exclusive rights is that they can lead to increased specialization of professionals and guarantee a higher quality of service. But the 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 a lower cost by less-regulated middle-level professionals for example.

Regulation affecting operations of legal and engineering providers (conduct regulation) in Southern Africa is heavier than in most comparators included in the sample as shown by Figure 5.2. These outcomes are explained by price regulations, advertising prohibition, and restrictions on the business structure of firms and on multidisciplinary activities.

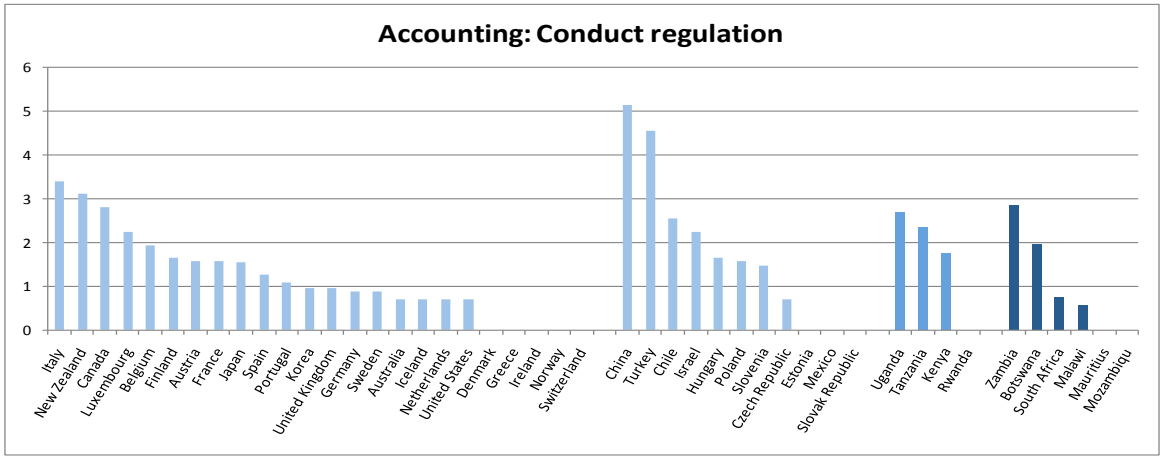
While fees and prices are regulated in legal services, they are freely negotiated in accounting and engineering services in most Southern African countries. In accounting and engineering services, fees for professional services are negotiated freely between practitioners and clients in almost all surveyed countries. However, there are some exceptions. Accounting and auditing services are subject to binding minimum prices in Zambia, which is very different from international practice. Engineering fees are subject to non-binding recommendations in Botswana, South Africa, and Zambia, which is the same type of regulation that is in place in the small number of non-African countries that regulate prices of engineering services. Fees and prices of legal services are regulated in all Southern African countries except Mozambique: Botswana imposes binding maximum prices while Malawi and Zambia impose binding minimum and maximum prices on many legal services, Mauritius regulates notaries' fees, and South Africa makes non-binding recommendations on conveyancing fees. In contrast to the examined Southern African countries, few developed countries regulate fees for lawyers.

Price regulations restrict competition in several professional services in Southern Africa, with detrimental consequences for consumers. These price regulations are supported and introduced by national professional associations who claim that they are useful tools to prevent the adverse selection problem. But the consensus in the economic literature is that such regulatory instruments have potentially the most detrimental effect on competition, by eliminating or seriously reducing the benefits that competitive markets deliver for consumers. It is generally accepted that less restrictive mechanisms such as better information on the services provided could be put in place.

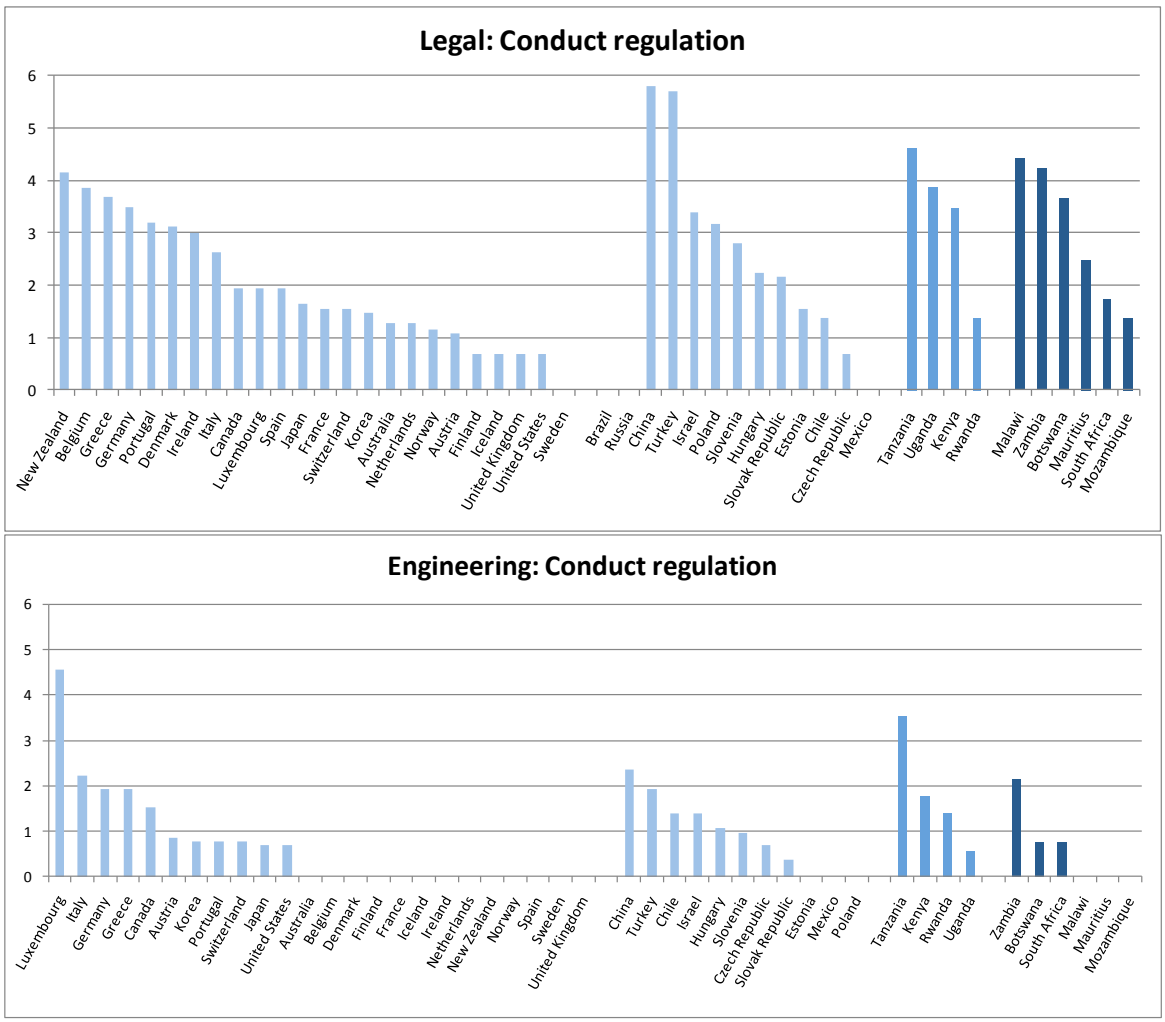
As opposed to many developed and developing countries, most Southern African economies impose advertising restrictions on professional services. Several professions in Southern Africa are subject to advertising prohibitions: accounting services in Botswana, legal services in Botswana, Malawi, Mozambique, and Zambia, and engineering services in Zambia. In general, Southern African countries seem to impose more severe regulations on advertising and marketing than most developed and developing economies.

Advertising restrictions limit competition, with detrimental consequences for consumers. 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.[23] Rather, advertising facilitates competition by informing consumers about different products and allowing them to make better-informed purchasing decisions. It is also stressed that advertising, and in particular comparative advertising, can be a crucial competitive tool for new firms entering a market.

Figure 5.2: Conduct Regulation in Professional Services



[23] Stigler (1961) has argued that advertising by the providers of services can substitute for a large amount of searching efforts by a large group of consumers.



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

Note: For countries with no bars the index is equal to 0 which corresponds to the least restrictive set of regulations whereas 6 corresponds to the more stringent set of regulations.

Restrictions on the business structure and on multidisciplinary activities are present in all professional services sectors in all Southern African countries. These regulations can restrict the ownership structure of professional services companies, the scope for collaboration within the profession and with other professions and, in some cases, the opening of branches, franchises, or chains.

Restrictions on the business structure of professional firms and on multidisciplinary activities limit competition and harm consumers in most Southern African countries. To justify these restrictions on the business structure 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 that are 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. As an example, these regulations might prevent lawyers and

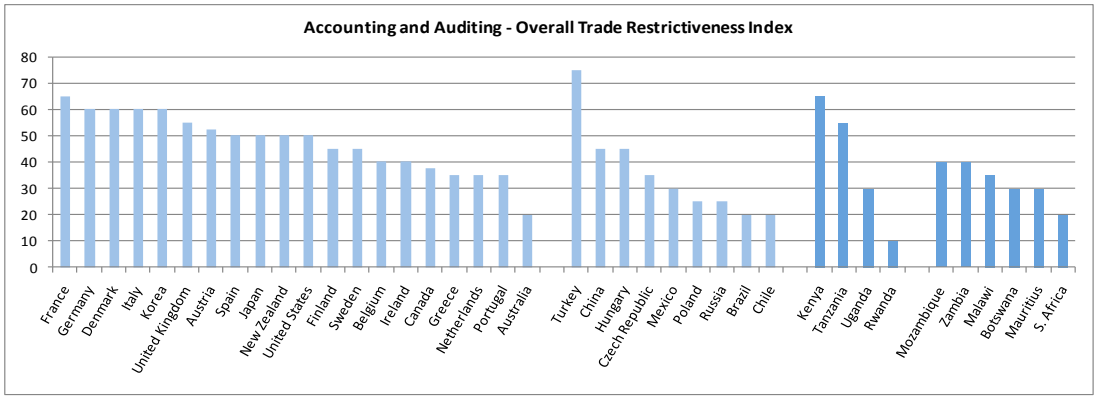
accountants from providing integrated legal and accountancy advice for tax issues. In general, restrictions on collaboration between members of the same profession seem to be less justifiable than restrictions on collaboration between members of different professions where there is a strong need to protect the independence and liability of professionals.

Professional services firms find restrictions on operations a significant constraint. Private providers of services in Southern Africa reveal that restrictions on accreditation and qualification requirements as well as licensing requirements are restrictive in the accounting sector. Regulations on advertizing represent the most important constraint in the legal sector while the speed of licensing is the most important in the engineering sector. Another constraint worth noting is the (inappropriate) technical standards in accounting services.

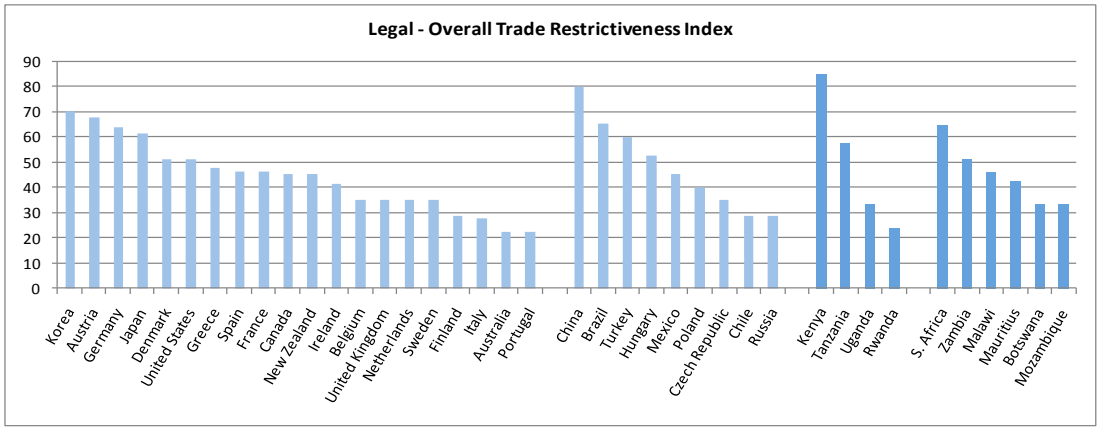
5.3. Explaining skills shortages and the underdevelopment of professional markets - Trade barriers and restrictive immigration policies

Southern African countries differ in terms of their openness to trade. Trade in legal services tends to be more heavily regulated and restricted than trade in accounting/auditing services. This pattern is revealed by the larger values of the services trade restrictiveness indices (STRI) for legal services than for accounting services shown in Figure 5.3.[24] This pattern is true not only for Southern Africa but also for most countries in the sample. South Africa, Zambia, and even Malawi are characterized by more severe restrictions on trade in legal services than most countries in the sample. In contrast, South Africa exhibits one of the least restrictive trade policies in accounting and auditing services.

