Public Disclosure Authorized
Public Disclosure Authorized
Public Disclosure Authorized

# The Unexplored Potential of Trade in Services in Africa

From Hair Stylists and Teachers to Accountants and Doctors

# The Unexplored Potential of Trade in Services in Africa

Edited by Nora Dihel and Arti Grover Goswami

WORLD BANK GROUP
Trade & Competitiveness

Cover Art: *I Get Out of All Your Boxes* by Richard Gicho

# Contents

## PART III: INNOVATIVE POLICY SOLUTIONS

## Figures

## Tables

## Boxes

## List of Maps

# Abbreviations

| | |
|---|---|
| **ACE** | African Centers of Excellence |
| **ADB** | Asian Development Bank |
| **AfDB** | African Development Bank |
| **ASEAN** | Association for South East Asian Nations |
| **AVU** | African Virtual University |
| **B2B** | Business to Business |
| **BCOM** | Bachelor of Commerce |
| **BOPS** | Balance of Payments Statistics |
| **CARICOM** | Caribbean Community and Common Market |
| **CARIFTA** | Caribbean Free Trade Association |
| **CHE** | Commission for Higher Education |
| **CITES** | Convention on International Trade in Endangered Species |
| **CMP** | Common Market Protocol |
| **CNMC** | China Non-Ferrous Metals Corporation |
| **COMESA** | Common Market for East and Central Africa |
| **CPC** | Central Product Classifications |
| **CPE** | Continuous Professional Education |
| **CUE** | Commission for University Education |
| **CTO** | Caribbean Tourism Organization |
| **CSO** | Civil Society Organization |
| **DMO** | Destination Management Organizations |
| **DRC** | Democratic Republic of Congo |
| **EABC** | East Africa Business Council |
| **EAC** | East African Community |
| **EAIA** | East Africa Institute for Architects |
| **EATP** | East Africa Tourism Platform |
| **EATWCA** | East African Tourism and Wildlife Conservation Agency |
| **EPA** | Economic Partnership Agreements |
| **EPCM** | Engineering Procurement Construction and Management |
| **EU** | European Union |
| **FDI** | Foreign Direct Investment |
| **FIDIC** | International Federation of Consulting Engineers |
| **FTT** | Fair Trade Tourism |
| **GAMA** | Group of African Member Associations |

| | |
|---|---|
| **GATS** | General Agreement on Trade in Services |
| **GATT** | General Agreement on Trade and Tariffs |
| **GCI** | Global Competitiveness Index |
| **GDP** | Gross Domestic Product |
| **GLTFP** | Great Lakes Trade Facilitation Project |
| **GVA** | Gross Value Added |
| **IASB** | International Accounting Standards |
| **ICPAK** | Institute of Certified Public Accountants of Kenya |
| **ICT** | Information Communications Technology |
| **IFAC** | International Federation of Accountants |
| **IFC** | International Finance Corporation |
| **IFRS** | International Financial Reporting Standards |
| **IGAD** | Inter-Governmental Authority on Development |
| **IHK** | International Hospital Kampala |
| **IGSCE** | Cambridge International General Certificate of Secondary Education |
| **IUCEA** | Inter-University Council for East Africa |
| **IMF** | International Monetary Fund |
| **IMG** | International Medical Group |
| **IOC** | Indian Ocean Commission |
| **ISO** | International Standards Organization |
| **ITC** | International Trade Centre |
| **JKUAT** | Jomo Kenyatta University of Agriculture and Technology |
| **KASNEB** | Kenya Accountants and Secretaries National Examinations Board |
| **KCM** | Konkola Copper Mines |
| **KIU** | Kampala International University |
| **LDC** | Least Developed Country |
| **LSTK** | Lump-Sum Turn-Key |
| **M&E** | Monitoring and Evaluation |
| **MDG** | Millennium Development Goals |
| **MFN** | Most Favored Nation |
| **MRA** | Mutual Recognition Agreements |
| **MSE** | Micro and Small Enterprises |
| **MSME** | Micro, small, and medium-sized enterprises |
| **MTDP** | Mekong Tourism Development Project |
| **NAFTA** | North American Free Trade Agreement |
| **NCHE** | National Council for Higher Education |
| **NFCA** | Non-Ferrous China Africa |
| **NTR** | National Tourism Roundtables |
| **OECD** | Organization for Economic Cooperation and Development |
| **OEM** | Original Equipment Manufacturer |
| **PAFA** | Pan African Federation of Accountants |

| | |
|---|---|
| **PAO** | Professional Accountancy Organizations |
| **PPE** | Personal Protective Equipment |
| **PPP** | Purchasing Power Parity |
| **R&D** | Research and Development |
| **REC** | Regional Economic Communities |
| **RETOSA** | Regional Tourism Organization of Southern Africa |
| **RIIO** | Rwanda International Institute of Ophthalmology |
| **RSA** | Research Solutions Africa |
| **RTGS** | Rwandan real time gross settlement |
| **SACE** | South African Council of Educators |
| **SADC** | Southern African Development Community |
| **SAMP** | Southern African Migration Project |
| **SASAC** | State-Owned Assets Supervision and Administration Commission |
| **SH&E** | ICF International Company |
| **SME** | Small and Medium Enterprises |
| **SRO-EA** | Sub-Regional Office for Eastern Africa |
| **SSA** | Sub-Saharan Africa |
| **STDP** | Sustainable Tourism Development Project |
| **STEM** | Science, Technology, Engineering and Mathematics |
| **STR** | Simplified Trade Regime |
| **TaESA** | Tanzania Employment Services Agency |
| **TCU** | Tanzania Commission for Universities |
| **TEVETA** | Technical Education, Vocational and Entrepreneurship Training Authority |
| **TFCA** | Trans Frontier Conservation Area |
| **TIN** | Taxpayer's Identity Number |
| **TTCI** | Travel & Tourism Competitiveness Index |
| **UIA** | International Union of Architects |
| **UNECA** | United Nations Economic Commission for Africa |
| **UNCTAD** | United Nations Conference on Trade and Development |
| **UNESCO** | United Nations Educational, Scientific and Cultural Organization |
| **UNISA** | University of South Africa |
| **UNWTO** | United Nations World Tourism Organization |
| **USD** | United States Dollar |
| **VAT** | Value Added Tax |
| **VLE** | Virtual Learning Environment |
| **VUU** | Virtual University of Uganda |
| **WEF** | World Economic Forum |
| **WHO** | World Health Organization |
| **WTO** | World Trade Organization |
| **WTTC** | World Travel & Tourism Council |
| **ZCCM** | Zambia Consolidated Copper Mines |
| **ZMLCI** | Zambian Mining Local Content Initiative |

# Acknowledgments

This book is the result of an extensive agenda of analytical work on trade in services in Africa involving staff from various units of the World Bank and external contributors. The contributions to this volume seek to shed some light on uncharted opportunities for services trade in Africa, and invigorate and deepen the discussion about the role of services in trade diversification and economic upgrading on the continent. The focus is on less explored areas such as informal trade in services or trade in more sophisticated but equally neglected sectors such as professional services, education and health services, and services related to mining that are rarely associated with services trade in Africa. The aim of this volume is to provide the key messages from this work to a wide audience—the private sector, civil society, key ministries, relevant agencies—that is necessary to provide the broad base for successful implementation of reforms.

We are very grateful to the authors of the chapters in this volume for making their work available for a wider audience. We would also like to thank the following for providing peer review comments on the volume: Marcelo Giugale (Senior Economic Adviser, Cluster of Global Practices for Equitable Growth, Finance & Institutions, World Bank), Bernard Hoekman (Professor and Director, European University Institute in Florence, Italy), Massimo Geloso Grosso (Trade Policy Analyst, OECD), Josaphat Kweka (Country Director for Tanzania, Trade Mark East Africa), Sebastian Saez (Lead Economist, Trade and Competitiveness Global Practice, World Bank), Apurva Sanghi (Lead Economist & Program Leader, Kenya, Rwanda, Uganda and Eritrea), and Markus Jelitto (Counsellor, WTO Trade in Services Division). Thanks for comments and advice is also due to Paul Brenton, Andreas Blom, Shawn Cole, Thomas Farole, John Keyser, Hannah Messerli, Vijay Pillai, Ganesh Rasagam, Miriam Schneidman, Karima Saleh, Carmine Soprano, and Michel Zarnowiecki. Special thanks to Sylvia N. Gichia, Director, Kuona Trust Centre for Visual Arts in Kenya, and the artists who agreed to showcase their art work in this book.

The projects underlying the chapters in this volume were funded by the Multi-Donor Trust for Trade supported by the governments of Finland, Norway, Sweden and the United Kingdom. The views expressed in this collection reflect solely those of the authors and not necessarily the views of the funders, the World Bank Group or its Executive Directors.

Nora Dihel and Arti Grover Goswami
March 2016

Nora Dihel is a Senior Economist in the World Bank's Macroeconomics and Fiscal Management Global Practice. Arti Grover Goswami is a Senior Consultant Economist with the World Bank.

# Foreword

A burgeoning services sector is fueling economic expansion in many African nations. In these countries, services already contribute substantially to GDP, absorb a large proportion of youth employment and matter substantially for gender parity. While at this stage it remains difficult to determine the exact contribution of services and services trade to Africa's growth and development, recent evidence points to the transformational nature of services trade in promoting economic growth through enhanced productivity, larger employment opportunities, improved gender parity as well as a reduced incidence and severity of poverty. There is also ample evidence to support the resilience of services trade during the recent financial crisis. For some African countries, a range of modern services exports grew even faster than trade in goods.

Services not only offer promising opportunities for export diversification, but are also key inputs in the production of most exportable goods and services. Importing services can enhance the accessibility and the quality of certain inputs and improve the overall productivity of firms. For many decades, services have been playing a critical role in a traditional as well as a modern set-up, yet their importance is downplayed in growth and development narratives. As oil and commodity prices tumble globally, diversification into services exports will be critical for maintaining future growth in Africa. In fact, trade in both formal and informal services would create an opportunity for growth and poverty reduction in Africa. In this context, this book is extremely pertinent and timely in raising the profile of services in the Africa region.

Very little is known about trade in services in Africa and its prospective impact. The continent's potential to engage in trade in services, especially in dynamic knowledge-intensive activities remains neglected. Africa's export potential in traditional services, such as tourism, is clearly recognized, but the incipient dynamism in exports of nontraditional services, such as business services is often overlooked. This book broadens our understanding of services trade for Africa by opening up some unexplored opportunities to invigorate and deepen the discussion on the role of traditional and modern services in economic transformation, trade diversification and upgrading. The book provides estimates on the magnitude of such flows and discusses the regulatory hurdles that prevent the emergence of a services-led transformation as observed in some other regions of the world.

An important challenge to exploring Africa's potential in trade in services is the paucity of data. Poor availability of data and huge discrepancies between official statistics and firm-level data make analyses of services trade misleading. Informal trade in services flourishes across the continent, yet data on such flows remain totally absent. Comprehensive comparisons across sectors and regions are ambiguous or not possible. Furthermore, despite growing opportunities for African services firms to export to neighboring countries, limited data on trade in services by partner country and sparse information on regulatory policies and their application hamper the monitoring of progress in services liberalization and regional integration. To draw attention to the available assessment tools and policy instruments for possible refinement and broader application across sectors, this book proposes novel data collection methods, such as crowdsourcing and mystery shopping, pioneering knowledge transfer practices, and experiences with innovative policy reforms.

To realize the potential from services trade-led growth, trade in services, both formal and informal, needs to be high on the African policy agenda, with efforts to facilitate such trade flows by eliminating harassment of services traders at the border or in the country of destination, simplifying visa requirements, easing and clarifying residency requirements, and improving the work permit application process. Further, greater support on coordinated trade and regulatory reforms, that puts special emphasis on reform of immigration rules and regulatory cooperation at the regional level, is much needed.

We hope that this book will generate a frank debate about the policies and actions needed to strengthen Africa's services sector and increase the continent's participation in services trade. Making more information available to traders, ensuring greater transparency of rules and regulations, and pursuing regional regulatory cooperation would go a long way in integrating the fragmented services markets in Africa.

Punam Chuhan-Pole
Acting Chief Economist, Africa Region, World Bank


*Voices* by James Njoroge

# INTRODUCTION

Nora Carina Dihel and Arti Grover Goswami

Nora Dihel is Senior Economist, Macroeconomics and Fiscal Management Global Practice, World Bank and Arti Grover Goswami is Senior Consultant Economist, World Bank.

## Services Trade in Africa: A Primer

Belvie, a hair stylist from the Democratic Republic of Congo, crossed the Tanzanian border without a valid visa or a work permit to provide hairdressing services in Dar es Salaam. At the border, she faced many hurdles and harassment, but after bribing the officials she managed to cross into Tanzania and provide hairdressing services abroad, albeit informally. Francis, a Zambian accountant based in Lusaka, cannot provide cross-border accounting services to clients in South Africa because his Zambian degree is not recognized there. However, he has found a unique solution to his problem. He has partnered with local firms in South Africa to whom he sends draft tax returns digitally. The local firms in South Africa certify conformity with local standards and sell the tax returns to domestic customers, splitting the revenues with Francis. After overcoming more than a few regulatory obstacles, MeCure Healthcare Limited, an Indian provider, has managed to set up several diagnostic centers in Nigeria. However, because of the lack of skilled health care professionals, coupled with heavy licensing and recognition requirements for foreign medical qualifications in the country, the company is unable to offer the whole range of services it provides in India. MeCure Healthcare Limited's management came up with an innovative solution—instead of treating patients in Nigeria, the company offers medical tourism, arranging for the transport of patients to India for super-specialty surgical procedures and treatment it cannot provide in the country for life threatening diseases.

What do these cases have in common? They show how barriers affecting trade in services—be it cross-border supply, through a commercial establishment, or through the movement of people[1]—drive many suppliers into informality or force them to engage in less productive transactions. The cases also clearly illustrate the creativity of services suppliers in circumventing the many barriers that affect trade in services. The good news is that these innovative suppliers are often successful in responding to the substantial demand from consumers in spite of many trade and regulatory barriers. But the flows are probably much smaller and slower than in a barrier-free landscape. In all these cases, part of the gains from trade is lost in bribes to authorities—as in the case of informal trade in hairdressing services—or to providers in the importing countries—as in the case of informal trade in accounting services—who

1 A complete picture of a country's trade in services would need to cover all four modes of services supply. (i) Cross-border (mode 1): services supplied from the territory of one member in the territory of another. An example is software services provided by a supplier in one country through mail or electronic means to consumers in another country. (ii) Consumption abroad (mode 2): services supplied in the territory of one member to the consumers of another. Examples are where the consumer moves, for example, to consume tourism, education, or medical services in another country. (iii) Commercial presence (mode 3): services supplied through any type of business or professional establishment of one member in the territory of another. An example is an accounting firm owned by citizens of one country establishing a branch or subsidiary by means of foreign direct investment in another country. (iv) Presence of natural persons (mode 4): services supplied by nationals of one member in the territory of another. This mode includes independent service suppliers and employees of the services supplier of another member. Examples are a doctor of one country supplying through his or her physical presence services in another country, or foreign construction workers providing services on a temporary basis.

extract high rents given discretionary power or simply by virtue of being established in a given country. In the case of MeCure Healthcare Limited, the deadweight loss is caused by the additional costs imposed by excessive regulation that results in unnecessary travel for medical purposes. Without such burdensome regulations, welfare could be much higher and trade flows much larger.

## How Well Do We Understand Trade in Services in Africa?

### The Significance of Services Trade for Africa's Development Is Generally Little Understood

Trade in services and related regulatory reforms are critical for growth and economic development in Africa. Services not only offer promising opportunities for export diversification, but are also key inputs in the production of most exportable goods and services. Services imports are important because they can improve the availability and quality of services inputs through increased competition, better technologies, and access to foreign capital. This, in turn, can have a strong impact on the domestic business environment and broaden access to essential services, such as health, education, and financial services. Although work examining the role of services trade in Africa has emerged recently, the services sector still has a lower profile than the manufacturing and agricultural sectors in the trade, development, and growth narratives. Indeed, existing evidence about trade in services suggests that Africa is a marginal player in global services exports and imports. In 2012, Africa accounted for only 2.2 percent of the world's total exports of services and 4 percent of the world's total services imports. Many African countries export and import less than countries at similar levels of development (figures I.1 and I.2). But very often such results are based on patchy data and incomplete information about the actual situation on the ground.

### Data Limitations Severely Hamper Meaningful Analyses of Services In Africa

Poor availability of data and huge discrepancies between official statistics and firm-level data make rankings of openness and analyses of services trade and their role as intermediate inputs misleading. Informal trade in services flourishes across the continent, yet data on such flows remain totally absent. Comprehensive comparisons across sectors and regions are ambiguous or not possible. Furthermore, despite growing opportunities for African services firms to export to neighboring countries, limited data on trade in services by partner country and sparse information on regulatory policies and their application hamper the monitoring of progress in services liberalization and regional integration.

As an example, the evidence on the specific exports and imports of services from Africa collected by the International Monetary Fund Balance of Payments Statistics (IMF BOPS) may not be completely accurate. In particular, the broad

**FIGURE I.1:** Services Trade Openness: Exports

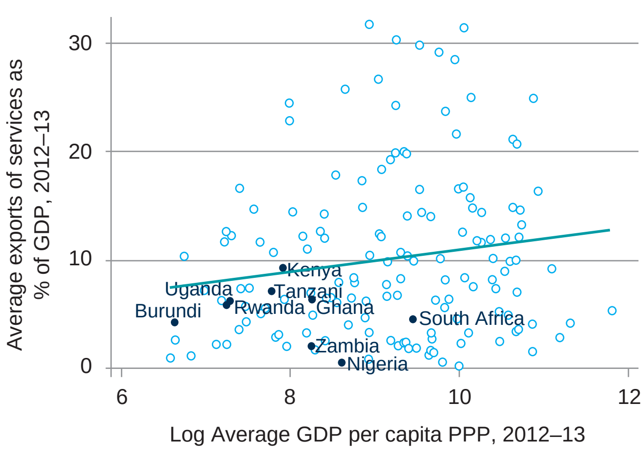
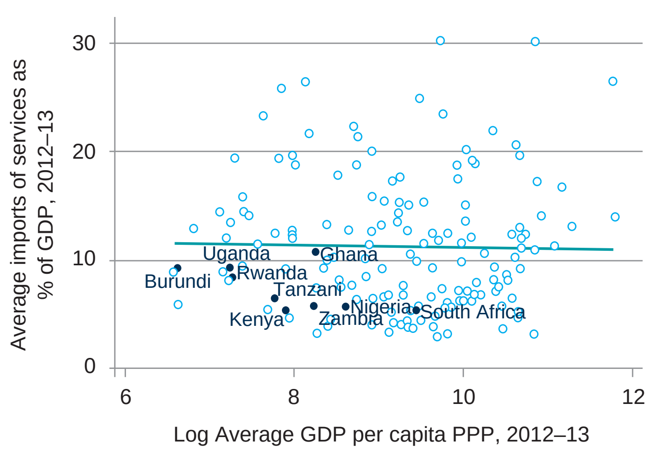


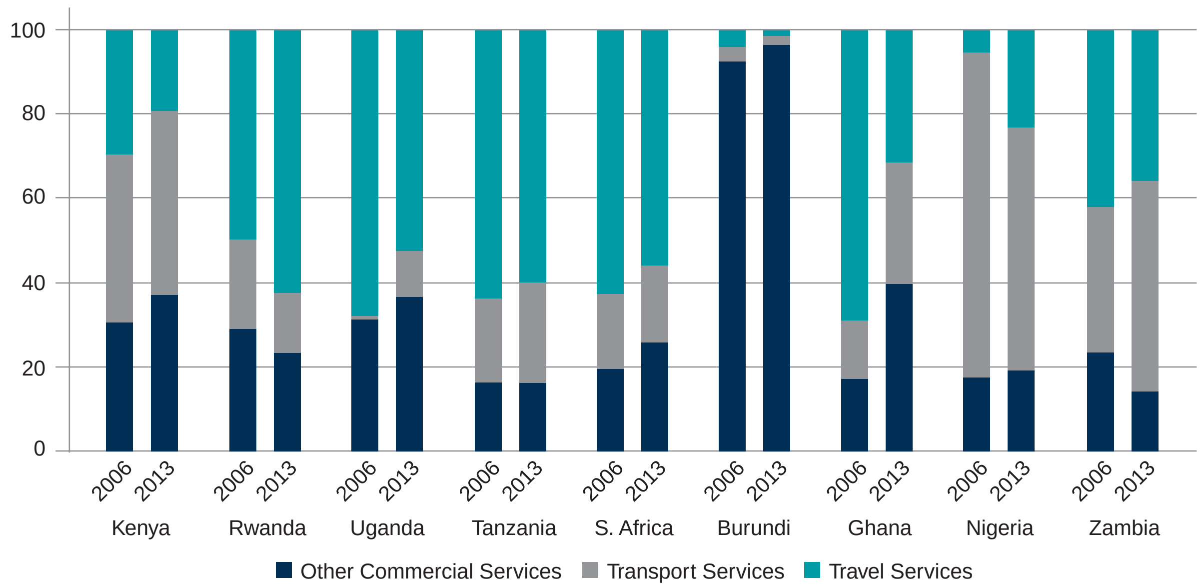

**FIGURE I.2:** Services Trade Openness: Imports




*Source:* World Development Indicators 2015.

*Note:* GDP = gross domestic product; PPP = purchasing power parity.

**FIGURE I.3:** Composition of Services Exports in Selected African Countries, 2006 and 2013 (%)




*Source:* World Development Indicators 2015, from International Monetary Fund Balance of Payments Statistics.

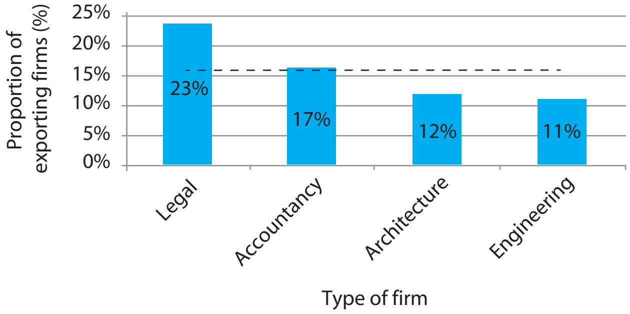
contribution of services exports from transport, travel, and other commercial services[2] to total services exports depicted in figure I.3 shows that Burundi is dominantly exporting other commercial services, which comprise primarily modern services. This in itself is difficult to imagine for a country like Burundi, which lacks the human capital required to export such services. A closer look at Kenya's other commercial services components reveals another surprising fact, namely that Kenya does not export other business services at all. So, where do we fit all the exports of business process outsourcing services from Kenya that are catching recent attention in services trade? This book attempts to cover some of the patches where IMF BOPS misses out. The chapter on professional services, for instance, presents evidence from firm-level surveys that over 35 percent of firms in Kenya export professional services, which challenges the IMF BOPS results. Although these firm-level exports cannot be used to extrapolate estimates of the country-level exports of other business services, given the small and non-representative sample size, the exports nonetheless not zero as recorded in the IMF BOPS.

## The Continent's Potential to Engage in Trade in Knowledge Intensive Services Remains Neglected

Africa's current recorded services flows are dominated by traditional services, such as transport or tourism. At the same time, exports of nontraditional services, such as business services, show an incipient dynamism (figure I.4) and are expected to continue to grow. Few people would think of cross-border trade in services in Africa as being provided via sophisticated information technology means such as the delivery of lectures through distance learning programs or the provision of medical advice abroad over videoconferencing. Yet there is evidence that distance learning and

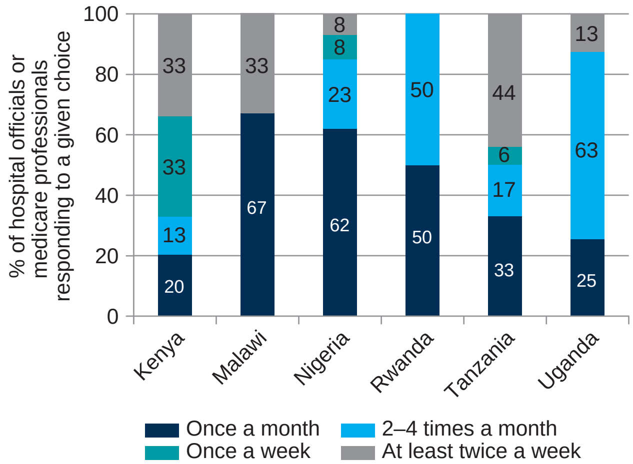
2 Other commercial services correspond to the following components defined in the fifth edition of the Balance of Payments Manual: (i) communication services (telecommunications, postal, and courier services); (ii) construction services; (iii) insurance services; (iv) financial services; (v) computer and information services (including news agency services); (vi) royalties and license fees, covering payments and receipts for the use of intangible nonfinancial assets and proprietary rights, such as patents, copyrights, trademarks, industrial processes, and franchises; (vii) other business services, comprising trade-related services, operational leasing (rentals), and miscellaneous business, professional, and technical services such as legal, accounting, management consulting, public relations services, advertising, market research and public opinion polling, research and development services, architectural, engineering, and other technical services, agricultural, mining and on-site processing; and (viii) personal, cultural, and recreational services, including audiovisual services.

**FIGURE I.4: Proportion of Exporting Firms in COMESA Countries by Professional Services Subsector, 2011**




*Source:* Calculations based on the results of the business surveys described in chapter 5.

**FIGURE I.5: Frequency of Use of Telemedicine in Selected Countries in Sub-Saharan Africa, April–July 2014**




*Source:* Calculations based on the results of the mobile phone surveys described in chapter 3.

telemedicine are on the rise (figure I.5). But very often such flows are not captured in official statistics.

### Limited Knowledge about the Role and the Impact of Services Liberalization on Services Performance and Jobs

Often policy makers discount the potential of services trade because they still regard services as nontradables, and many services seem intangible because they are embodied in manufacturing exports. Thus, services are not seen as an avenue for trade diversification and job creation. Awareness about the potential of services in export diversification is just beginning to emerge. Furthermore, indicators that adequately capture the implementation of policy reforms and assess the impact of such reforms on trade transaction costs for ordinary traders and on services performance indicators, such as prices and quality of and access to services, remain largely absent (box I.1). The available piecemeal data typically come from case studies of particular sectors in selected regions and remain insufficient to guide serious services policy reforms.

### Africa's Limited Participation in International Services Transactions Can Be Explained to a Certain Extent by Regulatory and Policy Shortcomings

Regulatory weaknesses and poor governance as well as services trade restrictions pose significant challenges to efficient services provision and trade in services. But evidence on regulations and trade policies in Africa is mixed. Although there is general agreement that Africa ranks low in regulatory independence across all sectors and many African regulatory bodies are at an early stage of development, have modest budgets, and often lack qualified staff members (UNCTAD 2015), the evidence on the restrictiveness of explicit trade policies is less clear. The World Bank's database on the Services Trade Restrictiveness Index for overall services and across the five disaggregate services covered by the survey—financial, professional, retail, telecommunications, and transportation—shows that Sub-Saharan Africa is quite restrictive in professional services (figure I.6). Nonetheless, Sub-Saharan Africa is less restrictive than its counterparts in Asia. And financial, transport, and retail services in Africa seem much less restrictive than in most other regions, denying common expectations about Africa's restrictive services trade policies. All in all, it remains difficult to link Africa's restrictiveness measures to the observed poor trade outcomes.[3] More in-depth regulatory assessments would be

3 To illustrate this difficulty at the individual level, an example would be Zambia's financial services. A striking feature of Zambia's services trade policy is its relatively high level of openness in financial services. The results of the Services Trade Restrictiveness Index World Bank survey of applied trade policies suggest that Zambia is completely open in banking services. But despite liberalization and regulatory reform, Zambia's financial services remain shallow and concentrated. Real lending rates remain high and the penetration of financial services is low. In general, access is low in Zambia and concentrated around the urban areas or the mining towns. Access to financial services and penetration levels have remained largely unchanged since 2005. According to Finscope, in 2012, only 21.1 percent of the Zambian population does business with a bank and 23.3 percent of the population has access to banking services. In Zambia 13.6 percent of the population has access to insurance services, with only 4 percent being insured.

### BOX I.1: Schubert and Monitoring of Services Reforms

Trade negotiators appear to overlook the purpose of the General Agreement on Tariffs and Trade, which is to provide a stable institutional environment for the conduct of international trade. The negotiators seem to focus instead on irrelevant discussions and bureaucratic processes "created for their pleasure, or at least, to provide them with a purpose in life."[a] Bhagwati (1984) likened the behavior of the negotiators to the ignorance exhibited by a well-known management consulting firm when assessing the commercial difficulties of a famous symphony orchestra. The part of the consultant's report that dealt with the concert orchestra's performance of Schubert's Unfinished Symphony is quite telling:[b]

(a) For considerable periods, four oboe players had nothing to do. The number in this section should be reduced and their work spread over the whole of the orchestra, thus eliminating peaks of inactivity.

(b) All twelve violins were playing identical notes. This seems to be unnecessary duplication and the staff in this section should be drastically cut. If a large volume of sound is really required, it could be obtained through an electronic amplifier.

(c) Much effort was absorbed in the playing of demi-semi-quavers. This appears to be an excessive refinement and it is recommended that all notes should be rounded up to the nearest semi-quaver. If this were done it would be possible to use trainees and low-grade operators.

(d) No useful purpose is served by repeating with horns the passage that has already been handled by strings. If all such redundant passages were eliminated, the concert could be reduced from two hours to twenty minutes.

(e) Finally, if Schubert had attended to all these matters, he would probably have been able to finish his symphony.

Just as the consultants overlooked the purpose of the orchestra, trade negotiators often appear to overlook the purpose of liberalization agreements. And so do many of the monitoring mechanisms of reforms in place. The discordance, brilliantly illustrated in Bhagwati's article, can easily be extended to the operationalization and monitoring of liberalization reforms in the area of services. Very often, the operationalization and monitoring of services reforms and commitments exist only on paper, without tangible improvements for providers or consumers.

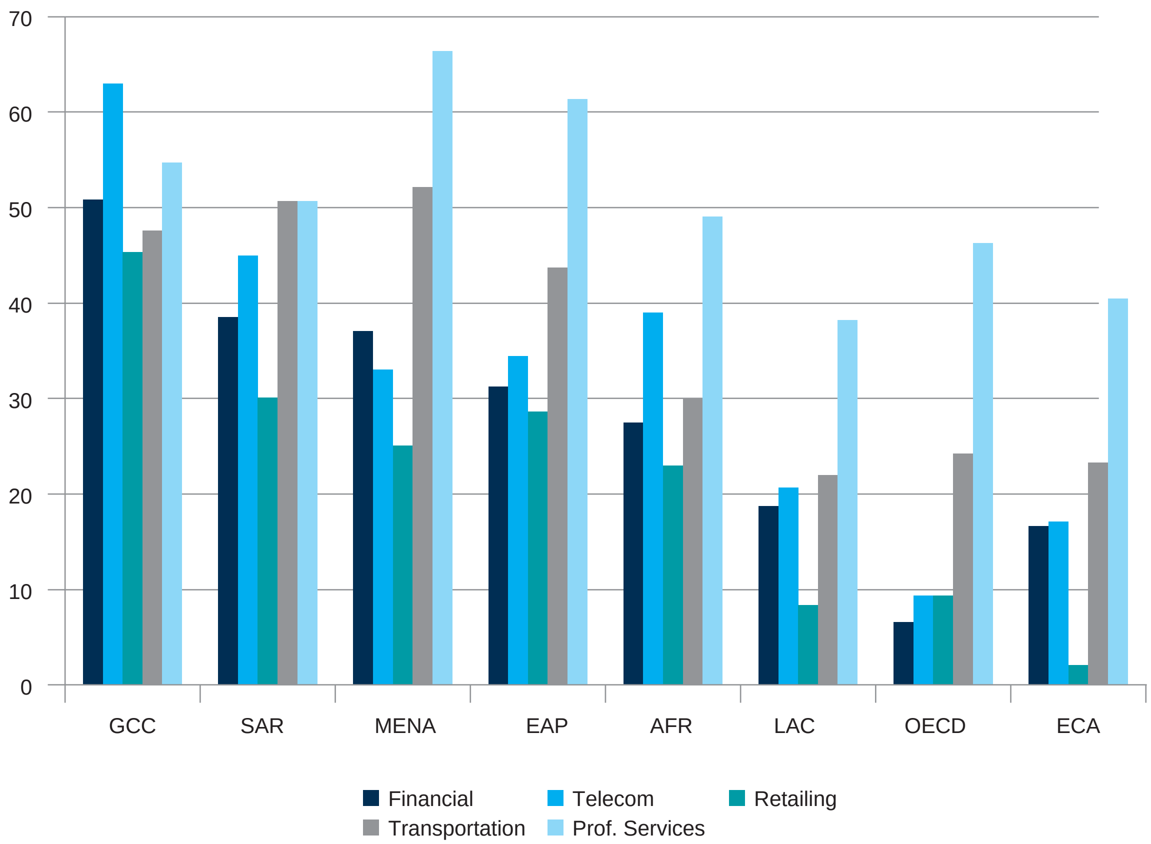
Although it is true that more governments in Africa are becoming aware of the growing importance of services in regional integration, and services chapters or protocols have been added to most existing regional trade agreements to supplement goods liberalization, most regional economic communities tend to focus on de jure compliance with integration commitments, while de facto implementation is rarely taken into account. For instance, in the East African Community (EAC), a framework for monitoring and evaluating the implementation of the EAC Common Market Protocol, including services commitments, was established in 2012. This framework calls for the periodic preparation of reports on the de jure implementation of protocol provisions for submission to the Council of Ministers, which then assesses the progress made toward the original schedule. This has been complemented by the EAC Common Market Scorecard, produced by the World Bank Group for the EAC Secretariat, which assesses progress toward a common market in capital, services, and goods across the partner states. The scorecard considers each EAC partner state's laws and regulations with regard to conformity to commitments under EAC Common Market Protocol. The 2014 report[c] reviews 683 laws and regulations relevant to the common market (124 in capital, 545 in services, and 14 in goods) and several legal notices, reports, and trade statistics. Although monitoring of legal compliance is important, it is not sufficient, as it tells us nothing about implementation and whether there are concrete benefits for traders and consumers.

A laudable exception is the proposal by the Common Market for Eastern and Southern Africa Secretariat for a set of regional integration indicators that is comprehensive and covers all the new trade integration areas, such as nontariff measures, trade facilitation, and services trade (COMESA 2002). Yet, even in this proposal, more than two-thirds of all the indicators that concern trade are compliance indicators, and trade integration outcomes are only considered in some of the categories (World Bank 2015).

a Extract from an address by Hugh Corbet, Director of the Trade Policy Research Centre, on "Prospects for Reducing Protectionism," to the Overseas Committee of the Confederation of British Industry, London, March 15, 1984.

b Bhagwati (1984), pages 143–144.; c. https://www.wbginvestmentclimate.org/publications/eac-market-scorecard-2014.cfm.

**FIGURE I.6:** Services Trade Restrictiveness Index by Sector and Region




*Source:* Borchert, Gootiiz, and Mattoo 2012.

*Note:* AFR = Africa; EAP = East Asia and Pacific; ECA =Europe and Central Asia; GCC = Gulf Cooperation Council; LAC = Latin America and the Caribbean; MENA = Middle East and North Africa; OECD = Organisation for Economic Co-operation and Development; SAR = South Asian region.

needed to complement these policy indicators to provide a more realistic picture of the situation on the ground.

## Services in Africa: Marginal or Transformational?

At this stage, it remains difficult to quantify the contribution of services and services trade to Africa's growth and development. However, the available evidence seems to suggest that services matter for growth, productivity, poverty reduction, and jobs in Africa.

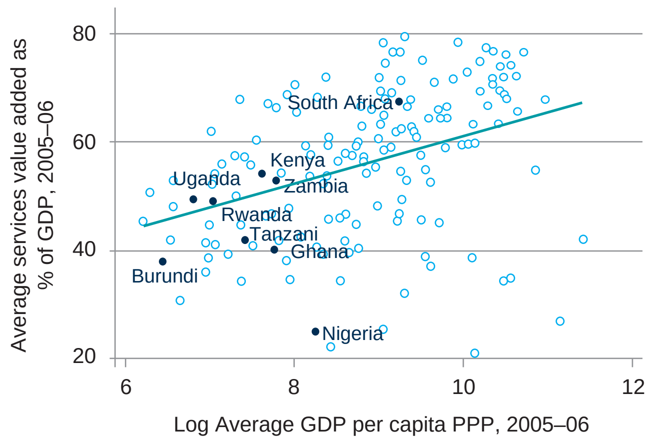
### Formal and Informal Services Create an Opportunity for Growth and Poverty Reduction in Africa

The literature suggests that liberalizing trade in services promotes economic growth (for example, Khoury and Savvides 2006). Recent works indicate that services liberalization promotes growth through enhanced productivity resulting from increased access to backbone services such as financial, telecom, transport, and so on (see Hoekman and Mattoo 2008 for a review of such studies). Higher growth from trade in services also diminishes the incidence of poverty via the trickle-down channel. For example, the increased per capita income from services exports in India is associated with a rise in per capita income and a decline in urban and rural poverty head count ratios (De and Raychaudhuri 2008). Research suggests that if the regulatory environment guarantees competition, liberalization of services would be welfare enhancing (for example, Konana and Assche 2007 and Jouini and Rebei 2014 for the case of Tunisia). In comparison with the goods sector, services liberalization tends to push economic activity in all sectors while inducing low adjustment costs (for example, Konan and Maskus 2006; Arnold, Javorcik, and Mattoo 2011).

Thus, at the conceptual level there is basic evidence to support that services liberalization brings significant welfare benefits in addition to aggregate and sector growth gains.

Empirical studies focusing on Africa estimate significant gains from services reforms (e.g., Balistreri et al. 2009). Kenya and Tanzania is expected to reap substantive welfare effects, especially in banking and maritime and road transportation, with the largest gains coming from liberalization of nondiscriminatory regulatory barriers (Balistreri and Tarr 2011; Rutherford and Tarr 2010). Going beyond the formal services sectors, chapter 1 in this book documents that in Africa services trade contributes to significant improvements in the livelihoods of services providers engaged in informal cross-border transactions such as hairdressing gardening, education, health, construction, and housekeeping.

**FIGURE I.7:** Services Value Added in GDP




*Note:* GDP = gross domestic product; PPP = purchasing power parity.

## Services Matter for Jobs and Gender Parity in Many African Countries

Employment data from the International Labour Organization (ILO) show that post-2005, several African countries, such as Botswana, Gabon, Ghana, Mauritius, Namibia, the Republic of Congo, Senegal, and South Africa, record a dominant services sector in jobs (table I.1). Most notably, in Gabon, Mauritius, and South Africa, over 60 percent of the jobs are in the services sector.

Although Kenya, Rwanda, Tanzania, Uganda, and Zambia have lower shares of jobs in services, the contribution of services value added in these countries is not only more than their contribution to employment, but also above that of an average country with comparable per capita income. Figure I.7 shows this by plotting the average services value added as a percentage of gross domestic product (GDP) for 2005–06 (the year close to the employment data) against the log of GDP per capita. It could be inferred that, for instance, 16 percent of the total employed (that is, services sector employment) in Rwanda contributes to about 50 percent of GDP. Thus, a small increase in employment by way of greater openness to trade in services could have a huge impact on the GDP of these countries.

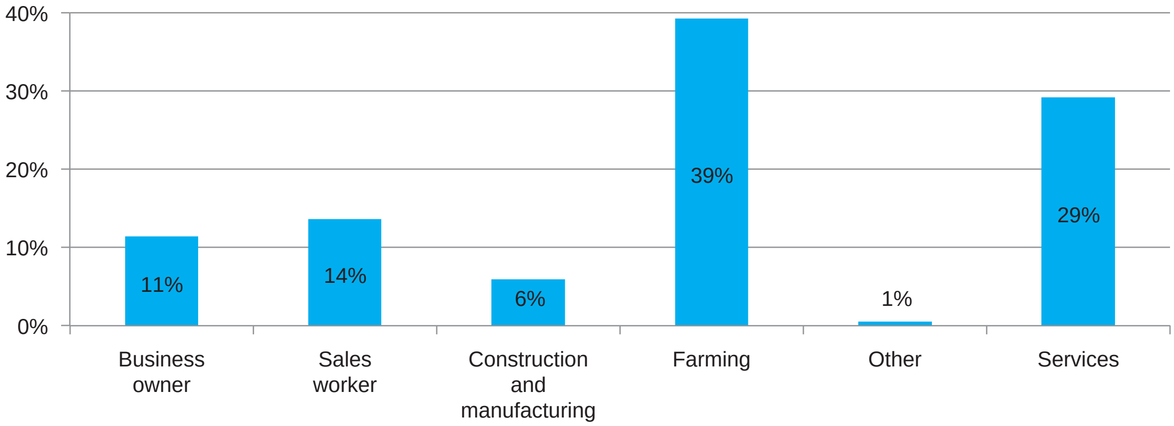
Firm-level data confirm the importance of services for jobs. A Gallup firm-level survey conducted in 15 Sub-Saharan African countries shows that in 2010 services employed a considerable proportion of youth (figure I.8).

**TABLE I.1:** Employment Share by Sector, 2005–12 (%)

| Country | Year (latest available) | Employment shares in | | |
|---|---|---|---|---|
| | | Agriculture | Industry | Services |
| Botswana | 2006 | 29.9 | 15.2 | 54.9 |
| Congo, Rep. | 2005 | 35.4 | 20.6 | 42.2 |
| Gabon | 2005 | 24.2 | 11.8 | 64 |
| Ghana | 2010 | 41.5 | 15.4 | 43.1 |
| Kenya | 2005 | 61.1 | 6.7 | 32.2 |
| Mauritius | 2012 | 7.8 | 27.6 | 64.7 |
| Namibia | 2012 | 27.4 | 13.8 | 58.7 |
| Rwanda | 2005 | 78.8 | 3.8 | 16.6 |
| Senegal | 2006 | 33.7 | 14.8 | 36.1 |
| South Africa | 2011 | 4.6 | 24.3 | 62.7 |
| Tanzania | 2006 | 76.5 | 4.3 | 19.2 |
| Uganda | 2009 | 65.6 | 6 | 28.4 |
| Zambia | 2005 | 72.2 | 7.1 | 20.6 |

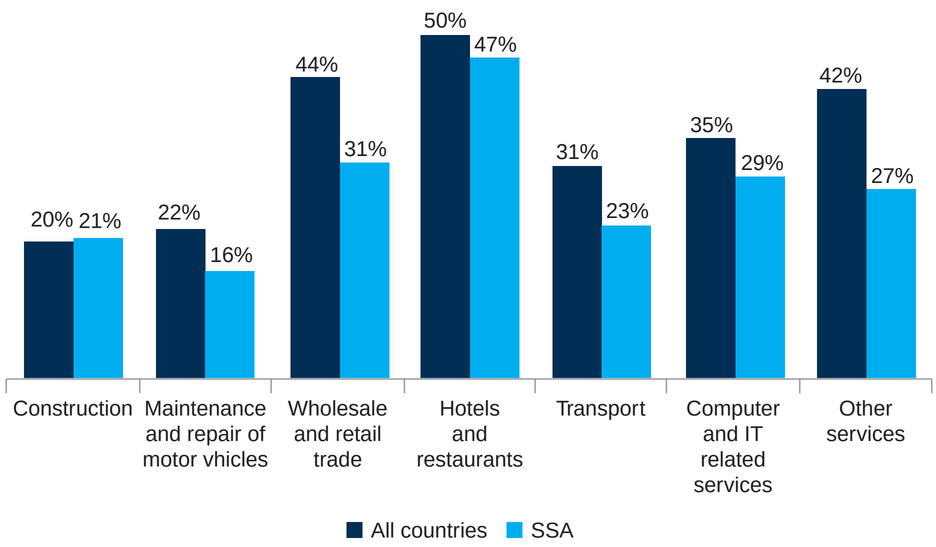
*Source:* World Development Indicators.

**FIGURE I.8:** Youth Employment by Occupation, 2010




*Source:* Gallup World Poll 2010.

**FIGURE I.9:** Proportion of Full-Time Female Employees, by Services Subsector



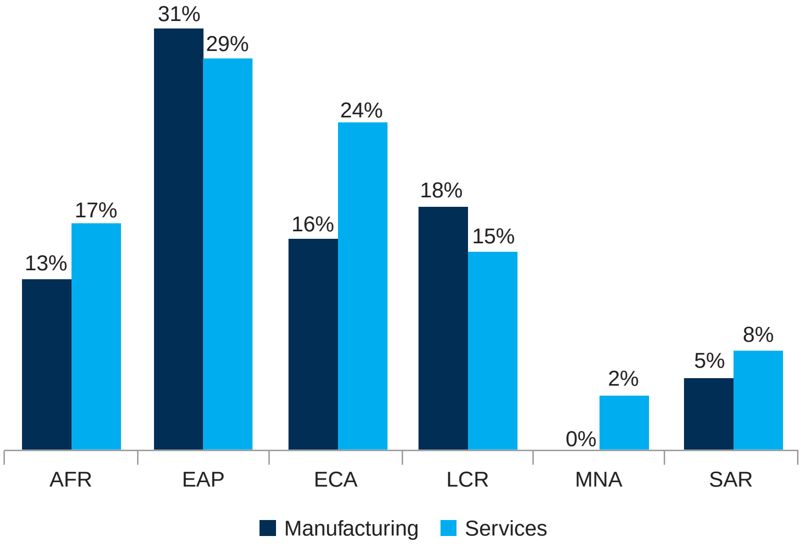

*Source:* Coste and Dihel (2013), using enterprise survey data.
*Note:* IT = information technology; SSA = Sub-Saharan Africa.

The links between service sector employment and gender equity are even more difficult to identify in African countries, given acute information and data gaps. ILO (2012) shows that in low- and middle-income countries, including in Africa, women's employment in services is most heavily concentrated in low- and mid-skill occupations such as "clerks and services workers" and "shop and market sales workers." Furthermore, it is worth noting that hotels and restaurants and wholesale and retail trade perform best in female employment, female participation in ownership, and female top managers (figure I.9). Similar to Eastern Europe, South Asia and the Middle East, and North Africa, services firms in Africa have a higher percentage of female top managers than manufacturing firms (figure I.10).

Overall, the percentage of females in top positions in Africa's services sectors is comparable to the percentages in low- and middle-income countries in other regions (figure I.10).[4] Going deeper, a World Bank business survey on

4 The results on the gender aspects of trade in services are taken from Coste and Dihel (2013).

**FIGURE I.10:** Proportion of Firms with Female Top Managers, Manufacturing versus Services




*Source:* Coste and Dihel (2013), using enterprise survey data.

*Note:* AFR = Africa; EAP = East Asia and Pacific; ECA = Europe and Central Asia; LCR = Latin America and the Caribbean Region; MNA = Middle East and North Africa; SAR = South Asia region.

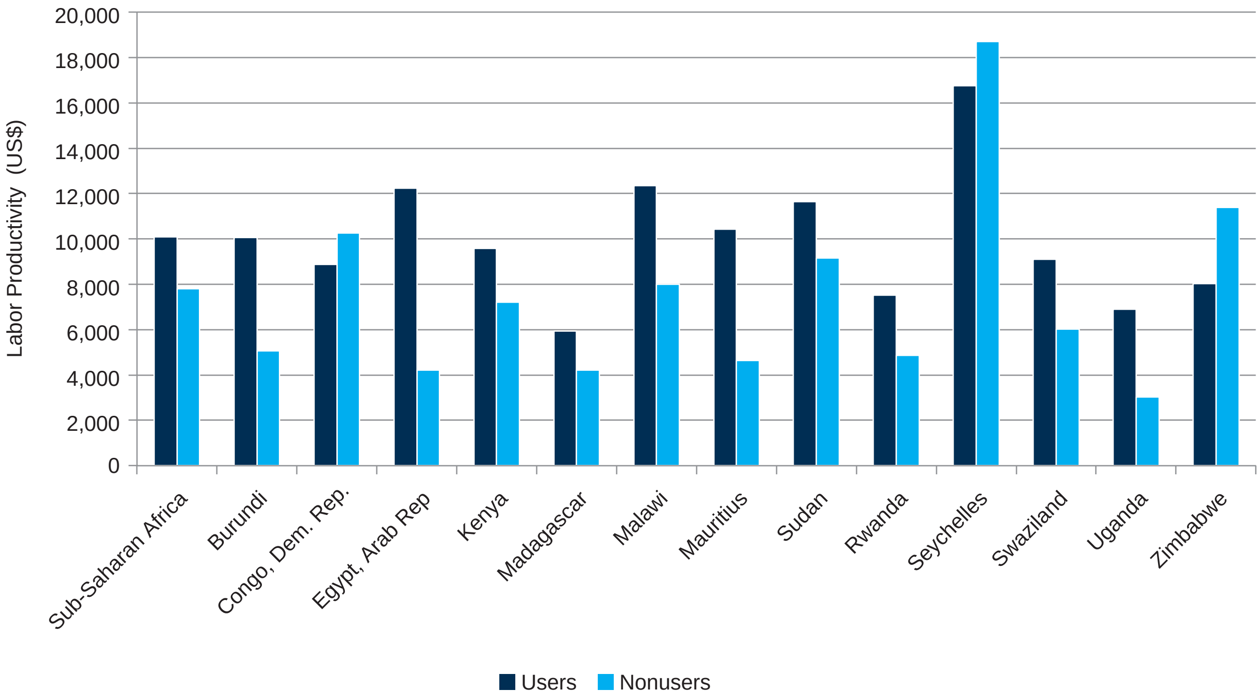
professional services reveals that Comoros, Madagascar, Rwanda, Swaziland, and Zambia are among the best performers in reaching gender balance in management positions in professional firms, with more than 15 percent women at the top management level relative to 12.5 percent of females in corporate boards of Financial Times Stock Exchange 100 companies. Such findings seem to indicate that the overall conditions that enable the participation of women in professional activities are sometimes more favorable in Africa vis-à-vis those in high-income countries; thus, trade and regulatory reforms in professional services in Africa may have an important positive effect on women. However, the potential for trade in services to mitigate barriers to achieving gender equity in Africa requires a more systematic data collection effort to fill the huge information gaps.

## Services Are Important Intermediate Inputs and Boost Productivity in Africa

Although the importance of services for development is widely recognized, the role of services, tradable and nontradable, in growth and structural transformation (broadly defined as the shift from lower to higher productive activities) is generally less understood. Many services are crucial inputs into the production of other services and goods for export and domestic consumption. Services such as telecommunications, energy, transport, financial, and business services contribute directly and indirectly to economic growth, including by lowering transactions costs and creating spillovers of knowledge to other sectors. For example, low-cost and high-quality telecommunications will generate economy-wide benefits, as this service is an intermediate input as well as a tool for the diffusion of knowledge and a transport mechanism for information services and other products that can be digitized. Transport services affect the costs of shipping goods and the movement of workers and services providers within and between countries, while retail and wholesale distribution services are a vital link between producers and consumers (Hoekman and Shepherd 2015).

Business services can have significant positive spillover effects throughout the economy. For instance, accountancy is critical for accountability, sound financial management, and good corporate governance (Trolliet and Hegarty 2003), while effective legal and justice systems and access to legal services improve the predictability of the business environment, facilitate engagement in contracts, and mitigate investment risks (Cattaneo and Walkenhorst 2010). Engineering and information technology services are knowledge-intensive sectors that are essential to the productivity and sustainability of other economic activities. For example, civil engineering is critical for the development and maintenance of a country's physical infrastructure, while electrical engineering is important for the operation of public networks such as utilities or commercial facilities and communications systems (Cattaneo

**FIGURE I.11:** Relation of Labor Productivity to the Use of Professional Services in COMESA Countries, 2012




*Source:* World Bank Survey 2012.

et al. 2010). Finally, health and education services are key inputs into and determinants of the stock of human capital.

Our work confirms that the use of professional services is associated with higher labor productivity in several African countries. Firms that use accounting or engineering services, whether internally or externally or via employing internal and external professionals, perform better compared with nonusers (figure I.11).[5]

## Services and Upgrading in Global Value Chains

Initial attempts to explore the role of services in changing the features of global value chains (GVCs) evaluated the role of services as intermediate inputs. Over the past decade, an extensive literature has documented the cost and quality impacts of services inputs on the competitiveness and growth performance of the economy (see Francois and Hoekman 2010 for a summary of key findings). The Swedish National Board of Trade (2013, 2010) considers the role of services in enabling GVCs: the "servicification"[6] of manufacturing, defined as the increased use of services in manufacturing in production processes and sales, looks at services as intermediate inputs, but also discusses the role of services as tasks in value chains, and their impact on upgrading and moving up the value chain.[7]

5 We use the market exchange rate from the World Development Indicators and World Economic Outlook to derive the sales figures in U.S. dollars for the countries covered by the survey.

6 This is a term coined by the Swedish National Board of Trade. Earlier attempts to define the evolving role of services were undertaken by Reisken et al. (2000), who introduced the "servicizing" concept; Bryson and Daniels (2010), who made reference to the "manuservice economy;" and Vandermerwe and Rada (1988), who introduced the "servitization" concept.

7 First, many examples illustrate how services act as "connectors," play an important intermediation role, and generate strong complementarities across all types of markets. For instance, Low (2013) describes how modern communication and transport technologies have enhanced the tradability of services, leading to their incorporation into supply chains as traded inputs and bundling into composite products, such as "business functions." Kommerkollegium (2013), based on evidence from the OECD, identifies the business services sector as a good example for the fragmentation of production, with an important role for enabling GVCs in goods and services. Second, services tasks are important for upgrading and moving up the value chain. Saez et al. (2014) and Taglioni and Winkler (2014) show that the complexity and transaction intensity of GVCs requires high-quality intermediate inputs, including services inputs, for effective coordination. Maglio et al. (2010), Demirkan et al. (2011), Allee (2008), and Low (2013) complement this approach by considering the role of networks, technology, entrepreneurship, and intangible assets such as human knowledge, more efficient internal structures and processes, business relationships, trust, or reputation in generating innovation and creating GVCs.

Since supply chains are a series of linked international markets for goods and services, with policies in one market provoking ripple effects in the markets along the whole value chain (Low 2013), participation in GVCs has important implications for policy interventions. One, policy formulation needs to treat goods and services together, as there are significant linkages between the two sectors. Two, such linkages call for modal neutrality—trade and regulatory policies that enable services firms to provide services through all modes of supply without impeding a switch from one mode of supply to another. Three, regulatory coherence, simplicity, and efficiency need to be maximized to enable countries and firms to become competitive at the task level. Four, since there has been a recent increase in the importance of value chains organized at the regional, rather than global, level in driving GVC participation and upgrading in a handful of industries (Staritz, Gereffi, and Cattaneo 2011), addressing integration at the regional level is critical.

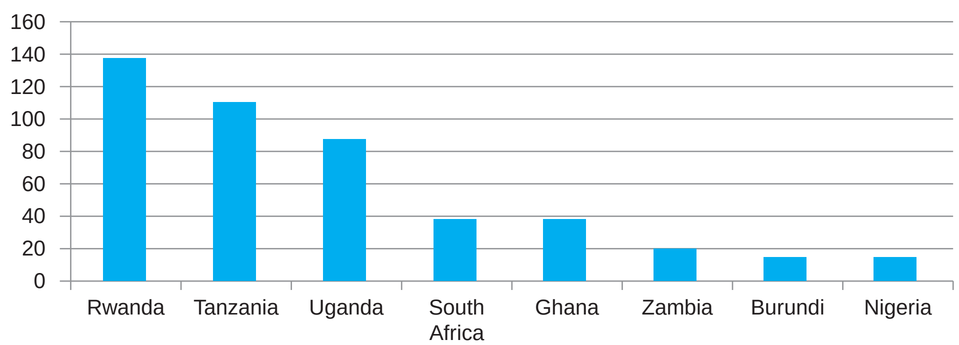
African countries could use services as a means to upgrade their involvement in value chains, but data-related and analytical issues regarding the incorporation of services into composite products make it challenging to assess whether this has already happened. To shed some light on the role of services in regional value chains (RVCs) in Africa, a forthcoming World Bank report explores the nature and degree to which access to competitive services allows suppliers to participate in RVCs and operate efficiently, and leads firms to build competitive RVCs and encourage the participation of local suppliers in these international value chains. Preliminary findings show that all firms participating in agribusiness and apparel GVCs make a high use services as intermediate inputs. Lead firms seem to face serious challenges in access to quality services locally.

## Services Are Already a Good Source of Export Diversification in Many African Countries

Services offer promising opportunities for export diversification. For example, in 2013, commercial services exports (all services, excluding government services) in countries such as Rwanda and Tanzania far exceeded the countries' non-mineral goods exports (figure I.12). In Uganda as well, such services stand at over 80 percent of non-mineral goods exports. By contrast, countries such as Burundi, Ghana, Nigeria, and Zambia have much scope to diversify into the services sector.

Against this background, the contributions to this volume seek to shed light on uncharted opportunities for services trade in Africa, and invigorate and deepen the discussion about the role of services in trade diversification and economic upgrading on the continent. The focus is on less explored areas, such as informal trade in services, and trade in more sophisticated but equally neglected sectors, such as professional services, education and health services, and services related to mining, which are rarely associated with services trade in Africa. Novel data collection methods, such as crowdsourcing and mystery shopping; pioneering knowledge transfer practices; and experiences with innovative policy reforms applied to modern and traditional services sectors are explored to draw attention to the available assessment tools and policy instruments for possible refinement and broader application across sectors.

**FIGURE I.12: Exports of Commercial Services versus Exports of Non-Mineral Goods, 2013**




*Source:* World Development Indicators 2015.

## Modern and Traditional, Formal and Informal: Which Services Does Africa Trade? And How?

### Trade in Traditional Services: Challenging the "Haircuts" View of Nontradability

The book opens with the story of Tanzanian Maasai hair braiders in the informal sector who frequently cross the border to provide hair-dressing services in Zambia. Chapter 1, on informal trade in services, draws attention to an area that, despite its enormous importance in Africa, has remained neglected by economists and policy makers alike. Despite widespread transactions in sectors such as hairdressing, education, health, construction, housekeeping, entertainment, and finance, informal trade in services does not feature on the policy agenda of any African country. To our knowledge, this is the first attempt to raise awareness about the importance of informal services flows in multiple services sectors across the continent.

Using evidence from a novel data set collected by the World Bank, chapter 1 challenges the old-fashioned "haircuts" view of selected services, which implies the nontradability of services that are assumed to require face-to-face interaction. The chapter documents the existence of trade among African countries in sectors that are typically considered nontradable. The case of hairdressing services is particularly revealing, because informal trade in hairdressing services is far more extensive than many would expect. Economists often use haircuts as a typical example of a nontradable service. The argument goes that the ubiquity and limited value of such low-skill, low-wage services, which cannot be rendered at a distance, coupled with the high cost of transporting the suppliers or consumers, make it unlikely that international trade will play a role in the provision of hairdressing services. Yet, such services trade flows seem to flourish on the African continent—despite the many barriers to the movement of services providers. Tanzanian Maasai hair braiders are in high demand in Zambia, while Congolese, Kenyan, and Ugandan hairdressers are sought after by Tanzanian women from all walks of life, from the girl next door to the wife of the minister.[8] All these hairdressers are crossing borders—usually helped by facilitators and fixers—to provide their services in a foreign country. Anecdotal evidence suggests that informal transactions are significant in other services sectors, such as construction, agricultural services, tailoring, education, and health.

The chapter examines "up-scale" services, such as education, and "down-scale" services, such as hairdressing and housekeeping. Interestingly, participants in informal trade in services include young female and male traders as well as uneducated and more sophisticated traders. These suppliers, most often, offer a broad range of services, sometimes coupled with small-scale trade in goods. For most services suppliers, informal trade is a long-term business, with frequent, longish stays abroad. Income from such transactions seems to be the main source of their livelihood; therefore, informal traders maintain a long-term engagement with their foreign customers.

### Trade in Modern Services: Crowdsourcing and Traditional Surveys Confirm the Prominence of Regional Flows

As with informal trade in services that are traditionally seen as nontradable, it is little known that Africa also trades in modern services. Filling data gaps is the next big focus of the book. Chapter 2 presents the results from novel data collection methods to monitor the opening up of services markets and regional integration for selected modern, high-skilled services in Sub-Saharan Africa. The examined services sectors are education, health, banking, insurance, and accounting services. To our knowledge, this is the first attempt to explore the potential of new data collection methods such as crowdsourcing and mystery shopper surveys to obtain data on performance indicators in services sectors in Africa (box I.2).

Chapter 3 delves deeper into trade in health and education services. It shows that Sub-Saharan Africa is witnessing high international mobility of students and health professionals. The latest United Nations Educational, Scientific, and Cultural Organization (UNESCO) data suggest that, in 2012, the outbound mobility ratio of students from the region reached 4.5 percent—more than two times higher than the world average of 1.8 percent.[9] In health services, the outflow of middle- and high-skilled professionals is significant in all African countries. The World Health Organization estimates that across 10 Sub-Saharan African countries, almost one-quarter (23 percent) of the locally trained doctors emigrated to various Organization for Economic Co-operation and Development (OECD) countries (WHO 2012). Views regarding the mobility impacts of African students and academic staff

8 A short film that documents the experience of several foreign hairdressers in Tanzania can be accessed at https://vimeo.com/125977419.

9 http://www.uis.unesco.org/Education/Pages/international-student-flow-viz.aspx.

**BOX I.2: Experimental Data Collection to Monitor the Opening of Selected Services Markets in Sub-Saharan Africa**

*Crowdsourcing* is the process of soliciting contributions from a large group of people—often an online community or a group of mobile device users. The technique relies on the efforts of many volunteers to assemble data and information that are then processed and aggregated to provide an overall situational assessment. Crowdsourcing can generally provide data quicker and cheaper than other survey approaches, as the information is digitalized from the point of user input and then immediately transmitted to the data management center. There is no need for interviewers, as the information is user provided via their digital device. Crowdsourcing seems to be increasingly well suited for use in Africa, as the prevalence of social networking and mobile applications is expanding rapidly. For example, although the penetration of mobile broadband in Africa is still lower than in other regions of the world, the growth in connectivity far outpaces the expansion rates elsewhere. Hence, a growing population of potential contributors to crowdsourcing surveys exists.

Crowdsourcing was used to gather information from providers and consumers of education and health services. We surveyed trade patterns, determinants of trade, quality of and satisfaction with various services, and barriers to trade. Data on performance indicators in health and education services were collected for nine Sub-Saharan African countries, namely, Cameroon, Ghana, Kenya, Malawi, Nigeria, Rwanda, Tanzania, Uganda, and Zambia. The data cover about 2,000 providers and consumers of cross-border education services and more than 2,000 health professionals and patients engaged in trade in medical services.

The mobile phone surveys confirm the potential of crowdsourcing techniques to generate new indicators of trade integration. Some of the data generated, such as information on product prices and the costs of services trade barriers, are directly relevant for regional integration monitoring. The large number of outliers in the raw data, caused by input error, calls for a careful verification and cleaning of the data sets. The approach naturally lends itself only to issues that can be assessed through simple, clear questions that do not need explanation. Issues concerning the representativeness of the sample and the necessary sample size to obtain meaningful results also need to be carefully addressed. While keeping these challenges in mind, the cost advantage and the capacity to deliver new and timelier data relative to traditional face-to-face surveys are such that crowdsourcing holds substantial promise for enriching the indicator set available to monitor regional integration and fill important information gaps in Africa.

Mystery shopping involves enlisting individuals who act as prospective customers to gather specific information about products and services. The mystery shopper's identity and purpose is therefore not known by the establishment that is being evaluated. Mystery shoppers inquire about a predetermined set of products and services and report their experiences in a consistent and comparable way. This technique is commonly used by corporations that want to ensure compliance with internal regulations and high-quality customer service, but it can equally be applied to obtain information on the availability and pricing of particular products and services. In comparison with traditional survey instruments, mystery shopping has the advantages of not requiring an appointment with a contact person in the target organization and not being subject to survey-induced bias in the responses, as the counterpart is not aware of the survey. In principle, mystery shopping surveys have the potential to help fill important information gaps for regional integration monitoring. For example, the surveys could be used to assess whether services sector integration leads to a convergence in prices across the region. Similarly, the surveys could provide insight into whether promises to remove regulatory barriers are indeed implemented, so that the costs of services decline over time.

The mystery shopping method was used in combination with visits and traditional interviews to obtain data on performance indicators in banking, insurance, and accounting services in six Sub-Saharan African countries, namely, Kenya, Malawi, Rwanda, Tanzania, Uganda, and Zambia. A total of 216 interviews were conducted with services providers across these six countries.

*(continued)*

**BOX I.2: Continued**

The survey responses provide broad information on the most common banking, insurance, and accounting services offered. The responses also provide information on price ranges of standardized services. In banking, for example, data on the costs to customers of domestic transactions, foreign funds transfers, and business account transactions in the examined countries were obtained. However, the information on prices for banking transactions shows strong variability within and between countries. The pronounced variation in the sample raises questions about the reliability of the data and the usefulness of calculating average prices to undertake comparisons across countries (and across time) based on this data set. Moreover, the comparability of insurance rates across the examined countries suffered from the presence of government subsidies for insurance coverage in some of the countries, which obviously distorts the prices. In the accounting sector, services are highly customized to the individual situation of and relationship with the client, so that standardized, self-standing service quotes are not easily and reliably available. Hence, the generated information has to be treated with care.

*Source:* World Bank 2015.

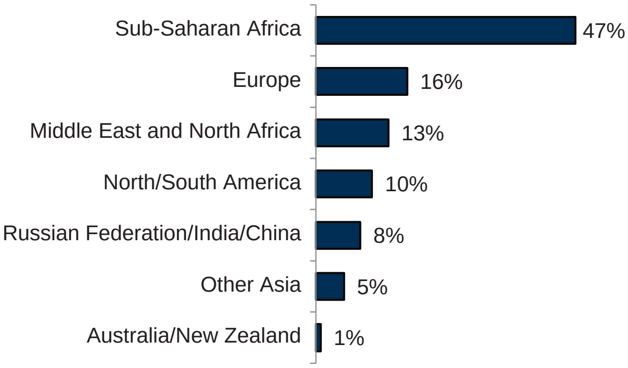
are mixed—ranging from reports that point out the benefits from "brain circulation" to views that emphasize "brain drain." Nonetheless, there is general agreement that the massive outflows of health professionals exacerbate Africa's health workforce crisis.

The mobility of African students and health professionals has been complemented recently by the mobility of educational and medical programs and institutions. Innovative cross-border institutional arrangements create new commercial opportunities, such as franchising and twinning of academic programs and health services. There are also new forms of private sector involvement and increased foreign participation in the provision of medical services. Technological progress is facilitating various forms of distance education or health services supply, such as telemedicine. These relatively new forms of trade are beginning to gain in importance in Sub-Saharan Africa and have high potential for further expansion, but data on such flows remain scarce on the African continent.

In contrast to chapters 2 and 3, chapter 5 relies on more traditional business surveys carried out for the first time in professional services such as accounting, architectural, engineering, and legal services in 17 African countries.[10] The traditional paper-based surveys of professional services in chapter 5 reveal several interesting and sometimes unexpected results about these sectors. Some surprising findings include the high usage rate of accountancy and legal services, even by small firms, and the high percentage of firms that are already engaged in exports of professional services. The latter contradicts IMF BOPS, which assert that professional services exports for several countries covered by the business surveys are negligible or nonexistent. Furthermore, the survey results clearly indicate that Sub-Saharan Africa is by far the main destination of professional services firms in Common Market for Eastern and Southern Africa (COMESA) countries, accounting for almost half of all the export relations reported in the survey (Figure I.13).

10 More than 2,200 users and providers of professional services in Sub-Saharan Africa were surveyed during the first half of 2012. The sample design was developed to cover the accounting, architectural, legal, and engineering services sectors and all size categories (measured by number of employees) within those sectors. The sample universe was comprised of the most recently available lists of firms from official sources, such as local statistical institutes or business registers in the COMESA countries. In each of the professional services sectors, 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. The surveys covered 1,182 firms providing professional services, distributed approximately as follows: 100 firms in the Arab Republic of Egypt, Ethiopia, Kenya, Sudan, and Uganda; 60 firms in the Democratic Republic of Congo, Madagascar, Malawi, Mauritius, South Sudan, and Zambia; and 40 firms in Burundi, Comoros, Djibouti, Eritrea, Rwanda, Swaziland, and Zimbabwe. To evaluate the usage of professional services, the survey covered 1,100 firms in five industries distributed approximately as follows: 80 firms in Egypt, Ethiopia, Kenya, Sudan, and Uganda; 60 firms in the Democratic Republic of Congo, Madagascar, Malawi, Mauritius, South Sudan, and Zambia; and 40 firms in Burundi, Comoros, Djibouti, Eritrea, Rwanda, the Seychelles, Swaziland, and Zimbabwe.

**FIGURE I.13:** Destinations of Exports from COMESA Countries, 2012 (%)




*Source:* World Bank Surveys 2012.

### Trade in Embodied Services: Bundling of Services Tasks, Invisible Assets, and Internal Processes—the Case of Services Related to Mining

Many services are crucial inputs into the production of other services and goods for export and domestic consumption. It is widely recognized that sectors such as telecommunications, energy, transport, and financial and business services contribute directly and indirectly to economic growth, including by lowering transactions costs and creating spillovers of knowledge to other sectors. In an attempt to go beyond sectors, chapter 4 studies the nature and degree to which access to competitive services tasks (in the form of bundling of services into composite products or access to invisible assets that include human knowledge, more efficient internal structures and processes, business relationships, trust, or reputation) allows manufacturing firms to upgrade, participate in higher value-added activities, and operate more efficiently. The chapter looks at services related to mining. Considering the example of Zambia, the chapter describes in detail the country's local supply chain, including an outline of local service providers and their response to the privatization process and the 2008 economic downturn. The chapter shows that over three periods—pre-1990s, 1990s, and 2000s—services providers to Zambia's mining sector were on a dynamic trajectory, providing tasks and activities ranging from engineering, repair and maintenance, or installation of equipment, to specialized transport, construction, drilling, and laundry services. All these dynamic firms pursued different forms of upgrading, such as process, product, functional, or value chain upgrading.

### Going Traditional Again: Intraregional Tourism Flows Are Driving the Development of the Sector

The final chapter of this book is devoted to trade in tourism services in Eastern and Southern Africa. The chapter confirms that tourism, in particular intraregional tourism, has a substantial and growing impact as a key economic driver in both subregions. In Sub-Saharan Africa, tourism attracted 33.8 million international visitors in 2012. This was a more than 500 percent increase compared with 1990, generating US$36 billion in tourism receipts, with a total contribution of 7.3 percent to regional GDP in 2012. Southern Africa, dominated by South Africa, is the region with the greatest share of tourism arrivals and receipts, as well as the greatest variances between countries; East Africa has greater homogeneity in destinations and a dynamic regional community. Intraregional tourism is the mainstay of the tourism industry in Southern and Eastern Africa, driving the international growth and development of the sector. However, at this stage, tourism in Africa is still highly fragmented and globally uncompetitive, with greater restrictions than the world average.

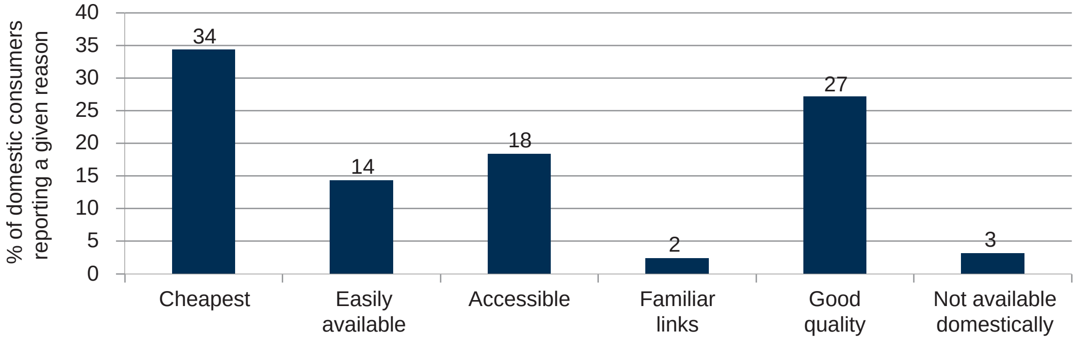
## What Drives Africa's Regional Trade in Services?

The prominent role of regional services transactions is a common denominator across the chapters of this book. What drives such intraregional services flows? And are there differences among the examined sectors? In a nutshell, this section presents what we find.

### Cost Differences Are Important for Traditional Services Trade

Differences in the cost and quality of services are typical determinants of trade. Chapter 1, on informal trade in services, confirms that the cost differential is the main driver for the provision of services by foreign hairdressers, housekeepers, gardeners, agricultural workers, healers, and teachers. The reasons given for seeking to provide services across the border are mainly economic in all the examined countries. For example, Tanzanian and Ugandan housekeepers in Kenya pointed out that although the cost of living is higher in Kenya than in their countries of origin, they are able to earn substantially higher wages in Kenya than in their home countries. In the Democratic Republic of Congo, the lower price is decisive when choosing a provider (figure I.14).

**FIGURE I.14:** Reasons Consumers in the Democratic Republic of Congo Prefer to Buy Services from Foreign Providers, March to May 2015 (%)




*Source:* Interviews conducted from March to May 2015 at the following border posts between the Democratic Republic of Congo and Rwanda and Uganda: Goma/Gysenyi, Bukavu/Cyangugu, Bunagana, and Mpondwe/Kasindi.

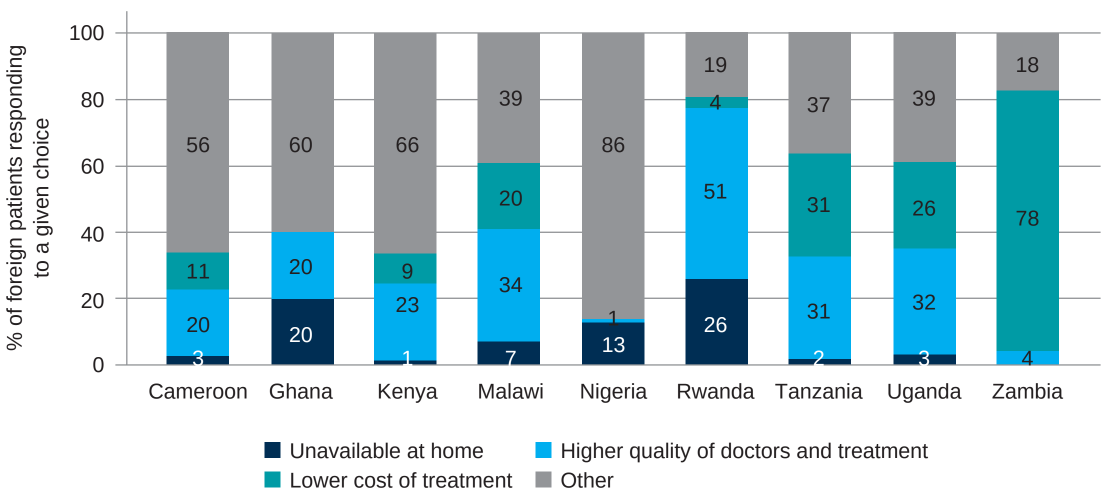
## Quality Differences and the Non-Availability of Services at Home Crucial for Trade in Knowledge-Based Services

The experimental surveys in education and health services described in chapter 3 suggest that cost is not decisive for such trade; rather, the availability and quality of services seem to be more important for trade in education and health services. Furthermore, although differences in the quality of services may explain educational exchanges and medical tourism within Africa, the non-availability of certain specialized services could be an additional explanatory factor for trade in such services (figure I.15).

## Proximity Matters

Distance is important in explaining bilateral services trade flows. The studies in this book reveal a strong regional dimension to trade in services in Africa. Starting with chapter 1, we find that suppliers from the Democratic Republic of Congo travel to bordering countries such as Tanzania and Zambia to offer their hairdressing or housekeeping services. Likewise, the crowdsourcing surveys in chapters 2 and 3 reveal a regional element to medical tourism and international student flows. Chapter 3 suggests that the top source countries for foreign students in all the examined countries are neighboring states, usually states that share

**FIGURE I.15:** Reasons Foreign Patients Seek Treatment in Selected Countries in Sub-Saharan Africa, April to July 2014




*Source:* Calculations based on survey responses. World Bank Surveys 2012.

a border with the receiving country. Using more systematic data on international flows of students from UNESCO, chapter 3 also shows that most foreign students in South Africa originate from within Sub-Saharan Africa, especially Lesotho and Zambia, that share a common border with South Africa. The regional aspect of trade in services is also evident in chapter 5, where trade in professional services is observed to have a regional character, that is, most clients of firms exporting such services are located in the region.

## What Hinders Africa's Regional Trade in Services?

Trade in professional and education and health services features high on the agenda of policy makers and regional organizations in Sub-Saharan Africa. For example, all five EAC countries have committed to removing the most explicit barriers to trade in education and health services as part of the 2010 EAC Common Market Protocol. Furthermore, the Southern Africa Development Community (SADC) countries included student and staff mobility in the 1997 SADC Protocol on Education and Training. Several EAC countries have placed professional services at the top of the list to be integrated in the EAC Common Market. But despite progress in recent years, most regional services markets remain fragmented by restrictive policies, such as nationality requirements, and regulatory heterogeneity for licensing, qualification, and educational requirements.

### Skill Shortages Hinder Trade in Knowledge-Based Services

For knowledge-based services, such as education and health services, chapter 3 shows that although a large percentage of students move to South Africa for education services, France, the United Kingdom, and the United States feature as the top destinations for such students. This is because of the higher quality of services in these countries relative to those available in the region. Thus, skill shortages that constrain the provision of higher-quality services in the region motivate students to look abroad. Similarly, for medical services, some patients seek treatment outside the region, especially for life-threatening diseases. Chapter 5, on professional services exports, tells a similar story, where limited capacity to train professionals or the lack of proper training institutes contributes to skill inadequacy and hence lowers trade in knowledge-based services.

### Trade and Regulatory Hurdles Drive Services Providers into Informality

Despite strong demand for services provided by foreign suppliers, undertaking trade is not easy. Chapter 1 suggests that multiple barriers are placed on the physical movement of suppliers, including high-priced visas, difficulties obtaining work permits, and elusive residence status. To circumvent such barriers, most services providers form networks. For instance, Tanzanian Maasai hair stylists organize themselves to avoid these restrictions and provide services informally abroad (in Zambia). But the braiders have to pay a fee to a "coordinator" who facilitates their travel and accommodations, connects them with beauty shops or markets where they provide services informally, and helps them send money to their families in the home country. Similar arrangements are observed in other services sectors. While services providers remain trapped in informality, governments lose the beneficial interactions and linkages that would come from greater integration into the domestic economy, such as the employment of locals in foreign-owned businesses, transfer of skills and technology, and increased access to more efficient services inputs.

