Services and Sustainable Growth in Zambia

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List of Acronyms

BAZ	Bankers Association of Zambia
BFSA	Banking and Financial Services Act
BOZ	Bank of Zambia
CEC	Copper belt Energy Corporation
CSO	Central Statistical Office
ERB	Energy Regulation Board
FDI	Foreign Direct Investment
FSDP	Financial Sector Development Plan
GATS	General Agreement on Trade in Services
GDP	Gross Domestic Product
IMF	International Monetary Fund
IT	Information Technology
MCTI	Ministry of Commerce, Trade and Industry
MW	Megawatts
NIEC	National Import and Export Corporation
NEC	North-Western Energy Company
PSTN	Public Switched Telephone Network
PLC	Public Limited Company
SADC	Southern African Development Community
SDG	Sustainable Development Goal
SAPP	Southern African Power Pool
UNDP	United Nations Development Programme
US	United States
WTO	World Trade Organization
ZACCI	Zambia Confederation of Chambers of Commerce and Industry
ZCBC	Zambia Consumer Buying Corporation
ZDA	Zambia Development Agency
ZHPC	Zangamine Hydro Power Company
ZICTA	Zambia Information and Communication Technology Authority
ZNFU	Zambia National Farmers Union

Executive Summary

The Zambian economy has grown steadily the past two decades; although this growth has not been inclusive. The real domestic product (GDP) grew at an average of about 6.5% per annum between 2000 and 2014. Real per capita GDP growth was at about 3% per annum. The domestic services sector has been a major contributor to GDP with a share of more than 60% since 2000. The services sector has, grown on average more than 6% per annum, similar to the real growth rate in the economy of 6.5%. The sector has also become a major contributor to increasing employment opportunities. During the period between 2007 and 2010, a quarter of the pledged investment was in the services sector. The study finds that the domestic services sector can play a significant role in achieving sustainable development goals in 2030 by increasing its capacity, improving the quality of regulations and further engaging in services trade.

This report focuses on services and sustainable development in Zambia and examines in particular four key service sectors, namely: telecommunications, financial services, energy services and distribution services.

The report identifies the following challenges with regard to the four sectors of study:

- For basic telecommunication, the presence of the state-owned monopoly company, Zamtel, has resulted in poor quality of service, although access to fixed line telephony has increased; this has adversely affected the development of the Internet in the country. The paper underlines the need for more competition in the mobile telephony segment and recommends the privatization of Zamtel.

- The commercial banking sector is well capitalized and its asset quality has improved over time. Foreign financial service providers have dominated commercial banking. The sector however faces high lending rates and lack of financial inclusion. The paper recommends the necessity of promoting competition in commercial banking.

- With respect to energy services, only 40% of the population in urban areas and 2% of that in rural areas has access to electricity. ZESCO has experienced higher distribution losses than the total electricity imports and exports in most cases. Lack of investment in the sector is a major constraint to its growth. In the electricity sector, the paper recommends the unbundling of ZESCO and the creation of a regulatory framework for the unbundled electricity sector to promote competition and access to the transmission and distribution networks.

- The wholesale and retail sector is significant in the Zambian economy. In 2013 it contributed 12.7% of GDP and provided 20.8% of total employment. However, the sector is highly concentrated and lacks linkages to local supply chains. The paper recommends the need to create a regulatory framework that will promote competition in the retail sector.

- The domestic service sector is very important as a tool to further enhance growth in the Zambian economy and can be used to address issues of inclusivity as well as contribute to attain the sustainable development goals in 2030. The paper recommends that there is need to reform the institutions and regulations in the four sectors that were examined in an effort to transform them into competitive service sectors that are better able to contribute to increased output and trade in both goods and services and ultimately contribute to sustainable growth and development.

1. Introduction

Like, most Sub-Saharan African economies, the Zambian economy has been growing steadily during the past two decades. This has been propelled by high copper prices, the sustained reform that took place (which has more recently faltered) and improved macroeconomic management. Real gross domestic product (GDP) grew on average at about 6.5% per annum between 2000 and 2014. Real per capita GDP growth was at about 3% per annum. This increased from US$ 355 in 2000 to US$1,620 in 2013 turning Zambia into a lower middle income country during the period. Formal sector jobs increased on average at the rate of 5.5% per annum, augmenting the number of formal sector jobs from 476,347 jobs in 2000 to 955,150 jobs in 2013.This growth scenario is expected to continue, although, it is currently being weighed down by large fiscal imbalances, lower copper prices and policy uncertainties (IMF, 2015b). There are two important aspects to this growth process. First, the domestic services sector has been a major contributor to this real GDP growth. Among the lead sectors have been construction and transport and communications (MOF, 2013). Secondly, the growth process has not been inclusive.

The domestic services sector has represented a large and growing part of the Zambian economy. In 2012, it contributed 72 per cent of value added to the country's GDP and about 75.4% of total jobs in the formal sector. The overall strong performance of the sector has been a strong contributor to the recent positive growth in the economy. Between 2000 and 2013, value added in the domestic services sector increased on average by 7% per annum. This was second only to the mining sector whose value added increased on average by about eight per cent during the period. The most important sub-sectors are construction, wholesale and retail trade, transport and communications, and community and personal services.

Despite the strong growth over the past decade, this has not been inclusive (Bwalya, 2011). Although the proportion of people living below the poverty line slightly declined during the decade, poverty still remains high at over 60% of the population. This is well above the Sub-Saharan African average of 48%. The situation is worse in the rural areas where 78% of the population is poor (Chapoto et al., 2011). Extreme poverty is estimated at 42%, making Zambia, among the top seven countries in the world with a large population living under extreme poverty. Thus a large segment of the population has not benefited much from the recent growth. They still live in squalor with little or limited access to basic facilities such as health and education. Furthermore, inequalities have remained high with a Gini coefficient of 65% in 2010.

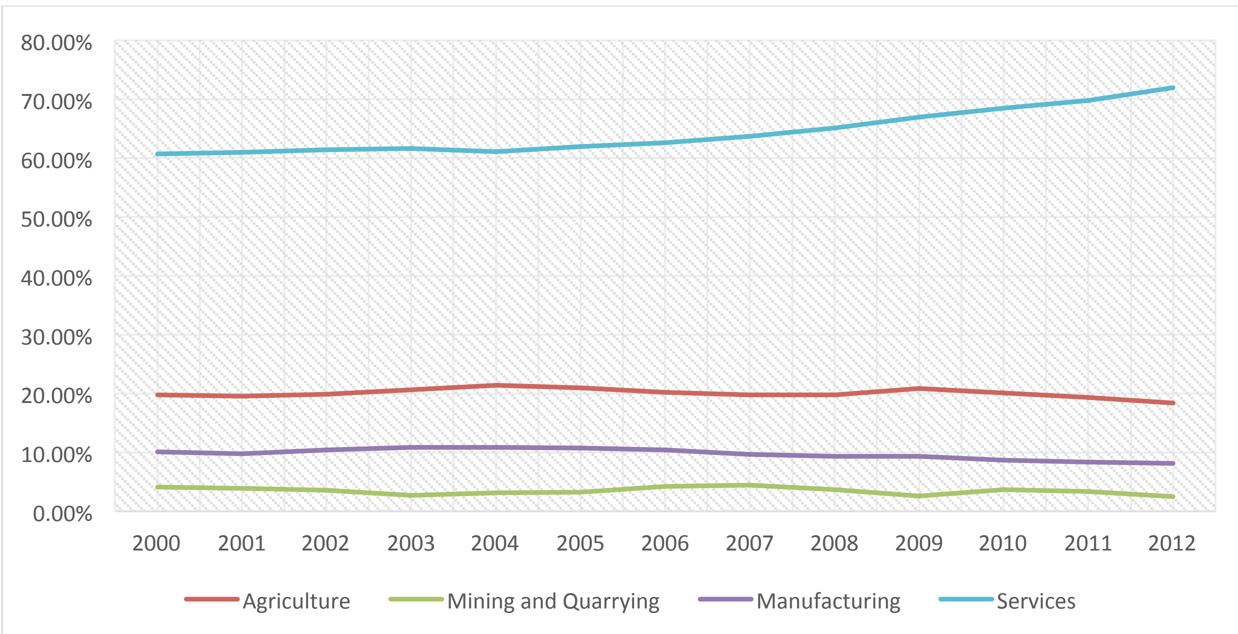
It is from this perspective that the domestic services sector can be significant in addressing issues of poverty and inclusive growth. It is currently the largest and one of the most dynamic sectors in the economy. Pursuing reform policies that promote services trade will spur growth, boost employment, incomes and exports and reduce poverty. A better performance of the services sector can thus be used to bring about more inclusive and sustainable development in Zambia. A services sector that is efficiently and effectively organized will lower the production and trade costs of both goods and services in the economy, making the economy more competitive. It will create jobs and incomes for many people, impacting positively on the quality of life of many people in both urban and rural areas. The competitive provision of services in the economy will contribute significantly to trade and the sustained creation of jobs and incomes in the economy. Combined with appropriate regulatory policies, this can lead to more inclusive and welfare enhancing growth.

