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 Dibeh and Arti Grover Goswami

WORLD BANK GROUP
Trade & Competitiveness
Setting the scene: stories of service providers

- Belvie: hair stylist from DRC working in the informal sector in Tanzania
- Francis: Zambian accountant working with South African firms
- MeCure Ltd: Indian health firm based in Nigeria
Why Services?
Services matter for development and export diversification

- Services can have a big impact on growth, employment and poverty reduction
- Imports of services and FDI can lead to more competition, lower prices, higher quality and greater variety
- Exports of services can drive diversification and regional integration
- Services and value chains
Why Services?
Food security and traditional exports undermined by lack of access to services along the whole value chain

Services Along Value Chain

- Wholesale
- Communication
- Transport and storage
- Production

In Ethiopia: Consumer pays 600 to 1500 birr for one quintal of teff while production cost is 250 to 400 birr—58% to 73% of final price is services cost.

Ethiopia: a rose sells for 7 cents per stem in the Dutch market—more than 80% of the final price is the share of services.
Key challenges

Integrating markets (expanding trade) while achieving regulatory objectives efficiently

Filling information gaps
- Significance of services trade for Africa little understood
- The continent’s potential to engage in knowledge-intensive services remains neglected
- Data limitations hamper analyses

Building knowledge
- Limited understanding of the role of services as intermediate inputs
- Limited knowledge about impact of services reforms
- Limited guidance on regulatory experiences and liberalization efforts, including good practice

Implementing policy action
- Translating knowledge into policy action
- Identifying the interests and preferences of various actors
- Facilitating direct engagement of stakeholders through national and regional platforms
Filling information gaps
Top export destination of professional services firms

Main export destinations from COMESA professional services providers, by region

- Sub-Saharan Africa: 47%
- Europe: 16%
- MENA: 13%
- North/South America: 10%
- Russia/India/China: 8%
- Other Asia: 5%
- Australia/N.Zealand: 1%
Filling information gaps
Professional services contribute to export diversification in Africa

Proportion of exporting firms, by country

[Bar chart showing the proportion of exporting firms by country, with different surveys compared to the COMESA average.]
Building knowledge
What are the barriers to regional services trade?

• Skills shortages hinder trade in knowledge-based services (education, health)
  • E.g. consumption outside Africa of education and professional services

• Trade and regulatory hurdles drive service providers into the informal sector
  • E.g. Regional hairdressing trade

• Trade restrictions and regulatory burdens
  • E.g. Foreigners cannot provide tax and legal advice (national vs qualification)

• Divergent regulatory regimes hinder regional integration in services
  • E.g. National vs regional qualification criteria in East African professional services

• Costs of standards compliance (not necessarily appropriate for firm size or regional need)
  • E.g. SMEs in Tanzania and Uganda face excessive costs in complying with international accounting standards – while only 10% of the region’s hotel rooms meet international standards
Policy reforms

Integrating markets (expanding trade) while achieving regulatory objectives efficiently

**Filling information gaps**
- Be serious about data collection
- Concrete efforts to monitor services reforms

**Building knowledge**
- Put informal trade in services on the African policy agenda
- Be transparent
- Knowledge Platforms

**Implementing policy action**
- Bringing it all together: Trade and Domestic Regulation
- National and regional actions
- Prioritize Regional Regulatory Cooperation
Thank you

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Additional slides
Why Services?
Growth rate contribution by sector, 1990-2012
### Why Services?

Employment share by sector, 2005-2012 (%)

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

*Source: World Development Indicators.*
Addressing knowledge gaps
Top constraints affecting the movement of services providers

At the border between DRC and Rwanda and Uganda
Addressing knowledge gaps
Professional services matter

- Higher labor productivity (sales/employees) is associated with greater usage of professional services in all East African countries, especially for small firms.
Addressing knowledge gaps
Professional services as Inputs

Labor productivity (annual revenue in thousands USD/empl)
Addressing knowledge gaps
Potential Impact of Services Development in Ethiopia

Financial and Energy sector conditions similar to that in Rwanda is likely to increase firm labor productivity by 4.3% and 2.2% respectively.

Matching China’s transportation services would imply productivity gains of 4.2%
Filling information gaps
Professional services contribute to export diversification in Africa

Proportion of exporting firms

<table>
<thead>
<tr>
<th>Sector</th>
<th>Proportion</th>
</tr>
</thead>
<tbody>
<tr>
<td>Legal</td>
<td>23%</td>
</tr>
<tr>
<td>Accounting</td>
<td>17%</td>
</tr>
<tr>
<td>Architecture</td>
<td>11%</td>
</tr>
<tr>
<td>Engineering</td>
<td>11%</td>
</tr>
</tbody>
</table>

Average across sectors: 16%

(source: World Bank survey, 2012; sample size in parentheses)
Filling information gaps
Professional services contribute to export diversification in Africa

Proportion of exporting firms, by country

- Professional services survey
- Enterprise Surveys (services)
- Enterprise Surveys (whole sample)
- Professional services - COMESA average
Filling information gaps
Patients without borders

Proportion of Foreign Patients Treated by Hospitals in Selected Countries based on crowdensing, April–July 2014, %
Filling information gaps
Telemedicine on the rise

Use of Telemedicine in Selected Countries,
April–July 2014, (%)
Filling information gaps
Revenue from informal services exports

![Bar Chart showing average % revenue from export across various sectors]