### Trade and Regulatory Hurdles Hamper Flows of Traditional and Modern Formal Services

Chapter 3 shows that trade in education and health services is hampered by the high cost of travel and visas and limited availability of insurance, and the movement of education and health professionals is limited by the lengthy and costly process of recognition of degrees obtained abroad. Typical barriers to the provision of cross-border education and health services are restrictions on the electronic transmission of educational materials and medical services or telediagnosis, restrictions on the types of courses and treatments that may be offered, quotas and economic needs tests that restrict the number of suppliers of education and health services, restrictions on payments and transfers of funds abroad, and local accreditation and recognition requirements. Consumption abroad in education and health services is usually constrained by barriers imposed by the home and host countries on the mobility of students and patients, and restrictions on the portability of scholarships or medical insurance schemes. For establishment abroad, there are limitations on the number of permitted suppliers of education and health services and their legal form (including joint venture requirements), foreign equity capital limits, and discriminatory tax and fiscal measures. Burdensome immigration requirements, quotas on the numbers of service suppliers, nationality or residence requirements, and labor market tests (horizontal measures or specific restrictions that apply to education and health professionals traveling across national borders to provide services) often impede the movement of health and education professionals.

In the case of professional services trade, the hurdles range from the cost and quality of education to domestic regulations and trade barriers. For example, domestic regulation on the entry and operations of professional services firms often undermines competition and constrains the growth of strong professional services sectors in Africa. Trade barriers include restrictions on cross-border trade in services. For example, foreigners cannot provide advice on domestic law and audit and tax advice. And there are immigration policy and other restrictions on the entry of foreign professionals, such as Kenyan and Tanzanian nationality requirements to practice domestic law. Foreign ownership controls and public procurement restrictions, including Kenyan and Ugandan limits on foreign firms' provision of legal services to government agencies or international organizations, further segment the professional services markets in East Africa.

### Regulatory Heterogeneity Impedes Trade in Services

Regulatory requirements vary across countries in Africa either because of differences in institutions or differences in social preferences (for example, stringency of financial or privacy regulations). The result of pure regulatory heterogeneity is the segmentation of international markets (Mattoo 2015). The studies on education and health services in chapter 3 and on professional services in chapter 5 point to such heterogeneity in regulations. Services providers usually face qualification requirements or licensing procedures, which generate fixed costs that are incurred by firms before entering the market. Regulatory heterogeneity prevents services providers from realizing economies of scale from a larger regional market.

An example is professional services in East Africa. Given that each country in East Africa has its own qualification criteria, the compliance costs are country-specific and cannot be spread through the provision of professional services in other East African countries. Such fixed and country-specific regulation costs can have a serious impact on entry decisions by small and medium-size firms—especially if the firms do not expect large sales in the foreign market. If the East African countries adopted common criteria for qualifications or recognized the qualifications and licenses obtained in another East African country, significant efficiency would be gained.[11]

### Inadequate Standards Inhibit Trade in Services

Inadequate standards often stifle demand for services. Although 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 small and medium enterprises can prevent some smaller firms from using services. Indeed, a single standard may be appropriate if there is little demand for service variety, network effects are unbounded, and there is no anti-competitive 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. For example, complying with International Financial Reporting Standards for corporate accounting may be too costly for certain types of firms, even taking into account the provision for small firms to use a simplified standard. Several small and medium-size firms—particularly in Tanzania and Uganda—noted the excessive costs of complying with international standards. In such cases, dual standards tailored to the specific needs of firms by size may be worth considering in East Africa. Differentiated services provided to different types of firms—say, large firms versus small and medium enterprises—may be best delivered by different classes of accounting professionals.

By contrast, international standards may be useful in certain segments of tourism services. Chapter 7 documents that only 10 percent of the region's hotel rooms are estimated to meet international standards. Adopting international standards on a broader basis could help boost tourist inflows from OECD countries.

## What Can Policy Makers Do?

This book highlights that to strengthen services in Africa, policy makers need to consider a holistic approach that

11 For example, Kox, Lejour, and Montizaan (2004) estimate the increase in trade and investment flows in the European Union determined by a reduction in regulatory heterogeneity. They show that the stock of foreign direct investment in the European Union could increase by 20–35 percent if bilateral variation was reduced as a result of a common services regulation directive. Kox and Nordas (2009) also look at the impact of regulatory heterogeneity (and regulatory intensity) on services trade flows, and find large negative effects on market entry, trade flows, and the export performance of firms.

looks beyond simply signing agreements. The focus should be on effective implementation of coordinated regulatory reform and liberalization of trade in services informed by systematic and well-coordinated data collection efforts and knowledge-sharing platforms.

### Be Serious about Data Collection and Monitoring of Services Reforms

Systematic data collection efforts and comprehensive monitoring of services integration that focuses on the impact of reforms on lowering trade costs and facilitating cross-border operations should be a priority for policy makers in Africa. The chapters in this book show that traditional surveys as well as innovative data collection methods can be used to gather information on services trade transaction costs and outcome indicators. Firm-level data on trade flows, characteristics of exporters, or the cost of barriers can usefully complement existing data sources compiled by central banks, statistical offices, various ministries, or other government bodies.

The experimental surveys based on crowdsourcing and mystery shopping confirm that such methods are not only feasible but also useful. They enable the collection of new data sets on the time and cost to obtain a license, visa, or work permit, and perhaps in a way often superior to more costly traditional data collection methods based on field interviews. Despite their usefulness in generating new knowledge, there remain several challenges related to the implementation of these innovative surveys to collect data on transactions in services:

- First, sampling issues need to be clarified. For instance, sampling from available lists of mobile phone users is easily justifiable for the providers and users of education and health services, given that phone ownership is almost universal within this category. However, it has proven difficult to reach certain target groups, such as professionals with foreign degrees, resulting in very small sample sizes for several categories of respondents.
- Second, data quality issues have hampered the implementation of the surveys. For example, despite formulating short questions and requesting the answers in local currency, the data set contained many outliers. In the case of the insurance and accounting surveys, there was wide variation in the responses of accountancy firms, possibly driven by different underlying assumptions regarding the services offered to clients. To increase the reliability of the data, these challenges have to be addressed before the methods can be confidently used to track progress on regional integration.

Policy makers can make an effort to work with relevant data collection agencies and donors to integrate such methods into existing data collection frameworks and carry out monitoring exercises on a regular basis.[12]

### Support Knowledge Sharing

Although an important objective of the book is to fill information gaps, most of the chapters go beyond data issues. For instance, chapter 5 presents an innovative knowledge-sharing tool, a professional services knowledge platform[13] that was implemented jointly by the World Bank and the COMESA Secretariat. The platform was designed for practitioners, policy makers, and regulators to engage in meaningful dialogue about the critical issues that are currently transforming professional services in Sub-Saharan Africa. The aim of the platform is to promote the development of strategies to facilitate the training and movement of professionals, as well as trade and investment in professional services in Africa. In addition to filling information gaps on professional services markets, trade flows, regulatory measures, and trade policies affecting professional services in Sub-Saharan Africa, the platform aims to promote the spread and exchange of ideas on trade in professional services on the continent. Similar knowledge platforms in professional and tourism services have been put in place by governments, regional institutions, and other stakeholders from the public and private sectors in East Africa (box I.3).

### Put Informal Trade in Services on the African Policy Agenda

Chapter 1 offers several recommendations that focus on facilitating trade in informal services and emphasize changing behavior and more liberal immigration policies. The recommended improvements in behavior include eliminating harassment of traders at the border or in the country of destination, easing visa requirements, easing and clarifying residency requirements, and improving the work permit application process. The Charter for Cross-Border Trade in Goods and Services provides a useful template for the implementation of these solutions (box I.4). The charter enshrines a basic set of rights and obligations for traders and officials and aims to improve behavior at the borders and

12 A detailed framework for monitoring regional integration is provided in World Bank (2015).

13 The "knowledge platform" concept was originally coined by Feketekuty (2010) and is described in more detail in Hoekman and Mattoo (2011).

**BOX I.3: East Africa Tourism Platform**

The East Africa Tourism Platform (EATP), the private sector body for tourism in East Africa, has recently shown leadership in attempting to champion and facilitate a collective, coordinated, and simultaneous approach to enhancing the region's travel and tourism competiveness. In a pilot program launched in November 2014, EATP uses aspects of the World Economic Forum Travel and Tourism Competitiveness Index as a comprehensive, strategic tool, and employs a collaborative and participatory approach that will enhance each partner state's tourism competitiveness while mainstreaming regional integration. This program places emphasis on building strong, multi-stakeholder dialogue forums at the national level, which are referred to as National Tourism Roundtables (NTRs). NTRs would address the following challenges:

(i) *Policy reforms and regulation in tourism and other spheres relating to monetary, fiscal, and trade policies.* The platform seeks to address issues related to illegal trade in wildlife products that impede tourism flows. NTRs also aim to foster tourism growth by simplifying visa services, putting in place visa-on-arrival policies, issuing single tourist visas, offering waiver of visa fees for most regional tourists, and so on. There is a need for full adoption and implementation of the East African Community (EAC) Single Tourist Visa pursued by the EAC Secretariat and inclusion of additional visa categories, such as the EAC foreign resident visa. Policy reforms that support eVisa programs at the EAC and national levels need to be implemented. Finally, air transport needs to be liberalized to enhance destinations' competitiveness in tourism.

(ii) *Price competitiveness in taxes, levies, and charges.* The tourism segment is very sensitive to any price increases and thus changes in prices crucially impact competitiveness in this sector. There is a need to study each partner state's and by extension the region's price competitiveness in taxes, levies, and charges, to inform policy reforms. And there is a need to lobby continuously to mitigate any negative impact on the sector.

(iii) *Tourism services export capabilities.* Private participation in promoting tourism as an export activity is very low. Preparing the EAC tourism supply chain stakeholders for intraregional and interregional tourism and presenting the regional strategy as a business proposition are keys for growing supply and demand. Broadening and deepening business linkages to regional and international markets will secure improved opportunities for the EAC's tourism sector. As tourism services revolve around relationships between inbound and outbound tour operators, effective facilitation of business-to-business linkages is needed to expand intraregional and interregional tourism.

*Source:* TradeMark East Africa 2015.

promote the gradual formalization of informal cross-border trade. The charter has been extended to include trade in services by requiring the simplification and transparency of immigration and health-related procedures for crossing borders to provide or consume services.

## Bringing It All Together: Trade and Domestic Regulation

An effective reform agenda will require national actions and international cooperation. Trade and other policy changes are necessary to promote development and integration of the region's services market. For example, in the case of professional services, chapter 5 describes the steps that include easing restrictions on the entry of foreign professionals, establishment of foreign companies, and cross-border supply of services. Specific changes could include minimizing the restrictions on the kinds of businesses permitted, developing a transparent and consistent framework for accepting foreign-qualified professionals, and relaxing bars to foreigners participating in partnerships. Easing discriminatory procurement regulations and reforming immigration laws could complement these steps. Domestic regulatory reform includes easing professional entry requirements and eliminating disproportionate restrictions on competition, such as price regulations, restrictions on business organization, and advertising prohibitions.

Removing such barriers to trade would open immense opportunity for filling the skill gap between countries in the region. In addition to these General Agreement on Trade

### BOX I.4: Charter for Cross-Border Traders

***Basic rights and obligations for traders and officials at the border:***

1. All individuals shall be able to cross the border without verbal or physical abuse or harassment, including but not limited to sexual and gender-based violence.
2. Traders shall be processed at the border in an efficient and timely manner without discrimination. A receipt must be provided to the trader for any payment made and the payment must be properly recorded.
3. Only officials of the approved agencies are present at the border and all border officials wear uniforms or ID badges that allow the identification of their respective agency.
4. Physical checks of traders must be recorded with the reason and outcome provided. Female traders have the right to receive a physical check by female officials in a private but regulated and accountable environment.
5. All duties, fees, and taxes and the basis for their calculation are publicly available at the border. Any change to duties, fees, and taxes must be publicly announced at the border, with reasonable time for traders to prepare, before their application. No unpublished fees or charges should be demanded at the border.
6. Documentary requirements should be clearly stated and publicly available at the border. Any change in the documents required must be publicly announced at the border with reasonable time for traders to prepare before implementation. Simplified procedures should be applied to small-scale traders.
7. Traders should be aware of their rights and obligations when crossing the border. Traders must present the required documentation and pay the appropriate duties at the border and obtain a receipt for any payments made to an official. Traders shall not attempt to bribe any official to avoid payment of duties or obtain preferential treatment in any way, including avoiding queues.

***With the support of the international community, governments commit to the following:***

1. That by [agreed time] these basic rights and obligations governing cross-border movement of goods and people are clearly stated in the local language and visibly apparent at all border crossings.
2. By [agreed time] at every border post, there is at least one agent that has received gender awareness training. All senior officials at the border have received gender awareness training by [agreed time]. Ensure that 50 percent of officials at any border post have received gender awareness training by [agreed time].
3. 3. At all border posts, traders have recourse to an independent and confidential mechanism to register the violation of any of these basic rights. Female traders must be able to register the violation of any basic rights with a female staff.
4. Apply strict disciplinary measures against officials found to have violated the rights of a trader.
5. Support organizations of informal cross-border traders in disseminating information on these rights and obligations and in delivering advice and information to enhance the capacities of the traders.
6. Continue to improve the quality of infrastructure at all border crossings to provide an open and safe environment for traders, with attention to the specific needs of women traders, and appropriate facilities for officials to undertake their work.
7. Improve the quality of data collected at all border posts on small-scale traders, including the number passing through the border each day and the nature of the goods carried.

in Services (GATS)[14] type reforms in different sectors, policy makers should also consider liberalizing air space, a sector that is missing in the GATS World Trade Organization schedule of services. This would not only help in promoting tourism services exports (as suggested in chapter 7), but also open possibilities for other services trade through efficient movement of people.

Regulatory reforms and liberalization needs to be complemented with regional regulatory cooperation, so firms could benefit from more homogenous regulations, leading to an increase in the volume and variety of services offered. In professional services sector, for instance, regional cooperation to decrease regulatory differences among EAC countries is particularly important in the following areas: mutual recognition of professional qualifications and licensing requirements and establishment of appropriate regional standards, such as those on training. Furthermore, cooperation on the removal of labor restrictions and cooperation to improve the financing and capacity of professional education is desirable.

## Prioritize Regional Regulatory Cooperation

The basic case for regulatory cooperation that arises is that regulatory heterogeneity segments international markets in a way that prevents the exploitation of economies of scale. Regulatory heterogeneity is associated with significant economic cost, because each country independently chooses its regulations without taking into account the negative impact on foreign producers and hence on competition. Therefore, there are potential gains from international cooperation where each country trades off the benefits of maintaining different nationally optimal regulations against the benefits of integrating markets through some form of regulatory convergence.

This book examines education and health services in greater detail (chapter 3) and suggests that deeper regional integration, through regulatory cooperation with neighboring partners who have similar regulatory preferences, can usefully complement non-preferential trade liberalization. Admission requirements and policies on the transfer of academic credits and recognition of academic and professional qualifications for education and health professionals are equally important for the mobility of consumers and providers of education and health services. Cooperation among countries on such regulations could have a substantial impact on regional flows of trade in such services. For instance, the medical boards or councils in the EAC have started to collaborate and share registers to recognize licenses from other EAC member countries. In addition, nurses and midwives, pharmacists, medical doctors, and veterinarians are currently developing a road map for the preparation of mutual recognition agreements (MRAs) of professional qualifications to deepen regional integration. This issue is addressed in chapter 6.

The book also explores innovative options for Eastern and Southern African countries to grow their multi-country and intraregional tourism (chapter 7) through regional cooperation. It shows that regional cooperation initiatives in tourism can help increase the regional and national competitiveness of the sector. Destinations in Southern and Eastern Africa have recognized the importance of regional cooperation in tourism and have included many tourism objectives in the charter protocols of their regional blocs. The EAC has created the East African Tourism and Wildlife Conservation Agency to implement regional tourism initiatives; similarly, the Regional Tourism Organization of Southern Africa is SADC's tourism arm. Each agency has undertaken various activities, such as formulating regional tourism strategies, creating shared visas, undertaking regional promotion, establishing quality standards, and defining trans-frontier conservation areas.

### Mutual Recognition Agreements: A Success Story for Africa?

Regulatory innovations in the form of MRAs occupy the center stage in chapter 6. A particular emphasis is placed on the MRAs introduced in the EAC in accounting, architectural, and engineering services through the Common Market Protocol. The chapter considers how such instruments might be designed and draws lessons from this recent experience in the EAC.

The chapter underlines some of the shortcomings of the current frameworks of MRAs. First, although the three concluded MRAs in the EAC were negotiated and agreed by stakeholders in the sectors, in certain instances they have been signed without any significant preparatory work on equivalence or national regulatory bodies have not been in the driver's seat for subsequent implementation. Second, more importantly in each of these cases, the agreements were not initiated formally at the regional level. This has left the instruments resulting from these agreements in a legal limbo. Although the parties involved have competence in relation to professional qualifications and licensing at the domestic level, they were not granted the power to conclude these international agreements. The lack of true "treaty" status for the MRAs means that they cannot require

14 GATS entered into force in January 1995 and is the first multilateral, legally binding set of rules covering international trade in services.

competent authorities to ignore existing domestic provisions (such as nationality requirements) that clash with the MRA requirements.

Issues arising from such lack of legal recognition have subsequently become apparent, leading to key implementation challenges. First, although the signed agreements have all been presented to the EAC Council of Ministers, they have not yet been given any formal recognition as legal instruments of the EAC. Competent authorities are unable to deal with instances where national legislation obstructs the commitments made in the MRAs (such as abolishing a requirement to enter a joint venture when establishing a commercial presence). Unless the MRAs are formally adopted by the Council of Ministers and in effect become treaty commitments, this will remain a problem. Second, the negotiations did not take account of other elements of the Common Market Protocol, such as Annex V market access commitments and Annex II commitments on free movement of workers. Therefore, there is uncertainty about what services a migrant professional may provide in other EAC states. Third, there is ongoing sensitivity among the partner states over free movement of people. Several sectors using MRAs have reported significant delays in processing work permits. Moreover, the significant differential in charges imposed by partner states for work permits is a source of complaint among businesses trying to use the MRAs for cross-border employment.

All these issues highlight that MRAs should not be seen as a stand-alone solution to professional services trade. They are simply one element of a sophisticated framework of interrelated measures that need to be implemented if cross-border work in professional services is to grow. In Africa, central government and regional administrative resources are stretched; in this context, it is particularly tempting to see MRAs as a task that can be left entirely to the competent authorities, as in the EAC. The risk of this approach is that MRAs will become minimalist agreements that simply address the needs of individuals who wish to move between countries. Such a reductionist approach risks missing out on the significant benefits of unlocking regional integration in professional services markets—for consumers, businesses, and even the professionals themselves.

The EAC experience suggests that much could be done to improve the design and operation of the MRAs implemented already, before this experience is shared with other African regional economic communities. For example, more needs to be done to raise the awareness of national governments and regional economic communities on the role of MRAs, their uses, and their shortcomings. There should also be discussion of the importance of ensuring that MRAs are embedded in an appropriate governance framework derived from trade agreements and supported by a strong competition policy. Governments should also be aware that to realize their full potential, MRAs may require other legislative measures to be put in place. Nationality or joint venture requirements may need to be removed from related legislation. Moreover, more flexibility may be introduced into the powers delegated to the competent authorities to enable them to implement MRAs effectively. For example, this could include an extension of powers to cover the regulation of technical-level qualifications. The authorities could also be allowed to recognize and act on the possible need for temporary foreign professional practice. Finally, EAC experience illustrates that the transparency of MRAs is a key to their success. Potential users and their clients need to know and understand what the agreements involve.

### Reform Immigration Rules at the Regional Level

Regulations on the movement of natural persons for providing services affect highly skilled professionals such as accountants, engineers, doctors or teachers as well as lower-skilled providers offering hair braiding or housekeeping services. To help retain some of the scarce health workers in the region and enhance the region's competitiveness in providing education and health services, chapters 2 and 3 suggest that African countries should allow for freer mobility of teachers and health care professionals across borders in Africa. Chapter 5 highlights that the trade-migration linkage is an important part of the debate on migration reform in COMESA. Trade policy officials should not neglect the immigration and labor market perspectives when considering temporary entry and issues affecting services supplied by nationals of one country in the territory of another. Policies related to visas, work permits, and treatment of foreign workers must be considered. Similarly, chapter 7 argues that for promoting tourism services exports, countries should further reduce visa requirements.

### Put in Place Complementary Policies If Needed

Our analysis of education and health services shows that policy action is required not only in coordinating trade and regulatory reform and bringing about immigration reforms and regulatory transparency. Complementary policy changes in the areas of education and information and communications technology at the national and international levels would go a long way in addressing Africa's skill and resource shortages.

Similarly, the work in chapter 4 on embodied exports of services in the mining industry suggests that although Zambia's copper mining sector has expanded significantly in the past decade, creating demand for mining-related goods and services, local suppliers have not been able to benefit much from this demand. The chapter recommends that Zambia's government and the private sector have an effective dialogue on the appropriate institutional framework for the effective participation of local services suppliers in copper mining. Participation should be broadened to a wider group of stakeholders and programs to tackle the structural factors affecting supplier development. The Ministry of Science, Technology, and Vocational Training and the Technical Education, Vocational, and Entrepreneurship Training Authority, in collaboration with the mining companies and services providers in mining, should develop training and vocational institutes and ensure that their curriculum matches the market demand for specific skills. These national efforts could be complemented with international collaboration and information sharing with countries that have more experience in the design and application of such training programs.

Finally, the last chapter suggests that to promote tourism services exports, policy makers should not only liberalize their airspace and further reduce visa requirements, but also implement complementary policies that promote investment in access and tourism infrastructure, rationalize tax systems, set and implement quality standards, cooperate on tourism and hospitality workforce development, and undertake unified regional promotion.

### Be Transparent

Most often providers enter neighboring countries without a visa or work permit only because of the lack of complete information. Chapter 1 suggests that the EAC Common Market Protocol and other regional or bilateral agreements could provide a platform for gradually formalizing services flows by making available information on the visa and work permit processes. Further, an aggressive dissemination campaign, including seminars for traders and officials, would be needed to familiarize all players with the existing opportunities and options.

## Conclusions and Areas for Future Research

The potential for services in promoting growth, trade diversification, and structural transformation in Africa is generally underestimated. Services are inputs into the production of other services as well as goods for export and domestic consumption. Services contribute directly and indirectly to economic growth, including by lowering transactions costs and creating spillovers of knowledge to other sectors. Opening these sectors to trade would make them more competitive and efficient and contribute to the overall productivity of the Africa region. This book speaks volumes about the latent potential for trade in services in Africa and the regulatory hurdles that providers face in materializing such flows. However, we have observed that despite the many obstacles, services and services providers are still finding ways to cross the borders, although at a smaller scale and at a slower pace. A large part of the gains from trade is thus lost because of regulatory challenges. Making more information available to traders, ensuring greater transparency of rules and regulations, and pursuing regional regulatory cooperation would go a long way in integrating the fragmented services markets in Africa.

Although the book covers some unexplored sectors of services exports from Africa, it does not cover many dynamic services that are currently emerging. These services may have unrealized potential in Africa. For instance, observers have pointed to the potential for trading banking services, in particular e-banking services, in many African countries. The information on the use of mobile money services available in the World Bank's Enterprise Survey data could be tapped in estimating the potential for such trade. A careful analysis of the potential and barriers to exporting such dynamic services from and within the continent requires tremendous effort with respect to data collection.

Furthermore, the role of services as intermediate inputs, the potential of services for promoting exports, and the transformational effect of services in the economy is territory that is less explored in this book. Although we consider the mining industry as a case in point, many other sectors where services are embodied in goods or agricultural exports need careful examination. Relatedly, services are playing an increasingly important role as inputs in several international production networks. Future work should focus on the role of services in enhancing the participation of African countries in global value chains.

Finally, trade policies and regulations play an important role in the development of the services sector in Africa. Although this book covers new ground in analyzing the policies that are essential in addressing the challenges faced by service exporters, we are still leaving a lot on the table. For instance, the book covers novel ways of dealing with incongruous domestic and foreign regulations by clearly discussing the implementation challenges of MRAs that have to be addressed to ensure that regulatory changes indeed have the desired effect. Such in-depth sector analyses of experiences with the implementation of policies across various sectors would be exciting for future research and would usefully complement recent analyses on the political economy of regional integration.[15] For example, why do regional initiatives and government policies lag behind the market forces that have stimulated cross-border investments in services sectors? Which structural, institutional, sectoral, strategic or international drivers explain the status of reforms and regional integration in services? How does private sector pressure and state leadership trigger services reforms? We leave such detailed exploration for future work.

## References

Allee, V. 2008. "Value Network Analysis and Value Conversion of Tangible and Intangible Assets." *Journal of Intellectual Capital* 9 (1): 5–24.

Arnold, J., B. Javorcik, and A. Mattoo. 2011. "Does Services Liberalization Benefit Manufacturing Firms? Evidence from the Czech Republic." *Journal of International Economics* 85 (1): 136–46.

Balistreri, E., T. Rutherford, and D. Tarr. 2009. "Modeling Services Liberalization: The Case of Kenya." Economic Modelling, 26 (3): 668–679.

Balistreri, E., T. Rutherford, and D. Tarr. 2011. "Services Liberalization in Preferential Trade Arrangements : the Case of Kenya," Policy Research Working Paper Series 5552, The World Bank.

Bhagwati, Jagdish. 1984. "Splintering and Disembodiment of Services and Developing Nations." *The World Economy* 7 (2): 133–44.

15 For instance, Brenton and Hoffman (2015) looks at the political economy of trade integration in various services sectors, such as financial, transport, and professional services. Common cross-sector recommendations to facilitate greater integration include (i) prioritizing flexibility over rigidity (while it is tempting to work through existing regional economic organizations, such as COMESA, EAC, or SADC, working through these formal regional economic communities can often be more of an impediment to integration than a benefit); (ii) encouraging simplicity over complexity, as many integration efforts fail because of complex negotiations across a range of government agencies; one way to minimize such impediments would be to encourage mutual recognition of standards rather than complex policy harmonization; (iii) reaching out to the private sector, as firms already operating regionally may have innovative insights; and (iv) focusing on joint infrastructure to reduce the cost of trade and complementary policy reforms to maximize the returns to these investments.

Borchert, Ingo, Batshur Gootiiz, and Aaditya Mattoo. 2012. "Policy Barriers to International Trade in Services: New Empirical Evidence." Policy Research Working Paper 6109, World Bank, Washington, DC.

Brenton, Paul, and Barak Hoffman (eds.). 2015. *Political Economy of Regional Integration in Sub-Saharan Africa*." Washington, DC: World Bank.

Bryson, J. R., and P. W. Daniels. 2010. "Service Worlds: The 'Services Duality' and the Rise of the 'Manuservice' Economy." In *Handbook of Service Science*, edited by P. P. Maglio, C. A. Kieliszewski, and J. C. Spohrer. New York: Springer.

Cattaneo, O., L. Schmidt, and P. Walkenhorst. 2010. "Trade in Engineering Services." Chapter in the forthcoming publication *Services Trade for Development*, Washington, DC: The World Bank.

Cattaneo, O. and P. Walkenhorst. 2010. "Law and Justice for Development: Trade Aspects." Chapter in the forthcoming publication *Services Trade for Development*. Washington, DC: The World Bank.

COMESA (Common Market for Eastern and Southern Africa). 2002. "Surveillance as a Means to Measure the Degree to Which Integration Is Taking Place in the COMESA Region." Discussion Paper. COMESA Secretariat, Lusaka, Zambia.

Coste, A. and N. Dihel 2013. "Services Trade and Gender." In *Women and Trade in Africa: Realizing the Potential* edited by Brenton, P., E. Gamberoni and C. Sear, 97-115. Washington, DC. The World Bank.

Dee, P., and A. Raychaudhuri. 2008. "Is India's Services Trade Pro-Poor? A Simultaneous Approach in Emerging Trade Issues for the Policymakers in Developing Countries." Studies in Trade and Investment No. 64, United Nations Social Commission for Asia and the Pacific, Bangkok. Demirkan et al. 2011.

Feketekuty, G. 2010, "Needed: A New Approach to Reduce Regulatory Barriers to Trade." VoxEU.org, June 19.

Francois J. and B. Hoekman 2010. "Services Trade and Policy." Journal of Economic Literature, 48 (3): 642–92.

Gallup World Poll. 2010. Gallup Global Employment Tracking. http://www.gallup.com/poll/145487/gallup-global-employment-tracking.aspx

Hoekman, B., and A. Mattoo. 2008. "Services Trade and Growth." Policy Research Working Paper No. 4461, World Bank, Washington, DC.

Hoekman, B., and A. Mattoo. 2011. "Services Trade Liberalization and Regulatory Reform: Re-invigorating International Cooperation." CEPR Discussion Paper 8181, Center for Economic and Policy Research, Washington, DC.

Hoekman, B., and B. Shepherd. 2015. "Services Productivity, Trade Policy, and Manufacturing Exports." RSCAS 2015/07, EUI Working Papers, European University

Institute, San Domenico di Fiesole, ItalySan Domenico di Fiesole (FI)—Italy San Domenico di Fiesole (FI)—Italy.

ILO 2012. "Global Employment Trends 2012: Preventing a deeper jobs crisis." Geneva.

Jouini, N., and N. Rebei. 2014. "The Welfare Implications of Services Liberalization in a Developing Country." *Journal of Development Economics* 106: 1–14.

Khoury, A., and A. Savvides. 2006. "Openness in Services Trade and Economic Growth." *Economic Letters* 92: 277–83.

Konana, D., and A. V. Assche. 2007. "Regulation, Market Structure and Service Trade Liberalization." *Economic Modelling* 24 (6): 895–923.

Konana, D., and K. Maskus. 2006. "Quantifying the Impact of Services Liberalization in a Developing Country." *Journal of Development Economics* 81 (1): 142–62.

Kox, H., A. Lejour, and R. Montizaan. 2004. "The Free Movement of Services within the EU." CPB Document 69, CPB Netherlands Bureau for Economic Policy Analysis, The Hague.

Kox, H., and H. Nordas. 2009. "Quantifying Regulatory Barriers to Services Trade." OECD Trade Policy Working Paper No. 85, Organisation for Economic Co-operation and Development, Paris.

Low, P. 2013. "The Role of Services." In *Global Value Chains in a Changing World*, edited by D. Elms and P. Low, 61–82. Geneva: World Trade Organization.

Maglio P., C. A., Kieliszewski, and J. C. Spohrer, J. C. 2010. *Handbook of Service Science*, Springer, New York.

Mattoo, A. 2015. "Services Trade and Regulatory Cooperation." E15 Expert Group on Services, Geneva. http://e15initiative.org/wp-content/uploads/2015/07/E15-Services-Mattoo-FINAL.pdf.

Rutherford, T. and D. Tarr 2010. Modeling Services Liberalization: The Case of Tanzania. *Journal of Economic Integration,* 25(4): 644–675.

Sáez, S., D. Taglioni, E. van der Marel, C. H. Hollweg, and V. Zavacka. 2014. Valuing Services in Trade: A Toolkit for Competitiveness Diagnostics. Washington, DC: World Bank. Staritz, C., G. Gereffi, and O. Cattaneo. 2011. "Editorial." *International Journal of Technological Learning, Innovation and Development* 4 (1-3): 1–12.

Swedish National Board of Trade. 2010. "Servicification of Swedish manufacturing." Kommerskollegium, Stockholm.

Swedish National Board of Trade. 2013. "Global Value Chains and Services." Kommerskollegium, Stockholm.

Taglioni, D. and D. Winkler, 2015. Making Global Value Chains Work for Development, Washington, DC: The World Bank.

TradeMark East Africa. 2015. Background document Tourism Contribution in East Africa. TradeMark East Africa, Nairobi, Kenya.

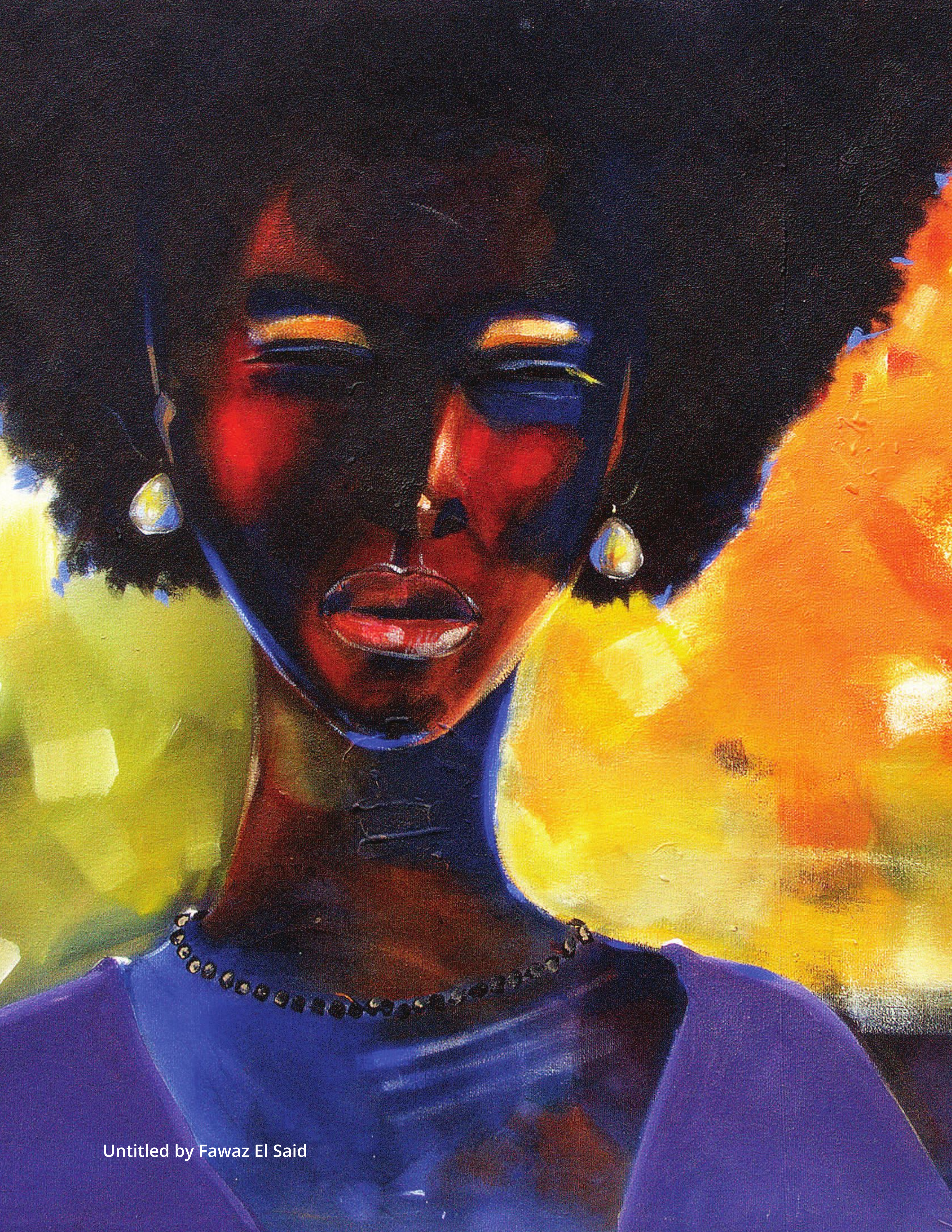
Trolliet, C. and J. Hegarty. 2003. "Regulatory Reform and Trade Liberalization in Accountancy Services." *Domestic Regulation& Services Trade Liberalization,* edited by Mattoo, A. and P. Sauve, World Bank and Oxford University Press, 2003.

UNCTAD 2015. Economic Development in Africa: Report 2015 - Unlocking the Potential of Africa's Services Trade for Growth and Development. Geneva.

Vandermerwe, S. and J. Rada. 1988."Servitization of Business: Adding Value by Adding Services," European Management Journal, Vol 6, No 4.

World Bank. 2015. *Indicators to Monitor Deeper Regional Trade Integration in Africa*. Washington, DC: World Bank Group. http://documents.worldbank.org/curated/en/2015/06/24581762/indicators-monitor-deeper-regional-trade-integration-africa.

World Health Organization (WHO). 2012. "Global Health Indicators." Published by World Health Statistics. http://www.who.int/healthinfo/EN_WHS2012_Part3.pdf.



Untitled by Fawaz El Said

CHAPTER 1

# Informal Trade in Services in Sub-Saharan Africa—Unchartered Territory

Nora Dihel and Arti Grover Goswami with input from Célestin B. Bucekuderhwa, Richard Gicho, Kunda Mando, RuralNet and Tertula Swai[1]

Nora Dihel is Senior Economist, Macroeconomics and Fiscal Management Global Practice, World Bank, Arti Grover Goswami is Senior Consultant Economist, World Bank, Celestin Bashinge Bucekuderhwa is from the Catholic University of Bukavu, Kunda Mando is Media Consultant in Zambia, Richard Gicho is a Consultant with the World Bank in Kenya, RuralNet Associates Limited a private development consultancy firm in Zambia, and Tertula Swai is a Consultant in Tanzania.

## Introduction

Informality in general—and informal cross-border trade in goods and services in particular—is a major feature of the economic and social landscape in Sub-Saharan Africa. Given the normality of informality, informal trade in goods is starting to feature on the policy agenda of several African countries (Brenton et al. 2011, 2014; Cantens et al. 2014). Nonetheless, despite widespread transactions in sectors such as hairdressing, education, health, construction, housekeeping, entertainment, and finance, informal trade in services remains largely neglected. This chapter attempts to underscore the importance of such informal regional trade among African countries using evidence from a novel data set collected by the World Bank.

Particularly interesting is the case of hairdressing services. Informal trade in services goes beyond tradability. For instance, economists often use haircuts as a typical example of a nontradable service. The argument goes that the ubiquity and the limited value of such low-skill, low-wage services, which cannot be rendered at a distance, coupled with the high cost of transporting the suppliers or consumers, make it unlikely that international trade will play a role in the provision of hairdressing services. Cass and Noam (1990) suggest that many services that require low-skilled labor such as hairdressing, housecleaning, or other domestic work, are "extraordinarily improbable candidates for trade":

> The lower price of these services in countries with abundant low-skilled labor will not be sufficient to induce substantial movement of potential consumers of these services, as the consumers seldom will value the services highly enough to warrant such movement. The movement of providers of such services, although not infrequent, is substantially constrained by restrictions on immigration. Further, as the providers' movement is likely to be for an extended period, the resulting economic activity will not appear in statistics counting trade in services (Cass and Noam, 1990, pp. 57–58).[2]

Yet, such services trade flows seem to flourish on the African continent—and that despite numerous barriers on the movement of service providers. Maybe it is time that we change our views about the nontradability of certain services, as this traditional, "haircuts view"[3] of services is increasingly contradicted by realities on the ground. Tanzanian Maasai hair braiders are in high demand in Zambia, while Congolese, Kenyan, and Ugandan hairdressers are sought after by Tanzanian women from all walks of life, from the girl next door to the wife of the minister. All these hairdressers are crossing borders—usually helped by facilitators and fixers—to provide their services in a foreign country.

Anecdotal evidence suggests that informal transactions are also beginning to emerge in other services sectors such as construction, agricultural services, education, and health. Regulatory barriers such as costly visas, restrictions on getting residency and work permits, and other immigration

1 The authors thank Paul Brenton, John Keyser, Carmine Soprano, and Michel Zarnowiecki for useful comments on an earlier draft.

2 Feketekuty (1998) also suggests that "Perhaps we should say that international trade generally does not play a significant direct role in the provision of such services. It may play a much more substantial role indirectly through the international transportation of information about these services, including international transportation of individuals who have acquired knowledge about the service abroad, for instance the "cordon bleu" trained chef or the Paris-trained hairstylist."

3 The "haircuts view of services" is described in Bhagwati (1996) as the older, traditional perception that considers several services that typically cannot be obtained long distance as nontradable.

hurdles force service providers into informality. These trade flows remain largely unreported as various service providers travel on tourist visas. Tourist visas facilitate avoidance of transactions costs and documentation required to supply services (for example, proof of qualifications) and allow circumvention of entry barriers (for example, certain service providers are unable to obtain a work permit in the destination country). While service providers remain trapped in informality, governments lose the beneficial interactions and linkages that would come from greater integration into the domestic economy, such as employment of locals in the foreign-owned businesses, transfer of skills and technology, increased access to more efficient services inputs, etc.

This chapter sheds some light on the key characteristics of informal trade in services in Sub-Saharan Africa. Both upscale services, such as education, and downscale services, such as hairdressing and housekeeping, are examined. We bring together perspectives from providers and consumers to better understand the value of informal services and the benefits to suppliers and customers. The chapter then discusses the obstacles that service providers face in foreign countries and proposes solutions to remove such barriers and gradually formalize these services flows.

## Characteristics of Informal Trade in Services

The discussion in this chapter is based on interviews with service providers and consumers. The snowball sampling technique[4] was used to conduct the interviews, which were carried out in the Democratic Republic of Congo, Kenya, Tanzania, and Zambia between September 2014 and June 2015. A total of 197 providers and consumers were interviewed in the Democratic Republic of Congo, 16 in Kenya, 63 in Zambia (25 in Lusaka and 38 at the Kasumbalesa border crossing), and 40 in Tanzania. Respondents in each of these countries mainly originated from the Democratic Republic of Congo, Rwanda, and Uganda. For example, of a total of 115 providers, 39 came from the Democratic Republic of Congo, 42 were from Rwanda, and another 34 were from Uganda. Of the 82 domestic consumers interviewed, 67 originated from the Democratic Republic of Congo and 15 were from Rwanda and Uganda. In addition, in-depth interviews with cross-border traders associations as well relevant institutions, such as ministries of home affairs or employment services agencies, were carried out in the examined countries. Finally, focus group discussions with about 10 hairdressers and 30 traditional healers were organized in Dar es Salaam in September 2014.

### Young Female and Male Traders Participate in Informal Services Transactions

The majority of traders are young. The average age of traders is 36 in Zambia and 34 in the Democratic Republic of Congo and Tanzania. Although women play an important role—between 33 and 42 percent of the respondents were women—men tend to be equally involved in small-scale services trade, as opposed to informal trade in goods. Men venture into braiding and housekeeping, thereby challenging traditional stereotypes that view these activities as exclusively female professions.

### Both Uneducated and More Sophisticated Traders Provide Services across the Border

As with small-scale trade in goods, a significant proportion of service providers do not have education or have only primary education. For example, in Zambia, 8 percent of the respondents do not have education, while about 50 percent have primary education. In Tanzania, 5 percent of the respondents had no education at all and 34 percent had primary education; in the Democratic Republic of Congo, 10 percent had no education and 18 percent had primary education. Twenty-eight percent of the respondents in Tanzania and 35 percent of the respondents in the Democratic Republic of Congo and Zambia had secondary education. However, people with higher (tertiary) education are also involved in informal services trade. About 33 percent in Tanzania, 17 percent in the Democratic Republic of Congo, and 8 percent in Zambia had a high school degree or tertiary education. In general, these respondents are engaged in the provision of education and health services.

### Informal Trade Flourishes across a Broad Range of Services Sectors, Sometimes Coupled with Small-Scale Trade in Goods

Most of the interviewed traders were engaged in services such as hairdressing (braiding), housekeeping and gardening,

4 Snowball sampling is a nonprobability sampling technique that uses a small pool of initial informants to nominate, through their social networks, other participants who meet the eligibility criteria and could potentially contribute to a specific study. Applied in sociology and statistics research, the technique more recently has been used in social network analysis. See, for example, Walther (2014).

construction, clergy, tailoring, agricultural services, education, and health, including traditional healing. Interestingly, the provision of services abroad is often combined with informal trade in goods. The services traders cross the borders with a few goods, to increase their income or appear to border officials as small-scale goods traders. For example, Ana[5] (32 years old, no education, Congolese hairdresser interviewed in Zambia) indicated that she not only does hairdressing, but also sells women's slippers and hair wigs in an effort to maximize her income. John (50 years old, educated to grade 12, Congolese clergyman interviewed in Zambia) indicated that apart from pastoral services, he trades informally in clothes, assorted groceries, and shoes. Another respondent, Dennis, a teacher by profession (50 years old, degree holder, Congolese interviewed in Zambia) who has been offering his services on a contractual basis with different schools in Lusaka, indicated that he also trades in goods on a small scale at the Common Market for Eastern and Southern Africa (COMESA) market in Lusaka. At Kasumbalesa, 55 percent of the respondents indicated that the provision of services abroad is coupled with small-scale trade in goods.

Although the snow-balling technique does not permit an estimation of the magnitude of informal services flows, information from various respondents, such as key informants and representatives of relevant institutions (government agencies and high commissions), helps to shed some light on such services transactions. For example, according to a cross-border report from the Tanzania Employment Services Agency under the Ministry of Labor, the number of domestic workers that left for Oman was 153, 357, and 794 in 2011/12, 2012/13, and 2013 to June 2014, respectively.

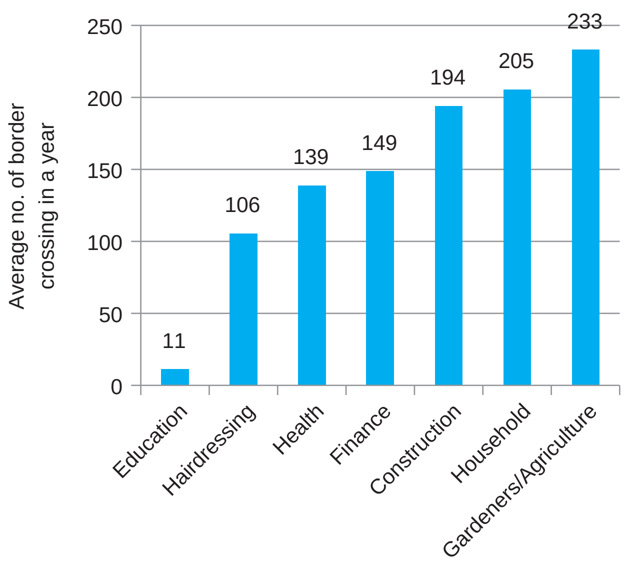
According to the Malawian High Commission in Tanzania, it is estimated that there are 10,000 Malawians in Dar es Salaam alone, 90 percent of whom come from the same district of Nkhata Bay. They are informally involved in various occupations, such as domestic work, watchmen, gardening, teaching, and so on. Among the Tanzanians proving informal services abroad, Maasai providers operating in Zambia reported that they have networks in different cities, with a total of 420 Maasai people operating in Lusaka, Solwezi, and Kitwe. Nevertheless, such information is patchy and insufficient for making generalizations. Further systematic statistical surveys are needed to get a more accurate picture of the magnitude of informal trade in services in Sub-Saharan Africa.

5 The names mentioned in this chapter are not real names.

## Informal Trade in Services Is a Long-Term Business, with Frequent, Longer Stays Abroad

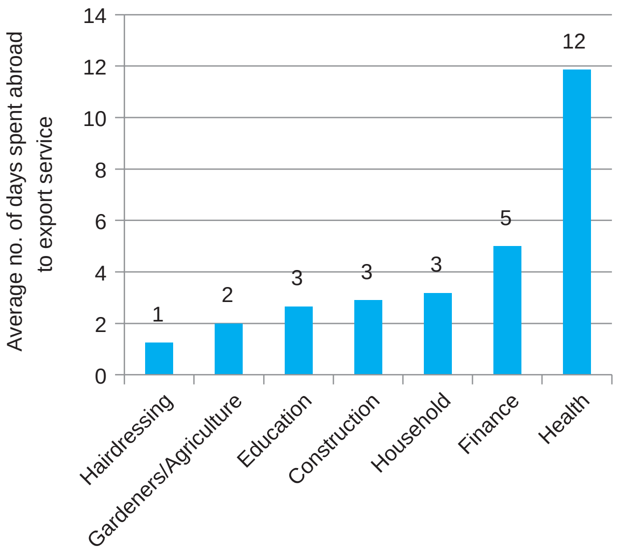
The majority of the interview respondents have been engaged in informal trade in services for a substantial number of years. For example, 24 percent of the respondents in Lusaka have been trading services informally for more than 12 years, and 36 percent for more than 6 years. In the Democratic Republic of Congo, informal foreign service providers have been in business for an average of 6.7 years. Our surveys in the Democratic Republic of Congo also show that providers enter the country rather frequently (between 100 and 230 border crossings per year), with agricultural workers and housekeepers traveling more often than other service providers (figure 1.1). Providers of almost all services spend more than one night abroad (figure 1.2)—a situation that is very different from cross-border trade in goods. Goods traders typically leave in the morning and return the same day (see Brenton et al. 2011 and 2014 for details on informal trade in goods).

**FIGURE 1.1: Average Number of Border Crossings per Year into the Democratic Republic of Congo, March–May 2015**



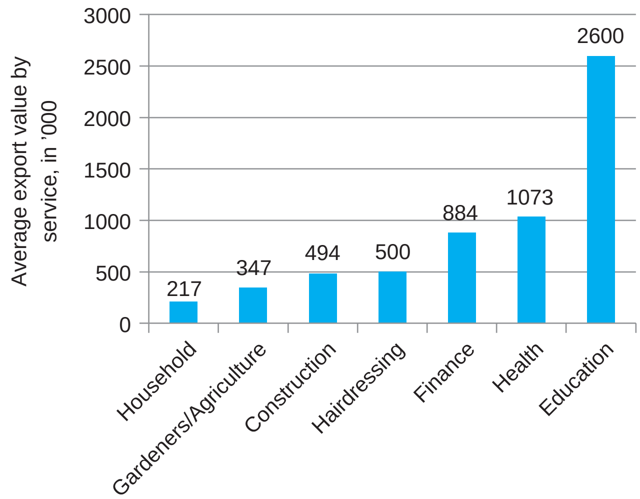

*Source:* Interviews conducted from March to May 2015 at the following border posts between the Democratic Republic of Congo and Rwanda and Uganda: Goma/Gysenyi, Bukavu/Cyangugu, Bunagana, and Mpondwe/Kasindi.

**FIGURE 1.2:** Average Number of Days Spent Abroad to Provide Services in the Democratic Republic of Congo, March–May 2015




*Source:* Interviews conducted from March to May 2015 at the following border posts between the Democratic Republic of Congo and Rwanda and Uganda: Goma/Gysenyi, Bukavu/Cyangugu, Bunagana, and Mpondwe/Kasindi.

**FIGURE 1.3:** Average Export Value of Informal Services in the Democratic Republic of Congo (CGF, thousands)



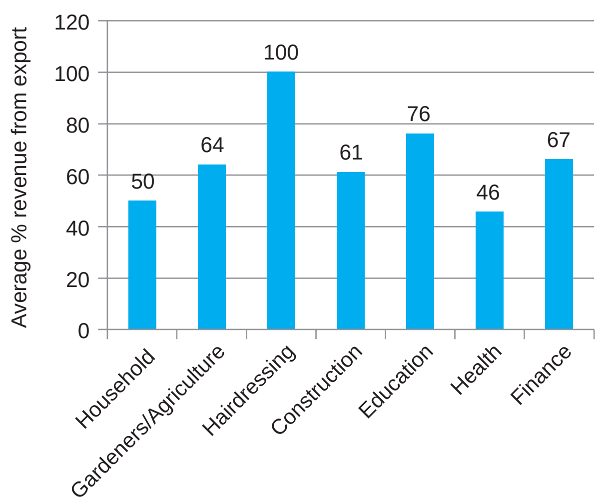

*Source:* Interviews conducted from March to May 2015 at the following border posts between the Democratic Republic of Congo and Rwanda and Uganda: Goma/Gysenyi, Bukavu/Cyangugu, Bunagana, and Mpondwe/Kasindi.

## Informal Export Earnings Are Often the Main Source of Income for Service Providers and Contribute to Significant Improvements in Livelihoods

In Lusaka, almost two-thirds of the respondents indicate that earnings derived from informal services exports represent the main source of income. Most traders (about 90 percent) also report that household income is heavily dependent on their trading activity. For instance, some of the respondents echo Helene: "This is the only way I earn an income. I have been able to take care of my family" (Helene, 38 years old, Congolese hairdresser in Zambia). Musumba (26 years old, Tanzanian hairdresser interviewed in Zambia) says that, "My friend was able to build a house so I thought if I came here I would also be able to make money quickly for going back to school. . . . I am also able to look after my parents in Tanzania." At Kasumbalesa, service providers claim that they support on average 7 dependents.

In the Democratic Republic of Congo, the average monthly export value of informal services ranges from CGF 217,000 (or about US$234) for household services to about CGF 2,600,000 (or about US$2,800) for education services (figure 1.3). For most service providers the average revenue derived from informal services exports is substantive—very often above 60 percent of total income, while for hairdressers it reaches 100 percent (figure 1.4). At Kasumbalesa, the average income from informal services exports is US$225.

**FIGURE 1.4:** Average Revenues from Informal Services Exports as a Share of Providers' Total Income in the Democratic Republic of Congo (%)



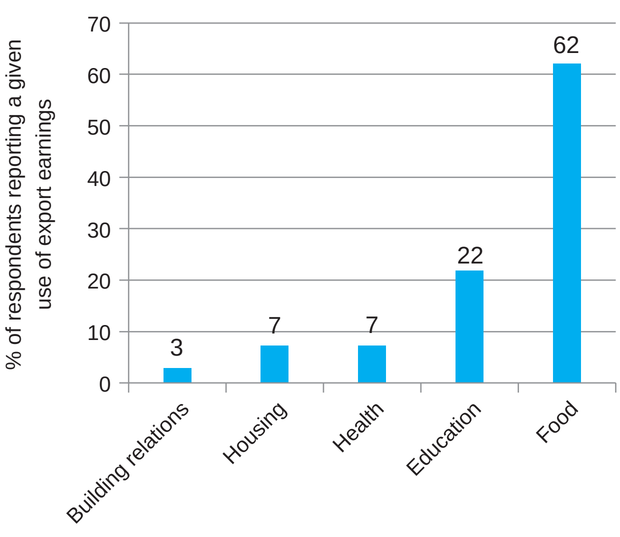

*Source:* Interviews conducted from March to May 2015 at the following border posts between the Democratic Republic of Congo and Rwanda and Uganda: Goma/Gysenyi, Bukavu/Cyangugu, Bunagana, and Mpondwe/Kasindi.

In Tanzania, most interviewees, especially the Maasai who provide braiding services abroad, reported that informally exporting services brought numerous benefits that were very appealing in their culture. For instance, the interviewed braiders were able to buy assets (such as land plots, farms, and cows), upgrade their houses, pay dowry, and pay for cultural ceremonies. In addition to making more money for themselves and their families, some braiders reported that they were provided with medical care and small loans from their employers. Finally, enhanced social status and self-esteem were some of the intangible benefits prized by these providers. As quoted by Loserian Kali, a Maasai from Simanjiro District, "When I informed my family in Simanjiro that I was going back for a short break, the whole family and neighbors gathered at the village bus stop for a whole day waiting for me. What I have achieved from the money I made in Zambia has elevated my status in the community."

Most Malawian exporters of housekeeping services interviewed in Tanzania are school dropouts or single mothers. Therefore, they are proud of being able to remit money back home to educate their children. They stressed that the presence of mobile banking has been very useful in facilitating transfers of money to their families in Malawi. About 50 percent of the respondents reported that they enjoyed the exposure to foreign countries, learned new skills, and discovered new business opportunities.

In the Democratic Republic of Congo, more than 60 percent of services exporters reported using the majority of their export income to buy food, while 22 percent used the majority of earnings to pay for education. Health and housing expenses are also among the top items financed from services export revenues (figure 1.5).

**FIGURE 1.5: Usage of Export Income in the Democratic Republic of Congo, March–May 2015 (%)**




*Source:* Interviews conducted from March to May 2015 at the following border posts between the Democratic Republic of Congo and Rwanda and Uganda: Goma/Gysenyi, Bukavu/Cyangugu, Bunagana, and Mpondwe/Kasindi.

## Differences in Cost and Quality as Well as Network Effects Explain Informal Services Transactions

Differences in the cost and the quality of services are typical determinants of trade. Our interviews confirm that the cost differential is a key determinant of such trade flows. The reasons given for seeking to provide services across the border are mainly economic in all the examined countries. For example, Ugandan and Tanzanian housekeepers in Kenya pointed out that although the cost of living is higher in Kenya than in their countries of origin, they are able to earn substantially higher wages in Kenya than in their home countries. The average pay for household help in Kenya ranges from K Sh 7,000 to K Sh 15,000 per month (about US$70 to US$150), with accommodation and food provided to live-in housekeepers. Those working part time mainly live in informal settlements where the cost of housing is cheaper. However, they tend to charge higher daily rates and provide services to more customers per day. Most would serve two to three customers per day, earning K Sh 300 to K Sh 500 (US$3 to US$5) per customer. A part-time housekeeper may earn K Sh 15,000 to K Sh 30,000 (US$150 to US$300) per month, which is sometimes twice what they can get at home. This allows them to save more and send money back home, mainly for education and housing. However, this income fluctuates and work is never guaranteed.

Our interviews also confirm that there is high demand for the services offered by foreign hairdressers, housekeepers and gardeners, tailors, agricultural workers, healers, and teachers. For example, "Maasai braids" are in high demand in Zambia. Maasai male warriors (known as Moran) are famous for their historical techniques of twisting tantalizing braids using red ochre, animal fat, and clay, and they have influenced many modern, flowing braid designs. Interviews at Kasumbalesa revealed that Zambian consumers travel to the Democratic Republic of Congo to purchase tailoring, medical, hairdressing, entertainment and repair services.

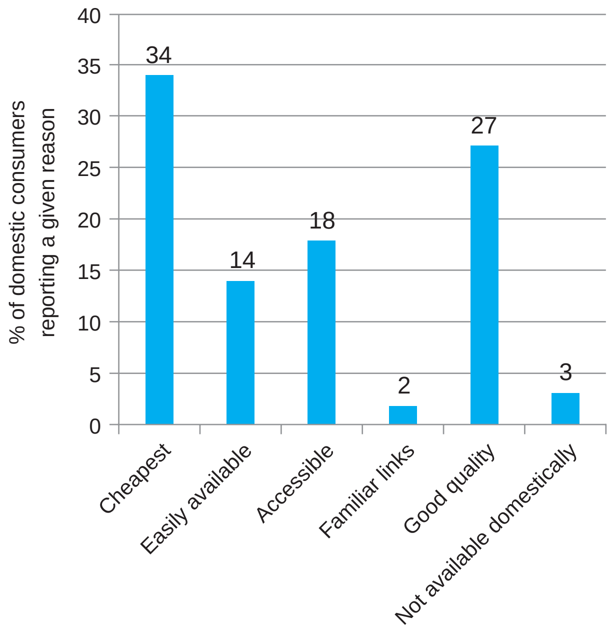
In Tanzania, there is high demand for Kenyan and Ugandan teachers who have a better command of English and stronger science, technology, engineering, and math skills than local teachers. Tanzanian parents are willing to pay the higher schooling fees to the private educational institutions that employ foreign teachers and lecturers. In Kenya, Tanzanian and Ugandan household workers and Ugandan agricultural workers are preferred, as they are perceived as hardworking and honest, in addition to accepting lower salaries than local workers. Although opponents of liberalization complain about jobs taken away from local workers, proponents point out the trade-offs and the multiple dimensions involved in deeper services integration. Maintaining barriers to services would prevent the beneficial impact generated by foreign service providers, such as access to better quality and less expensive services as well as transfer of know-how.

Strong demand for traditional healing services[6] comes from rural communities in the Democratic Republic of Congo, South Sudan, Tanzania, and Uganda. The World Health Organization (WHO) estimates that about 80 percent of the population in developing countries depends on traditional medicine for their primary health care needs. In Sub-Saharan Africa, informal health service providers offer traditional medicine and health remedies to those who cannot afford conventional medicine and/or have stronger cultural beliefs about the efficacy of traditional medicine. Traditional healers travel and follow the spread of diseases that they can cure, such as lake malaria, typhoid, or pneumonia. Traditional healers often have to travel long distances between markets when tracking disease patterns.

In general, consumers of the examined services choose providers on the basis of their commitment to their work, professionalism, and positive attitude. In the Democratic Republic of Congo, the good quality of services came second after the lower price when choosing a provider (figure 1.6).

Despite strong demand for service provided by foreign suppliers, they cannot operate easily. Multiple barriers are placed in their way, including high-priced visas, difficulties obtaining work permits, or elusive residence status. To circumvent such barriers, most service providers form networks. For instance, Tanzanian Maasai organize themselves to avoid these restrictions and provide services informally abroad (in Zambia). But the braiders have to pay a fee to a "coordinator" who facilitates their travel and accommodations, connects them with beauty shops/markets where they provide services informally, and helps them send money to their families in the home country. Similar arrangements are observed in the traditional health sector. Furthermore, most housekeepers get work through referrals and informal networks. In general, we observe that networks are well adapted to the uncertainties induced by such trade and are useful for penetrating the markets and reducing transactions costs. In addition, such networks are used to facilitate the

**FIGURE 1.6: Reasons Consumers in the Democratic Republic of Congo Prefer to Buy Services from Foreign Providers, March–May 2015 (%)**




*Source:* Interviews conducted from March to May 2015 at the following border posts between the Democratic Republic of Congo and Rwanda and Uganda: Goma/Gysenyi, Bukavu/Cyangugu, Bunagana, and Mpondwe/Kasindi.

subcontracting of providers in the formal sectors, such as education and personal services.[7]

Because hairdressers, healers, and many teachers remain trapped in informality, the state loses many benefits, such as the transfer of knowledge or employment of locals in the foreign owned businesses that could be generated if these providers were formalized. The removal of barriers to the movement of providers would be a win-win solution.

## Constraints to the Movement of Service Providers

Typical barriers affecting the movement of service providers include barriers related to crossing the borders, such as the cost of acquiring a passport, visa fees, or corruption and

6 The varied cultural practice of traditional healing is generally a holistic approach to patient well-being, considering physical and spiritual welfare. These traditional healing practices are different from Western medicine. The healers are trained through word-of-mouth apprenticeship by elder healers. Medicinal ingredients are commonly wild-harvested by healers or traders and transported by foot or informal mini-bus taxis, and medicines are traded in cash from street or home-based treatment rooms (Petersen et al. 2014).

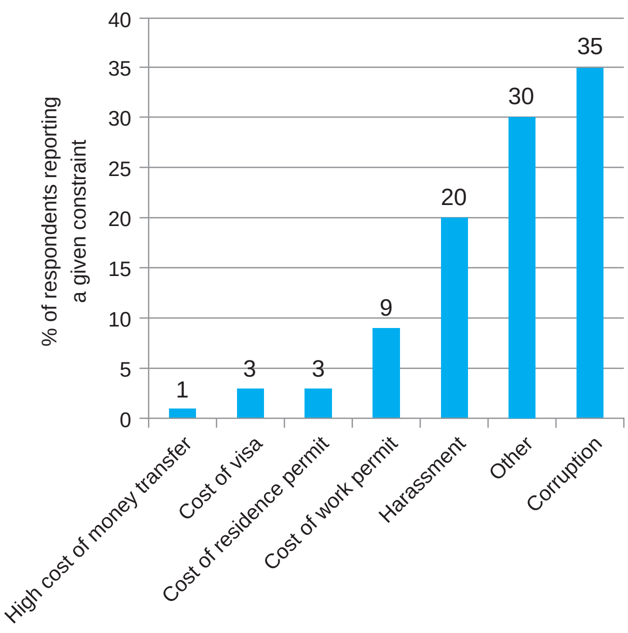
7 Similar findings are presented by Ghani, Kerr, and Segura (2015), who show that the rapid urbanization of the informal sector plays the strongest role in explaining the substantive growth of employment in informal tradable industries in India. Subcontracting by the formal sector and a "push" entrepreneurial story also play an important role in this development.

bribes to be paid at the borders. Other barriers applied by the host country include burdensome residency permits, licensing requirements, or work permits.

## Corruption and Harassment Are the Top Barriers Affecting the Movement of Service Providers

The providers' survey conducted for this chapter in the Democratic Republic of Congo reveals that corruption and harassment are the top barriers affecting the movement of service providers. About 35 percent of the respondents complained about the bribes that they have to pay to be able to cross borders, while 20 percent reported being harassed by border authorities. These are followed by complaints related to the high cost of work and residency permits and high visa fees (figure 1.7).

**FIGURE 1.7: Top Constraints Affecting the Movement of Services Providers from the Democratic Republic of Congo, March–May 2015 (%)**




*Source:* Interviews conducted from March to May 2015 at the following border posts between the Democratic Republic of Congo and Rwanda and Uganda: Goma/Gysenyi, Bukavu/Cyangugu, Bunagana, and Mpondwe/Kasindi.

*Note:* The category "other" complaints consists of a variety of barriers, ranging from inadequate opening hours for border agencies, language issues, delays caused by the presence of too many services at the borders or slow processing caused by inexperienced border agents, to armed conflicts and general hostility from locals toward foreign service providers because of cultural/tribal reasons and fear of competition.

A similar situation is observed in all the examined countries. For example, the interviewed providers in Zambia described how they routinely encounter verbal abuse, threats, demands for bribes, and sexual harassment from the many customs, immigration, and other government officials at the border. John (50 years old, grade 12, clergy, Congolese interviewed in Zambia) said, "Yes, there is a lot of verbal abuse, sometimes I am arrested for no reason. You may have a visa or passport but you are still harassed or asked to pay a bribe." Two-thirds of the respondents said that they are often subjected to corruption and bribery. The payment of bribes is a regular occurrence for the majority of traders. One of the respondents said that, "they harass us especially if you have money, if you don't pay anything; they even reduce the number of days in Zambia." The majority of the traders interviewed in Zambia indicated that they have to pay unofficial fees and bribes, and often experience physical harassment at the border. Despite these challenges, these traders continue to cross the border, as their families depend on the income from such informal trade for their livelihood.

Harassment by immigration officials and police can extend beyond the borders to the locations where services are provided. Several foreign service providers interviewed in Tanzania also faced threats of deportation from immigration officials, a situation that caused them to leave in fear after spending their meager wages to bribe the officials. Hairdressers from Burundi, the Democratic Republic of Congo, and Uganda operating in Dar es Salaam reported being harassed by immigration officials; some were jailed and others were deported because they did not have money for bribes. As one of the foreign hairdressers in Dar es Salaam reported, he would be approached as often as four times per month by immigration officers and each time he had to pay a bribe. A few respondents could not afford to go back to their country of origin for a long period and remained disconnected from their families until they managed to obtain the necessary resources to travel back. For teachers providing education services informally, their employer would often pay the bribe if they were caught.

Comparable experiences were described by Tanzanians providing services abroad. Several Tanzanian (Maasai) hairdressers were jailed in Zambia for three to six months and finally deported after completing their jail term. As a result, most of them lost their money and their business. However, since the demand for hairdressing services remains high in Lusaka and Solwezi, many returned to Zambia to start afresh.

### High Cost of Visas and Work Permits and Cumbersome Requirements Hamper the Movement of Service Providers

In Tanzania, the cost of acquiring a passport is US$30, while the visa for Zambia ranges from US$20 for a day tripper to US$50 for a single entry and US$80 for a double or multiple entry. These costs come on top of the US$30 to US$70 in bribes that service providers have to pay to immigration officials and police at border crossings and every time they are caught without the proper documents within the host country. Some traders, especially those who work in salons in public marketplaces, reported that sometimes they were questioned by authorities more than three times per month, and each time they had to pay a bribe.

According to Tanzanian law, the fees for acquiring a residence permit range from US$200 for missionaries to US$3,000 for miners. Depending on whether providers are employed or self-employed, the law is clear about these requirements in both cases. The current rates for permits range from US$1,000 to US$3,000, and the permits are valid for two years only. Annex 1A details the requirements for the two types of residence permits that the traders interviewed would need to operate formally. Employers interviewed in Tanzania reported that apart from the cumbersome procedures and requirements, sometimes it would take up to 60 days to acquire permits. In addition, fees for traders and businesses ranged from US$2,000 to US$3,000, and employers had to pay US$2,050 to obtain a class B permit if they wanted to hire a foreigner. Religious/missionary schools pay US$500 per work permit for foreign teachers. The required documents also cost time and money to obtain, and compliance with requirements is often determined subjectively by an immigration officer.

In Zambia, the cost of a visa ranges from US$20 to US$80, depending on the number of entries. Members of cross-border traders associations can use a cross-border permit that costs about US$130 and is valid for three months. Most services traders do not belong to such associations; therefore, they are unable to use the permit to cross the borders. A residency permits costs US$525, while an employment permit costs about US$400. In addition to the high costs, there are many requirements for obtaining such permits that are almost impossible for the interviewed traders to fulfill.

All these costs and regulations push traders and employers (especially schools) into informality.

### Cost of Money Transfer

Traders from both sides of the border are forced to carry cash and often must first convert funds into U.S. dollars from their respective countries and then into the domestic currency of the host country. By doing so, traders face many risks, including theft, exchange losses, and other conversion costs. The lack of financial and payment services has not only hindered service providers, but also has led to the establishment and entrenchment of parallel currency markets at the borders.

Furthermore, the cost for remittances services remains prohibitively high in Sub-Saharan Africa (figure 1.8). Although the cost of sending remittances has declined over the past few years, Sub-Saharan Africa still remains the most expensive region in this regard.

### Abuse at the Workplace While Providing Services

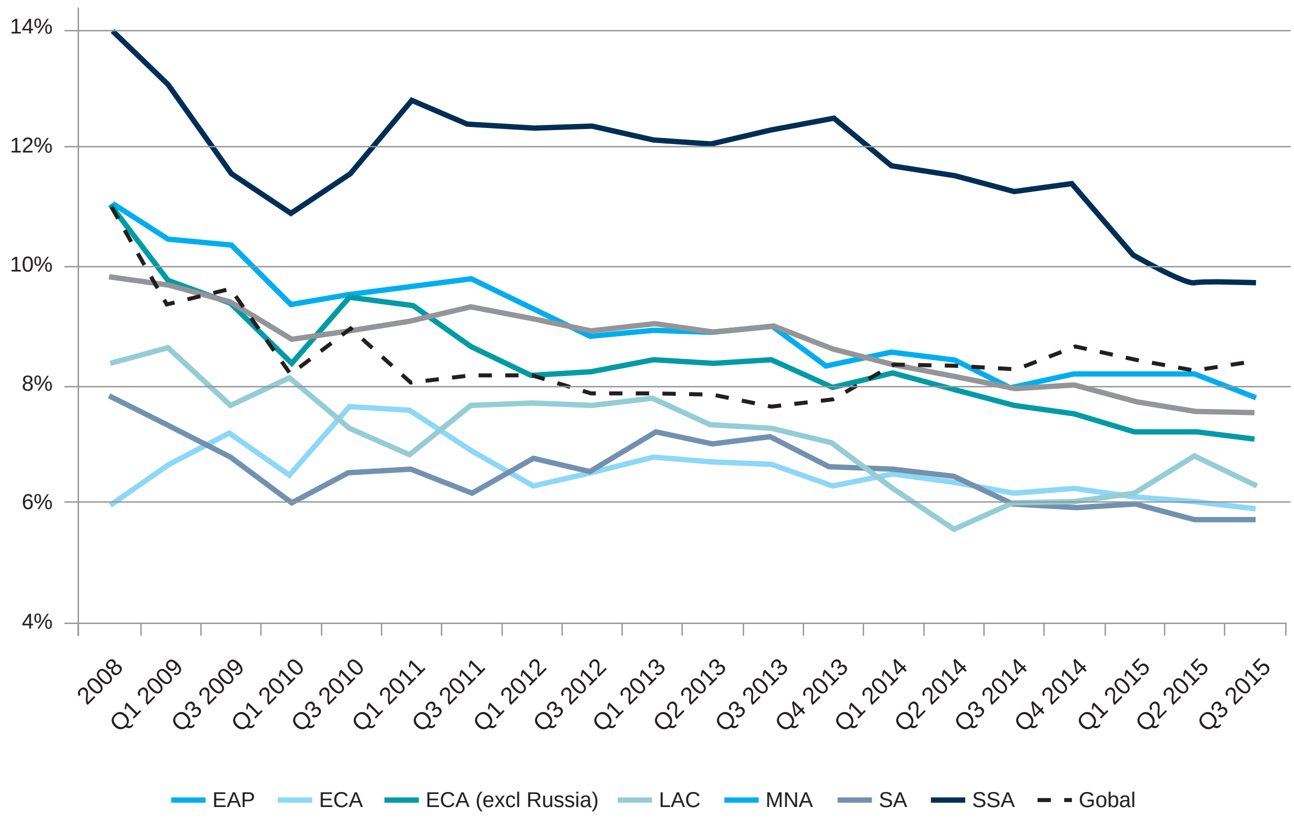
Most of the challenges described in the surveys were exacerbated by the fact that the respondents were illegal migrants. For example, in Tanzania about 50 percent of the respondents in the domestic work category reported working more than nine hours without adequate pay. Often they were paid less than the agreed salary. In addition, since employers were not willing to provide them with job contracts, they sometimes did not pay them at the agreed times (for example, the end of the month). Some employers paid for their housekeeper's work permits, but kept their passports, preventing them from working elsewhere or going back home.

### Reasons for Informality

Despite these obstacles, a significant number of workers continue to cross borders and provide their services abroad informally. Respondents in all the examined countries indicated that the main reasons for engaging in informal cross-border transactions included poverty and lack of opportunities in their home countries, complex requirements and procedures for formal employment, lack of information on relevant rules and regulations to provide the services legally, and difficulties in obtaining visas and permits (see figure 1.9 for the interview results in the Democratic Republic of Congo).

Cumbersome requirements and complex procedures seem to pose a particularly serious problem for service providers. For example, interviews in Tanzania revealed that in most cases educational institutions prefer to hire foreign teachers on a temporary basis under a legal contract. However, employers often opt for illegal arrangements, due to a quota limit of 20 percent that prevents them from hiring more foreigners, or complex bureaucratic procedures for obtaining residence and work permits.

**FIGURE 1.8:** **Average Total Cost for Remittances by Region, 2008–15**




*Source:* World Bank 2015.

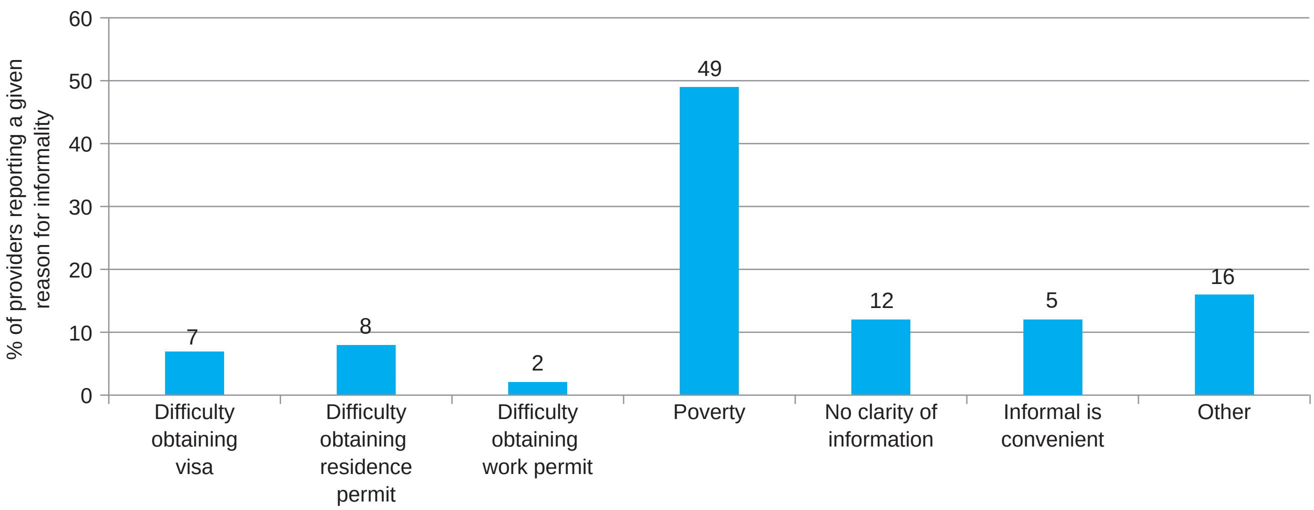
*Note:* Remittance cost is in percent of total value. EAP = East Asia and Pacific; ECA = Europe and Central Asia; LAC = Latin America and the Caribbean; MNA = Middle East and North Africa; SA = South Asia; SSA = Sub-Saharan Africa.

The hurdles faced by service providers are amplified by their lack of knowledge and understanding of customs procedures and applicable rules and regulations. In Zambia, two-thirds of the respondents showed a lack of awareness of any existing regulatory or policy frameworks that applied to trade in services. Therefore, they rely primarily on information from peers, much of which may be incorrect and may possibly lead to legal trouble. In Tanzania, there is ambiguity concerning the legal duties and rights of foreigners regarding trade and residence requirements. As a result, most informal traders are unaware of the customs requirements.

For instance, some traders stated that "there's no clear information" and there is "not enough information." This is compounded by the high levels of ignorance on the proper procedures for getting the right documentation. For instance, one trader clearly highlighted that "most of us are uneducated" and "sometimes don't know where to obtain the right documents." Given the low education levels of the traders, this is expected. The situation is further complicated by language barriers that constrain access to information on proper procedures.

Because of the informal status of the traders, most of them find it risky to go to the relevant offices and authorities where they could access the right information about the rules and regulations governing trade and residence. Anecdotal evidence suggests that foreigners are often harassed when seeking information. In addition, high wait times, ranging from 9 to 18 hours or more, are imposed on foreigners trying to obtain the required documents; this is perhaps an attempt to extract bribes. Because of lack of awareness, informal cross-border traders face regular losses in the form of the almost mandatory payment of bribes and are often subject to harassment and physical abuse. Nonetheless, there are rare testimonies of traders who started operating informally, faced a number of hurdles, and gradually met the requirements for obtaining a class A permit for self-employment (see box 1.1). Such cases are rare, as lack of information hampers the gradual formalization of these services.

**FIGURE 1.9:** **Reasons for Informality in the Democratic Republic of Congo, March-May 2015 (%)**




*Source:* Interviews conducted from March to May 2015 at the following border posts between the Democratic Republic of Congo and Rwanda and Uganda: Goma/Gysenyi, Bukavu/Cyangugu, Bunagana, and Mpondwe/Kasindi.

**BOX 1.1:** **Case Study—Obtaining a Class A Permit for Self-Employment**

In 2003, Jonathan John from Uganda came to Tanzania as an employee in a salon in Mwanza. After working for five years, he saved enough capital to start his own salon business in Dar es Salaam where he employed 10 staff members. The police discovered that Jonathan lacked the required business documents and sent him back to Uganda. Given that demand for beauty services was growing very fast in Tanzania, he decided to invest again in the business. In 2011, he was issued a work permit valid for two years at a fee of US$2,050. He has since been running his business smoothly without any disturbance and recording excellent profits. Such opportunities can only be seized by those who know the requirements, follow the rules, and can afford to pay the required fees.

*Source:* World Bank interviews in Dar es Salaam, 2014.

There do not seem to be deliberate efforts by authorities to educate the public on trade rules and regulations. In addition, these service providers are considered illegal and unregulated in all the examined countries and across the continent. As opposed to informal goods traders who have started to feature on the policy agenda at the national and the regional levels, informal service providers remain largely neglected by policy makers.