This paper identifies four key service sectors in Zambia that have the greatest potential to effectively contribute to inclusive growth and sustainable development. These are telecommunications, financial services, electricity/ energy services and retail distribution services. The choice of these four sectors has been reached through consultations with policy makers and stakeholders in the private sector.

2. Overview of Services in the Economy (2000 – 2014)

The services sector has over time become the most prominent sector in the Zambian economy. The sector has grown significantly between 2000 and 2014, spurring growth, providing jobs, and incomes. It is a major input into the production and export of goods and services and has become a potential vehicle for efforts to reduce and resolve poverty. The growth has been propelled by high copper prices, the opening up of the economy, increased foreign direct investment (FDI) inflows and improved macroeconomic management. The services sector has thus become a major contributor to output, employment, trade and FDI in the economy. Figure 1 shows the contribution of the economy's major sectors to GDP.

Figure1
Percentage Contribution of Sector Value Added to Zambia's GDP, 2000 – 2012

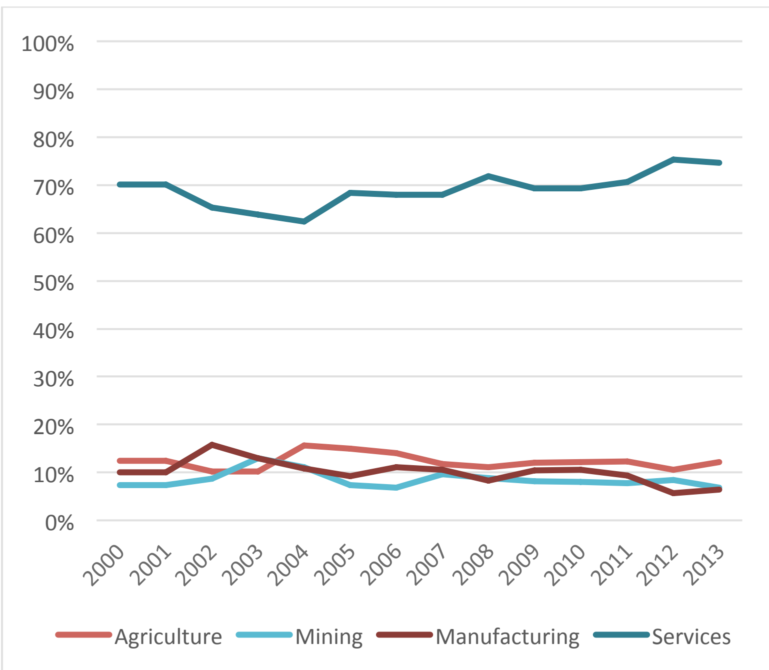


Source: CSO (2014c)

The share of services in GDP increased from 60% in 2000 to 72% in 2012, while the shares of agriculture, mining and manufacturing sectors stagnated at around 18%, 2.5% and 8.1% respectively. Thus services contributed an average of about 64% of value added to GDP between 2000 and 2013. The services sector has consistently grown at a rate of about 6% per annum during the period, similar to the rate of real growth of the economy at 6.5%. This is clearly an underestimation if one takes into account the various informal activities in the services sector that go underreported.

The positive real growth rate in the services out of GDP has been reflected in increased employment in the services sector. This is shown in Figure 2. The services sector has created more jobs in the formal sector than either the agriculture, mining or manufacturing sectors. It is also a major contributor to jobs for the small and medium scale businesses. This is significant because small and medium scale firms comprise about 99% of total businesses in the country (Mphuka et al., 2014:4). In 2013, the services sector employed about 713,000 workers. The share of service sector jobs increased from 70% in 2000 to 75% in 2013. The average contribution of services sector jobs to total jobs between 2000 and 2013 was 69.07%. This compares very significantly with the agriculture, mining and manufacturing sectors, which contributed, on average, 12%, 7% and 6% to total employment respectively. The services sector also shows a greater participation of female workers.

Figure 2
Percentage Contribution of Sectors to Total Employment in Zambia



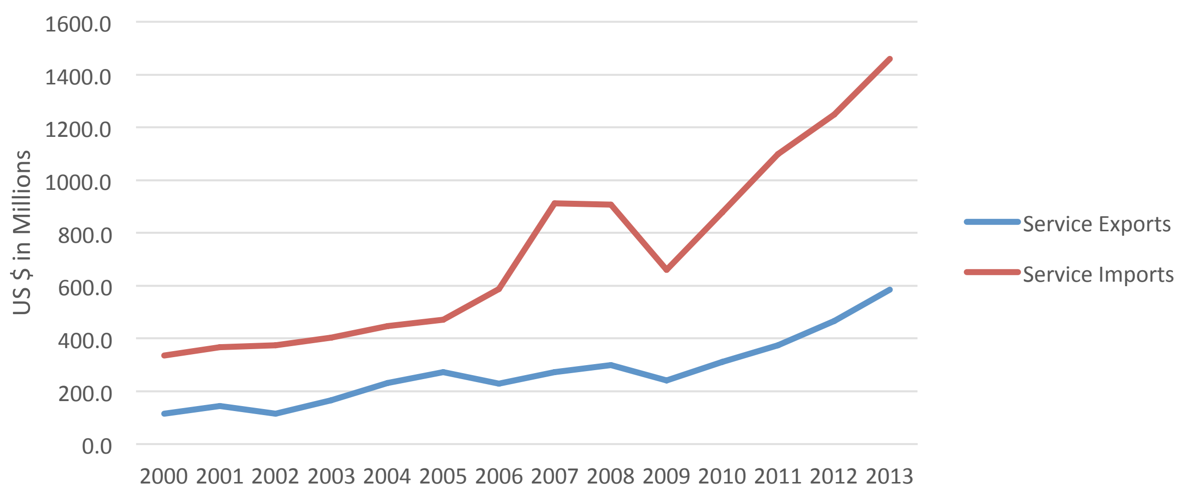
Source: CSO (2014b)

The rate of growth of services jobs was at 6.4% per annum between 2000 and 2013. This was higher than the growth rate for total employment which is estimated at 5.9%. However, the annual rate of growth in jobs was higher in agriculture at 7.3%, mining at 6.8% and least in manufacturing at 5%.

The dominant sub-sectors in the services sector are social and personal services, trade and distribution and transport and communications. These generated a greater share of the services jobs in the sector. Employment in the trade and distribution sub-sector has increased significantly over the decade because of an expansion in the sub-sector through new entrants brought about by increased FDI inflows into the sector. FDI inflows have been principally attracted by the privatization of the state-owned companies in the sector, which had begun in 1992. Furthermore, the growth of the economy has created a middle class that has propelled the growth of a large retail market.

The strong presence of the domestic services sector in the economy has not been reflected in the structure of services exports and imports. Table 3 shows the structure of services trade between 2000 and 2013. This shows that the country has always been a net services importer. In 2013, Zambia exported US$585 million and imported US$ 1, 460 million of services. Between 2000 and 2013, the deficit on the services account averaged US$452 million per year and services imports were an average of 6% of GDP.

Figure 3
Structure of Zambia's Services Trade, 2000 – 2013

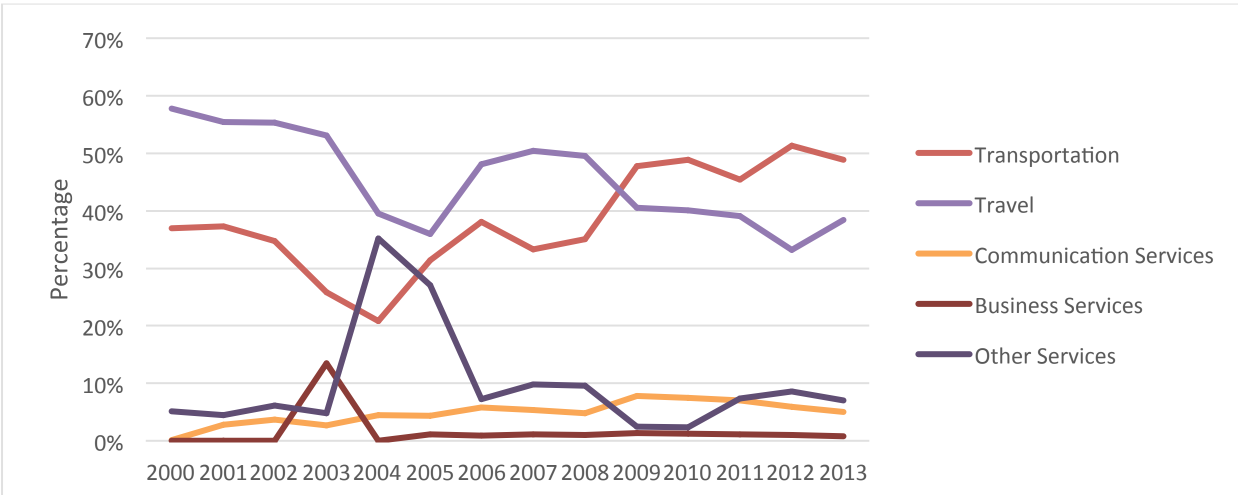


Source: BOZ (2014a)

Services exports have grown, but imports have grown faster than services exports, widening further the services deficit and signifying the important role that services trade has played in the recent growth in the country. The share of service exports in GDP between 2000 and 2013 has been 2.3% on average, while the share of the export of commercial services in world services trade is estimated at 0.02% in 2014. This is an indication of a very low level of participation in services export trade. This should be addressed by looking at the constraints that inhibit services sector growth and exports.