Figure 5.3. Overall STRI in Professional Services



[24] Figures 4.4 and 4.5 show the services trade restrictiveness indicators (STRI) compiled by Borchert, Gootiiz, and Mattoo (2010) described in Annex 5 and 6. The STRI cover foreign entry restrictions on the movement of natural persons (mode 4) or on the establishment of commercial presence (mode 3). Restrictions on mode 4 include nationality and residency requirements, quotas and economic needs tests, and limits on the type of legal entry or on the scope of business. Restrictions on mode 3 include restrictions on foreign ownership, limits on the type of legal entry or on the scope of business. Trade in engineering services is not covered by Borchert, Gootiiz, and Mattoo (2010).



Source: Borchert, Gootiiz, and Mattoo (2010).
Note: A lower index indicates a less restrictive set of services trade policies.

Considering separately the restrictiveness of trade across the establishment of commercial presence (mode 3) and the movement of natural persons (mode 4) in professional services some interesting differences can be identified.

The establishment of foreign law firms is substantially more difficult than that of foreign accounting and auditing firms in South Africa, but also in most other countries in the sample. This is shown in Figure 5.4. The degree of protection for mode 3 is, however, not higher in Southern Africa than in the rest of the sample for accounting and auditing services. In fact the restrictions imposed to foreign accounting and auditing firms who want to establish a commercial presence in South Africa and Malawi are lower than those in many OECD countries. Botswana and Mozambique exhibit the most open markets to the commercial presence of foreign law firms across the sample.

The entry of foreign law firms is restricted in most Southern African countries. The entry of foreign law firms is not permitted in South Africa. Ownership by non-locally-licensed professionals is prohibited in Zambia and limited in Mozambique. In Mauritius entry is allowed only if the foreign firm sets up a joint venture with a local firm, while in Malawi branches are not allowed. Botswana does not impose restrictions on the entry of foreign law firms, except on the use of foreign parent firm name.

In accounting and auditing the establishment of foreign commercial presence is permitted in all countries but with restrictions. In Botswana, there are possible limits on the use of foreign parent firm name. Malawi, Mauritius, Mozambique, and Zambia prohibit ownership or control by non-locally licensed professionals.

Figure 5.4: STRI in Professional Services by Mode of Supply

Source: Borchert, Gootiiz, and Mattoo (2010).
Note: A lower index indicates a less restrictive set of services trade policies.

The movement of natural persons is substantially more restricted for legal professionals than for accounting/auditing professionals in South Africa, Malawi, and Zambia. This is shown in Figure 5.4. Those three 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, Kenya, and Tanzania. For foreign accountants and auditors, Mauritius exhibits the most liberal trade policy of the entire sample. Also, it is worth noting that Botswana, Mozambique and Mauritius exhibit larger percentages of foreign professionals in accounting and engineering services. This could be a possible result of the relatively less restrictive policies related to mode 4 in these countries.

Except for Mauritius, all Southern African countries impose discretionary limits (e.g. through labor market tests or quotas) on the presence of foreign accounting and auditing, and legal professionals. While these countries impose the same requirements to foreign engineers, Malawi exempts those professionals. In Malawi, Mauritius, Mozambique and South Africa, de jure or de facto nationality requirements to practice domestic law exclude participation by foreign professionals. Malawi and Mauritius do, however, make an exception for citizens of Commonwealth countries and common law countries. Foreign-licensed professionals are eligible to provide legal advice on domestic law in Botswana and Zambia subject to residence and education requirements and labor market and economic needs tests. Foreign-licensed lawyers can advise on foreign law in all Southern African countries subject to the discretionary limits in place. In all Southern African countries the entry of foreign accountants is less restricted. Foreign-licensed accountants can practice in all Southern African 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 if they pass additional examinations in South Africa and Zambia, and/or demonstrate that they have practical experience in Mauritius, Mozambique and Zambia.

In contrast, entry conditions through mode 3 as well as mode 4 are much more liberal for engineering (not shown in the figures). The establishment of foreign engineering firms is not prohibited in any Southern African country and there are no restrictions on the form of entry. Foreign engineers wishing to practice in Southern Africa also face much more liberal entry conditions are also much more liberal for foreign engineers, with no nationality requirements in any country although Botswana, Malawi and Mozambique impose residency requirements. All Southern African countries automatically recognize academic and professional qualifications obtained in other jurisdictions, and except for Malawi all other Southern African countries recognize licenses obtained in other jurisdictions.

In terms of immigration policies, the Southern African countries try to rigidly control the movement of skilled (as workers into and out of their borders, in many cases applying stringent regulations on workers from developed countries as well as on those from within Southern Africa. Although in most countries there are no overtly discriminatory regulations, the existing policies are aimed more at restricting, rather than

facilitating, the free movement of labor. In South Africa the difficulties in obtaining work permits motivate many international firms prefer to set up partnerships with South African 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. Firms can hire foreign workers without requiring a work authorization, if foreign workers account for a smaller fraction of the workforce than that established by the quota system in place: 5% for companies with more than 100 employees, 8% for companies with 11-100 employees, and 10% for companies with up to 10 employees. The quota system applies equally to firms operating in all sectors of activity and more importantly to workers of all skills.[25]

Considering the entry and conduct regulations along the trade barriers in professional services and the immigration policies in Southern Africa a few key points emerge:

- Legal services tend to be the most heavily regulated type of professional service in terms of entry and conduct, accounting is the second most regulated, and lastly engineering. This pattern is true in Southern Africa and in all other non-African countries. Interestingly, this pattern is reversed in East Africa where engineering services tend to be more heavily regulated than accountancy services. Explicit trade barriers are also the most restrictive both in terms of mode 3 or mode 4 of supply for legal services relative to accounting and auditing services.

- In terms of cumulative and disproportionate qualitative domestic entry restrictions, the most frequent measures 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 measures are worth noting regarding inappropriate conduct regulation: (i) fixed prices and fees in legal services and in engineering services (even if the latter are non-binding); (ii) advertising prohibitions in legal services in several countries and in accounting and engineering in a couple of countries; and (iii) restrictions on forms of practice and multidisciplinary activities in accounting and legal services. Another constraint affecting professional services results from a lack rather than an excess of regulation: the unavailability or limited applicability of competition law to professional services in several countries. Some other restrictive regulatory measures include: inadequate standards that prevent the emergence of middle-level professionals (for example, paralegals), 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 obtained in other countries.

  In terms of trade barriers, the legal sector remains largely closed to foreign participation concerning the provision of domestic law and legal representation

[25] See Fernandes and Mattoo (2009) for a detailed discussion of the immigration policies in Mozambique.

in court. Nationality requirements which typically ban foreign entry are imposed by several Southern African countries on providers of legal services. Economic needs tests or labor market tests are applied by all Southern African countries (except Mauritius) 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 and thus the availability of services provided and consumer choice.

- Relative to the rest of the sample, Zambia and Botswana impose significant entry and conduct restrictions in all professional services. Zambia also imposes significant explicit trade barriers particularly to its legal services sector but also to its accounting and auditing services sector.

- Mauritius is one of the countries with lightest regulation in accounting and engineering services domestically but also in terms of explicit trade barriers. South Africa's engineering and legal services seem less heavily regulated domestically than those services in most of the other Southern African countries. However, South Africa's overall regulatory index for legal services remains much higher than the sample average. In contrast, South Africa's explicit trade barriers on legal services are very high from a cross-country perspective.

- Strict immigration regulations seem to play a role in explaining the shortage of key professionals in Southern Africa. Overall, explicit trade barriers, regulatory requirements, and immigration policy in Southern Africa impede the supply of services by foreign professionals and segment the regional markets for professional services.

- It is worth noting that while the services restrictiveness index (STRI) for professional services suggests that Southern African countries are fairly open compared to many OECD countries, existing and future opening might not be sufficiently credible if it is not complemented by regulatory reform. Furthermore, fear of a policy reversal may inhibit foreign investment in professional services.

6. RECOMMENDATIONS FOR POLICY ACTION

The national markets for professionals and professional services in most 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 Southern 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 the lack of regional coordination among Southern African countries further constrains foreign investment and hinders economic growth and development in Southern Africa. 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 six examined countries, international and regional cooperation would ideally complement domestic policy measures. 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.

6.1. Policy Action at the national level

The main focus at the national level should be on the development of framework conditions that address the skills shortages and the skills mismatches and facilitate the growth of professional services in each of the Southern African countries. Reforms related to education 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. One of the central problems with financing higher education in Africa is that the total number of students attending university has far outpaced 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 the increase in students whereas Kenya has lagged student growth by a factor of three (World Bank, 2010). Since it is unrealistic to expect the government to provide all of the necessary additional funding, the introduction or expansion of students' loan programs could be a useful instrument to diversify the sources of funding for higher education while also addressing its affordability for individuals.[26] Student loan schemes currently operate in more than 60 countries, including in South Africa and 12 other African countries, and are becoming an increasingly important financing mechanism for higher education (see Box 6.1).

Box 6.1. Student Loan Schemes

Until the mid-1990s, there were only a limited number of cost-sharing arrangements between governments and students for financing higher education in developing countries, as governments were reluctant to charge tuition fees or transform their scholarship programs into student loan schemes. However, under pressure from increasing enrollments and in face of increasing per-student costs, cost-sharing arrangements are being embraced by an increasing number of governments in Sub-Saharan Africa (Johnstone, 2001). In Mozambique and South Africa, cost-sharing has taken the form of the introduction of upfront tuition fees at all public institutions. To be equitable, cost-sharing arrangements need to be implemented in parallel with adequate support mechanisms for qualified but needy students through scholarship schemes and student loan programs (Salmi, 2003). Student loan schemes are often underwritten by the national government. Since the late 1990s, the number of World Bank higher education student loan projects and related activities has soared. However, establishing student loan programs that promote accessibility but result in real cost recovery is a challenge. The cross-country evidence shows failures or limited success of student loan schemes in Africa. Some of the factors that contributed to that outcome are: excessive built-in interest rate subsidization, long grace periods, poor execution, and a governance system that allows many students to treat their loans like grants. This undermines governments' ability to generate cash from loans that can

[26] Successful education systems around the world generally receive funding from students, government, on-campus services, matching grants, donations and gifts, and revenue from research and development (World Bank, 2008).

then be loaned to other students (World Bank, 2010). Due to the built-in subsidies, recovery ratios for loans in default (the present value of repayments divided by the present value of the disbursed loan) are relatively low, as illustrated in the table below. Recovery ratios in Africa are low in comparison to developed countries likely due to combination of two factors. The first is the relatively weak legal environment in many African countries, which hinders the collection of loans. The second is the structural problem that many students see educational loans as grants. Overall, there is limited hard evidence and the jury is still out on whether student loan schemes can generate sufficiently high loan repayment rates.

Loan Recovery Ratios

Country	Recovery Ratio
Ethiopia	35.24
Ghana	39.13
Kenya	27.93
Mauritius	59.36
South Africa	50.47
Nigeria	10.88
Comparators	
High Income	74.3
Upper Middle Income	50.04
Lower Middle Income	56.09
Low Income	37.19

Source: Hua and Ziderman, 2008

Still there are examples of successful student loan programs and there is some evidence that student loan programs can have positive impacts. A successful example is the South African National Student Financial Aid Scheme which has been able to expand access while generating cost recovery (Johnstone, 2001). This scheme was given the authority to compel employers to withhold student loan repayments owed by employees with payments in serious arrears, thus facilitating the collection of loan repayments. A study for Costa Rica and Mexico (Salmi, 2003) shows that student loan programs can have a positive impact on the quality of higher education through the eligibility criteria imposed on beneficiaries and beneficiary institutions. Moreover, beneficiaries from Mexico's student loan scheme SOFES are shown to have achieved better academic performance than their peers, possibly due to their greater awareness of the price and value of their education (Canton and Blom, 2004).

Student loan programs should be reformed and expanded rather than abandoned. Educational loans are beneficial for both students and governments. Students gain access to funding that they might otherwise not find, and governments are able to train a skilled workforce through a cost sharing mechanism that eases pressure on national accounts. At the same time, raising recovery ratios would enable governments to assist more students. Many pre-conditions are necessary for designing and administering efficient and financially viable student loan programs: transparent eligibility criteria to ensure that any subsidy element be targeted to the most academically and socially deserving students, a close supervision of the academic performance of the student loan beneficiaries, a carefully designed interest rate and subsidy policy to protect the long term financial viability of the program, and efficient collection mechanisms to minimize default (Salmi, 2003). These pre-conditions mean that the implementation of student loan programs requires institutional capacity which may today be found only in middle-income countries. The implementation of such programs in the near future in low-income countries faces formidable challenges as it requires also a strengthening of the capacity and efficiency of legal systems.

Since weaknesses in upstream school education mean that students are ill-equipped to acquire professional skills, enhancing the quality of and capacity of schools, especially in mathematics, sciences, and technical studies, should be a key item on the policy agenda of all examined countries. International and national experiences related to quality assurance of secondary and higher education could serve as a model to be followed by the Southern 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* described in Box 6.2 is another useful example in this context. 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. Additional guidance is provided by the manual on *Graduate Attributes and Professional Competencies*[27] developed as part of the design and implementation of three international agreements regarding mutual recognition of accredited programs are of particular relevance here: the Washington Accord for engineers, the Sydney Accord for engineering technologists and the Dublin Accord for engineering technicians.