## Steps to Facilitate Cross-Border Trade in Services in Africa

### Strengthen the Rights of Service Providers and Facilitate Their Cross-Border Transactions

To strengthen the rights of small-scale goods traders, the World Bank developed a Charter for Cross-Border Trade (see box 1.2). The Charter enshrines a basic set of rights and obligations for traders and officials and aims to improve behavior at the borders and promote the gradual formalization of informal cross-border trade. The Charter has been extended to include trade in services, by requiring

### BOX 1.2: Charter for Cross-Border Traders

**Basic Rights and Obligations for Traders and Officials at the Border**

1. All individuals shall be able to cross the border without verbal or physical abuse or harassment, including but not limited to sexual and gender-based violence.
2. Traders shall be processed at the border in an efficient and timely manner without discrimination. A receipt must be provided to the trader for any payment made and the payment must be properly recorded.
3. Only officials of the approved agencies are present at the border and all border officials wear uniforms or ID badges that allow the identification of their respective agency.
4. Physical checks of traders must be recorded with the reason and outcome provided. Female traders have the right to receive a physical check by female officials in a private but regulated and accountable environment.
5. All duties, fees, and taxes and the basis for their calculation are publicly available at the border. Any change to duties, fees, and taxes must be publicly announced at the border, with reasonable time for traders to prepare, before their application. No unpublished fees or charges should be demanded at the border.
6. Documentary requirements should be clearly stated and publicly available at the border. Any change in documents required must be publicly announced at the border with reasonable time for traders to prepare before implementation. Simplified procedures should be applied to small-scale traders.
7. Traders should be aware of their rights and obligations when crossing the border. Traders must present the required documentation and pay the appropriate duties at the border and obtain a receipt for any payments made to an official. Traders shall not attempt to bribe any official to avoid payment of duties or obtain preferential treatment in any way, including avoiding queues.

**With the Support of the International Community, Governments Commit to the Following**

1. That by [agreed time] these basic rights and obligations governing cross-border movement of goods and people are clearly stated in the local language and visibly apparent at all border crossings.
2. By [agreed time] at every border post there is at least one agent that has received gender awareness training. All senior officials at the border have received gender awareness training by [agreed time]. Ensure that 50 percent of officials at any border post have received gender awareness training by [agreed time].
3. At all border posts, traders have recourse to an independent and confidential mechanism to register violation of any of these basic rights. Female traders must be able to register the violation of any basic rights with a female staff.
4. Apply strict disciplinary measures against officials found to have violated the rights of a trader.
5. Support organizations of informal cross-border traders in disseminating information on these rights and obligations and in delivering advice and information to enhance the capacities of the traders.
6. Continue to improve the quality of infrastructure at all border crossings to provide an open and safe environment for traders, with attention to the specific needs of women traders, and appropriate facilities for officials to undertake their work.
7. Improve the quality of data collected at all border posts on small-scale traders, including the number passing through the border each day and the nature of the goods carried.

immigration and health-related procedures for crossing borders to provide or consume services to be simplified and made transparent.[8]

Reforms for small-scale trade in goods have been implemented for products included in a Common List of Products agreed between two countries as part of a Simplified Trade Regime (STR).[9] In the same manner, services reforms could be started in several priority services sectors that are particularly relevant for informal trade in services. For example, commitments to liberalize certain services sectors through various modes of supply could be included in regional agreements such as the East African Community (EAC) Common Market Protocol or in the context of the COMESA Services Negotiations. An initial list could include hairdressing, housekeeping, traditional health services, and education services. Cross-border traders associations could include services sectors on their list of informally traded goods and services and put these sectors on the agenda of policy makers in Africa. Ultimately, concerted policy dialogue efforts between policy makers and associations could lead to simplified, cheaper documentary requirements (visa, permits, etc.) for cross-border traders in selected services. This could represent a strong incentive for those currently operating informally to join the formal sector, which, in turn, would facilitate a more systematic cross-border transfer of skills, expertise, and technology in selected services areas, while offering governments the opportunity to collect taxes from selected service providers.

As part of the implementation of an extended Charter that covers trade in services and services traders, the governments, in collaboration with the private sector and other stakeholders, should look for innovative and practical ways to educate providers on the trade requirements of various destination countries. For example, as part of its Great Lakes Trade Facilitation Project (GLTFP), which covers six Sub-Saharan African countries, the World Bank is working with the governments of the Democratic Republic of Congo, Rwanda, and Uganda to establish citizen engagement mechanisms, including through a toll-free hotline that will allow goods traders to report harassment and seek information on regulations and border procedures. Furthermore, the Trade Information Desks supported by the COMESA Secretariat at selected borders in these countries provide on-the-spot information to traders on the COMESA Regulations and the Simplified Trade Regime for trade in goods, support the clearance process (for example, by helping with filling in the required forms), seek to resolve disputes between traders and officials, as well as collect relevant data and statistics.

Similar mechanisms should be developed to enable services traders to get information about relevant documents and procedures, and make complaints in case of abuse at the border—alternatively, the mandate of some existing structures (e.g. the Trade Information Desks) could be extended to cater to service providers. As with informal goods trade, information and communications technology can be used to inform services traders about the requirements for cross-border trading; monitor the enforcement of the relevant services regulations; and address issues such as corruption, sexual harassment, and physical violence.

Furthermore, the governments should train the relevant stakeholders to implement innovative tools, such as an extended Charter, and more generally to promote behavioral change at the border on the side of both officials and service traders. As part of the GLTFP, the World Bank supports customized training to strengthen the capacities of border agents and traders/traders associations focusing on border management procedures, rules and regulations, basic customer management, conflict resolution, and gender awareness. The aim is to enhance the technical capacities and skills of agents working at the border, supporting improved governance, reduced levels of harassment, and more efficient control and processing of goods and people. The project also supports traders and traders associations by providing support on trade procedures, improving relations between traders and border officials, and improving access to market information and finance, among other things. Traders are trained how to use the relevant mechanisms to resolve disputes with officials and other traders and how to use the available reporting tools to register instances of harassment. New training courses could extend these activities to include trade in services in the curricula, cover services traders, and train border officials on the relevant clearance procedures and, more generally, on the important role played by services in cross-border trade.

---

8 The COMESA Regulations on the Minimum Standards for the Treatment of Small-Scale Cross-Border Traders (COMESA Regulations) were subsequently developed based on the language and key principles of the Charter for Cross-Border Traders. The COMESA Regulations are currently being implemented in the Great Lakes region and are tailored to reflect the specific challenges (including institutional reforms required in specific cases) faced by small-scale traders at targeted border crossings.

9 In 2007, 10 of 19 COMESA countries introduced a Simplified Trade Regime (STR) whereby a Simplified Certificate of Origin could be obtained at the border for consignments of an agreed list of community-originating goods with a total value less than a certain threshold. Under the agreement, qualifying goods (below the threshold) will be allowed to pass border points duty free and traders will not be asked to provide certificates of origin of their goods as long as they are agreed on the Common List of Products between the two countries.

Finally, the governments should consult the relevant stakeholders to identify the most effective and practical means of disseminating such an extended Charter. Extensive dissemination campaigns need to be held at the local, national and regional levels in collaboration with border agencies, Civil Society Organizations/Traders Associations and regional Secretariats to increase awareness among the stakeholders about the relevant rules and regulations. These communication campaigns would need to make use of several communications channels, such as radio and TV announcements, billboards, brochures, posters, and videos, among others. For example, short documentaries have been developed to inform the general public about the main characteristics of informal trade in services,[10] and music videos were developed as part of the GLTP to popularize the benefits of the Charter[11]. Such initiatives would need to be continued, with a particular focus on the priority services sectors identified by local stakeholders.

### Improvements in the Regulatory Framework Should Be Applied to the Provision of Services

In a next step, these border-related measures affecting trade in services could be supplemented with reforms regarding residency and work permits and other sector-specific regulations affecting cross-border services transactions. Governments should consider reducing or waiving the various fees for permits to attract more formal businesses to their country and easing immigration regulations. Although this is a sensitive issue, governments should be aware that immigrant service providers can help meet the various needs for skilled and experienced labor. A good example is the need for teachers in Tanzania, especially at the primary and the secondary levels. Some school owners reported that foreign teachers comprised 30–50 percent of their teaching staff. These teachers were mainly hired from countries in Eastern and Southern Africa. Their employment was very often informal, given the insufficient quotas and the high demand for their skills, which were better than those of local teachers. Removing the quotas on teachers and facilitating the process of getting the necessary permits would help to meet the growing demand for such services, improve the quality of education, and formalize many informal teachers. Similarly, by removing the cumbersome requirements applied to hairdressers and housekeepers, governments would formalize their contribution to the economy, ensure protection for the braiders and housekeepers, and collect tax revenue for the host country.

Closely related to regulatory reform is the issue of regional integration. There are obligations arising from various regional agreements stipulated under Regional Economic Communities (RECs) such as the EAC, COMESA, and the Southern African Development Community (SADC). Of particular interest are the commitments related to the free movement of service providers (such as visa requirements or visa fees) and the requirements for short stays in the host country to provide services (such as residency requirements or work permits). Fulfilling these obligations could speed up the regulatory reforms required to formalize the provision of services such as education. In addition, new services sectors, such as hairdressing or traditional medicine, could be considered for further negotiations as part of such regional trade agreements.

## Conclusion

This chapter puts forward recommendations that focus on changing behaviors and policies. The recommended improvements in behaviors include no harassment at the borders or in the country of destination; recommended policy changes include easing visa requirements, easing and clarifying residency requirements, improving the work permit application process, and so forth. The Charter for Cross Border Trade in Goods and Services could be a useful template for the implementation of these solutions. In addition, the EAC Common Market Protocol and other regional or bilateral agreements could provide a platform for gradually formalizing services flows. However, an aggressive dissemination campaign, including seminars for traders and officials, would be needed to familiarize all players with the existing opportunities and options.

10 https://vimeo.com/122059444; password: worldbank.

11 English: https://vimeo.com/116809516; Bemba: https://vimeo.com/119421768; Nyanja/Chichewa: https://vimeo.com/119312140.

# Annex 1A: Permit Requirements in Tanzania

## Residence Permit Class A

Residence Permit Class "A" may be granted to a person other than a prohibited immigrant who intends to enter or remain in Tanzania and engage in trade, business, a profession, agriculture, animal husbandry, prospecting for minerals, or manufactures.

The requirements for residence permit class A include the following:

i. Application forms (T.I.F.1) in duplicate duly filled in
ii. Security bond (T.I.F.12)
iii. Cover letter
iv. Curriculum vitae
v. Copy of national passport (with validity of not less than a year)
vi. Certified copies of academic certificates (if any)
vii. Evidence of capital of the company, which includes
    a. Bank statement(s)
    b. Balance sheet
    c. A list of the company's assets with their value
    d. Proof of ownership of assets/properties, such as motor vehicle registration cards, title deed/certificate of right of occupancy, and so forth
    e. Proof of importation of company goods (if any)
viii. Evidence of the premises of the company
ix. Memorandum and articles of association (for a limited company)
x. Certificate of incorporation, compliance, or registration of the company/business as the case may be.

## Residence Permit Class B

Residence Permit Class "B" is issued to a foreigner other than a prohibited immigrant who has obtained specified employment in Tanzania, and the Principal Commissioner of Immigration Services (subject to recommendation by the Director of Employment) is satisfied that he or she possesses qualifications or skills necessary for that employment and that his or her employment will be of benefit to Tanzania.

The requirements for Residence Permit Class "B" are as follows:

i. Application forms (TIF 1) duly filled in duplicate
ii. General security covenant (TIF. 13)
iii. Curriculum vitae of the employee
iv. Copy of national passport (with validity of not less than a year)
v. Certified copies of academic certificates
vi. Service testimonial from previous employer (if any)
vii. Employment contract, duly signed by the employer or his or her representative and the employee
viii. Job description
ix. Official translation of documents/certificates in case they are written in a language other than English or Kiswahili
x. Certificates of registration, clearance, or license from authorized institutions; job titles or qualifications that require registration, clearance, or licenses include accountants, engineers, architects, surveyors, doctors, teachers, nurses, pilots, employees in security companies, executive personnel in financial institutions such as banks and bureau de change, and so forth.
xi. Memorandum and articles of association of the employing company
xii. Certificate of incorporation or compliance (as the case may be)
xiii. Business licenses (these may include other licenses issued to some businesses, such as an industrial license, mining license, casino license, tourist agent's license, or certificate of registration from the contractors registration board)
xiv. Value-added tax certificate (for businesses entitled to pay this type of tax)
xv. Taxpayer's identity number (T.I.N.) certificate
xvi. Business license tax clearance certificate
xvii. Letter of recommendation from the Director of Employment, Ministry of Labor and Employment
xviii. Cover letter from the employer
xix. Six passport-size photographs

Applicants for Residence Permit Class "B" must submit their applications while they are outside the host country.

## References

Bhagwati, J. 1996. *Political Economy and International Economics*. Cambridge: MIT Press.

Brenton, P., C. Bashinge Bucekuderhwa, C. Hossein, S. Nagaki, and J. B. Ntagoma. 2011. "Risky Business: Poor Women Cross-Border Traders in the Great Lakes Region of Africa." Africa Trade Policy Note 11, World Bank, Washington, DC.

Brenton, P., N. Dihel, M. Hoppe, and C. Soprano. 2014. "Improving Behaviors at the Border to Promote Trade Formalization: The Charter for Cross-Border Traders." Africa Trade Policy Note 41. World Bank, Washington, DC.

Cantens, T., J. Kaminski, G. Raballand, and T. Tchapa. 2014. "Customs, Brokers, and Informal Sectors: A Cameroon Case Study." Policy Research Working Paper 6788, World Bank, Washington, DC.

Cass, R. and E. Noam. 1990. "The Economics and Politics of Trade in Services", in *Rules for Free International Trade in Services*, edited by D. Friedmann and J. Mestmaeker, Nomos Verlagsgesellschaft.

Feketekuty, G. 1988. *International Trade in Services: An Overview and Blueprint for Negotiations*. Cambridge: Ballinger.

Ghani, E., W. Kerr, and A. Segura. 2015, "Informal Tradables and the Employment Growth of Indian Manufacturing." Policy Research Working Paper 7206, World Bank, Washington, DC.

Jensen, B. 2012. "Overlooked Opportunity: Tradable Business Services, Developing Asia, and Growth." Working Paper 23, Peterson Institute for International Economics, Washington, DC.

Petersen, L. M., E. J. Moll, M. T. Hockings, and R. J. Collins. 2014, "Implementing Value Chain Analysis to Investigate Drivers and Sustainability of Cape Town's Informal Economy of Wild-Harvested Traditional Medicine." *The International Journal of Justice and Sustainability* 20 (9): 1040–61.

Walther, O. 2014. "Business, Brokers and Borders: The Structure of West African Trade Networks." Department of Border Region Studies Working Paper No 1/14, University of Southern Denmark, Odense.

World Bank. 2015. "Remittance Prices Worldwide." Issue n. 15, October 2015.

*Shadows from Village* by Longinos

CHAPTER 2

# Measuring Regional Trade in Services in Sub-Saharan Africa: New Monitoring Indicators from Innovative Survey Methods

Nora Dihel and Arti Grover Goswami

Nora Dihel is Senior Economist, Macroeconomics and Fiscal Management Global Practice, World Bank and Arti Grover Goswami is Senior Consultant Economist, World Bank.

## Introduction

Regional trade in services offers enormous opportunities for Sub-Saharan African countries to diversify their exports, pursue new opportunities for dynamic growth, increase investment, promote efficiency, and widen access to services in the domestic economy. Reducing the cost, raising the quality, and increasing access to key services such as telecommunications, energy, finance, and business can have economy-wide impacts, as these services are often inputs into most productive activities, including manufacturing. A range of other services, including health, education, water, and sanitation services, are crucial for assisting in poverty reduction and improving the quality of life of the population as a whole. Increasing the availability, affordability, and quality of these services is crucial for economic growth and poverty reduction in all African countries.

Monitoring the progress in regional integration of services in Sub-Saharan Africa is severely hampered by the lack of comprehensive data on trade in services between African countries and sparse information on regulatory policies and their application. The available data typically come from case studies of particular sectors in particular regions. Comprehensive comparisons across sectors and regions are not yet possible. However, to support and monitor the opening of regional markets for services in Sub-Saharan Africa, we need to go beyond trade measures and look at regulatory policies and their impact. Could innovative methods of data collection, as opposed to traditional face-to-face interviews, yield results quickly and in a cost-effective way? This chapter explores and evaluates new methods, such as a crowdsourcing and mystery shopper surveys, for obtaining data on performance indicators in banking, insurance, accounting, health, and education services in selected countries in Sub-Saharan Africa. This experimental survey is the first attempt to apply these methods to trade in services. It was implemented over a very limited time frame, from April to July 2014.

Crowdsourcing is the process of obtaining information, work, or funding, usually online, from a crowd of people. Crowdsourced data come from the collective voices of consumers and can provide insights and opinions quicker and cheaper than more traditional data collection techniques. Given that social networking and applications of mobile technology are dominant features of African mobile life, we used mobile phone surveys to gather information from providers and consumers of education and health services. We surveyed trade patterns, determinants of trade, quality of/satisfaction with various services, and barriers to trade. Data on performance indicators in health and education services were collected for nine Sub-Saharan African countries, namely, Cameroon, Ghana, Kenya, Malawi, Nigeria, Rwanda, Tanzania, Uganda, and Zambia.

Not many studies have implemented mobile surveys to collect data, but ours is not the first. For instance, Dillon (2009) used mobile phones to carry out 14 rounds of interviews (every three weeks) in developing countries to track farmers' changing expectations of their impending harvest. Similarly, Croke et al. (2012) draw from two mobile phone panel surveys implemented in the Republic of South Sudan and Tanzania. Of these, the Tanzanian survey has been running longest (33 rounds to date), while the South Sudanese survey has been operating under more difficult conditions. Cole and Fernando (2012) evaluate the randomized introduction of a mobile phone–based agricultural consulting service for cotton farmers in Gujarat, India. Recently, the World Bank (2015) conducted three rounds of high-frequency cell phone surveys to monitor the socioeconomic impacts of the ongoing Ebola crisis in Liberia. This effort was designed to provide rapid indicators of the well-being of households across the country at a time when conducting a traditional face-to-face survey is extremely challenging.

We also used the mystery shopping method to collect first-hand data that do not rely on secondary accounts or self-reports. This method involves the use of mystery shoppers, who are trained to act as prospective customers. They undertake a series of predetermined visits to assess performance against specific criteria and report back on their experiences in a consistent and comparable way. The mystery shopper's identity and purpose is hidden from the establishment being evaluated. Such disguised evaluations are often used to assess customer service, merchandising, brand representation, and transactional processes and efficiencies. They are also used to evaluate compliance with safety and security procedures, corporate and franchise standards, and industry regulations. This technique is commonly used in corporations that want to ensure compliance with internal regulations and high-quality customer service, but it can similarly be used to obtain information on the availability and pricing of particular products and services.

Mystery shopping methods have been used extensively in high-income countries by organizations in financial services, retailing, motor dealerships, hotels and catering, passenger transportation, public utilities, and government departments (see Lehman [1997] for disguised evaluation in the United Kingdom). Mystery shopping has been popular in the trade press.[1] However, published academic research has been limited to a few contributions. Some studies, such as Dawson and Hillier (1995), discuss the ethics of mystery shopping. Morrison, Colman, and Preston (1997) researched the cognitive processes of shoppers. Most other research has focused on the use of disguised evaluation in specific sectors.[2] Wilson (1998) reports on exploratory research that considers the reasons for using mystery shopping as a measure of service performance, the procedures used to ensure the objectivity and reliability of mystery shopping research, and the use made of mystery shopping data and how the data are communicated to service personnel.[3]

The mystery shopping method was used in combination with visits and traditional interviews to obtain data on performance indicators in banking, insurance, and accounting services in six Sub-Saharan African countries, namely, Kenya, Malawi, Rwanda, Tanzania, Uganda, and Zambia.

## Survey Design and Objectives

The mobile phone surveys were commissioned by the World Bank and carried out by the firm Text to Change. The surveys were designed to collect three kinds of information: (i) data on health and education professionals, as well as students and patients involved in trade in health and education services; (ii) information on differences in the cost and the quality of education degrees and medical treatments across countries; and (iii) information on the recognition of foreign academic degrees and medical qualifications. The main objectives were to shed light on the magnitude and the potential of trade in education and health services in Sub-Saharan Africa, and identify the main barriers to trade in these services in the region.

In a recent study, World Bank (2015) found that cell phone surveys have a very low response rate. One of many possible reasons for this could be that potential respondents do not want to answer calls from unknown foreign numbers, particularly during a crisis situation. Furthermore, reduced income and access to electricity or power sources could decrease the ability of the potential respondents to charge their phones. However, this situation has not been the case with our crowdsourcing surveys, which covered domestic and foreign patients and health professionals as well as administrative representatives of hospitals in eight countries in Sub-Saharan Africa. The participants were selected randomly based on their mobile phone numbers, which were obtained from existing databases, panels, and radio broadcasts. To encourage wider participation, the respondents were provided additional air time for their responses in the survey. The average cost of this mobile phone survey was US$16 per participant. This cost corresponds to the findings of Cole and Fernando (2012), who demonstrate that surveying by mobile phones can be conducted effectively and cheaply in a developing country context; the average "all-in" cost of a phone survey was US$2.51, compared with over US$10 for a paper survey.

Another advantage of mobile phone surveys is the quality of the data. It is generally agreed that mobile survey data are less prone to error than paper or a landline surveys, as the information is already digitized. Given that this methodology of collecting information is relatively new, there are only a few researchers that compare the quality of data collected by mobile surveys with other modes. One such study, by Lynn and Kaminsha (2011), suggests that the quality of data collected using mobile and fixed-line phone interviews might

1 See, for example, Bumside (1994), Cramp (1994), Dwek (1996), McNeil (1994), Miles (1993), and Newton (1994).

2 For instance, concerning the banking sector, see Dorman (1994), Hanke (1993), Hoffman (1993), Hotchkiss (1995), Leeds (1992, 1995), Morrall (1994), Stoval (1993), and Tepper (1994); for hotels and firms in the travel and tourism industry, see Anderson et al. (2001), Erstad (1998), and Wilson and Gutmann 1998; and for consumer protection and customer satisfaction measurement techniques, see Brown, Sopp, and Gould (1997) and Hesselink and van der Wiele (2003).

3 Finn (2001) describes research on retail chains focusing on the quality of mystery shopping data and the number of visits needed.

differ because of line quality, the extent of multitasking by survey respondents, the extent to which survey respondents are distracted from the task of answering questions, and the extent to which other people are present and able to overhear what the survey respondent is saying. However, randomly evaluating a sample of people who had mobile and fixed phones, the experiment found only a few and small differences in survey measures between mobile phone interviews and fixed phone interviews. The few differences found suggest that data quality may be higher with mobile phone interviews. Cole and Fernando (2012) reach similar conclusions when comparing mobile-based survey data with paper-based interviews.

Surveys based on the mystery shopper method were commissioned by the World Bank and carried out by Research Solutions Africa (RSA). The aim was to identify in the selected countries the key services offered by banks, insurers, and accounting firms to micro, small, and medium-size enterprises (MSMEs). The surveys also aimed to identify the prices for selected standardized services charged by banking, insurance, and accounting service providers.

The mystery shopper survey involved the following key steps:

i. *Research design.* Initial briefings were held with the World Bank about the tool design, work plan, and sampling strategy.
ii. *Desk review.* Desk reports were prepared on the characteristics and definitions of MSMEs across the six surveyed countries.
iii. *Pilot study.* Fifteen pilot interviews were done in Kenya (five firms in each of the studied sectors).
iv. *Extended rollout.* Actual fieldwork was commissioned in the chosen countries.
v. *Data processing and analysis.* Data entry, cleaning, and analysis were done for each country.

Mystery shopper methods score better than traditional face-to-face interviews in the terms of easier access to information, especially on the type of services. Moreover, the staff and personnel of the surveyed firm are readily available to assist the mystery shopper, who is a "prospective" buyer of goods. However, there have been difficulties in securing an appointment for a face-to-face interview, because it can take some time to convince the service provider to record such information. Further, compared with traditional survey instruments, mystery shopping is not subject to survey-induced bias in the responses, as the counterpart is not aware of the survey. Mystery shoppers, nonetheless, cannot capture all the information, because questions about the client base and other characteristics of the provider may signal the data-gathering intent of the shopper.

In principle, mystery shopping surveys have the potential to help fill important information gaps for regional integration monitoring. For example, the surveys could be used to assess whether services sector integration leads to a convergence in prices across the region. Similarly, the surveys could provide insights into whether promises to remove nontariff barriers are indeed implemented, so that their costs decline over time.

## Data and Sample Distribution

More than 2,000 health professionals, hospital representatives, and patients were surveyed across eight Sub-Saharan African countries using the crowdsourcing method. The sample composition for the health services surveys is presented in table 2.1.

A total of 1,967 providers and consumers of education services were surveyed in nine Sub-Saharan African countries using the crowdsourcing method.[4] The sample composition for the education services surveys is provided in table 2.2.

Outliers can significantly influence the distribution of statistics, especially in a small sample. To reduce the effects of possibly spurious outliers, we use two different techniques in combination to eliminate such outliers. We begin with trimming our data by eliminating extreme values of variables, such as costs for tuition, housing, transportation, food, books, and visa in the home as well as the host countries. Any value of these variables that is more than four times the average cost or less than 1 percent of the average cost is dropped. Averages are taken by country and the disaggregated category for which the data are being presented. For example, in education services, the disaggregated categories are as follows: type of student (domestic or foreign), type of university (public or private), and type of degree (business/finance, engineering, medical, teaching, others).

Next, we also use winsorization to transform the statistics by limiting extreme values in the sample data. A usual winsorization strategy involves replacing all outliers with a specified percentile of the data. In our case, we winsorize across the category for which the data are presented. For instance, when we present a comparison of tuition cost

---

4 Data were collected between April and July 2014. Sampling was done through filtering existing databases of phone owners. Most questions were asked and answered via short messaging service. However, several target groups—such as foreign patients and professionals with foreign degrees—were surveyed through face-to-face interviews using smart phones.

**TABLE 2.1: Sample Distribution of Health Services in Selected Countries of Sub-Saharan Africa, April–July 2014**

| Sample | Cameroon | Ghana | Kenya | Malawi | Rwanda | Tanzania | Uganda | Zambia | Total |
|---|---|---|---|---|---|---|---|---|---|
| Hospital representatives | 20 | 21 | 25 | 22 | 20 | 21 | 32 | 20 | 181 |
| Doctors and nurses | 35 | 43 | 45 | 53 | 52 | 32 | 95 | 46 | 401 |
| Patients | 151 | 193 | 155 | 243 | 177 | 152 | 208 | 153 | 1,432 |
| **Total respondents** | **206** | **257** | **225** | **318** | **249** | **205** | **335** | **219** | **2,014** |

*Source:* Text to Change, 2014.

**TABLE 2.2: Sample Distribution of Education Services in Selected Countries of Sub-Saharan Africa, April–July 2014**

| Sample (including outliers) | Cameroon | Ghana | Kenya | Malawi | Nigeria | Rwanda | Tanzania | Uganda | Total |
|---|---|---|---|---|---|---|---|---|---|
| University representatives | 31 | 34 | 39 | 33 | 46 | 40 | 32 | 45 | 300 |
| University students | 151 | 192 | 184 | 179 | 242 | 150 | 158 | 205 | 1,461 |
| Professionals with foreign degrees | 24 | 32 | 34 | 20 | 30 | 22 | 21 | 23 | 206 |
| **Total** | **206** | **258** | **257** | **232** | **318** | **212** | **211** | **273** | **1,967** |

*Source:* Text to Change, 2014.

across local and foreign students, the data are winsorized across the category "type of students." We chose to winsorize the top and bottom 10th percentile of our data. Thus, any value of the data below the 10th percentile or above the 90th percentile in a given category is replaced by the 10th percentile value and 90th percentile value, respectively.

For banking, insurance, and accounting services, mystery shopping visits, and the traditional interviews with employees of banks, insurance companies, and accountancy firms, RSA collected information from brochures and other official documents that were provided by the respondents. Data were collected using a semi-structured questionnaire, which was designed by RSA in collaboration with the World Bank team. Walk-ins and prearranged appointments were used to secure interviews.

A total of 216 interviews were conducted with service providers across the six countries.[5] The sample composition for service providers is presented in table 2.3. In addition,

5 Information was collected in April and May 2014. Sampling was done in the capitals of the countries only, where most providers have their branches and offices.

**TABLE 2.3: Sample Distribution of Services Providers in Selected Countries of Sub-Saharan Africa, April–July 2014**

| Country | Banks | Accounting | Insurance | Total |
|---|---|---|---|---|
| Kenya | 20 | 8 | 8 | 36 |
| Tanzania | 20 | 8 | 8 | 36 |
| Uganda | 20 | 8 | 8 | 36 |
| Rwanda | 20 | 8 | 8 | 36 |
| Malawi | 20 | 8 | 8 | 36 |
| Zambia | 20 | 8 | 8 | 36 |
| **Total sample** | **120** | **48** | **48** | **216** |

*Source:* Text to Change, 2014.

**TABLE 2.4: Sample Distribution of Services Users in Selected Countries of Sub-Saharan Africa, April–July 2014**

| Country | Micro enterprises | Small enterprises |
|---|---|---|
| Kenya | 2 | 8 |
| Uganda | 5 | 6 |
| Tanzania | 3 | 5 |
| Rwanda | 7 | 2 |
| Malawi | 1 | 7 |
| Zambia | 3 | 7 |
| Total sample | 21 | 35 |

*Source:* Text to Change, 2014.

RSA interviewed several MSMEs to check the consistency of the information provided by the service providers. The selected MSME users had a monthly turnover of up to US$5,000 (micro) or between US$5,001 and US$100,000 (small). The sample composition is presented in table 2.4.

## Key Results

Since the objective of our crowdsourcing survey on health and education services is very different from that of mystery shopper surveys on banking, insurance, and accounting surveys, we present these results separately. The next subsection discusses the key results from trade in health and education services. This analysis is followed by a discussion of the results from the banking, insurance, and accounting surveys. These indicators are only illustrative of the type of information that may be collected through such innovative surveys. In principle, other information can be collected, such as data that measure the integration of services markets, or the effect of obstacles to trade in services, by appropriately designing the survey questionnaire and targeting a suitable group of agents.

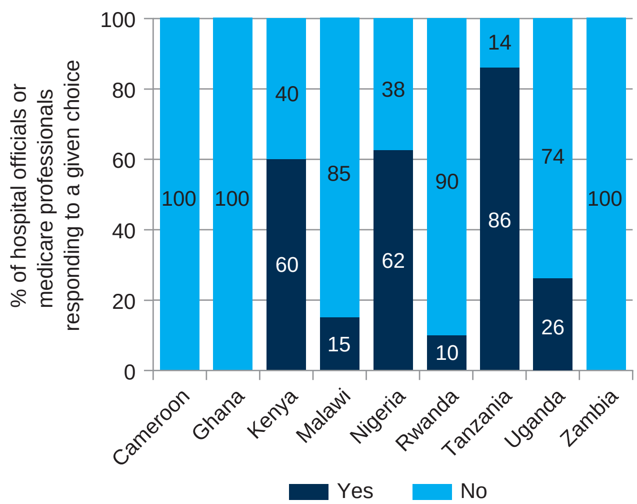
### Results from Crowdsourcing Surveys

#### *Trade in Health and Education Services by Mode of Supply*

The data on health consumers, providers, and other stakeholders provide some information on which countries engage in trade in health services via different modes of supply.[6] The survey participants included hospital representatives, doctors and nurses, and foreign patients who received medical treatment in the surveyed countries, as well as domestic patients who purchased health services abroad. For example, hospitals in Kenya, Malawi, Nigeria, Tanzania, and Uganda reported using telemedicine, while Cameroon, Ghana, and Zambia do not seem to engage in cross-border trade (mode 1) in health services (figure 2.1). We describe the pattern of such usage in greater detail in chapter 3, which exclusively covers trade in education and health services.

Most of the responding hospitals seem to treat foreign patients. Several hospitals in Kenya, Tanzania, and Uganda reported that foreign patients represent more than 50 percent of their total patients (figure 2.2). This finding suggests that most of the examined countries engage in trade in

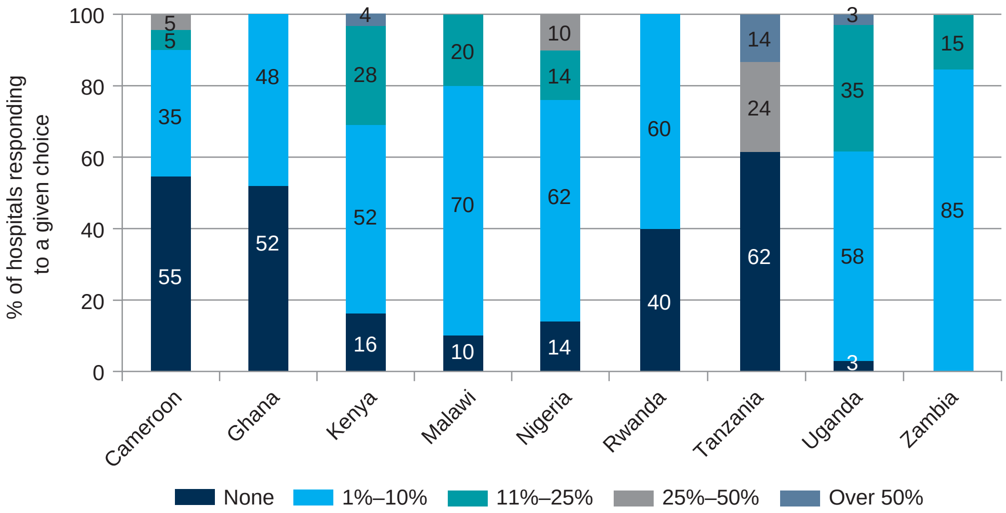
**FIGURE 2.1: Use of Telemedicine in Selected Countries of Sub-Saharan Africa, April–July 2014**




*Source:* Calculations based on survey responses.

6 The definition of services trade under the GATS is four-pronged, depending on the territorial presence of the supplier and the consumer at the time of the transaction. Pursuant to Article I:2, the services covered by the GATS can take four modes: (i) cross-border trade (from the territory of one member into the territory of any other member); (ii) consumption abroad (in the territory of one member to the service consumer of any other member); (iii) commercial presence (by a service supplier of one member, through commercial presence, in the territory of any other member); or (iv) presence of natural persons (by a service supplier of one member, through the presence of natural persons of a member in the territory of any other member) (see the WTO website on services: https://www.wto.org/english/tratop_e/serv_e/serv_e.htm).

**FIGURE 2.2: Proportion of Foreign Patients Treated by Hospitals in Selected Countries in Sub-Saharan Africa, April–July 2014 (%)**




*Source:* Calculations based on survey responses.

health services via mode 2. The top source countries of foreign patients are Burundi, Cameroon, Chad, China, the Democratic Republic of Congo, India, Kenya, Mozambique, Nigeria, Rwanda, Somalia, Sudan, Tanzania, Togo, Uganda, and the United States.[7]

By surveying foreign patients who received treatment in the selected countries, as well as domestic patients who purchased health services abroad, we are able to derive some information on the imports and exports of health services via mode 2. Information on the top source countries of foreign patients receiving treatment in the nine examined countries and the top destination countries for patients from the examined countries reveals that trade in health services is dominated by exchanges with neighboring countries (table 2.5).

For education services, most of our data point to the extent of trade in these services via mode 2. The data gathered from foreign students who study in the nine selected countries provide information on the main sending countries. Our survey suggests that many students in Sub-Saharan Africa study regionally. For example, the top source destination for foreign students in Kenya is Uganda, while the reverse is true for Uganda, where 35 percent of foreign students come from Kenya. Thus, the regional dimension seems equally as important for trade in education services via mode 2 as it is for health (see chapter 3 for more details).

It is interesting to note that few foreign students plan to remain in the host country after obtaining their degree (figure 2.3). This finding could perhaps be motivated by the difficulties in obtaining work permits in the country of study.

### *Determinants of Trade in Health and Education Services*

Differences in the cost and quality of services and institutions providing the services are typical determinants of trade. In the case of health services, some domestic patients from the surveyed countries pay more for treatment received abroad than do foreign patients undergoing treatment in the selected countries. This situation may suggest that the cost of medical services is not the decisive factor for trade in health services. Although costs do not seem to matter much, we find that differences in the quality of services may explain the outcome on trade in health services. Specifically, the non-availability of certain specialized cures (within the broader treatment category) could be an additional explanatory factor (figure 2.4). We discuss such determinants in greater detail in the chapter 3.

Our mobile survey results suggest that, as in the case of health services, cost is not critical for education services exports. Countries such as Kenya and Uganda have taken advantage of the quality and reputation of their universities to attract foreign students, and have emerged as regional education hubs despite higher costs. Most other Sub-Saharan African countries have attempted to improve the quality of

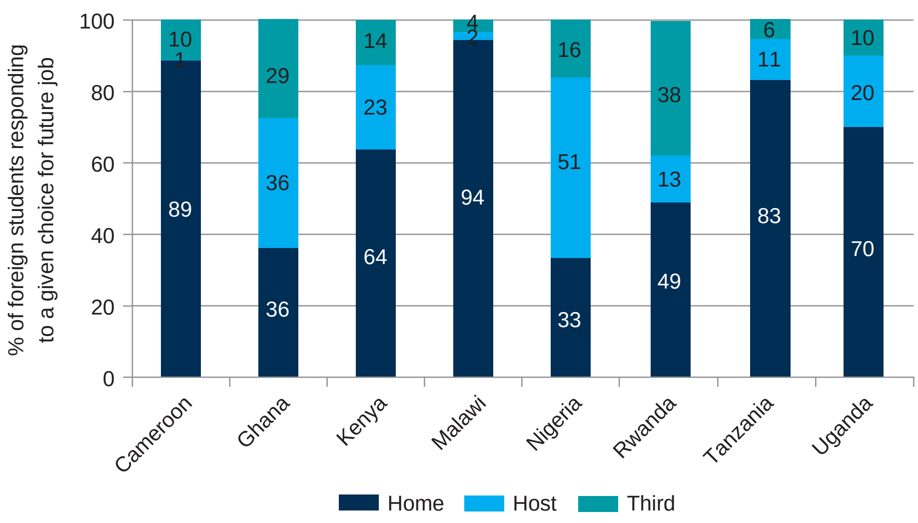
7 See chapter 3 for more details.

**TABLE 2.5:** Main Source and Destination Countries for Trade in Health Services in Selected Countries in Sub-Saharan Africa, April–July 2014

| Reporting country | Trade flow | Partner country |
|---|---|---|
| Cameroon | Exports to | Chad, Central African Republic, Senegal, Nigeria |
| | Imports from | Gabon, Central African Republic, Nigeria, Chad, Guinea Conakry |
| Ghana | Exports to | Nigeria, Liberia, Togo, Benin |
| | Imports from | Nigeria, South Africa, Togo, Benin, Tunisia |
| Kenya | Exports to | Uganda, India, Tanzania, Sudan, Somalia |
| | Imports from | South Africa, India, Arab Republic of Egypt, Nigeria, Sudan |
| Malawi | Exports to | Mozambique, Zimbabwe, Zambia |
| | Imports from | South Africa, Arab Republic of Egypt, Tanzania, Kenya, Ghana |
| Nigeria | Exports to | Ghana, China, Togo, Cameroon |
| | Imports from | Ghana, Togo, Benin, Kenya, Cameroon |
| Rwanda | Exports to | Uganda, Democratic Republic of Congo, Burundi |
| | Imports from | Uganda, Kenya, South Africa, Democratic Republic of Congo, Burundi |
| Tanzania | Exports to | India, United Kingdom, United States, Uganda, Rwanda |
| | Imports from | Kenya, Uganda, South Africa, Senegal |
| Uganda | Exports to | Kenya, Sudan, Rwanda, Tanzania |
| | Imports from | Kenya, South Africa, Tanzania, Rwanda, Republic of South Sudan |
| Zambia | Exports to | Namibia, Kenya, Burundi, China |
| | Imports from | South Africa, Algeria |

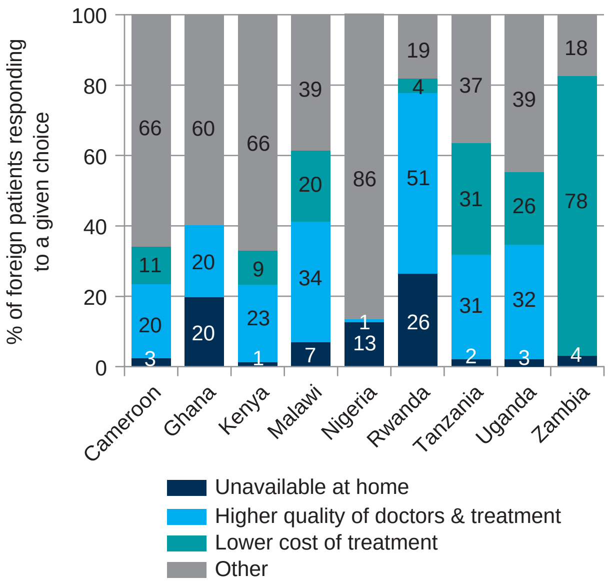
*Source:* Calculations based on survey responses.

**FIGURE 2.3:** Job Destination Choices of Foreign Students in Selected Countries in Sub-Saharan Africa, April–July 2014



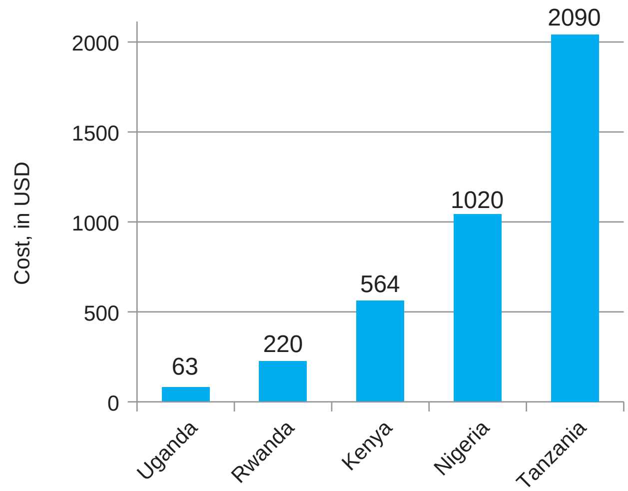

*Source:* Calculations based on survey responses.

**FIGURE 2.4: Reasons Foreign Patients Seek Treatment in Selected Countries in Sub-Saharan Africa, April–July 2014**



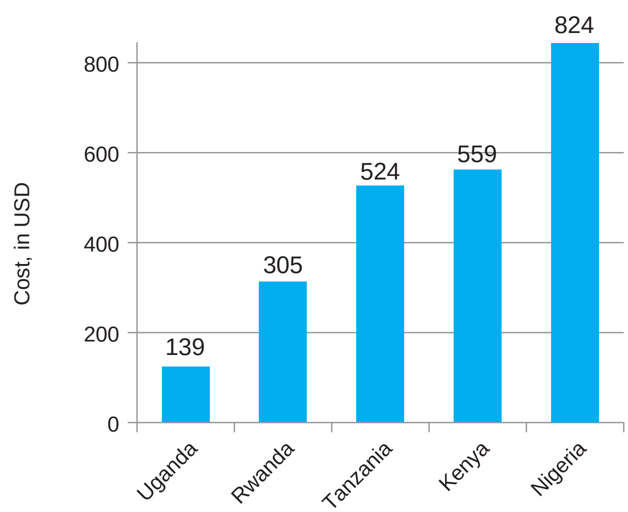

*Source:* Calculations based on survey responses.

**FIGURE 2.5: Cost of Travel and Visa for Foreign Patients Seeking Treatment in Selected Countries in Sub-Saharan Africa, April–July 2014**




*Source:* Calculations based on survey responses.

**FIGURE 2.6: Cost of Travel and Visa for Domestic Patients Originating in Selected Countries in Sub-Saharan Africa Seeking Treatment Abroad, April–July 2014**




*Source:* Calculations based on survey responses.

their education systems and increase the number of their graduates through imports of educational services. These imports take the form of increased mobility of students and academics (see chapter 3 for more details) or sometimes through local establishment of branch campuses of foreign universities. The details about the costs of tuition, books, food, housing, and transportation for domestic and foreign students that were collected (but not presented here) through the mobile surveys reinforce our findings.

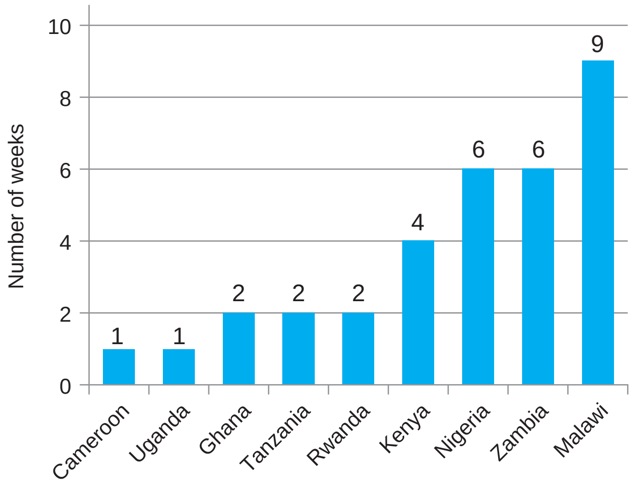
A variety of push factors encourage health care professionals to seek employment abroad. These include inadequate remuneration in the home country, the desire to work in a better managed health system, the desire to continue education and training, and family reasons. These factors lead to trade through the temporary presence of health professionals (mode 4) or to permanent migration. Additional pull factors, such as shortages of doctors and nurses in the host countries, further encourage the outflow of African health professionals. These factors take the center stage in our description of the results from the crowdsourcing surveys in chapter 3.

### *Barriers to Trade in Services: Some Results on Health Services*

The survey results confirm that exports and imports of health services via consumption abroad are hampered by the high cost of travel and visas needed to receive treatment in a foreign country (figures 2.5 and 2.6).

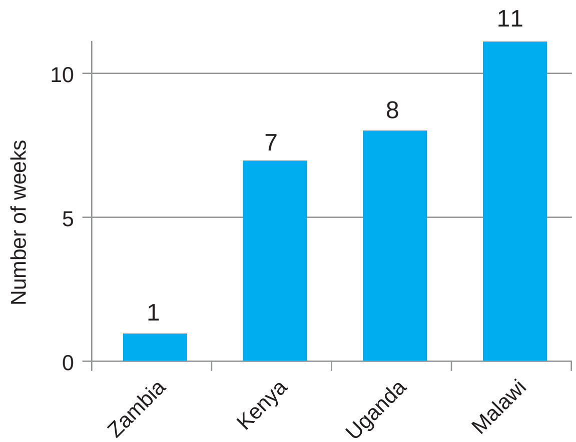
The main barriers to the movement of health professionals relate to the lengthy recognition of medical degrees obtained abroad (figure 2.7), and the additional training required for the recognition of degrees obtained abroad (figure 2.8).

**FIGURE 2.7:** **Weeks Required to Recognize Medical Degrees Obtained Abroad in Selected Countries in Sub-Saharan Africa, April–July 2014**




*Source:* Calculations based on survey responses.

**FIGURE 2.8:** **Weeks of Additional Training Required for the Recognition of Degrees Obtained Abroad in Selected Countries in Sub-Saharan Africa, April–July 2014**




*Source:* Calculations based on survey responses.

## Results from Mystery Shopper Surveys on the Performance of Banking, Insurance, and Accounting Services

The level of engagement of service providers with MSMEs varies widely by country. For example, only about 9 percent of the interviewed banks in Zambia offer banking services to microenterprises, compared with 65 percent of the interviewed banks in Kenya. It is worth noting that banks were significantly more engaged with micro enterprises than insurance companies or accountancy firms (table 2.6).

While more than 46 percent of the interviewed insurers in Rwanda offer services to small enterprises, only about 10 percent of insurers interviewed in Malawi have small enterprises as clients. Compared with micro enterprises, there is a significant increase in the engagement of banks and accounting firms, but virtually no change for insurance companies (table 2.7).

Most clients come from sectors such as trade/distribution, hospitality, transport, and construction for micro and small enterprises.

### *Services Offered to MSMEs and Their Pricing*

#### Banking Services

As expected, the most common banking services offered by banks are current and savings accounts, secured loans, fixed deposits, debit cards, asset finance, and to a slightly lesser extent mortgages and invoice discounting. Unsecured loans are offered by a surprisingly high proportion of banks. However, the relatively low number of women-held accounts suggests that the banks are not specifically targeting female clients (table 2.8).

**TABLE 2.6:** **Level of Engagement with Micro Enterprises in Selected Countries of Sub-Saharan Africa, April–July 2014 (%)**

| Enterprise type | Kenya | Malawi | Rwanda | Tanzania | Uganda | Zambia | Average activity |
|---|---|---|---|---|---|---|---|
| Banks | 66.7 | 46.4 | 28.3 | 32.1 | 24.3 | 9.2 | 34.5 |
| Accounting | 32.3 | 9.5 | 36.1 | 28.3 | 34.0 | 10.4 | 25.1 |
| Insurance | 18.3 | 9.7 | 46.9 | 26.2 | 18.8 | 20.8 | 23.5 |
| Weighted average | 48.9 | 22.5 | 36.5 | 29.7 | 26.6 | 11.0 | n.a. |

*Source:* Calculations based on survey responses.

*Note:* n.a. = Not applicable.

**TABLE 2.7:** **Level of Engagement with Small Enterprises in Selected Countries of Sub-Saharan Africa, April–July 2014 (%)**

| Enterprise type | Kenya | Malawi | Rwanda | Tanzania | Uganda | Zambia | Average activity |
|---|---|---|---|---|---|---|---|
| Banks | 70.8 | 47.6 | 33.3 | 42.9 | 31.3 | 11.7 | 39.6 |
| Accounting | 35.4 | 35.7 | 38.9 | 40.0 | 43.8 | 10.4 | 34.0 |
| Insurance | 21.7 | 9.7 | 46.9 | 25.0 | 17.7 | 20.8 | 23.6 |
| Weighted average | 52.6 | 32.1 | 39.2 | 37.3 | 32.6 | 12.5 | n.a. |

*Source:* Calculations based on survey responses.
*Note:* n.a. = Not applicable.

**TABLE 2.8:** **Services Offered by Banks in Selected Countries of Sub-Saharan Africa, April–July 2014 (%)**

| Services offered | Kenya | Malawi | Rwanda | Tanzania | Uganda | Zambia | Average |
|---|---|---|---|---|---|---|---|
| Current and savings accounts | 100 | 100 | 100 | 100 | 100 | 100 | 100 |
| Recurrent deposit accounts | 63 | 43 | 40 | 38 | 33 | 40 | 43 |
| Call accounts | 88 | 100 | 10 | 46 | 25 | 40 | 51 |
| Loans | 100 | 100 | 100 | 15 | 100 | 80 | 83 |
| Unsecured loans | 56 | 29 | 50 | 100 | 58 | 40 | 56 |
| Mortgages | 94 | 71 | 90 | 54 | 50 | 20 | 63 |
| Fixed-deposit accounts | 100 | 100 | 80 | 69 | 92 | 60 | 83 |
| Credit cards | 63 | 29 | 50 | 92 | 42 | 50 | 54 |
| Debit cards | 88 | 100 | 90 | 23 | 58 | 50 | 68 |
| Invoice discounting | 75 | 43 | 60 | 77 | 58 | 30 | 57 |
| LPO finance | 88 | 71 | 10 | 38 | 50 | 30 | 48 |
| Asset finance | 100 | 100 | 40 | 77 | 58 | 30 | 68 |
| Investment products | 88 | 43 | 40 | 54 | 25 | 40 | 48 |
| Women-held accounts | 50 | 43 | 0 | 15 | 17 | 30 | 26 |
| Local bank draft | 88 | 100 | 90 | 92 | 92 | 60 | 87 |
| Foreign bank draft | 81 | 57 | 40 | 92 | 75 | 60 | 68 |
| Real time gross settlement | 94 | 71 | 70 | 85 | 83 | 60 | 77 |
| Letters of credit | 94 | 100 | 80 | 77 | 67 | 70 | 81 |
| Foreign exchange | 88 | 100 | 100 | 92 | 83 | 60 | 87 |
| Money transfer services | 94 | 86 | 90 | 92 | 92 | 60 | 86 |
| Performance bonds | 69 | 86 | 50 | 69 | 58 | 50 | 64 |
| Electronic funds transfer | 94 | 86 | 50 | 77 | 92 | 70 | 78 |
| Mobile banking | 94 | 86 | 90 | 92 | 67 | 50 | 80 |
| Internet banking | 81 | 100 | 70 | 77 | 92 | 100 | 87 |
| Regional account access OTC | 50 | 0 | 20 | 46 | 50 | 20 | 31 |

*Source:* Calculations based on survey responses.
*Note:* LPO = local purchase order; OTC = over the counter.

#### Insurance Services

As expected, most insurance companies offer group accident, property, and automotive insurance. Many insurers offer liability, indemnity, and health insurance. However, it is quite surprising that none of the interviewed insurers in Tanzania offers insurance for agricultural foodstuffs in transit and livestock. Rwanda scored surprisingly high for livestock insurance (table 2.9).

### *Prices for Services*

#### Banking Services

The survey responses provide broad information on price ranges for standardized banking services in the examined countries, such as domestic transactions, foreign funds transfers, and business account transactions. The results on prices for domestic transaction costs show a wide variation within and between countries. For example, Ugandan prices for outward mobile payments range from zero to US$5.60 per transaction. Similarly, Rwandan real time gross settlement costs vary between zero and US$0.75, while in Malawi and Zambia real time gross settlement costs are in excess of US$6.30 (table 2.10).

#### Insurance Services

Insurance premiums are compared across providers of personal accident insurance, personal health insurance, automotive insurance, and credit insurance. Two typical agricultural insurance services were included: crop insurance and livestock insurance. The results show that the rates for personal accident insurance are reasonably consistent for most countries, except Tanzania and to some extent Zambia. There is a certain level of consistency for automotive, crop, and livestock insurance rates, but the coverage for crops and livestock seems irregular (not available in Tanzania and Malawi). The rates for personal health insurance display a higher variation, probably reflecting different details of the coverage provided (table 2.11).

#### Accounting Services

Fees for accounting services are quoted separately for clients with a turnover of US$5,000 and clients with a turnover of US$100,000. The results show a degree of consistency for the prices quoted to companies with a turnover of US$5,000 (loosely equated to micro enterprise; see table 2.12). There is nonetheless a significant difference in costs between countries, for example, between Kenya and Malawi, most

**TABLE 2.9: Services Offered by Insurance Companies in Selected Countries in Sub-Saharan Africa, April–July 2014 (%)**

| Services offered | Kenya | Malawi | Rwanda | Tanzania | Uganda | Zambia | Average |
|---|---|---|---|---|---|---|---|
| Agriculture—Foodstuff in transit | 20 | 50 | 38 | 0 | 25 | 71 | 34 |
| Agriculture—Crops | 20 | 17 | 13 | 0 | 25 | 43 | 20 |
| Agriculture—Livestock | 20 | 33 | 63 | 0 | 25 | 43 | 31 |
| Health | 100 | 0 | 25 | 71 | 25 | 0 | 37 |
| Funeral | 0 | 0 | 25 | 43 | 13 | 14 | 16 |
| Group accident | 80 | 83 | 63 | 86 | 75 | 71 | 76 |
| Property | 80 | 67 | 75 | 71 | 50 | 57 | 67 |
| Credit | 20 | 17 | 63 | 14 | 50 | 14 | 30 |
| Automotive | 100 | 33 | 75 | 57 | 50 | 71 | 64 |
| Liability | 40 | 83 | 25 | 0 | 50 | 57 | 43 |
| Indemnity | 40 | 83 | 25 | 0 | 50 | 29 | 38 |
| Average engagement of insurance companies by country | 37 | 33 | 35 | 24 | 31 | 34 | n.a. |

*Source:* Calculations based on survey responses.

*n.a. = Not applicable.*

**TABLE 2.10: Prices for Selected Domestic Transactions in Selected Countries of Sub-Saharan Africa, April–July 2014 (US$ per transaction)**

| Transaction type | Cost per transaction (US$) | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 0 | 0–1 | 1–2 | 2–3 | 3–4 | 4–5 | 5–6 | 6–7 | 7–8 | 8–9 | 9–10 | 10–11 | 11–12 |
| **Check payments** | | | | | | | | | | | | | |
| Kenya | ■ | ■ | ■ | | | | | | | | | | |
| Tanzania | | | ■ | ■ | ■ | ■ | ■ | | | | | | |
| Uganda | | ■ | ■ | ■ | ■ | ■ | ■ | ■ | ■ | ■ | ■ | ■ | ■ |
| Rwanda | | ■ | | | | | | | | | | | |
| Malawi | | | | ■ | ■ | ■ | | | | | | | |
| Zambia | ■ | ■ | ■ | ■ | ■ | ■ | ■ | ■ | ■ | ■ | | | |
| **Transfer by RTGS** | | | | | | | | | | | | | |
| Kenya | | | | | | | ■ | ■ | | | | | |
| Tanzania | | | | | | | ■ | | | | | | |
| Uganda | | | | | ■ | ■ | ■ | ■ | ■ | | | | |
| Rwanda | ■ | ■ | | | | | | | | | | | |
| Malawi | | | | | | | | | | ■ | ■ | ■ | ■ |
| Zambia | | | | | | | | ■ | ■ | ■ | ■ | ■ | ■ |
| **Transfer outward—RTGS** | | | | | | | | | | | | | |
| Kenya | ■ | ■ | | | | | | | | | | | |
| Tanzania | | ■ | | | | | | | | | | | |
| Uganda | ■ | ■ | ■ | ■ | ■ | ■ | ■ | | | | | | |
| Rwanda | | | | | | ■ | | | | | | | |
| Malawi | | ■ | ■ | ■ | | | | | | | | | |
| Zambia | ■ | ■ | ■ | ■ | ■ | ■ | ■ | ■ | ■ | ■ | | | |
| **Transfer—Internet banking** | | | | | | | | | | | | | |
| Kenya | ■ | ■ | ■ | ■ | | | | | | | | | |
| Tanzania | | | | | | | | ■ | | | | | |
| Uganda | ■ | ■ | ■ | ■ | ■ | ■ | ■ | ■ | ■ | ■ | ■ | | |
| Rwanda | ■ | | | | | | | | | | | | |
| Malawi | | | | ■ | ■ | | | | | | | | |
| Zambia | ■ | ■ | ■ | ■ | ■ | ■ | ■ | ■ | ■ | ■ | | | |

*Source:* Calculations based on survey responses.

*Note:* RTGS = Real time gross settlement.

**TABLE 2.11: Annual Premia Charged by Insurance Companies in Selected Countries of Sub-Saharan Africa, April–July 2014 (US$)**

| Type of policy | Kenya | Malawi | Rwanda | Tanzania | Uganda | Zambia |
|---|---|---|---|---|---|---|
| Personal accident | US$40 to US$80<br>Covers medical, disability, and funeral | US$46.50 to US$63.40 | Rates not provided, as they depend on employment status, nature of job, etc. | US$164 to US$303 (outlier US$607) | US$46 to US$230 | Four companies responded. Two companies quoted US$103 and US$135 respectively<br>Two companies quoted US$370 and US$690 respectively |
| Personal health | US$138 to US$220 (outlier US$20)<br>Inpatient and outpatient services | n.a. | Only two companies quoted: US$16.60 and US$764 | US$164 to US$303 | Only one company quoted: US$349 | n.a. |
| Comprehensive automotive | 7–8% of value insured | 7.6–9.9% of value insured | 5.4–8.2% of value insured | 3.1–5.0% of value insured | 4.0–5.2% of value insured | 7.1–8.3% of value insured |
| Credit insurance (coverage of US$23,256) | US$115 to US$126 for personal coverage; US$2,300 for group coverage | n.a. | Only two companies quoted: US$1,076 and US$3,488 | Only one company quoted: US$231 | US$523 to US$891 (outlier US$140 covers loss of stock or cash from fraud) | Only one company quoted: US$538 |
| Crops insurance (maize, one acre) | US$38.10 to US$44.80 (outlier US$65.10) | n.a. | US$27 | n.a. | Only one company quoted: US$35 | US$25 or less ($15–$20) based on rates for five acres |
| Livestock insurance (one dairy cow) | US$32.20 to US$40.30 | US$37.30 | US$24.40 | n.a. | Only one company quoted: US$49 | US$33 to US$38 |

*Source:* Calculations based on survey responses.

n.a. = Not applicable.

**TABLE 2.12: Fees for Accountancy Services Offered to Clients with a Turnover of US$5,000 in Selected Countries in Sub-Saharan Africa, April–July 2014 (US$)**

| Type of service | Kenya | Malawi | Rwanda | Tanzania | Uganda | Zambia |
|---|---|---|---|---|---|---|
| Verification of solvency | 115–290 | 625–2,000 | 174–265 | 600–1,800 | 150–1,300 | 150–536 |
| Support loan application | 172–230 | 2,250–5,000 | 147–882 | 600–1,800 | 375–1,125 | 150–536 |
| Audit | 115–580 | 345–626 | 150–441 | 480–1,800 | 375–1,300 | 322–536 |
| File tax returns | 115–230 | 123–492 | 36–735 | 600–2,100 | 75–562 | 134–536 |

*Source:* Calculations based on survey responses.

**TABLE 2.13: Fees for Accountancy Services Offered to Clients with a Turnover of US$100,000 in Selected Countries in Sub-Saharan Africa, April–July 2014 (US$)**

| Type of service | Kenya | Malawi | Rwanda | Tanzania | Uganda | Zambia |
|---|---|---|---|---|---|---|
| Verification of solvency | 230–1,150 | 10,000–30,000 | 520–7350 | 1,030–3,900 | 562–2,630 | 1,100–5,500 |
| Support loan application | 290–580 | 4,250–51,250 | 520–10,000 | 1,030–3,900 | 940–1,900 | 890–5,500 |
| Audit | 290–920 | 6,900– 37,500 | 294–10,300 | 12,100–29,500 | 1,125–1,900 | 1,100–8,850 |
| File tax returns | 115–920 | 2,460–9,850 | 220–2,940 | 600–2,400 | 187–3,750 | 1,100–3,870 |

*Source:* Calculations based on survey responses.

notably at the upper end of the quoted ranges. There is greater variation in the fees quoted to enterprises with a turnover of US$100,000 (table 2.13). This finding may reflect greater variability in the size of the client and complexity of the business. The main criteria for determining the fees are the amount of work (labor hours) and complexity (or risk) involved.

## Conclusion and Next Steps

The pilot surveys discussed in this chapter aimed at gathering quantitative data on trade in services in Sub-Saharan Africa using two methodologies: mobile phones and mystery shoppers. The surveys delivered valuable insights into the examined sectors. Both methodologies highlight the importance of services in five economic sectors, domestically as well as internationally. Furthermore, the mobile surveys suggest that cost is not decisive for trade; rather, the availability and quality of services seem to be more important for trade in health and education services. The prices for banking, insurance, and accounting services show wide variability across countries, but this does not appear to deter MSME users of these services.

The two-survey approach shows that innovative surveys are not only feasible, but also useful. The surveys enable the collection of new data sets and perhaps in a way often superior to more costly traditional data collection methods based on field interviews. Despite their usefulness in generating new knowledge, there are several challenges related to the implementation of these innovative surveys for collecting data on transactions in services.

First, sampling issues need to be clarified. For instance, sampling from available lists of mobile phone users is easily justifiable for the providers and users of education and health services, given that phone ownership is almost universal within this category. However, it has proven rather difficult to reach certain target groups, such as professionals with foreign degrees, resulting in very small sample sizes for several categories of respondents. Second, data quality issues hampered the implementation of the surveys. For example, despite formulating short questions and requesting the answers in local currency, the data set contained many outliers. In the case of the insurance and accounting surveys, there was wide variation in the responses of accountancy firms, possibly driven by different underlying assumptions regarding the services offered to clients.[8]

To increase the reliability of the data, we hope to focus any follow-up surveys on banking services. These surveys will concentrate on trade indicators, using letters of credit, structured trade finance, and forex transactions. Indicators on credit, payment, and savings also seem promising when analyzed using products such as MSME value-chain finance, asset finance, counter transactions, mobile and Internet banking, and so on.[9]

## References

Anderson, D. N., D. L. Groves, J. Lengfelder, and D. Timothy. 2001. "A Research Approach to Training: A Case Study of Mystery Guest Methodology." *International Journal of Contemporary Hospitality Management* 13 (2): 93–102.

Brown, C., L. Sopp, and S. Gould. 1997. "Consumers' Association Goes Undercover." *Consumer Policy Review* 7 (1): 2–6.

Bumside, A. 1994. "In-Store Spies Snuff Out Poor Service." *Marketing*, April 28, 32–33.

Cole, S., and A. N. Fernando. 2012. "The Value of Advice: Evidence from Mobile Phone–Based Agricultural Extension." Harvard Business School Working Paper No. 13-047, Harvard University, Cambridge, MA.

8 Although the survey looked at the formal supply side, in practice many MSMEs use a local accountant informally, paying much lower prices than those quoted here.

9 Based on a follow-up seminar undertaken by Research Solutions Africa with interviewed firms.

Cramp, B. 1994. "Witnesses for the Defence." *Marketing,* August 18, 18.

Croke, K., A. Dabalen, G. Demombybes, M. Giugale, and J. Hoogeveen. 2012. "Collecting High Frequency Panel Data in Africa Using Mobile Phone Interviews." Policy Research Working Paper 6097, World Bank, Washington, DC.

Dawson, J., and J. Hillier. 1995. "Competitor Mystery Shopping: Methodological Considerations and Implications for the MRS Code of Conduct." *Journal of the Market Research Society* 37 (4): 417–27.

Dillon, B. 2009. "Using Mobile Phones to Conduct Research in Developing Countries." *Journal of International Development* 24 (4): 518–27.

Dorman, K. G. 1994. "Mystery Shopping Results Can Shape Your Future." *Bank Marketing* 26 (8): 17–21.

Dwek, R. 1996. "Magic of Mystery Shopping." *Marketing,* October 17, 41–44.

Erstad, M. 1998. "Mystery Shopping Programmes and Human Resource Management." *International Journal of Contemporary Hospitality Management* 10 (1): 34–38.

Finn, A. 2001. "Mystery Shopper Benchmarking of Durable-Goods Chains and Stores." *Journal of Service Research* 3 (4): 310–20.

Hanke, E. 1993. "Through the Looking Glass." *Credit Union Management* 42 (August): 45–46.

Hesselink, M., and T. van der Wiele. 2003. "Mystery Shopping: In-Depth Measurement of Customer Satisfaction." ERIM Report Series Research in Management No. ERS-2003-020-ORG, Erasmus Research Institute of Management (ERIM) at Erasmus University Rotterdam. http://EconPapers.repec.org/RePEc:ems:eureri:281.

Hoffman, G. 1993. "Customers Can Hone Mystery Shopping." *Bank Marketing* 25 (8): 36–37.

Hotchkiss, D. A. 1995. "What Do Your Customers Really Think?" *Bank Marketing* 27 (3): 13–20.

Leeds, B. 1992. "Mystery Shopping Offers Clues to Quality Service." *Bank Marketing* 24 (11): 24–26.

———. 1995. "Mystery Shopping: From Novelty to Necessity." *Bank Marketing* 27 (6): 17–23.

Lehman, C. 1997. "Covert Research—Where's the Mystery?" *Research* (August): 34.

Lynn, P., and O. Kaminsha. 2011. "The Impact of Mobile Phones on Survey Measurement Error." ISER Working Paper 2011-07, Institute for Social and Economic Research (ISER), Essex, U.K.

McNeil, R. 1994. "The Mystery Squad's Tougher Challenge." *ResearchPlus* (April): 13.

Miles, L. 1993. "Rise of the Mystery Shopper." *Marketing,* July 29: 19–20.

Morrall, K. 1994. "Mystery Shopping Tests Service and Compliance." *Bank Marketing* 26 (2): 13–23.

Morrison, L. J., A. M. Colman, and C. C. Preston. 1997. "Mystery Customer Research: Cognitive Processes Affecting Accuracy." *Journal of the Market Research Society* 39 (2): 349–61.

Newton, E. 1994. "The Service Murders by Miss Terri Shopper." *Research Plus* (September): 4.

Stovall, S. A. 1993. "Keeping Tabs on Customer Service." *Bank Marketing* 25 (6): 29–33.

Tepper, G. C. 1994. "The Merits of Self-Testing." *Mortgage Banking* 54 (8): 76.

Wilson, A. 1998. "The Use of Mystery Shopping in the Measurement of Service Delivery." *Services Industries Journal* 18 (3): 148–63.

Wilson, A. M., and J. Gutmann. 1998. "Public Transport: The Role of Mystery Shopping in Investment Decisions." *Journal of the Market Research Society* 40 (4): 285–93.

World Bank. 2015. "The Socioeconomic Impacts of Ebola in Liberia: Results from a High Frequency Cell Phone Survey Round 3." World Bank, Washington, DC.

*In the Windmills of Your Mind* by Richard Gicho

CHAPTER 3

# Internationalizing Sub-Saharan Africa's Education and Health Services

Nora Dihel and Arti Grover Goswami with inputs from Richard Gicho, Borislava Marcheva and Carmine Soprano

## Introduction

Sub-Saharan Africa is witnessing high international mobility of students and health professionals. The latest United Nations Educational, Scientific, and Cultural Organization (UNESCO) data suggest that in 2012, the outbound mobility ratio of students from the region reached 4.5 percent[1]—more than two times higher than the world average of 1.8 percent. In health services, the outflow of middle- and high-skilled professionals is significant in all African countries. The World Health Organization (WHO) estimates that across 10 Sub-Saharan African countries, almost one-quarter (23 percent) of the locally trained doctors emigrated to various Organisation for Economic Co-operation and Development (OECD) countries (WHO 2012). Views regarding the mobility impacts of African students and academic staff are mixed, ranging from reports that point out the benefits from "brain circulation" to views that emphasize "brain drain." Nonetheless, there is a general agreement that the massive outflows of health professionals exacerbate Africa's health workforce crisis.

The mobility of African students and health professionals has recently been recently complemented by the mobility of educational and medical programs and institutions. Innovative cross-border institutional arrangements create new commercial opportunities, such as franchising and twinning of academic programs and health services. There are also new forms of private sector involvement and increased foreign participation in the provision of medical services. Technological progress is facilitating various forms of distance education or health services supply such as telemedicine. These relatively new forms of trade are beginning to gain in importance in Sub-Saharan Africa and have high potential for further expansion, but data on such flows remain scarce on the African continent.

Trade in education and health services[2] also features high on the agenda of policy makers and regional organizations in Sub-Saharan Africa. For example, all five East African Community (EAC) countries have committed themselves to remove most explicit barriers to trade in education and health services as part of the 2010 EAC Common Market Protocol and other developments. Furthermore, the Southern Africa Development Community (SADC) countries included student and staff mobility in the 1997 SADC Protocol on Education and Training.

Yet, despite the increased international mobility of students, many technological developments with transformative impact, the emergence of private education and medical institutions, and the liberalization and regional integration agreements, the continent continues to face substantive skills and competency shortages in both sectors. And several African countries remain excluded from international linkages in education and health.

Acute shortages of skills in the education and health sector represent a major impediment to the attainment of the Millennium Development Goals in Sub-Saharan Africa. For instance, in 2012 in higher education institutions in Sub-Saharan Africa, the gross rate of tertiary education enrollment still stood at

---

1 http://www.uis.unesco.org/Education/Pages/international-student-flow-viz.aspx.

2 Education services include (i) primary education services; (ii) secondary education services; (iii) higher education services; (iv) adult education, which comprises education of adults outside the regular education system; and (v) other education services, which comprises education services at the first and second levels in specific subject maters not elsewhere classified (see the services sector classification list GATS W/120 in WTO (1991). Health services include (i) hospital services—including services delivered under the direction of medical doctors chiefly to inpatients, aimed at curing, reactivating, and/or maintaining health status; (ii) other human health services—including ambulance services and residential health facilities services other than hospital services; (iii) social services—including welfare services, child daycare, and guidance and counselling; and (iv) other (see the services sector classification list GATS W/120 in WTO 1991).

only 6.9 percent against a world average of 27.7 percent. Similarly, Africa bears one quarter of the burden of disease around the world, but has only 3 percent of the world's health workers. Although greater investment is needed to strengthen education and create incentives for education and health workers to remain in their countries, trade and regional integration can play a role in addressing the weaknesses in education and health. Recent continent-wide initiatives, such as the 2015 African Higher Education Summit,[3] have called for the articulation of clear and comprehensive policies on internationalization at the national, intracontinental, and intercontinental levels to revitalize Africa's educational systems and meet Africa's health worker crisis.

This chapter summarizes the nature and the determinants of trade in education and health services in a selected group of countries in Eastern and Southern Africa, using a combination of quantitative and qualitative methods. We present the results from new, innovative data collection methods, such as crowdsourcing, to shed some light on the magnitude, determinants, and restrictions on intra-African trade in education and health services. Assessments of trade and regulatory barriers, based on results from regulatory surveys conducted in selected East African countries, and case studies of success stories and less favorable experiences are then used to develop policy recommendations for using trade and regional integration more strategically to improve outcomes in education and health.

## Education and Health Services in Sub-Saharan Africa: How Can Regional Integration Help?

Given the personalized nature of education and health provision, the delivery of these services often requires proximity between consumers and providers.[4] Consumption of services abroad (mode 2 in General Agreement on Trade in Services (GATS) terminology) and the presence of service providers abroad to supply services (mode 4 in GATS terminology) seem to be the predominant modes of supplying education and health services across borders. The movement of students to consume educational services abroad (mode 2) and the movement of professionals to provide services abroad (mode 4) are being complemented by new channels for trade in such services. Thanks to the recent advances in technological progress, it is now feasible to deliver lectures through distance learning programs or provide medical advice over video conferencing (mode 1). In addition, educational institutions and hospitals of foreign countries are respectively establishing campuses and medical facilities in foreign countries to provide their services (mode 3) right at the doorsteps of foreign consumers.

Combining qualitative and quantitative methods, this section attempts to shed light on the nature and determinants of trade in education and health services in Eastern and Southern Africa. Crowdsourcing[5] was used to survey more than 2,000 health professionals, hospital representatives, and patients, as well as 1,967 providers and consumers of education services in nine Sub-Saharan African countries, namely, Cameroon, Ghana, Kenya, Malawi, Nigeria, Rwanda, Tanzania, Uganda, and Zambia. The surveys collected information on trade patterns, determinants of trade, quality of and satisfaction with various services, and barriers to trade in education and health services. The quantitative surveys and the qualitative interviews placed particular focus on regional linkages and the role of regional integration in filling unmet demand for skills and services in Africa's health and education sectors. The organizing framework described in annex 3A is used to gather information on and discuss the determinants of trade in education and health services by mode of supply.

3 http://summit.trustafrica.org/.

4 Trade in services occurs via four modes of supply:

- Mode 1: Cross-border supply. Services supplied from the territory of one country into the territory of another country via the use of information and communications technology (for example, distance learning or telemedicine).
- Mode 2. Consumption abroad. Services supplied in the territory of one country to the consumers of another country (for example, students and patients traveling abroad to buy education and health services).
- Mode 3. Commercial presence. Services supplied through any type of business or professional establishment of one country in the territory of another (for example, foreign universities or foreign hospitals established in a country).
- Mode 4. Temporary presence of natural persons. Services supplied by nationals of one country in the territory of another (for example, educators and medical professionals traveling abroad to provide services). Mode 4 includes independent service suppliers and employees of the services supplier of another country.

5 Crowdsourcing is the process of obtaining information, work, or funding, usually online, from a crowd of people. Crowdsourced data come from the collective voices of consumers and can provide insights and opinions quicker and cheaper than more traditional data-collection techniques. Given that social networking and applications of mobile technology are dominant features of African mobile life, we used mobile phone surveys to gather information from providers and consumers of education and health services.

## Distance Learning and Telemedicine on the Rise

Distance learning and telemedicine are daring and disruptive technologies that are expected to make an important impact in Africa over the next 15–20 years. Anecdotal evidence confirms that the use of information and communications technology (ICT) tools to improve access to services, including cross-border trade in services, is beginning to emerge on the continent, with several homegrown initiatives and apps taking off in recent years in Africa.

The African Virtual University (AVU) was established with the objective of building capacity in education and health in Africa. Eighteen African countries have signed the charter establishing the AVU, which has trained more than 43,000 students since its inception in 1997. As the leading institution in the Pan-African e-Network Project, the AVU has acquired the largest e-learning network in Anglophone, Francophone, and Lusophone Africa, with more than 53 partner institutions in 27 countries.[6] Since its inception, AVU has been linked to a global network of leading universities, mainly based in North America and Europe, which has allowed imports of education services at 31 sites in 17 African countries.[7] Other examples of e-learning include the Virtual University of Uganda (box 3.1) and the University of South Africa, Africa's leading distance-learning open institution, which offers internationally accredited qualifications to students from 130 countries. In 2012, 8.2 percent of all registered University of South Africa students came from African countries (other than South Africa).[8]

Telemedicine is also gaining traction in Africa. The Pan-African e-Network Project is one of the largest projects for telemedicine in Africa and is based on the growing partnership between India and Africa (box 3.2). Several Indian universities and educational institutions are providing online education to about 10,000 students in Africa over a five-year period in various disciplines, including medicine. And Indian medical specialists are offering online medical consultations to medical practitioners and patients residing in Africa.

Other examples of telemedicine include the dissemination of information to doctors in Southern Africa through a medical library in Zambia, which partnered with a library at the University of Florida in the United States; the Africa tele-dermatology project, which provides dermatology support to local physicians, dermatologists, and health care workers in hospitals and clinics throughout Africa; and the participation of several African countries in the iPath-Network, a collaboration platform used in telemedicine to share information on consultations, teaching, and research among a group of medical specialists worldwide (Wamala and Augustine 2013).

Mobile phone surveys carried out by the World Bank in 2014/15 confirm that many hospitals in Kenya, Malawi, Nigeria, Tanzania, and Uganda use telemedicine on a regular basis (figure 3.1), with hospitals in Kenya, Malawi, and Tanzania appearing to be the most frequent users of telemedicine (figure 3.2). PwC and GSMA (2012) estimates that by 2017, Africa's mobile health revenue will reach US$1.2 billion (or

### BOX 3.1: Virtual University of Uganda

The Virtual University of Uganda (VUU) is the first online university in Uganda to be licensed by the Uganda National Council for Higher Education. The university uses multiple integrated forms of digital multimedia to deliver online education. These include video and audio clips, chat rooms, and discussion forums, as well as mandatory weekly audio conferencing. The university also provides access to an e-library that contains more than 50 million open-access items, including learning materials and video and audio resources from internationally renowned universities, such as the Massachusetts Institute of Technology and Johns Hopkins University (among others). Online education is delivered through the university's virtual learning environment (VLE) on a Moodle platform that is hosted by Stoas Learning in the Netherlands. In 2014, VUU had about 600 students enrolled in its distance learning program. Foreign students from the Burundi, the Democratic Republic of Congo, Rwanda, Somalia, and South Sudan account for 25 percent of total students. The university recruits local and international staff members, who also contribute through the VLE. Students submit their assignments online, and tutors review, grade, and provide feedback on the assignments online. The assignments are screened through antiplagiarism software integrated into the VLE.