Figures 4 and 5 show the composition of trade in services between 2000 and 2013. Both exports and imports cover a narrow range of service sectors. These are transport, travel, communication and business services, the most prominent being transport and travel. During the period, export of transport services seems to have become more important than travel services. This is likely to be because of the increased regional trade that must be facilitated by transport services. In 2013, transport and travel contributed 48.8% and 41.8% of total services export earnings respectively. Together they contributed 90.6% of total services exports. However, the travel and services sectors are likely to have the best and most complete service statistics than the other sectors.

Figure 4
Composition of Zambia's Service Exports, 2000- 2013

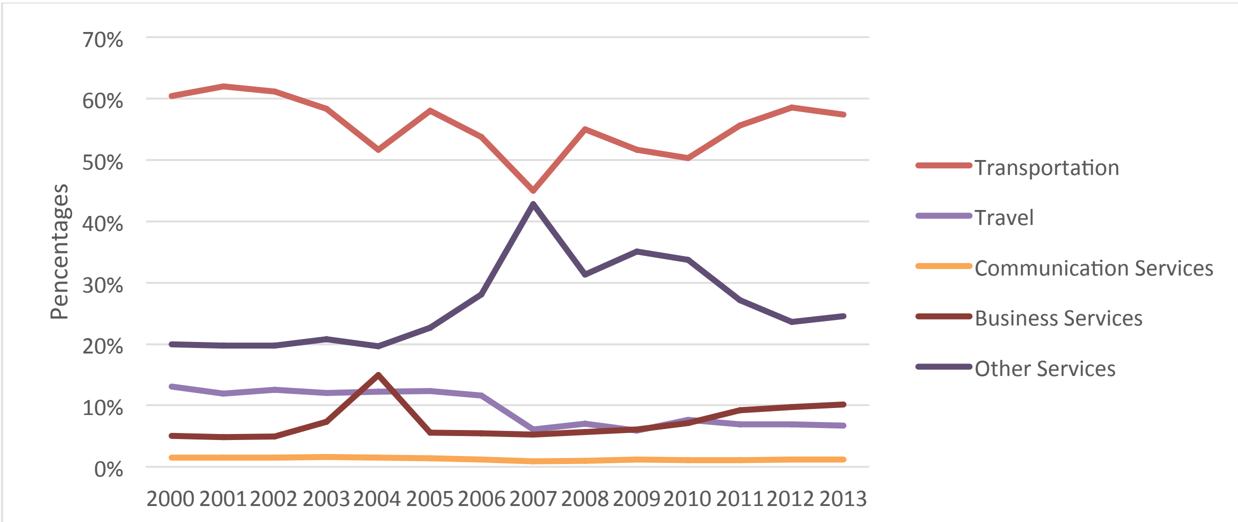


Source: BOZ (2014b)

Recently there has been a growth in the export of business services from Zambia to the region (DTIS, 2014). The export of professional services, such as doctors is becoming prominent.

Figure 5 shows that services imports into Zambia are dominated by transport, business services and travel. In 2013 transport services imports were at US$834 million, which was 57% of total service imports. Imports of business services were US$148 million representing 10% of total service imports. Transport, travel and business services taken together represented 74% of total services imports in 2013.

Figure5
Composition of Zambia's Service Imports, 2000- 2013



Source: BOZ (2014b)

It would be interesting to look at FDI inflows into the services sector. This would give us an idea of the magnitude of commercial presence in the sector, since this is one of the modes of supply for services trade. To depict this activity, we would need information on FDI inflows into the domestic services sector, but these data do not exist at present. It will in future be necessary to set up a mechanism that records the amount of FDI inflows taking place in various service sectors of the economy. In the absence of such information we look at the data from the Zambia Development Agency (ZDA) on investment pledges in the services sector as an indication of the importance of this activity.

Table 1 shows total investment pledges by foreign investors between 2007and 2010. Total pledged investment in the services sector averaged about US$ 1,312.75 out of US$4,919.35million per annum. Thus a quarter of the pledged investment was in the services sector. With an estimated actualization rate of 19%, this would put the implied investment in the services sector at US$ 249.5 million per annum during the period.

Table 1
Pledged Investment in the Services Sector in Zambia (Million US$)

Sector	2007	2008	2009	2010
Construction	19.5	33.9	24.7	84.4
Energy	-	1,306.7	9.1	627.4
Health	1.2	38.8	59.3	22.5
ICT	275.3	4.6	4,7	161.7
Real Estate	12.9	63.8	445.0	387.2
Tourism	62.0	184.1	200.4	128.0
Transport	270.7	54.8	63.5	4.6
Other Services	40.5	158.6	125.4	292.7
Total	682.1	1,845.3	1,015.1	1,708.5

Source: ZDA (2014)

The privatization of state-owned companies in the 1990s and the reform of the economy triggered off greater interest in the services sector. Most of the investment during this recent period has been pledged in the mining, construction and engineering, real estate, energy and transport sectors. There have also been huge FDI inflows in to wholesale and retail trade sector. FDI inflows to the services sector are likely to continue as an important mode of services delivery as long as government pursues appropriate policies that encourage them. There is however, a lack of data to capture these phenomena.

3. Services Sectors of Key Economic Interest and Importance

This paper will examine four key service sectors chosen as those with a potential to more effectively promote services growth and trade and contribute to the achievement of inclusive sustainable development in the Zambian economy. These are telecommunications, financial services, electricity/ energy services and retail/ distribution services. The first three sectors are intertwined in production and have indirect effects upon each other, acting as intermediate and consumer services. They are crucial in promoting the competitiveness of both the goods and services sectors. Once more efficiently produced and regulated, they can boost the performance of the economy. The fourth sector - retail services - is important in connecting producers and consumers in the market. If effective supply and distribution chains are created in the economy, more efficient retail services can impact positively on producers and consumers. This should contribute to more incomes and jobs as well as to more inclusive and sustainable growth.

3.1 Telecommunications

3.1.1 Overview

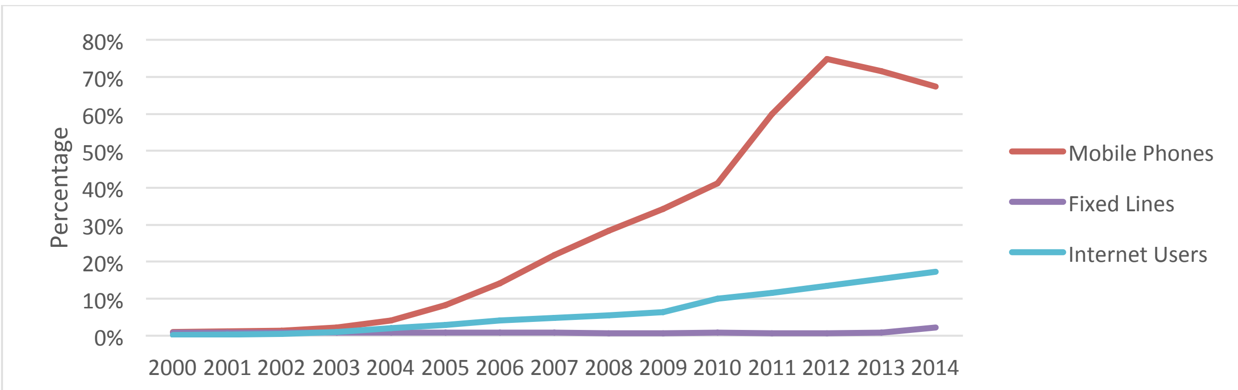
The basic telecommunications sector consists of fixed-line, mobile and internet services. This section focuses on basic telecommunications and examines the fixed line and mobile telephone services.

Fixed line and mobile services are more widespread than the internet in Zambia. Their availability, efficiency and increased density can significantly contribute to efforts to reduce poverty and promote inclusive growth in the country. Telecommunications services are embedded with the other services as composites of output. Telecommunications need electricity services. Just as financial services need telecommunication and electricity services. Retail services also need electricity, finance and telecommunications. Recently major supermarkets like Shoprite have introduced a facility for their customers to send and receive money in any of their outlets throughout the country. This is contributing to financial inclusion. But to take advantage of this, a mobile phone is necessary.

Fixed line service is supplied by a state-owned monopoly company, Zamtel, which has exclusive rights over fixed –line telephony. Zamtel provides local services, long distance services, international services and leased line services. In 2014, the company had about 329,000 fixed line subscribers in the country and employed about 3,452 workers. There is a long waiting list for basic telephone services and applicants have to wait for more than a month for a telephone installation.