Box 6.2. Tuning Educational Structures

The *Tuning Educational Structures in Europe* initiative was launched in 2001 by a large group of universities from the many of European countries. Tuning has not only developed a methodology to (re-design, develop, implement and evaluate study program, it has also served as a platform for developing reference points at subject area level. In 2007 the work of Tuning was validated by some twenty independent international peer review committees for as many subject areas and was highly praised. Over the years the Tuning method has developed into a process of approach which is relevant for all parts in the world. Its usefulness has already been discussed in 19 Latin American countries.

According to the Tuning approach, reference points are expressed in terms of learning outcomes and competences. Learning outcomes are statements of what a learner is expected to know, understand, and be able to demonstrate after completion of a learning experience. According to Tuning, learning outcomes are expressed in terms of the *level of competence* to be obtained by the learner. Competences represent a dynamic combination of cognitive and meta-cognitive skills, knowledge and understanding, interpersonal, intellectual and practical skills, and ethical values.

Competences are developed in all course units and assessed at different stages of a program. Some competences are subject-area related (specific to a field of study); others are generic (common to any degree course). It is normally the case that competence development proceeds in an integrated and cyclical manner throughout a program. To make levels of learning comparable the Tuning subject area groups have not only developed reference points but also cycle (level) descriptors for their academic field, which are also expressed in terms of competences/learning outcomes.

In 2002 Tuning organized a Europe-wide consultation process for at that time seven subject areas including employers, graduates and academic staff / faculty. Such a consultation process was in later years repeated in other regions and countries and extended to students as an important group of stakeholders (19 Latin America countries, Russia, Georgia).

Source: OECD (2008).

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 (for example, the emergence of new educational providers in the same category that are operated by for-profit, non-profit, international or local government entities to respond to the increased demand for access to higher education) and vertical differentiation (for example, the emergence of 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 graduate skills and levels of training. Malawi provides an example of development of middle-level legal professionals that could be a useful model for the other Southern African countries. But it is important to understand why the market is not

[27] http://www.washingtonaccord.org/IEA-Grad-Attr-Prof-Competencies-v2.pdf.

responding more generally to the increased demand for professional degrees in Southern Africa. Regulatory barriers to the establishment of private (namely foreign private) higher education institutions may play a role but so may be the fact that local demand – particularly in the smaller Southern African countries - is not large enough for profitable entry. There is an important potential role for regional integration to address the capacity and quality issues in professional education as will be detailed below.

Reforms should also focus on incremental, qualitative improvements in domestic entry and conduct regulation.

Some possible directions that Southern African countries may consider individually or collectively to seek incremental, qualitative improvements in domestic regulation are the following:

- Disproportionate cumulative entry qualitative requirements should be relaxed. For example, narrowing the scope of exclusive tasks in certain professions would contribute to accomplishing this goal. The argument in favor of exclusive rights is that they can lead to increased specialization of professionals and guarantee a higher quality of service. But exclusive rights which create monopolies can have adverse price and allocation effects, especially if they are granted for services for which adequate quality can be provided at a lower cost by less-regulated middle-level professionals.

- Disproportionate restrictions on conduct that limit competition should be eliminated.
  - Fixed prices: Price regulations are supported and introduced by Southern African professional associations who claim that they are useful tools to prevent adverse selection problems. However, such regulatory instruments can stifle competition and hurt consumers. Southern African 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.
  - Restrictions on business organization: These regulations can restrict the ownership structure of professional services companies, the scope for collaboration within the profession and with other professions and, in some cases, 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 that are detrimental to consumer welfare. But these regulations tend to be clearly anti-competitive and may harm consumers by preventing providers from developing new services or cost-efficient business models. For example, these regulations may 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.

- Advertising prohibition: Public interest theories justify advertising restrictions by the need to protect consumers. But there seems to be no justification for prohibiting advertising that is relevant, truthful, and not misleading. Southern African countries should liberalize the advertising of professional services provided there are adequate safeguards to prevent misleading advertisements. That will facilitate competition by informing consumers about different products and allowing them to make better-informed purchasing decisions and it maybe a crucial competitive tool for new firms entering a market. Mauritius and South Africa's liberalized but regulated advertizing regime for legal services can be used as a model for the other Southern African countries. Such advertising must be relevant, truthful and not misleading.

Private sector providers, as well as professional associations should engage in the design of regulatory reform and of the trade liberalization strategy. It might be useful to establish a trade and regulatory coordinating committee to oversee the process towards better regulation, greater competition and trade liberalization. In setting up the necessary policies for the development of the services sector, including in professional services, the committee should consider how to use liberalization in the professional services sectors as an element for raising productivity and accelerating growth of services. A taxonomy that takes into account the interaction between trade opening and regulatory reform, unilateral liberalization versus binding commitments, multilateral versus regional liberalization, and political will versus implementation capacity can further guide the elaboration of a negotiating strategy for services in Southern Africa.

2. Policy Action at the International Level

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

Potential benefits from regional integration in Southern Africa are considerable.

- The differences in national endowments of professionals across Southern African countries and the capacity for professional training, reflected in differences in the earnings of professionals and the costs of training across countries, suggest that there is substantive scope for trade and potentially large gains from eliminating impediments to trade.

- Deeper regional integration would also 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.

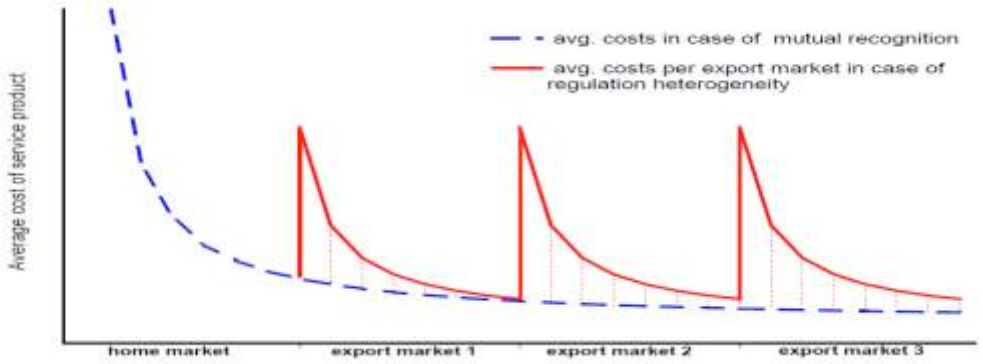
- Regionalization may also make it possible to reap scale economies in regulation and supervision, particularly where national regulatory agencies face skill constraints; it could also reduce scope for the capture of national regulation by private sector interests.

Trade barriers would ideally be liberalized on a most favored nation (MFN) or non-preferential basis since that would generate the largest welfare gains as domestic users of professional services could have access, and domestic professionals could benefit from exposure to the best services providers in the world. But such liberalization may not always be technically feasible or politically acceptable, especially when impediments arise from differences in regulatory requirements. If reciprocal liberalization at the regional level is politically more feasible, then it may be desirable for Southern African countries to weigh the unquestionable benefits of market opening even in the narrow regional context, against the possible costs of giving a first-mover advantage to what may be a second-best regional service provider.

Deeper regional integration through regulatory cooperation with neighboring partners, which have similar regulatory preferences, can usefully complement non-preferential liberalization. Common regional standards on accountancy and auditing reporting, for example, would reduce the costs to market participants of operating across national borders. Regulatory heterogeneity prevents services providers from realizing economies of scale from a larger regional market. Given that most regulatory measures affecting professional services such as qualification requirements or licensing procedures generate fixed costs, they are incurred by firms before entering the market. Moreover, given that each country in Southern Africa has its own qualification criteria, the compliance costs are country-specific and cannot be spread out over provision of professional services in other Southern African countries. Such fixed and country-specific regulation costs can have a serious impact on entry decisions by small and middle-sized firms particularly if firms do not expect large sales in the foreign market. If the Southern African countries adopted common criteria for professional qualifications or recognized (with no hassles) the qualifications and licenses obtained in other Southern African countries, significant efficiency gains would be obtained as shown in Figure 6.1. To draw an example from the EU, Kox et al. (2004) estimate that the stock of FDI in the EU could increase by 20-35% if regulatory heterogeneity across countries was reduced as a result of a common services regulation directive.[28]

[28] Nordas and Kox (2007) estimate the impact of regulatory heterogeneity (and regulatory intensity) on services trade flows and find relatively large negative effects on market entry, trade flows and the export performance of firms.

Figure 6.1. Regulatory Heterogeneity and Regional Integration



Source: Kox et al. (2004)).

Policy action is required to (i) relax the explicit trade barriers affecting professional services including through reform of immigration laws and (ii) coordinate liberalization with regulatory reform and cooperation at the regional level.

(i) Relaxing explicit trade barriers:

Steps must be taken to relax the explicit trade barriers applied by Southern African countries to the movement of natural persons, commercial presence, and cross-border supply of professional services, as well as through discriminatory procurement. Some directions that Southern African countries may consider individually or collectively to improve their commitments to professional markets liberalization are the following:

- Relaxing the nationality and residency requirements that are imposed by several African countries especially to the legal profession. Countries should articulate the economic and social motivation for those nationality and residency requirements. The objectives of such requirements may be achieved by less discriminatory measures such as requiring foreign service providers to undergo professional assessment when nationality requirement is used as a tool to ensure professional competence and appointing a representative agent or liability insurance in lieu of physical presence or residency requirement.
- Minimizing restrictions on forms of establishment.
    - Where prohibition on incorporation is absolute such that only sole proprietorship and partnership are allowed, consider introducing "safeguards" on corporate forms that will ensure professionals are made accountable for their service, e.g., by requiring professionals to secure liability insurance, or stipulating that majority of directors be professionals.
    - Where investments by nonprofessionals are not allowed, consider relaxing the prohibition and substituting it with less restrictive policies such as requiring professionals to have control of operations.
    - Relaxing absolute prohibition of foreigners forming partnerships with local professionals by requiring instead that foreign and local partners be jointly and severally liable, and their liability for the partnership's debts be unlimited.

- Developing transparent the criteria and procedures for applying economic needs tests and other equivalent policies. Setting a timeline for easing and ultimately abolishing those restrictions.

- Developing a transparent, consistent, and more liberal framework for accepting professionals with foreign qualifications.
    - Reviewing and considering adjustments in policies where the social and economic motivations are ambiguous, such as requirement of membership in local professional association, mandatory partnership with, or hiring of, locals of same profession within same area of competence.
    - Where foreign professionals are completely barred from practicing, incrementally recognizing professional qualifications from other member countries that are deemed to have similar standards to those applied in the Southern African countries.

(ii) Coordinating liberalization with regulatory reform and cooperation at the regional level:

Meaningful competition needs not just the elimination of explicit barriers but also steps to address regulatory heterogeneity. The regional forum may also offer Southern African countries an opportunity to coalesce around more appropriate standards.

Regulatory cooperation would be particularly useful in the following areas:

A. Mutual recognition of professional qualifications and professional licensing

The model adopted by East Africa could be followed by the Southern African countries. The five East African countries have taken the first steps towards mutual recognition in professional services in the context of the East African Community 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 (MRAs) 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.

Box 6.4 Negotiating Mutual Recognition Frameworks: What can Southern Africa learn from other regions

Countries negotiating an MRA in professional services can learn valuable lessons from other regions, in particular the European Union and NAFTA, which have struggled – not always successfully - to develop mutual recognition frameworks. These efforts have typically involved first identifying a core set of requirements which can be harmonized across countries and provide a basis for eventual MRAs. Here we consider MRAs in accounting in NAFTA. (Useful examples of mutual recognition in engineering services are the Washington Accord for engineers, the Sydney Accord for engineering technologists and the Dublin Accord for engineering technicians. Other regional agreements that have recently attempted MRAs in

professional services are ASEAN, Mercosul and APEC, on which we are in the process of acquiring more information.)

The process of creating a mutual recognition framework can be split into primary and secondary issues. The primary items are concerned with accreditation and training standards, and apply to all professions; the secondary items are broadly concerned with sector-specific provisions and issues.

The primary items to consider are:
Education: Establish regionally accepted academic programs required for practicing professionals, and guidelines for the accreditation of schools teaching such programs.
Experience: Establish the type and length of required experience or training necessary, if any, before a student can take the examination or receive a license.
Examinations: Establish examinations that students need to pass before they receive a professional license. In the NAFTA countries, there are separate exams in Mexico from the United States and Canada (due to language differences), but the content of the exams is harmonized across countries.
Examinations are in some ways the most important primary item, in that they gauge a candidate's specific knowledge and readiness to practice the profession. Still, to the extent that examinations cannot fully assess how well educated and experienced an individual is, it may be necessary to independently consider the latter two attributes. These primary factors are often the most difficult on which to reach agreement and implement.
All relevant governmental and professional organizations should be encouraged to take part in defining requirements. Due to the number of organizations involved—five principle groups and numerous subgroups negotiated the primary standards for NAFTA - NAFTA's negotiation and implementation process for primary factors took over 10 years to complete, in addition to the time spent negotiating organizing principles in the NAFTA treaty text itself.