*Source:* World Bank 2014 Interviews and https://moodle.org/.

---

6 For more details, visit http://www.avu.org/. The project is also equipped to support e-governance, e-commerce, infotainment, resource mapping, and meteorological and other services in African countries. See http://www.panafricanenetwork.com/.

7 http://web.worldbank.org/WBSITE/EXTERNAL/COUNTRIES/AFRICAEXT/0,,contentMDK:20267251~menuPK:538760~pagePK:146736~piPK:226340~theSitePK:258644,00.html.

8 See http://www.unisa.ac.za/default.html.

**BOX 3.2: India's Partnership with Africa on e-Health and More**

India is contributing to Africa's development by funding several projects, such as the ambitious Pan-African e-Network Project, for promoting online education and telemedicine programs across the continent. The project's objective is to link major universities and centers of excellence in Africa and India and thereby extend higher education to some 10,000 students in Africa over a five-year period. The project also aims to link major African hospitals to 12 super-specialty hospitals in India to improve medical training, online medical consultations, and other facilities. Under this project, India would connect 53 learning centers, 53 remote hospitals, five regional universities, and five regional hospitals in Africa to seven leading universities in India and 12 super-specialty hospitals via seamless and integrated satellite, fiber optic, and wireless networks. This is by far the largest distance learning and telemedicine project ever undertaken in Africa. A total of 47 African countries have already joined the project, which is now in its second phase.

*Source:* http://www.panafricanenetwork.com/.

5 percent of the projected global mobile health market earnings of US$23 billion).

Although distance learning programs and online education are catching up in the African continent, poorly developed Internet and telecommunications infrastructure still constrains the use of mode 1 in exporting health and education services.

### Students and Patients without Borders: Revitalizing Education and Health Systems in Sub-Saharan Africa

Although information on students studying abroad and patients receiving treatment abroad is partially captured by International Monetary Fund (IMF) Balance of Payments Statistics (BOPS) under expenditure on travel services, the data are patchy, especially for African countries. The limited available data suggest that despite the continent's weak educational systems, several African countries are exporting education and health services (table 3B.1 in annex 3B, and table 3C.1 in annex 3C). However, most African countries remain importers of education and health services (table 3B.2 in annex 3B, and table 3C.2 in annex 3C).

UNESCO provides additional information on students studying abroad. Angola, Mauritius, South Africa, and Uganda are successfully exporting education services, primarily to the region. Burkina Faso, Burundi, Cameroon, and Ghana are

**FIGURE 3.1: Use of Telemedicine in Selected Countries in Sub-Saharan Africa, April–July 2014 (%)**

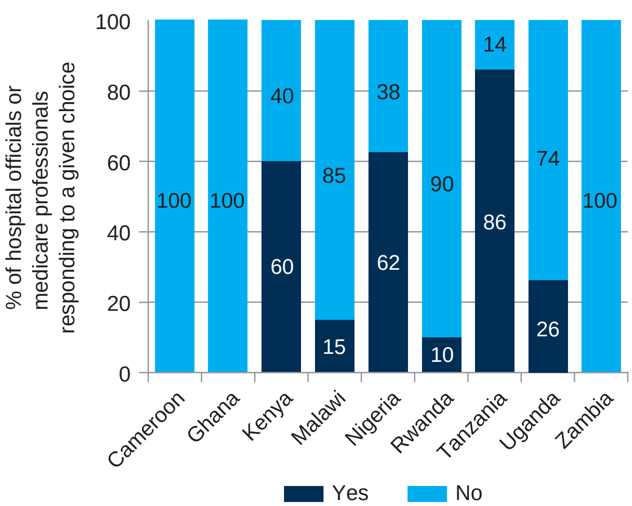
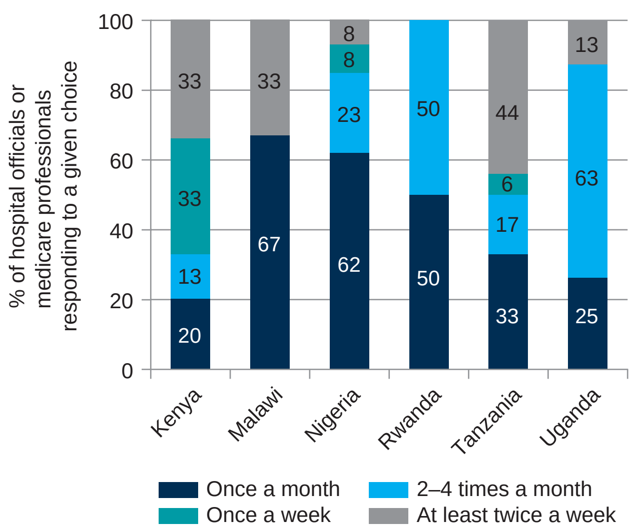


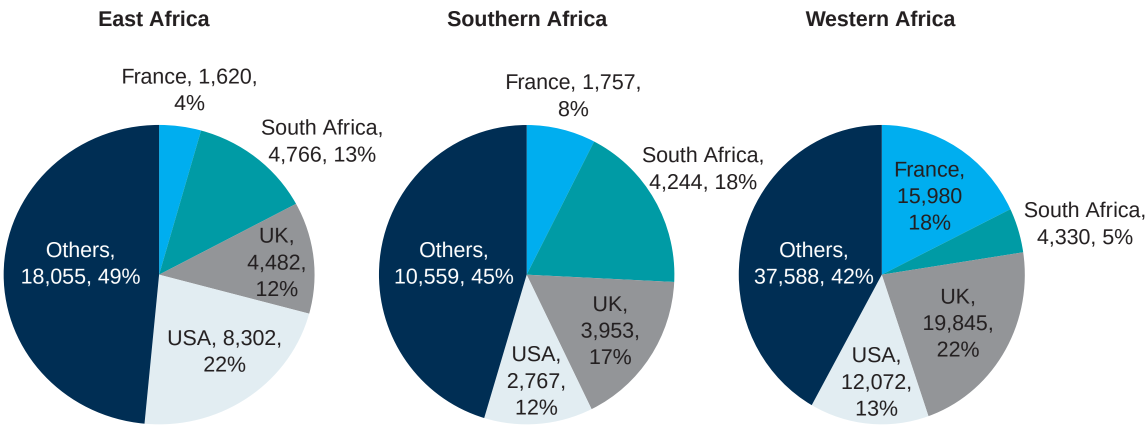

**FIGURE 3.2: Frequency of Use of Telemedicine in Selected Countries in Sub-Saharan Africa, April–July 2014 (%)**




*Source:* Calculations based on the results of the mobile phone surveys described in World Bank 2015.

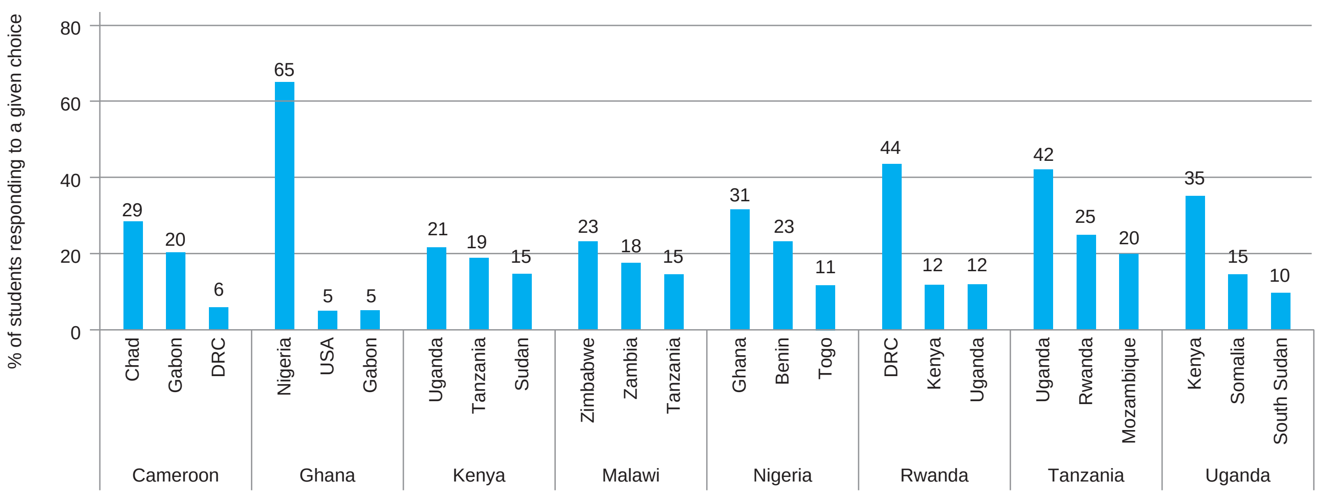
*Note:* Data are compiled from hospital officials or medical professionals responding to choices in the World Bank mobile phone survey.

**FIGURE 3.3: Imports from the Top Four Destinations for Select African Countries, 2011**




*Source:* Data from UNESCO's UIS.Stat (http://data.uis.unesco.org).

**FIGURE 3.4: Top Three Source Countries of Foreign Students in Selected Countries in Sub-Saharan Africa, April–July 2014**




*Source:* World Bank 2015.
*Note:* Data are compiled from students responding to choices in the World Bank mobile phone survey.

also starting to participate in exports of education services.[9] Most African countries are importing education services, either regionally or from high-income countries.

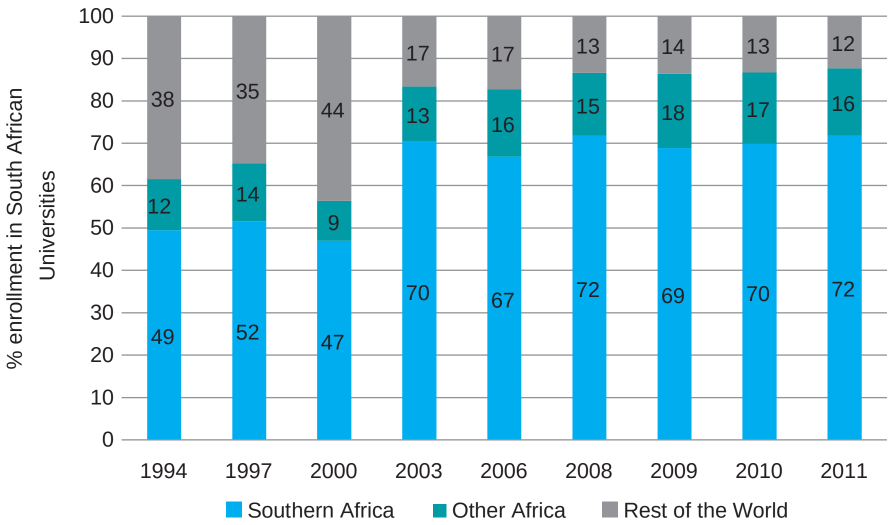
Recent data show that South Africa, the United Kingdom, the United States, and France represent the top destinations for African students who travel abroad for studies (figure 3.3).

The World Bank mobile phone surveys are congruous with the UNESCO data. For Francophone countries, France and Morocco appear to be the most important destinations, while Canada, South Africa, the United Kingdom, and the United States seem to be the dominant destinations for Anglophone countries (figure 3.4). However, the World Bank mobile phone surveys also show that many African countries are importing education services from within the region. The data confirm statistical and anecdotal evidence about the increasing importance of regional trade flows in education services in Africa.

In recent years, Africa has started to diversify its import destinations in education services. For example, in 2000, African students represented only 8 percent of all international

9 UNESCO online database on international student mobility in tertiary education: http://data.uis.unesco.org/.

**FIGURE 3.5:** **Foreign Student Enrollment in South African Universities, 1994–2011 (%)**




*Sources:* South Africa Department of Higher Education and Training for 1994 and 1997 data (http://www.doe.gov.za); UNESCO's UIS.Stat (http://data.uis.unesco.org) for 2000 onward.

students in Malaysia.[10] During the past decade, however, the enrollment of African students increased dramatically to 23 percent of total foreign students in Malaysia in 2011. Of this, Nigerian students account for about 30 percent, followed by students from Botswana, Libya, and Sudan, each representing over 10 percent of African students in Malaysia in 2011.

Up until 2004, Sub-Saharan Africa hosted a negligible number of foreign students in comparison with all other regions of the world. In addition, this small number of foreign students was declining over time (Bashir 2007). South Africa was an exception; the number of foreign students in South African universities grew from about 13,000 in 1994 to nearly 54,000 in 2006, and increased further to more than 70,000 by 2011. Notably, in most years, the share of international students from Southern Africa has been on the rise, reaching 72 percent of South Africa's total foreign student enrollment in 2011. Since 2003, more than two-thirds of foreign students in South Africa were from SADC countries, while 13–17 percent of international students were from the rest of Africa and 14 percent were from the rest of the world (figure 3.5).[11]

According to the most recent data from UNESCO's UIS.Stat, Angola, Burkina Faso, Burundi, Cameroon, Côte d'Ivoire, Ghana, Madagascar, Morocco, Niger, South Africa, and Uganda are among the top education services exporters on the continent, with regional flows dominating these exchanges (table 3.1).

In East Africa, Kenya and Uganda host many African students. Major policy developments in Uganda, such as the Universal Secondary Education initiative and the liberalization reforms of the late 1990s, facilitated active private sector participation in the education sector. The National Council for Higher Education estimates that exports of education services yielded US$36 million in 2010.[12] Othieno and Nampewo (2012) note that foreign student entries in Uganda have been growing at an average rate of about 7 percent annually.[13] International students are mostly found in private universities, with many public universities lacking the capacity to take on international students. For many private universities, the international students market represents a new segment of growing interest.[14] Most of the foreign

10 UNESCO's UIS.Stat (http://data.uis.unesco.org).

11 Zimbabwe is the top source country, accounting for 38 percent of total foreign African students in South Africa in 2011. Other important source countries include Botswana, Democratic Republic of Congo, Lesotho, Namibia, and Swaziland.

12 Uganda is exporting education services via online distance learning institutions (mode 1) as well. Recently, the Uganda National Council for Higher Education NCHE, the statutory regulator for higher education in Uganda, licensed and chartered two virtual universities, the Virtual University of Uganda and the Uganda Technology and Management University (UNCTAD 2013).

13 http://www.studyinuganda.com/index.php?option=com_content&task=view&id=121.

14 Kampala International University leads with 6,715 students, followed by Makerere University (2,444), Bugema University (862), the Islamic University in Uganda (767), the Makerere University Business School (671), and the Busoga University (575).

**TABLE 3.1: Top Education Service–Exporting Countries in Africa, 2010–12**

| Host country | International students | Of which from within Africa | % of within Africa students | Main source countries |
|---|---|---|---|---|
| South Africa | 70428 | 61764 | 87.7 | Botswana, DRC, Lesotho, Namibia, Swaziland, Nigeria, Zimbabwe (about 25k) |
| Uganda | 15035 | n.a. | n.a. | details n.a. at source |
| Ghana | 9132 | 8636 | 94.6 | Nigeria (6000+), Gabon (400+) and Congo (300) and Cote d'lvoire (400+) |
| Morocco | 8694 | 6988 | 80.4 | Mauritania, Guinea, Mali, Niger, Senegal DRC (1300), Cape Verde and Sao Tome and Principe (2000 each) |
| Angola | 6530 | 6530 | 100.0 | |
| Burkina Faso | 2187 | n.a. | n.a. | n.a. |
| Cameroon | 1854 | 1848 | 99.7 | Chad (1300), Congo and Gabon (100+ each) |
| Côte d'Ivoire | 1818 | 1699 | 93.5 | Benin, Burkina Faso, Togo |
| Burundi | 1813 | 1813 | 100.0 | Congo (1000), Rwanda (700) |
| Madagascar | 1432 | 1384 | 96.6 | Comoros (1200+) |
| Niger | 1125 | 1121 | 99.6 | Mali (300) and Nigeria (200+) |

*Source:* UNESCO's UIS.Stat (http://data.uis.unesco.org).

*Note:* Data are for the latest available year (2010 or 2011). Data for Ghana is from 2012.

n.a. = Not available.

students come from neighboring countries, including the Democratic Republic of Congo, Kenya, Rwanda, Sudan, and Tanzania. The EAC and Common Market for Eastern and Southern Africa (COMESA) regions are, thus, Uganda's major education services export markets.[15] Angola and Ghana also host international students. Intraregional student flows are the main source for these exports; African students in both countries represent 100 and 95 percent, respectively, of all international students. The latest UNESCO data suggest that in Ghana, Nigerian students represent 71 percent of all international African students, while in Angola, students from Cape Verde and São Tomé and Príncipe represent 60 percent of total international student enrollments.

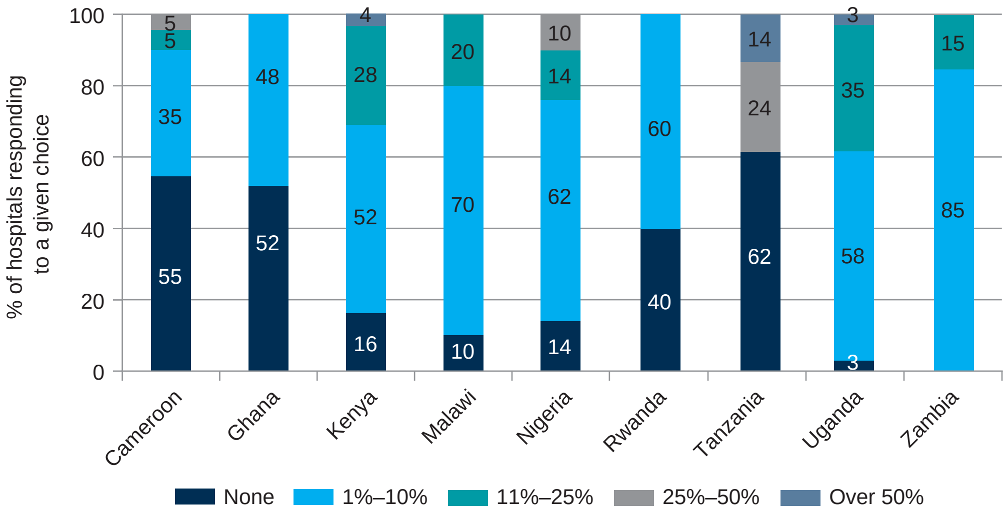
In health services, most African countries remain importers, as patients travel abroad for treatment. Nonetheless, some African countries are exporting health services by treating foreign patients in their home countries. The World Bank mobile phone survey reveals that most responding hospitals in the selected countries do treat foreign patients, with several hospitals in Kenya, Tanzania, and Uganda reporting that foreign patients represent more than 50 percent of their total patients (figure 3.6). Top source countries of foreign patients, in order of importance, are India, Kenya, Uganda, Tanzania, Sudan, Rwanda, China, Somalia, the United States, Nigeria, and Togo.

As with trade in education services, the regional dimension is becoming increasingly important in health services in Africa. For instance, the number of medical tourists in South Africa grew from about 300,000 to more than 500,000 between 2006 and 2009, contributing about US$9 billion in revenue (SAMP 2011). Interestingly, 88 percent of medical visitors over the period 2006–10 originated from the African continent, with Botswana, Lesotho, Mozambique, Swaziland, and Zimbabwe being the top five source countries.[16] Anecdotal evidence suggests that medical tourists in Rwanda and Uganda are mainly from Burundi, Central Africa, and the Democratic Republic of Congo. Some Kenyans seek treatment in Rwanda, given the availability of certain specialists, such as ophthalmologists employed by Dr. Agarwal's Eye

15 Kenya is the most important source of international students in Uganda, contributing over 60 percent of foreign student enrollment at the secondary level and 71 percent of international student enrollment at the university level. Tanzania follows with 16 and 12 percent, respectively. Other source countries include Burundi, Democratic Republic of Congo, Republic of Congo, Rwanda, and Sudan. See Maseruka (2010) and Uganda Bureau of Statistics, Statistics Abstract, 2010, p.113. http://www.ubos.org/onlinefiles/uploads/ubos/pdf%20documents/abstracts/Statistical%20Abstract%202010.pdf.

16 Regional patients mainly seek specialist consultations such as scans, tests, health screenings, cardiac surgeries, orthopedics, cancer treatment, fertility treatments, and oncology.

**FIGURE 3.6:** **Proportion of Foreign Patients Treated by Hospitals in Selected Countries in Sub-Saharan Africa, April–July 2014 (%)**




*Source:* World Bank 2015.

*Note: Data are compiled from hospitals responding to choices in the World Bank mobile phone survey.*

Hospital. In Kenya, most foreign patients are from other EAC member states, with some patients coming from Central Africa and the Democratic Republic of Congo (World Bank 2014 qualitative interviews). Box 3.3 presents some of the strategies for attracting medical travelers within Africa.

## Borderless Hospitals and Campuses: Expanding Access to Foreign Medical and Education Services

Given the large scale of the investments involved in setting up an educational institution abroad, not many African countries are establishing branch campuses in other countries. But several regional tertiary institutions have established satellite campuses in neighboring countries in response to the high demand for services from African students. For example, Kampala International University has affiliates in Kenya and Tanzania (box 3.4), Cavendish University Uganda has Zambian origins, and the Jomo Kenyatta University of Agriculture and Technology has a presence in Rwanda. Kenyan tertiary institutions have been aggressive in their regional expansion. Most affiliates have located in Rwanda because of the ease of doing business and establishing a foreign-based institution in the country.

Evidence of services trade in East Africa is seen in the presence of international higher education institutions with satellite campuses; international high schools teaching foreign curricula; international language schools, usually affiliated with an embassy; and international research institutions in Kenya, Rwanda, and Uganda.

Secondary institutions providing internationally certified programs, such as the Cambridge International General Certificate of Secondary Education, have had great success in the region. Such schools offer international curricula. Initially they targeted members of the international community temporarily working and living in the region, but more recently they have catered to a growing number of local students demanding an international education. The schools offer a variety of curricula depending on the school's orientation, such as an American curriculum, the French system, the Cambridge International General Certificate of Secondary Education, and so on. Growth in student enrollment is driven mainly by referrals and recommendations of other parents and students. Several internationally-based institutions have expanded in the region, such as the Aga Khan Schools in Kenya, Tanzania, and Uganda; the Light Academy with Turkish origin in Kenya and Uganda; and GEMS Cambridge International Schools with Indian and United Arab Emirate ownership in Kenya, Tanzania, and Uganda.

In tertiary education, there are further examples of African countries importing education services via mode 3. For instance, the campuses of several foreign universities—such as Monash University from Australia and Stenden Hogeschool from the Netherlands—have established a presence

### BOX 3.3: Encouraging Medical Tourism within Africa

#### International Medical Group

The International Medical Group (IMG) is a group of health services companies based in Uganda. IMG integrates different healthcare services segments and drives quality in health care service delivery through international certification standards, including International Organization for Standardization (ISO) certification. IMG has developed strategic partnerships with reputable health service providers such as Lancet Laboratories and Resolution Insurance, with presence in Eastern, Central, and Southern Africa. The member companies of IMG include International Hospital Kampala, which mainly treats Ugandan nationals and foreigners residing in Uganda. However, International Hospital Kampala also sees cases of medical tourism from the neighboring countries, including Burundi, the Democratic Republic of Congo, Rwanda, and South Sudan. Part of IMG's success arises from making full use of the insurance companies and having a business model that encompasses the local and international markets.

#### Netcare

Netcare, a hospital investment firm based in South Africa, has developed a network of agents to promote medical tourism through its South African hospitals. The firm makes arrangements for accommodation and recuperative care for medical tourists from African countries. Established centers in Johannesburg assist foreign patients and their families with transport, visas, accommodations, and medical treatment. Netcare employs interpreters that speak English, French, and Portuguese, and clearly targets African patients (Cattaneo 2010).

*Source:* World Bank qualitative surveys in Eastern Africa, 2015.

in South Africa. Other examples include the Lancaster University campus in Ghana, and the campus established by the Limokokwing University from Malaysia in Botswana. The Government of Rwanda has been pursuing innovative partnerships with international institutions that are leaders in technology programs and research. Carnegie Mellon University is the first U.S. Ivy League institution to have a campus in Africa (box 3.5). The Rwandan government has allocated the university space in the newly planned technology hub in Kigali to establish a full campus.

### BOX 3.4: Intra-African Linkages: Kampala International University and Dreamline College, Nairobi

Dreamline College is an affiliate of Uganda-based Kampala International University (KIU). Dreamline College was acquired by KIU in 2008 and was licensed by the Government of Kenya to practice during the same year. Twenty percent of the staff and lecturers are from Burundi and Uganda. The college's curriculum is derived from the KIU curriculum and is accredited by Uganda's National Council for Higher Education. However, for a course to be accredited in Kenya, it has to be vetted and approved by the Commission of Higher Education in Kenya. The college admitted 500 students in 2014; they came from a variety of countries, such as Kenya (45 percent), Somalia (33 percent), Uganda (15 percent), Rwanda (5 percent), and Tanzania (2 percent).

*Source:* World Bank 2014 qualitative interviews.

Health services in Africa offer many commercial opportunities. At this stage, however, trade in medical services via commercial presence in developing countries is limited. Generally, health-directed foreign direct investment (FDI) is controlled by governments and is a politically sensitive issue. The African Development Bank notes that of the total FDI stock, investments in health services accounts for only 0.2 percent in the case of developed countries and only 0.1 percent in the case of developing countries (AfDB 2013). Nevertheless, there are a few examples of foreign hospitals, including from other low- and middle-income countries, supplying health services in Africa (box 3.6).

Other examples of medical institutions that have a footprint in several EAC countries include the Aga Khan Hospital University (with presence in Kenya, Tanzania, and Uganda); health insurance companies such as UAP, Resolution Health, Jubilee Insurance, and Britam insurance, which are present in most EAC countries; and laboratory service providers, such as Lancet South Africa with presence in Kenya and Uganda.

**BOX 3.5: Global Linkages: Carnegie Mellon University in Rwanda**

Carnegie Mellon University, in partnership with the Government of Rwanda, established Carnegie Mellon University in Rwanda in 2012. This is the first U.S.-based research university conferring degrees with an in-country presence in Africa. Carnegie Mellon University has other campus worldwide, including in Australia, Greece, Japan, Portugal, and Qatar, among others. Carnegie Mellon University in Rwanda is open to applicants from all over the world (not only Rwandan students). Currently, the university employs 15 full-time faculty staff and has 44 students. The majority of the students are Rwandan; however, there are some students from neighboring countries, such as Kenya and Uganda.

Carnegie Mellon in Rwanda charges the same tuition as in the United States, approximately US$20,000, and retains the same high entry criteria as for its other campuses worldwide. The Rwandan government supports a scholarship program that provides 50 percent of the tuition fees for Rwandans and East African Community (EAC) residents. Rwandan students, unlike their other EAC counterparts, can access additional government loan programs through the Rwanda Education Board to cover 50 percent of the remaining tuition fees. The stringent admission and qualification criteria and expensive tuition put the university program out of range for the majority of East Africans.

*Source:* World Bank 2014 qualitative interviews.

**BOX 3.6: South-South Linkages: Dr. Agarwal's Eye Hospital in Rwanda**

Rwandans and residents from other African countries have historically been dependent on seeking eye treatment in South Africa, Europe, and other countries such as India. The cost of treatment is high and involves the additional costs of travel and accommodations for the patient and accompanying persons. The Government of Rwanda facilitated the partnership between Dr. Agarwal's Eye Hospital and the Rwanda International Institute of Ophthalmology by providing favorable conditions for obtaining the necessary licenses, business registrations, visas, and work permits.

Dr. Agarwal's Eye Hospital has its headquarters in Chennai State, Southern India. It was established in 1957 and now has a network of 60 hospitals worldwide (including in India, Madagascar, Mauritius, Mozambique, Nigeria, the Seychelles, and the United Kingdom), with more than 350 consultant ophthalmologists. Dr. Agarwal's Eye Hospital in Rwanda was established in 2011 and began operations in 2012. The cost of specialized treatment at the hospital is between US$2,000 and US$3,000 compared with US$10,000 in India or South Africa (including the cost of travel and accommodations). Currently the hospital serves foreign patients from Burundi, the Democratic Republic of Congo, and Uganda. The hospital receives about three patients from Burundi and the Democratic Republic of Congo daily, about one Ugandan patient weekly, and two to three patients from Kenya every quarter. Most foreign patients come for highly specialized surgeries, such as retinal surgery or cornea transplants.

*Source:* World Bank 2014 qualitative interviews.

### Brain Drain or Circulation: Do Educators and Medical Professionals on the Move Exacerbate Africa's Skills Shortages?

Africa also exports education services via the movement of its educators. Examples include Zimbabwean educators who teach in South Africa and Tanzanian Swahili teachers who provide education services in the Democratic Republic of Congo and Uganda. Systematic information on teachers and educators traveling abroad to provide services is largely absent, which prevents analyses of education services exports via mode 4. Because of the lack of reliable data in Africa, recent studies use the receiving countries' teacher registration data to provide an indication of the extent of teacher migration from selected African countries (Bhorat, Meyer, and Mlatsheni 2005; Kok, Gelderblom, and Van Zyl 2006; Morgan, Sives, and Appleton 2005). The latter study suggests that in 2003, 1,492 South Africans held teaching permits in the United Kingdom, or close to 30 percent of teaching permit holders in the country.

South Africa seems to be an equally important importer of education services via the temporary movement of providers, mainly from the region. According to the South African Council of Educators, the intake of foreign teachers in South Africa has increased dramatically, from 1.2 percent of total educator registrations in 2006–07 to 28 percent in 2009–10 (SACE 2011). South Africa attracts teachers primarily from Lesotho and Zimbabwe (Wentzel and Tlabela 2006). In Botswana, nearly 5 percent of all teachers are foreigners (Manik, Maharaj, and Sookrajh 2006). The World Bank interviews conducted as part of this study also reveal that many Kenyan and Ugandan teachers are providing education services in Tanzania, often informally.

In health services, the movement of health providers to supply medical services in the country of the patient (mode 4) seems to be as important as the consumption abroad by domestic patients (mode 2). The migration of health professionals from Africa to other parts of the world has received particular attention, as it is considered an important contributor to Africa's shortage of health workers. For instance, Ratha et al. (2011, chapter 3) show that in 2004 there were about 25,000 Africa-trained physicians in OECD countries, almost one-fourth of the total number of physicians in Africa that year (based on information from Bhargava and Docquier 2008). The migration of African physicians, estimated at between 10 and 15 percent, is much higher than for other African professionals and tertiary educated workers (Docquier and Marfouk 2006). Furthermore, the number of African-trained doctors working in OECD countries rose by 91 percent between 1991 and 2005. By contrast, the increase in the number of Africa-trained physicians working in Africa during the same time frame was comparatively low, at 61 percent.

Many African countries are witnessing the migration of physicians, nurses, and other medical professionals, primarily to Canada, South Africa, the United Kingdom, and the United States.[17] For example, 43 percent of Liberia's and 30 percent of Ghana's trained physicians are providing health services in Canada and the United States (Cattaneo 2010). This figure exceeds 50 percent in Malawi, Tanzania, Zambia, and Zimbabwe (SAMP 2008). Earlier evidence suggests that approximately 200 doctors left Zimbabwe for Botswana and South Africa in 1992 (SAMP 2002). Similarly, a study of 115 emigrant Zimbabwean doctors in 2008 revealed that 36.5 percent of them were based in South Africa, while 3.5 percent were based in other African countries (SAMP 2011). Although the migration of African doctors to OECD countries has historically been perceived as brain drain (see, for example, Chen and Boufford 2005), a recent study by Ozden and Phillips (2015) adds a new dimension to this debate.

Ozden and Phillips (2015) show that of a total of nearly 20,000 "African" doctors in the United States, about 48 percent were not only born in Africa, but also trained in Africa, while 44 percent were born in Africa but trained abroad. The migration of Africa-born and trained doctors varies widely across the continent. For instance, 307 of 374 Sudan-born doctors in the United States were educated in Sudan, but only 52 of 378 Ugandan doctors in the United States were born and trained in Uganda. The authors suggest that the extent of loss of human capital investment in medical education from African countries may have been overstated. In addition, the demand for health workers in Africa largely surpasses the number of African health professionals working in OECD countries. For instance, in 2000 all Africa-born nurses and doctors working in OECD countries represented about 12 percent of the total shortages for the region (OECD 2010). This shows that although international migration may exacerbate the shortages in Africa's medical sector, it is not the main cause of the continent's health human resource crisis. Nevertheless, international and regional cooperation between countries or regional health institutions can help manage migration and enhance the integration in Africa's health workforce.

The regional migration of health professional has been explored by several studies. For instance, it was found that although half of the Cameroonian health professionals intend to migrate, only 4 percent of them think of migrating to other African countries such as CÙte d'Ivoire or Senegal. Similarly, in Senegal, only 2.6 percent of health care practitioners intend to migrate to other African countries. By contrast, in Uganda and Zimbabwe, about 20 percent of health care workers intend to migrate to other African countries (WHO 2004).

Anecdotal evidence suggests that foreign medical professionals have been working temporarily in Kenya, Rwanda, and Uganda on a regular basis. Frequent temporary medical professional trade within these three countries is mostly in areas with acute shortages of medical specialists, such as surgery (including neurological and cardiac surgery), specialist reviews, and second opinion consultations. Movement of medical professionals is also seen in medical camps, short-term research, and teaching assignments.

Given the shortage of health professionals in Africa[18] and their tendency to migrate to high-income countries,

[17] Whether these movements are temporary or permanent is not studied in any detail, so we are not able to comment on the exact volume of exports of health services via mode 4.

[18] For instance, only South Africa and Tunisia have more than 75 physicians per 100,000 people. At the other extreme, Tanzania and Malawi have 1 and 2 physicians per 100,000 people, respectively.

developing incentives for retaining such professionals on the continent is a high-priority issue for most governments.

## Determinants of Trade in Education and Health Services

Typical determinants of trade include differences in endowments, as well as differences in the cost and quality of services and institutions providing the services.

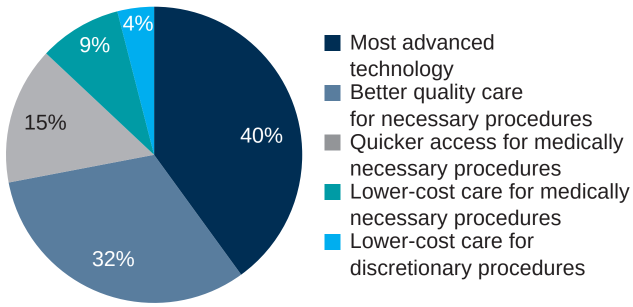
### Cost or Quality: What Matters More?

Many studies show that cost is an important determinant of education and health services trade. For instance, South African institutions of higher learning charge lower fees than high-income nations and have a lower cost of living.[19] In fact, MacGregor (2007) argues that the South African government subsidizes SADC students at par with local students (as per the SADC agreement). This might explain the higher proportion of SADC students in South African universities. Similarly, in the case of Uganda, Othieno and Nampewo (2012) find that on average Ugandan universities charge less for tuition than comparable universities in the region.[20] In health services, the five most important drivers of medical tourism are advanced technology, better care quality, quicker access to care, lower cost of vital procedures, and lower cost for discretionary procedures (McKinsey Global Institute 2008). Quality seems to be more important than cost when it comes to determinants of travel abroad to consume medical services (figure 3.7).

The 2014 World Bank mobile phone survey confirms that universities in several African countries have managed to attract foreign students despite higher costs (figure 3.8).

The data suggest that quality matters when it comes to education services exports. In general, foreign students base the choice of a destination on the quality of education offered. For instance, South African education services exports are based on the quality and size of the higher education sector, which is easily accessible and offers internationally

**FIGURE 3.7: Motivations for Medical Travel Abroad from the United States**




*Source:* McKinsey Global Institute 2008.

recognized qualifications (Hahn 2005). South African universities dominate in the top 10 rankings of universities in the region (table 3.2).[21] And South Africa's 2013–14 Global Competitiveness Index on the quality of education and training is 3.9, only slightly below the United Kingdom's index of 5.5.[22]

Similarly, lower tuition and good university rankings make Uganda much more competitive than other regional partner states (Othieno and Nampewo 2012).

In health services, the findings of the 2014 World Bank mobile phone survey show that in several cases domestic patients from the surveyed countries pay more for treatment received abroad than do foreign patients undergoing treatment in the selected countries (figures 3.9 and 3.10). Again, this may suggest that the cost of medical services is not the decisive factor for trade in health services.

Although differences in the quality of services may explain this outcome, the non-availability of certain specialized cures (within the broader treatment category) could be an additional explanatory factor (figure 3.11).

Differences in government expenditure in the health sector, size of the health services infrastructure, and diversity

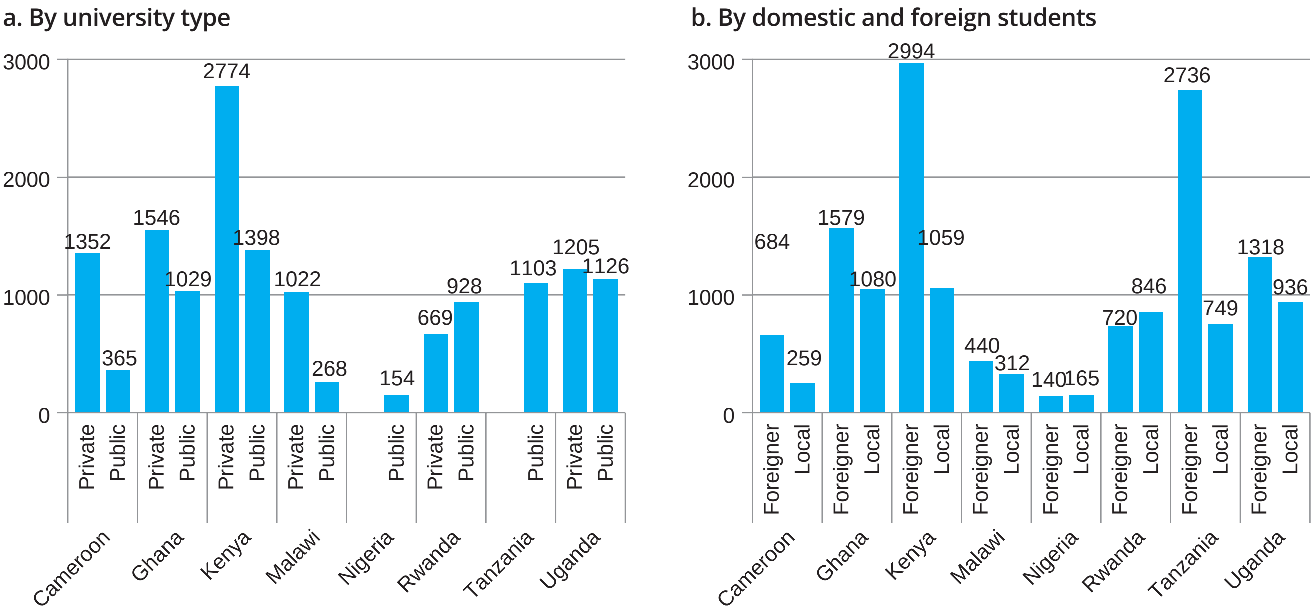
19 http://www.studysa.

20 The tuition per year for a Bachelor of Commerce (BCOM) is about US$1,464—well below fees for a similar program in major universities in other EAC partner states. Similarly, Makerere University charges the lowest tuition for surgery and medicine courses (US$1,977 per year) and agriculture and food science (US$ 1,971 per year). Compare this to US$2,208 per year charged by the National University of Rwanda, and US$5,042 per year at the University of Nairobi for Surgery and Medicine.

21 Additionally, South Africa has set up the South African Qualifications Authority (SAQA) board, which helps in attaining internationally recognized qualifications. In South Africa, staff at most universities are offered attractive research incentives for promoting better-quality teaching and education (Kwaramba 2009).

22 The Global Competitiveness Indicator derived from the following indicators: (a) Secondary enrollment, (b) Tertiary enrollment, (c) Quality of the educational system, (d) Quality of math and science education, (e) Quality of management schools, (f) Internet access in schools, (g) Local availability of research and training services, and (h) Extent of staff training. The 2013–14 report is available at http://www3.weforum.org/docs/WEF_GlobalCompetitiveness Report_2013-14.pdf.

**FIGURE 3.8:** Cost of University Tuition in Sub-Saharan Africa, 2014 (US$)




*Source:* World Bank 2015.

**TABLE 3.2:** Top 10 Ranked Universities in Africa, 2009

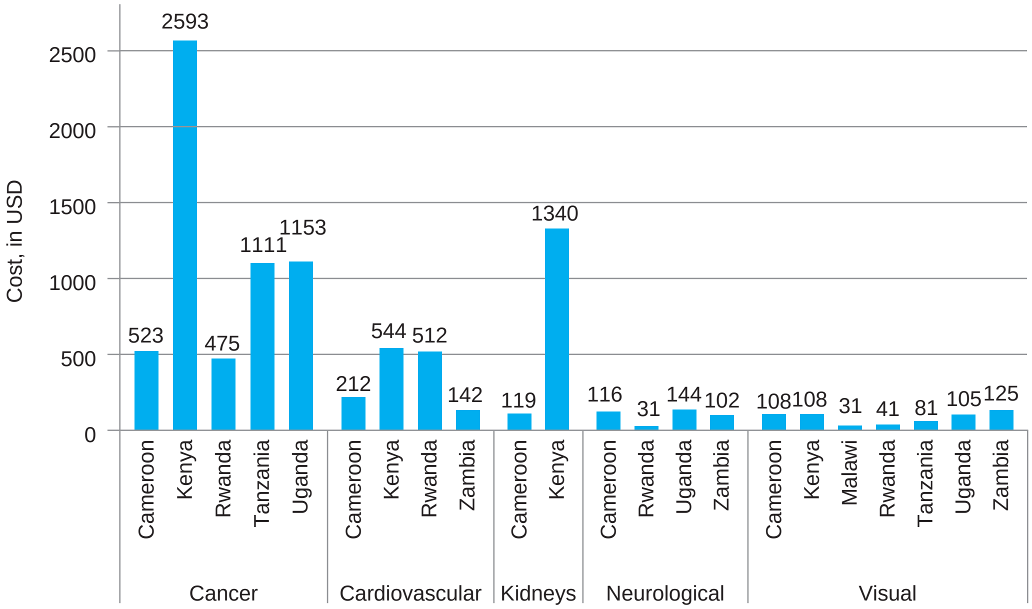
| University | Country | African ranking | World ranking |
|---|---|---|---|
| University of Cape Town | South Africa | 1 | 398 |
| University of Stellenbosch | South Africa | 2 | 566 |
| University of Pretoria | South Africa | 3 | 718 |
| University of Witwatersrand | South Africa | 4 | 720 |
| Rhodes University | South Africa | 5 | 738 |
| University of South Africa | South Africa | 6 | 1449 |
| University of Western Cape | South Africa | 7 | 1553 |
| America University of Cairo | Egypt, Arab Rep. | 8 | 1826 |
| North West University | South Africa | 9 | 1857 |
| University of KwaZulu Natal | South Africa | 10 | 2214 |

*Source:* Marko (2009).

of services determine the extent of intra-African trade in health services. Other drivers include the cost and quality of services, availability of state-of-the-art equipment, and availability of specialists. Specifically, drivers of medical tourism in the region include the recognition of transnational disease patterns, growing patient mobility (facilitated by low-cost airlines and advances in information technology), and growing development of the industry. Other drivers of medical tourism in the region include lack of local specialist health services (such as facilities and specialist consultants), and cheaper regional travel and accommodations compared with travel to Asia, Europe, or the Americas. The costs of specialist procedures in Africa are comparable to costs in India; however, the cost of travel and accommodations is higher.[23]

[23] For example, the cost of eye surgery in India and Rwanda is about US$2,500 per treatment; but including the cost of travel and accommodation, a patient that sought treatment in India would spend close to US$10,000.

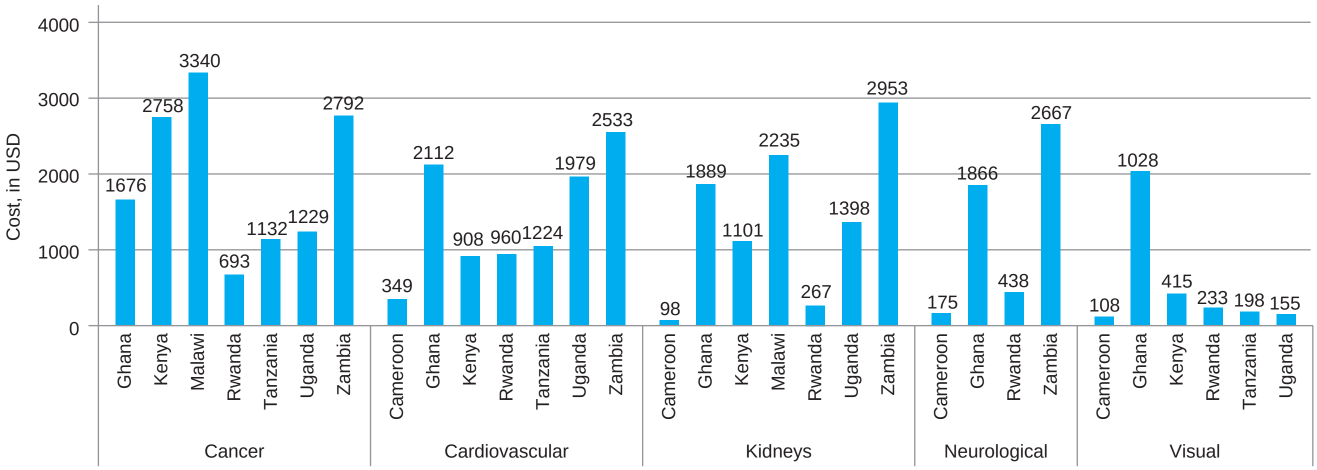
**FIGURE 3.9:** Cost of Treatment Received by Foreigners in Selected Countries in Sub-Saharan Africa, April–July 2014 (US$)




*Source:* World Bank 2015.

*Note:* Data are compiled from foreign patients responding to the World Bank mobile phone survey.

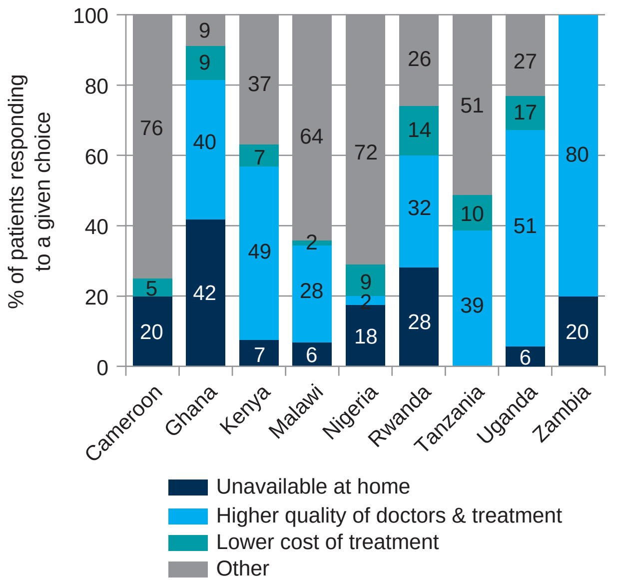
**FIGURE 3.10:** Cost of Treatment Received by Patients Abroad in Selected Countries in Sub-Saharan Africa, April–July 2014 (US$)




*Source:* World Bank 2015.

*Note:* Data are compiled from patients responding to the World Bank mobile phone survey.

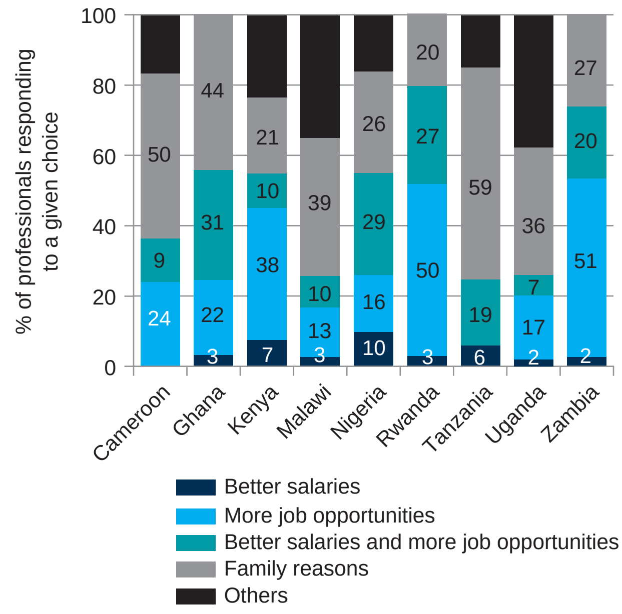
**FIGURE 3.11:** Reasons Domestic Patients Seek Treatment Abroad in Selected Countries in Sub-Saharan Africa, April–July 2014 (%)




*Source:* World Bank 2015.

*Note:* Data are compiled from patients responding to choices in the World Bank mobile phone survey.

**FIGURE 3.12:** Reasons for Medical Professionals Working Abroad in Selected Countries in Sub-Saharan Africa, April–July 2014




*Source:* World Bank 2015.

*Note:* Data are compiled from medical professionals responding to choices in the World Bank mobile phone survey.

## Geography, Language, and Cultural Proximity: Can They Support the Regional Advantage?

Geographical proximity and language similarity play an important role in attracting foreign students and patients. For example, Lesotho, Namibia, and Zimbabwe are the largest source countries for South Africa's education services exports because of their geographical proximity, or their shared colonial relationship and history. The country's universities use English as the primary language of instruction, which helps attract students from several Anglophone African countries.

Similarly, in East Africa, most foreign students come from the subregion. During the colonial era, most universities were established to serve the region. For example, Makerere University (formerly known as the University of East Africa) was established to train students from Kenya, Tanzania, and Uganda. After independence, the remnants of the colonial education system were still prevalent and several universities were renowned for excellence in differing fields. For instance, many leading legal sector professionals in the region attended the University of Dar es Salaam; the University of Nairobi was known for the quality of its courses in economics and engineering; and Makerere University had a leading role in producing medical professionals.

The proximity of providers is equally important in health services. For instance, the contribution of Algeria and Libya to Tunisian exports of health services amounted to 70 percent of the country's total health services exports (AfDB 2013). Eighty-seven percent of medical tourists in Jordan are from neighboring countries, and in Thailand, 89 percent of the foreign patients treated in 2002 were local expatriates or Asian nationals (Lautier 2008). In the same decade, the volume of foreign patients arriving from neighboring countries was similar for Singapore (84 percent), the United Kingdom (61 percent), and Germany (88 percent) (Lautier 2005; Mortensen 2008; Obermaier 2009).

## What Explains Mobility in Education and Health Services?

The push and pull factors that drive the migration of African education and health professionals broadly mirror those that apply to highly skilled workers in general. Such factors include inadequate remuneration in the home country, the desire to work in better educational or managed health systems and to continue education and training, and family reasons. These encourage African teachers and health care professionals to seek employment abroad, leading to trade through temporary presence (mode 4) or to permanent migration. The 2014 World Bank mobile phone survey reveals that family reasons are equally if not more important than other factors for the mobility of African health professionals (figure 3.12). Additional pull factors, such as shortages of doctors and nurses in the host countries, further encourage the outflow of African health professionals.

Two key points emerge from this overview. First, the available data, including the results from the World Bank mobile phone survey on trade in education and health services, as well as anecdotal evidence, highlight the importance of regional trade flows. Furthermore, the data suggest that the cost is not decisive; rather, the availability and the quality of services seem to be more important for trade in health and education services than other types of services.

## Regulatory Hurdles and Explicit Trade Barriers Affecting Trade in Education and Health Services

The information on the determinants of trade presented in the previous section is complemented in this section by a more systematic discussion of domestic regulations and explicit trade barriers that affect trade in education and health services. Concrete examples and policy recommendations based on regulatory surveys carried out in four East African countries round up this regulatory analysis.

### Domestic Regulations

Education and health services have traditionally been subject to a high degree of regulation aimed at addressing information asymmetries between patients and doctors, negative externalities generated by skills shortages and skills mismatches, and concerns related to access to medical services. The typical regulatory measures in the health sector are put in place to (i) ensure the quality of services, (ii) minimize brain drain, and (iii) pursue equity.

#### *Ensuring Quality*

A major concern in the education and the health sectors is the need to ensure that services meet a minimum standard of quality to protect the interests of the consumers (the students or the patients) and the integrity of the providers (the education system or the medical institutions). In general, quality assurance and accreditation mechanisms are put in place to achieve such objectives. The mutual recognition of qualifications plays an important role in addressing quality issues related to trade in education and health services. Regional accreditation bodies can perform a critical role in setting standards and maintaining quality. There are several subregional networks for quality assurance in Africa. These include the African and Malagasy Council for Higher Education (CAMES), the Inter-University Council of East Africa, SADC, the Southern African Regional Universities Association, the Higher Education Quality Management Initiative for Southern Africa, and the Association of African Universities.[24] Furthermore, policy makers could also refer to the tools and best practices provided by international agencies, such as UNESCO (UNESCO 2006). These guidelines are helpful in assessing the quality and relevance of higher education provided across borders and to protect students and other stakeholders such as governments, education institutions, quality assurance and accreditation bodies, academic recognition bodies, and professional bodies.

Trade in education and health services can help ensure that demand is better satisfied and financial resources become available to improve the quality of the institutions providing such services. However, increased trade, particularly through modes 1 and 3, can also accentuate the potential quality risks in both sectors. For example, in education services, existing national frameworks for quality assurance or accreditation in higher education often focus exclusively on service provided by domestic institutions. Such frameworks are inadequately prepared to address new challenges from trade and the private provision of services.[25] Furthermore, many African countries would have difficulty developing and implementing appropriate quality standards or accreditation and recognition mechanisms that (i) ensure that patients and students remain protected from fraudulent or poor quality providers, and (ii) reassure international providers that the standards and mechanisms are based on objective criteria and adequate verification procedures. Finally, given that health- and education-related quality criteria differ across countries, the resulting diversity in quality assurance and accreditation systems across the continent further complicates the matter.[26]

24 See Materu (2007) for more details.

25 Because distance learning programs can easily escape the purview of quality assurance agencies (CHEA 2002), there is a greater need for cooperation with international and other accrediting agencies in such programs.

26 Materu (2007) documents some of the pilot audits and accreditation reviews undertaken by South Africa and Egypt. These pilots have proved to be very helpful in simplifying procedures and identifying standards and criteria that were too complicated or redundant.

### *Minimizing Brain Drain*

The benefits from trade in education and health services can be offset by the permanent emigration of students or health professionals. This represents a significant loss of investment in African sending countries. Governments have used various policies to encourage students or health professionals to return to their home countries, with varying degrees of success. Some countries have tried restrictive policies, such as compulsory national service, to render migration more difficult. These policies have not proven very effective, since they represent only temporary deterrents for migration. Another dimension is the development of policies and incentives for the return of highly qualified migrants, including international students and health professionals. This approach requires a combination of better economic conditions at home, along with improved university and health facilities.

Several developing countries have attempted to incentivize the return of qualified migrants through the use of policies, such as tax rules on remittances, which foster inward investment and research and development. Other measures include setting up knowledge networks among skilled expatriates linked to their country of origin, with the aim of mobilizing their knowledge and expertise for the development of their country without physically relocating. Such initiatives implemented at the national and/or the regional level can create new incentives for retaining the scarce skilled professionals on the continent. For instance, diaspora networks, such as the South African Network of Skills Abroad, which is comprised of members residing in 68 countries, have been successful in offering training to their counterparts in South Africa; helping them conduct research; transmitting information and research not accessible in South Africa; facilitating business contacts; transferring technology to South African institutions, and so on (Mutume 2003).

### *Pursuing Equity*

Trade in education and health services can intensify the existing inequity of education and health systems in Africa, given that foreign services tend to be more expensive than domestic ones. So-called *affirmative action* and various forms of financial aid from the public and private sectors are the two most popular mechanisms for reducing access disparities in tertiary education (World Bank 2002). Therefore, our regulatory analysis examines existing mechanisms to guarantee the necessary support to low-income or disadvantaged (for racial, religious, or gender-related reasons) patients and students unable to meet the cost of education or health services. We examine funding arrangements for poor students; the relationship between the cost of medical treatment and individuals' contribution, including rules and practices governing the reimbursement of patients under various insurance schemes that affect insurance portability; and the ability of patients to consume medical services. These regulations will be examined in conjunction with the trade policy measures applied in the medical and education sectors.

## Explicit Trade Barriers

Typical barriers on mode 1 are restrictions on the electronic transmission of educational materials or medical services/telediagnosis, restrictions on the types of courses or treatments that may be offered, quotas or economic needs tests in place that restrict the number of suppliers of education and health services, restrictions on payments and transfers of funds abroad, and local accreditation and recognition requirements. Trade in education and health services via mode 2 is usually constrained by barriers imposed by home and host countries on the mobility of students and patients, and restrictions on the portability of scholarships or medical insurance schemes. For example, many home countries require exit visas or impose foreign currency controls in the home country. In addition, there might be limitations concerning the coverage by public medical insurance schemes of service provided abroad. Further, foreign degrees obtained abroad might not be recognized in the students' home country.

For mode 3, there are limitations on the numbers of permitted suppliers of education and health services and their legal form (including joint venture requirements), foreign equity capital limits, and discriminatory tax/fiscal measures. Burdensome immigration requirements, quotas on numbers of service suppliers, nationality or residence requirements, and labor market tests (horizontal measures or specific restrictions that apply to education and health professionals traveling across national borders to provide services) often impede trade in health services via mode 4.

## Addressing Regulatory Hurdles and Trade Barriers: A Case Study of East Africa[27]

To maintain a certain level of quality in education and medical services, all the examined East African countries impose qualification and academic degree requirements for

27 Regulatory surveys were carried out in Kenya, Rwanda, Tanzania, and Uganda between May and September 2014.

practitioners in these fields. For example, Kenya, Rwanda, and Uganda require that all doctors possess a university degree to be able to practice. Doctors are also required to have completed one year of internship before becoming a full member of the medical profession. Nurses do not need a degree, but require a certificate or a diploma with mandatory practical training and a minimum set of subjects to practice as a nurse. Similarly, in education services, teaching at higher education institutions in Kenya, Rwanda, Tanzania, and Uganda requires at a minimum a master's degree from an accredited university and some work experience. For teachers at the secondary and primary levels, a degree is not required to practice.

The training program curricula for teachers, professors, nurses, and doctors are determined by the relevant government education bodies. Professional associations assist in the development of programs by articulating the current skills needed by employers and making recommendations to the relevant government bodies.

The ministries of education are responsible for the overall delivery of each country's national development mandate with regard to education. Within each ministry, statutory bodies are responsible for implementation of government strategies and policies in education. They ensure that standards and quality are met and maintained. Kenya and Uganda have different government bodies covering primary and secondary education levels and the higher education level. Rwanda does not have standalone institutions responsible for service delivery in education like Kenya and Uganda. Instead, the Rwanda Education Board oversees overall sector regulation and the implementation of education sector policies. Professional qualifications obtained outside the respective jurisdictions are recognized in the examined countries. At the higher education level, the university or college is responsible for vetting the qualifications of foreign-trained professors and lecturers and ensuring they meet the country's equivalency standards.

In medical services, the curriculum for continuous professional education in all the three countries is solely determined by the medical boards and nurses' councils. The nurses' councils in each country are responsible for developing and administering continuous professional education for nurses. For doctors to be licensed and registered, continuous professional education is mandatory in all the examined countries.

Furthermore, doctors and nurses in the examined countries must be licensed by the mandated medical board before being permitted to practice. The same also applies to medical service institutions. The licenses are conferred by the respective medical and dental practitioners' boards/councils and the nursing councils. These institutions are mandated by government to register practitioners, set standards, administer and monitor continuous professional education, and enforce compliance and discipline. In education services, the licensing of teachers is handled by teachers' service commissions in Kenya and Uganda. In Rwanda, teacher licensing and regulation are the responsibility of the Department of Teacher Education, Management, and Professionalization under the Rwanda Education Board. In Kenya, teachers in the public sector are required to undergo a nine-month practical training course before being licensed.

When it comes to domestic regulation affecting the operations of educational and medical institutions and professionals, we find that education services seem to be subject to fewer implicit restrictions related to price controls, advertisement prohibitions, or stringent standards compared with medical services.

Certain countries seem to impose more severe restrictions in both sectors. For instance, although most countries do not regulate the prices and fees for educational or medical professionals, the Tanzanian government imposes binding minimum prices for all health services based on cost sharing and binding maximum prices for all service provided by private practitioners. Similarly, the Government of Tanzania established a unit cost for higher education to guide fee setting. It is also working on unit costs for secondary education. Currently, school fees are set by schools, confirmed by school boards/committees, and approved by regional education officers. Tanzania also regulates advertising by medical professionals and hospitals through regulatory bodies (such as the Private Health Facilities Advisory Board) by imposing restrictions on the nature of advertisements as well as the content and location of billboards. Uganda has similar restrictions on advertisements by medical professionals and hospitals. Lastly, all the countries impose stringent standards to ensure high quality of medical services.

Even when it comes to explicit trade barriers, education services, across most modes, are less restricted than those in medical services. For instance, in most cases, the qualifications obtained by students via distance learning (mode 1) or through study abroad (mode 2) are recognized by all the surveyed countries. In Tanzania, however, the certificates need to be approved by the Tanzania Commission for Universities (table 3.3).

By contrast, in health services, there seem to be stringent restrictions on telemedicine (mode 1) or medical tourism (mode 2) in all the examined countries. Although a domestic resident hospital/individual can obtain medical services directly from a foreign professional/hospital located outside their country, the insurance policy limits coverage if diagnosis and medical services are provided on a cross-border basis. All surveyed countries have special restrictions on importing medical services via mode 1 or 2. For example, in Kenya the insurance needs to have a regional footprint, and special provisions also apply on the type of ailment that restrict the services and level of coverage. Similarly, in Tanzania there are restrictions on referral cases facilitated by the government (table 3.4).

Trade in education services via branch campuses of foreign universities (mode 3) seems relatively open in East Africa. Not only are foreign universities allowed to set up branch campuses, but also there are no limits on ownership shares, or on the legal form of higher education institutions. In none of the surveyed countries is the management or the board of directors of a foreign university required to include locals or residents of the host country. Unlike medical services, foreign professors and lecturers who are not locally licensed or practicing under a limited license are permitted, although not required, to engage in commercial association with fully licensed professors (lecturers to undertake education work). Moreover, there are no restrictions on repatriation of earnings by foreign educational institutions or on franchise and twinning arrangements, in which the education program is offered through a local partner without requiring a "bricks and mortar" investment by the foreign institution. Finally, there are no limits on financial assistance or loans for students at foreign educational institutions or on the student population that can be enrolled in such institutions. In most cases, except in Tanzania where the certificates need to be approved by the Tanzania Commission for Universities, there are no restrictions on recognizing diplomas/degrees provided by foreign educational institutions (table 3.5).

There are significant restrictions on imports of medical services via the establishment of foreign hospitals (mode 3). Although a foreign medical service provider can enter and establish a commercial presence in an East African country, several restrictions hinder the complete integration of such services. For example, there are restrictions on the legal forms of entry of hospitals in countries such as Tanzania and Uganda. In Tanzania, only limited liability partnerships and corporations (private limited liability companies) are allowed for foreign hospitals, while in Uganda domestic and foreign hospitals are allowed only as sole proprietorships or corporations (private limited liability companies). Furthermore, Tanzania and Uganda issue only a temporary license for foreign hospitals. Tanzania has additional restrictions on the management of foreign hospitals, whereby only fully registered local doctors can take over the position of a medical officer in charge. The country also limits the number of beds a hospital can have, depending on the type of health facility. In none of the surveyed countries are foreign doctors with foreign degrees permitted to engage in

**TABLE 3.3: Regulations Affecting Distance Learning (Mode 1)**

| Regulation | Kenya | Rwanda | Tanzania | Uganda |
|---|---|---|---|---|
| Need to demonstrate the lack of domestic availability? | Yes | No | No | No |
| Qualifications obtained through distance learning recognized? | Yes | Yes | No | Yes |
| Restrictions on the content and/or duration of permitted programs? | No | No | n.a | No |
| Local accreditation and recognition requirements? | Yes | Yes | Yes | Yes |

*Source:* World Bank Regulatory Surveys, 2014.

**TABLE 3.4: Regulations Affecting Telemedicine (Mode 1)**

| Regulation | Kenya | Rwanda | Tanzania | Uganda |
|---|---|---|---|---|
| Allowed to obtain services from a foreign professional/hospital? | Yes | Yes | Yes | Yes |
| Need to demonstrate the lack of domestic availability | No | No | No[a] | No |
| Limits on insurance policy coverage | Yes | Yes | Yes | Yes |
| Restrictions on the range of services | Yes | Yes | Yes | Yes |

*Source:* World Bank Regulatory Surveys, 2014.

[a] *indicates that some restrictions apply.*

**TABLE 3.5: Regulations Affecting the Establishment of Universities Abroad (Mode 3)**

| Regulation | Kenya | Rwanda | Tanzania | Uganda |
|---|---|---|---|---|
| Foreign commercial presence of universities allowed? | Yes | Yes | Yes | Yes |
| Limits on the numbers suppliers, legal form, equity capital | No | No | No | No |
| Restrictions on the legal form of higher education institutions? | – | No | No | No |
| All the types of legal entities allowed as for domestic institutions | Yes | Yes | Yes | Yes |
| Nationality requirements on staff, number of students | No | No | No | No |
| Restrictions on branch campuses/different regulatory frameworks? | No | No | No | No |
| Limits on ownership/control for non-licensed professionals | No | No | n.a. | No |
| Non locally-licensed allowed to engage in commercial association with fully licensed professors, lecturers to undertake education work? | Yes[a] | Yes[a] | n.a. | Yes[a] |
| Requirements regarding the composition of the board of directors? | No | No | n.a. | No |
| Requirements regarding the management? | No | No | n.a. | No |
| Restricted from providing services to a few groups? | No | No | n.a. | No |
| Restrictions on the repatriation of earnings? | No | No | No | No |
| Restrictions on franchise? | No | No | No | No |
| Limit on financial loans for students at foreign educational institutions? | No | No | No | No |
| Restrictions on the student population that can be enrolled? | No | No | No | No |
| Restriction on recognizing diplomas/degrees provided? | No | No | No | No |

*Source:* World Bank Regulatory Surveys, 2014.

*Note:* n.a.= not available.

[a] Permitted, but not required.

commercial associations with fully licensed health professionals to undertake medical work (table 3.6).

For repatriation of earnings, the policies vary across the examined countries. In Kenya, repatriation of capital and profits is allowed after payment of the relevant taxes. In Uganda, the institution is required to attain approval from the Bank of Uganda to repatriate profits and dividends. In Rwanda, institutions that fulfill the requirements on investment promotion are eligible for tax-free repatriation of profits. There do not seem to be any restrictions on the range of services that a foreign hospital can provide or the use of public medical insurance in foreign hospitals. In general, there are no limits on ownership or control of a foreign medical institution by medical professionals (individuals) who are not even licensed to practice in the host country.

Trade in education and medical services via the temporary movement of people (mode 4) seems to be more restricted than other modes of supply. In general, a medical professional needs to fulfill stringent academic and professional qualifications to be eligible to practice in his or her own country, but these requirements multiply many fold in a foreign country, because of the many regulations. First, access to the medical profession is strongly regulated through compulsory licenses issued at the national or subnational level. For instance, in Tanzania, a foreign medical professional who is licensed to practice in a foreign country cannot enter the country temporarily to provide medical services. A local license needs to be obtained before beginning to even apply for a work permit and visa. The duration of the license is one calendar year for the examined countries. However,

**TABLE 3.6: Regulations Affecting the Establishment of Hospitals Abroad (Mode 3)**

| Regulation | Kenya | Rwanda | Tanzania | Uganda |
|---|---|---|---|---|
| Foreign commercial presence of hospitals allowed? | Yes | Yes | Yes | Yes |
| Limits on the number of suppliers, legal form, equity capital? | No | No | Yes[a] | Yes[a] |
| All the types of legal entities allowed as for domestic hospitals? | Yes | Yes | No[a] | Yes[a] |
| Nationality requirements on staff, number of patients? | No | No | Yes[a] | Yes[a] |
| Limits on ownership/control for non-licensed professionals? | No | No | Yes[a] | No |
| Non-locally-licensed allowed to engage in commercial association with fully licensed professors, lecturers to undertake medical work? | No | No | No | No |
| Requirements regarding the composition of the board of directors? | No | No | No | No |
| Requirements regarding the management? | No | No | Yes[a] | No |
| Restrictions on the repatriation of earnings? | No | No | No | No |
| Limit on the number of beds? | No | No | Yes[a] | No |
| Restrictions on the range of services? | No | No | No | No |

*Source:* World Bank Regulatory Surveys, 2014.

[a] Some restrictions apply.

there are efforts to change the license duration for foreign doctors from one year to the intended duration of stay in the country. For instance, if a doctor is in the country for a five-day medical camp, then the doctor is granted a license for five days, not one year (table 3.7).

The cost of a host country's license is often higher for a foreigner than for nationals. In fact, in Tanzania and Uganda, foreign doctors are issued only a temporary license, while nationals can be issued a license of three years for nurses and midwives and one year for doctors.[28] Although licenses from other jurisdictions are recognized unilaterally in Kenya and Uganda and preferentially in Rwanda for the EAC member states, language is a big constraint. English and the national language are most often requirements to obtain a full license. In Tanzania, the restrictions are most stringent, as foreign licenses are not recognized and local licenses are not easily attainable. Permanent residency or citizenship is required for obtaining a Tanzanian license for nurses, midwives, and doctors.

Movement of educators across borders in East Africa is slightly more liberal as far as licensing regulations are concerned, especially compared with regulations for medical professionals. Unlike the health services sector, access to the education profession is not regulated through compulsory licenses or registration issued at the national or subnational level. There are no nationality, language, or residency requirements for obtaining an educator's license in any of the surveyed countries in East Africa. However, Tanzania does not recognize licenses obtained in any foreign jurisdictions, while Kenya, Rwanda, and Uganda recognize licenses preferentially for EAC member states (table 3.8).

Most visa and immigration procedures are similar across the two examined sectors. Burdensome immigration requirements, visa regulations, and restrictions on work permits are typical barriers that hamper the movement of educational and medical professionals within Africa. Countries such as Kenya and Uganda issue visas and work permits for a period of 90 days. The cost of a visa in East Africa varies significantly across countries. Rwanda issues a one-year work visa with no additional requirements to obtain a work permit at US$83, while Tanzania issues a two-year work visa at US$550. Educational and medical professionals also need to obtain a work permit to practice in Kenya and Uganda,

28 Plans are underway to have licenses issued in accordance with the requirement—for example, a five-day license for a five-day medical camp.

**TABLE 3.7: Regulations Affecting the Temporary Movement of Health Professionals (Mode 4)**

| Regulation | Kenya | Rwanda | Tanzania | Uganda |
|---|---|---|---|---|
| Requirements besides academic qualifications? | Yes | Yes | Yes | Yes |
| Practical training requirements? (months) | Yes (12) | Yes (12) | Yes (12) | Yes (12) |
| Foreign licensed professional temporarily allowed to practice? | Yes; with visa & work permit | Yes | No | Yes; temporary license |
| Is there a minimum wage/salary or wage parity requirement? | No | No | No | No |
| Burdensome immigration requirements? (initial limit, in months) | 3 | 12 | 24 | 3 |
| Burdensome labor market tests? | Yes | No | No | No |
| Quotas or limits on the number of candidates? | No | No | No | No |
| Foreign academic qualifications/licenses recognized? | Yes[a] | Yes[a] | Yes[a] | No |

*Source:* World Bank Regulatory Surveys, 2014.

[a] Preferential recognition to East African Community member states and unilateral recognition.

**TABLE 3.8: Regulations Affecting the Temporary Movement of Education Professionals (Mode 4)**

| Regulation | Kenya | Rwanda | Tanzania | Uganda |
|---|---|---|---|---|
| Foreign licensed professional temporarily allowed to practice? | Yes | Yes | Yes | Yes |
| Minimum wage/salary or wage parity requirement? | No | No | No | No |
| Burdensome immigration requirements? (initial limit, months) | 3 | 12 | 24 | 3 |
| Quotas or limits on the number of candidates? | No | No | No | No |
| Burdensome nationality or residence requirements? | No | No | No | No |
| Burdensome labor market tests? | No | No | No | No |
| Burdensome horizontal restrictions specific to educators? | No | No | No | Yes, experience requirements (2 yrs. for lecturer; 10 for prof.) |
| Foreign academic qualifications/licenses recognized? | Yes[a] | Yes[a], but test required | Unilateral Recognition | Yes[a] |

*Source:* World Bank Regulatory Surveys, 2014.

[a] Preferential recognition to East African Community member states and unilateral recognition.

which imposes an additional cost. These work permits cost US$114 in Kenya and US$75 in Uganda. Kenya and Uganda issue a work permit for a three-month period only. Although visas and work permits for educators and medical professionals are renewable, they impose large, recurring fixed costs (table 3.9).

Kenya and Tanzania impose—and labor market and economic needs tests before hiring educators from abroad. Given the short duration for visas and work permits and the high cost of getting an entry visa (and renewal), these restrictions may critically limit trade in education services. Further, academic and professional qualifications are not automatically recognized; but there is preferential recognition of degrees obtained from other EAC member states only. In Tanzania, academic and professional qualifications are recognized only unilaterally according to a codified process based on substantive criteria.

On the positive side, none of the surveyed countries, except Kenya, requires a labor market test or an economic needs test prior to hiring a medical professional. There seem to be no quotas or limits on the number of candidates that can be admitted at professional examinations. The practical training and internship requirements are the same for foreign and domestic medical professionals, although it takes

**TABLE 3.9: Regulations of Visas and Immigration Requirements Affecting Education and Health Professionals**

| Regulation | Kenya | Rwanda | Tanzania | Uganda |
|---|---|---|---|---|
| Cost of obtaining the visa (US$) | 50 (single); 100 (multiple) | 83 | 550 | 130 (multiple) |
| Initial length of validity of a work permit (months) | 3 | 12 | 24 | 3 |
| Average processing time for a visa application (days) | 30 | 2 | 7–21 | 3–5 |
| Renewal of a visa permitted? | Yes | Yes | Yes | Yes |
| Renewal of a work permit permitted? | Yes | Yes | Yes | Yes |
| Switching employers allowed? | No | No | Yes[a] | No |
| Explicit work permit application fees (US$) | 114 | 0 | 550 | 75 |
| Average processing time for a work permit (days) | n.a | x | 7–21 | 30 |

*Source:* World Bank Regulatory Surveys, 2014.

*Note:* n.a. = not available.

[a] With notification to the Commissioner of Immigration.

many more procedures to have professional qualifications recognized in any given African host country (table 3.10).

## Policy Action

This chapter shows that although most countries in Sub-Saharan Africa import education and health services to address skills shortages and improve access to services, exports in these sectors are beginning to emerge on the continent. But despite increasing trade flows, including at the regional level, Sub-Saharan Africa continues to faces serious shortages of education and health professionals and access to education and medical services remains a problem. To turn these sectors around, policy action is required in the areas of domestic regulation in education and health, trade policy, and labor mobility at the national and the international levels.

### Fundamentals

Given the large education and medical skills shortages in Africa, investment in educational institutes for medical training and continuous updating of research in the field are quintessential for developing successful education and health care sectors. Weaknesses in African education systems mean that students are ill-equipped to acquire market-relevant skills, so enhancing the quality of educational institutions should be a key item on the policy agenda. Most countries in Africa are far from the required level of medical training infrastructure to serve their own population. For instance, in Sub-Saharan Africa there are a total of 168 schools and 24 of the 47 countries have only one medical school; 11 have no medical school at all (Mullan et al. 2011). Thus, investment in training, whether publicly funded or through foreign investment, would be key not only for improving the access to better health services within the country, but also for exporting such services.

### Domestic Regulatory Reforms

Domestic regulatory reforms need to focus on incremental, qualitative improvements that increase access to education and medical services for all, ensure the quality of these services, and address skills shortages. Concrete examples for domestic regulatory reforms could include the following:

- *Eliminating disproportionate restrictions that limit competition*. For example, price regulations are supported and introduced by education and medical associations or the government, which claims that such regulations are useful tools to ensure affordable services and access to all income groups. But regulated prices prevent markets from efficiently allocating resources, increasing shortages and deteriorating quality, while stifling innovation and diverting education and medical care to informal markets. The countries that impose such regulations need to adopt less restrictive mechanisms, such as better access to information on services and service providers, which can accomplish the same goals at lower economic cost.
- *Strengthening incentive systems for education and health care professionals to remain in the home country*. Restrictive policies, such as compulsory national service to render migration more difficult, have not proven effective, since they represent only temporary deterrents for migration.

**TABLE 3.10: Regulations Affecting Education and Health Professionals**

| Regulation | Kenya | Rwanda | Tanzania | Uganda |
|---|---|---|---|---|
| Competition law applicable? | Yes | Yes | Yes | Yes |
| Redress options when business practices perceived to restrict their activity? | | | | |
| **Health** | Yes | Yes | Yes | n.a. |
| **Education** | Yes | Yes | n.a. | Yes |
| Treated at par with domestic regarding taxes or eligibility to subsidies? | Yes | Yes | Yes | Yes |
| Quota/limit defining the maximum number? | No | No | No | No |
| Fees regulated in any way? | No | No | Yes[a] | No |
| Regulations on prices and fee apply equally? | | | | |
| **Health** | Yes | n.a. | Yes | Yes |
| **Education** | Yes | Yes | Yes | Yes |
| Advertising and marketing prohibited or regulated? | | | | |
| **Health** | n.a. | No | Yes | No |
| **Education** | No | No | No | No |
| Regulations on advertising apply equally? | | | | |
| **Health** | n.a. | Yes | Yes | Yes |
| **Education** | Yes | Yes | Yes | Yes |
| Allowed to use the name used in their home country? | Yes[a] | Yes | Yes | Yes |
| Regulations on location and diversification? | No | No | No | No |
| Regulations on location apply equally? | Yes | Yes | Yes | Yes |
| Special instruments to assess and monitor the quality? | | | | |
| **Health** | Yes | Yes | Yes | Yes |
| **Education** | No | Yes | Yes | Yes |
| Compulsory licenses? | | | | |
| **Health** | Yes; 3 year for nurses, 1 year for doctors | Yes; 3 year for nurses, 1 year for doctors | Yes; 3 year for nurses, 2 year for doctors | Yes; 3 year for nurses, 1 year for doctors |
| **Education** | No | Yes | No | No |
| Nationality requirement? | | | | |
| **Health** | No | No | Yes; temp license | No (nurses); Yes (doctors, temp. license) |
| **Education** | No | No | No | No |
| Language requirement? | | | | |
| **Health** | Yes | Yes | Yes | Yes |
| **Education** | No | No | No | No |
| Residency requirement ? | | | | |
| **Health** | No | No | Yes | No |
| **Education** | | | | |
| Licensing criteria apply equally to foreign? | | | | |
| **Health** | Yes | No | Yes | No |
| **Education** | No | No | No | No |
| Compulsory membership in professional association automatically granted with required qualifications? | No | No | No | No |
| Limited licensing system for foreign providers? | No | No | No | No |
| Recognition of licenses obtained in other jurisdiction? | | | | |
| **Health** | Yes (unilateral) | Yes[b] | Yes | Yes (unilateral) |
| **Education** | Yes[b] | Yes[b] | No | Yes[b] |

*Source:* World Bank Regulatory Surveys, 2014.