Figure 6 shows some telecommunications indicators in Zambia between 2000 and 2014. The figure shows that the number of fixed line telephone subscribers more than doubled between 2000 and 2014. Access to fixed line telephony has increased from 0.83 per 100 people in 2000 to 2.2 per 100 people in 2012. This is an increase of 295%. However, the services are of poor quality and the segment lacks maintenance and investment (Habeenzu, 2011:11). This has adversely affected the development of the internet segment in the country (Fritz, 2009:17).

Figure 6
Telecommunications Performance Indicators in Zambia, 2000- 2014



Source: ITU database

In the mobile telephony market there are three service providers: Zamtel, the state-owned company, MTN and Airtel. MTN is a private owned company and Airtel is a public limited company with limited local participation. The market is dynamic and has grown rapidly during the recent past. The number of mobile telephone subscribers has increased phenomenally from about 99,000 subscribers in 2000 to 10 million subscribers in 2014.

This increased the use of mobile phones from 1per 100 people in 2000 to 67per 100 people in 2014. This is because of the growth in the economy and also because of the lack of investment in the fixed line segment. The poor quality of services, together with the lack of expansion in the fixed – line segment has contributed to the substitution of fixed- line telephony with mobile telephony (Habeenzu, 2011:11).
On the whole the telecommunications sector in Zambia is limited, inefficient and high cost.

The cost of international calls and mobile phones are high and have been found to compare unfavorably with Zambia's trading partners in the region(Fritz, 2009:17; Ndulo et al: 2014: 22). Some of the reasons for this situation are discussed below.

3.1.2 Infrastructural Constraints

The telecommunications sector faces a dynamic and growing mobile telephony market. However, the latter is being constrained by limited competition created by the statutory restriction that there should be only three service providers in the market. There is also a stagnant fixed-line telephony market and an internet market being held back by the lack of investment and development of the backbone infrastructure. This could be partially attributed to the regulatory uncertainty in the sector (Arnold et al, 2007:114). The sector faces three major constraints. First, the cost of mobile and international calls is very high in Zambia. The cost of mobile phone calls in Zambia is over 200% higher than in the neighboring countries like Mozambique and Mauritius. This situation clearly holds back innovation, development dynamism and employment creation (Fritz, 2009:17). The internet cost in terms of a fixed broadband interest subscription was US$82 per month in Zambia in 2012. This compares very unfavorably to the internet per month in Malawi and South Africa of US$48 and US$28, respectively (Ndulo et al, 2014: 22). Second there is limited access to the fixed-line telephone network. The situation is worse in the rural areas. Access to the fixed-line network is concentrated in Lusaka and the Copper belt (Arnold et al., 2007:106). Third, the telecommunications infrastructure has not grown or expanded to meet the increased demand for broadband connections. Fourth there is a lack of commitment by policy makers to the full liberalization of the sector. A partial liberalization can be seen in most of the segments and that in itself has limited the growth of the sector. This has tended to delay innovation in the sector. The policymakers can be said to suffer from an 'extreme tilt towards the status quo'. This 'tilt' tends to favor indecision and conservatism. It makes it difficult to pursue meaningful reform of the sector (Fritz, 2009:13) through reforms that can re-structure the sector bring in competition, investment, regulatory improvements and policies that ensure universal access.

3.1.3 Regulatory Constraints

The basic telecommunications sector is supervised and regulated by the Zambia Information and Communication Technology Authority (ZICTA). The relevant acts are the Information and Communications Act No. 15 of 2009 and the Electronic and Transmissions Act No. 21 of 2009. These are comprehensive and are expected to promote transparency and predictability of regulatory interventions. The other relevant acts are the Companies Act and the Competition and Fair Trading Act. All segments of the basic telecommunications sector are liberalized except for the Public Switched Telephone Network (PSTN). Zamtel, the state-owned service provider has monopoly and exclusive rights to this segment.

ZICTA is formally independent from the Ministry of Transport and Communications. It is financed wholly from licenses and other fees. The regulator licenses, regulates the retail tariffs and carries out dispute settlement and arbitration. It sets technical standards, procedures for interconnection and time frames for interconnection. It leaves the network interconnection to be negotiated privately between parties. It attempts to promote transparency in its decisions, which are announced publicly. The decisions of ZICTA can be appealed by the service provider to the High Court of Zambia. However, there is limited skill base in the regulatory authority. There is therefore need for capacity building in the regulatory function in order to strengthen this so that there is adequate monitoring and effectiveness of sector regulations.

There are no restrictions to foreign ownership in the sector in activities not controlled by Zamtel. However, service providers in the mobile market segment, if there are foreign service providers, are supposed to offer 20% of their shareholding to the Zambian public. This is a condition for the award of a license in the sector. Statutory Instrument No. 111 of 2009 has restricted entry and competition in the mobile sector segment by limiting the number of service providers in the mobile telephony segment to three. This is for the period of five years. This limits the number of service providers to the current operators in the market and limits competition. There are restrictions on the hire of natural persons in management and specialized jobs. This is subject to a work permit by the Directorate of Immigration. The award of the work permit is based on some needs test. The application of this measure is not transparent and is decided on case by case basis and therefore unpredictable.

Zambia has not made any service commitments in the telecommunications sector at WTO and the liberalization of the Zamtel monopoly is unforeseen in the near future especially after the brief failed attempted privatization in 2010. On the other hand, both COMESA and SADC has not strongly pushed the agenda for regional service liberalization.

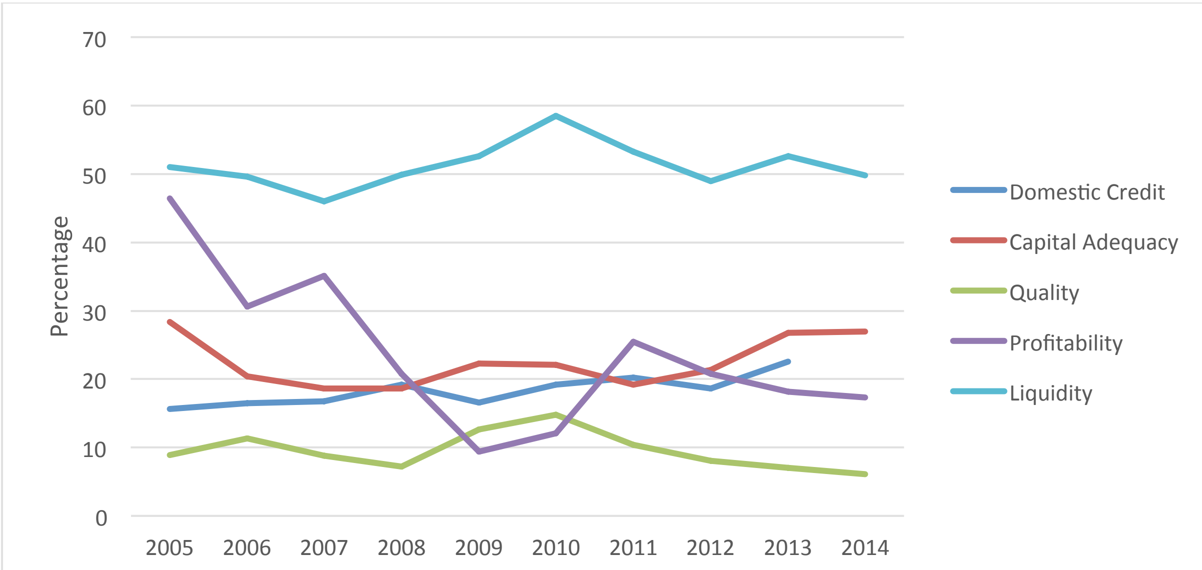
3.2 Financial Services

3.2.1 Overview

Financial services are key services that affect the production of all goods and services in the economy. Financial institutions channel an economy's resources towards its most productive sectors and activities. They manage risks, and reduce information and transactions costs throughout the economy. The development of an efficient and inclusive domestic financial system is essential for spurring growth. This paper considers commercial banking in particular. This is a key sector for fostering growth and building an inclusive and sustainable economy.

The financial services sector has grown significantly since 1991. However, the commercial banking sector experienced a series of closures of domestic banks between 1995 and 1997. Eight commercial banks were closed. The major reasons were found to be undercapitalization, high levels of non-performing loans and contagion. More recently the sector has grown again and is considered to be strong (IMF, 2015:43). Figure 7 shows us the financial indicators for Zambia. They show a commercial banking sector that is well capitalized and an improvement of its asset quality over time. The ratios seemed to have been tampered by the 2008/2009 global financial crisis but remain strong especially compared to the 1980s and 1990s.