- Household: 50
- Gardeners/Agriculture: 64
- Hairdressing: 100
- Construction: 61
- Education: 76
- Health: 46
- Finance: 67
Filling information gaps
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**Addressing knowledge gaps**

**Barriers to trade - Liberalizing trade would facilitate access...**

**Typical explicit barriers to trade in education and health services**

| Mode 1 (cross-border delivery) | Restrictions on the electronic transmission of educational materials or tele diagnosis  
|                               | Restrictions on the types of courses or treatments that may be offered  
|                               | Restrictions on payments and transfers of funds abroad |
| Mode 2 (consumption abroad) | Barriers imposed by home and host countries on the mobility of students and patients  
|                               | Restrictions on the portability of scholarships or medical insurance schemes  
|                               | Limitations concerning the coverage by public medical insurance schemes of service provided abroad  
|                               | Exit visas or foreign currency controls in the home country |
## Addressing knowledge gaps

**Barriers to trade - Liberalizing trade would facilitate access**

### Typical explicit barriers to trade in education and health services

<table>
<thead>
<tr>
<th>Mode 3 (commercial presence)</th>
<th>Mode 4 (presence of natural persons)</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Foreign equity capital limits</td>
<td>• Discretionary limits (quotas, labor market tests &amp; econ. needs tests) for foreign-licensed professionals</td>
</tr>
<tr>
<td>• Restrictions on legal form of suppliers</td>
<td>• Foreign degrees obtained abroad might not be recognized in the students’ home country</td>
</tr>
<tr>
<td>• Limitations on the numbers of permitted suppliers of education and health services and their legal form</td>
<td>• Burdensome immigration requirements</td>
</tr>
<tr>
<td>• Discriminatory tax/fiscal measures</td>
<td>• Nationality or residence requirements</td>
</tr>
</tbody>
</table>
**Addressing knowledge gaps**
*Barriers to trade ...but Need to Be Complemented by Domestic Regulatory Reform*

Typical regulation of education and health services

<table>
<thead>
<tr>
<th>Entry Regulation</th>
<th>Conduct Regulation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Recognition of degrees and practical training</td>
<td>Price regulation: Binding minimum or maximum prices</td>
</tr>
<tr>
<td>requirements</td>
<td>Advertising is prohibited</td>
</tr>
<tr>
<td>Restrictions on the range of offered services</td>
<td>Restrictions on type of legal entity</td>
</tr>
<tr>
<td>Restrict emigration and incentivize return migration</td>
<td>Limits on insurance policy coverage</td>
</tr>
<tr>
<td>in health</td>
<td></td>
</tr>
</tbody>
</table>
Implementing policy action
Steps toward free movement of services providers

Political commitment to allow free movement of professionals

Processes required to give effect to political commitment

Details of agreements required and responsible authorities

Rights conferred by different agreements and their inter-relationship

Negotiation of trade commitments

Sectoral commitments made in market access schedules (negotiated by trade ministries)

Right to provide services

Negotiation on free movement of natural persons (negotiated by interior ministries/ministries of labor)

Horizontal commitments on free movement of natural persons (negotiated by interior ministries/ministries of labor)

Right to enter and work as a natural person

Mutual recognition agreements (negotiated by sector ministries or delegated to competent authorities)

To have any impact requires...

Rights in and conditions of access to regulated market

Need to be compatible

To be given effect requires...
Implementing policy action
Extend Charter for Cross-Border Traders to Services (1)

- Efficient trader processing – NO discrimination, abuse or harassment
- Transparent duties/fees/taxes (and receipts issued!)
- Clear documentary requirements
- NO bribes
Implementing policy action
Extend Charter for Cross-Border Traders to Services (2)

With support of the international community, Governments commit to have:

- Rights & obligations visually communicated in local language at all border crossings
- At least one agent/all senior officials/50% of officials trained on gender-awareness by DATE
- A file-a-complaint mechanism available for traders at all border crossings
- Strict disciplinary measures enforced against abusive officials
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- Identifying the interests and preferences of various actors
- Facilitating direct engagement of stakeholders through national and regional platforms?
Implementing policy action

Regulatory agenda is key for addressing Africa’ skills shortages in education and health services

At the **national level:**
- Clarifying entry requirements
- Eliminating restrictions on competition, e.g. price regulation; advertising prohibitions
- Strengthening incentive systems for education and health care professionals to remain in the home country

At the **regional level:**
- Removing trade barriers, e.g. labor mobility restrictions, forms of establishment
- Developing transparent framework for accepting education and health professionals with foreign qualifications through increased regulatory cooperation, e.g. mutual recognition of qualifications

Immigration reforms
Implementing policy action
Knowledge Platforms

• Mechanism that brings together regulatory expertise, trade policy makers, the private sectors, think tanks, universities and regional bodies

• Analytical work and advisory services disseminated through:
  • Online platform with transparent, easily searchable databases, and social networks
  • Face-to-face interactions between practitioners, policymakers, think tanks, regional secretariats

• Both the outcome and the process are important

The Professional Services Knowledge Platforms in EAC and COMESA to support regulatory reforms
Implementing policy action
East Africa Tourism Platform

Private sector is leading to facilitate a collective, coordinated, and simultaneous approach to enhancing the region’s travel and tourism competitiveness

Multi-stakeholder dialogue forums such as National Tourism Roundtables to address the following challenges:

- Policy reforms and regulation in tourism and other spheres relating to monetary, fiscal, and trade policies
- Price competitiveness in taxes, levies, and charges
- Tourism services export capabilities