*Note:* n.a. = not available.

[a] With notification to the Commissioner of Immigration.

[b] Preferential recognition for East African Community member states.

Countries could focus on developing incentives such as work autonomy, flexible hours and scheduling, recognition of work, coaching and mentoring structures, and support for career development to retain education and health professionals. Addressing inefficient management structures and highly centralized decision making on human resources for health could also help alleviate skills shortages. Other measures could include the setting up of knowledge networks among skilled expatriates linked to their country of origin, with the aim of mobilizing their knowledge and expertise to the development of their country without physically relocating.

- *Putting in place a regulatory framework that supports trade.* In general, rules and regulations related to qualifications and licensing requirements for education and health professionals and institutions, rules related to insurance schemes, as well as rules regarding the provision of services to economically disadvantaged groups are among the most relevant regulations for trade. Countries need to ensure that such regulations are not too cumbersome, while pursuing legitimate regulatory objectives that deal with information asymmetries, negative externalities, and equity issues.[29] Public-private partnerships[30] to deliver education and health services could be also considered.

## Trade Policy Reforms

*Trade policy reforms* ideally would include the removal of trade barriers on a most favored nation (MFN) or nonpreferential basis, since such an approach would generate the largest welfare gains. Steps need to be taken to relax the explicit trade barriers applied by EAC countries; this would facilitate the movement of consumers (students and patients), providers (teachers, professors, nurses, and doctors), the cross-border supply of education and health services, and the commercial presence of education and health institutions. The following are examples of possible trade reforms:

- *Eliminating restrictions on the portability of insurance.* Often private and public insurers are prohibited to finance consumption of health care abroad. Therefore, medical tourism is mainly financed by out-of-pocket payments, making its cost disproportionally high and inaccessible for poorer segments of the population. Removing such restrictions on portability and permitting insurance companies to sell a policy that covers treatment in the foreign country would lower the costs of health services for all.
- *Minimizing restrictions on the forms of establishment allowed.* Underinvestment is a primary cause of poor education and health services in Africa. To improve the availability and quality of human and physical resources in this sector, expenditures on health care need to be increased and allocated efficiently, in line with local needs and priorities. Easing the inflow of foreign investment in the education and health care sectors would have several benefits. One, it can generate additional resources for investment in and upgrading of infrastructure and technologies. Two, foreign investment can generate employment of teachers and health personnel. Three, it would easily provide expensive and specialized education and medical services. Four, the availability of private capital could reduce the total burden on government resources, helping to reallocate government expenditure toward the public education and health care sectors. Partnering with reputable education and health service institutions in other countries or countries known for their exports could also help to improve service facilities and introduce superior management techniques and information systems (Chanda 2002). Taxes collected from foreign-owned commercial hospitals, for example, could be reinvested in the public health system as well as in training of health care professionals. Thus, the strategy of welcoming foreign investment in the short run is likely to pave way for exports of health care services over time.
- *Developing a transparent and consistent framework for accepting education and health professionals with foreign qualifications.* The main regulatory challenge for exporting health services via mode 4 is related to cumbersome entry requests and procedural requirements for recognizing, or requiring specific forms of, qualifications and professional licensing (Smith et al. 2009). African countries should allow for freer mobility of education and health care professionals to enhance the region's competitiveness by articulating the economic and social motivation for economic needs tests and working through the mutual recognition and harmonization of qualifications and expedition of visa applications.

29 A comprehensive regulatory guide for health care is provided by the WBG Investment Climate Private Health Policy Toolkit: https://www.wbginvestmentclimate.org/toolkits/public-policy-toolkit/.

30 For example, the Government of Lesotho entered into a long-term Public Private Partnership (PPP) with a private sector consortium comprised of a mix of national and regional actors to establish and operate a national referral hospital and mini health care network of filter clinics in the greater Maseru area. The consortium assumed responsibility for providing the following services: (i) clinical services; (ii) clinical support services including biomechanical engineering, laboratory and pharmacy; and (iii) non-clinical services including administration, facilities management and ICT.

### Immigration Reforms

The removal of explicit trade barriers needs to be complemented by reforms of immigration laws and rules on the hiring of foreign education and medical professionals. Particularly, our study suggests that there is a pressing need for a transparent and clear framework for allocating work permits to medical professionals. Visa and travel formalities inhibit trade in both education and medical services. Such entry requirements and visa costs translate into government-imposed barriers to trade, which can be overcome by international and regional cooperation. Many successful exporters of medical services have eliminated such visa requirements. Other countries have adopted a more gradual approach and changed their visa requirements to encourage medical tourism and integrate health care services with tourist facilities. For example, in India, the new medical tourist visas, "M-visas" are valid for a year and are also issued to the patients' companions. Similarly, hospitals such as Bangkok's Bumrungard have an "in-house visa extension center" for facilitating visa extensions for patients (Bookman and Bookman 2007). In some cases, medical tourists receive government assistance to expedite visa procedures.

The SADC Protocol on Education and Training (signed in 1997) could provide a useful example to be refined and followed by other subregions for *immigration formalities and rules on hiring education professionals*. Although the implementation of the protocol is far from perfect,[31] it has done much to relax the immigration formalities and facilitate freer movement of students and staff within the SADC region. For instance, the SADC protocol has facilitated access to affordable student visa permits and allowed foreign students to be engaged in formal-sector employment in their institutions of learning to improve their livelihoods (Kwaramba 2009). By treating SADC students like home students in terms of fees and accommodations, countries such as South Africa have encouraged foreign student enrollments from neighboring countries. The removal of immigration barriers and the development of enabling policies for the mobility of students, patients, and education and health professionals throughout the continent are crucial for the improvement of Africa's educational and medical systems.

### Regional Regulatory Cooperation

*Deeper regional integration, through regulatory cooperation* with neighboring partners who have similar regulatory preferences, can usefully complement nonpreferential trade liberalization. *Admission requirements and policies on the transfer of academic credits and recognition of academic and professional qualifications* for education and health professionals are equally important for the mobility of consumers and providers of education and health services. At least two regional organizations are actively involved in quality assurance in Africa. These are CAMES and the Inter-University Council for East Africa (IUCEA). The World Bank Group is currently supporting CAMES in the design and implementation of a mechanism for regional accreditation of higher institutions in its 19 member states as part of the Regional Institutional Accreditation Initiative. In East Africa, IUCEA plays an important role in:

- Facilitating networking among universities within and outside the region
- Developing adequate education standards so as to promote the region's competitiveness in higher education
- Enhancing curriculum development strategies and university leadership skills and competences
- Mainstreaming ICT into institutional core functions and general support operations
- Strengthening higher education quality assurance processes in university institutions and eventually establishing an East African system of quality assurance
- Establishing an East African qualification framework to facilitate harmonization of education and training systems; student mobility across the region; and harmonization of skills, competences, and qualifications, so as to simplify mutual recognition of the latter, among others.

The medical boards/councils in the EAC have started to collaborate and share registers to recognize licenses from other EAC member countries. In addition, nurses and midwives, pharmacists, medical doctors, and veterinarians are currently developing a roadmap for the preparation of *Mutual Recognition Agreements (MRAs) of Professional Qualifications to deepen regional integration* in the sector and create new incentives for retaining scarce skilled professionals on the continent. Such MRAs would need to be effectively

31 To understand how the protocol fails at some instance, we consider the example of study permits for Zimbabweans. A study permit is issued by the Department of Home Affairs as a basic requirement for international students. The Immigration Act warrants that study permits be applied for in the student's home country. In practice, this unreasonable requirement is often waived for migrants already in the country, but not for Zimbabweans (SAMP 2011). This requirement hinders the flow of Zimbabweans into South Africa for higher education.

implemented in the EAC and could be negotiated and implemented by other subregions on the continent. Opening up regional boundaries and establishing MRAs would facilitate integration in education and health services. For example, some of the health professionals interested in providing their services across borders may choose to stay in the region rather than traveling to further OECD destinations.

When implementing MRAs, countries need to learn from the previous experience with such agreements in professional services. For example, EAC stakeholders as well as the EAC Council of Ministers have recognized some broader issues that have prevented existing MRAs in accounting, architectural, and engineering services from being truly effective. Limited progress in delinking the commitments related to the free movement of labor from those affecting services providers hampers the free movement of services in the EAC. Reflections are underway, as a result, on how commitments on free movement of skilled professional workers, which are essential to the success of the MRAs, can be delinked from the wider issue of free movement of workers. But limited progress on this issue hampers the free movement of service providers as well as further negotiations on services liberalization and reform.

Because of the rapid expansion of private universities and colleges, driven by the growing demand for education services, regional interventions that promote the emergence of quality educational institutions are a high priority on the continent's education agenda. There are concerns that the burgeoning increase in the number of universities may lead to the proliferation of unregulated courses on offer (box 3.7).

Weaknesses in African education systems mean that students are ill-equipped to acquire market-relevant skills. Therefore, *enhancing the quality of educational institutions* should be a key item on the policy agenda. *Trade liberalization needs to be coordinated with regulatory reform and cooperation at the regional level.* Although the IUCEA already provides a forum to start addressing regional quality issues, a continental quality assurance agency—built for example on the work of the African Quality Assurance Network or the African Quality Rating Mechanism—could support the activities of regional bodies.

### BOX 3.7: Expansion of Private Education Institutes: Are They Diluting Quality?

One of the greatest challenges facing the higher education sector is a scarcity of qualified PhD holders in the East African Community (EAC). Demand from the expanding higher education sector far outstrips the number of qualified academics.

Kampala International University (KIU) began offering unaccredited PhDs in humanities in 2007, two years before it was awarded the right to confer such degrees. Furthermore, a total of 132 doctorates awarded by KIU between 2011 and 2013 were declared invalid by the Uganda National Council for Higher Education (NCHE). Of the 42 graduates scheduled for graduation in 2012, 30 were Kenyans. In 2013, the regulator for higher education in Kenya, the Commission for University Education (CUE),[a] announced that it will not recognize qualifications from KIU until a thorough review has been conducted.

Red flags were raised when KIU graduated as many PhDs as Uganda's largest University, Makerere University. The Uganda NCHE set up a task force to investigate whether KIU had the capacity to offer the programs. The findings of the task force revealed that the 66 PhDs awarded in 2013 "all were substandard: eight needed minor corrections, 36 needed major revisions, and 22 were beyond revision" (Spaull 2015). Since the thorough review of the task force, 22 PhDs have been approved by NCHE. Other findings by the task force showed that several supervisors held PhDs from universities not recognized by the regulator, and still other supervisors did not have PhDs.

The Inter-University Council for East Africa (IUCEA) largely plays an oversight role in the region, but does not have the power to accredit all institutions and programs in the region. Local regulators such as CUE and NCHE in Uganda, or NCHE in Rwanda, accredit institutions and programs in their respective jurisdictions. Unfortunately, the rate of growth of private institutions in the EAC outstrips the capacity of local regulators, in terms of facilities, finances, and human resources, to effectively and adequately cover all institutions in terms of academic management and quality assurance.

*Sources:* Spaull 2015; Ssembatya 2012; Waruru 2014.

[a] CUE replaces the Commission for Higher Education. CUE advises the government on university education policy, undertakes accreditation inspections, monitors and evaluates the state of university education, and ensures compliance with set standards.

In addition to quality assurance, reforms would need to focus on *developing new and expanded means of financing higher education,* such as student loan schemes, and *developing well-articulated, diversified, and differentiated higher education systems* that contain vocational and technical colleges as well as research universities. Cooperation among countries in sharing information and experiences to increase the recovery rate of student loans while increasing students' access to higher education could improve the impact of educational loan schemes in East Africa. In general, the fragmentation of the regional market for education by differences in regulation can prevent the emergence of regional hubs for higher education. Thus, smoothing these regulatory differences can lead to a greater variety of higher education services becoming available at lower costs for students in Africa. The Centers of Excellence[32] approach implemented by the World Bank in Africa may provide a useful model to spearhead such regulatory cooperation.

Similarly, in health services, the East Africa Public Health Laboratory Networking approach focuses on establishing a network of efficient, high quality, accessible public health laboratories for the diagnosis and surveillance of tuberculosis and other communicable diseases in Ethiopia, Kenya, Rwanda, Tanzania, and Uganda. This approach can provide guidance to create a platform for knowledge sharing, training, and regulatory cooperation.

In addition to traditional student, patient, and health and education staff exchanges, African countries need to *facilitate the emergence of innovative forms of cross-border exchanges.* Technological innovations can facilitate the expansion of distance learning and provide healthcare solutions such as combating malaria. Such innovations can provide free essential healthcare information that is updated daily, or diagnose and monitor symptoms of diseases in rural areas. Distance learning requires extensive ICT infrastructure, complemented by extensive policies to support such innovative cross-border exchanges.

Finally, *Africa's diaspora needs to be mobilized* to play a role in the internationalization of education and health services in Africa. For example, recent initiatives in education services have been undertaken as part of the Mobilize the Diaspora project. The project aims to engage 10,000 diaspora scholars in African higher education and encourage collaboration with local professionals across several disciplines, such as research, curriculum development, graduate student teaching, and mentoring.

## Conclusions

This chapter uses quantitative and qualitative surveys to assess the importance of regional integration in promoting education and health services in Africa. Mobile-based data collection methodology is deployed to examine the magnitude, determinants, and restrictions on intra-Africa trade in education and health services. The survey results suggest the following conclusions:

- The regional dimension is prominent in education and health services.
- Although differences in the quality of services may explain educational exchanges and medical tourism in Africa, the non-availability of certain specialized cures could be an additional explanatory factor for trade in health services.
- Medical professionals are motivated to seek employment abroad (mode 4) mainly because of inadequate remuneration, poorly managed health systems in the home country, and the need to continue education and training in their field.
- Trade in education and health services is hampered by the high cost of travel and visas and limited availability of insurance; movement of education and health professionals is limited by the lengthy and costly process of recognition of degrees obtained abroad.

A systematic qualitative analysis, including results from regulatory surveys conducted in selected Eastern and Southern African countries, complements the quantitative surveys to derive policy recommendations aimed at addressing

32 The World Bank Group's Africa Higher Education Centers of Excellence Project is currently supporting 19 tertiary education institutions in seven West African countries to promote regional specialization in S.T.E.M. (Science, Technology, Engineering and Mathematics), agriculture and health. The key project objectives are to a) enhance quality research-based education in high-demand areas, and make it available to national and regional students; b) promote partnerships between the newly-established African Centers of Excellence (ACEs) and companies, governmental and non-governmental organizations, through internships, trainings etc.; and c) improve teaching and research conditions and strengthen the capacity of the beneficiary institutions. In addition, the project will support a range of regional activities to a) enhance coordination among ACEs e.g. through joint lessons; b) undertake regional monitoring and evaluation (M&E) activities of the selected institutions, e.g. through tracer studies, technical audits, collection of academic data etc.; (c) assist regional bodies including ECOWAS and WAEMU in regional policy-making on regional higher education; and d) support provision of higher education services (e.g. training, scholarship, faculty visiting etc.). (See http://www.worldbank.org/projects/P126974/strengthening-tertiary-education-africa-through-africa-centers-excellence?lang=en)

the key constraints affecting trade in education and health services in Africa. The analysis shows that to turn this sector around, policy action is required in the areas of domestic regulation, trade policy, and labor mobility at the national and international levels. A key challenge faced by many African countries is the emigration of their scarce health professionals. To retain some of these health workers in the region, it is important to ease the procedural requirements for recognizing their qualifications and professional licensing. Several regional trade arrangements between source and destination countries work through the mutual recognition and harmonization of qualifications and expedition of visa applications. These include the Caribbean Community and Common Market, the Caribbean Free Trade Association, the North American Free Trade Agreement, and the European Union. African countries should also allow for freer mobility of health care professionals to enhance the region's competitiveness in providing health care facilities.

# Annex 3A: Trade in Education and Health Services: Modes of Supply and Examples

| Mode of supply | Education—examples/forms | Health—examples/forms | Main features |
|---|---|---|---|
| (a) Cross-border supply (Mode 1) | Distance education<br>Online education<br>Commercial franchising/ twinning of a course | Telemedicine and telediagnosis<br>Laboratory or claims processing<br>Hospital management functions<br>Back-up advisory services<br>Contracting of clinical and nonclinical services such as medical evacuations, cancer treatment, specialized surgeries | Program (service) mobility |
| (b) Consumption abroad (Mode 2) | Students abroad | Patients abroad for specialized or surgical care<br>Cosmetic surgery health and wellness | People (student/patient mobility) |
| (c) Commercial presence (Mode 3) | Establishment of an educational institution or satellite campuses<br>Branch campus, including joint ventures with local institutions | Health insurance companies<br>Medical/physician practices<br>Diagnostics facilities | Institution mobility |
| (d) Presence of natural persons (Mode 4) | Professors. lecturers, teachers, and researchers providing services abroad | Health personnel providing health services or health consulting assignment abroad | People (education or health professionals) mobility |

*Sources:* Adapted from WTO 1998, 2010.

# Annex 3B: Volume of Education Services Trade Recorded in IMF Balance of Payments Statistics

### TABLE 3B.1: Volume of Education Services Exports

| Country | Education service exports | Share in total travel services (%) | Share in personal travel services (%) |
|---|---|---|---|
| Moazmbique | 2,466,154 | 1.2 | 1.3 |
| Swaziland | 18,757,132 | 37.1 | 85.8 |
| Burundi | 108,890 | 7.6 | 7.6 |
| Malawi | 2,011,543 | 6.0 | 14.3 |
| Botswana | 4,334,233 | 3.9 | 4.0 |
| Namibia | 2,493,240 | 0.6 | 0.7 |
| Uganda | 30,187,828 | 2.6 | 4.3 |

*Source:* UNSTATS (http://unstats.un.org/).

*Note:* The sample of countries is based on data availability in UNSTATS in recent years, after 2010. The latest years available for Mozambique and Swaziland corresponds to 2010. For Burundi and Malawi is 2012 and for Botswana, Namibia and Uganda is 2013.

### TABLE 3B.2: Volume of Education Services Imports

| Country | Education service imports | Share in total travel services (%) | Share in personal travel services (%) |
|---|---|---|---|
| Mozambique | 14,473,751 | 5.8 | 8.8 |
| Seychelles | 8,634,920 | 23.1 | 25.9 |
| Swaziland | 9,867,440 | 16.1 | 20.1 |
| Burundi | 12,136,509 | 49.0 | 93.6 |
| Lesotho | 14,615,975 | 70.4 | 100.0 |
| Malawi | 17,554,292 | 25.2 | 63.9 |
| Nigeria | 2,566,589,952 | 41.5 | 47.9 |
| Botswana | 18,358,836 | 39.0 | 42.1 |
| Namibia | 2,389,355 | 1.9 | 2.0 |
| Uganda | 2,102,048 | 0.5 | 1.1 |

*Source:* UNSTATS (http://unstats.un.org/).

*Note:* The sample of countries is based on data availability in UNSTATS in recent years, after 2010. The latest years available for Mozambique, Sychelles and Swaziland corresponds to 2010. For Burundi, Lesotho, Malawi and Nigeria is 2012 and for Botswana, Namibia and Uganda is 2013.

# Annex 3C: Volume of Health Services Trade Recorded in IMF Balance of Payments Statistics

**TABLE 3C.1:** Volume of Health Services Exports

| Country | Health service exports | Share in total travel services (%) | Share in personal travel services (%) |
|---|---|---|---|
| Moazmbique | 735,355 | 0.37 | 0.37 |
| Swaziland | 3,097,611 | 6.13 | 14.17 |
| Burundi | 18,206 | 1.27 | 1.27 |
| Malawi | 99,477 | 0.29 | 0.71 |
| Botswana | 1,207,478 | 1.10 | 1.11 |
| Namibia | 207,770 | 0.05 | 0.06 |
| Uganda | 11,952,399 | 1.01 | 1.71 |

*Source:* UNSTATS (http://unstats.un.org/).

*Note:* The sample of countries is based on data availability in UNSTATS in recent years, after 2010. The latest years available for Mozambique and Swaziland corresponds to 2010. For Burundi and Malawi is 2012 and for Botswana, Namibia and Uganda is 2013.

**TABLE 3C.2:** Volume of Health Services Imports

| Country | Education service imports | Share in total travel services (%) | Share in personal travel services (%) |
|---|---|---|---|
| Moazmbique | 13,738,397 | 5.5 | 8.3 |
| Seychelles | 8,506,110 | 22.7 | 25.5 |
| Swaziland | 5,696,519 | 9.3 | 11.6 |
| Burundi | 836,451 | 3.4 | 6.4 |
| Malawi | 2,476,478 | 3.6 | 9.0 |
| Nigeria | 1,042,369,984 | 16.8 | 19.4 |
| Botswana | 4,407,360 | 9.4 | 10.1 |
| Namibia | 1,558,275 | 1.2 | 1.3 |
| Uganda | 627,235 | 0.1 | 0.3 |

*Source:* UNSTATS (http://unstats.un.org/).

*Note:* The sample of countries is based on data availability in UNSTATS in recent years, after 2010. The latest years available for Mozambique, Sychelles and Swaziland corresponds to 2010. For Burundi, Lesotho, Malawi and Nigeria is 2012 and for Botswana, Namibia and Uganda is 2013.

## References

AfDB (African Development Bank). 2013. "The Growth of International Trade in Health Services: Export Prospects in North Africa." Economic Brief. AfDB, Abidjan, Côte d'Ivoire.

Bashir, S. 2007. "Trends in International Trade in Higher Education: Implications and Options for Developing Countries." Education Working Paper Series No. 6, World Bank, Washington, DC.

Bhargava, A., and F. Docquier. 2008. "HIV Pandemic, Medical Brain Drain, and Economic Development in Sub-Saharan Africa." *The World Bank Economic Review* 22 (2): 345–66.

Bhorat, H., J. B. Meyer, and C. Mlatsheni. 2005. "Skilled Labour Migration from Developing Countries: Study on South and Southern Africa." *International Migration Papers* 52: 1–40.

Bookman, M., & Bookman, K. (2007). Medical *Tourism* in *Developing Countries*. Basingstoke: Palgrave Macmillan.

Cattaneo, O. 2010. "Health without Borders: International Trade for Better Health Systems and Services." In *International Trade in Services: New Opportunities for Developing Countries,* edited by O. Cattaneo, M. Engman, S. Saez, and R. M. Stern. Washington, DC: World Bank.

Chanda, R. (2002). Trade in Health Services. Bulletin of the World Health Organization 2002, 80 (2): 158-163

CHEA (Council for Higher Education Accreditation). 2002. "Accreditation and Assuring Quality in Distance Learning." CHEA Monograph Series, Number 1. http://www.chea.org/pdf/mono_1_accred_distance_02.pdf?pubID=246.

Chen, L. C., and J. I. Boufford. 2005. "Fatal Flows—Doctors on the Move." *New England Journal of Medicine* 353 (17): 1850–52.

Docquier. F., and A. Marfouk. 2006. "International Migration by Educational Attainment 1990-2000." In *International Migration, Remittances and Development*, Edited by C. Özden and M. Schiff. New York: Palgrave Macmillan.

Hahn, K. (2005.) "Towards a SADC area of Higher Education." NEPRU Research Report No. 30. Namibia Economic Policy Research Unit (NEPRU), Windhoek, Namibia.

Kok, P., D. Gelderblom, J. Oucho, and J. Van Zyl, eds. 2006. *Migration in South and Southern Africa: Dynamics and Determinants.* Cape Town: HSRC Press.

Kwaramba, M. 2009. "Internationalization of Higher Education in Southern Africa with South Africa as the Major Exporter." Research Paper submitted to University of Mauritius, Moka, Mauritius.

Lautier, M. 2005. "Les exportations de services de santé des pays en développement: Une analyse à partir du cas de la Tunisie." *Notes et Documents* n 25. Paris: AFD.

———. 2008. "Export of Health Services from Developing Countries: The Case of Tunisia." *Social Science and Medicine* 67 (1): 101–10.

MacGregor, K. 2007. "South Africa: Huge Growth in Foreign Students." *University World News,* Issue No: 9. http://www.universityworldnews.com/article.php?story=20071206163532421.

Manik, S., B. Maharaj, and R. Sookrajh. 2006. "Globalisation and Transnational Teachers: South African Teacher Migration to the United Kingdom." *Migracijske i etničke teme* 22 (1-2): 15–33.

Marko, K. 2009. "Internationalization of Higher Education in Southern Africa with South Africa as the Major Exporter." Services Sector Development and Impact on Poverty Thematic Working Group Trade & Industrial Policy Strategies, Pretoria, South Africa. http://www.tips.org.za/files/11.Internationalization_-_SSD.pdf.

Maseruka, J. 2010. "Uganda: Govt to Earn $60 Million from Foreign Students Annually." allAfrica, September 27. http://allafrica.com/stories/201009280119.html.

Materu, P. 2007. "Higher Education Quality Assurance in Sub-Saharan Africa: Status, Challenges, Opportunities, and Promising Practices." Working Paper No. 124, World Bank, Washington, DC.

McKinsey Global Institute. 2008. Accounting for the Cost of US Health Care: A New Look at Why Americans Spend More. http://healthcare.mckinsey.com/sites/default/files/MGI_Accounting_for_cost_of_US_health_care_full_report.pdf.

Morgan, W. J., A. Sives, and S. Appleton. 2005. "Managing the International Recruitment of Health Workers and Teachers: Do the Commonwealth Agreements Provide an Answer?" *The Round Table* 94 (379): 225–38.

Mortensen, J. 2008. "International Trade in Health Services. Assessing the Trade and Trade and the Trade-offs." DIIS Working Paper 2008/11, Danish Institute for International Studies, Copenhagen, Denmark.

Mullan F, Frehywot S, Omaswa F. (2011). Medical schools in sub-Saharan Africa – Lancet, 377 (9771): 1113-1121.

Mutume, G. 2003. "Reversing Africa's Brain Drain." http://www.un.org/ecosocdev/geninfo/afrec/vol17no2/172brain.htm.

Obermaier, A. J. 2009. "Cross-Border Purchases of Health Services: A Case Study on Austria and Hungary." Policy Research Working Paper 4825, World Bank, Washington, DC.

OECD (Organisation for Economic Co-operation and Development). 2010. "Medical Tourism: Treatments, Markets and Health System Implications: A Scoping Review."

Directorate for Employment, Labour and Social Affairs, OECD Publishing, Paris.

Othieno, L., and D. Nampewo. 2012. "Opportunities, Challenges and Way Forward for Uganda's Trade in Education Services within the East African Community." Economic Policy Research Centre, Kampala, Uganda.

Ozden, C., and D. Phillips. 2015. "What Really Is Brain Drain? Location of Birth, Education and Migration Dynamics of African Doctors." Global Knowledge Partnership on Migration and Development (KNOMAD) Working Paper #4, KNOMAD, Washington, DC.

PwC and GSMA (Group Speciale Mobile Association and PricewaterhouseCoopers). 2012. "Touching Lives through Mobile Health: Assessment of the Global Market Opportunity." February 2012.

Ratha, D., Sanket Mohapatra, Caglar Ozden, Sonia Plaza, William Shaw, and Abede Shimeles. 2011. "Leveraging Migration for Africa: Remittances, Skills, and Investments." World Bank, Washington, DC. http://siteresources.worldbank.org/EXTDECPROSPECTS/Resources/476882-1157133580628/AfricaStudyEntireBook.pdf.

SACE (South African Council of Educators). 2011. "Teacher Migration in South Africa: Advice to the Ministries of Basic and Higher Training." Report prepared for the Ministries of Basic and Higher Training, South Africa.

SAMP (Southern African Migration Project). 2002. "Thinking about the Brain Drain in Southern Africa." Migration Policy Brief No. 8, SAMP, Kingston, Canada, and Cape Town, South Africa.

———. 2008. "The Haemorrhage of Health Professionals from South Africa." Medical Opinion, Migration Policy Series No. 47, SAMP, Kingston, Canada, and Cape Town, South Africa.

———. 2011. "The Engagement of Zimbabwean Medical Diaspora." Migration Policy Series No. 55, SAMP, Kingston, Canada, and Cape Town, South Africa.

Smith, R., R. Chanda, and V. Tangcharoensathien. (2009). "Trade and Health 4: Trade in Health-Related Services," The Lancet, 373: 593–601

Spaull, J. 2015. "PhD Crisis in Uganda's Private Universities." Africa's PhD Renaissance series, SciDevNet Global Edition, February 5. http://www.scidev.net/sub-saharan-africa/education/feature/phd-crisis-uganda-private-universities-1.html#sthash.esexodZk.dpuf.

Ssembatya, V. 2012. "The Careers and Productivity of Doctorate Holders (CDH) Survey: Uganda Report 2012." Uganda National Council for Science and Technology, Kampala, Uganda.

UNESCO (United Nations Educational, Scientific, and Cultural Organization). 2006. *Guidelines for Quality Provision in Cross-border Higher Education*. UNESCO, Paris.

United Nations Conference on Trade and Development (UNCTAD). (2013). "Services Policy Review: Uganda." UNCTAD, Geneva, Switzerland.

Wamala, D. S., and K. Augustine. 2013. "A Meta-Analysis of Telemedicine Success in Africa." Journal of Pathology Informatics 4: 6.

Waruru, M. 2014. "Unhappiness over Lack of Qualifications' Recognition." *University World News,* January 17, Issue No: 124.

Wentzel, M., and K. Tlabela. 2006. "Historical Background to South African Migration." In *Migration in South and Southern Africa: Dynamics and Determinants*, edited by P. Kok, D. Gelderblom, J. Oucho, and J. Van Zyl, 71–96. Cape Town: HSRC Press.

WHO (World Health Organization). 2004. "Migration of Health Professionals in Six Countries: A Synthesis Report." WHO, Regional Office for Africa, Brazzaville, Congo.

———. 2012. "Global Health Indicators." Published by World Health Statistics. http://www.who.int/healthinfo/EN_WHS2012_Part3.pdf.

World Bank. 2002. *Higher Education in Developing Countries: Peril and Promise*. Washington, DC: World Bank.

World Bank. 2014 Mobile Phone Surveys. World Bank, Washington, DC.

———. 2015. *Indicators to Monitor Deeper Regional Trade Integration in Africa*.

WTO (World Trade Organization). 1991. "Services Sectoral Classification List." MTN.GNS/W/120. www.wto.org/english/tratop_e/serv_e/mtn_gns_w_120_e.doc.

———. 1998. "Council for Trade in Services: Education Services." Background Note by the Secretariat. S/C/W/49. www.wto.org/english/tratop_e/serv_e/w49.doc.

———. 2010. "Council for Trade in Services: Education Services." Background Note by the Secretariat. S/C/W/313. www.wto.org/english/tratop_e/serv_e/w313.doc.

Nora Dihel is Senior Economist, Macroeconomics and Fiscal Management Global Practice, World Bank, Arti Grover Goswami is Senior Consultant Economist, World Bank, Richard Gicho is a Consultant with the World Bank in Kenya, Borislava Marcheva is a Consultant with the World Bank in Washington DC, and Carmine Soprano is Economist, World Bank.

*Green Rain* by Evans Kindeh Omondi

CHAPTER 4

# Trade in Mining Services in Zambia

Judith Fessehaie

Judith Fessehaie, Centre for Competition, Regulation and Economic Development, University of Johannesburg.

## Introduction

Zambia is Africa's largest copper producer and the seventh largest in the world.[1] Globally, the copper mining sector grew significantly from 2000 to 2011. Zambia's export values increased from US$474 million in 2000 to almost US$4 billion in 2008. Following the global economic downturn in 2008–09, exports in Zambia recovered from US$3.17 billion in 2009 to US$6.8 billion in 2011. The positive performance of Zambia's copper sector can be ascribed to very favorable world copper prices and new investment capital in the sector. World copper prices increased dramatically after 2003, peaking at US$8,823 per metric ton in 2011, after a short slump during the global economic crisis in 2008–09.[2] The sector has also benefited from significant inflows of foreign direct investment (FDI) after the privatization process in the late 1990s.[3] Multinational companies invested in plant rehabilitation, expansions, and new copper extraction and refining projects (Chamber of Mines of Zambia 2005). By December 2011, FDI in Zambia's mining sector stood at US$7.8 billion (Bank of Zambia 2012).[4]

The expansion of Zambia's mining sector has created significant demand for goods and services. In turn, growth in demand has opened up opportunities for local upstream industries that could contribute to gross domestic product (GDP) growth, employment generation, skills development, technological sophistication, and entrepreneurship development. Until recently, Zambia's strategy to develop upstream industries in the copper mining sector has been weak. Since 2012, however, an initiative driven by the private sector has been developing a coherent approach for establishing beneficial linkages to local businesses.

The rest of this chapter is organized as follows. The next section provides a definition of upstream linkages and identifies the category of linkages covered in this chapter. This is followed by a background section on Zambia's local supply chain, including an outline of local service providers and their response to the privatization process and the recent economic downturn. The fourth section presents recent findings on the performance of local service providers and the constraints to their upgrading trajectory. The fifth section discusses the policy and regulatory framework for local service providers. The final section concludes.

## Zambia's Local Mining Supply Chain[5]

### Background

Copper mining in Zambia dates back to the early twentieth century. Specific industrialization strategies, such as preferential sourcing, import substitution, and value chain cooperation, were pursued in the 1970s and 1980s. These strategies contributed to the development of a local supply cluster that is relatively well established compared with neighboring countries. Since the nationalization of copper

1 World copper output for 2012, retrieved on April 15, 2013, from http://minerals.usgs.gov/minerals/pubs/commodity/copper/mcs-2013-coppe.pdf.

2 IMF Primary Commodity Price Data, retrieved on April 15, 2013, from http://www.imf.org/external/np/res/commod/index.aspx.

3 Zambia Consolidated Copper Mines was dismantled and, between 1997 and 2001, all the mines but one were sold to foreign investors.

4 The largest sources of FDI stock were Australia (US$3.05 billion), Canada (US$2.05 billion), the United Kingdom (US$1.47 billion, mostly accounted for by Indian-based, U.K.-listed Vedanta), and China (US$852 million).

5 Annex 4A briefly presents the relevant upstream supply chain linkages for services related to the copper mining industry.

mines in 1969, upstream linkage development has been a key component of Zambia's industrialization strategy (Fessehaie 2012a). These policies resulted in the development of a manufacturing sector populated by large state-owned entities, family-run businesses, and some original equipment manufacturer (OEM) subsidiaries.

Yet, there were significant competitiveness bottlenecks as a result of external and internal factors. After the mid-1970s, Zambia's copper sector came under increasing pressure from plummeting world copper prices. There was also limited reinvestment by state-owned Zambia Consolidated Copper Mines (ZCCM) in exploration, mine development, and, crucially, mines recapitalization. ZCCM's supply chain management was poor, and its liquidity constraints caused heavy delays in vendor payments. Economy-wide foreign exchange shortages curtailed the capacity of supply firms to import parts and inputs. Low levels of competition and weak research and development (R&D) capabilities, among other factors, caused local manufacturers to fall behind international standards in quality, price, and lead times. As a result, suppliers often did not meet the required technical specifications; yet they were not excluded from the supply chain. One reason is that ZCCM was mandated to procure locally and lacked the foreign exchange to import. In addition, there was collusive behavior between mines' procurement personnel and suppliers.

### Privatization Processes and Local Supply Firms

The privatization process had a lasting yet not necessarily positive impact on the extent and depth of Zambia's upstream linkages to copper mining (Fessehaie 2012a). The 1995 Mines and Minerals Act set up the legal framework for the privatization of the mines. Although the bilateral agreements between Zambia and the mining companies generally included provisions for the development of a local supply base, the latter were not binding. The government lacked the resources and political will to implement these provisions.

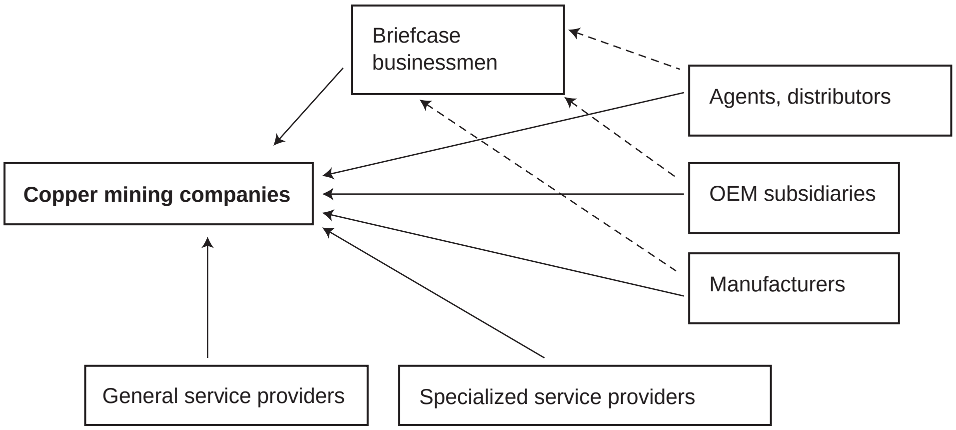
At the macro level, investment and trade liberalization opened the door for the establishment of foreign-owned supply firms and the import of goods and services. Post-liberalization, mining companies had close relationships with their foreign suppliers, which were often from their home countries. Suppliers introduced higher standards and applied supply chain management techniques developed in their global mining operations. Direct auditing and third-party certification became more important for firms established after privatization, compared with firms established before 1990. Thus, Zambian local suppliers had to compete with international suppliers, where the latter were endowed with higher competitive advantages at both ends of the supply chain spectrum: on the one hand, knowledge-intensive services and equipment, and on the other hand, unskilled labor-intensive products. Yet, local suppliers were no longer supported by government industrial policies. As a result, suppliers underwent an intense learning process through their own buyers on the requirements of a highly modernized mining supply chain.

In general, the success of suppliers after privatization was much dependent on the quality of their products, the after-sale service products on offer, and larger firm size to meet increased demand. Specialization in a field also increased the chances of success, as illustrated by the examples of two transport companies: one that moved away from common tipped work into copper dry-bulk transport, and the other that switched from transport of general goods to sulfuric acid transport. The process of specialization and upgrading in the local supply chain was highly selective, as a result of which a large group of manufacturing firms struggled or exited the mining value chain altogether. In its place, a fast-growing number of importers have emerged, composed of specialized, value-added service providers, as well as ad hoc traders known as "briefcase businessmen." Overall, the supply chain experienced a decline in the value-added content of local activities, because suppliers moved into distribution activities characterized by lower capital and skills requirements, a lower risk profile, and shorter project development periods.

### Profile of Local Service Providers

There is a lack of accurate data on the overall value of local procurement conducted by Zambia's copper mining sector. One estimate by Ahmad and Walker (2005) suggests that, depending on the precise degree of outsourcing, total procurement (local and imported) of goods and services for the five largest mines was in the range of US$140 million to US$180 million. A study prepared for the Zambia Mining Local Content Initiative (ZMLCI) estimates local sourcing of approximately US$2.5 billion, comprising equipment and mining services (35 percent of total expenditures); consumables, parts and components, and maintenance (40 percent); low-tech manufactured goods (5 percent); and basic services (20 percent) (Kasanga 2012). These were supplied by locally-based international suppliers of goods and services (80 percent), overseas suppliers (16 percent), and locally-based Zambian suppliers (4 percent). Figure 4.1 displays the profile of firms populating upstream linkages to copper mining.

**FIGURE 4.1: Firms Populating Local Upstream Linkages to Zambia's Copper Mining Sector**




Note: OEM = original equipment manufacturer.

*Agents and distributors* are an important component of local upstream linkages to the sector. They supply a wide range of products, including engineering products, electrical equipment, reagents, consumables, and small and large capital equipment. These firms are mostly Zambian-owned, and tend to be small- and medium-size enterprises (SMEs). Because of liquidity constraints, many of the firms are not able to maintain adequate stocks of supplies. This supply link is characterized by high levels of competition because of relatively low capital and skills requirements for market entry. Firms with access to capital and engineering skills have a competitive advantage, because they can provide advisory services, move into repair and maintenance services, and hold large stocks. Moreover, as will be discussed in the next section, agents and distributors with linkages to OEMs find it easier to move into value-added services.

*Briefcase businessmen* are a group of importers that are positioned in low value-added content supplies, characterized by low barriers to entry and exit, high profits, and low risk. With no overheads and largely operating outside the tax regime, briefcase businessmen can be price competitive, thus pushing more established suppliers out of the value chain. However, lower operating costs are not passed onto the buyers in the form of lower price, as briefcase businessmen often collude with mine personnel (leading to cooperative bidding and corruption). These suppliers either import from South Africa or procure goods from first-tier suppliers in Zambia. When briefcase businessmen source from OEMs, power relations are skewed in favor of the OEMs, who can charge market prices. However, briefcase businessmen hold considerable bargaining power compared with local manufacturers, because the latter are not protected by brands and face stiff competition.[6] A lack of technical expertise, facilities, or capital at their end often translates into poor delivery times and no advisory or after-sale services.

*OEM subsidiaries* supply capital equipment to mining companies, but these firms resort to direct imports when there are no local subsidiaries or agents. The largest mining OEMs originate from Europe, South Africa, and the United States (Atlas Copco, Barloworld for Caterpillar equipment, Bell, Sandvik). After privatization, most OEMs relocated their manufacturing activities in countries with low production costs, while consolidating and localizing after-sale services in Zambia. Many OEMs established a direct presence in the Copperbelt and tightened control over the quality of the goods and services provided. OEMs enforce stringent warranty systems, which tie buyers to such after-sale services (including spare parts, maintenance, and repair). This system has led to reduced competition from independent service providers.

*Specialized firms* comprise relatively few capital-intensive, specialized businesses that are involved in the mining supply chain—for example, supplying drilling and specialized transport services. Local businesses struggle to enter these supply links because of high capital requirements.

6 The Association for Mining Suppliers and Contractors of Zambia, which has primarily represented the interests of briefcase businessmen to the government and mining companies, had around 400–500 members in 2009 (Fessehaie 2012b). Before 2008, briefcase businessmen represented up to 80 percent of the vendors list of a few mining companies. However, the global economic downturn changed this, as mining companies adopted cost-cutting strategies.

**TABLE 4.1: Characteristics of Selected Service Providers to Zambia's Mining Sector, 2009**

| Trajectory | No. firms | Year of establishment | Core business |
|---|---|---|---|
| Growing | 14 | Before 1990—4 firms<br>1990s—5 firms<br>2000s—5 firms | Engineering services (electrical, mechanical); distribution of large-scale mining equipment; repair and maintenance; distribution of components, consumables; construction; specialized transport; installation of hydraulic equipment; installation of pumping systems; drilling; laundry services |
| Declining | 13 | Before 1990—2 firms<br>1990s—7 firms<br>2000s—4 firms | Car distribution; reagents distribution; repair and maintenance; batteries distribution; wire equipment distribution; valves; distribution and servicing; civil construction; drilling services; distribution of compressors, generators, tools, drilling equipment, air winches, mechanical power transmission products, conveyor belts, and mining hoses; pharmaceuticals distribution |

*Sources:* 2009 survey of 27 service providers.

There is a relatively higher presence of local businesses in skill-intensive activities such as electrical and mechanical engineering services. However, highly specialized services, such as pneumatic and hydraulic equipment installation and servicing, are mostly imported.

*General services suppliers* include basic services, such as cleaning, building maintenance, security, and so forth. The mining companies source these services locally, employing personnel directly or outsourcing work to local, usually Zambian-owned, companies.[7]

### The Global Economic Crisis and Local Service Providers

The 2008 copper price crisis crash had a significant impact on Zambia's supply industry. As a result of the cost-cutting strategies of mining companies, many briefcase businessmen were pushed out of the mining supply chain and moved into non-mining sectors. Established suppliers pursued market diversification and risk reduction, even after copper prices recovered. Rather than investing in new products or new processes, many firms have looked for non-mining customers (see annex 4B). As a result, OEM subsidiaries have started supplying the construction, forestry, and utilities sectors. Other suppliers have targeted Lafarge (cement) and Zambia Sugar, two of the largest non-mining corporations in Zambia, as well as oil marketing companies, breweries, and government procurement.

[7] Local firms produce metallurgical, plastic and rubber, and engineering products, and paints. With the exception of one large steel foundry, they are relatively small in size. This group includes manufacturing companies established after privatization, mainly by South African and Asian investors, as well as firms established before the 1990s.

## Trajectory of Local Service Providers in Zambia

### Firm-Based Performance

Zambia's local supply chain is characterized by a high rate of entry and exit of service providers. A 2009 survey of 27 service providers located in the Copperbelt, North-Western, and Lusaka provinces sheds light on some important dynamics of the local supply industry and the factors underlying firm performance (Fessehaie 2012b).[8] In the absence of detailed financial data, firm performance has been assessed in relation to two parameters: (i) sales growth in the mining sector in the five years preceding the industry downturn in 2008,[9] and (ii) the type and level of upgrading undertaken by the supplier firm.[10] Table 4.1 identifies two firm trajectories: a

[8] On the basis of private sector organizations' directories and data shared by the mining companies, the total population of first-tier suppliers in 2009 was estimated to lie in a range of 150 to 200 firms, mostly based in the Copperbelt. The estimate explicitly excluded briefcase businessmen, occasional suppliers, and firms exiting the supply chain. Utilities and financial companies and labor contractors were also excluded (Fessehaie 2012b).

[9] Sales growth in the ensuing discussion refers to sales to the mining sector. Several supplier firms also sold to non-mining sectors.

[10] "Upgrading" is the dynamic capabilities of firms to defend their position in the marketplace by improving their method of production (process upgrading), improving what they produce (product upgrading), moving into new links in the value chain (functional upgrading), or moving into more remunerative value chains (chain upgrading) (Gereffi 1999; Humphrey and Schmitz 2002). Process upgrading has been broken down into various actions: qualitative improvement of existing products, improvement in production processes through new machinery, enhanced workers' skills, reduction in lead times, introduction and improvement of total quality management systems, and introduction of new organizational and management techniques. Other forms of upgrading include (i) product upgrading—introduction of new products; (ii) functional upgrading—undertaking new functions, for example design or servicing; and (iii) chain upgrading—movement to different value chains.

**FIGURE 4.2:** **Dynamic Trajectory of 14 Service Suppliers by Type and Frequency of Upgrading Processes, 2009**

| Category | F1 | F2 | F3 | F4 | F5 | F6 | F7 | F8 | F9 | F10 | F11 | F12 | F13 | F14 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Process | | | | | | | | | | | | | | |
| Product | | | | | | | | | | | | | | |
| Functional | | | | | | | | | | | | | | |
| Chain | | | | | | | | | | | | | | |

*Source:* Fieldwork data (2009 survey of 27 service providers).

**FIGURE 4.3:** **Declining Trajectory of 13 Zambian Suppliers by Type and Frequency of Upgrading Processes, 2009**

| Category | F1 | F2 | F3 | F4 | F5 | F6 | F7 | F8 | F9 | F10 | F11 | F12 | F13 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Process | | | | | | | | | | | | | |
| Product | | | | | | | | | | | | | |
| Functional | | | | | | | | | | | | | |
| Chain | | | | | | | | | | | | | |

*Source:* Fieldwork data (2009 survey of 27 service providers).

dynamic trajectory, which characterizes firms with positive sales growth and significant upgrading efforts, and a declining trajectory, which characterizes firms experiencing declining or static sales to the mining sector and no efforts to upgrade.

Fourteen of the 27 sampled firms (52 percent) are positioned on a dynamic trajectory. These firms are evenly distributed in three periods of establishment: pre-1990s, 1990s, and 2000s, and supply a wide range of services/products. Figure 4.2 displays the upgrading strategy for each of the 14 firms. Ten firms focus on process upgrading, either exclusively (six firms) or together with other forms of upgrading (four firms). Process upgrading has been mostly pursued by investing in capital equipment, up-skilling the workforce, and introducing or improving quality management systems. Investment to improve product quality, management, or lead times has been relatively less frequent. Several firms pursue "deep" forms of upgrading (that is, upgrading on several fronts). In particular, four firms have invested in functional upgrading (after-sale services) and three have moved into more demanding value chains.

Thirteen of the 27 sampled firms (48 percent) are positioned on a declining trajectory. They are characterized by a combination of declining (eight firms) or static (five firms) sales growth. In particular, the five firms with static sales tend to be micro-enterprises, owned and managed by a person with significant expertise. These firms have failed to grow into more complex managerial and organizational structures that could accommodate upgrading processes, while individual expertise has been sufficient for them to remain in business. For this reason, they have not taken advantage of increasing market opportunities in the mining value chain and have struggled to remain competitive. There has been very limited upgrading effort among the interviewed firms on a declining trajectory (figure 4.3). The exceptions are two firms investing in process and product upgrading aimed at diversification away from the mining value chain. In these cases, upgrading has been an exit strategy rather than a strategic shift into more profitable and technologically complex value chains.

## Key Constraints to Local Service Supplier Development

Zambian service providers face several structural, cost-raising factors. Communications, transport, and utilities are problematic in cost, reliability, and access, raising the cost of doing business. Anecdotal evidence suggests that poor telecom and Internet network infrastructure has resulted in lost business opportunities for smaller firms, which have been unable to respond promptly to requests for quotations, or inquiries from potential buyers. Fluctuating foreign exchange rates make it difficult for local firms to plan expenditures and revenues. For example, some firms quote and import in U.S. dollars, and, in case of payment delays, exchange rate fluctuations can wipe out their profits. In addition, import procedures are expensive and time consuming, which particularly disfavors service providers. Zambia lags behind the already poor Sub-Saharan Africa average in five of six trading indicators (table 4.2). This situation has at least two implications. First, established service providers that comply with import procedures are disadvantaged compared with briefcase businessmen who often operate informally. Second,

**TABLE 4.2: Summary of Procedures and Documents for Trading across Borders in Zambia, 2013**

| Category | Zambia | Sub-Saharan Africa average | OECD high-income country average |
|---|---|---|---|
| Documents to export (number) | 6 | 8 | 4 |
| Time to export (days) | 44 | 31 | 10 |
| Cost to export (US$ per container) | 2,765 | 1,990 | 1,028 |
| Documents to import (number) | 8 | 9 | 5 |
| Time to import (days) | 56 | 37 | 10 |
| Cost to import (US$ per container) | 3,560 | 2,567 | 1,080 |

*Source:* World Bank 2013.

*Note:* OECD = Organisation for Economic Co-operation and Development.

because the mining companies can organize bulk imports and transport at cheaper rates, local service providers need to provide a value-added service to remain competitive (for example, short lead times or after-sale services).

Another key challenge affecting service providers in the mining sector is access to capital. In 2011, Zambia's domestic credit provided by the banking sector equaled 18 percent of GDP, compared with 110 percent in Mauritius, 52 percent in Kenya, and 50.9 percent in Namibia.[11] Moreover, lending rates remain high and SMEs have low access to bank credit (IMF 2012). Access to capital affects supplier performance on lead times. Most service activities are import intensive, because parts, components, equipment, and consumables are imported from South Africa or further away. Yet, because of Zambia's poor trade facilitation performance, importing a container takes an average of 56 days (table 4.2), during which time the suppliers' working capital is tied up to the goods in transit. Firms need to maintain large in-house stocks if they want to reduce lead times, but this is difficult because of poor access to banking finance.

Service providers also face severe skills shortages, for example in the areas of mechanical and electrical engineering, information and communications technology (ICT), and hydraulics, while the institutional response and availability of relevant data are limited. Overall, there is a misalignment between the demand for skills that is driven by increasing FDI in various productive sectors of the economy, and the government skill-development strategy. Technical and vocational institutions are underfunded.[12] Moreover, the Technical Education, Vocational and Entrepreneurship Training Authority (TEVETA) has not been involved in the planning of Zambia's Multi-Facility Economic Zones and there is no skills development strategy for the mining value chain. Finally, training is largely theoretical, rather than practical; teacher training programs are underfunded; and the training equipment that is available at colleges is old. Certification therefore has a weak signaling value in terms of actual competencies. This translates into high search costs for service providers.

Relevant research is also not a top priority in Zambia, which has low public and private R&D (UNESCO 2010) and weak linkages between public institutions and the private sector. The research conducted in public institutions is rarely transferred to the private sector for commercial exploitation. Moreover, local SMEs face particularly high barriers to acquiring technological innovation and know-how. Trade fairs are not well attended by technology providers or buyers, perhaps because the participation costs for such trade fairs are too high. Capital investment by local service providers is also low, and there is very little technological adaptation of imported technologies. Investment in technologically advanced equipment is curtailed by different factors, including capital constraints, reluctance to invest because of stiff competition from low-cost imports, and flat or erratic demand from the mines. Moreover, firms are not willing to invest in computerized equipment because of scarce local skills for its maintenance and repair.

In sum, the Copperbelt can be defined as a "shallow" cluster, because the network of specialized second-tier suppliers is underdeveloped. As a result, service providers pursue vertical integration and internalize many noncore activities, in particular maintenance and repair functions. For example, a specialized transport company reported having invested in in-house maintenance, repairs, servicing, and engine and gearbox rebuilds.

11 World Development Indicators data retrieved on May 15, 2013, from http://data.worldbank.org/topic/financial-sector.

12 In 2011, the Technical Education, Vocational and Entrepreneurship Training Authority (TEVETA) received only 55–65 percent of the budget required to run all the programs.

**BOX 4.1: Direct Cooperation, Low Supplier Capabilities, and Upgrading in Zambia**

A mining company situated in a remote geographical area in Zambia has found it difficult to localize its supply chain because supply firms are mainly located in Kitwe, Chingola, and Ndola. This has created an incentive for the mining company to assist the few existing local suppliers. In one case, the mining company entered into a long-term relationship with the supplier, purchasing the equipment required and renting it out to the supplier. A combination of positive turnover and intense cooperation has allowed this firm to expand its market size and move into different value chains, namely skill-intensive services (civil engineering).

In another case, a Zambian-owned supply firm has played a valuable intermediary role between mining companies and local coal producers. Mining companies imported services from South Africa, because Zambian coal producers are small-scale and scattered. The supplier incurred search and monitoring costs and, through exclusive distributorship rights, is linking coal producers to mining companies. The mining companies benefit from lower transportation costs. Through a forward purchasing agreement with the mining companies, the supply firm has been able to expand the range of products supplied and reduce delivery times.

*Source:* Fessehaie, 2012b.

## Forward and Backward Linkages and Firm Performance

Buyer-supplier relationships are important to support firm performance. However, the nature of these relationships varies significantly between mining companies.[13] Australian, European, North American, and South African mining companies follow highly developed outsourcing strategies, informed by world-class management. They focus on core competence, reduce the size of supply networks to fewer and larger suppliers, set highly detailed and demanding standards for core suppliers, and intensively monitor supplier performance. They often rely on historical suppliers, which makes it difficult for new entrants to participate in their supply chains. These mining companies demand value-added services: suppliers should be able to provide technical advice, engage in joint problem solving, and devise innovations to reduce the buyers' transaction and production costs. Moreover, suppliers are expected to have minimum levels of quality, environmental, and occupational health and safety management systems in place.

Australian, European, North American, and South African mining houses have also engaged in various levels of buyer-supplier cooperation to upgrade local supplier capabilities. For example, they directly assist suppliers through intense information sharing, upfront payments, and transport arrangements. Moreover, they are willing to operate through forward purchase agreements, which provide some level of certainty to local suppliers. Cooperation does not tackle areas such as joint product development or technical upgrading. There are also forms of indirect cooperation to offer technical and vocational training through third parties, such as the International Finance Corporation (IFC) Supplier Development Program, or the partnership between Northern Technical College and Solwezi Technical College.[14] Courses include welding, heavy equipment repair, mechanical and electrical engineering, and mineral processing operations.

Mining companies are more interested in cooperation with local suppliers when the services and goods are critical or when locational proximity is required. In these circumstances, mining companies are more likely to support existing local suppliers and facilitate their upgrading (see box 4.1).

13 The mining companies operating in Zambia vary significantly in country of origin and ownership structure. The China Non-Ferrous Metals Corporation (CNMC) is one of China's largest state-owned enterprises, under direct supervision of the State-Owned Assets Supervision and Administration Commission of the State Council. In the 2000s, CNMC's presence in Zambia's copper sector expanded with the acquisition of additional mines and investment in the Chambishi Zambia-China Economic and Trade Cooperation Zone. Indian-based Vedanta Resources is listed on London Stock Exchange. Other large mining companies originated from Australia, Europe, North America, and South Africa. All but one of the Western firms were listed on the major stock exchanges, and two in three were operating as joint ventures.

14 These are dual-based training systems, where students spend five months in a college (academic year) and seven months in the workplace acquiring practical skills. The final assessment mark represents an aggregated performance of the student in college and the workplace.

**TABLE 4.3:** Dynamic Trajectory of 14 Service Suppliers by Frequency of Ownership and Linkages, 2009

| Service supplier | No backward or forward linkages | Forward linkages | Mining OEM subsidiary | Non-OEM subsidiary | Sole distributorship | Total |
|---|---|---|---|---|---|---|
| Zambian | | 3 | | | 1 | 4 |
| Joint | | 1 | | | 2 | 3 |
| Foreign | | 1 | 4 | 2 | | 7 |
| **Total** | | 5 | 4 | 2 | 3 | 14 |

*Source:* Fieldwork data (2009 survey of 27 service providers).
*Note:* OEM = original equipment manufacturer.

**TABLE 4.4:** Declining Trajectory of 13 Service Suppliers by Frequency of Ownership and Linkages, 2009

| Service supplier | No backward or forward linkage | Forward linkages | Mining OEM subsidiary | Non-OEM subsidiary | Sole distributorship | Total |
|---|---|---|---|---|---|---|
| Zambian | 4 | | | | 2 | 6 |
| Joint | 2 | | | | 1 | 3 |
| Foreign | 1 | | | 1 | 2 | 4 |
| **Total** | 7 | | | 1 | 5 | 13 |

*Source:* Fieldwork data (2009 survey of 27 service providers).
*Note:* OEM = original equipment manufacturer.

Non-Ferrous China Africa (NFCA) (owned by China) and, to a lesser extent, Konkola Copper Mines (KCM) (owned by India) are more vertically integrated than the other mining houses. This situation has curtailed opportunities for some local service providers, such as engineering services. However, local and regional procurement by NFCA and KCM is still significant in value terms. Their supply chains open opportunities to local firms because of lower entry barriers and lower brand loyalty compared with other mining companies. Nevertheless, cultural and language barriers can be problematic. Further, under the adverse conditions of the global economic crisis in 2008–09, KCM delayed vendor payments, which caused many firms to close or operate at a loss, and deteriorated relationships with local suppliers. In general, NFCA and KCM have not allocated resources for cooperating with suppliers, but rather have operated at arm's length. Firms that perform well in the supply chain to NFCA and KCM are those that rely on backward linkages to parent companies abroad. These firms are mining OEM subsidiaries and sole distributors for foreign manufacturers.

The parent companies of mining OEM subsidiaries provide them with incentives and resources (capital, knowledge, know-how) to pursue product and process upgrading. In fact, all the firms with these types of backward linkages operate on global standards. Parent companies' contribution to job and skills creation has been significant, with local subsidiaries employing hundreds of skilled workers. However, equity relations are not the only way by which parent companies support local supplier upgrading. Through sole distributorship agreements, parent companies grant local distributors access to external resources and expertise, credit facilities, and obviously exclusive access to their products.[15]

Movement to sole distributorship is not easy, but sole distributors have upgraded and have improved the quality of services to the standards required by parent companies. For example, a sole distributor was required by the parent company to develop customized solutions and maintenance services. To do so, this firm has developed in-house technical competences and has started subcontracting second-tier, specialized engineering firms based in Zambia and South Africa. The outcome has been twofold: first, the firm has entered new sectors (fuel distribution, agro-processing, cement); second, it has moved into maintenance services independent of distribution.

In conclusion, forward linkages to buyers and backward linkages to international parent companies play a significant role in supporting local upgrading processes. As shown in table 4.3, each firm in the dynamic trajectory has benefitted from one type of linkage or a combination of both. Conversely, supply firms in a declining trajectory have been almost totally excluded from backward and forward linkages (table 4.4).

15 The exclusivity clause, in its most stringent applications, protects them from competition not only from the parent company and from subsidiaries and distributors in other countries, but also from briefcase businessmen.

These firms operate in activities (pharmaceutical products, cars) where locational advantages are weak and supplies are not critical. The mining companies do not need geographical proximity and have no interest in buyer/supplier cooperation, and face stiff import competition. Moreover, these firms operate at arm's length with overseas manufacturers, which implies that the firms cannot tap into external knowledge and resources. Most of these firms do not upgrade processes, and are not International Organization for Standardization (ISO) certified.

### Constraints to Technological Upgrading

Local technological upgrading is curtailed by many factors, which are primarily skills-related and financial. Skills scarcity and skills gaps prevent firms from upgrading to high-tech repairing services and expanding to larger volumes of business. In particular, the competitive advantage of engineering firms is being progressively eroded by an aging workforce. Existing mechanical and electrical engineering skills were built during the mining nationalization era, when public investment in technical and vocational training and engineering schools was significant. Such a workforce is difficult to replace because of market failures, whereby the technical education system is weak and high staff turnover discourages firms from spending on in-house training. Given the difficultly of accessing skilled labor and financing, SMEs struggle to access, adopt, and adapt to information on new technologies.

OEMs have supported skills development processes in the Copperbelt region, which has proved partially successful. They have trained staff in local and overseas training facilities. To address the problem of low staff retention, OEM subsidiaries have been considering closer partnerships with local training institutes. OEMs have become a key source of innovation in the mining industry, mainly in the form of incremental product innovation, such as larger haul trucks and excavators to cater to larger-size mining operations (Bartos 2007). However, the opportunities for technological acquisition by local OEM subsidiaries are limited. Consistent with the findings of Lall (1992), subsidiaries participate in global value chains in which the highest value-added activities, such as R&D, product development, and marketing, take place outside Zambia.

## Policy and Regulatory Framework for Mining Services in Zambia

### Mining Sector Legislation and Local Suppliers

The bilateral development agreements signed between 1997 and 2004 by Zambia and the mining companies included provisions on local procurement. The mining companies were to grant local firms an adequate opportunity to bid for tenders and had to ensure against unfair discrimination. They also had to submit a local business development program. For various reasons, however, the provisions of the development agreements on local suppliers were largely disregarded by the mining companies and the government, with the exception of the IFC Suppliers Development Program.[16] The explanation for this disregard was threefold:

- The years after privatization were focused on recapitalizing the mines or mining labor issues (such as wages and safety).
- The provisions for local suppliers were not implemented because of the poor institutional capacity of the ministries involved. This included issues such as high staff turnover in the ministries, lack of clear implementation and monitoring mechanisms, weak political guidance, and scarce financial resources.
- In the past, policy makers have failed to see the opportunities for private sector development inherent in upstream linkage development.

The 2007 Zambia Development Agency Act set a framework to promote investment in Zambia's copper mining, through a range of regulatory simplifications and fiscal incentives, and established Multi-Facility Economic Zones for selected priority subsectors. Industries upstream to copper mining, especially service providers, were not included in these policy initiatives. In 2007, the IFC undertook the Suppliers Development Program, which was implemented solely by the mines' supply managers, with guidance from their chief executive officers and IFC staff. The experience of the program shows that linkage development can deliver quick wins. The program achieved positive results in improving firm capabilities in areas such as business planning, cost management, marketing, product development, quality control, and diversification of markets (Newton Lungu and Associates 2010).

There are important lessons for future local supplier development programs. For example, often the beneficiaries of the IFC Suppliers Development Program were not critical suppliers. Targeting critical suppliers could have resulted in

[16] The IFC Supplier Development Program ran from 2007 to 2010, with funding from the mining companies, the IFC, and the Japanese International Cooperation Agency. The mining companies were Mopani Copper Mines, First Quantum Minerals Ltd, Lumwana Mines, and Chambishi Metals (the latter left after the 2008 financial crisis).

additional interest by buyers to strengthen cooperation and continue cooperating in the future. Furthermore, the program was driven by buyers and the IFC. Future initiatives should have a cluster approach and find internal agents of change to drive the process together with buyers. This approach may help address structural or unforeseen problems, and also lead to programs that continue beyond the years of the IFC program. In addition, the IFC Suppliers Development Program focused on manufacturers and included distributors only at the end of the program. Service providers with high potential for upgrading, skills, and job creation should have been included. Finally, the IFC program could not deliver on improving access to finance because local banking institutions did not cooperate (Newton Lungu and Associates 2010).

In contrast, briefcase businessmen have benefited from the lack of a coherent policy on upstream linkage development. Political connections and the pressure on mining companies to show some level of local sourcing enabled briefcase businessmen to gain access to mining procurement. Because of irregular procurement practices, the briefcase businessmen often charged high prices. The primary interest of their business association has been to maintain market access to mining procurement rather than to promote local upgrading.

The development agreements were unilaterally withdrawn by the 2008 Mines and Minerals Development Act, which set new provisions on local supply firms. These "best endeavor" measures dictate that, to the extent possible, the mining companies extend preferences to materials and products made in Zambia and to service agencies located in Zambia and owned by Zambia citizens or citizen owned companies (Government of Zambia 2008, section XIII). This approach tries to build mutual trust and collaboration between local suppliers and the mining industry, rather than setting compulsory regulations on local sourcing (Kasanga 2012). For service providers, the act focuses on firm ownership rather than value-added content. However, the risk is that if this local sourcing strategy is not coupled with supplier development programs, preferential procurement would encourage rent-seeking behavior rather than genuine upgrading processes. The experience of briefcase businessmen has shown that large expenditures by the mining companies on local procurement through small-scale, Zambian-owned importers do not necessarily result in skills and technological development, or firm upgrading to more productive value chains. On the contrary, this process can be counterproductive because it pushes established suppliers out of the mining value chain.

In July 2012, the Chamber of Mines of Zambia and the Zambia Association of Manufacturers, working closely with government, mining companies, and other key stakeholders started ZMLCI, which was officially launched in May 2013. The World Bank and IFC are providing facilitation support to ZMLCI and the Focal Group. ZMLCI aims to identify actions to enhance local content. Similar to the IFC Suppliers Development Program, this initiative seems to focus on local manufacturers only. Any measure aimed at developing the local supply chain should include manufacturers and service providers, including second-tier suppliers, with the objective of deepening the local supply cluster.

### Investment in Services Related to Mining

Zambia's investment regime for service providers to the mining sector is relatively open. Multilateral commitments to liberalization of trade in services cover three subsectors of relevance to the mining supply chain: testing services, services incidental to mining and exploration, and engineering services (table 4.5). Foreign companies are allowed to establish a presence in Zambia through the four modes of supply. Temporary movement of professionals is also relatively free, subject to specific restrictions. However, for permanent service providers, foreign engineers have to register with the Engineers Board of Zambia. Visa procedures have been cumbersome and time-consuming, a problem currently being addressed with the introduction of the Zambian Immigration Management System.

Investments in services related to mining are also favored by other factors. Business registration is straightforward, thanks to substantial regulatory simplification and institutional improvement at the Patents and Companies Registration Agency. Getting construction permits for warehouses, however, is still a hurdle (World Bank 2013). Moreover, Zambia has signed several bilateral investment treaties and double taxation agreements. The multi-facility economic zones provide fiscal incentives and improved physical and administrative facilities. For instance, Chambishi Zambia-China Economic and Trade Cooperation Zone, a US$800 million investment by China's state-owned China Non-Ferrous Metals Corporation, is likely to attract a cluster of mining service providers, probably from China.

### Tax and Payment Regulations

With Statutory Instrument 33, which became effective in May 2012, the Ministry of Finance and National Planning has prohibited domestic transactions in foreign currency (quoting, paying, or demanding to be paid or receiving). There are concerns that this regulation creates incentives for the

**TABLE 4.5: Zambia GATS Schedule of Specific Commitments for Selected Subsectors, 1994**

| Sector or subsector | Limitations on market access | Limitations on national treatment |
|---|---|---|
| 1. BUSINESS SERVICES<br>F. Other business services<br>e) Technical testing and analysis services (8676) | 1) None<br>2) None<br>3) None<br>4) Unbound except as indicated in the horizontal section[a] | 1) None<br>2) None<br>3) None<br>4) Unbound except as indicated in the horizontal section |
| 1. BUSINESS SERVICES<br>F. Other business services<br>h) Services incidental to mining, exploration<br>(883 + 5115) | 1) None<br>2) None<br>3) None<br>4) Unbound except as indicated in the horizontal section | 1) None<br>2) None<br>3) None<br>4) Unbound except as indicated in the horizontal section |
| 3. Construction and related engineering services | 1) None<br>2) None<br>3) None<br>4) Unbound except as indicated in the horizontal section | 1) None<br>2) None<br>3) None<br>4) Unbound except as indicated in the horizontal section |

*Source:* World Trade Organization 1994; Zambia GATS Schedule of Specific Commitments retrieved in September 2013 from https://www.wto.org/english/tratop_e/serv_e/serv_commitments_e.htm.

*Note:* Limitations to market access and national treatment are formulated across the four modes of supply, namely (1) cross-border supply, (2) consumption abroad, (3) commercial presence, and (4) presence of natural persons.

[a] Unbound except for measures concerning the entry and temporary stay of natural persons employed in management and expert jobs for the implementation of foreign investment. The employment of such persons shall be agreed upon by the contracting parties and approved by the Ministry of Home Affairs. Enterprises must also provide for training in higher skills for Zambians to enable them to assume specialized roles.

mining companies to stipulate contractual arrangements in foreign currency with overseas supply firms rather than procuring locally in domestic currency.

Under the 1995 Mines and Minerals Development Act, and later the 2008 Act, mining companies benefit from value-added tax exemption and the elimination of customs and excise duties on capital equipment. The tax regime applies to most of the mines, but not their suppliers. Therefore, local service providers have to pay customs duties ranging from 15 to 25 percent. The fiscal regime confers a cost penalty on local suppliers, which should be urgently redressed.

## Conclusion and Policy Recommendations

Service providers to Zambia's copper mining sector face severe competitiveness bottlenecks, including high communications, transport, and utilities costs, and fluctuating foreign exchange rates. A key challenge is access to capital, which curtails local firms' opportunities to invest in upgrading and business expansion. Undersupply of technical skills, in level and quality, emerged as an important constraint to firms' expansion, especially for small-scale, skills-intensive businesses. In contrast, larger firms, such as OEM subsidiaries, have a very aggressive training policy, because they tap into parent companies' resources. Finally, lack of access to new technologies, weak technology adoption, and poor adaptation capabilities are constraining local upgrading processes.

In this context, forward linkages to the mining companies and backward linkages to parent companies have been instrumental in supporting local supplier upgrading processes. Nevertheless, these forms of buyer/supplier cooperation have been very selective and have not tackled structural problems. A more structured intervention is needed to develop an internationally competitive supply cluster, where a broad range of value-added goods and services can be efficiently procured locally. The government and private sector should implement a comprehensive strategy to build the competitiveness of the existing supply cluster in the Copperbelt and to facilitate supplier entry into new mining areas such as Solwezi.

The World Bank's work offers Zambia's government and mining stakeholders many suggestions for developing a local supply chain. Key suggestions including the following:

- Increase local suppliers' value-added content, by increasing the technology, skills, and capital intensity of suppliers' activities, and by facilitating their upgrading processes. Increase the degree of local value addition to kick start a process of knowledge intensification, industrialization, and employment generation.

- Expand the number of new entrants participating in the mining supply chain. This could increase the range of services provided locally and promote competition. There is a misalignment between the mining companies' demand for specialized local suppliers and the broad range of services with little value addition that suppliers offer.
- Expand market opportunities for existing service providers. Expansion of the mining sector in the Democratic Republic of Congo has opened significant opportunities for Zambian suppliers to reach the economies of scale that they currently lack.

Developing the competitiveness of Zambia's local service providers would reduce operation costs for the mining companies through several channels:

- *Lower procurement costs* would result in price reduction and quality improvement for the mining companies, directly and indirectly through better quality and after-sale services.
- *Higher outsourcing* of noncore activities, such as stockholding or engineering services, would be enabled by lead time reduction by local service providers. This would allow mining companies to focus on their core processes and operate more efficiently.
- *Improved knowledge flows*, generated by service providers' know-how, expertise, and technical knowledge, would assist the mining companies in finding the most suitable solutions for their operations and in problem solving.

To achieve these goals, there are three top policy priorities for Zambia's mining sector stakeholders:

### Establish an Effective Stakeholders' Partnership for Mining Services

Zambia's government and private sector need to partner and set up an effective institutional framework for mining services**.** The resulting stakeholders' alliance should be responsible for the design and implementation of a local content strategy, with measurable activities, outputs, milestones, and evaluation mechanisms. The groups of stakeholders are

- *Suppliers.* Supply firms in Copperbelt province are geographically agglomerated, but, so far, horizontal cooperation between them has been weak. Knowledge sharing and joint actions (such as joint bids or joint bulk purchases) are scarce.
- *Mining companies.* Empirical evidence suggests that buyer/supplier cooperation is critical for stimulating local suppliers' upgrading processes. However, Chinese and Indian mining firms, which have become important players in Zambia's mining sector, have been less inclined to cooperate with suppliers. Their involvement in a stakeholders' alliance would signal a commitment to improve local supplier capabilities and increase local content. The mining companies' participation will help address the misalignment between suppliers and buyers and aid in designing strategies to make local sourcing efficient for the buyers. Lastly, inviting mining companies to share the procurement data would facilitate the monitoring and evaluation process.
- *Government.* Zambia's government needs to commit to allocating sufficient resources at every stage of this initiative and providing the public goods required to improve the competitiveness of the mining cluster.
- *Other stakeholders.* Several institutions should be involved in the design and implementation stages of specific activities. These include the Zambia Bureau of Standards, the Engineering Institution of Zambia, universities and technical institutes, business development service providers, and international institutions such as the IFC.

### Review of Laws and Regulations Affecting Supplier Development

The stakeholders' alliance should review current legislation and regulations hampering local supplier competitiveness, and formulate proposals to the government to improve regulatory design and implementation. This priority constitutes "low-hanging fruit" for resource requirements. One of the priorities will be the review of the tax exemption regime for the mining sector. Stakeholders should formulate proposals that, while ensuring that the mining companies are not negatively affected, would remove the cost disadvantage faced by suppliers.

### Skills Development for Labor and Management

The importance of addressing the workforce skills gap is twofold. First, access to a skilled labor force would support suppliers' efforts to upgrade to new functions and expand their operations. Second, skills development initiatives would tap into the employment generation potential of the mining cluster, because existing firms could employ more people and foreign firms could be incentivized to set up local firms. In this regard, the Ministry of Science, Technology, and Vocational Training and TEVETA should increase resources for training and vocational institutes and ensure that their curriculum matches the market demand for specific skills. A few technical institutes in the Copperbelt are working with suppliers and mining companies in developing curriculums, but this collaboration needs to be supported with public resources and expanded to delivering training.

Skills gaps affecting the management of SME businesses also need to be addressed. The stakeholders' alliance should work through business development service providers and international organizations to strengthen SMEs' operational and financial skills, and knowledge of world-class manufacturing and manufacturing excellence. Quality management of the operations of SMEs is becoming increasingly important. The stakeholders' alliance should devise a program to help selected local suppliers comply with these requirements. ISO certification is costly and requires firms to have sophisticated internal capabilities. Certification process should be financially supported, because costs are high because of the lack of accredited certification bodies. Other firms should be supported in establishing internal quality control systems, which could be a stepping-stone for future international certification. Such programs should be inclusive of second-tier suppliers.

### Suppliers' Access to Finance

Capital market imperfections, such as information asymmetry and lack of collateral, constrain access to working and investment capital for smaller firms. The IFC Supplier Development Program did not manage to tackle this factor. The ministries responsible for industrial development and finance, in partnership with all stakeholders, should establish an SME financing scheme.

### Transparency in Mining Companies' Procurement

Transparent procurement procedures are critical to facilitate the entry of capable local suppliers and to improve supply chain efficiency. An electronic procurement system could be a step in this direction. In the past, misunderstandings and poor consultations between stakeholders over the establishment of this system led to the project's failure. This experience highlights the importance of adequate consultations before and after implementing such procurement reforms.

### Facilitating Technological Upgrading

Given Zambia's early stage of development, technological innovation should be pursued by supporting the adoption and adaptation of technology, rather than high-value R&D**.** The Ministry of Science, Technology, and Vocational Training should work with the ministries responsible for finance and industrial development to design firm-level incentives to invest in new equipment and training (for example, through matching grant programs), as well as to encourage technology transfer agreements.

### FDI Promotion

To facilitate new entrants, specialization, and linkages between parent companies and local suppliers, the government should continue to promote FDI and encourage technology transfer and joint ventures. The investment regime is relatively open, but transnational corporations prefer to operate at arm's length rather than partner with local firms because of low knowledge and/or trust of local businesses, and weak local capabilities (in skills, finance, and so forth). The Ministry of Commerce, Trade, and Industry could take several mitigating actions in this regard. Possible actions include, for the short term, promotion of business-to-business events to facilitate linkages, and, for the long term, collaboration with the Ministry of Justice to improve contract enforcement mechanisms.

### Fostering Regional Integration

Regional integration can open market opportunities for Zambia's local supply cluster. Regional integration efforts should prioritize infrastructure development and trade facilitation. Both are important for cutting operational costs across the board for local firms, as well as for facilitating firms' insertion in regional value chains. The Southern African Development Community (SADC), Common Market for Eastern and Southern Africa (COMESA), and the Tripartite (COMESA-EAC-SADC)[17] frameworks offer ideal platforms for raising investment in infrastructure projects and harmonizing export and import procedures, customs transit, and transport regulations.

Trade in goods negotiations should aim at improving local suppliers' market access to the mining value chain of the Democratic Republic of Congo (which is not implementing the SADC free trade agreement). These negotiations should be accompanied by negotiations on trade facilitation and

[17] EAC = East African Community.

nontariff barriers. Trade in services negotiations within SADC and COMESA are important to bind liberalization commitments; improve and harmonize domestic regulations of key service sectors such as telecommunications, finance, and transport; and facilitate the movement of natural persons. By doing so, these negotiations would facilitate regional value chains and lower transaction and operating costs for Zambian service providers. In parallel, Zambia should focus on enforcing current regional frameworks on investment and competition.[18]

18 The Accelerated Program for Economic Integration among the five like-minded countries (Malawi, Mauritius, Mozambique, the Seychelles, and Zambia) can play an important role in driving the regional integration process (http://www.worldbank.org/en/news/feature/2013/03/19/speeding-up-the-pace-of-regional-integration-in-east-africa).