Figure 7
Financial Soundness Indicators for Zambia, 2005 – 2014



Notes: (1) Domestic Credit=Domestic Credit/GDP (2) Capital Adequacy= Regulatory Capital/Risk-Weighted Assets (3) Asset Quality= Non-performing loans/Total Advances (4) Profitability= Return on Equity (5) Liquidity= Liquid Assets/ Total Deposits.
Source: BOZ (2009, 2012, 2014a)

Foreign service providers have dominated commercial banking services ever since the banking sector was established in Zambia. Standard Chartered Bank PLC opened its first branch in Kalomo in 1906. Barclays Bank Limited followed in 1918. Grindlays National Bank Ltd, the present Stanbic Bank Ltd, was set up in 1965. In the sixties these three Foreign Service providers dominated commercial banking in the country. In 1969, a state bank, Zambia National Commercial Bank Ltd was set up. This was later privatized into Zanaco, PLC. The Bank of China was set up in the 1990s. In the late 1980s and early 1990s, there was a flood of new domestic banks. Most of them have since been closed or collapsed. Most of this was because of regulatory failure which, was in most cases, a result of 'bureaucratically institutionalized regulatory forbearance' (Maimbo, 2002). The reform effort in the sector which has been implemented in the 2000s, following the bank crisis in the 1990s, under the FSDP, has helped to improve the regulatory environment(see de Luna Martinez, 2007).

Table 2
Characteristics of the Five Largest Commercial Banks in Zambia, 2013

Name	Foreign Equity (%)	Market share in Total deposits (%)	Market Share in Total Assets (%0	Number of branches	Number of ATMs
Zanaco	51	17.1	16.3	66	170
Stanbic	100	15.6	15	22	66
Standard Chartered	90	13.8	13.4	21	45
Barclays	100	13.8	13.3	54	148
Bank of China	100	7.5	7.2	2	0
Others	32.2	32.2	34.8	180	295
Total	-	100	100	345	724

Source: BOZ (2014a)

In the recent past there been a flood of foreign service providers in the sector from South Africa and West Africa. There are currently 19 banks in Zambia as at the end of 2013. Among these, 7 are locally incorporated subsidiaries of foreign banks, 10 are locally incorporated private banks and 2 are partly owned by the state and private sector. Table 2above shows the characteristics of the 5 largest banks. These banks dominate commercial banking in the country. They account for 67.8% of total deposits and 65.2% of the total assets. It is interesting to note that these five banks are all foreign-owned. There are plausible reasons for this. Zanaco was originally a state-owned bank. Its size can be attributed to government deposits and influence. Then apart from Stanbic and Bank of China, the other foreign service providers are the longest serving banks in the country. They are likely to have established themselves very well. There is also a tendency in financial markets to be 'native biased'. Thus South African companies will tend to bank with Stanbic Ltd, which is a South African bank. Chinese companies will bank with Bank of China. The probable reason is that it is easier to access loans with banks where one is familiar with the personnel. The above factors tend to give certain banks a more solid base than other banks in the country. As a result, even if banks like these are relatively new in the market, they are likely to grow and be sustained because of such ties (Simatele and Ndulo, 1999:6).

Furthermore, country case studies seem to indicate that foreign banks appear to be more efficient than domestic banks (Clarke et al, 2003:26). Since the late 1980s and early 1990s, there was a flood of new domestic banks in the sector. These appear to have exerted competitive pressure on the established foreign service providers, forcing them to be more efficient and move into specific lines of business such as corporate banking and restrict retail banking.

There are no restrictions on bank entry other than the minimum capital requirements which are higher for foreign banks and lower for domestic banks. The legal and regulatory framework has continuously been improved through the FSDP. This has tended to improve the efficiency and performance of the sector.

The range of services provided by banks in Zambia has increased in the market as competition has increased. The new services include automated teller machines (ATMs), debit cards and check savings accounts. With the liberalization of the financial sector and especially the removal of exchange controls in 1994, there has been a tremendous increase in foreign exchange dealings in the banks. However, these are more developed in foreign banks than the domestic banks. Almost all banks buy and sell foreign exchange and deal in other foreign exchange transactions. Bank drafts and letters of credit are mainly done in foreign banks. Foreign banks tend to have an advantage by virtue of their worldwide network and resources. They have a larger technology base and are generally more computerized than local banks.

All of the 19 registered commercial banks belong to the Bankers Association of Zambia (BAZ). BAZ represents the interests of the commercial banks and addresses the industry's problems. It dialogues with the government and the Bank of Zambia.

3.2.2 Infrastructural Constraints

Though the financial sector has grown over the past decade it is still faced with major constraints. These are limited access to banking services and credit, high lending rates and lack of competition. Commercial banking has grown. But financial inclusion is still low and Zambia's financial depth remains shallow compared to its peers. In 2009, only 63% of the adult population had access to any financial service (IMF, 2015: 43). Recently the growth of financial inclusion in Zambia has been greatly influenced by the growth of the mobile phone-based payment platforms (Fin Scope, 2015). However, the lack of competition and regulatory and structural bottlenecks has impeded the delivery of financial services (IMF, 2015:45).

Financial penetration has been weak for many reasons. Among these are high fixed costs of entry into the financial sector. High overhead costs for the provision of savings and payment services to the large unbanked population. Furthermore, there is a lack of clarity in the enforcement of collateral within the existing legal framework. Most banks lack experience and skills to assess, manage and price risks. The major potential market for the banks is the medium and small-scale businesses. But these usually do not keep bookkeeping records. A governance culture is lacking in micro, small and medium enterprises. There is information asymmetry especially from the informal sector. There are relatively high funding costs, arising from competition for large institutional depositors. Back-office operations of most banks are weak. These require developing skills and developing appropriate IT infrastructure. Furthermore, the poor quality of the general information technology infrastructure in the country affects the efficiency and development of the commercial banking sector. (IMF, 2015:43).

The banking sector has high lending rates. The effect of this is to lead to financial exclusion. This has severel effects on the small and medium scale enterprises. The commercial banking sector is open. However, it is dominated by a few foreign service providers. There is need to promote competition in an effort to increase financial services to the economy.

3.2.3 Regulatory Constraints

The effective regulation of commercial banking is very important for the efficiency and growth of the sector. This includes prudential regulation and the promotion of competition. These can help resolve the problems of high lending rates and lack of financial inclusion. The relevant legislation is the Bank of Zambia (BOZ) Act, The Banking and Financial Services Act 1994 (BFSA) and the Companies Act. The regulations cover licensing, ownership, capital adequacy, lending restrictions, exposure limits, and reserve requirements, accounting for asset quality and deposit insurance. The supervisory function rests in the Financial Supervision System Department at the Bank of Zambia.

Since1991 the BOZ has undergone a series of restructuring programmes. The programmes included the strengthening and upgrading of the capacity for bank supervision at BOZ. The BFSA strengthened the supervisory role of the BOZ over commercial banks (Maimbo, 200). Consequently, the supervisory framework has improved. Both the institutions and regulations are satisfactory. They do facilitate access to credit, reflecting the depth of its credit information infrastructure and there is good enforcement (IMF, 2015). There is however, still need for capacity building in the regulatory and supervisory functions.

Although cross-border trade in commercial banking services is virtually non-existent, the legal framework governing cross-border trade is liberal. Domestic banks, domestic companies and households are allowed to borrow across the border from foreign banks. Furthermore, banks are not subject to any qualifications or restraints in order to access foreign capital. Domestic banks, domestic companies and households are also allowed to make cross-border deposits with foreign banks.

Foreign service providers that establish branches or subsidiaries in the country are required to incorporate locally. There are restrictions to individual private ownership of a bank that applies equally to both domestic and foreign service providers. There is a restriction on private individual ownership of not more than 75% of the shares in the bank. This applies to both domestic and foreign service providers. This does not apply if the service provider is a public limited company. Foreign ownership in the provision of commercial banking is not restricted. However, the BOZ has to approve members of the Board of Directors. The appointment of the chief executive of the bank has to be cleared by BOZ.

There are restrictions on the movement of natural persons for the management and specialized jobs in the sector. A permit has to be issued by the Directorate of Immigration. These are subject to needs test by the Directorate. However, the application of this measure is not transparent and is decided on case by case basis.

There are also other regulatory and supervisory issues that the sector has to face. These include, the adoption of risk-based supervision, further enhancement of the legislative framework, capital adequacy regulations, deposit insurance scheme, the enhancement of the lender of last resort regime and cross –border co-operation through consolidated supervision of financial institutions (Fundanga, 2010).

3.3 Energy Services

3.3.1 Overview

There are definitional problems when dealing with the energy services sector in relation to services trade. The approach taken in this paper will be to look at the whole sector. In this way, we can identify the role of trade in services (WTO, 1998a: 1). Electricity can then be divided into four main sectors. These are generation, transmission, distribution and supply (Thomas, et al, 2006:7). Although the generation of electricity fall under the scope of goods, the activities of transmission and distribution and related energy services (i.e. engineering and repair and maintenance) are clearly services and fall under the scope of the GATS (WTO, 1998a:2).