The secondary items to consider are:
Professional conduct and ethics: This is especially important in professions such as accounting and law. Standardizing expectations for professional conduct can help avoid conflicting cultural mores across the region.
Professional development: Different countries have different expectations on professional development and recertification, so standardizing these expectations is also important.
Local knowledge: Some knowledge of the country in which a professional practices can be beneficial. This can be tested in the examination, or by requiring relevant academic coursework, or some work experience in, the foreign country.

In general, the first step it to establish the least rigorous standards that can be accepted by countries in each category. Some countries may need to raise their standards beyond their current level, and others to lower them; however, in many countries minimum standards are already quite close (for example, each NAFTA country required a specialized designation in order to practice as a professional accountant). Once this base line negotiation is complete, more specific standards of interest to countries in the region can be added in each category. In addition, it is important to note that in many cases a common set of standards is not necessary for mutual recognition; a country must merely accept the validity of the other countries' standards.

Once a common set of standards has been negotiated and accepted, the new standards must be implemented. This can take as long to accomplish as the negotiation process, depending on the influence and status of various stakeholders in each country. Countries could establish specific targets and dates for which certain standards are implemented. In addition, countries can negotiate interim agreements allowing a certain restricted degree of regional professional practice to take place until the full set of standards is implemented.

Establishing a mutual recognition framework is a challenging and time consuming process, but can also be a worthwhile one.

B. Developing appropriate standards

Inappropriate standards often stifle demand for services in areas such as accounting and engineering. While uniformity of standards may improve the quality, completeness, and comparability of the reported information, and international standards remain appropriate in specific cases, it seems that applying common standards to large firms and SMEs can prevent some smaller firms from using auditing and accounting services. Indeed, 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.

There are both benefits and costs from implementing uniform, international standards. In the accounting sectors of the six Southern 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. The expected benefits from the introduction of IFRS are more comparability of the African countries' financial reports to other countries; more transparency that make firms more attractive for investors and for credit providers; and an improvement 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 (Box 6.5). Complying with IFRS may be excessively costly for certain types of firms, even taking into account the provision for small firms to use a simplified standard.

Box 6.5 Accounting standards in Southern Africa

In Botswana, the Companies Act of 2007 requires that public interest entities and non-exempt corporations above a certain size threshold comply with IFRS. Since Botswana did not have a local generally accepted recordkeeping principles (GARP), the government decided to prescribe the use of IFRS as the accounting standard, but the problem was that the government did not understand what IFRS are, neither did banks' finance and credit divisions, and even professional accountants had difficulties in fully understanding IFRS due to their complexity. The requirement of IFRS was dependent on size thresholds (based on assets and turnover) that were defined initially by the Botswana tax authorities that wanted to have as many companies as possible with audited accounts to ensure more tax revenues. Those thresholds were too low they implied that too many firms would be subject to IFRS - which could actually lead the system to collapse for shortage of qualified accountants that could prepare accounts according to IFRS. To address the situation, the BIA intervened with an appeal to the president of Botswana through a High Level Consulting Committee to increase the size threshold definitions.[29] The President agreed and a November 2008 amendment increased the thresholds required for companies to have mandatory audits of their accounts: from 2M pula to 5M pula of assets and from 5M pula to 10M pula of turnover. To date, the companies act is, however, not yet fully enforced, i.e., the registrar of companies is not systematically enforcing the requirement of IFRS audited accounts. Once enforcement is full the shortage of accountants in the country will become even more pressing. Companies spend large sums in getting their accounts done according to IFRS (30000 to 40000 pula).

In Malawi, the professional accountancy body SOCAM directed since 2001 all companies in Malawi to comply in full with IFRS as per World Bank (2007), the ROSC for Malawi. However, the Companies Act

[29] This appeal was chosen as to avoid the matters taking too long to be resolved through Parliament.

of 1984 does not require the application of IFRS nor any other accounting standards.[30] Given that the SOCAM directive did not come with penalties for non-compliance and the absence of a regulator in Malawi that could monitor compliance, the directive has not been enforced. Hence, some corporate entities of all types and sizes prepare their financial statements according to IFRS but are faced with application difficulties and compliance gaps. The ROSC recommendations were that the Companies Act should be amended to require preparers of financial statements to comply with properly defined accounting standards ensuring penalties for noncompliance and that IFRS should be prescribed only for public interest entities that need to be defined in the Malawi context but could include exchange listed companies public companies financial sector institutions and perhaps large non public companies. This is quite different from the SOCAM directive of IFRS for all companies which would indicate that the standards are appropriate to the conditions of all firms in Malawi. Stakeholders in Malawi believe that a serious challenge with internationally-determined standards is that they are too complex and costly for SMEs to comply with. Malawi has adopted IFRS for SMEs and work is in progress to develop even less burdensome standards for much smaller entities.

In Mauritius, the Financial reporting Act of 2004 prescribes that all public interest entities need to comply with IFRS for financial reporting. A public interest entity is any entity with an annual revenue exceeding 250M rupees or an entity that meets any 2 of the following conditions: *(a)* it has an annual revenue over 150 million rupees; *(b)* it employs over 100 persons; *(c)* it has total assets greater than 100 million rupees or total liabilities greater than 30 million rupees. Hence, for smaller firms compliance with IFRS is not mandatory.

In Mozambique, a new national accounting standard was introduced on Jan. 1 2007 to respond to the growing demands by the users of financial reports in face of the process of globalization of economic activities. The objectives of this new standard were to improve the quality of accounting and the presentation of financial information, and to come closer to IFRS. As of 2008 IFRS were required for the accounting of the central bank, the banking sector, and foreign exchange houses. The Mozambican government plan of transition to IFRS is such that by 2009 all insurance companies and large firms should adhere to IFRS, by 2011 all medium firms should adhere to IFRS. Most stakeholders in the country believe that it is too ambitious to have all large firms adhere to IFRS by 2009 and it may be an illusion to think that medium firms in Mozambique will be able to adhere to IFRS by 2011 (given that IFRS differ from the Mozambican standards in various important respects). The plan to implement IFRS will increase the demand for accounting services in the country, further contributing to the severity of the skills shortage. Many stakeholders argue that the major problem for the implementation of IFRS will be insufficient human resources with capacity. Others believe that accountants can assimilate IFRS through courses but the major problem will be technology, i.e., the costs and complexity of the software adjustments needed to implement IFRS. The major problem is the appropriateness of these standards for any but the largest Mozambican firms, as it is widely believed that for SMEs in Mozambique even the national accounting standards are too complex.

In South Africa, the corporate law amendment act of December 2007 introduced differential accounting standards: (i) IFRS is required for public and widely-held entities and (ii) IFRS for SMEs is required for private/limited-interest or widely-held entities that have not issued securities to the public and/or do not hold assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses. A third tier framework for non-public entities was being developed as of 2009 to replace the IFRS for SMEs. A working group comprising a wide range of interested parties (including preparers and users of Financial Statements of non-public entities and banks) issued an exposure draft entitled "Proposed Framework for Non-public Entities" for public comment in February 2009. The exposure draft has now been reissued taking into account extensive comment received from the public. The revised exposure draft of the "Reporting Framework for Non-public Entities" (RFfNPEs) provides a simpler reporting framework (numbering about ¼ of the pages of IFRS for SMEs), alleviating the reporting burden in several key areas.

[30] Companies are required to keep proper accounting records that give a true and fair view of the company's affairs and need to prepare financial statements in accordance with the act to explain their transactions but do not need to follow any particular accounting standards.

In Zambia, the Companies Act of 1994 requires that companies' financial statements give a true and fair view but did not require compliance with IFRS or any accounting standards as per World Bank (2007), the ROSC for Zambia.[31] Starting in 2005, the professional body ZICA issued a directive whereby IFRS were to be applied by all commercial entities in Zambia. However, this directive lacked clear legal backing as there was institution that would monitor and ensure compliance. Adopting IFRS was ZICA's response to Europe's adoption of IFRS in 2005 and also to a 2000 directive that many other ECSAFA members had already adopted. But although prescribing IFRS, ZICA did not provide any guidance on implementing standards and on how to deal with the complex aspects of IFRS like fair values, leaving each company to do whatever its auditors allow. There was a lack of clear understanding of the international standards by some preparers and auditors of financial statements. Hence, the wholesale adoption of IFRS in 2005 did not take into consideration the relevance of IFRS to the local environment. Stakeholders argued that the requirements of IFRS were too onerous for most of the local companies, mainly small and medium enterprises with limited resources. As of 2009, the Zambia revenue authority demands audited accounts from SMEs, but firms making less than 200 Billion K do not need to comply. ZICA is currently in the process of classifying the definition of SME according to various acts of parliament.

Small and middle-sized firms across Southern African countries noted the excessive costs of complying with IFRS. Dual standards that are tailored to the specific needs of firms by size would be worth considering in Southern Africa. Currently, in most jurisdictions SMEs are subject to relaxed regulations as determined at the national or international level, taking on board specific economic and local conditions. For instance the Financial Reporting Standard for Smaller Entities (FRSSE) developed by the UK Accounting Standards Body (ASB) is applicable to SMEs in the UK.[32] Such Financial Reporting Standard for Smaller Entities (FRSSE) will continue to be an option for qualifying entities in many EU countries even after the introduction of the International Financial Reporting Standards (IFRS) for SMEs developed by the International Accounting Standards Board (IASB).

The development of an appropriate standard is 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 therefore present Southern African countries with an opportunity to address the need for a balance between stringency and access, between integration and local appropriateness, and between rules and discretion. Recent developments in the Southern Africa region 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 small and medium enterprises (SMEs) by the Eastern Central and Southern African Federation of Accountants (ECSAFA), a regional body that serves as a forum for regional cooperation on accounting standards.[33]

[31] The Banking and Financial Services Act, the Insurance Act, and the Public Finance Act also did not prescribe IFRS.

[32] http://www.frc.org.uk/asb/technical/frsse.cfm.

[33] ECSAFA's mission is to build and promote the accountancy profession in the Eastern, Central and Southern regions of Africa. Currently the national accountancy bodies of Botswana, Malawi, Mauritius, South Africa, and Zambia are full members of ECSAFA while the national accountancy body of Mozambique that is in the course of formation has a temporary membership status.

However, it is crucial for the national professional accountancy bodies of the Southern African countries to engage with policy-makers and other national stakeholders to incorporate such regional accounting standards for SMEs into their national legislations. One important issue that will need to be addressed is the national definition of an SME that may need to differ across countries to appropriately reflect the level of development of its private sector. To facilitate this process, an ECSAFA – World Bank initiative is currently developing training modules for the implementation of regional reporting guidelines by SMEs.

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

C. Regional cooperation on the removal of restrictions on the free movement of labor, including visa and immigration laws and regulations and labor policies.

The mobility of business people is a key factor in the promotion of free and open trade. It is not in Southern African countries' interest to cut themselves off from the regional and international market for skills. While there may be an interest in limiting the entry of foreign professionals in order to create opportunities for domestic professionals, such restrictions could undermine growth by penalizing the users of professional services. Restrictions on foreign entry also stifle the flow of information about new services and their benefits and deprive local professionals of valuable learning opportunities.

Enhancing business mobility by exchanging information on regulatory regimes and streamlining immigration processes for business travelers and workers and temporary residence of business people are key areas that need to be addressed to create a truly integrated market within Southern Africa. At the regional level, the Southern African Development Community (SADC) has tried to regulate labor mobility, but so far has not been able to adopt any regional labor mobility agreements, mostly due to the disagreements among national governments. The experience of regional groupings such as the EU or the APEC Business Mobility Group that have made considerable progress in this area could provide practical guidance for the implementation in Southern Africa of commitments related to the free movement of labor and harmonization of immigration policies.

D. Regional cooperation in developing means of financing higher education as well as in the improvement of existing institutions of professional education and the emergence of new ones.

To address the affordability of higher education, the development and management **of students' loan schemes at the national level seems to be one desirable option.** Regional cooperation in terms of sharing information and experiences to increase the recovery rate of loans while increasing students' access to higher education within and outside the region, could improve the impact of such loan schemes in Southern 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 (AAHEFA) to tackle students' loan schemes regionally is a useful example from East Africa that could be followed by the Southern African countries.

The absence of institutions that offer specialized (post-graduate) courses (e.g., in legal and engineering services) has been noted in several Southern African countries, as has the absence of institutions that offer academic and professional training courses for middle-level professionals. Where the market of a given country such as Malawi or Mozambique is too small to justify the creation of missing institutions or courses, policies to facilitate access to foreign training likely at the regional level are needed - including the portability of course credits and scholarships.