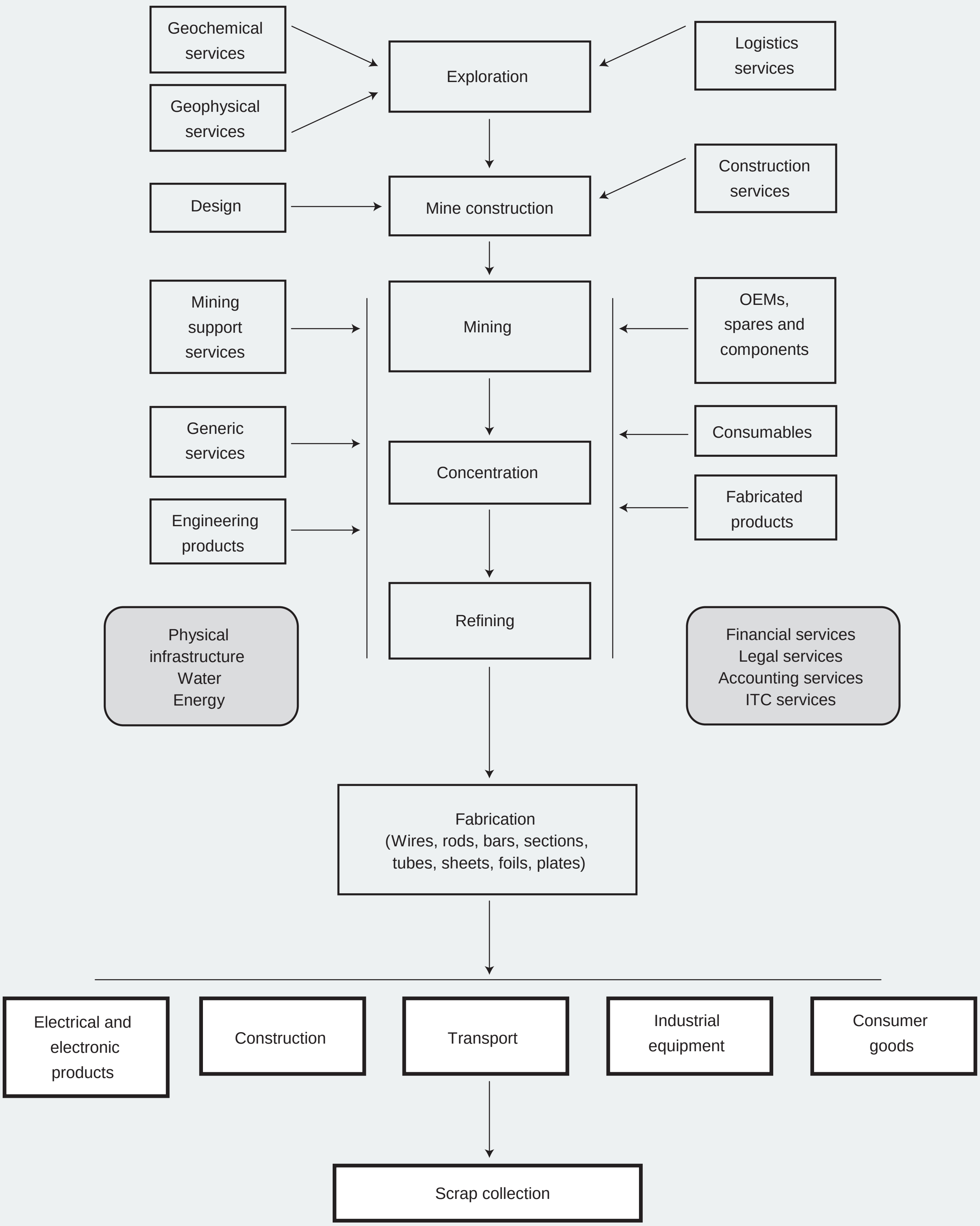
# Annex 4A: Upstream Linkages

Upstream linkages (or supply links) to the exploration stage consist of geochemical and geophysical services. These tend to be knowledge and skills intensive and therefore are often outsourced to foreign companies. The mine design and construction stages are usually subcontracted to specialized project design consultancy firms and large mine construction contractors from a handful of countries: North American countries, Australia, and South Africa (Hanlin and Hanlin 2012). Construction contractors usually operate under lump-sum turn-key or engineering, procurement, construction, and management arrangements, which largely lock out local supply firms. Decisions taken at this stage affect procurement decisions further down the value chain for several reasons. Construction contractors set product standards that apply for the life of the mine and purchase equipment requiring spare parts and maintenance services supplied from specific OEMs (Hanlin and Hanlin 2012). Moreover, they develop relationships with specific suppliers that are retained by the mining companies at the operational stage. Figure 4A.1 displays the global copper value chain, from exploration to industrial use and recycling.

The operational stage of a mining project consists of core extraction, crushing, concentration, smelting, and refining. Upstream linkages to these operations usually open more opportunities for local suppliers. However, in Africa, the manufacturing, installation, and servicing of large equipment like smelters and shafts is controlled by a handful of specialized OEMs from Australia and North America. There is an intermediate category of supplies with skills, knowledge, and technological content.[19] Manufacturing products in this category include fabrication products, construction material, and rubber products. In some African countries, such as Ghana and Nigeria, local manufacturers have successfully entered these supply chains (Morris et al. 2012). In the short to medium term, Zambian local supply firms can seize opportunities to participate in the mining value chain via this category of supplier. Opportunities for local service providers are particularly significant if the mining companies require supplier locational proximity and local value addition. In the longer term, however, Zambia's linkage development strategy should also aim at broadening and deepening its manufacturing linkages upstream and downstream of the copper mining sector.

19 This includes services such as personal protective equipment, health services, electrical equipment, electrical and mechanical engineering services, security services, catering, cleaning, administration, process control, civil engineering services, fabrication products, construction material, rubber products, transport, power, laboratory testing services, and pneumatic and hydraulic equipment and services.

**FIGURE 4A.1: Copper Mining Global Value Chain**




*Note:* ITC = information and communications technology; OEM = original equipment manufacturer.

# Annex 4B: Market Diversification Strategies for Selected Service Providers

| Firm's core business | New target markets |
|---|---|
| Distributor of compressors and other capital equipment distribution | Oil marketing companies, industrial sectors |
| Distributor of electric products | Transport, government procurement, corporate, exports |
| Distributor of electric products | Breweries, oil marketing companies |
| Engineering products distribution | Corporate, farming |
| Electrical engineering | Corporate |
| Equipment supplier | Corporate |
| Distributors of gas products | Corporate, households |
| Hydraulic equipment distribution | Transport, industrial hydraulics, farming |
| OEM equipment distribution | Construction, forestry |
| OEM pumps distribution | Water utilities |
| Distributors of wire manufacturing | Corporate |

*Note:* OEM = original equipment manufacturer.

## References


Ahmad, L., and M. Walker. 2005. "Zambia Copperbelt Supply Chain Assessment." International Finance Corporation, Washington, DC.

Bank of Zambia. 2012. "Foreign Private Investment and Investor Perceptions in Zambia—2012." Lusaka, Zambia. Retrieved on April 15, 2013 from http://www.boz.zm/.

Bartos, P. J. 2007. "Is Mining a High-Tech Industry? Investigations into Innovation and Productivity Advance." *Resources Policy* 32(4): 149–58.

Chamber of Mines of Zambia. 2005. *Survey of the Zambian Mining Industry 1995 to 2004.* Ndola, Zambia: Mission Press.

Fessehaie, J. 2012a. "What Determines the Breadth and Depth of Zambia's Backward Linkages to Copper Mining? The Role of Public Policy and Value Chain Dynamics." *Resources Policy* 37(4): 443–51.

———. 2012b. "The Dynamics of Zambia's Copper Value Chain." Unpublished PhD thesis. University of Cape Town, South Africa.

Gereffi, G. 1999. "International Trade and Industrial Upgrading in the Apparel Commodity Chain." *Journal of International Economics* 48(1): 37–70.

Government of Zambia. 2008. "Mines and Minerals Development Act, 2008." Available at: http://www.parliament.gov.zm/index.php?option=com_docman&task=doc_view&gid=275

Hanlin, R. and C. Hanlin. (2012). "The view from below: 'lock in' and local procurement in the African gold mining sector". *Resources Policy*, 37(4), 468–474.

Humphrey, J., and H. Schmitz. 2002. "How Does Insertion in Global Value Chains Affect Upgrading in Industrial Clusters?" *Regional Studies* 36(9): 1017–27.

International Monetary Fund (IMF). 2012. "Zambia 2012 Article IV Consultations" IMF Country Report No. 12/200. IMF, Washington, DC.

Kasanga, J. 2012. "Leveraging Zambia's Industrialization with Growth of Copper Mining Investments: Strategy for Expanding Local Manufacturing Capacities to Supply the Zambian Mining Industry." Discussion Paper prepared for the Zambia Mining Local Content Initiative. Lusaka, Zambia.

Lall, S. 1992. "Technological Capabilities and Industrialization." *World Development* 20(2): 165–186.

Morris, M., R. Kaplinsky, and D. Kaplan. (2012). *One thing leads to another: Promoting industrialisation by making the most of the commodity boom in sub-Saharan Africa.* Lulu.com

Newton Lungu and Associates. 2010. "Independent Evaluation Report of the CSSDP." Report prepared for the International Finance Corporation. Lusaka, Zambia.

UNESCO. (2010). *Science report: The current status of science around the world.* Paris, France: United Nations Educational, Scientific and Cultural Organization

World Bank. 2013. Doing Business. http://www.doingbusiness.org/. World Bank, Washington, DC.

World Trade Organization. (1994). Zambia schedule of specific commitments. General Agreement on Trade in Services (GATS/SC/93). 1 April, 1994. Retrieved in September 2013 from https://www.wto.org/english/tratop_e/serv_e/serv_commitments_e.htm


*Routine Series II* by Onyis Martin

CHAPTER 5

# Professional Services Knowledge Platform for Sub-Saharan Africa


Antoine Coste, Nora Dihel and Arti Grover Goswami

Antoine Coste is Consultant, World Bank, Nora Dihel is Senior Economist, Macroeconomics and Fiscal Management Global Practice, World Bank, Arti Grover Goswami is Senior Consultant Economist, World Bank.


## Introduction

Professional services, such as accounting and auditing, architectural, engineering, and legal services, matter greatly for productivity, growth, and development, notably in Sub-Saharan Africa.[1] Although the sector is among the most dynamic in the region, professional services remain underdeveloped in many Sub-Saharan African countries, and regional markets for these services are fragmented. This underdevelopment has been caused by various factors, including restrictive trade policies, regulatory heterogeneity, limited capacity to train professionals, and rigid immigration rules. Policy makers in several Eastern and Southern African countries have recognized the critical importance of developing professional services and integrating regional markets. To support reform efforts at the national and regional levels, in 2012 the World Bank and the Common Market for Eastern and Southern Africa (COMESA) Secretariat launched a "knowledge platform" for the development of professional services.

The trade facilitation agenda has traditionally focused on cross-border trade in goods. Recent research and analysis shows that enormous benefits could accrue at the regional level if the free movement of freight is complemented with uninhibited movement of services (for example, through regional mutual recognition of professional qualifications in the engineering, legal, and accounting professions). Trade in services can be a source of export diversification and reduce Africa's dependence on a narrow range of agricultural or mineral commodities, thus facilitating trade in higher value-added goods. In common with services in general, professional services show greater resilience to economic downturns than do manufactures, in part because of the lower demand cyclicality for services (Borchert and Mattoo 2010).

This chapter provides an overview of the work undertaken as part of the Professional Services Knowledge Platform for Eastern and Southern Africa. The main components of the project address three related dimensions of services trade and regulatory reform: (i) filling information gaps, (ii) filling knowledge gaps, and (iii) providing technical assistance activities to address political economy constraints. The next section describes how the platform fills information gaps. Activities include the creation of a database and reports to fill information gaps on market structure, collection of data on performance indicators and trade flows, and collection of information on regulatory measures and trade policies. The third section describes how the platform fills knowledge gaps. This is accomplished by reports and technical assistance activities to make the information publicly available, and by providing training to relevant stakeholders to use the databases and undertake regulatory assessments. The fourth section describes the platform's technical assistance activities to address the political economy constraints that slow reform in professional services in Sub-Saharan Africa. These activities include channels adopted to support wide dissemination of information and regular consultations among a variety of stakeholders. The chapter concludes with key lessons.

## Filling Information Gaps on Regional Trade in Professional Services: Results from Survey Data

This section summarizes the outcomes of the survey data collected for the users and providers of professional services. It also describes the regulatory regimes that affect these

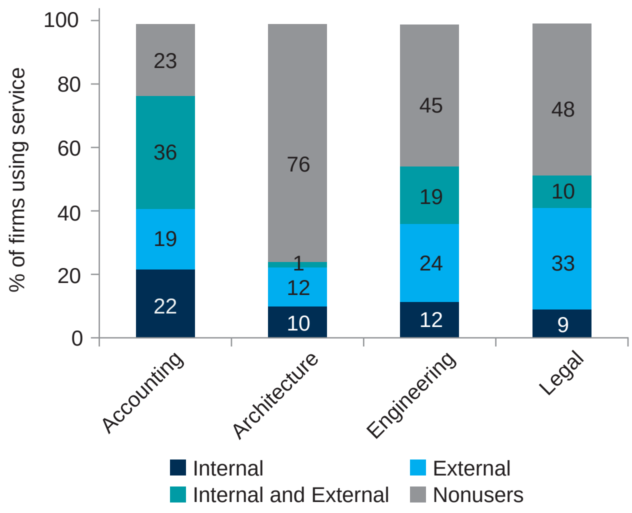
[1] Related works include Trolliet and Hegarty (2003), Cattaneo and Walkenhorst (2010), and World Bank (2010a, 2010b).

sectors in the 19 examined COMESA countries[2] covered by this project.[3]

More than 2,000 users and providers of professional services in Sub-Saharan Africa were surveyed during the first half of 2012. The sample design was developed to cover the accounting, architectural, legal, and engineering services sectors and all size categories (measured by the number of employees) within those sectors. The sample universe was comprised of the most recently available lists of firms from official sources, such as local statistical institutes or business registers in the COMESA countries. In each of the professional service sectors, 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 service sector–size category cell, the firms to be part of the final sample were chosen randomly from the universe of firms in that cell. The surveys covered 1,182 firms providing professional services distributed approximately as follows: 100 firms in the Arab Republic of Egypt, Ethiopia, Kenya, Sudan, and Uganda; 60 firms in the Democratic Republic of Congo, Madagascar, Malawi, Mauritius, South Sudan, and Zambia; and 40 firms in Burundi, Comoros, Djibouti, Eritrea, Rwanda, Swaziland, and Zimbabwe. To evaluate the usage of professional services, the survey covered 1,100 firms from five industries[4] distributed approximately as follows: 80 firms in Egypt, Ethiopia, Kenya, Sudan, and Uganda; 60 firms in the Democratic Republic of Congo, Madagascar, Malawi, Mauritius, South Sudan, and Zambia; and 40 firms in Burundi, Comoros, Djibouti, Eritrea, Rwanda, the Seychelles, Swaziland, and Zimbabwe.

Professional services are essential for the success and growth of all firms in any industry. Our survey suggests that a large proportion of firms in Africa use professional services, whether internally, externally, or both (figure 5.1). Accounting and architecture services are opposite ends of the spectrum; about 77 percent of firms use accounting services and about 23 percent of firms use architectural

**FIGURE 5.1: Usage of Professional Services in COMESA Countries, 2012 (%)**




*Source:* World Bank Survey, 2012.

*Note:* COMESA = Common Market for Eastern and Southern Africa.

services. At least 50 percent of the firms in our sample use engineering and legal services.

Usage of professional services is associated with higher productivity. Firms using accounting or engineering services, whether internally or externally or via employing internal and external professionals, perform better compared with nonusers (figure 5.2, panel a). However, in the cases of architecture and legal services, external professionals seem to be key in pushing labor productivity above that of nonuser firms (figure 5.2, panel b).[5]

Professional services present a potential avenue for expanding regional trade in services. This is evident from the wide variation in the availability of professionals and hence their average (gross) monthly salaries across countries in COMESA (figure 5.3).[6] The four countries where professionals

2 Libya was not covered by the project.

3 COMESA countries include the Arab Republic of Egypt, Burundi, Comoros, the Democratic Republic of Congo, Djibouti, Eritrea, Ethiopia, Kenya, Libya, Madagascar, Malawi, Mauritius, Rwanda, the Seychelles, Sudan, Swaziland, Uganda, Zambia, and Zimbabwe.

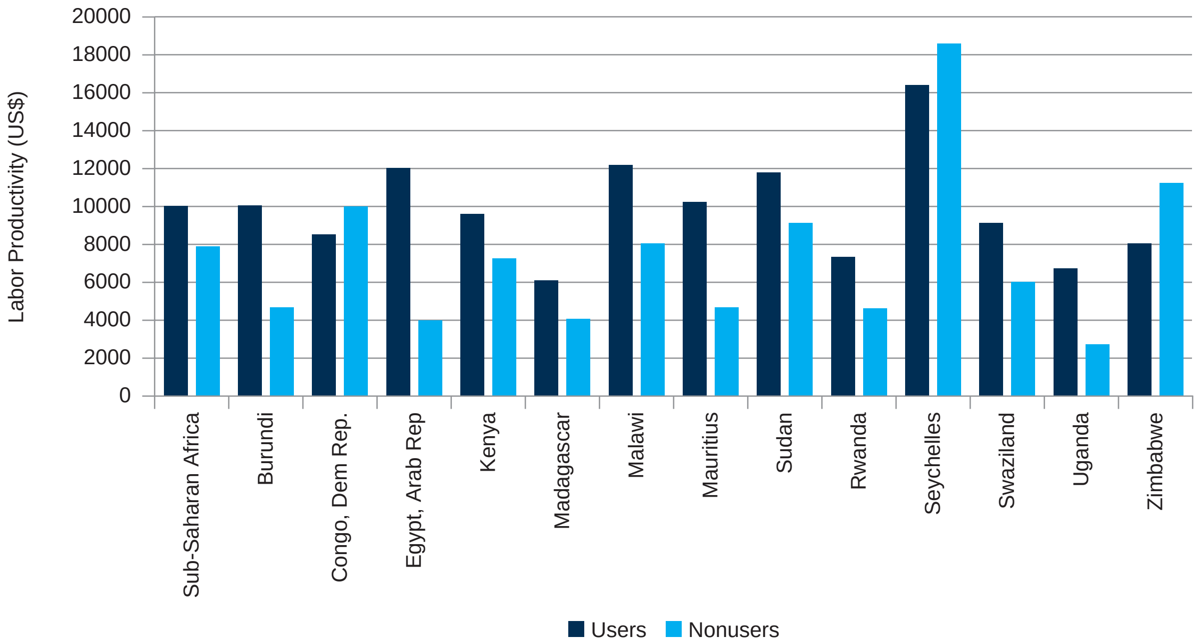
4 The firms belonged to one of the following five industries: agribusiness, construction, manufacturing, mining, and services, with services firms comprising more than 50 percent of the sampled firms.

5 We use the market exchange rate from the World Development Indicators and World Economic Outlook to derive the sales figures in U.S. dollars for the countries covered in the survey.

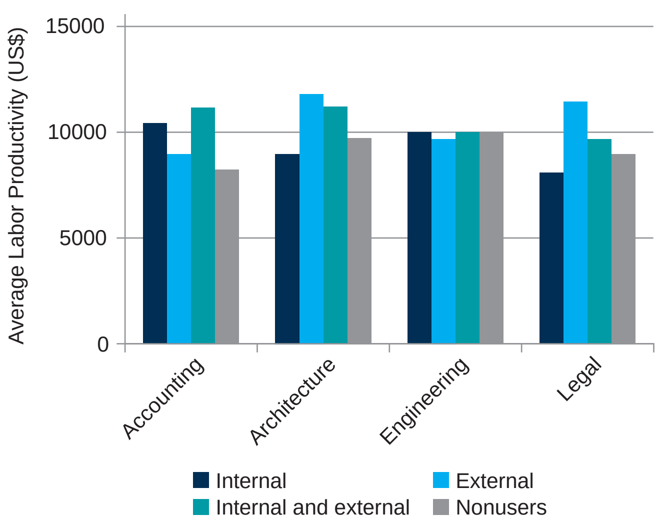
6 In figure 5.3, the ranking of countries differs depending on whether U.S. dollar or purchasing power parity U.S. dollar figures are considered. For example, professionals in Zimbabwe have one of the highest average remuneration levels at the market exchange rate, but are paid below the COMESA average at purchasing power parity values.

**FIGURE 5.2: Relation of Labor Productivity to Use of Professional Services in COMESA Countries, 2012 (US$ per employee)**

a. Labor productivity across countries, users versus nonusers




b. Labor productivity across service user type



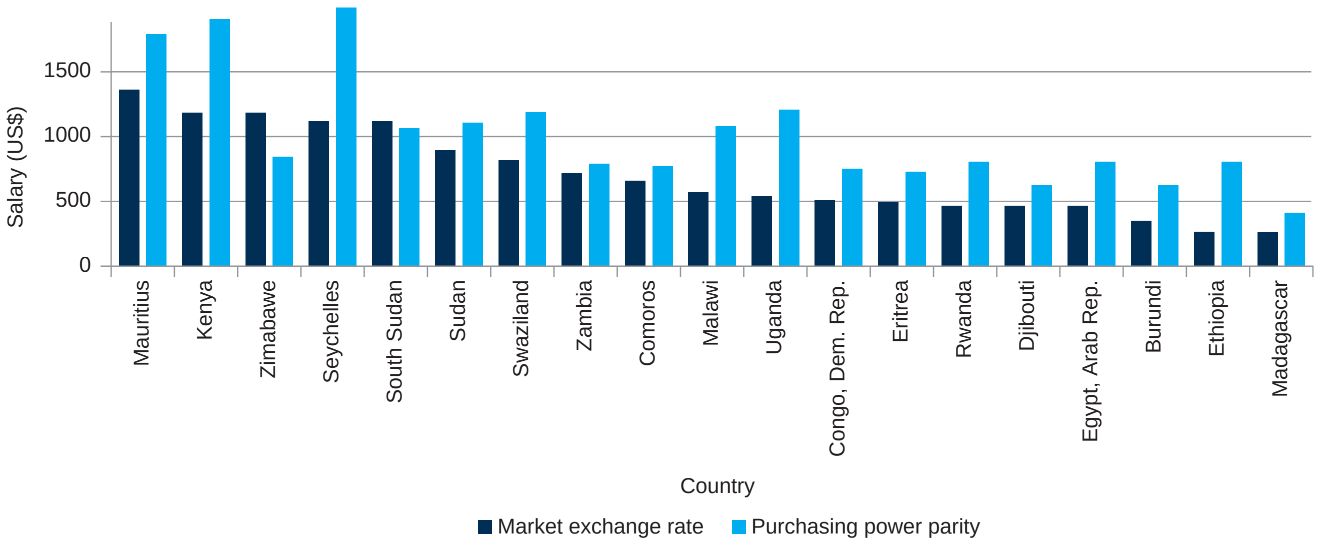

*Source:* World Bank Survey, 2012.

*Note:* COMESA = Common Market for Eastern and Southern Africa.

are paid the most are Kenya, Mauritius, South Sudan, and Zimbabwe, in U.S. dollar values, and Kenya, Mauritius, the Seychelles, and Uganda, in purchasing power parity values. The two countries where professionals are paid the least are Burundi and Madagascar.

The survey data show that a significant proportion of providers of professional services in COMESA already export services to clients within and outside the region. Overall, around 16 percent of firms declared that they exported some services in 2011. The proportion is lower in engineering and

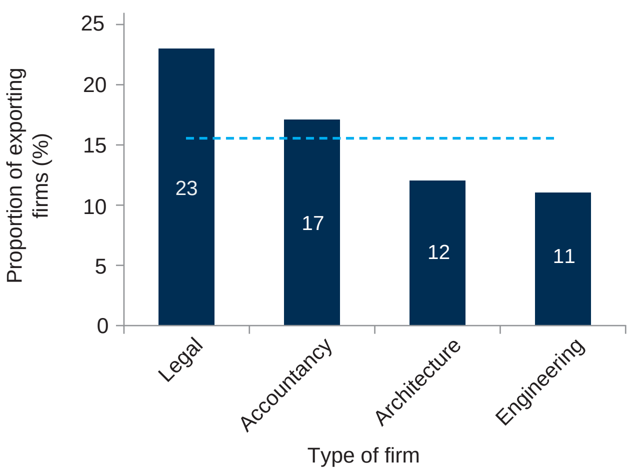
**FIGURE 5.3: Average Monthly Salary of Senior Professionals in COMESA Countries, 2012 (US$)**




*Source:* World Bank Survey, 2012.

*Note:* COMESA = Common Market for Eastern and Southern Africa.

**FIGURE 5.4: Proportion of Exporting Firms in COMESA Countries by Sector, 2011 (%)**




*Source:* World Bank Survey, 2012.

*Note:* COMESA = Common Market for Eastern and Southern Africa.

architecture, but slightly above average in accountancy and surprisingly high in legal services (figure 5.4). Most exports go to neighboring countries.

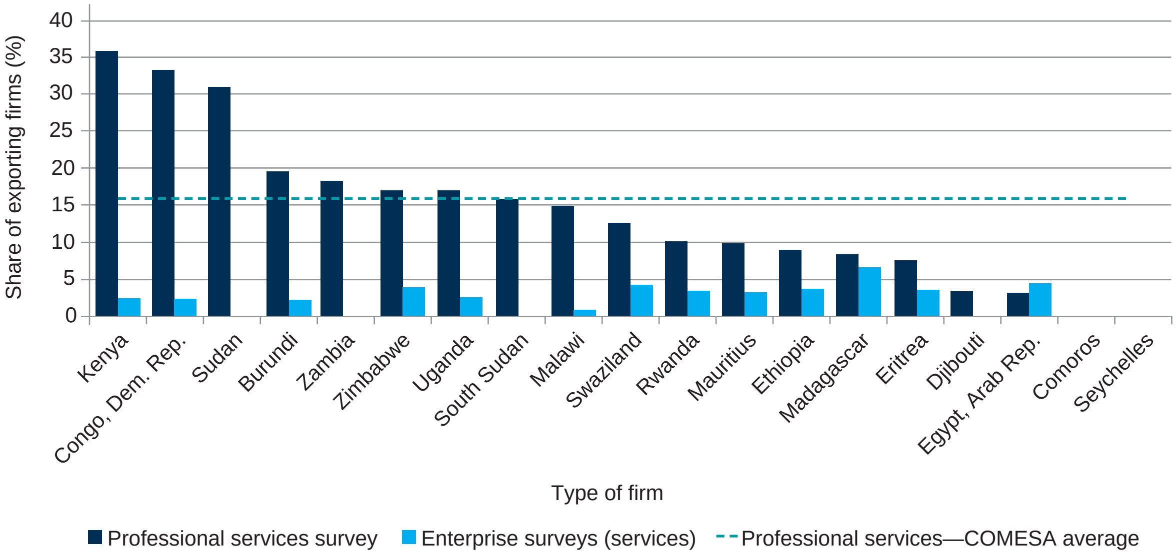
In the proportion of professional services firms providing services to foreign clients, three countries stand out, namely, Kenya (36 percent), the Democratic Republic of Congo (33 percent), and Sudan (31 percent) (figure 5.5).[7] Our survey data and the enterprise survey results shown in figure 5.3 are not perfectly comparable for various reasons (including different years of data collection for enterprise surveys, and smaller country samples for the professional services survey). Nevertheless, the order of magnitude suggests that professional services can have strong export potential, even in countries where exports in other services sectors are very limited.

The survey also indicates clear patterns in the modes used to export services. Following the General Agreement on Trade in Services (GATS) terminology,[8] mode 1 is the most frequently cited (by 43 percent of exporting firms), followed

7 Although this could be caused by sampling issues, some countries, such as Comoros, Djibouti, Egypt, and the Seychelles, appear to have virtually no exporters. Among exporters, the services provided to foreign clients represented on average around 20 percent of total revenue in 2011. As illustrated in figure 5.5, enterprise surveys show much lower proportions of exporting firms for most countries (in the total country samples and in the tertiary) than the professional services survey.

8 The WTO's GATS defines the following modes of services export: cross-border supply (mode 1), consumption abroad (mode 2), commercial presence (mode 3), and temporary presence of natural persons (mode 4). For more information, see http://www.wto.org/english/tratop_e/serv_e/gatsqa_e.htm.

**FIGURE 5.5: Proportion of Exporting Firms in COMESA by Country, 2012 (%)**

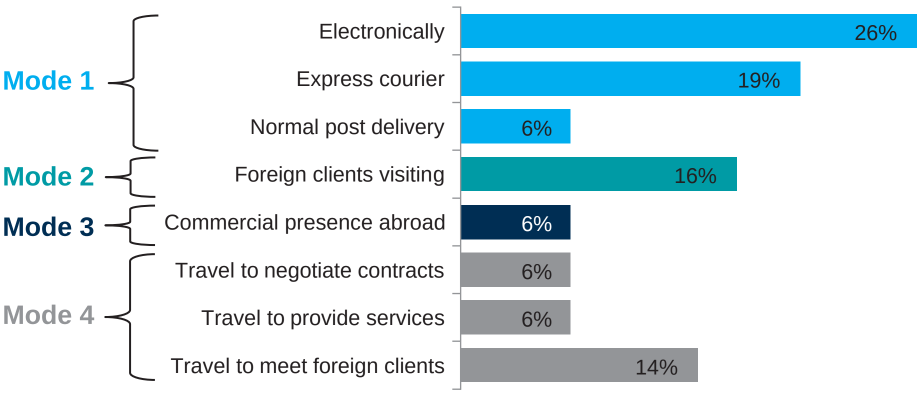



*Source:* World Bank Surveys, 2012; World Bank Enterprise Surveys, 2012.

*Note:* Enterprise Surveys data show the proportion of firms exporting directly (at least 1 percent of sales). COMESA = Common Market for Eastern and Southern Africa.

by mode 4 (25 percent) and mode 2 (23 percent). By contrast, mode 3 is far less used (9 percent) (figure 5.6). These findings might reflect firms' preferred way of providing services to foreign clients on a daily basis, because of speed or cost considerations. But they might also be a consequence of the obstacles faced by professionals in establishing a commercial presence abroad and traveling to provide services. Studies in Africa have shown that explicit trade barriers (such as nationality requirements and barriers to foreign ownership), domestic regulations (such as qualifications and licenses), or other rules (such as immigration policies) often impede the provision of services by foreign providers through modes 3

**FIGURE 5.6: Submodes of Export in COMESA Countries, 2012**



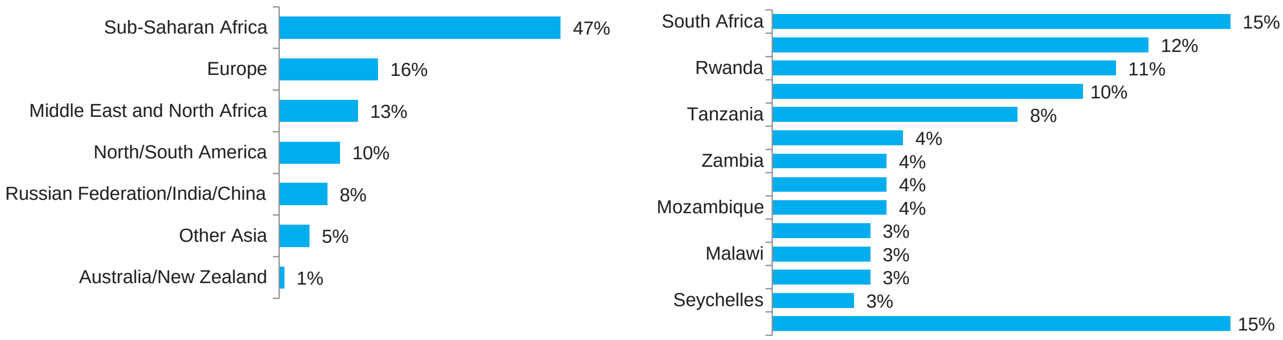

*Source:* World Bank Surveys, 2012.

*Note:* COMESA = Common Market for Eastern and Southern Africa.

**FIGURE 5.7: Destinations of Exports from COMESA Countries, 2012 (%)**

a: Main destinations by region

b: Main destinations within Sub-Saharan Africa




*Source:* World Bank Surveys, 2012.

*Note:* COMESA = Common Market for Eastern and Southern Africa.

and 4, notably in accounting and legal services (see World Bank 2010a).[9,10]

One clear finding is that Sub-Saharan Africa is by far the main destination of professional services exports by firms in COMESA countries, accounting for almost half of all the export relations reported in the survey (figure 5.7, panel a). Within the region, South Africa is the foremost market, followed by four countries of the East African Community (figure 5.7, panel b). In general, firms tend to export services to neighboring countries (for example, Burundi to Rwanda, South Sudan to Uganda, Swaziland to South Africa, and Zambia to Zimbabwe).

Our survey also evaluates the extent of mode 3 imports (percentage of foreign ownership in professional services firms, figure 5.8, panel a) and mode 4 imports (percent of foreign employees, figure 5.8, panel b). Very few countries have any significant proportion of foreign ownership or foreign employees on their payroll. This reflects significant barriers to entry in foreign markets in the COMESA region.

## Applied Regulatory Policies and Barriers to Professional Services Trade

Professional services have traditionally been subjected to a high degree of regulation. These regulatory measures are a result of direct government regulation and rules adopted by self-regulatory bodies, and range from qualitative and quantitative entry regulation to conduct regulation. Entry regulation includes educational and professional qualification requirements, exclusive or shared exclusive rights to provide services, ownership restrictions, and restrictions on the numbers of providers. Conduct regulations govern business structure and multidisciplinary practices, pricing, and advertising. These rules can be applied to domestic and foreign providers. Public interest theories tend to justify regulation, while private interest theories have been critical, especially of self-regulation.

The survey respondents were asked to assess the level of constraint imposed by different categories of regulations, domestically and in foreign markets.[11] The categories of regulations considered were as follows:

- *Regulations related to competition and firms' operations* (number of firms allowed to operate, multidisciplinary activity, cooperation with other professionals, prices, advertisement, and so forth)

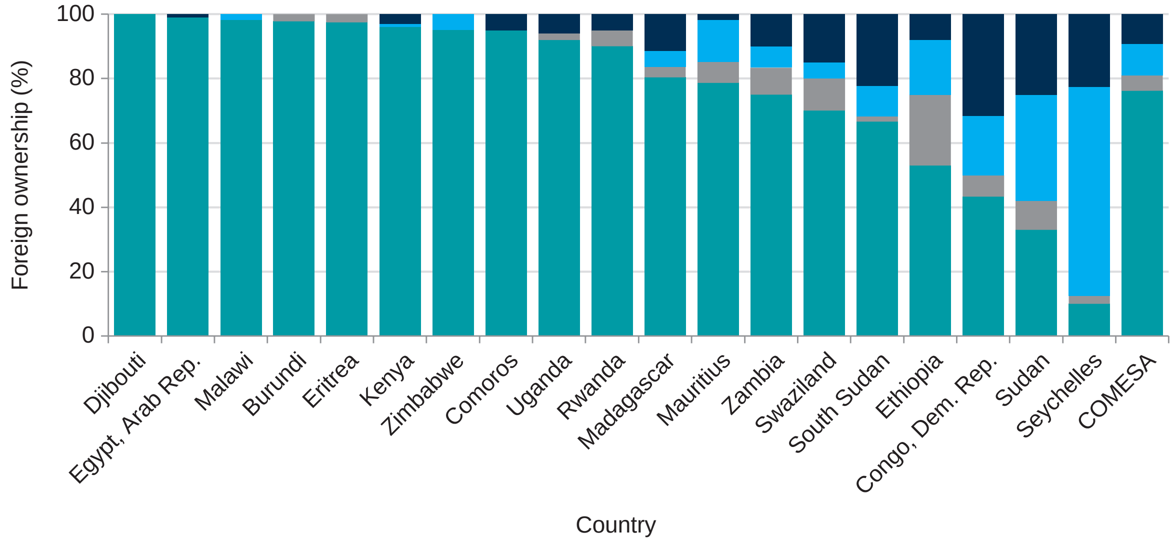
9 A finer analysis by submode seems to confirm the existence of barriers in the case of mode 4, as "travel abroad to meet foreign clients" and "travel abroad to negotiate contracts" together represent 20 percent of answers, compared with only 6 percent for "travel abroad to provide services directly to foreign clients."

10 The survey data analysis did not reveal any major differences in the modes used across sectors, but the data suggest that small exporters rely more on mode 1, while larger ones tend to use other modes more.

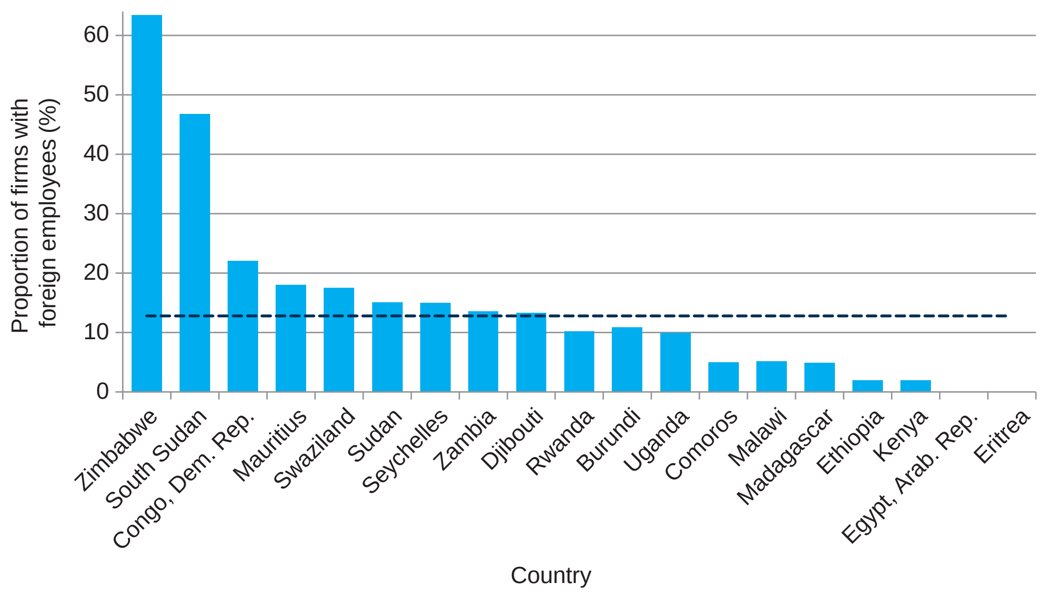
11 For nonexporters, the questionnaire asked which regulations would most affect operations abroad and the capacity to export.

**FIGURE 5.8:** **Share of Foreign Ownership and Foreign Employees in COMESA Region Firms, 2012 (%)**

a: Foreign ownership in professional services firm




b: Proportion of firms with foreign employees




*Source:* World Bank Surveys, 2012.

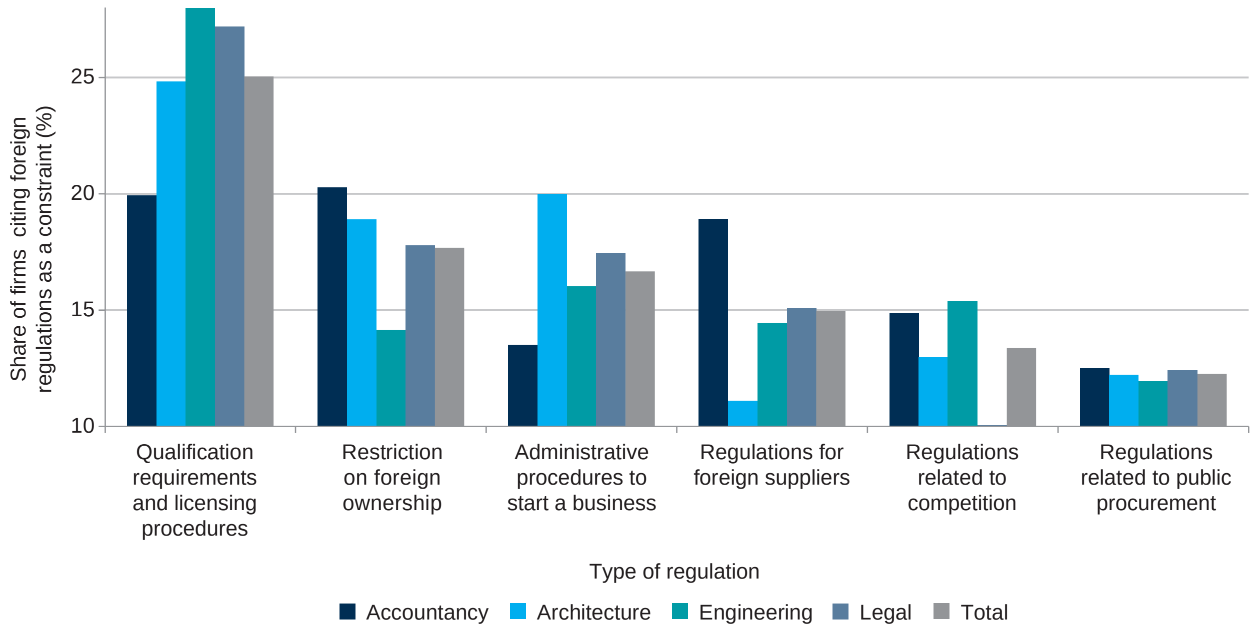
*Note:* COMESA = Common Market for Eastern and Southern Africa.

- *Regulations related to qualification and licensing* (complexity and speed of procedures)
- *Public procurement* (complexity of requirements to participate and transparency of procurement processes)
- *Administrative procedures and requirements to start a business.*

Two additional categories were included for foreign regulations: (i) restrictions on foreign ownership and foreign entry, and (ii) regulations and requirements applying specifically to foreign providers.

On average, regulations related to qualification requirements and licensing procedures are the ones cited as being the most constraining in the domestic and foreign

**FIGURE 5.9:** Firms in the COMESA Region Citing Foreign Regulations as a Constraint, by Sector, 2012 (%)




*Source:* World Bank Surveys, 2012.

*Note:* COMESA = Common Market for Eastern and Southern Africa.

markets. In the domestic market, the latter category is seen as more constraining by accounting and law firms, while public procurement regulations appear to be more of an issue in architecture than in the other sectors. In foreign markets, regulations related to qualification and licensing are particularly problematic for engineering and law firms, while accounting firms complain more about restrictions on foreign ownership and foreign suppliers' operations (figure 5.9).

## Filling Knowledge Gaps

The objective of this component of the Professional Services Knowledge Platform was to increase information on regulatory experiences and impacts and identify alternative options/good practices to guide reforms in professional services. An important lesson learned from the project is that there is hardly ever a "quick-fix solution" to regulatory problems. The sometimes slow and modest results of liberalization and regulatory cooperation reflect the complex political economy process that needs to be addressed when implementing regulatory reforms. The project therefore extended the collection of data on professional services to include conceptual and applied analyses of the reforms in professional services.

### Reform of Domestic Regulations

Public interest theories claim that many of the regulatory measures discussed in the previous section are justified to address market failures, such as information asymmetries, externalities, lack of economies of scale, and equity concerns. However, private interest theories have been critical of many aspects of professional regulation and, especially, of self-regulation.[12]

### Information Asymmetry

Professional services require that practitioners have a high level of technical knowledge. Many knowledge-intensive professional services can be considered credence goods; that is, the clients may not have the knowledge to judge the quality of the services they purchase.

A possible market-based correction mechanism for this problem is the reputation premium. However, in many professional services, reputation is not enough to provide information about quality to consumers. This situation can result in overall quality deterioration, because providers of the highest quality, who charge higher prices, are driven out

12 The classic references are Stigler (1971) and Posner (1974).

of the market.[13] Therefore, public interest theories assert that education and qualification requirements, other qualitative entry requirements such as exclusive tasks reserved to professionals, or advertising regulations are needed to protect consumers.

Similarly, public interest theories claim that regulatory intervention is needed to address the principal-agent problem that can generate supplier-induced demand: the agent (services provider) has an incentive to oversupply quality to charge higher prices even if the principal (consumer of services) would be better off with a lower-quality service at a more reasonable price. Such adverse selection issues are often addressed by (minimum) standards or price regulation.

### Externalities

The use of professional services may bring benefits to users, but also to third parties. For example, an accurate audit can help companies obtain credit while also helping creditors and investors make informed lending and investment decisions. However, several providers and potential users, particularly small enterprises, may be unaware of the private and social benefits that the use of professional services offers. Therefore, intervention in many professional service markets tries to ensure that positive social externalities occur and negative externalities are avoided. Negative externalities can be addressed through liability regulations—but this approach operates ex post and has limited success. Ex ante quality requirements, such as standards related to education and training, seem preferable to address externality issues.

Positive externalities include public goods. Many professional services exhibit public good characteristics and create positive externalities for parties not involved in the transaction. For example, legal professionals may generate important positive externalities that benefit society in general by defining and enforcing property rights. In a free market, public goods tend to be underproduced, since the producer cannot exclude nonpaying beneficiaries. To guarantee that public goods are provided, states may decide to enact regulations on the provision of public goods.

Market power can be an additional reason for regulatory intervention. In certain professional services, such as accounting, leading firms (often foreign-owned) have a significant share of the market and a large gap exists between the average leading firm and the average other firm. These market structures may be a result of regulatory failure, such as uniform standards or licensing controls at multiple levels. In such cases, interventions may be needed to address inadequate direct or indirect regulation.

### Equity

Markets sometimes exclude certain actors from access to education or services. Therefore, governments or professional associations justify regulatory measures, such as price regulation, to ensure access to services for low-income consumers.

### Lack of Economies of Scale for Practitioners and Professional Services

The small size of the domestic market in COMESA countries may prevent the development of large professional service sectors, including the skills base. For example, local business service providers often do not have the expertise to support manufacturing exporters. And professional service sectors may lack investment from foreign firms. In such cases, it is essential to (i) identify unnecessary measures and trade barriers that prevent local companies from exploiting economies of scale, and (ii) examine how regional and/or multilateral liberalization (along with mutual recognition agreements) can help compensate for underdeveloped local services markets.

Public interest theories claim that many of these regulatory measures are justified to address the above market failures. But private interest theories have been critical of many aspects of professional regulation and self-regulation, in particular the protectionist outcomes they often produce.

For example, public interest theories argue that 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 warn that qualitative regulations may be disproportionate as a result of the excessive entry requirements set by rent-seeking professionals and professional associations. In addition, if the profession gains a monopoly over the organization of the required training, the education of necessary professionals may be limited.

It is difficult to determine whether qualitative requirements, in general, are disproportionate. One example of typical restrictive qualitative requirements is restrictions on access to the profession, which are mainly caused by the monopoly of professional associations over training institutions. Another example is multiple certification requirements.

13 This process of "adverse selection" results in overall quality deterioration, which is described as a "market for lemons" in Akerlof (1970).

Yet another example is when a country's banking and insurance laws require that all companies that apply for credit use auditors approved by the banks or insurance institutions to prepare the financial statements for outside investors or other external parties to obtain credit. Such auditors are generally affiliated with one of the "big four" or other large companies. These requirements may limit the access of smaller suppliers to the market.

Highly skilled professionals in all sectors have exclusive rights to perform certain activities; these include auditing, representation of clients before courts, advice on legal matters, feasibility studies, and design and planning. 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 or nonregulated providers.

Furthermore, price regulations are introduced and supported by national professional associations, which claim they help prevent the adverse selection problem. But most of the economic literature states that these regulatory instruments can seriously harm competition by eliminating or reducing the benefits that competitive markets deliver for consumers. Most agree that less restrictive mechanisms, such as better information on the services provided, could be established.

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.[14] Instead, advertising fosters competition by informing consumers about different products and allowing them to make better informed buying decisions. Public interest theories also stress that advertising, especially comparative advertising, can be a crucial competitive tool for new firms entering a market.

Finally, restrictions on the business structure in all professional services are justified by professional associations. Such regulations include restrictions on the ownership structure of professional services companies; the room for collaboration within the profession and with other professions; and, in some cases, the opening of branches, franchises, or chains. Professional associations argue that professionals are more likely to give independent advice if certain forms of intra-professional partnerships are prohibited, and that restrictions on multidisciplinary activities prevent potential conflicts of interest that are detrimental to consumers. But private interest theories stress that these regulations are clearly anti-competitive and may harm consumers by preventing providers from developing new services or cost-efficient business models. For example, these regulations might prevent lawyers and accountants from providing integrated legal and accountancy advice for tax issues. In general, restrictions on collaboration between members of the same profession seem to be less justifiable than restrictions on collaboration between members of different professions, where there is a strong need to protect the independence and liability of professionals.

Guidance on whether the regulatory measures are disproportionate can be obtained from regulatory impact assessments, stakeholders' consultations, and business surveys.

## Removal of Explicit Trade Barriers

The major share of the international trade in professional services takes place through commercial presence and the temporary presence of natural persons. Thus, most restrictions faced by professional services exporters in COMESA countries will relate to mode 3 and mode 4 in GATS terminology. Typical restrictions affecting commercial presence in professional services include the following:

- An economic needs test for the approval of foreign investment
- Numerical quotas on the number of operating licenses available to providers of professional services
- A joint venture requirement for the supply of professional services
- Regulation of contracts by value and number through an annual licensing system
- Nationality or residency requirements for establishment of foreign-held companies providing professional services
- A requirement that foreign-held businesses hire specific ratios of domestic staff to foreign staff
- Reservation of some service sectors or activities for nationals or residents.

Professional services supplied through mode 3 will often be accompanied by mode 4 supply to provide skilled and professional services directly to projects and to maintain local offices. Professional service firms use a variety of

[14] Stigler (1971) has argued that advertising by the providers of services can substitute for a large amount of searching efforts by a large group of consumers.

professionals, such as high-skilled auditors, lawyers, engineers, and specialized technicians. Restrictions on mode 4 may also arise from a country's overall immigration policy or specific labor market conditions. The following are common examples of conditions for approving the entry of service suppliers:

- Labor market testing
- Residency requirements for intra-corporate transferees and a requirement that the foreign-held company employ specific numbers of local staff
- Authorization subject to the non-availability of locals
- Authorization subject to performance requirements (such as employment creation, the transfer of technology, and the level of investment).

The deployment of professionals for temporary assignments in export markets separately or as a complement to foreign direct investment is common in these sectors. The movement of natural persons is a sensitive issue in many countries because of illegal immigration and security concerns.

Trade in selected professional services, such as engineering consultancy services, can be provided via mode 1 by using mass communications systems (including postal services, fax, telephone, and the Internet). The principal restrictions on the cross-border supply of professional services are that (i) the services be certified by locally registered service providers, and (ii) cross-border service providers already have a commercial presence in the importing country.

Finally, restrictive immigration policy is a barrier to trade. The trade-migration linkage is an important part of the debate on migration reform in COMESA. Trade policy officials should not neglect the immigration and labor market perspectives when considering temporary entry or mode 4 issues. Policies related to visas, work permits, and treatment of foreign workers must be considered.

## Regulations and Participation in Trade: An Impact Assessment

In addition to guidance on the trade and regulatory agenda, African stakeholders expressed a strong demand for quantitative analyses to inform the reform of professional services. Recurrent questions raised by policy makers during our dissemination events included the following: Can we have concrete illustrations of the benefits of liberalization or reform for our domestic audience? Who would be the winners and losers from the proposed policy changes? What tools are available to help us set priorities and identify the policy changes that bring the biggest potential gains? To address some of these questions, we complemented the qualitative regulatory assessments with quantitative analyses that look at the effect of domestic regulation and trade policies on productivity and trade.

To carry out this quantitative exercise, we asked the firms in our sample to rank the various regulatory measures by the severity/restrictiveness of regulation. Firms categorized the regulatory measures into five groups: no obstacle, minor obstacle, moderate obstacle, major obstacle, or severe obstacle in their operations and growth in domestic and foreign markets. After calculating the percentage of firms that believe that a particular regulation is a major or severe obstacle to their growth and operations, we argue that providers consider regulations on fees/prices and advertising as the most important barriers to competition. The speed of accreditation and licensing procedures, the lack of transparency in public procurement procedures, and burdensome registration procedures are the top barriers that are likely to impede the operations and growth of a firm and hence affect its decision to export (table 5.1, panel a).

For the trade and regulatory barriers faced in foreign markets, service providers identified the following top restrictions. First, providers identified trade barriers, including limits to the number or proportion of shares that can be identified by foreign investors, and restrictions on cross-border services provision. Second, service providers noted regulatory issues, including regulation of fees/prices, the speed of accreditation, the speed of licensing procedures, the lack of transparency of public procurement procedures, and burdensome registration procedures (table 5.1, panel b):

Taking the main binding regulations noted in table 5.1 and pooling the firm-level decision to participate in international markets for the 19 COMESA countries, we use a gravity model to examine the impact of domestic and foreign regulations on a firm's probability to export.[15] The main objective of our exercise is to identify the most important regulatory and trade barriers that are likely to impede the operations and growth of African professional services firms and affect their decision to export. In line with the findings of the literature on regulation and trade in services, we find that domestic regulations affecting competition—such as price and fee regulations or advertising prohibition—have a negative impact on a firm's decision to export. For example,

[15] See annex 5A for the list of reporter (surveyed) and partner countries and annex 5B for the methodological details of this study.

**TABLE 5.1: Restraints Imposed by Domestic and Foreign Regulation on COMESA Countries, 2012**

a: Most restraining domestic regulations

| Broad category of domestic regulation | Important regulations in the broad category |
|---|---|
| Regulations related to competition | Regulations imposed on fees/prices (for example, binding minimum or maximum prices) |
| | Regulations on advertising and marketing by professionals |
| Regulations related to qualification requirements and licensing procedures | Speed of accreditation and qualification procedures |
| | Speed of licensing procedures |
| Regulations related to public procurement | Transparency of public procurement procedures |
| Regulations related to administrative steps necessary to start a business | Regulations related to registration procedures, obtaining permits and other administrative steps necessary to start a business |

b: Most restraining foreign regulations

| Broad category of foreign regulation | Important regulations in the broad category |
|---|---|
| Restrictions on foreign ownership | Limits to the number or proportion of shares that can be acquired by foreign investors |
| | Restrictions on cross-border services provision |
| Regulations related to competition | Regulations imposed on fees/prices (for example, binding minimum or maximum prices) |
| | Regulations that do not allow professionals employed by your firm to perform certain multidisciplinary activities |
| Regulations related to qualification requirements and licensing procedures | Speed of accreditation and qualification procedures |
| | Speed of licensing procedures |
| Regulations related to public procurement | Transparency of public procurement procedures |
| Regulations related to administrative steps necessary to start a business | Regulations related to registration procedures, obtaining permits and other administrative steps necessary to start a business |

*Source:* World Bank Surveys, 2012.

*Note:* COMESA = Common Market for Eastern and Southern Africa.

our estimations suggest that a 10 percent average increase in firms perceiving the price and fee regulations to be a severe obstacle decreases the likelihood of firms exporting by 0.3 percent.

Similarly, nontransparent public procurement processes in foreign markets have a strong negative impact on a firm's decision to export. For example, our estimation suggests that a 10 percent average increase in firms perceiving nontransparency in foreign public procurement as a severe obstacle decreases the likelihood of exporting by 0.5 percent. By contrast, nontransparency in public procurement processes does not seem to hinder the growth and operations of a firm in its domestic market. A possible explanation for this finding is that the firms already in business (and hence picked up in our surveys) are well-connected and well-versed in procurement procedures, making the issue of transparency less important. These firms can easily use their networks to bypass the procurement processes and evade competition from potential entrants. By contrast, nontransparent public procurement processes in foreign countries hinder exporting firms' operations and growth in the foreign market because of the lack of networks and associates in the host country.

For foreign entry restrictions, our estimates suggest that barriers to cross-border trade in professional services do not critically hinder a firm's decision to export, while regulations limiting a firm's investment in foreign markets are much more significant. The result confirms the findings of our business surveys, which show that a large proportion of firms prefer exports of professional services via mode 1. The result is also broadly in agreement with earlier findings showing that technological advances have made it possible to trade certain services unobstructed by regulatory policy.

**TABLE 5.2: Comparison of Exporters and Nonexporters in COMESA Countries, 2012**

| Indicator | Nonexporters | Exporters | Whole sample |
|---|---|---|---|
| Number of firms | 996 | 186 | 1,182 |
| Years operating | 10.9 | 13.6 | 11.3 |
| Number of employees | 13.9 | 19.7 | 14.8 |
| Part of a larger firm (%) | 12 | 18 | 13 |
| Sole proprietorships (%) | 45 | 27 | 42 |
| Share of largest owner (%) | 78 | 71 | 77 |
| Some foreign ownership (%) | 22 | 34 | 24 |
| Majority foreign ownership (%) | 8 | 14 | 9 |
| Average share of foreign ownership (%) | 10 | 16 | 11 |
| Firms with establishments abroad (%) | 13 | 30 | 15 |
| Main clients—multinationals/large firms[a] (%) | 26 | 39 | 28 |
| Main clients—small/micro firms[a] (%) | 40 | 25 | 37 |
| Firms with foreign employee(s) (%) | 11 | 23 | 13 |
| Average monthly salary of partners/managers (US$) | 1,049 | 1,330 | 1,096 |
| Average monthly salary of senior professionals (US$) | 703 | 841 | 727 |
| Average monthly salary of junior professionals (US$) | 401 | 483 | 415 |
| Average revenue (US$) | 196,097 | 237,532 | 202,674 |
| Average labor productivity (US$ revenue/employee) | 16,398 | 17,804 | 16,621 |

*Source:* World Bank Surveys, 2012.

*Note:* COMESA = Common Market for Eastern and Southern Africa.

[a] Percentages taken across the total answers provided by respondents for a question asking them to select up to three main types of clients.

## Firm-Level Determinants of Trade in Professional Services

Being an exporter is associated with larger/older firms, more foreign ownership, larger clients, more foreign employees, higher salaries, and stronger performances in revenue and labor productivity (table 5.2). The fact that being an exporter implies on average a larger share of foreign ownership could have several explanations. In particular, one explanation could be that firms with ownership ties to foreign companies have access to more international connections and resources, for example skilled labor or credit. Another potential explanation is that firms that already perform well and are able to enter foreign markets are also the ones that attract foreign investors seeking a foothold in the country.

In our impact assessment exercise, discussed in the previous section, we also control for firm-level characteristics.[16]

16 See annex 5B for details on the firm-level controls included in the estimating equation.

Our estimates suggest that in addition to certain regulations, a firm's age, its size, the proportion of foreign professionals in employment, the firm's scope of activity, and the average wages have a positive and significant impact on a firm's probability of exporting. The impact of the proportion of highly skilled workers, although positive, is insignificant.

## Technical Assistance Activities to Disseminate Knowledge and Provide Training

Finally, we put special emphasis on the facilitation of networking and information exchange between national, regional, and international stakeholders such as professional associations, negotiators, private sector representatives, and coalitions of service industries.

Building networks to share information and knowledge with COMESA country stakeholders took place through a variety of channels. The channels range from face-to-face interactions and transfer of tacit knowledge (such as peer-to-peer discussions) to workshops and meetings with local stakeholders and external experts. Given the investment in collecting data and policy information, it was important for the platform to facilitate direct engagement between stakeholders and sharing of information on experiences (including experiences related to the political economy, what did work, what did not work, and so forth). Noteworthy activities for building partnerships for knowledge delivery and technical assistance are summarized in the following subsections.

### Conference Organized by the Pan African Federation of Accountants in Partnership with the World Bank and African Development Bank

The Pan African Federation of Accountants (PAFA), in partnership with the World Bank and African Development Bank, hosted a conference in Cape Town, South Africa, on November 18–20, 2012. The event brought together about 150 leaders of the accounting profession, representatives of development partners (donor community), trade services negotiators from COMESA and the East African Community (EAC), and representatives of international accounting organizations—the International Federation of Accountants (IFAC) and the International Accounting Standards Board (IASB). The conference objectives were to create and increase awareness among the development partners on PAFA strategic objectives and the role of professional accountancy organizations (PAOs) in promoting economic growth, the economic potential of freer trade in accountancy services, and increased regional mobility of accountancy professionals, and to share best practices that will contribute to strengthening the accountancy profession in Africa.

The conference objectives were achieved by sharing and discussing (i) the PAFA 2012–16 strategy, (ii) the role of PAOs in contributing to economic growth, and (iii) good practices on accountancy profession mutual recognition arrangements (MRAs) and other regulatory measures that support cross-border accountancy activities.

Two sessions were devoted exclusively to issues related to trade in accountancy services and the mobility of accountancy professionals in Africa, including the joint COMESA-World Bank project on a Professional Services Knowledge Platform. The sessions were facilitated by trade negotiators, representatives of the PAFA Board, PAOs, development partners, and international accounting organizations.

### Workshop on Legal Services

In February 2012, the World Bank and COMESA organized a workshop on legal services as part of the platform. The objectives of the workshop were to: (i) engage champions on the issue of trade in legal services; (ii) generate and promote profession-led ideas (from the bar and the private sector) about trade and regulatory reforms that would encourage cross-border legal services in Africa; (iii) identify ways to raise awareness about the potential benefits of cross-border trade in legal services in Africa for African lawyers; and (iv) identify further support and resources needed to support champions in taking further action to promote the spread and exchange of ideas on trade in legal services. As a result of the COMESA-World Bank workshop on legal services, an instrument to facilitate the movement of legal professionals on the continent, including the development of a regional license, was developed and shared with the COMESA Secretariat.

### Group of African Member Associations Conference 2012

The Group of African Member Associations (GAMA) conference was a special session on engineering services in COMESA, co-organized with the International Federation of Consulting Engineers (FIDIC) at the annual conference of the FIDIC GAMA in May 2012 in Zambia. The GAMA conference is affiliated with FIDIC and is a forum where consulting engineers, government officials, construction equipment and materials suppliers, and other stakeholders in the engineering consultancy industry from the public and private sectors share and exchange ideas and methods on the provision of engineering consultancy. This FIDIC-GAMA conference is the largest annual networking event for consulting engineers in Africa. The GAMA 2012 conference theme was Engineering as a Driver of Sustainable Social and Economic Development—Toward Achieving the Millennium Development Goals.

Conference delegates engaged in discussions of trade in engineering services. The key issues considered are summarized below.

#### *Procurement of foreign-funded civil works projects remains a controversial issue within the engineering sector in Africa.*

Local engineering firms believe that they are not given an equal chance to participate in the procurement process of large, foreign-funded, civil work projects. The main argument against the participation of local firms is that they lack the requisite experience and capacity to undertake these large projects. But a case can be made for multilateral agencies to review their procurement models, given the changes in the global economy. The World Bank is currently undertaking a review of its procurement model, which has remained unchanged for the past 20 years or so. Increasing local inclusion in foreign-funded projects will generally benefit a country's economy by increasing employment; enhancing skills, knowledge, and technology transfer from large foreign firms; increasing government tax revenues; and increasing foreign direct investment.

#### *Advocacy is an important mechanism used by engineering associations for engagement with government and multilateral agencies*

The majority of engineering associations represented at the conference recognize the importance of advocacy and have included advocacy programs as part of their strategic plans. GAMA and FIDIC expressed their commitment to assist member associations in providing advocacy at the international level.

#### *The number of young professionals engaged in engineering services is decreasing, as is the number of students taking engineering courses in universities*

As a result, the majority of engineering professionals engaged in service delivery are seasoned professionals with many years of experience. However, the pool of qualified engineers is not only small in size but shrinking. Engineering associations have recognized that it is important to attract and engage young professionals into the sector for continued growth.

### Political Economy of Mutual Recognition of Professional Qualifications

The five EAC countries have made progress toward removal of explicit trade barriers and mutual recognition in professional services through the EAC Common Market Protocol (CMP) negotiations. The CMP, adopted by the Multi Sector Council in 2009, includes commitments related to professional services. The CMP also includes an annex on a framework agreement on MRAs of academic and professional qualifications. However, there are many challenges related to the implementation of CMP commitments and the MRAs. The key stumbling block related to the implementation of CMP commitments is the linkage made in commitments on the temporary movement of service suppliers who are nationals of partner states ("natural persons") with the provisions on the free movement of workers. A full-fledged MRA would have to cover education, examinations, experience, conduct and ethics, professional development and recertification, range of practice, and local knowledge. Effective implementation would require a preceding sector-specific benchmarking of current regulatory frameworks.

To assist with this process, several workshops were organized with Trade Mark East Africa and the East Africa Business Council. Local stakeholders were convened to discuss specific issues on the implementation of MRAs.

### Other Dissemination Activities

The main findings of the Professional Services Knowledge Platform were presented at the following events:

- Organisation for Economic Co-operation and Development (OECD) Global Forum on Trade, organized in Paris, on November 8, 2012
- European Union Directorate General and Trade World Bank seminar organized in Brussels, on 17 December 17, 2013
- World Trade Organization COMESA Services Meeting organized in Kigali, on April 23–25, 2013.

The main findings of the platform were also presented and discussed at the COMESA Services Council in Kampala in June 2013.

The survey data and results on providers of professional services, users of professional services, and the regulatory database have been developed and posted on the Professional Services Knowledge Platform for COMESA website: http://worldbank.fissiondev.com/.

Four short films (one general film and three sector-specific films) that summarize the main results of our work on professional services in COMESA countries are available at the following websites:

- Main cut: https://vimeo.com/52317592
- Engineers: https://vimeo.com/52335675
- Accountants: https://vimeo.com/52328792
- Law: https://vimeo.com/52335676.

## Key Lessons

Key findings of the COMESA Professional Services Knowledge Platform include the following:

- The professional services sector is among the most dynamic in COMESA countries. Crucially, higher labor productivity is associated with greater use of professional services in Eastern and Southern African firms.
- There are striking differences in the level of development of professional services across COMESA countries. This suggests that the potential for regional trade in professional services is significant.
- Regional integration could help address the underdevelopment of professional services markets, reduce the high costs of accessing professional services, and

alleviate skills shortages and skills mismatches in professional services.

- At this stage, restrictive trade policies and regulatory heterogeneity have segmented regional markets for professional services in Sub-Saharan Africa, including COMESA countries, and have increased trade costs.
- To turn this sector around, the studies call for policy action in four areas: education, regulation of professional services, trade policy, and labor mobility at the national and international levels.

Most dialogues start with a process of building contacts and confidence, and sharing information on domestic regulation. An important lesson learned from the various regulatory experiences studied in the COMESA Professional Services Knowledge Platform is that these initial dialogues provide opportunities for deeper communication. For example, the dialogues provided opportunities to flag upcoming changes in domestic regulation, and to exchange information on positions to be taken by the participating countries in multilateral for a. Another important lesson emerging from these regulatory initiatives is that there is hardly ever a "quick-fix solution" to regulatory problems. Regulatory cooperation sometimes produces slow and modest results. This finding reflects the complex political economy that needs to be addressed when implementing regulatory reforms. It is therefore crucial to ensure that networking and information exchanges are put in place and maintained to advance regulatory reform in professional services.

## Annex 5A: Countries in the Survey Sample

**TABLE 5A.1:** Reporter Countries in the COMESA Region

| Country | Firm count | Exporters | % of exporters |
|---|---|---|---|
| Burundi | 37 | 9 | 24.3 |
| Comoros | 40 | 0 | 0.0 |
| Congo, Dem. | 40 | 20 | 50.0 |
| Djibouti | 29 | 1 | 3.4 |
| Egypt, Arab R | 97 | 3 | 3.1 |
| Eritrea | 37 | 3 | 8.1 |
| Ethiopia | 91 | 9 | 9.9 |
| Kenya | 64 | 36 | 56.3 |
| Madagascar | 56 | 5 | 8.9 |
| Malawi | 51 | 9 | 17.6 |
| Mauritius | 55 | 6 | 10.9 |
| Rwanda | 36 | 4 | 11.1 |
| Seychelles | 40 | 0 | 0.0 |
| Sudan | 69 | 31 | 44.9 |
| South Sudan | 53 | 10 | 18.9 |
| Swaziland | 35 | 5 | 14.3 |
| Uganda | 83 | 17 | 20.5 |
| Zambia | 49 | 11 | 22.4 |
| Zimbabwe | 34 | 7 | 20.6 |

**TABLE 5A.2:** Partner Countries for the Impact Evaluation Study

| Country name | Surveyed | Country name | Surveyed |
|---|---|---|---|
| Angola | No | Swaziland | Yes |
| Botswana | No | Tanzania | No |
| Congo | Yes | Uganda | Yes |
| Lesotho | No | Zambia | Yes |
| Kenya | Yes | Zimbabwe | Yes |
| Madagascar | Yes | Russian Federation | No |
| Malawi | Yes | China | No |
| Mauritius | Yes | India | No |
| Mozambique | No | Japan | No |
| Namibia | No | United States | No |
| Rwanda | Yes | | |
| Seychelles | Yes | | |
| South Africa | No | | |

*Note:* Common Market for Eastern and Southern Africa.

# Annex 5B: Methodology for the Impact Evaluation Study

## Section 5: Econometric Specification

Based on the existing literature on the determinants of firm's decision to export, we estimate the following equation:

$$X_i = \beta_1 \, Domestic\ Regulations_{s,r} + \beta_2 \, Foreign\ Regulations_{s,r} + \beta_3 Firm\ controls_i + \beta_4 Partner\ controls + \beta_3 Bilateral\ variables + \varepsilon_{i,s}$$

The decision to export by a firm *i* in sector *s* depends on domestic regulations in sector *s* of the reporter country (represented by *r*), foreign regulations perceived by domestic firms in sector *s* of the reporter country, firm level controls, partner country specific variables and bilateral variables.

Domestic regulations belong to the following four categories of domestic regulations: Regulations related to competition, Regulations related to qualification requirements and licensing procedures, Regulations related to public procurement, Regulations related to administrative steps necessary to start a business. The survey attempts to capture several components of these regulations but in our regressions we choose to use only those domestic regulatory constraints that are most important constraints to operation and growth of a firm (shown in table 5.1, panel a).

Foreign regulations belong to the following five categories of domestic regulations: Restrictions on foreign ownership, Regulations related to competition, Regulations related to qualification requirements and licensing procedures, especially for foreign suppliers, Regulations related to public procurement, Regulations related to administrative steps necessary to start a business. The survey collects information on several components of these regulations but in our regressions analysis we use only those foreign regulatory constraints that are perceived critical to the operation and growth of a firm in the foreign market (shown in table 5.1, panel b).

In each of these regulations, we measure the extent of restriction as the percent of firms in a given sector and reporter country that perceive a particular regulation to be a severe or major obstacle for their growth and operations.

Firm level controls in our estimations include several factors: firm size, measured by the total number of employees; firm's age; proportion of employees with a foreign nationality; proportion of high skilled workers; firm's scope, measured by the number of services provided by the firm; firm's wages and total cost in USD and ownership structure of the firm. We specifically exclude firms that are subsidiaries of foreign firms.

Partner country's control variables include total population, GDP per capita, quality of institutions, quality of electronic infrastructure and the quality of higher education. We attempt to explore the impact of institutions, electronic infrastructure and education through several measures. For institutions, we use Government Effectiveness measures, Political stability estimates, Regulatory Quality index, and corruption perception index, all obtained from Worldwide governance indicators prepared yearly by Daniel Kaufmann, Aart Kraay and Massimo Mastruzzi. For electronic infrastructure, we use connection price for fixed broad band, fixed broadband subscription per 100 people number of secure servers per million, monthly price of fixed broadband. For measuring the quality of higher education, we use gross tertiary enrollment ratio obtained from the World Development indicators.

We use standard bilateral variables of gravity estimations. These include, bilateral distance between reporter and partner countries, common colonizer and common language, which takes a value 1 if a language is spoken by more than 9% of a population in country pairs. These variables are obtained from CEPII.

We use export decision information from 1182 firms surveyed in 2011 in four sectors of professional services in 19 countries. These firms' export decisions are then matched with their export decision only with 11 partner countries that were surveyed by the World Bank. Crossing reporter countries with partner countries over our sample of 1182 firms gives us a total sample of 12,339 observations. Of this sample, we observe an affirmative response on export decision in only 96 cases, which is less than 1% of our sample size. We drop partner countries where none of the firms report to be exporting. Thus, Swaziland is dropped from the list of partner countries, leaving us with a total of 10 partner countries. This leaves us with 11,197 observations with 96 affirmative responses on export decision. As a robustness check, we also carry our estimation exercise including all possible partner countries to which the surveyed firms could respond to. This totals to 23 partnering countries and increases the sample size for our data to 26,523 observations with 211 affirmative responses on export decision.[17]

The estimation of the decision to export professional services is carried by using a reporter country's fixed effect

[17] In this estimation, we drop countries with less than 3 firms reporting an affirmative export decision. This includes Lesotho, Swaziland, Madagascar, Mauritius and Russia. The resulting sample has 207 affirmative responses on export decision.

conditional logit regression. The estimation of the export decision equation could have been estimated by a simple OLS technique if we had observed values of positive trade flows for all firms to all destinations. However, in our surveys only a small proportion of firms report the value of their exports and secondly, most firms report trade flows to only a very small number of partner countries. In fact, zeros in trade flows are inevitable in the trade literature (see, for instance, Helpman, Melitz and Rubinstein, 2008; Eaton, Kortum and Kramaarz, 2011; Santos Silva and Tenreyro, 2006).

## References


Akerlof, G. 1970. "The Market for 'Lemons': Quality Uncertainty and the Market Mechanism." *Quarterly Journal of Economics* 84 (3): 488–500.

Borchert, I., and A. Mattoo. 2010. "The Crisis Resilience of Services Trade." *Service Industries Journal* 30: 2115–36.

Cattaneo, O., and P. Walkenhorst. 2010. "Legal Services: Does More Trade Rhyme with Better Justice?" In *International Trade in Services: New Trends and Opportunities for Developing Countries,* edited by O. Cattaneo, M. Engman, S. Saez, and R. Stern. Washington, DC: World Bank.

Eaton, J., S. Kortum, and F. Kramarz. 2011. "An Anatomy of International Trade: Evidence from French Firms." *Econometrica* 79 (5): 1453–98.

Helpman, E., M. Meltiz, and Y. Rubinstein. 2008. "Estimating Trade Flows: Trading Partners and Trading Volumes." *Quarterly Journal of Economics* 123 (2): 441–87.

Posner, R. 1974. "Theories of Economic Regulation." *Bell Journal of Economics and Management Science* 5: 3–21.

Santos Silva, J., and S. Tenreyro. 2006. "The Log of Gravity." *Review of Economics and Statistics* 88 (4): 641–58.

Stigler, G. 1971. "The Theory of Economic Regulation." *Bell Journal of Economics and Management Science* 2: 3–21.

Trolliet, C., and J. Hegarty. 2003. "Regulatory Reform and Trade Liberalization in Accountancy Services." In *Domestic Regulation and Services Trade Liberalization,* edited by A. Mattoo and P. Sauve. Washington, DC: World Bank and Oxford University Press.

World Bank. 2010a. "Reform and Regional Integration of Professional Services in East Africa: Time for Action." Report No. 57672-AFR. World Bank, Washington, DC.

———. 2010b. "Harnessing Regional Integration for Trade and Growth in Southern Africa." Poverty Reduction and Economic Management (PREM) report. World Bank, Washington, DC.


*Theatre* by Sydney Mag'ong'o

CHAPTER 6

# Mutual Recognition Agreements in Services Trade in Africa: Lessons from the East African Community

Alison Hook

Alison Hook, Managing Director, Hook International, UK.

## Introduction

Professional services are important enablers for economic development. The creation of infrastructure requires engineering, architectural, and surveying skills; the development of conditions likely to encourage foreign direct investment (FDI) requires specialist legal and accounting services; and the development of an employable workforce presupposes access to adequate health care services. Not surprisingly, the demand for professional services as a share of gross value added (GVA) grows with development. According to the Organisation for Economic Co-operation and Development (Geloso Grosso et al. 2014), accounting and legal services trade in the United Kingdom and Germany in 2007 represented around 4 percent of total services turnover and 6 percent of total services employment, reflecting the growing internationalization of business and finance in these economies. This potential for growth is not limited to high-income economies. In the decade 2000–09, business services (including key professional services like accountancy and legal) grew by over 7 percent in South Africa and 21 percent in Zambia (Dihel, Fernandes, and Mattoo 2010). However, further opportunities for growth of these service sectors in Africa, and of their ability to contribute to growth in other sectors, are hindered by the slow pace of liberalization and integration in these markets.

Domestic obstacles to promoting trade in professional services do not yet appear to have been recognized by African trade negotiators. Although all of the major African regional economic communities (RECs) have agreed, or are in the process of negotiating, specific market access commitments in services, professional services are rarely among the priority sectors for consideration. For example, the Southern African Development Community (SADC) is focusing its negotiations on communications, construction, energy, financial, tourism, and transport services. The Common Market for Eastern and Southern Africa (COMESA) is prioritizing initiatives in financial services, business process outsourcing, logistics and retail, health care services, tourism, the creative industries, and education.

The East African Community (EAC) has been developing a policy framework for promoting trade in professional services over the past five years. The EAC has undertaken some extremely useful initiatives, in particular the use of mutual recognition agreements (MRAs). The lessons from this experience will help to shape future trading conditions for professional services and other regulated services elsewhere in Africa. Other RECs will benefit in particular, given that all of the EAC partner states are also members of either SADC or COMESA.[1]

In most countries, access to professional services markets is controlled by the need for individual professionals to fulfill qualifications criteria. In general, these markets also demand the ongoing satisfaction of certain regulatory conditions. Such conditions may include, for example, adherence to a code of conduct and disciplinary oversight that can lead to a range of sanctions, including withdrawal of licenses, professional indemnity insurance, and continuous professional development obligations. Such conditions of entry and practice in professional markets are usually justified on grounds such as public policy (including public health and safety) or information asymmetries (Geloso Grosso et al. 2014).

The level of regulation applied to the same profession may vary significantly across countries. To a large extent, this variation is caused by the highly delegated nature of statutory professional services regulation. This level of delegation, coupled with the specialist nature of professional services, often results in sector services regulation that

---

1 Tanzania is a member of SADC and Burundi, Kenya, Rwanda, and Uganda are members of COMESA.

is precautionary in nature, particularly in circumstances where there is no regulatory oversight or counterbalancing competitive forces at work (Paterson et al. 2003). The sort of restrictive measures sometimes introduced by professional services regulators include fee regulations (fixed prices, minimum and/or maximum prices), limitations on advertising and marketing, prohibitions on inter-professional collaboration, and restrictions on geographical establishment or on branch offices. None of these measures is essential as a guarantee of quality or standards of service, and they are likely to result in reduced choice, less innovation, and higher prices for the users of services. A study undertaken for the European Commission in 2003 on the impact of restrictive regulation on professional services markets drew the following important conclusions: there was a negative correlation between high levels of restrictive regulation and productivity; business units tended to be larger in countries with lower levels of restrictive regulation, encouraging innovation and growth; and there were proportionately higher levels of professional services business overall in countries with lower levels of regulation (Paterson et al. 2003).

Not all professional services market regulation has a negative effect. As the World Trade Organization (WTO) recognizes,[2] the introduction of regulation may be necessary to open up a previously closed market. This is particularly true in the developing world, where, for example, new licensing mechanisms and public service obligations might be required as part of a series of measures to open up a previously restricted market, to underpin quality and social policy objectives. The key, therefore, is imposing the right level and type of regulation, to secure public policy goals but without imposing negative effects on competition. This is where openness to regional and international markets has an important role to play. In general, there is a much lower level of openness in professional service sectors in Sub-Saharan Africa than across the wider WTO membership. Sixty-three percent of WTO members have made market access commitments in one or more professional service sectors, compared with only 48 percent of WTO members in Sub-Saharan Africa.[3] The number of professional service sectors committed to openness is also significantly lower among African members than among WTO members in general.