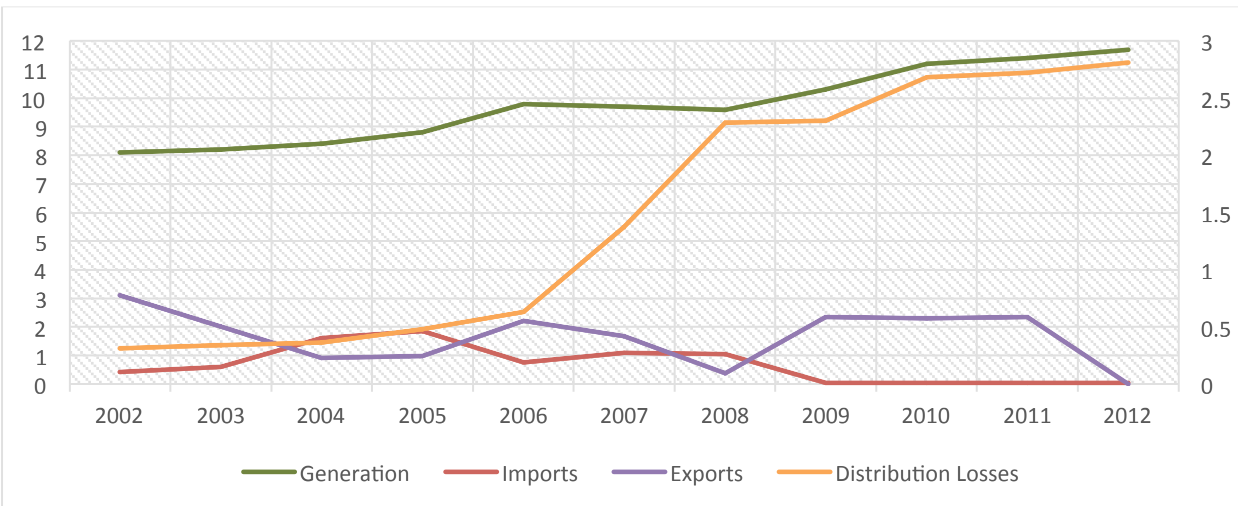
Zambia has abundant energy resources. The most important energy source is electricity because of its abundant water resources. About 40% of the water resources in the Southern African Development Community (SADC) are in Zambia. The hydropower potential in the country is estimated at 6,000 MW with installed capacity estimated at only 1,700 MW (IMF, 2015:54).Only 20% of the population has access to electricity with 40% of these living in urban areas while only 2% of the rural population has access to electricity. Most of Zambia's population uses wood fuel for power. Wood fuel accounts for 70% of the total energy demand in the country (CSO, 15). This dependency has had adverse effects on the environment.

Electricity in Zambia is supplied by a state-owned vertically integrated monopoly company- ZESCO. The company is engaged in all phases of electricity output: generation, transmission and distribution. This leaves little margin for trade and competition in the sector. The unbundling of ZESCO will allow for the emergence and liberalization of important services such as transportation, distribution and supply by separating these activities. For our purposes, we classify electricity services as one sector and examine how unbundling the sector will promote efficiency and promote competition and trade in the sector.

The electricity market in Zambia is dominated by ZESCO. The state monopoly generates,transmits, distributes and supplies electricity in the domestic market and for export. There are four other companies in the sector. These are Copper belt EnergyCorporation (CEC), Lunsefwa Hydro Power Company, Zengamina Hydro Power Company (ZHPC) and North-Western Energy Company (NEC). CEC distributes and supplies power to the mines and customers on the Copperbelt. Lunsemfwa generates power and sells it to ZESCO. ZHPC and NEC are not connected to the national grid. Lunsenfwa, ZHPC and NEC are privately owned companies.

The electricity sector is basically monopolized by ZESCO. Total employment in the sector is estimated at 4,097 workers. 90% of these work for ZESCO. Figure 8 shows the generation, exports and imports of electricity between 2002 and 2012. During this period, the country has most often been a net exporter to the region. It has exported power through the Southern African Power Pool (SAPP) to mainly Congo DR, Zimbabwe and South Africa. However, what is significant is that there has been very little increase in generation capacity and there are very high transmission and distribution losses experienced by ZESCO which, in most cases, have been greater than the amount of total electricity imports and exports.

Figure 8
Electricity Production and Trade in Zambia, 2002-12 (Billion Kilowatt Hours)



Source: International Energy Statistics.

The recent growth in the economy has led to increased demand for electricity in Zambia. This has resulted in deficits in power during the past decade and unreliable power supply, which has disrupted economic activities and adversely affected production of goods and services through increasing costs. Poor electricity supply is identified as a major bottleneck by most business operators in Zambia. The private sector has suffered losses because of poor quality and erratic supplies of electricity (ZNFU, 2013:11). A strategy to increase access to electricity would greatly benefit small and medium scale businesses in urban areas and impact positively on the livelihoods of rural households. Electricity is therefore important and of key economic interest in the development of the country. It is an important ingredient of Zambia's bundle of services.

3.3.2 Infrastructural Constraints

The major supplier of electricity in the sector is ZESCO. It generates, transmits, distributes and supplies power all over the country. However, the availability of electricity in the country has been unreliable. The country has gone through periods of load-shedding and has experienced major country-wide blackouts. This happened in 2006, 2008, 2009 and 2014 (ERB, 2014:10). There are major constraints facing ZESCO and the sector as a whole. The company is characterized by inefficiencies and high operational costs (IMF, 2008:50). It is faced with low tariffs and one third of its customers were unmetered in 2008. This has improved lately. There is bad trade receivables management. There are distribution losses through theft, or increased unmetered use. The company is also over staffed (IMF, 2008: 56).

ZESCO and the electricity sector are faced with severe financial constraints. This is mainly because the development in the sector is dependent on government funding. There is an urgent need to attract and access private capital in the sector. Furthermore, most of the investment in the sector was done in the 1960s and 1970s. There has been very little investment thereafter. The major challenge in the sector is to increase capacity and rehabilitate the sector which became run down in the 1970s and the 1980s with little maintenance A huge part of the installed capacity of electricity is in two large power stations. These are Kariba and Kafue. These are old plants. They have recently required extensive and costly rehabilitation as a result of the neglect of maintenance over a long period of time (IMF, 2015:54).

The lack of investment in the sector is a major constraint to the growth of the sector. [There has not been any major investment in electricity generation, despite the vast potential that exists in the sector. There are no major independent power producers that have come on board to invest in the sector. This is despite the fact that the sector is open. This can be attributed to the integrated nature of ZESCO. ZESCO maintains control over transmission and distribution. The absence of a guaranteed access to ZESCO's transmission and distribution networks discourages investment in the sector (IMF, 2015:56).

The breaking up of ZESCO and the unbundling of a vertically integrated company, into generation, transmission and distribution, is the first market access issue for Zambia. [Comment: this is an important step for a revised regulatory framework. What activities would you suggest be unbundled in the electricity chain?] The ultimate result of this will be to increase investment and competition and efficiency in the sector and increase trade. This will ultimately impact on real growth in the country. Because of the lack of investment in the sector, the poor and more remote regions in the country have limited or no access to the power grid. This holds back balanced and inclusive growth.

When the major power stations were built in the 1960 and 1970s there was excess capacity in the sector. In the 1980s the economy was in decline. This exacerbated the excess capacity. There was consequently no investment and little maintenance in the sector. This situation promoted the setting up of very low electricity tariffs. ZESCO was therefore unable to cover replacement of investment and insufficiently covered operations and maintenance costs. (Fritz, 2009:14). The low tariffs have resulted in extreme under-investment, low maintenance and a deterioration of power generation and distribution infrastructure. This problem has become more acute with the recent growth that has driven up demand for electricity while generating capacity is still lagging. These low tariffs are an obstacle to power expansion and can only be resolved by the unbundling of ZESCO.

To address the challenges in the electricity sector, there is a need to reform the sector and create an appropriate institutional structure that can specifically attract investment in generation, transmission, distribution and supply. Such a structure should resolve the public ownership and integrated nature of ZESCO. Such a structure can result from the unbundling of ZESCO into generation, transmission and distribution and supply. Generation, distribution and supply can be open to independent power service providers. Transmission can be handled by ZESCO as a public company, regulated as a natural monopoly. The major challenge is the lack of commitment by policymakers to reform the electricity sector and especially to unbundle ZESCO. This is so because as we pointed out earlier the policy makers suffer from the 'extreme tilt towards the status quo' which is full of indecision and procrastination.

3.3.3 Regulatory Constraints

The electricity sector is governed by 4 pieces of legislation. The Energy Regulation Act (1995), The Electricity Act (1995), the Rural Electrification Act (2003) and the Competition and Fair Trading Act (1995). The Energy Regulation Board (ERB) is responsible for licensing, monitoring and supervision of operators in the energy sector. The major regulatory issues are development, continuity of supply, universal service, environmental pollution and health and safety. Because of the integrated nature, state ownership and dominance of ZESCO, ERB ends up focusing on the regulation of tariffs and giving out licenses in the electricity sector.