The SADC Protocol on Education and Training (Article 7) recommends that tertiary education institutions reserve at least 5% of admissions for students from other SADC countries. But while the SADC countries have agreed to facilitate the mobility of students and staff within the region for study, research, and teaching purposes, it is unclear how the protocol is being implemented in practice and whether it is benefiting all SADC countries. Only South Africa receives a significant number of foreign students, representing about 8% of total enrollment (DNA, 2010). A 2007 audit by the SADC Secretariat showed that students from Malawi, Mozambique, and Zambia represented only a small percentage of foreign students being trained in South Africa.[34] The movement of students within the SADC region is limited by the lack of an institutionalized system for student movement.[35] At the post-graduate level, anecdotal evidence suggests that South African universities often require students from several countries (e.g., Mozambique) who already have a university degree to do an additional year of studies in order to be eligible to pursue a masters' degree. This happens despite the statement in the SADC protocol that all SADC countries' university degrees should be recognized within the SADC region. The system of credits in higher education to be

[34] The audit identifies 565 students from Malawi, 923 students from Mozambique, and 1315 students from Zambia registered in South African public universities in 2005 which represents, respectively 1.6%, 2.6%, and 3.7% of the 35725 foreign students from SADC countries being trained in South Africa. Botswana in contrast accounts for almost 20% of the foreign students in South Africa.

[35] Mozambican students seem to be particularly hurt in this regard as their mother tongue differs from that of most other SADC countries and their secondary school training is not viewed by other countries such as South Africa as providing students with adequate training to pursue university studies.

implemented at the SADC level is a right step to improve the mobility of students within the region.

Specialized courses for which a need has been expressed in Southern Africa (for example, legal courses focusing on e-commerce, technology transfer and multilateral investment, financial services law, medical law and ethics, arbitration, international litigation, 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 SADC region. Indeed, the SADC protocol on Education and Training recognizes that while undergraduate training should be the responsibility of each SADC member country, cooperation and mutual assistance should happen, at least in some fields of study. The protocol also states that SADC countries agree to establish Centers of Specialization in the region at existing institutions that will be strengthened to be able to offer regional programs in critical and specialized areas.[36] SADC countries would agree to support those Centers of Specialization by sending students there and by providing scholarships. However, the 2007 audit shows that regional cooperation in higher education and training within the SADC has so far been weak, on an ad-hoc basis depending on individual student initiative.[37] The 2007 audit does indicate that some SADC countries have institutions that are presently not being fully utilized and that could cater for the needs of other SADC countries. Within SADC, South Africa has the highest potential to become regional hub for higher and professional education but Botswana, and Mauritius have also been suggested as possible hubs.

The prospects of South Africa becoming a regional education hub are thwarted, however, by the current inability of the South African education system to keep up with internal demand due to capacity constraints in terms of professors and space. Stakeholders from higher education institutions in the accountancy field in South Africa mentioned that they cannot focus on foreign students given that the institutions are busy and facing difficulties just coping with the domestic students. In particular, stakeholders pointed to the important capacity constraints in terms of senior professors that are necessary for the various areas in the accountancy degree (accounting, auditing, taxation, and financial management) and that currently are not available in sufficient numbers and thus work in several universities. They also pointed to the lack of foreign professors that might help address these capacity constraints. Stakeholders mentioned the existence of the University of Fort Hare that focuses on foreign students and on the production of good professionals to send back to their own countries.

Botswana has taken the initiative of investigating the prospects of becoming a regional hub for education in Southern Africa. Recognizing that demand for tertiary education is diverse and growing, Botswana is planning to develop a second university in

[36] The regional programs would consist mostly of post-graduate fields of study, but some critical courses such as engineering could also be offered at the undergraduate level in Centers of Specialization.

[37] For example the lack of harmonization of term times within the SADC region and the lack of harmonization of courses hampers the transfer of students across regional higher education institutions.

the country with a special emphasis on upgrading, expanding and diversifying science, engineering and technology education. While the main objective is to produce domestic skills, Botswana is also considering the internationalization of the university. Given that Botswana's tertiary education system faces increased demand from qualified national and international applicants, it is proposed that the admission quota for international applicants be set at 10% in line with the requirements of the SADC Protocol on Education and Training. Botswana presents a number of advantages at the macro and the private sector levels to be an education center. However, several issues related to accountability, recognition of qualifications, lack of flexibility in delivery of education and specialization may limit Botswana's interest and success in becoming a regional educational hub in Southern Africa.

The 2007 audit suggests that Mauritius could become a regional hub for vocational training of middle-level professionals. Although so far Mauritius has not focused on vocational training in any of the professions that are the focus of this chapter, its experience with training of middle-level professionals for the hospitality industry and for information technology could have spillovers to the areas of accounting, engineering, and legal services and, in the long term, could become a regional hub for the training of middle level professionals.

Only a truly regional drive initiated perhaps within the realm of SADC with involvement of the Southern African Regional Universities Association (SARUA), and with possible support from international institutions would stand a chance to succeed at the creation of one or more regional hubs for professional education in Southern Africa.[38]

Epilogue - How feasible is regional integration? Is there interest to engage in international cooperation?

To sum up, it may be useful for the Southern African governments to engage in deep regulatory cooperation at the regional level and to 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 Common Market Protocol signed by the East African countries could provide a useful model for the SADC countries. The Southern African governments could engage with donors to secure technical and financial assistance to strengthen the capacity of regulatory associations, and to develop appropriate regulation (for example, in the context of the EPA negotiations).

While the economic benefits from regional integration are evident, the pace of integration is largely dependent upon Southern African countries' **political** motivation and conviction that such liberalization is beneficial to their domestic constituencies. An important aspect to improve such prospects is the promotion of more frequent and more open dialogue between the key stakeholders involved in professional

[38] The SARUA is a platform for dialogue and collaboration on higher education at the regional level in Southern Africa.

services: the professional bodies, the private sector covering both providers as well as users of services, the higher education institutions, and the trade negotiators.

Of particular relevance is the role that the private sector can play as a catalyst for reform to address the skills shortages in Southern Africa. That requires the private sector to be well informed of the potential benefits from regional liberalization for example. Some promising signs were found in discussions with stakeholders from large law firms in South Africa that revealed great support for the liberalization of the regional market for legal services. But smaller law practitioners that may fear the market being flooded by foreign lawyers would need clarifications about what their comparative advantage may remain under a liberalized market.

The Southern African countries have committed themselves (at least on paper) to pursue regional integration in the context of the Southern African Development Community (SADC).The SADC launched its Free Trade Agreement (FTA) in 2008. The FTA aims at liberalizing intra-regional trade in goods and services. Specific strategies to achieve this objective include: elimination of tariffs, adoption of common rules of origin, harmonization of custom rules and procedures, attainment of internationally accepted standards, harmonization of sanitary and phytosanitary measures, and liberalization of trade in services. SADC member states began implementing the trade protocol in 2001 with the aim of gradually liberalizing 85% of intra regional trade in goods by 2008. The remaining 15% (which constitute sensitive products) of intra-trade is expected to be gradually reduced to zero in 2012.

While progress in the area of goods trade has been slow, developments in the area of services are even less advanced. At this stage, the FTA agreement does not include any concrete measures for services liberalization. Given that services contribute to SADC GDP from 35% to 70% it is clear that what was left out is quite significant. Moreover, services are also important intermediate inputs in the production of several goods that are being traded at the regional level. Inefficient services sectors may hamper the competitiveness of such goods and limit the benefits from regional integration.

The negotiations on Services in the SADC have been ongoing for the last ten (10) years. The discussions have centered on the framework agreement for the negotiations. SADC member countries have focused on external modalities for liberalization. In simple terms, the focus has been on "negotiating how to negotiate". SADC has identified six items which call for immediate trade liberalization in terms of the services protocol. These sectors are regarded as the backbone of the economy. They are (i) Financial services (including insurance and banking); (ii) Construction and related engineering services; (iii) Distribution Services; (iv) Tourism and travel related –services; (v) Energy; and (vi) Communication services. Other sectors are scheduled to be liberalized in a later round of negotiations. These include: (i) Business services (including professional services and computer services); (ii) Educational Services; (ii) Environmental services;

(iv) Health-related and social services; (v) Recreational, cultural and sporting services; and (vi) Transport Services.[39]

Without addressing services liberalization, deeper regional integration remains unachievable. While recognizing that there is a varying degree of political will and commitment among the Southern African countries, the information provided in this chapter is a first step towards facilitating more informed choices as countries contemplate reform and international integration.

[39] A SADC Trade Negotiation Forum (TNF) and a workshop focusing specifically on Services Trade looking at how to approach the negotiation of the first six (as highlighted above) and to negotiate the guidelines for negotiations was organized on 7-9 June 2010 in Johannesburg. What appears clear is that the process is not going to be a quick and easy one.

ANNEX 1 – BUSINESS SURVEYS OF SERVICES USERS AND PROVIDERS

For the purposes of this report, the World Bank conducted in 2010 two types of firm-level surveys covering on the one hand services users and on the other hand services providers in Botswana, Malawi, Mauritius, Mozambique, South Africa, and Zambia. The survey instruments were developed by the World Bank and the surveys were implemented by TNS opinion in all countries.

A. Services Users Survey

The sample design was developed so as to be representative of the economy of each of the countries in terms of sectors of activity and size categories (measured in terms of number of employees). The frames (universes) used to draw the samples were the most recent available lists of firms from official sources such as local statistical institutes or business registers. The distribution of firms across sectors and size categories in the sample was chosen to be proportionate to the universe distribution, within the constraints of a fixed number of firms to be covered per country. Within each sector-size category cell the firms to be part of the final sample were chosen randomly from the universe of firms in that cell. Due to budget constraints, within each country, only firms in the main capital city (and vicinity areas) were covered. The surveys covered a total of 51 firms in Botswana, 50 firms in Malawi, 51 firms in Mauritius, 49 firms in Mozambique, 71 firms in South Africa, and 50 firms in Zambia. The distribution of firms across sectors and size categories in the final sample is shown in the table below.

Annex Table A.1. Service Users in Southern Africa

	BOTSWANA Users Survey - Sample Distribution				
	1-4 employees	5-19 employees	20-99 employees	more than 100 employees	Total
Mining					
Agribusiness	1	1	1	0	3
Manufacturing	1	3	1	2	7
Construction	0	2	1	0	3
Services	16	13	2	1	32
Total	18	19	5	3	45
	MALAWI Users Survey - Sample Distribution				
	1-4 employees	5-19 employees	20-99 employees	more than 100 employees	Total
Mining					
Agribusiness	0	1	2	1	4
Manufacturing	1	2	4	3	10
Construction	0	0	1	2	3
Services	11	9	6	3	29
Total	12	12	13	9	46

	MAURITIUS Users Survey - Sample Distribution				
	1-4 employees	5-19 employees	20-99 employees	more than 100 employees	Total
Manufacturing	3	1	2	3	9
Construction	1	0	2	2	5
Services	12	13	4	7	36
Total	16	14	8	12	50
	MOZAMBIQUE Users Survey - Sample Distribution				
	1-4 employees	5-19 employees	20-99 employees	more than 100 employees	Total
Mining	0	0	1	0	1
Agribusiness	0	0	2	0	2
Manufacturing	0	8	17	8	33
Construction	0	1	0	1	2
Services	1	2	5	3	11
Total	1	11	25	12	49
	SOUTH AFRICA Users Survey - Sample Distribution				
	1-4 employees	5-19 employees	20-99 employees	more than 100 employees	Total
Mining	1	0	0	0	1
Agribusiness	2	0	0	0	2
Manufacturing	4	4	1	1	10
Construction	3	2	1	0	6
Services	34	11	2	1	48
Total	44	17	4	2	67
	ZAMBIA Users Survey - Sample Distribution				
	1-4 employees	5-19 employees	20-99 employees	more than 100 employees	Total
Mining	0	0	0	1	1
Agribusiness	0	1	1	2	4
Manufacturing	3	4	1	1	9
Construction	0	2	0	2	4
Services	3	11	5	8	27
Total	6	18	7	14	45

The main objective of this survey was to examine the sources of demand for accounting, legal, and engineering services. The survey included questions on how much firms spent on external accounting, legal, or engineering services, whether any of those services were imported, and what specific sub-categories of those services were purchased. For firms that did not purchase any type of professional services, the survey asked the reasons for that choice. The survey also asked about the frequency with which professional services were acquired and asked the firms to judge the value of acquiring each type of professional services for their management and performance. For accounting services in particular, the survey asked whether different sub-categories of services were obtained as a result of statutory obligations and for which entities the documents were prepared. The survey also asked about each firm's labor force composition, particularly the numbers and types of professionals (accountants, lawyers, and engineers) employed. Finally, the survey obtained information on each firm's total employment, type of ownership, export status (and for exporters which were the destination countries), and total revenues. All these questions were asked for a single point in time for each firm.

B. Services Providers Survey

The sample design was developed so as to cover accounting, legal, and engineering services sectors and all size categories (measured in terms of number of employees) within those sectors. The frames (universes) used to draw the samples were the most recent available lists of firms from official sources such as local statistical institutes or business registers. In each of the professional services sector, the distribution of firms across size categories in the sample was chosen to be proportionate to the universe distribution, within the constraints of a fixed number of firms to be covered per sector and country. Within each professional services sector-size category cell the firms to be part of the final sample were chosen randomly from the universe of firms in that cell. Due to budget constraints, within each country, mainly firms in the main capital city (and vicinity areas) were covered. The surveys covered a total of 45 firms in Botswana, 44 firms in Malawi, 45 firms in Mauritius, 44 firms in Mozambique, 59 firms in South Africa, and 40 firms in Zambia. The detailed distribution of firms across professional services sectors and size categories is shown in the table below.