However, even where market access commitments have been made, they may not secure the kind of openness that ensures competitive professional services markets. Domestic regulation—particularly rules relating to admission into a profession, permitted vehicles for practice, and modes of supply—may act as nontariff barriers for foreign service providers. The WTO (1998) has addressed this concern in the post-Uruguay Round period by promoting negotiations on the so-called “disciplines,” most notably in relation to accountancy. These disciplines highlight the need for transparent qualification and licensing requirements for professional practice that should not impose barriers to foreign suppliers. The WTO accountancy disciplines also identify the potential role of MRAs for eliminating unnecessary barriers to services trade that might be caused by domestic regulation.

MRAs have long been used in goods markets as a way to ensure that the costs of conformity testing required before a good can be marketed in another jurisdiction within a single market are not duplicated (Pelkmans 2012). However, MRAs have more recently been recognized as a potential mechanism that could allow foreign suppliers to provide services in another market without the need for duplicate authorization processes in the home and host countries. This removal of duplicate procedures should reduce costs and save time in bringing services into new markets; and this should ultimately be reflected in lower prices and more choice for consumers. MRAs are likely to be of particular use in markets like professional services, which are usually regulated at a national or even subnational level. These regulatory structures sometimes exist for purely historical reasons, but they also reflect the nature of the specific sectors concerned (legal and audit services in particular).

It is important to recognize that the term “mutual recognition” does not necessarily imply full authorization in the importing country. It may simply imply the importer’s recognition of qualifications or licensing satisfied for the provision of the service in the supplier’s home country. Moreover, this form of recognition does not prevent the host state from imposing additional requirements. Much depends on the precise nature and content of any MRA.

MRAs will vary depending on how several important issues are addressed in their design (Nicolaïdis 1997). These design considerations cover the following seven areas:

1. *Governance.* An MRA will only work if the signatories to the agreement have the authority to make the commitments it contains. It is also important that the agreement sets out arrangements for managing the ongoing relationship between the parties to the agreement.
2. *Mode of supply.* An MRA should indicate how it covers the various modes of service supply and take account of the

2 See WTO GATS training module chapter 3: http://www.wto.org/english/tratop_e/serv_e/cbt_course_e/signin_e.htm.

3 See WTO trade in services commitments website: http://www.wto.org/english/tratop_e/serv_e/serv_commitments_e.htm.

role played by corporate entities as well as individuals in the supply of professional services.

3. *Scope of authorization.* An MRA will need to set out the scope of the practice being permitted to any foreign qualified persons covered by the MRA. These will often take their lead from United Nations Central Product Classifications (CPC), which are frequently used by countries in scheduling market access commitments under the General Agreement on Trade in Services (GATS) or in bilateral trade treaties.
4. *Eligibility.* An MRA needs to define the professionals who can use the MRA. This requires a statement of what is "an engineer," "an accountant," and so forth.
5. *Equivalence.* An MRA requires significant preparatory work to establish that there is broad equivalence in the underlying qualifications required of any professional who meets the eligibility definition.
6. *Automaticity.* A foreign qualified professional who is "eligible" under an MRA may nonetheless not have automatic access to the host country market, if for example there is not full equivalence in his or her qualifications. They may therefore be subject to compensatory measures to achieve that equivalence.
7. *Post-approval conditions.* Once recognition has been granted under an MRA, the agreement may also specify whether there are ongoing conditions attached, such as renewal of licenses, maintenance of professional indemnity insurance coverage, or compliance with continuous education and training requirements.

Nicolaïdis (1997) further suggests that there are trade-offs between the main features of MRAs. For example, if levels of trust and understanding between parties are high, because of the high degree of equivalence between professional qualifications, then greater emphasis can be placed on post-approval conditions, allowing a higher level of automaticity. Similarly, if there is greater equivalence between professions, then the scope of practice afforded to professionals from other countries can be larger.

These trade-off scenarios illustrate that different MRAs may require very different degrees of automaticity and hence produce very different levels of benefit. The experience of the European Union (EU) in this regard is interesting and potentially informative for other regions of the world, looking at using MRAs in service sectors. Over time, the EU approach has evolved and become considerably more automatic, with a reduced scope of discretion permitted at the national level, a point which is covered in more detail later in this chapter. Nevertheless, MRAs require a significant level of trust and understanding between regulators to work most effectively, and this takes time to develop.

It is also important when designing MRAs to recognize that they may have trade diversionary effects. This has been well documented in the case of high-income countries. For example, it has been shown that MRAs can help to promote trade in goods for countries outside the agreement (Chen and Mattoo 2004), unless the MRAs contain restrictive rules of origin. In the case of services, and professional services in particular, in which qualifications to supply a service are integral to the approval process, rules of origin are likely to be a feature of any MRA. The evidence of trade diversionary effects on developing countries of MRAs in professional services between developed countries is limited, because most developing countries are not exporters of professional services. However, it is highly likely that the rules of origin contained in any MRA in an African REC could have trade diversionary effects on neighboring countries that are not party to the REC. Such diversionary effects could affect, for example, professionals from the Democratic Republic of Congo, who have historically worked in Burundi. These workers could be placed at a disadvantage to EAC professionals who obtain full admission and national treatment in sectors covered by MRAs. Furthermore, the rules of origin in professional services MRAs could lead to the loss of skilled labor. Failing to cover nationals from REC countries who have been educated abroad could dissuade these professionals from returning to work at home. Therefore, best practice suggests that MRAs should find ways to recognize the foreign-earned qualifications of citizens from participating countries. The same consideration should be given to foreign nationals wishing to establish professional practices within the REC, even if this treatment is not as preferential as that offered to nationals encompassed by MRAs and fully regulated within the REC.

Various studies exploring the use and experience of MRAs in the EU and Australasia (Government of Australia 2009) suggest that MRAs could offer several potential benefits to the regions adopting them. For example, Pelkmans (2012) identifies three areas of potential benefit: (i) regulatory benefits, arising from the greater interaction of regulators across borders and a tendency to even out levels of regulation; (ii) strategic benefits from the deepening and quality of the internal market; and (iii) potential economic welfare gains from the increase in competition that MRAs could encourage. However, Pelkmans also acknowledges that there may be a considerable gap between the potential and actual benefits of MRAs. This emphasizes the point that for African RECs, MRAs are not a panacea for professional services markets. Rather, MRAs must be carefully designed

**TABLE 6.1:** Suppliers of Professional Services in Selected East and Southern African Countries, 2013

| Country | GDP per capita (US$) | Services as share of GDP (%) | No. of licensed engineers | No. of engineers per 100,000 inhabitants | No. of licensed accountants | No. of accountants per 100,000 inhabitants | No. of licensed architects | No. of architects per 100,000 inhabitants |
|---|---|---|---|---|---|---|---|---|
| Burundi | 267 | 42 | 0 | n.a. | 250 | 2.87 | 41 | 0.47 |
| Kenya | 994 | 51 | 1,400 | 3.63 | 11,800 | 30.57 | 1,400 | 3.63 |
| Rwanda | 633 | 52 | 150 | 1.40 | 248 | 2.32 | 36 | 0.34 |
| Tanzania | 695 | 47 | 3,625 | 8.15 | 2,793 | 6.28 | 349 | 0.78 |
| Uganda | 572 | 49 | 302 | 0.92 | 1,700 | 5.17 | 209 | 0.64 |
| **EAC total** | **772** | **49** | **5,477** | **3.58** | **16,613** | **10.85** | **2,035** | 1.33 |
| Botswana | 7,317 | 61 | n.a.[a] | n.a. | 1,016 | 50.80 | 150[b] | 7.5 |
| South Africa | 6,618 | 70 | 41,125 | 77.59 | 37,820 | 71.36 | 8,919 | 16.8 |
| Mauritius | 9,210 | 72 | 1,100 | 84.61 | 2,620 | 201.54 | 171 | 13.15 |

*Source:* World Bank 2013 (country professional institutes).

*Note:* EAC = East African Community; GDP = gross domestic product; n.a. = not applicable.

[a] A new engineering registration board has recently been set up in Botswana and is rolling out a new registration process.

[b] The Botswana architects surveyed for this table belong to a voluntary association.

and implemented if they are to have maximum benefit. The rest of this chapter considers how MRAs might be designed and draws in particular on the lessons from the recent experience of the EAC.

## Professional Services Regulation in the EAC

In East Africa, the number of individuals (as a share of total population) licensed to provide certain regulated professional services is low compared with more developed countries in the region. This factor is also reflected by the lower contribution of services to gross domestic product as a whole (table 6.1).

EAC markets are not only small, but they also appear to be highly fragmented internally, with sole proprietors or very small firms characterizing the market. According to the Uganda Society of Architects,[4] for example, of the 148 architects who paid membership in 2012, there was only one firm with more than five registered architects and only five private firms with three registered architects. The rest were either sole proprietors or partnerships employing graduate architects or architectural technicians. In Kenya, of the 200 architectural firms registered with the competent authority in 2013, only 10 firms had between five and 10 registered professionals.

4 http://www.architectsuganda.org/2012/index.php.

The small professional firms that populate these fragmented markets are frequently unable to obtain the experience and develop the specializations that would give them access to higher-value work. Such work often goes to professional services firms from more open countries. These dual issues of undersupply and fragmentation are what the EAC is trying to rectify by promoting cross-border movement of professionals through the adoption of MRAs.

To ensure that any MRA design can help overcome the undersupply of professional services and market fragmentation, it is important to understand in more depth how regulation has contributed to this picture. Table 6.2 illustrates how such fragmentation can be introduced through ownership limitations in a service like accountancy, and how restrictiveness in East and Southern African states is generally higher compared with neighboring counties.

The regulation of professional services in East Africa was traditionally based on colonial models. Levels of mobility and interaction between countries were relatively high in the immediate post-colonial period. However, barriers subsequently developed as each country established its own regulatory, professional education, and training systems.

Discrimination in national treatment and the extent of market access for foreigners has, as a result, become embedded in domestic professional regulation. In Kenya, Tanzania, and Uganda, where competent authorities have been in place since independence, a highly protectionist approach has evolved in many cases. Before they can be registered, non-nationals have often been required to demonstrate that

**TABLE 6.2: Accounting Services Restrictions in East and Southern Africa, 2010**

| Country | Restrictions |
|---|---|
| Botswana | Allowed, except for a possible limit on the use of a foreign brand name. |
| Burundi | There are limits on ownership by foreign nationals and non-locally-licensed professionals; one-third must be locally licensed nationals or residents. |
| Kenya | A branch is not allowed. Ownership by non-locally-licensed professionals is not permitted. |
| Mauritius | Ownership by non-locally-licensed professionals is limited to 50 percent. Approval for licenses is not automatic. Foreign firms cannot provide services to state-owned firms, where public money is concerned. |
| Rwanda | Branch not allowed. |
| South Africa | There is no limit on foreign ownership. |
| Tanzania | Ownership by foreign nationals is limited to 50 percent. Ownership by non-locally-licensed professionals is not permitted. There is a difference in licensing criteria for foreign and domestic applicants. |
| Uganda | A branch is not allowed. There is no limit on ownership by foreign nationals, but, in practice, if all partners are foreign, at least one should be resident in Uganda. |

*Source:* World Bank Services Trade Restriction Database.

they have work permits, pass local professional examinations, and enter into joint venture arrangements. There have also been large differences in the registration fees imposed on local professionals compared with foreigners. For example, the annual registration fee for a local architect in Tanzania is US$400 compared with US$5,000 for a foreigner, who must pay a further US$10,000 for every project handled.

In contrast, Burundi and Rwanda have not developed regulatory frameworks for many professional services. Furthermore, education has traditionally followed the French system, which tends to have lower durational requirements for degrees leading to professional status than the British system followed by the other three EAC partner states. As a result, practitioners from Burundi, and to a lesser extent Rwanda, have been excluded from some sectors in other EAC markets. In addition, many professional sectors in Burundi lack regulation beyond fairly basic registration requirements. This has disadvantaged local practitioners trying to obtain work involving international clients, since it is not clear to those clients what quality control mechanisms are in place, or how local standards benchmark against international comparators.

## MRAs in Professional Services Trade

MRAs can help to overcome the sort of problems that have grown up in East Africa. Such agreements enable foreign professionals to provide services without duplicating authorization processes already completed in their home country. MRAs allow local competent authorities to recognize the education, training, and experience that foreign professionals have already completed in their home country.

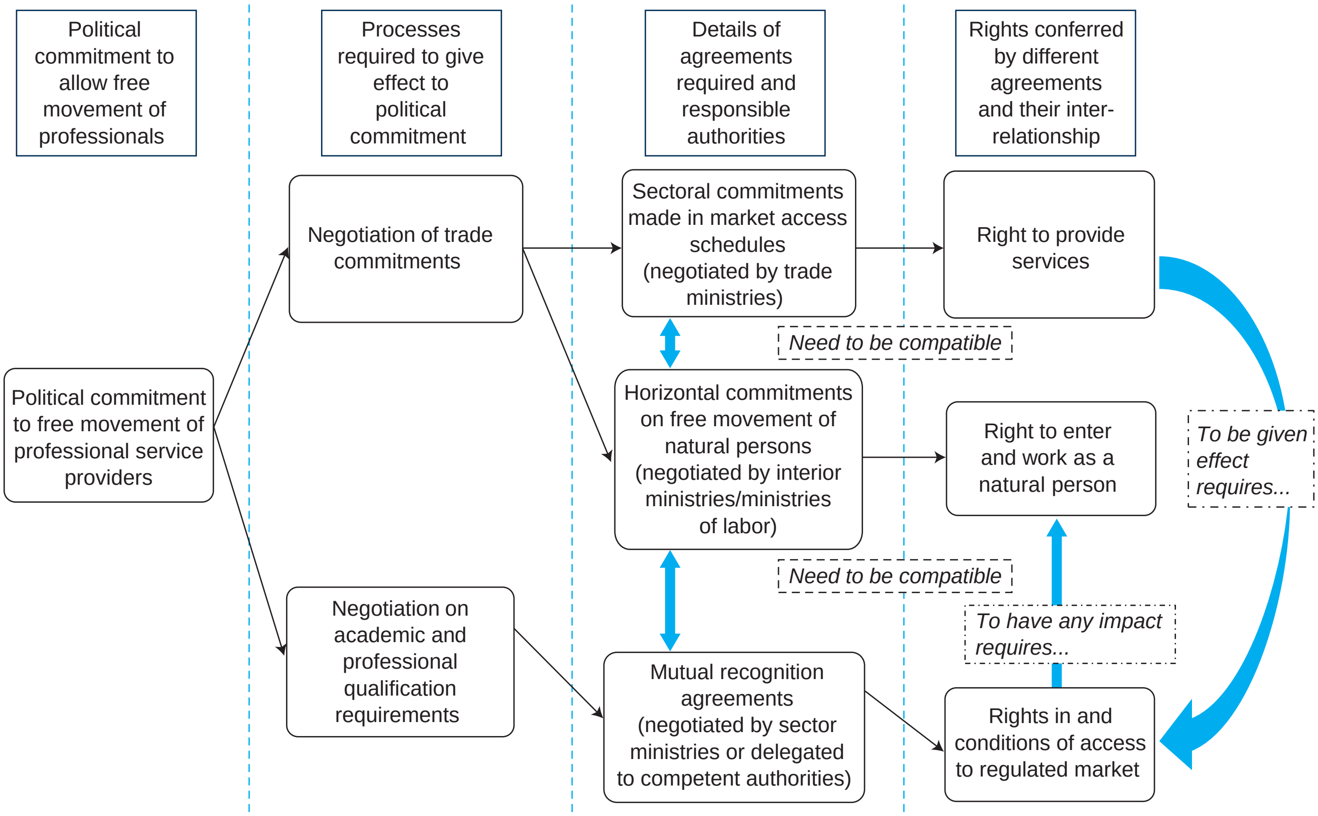
For foreign workers in *regulated* professional service sectors, the process of obtaining authorization to provide services in another country usually entails the following steps:

- Ensure that there is a right to supply the relevant service.
- Obtain access to the regulated market by obtaining a license. The migrant professional will either be required to fulfill all conditions of licensing in the host country from scratch, or will have all home country qualifications recognized.
- Obtain the necessary work permit.
- Maintain registration with the host professional competent authority and usually also with the home country competent authority and comply with the ongoing requirements of both.

Figure 6.1 illustrates how these different elements fit together. The figure shows that MRAs are an important tool for enabling trade in professional services, but not alone sufficient to provide free movement.

This MRA model was introduced in the EAC through the Common Market Protocol (CMP), which entered into force on July 1, 2010. The CMP provides for free movement within the EAC of goods, persons, labor, services, and capital, and for equal rights of establishment and residence for all EAC citizens. Article 11 of the CMP explains how free movement will be achieved in the case of skilled professional workers (box 6.1).

**FIGURE 6.1:** Steps toward Free Movement of Professional Service Providers




## BOX 6.1: Article 11 of the Common Market Protocol on Mutual Recognition Agreements

Article 11.1

For the purpose of ensuring the free movement of labor, the Partner States undertake to:

(a) Mutually recognize the academic and professional qualifications granted, experience obtained, requirements met, licenses or certifications granted, in other Partner States

(b) Harmonize their curricula, examinations, standards, certification, and accreditation of educational and training institutions.

Article 11.2

The implementation of this Article shall be in accordance with annexes to be concluded by the Partner States.

*Source:* East African Community (http://www.eac.int/commonmarket/).

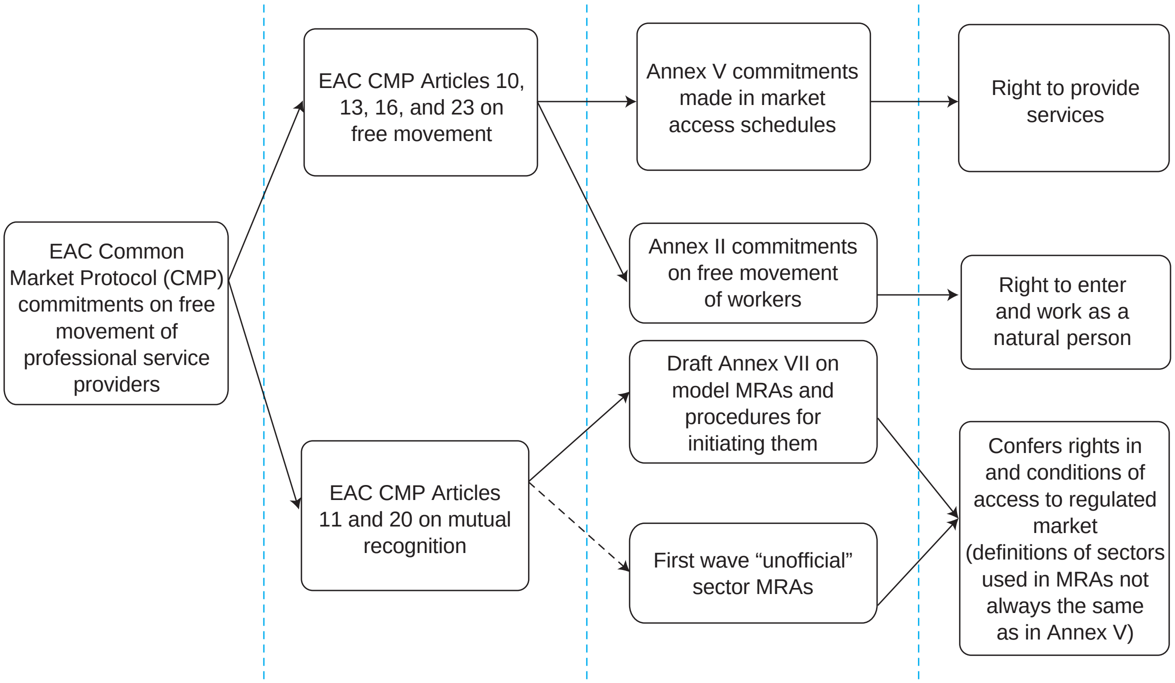
Article 11.1 suggests that mutual recognition is predominantly for the purpose of ensuring free movement of labor. This is potentially a problem for the free movement of professional services, as it assumes that it is only employees of companies who are moving between partner states under an MRA. In fact, a professional is likely to move within East Africa as a contractual service supplier or as an individual service supplier.

Article 11.1 also emphasizes the need to harmonize educational standards underlying professional qualifications. This does make it easier to negotiate an MRA, but it also creates the risk that any professional movement will be held up by prior harmonization of qualifications, which can be a lengthy process.

Figure 6.2 sets out how the different elements relating to trade in professional services shown in figure 6.1 are covered in the EAC context. The figure shows that the essential provisions on trade in professional services can be found in three annexes to the CMP:

- Annex V contains partner states' scheduled commitments for market access in different sectors, including those covered by MRAs.
- Annex II contains partner state commitments in relation to free movement of workers drawn up on a sector-by-sector basis.

**FIGURE 6.2:** Legislative Tools for Enabling Free Movement of Professional Service Providers in the EAC




*Note:* CMP = Common Market Protocol; EAC = East African Community; MRA = mutual recognition agreement.

- Annex VII (currently in draft form) contains the framework that partner states recommend for different sector MRAs. This framework is relatively generic and provides a model for individual sectors to use in their negotiations.

Comparison of figures 6.1 and 6.2 shows that there are some clear problems in the early approach to MRAs adopted by the EAC:

- First, the commitments on trade in services and free movement of workers were negotiated in isolation from each other by different ministries. As a result, there is a lack of clarity on the rights of professional workers to obtain work permits in fellow EAC countries.
- Second, several unofficial sectoral MRAs have been negotiated, often without reference to either Annex V or Annex II. As a result, these MRAs are of doubtful legal force. And they use different sectoral definitions from those used in other EAC treaty instruments.

The result is that the rights conferred on professionals through this framework do not yet add up to a coherent whole. The EAC Council of Ministers and the EAC Secretariat are aware of the shortcomings of the existing framework and, as set out later in this chapter, are currently undertaking steps to improve it. This experience, however, reinforces that professional services mobility issues have many facets, which need to be considered as a coherent whole and not just dealt with through MRAs.

## EAC's Experience with MRAs

As of October 2014, EAC MRAs had been concluded in three professional service sectors:

- Architectural services, signed on July 30, 2011
- Accountancy, signed on September 14, 2011
- Engineering services, signed on December 7, 2012.

MRA negotiations have also been launched or are under preparation for legal services, medical services, nursing, quantity surveying, and veterinary services.

The signed MRAs all follow a similar "competency" model. In other words, they assume that a professional in good standing, who is duly qualified and registered in an MRA partner state, should automatically be permitted to register in another partner state. The assumption is that professions in partner states have roughly equivalent standards and qualifications.

The MRAs all require similar undertakings on the part of the signatories, including the following:

- Automatic registration within 30 days of professionals from other partner states on the basis of home state registration (specified in the architecture and engineering agreements)
- Mutual recognition of disciplinary measures imposed on professionals
- Development of mechanisms for further cooperation across the region.

The three concluded MRAs were negotiated and agreed by stakeholders in the sectors. In the case of accountancy services, the agreement was signed by all the professional institutes without any significant preparatory work on equivalence. The agreement on engineering services was initiated by the registrars in the Kenya, Tanzania, and Uganda. It was signed only by the engineering boards of these three EAC partner states, who regarded their underlying qualifications and form of regulation as sufficiently similar to allow for mutual recognition. The architectural services agreement was initiated by the East Africa Institute for Architects (EAIA), a regionwide umbrella organization for the representative bodies of architects in each partner state. The agreement also benefited from significant preparatory work undertaken with the assistance of the East Africa Business Council. However, in three of the partner states—Kenya, Tanzania, and Uganda—the representative and regulatory bodies for architecture are not directly represented in the EAIA. Thus, although the national regulatory bodies for architecture signed the MRA, they have not been in the driving seat for its subsequent evolution.

More significant is the fact that, in each of these cases, the agreements were not initiated formally at the regional level. This situation has left the instruments resulting from these agreements in legal limbo. Although the parties involved have competence in relation to professional qualifications and licensing at the domestic level, they were not granted the power to conclude these international agreements. The lack of true "treaty" status for the MRAs means that they cannot require competent authorities to ignore existing domestic provisions (such as nationality requirements) that clash with the MRA requirements. Issues arising from this lack of legal recognition have subsequently become apparent. Moves are now underway within the EAC Secretariat to find mechanisms to recognize the three existing MRAs as official EAC instruments. The Secretariat is also working to establish a procedure that will avoid the legal status problem arising again for other MRAs and professions.

### Negotiation Challenges

Negotiations for the existing EAC MRAs progressed remarkably quickly and surprisingly smoothly. This speed of negotiations can be attributed to the following factors:

- In all cases, the negotiations were driven by the professions or the professional competent authorities, often with little or no interaction with the EAC or individual governments.
- Engineering, accountancy, and architecture are all professions that have well-developed international frameworks for cross-border practice, examples to draw on from elsewhere in the world, and international bodies that can provide qualification equivalence benchmarks.
- Difficult issues were to some extent glossed over in the negotiations and have only come to light post implementation.

However, the following issues were characteristic of negotiations in the three sectors that finalized MRAs and are evident in the current sector negotiations for future MRAs:

- Negotiations often reveal concerns that partners with larger professional sectors could "swamp" states with smaller sectors. This has been a particular concern for others in relation to Kenya.
- There is frequently a mismatch between the parties in their willingness to embrace liberalization, with Tanzania and Rwanda often at either end of the spectrum. For example, not all partner states have made market access commitments in the sectors in which MRAs are being negotiated. In the case of the architectural services agreement, for example, the Tanzanian Board of Architecture did not sign the final agreement. The board felt that without an official market access commitment (through Annex V of the CMP), it did not have the authority to sign the MRA.
- The legislative framework for MRAs at the EAC level has still not yet been finalized, despite the fact that MRAs have already been negotiated at the level of professions.
- The professional qualifications and regulatory infrastructure in Burundi, and in some cases Rwanda, did not fulfill the equivalence requirements needed to participate in the agreement. The professions handled

this issue in their negotiations in different ways and have thus created different implementation challenges. In the case of the accountancy services agreement, Rwanda and Burundi were included in the agreement in full from the outset, despite the fact that Burundi has not yet met the underlying International Federation of Accountants (IFAC) standards on which the agreement is predicated. The engineering agreement did not include Burundi and Rwanda as signatories, although they were involved in negotiations. The intention is that they will sign and participate in the agreement once they have both established the necessary legal and institutional framework for the engineering profession. But how this process will work and who will decide whether they have met the appropriate standards is unclear.

- The choice of parties to the negotiations and signatories to the agreement is not always straightforward. In retrospect, some of the decisions on this point made by the early MRA agreements did not always help with implementation. In the case of accountancy services, for example, the responsibility for admission and regulation of accountants is shared in Kenya between two bodies: the Kenya Accountants and Secretaries National Examinations Board (KASNEB) and the Institute of Certified Public Accountants of Kenya (ICPAK). However, only ICPAK was chosen as a signatory to the MRA.
- The speed of the negotiations was achieved at the expense of proper preparation. All the MRA texts cover technical as well as professional qualifications in the sectors covered (architecture, accounting, and engineering). However, all the MRAs gloss over the logistics of free movement of para-professionals, largely because no benchmarking analysis of qualifications was done prior to the negotiations and because the technicians' cadres in these sectors do not have well-established representative bodies. As a consequence, the negotiations focused entirely on the movement of professionals within the sector, rather than on cross-border service delivery as a whole. This is not a particular characteristic of the EAC MRAs, but rather reflects one of the potential shortcomings of MRAs in general. MRAs can focus excessively on mutual recognition of qualifications and hence on the mobility of highly qualified individuals at the expense of wider considerations.

## Results So Far

The three EAC MRAs agreed to date have been in force for two to four years. Their results need to be judged against this relatively short time span. The following are results on the numbers of users of the agreements and the source countries of these migrant professionals:

- There have been 130 registrations across all of the EAC (Hook 2013) under the MRA in accountancy (just under 1 percent of the total EAC profession). The largest number of migrant accountants was from Kenya and they established particularly in Rwanda, Uganda, and Tanzania. The second largest group of users of the MRA was Ugandan accountants, admitted to Kenya and Rwanda. Rwanda has attracted many other East African accountants because of the structural shortage of qualified professionals there. Only a handful of applications have been rejected, usually on the grounds that the applicant was not in good standing with his or her home competent authority. Prior to the MRA, the only movement of accountants in East Africa was into Rwanda from other partner states.
- There have been 22 registrations of architects under the MRA. Ironically, the largest number of these has been granted in Tanzania, which is not yet a formal signatory to the agreement, but where the Board of Architects has decided to apply the MRA under an autonomous liberalization. The other destinations for users of the architects' MRA have been Kenya, Rwanda, and Uganda.
- In engineering there have been nine applications for registration, which have all been made to Tanzania and Rwanda. The seven applications to Tanzania included one from Burundi, two from Kenya, two from Rwanda, and two from Uganda.

These statistics demonstrate that, although the numbers of migrant professionals using the MRAs are very small, all partner states have been involved either as host or home country authorities. There have been no challenged rejections of applications or disciplinary cases. This situation mirrors the experience of the EU; in more than 50 years of applying a free movement regime for professionals, there have been few challenges to refusals of establishment rights. However, what has happened in the EU but not yet in the EAC is that individual professionals have taken a series of cases to the Court of Justice to clarify the application of the free movement regime.[5] As long as the EAC MRAs remain

5 See, for example Morgenbesser (C-313/01), on partially qualified professionals (http://curia.europa.eu/juris/liste.jsf?language=en&num=C-313/01), and Wouters (C-309/99) on the rights and limitations on national regulators (http://curia.europa.eu/juris/liste.jsf?&num=C-309/99).

instruments created by the professions themselves, without official legal status, it will be impossible for individuals to extend the scope or application of the EAC regime through judicial processes, as has happened in the EU.

Table 6.3 shows how the EAC compares with other regions that have adopted mutual recognition for professions as instruments to promote mobility. The EU agreement and the Trans-Tasman Agreement (between Australia and New Zealand) have been chosen as examples to demonstrate the potential scale of MRAs. The table illustrates that the annual numbers of individuals moving across borders, in homogenous regions such as the Trans-Tasman Area, can be very high. It also illustrates that in MRA regimes that have been established for some time, the number of licensed occupations covered is high. This is because under such regimes mechanisms are set out for the recognition of qualifications and the issuing of licenses in occupations that do not require the full gamut of ongoing regulation, as in the case of the professions.

Table 6.3 shows that although the EAC's mutual recognition regime is still at a very early stage, there is potential for expansion. The table also illustrates that even where the numbers of professionals migrating are significantly greater than in the EAC, they are still a very small proportion of the overall population. Hence, migration should not really pose a political issue as is sometimes feared.

### Implementation Challenges of ECA MRAs

Although MRA negotiations in the ECA have been relatively smooth, implementation of the agreements has been more of a challenge.

First, although the signed agreements have all been presented to the EAC Council of Ministers, they have not yet been given any formal recognition as legal instruments of the EAC. Negotiations on the agreements were not formally endorsed by the ministers, and the authority to negotiate was not officially delegated to the relevant parties. Thus, although the competent authorities in the partner states have been delegated authority to regulate, they have not been delegated authority to negotiate intergovernmental agreements. The uncertain legal status of the agreements has created an implementation issue. Competent authorities are unable to deal with instances where national legislation obstructs the commitments made in the MRAs (such as abolishing the requirement to enter a joint venture when establishing a commercial presence). Unless the MRAs are formally adopted by the Council of Ministers and in effect become treaty commitments, this will remain a problem.

Second, as outlined in figure 6.2, the negotiations did not take into account other elements of the CMP, such as Annex V market access commitments and Annex II commitments on the free movement of workers. Therefore, there is uncertainty about what services a migrant professional may provide in the other EAC states. The accounting services MRA, for example, makes no reference to the commitments made in the EAC CMP annexes. Instead, it permits EAC accountants only to provide the same services that they would perform in their home country. In theory, therefore, the MRA text permits a migrant EAC accountant to have a larger scope of practice than a home-licensed accountant. The MRA also takes no account of the fact that Kenya, for example, has excluded the preparation of audit and financial statements from its scheduled commitments, and Kenya and Tanzania have made no commitments on taxation services.

Third, there is ongoing sensitivity among the partner states over free movement of people. Several sectors that use MRAs have reported significant delays in processing work permits. Under the various MRAs, competent authorities have agreed to waive their requirement for a work permit to be obtained prior to registration. Nevertheless, employers are still reporting that obtaining work permits to fulfill immigration requirements is a very slow process. Moreover, the significant differential in charges imposed by partner states for work permits is a source of complaints among businesses trying to use the MRAs for cross-border work.

Fourth, there have been mixed results from the approach taken in the different agreements to regional integration.

**TABLE 6.3: Annual Comparative Experience of MRAs, 2007 and 2013**

| Comparator | EAC (2013) | EU (2013) | Trans-Tasman area (2007) |
|---|---|---|---|
| Number of registered professionals moving under MRA | 161 | 20,131 | 17,322 |
| Number of licensed occupations covered by movement | 4 | 145 | 362 |
| Movement of registered professionals per 100,000 population | 0.1 | 4 | 75 |

*Sources:* EAC professional institutes, European Commission, Australian Productivity Commission.

*Note:* EAC = East African Community; EU = European Union; MRA = mutual recognition agreement.

The engineering MRA, for example, was largely driven in the negotiation phase by the registrars, who were responsible for key regulatory conditions. However, post-agreement the regulatory boards do not have responsibility for representing the profession. The boards are not driving the engagement of the sector in the MRA, and hence few professionals are using it. However, negotiations for the architectural services MRA were driven by the professional institutes, which are separate from the boards responsible for statutory registration and disciplinary functions. The boards subsequently signed the final MRA, but a regional professional body, the EAIA, had the central role in driving it forward. This situation has caused the regulatory bodies some difficulties. The EAIA has passed several resolutions to implement the agreement, such as the recognition of training undertaken in different partner states in fulfillment of statutory training requirements. However, these resolutions cannot easily be implemented or enforced by the regulators, who are not members of the EAIA. As a result, the boards have begun to negotiate their own parallel memorandum of understanding. It is unclear how this memorandum will be incorporated into the MRA or interact with further EAIA resolutions.

Last, there have been unintended protectionist consequences on EAC nationals holding foreign qualifications. In particular, EAC nationals with foreign accounting qualifications are unable to benefit from the MRA. The underlying intention of this exclusion was to encourage the development of regional qualifications. However, the development of regional standards has been delayed, which means that a potentially important talent pool is excluded from the EAC accounting services market.

What is interesting about this early MRA experience, however, is that the competent authorities of all those involved appear to have engaged in the MRAs in good faith and have generally found solutions to any issues under their control. For example, local registration procedures sometimes make conformity with MRA deadlines difficult; this can happen when registration is formally undertaken by a board that only meets occasionally. In these cases, competent authorities have invented special fast-track EAC procedures. Such solutions reflect the true spirit of an MRA, as do steps to abolish admission requirements that migrants have already satisfied in their home countries.

There has been a concerted effort in all sectors to help develop regulatory infrastructure in partner states where it is less established. The Kenyan accountancy body, ICPAK, for example, has provided technical assistance to help establish a full-fledged Rwandan institute that can meet IFAC standards, and the Rwandan institute is in turn assisting the Burundian profession. This is a well-established practice among professions, although traditionally the flow of capacity building has been from high-income to low- and middle-income economies and has involved activities funded by international donors.[6]

The EAC Council of Ministers has recognized some broader issues that have prevented existing MRAs from being truly effective. Reflections are underway, as a result, on how commitments on the free movement of skilled professional workers, which is essential to the success of the MRAs, can be delinked from the wider issue of the free movement of workers. Progress on this issue is expected.

## How EAC MRAs Benchmark against Best Practice

Any assessment of the impact of an MRA should be judged against the following criteria:

- How do the commitments and rules introduced by the MRA measure against good regulatory principles? Good principles include sound legal foundations, transparency, proportionality, equality, consistency, and a basis in international standards.
- Will the MRA deliver a more competitive and innovative environment for professional services?

On the first set of criteria, the EAC MRAs score reasonably well on transparency, proportionality, consistency, and international standards. All the agreements signed to date are based on internationally recognized definitions of what is required to become a qualified professional in the respective fields. For example, the accountancy profession draws on IFAC standards. The architectural services agreement draws on the definition of an architect by the International Union of Architects. The engineering services agreement does not explicitly reference an international standard but is based on the same standard as the Washington Accord.[7]

All the agreements are based on full recognition. In other words, registration and good standing with a partner state

6 See, for example, the capacity-building programs run by IFAC for professional accountancy organizations (http://www.ifac.org/mosaic/pao-capacity-building?news). See also the post-qualification training run by the International Union of Architects and funded by the United Nations Educational, Scientific and Cultural Organization for urban planners in low- and middle-income countries (http://www.unesco.org/most/urbweb4.htm).

7 http://www.ieagreements.org/Washington-Accord/.

competent authority is considered to be a sufficient basis for recognition of qualification and no further compensatory measures are required. However, this recognition has not in all cases been extended to Burundi and Rwanda and is awaiting the finalization of their legal frameworks.

For proportionality and transparency, the agreements all contain unambiguous commitments on the part of the competent authorities, with clear procedures and eligibility requirements for EAC nationals. Although the draft EAC annex on MRAs envisages a deadline of 45 days for the approval of applications, the architectural services and engineering services MRAs have shorter deadlines of 30 days.

The MRAs have been particularly effective in helping to introduce regulation where none has previously existed, notably in Burundi and Rwanda. The MRAs have had more mixed results in bringing other laws and regulations into line with the MRA commitments. But in Uganda, for example, the architects' board has used the MRA to suggest a wide-ranging update to the legislation governing the profession.

By contrast, none of the initial MRAs contains a well-developed framework for educational equivalence. In other words, the initial MRAs are based on the assumption that intra-community harmonization has taken place for higher education and that all EAC degrees are equivalent in material coverage and standards; but this is not yet the case. The MRAs are also unclear on how the accreditation of university courses for professional qualifications will be kept up to date. This lack of clarity perhaps illustrates the lack of university-level involvement in the negotiation of these early agreements. The result is that although professional registrations are mutually recognized, no mechanism enables the MRA to have an impact on the education underlying professional qualifications, either by converging or raising standards.

Governance arrangements are also seriously underdeveloped. There is no current mechanism for fitting the MRAs into the legal architecture of the EAC.

The EAC MRAs perhaps rate less well against international best practice in the impact they have had to date on the market. Although in part this situation may be caused by the short time in which the MRAs have been in force, there are some other structural issues to consider.

First, the MRAs are all based on the assumption that practice must be undertaken on the basis of full registration, as if a professional were choosing to move permanently to a partner state and practice there exclusively. Temporary practice is not dealt with under the agreement. This is perhaps unduly restrictive, as it results in individual professionals potentially having to maintain multiple registrations.

The agreements are also less than explicit about the treatment of group practice. One of the largest benefits of the MRAs should be the extent to which they can encourage the formation of regional professional firms of a larger size. Such firms can develop deeper specializations and hence compete more effectively internationally. However, all the MRAs to date focus entirely on individual professional registration requirements. None of them addresses the potential challenges to cross-border mergers, such as advertising, or employment by or partnership with a professional from an EAC partner state.

Finally, the agreements, in most cases, do not consider the wider context or market for professional services, but instead simply focus on the mechanics of professional registration. There is little evidence, for example, that the MRAs have yet led to increases in opportunities for the professions covered. To a large extent this is due to a lack of awareness within the professions of the potential opportunities the MRAs offer, and the lack of an EAC-wide market for the procurement of professional services. An exception to this lack of innovation is the architectural services MRA, which has resulted in various regional initiatives. These include a regionwide Code of Ethics and Professional Conduct, and a regional training scheme that allows for portability of training between partner states. The architects have been able to create such regional initiatives because their agreement has the strongest regional body. The EAIA is driving professional market integration initiatives rather than purely regulatory initiatives.

This assessment can be set in a more formal cost-benefit framework, such as that used by Pelkmans (2012) to assess the effectiveness of the EU MRA regime. This approach measures the success of any MRA by (i) the extent to which it delivers regulatory, strategic, and economic advantages; and (ii) the extent to which it deals with the costs facing professionals in information and compliance. Table 6.4 shows how the EAC MRAs measure up against these cost-benefit criteria.

The table suggests that the form of MRAs adopted by the EAC professions already reduces costs by lowering the costs of compliance. Many of the longer-term benefits will take time to emerge. However, the likelihood of these benefits being fully realized would be enhanced if the EAC MRAs were adopted as official EAC instruments.

In summary, EAC agreements can be marked highly for the core undertakings that competent authorities have made to each other. However, they score less well on their ability to drive integration and therefore capture the full benefits of an East African Common Market.

To drive integration, the agreements perhaps could have contained more proactive development measures. These could have encouraged more active development of underlying harmonized educational standards, stronger promotion

**TABLE 6.4: A Cost-Benefit Analysis of the EAC MRAs**

| Benefit and cost | Type | Effect | Possible timescale for benefit | Effect of EAC MRAs |
|---|---|---|---|---|
| Benefit | Regulatory | MRA lowers risk of overregulation or poor regulatory behavior. | Short to medium term; initial benefit from adjustment of regulation to accommodate MRA likely to be supplemented by longer-term benefit. | Not yet tested. Risk remains that where MRAs have just been agreed between professions without outside scrutiny, that they do not discourage overregulation. |
| | Strategic | MRA deepens market. | Long term; will take 10 years plus to become evident. | This effect has not yet been seen, but might be expected over time. |
| | Economic | MRA introduces pro-competitive forces to the market. | Short to medium term; depends on encouraging new entrants. | Not yet in evidence, but expected over time. |
| Cost | Information | Reduced costs of obtaining information about professional services market access. | Immediate. | Already a benefit. Could be greater if more awareness raising was undertaken. |
| | Compliance | Lower costs of complying with entry requirements to market covered by MRA. | Immediate. | A clear benefit. Some residual costs remain in the form of work permits. |

*Note:* EAC = East African Community; MRA = mutual recognition agreement.

of regional centers of excellence for professional training, or stronger measures to help cross-border professional businesses evolve. These lessons can be used to improve future EAC MRAs, and can inform the design of MRAs used in other African RECs.

## Lessons from Other Parts of the World

Apart from the EAC, perhaps the two most interesting and relevant examples for other African RECs of the use of MRAs are the EU and the Association of Southeast Asian Nations (ASEAN). The EU has had long experience in the promotion of trade in professional services and has employed a variety of approaches. The fact that the EU includes countries at very different levels of development and using a wide range of languages also offers useful experiences for Africa to draw on.

The experience of ASEAN is interesting for different reasons. This regional economic community encompasses countries at a similar stage of development as many countries in the African RECs. ASEAN also contains members with a common colonial heritage and well-developed professional services regulation, as well as countries with little or no regulatory framework.

### European Union

The EU has been using MRA-type instruments to promote free movement in professional services since the 1960s. Over the intervening period, its approach has gone through several important changes. Like the EAC, the EU first promoted free movement for several specified professions, including doctors, nurses, dentists, and architects. Mutual recognition in these professions was based on the legislative harmonization of the essential elements of the qualifications, including the level, content, and duration of university courses as well as any post-university training and experience requirements. However, it became clear that applying this approach to all professions would be time consuming and difficult. Therefore, the EU developed a general approximation approach to mutual recognition that could be used across all regulated professions, without time-consuming negotiations of new legal instruments for each sector. Under this approximation approach, each EU member state classified its regulated professions according to the level of underlying education and training required, such as a four-year bachelor's degree (these are not all bachelor of arts degrees, some will be bachelor of science degrees), three-year bachelor's degree, vocational qualifications, and so forth. An assumption was then made that professional qualifications based on similar levels of educational attainment were similar enough across the EU to allow for automatic recognition. Equally, where EU migrants were practicing a profession that was not regulated in their home country, they could obtain recognition in a host country by demonstrating that they had equivalent academic qualifications and practical experience. In cases where the home country professional qualification required a lower level of education and training, the host country competent authority could impose proportionate compensatory measures on migrant professionals, such as tests of essential local requirements or top-up training.

In practice, this system was also supported by moves to introduce a common Europe-wide framework for academic qualifications.[8] The so-called "general system for mutual recognition" not only allowed for mutual recognition of professional qualifications in cases where there was asymmetry in regulation, but also allowed for far greater free movement of technical cadres.

The main lessons of the EU's MRA experience for Africa are the following:

- An approach of general approximation is a potentially risky strategy for MRAs, as it allows competent authorities a degree of discretion. But the approach does move the mutual recognition process forward much faster than the EAC approach of sector-by-sector negotiations. This is particularly important where there is a greater diversity of professions across a region.
- Any regional mutual recognition process is significantly aided by the creation of a regional educational framework that creates a common understanding between the competent authorities of the building blocks on which professional registration is built.
- The EU's MRA instruments were negotiated and agreed by governments. The professions did have input into the negotiations, but the resulting agreements are intergovernmental. They are, as a result, part of the legal order of the EU and justiciable before the Court of Justice of the EU.
- Over the intervening years, the European Commission has actively employed a competition policy to remove unnecessary restrictions to cross-border professional practice. In addition, the Court of Justice of the EU has frequently been used by individuals to enforce and extend the rights of professional recognition and practice. Such measures have helped to curb any protectionist tendencies among competent authorities.

### ASEAN

ASEAN has also put in place a framework for professional mobility based on MRAs. This framework established MRAs as intergovernmental treaty instruments that explicitly identify the competent authorities that will be responsible for their implementation. Agreements have been in place for seven key professions[9] for several years, but despite this, the numbers of professionals using them are still very small.

The ASEAN approach to mutual recognition varies and effectively falls into three categories. In the first category, the ASEAN member states have agreed on the definition of a profession drawing on international standards—for example, an "ASEAN architect" or "ASEAN engineer." Member states then manage two registration lists, one of individuals who meet the ASEAN standard, which is usually higher than the basic entry requirement for domestic practice, and one for domestic practice. Recognition is automatic for any individual in their home member state who is on the ASEAN list. This approach puts the onus on the home state to determine whether an individual has reached the appropriate level and therefore requires significant trust between regulatory authorities.

In the case of doctors, dentists, and nurses, the "managed" approach effectively has been agreed on. The ASEAN member states have undertaken to recognize each other's training and qualifications. However, their MRA allows them to impose any other requirement or assessment on dentists and doctors and to require nurses to submit to an "induction program" or "competency assessment" before they are registered in the host country.

In the cases of surveyors and accountants, regional standards are still being negotiated. The approach that likely will be taken for accountants is similar to that for architects and engineers. In the case of surveyors, given the very different definitions of the sector employed in the different ASEAN countries, the approach will likely resemble that used for the medical professions.

In all cases, the agreements designate competent authorities at the national level to manage the MRAs and fulfill the undertakings contained in them. The agreements also put in place formal coordination, with explicit tasks delegated to a regional monitoring committee for each profession. These monitoring committees then report to the ASEAN intergovernmental trade in services committee.

It is very early days for the ASEAN MRAs and few professionals have yet to take advantage of the agreements signed between governments. Nevertheless, the following useful lessons can be drawn for possible future African RECs:

- As in the case of the EU, ASEAN MRAs are intergovernmental agreements rather than agreements between

8 The Sorbonne-Bologna process is an intergovernmental agreement rather than an EU agreement, but it has allowed all EU member states to converge on a common educational framework, which helps to underpin professional qualifications.

9 Accountants, engineers, surveyors, architects, doctors, dentists, and nurses.

the professions themselves. This avoids many of the legal problems that the EAC MRAs have experienced.

- Formalized regional cooperation that brings together competent authorities and requires them to report to the trade in services committee creates an appropriate hierarchy and ensures that competent authorities are kept under scrutiny.
- There are advantages in ASEAN's use of a two-tier approach for engineers and architects. In particular, free movement is allowed for professionals who achieve the MRA standard, without creating an inflation of qualifications that may be unnecessary for the local market.

## Action Plan for Professional Services MRAs in Africa

Any African REC that is considering using MRAs to promote trade in professional services should consider the following steps.

First, professional services trade should be placed in the context of wider economic development rather than the narrower context of free movement of workers. For example, the policy objectives for MRAs should include the promotion of competitive and integrated markets. This will help link MRAs to other policy instruments, such as competition policy, procurement, and freedom of establishment. This in turn will help ensure that MRAs do not become instruments that simply embed the regulatory status quo.

Second, MRAs should be derived from regional commitments on trade in services. All contracting parties to the agreement should adopt the same sector definitions to avoid subsequent confusion. Commitments on free movement of workers should be made explicitly and linked to market access commitments, to avoid undermining professional services trade with work permit requirements.

Third, a regional education and training framework should be created in parallel with the mutual recognition process. Although this framework is not a prior requirement, it makes the mutual recognition process considerably easier and promotes greater market integration over time.

Fourth, MRAs must be set in a clear legal hierarchy to be effective. They should be intergovernmental agreements whose undertakings have been delegated to competent authorities to implement; and they should be buttressed by official dispute resolution mechanisms.

Fifth, the representative side of the profession has an important role to play in sensitizing professionals to opportunities and supporting the development of skills that will enable local professionals to take advantage of a wider regional market. Such associations should be encouraged and their development supported rather than left to chance.

Finally, there is also more that RECs and national governments can do to increase the impact of MRAs on the development of regional professional services markets. Proactive policies might include, for example, procurement requirements that favor more integration between professional service sectors.

## Challenges for MRAs in Africa

There are challenges facing any REC that wants to undertake the actions set out in this chapter in the pursuit of MRAs. These challenges are the following:

- There is overlapping membership between the African RECs, which means that the EAC approach will already have been implemented in some member states. This will inevitably influence governments' willingness to rethink how they implement MRAs legally, despite the shortcomings of the EAC hierarchy of legal commitments.
- The level of diversity in regulatory frameworks in some RECs, such as COMESA, is considerably greater than within the EAC. Some member countries of these RECs will likely need to implement major reforms or introduce regulation where none exists to participate in any MRAs. This could significantly delay the launch of negotiations for such agreements.
- Governments often lack the law reform capacity needed to implement a mutual recognition framework. As the EAC experience has shown, governments are sometimes reluctant to overhaul outdated national laws that are incompatible with MRA commitments.
- Competent authorities in many African countries are short of resources. Furthermore, the existence of paper-based regulation that is not enforced does nothing to build the trust and confidence needed to underpin the mutual recognition process. Therefore, regulatory infrastructure to implement MRAs should be shared between professions wherever possible.
- The approach to professional services regulation in most African countries is often outdated, with the result that when new regulation is introduced it can be protectionist rather than proportionate.
- Universities are frequently divorced from the needs of the job markets into which their graduates enter. African academic institutions are often slow to reflect the increasing need in modern professional services

markets for greater skills-based training. Moreover, staff and students are often spread too thinly, preventing the development of deep expertise.

## Policy Recommendations

There are several steps that governments, regional economic communities, and the international donor community can take to overcome the challenges to the introduction of an effective MRA framework in Africa.

*Promote understanding at the policy level* within governments about the linkages between the professional services markets and other areas of policy (such as procurement). It should be emphasized how these linkages can reinforce each other and help create larger professional services businesses at the regional level. The policy debate on professional services initiated by the European Commission's Directorate General for Competition in 2004, for example, helped the EU to promote a more coherent approach to professional services, not only among different departments of the EU Commission, but also between national governments. The directorate thus helped ensure that certain national-level regulatory practices were banned across the EU.

*Assist in the development of regulatory capacity* in competent authorities to ensure that good regulatory principles become embedded. There is little experience in many African countries of the effective management and scrutiny of delegated powers. Training programs, the creation of templates, and guidance—for line ministries and competent authorities with delegated powers—would help to create a culture of appropriate regulation. Good regulation would assist in the development of more competitive professional services markets.

*Build on the ambitions of the Arusha Convention*[10] to create an integrated African qualification framework. This step would aim to replicate the experience of the Sorbonne-Bologna process within Europe. Sorbonne-Bologna provides for easy transfer of credits between institutions, greater cross-fertilization between universities, and a common understanding of what academic standards mean. Such a transnational qualifications framework would transcend its uses in the academic world and become an essential building block for enabling free movement of wider groups of professionals. The EAC has begun the process of creating a Regional Qualifications Framework for Higher Education,[11] but this is still at an early stage. Greater benefits will come with wider interoperability and recognition of qualifications within Africa and beyond.

*Draw on the experience of the EAC* and experience elsewhere to set out a template approach to the future evolution of MRAs in and between RECs in Africa. Such a template could help clarify what is required of the qualification framework as a whole, what is needed in individual MRAs, and what preparatory work is required to ensure the maximum beneficial impact of any agreement.

## Conclusions

MRAs should not be seen as a stand-alone solution to professional services trade. They are simply one element of a sophisticated framework of interrelated measures that need to be implemented if cross-border work in professional services is to grow. In Africa, central government and regional administrative resources are stretched; in this context, it is particularly tempting to see MRAs as a task that can be left entirely to competent authorities, as in the EAC. The risk of this approach is that MRAs will become minimalist agreements that simply address the needs of individuals who wish to move between countries. Such a reductionist approach risks missing out on the significant benefits of unlocking regional integration in professional services markets—for consumers, businesses, and even the professions themselves.

EAC experience suggests that much could be done to improve the design and operation of the MRAs that have been implemented already, before this experience is shared with other African RECs.

For example, more needs to be done to raise the awareness of national governments and RECs of the role of MRAs, their uses, and their shortcomings. There should also be discussion of the importance of ensuring that MRAs are embedded in an appropriate governance framework derived from trade agreements and supported by a strong competition policy. Such external frameworks would help to ensure that MRAs do not spread national rigidities in regulation to a regional level, but instead use the regional liberalization process to improve national regulatory approaches. Governments also need to recognize that MRAs are not always the best solution for trade liberalization. For some sectors, MRAs are required; for others, lower levels of intervention, such as negative licensing, will be sufficient.

Governments should also be aware that to realize their full potential, MRAs may require other legislative measures to be put in place. Nationality or joint venture requirements may need to be removed from related legislation. Moreover, more flexibility may need to be introduced into the powers

10 See the Inter-University Council for East Africa: http://www.iucea.org/.

11 See the Inter-University Council for East Africa: http://www.iucea.org/.

delegated to competent authorities to enable them to implement MRAs effectively. This could, for example, include an extension of powers to cover the regulation of technical-level qualifications. The authorities could also be allowed to recognize and act on the possible need for temporary foreign professional practice.

Finally, EAC experience illustrates that the transparency of MRAs is key to their success. Potential users and their clients need to know and understand what the agreements involve. They may also need to be encouraged to transcend the self-imposed cross-border barriers to practice that have grown up over time in Africa. These barriers may arise from culture or traditional patterns of working, and may take longer to eliminate than any de jure barriers that exist.

## References

Chen, M. X., and A. Mattoo. 2004. "Regionalism Is Standards—Good or Bad for Trade?" Policy Research Working Paper 3458, World Bank, Washington, DC.

Dihel, N., A. M. Fernandes, and A. Mattoo. 2010. "Towards a Regional Integration of Professional Services in Southern Africa, Africa Trade Policy Notes." Note 10, World Bank, Washington, DC.

Geloso Grosso, M., H. Nordås, F. Gonzales, I. Lejárraga, S. Miroudot, A. Ueno, and D. Rouzet. 2014. "Services Trade Restrictiveness Index (STRI): Legal and Accounting Services." OECD Trade Policy Papers No. 171, OECD Publishing, Paris.

Government of Australia. 2009. "Review of Mutual Recognition Schemes." Productivity Commission Research Report, Government of Australia, Canberra.

Hook, A. J. 2013. "Study on the EAC MRAs for the International Trade Council." International Trade Council, Geneva.

Nicolaïdis, K. 1997. "Managed Mutual Recognition: The New Approach to the Liberalization of Professional Services." In *Liberalization of Trade in Professional Services*. OECD Publications. http://users.ox.ac.uk/~ssfc0041/managemr.htm.

Paterson, I., M. Fink, A. Ogus, et al. 2003. "Economic Impact of Regulation in the Field of Liberal Professions in Different Member States Regulation of Professional Services: A Study for the European Commission." DG Competition, Brussels.

Pelkmans, J. 2012. "Mutual Recognition: Economic and Regulatory Logic in Goods and Services." Bruges European Economic Research Papers 24/2012, College of Bruges, Belgium.

World Bank. 2013. *World Development Indicators*. World Bank, Washington, DC. http://data.worldbank.org/data-catalog/world-development-indicators.

WTO (World Trade Organization). 1998. "Decision on Disciplines Relating to the Accountancy Sector." Press Release Press/118, December 14. http://www.wto.org/english/tratop_e/serv_e/sl63.doc.


*Mixed Identity* by Onyis Martin

CHAPTER 7

# Trade in Tourism Services and Regional Integration in Southern and Eastern Africa

Alex Pio

Alex Pio is Consultant, World Bank.

## Introduction

Tourism has a substantial and growing impact as a key economic driver in Southern and Eastern Africa. Tourism is one of the world's largest industries, employing one of every 11 people, generating US$1.4 trillion in export earnings and 9 percent of global gross domestic product (GDP) (UNWTO 2014a; WTTC 2014a). In Sub-Saharan Africa (SSA), tourism attracted 33.8 million international visitors in 2012. This was a more than 500 percent increase over 1990, generating US$36 billion in tourism receipts, with a total contribution of 7.3 percent to the regional GDP in 2012 (WTTC 2013).[1] Southern Africa, dominated by South Africa, is the region with the greatest share of tourism arrivals and receipts, as well as the greatest variances between countries; East Africa has greater homogeneity in destinations and a dynamic regional community.

Intraregional tourism is the mainstay of Southern and Eastern Africa's tourism industry, driving the international growth and development of the sector. Two important markets, which are especially impacted by regional cooperation, are the residents of one country traveling to another country in the same region (intraregional tourism), and residents of a country outside the region traveling to two or more countries in the same region (multi-destination trips). Both categories have very different visitor needs in experiences, quality, expectations, and value propositions, yet both require regional cooperation on standards, regulations, policies, and common public goods (infrastructure, roads, and transport access, for example) to grow in volume and economic impact. Intraregional tourism accounts for the majority of tourist trips globally and in SSA; the United Nations World Tourism Organization (UNWTO) estimates that intraregional travelers will account for 75 percent of all international arrivals in Africa by 2021, mainly because of demographic and income shifts (UNWTO 2010 in Christie et al. 2013).

Tourism in Africa remains highly fragmented and globally uncompetitive, with greater restrictions than the world average (UNECA 2013). A 2010 ICF SH&E study found that international airfares to SSA were almost 50 percent more expensive and charter tours were 20 to 30 percent more expensive than comparable destinations; and only 10 percent of the region's hotel rooms are estimated to meet international standards (SH&E 2010; Christie et al. 2013). Evidence suggests that tourism demand is being stifled by the lack of policy and regulatory integration, such as visa facilitation. Key practices pertaining to taxation, connectivity, infrastructure, data collection and dissemination systems, and standards require upgrading and reforming to scale up the growth potential of tourism services within SSA.

Regional cooperation initiatives in tourism can help increase the regional and national competitiveness of the sector. Tourism can be utilized further to connect regions through three dimensions: people, institutions, and infrastructure. Increased cooperation can foster sustainable and inclusive tourism growth by increasing and redistributing tourist flows and spending. Cooperation can play a significant role in connecting people, narrowing regional development gaps, and spurring development in other industries (Chheang 2013). Regionalism and tourism development can have a causal relationship, reinforcing each other, as the incentives and benefits generated from the tourism industry encourage different economic sectors to develop, increasing the multiplier effect of tourism (Chheang 2013).

There are three key areas in which regional integration can increase the competitiveness of tourism:

1. *Facilitating access.* Access is facilitated through physical infrastructure improvements (investing in road, port,

[1] Including direct, indirect, and induced contributions.

rail, and air infrastructure) and policy reforms (removing visa restrictions, reducing tourist taxes and airline fees, deregulating aviation, and easing border crossing formalities).

2. *Improving the quality of the visitor experience.* Quality improvement is achieved through implementing quality standards for products and facilities, increasing wildlife conservation, coordinating workforce development, improving the business climate, attracting investment, and facilitating labor mobility.
3. *Communicating the value of a region's tourism assets.* Value is communicated (i) to *consumers,* by jointly branding and promoting the region and its multi-destination products, and by mounting coordinated crisis response initiatives; and (ii) to *policy makers and populations,* by carrying out research, harmonizing national statistical gathering systems, monitoring and evaluating tourism's impacts, and undertaking high-level advocacy.

Destinations in Southern and Eastern Africa have recognized the importance of regional cooperation in tourism and have included many tourism objectives in the charter protocols of their regional blocs. The East African Community (EAC) has created the East African Tourism and Wildlife Conservation Agency (EATWCA) to implement regional tourism initiatives; similarly, the Regional Tourism Organization of Southern Africa (RETOSA) is the tourism arm of the Southern African Development Community (SADC). Each agency has undertaken various activities, such as formulating regional tourism strategies, creating shared visas, undertaking regional promotion, establishing quality standards, and defining trans-frontier conservation areas (TFCAs).

Directly and indirectly, the tourism sector has the potential to derive significant benefits from regional cooperation and integration initiatives, but in practice it is difficult to apply policies and sustain activities. As is the case with other sectors, policy and regulatory reforms are not uniformly ratified by a bloc's member countries. Reforms often remain unimplemented and, if they are implemented, they are poorly enforced. Political will, funding, and capacity constraints limit the effectiveness of a bloc's ongoing programs, such as regional promotion. The greater the economic, geographic, political, and structural disparities between member states, the less likely blocs are to apply initiatives effectively.

The national sphere remains the main one for addressing tourism development, which can then be supported by carefully selected bilateral, multilateral, and regional initiatives to build on common objectives. Southern and Eastern Africa's foremost regional objectives should include the following: liberalizing airspace, reducing visa requirements further, investing in access and tourism-related infrastructure, rationalizing tax systems, setting and implementing quality standards, cooperating on tourism and hospitality workforce development, undertaking unified regional promotion, monitoring and evaluating tourism impacts, and conducting high-level advocacy with policy makers.

Cross-border tourism initiatives are more likely to succeed when the following preconditions are met: (i) member countries have similar policy frameworks, tourism development stages, cultural backgrounds, economic drivers, and sizes; (ii) countries have sustained political stability and commitment, prioritizing tourism as a key economic driver; and (iii) equitable relationships between members are forged. National concerns of sovereignty, diverging priorities, political economies, and differences in development needs and stages are all factors that must be carefully calibrated when considering regional integration initiatives in tourism.

Success factors for regional cooperation in tourism include the following:

*Institutions:* (i) the creation of binding tourism charters based on tourism's potential for economic growth, job creation, conservation, and regional integration; (ii) the creation of inclusive regional tourism development plans tied to feasible, timely investments; and (iii) the institutionalization of an independent entity as a coordinating and implementing unit, with dedicated funding, a clear and accountable mandate, and high-level oversight.

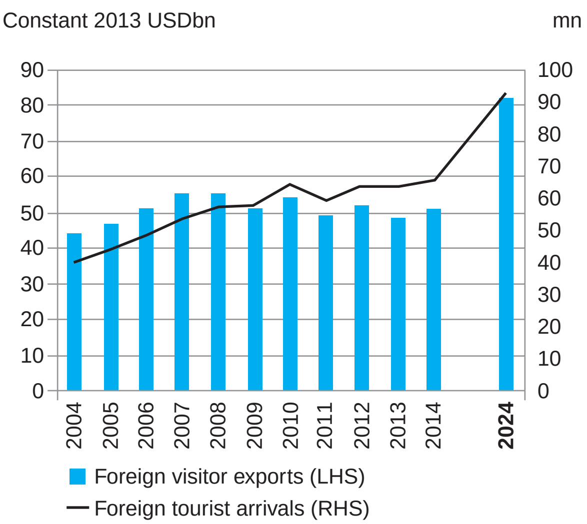
*Initiatives:* (i) selecting regional tourism initiatives that make business sense; and (ii) packaging regional initiatives based on intraregional products, circuits, thematic routes, popular tour routes, or shared assets (such as trans-frontier conservation areas), which are commercially feasible and link physical investments with policy and regulatory reforms.

*Approaches:* (i) starting small in the number of countries involved and in the scale and scope of initiatives; (ii) creating momentum for initiatives by aligning them with important regional events and providing realistic time frames; and (iii) carrying out frequent high-level advocacy within member states.

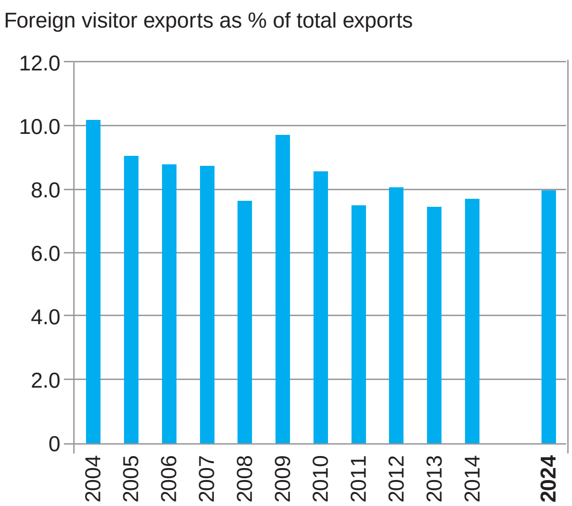
This chapter explores the theory, practice, and lessons learned for Southern and Eastern African nations and blocs to grow their multi-country and intraregional tourism through regional cooperation.

**FIGURE 7.1: Africa Foreign Visitor Exports and International Tourist Arrivals, 2004–14**

a. Foreign visitor exports (2013 US$ billions) and tourist arrivals (millions)




b. Foreign visitor exports as share of total exports (%)




*Source:* World Travel and Tourism Council 2014b.

## Potential of Tourism as a Key Economic Driver in Africa

Tourism is considered the world's largest industry and an important driver of growth in African economies. According to UNWTO, international tourism accounts for 29 percent of the world's service exports and 6 percent of overall exports of goods and services (UNWTO 2014a). Tourism is the leading sector for services exports in least developed countries, representing 54 percent of commercial service revenues in 2010 (WTO 2011).[2] Tourism is ranked fourth in the global export category, after fuels, chemicals, and automotive products (UNWTO 2010). The World Travel and Tourism Council (WTTC), in its annual *2014 Travel & Tourism Economic Impact Report* on 47 countries in Africa, estimates that tourism directly and indirectly supports 19.3 million jobs on the continent (WTTC 2014b).

In 2013, travel and tourism generated US$48.2 billion, or 7.4 percent of total exports in Africa (see figure 7.1). This is expected to grow by 4.8 percent per year between 2014 and 2024, to US$81.6 billion (WTTC 2014b). Travel and tourism investment is set to grow by similar rates of 4.4 percent per year over the next decade, from the current US$25.9 billion to US$41.1 billion in 2024 (WTTC 2014b).

According to the General Agreement on Trade in Services (GATS), there are four modes defining the international trade in tourism services, which are outlined in box 7.1. Unlike other service sectors, travel and tourism is characterized by the consumers of the service traveling to the supplier country to enjoy the services and facilities (GATS mode 2). Because tourism is consumed at the source, the cross-border movement of consumers permits unskilled workers, even in remote areas, to become service exporters (by providing lodging, handicrafts, catering, and guiding, among other services). Suppliers such as multinational hotel chains, tour operators, transport providers, and online distributors work widely across borders, with linkages to many major economic segments.

Compared with other sectors across African regions, tourism has seen some of the most growth since 1980, particularly in Central, Eastern, and Western Africa, where tourism was least developed. A 2013 WTTC benchmarking study found that travel and tourism's contribution to GDP in Africa is greater than that of other individual sectors, including banking, communications, chemicals manufacturing, and auto manufacturing (WTTC 2013). Travel and tourism

2 Thirty-four of the world's 48 countries categorized as least developed are located in Africa.

### BOX 7.1: The GATS Modes of Supply

The General Agreement on Trade in Services (GATS) defines international trade in services by four modes of supply:

*Mode 1: cross-border trade.* This mode is defined as delivery of a service from the territory of one country into the territory of another country. In tourism, this could equate to international tour operators selling travel packages online.

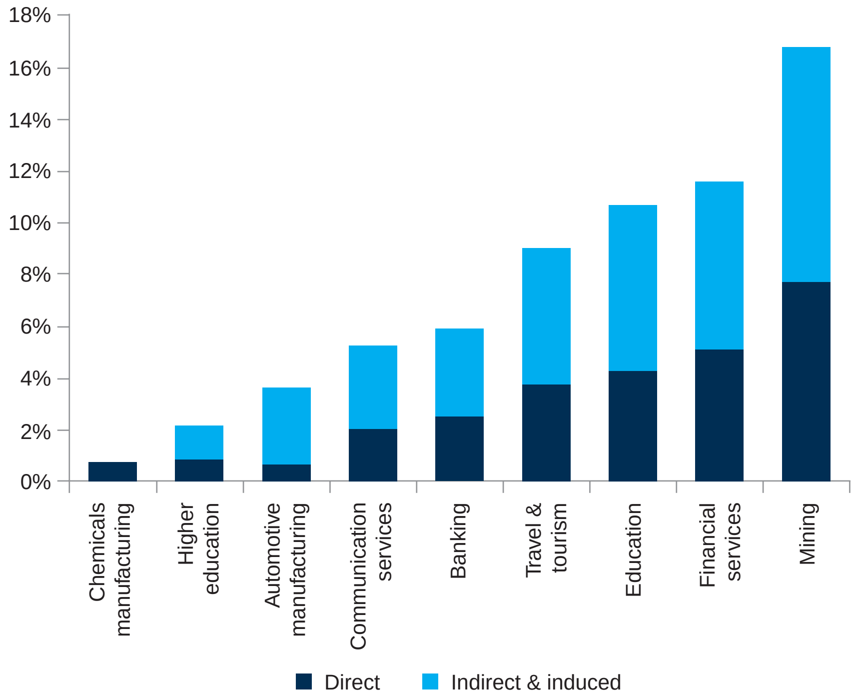
*Mode 2: consumption abroad.* This mode covers the supply of a service of one country to the service consumer of any other country. Mode 2 is most commonly associated with tourism, wherein a person travels to a foreign country to consume tourist services.

*Mode 3: commercial presence.* This mode covers services provided by a supplier from one country in the territory of any other country. Mode 3 is manifested in tourism, for example, as the establishment abroad of a branch of a hotel chain.

*Mode 4: presence of natural persons.* This mode covers services provided by a supplier from one country through the presence of natural persons in the territory of another country. An example of mode 4 supply would be a hotel hiring a foreign manager.

*Source:* WTO 2015a.

**FIGURE 7.2:** African GDP Impact by Industry as a Share of Total Economy GDP, 2013 (%)




*Source:* World Travel and Tourism Council 2013.

*Note:* GDP = gross domestic product.

is nearly the same size as Africa's education and financial service sectors.

Although tourism has benefitted all regions in Africa, this has been on an unequal basis; arrivals and receipts tend to be concentrated geographically. East and Southern Africa attract more tourists and tourism contributes more to GDP than in West and Central Africa (table 7.1). Within each of these regions, certain countries act as tourist hubs. In East Africa, Zimbabwe receives 16 percent of international arrivals; Mozambique, 15 percent; and Kenya, 15 percent. In Southern

**TABLE 7.1:** Tourist Arrivals and Receipts in Africa by Region, 2011

| Region | Total African arrivals | Total long-haul arrivals | Total tourist arrivals | Total receipts (US$ million) |
|---|---|---|---|---|
| North Africa | 2,171,000 | 24,383,000 | 26,554,000 | 18,296 |
| Southern Africa | 8,449,000 | 2,599,000 | 11,048,000 | 10,090 |
| East Africa | 4,894,000 | 2,727,000 | 7,621,000 | 7,596 |
| West Africa | 1,773,000 | 4,838,000 | 6,611,000 | 3,412 |
| Central Africa | 192,000 | 475,000 | 667,000 | 674 |
| **Total** | **17,479,000** | **35,022,000** | **52,501,000** | **40,068** |

*Source:* AfDB, 2013

**TABLE 7.2:** Global International Tourist Arrivals from the Same Region versus Other Regions, 1990–2013 (millions)

| International tourist arrivals | 1990 | 1995 | 2000 | 2005 | 2010 | 2013 | Market share (%) | Average annual growth, 2005–13 (%) |
|---|---|---|---|---|---|---|---|---|
| Same region | 348.7 | 422.6 | 532.5 | 630.6 | 728.1 | 840.2 | 77.3 | 3.7 |
| Other regions | 77.6 | 95.6 | 130.3 | 150.9 | 194.0 | 219.8 | 20.2 | 4.8 |

*Source:* UNWTO 2014b.

Africa, 66 percent of all tourist arrivals in the region are in South Africa, compared with Namibia's 9 percent. In West Africa, Senegal and Nigeria dominate, together accounting for 78 percent of visitors to the region (Christie et al. 2013).

## Growth of Multi-Country, Cross-Border Tourism

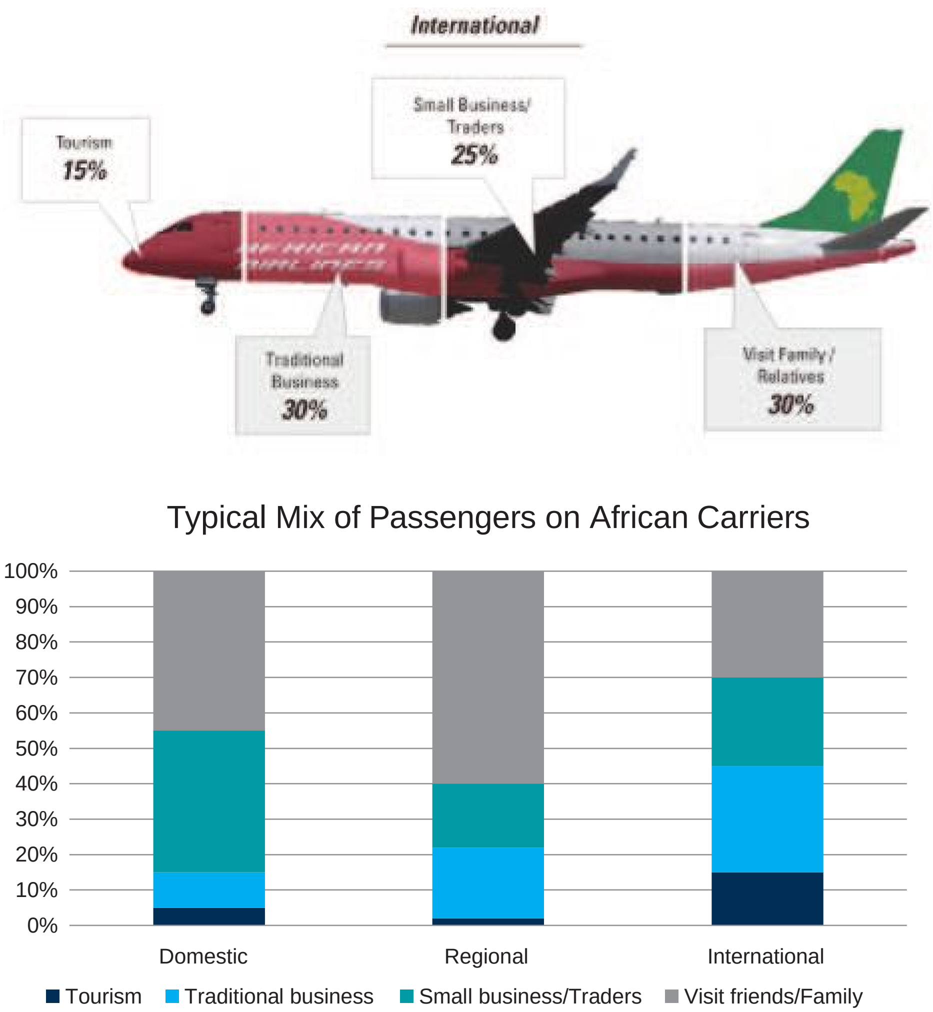
Intraregional tourism (travel by residents of one country to another country in the same region) accounts for the majority of tourist trips undertaken worldwide (table 7.2). An estimated four of five global arrivals originate from the same region, amounting to 840.2 million international travelers (UNWTO 2014a). Similarly, for low- and middle-income countries, the largest source of tourism arrivals is neighboring low- and middle-income countries. South Africa, for example, attracted 26 percent of all international tourists to SSA in 2012, and 70 percent of its 9.1 million visitors arrived from SADC countries (Statistics South Africa 2012). Likewise, 58 percent of all arrivals to Namibia in 2010 were from South Africa and Angola (Christie et al. 2013). According to UNWTO, intraregional travelers are expected to grow to 75 percent of all international arrivals in Africa by 2021, mainly driven by increased levels of income and wealth (Christie et al. 2013).

The major travel motivation for this market is related to business, followed by visiting friends and relatives and, increasingly, leisure (see figure 7.3). More recently, emerging intraregional travel motivations include shopping, education, and health. Intraregional travelers tend to visit urban centers rather than rural areas or nature reserves, with short-haul travel patterns closely related to trading partners, proximity, relative incomes, and ethnic similarities (Christie et al. 2013).

Given the weak and/or expensive air, water, and rail transport systems in SSA, most visitors arrive by road, and are mainly independent travelers rather than package tourists (Rogerson 2007). Intraregional travelers are more inelastic to crises, and, despite spending less per capita, they can create proportionately more local economic linkages than long-haul package tourists. Intraregional travelers tend to understand the cultures, patronize informal establishments, and utilize local products and services (Rogerson 2007).

Multi-destination regional travelers, or long-haul travelers visiting more than one country in the same region, are much more difficult to measure. It is widely accepted that this is a substantial segment of international travel, especially for less-developed regions and more densely clustered destinations. Nevertheless, empirical data are hard to come

**FIGURE 7.3:** Typical Mix of Passengers on African Carriers




*Source:* SH&E 2010 as cited in Christie et al. 2013.

by (Parroco 2012). Long-haul travelers in SSA, for example, tend to visit more than one country on their trips. These visitors are generally well-traveled, demand quality, and have access to substitutes (RETOSA 2012b). In the SADC region, for example, an estimated 48 to 58 percent of long-haul leisure tourists visit more than one country, with operators most frequently packaging together Botswana, South Africa, Zambia, and Zimbabwe (Anneli 2012).

Around 16 percent (4.9 million) of visitors to SSA arranged their trip through a tour operator in 2010. Serving these tourists were an estimated 3,000 ground tour operators in SSA, providing direct employment to 35,000 to 40,000 people. A higher proportion of travelers to SSA use tour operators than in other global regions because of the greater complexities in obtaining visas, booking accommodations, and making tour arrangements (Christie et al. 2013).

Despite the growth of multi-country, intraregional tourism and its associated products and services, cross-border travel in SSA remains lower than the global average because of several factors. Relative prices are high, and there is a lack of quality, targeted facilities for the domestic regional market. Cross-border accessibility is poor because there are insufficient air services and inefficient airlines. Finally, there are policy, regulatory, and practical barriers in cross-border tourism, including visa and other formal and informal procedures (RETOSA 2012b; World Bank 2010, 8–9; Christie et al. 2013). Box 7.2 outlines the major constraints to the continent's tourism growth as a whole.