The electricity sector is open. There are no restrictions on foreign entry. However, the lack of clarity on access and conditions of access to the national grid may adversely affect investment decisions in the sector. There are restrictions on the movement of natural persons in that the service provider has to prove a need to allow entry and temporary stay for persons employed in management and specialized jobs. However, the screening process is not transparent.

Once ZESCO is unbundled, one can then consider building capacity in the regulatory issues that would ensure efficiency and competition in the sector. Issues over the control of the transmission and distribution networks will be key. Domestic regulation and competition rules can then play a major trade facilitation role once the sector is open to competition (WTO, 1998a:2). Yes, these are good points.

However, regulatory reform will be difficult to push. Furthermore, it is difficult to establish an effective regulatory body in Zambia. This is because the country has weak governance structures and experiences. The major reform issue would be to unbundle ZESCO and establish an independent electricity regulatory body to oversee the operation of the electricity markets and supervise and regulate the sector. Alternatively, ERB can be re-structured and strengthen to support the new structure of the electricity markets.

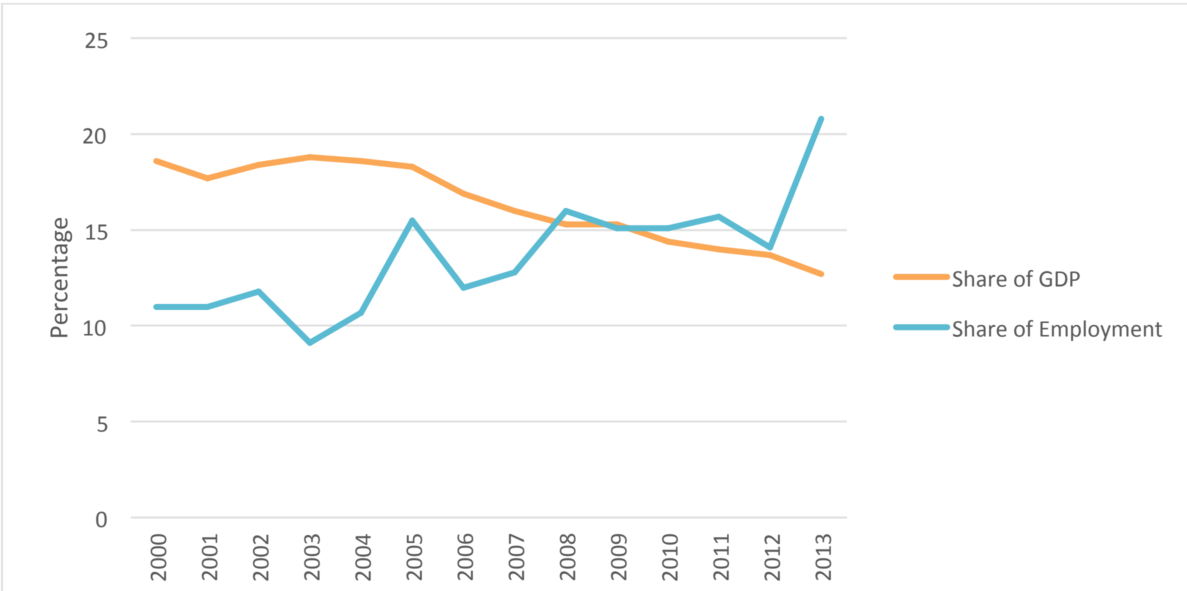
3.4 Distribution Services

3.4.1 Overview

Distribution services provide a crucial link between producers and consumers. The capacity and efficiency of distribution services have significant spillover effects on producers and consumers. There has been recently a surge of foreign service providers in the distribution services market. Their participation in the market has become a major policy issue. This sector is crucial in developing supply chains between the retail outlets and producers including medium and small scale businesses and farmers. The sector consists of commission agents' services, wholesale trade services, retailing services and franchising. This paper focuses on retail services that are an important ingredient of Zambia's bundle of services connecting the producer and consumer.

The wholesale and retail sector is significant in Zambia's economy. In 2013 it contributed 12,7% of GDP and provided 198,332 jobs. This was about 20.8% of total employment. Figure 9 shows the contribution of the sector to GDP and total jobs in the formal sector between 2000 and 2013. On average the sector has contributed16% to GDP and 14% to employment during this period, and demonstrated an annual real growth rate of around about 5%.

Figure 9
Share of Wholesale and Retail Sector to GDP and Total Employment in Zambia



Source: CSO (2014b)

The sector is characterized by the presence of a large numbers of retailers. The businesses are diversified from informal street traders to small outlets to large supermarkets in shopping centers. However, small and medium scale enterprises dominate the sector. Since the 1990s the retail market has been dominated by foreign service providers from South African chain supermarkets. The commercial presence of foreign providers in the retail market was facilitated by the liberalization of economy. This was done in the 1990s under a reform programme supported by the IMF and the World Bank. This saw the privatization of the wholesale and retail sector and the revision of the FDI regime to attract investment into the country (Fundanga et al., 1999). Previously, large supermarkets were state-owned. These were Mwaiseni Stores, National Import and Export Corporation (NIEC) Stores and Zambia Consumer and Buying Corporation(ZCBC) Stores. With the opening up of the economy, these were privatized. The entry of foreign supermarkets started with Shoprite in 1995 when it bought six buildings of the former state supermarkets and opened many outlets all over the country. Other big South African retailers have since established themselves and opened outlets throughout the country. These are Spar and Pick 'n' Pay. There are other local supermarket chains like Melisa and Sana. But these do not have a country outreach. The sector is profitable and has created many jobs. This profitability has been underpinned by the recent positive growth in the economy and the growing middle class.

The distribution networks for the South African supermarkets are centrally organized from South Africa. Individual outlets in Zambia are directly supplied through a system of web-based ordering over the company's intranet. Shipment to specific stores is done in containers. The centralized form of sourcing insulates the foreign service providers from exploiting and developing local supply chains.

3.4.2 Infrastructural Constraints

As stated above, foreign service providers have recently dominated the retail market in Zambia. Supermarkets have been set up all over the country especially in urban areas. There are however major issues that affect the contribution of the retail services sector to the inclusive growth of the country.

First, the distribution networks of the foreign retail businesses are highly centralized. The distribution to retail outlets is done within major supermarket chains. This works against and dampens incentives to develop local supply chains to connect to local farmers and producers. Secondly, there are major weakness among farmers and producers who could potentially be part of the local supply chains. Their goods are perceived to be of lower quality and quantity, and their availability unpredictable. The packaging standards are low. Local producers often use packages that are insufficiently durable and have a low capacity to meet retailer's weighing, quality and bar-coding needs. These weaknesses have determined the 'fit' between foreign retailersand local suppliers. They need innovative policies to address them. There is no relation and dialogue between the local and foreign retailers in the retail business. There is no industry association for retailers in the country and as many are very small scale, most do not belong to the Zambia Association of Chambers of Commerce and Industry (ZACCI). This denies the industry an opportunity to share ideas and problems and give direction to the growth of the sector.

3.4.3 Regulatory Constraints

The retail sector is loosely regulated with a multiplicity of regulatory authorities. The main act is the Trade Licensing Act. This supported by other relevant acts such as the Competition and Fair Trading Act and the Companies Act. The service provider needs a wholesale or retail trading license in order to operate. The process of approval for a license takes a long time, not less than six months, because of the general inefficiencies of local authorities delegated to issue licenses by the Ministry of Commerce, Trade and Industry (MCTI). There is a severe lack of capacity in the licensing departments of the local authorities and poor co-ordination between the local authorities and MCTI. There are no restrictions to the entry of foreign investment in the sector. There are restrictions on the engagement of expatriate personnel in management and specialized jobs. These require a work permit from the Directorate of Immigration. The processing of work permits is not transparent.

The country has recently experienced a rapid expansion of the retail sector. This has been induced by the large South African service providers who have established supermarkets throughout the country. This has transformed the existing retail market. It has tended to concentrate the retail market among the foreign service providers. There is need to create a competitive market in the face of this foreign service provider induced concentration of the retail market. There will be need to formulate regulations and build capacity to specifically deal with this large-format foreign entry into the retail market such as to promote competition and trade in services.

The issues that the regulatory framework will need to address cover the desirability of large- format foreign capital in the sector, the impact of large-format retail development on small-scale retailers and retailer – supplier tensions associated with transformed supply and distribution systems. Coming up with regulations and regulatory capacity to deal with the above issues will make the retail sector transparent and dynamic and ultimately contribute to inclusive growth. The regulatory framework would deal with the issues of licensing, ownership, spatial outcomes such as the geographical allocation of foreign retail suppliers, composition of expatriate staff and links to local supply chains such as the sourcing of a certain percentage of local products for the retail supermarkets.