Annex Table A.2. Service Providers in Southern Africa

	BOTSWANA Providers Survey - Sample Distribution				
	1-4 employees	5-19 employees	20-99 employees	more than 100 employees	Total
Accounting	3	4	6	1	14
Legal	5	5	5		15
Engineering	4	5	5	2	16
	MALAWI Providers Survey - Sample Distribution				
	1-4 employees	5-19 employees	20-99 employees	more than 100 employees	Total
Accounting	1	5	5	1	12
Legal	1	12	4		17
Engineering	6	5	3	1	15
	MAURITIUS Providers Survey - Sample Distribution				
	1-4 employees	5-19 employees	20-99 employees	more than 100 employees	Total
Accounting	2	11	1	1	15
Legal	4	10	1		15
Engineering	4	2	8	1	15
	MOZAMBIQUE Providers Survey - Sample Distribution				
	1-4 employees	5-19 employees	20-99 employees	more than 100 employees	Total
Accounting		7	6		13
Legal	7	11			18
Engineering		5	6	2	13
	SOUTH AFRICA Providers Survey - Sample Distribution				
	1-4 employees	5-19 employees	20-99 employees	more than 100 employees	Total
Accounting	5	6	8	1	20
Legal	4	5	8	3	20
Engineering	2	10	6	1	19

	ZAMBIA Providers Survey - Sample Distribution				
	1-4 employees	5-19 employees	20-99 employees	more than 100 employees	Total
Accounting	3	4	2	1	10
Legal	5				5
Engineering	6	5	12	2	25

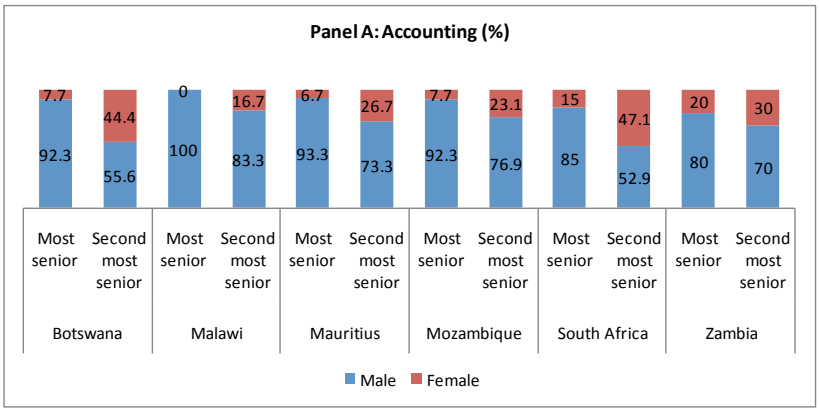
The main objective of this survey was to examine the business environment conditions in which providers of accounting, legal, and engineering services operate and how those affect their performance. The survey included questions on the distribution of firm revenues across sub-categories of services, on the types of clients, whether any of the services were exported and for exporters which were the destination countries, and what mode of delivery was used. The survey also asked the firms to judge the degree of obstacle that domestic regulations related to competition, related to qualification requirements and licensing procedures, related to public procurement, and related to registration procedures/permits/other administrative steps necessary to start a business represent for its operations and growth. The survey also asked the firms to judge the degree of obstacle that regulations related to ownership/establishment of affiliates, related to competition, related to qualification requirements and licensing procedures represent to owning a firm in a foreign country or entering as a supplier into a foreign market.

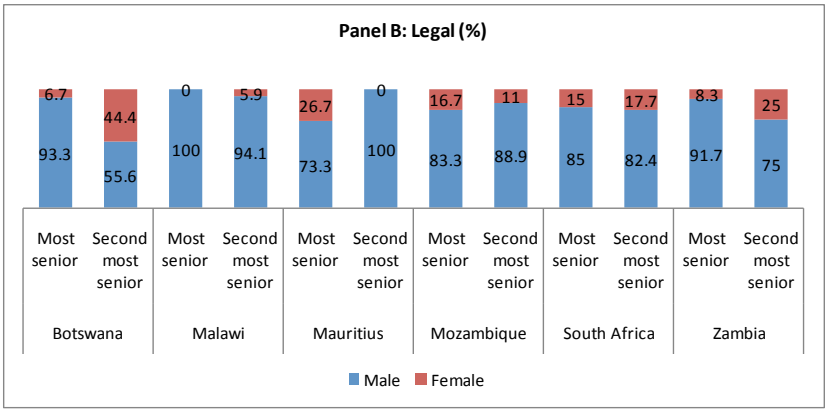
The survey asked questions related to the degree of competition faced by the firm in the domestic market. The survey also asked about the labor force composition of the firm, the numbers and average salaries of different types of employees (e.g., partners, managers, senior professionals, junior professionals) and the professional experience and qualifications of the most senior partners of the firm. Finally, the survey obtained information on each firm's total employment, type of ownership, total revenues and total costs. All these questions were asked for a single point in time for each firm.

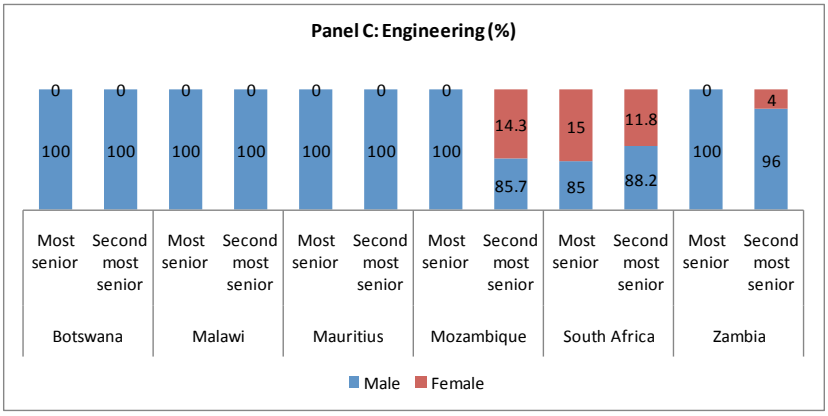
ANNEX 2 – GENDER IMBALANCES

There is consistent evidence of gender imbalances at the managerial level of professional firms in all examined countries (Panels A, B and C). Female engineering professionals in senior positions seem totally absent in Botswana, Malawi and Mauritius. Botswana performs best among all Southern African countries in terms of female accounting and legal professionals in senior positions.

A. Senior Staff by Gender







Source: World Bank Surveys of Providers of Professional Services in Southern Africa, 2010.

ANNEX 3 – COSTS AND PROCEDURES TO BECOME A PROFESSIONAL

For the purposes of this report, the World Bank conducted in 2009-2010 surveys on the costs and procedures to become an accounting, engineering, or legal professional in Botswana, Malawi, Mauritius, Mozambique, South Africa, and Zambia. The survey instruments were developed by the World Bank and in each of the countries the data was collected by local consultants from a set of domestic students in the three professional fields and from a set of domestic professionals. The data collected was subsequently confirmed against published information by professional associations or higher education institutions where possible, and by relevant stakeholders.

The objective of this survey was to allow an in-depth assessment of the costs and procedures necessary to become a full member of the accounting, engineering and legal professions in each of the countries. The survey asked about:

- the costs of and the time necessary for obtaining a qualifying degree to legally practice as an accountant, engineer, or accountant obtaining the detailed decomposition of costs into the cost of the degree, tuition fees, and living expenses;
- the cost of and time necessary for evaluating the (domestically obtained) education credentials in order to be able to enter into the profession;
- the costs of and the time necessary for obtaining any required specialized degree in addition to the qualifying degree in order to enter into the profession obtaining the detailed decomposition of costs into the cost of the specialized course, tuition fees, and living expenses;
- the costs and duration of undertaking the practical training/internship necessary to become a full member of the profession;
- the costs of taking the professional examinations necessary to become a full member of the profession;
- the costs of and the time necessary for obtaining the necessary licenses to legally practice as a professional;
- the costs of obtaining membership in the professional association in order to legally practice covering the initial registration and the annual subscription;
- the costs of obtaining continuing education and the number of required such courses per year.

For each country and profession, the detailed costs necessary for the various steps to becoming a professional were added as described in World Bank (2010).

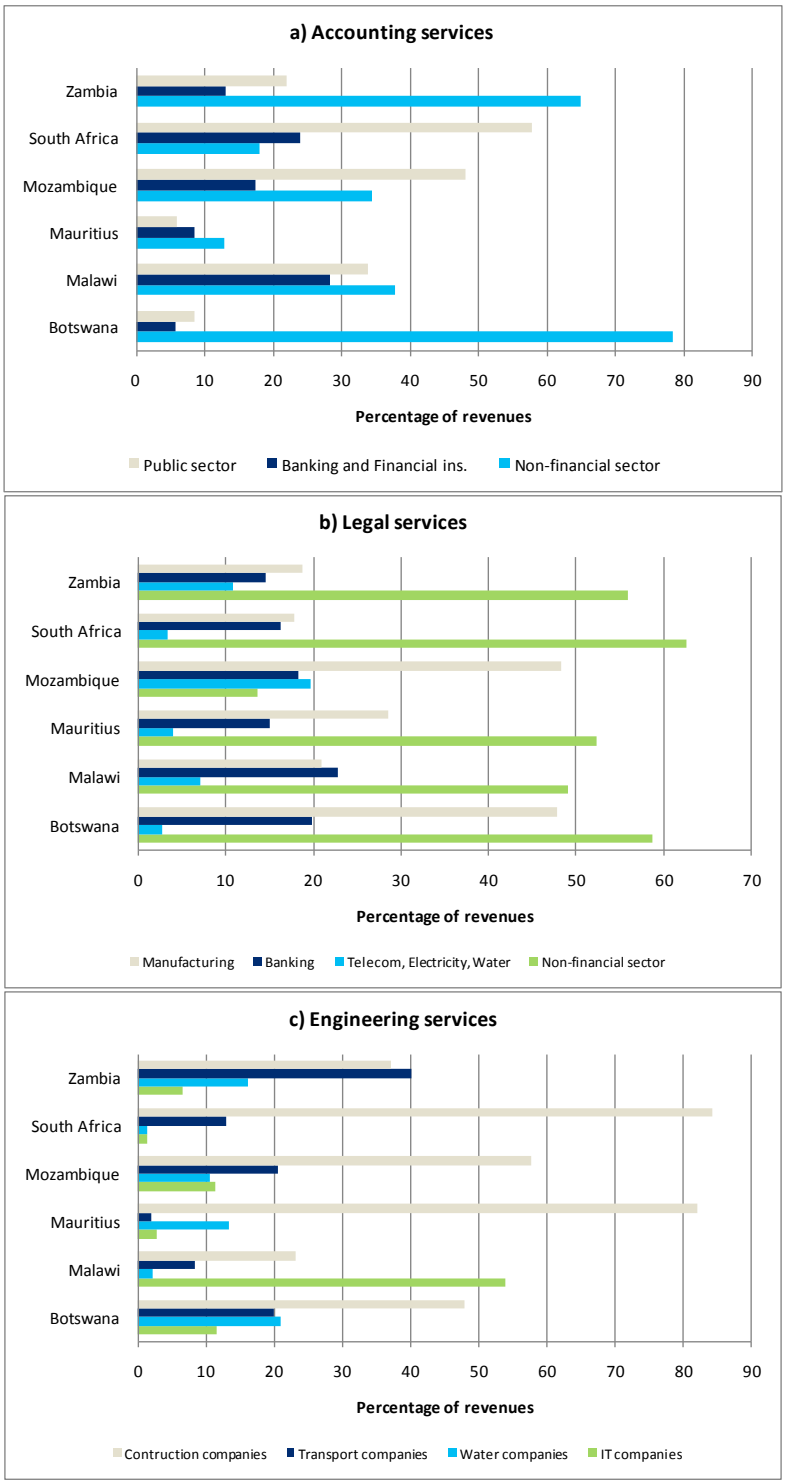
The model used to derive present values and internal rates of return for accountants, engineers, and lawyers in each country is a discounted cash flow analysis and follows OECD (2009).

For each profession in a given country, the present value of educational costs is inputted as a negative, and the median annual wages (equal to the median monthly wages for each profession based on the World Bank Surveys of Providers of Professional Services in Southern Africa, 2010 multiplied by 12) are derived for each year. These are then discounted using a fixed interest rate of 5% following OECD (2009) as this is the rate that one can expect to receive "under normal circumstances, by investing in long-term government bonds in most countries."[40]

[40] OECD Technical Annex, 2009, p. 54.

ANNEX 4 -- SECTORAL PROFILE OF CLIENTS AND TYPES OF SERVICES DEMANDED IN SOUTHERN AFRICA

A. Sources of Revenue Earned by Type of Client Sector for Providers of Services



Source: World Bank Surveys of Providers of Professional Services in Southern Africa, 2010.
Note: The share of revenues concerns revenues in the domestic market.