**BOX 7.2:** Constraints to African Tourism Growth

Five interrelated constraints stand in the way of job creation and private sector tourism development:

1. *Unpredictable business environments.* Political instability, high crime rates, red tape, unavailability of skilled labor and quality inputs, and lack of access to capital and land have raised the risks and costs of doing business in the tourism sector and reduced the region's competitiveness.
2. *Limited infrastructure and service provision.* Unsafe roads, inadequate water, poor sanitation, high electricity costs, poor construction practices, and lack of health facilities result in difficult business environments and subpar visitor experiences.
3. *Institutional weakness.* Tourism is complex; it requires coordination between multiple government agencies, private sector bodies, civil society organizations, and community stakeholders. Transportation, communications, finance, education, sanitation, and immigration are just a few of the many areas where greater coordination is required. Moreover, tourism often lacks appropriate political prioritization in Africa, resulting in low capacities and insufficient budgets.
4. *Inadequate access.* Average one-way domestic fares in Africa are twice as expensive as those in Latin America and four times as expensive as domestic flights in the United States. This, coupled with differing visa arrangements, poorly managed airports and border crossings, and a lack of quality access infrastructure, is a major disincentive to international and cross-border travel.
5. *Low levels of linkages.* Despite increasing evidence of the multi-sector benefits that tourism can bring to economies across Africa, the sector is often regarded as elitist and dominated by foreign firms. Constraints to development of the tourism value chain in Africa include the inability to produce competitive products, lack of tourism awareness, and a problematic business environment. There are significant opportunities for increased linkages, but in many cases local products (such as horticulture, produce, crafts, entertainment, and transportation) are not sufficiently developed or are not of high-enough quality to supply the tourism industry.

*Sources:* World Bank 2010, 8–9; Christie et al. 2013.

## Role of Regional Cooperation in Tourism Development

To maximize the benefits of tourism, the sector needs to be well planned, developed, and managed. Governments have a key role to play by developing strategies for the sustainable growth of the sector, formulating and enforcing policies and regulations, providing tourism-related infrastructure and services, and creating an enabling business environment for private sector activity. The lack of effective, coordinated government policies and actions can result in negative environmental and social externalities. Lack of government action can also lead to financial leakages, defined as the loss of tourism revenue abroad through profit repatriation and the procurement of tourism-related goods and services abroad (UNWTO 2012a). These factors are especially relevant for low- and middle-income nations, which often lack the awareness, capacities, and resources to mitigate tourism's negative impacts and leakages.

Tourism destination stakeholders recognize the importance of regional tourism cooperation for their effective positioning on an increasingly competitive global landscape. Cross-border tourism products and initiatives can present valuable opportunities for regions as a whole in the international market, while benefitting individual destinations' economies, environments, and social factors (Tore 2010). Along with the direct effects on multi-country and cross-border tourism, regional tourism initiatives can bolster the tourism competitiveness of a region and its member countries, facilitate knowledge transfers, generate geographically disperse benefits of tourism, accelerate the development of tourism in less-developed destinations, and further integrate regions through increased connectivity and value chain linkages.

Several tools and strategies can be employed from a regional integration perspective to increase trade in tourism services. These activities can be grouped into three main categories: (i) facilitating access, (ii) improving the quality of the experience, and (iii) communicating value and impacts

**FIGURE 7.4:** **Three Key Areas in Which Regional Integration Can Increase Tourism Competitiveness**

| Facilitating access | Improving quality | Communicating to consumers and policy maker |
|---|---|---|
| • Removing visa restrictions<br>• Improving access infrastructure (roads, port, and rail and air, border crossings)<br>• Aviation deregulation<br>• Easing border crossing formalities | • Business environment<br>• Attracting investment<br>• Service and quality standards<br>• Nature and wildlife conservation<br>• Codes of conduct<br>• Workforce development<br>• Labor mobility | • Branding, marketing, and promotion<br>• Crisis management<br>• Statistics and research<br>• Advocacy<br>• Stakeholder coordination<br>• Increased awareness of destination communities |

*Sources:* Anastasiadou 2006; Ghimire 2001; Teye 2000.

(figure 7.4). Each of these aspects can be addressed through regulatory and policy levers, as well as infrastructure financing and product development programs.

On the supply side, the goal is to encourage the regional expansion of service providers and the mobility of skilled labor. Tools for achieving this goal can include improving enabling environments, attracting increased demand, engaging in mutual recognition of national standards, and facilitating the mobility and transfer of skilled labor through labor agreements.

Regional blocs are key institutions for growing intraregional as well as international arrivals to a region. Globally, some of the best examples of the involvement of regional blocs in tourism development are the European Union (EU), the Caribbean region, and the Association for South East Asian Nations (ASEAN), as outlined in box 7.3.

SSA has more than a dozen regional blocs in the forms of economic communities, customs unions, monetary unions, and common market initiatives (map 7.1). The inclusion of regional cooperation for tourism development has been growing in the region, despite the fact that tourism-specific development agendas are marginal to the missions of regional blocs. Most blocs have recognized the importance of tourism to their regional economies and have several tourism protocols or objectives in their charters.

In Eastern and Southern Africa, the blocs most active in tourism are SADC and EAC. The Common Market for East and Central Africa, the Inter-Governmental Authority on Development, and the Indian Ocean Commission are also involved in tourism to a lesser degree. Although these blocs generally have similar overarching objectives for tourism development, their specific initiatives and standards can overlap and can lead to conflicts for nations with memberships in multiple blocs. Tanzania, for example, is a member of EAC and SADC, two blocs that have developed different regional accommodation classification systems to be adopted at the country level.

## East African Community

Eastern Africa is a leading tourism destination in SSA. EAC member countries (Burundi, Kenya, Rwanda, Tanzania, and Uganda) attracted more than 4.9 million international visitors in 2011, a 60 percent gain from just five years prior, in 2006 (EAC 2013). The region received US$3.5 billion in visitor expenditures in 2011, the latest year for which data are available for all the countries. Together, EAC member states have a total of 56 national parks and 49 game reserves.[3] For long-haul travelers, safaris, scenic, beach, and birding tourism remain East Africa's most popular attractions. Cultural heritage tourism is expanding, and conference tourism is beginning to take root.

Recognizing the complementarities of tourist attractions in member countries, EAC states have created a comprehensive framework under which to jointly promote and develop the region's tourism sector. The EAC treaty requires member states to develop a regional strategy for tourism promotion, with the development objective of "*maximized benefits from sustainable tourism and wildlife resources*." As such, the region has identified the following strategic interventions:

- Market and promote East Africa as a single tourist destination
- Operationalize the East African Tourism and Wildlife Conservation Agency

3 Parks and protected area counts are from 2011.

**BOX 7.3: International Examples of Regional Cooperation for Tourism Development**

The CTO logo.

The Caribbean region, through its Caribbean Tourism Organization (CTO), has focused heavily on marketing and promotion. The notion is that by pooling resources, the CTO could increase the competitiveness of the world's premier sea, sand, and sun destination. The organization is governed by a Tourism Ministerial Council and is funded by membership dues, calculated based on a formula of tourism arrivals, thus ensuring a more equitable distribution of financial obligations. CTO member states are all heavily dependent on tourism as an economic driver, and have very similar resource endowments and products of beach and soft nature tourism. This has allowed greater consensus and willingness to partner on a regional level.

The Association of South East Asian Nations (ASEAN), comprising 10 member states, has pursued a regional tourism agenda since the early 1990s. Tourism development has been recognized as a high priority area for cooperation on regional development in Southeast Asia, because of the sector's importance to member economies. For example, tourism accounts for 6 percent of gross domestic product in Thailand and employs 15 to 20 percent of its workforce (Christie et al. 2013). ASEAN tourism ministries have engaged in a cooperation framework that includes marketing, training, research, travel facilitation, transport, and human movement. ASEAN's specific tourism goals include focusing on an environmental management certification system for hotels, establishing ASEAN standards for tourism and minimum competency standards for tourism professionals, building an intra-ASEAN tourism curriculum, and establishing a regional tourism research databank, among others. ASEAN is currently working on increasing labor mobility within the bloc, similar to the European Union's mobility initiatives, which should have a significant impact on tourism.

The ASEAN logo.

ASEAN's tourism initiatives have had to overcome several obstacles, including the dissolution of its tourism subcommittee in 1995, which was caused by lack of resources. The organization also failed to launch the ASEAN Tourism Association because Malaysia, a major regional player, declined to join. ASEAN continues to face challenges in growing the region's tourism brand recognition.

ASEAN's five key success factors for promoting regional cooperation in tourism are identified as: (i) a high level of political will and commitment across the board, (ii) strategic multi-stakeholder partnerships, (iii) an early focus on institutional and regulatory development, (iv) the development of subregional cooperation frameworks, and (v) increasing members' awareness of the benefits of tourism.

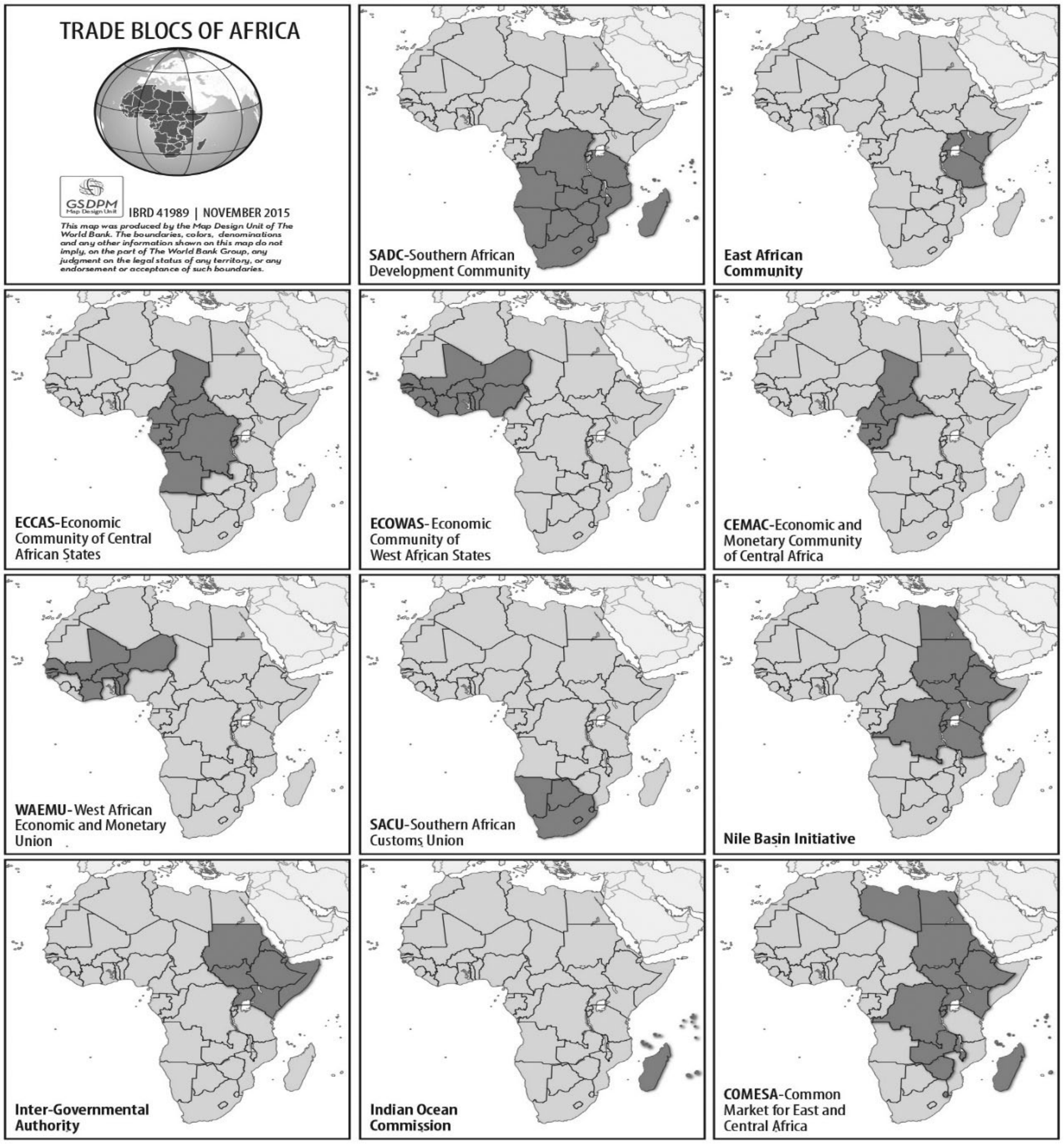
*Sources:* Chheang 2013; CTO 2014; Christie et al. 2013.

- Implement the (voluntary) criteria for classification of hotels, restaurants, and other tourist facilities
- Harmonize policies and legislation on wildlife conservation and management
- Adopt a regional approach to the protection of wildlife resources from illegal use and practice
- Adopt a regional approach for participation in regional and international treaties/agreements on wildlife conservation and management
- Enhance capacity building in the tourism and wildlife sector.

As part of reaching its objectives, EAC created a tourism marketing plan and strategy in 2007, outlined a Protocol on Tourism and Wildlife Management, formulated standardized classification criteria for hotels and touristic facilities, and identified three centers of excellence in tourism education and workforce development.[4] EATWCA was created as an implementing agency for EAC tourism activities, with a heavy focus on marketing and promotion. Since 2006, steps have been taken to market East Africa as a single destination, with EATWCA coordinating participation in international tourism fairs as a bloc. The region has also

4 The Utalii College (Kenya), the College of African Wildlife Management (Tanzania), and the East African Civil Aviation Academy (Uganda). Their goal is to establish a unified fee structure for all EAC students.

**MAP 7.1:** **The State of Free Trade in Africa**




set equal treatment on rates for lodging and attractions, so that the same rates apply to visitors from EAC countries as for domestic travelers.

Despite ambitious objectives and steps in the right direction, many initiatives still require adoption and enforcement at the national level, such as the EAC standardized classification criteria. This is a key issue faced by regional blocs internationally, and is magnified in Africa. Because of issues of national sovereignty, political economy, and prioritization, it has been difficult to translate regional policy and coordinative initiatives into reality at the national level.

Funding and capacity constraints limit the effectiveness of the EAC management of programs such as regional promotion. Apart from joint promotion of trade fairs, EATWCA has lacked the budget to undertake meaningful regional marketing campaigns. The region still needs to address the disadvantages of a narrow range of low-quality tourism products, an absence of harmonized policies and strategies, unfavorable investment environments, and restrictive access conditions.

### Southern African Development Community

SADC is an intergovernmental organization with the goal of furthering socioeconomic, political, and security cooperation and integration among 15 Southern African states.[5] Tourism is a small part of its mission, and is coordinated through RETOSA, which was created by SADC in 1997. In 2011, RETOSA member states welcomed 20 million visitors; they generated US$15.31 billion, just under half of the continent's US$32 billion in tourism receipts (RETOSA 2012b). On average, tourism contributes 8.9 percent of GDP for SADC member states. Tourism receipts vary greatly between states, from 29.1 percent of GDP for the Seychelles to 0.4 percent of GDP for Angola (RETOSA 2012b).

RETOSA's main tourism objectives are outlined in its charter as follows (SADC 1997):

- Encourage and facilitate the movement and flow of tourists into the region
- Facilitate community and rural-based tourism
- Develop, coordinate, and facilitate regional tourism marketing and promotion
- Encourage and facilitate international and regional transport, tourism training, and accommodation classification
- Encourage and promote consistency in the quality and maintenance of tourism standards
- Act as a communication channel between member states and organizations.

RETOSA has led several successful activities over the years. It is implementing the UNIVISA, a single visa valid for visiting 14 member countries (the Seychelles is not participating). In addition, RETOSA spurred the creation of TFCAs, covering more than 700,000 square kilometers in the region. The organization has also elaborated customer service standards, compiled tourism statistics, and is currently preparing a harmonized accommodation-grading system for all 15 member nations.

However, RETOSA has been seen as largely ineffective in carrying out its broader mandate (Peters-Berries 2010). SADC's market share of global and African tourism arrivals has remained stagnant between 42.3 and 44 percent since the mid-1990s. The 2012 SADC Tourism Sector Plan attributes this to increased competition and sophistication of other African (North Africa) and global regions, lack of targeted and intensive regional marketing and promotion, inadequate resources for the effective operation of RETOSA, and a lack of prioritization of tourism by some SADC member states.

RETOSA's tourism protocol was slow to be ratified and enforced; in 2014, the organization came close to collapsing; its chairman identified key reasons as the noncompliance and undermining of the institution by member states (Ncube 2014). In practice, RETOSA lacks the human and financial resources to implement its mandate and, like many regional organizations around the world, has been relegated to mainly promotional activities (Ghimire 2001). Currently, RETOSA is looking to be restructured so that it can focus on opening the skies and borders of the region.

Many regional tourism programs in Southern Africa have been short lived. Examples include the Upper Zambezi Region Development Initiative between Botswana, Namibia, Zambia, and Zimbabwe; the initiative to jointly manage the Kalahari Gemsbok National Park straddling Botswana, Namibia, and South Africa; and the attempt to form a joint promotional body (South East African Tourism Committee) between Botswana, Mozambique, Namibia, South Africa, and Swaziland. These all failed to take off, because of the inability to secure sustainable funding, divergent national interests, and lack of a clear vision.

Indeed, the SADC region's growth in tourism can be attributed mainly to national-level improvements in access infrastructure and marketing, as well as broader political and demographic shifts. Some areas of infrastructure provision and quality assurance of products and services are typically best addressed at the national level, including human resource and skills certification, health and hygiene standards, and construction guidelines. South Africa has proven to be a good example in leveraging trends to plan and develop intraregional tourism (see box 7.4).

## Opportunities and Challenges for Regional Cooperation

In SSA, member states often lack the funds to support the initiatives of regional blocs, or agree to charters and policy directions that are not subsequently ratified at the country level. If ratified at all, policy directives are often not implemented or adhered to at the national level because of capacity and funding constraints, or political economy reasons. Other barriers to the effectiveness of regional blocs include geographic and political fragmentation, differing development levels between states, the variety of political economies and political structures,

5 Angola, Botswana, the Democratic Republic of Congo, Lesotho, Madagascar, Malawi, Mauritius, Mozambique, Namibia, the Seychelles, South Africa, Swaziland, Tanzania, Zambia, and Zimbabwe.

**BOX 7.4: South Africa's Intraregional Tourism Growth**

Several factors can be identified as contributing to the growth of regional tourism flows into South Africa since the 1990s. First, South Africa's new democracy and reintegration into the international economy in the mid-1990s triggered a wave of regional informal and formal business travelers. Second, South Africa's improved infrastructure network, particularly for land transport, has helped facilitate consistent and timely access. This improved access for private vehicles has also given rise to a comprehensive cross-border regional bus network, regularly connecting South Africa with Lesotho, Malawi, Mozambique, Swaziland, Zambia, and Zimbabwe. This network was facilitated by the many border and customs agreements already in place.

A third factor contributing to regional tourism is the improved air links between South Africa and the rest of the continent, including the emergence of South Africa as a regional aviation hub. Fourth, increased disposable income has led to increased travel, including the emergence of leisure travel; and with improvements in South Africa's education and health infrastructure, educational and health tourism have begun to grow. Finally, several other factors can be seen as influencing increased intraregional travel. These include easier access for foreign exchange in many African countries, enhanced information and communications and online travel platforms, relaxation of South Africa's immigration controls and visa regulations for regional visitors, and an increase in targeted promotional campaigns for intraregional tourists by South African Tourism as well as certain cities.

*Source:* Rogerson 2007.

and differing strategic views of the members (Anastasiadou 2006). In short, the greater the economic, geographic, political, and structural variety between member states, the less likely blocs are to apply effective initiatives.

Each region faces unique opportunities and challenges and changing political and economic trends that must be taken into account when designing and planning for regional tourism activities. West Africa has long suffered from political instability and safety concerns. Southern Africa must balance a region dominated by South Africa, which, given the size of its tourism sector, overshadows the rest of the region, yet is a main source of its neighbors' tourism flows and revenues.

## Key Regional Initiatives for Tourism Development

Despite failures and setbacks, if properly designed and implemented, regional cooperation can still be effective for improving the competitiveness and impacts of tourism. Several key initiatives that can be undertaken at the regional level in Southern and Eastern Africa are discussed in this section.

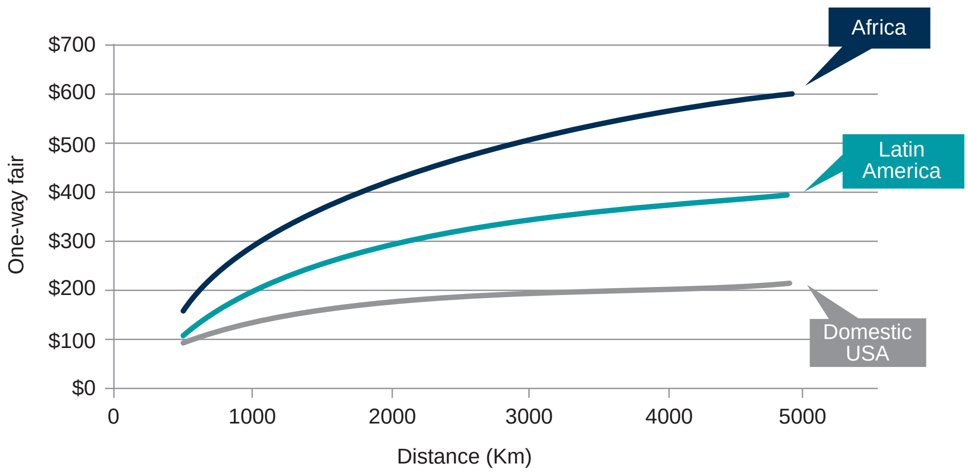
### Access

Improving access is one of the main ways to increase demand. Access is determined by the frequency, price, ease, and quality of air, sea, and land transport; aviation regulations; entry permits; visa requirements; airport capacities; and competition among carriers (Dwyer 2001; Dwyer in Anneli 2012). Improving access can mean physically improving infrastructure such as access roads, airports, and port facilities; facilitating the cross-border movement of people through regional visas or shared passports; reducing or removing tourist taxes and airline landing fees; easing vehicle permit requirements for crossing borders; airline deregulation; and incentives for the development of transport companies. Three key issues for improving tourist access in Eastern and Southern Africa are aviation, visa requirements, and tourism-related infrastructure.

#### *Aviation*

The high costs, inadequate air-lift access, and capacity constraints of intra-African air travel are a critical barrier to the growth of intraregional tourism. Tourism remains artificially depressed through the slow pace of liberalization of African air space, including the highly regulated air service regime between SADC countries, which prevents competition between airlines that operate across the region (UNWTO 2012b). Currently, South African Airways dominates the Southern African market; in East Africa, the largest airlines are Ethiopian Airlines and Kenya Airways, which serve intra-African and intercontinental flights with hub-and-spoke operations.

**FIGURE 7.5: One-Way Average Airfares in Africa versus Other Regions, 2010 (US$)**




African fares are more than double those in the domestic US on similar stage lengths.

*Source:* ICF SH&E 2010 as cited in Christie et al. 2013.

*Note:* Airfare data for Africa include intra-Africa and Africa-Middle East flights.

Europe's budget airline boom of the 1990s—which has rapidly expanded intraregional travel and tourism receipts—was made possible by its "open skies" agreement. Although Africa has had a similar treaty on paper since 1988, little has been done to enforce it (*Economist* 2013). Low-cost carriers, such as fastjet, Fly 540, and Kulula, are beginning to challenge legacy carriers and drive down prices on certain routes. However, high taxes, fuel surcharges, insurance requirements, legal fees, and growing demand with limited airlift capacities have resulted in elevated intra-Africa travel prices. A 2010 ICF SH&E study found that average one-way fares in Africa were twice as expensive as those in Latin America and four times more than a comparable distance domestic flight in the United States, as shown in figure 7.5 (SH&E 2010).

In the short term, policy changes that address visa regimes and increased regional cooperation would strengthen the regional airline industry and increase its competitiveness (box 7.5). Such changes could include bilateral air service agreements, pan-African code shares, and increased knowledge transfers in operations and management (SH&E 2010 as cited in Christie et al. 2013).

### *Visa Requirements*

Easing visa requirements could be the single most effective means of creating jobs and increasing tourism's impact on GDP. Most countries in Sub-Saharan Africa impose visa requirements (map 7.2). Foreign mission–issued visas, eVisas, visas on arrival, waivers for short-stay tourists, or exemptions for particular nationalities can all reduce the difficulty and costs of international travel. In general, the fewer visa requirements a country imposes, the greater the potential for tourism growth in that country (UNWTO 2013). If a visa is perceived to be expensive or difficult to obtain, then tour operators may not include the issuing country as part of a regional tour and independent travelers may end up visiting fewer destinations (Christie et al. 2013).

Research is lacking on the direct impacts of visa requirements in Africa. However, international studies make the link between easing tourist visa procedures and growing tourism revenues clear. UNWTO research found that improving visa processes could generate an extra US$206 billion in tourism receipts and create as many as 5.1 million additional jobs in G20 countries (UNWTO 2013). For example, the Schengen visa has substantially boosted tourism in Europe (box 7.6). The same is true for developing countries, where, for example, UNWTO/WTTC research has shown that the ASEAN region would gain up to US$12 billion in international tourism receipts by 2016 as a result of improvements in visa facilitation (WTTC 2014a).

Africa requires a visa prior to departure from countries comprising 62 percent of the world's population, with visa requirements from 47 countries in SSA. The continent currently has the highest global percentage of visas on arrival, at 29 percent. However, there is substantial variety among subregions; East Africa is the second most open subregion

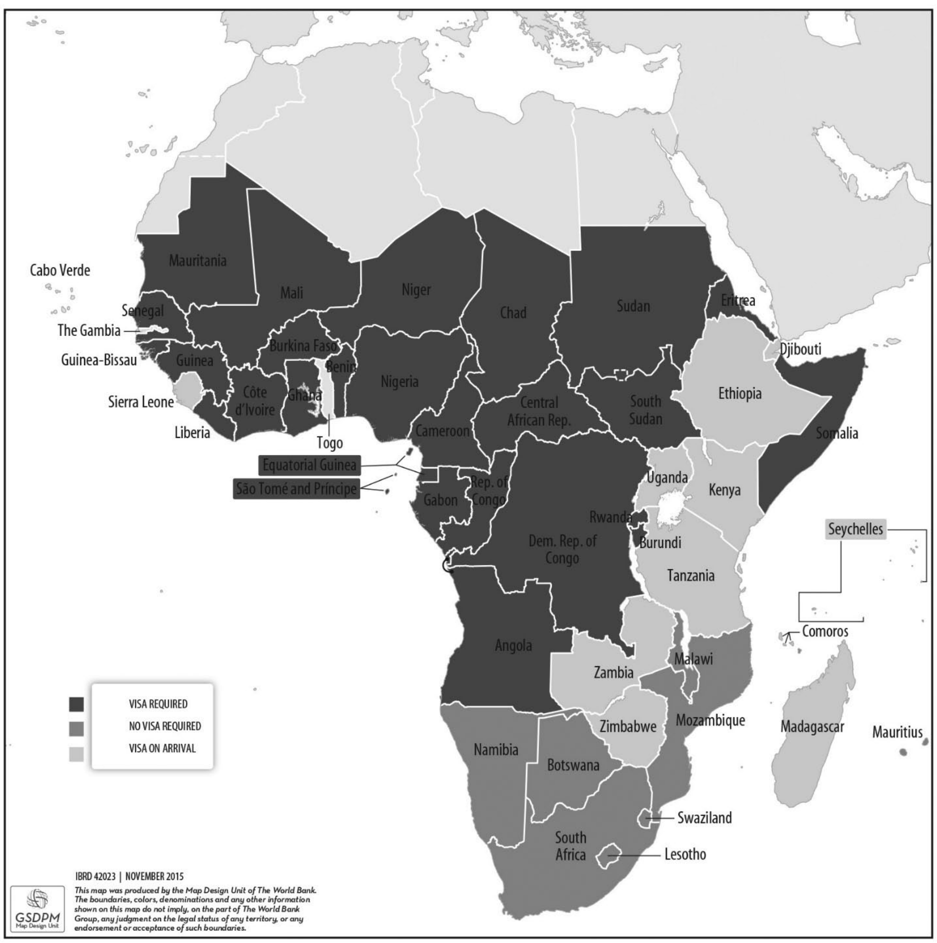
### BOX 7.5: The Economic Impact of Air Service Agreements in the European Union

An InterVISTAs-ga[2] study (2006) found that, globally, air traffic growth increased by 12–35 percent subsequent to the liberalization of air services agreements between countries. The creation of the Single European Aviation Market in 1993 led to an average annual growth rate in traffic between 1995 and 2004 that was almost double the rate of growth in the years 1990 to 1994. This produced around 1.4 million new jobs between 1995 and 2004 and grew the European gross domestic product by US$85 billion. The 1992 package of legislation that created the Single European Aviation Market included provisions such as permitting European Union (EU) air carriers to exercise traffic rights on routes anywhere within the EU, making capacity limitations illegal except in cases of congestion or environmental problems, and allowing EU carriers to be free to set airfares.

The single market also led to the development of low-cost airline services, since an operator could order aircraft knowing that they had access to a large market without legislative restrictions. Between 1996 (when the legislation began to have an impact on the airline market) and 2003, low-cost operators' share of capacity rose from 1.4 to 20.2 percent. The single market led to the incremental growth of passenger volume to 44 million, at a growth rate of 33 percent, compared with prior intra-European market growth of 4–6 percent per year.

*Source:* InterVISTAs-ga[2] 2006.

### MAP 7.2: Visa Requirements for Intra-Africa Travel, 2010




*Source:* ICF SH&E 2010 as cited in Christie et al. 2013.

### BOX 7.6: The European Experience with the Schengen Visa

The Schengen visa allows non-European Union nationals to cross the borders of 26 European Union (EU) countries without having their passports checked; only the single Schengen visa is required at the visitor's first port of entry. EU nationals are already exempt from visa requirements for travel within the union. Previously, non-EU nationals would need a separate visa for each country visited. Travelers would incur the cost, time, and procedures as dictated by individual countries. The Schengen visa has substantially boosted tourism in Europe. For example, when 10 Central and Eastern European countries joined the Schengen area in 2004, their tourism arrivals grew by 11 percent (BBC News 2007).

However, as with any visa system, Schengen remains a barrier. A 2012 study by the European Commission (2013) found that 6.6 million potential travelers from six key target markets were lost because of the Schengen area visa regime; US$6.85 billion in annual receipts and 113,000 jobs were foregone. The study found that the main reason for travelers not to visit the EU was the complicated and time-consuming procedures of obtaining the Schengen visa. These include a personal meeting at a foreign mission abroad (implying traveling and lodging expenses), gathering and translating required documents, and the time spent waiting for the consulate to process the application. The four most effective solutions for these barriers are implementing (i) visa on arrival, (ii) visa-free travel, (iii) multiple-entry visas, and (iv) a visa with longer validity.

*Sources:* BBC News 2007; European Commission 2013.

globally, whereas Central Africa is among the most restrictive (UNWTO 2013).[6]

SADC and EAC have already made sizeable strides in eliminating the need for visas for travel of member country nationals within their regional blocs. This was seen as one of the main changes that enabled Mozambique to grow its international tourist arrivals by 284 percent between 2005 and 2010 (Christie et al. 2013).

In SSA, there are several initiatives concerning shared tourist visas for nonregional visitors. In 2014, East Africa launched its single tourist visa between Kenya, Rwanda, and Uganda. This visa eliminates national requirements for visa applications and enables tourists to move within the three countries without restrictions. Tourists pay US$100 at the country of entry, or the respective foreign mission abroad, for a 90-day visa. Previously, a pre-travel visa was required for Rwanda, and separate visas on arrival were obtainable from Kenya and Uganda, each costing US$50. Tanzania has recently joined this shared visa, despite citing concerns that the lack of transparency in data and fee-sharing mechanisms would result in Kenya collecting the majority of the revenues from the visa, thus not directly benefitting Tanzania (Naluyaga 2014). However, this concern does not take into account broader spillover effects to the economy and related tax revenues from increased demand. Although it is too early to gauge the results, the easing of costs and procedures is expected to increase multi-country itineraries and lengths of stay.

SADC, through RETOSA, is currently in the process of implementing the UNIVISA, providing international travelers access to 14 member countries on a single visa. In a recent survey, tour operators working in SADC countries said they expected their business to rise by 35 percent following the introduction of the UNIVISA. Operators plan to introduce more multi-country packages, thus increasing the length of stay (Anneli 2012). The success of the UNIVISA, however, is seen to hinge on related factors, such as the liberalization of air travel in the region.

Regional visa discussions take time and require an inclusive process. The EAC single visa is the result of a decade of discussions facilitated through a participatory approach. Transparency around mechanisms, fee allocations, data sharing, and economic impacts are crucial.

#### *Tourism-Related Infrastructure*

Tourism is far more dependent on a range of infrastructure and services than most economic activities (Christie et al. 2013). Such services include power, potable water, waste management, information and communications technology, roads, airports, and related services. The absence of any one service can seriously inhibit the development of tourism and can damage the resource base of the sector.

SADC has carried out several initiatives to expand tourism-related physical and social infrastructure and facilities. The initiatives include the Trans-Africa Coast2Coast Spatial

6 East Africa has the lowest requirements for traditional visas in the world (33 percent) and wide usage of visas on arrival (62 percent).

**BOX 7.7: The European Union's Regional Development Funds**

The European Union (EU) has found success in providing regional development funds for infrastructure development in cross-border transitional areas. The resulting projects have increased cohesion and improved access. The EU made more than €200 billion available in regional development funds between 2007 and 2013, which have supported projects such as increasing the sustainability of coastal tourism between Belgium, France, the Netherlands, and the United Kingdom through coastal infrastructure projects. Regional development funds are a flexible concept that allows subgroups of EU countries to join together on succinct projects within a broader shared theme, thus ensuring targeted coordination at the subregional level where partnerships can be forged more easily.

*Source:* Jackson and Zang 2012.

Development Project, the Maputo Development Corridor, the Lubombo Spatial Development Project, and the Okavango Upper Zambezi International Tourism Zone. However, the implementation of these projects has lagged because of lack of funds and national-level competing interests (Ghimire 2001). Multi-country, cross-border products and tourist routes remain underdeveloped in SSA, despite their substantial potential (Peters-Berries 2010).

Globally, regional initiatives in financing cross-border, tourism-related infrastructure have also had limited success. They have proven administratively and operationally difficult to implement because of regional differences in legal frameworks, strategic approaches, and allocation of responsibilities (Anastasiadou 2006). The EU has had several successes in this field, for example, by providing grants based on policy objectives to small groups of applicant countries (see box 7.7).

International development organizations, such as the Asian Development Bank, have undertaken similar approaches, providing development assistance financing to subregional groupings and supporting physical infrastructure upgrades as well as policy and technical assistance to ensure the sustainable operation of touristic assets (see box 7.8).

TFCAs are important ecological and biodiversity zones that straddle national borders and are managed by intergovernmental authorities. In the SADC region, TFCAs cover more than 700,000 square kilometers. The establishment and operation of these valuable tourism products require coordination of regional policy, regulatory and legal statutes, specific institutional frameworks, and management mechanisms. Establishment of these areas is important for the protection of the region's biodiversity, which remains its main touristic asset. Furthermore, TFCAs are one field where most governments are willing to forge international partnerships on policies and regulations. TFCAs can thus be effective building blocks for further regional integration initiatives. However, guidelines that inform TFCA policy and legal frameworks in SSA are still either weak or entirely lacking at the regional, national, and bilateral levels. The required guidelines include land use planning, protected areas management, consumptive and nonconsumptive use of wild flora and fauna, community involvement, resettlement of affected populations, wildlife reintroduction and restocking issues, treaties, and memorandums of understanding governing TFCAs (SADC 2012).

## Quality: Improving the Value and Diversity of the Touristic Offer

Improving the quality of the visitor experience means meeting or exceeding the diverse expectations of a region's visitors. This includes providing a suitable variety of products and facilities, at the right time at the right price, and effectively presenting them to target users. Products and facilities require quality standards, from architecture and construction to operations and training. Skills certifications and dedicated curricula can improve the quality and consistency of service levels. An enabling business environment, harmonized taxes, and incentives can encourage the growth and diversification of touristic offers within and across borders.

There are an estimated 390,000 hotel rooms in SSA, most of which are unbranded owner-operated guesthouses and lodges. The presence of international and regional chains is growing (and thus standardized facility and service quality), with 23 international hotel corporations operating in SSA. The largest include Accor, Hilton, and InterContinental. There are also nine regional SSA hotel brands, of which Laico, Protea, Serena, and Sun International are the largest (Christie et al. 2013). Despite being one of the most liberalized of service sectors in SSA (box 7.9), the investment climate for tourism remains challenging. Studies show that the main areas where countries in SSA fall short in their investment

### BOX 7.8: The Greater Mekong Subregion Sustainable Tourism Development Project

The Asian Development Bank provided financing to Cambodia, the Lao People's Democratic Republic, and Vietnam under the Mekong Tourism Development Project and the Sustainable Tourism Development Project from 2003 to 2014.[a] This financing included components focused on (i) tourism-related infrastructure improvements; (ii) pro-poor, community-based tourism; and (iii) subregional cooperation for sustainable tourism.

The Sustainable Tourism Development Project operationalized 49 community-based tourism programs, with 50 percent of the programs' revenue directly benefitting the poor. The project also improved environmental conditions at key tourist sites, and enacted regulatory reforms to improve mobility (after reforms, 53 border crossings offered international tourist visas on arrival). There were difficulties in mobilizing resources for regional promotion, and the pace at which participating countries deployed resources and coordinated with national ministries varied. Nevertheless, the projects are seen as a resounding success.

Key lessons on addressing infrastructure investments and policy reforms at the regional level include the following:

- The importance of private sector involvement as early as the design stage
- The need to package sustainable tourism products and destinations into multi-country tour circuits
- The importance of upstream policy analysis and impact evaluations for policy dialogue on reducing barriers to subregional travel


- The need to clearly define the roles of subregional and national committees and management units, including job descriptions, training programs, financial incentives for staff, detailed work plans and budgets, and clear reporting mechanisms
- The necessity of allocating adequate resources for monitoring and evaluation of performance and impacts, to gain and retain support from community leaders and partners
- The need to undertake all implementation at the national or bilateral level, while coordinating at the subregional level (with the exception of subregional marketing).

*Source:* World Bank 2012.

[a] *Between 2003 and 2011, the Asian Development Bank provided US$58.7 million in loan and grant assistance for tourism in the Greater Mekong subregion.*

climate compared with the markets in Asia and the Middle East are risk management (political, economic, and security), the image of the region from an investment perspective, airline service, and government policy (Ernst & Young 2010).

The lack of sufficiently long-term local financing for tourism accommodations and related services is a binding constraint to the growth of tourism in SSA. This has resulted in uncompetitively high room rates, financial leakages, and/or undiversified offers. The high cost of debt financing has led to situations where more attractive, stable, and accessible destinations are dominated by foreign private investors with enough capital to meet the elevated required equity contributions. Elevated amounts of foreign direct investment (FDI) compared with local investment can reduce local linkages in the short and medium terms, thus minimizing the development impact of investments. Conversely, countries with limited FDI often have low-quality, homogeneous offers, rendering the destination uncompetitive.

In Nigeria, for example, hotel construction costs are upward of US$400,000 per room for a *mid-market* hotel, compared with the global average of US$200,000 per room for a *full-service* hotel. These costs vary greatly within the continent, with the average for Ghana being US$250,000 per room, for example (Christie et al. 2013). Access to finance is

### BOX 7.9: Liberalization of Tourism under the General Agreement on Trade in Services

The General Agreement on Trade in Services (GATS), enacted in 1995, aims to reduce trade barriers for international services. A total of 128 World Trade Organization (WTO) member countries have made tourism commitments, more than in any other service sector, which sets the stage for the creation of a more transparent and predictable legal framework for improving investment climates and attracting foreign investment to the tourism sector (Kruger 2009). Despite the wide scope of tourism and its subsectors, the WTO's decades-old classification system is limited to four subsectors: (i) hotels and restaurants (including catering), (ii) travel agencies and tour operator services, (iii) tourist guide services, and (iv) other.

The global development and diversification of destinations through deregulation and improved accessibility has increased the distribution of tourism, mostly to low- and middle-income countries (WTO 2015b).[a] In Sub-Saharan Africa, as well as globally, tourism is one of the most liberalized of the service sectors (WTO 2015b). In Southern and Eastern Africa, all countries other than Madagascar and Mozambique have made at least some commitments under GATS, mostly in the subsector of hotels and restaurants. Mauritius, Tanzania, and Uganda, looking to catalyze their domestic industry, maintain the most significant restrictions on market access for foreign suppliers. In most other countries, it should be permissible for foreign investors to establish tourism enterprises. Given the sector's high level of liberalization in Southern and Eastern Africa, in most countries it would be difficult to attract increased investment through simply lowering barriers to trade in tourism services (Kruger 2009).

Regardless, foreign investors are still obliged to adhere to relevant domestic legislation and regulations in the sector, which can include the need to obtain a license, register a company, and transfer property, as well as recognize qualifications, technical specifications, safety permits, and standards (Kruger 2009). National investment regulations vary greatly between nations in the same bloc. For example, under the Tanzanian investment code, the minimum investment capital required by a foreigner is US$300,000, whereas it is US$50,000 in Mozambique and US$500,000 in Kenya. Similarly, Mauritius restricted foreign investment in hotels with fewer than 100 rooms to 49 percent, and requires a predominance of Mauritians to staff establishments. Tanzania decided to liberalize partially only four-star hotels and above and made no commitments on national treatment.

*Sources:* Kruger 2009; WTO 2015b.

*a. In 1950, the top 15 destinations absorbed 98 percent of all international tourist arrivals; in 1970, the proportion fell to 75 percent, and continued to fall to 57 percent in 2007.*

a major issue in all sectors in SSA. However, it is of particular concern to the hospitality industry, given the historically lower rate of return on tourism sector investments.

Many business enabling environments require regulatory improvements first and foremost at the national level. For example, in 2007, investment in the Zambian tourism sector was inhibited by the high costs and cumbersome processes of doing business. Up to 74 licenses were required to open and operate a tourism business; they could take between six months and one year to obtain and cost as much as US$2,000 for a five-room guesthouse. The Zambian government has since recognized this problem and is taking steps toward improving its business environment (World Bank 2007). In Namibia, more than 50 permits and certificates for lodging operations were required in 2010 (HAN 2010). In South Africa, research across 2,000 businesses found that the costs of complying with regulations are up to three times higher for the tourism industry than for other businesses. Tourism firms of all sizes faced higher regulatory costs, more burdensome tax compliance, and broad municipal regulations. This is partly because of the many departments and statutory bodies responsible for diverse aspects of the tourism sector's regulation (Christie et al. 2013) and limited commitments to liberalize tourism services (table 7.3).

Kenya's early favorable conditions for FDI, coupled with a permissive national investment climate, have attracted various large international players, from tour operators to hotel chains such as Hilton, Intercontinental, Abercrombie and Kent, Pullmans, and Holiday Inn. According to the EAC's 2008 report on trade, FDI has played a major role in developing Kenya's tourism sector. However, the influx of FDI has also hindered the development of a local industry and encouraged enclave forms of tourism, with limited linkages to the local economy (UNECA SRO-EA 2011).

At the regional level, economic partnership agreements (EPAs) for SADC and EAC with the EU are currently being

**TABLE 7.3: GATS Tourism Commitments by SADC and EAC Countries**

| SADC and EAC countries | Hotels and restaurants | Travel agencies and tour operators | Travel guides | Other |
|---|---|---|---|---|
| Angola | Extensive | n.c. | n.c. | n.c. |
| Botswana | Partial | Partial | n.c. | n.c. |
| Burundi | Extensive | Extensive | Extensive | Extensive |
| Congo, Dem. Rep. | Extensive | Extensive | Extensive | n.c. |
| Kenya | Extensive | Extensive | Extensive | n.c. |
| Lesotho | Partial | n.c. | Extensive | n.c. |
| Madagascar | n.c. | n.c. | n.c. | n.c. |
| Malawi | Extensive | Extensive | Extensive | Extensive |
| Mozambique | n.c. | n.c. | n.c. | n.c. |
| Mauritius | Partial | Partial | Partial | Partial |
| Namibia | Full | Full | n.c. | n.c. |
| Rwanda | Extensive | n.c. | n.c. | n.c. |
| South Africa | Partial | Extensive | Partial | n.c. |
| Swaziland | Extensive | n.c. | n.c. | n.c. |
| Tanzania | Partial | n.c. | n.c. | n.c. |
| Uganda | Partial | Partial | n.c. | n.c. |
| Zambia | Extensive | Extensive | Extensive | Extensive |
| Zimbabwe | Extensive | Partial | Partial | n.c. |

*Source:* WTO 2015b.

*Note:* n.c. = no commitment.

finalized, which include the regional liberalization of trade in services. Experiences from the Caribbean region show that its EPAs have contributed modestly to growth in tourism, specifically enhancing the competitiveness of tour operators. The Caribbean market agreement is gradually expanding to include free movement of visitors and the tourism workforce as well (ITC 2009).

Although politically difficult, there is a need to rationalize domestic tax systems to prevent inefficient competition with neighboring countries. In 2014, the corporate tax rate in Zambia was 35 percent, compared with 15 percent in Botswana and 30 percent in South Africa, Tanzania, and Zimbabwe. Similarly, the value-added tax for Zambia was 17.5 percent, whereas in Botswana it was 10 percent. Tourism-specific taxes also differ; in 2014, Kenya had a 16 percent tax rate for tourism services, whereas Tanzania has recently exempted its tax on tourism services (Kangethe 2014). In general, the tourism sector is excluded from tax incentives provided to nontraditional goods exporters. However, certain providers, such as the regional hotel chain Sun International, have been able to negotiate lower corporate tax rates in Zambia, for example. Although these exceptions can help grow regional tourism providers, the exceptions discriminate against domestic service providers. There should be greater uniformity of tax policies within and between nations. The EAC was in negotiations to create a regional harmonized tax regime by mid-2015, as part of the reforms required to achieve a common market (Kangethe 2014).

## Quality Standards

Tourism-related standards can include health and hygiene, building codes, professional services, marketing and customer service, and specific lodging quality standards and rating systems. Mutual recognition of national standards—and eventually regionally harmonized standards—can increase quality and value for consumers. Harmonization can also protect tourists from abusive practices, encourage the growth of private-sector operators across borders, improve the skills and service delivery of the tourism workforce, and facilitate workforce mobility. However, very few national systems are recognized by other countries; the most commonly utilized regional standards are voluntarily adopted by multinational private sector operators. Regional cooperation in tourism must be sufficiently advanced for regional standards to be effective.

**BOX 7.10:** **RETOSA Regional Tourism Quality Standards**

The Regional Tourism Organization of Southern Africa (RETOSA) aims to establish regional quality standards. It is working to harmonize the standards for registration, classification, accreditation, and grading of the tourism service providers and facilities of its member states. More specifically, RETOSA focuses on standards for transport, tourism training, and accommodations classification. For example, the organization is preparing 1,850 standards for six categories of accommodations, including 60 responsible tourism and 40 universal-accessibility standards. These rules reflect rigorous international-level standards and will be mandatory upon their launch (RETOSA 2012a). The harmonized accommodations-grading scheme is being developed in four phases:

Phase 1: preparing a framework for the scheme, including identification of major issues and the resulting recommendations

Phase 2: preparing individual standards

Phase 3: integrating the various member-nation grading systems into one harmonized grading scheme

Phase 4: launch of the overall program (set for 2015).

The main concerns are that such stringent standards will not be within reach of most establishments in the region, thus reducing compliance and relegating firms to the informal sector.

*Sources:* RETOSA 2012a; Statistics South Africa 2012.

Lodging quality is the area in which, globally and in SSA, regional standards are the most advanced. Only 10 percent of SSA's 390,000 hotel rooms are estimated to meet international standards, with half of this stock being in South Africa (Christie et al. 2013). Unbranded guesthouses and lodges comprise the largest share of accommodation facilities in the region. Wide disparities exist between country-based classification and grading systems in content, requirements, and compliance. Some standards are compulsory, some voluntary, and others are in the process of being developed. RETOSA and EAC are developing tourism provider classification and grading systems, but neither system has been actively adopted and implemented region-wide. For example, Burundi does not have a national classification system, and despite having adhered to the EAC regional standards, the country has yet to implement them. Box 7.10 outlines RETOSA's quality standards program.

There are global standards in a variety of fields. For example, the International Organization for Standardization has many tourism-specific standards, including for recreational diving, snorkeling, beach operation, yacht harbors, industrial tourism, tourist information offices, spas, natural protected areas, and adventure tourism.

The regionalization/globalization push for quality standards is coming at a time when the Internet has enabled consumers to do the opposite. Decentralized and democratized quality-rating platforms, such as TripAdvisor, are reducing the relevance of formal certifications such as star-based rating systems. This crowdsourced quality process increases the visibility of smaller entrants; they may not have the facilities required to meet national standards, such as mini bars or 24-hour reception, but can exceed expectations based on service quality, for example. An alternative to accommodation grading standards would be the integration of minimum requirements into licensing regimes.

Sustainability and responsible travel standards are proliferating on a global scale[7] and at the regional scale. For a regional example, Fair Trade Tourism (FTT) is a nonprofit organization that promotes responsible tourism in Southern Africa by certifying businesses that adhere to FTT standards. These include fair wages and working conditions; equitable purchasing and operations; distribution of benefits; and respect for human rights, culture, and the environment. FTT is one of the tourism certification programs developed specifically for Africa.

## Labor Mobility and Workforce Development

Having an educated and skilled labor force is at the core of tourism competitiveness (Zeng 2008). Low service standards are a critical constraint to effective tourism industry development in SSA. The region's main workforce weaknesses are in business skills, understanding visitor needs and expectations, customer service, and online communications (Christie et al. 2013). In some countries

7 See, for example, organizations such as the Green Globe, Global Sustainable Tourism Criteria for Destinations, and Blue Flag.

**BOX 7.11: Labor Mobility in the Caribbean Region**

The Caribbean Community and Common Market (CARICOM), which is made up of 15 member states, has one of the most successful examples of liberalization in labor mobility. Recognizing that tourism plays a dominant role in the Caribbean economies, the region has undertaken a comprehensive liberalization of intra-CARICOM trade in services through its Protocol II of 1998 on "Establishment, Services, and Capital" and its 1995 Skilled National Act. The 1998 protocol contains a provision "guaranteeing unconditional national treatment to all members of CARICOM for the free movement of services, labor and capital along with the obligation not to impose any new restrictions" (World Bank 2008, 535). The key elements of the policy covering the free movement of CARICOM nationals include the following:

- Free movement of university graduates, other professionals, and skilled persons and occupations, including workers in the tourism and entertainment industries
- Freedom of travel and exercise of a profession, including eliminating the need for passports for travel within the region, facilitating at immigration points, and eliminating the need for work permits for CARICOM nationals
- Other supporting measures, including the harmonization and transferability of social security benefits, mechanisms for certifying and establishing the equivalency of degrees and accrediting institutions, completion of a skilled worker register, coordination of social policies, and development and promotion of a public education program on the policy of free movement.

A World Bank (2005) regional economic study noted that, despite the lack of comprehensive data, intraregional migration in the Caribbean was very significant, resulting in more uniform wages and more efficient labor allocation within the region. This success has been facilitated by the relative homogeneity of CARICOM member states, a common system of university-level education, and mutual recognition of degrees.

*Sources:* World Bank 2005, 2008.

in SSA, the tourism sector is small and undeveloped, leading to local skills deficiencies, especially in professional, technical, administrative, and managerial positions. Many national tourism and education systems lack effective tourism training plans or frameworks, resulting in inadequate service levels, even in high-income destinations. This is not only relegated to tourism-specific skill sets, but related industries as well, such as marketing, architecture, design and information and communications technology, which are often not present at the levels of quality required as inputs to create a competitive tourism sector.

Several activities can be carried out at the regional level to improve service levels. Regional service standards can be developed, including the recognition of national service standards at the bilateral and multilateral levels. Resolutions can be adopted on the transfer of tourism skills that address training, mentoring, and professional education. Regions can invest in "centers of excellence" in tourism and hospitality education, and proactively facilitate the temporary movement of tourism workers such as management, event staff, guides, and transport providers. Increased liberalization in labor mobility has been shown to support the development of tourism (among other sectors) by mitigating constraints such as skill mismatches, high wages in some countries, and low productivity (World Bank 2008) (see box 7.11).

It is difficult to implement such systems at the regional level. First, relevant labor mobility and service sector regulations must exist to lay the groundwork for sector-specific frameworks. Second, because of the large differences in development levels and national capacities, it is often difficult to implement and enforce such programs if they are adopted. International hotel chains can support labor mobility and workforce development at the regional level through in-house training programs and training exchanges with brand hotels in more developed regions. For example, Sun International Hotels has a training center for its staff in South Africa, providing comprehensive, continuous development opportunities; Accor Academy trains 135,000 students per year using video game modules. These approaches help transfer knowledge across borders and improve the quality and consistency of service.

## Communicating the Value Proposition and Impacts of Tourism

The tourism sector must communicate its brand and attributes to potential visitors, and its economic, social, and environmental impacts to policy makers and community members. This can be done through marketing, branding and promotion, robust data collection and statistics frameworks, and monitoring and evaluation.

*Regional tourism marketing and promotion* is the most commonly executed activity by regional blocs. Regions with similar products are promoted as single destinations, achieving economies of scale and increasing the region's visibility. The results often extend past simply bolstering tourism demand, into improving the region's image to investors and promoting the exports of products not related to tourism.

Regional marketing initiatives need to build on shared attributes of the region, dovetail to a representative theme and brand, and highlight unique national sub-brands and experiences. To build brand equity, campaigns must be multi-year and multimedia oriented. Cooperation with the private sector is crucial in targeting the correct markets through effective channels and joint promotions at travel trade events.

*Harmonized tourism statistics* within and between regions are important in setting and evaluating trade policies and investments. Statistics on services trade are notoriously inadequate because of the sector's intangible nature. The fact that tourism is an amalgamation of economic sectors comprising goods and services at the domestic and international levels further complicates the isolation of its impacts (World Bank 2008). Consequently, the formulation of tourism policies is hindered by a lack of data on the extent and scope of tourism's economic contribution (World Bank 2008). In the World Economic Forum's Travel & Tourism Competitiveness Index, African destinations rank particularly low in the areas of comprehensiveness of annual tourism data and timeliness of monthly/quarterly tourism data. These deficits impede the sector from being effectively planned and managed (WEF 2013).

Harmonizing regional tourism statistics and their systems can help the tourism sector and policy makers assess the size, potential, and needs of the region's current and prospective travelers. Harmonized data can also help establish the best means of communicating and distributing the region's tourism products to different visitor segments. Finally, these data can be used to identify product requirements and price levels that are appropriate to regional tourists' needs. Tourism satellite accounts can bridge this gap. The accounts are a standard statistical framework for measuring the impact of tourism in an economy. Fully developed in 2008, the framework still being rolled out in a majority of countries. African tourism ministries understand the importance and use of this tool; however, the ministries have been slow on the update, often because of issues of budget and underdeveloped systems that form the basis of tourism satellite accounts.

The tourism sector is especially sensitive to crises. The sector has a complex, fragmented structure that sells experiential products, and exists in a highly competitive global landscape. Furthermore, the deep linkages of its value chain means that crises affect front-line businesses, such as accommodations, catering, tour operators, airlines, and activity providers, as well as the related sectors of construction, professional services, food and beverage, and retail, among others. Such effects can be sizeable. The 1994 pneumonic plague in India led to a 70 percent drop in arrivals despite the fact that few tourists were directly in danger; tourism in the United Kingdom suffered losses of £6 billion because of the 2001 foot-and-mouth disease panic, despite that it only affected livestock (Henderson 2007).

Often, issues in a single destination can depress tourism flows to an entire region. This was seen in ASEAN tourism after the Bali bombings and the 2002 Severe Acute Respiratory Syndrome outbreak in Southeast Asia. More recently, the Ebola outbreak in West Africa has had ramifications throughout Africa, with countries as far away as the South Africa being affected by a drop in tourism. As such, supranational organizations can provide an important platform to manage such challenges. However, few regional organizations adequately plan for crisis management in tourism. Such planning requires a holistic and strategic approach to preventing, managing, responding to, and recovering from crises. Flexible plans with contingency systems; a coordinative body and clear institutional mechanisms; rapidly accessible resources; and a quick, consistent, coordinated, and targeted communications campaign are important factors for successful crisis response and recovery (Henderson 2007).

## Critical Success Factors and Practical Strategies for Increased Effectiveness in Regional Tourism Cooperation

Cross-border tourism initiatives are more likely to succeed when the following preconditions are met:

*The absence of major subregional economic disparities.* As has been illustrated in the Caribbean region, much success in developing processes for the liberalization of subsectors and regional tourism initiatives comes from the relative homogeneity of the member states, including their similar historical background, language, laws and traditions, economic make-up, and size (World Bank 2008; Teye 2000).

*Compatible institutional frameworks and similar stages of tourism development.* National policy, regulatory systems, and institutional systems for tourism must be similarly developed to undertake the most relevant regional initiatives.

*Sustained political stability and commitment.* Countries must prioritize tourism enough to contribute financial resources regularly to multi-year regional efforts, and implement and enforce initiatives ratified by regional blocs. In general, the greater the impact that tourism has on a nation's and region's economy, the greater will be the political commitment toward its development (Chheang 2013). An enduring challenge is that tourism is often not prioritized as much as it should be. This reflects the difficulty in measuring the impact of tourism, its multi-sector nature, and, in some cases, the perception that its benefits are captured by foreigners or elites.

*Equitable relationships.* Member countries with less-developed tourism sectors have the most to gain from regional integration initiatives. Conversely, more developed players have fewer incentives to undertake regional initiatives; yet, these larger players have an outsized influence in making regional tourism activities a success. The successes of SADC and RETOSA are greatly dependent on South Africa, the region's economic and tourism powerhouse. The EAC meanwhile has a more equitable distribution of power, given its smaller membership base and the members' similar tourism assets. More influential nations must see that it is in their best interests to develop regional tourism economies.

The success factors and lessons learned from regional tourism initiatives include the following:

*Create binding tourism protocols in regional charters that are based on the sector's potential for economic growth, job creation, conservation, and regional integration.* Depending on the priorities, protocols could be developed to address (i) access (visas, access infrastructure, aviation); (ii) product quality (service and quality standards, enabling environment, nature and wildlife conservation, codes of conduct); and (iii) communication (marketing and promotion, crisis management, statistics and research). Regional regulations and standards should be tailored to mirror local contexts, and to be within reach of nations with the lowest capacities. Often, stringent international standards are adopted from high-income nations that are not feasible for implementation in low- and middle-income, low-capacity countries. It is important to agree on realistic levels of compliance. Adequate support and incentives for adopting, implementing, and enforcing regional regulations and standards should be provided.

*Create inclusive regional tourism development plans tied to feasible, timely investments.* The consultative process of making such plans is as important as their content, as it provides an opportunity to involve regional policy makers and create consensus on the road forward. Plans should reflect economically and politically realistic recommendations and match national tourism development objectives.

*Enlist or create an independent entity as a coordination and implementation unit, with dedicated funding; a clear, accountable mandate; and high-level oversight.* RETOSA and EATWCA are charged with implementing the tourism development objectives for SADC and EAC, respectively. However, both agencies remain weak and largely ineffective, and lack the political authority to carry out their mandates. It is important to develop implementing agencies, such as cross-border destination management organizations at the subregional or thematic route levels as well.

*Ensure that regional tourism initiatives make business sense.* Tourists plan their travel itineraries according to attractions, time, and value, not by the borders of regional blocs. As such. groupings of regional players and subsequent initiatives need to take into account tourists' needs and travel patterns. By clearly addressing the needs and wants of the target market(s), policies, regulations, and approaches can achieve maximum impact. For example, South Africa Tourism (the national agency responsible for marketing South Africa as a destination) conducted substantial market research on its regional tourism segments. The agency discovered that its most critical market segment was land arrivals, which follow "purpose" travel of shopping or business rather than leisure travel. The agency identified subsegments of "well-to do leisure," "shoppers," and "young up-and-coming travelers," among others, and targeted its initiatives based on their needs (Rogerson 2007).

*Base regional initiatives on intraregional products, circuits, thematic routes, popular tour routes, or shared assets (such as TFCAs).* Regional initiatives that are based on a specific product, route, circuit, or theme can help motivate member countries to achieve concrete goals and align physical investments in infrastructure with policy and regulatory reforms. For example, the Central Asian Silk Road tourism initiative began in 1993 with assistance from the UNWTO. It has focused on joint promotion, facilitating travel, planning coordination, and capacity building along routes in 19 countries based on the ancient Silk Road trade route. Regional marketing and promotion programs are also more effective when promoting themes or circuits, such as European Cultural Routes, which create guides, media, and campaigns for multi-country routes, such as the pilgrimage of Santiago de Compostela.

*Start small,* in the number of member countries involved in regional initiatives and the scope and scale of regional tourism projects. Depending on the intervention, groups of similar countries should be clustered to the smallest common denominator within regional blocs. One example of this is the Greater Mekong subregion's Mekong Tourism product, comprising a subset of six ASEAN member countries. Pilots should be undertaken within a demonstration group of countries that are economically and politically ready to implement measures, and that are relatively homogeneous in policy and regulatory systems and tourism development stages. Initiatives should begin by accomplishing high-visibility, tangible "quick wins," such as rebranding and promotion, simultaneously with ambitious initiatives, such as regional visas or airline deregulation.

*Create momentum* for initiatives by aligning them with important public regional events and providing realistic time frames. The visibility of high-profile events such as the World Cup, the Olympics, expositions, revolving cultural capitals, and high-level meetings can catalyze the passing of reforms. This needs to be followed by frequent high-level advocacy in member states through detailed monitoring and evaluation of activities, to carry over the momentum and results following the completion of an event.

*Define clear roles and responsibilities for collaborators at different levels.* Initiatives for regional cooperation in tourism can be started on the bilateral or multilateral level, by regional blocs or partnerships between countries, depending on the context and type of initiative. In SSA, regional blocs such as EAC and SADC are likely to lead the way in setting up shared frameworks and objectives and increasing integration at the multi-sector level. For these frameworks to produce tangible change, however, the focus is on the countries, which need to operationalize and enforce regional policies. Development partners can be instrumental in supporting initiatives at the regional bloc and national levels. This support can include funding for demonstration projects, or technical assistance on designing programs and policies. East Africa's experience with its Tourism Platform (box 7.12) could provide a useful model for such regional cooperation initiatives.

### BOX 7.12: East Africa Tourism Platform (EATP)

The East Africa Tourism Platform (EATP), the private sector body for tourism in East Africa, has recently shown leadership in attempting to champion and facilitate a collective, coordinated and simultaneous approach to enhancing the region's competitiveness in travel and tourism. In a pilot program launched in November 2014, EATP uses aspects of the World Economic Forum Travel and Tourism Competitiveness Index as a comprehensive strategic tool, and employs a collaborative and participatory approach that will enhance each partner state's tourism competitiveness while mainstreaming regional integration.

The pilot program places greater emphasis on building strong multi-stakeholder dialogue forums at the national level, referred to as National Tourism Roundtables (NTRs). NTRs in each partner state will consist of government and industry stakeholders, such as the ministries in charge of tourism, wildlife, transport, health, the East Africa Community (EAC), internal security, immigration, and the national tourism board or department; police and counter-terrorism or security agencies; airlines; hotel associations; tour operators' associations; travel agents' associations, and other travel and tourism representatives.

This all-inclusive representation will ensure that the perspectives and priorities of all parties are effectively incorporated in decision making, policy revision and development, implementation, and monitoring of progress, which is key to enhancing tourism competitiveness. The platform enables stronger multi-stakeholder dialogue forums at the level of each partner state to mainstream regional integration into their national tourism development strategies and implementation plans. Thus, it is envisaged that this framework will further inform and feed into the regional agenda of the EAC Sectoral Council on Tourism and Wildlife Management, and bilateral and trilateral agreements and initiatives, and enhance the region's competitiveness in tourism.

*The strong multi-stakeholder dialogue forums (NTRs) address the following challenges:*

***I. Policy Reforms and Regulation***

EAC's tourism sector cannot grow and flourish without appropriate monetary, fiscal, and trade policies and regulations, which are central to improve the competitiveness of tourism. The NTRs will focus on:

A. *Tourism Policies and Regulation*
With the exception of Burundi, all EAC partner states have reviewed their tourism laws (Uganda and Tanzania in 2008, Rwanda in 2009, and Kenya in 2011). NTRs are expected to drive policy reforms that will ensure that the laws are aligned with the objectives of the EAC Treaty, the Common Market Protocol, the draft EAC Protocol on Tourism and Wildlife Management, and the competitiveness index.

B. *Wildlife Conservation and Natural Resources Management Policies and Regulation*
East Africa is currently dealing with an unprecedented increase in poaching and illegal trade in wildlife products that is threatening to overturn decades of conservation gains on which the tourism sector is heavily dependent. In early 2013, the Convention on International Trade in Endangered Species of Wild Fauna and Flora named the worst offending countries, which are referred to as the "gang of eight," in the illegal trade in wildlife products. The "gang of eight" includes the supply states of Kenya, Tanzania, and Uganda, and the consumer states of China and Thailand. The group also includes Malaysia, the Philippines, and Vietnam, which are important transit countries for illegal trade in wildlife products. These countries were asked to submit specific action plans by July 2014 on how they intended to tackle the problem of poaching and the illegal trade of wildlife products or face heavy trade sanctions.

The challenges in most EAC partner states consist mainly of outdated policies, low penalties that fuel impunity and attract criminal cartels, poor enforcement, and limited resources to curb vice, among other issues. At the regional level, the delayed approval and ratification of the EAC Protocol on Tourism and Wildlife Conservation and the lethargy in establishing transboundary law enforcement activities continue to hinder progress. There is a need to lobby for the approval and ratification of the EAC Protocol on Tourism and Wildlife Management and its implementation, as well as the establishment of transboundary law enforcement.

C. *Visa and Immigration Facilitation Policy Reforms*
Visa and immigration policies are among the most important government policies influencing international tourism. A great deal of progress has been made in travel facilitation in the EAC that has contributed to the remarkable growth of the tourism sector, for example, the visa-on-arrival policies and waiver of visa fees in Rwanda for most African countries. However, despite the progress made, which includes the introduction of the Single Tourist Visa, current visa policies are still regularly mentioned as inadequate and inefficient, and are thus acknowledged to be an obstacle to tourism and economic growth. The direct monetary cost imposed in the form of fees or the indirect costs, which include distance, time spent waiting in lines, and the complexity of the process, deters many travelers from visiting the EAC. There is a need to lobby for the full adoption and implementation of the EAC Single Tourist Visa, which is currently being pursued by the EAC Secretariat and additional visa categories, such as the EAC foreign resident visa, as well as policy reforms that support the development and implementation of eVisa programs at the EAC and national levels.

D. *Air Transport Policies and Regulation*
A destination's competitiveness is also measured by its air transport infrastructure, which provides for ease of access to and from countries, as well as movement to destinations within countries. Although most of East Africa's international and local airports are undergoing major infrastructure upgrades, a lot more needs to be done in the liberalization of the rules and regulations in the EAC's aviation industry to create a free market environment and reduce the costs of air travel. Air travel within the region accounts for an estimated 45 percent of the total cost of a tour package, because of high taxes and charges caused by a restricted aviation policy, among other reasons. These policies limit routes and frequencies and therefore the supply of available seats.

*(continued)*

**BOX 7.12:** ***Continued***

***II. Price Competitiveness: Taxes, Levies, and Charges***

Price is an essential component in the overall tourism competitiveness of a destination and there is widely accepted evidence that prices are one of the most important factors in decisions about whether, and where, to undertake trips. The leisure tourism segment, which accounts for up to 60 percent of all tourism arrivals in the region, is very sensitive to any price increases, which can in turn affect tourism arrivals and receipts. It is estimated that the average cost of a five-day tour in one East African country ranges between $2,500 and $8,000 per person, depending on the choice of accommodation facilities, mode and class of travel to and in the country, and the tourism activity. Any increases in taxes, levies, and charges would therefore have a large impact on the destination's price competitiveness and arrivals, which would in turn affect the entire tourism value and supply chains. There is a need to study each partner states' and by extension the region's price competitiveness in taxes, levies, and charges, so as to inform regional and national policy reforms, and to lobby continuously to mitigate any negative impact on the sector.

***III. Tourism Services Export Capabilities***

The concept of intraregional and interregional tourism is still fairly new, and the existing concept has evolved without any deliberate strategy. Until early 2015, the tourism boards in the EAC had limited engagement with the private sector in the region, as they had no intraregional tourism strategy. It is estimated that less than 10 percent of the private sector in the region is promoting multi-country packages. Preparing the EAC tourism supply chain stakeholders for intraregional and interregional tourism and presenting the regional strategy as a business proposition are keys for growing supply and demand. Tourism supply chain stakeholders need skills and knowledge of the different EAC destinations and extensive information and training on the different market segments so as to enhance their tourism services export capabilities. Further, broadening and deepening business linkages to regional and international markets will secure improved opportunities for EAC's tourism sector. As tourism services revolve around relationships between inbound and outbound tour operators, effective facilitation of business-to-business linkages is needed to expand intraregional and interregional tourism.

*Source:* TradeMark East Africa 2015.

## References

AfDB (African Development Bank). 2013. *Africa Tourism Monitor: Unlocking Africa's Tourism Potential*. AfDB, Tunis, Tunisia.

Anastasiadou, C. 2006. "The Role of Regional Trading Blocs in the Development and Management of Tourism: An Analysis of the European Union and the Association of Southeast Asian Nations." *International Journal of Tourism Research* 8 (5): 317–32.

Anneli, D. 2012. "Would a Single Regional Visa Encourage Tourist Arrivals in Southern Africa?" *Development Southern Africa* 29 (3): 488–505.

BBC News (British Broadcasting Corporation). 2007. "Expanded Schengen Attracts Tourists." BBC News, December 20. http://news.bbc.co.uk/2/hi/7152051.stm.

Chheang, V. 2013. "Tourism and Regional Integration in Southeast Asia." Institute of Developing Economies, Japan External Trade Organization, Chiba, Japan. http://www.ide.go.jp/English/Publish/Download/Vrf/pdf/481.pdf.

Christie, I., E. Fernandes, H. Messerli, and L. Twining-Ward. 2013. *Tourism in Africa: Harnessing Tourism for Growth and Improved Livelihoods*. Washington, DC: World Bank. http://documents.worldbank.org/curated/en/2013/01/18320011/tourism-africa-harnessing-tourism-growth-improved-livelihoods.

CTO (Caribbean Tourism Organization). 2014. "The Caribbean Tourism Organization." CTO, Barbados.

Dwyer, L. 2001. Destination Competitiveness: Determinants and Indicators. Unpublished Report.

EAC (East African Community). 2013. "Tourism Indicators." EAC, Arusha, Tanzania.

*Economist*. 2013. "What's Holding Back Africa's Low-Cost Airlines?" The Economist Explains, June 11. http://www.economist.com/blogs/economist-explains/2013/06/economist-explains-7.

Ernst & Young. 2010. "Sub Saharan Africa Hospitality Sector Overview." Unpublished research for the World Bank Group, Washington, DC.

European Commission. 2013. "Study on the Economic Impact of Short Stay Visa Facilitation on the Tourism Industry and on the Overall Economies of EU Member States Being Part of the Schengen Area." European Union, Brussels.

Ghimire, K. 2001. "Regional Tourism and South-South Economic Cooperation." United Nations Institute for Social Development, Geneva.

HAN (Hospitality Association of Namibia). 2010. "Documents Needed to Register, Extend Registration and/or Needed Recurrently for the Operation of an Accommodation Establishment." Unpublished Members Document. HAN, Windhoek, Namibia.

Henderson, J. 2007. *Tourism Crises: Causes, Consequences & Management*. Oxford: Elsevier.

InterVISTAS-ga[2]. 2006. "The Economic Impact of Air Service Liberalization." InterVISTAS-ga[2]. http://issuu.com/intervistasconsulting/docs/economic_impact_of_air_service_liberalization_fina?e=6192829/4134555.

ITC (International Trade Centre). 2009. "Tourism Services Liberalization: The Role of Business Advocacy in the Caribbean-European Union EPA Negotiations." ITC, Geneva. http://2013.intracen.org/WorkArea/DownloadAsset.aspx?id=50097.

Jackson, K., and W. Zang. 2012. "Estimating Tourism: Can the Role of Regional Integration Really Be Ignored?" European Trade Study Group Conference (ETSG) Leuven Fourteenth Annual Conference, September 13–15. University of Leuven, Belgium. http://www.etsg.org/ETSG2012/Programme/Papers/379.pdf.

Kangethe, K. 2014. "EAC Harmonized Tax Due in April 2015." Capital Digital Media, October 13. http://www.capitalfm.co.ke/business/2014/10/eac-harmonized-tax-due-in-april-2015/.

Kruger, P. 2009. "Tourism Liberalisation in Southern and Eastern Africa." Trade Law Center for Southern Africa, the Konrad-Adenauer-Stifung, Germany.

Naluyaga, R. 2014. "Tanzania Rejects EAC Single Tourist Visa Plan." *The East African,* January 18. http://www.theeastafrican.co.ke/news/Tanzania-rejects-EAC-single-tourist-visa-plan/-/2558/2150938/-/s4dc1s/-/index.html.

Ncube, L. 2014. "No to Collapse of RETOSA: SADC Ministers." *Chronicle,* Bulawayo. http://www.chronicle.co.zw/no-to-collapse-of-retosa-sadc-ministers/.

Parroco, A. 2012. "Multi-Destination Trips and Tourism Statistics." *Economics E-Journal* 6: 2012–44. The University of Palermo, Palermo.

Peters-Berries, C. 2010. "Regional Integration in Southern Africa—A Guidebook." Federal Ministry for Economic Cooperation and Development, Germany.

RETOSA (Regional Tourism Organization of Southern Africa). 2012a. "Harmonization of Regional Tourism Quality Standards: An Integrated Certification System in Southern Africa." RETOSA, Midrand.

———. 2012b. "Southern Africa Travel and Tourism Barometer and Destination Competitiveness Report." RETOSA, Midrand, South Africa.

Rogerson, C. 2007. "The Growth and Promotion of Regional Tourism in the Developing World: The South African Experience." *Development Southern Africa* 24 (3): 505–21.

SADC (Southern African Development Community). 1997. "Charter of the Regional Tourism Organization of Southern Africa." SADC, Gaborone, Botswana.

———. 2012. "Regional Infrastructure Development Master Plan." SADC, Gaborone, Botswana.

SH&E. 2010. "Competitive Africa: Tourism Industry Research Phase II Air Transport Sector Study." Unpublished Report for the World Bank, Washington, DC.

Statistics South Africa. 2012. "Tourism, 2012. Report No. 03-51-02." Statistics South Africa, Pretoria, South Africa.

Teye, V. 2000. "Regional Cooperation and Tourism Development in Africa." In *The Political Economy of Tourism Development in Africa,* edited by P.U.C. Dieke, 259–84. New York: Cognizant Communication Corporation.

Tore, O. 2010. "UNWTO Supports Regional Approach to Tourism Development in Europe." *Travel News Gazette,* October 7. Focus on Travel News. http://www.bsec-organization.org/bsecnews/BSECinMedia/Downloads/Travel%20News%20Gazette%20(07.10.2010).pdf.

TradeMark East Africa 2015. TradeMark East Africa. 2015. Background document Tourism Contribution in East Africa, and East Africa Tourism Platform (EATP). https://www.trademarkea.com/projects/east-africa-tourism-platform-eatp/ TradeMark East Africa, Nairobi, Kenya.

UNECA (United Nations Economic Commission for Africa). 2013. "Regional Meeting on Promoting Services Sector Development and Trade-Led Growth in Africa." UNECA, Addis Ababa.

UNECA SRO-EA (United Nations Economic Commission for Africa Sub-Regional Office for Eastern Africa). 2011. "Towards a Sustainable Tourism Industry in Eastern Africa." UNECA SRO-EA, Addis Ababa.

UNWTO (United Nations World Tourism Organization). 2010. "UNWTO Tourism Highlights 2010 Edition." UNWTO, Madrid.

———. 2012a. "Towards Inclusive & Sustainable Growth & Development: How Can the Tourism Sector Contribute?" United Nations, Geneva.

———. 2012b. "UNWTO World Tourism Barometer 2012." United Nations, Geneva.

———. 2013. "Visa Facilitation: Stimulating Economic Growth and Development through Tourism." UNWTO, Madrid.

———. 2014a. "International Tourism Generates US$1.4 Trillion in Export Earnings." UNWTO, Madrid.

———. 2014b. "UNWTO Tourism Highlights, 2014 Edition." UNWTO, Madrid.

WEF (World Economic Forum). 2013. *The Travel & Tourism Competitiveness Report 2013*. World Economic Forum, Geneva.

World Bank. 2005. *A Time to Choose: Caribbean Development in the 21st Century*. Washington, DC: World Bank.

———. 2007. *Services Trade and Development: The Experience of Zambia*. Washington, DC: World Bank.

———. 2008. *A Handbook of International Trade in Services.* Oxford: Oxford University Press.

———. 2010. *Africa Region Tourism Strategy: Transformation through Tourism—Harnessing Tourism for Growth and Improved Livelihoods*, Version 3.0. Washington, DC: World Bank.

———. 2012. "Case Study: The ADB Greater Mekong Subregion Sustainable Tourism Development Project." Unpublished Report, World Bank, Washington, DC.

WTO (World Trade Organization). 2011. "Market Access for Products and Services of Export Interest to Least-Developed Countries, Sub-Committee on Least-Developed Countries." WT/COMTD/LDC/W/51. WTO, Geneva. http://unohrlls.org/UserFiles/File/LDC%20Documents/AHWG%20on%20smooth%20transition/WTCOMTDLDCW51.pdf.

———. 2015a. "The General Agreement on Trade in Services (GATS): Objectives, Coverage and Disciplines." WTO, Geneva. http://www.wto.org/english/tratop_e/serv_e/gatsqa_e.htm#4.

———. 2015b. "Tourism and Travel-Related Services." WTO, Geneva. http://www.wto.org/english/tratop_e/serv_e/tourism_e/tourism_e.htm.

WTTC (World Travel and Tourism Council). 2013. "Benchmarking Travel & Tourism in Africa." WTTC, London. http://www.wttc.org/~/media/files/reports/benchmark%20reports/regional%20results/2013%20africa%20summary.ashx

———. 2014a. "Freedom to Travel." WTTC, London (accessed July 2014). http://www.wttc.org/mission/freedom-to-travel/.

———. 2014b. "Travel & Tourism Economic Impact Report, Africa." WTTC, London.

Zeng, D. Z. 2008. *Knowledge, Technology, and Cluster-based Growth in Africa.* Washington, DC: World Bank.

Henna Hands by Sylvia Gichia

*Untitled* by Rosemary Ahone

WORLD BANK GROUP