4. Capacity Building Needs in the Sectors

Zambia has since independence tried unsuccessfully to diversify its exports away from copper. However, policymakers have understood this objective as an expansion of trade in goods. There is need to change this perception to focus on both goods and services trade. A consequent expansion of services trade offers great potential to grow the economy, increase incomes and foster sustained and inclusive growth. Increased services trade can be achieved by increasing the capacity of the domestic services sector and the removal or lowering of regulatory barriers to services trade and the discrimination between foreign and domestic service suppliers. This can be done autonomously, regionally or globally under GATS. Services trade reform under GATS will mean removing distortions that adversely affect the potential growth of the services sector. This will lead to greater openness, integration and participation of Zambia in global markets. There is a sense in which one can use this process to manage the services trade reform and make it relevant to the quest for sustainable and inclusive growth in Zambia. GATS Article IV and the negotiating guidelines support this. These provide for flexibility for individual developing countries in the negotiations and 'progressively extending market access in line with their development situation and, when making access to their markets available to foreign services suppliers, attaching to such access conditions aimed at achieving the objectives referred to in Article IV' (WTO, 2001). Zambia needs to build capacity that can come up with such a services trade policy. A trade policy that can progressively extend market access in line with promoting inclusive growth and attaching conditions to market access with a view of developing capacity in the domestic services sector. The services trade policy will define and bring out clearly the issues of foreign service participation, technology, the sequencing and pace of reform in terms of the specific sectors and overall, capacity building in the domestic services sector. This is the foremost capacity building need for Zambia.

The country must also build regulatory capacity in the telecommunications, financial, energy and distribution service sectors. The capacity of regulatory authorities in these sectors is weak. They need support in building the institutions and improving and strengthening their skill bases so that there is adequate monitoring and supervision of the sector regulations. Capacity should also be created to make the regulatory authorities innovative. For, example in financial services, there is need to come up with a legal and regulatory framework that would facilitate the development and delivery of innovative products to address the needs of the informal sector and rural areas so as to increase financial inclusion. In the retail distribution services sector, there is need to address the lack of clear transparent regulations that can promote the growth of a competitive retail services sector. This is especially important in face of the entry of the large-format foreign retailers who have increased concentration in the sector. In the energy sector there is a need to restructure and organize the electricity sector and unbundle ZESCO. This will necessitate the coming up with sector regulations that can promote access and competitive markets in the various bundles. This will need technical support and assistance from such institutions as the World Bank and other development institutions.

In addition to needed regulatory reforms, there is need to provide support services to businesses in Zambia on bookkeeping and corporate governance, certification and quality management systems and advertising and promotion. A loan or grant facility can be created to enable access of most businesses to such services. This is especially important for small and medium scale businesses including those in the domestic services sector. This will ultimately promote the growth of healthy businesses and inclusive growth in the country.

5. Services Development and SDGs

The economy has grown in the recent past. This growth has not been inclusive. This has only slightly reduced the number of people living in extreme poverty. Zambia was in 2010 among the top 5 countries with the highest percentage of extremely poor people (World Bank, 2015). The country performed dismally in achieving the MDGs. Out of the eight MDGs, the country only fared well in three. These are MDG2 to achieve universal primary education, MDG6 on HIV prevalence and MDG8 on developing a global partnership for development. The net enrolment of children in primary education increased from 80% in 1990 to 102% in 2009, thus already surpassing the target of 100% by 2015. The national HIV prevalence rate among adults was reduced to below the target of 15.6%. In terms of MDG 8, the country regained and sustained macroeconomic stability, achieving a single-digit inflation rate and a real growth rate of over 5%. This achievement is, however, currently under threat from fiscal imbalances and the current global economic crisis.

What will it take in Zambia to end extreme poverty and achieve the newly-adopted sustainable development goals (SDGs) by 2030? These are to end poverty, ensure inclusive and equitable education, achieve greater gender equality, promote sustainable and inclusive growth and employment, reduce inequality, ensure sustainable consumption and production patterns and combat climate change. Many of these goals directly or indirectly involve better and more efficient services.

Poverty in Zambia is concentrated in the informal sector, in rural areas and among women. The dispersal of economic activities to these segments of the society will help to reduce poverty. This can effectively be done by developing the capacity of services sector, which will also help the country to take advantage of participation in local, regional and global value chains.

5.1 Telecommunications

The major constraints in the telecommunications sector are the high cost of mobile and international calls, and the limited access to the fixed-line telephone network. This is concentrated in Lusaka and the Copper belt and has adversely affected the access to internet services. Resolving these constraints through the increased capacity in the sector will greatly contribute to meeting the SDGs in 2030. The pre-requisite to this is that there should be a commitment from the policymakers to reform the sector through greater market access and an improved regulatory framework.

Improved access and reduced cost of telecommunication services will have a huge positive impact on efforts to end poverty in all forms everywhere. Dense and efficient communications will facilitate trade and growth among the informal sector businesses and help spread them to rural areas (see Vodafone, 2005). Improvement in the use of mobile phones and Internet will increase access to knowledge and improve the quality of education.

5.2 Financial Services

The major constraint in the financial services sector is the high lending rates and financial inclusion. Resolving these issues will lead to the improvement of financial services. The prerequisite is that the policymakers must be committed to policies that promote competition and that improve and nurture innovative regulatory practices. Promoting financial inclusion will extend financial services to the informal sector workers and business, and the rural areas. This will bring about inclusive growth and tend to reduce poverty. Women will have access to finance for their businesses. This will tend to empower them and promote gender equality. Cross-border traders and exports will have access to finance their operations. This will promote exports and contribute to reducing inequality within the country and globally.

5.3 Energy Services

The major constraint in the electricity sector is access to electricity where only about 20% of the population has access to electricity. Reforms in the sector will build capacity and increase the availability of electricity in both urban and rural areas. The prerequisite for this is that the policy makers must reform the sector and unbundle ZESCO. The likely impact of this reform on the economy is huge. The impact on the economy is that it will affect all the SDG goals above.

Improved electricity access will lead to a dramatic transformation of the economy through the provision of reliable power to both rural and urban areas. It will make possible and support a range of productive activities in the rural areas, including support to:

- The building of irrigations systems that have been made necessary by climatic change.
- Small scale farmers through improving post-harvest processing of crops, and livestock management as well as health services through refrigeration of vaccines and other medicines.
- Development of ICT services for marketing and trading for farmers.
- The supply of power in rural schools for the use of ICT in education and training and continuous professional development and access to teaching aids
- Access to water supply.

All of the above activities will lead to rural industrialization and the increased participation of women in economic activities. This transformation in the economy will tend to foster inclusive and sustainable growth, reduce poverty, and garner gender equality and empower women. It will also guarantee inclusive and equitable quality education, reduce inequality in the country and ensure sustainable consumption and production patterns.

Access to electricity will impact positively on efforts to combat climate change and its adverse impact. Wood fuel accounts for 70% of total energy demand in Zambia (CSO

,2007:15). This has led to deforestation and has impacted negatively on the environment and climate change. Increasing access to electricity will reduce on deforestation. This will contribute to the SDG goal of combating climate change.

5.4 Retail Services

The major challenges in this sector are to resolve the increasing concentration in the sector and increase competition, address the lack of access of local producers and farmers to the distribution networks of the large-format retail supermarkets and the perceived low quality and the unreliability of supply of local farmers and producers. The prerequisite to resolve these issues is to come up with a transparent and competitive regulatory framework for the sector. A competitive retail sector contributes towards increased local production by farmers and manufacturers. This will tend to increase incomes and jobs. It will contribute to the SDG goals of promoting inclusive sustainable growth and employment; reduce inequality in the country and efforts to end poverty.

6. Conclusions and Policy Recommendations

In trying to understand the potential of competitive domestic service sectors to contribute to sustained and inclusive growth, we looked at four service sectors that are of key economic interest and importance to Zambia's future growth prospects. These are financial, telecommunications, energy and distribution services. Within these sectors we specifically focused on commercial banking, fixed-line and mobile telephony, electricity and retail services.

Zambia has enjoyed positive real economic growth during the past two decades. This has been facilitated by higher copper prices, increased FDI inflows and improved macroeconomic management. However, this growth has not been inclusive. Poverty levels in the country remain high. With the number of people living in extreme poverty at 42%, Zambia is among the seven countries in the world with the largest share of its people living in this condition.

The domestic services sector has become increasingly significant in the economy and can be used to address issues of poverty reduction and inclusive growth. From this perspective, we look at the contribution of the services sector to output, employment, trade and FDI. We examine our bundle of the four key services that can most effectively contribute to spurring sustainable and inclusive growth. We discuss the structural and regulatory constraints facing the sectors. The sectors are found to be high cost, inefficient, uncompetitive and provide limited access to its services. They all need major reforms in their structures and regulations in an effort to transform them into competitive service sectors that can contribute to increased output and increased trade in both goods and services. In telecommunications, there is need for more competition in the mobile telephony segment. The fixed-line segment needs to be privatized. There is need to promote competition in commercial banking. In the electricity sector, there is need to unbundle ZESCO and create a regulatory framework for the unbundled electricity sector to promote competition and access to the transmission and distribution networks. A regulatory framework needs to be created for the retail sector that will promote competition. Lastly we discuss the implication of the increased capacity in our bundle of services on achieving sustainable development goals in 2030. The electricity sector seems to have the widest effects on achieving the sustainable development goals in the largest number of areas.
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