ANNEX 5 - REGULATORY AND MARKET STRUCTURE SURVEYS

For the purposes of this report, the World Bank conducted in 2009-2010 regulatory and market structure surveys in accounting, legal, and engineering services in Botswana, Malawi, Mauritius, Mozambique, South Africa, and Zambia. The survey instruments were developed by the World Bank and in each of the countries the data was collected by local consultants from professional associations and was subsequently confirmed by private sector providers and other relevant stakeholders and against the review of relevant laws and regulations where possible.

The objective of the regulatory survey was to collect information on the regulatory frameworks in place in the selected professional services sectors. The survey included questions on the entry restrictions applying to domestic providers related to required academic qualifications, professional qualifications, standards, exclusive and shared exclusive rights, and restrictions on the number of providers (individuals and firms) allowed. The questions on academic and professional qualifications covered both middle-level and highly skilled professionals. The survey also included questions on conduct regulation related to fees and prices, advertising possibilities, types of ownership allowed for service firms, multidisciplinary practices, location and diversification possibilities, and the use of quality control instruments. The survey also asked whether any of these conduct regulations were discriminatory towards foreign providers. The information collected through this survey is presented in a separate Regulatory Database.

The analysis of regulations also made use of the services policy surveys conducted by the World Bank and described in Gootiz and Mattoo (2009). The policy summaries for accounting and legal services collected through the services policy surveys are summarized in the tables below. While the original data collection effort covered only accounting and legal services, for the purposes of this project a similar policy survey was applied to engineering in Botswana, Malawi, Mauritius, Mozambique, South Africa, and Zambia.

The objective of these surveys was to understand the explicit trade policy barriers to professional services. These surveys collected information on entry restrictions applying to foreign providers related to (i) restrictions on the movement of professionals such as nationality or residency requirements, quota/labor market tests/economic needs tests, recognition (or lack thereof) of degrees and qualifications and of licenses obtained abroad, and (ii) restrictions on foreign ownership and market entry conditions fir service firms such as limited forms of entry, ownership limits, limits on the control by foreign professionals not licensed to practice in the host country, license requirements, prohibited activities in general and in procurement in particular, and (iii) restrictions on cross-border trade in professional services.

A. Policy Summaries – Accounting Services

	Botswana	Malawi	Mauritius	Mozambique	South Africa	Zambia
Movement of Natural Persons - Accounting	The Botswana Institute of Accountants recognizes professional qualifications obtained from certain foreign accountancy professional bodies. Labor Market Test & Economic Needs Test. Minimum wage/wage parity requirement.	Automatic recognition of foreign license granted (accountants are not regulated in Malawi). Labor Market Test & Economic Needs Test.	Registration with the Mauritius Institute of Professional Accountants is automatically granted if a member of an approved accountancy body. Otherwise, must have 3 years of work experience but foreign experience is recognized.	Accounting technicians ("tecnicos de contas") can engage in all kinds of accounting services, but "accountants" cannot advise on tax matters. For accounting technicians, the national union of employers in commerce, insurance and services must give a favorable opinion. Education requirement but foreign degree is recognized if deemed equivalent to local degree. Some professional experience required. 2 years of local training in Mozambique under the supervision of a professional with at least 5 years of experience is necessary, but training may be waived. There is a quota for foreign employees at company level depending on company size. However, it is possible to hire foreigners outside quota by obtaining a work contract authorization from Ministry of Labor, in which case Labor Market Test applies.	Members of the Institutes of Chartered Accountants in Australia, Canada, the UK, New Zealand, Hong Kong, Namibia, Swaziland and Zimbabwe can become members of the South African Institute of Chartered Accountants by passing the conversion exam and satisfying SAICA as to the relevance of their practical experience. Those licensed in other countries will need to have their degrees evaluated, complete a specialist course, pass exams, and meet the 3-year training requirement (foreign training may be sufficient depending on the decision of the Training Requirements Committee). There is a quota on foreigners but it varies from time to time. Labor Market Test & Economic Needs Test. Minimum wage/wage parity requirement. Duration of stay initially allowed differs case by case. Extension possible.	Education requirement - If the applicant has foreign qualifications, he/she has to take some courses prescribed by the Zambia Institute of Chartered Accountants. 3 years of work experience may be required depending on where the applicant is licensed but foreign experience is recognized. Must pass an exam. Labor Market Test & Economic Needs Test.
Establishment of Commercial Presence - Accounting	No restrictions, except for a possible limit on use of foreign brand name. License required.	OPEN. No restrictions.	Ownership by non-locally-licensed professionals limited to 50%. License required, but approval not automatic. Cannot serve state-owned firms, where public money is concerned.	Ownership by non-locally-licensed professionals limited to 99% - At least one shareholder must be licensed and registered in the Ministry of Finance. License required. There is a quota for foreign employees at company level depending on company size. However, it is possible to hire foreigners outside quota by obtaining a work contract authorization from Ministry of Labor, in which case Labor Market Test applies.	No specified limit on ownership by foreign nationals, but Black Economic Empowerment (BEE) program which encourages equity ownership of 25% by historically disadvantaged groups (non-discriminatory) may apply.	Ownership by non-locally-licensed professionals not permitted. License required.

Source: Borchert, Gootiz and Mattoo (2010).

B. Policy Summaries – Auditing Services

	Botswana	Malawi	Mauritius	Mozambique	South Africa	Zambia
Movement of Natural Persons - Audiitng	The Botswana Institute of Accountants recognizes professional qualifications obtained from certain foreign accountancy professional bodies. Labor Market Test & Economic Needs Test. Minimum wage/wage parity requirement.	Must first become a full (non-practicing) member of the Society of Accountants in Malawi (SOCAM) and then become a practicing member. Residency requirement, but possible to register as a non-resident member if already a member of a recognized professional body and is engaged in public practice in partnership with a registered resident. Work experience required but foreign experience is recognized. Must pass an exam on company and tax laws of Malawi. Labor Market Test & Economic Needs	Must first register with the Mauritius Institute of Professional Accountants. Must have passed exams held by a professional accountancy body with auditing as one of the subjects. 2 to 3 years of work experience required but foreign experience is recognized.	Must be employed by a firm in Mozambique that is licensed by the Ministry of Finance to be able to provide services. Education requirement but foreign degree is recognized if deemed equivalent to a Mozambican degree. Proven technical/professional experience required but foreign experience is recognized. SSE not allowed. There is a quota for foreign employees at company level depending on company size. However, it is possible to hire foreigners outside quota by obtaining a work contract authorization from Ministry of Labor, in which case Labor Market Test applies.	To register as an auditor in South Africa, should fulfill the qualification requirements and be a resident in South Africa. An auditor not registered in South Africa may perform audit services under the direction, control, supervision of or in association with a registered auditor who assumes responsibility. There is a quota on foreigners but it varies from time to time. Labor Market Test & Economic Needs Test. Minimum wage/wage parity requirement. Duration of stay initially allowed differs case by case. Extension possible.	Must first be registered as a chartered accountant in Zambia. 7 years of experience required but foreign experience is recognized. Must pass an exam. Labor Market Test & Economic Needs Test.
Establishment of Commercial Presence - Auditing	No restrictions, except for a possible limit on use of foreign brand name. License required.	Limit on ownership by non-locally-licensed professionals. At least one partner must be locally resident for about 244 days each year. License required.	License required, but approval not automatic. No restrictions on firm name, but it must first be approved by the Financial Reporting Council. Cannot serve state-owned firms, where public money is concerned.	Ownership by non-locally-licensed professionals limited to 99% - At least one shareholder must be licensed and registered in the Ministry of Finance. License required. There is a quota for foreign employees at company level depending on company size. However, it is possible to hire foreigners outside quota by obtaining a work contract authorization from Ministry of Labor, in which case Labor Market Test applies.	All partners or shareholders of an auditing firm must be auditors registered in South Africa (which requires being resident in the country), and registered auditors cannot share fees with a person who is not registered in South Africa.	Ownership by non-locally-licensed professionals not permitted. License required.

Source: Borchert, Gootiz and Mattoo (2010).
Note: SSE designates a service-supplying employee i.e., an employee of a foreign service supplier located abroad that enter the country to supply services in the country to fulfill a contract in that country.

C. Policy Summaries – Legal Advice on Domestic Law and Legal Representation in Court

	Botswana	Malawi	Mauritius	Mozambique	South Africa	Zambia
Movement of Natural Persons - Legal Advice on Domestic Law and Legal Represent. in Court	Foreign-licensed professionals eligible to practice subject to certain conditions: 1) Must be a citizen of a country that provides reciprocity to citizens of Botswana; 2) Must be ordinarily resident in Botswana or intend to reside permanently in Botswana; 3) Education & exam requirements - May be waived if qualified to practice in certain Commonwealth countries or a prescribed country with sufficiently analogous system of law. Foreign lawyers are not permitted to enter and work in Botswana as an ICT, SSE or IP. Automatic recognition of foreign license is also possible, but only if qualified to practice as an advocate in a Commonwealth country or a country prescribed by the Parliament. In this case, the foreign advocate may only practice temporarily for the purpose of a specific case as instructed either by the Attorney-General or an attorney in Botswana. Labor Market Test & Economic Needs Test. Minimum wage/wage parity requirement.	Nationality requirement, but limited exceptions apply to those who are licensed in the UK (who would need to pass an exam in Malawi) and those with a law degree from the University of Malawi. In this case, prior residency for 3 months required. Labor Market Test & Economic Needs Test. A foreign-licensed lawyer who is not Malawian may be admitted temporarily for the purpose of legal representation in court in a particular matter only.	CLOSED - Nationality requirement. The only exception is if a foreign lawyer's giving advice on Mauritian law is necessarily incidental to the practice of foreign/international law, and the advice is expressly based on advice given by a law practioner licensed in Mauritius.	To engage in legal representation in court, must become a member of the Mozambican bar. To provide legal advice on domestic law, two options - i) become a member of the Mozambican bar by fulfilling all requirements as a regular Mozambican applicant to practice independently OR ii) provide consulting or advisory services without becoming a member of the bar, under the condition that he/she provide services as an employee of a firm in Mozambique on an exclusive basis. Education requirement - Must obtain an equivalence certificate from the Ministry of Education to have a foreign degree recognized. Subject to a reciprocity agreement (covering only Portugal) for the purpose of becoming a member of the Mozambican bar. 2 years' training under a locally-licensed advocate in Mozambique required in order to be admitted to the Mozambican bar. There is a quota for foreign employees at company level depending on company size. However, it is possible to hire foreigners outside quota by obtaining a work contract authorization from Ministry of Labor, in which case Labor Market Test applies. Mozambican and foreign employees are entitled to receive equal salary and benefits for equal work, but this is not an immigration requirement.	CLOSED. Citizenship or permanent residency required.	Allowed subject to certain conditions, which differ based on whether the license is from a common or a non-common law country. Education requirement only if from a non-common law country - foreign degree recognized if deemed equivalent to one from local university. 6 months to 2 years of training in Zambia required. Attending a 1-year post-graduate course the Zambia Institute of Advanced Legal Education may be done in lieu of practical training. 3 years of work experience required but for those licensed in common law countries, foreign experience is recognized. Must pass exams. Labor Market Test & Economic Needs Test.
Establishment of Commercial Presence - Legal Advice Domestic Law and Legal Represent. in Court	No restrictions, except for a possible limit on use of foreign brand name. License required.	Branch not allowed. Limit on ownership by non-locally-licensed professionals.	Allowed only if the foreign firm sets up a joint law venture with a local firm. This joint venture cannot provide legal services in foreign and international law. Branch not allowed. Limits on ownership by foreign nationals and non-locally-licensed professionals, but no specific cap. License required.	Ownership by non-locally-licensed professionals limited to 99% - At least one owner should be a member of the Mozambican bar. There is a quota for foreign employees at company level depending on company size. However, it is possible to hire foreigners outside quota by obtaining a work contract authorization from Ministry of Labor, in which case Labor Market Test applies. No restrictions on name, except if the local office is an entity separate from the foreign parent firm, it can only use the parent's name if the parent is a shareholder in it. License required.	CLOSED. Foreign firms cannot practice local law or work in association with a local firm, although they could employ locally licensed attorneys. Must instruct a South African firm for local legal proceedings.	Ownership by non-locally-licensed professionals not permitted, since a legal practitioner cannot enter into a partnership or share fees with an unqualified person. License required.

Source: Borchert, Gootiz and Mattoo (2010).

Note: ICT designates an intra-corporate transferee, i.e., an employee of a multinational firm transferred from an office in one country to an office in another country. SSE designates a service-supplying employee i.e., an employee of a foreign service supplier located abroad that enter the country to supply services in the country to fulfill a contract in that country. IP designates an independent professional, i.e., an individual that enters the country to sell services directly to firms, people, or government agencies including to fulfill contracts, and to be employed by services providers within the country.

D. Policy Summaries – Legal Advice on Foreign Law

	Botswana	Malawi	Mauritius	Mozambique	South Africa	Zambia
Movement of Natural Persons - Legal Advice on Foreign Law	Automatic recognition of foreign license granted for all countries. Foreign lawyers are not permitted to enter and work in Botswana as an ICT, SSE or IP. Labor Market Test & Economic Needs Test. Minimum wage/wage parity requirement.	Automatic recognition of foreign license granted. Labor Market Test & Economic Needs Test.	Automatic recognition of foreign license granted for all countries.	Automatic recognition of foreign license granted for all countries. There is a quota for foreign employees at company level depending on company size. However, it is possible to hire foreigners outside quota by obtaining a work contract authorization from Ministry of Labor, in which case Labor Market Test applies.	Automatic recognition of foreign license granted. There is a quota on foreigners but it varies from time to time. Labor Market Test & Economic Needs Test. Minimum wage/wage parity requirement. Duration of stay initially allowed differs case by case.	Automatic recognition of foreign license granted for all countries. Labor Market Test & Economic Needs Test.
Establishment of Commercial Presence - Legal Advice on Foreign Law	No restrictions, except for a possible limit on use of foreign brand name. License required.	Branch not allowed.	Must be qualified, licensed, or regulated in the home jurisdiction. Cannot provide advice or legal services on, or in relation to, Mauritian law. Must have a physical establishment in Mauritius. License required (must register as a foreign firm, but approval not automatic, and there is a difference in the criteria for foreign and domestic applicants). Must have in the office at least 2 lawyers licensed in the home jurisdiction.	There is a quota for foreign employees at company level (5% for companies with more than 100 employees, 8% for companies with 11-100 employees, and 10% for companies with up to 10 employees). However, it is possible for an employer to hire foreigners outside these quotas by obtaining a work contract authorization from the Ministry of Labor. License required.	Branch not allowed. No specified limit on ownership by foreign nationals, but Black Economic Empowerment (BEE) program which encourages equity ownership of 25% by historically disadvantaged groups (non-discriminatory) may apply.	Ownership by non-locally-licensed professionals not permitted, since a legal practitioner cannot enter into a partnership or share fees with an unqualified person. License required.

Source: Borchert, Gootiz and Mattoo (2010).

ANNEX 6 – REGULATORY INDICES

A. DOMESTIC REGULATORY INDICES

The indices for entry and conduct regulation in professional services sectors in Southern Africa are calculated according to the tables presented below. Qualitative information is coded by assigning a numerical value to each of the possible responses to a given question (see the 'coding of data' portion of the tables below) while quantitative information is subdivided into classes using a system of thresholds (see the 'question weights' and the 'weights by theme'). The index for each profession is calculated as the simple average of the indicators of entry and conduct regulation.

Panel A: Entry regulation

	Weights by theme (b_j)	Question weights (c_k)	Coding of data					
Licensing:	2/5							
			0	1	2	3	>3	
How many services does the profession have an exclusive or shared exclusive right to provide?		1	0	1.5	3	4.5		6
Education requirements (only applies if Licensing not 0):	2/5							
What is the duration of special education/university/or other higher degree?		0.33	equals number of years of education (max of 6)					
What is the duration of compulsory practise necessary to become a full member of the profession?		0.44	equals number of years of compulsory practise (max of 6)					
Are there professional exams that must be passed to become a full member of the profession?		0.22	no				yes	
Quotas and economic needs tests	1/5		0				6	
			no				yes	
Is the number of foreign professionals/firms permitted to practice restricted by quotas or economic needs tests?		1	0				6	
Country scores (0-6)			$\Sigma_j b_j \Sigma_k c_k$ answer$_{jk}$					

Panel B: Conduct regulation

	Weights by theme (b_j)[1]	Question weights (c_k)	Coding of data						
Regulations on prices and fees	0.38								
Are the fees or prices that a profession charges regulated in any way (by government or self-regulated)?		1	no regulation 0	non-binding recommended prices on some services 1	non-binding recommended prices on all services 2	maximum prices on some services 3	maximum prices on all services 4	minimum prices on some services 5	minimum prices on all services 6
Regulations on advertising	0.23								
Is advertising and marketing by the profession regulated in any way?		1	no specific regulations 0		advertising is regulated 3		rtising is prohibited 6		
Regulation on form of business	0.19								
Is the legal form of business restricted to a particular type?		1	no restrictions 0		partnership and some incorporation allowed 2		incorporation forbidden 5		sole practitioner only 6
Inter-professional cooperation	0.19								
Is cooperation between professionals restricted?		1	all forms allowed 0		generally allowed 3		only allowed with comparable professions 4.5		generally forbidden 6
Country scores (0-6)			$_j b_j \Sigma_k c_k$ answer$_{jk}$						

Source: HTTP://WWW.OECD.ORG/DATAOECD/25/19/42220487.XLS

B. SERVICES TRADE POLICY RESTRICTIVENESS INDICES

The indices of the restrictiveness of explicit trade barriers in professional services (henceforth STRI) are computed making use of the services policy surveys conducted by the World Bank described in Borchert, Gootiiz, and Mattoo (2010) as presented below. The indicators are computed for 4 subsectors: accounting, auditing, domestic law, and international law.

The STRI was created using an expert judgment approach. This method applies a score to a summary or bundle of measures which we call "policy summary". The policy summaries reflect the perceived overall restrictiveness in a given subsector and a given mode of supply (1, 3, or 4). The policy summaries cover a defined set of potential restrictions, of which only restrictive measures are listed and scored. The table below shows the measures covered and the rules applied to the policy summary. A benefit of the policy summary is that it can account for idiosyncratic and qualitative information that are provided by the survey and that affect the degree of openness. The qualitative policy information would surely escape any fixed algorithm that attempts to turn policy information into binary scores.

The expert judgment approach has both strengths and weaknesses. The main strength is that it can better capture aspects of policy that are rich but difficult to quantify. The main weakness, as the name suggests, is that it is subjective and based on expert judgment. Subjectivity arises because the score per policy summary can change depending on the experts' perspectives. Another of its strengths, however, is that it largely avoids potential double counting and the usage of fixed weights per individual measure. These are weaknesses that are commonly pointed to earlier approaches known as bottom-up scoring pursued by the Australian Productivity Commission and more recently by the OECD.

The bottom-up scoring approach would assign a score of restrictiveness to each individual measure and would then aggregate using weights per measure and/or per category of measures. In order to do so, all measures have to be binary or have to be converted into a binary measure, potentially causing a loss of qualitative information. The weights per measure are determined either subjectively or by statistical methods but would at any rate be fixed, irrespective of the inherent relationship among the measures considered. In that regard, one worrisome problem of the bottom-up approach is that it treats all restrictions (entry, operational, regulatory) as additive. However, not all measures can reasonably be added up. For instance, if foreign suppliers are not allowed to enter in a market, then the restrictions on operations and regulatory environment should not matter. In other words, the weight of subsequent categories should be different depending on the policy regime. For example, the restriction on operations should take a weight of zero if initial entry is not allowed and higher weight if entry is allowed. Therefore, considering a fixed weight per measure is not ideal.

Also, the conventional bottom-up approach may potentially double count the restrictiveness by adding up different but redundant measures. For example, suppose that a foreign equity limit is 49%, then it is safe to assume that foreign investors are not allowed to exercise corporate control via majority ownership. However, if there is also a requirement that the majority of the board of directors must be nationals, then the bottom-up approach would add this as another restriction, thereby essentially double counting the restrictiveness even though the equity restriction preempts the board restriction. In contrast, by assigning a score to a policy summary, rather than

scoring individual measures, largely avoid the risk of mechanically double counting measures or adding non-binding restrictions. Also, we do not lose the rich information and extensive comments provided by government officials and survey respondents. As a result, the STRI broadly captures the restrictiveness of policies in terms of explicit measures such as quota as well as de facto restrictions such as approval of the President for licensing.

Upon having a policy summary per subsector-mode, the assigned score maps the perceived restrictiveness of each summary onto a 5-point scale ranging from 0 to 1, with three intermediate levels of restrictiveness (0.25, 0.50, and 0.75). The scores are defined as follows:

- 0.00: open without restrictions;
- 0.25: virtually open (only notifications required, minimal discretion)
- 0.50: some significant restrictions (e.g., only minority foreign equity participation allowed);
- 0.75: virtually closed (e.g., providing loans from abroad requires proof of domestic unavailability of like service);
- 1.00: completely closed.

When there is only one measure that is restrictive, the scoring rule in the table applies, but when two or more measures are in place, the scores reflect the restrictiveness of the key measures. More specifically, since the restrictiveness index is assigned to a policy summary for a subsector-mode combination, if one policy variable within the summary changes, the index may or may not change. Not all changes in policy information will trigger a change in the STRI. The change in STRI will depend on the type of variable and the number of variables that are restrictive.

Moreover, the measures covered can be divided into two tiers in terms of impact on market entry by foreign supplier. The first tier measures include those that affect market entry decisions most significantly, such as the limit on foreign ownership and the number of licenses allowed. The second tier measures are those that affect operations of service providers, such as the board of directors and repatriation of earnings. If the first tier measures are not restrictive and the only restrictions are in the second tier measures, then the final score will reflect the restrictiveness of the second tier measures. If multiple measures of the first and second tiers are restrictive, then the index will reflect the most restrictive measure (0 to 1) of all.

Note that for the overall STRI computed across all modes of supply of accounting and legal services across borders each subsector (accounting, auditing, domestic law, and international law) receive an equal weight whereas different modes receive different weights: mode 1 receives a 0.2 weight whereas mode 3 and mode 4 receive each a 0.4 weight.

Scoring Rules for the Policy Summary

Note for interpreting the table: Only measures that are included in the policy summary are scored. The scores reflect the overall restrictiveness of key policy measures applied to a subsector-mode (and not to individual measures). When there is only one measure that is restrictive, the following scoring rule applies, but when two or more measures are in place, the score reflects a judgment of the aggregate effect of the measures.

MODE 1: Accountancy and Legal	Assumptions: A. Foreign law or accounting firms intend to provide legal or accounting services via telephone, email, mail, or fax. B. Foreign firms already possess qualified professionals who are certified and qualified to provide the type of services in accounting, auditing, or foreign legal law. C. The clients in the home country are domestic or foreign firms (non-legal and non-accounting firms). If there is a restriction on clients, such as non-professional firms cannot obtain this services from abroad, trade through mode 1 would be considered restrictive. Note: The mode 1 measures in the survey do not cover the regulatory requirements on licensing, qualification, and other regulatory conditions that may prevent the foreign firms from providing services.	
	Cross border trade not allowed	1
	Staffed with professionals licensed to provide the service	
	Demonstration of domestic unavailability of service required	0.75
MODE 3: Accountancy and Legal	Assumptions: A. Foreign accounting or legal firm, which has commercial presence in the home country, wishes to provide services through commercial presence in host country B. Foreign professionals, who wish to establish commercial presence as a partner, joint-owner, or shareholder are assumed to possess necessary skills, qualifications, and experience to provide services in their home jurisdiction. Notes: A. If local qualification is necessary for partners to set up a partnership and the conditions for meeting local qualification are burdensome (as this can be revealed from the mode 4 regime), it is considered restrictive. B. Separate legal entity is defined as "having a separate office from the parent company", but it is considered not a locally incorporated entity.	
	Establishing commercial presence- not allowed	1
	Greenfield branch- not allowed	0.25
	Separate legal entity- not allowed	0.25
	Ownership by foreign nationals or by non-locally licensed professionals not permitted or foreign ownership of less than 50% allowed (assuming entry through other forms allowed, such as association with local partners)	0.5
	Association with locally-licensed professionals as partners or shareholders not permitted	0.5
	Significant discrimination in licensing criteria for foreign and domestic applicants	0.5
	Explicit limit on number of licenses	0.5
	Difference in licensing criteria	0.25 or 0.5
	Hiring of locally-licensed professionals as employees not permitted	0.25
	Restrictions on name or brand international name	0.25

MODE 4: Accountancy and Legal	Assumptions: For professionals who wish to supply services through mode 4, the following assumptions have been made. The foreign professionals A. Are natural persons, who intend to provide services temporarily in a host country as defined in the GATS Annex on Movement of Natural Persons. The professional is not seeking citizenship, residence, or employment on a permanent basis. B. Foreign professionals are already qualified and licensed to provide services in their home jurisdiction. Notes: In mode 4 qualification section, we are seeking to identify the additional licensing requirements that the foreign professionals have to fulfill to provide services in a foreign jurisdiction, where they did not obtain the qualifications. Also, if Mutual Recognition agreements are required, it is not treated as restrictions.	
	Market closed - Nationality of host country required	1
	Must be resident to be licensed or to work as a professional	0.25
	Automatic recognition of foreign license granted	
	Foreign-licensed professionals eligible to practice subject to conditions	depends
	Quota for Foreigners - ICT, SSE, and IP	0.5
	Labor Market Test - ICT, SSE, and IP	0.5
	Economic Needs Test - ICT, SSE, and IP	0.5
	Education - Foreign degree not recognized	0.5
	Work experience or training - Foreign training not recognized	0.5
	Passing a professional exam required	depends
	If entry not allowed through SSE or IP (Entry allowed only through ICT)	0.5
	If entry not allowed through SSE or ICT (Entry allowed only through IP)	0.25
	Minimum Wage/Salary or Wage Parity Requirement - ICT, SSE, and IP	
	Duration of stay initially allowed - ICT, SSE, and IP	
	Possibility of extension of stay - ICT, SSE, and IP	

Note: See annex 7 for the definition of the three types of mode 4 entry: ICT, SSE, and IP.