



Country Strategy for Development Cooperation

ZAMBIA 2016-2019

MINISTRY FOR FOREIGN AFFAIRS



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Abbreviations

AfDB	African Development Bank
BEAM	Business with Impact -financing
BRICS	Brazil, Russia, India, China and South Africa
CP	Cooperating Partner
CSO	Civil Society Organization
DFID	Department for International Development (UK)
DFONRMP	Decentralized Forest and Other Natural Resources Management Programme
EU	European Union
FAO	Food and Agriculture Organization (UN)
FDI	Foreign Direct investment
FLC	Funds for Local Cooperation (aka LCF; Local Cooperation Fund)
FNDP	Fifth National Development Plan
FP	Finnpartnership
GBS	General Budget Support
GBV	Gender Based Violence
GDP	Gross Domestic Product
HAUS	Finnish Institute of Public Management
HDI	Human Development Index
HOMs	Heads of Missions
HRBA	Human Rights Based Approach
ICI	Institutional Cooperation Instrument
IFAD	International Fund for Agricultural Development (UN)
ILO	International Labour Organization
IMF	International Monetary Fund
JASZ II	Joint Assistance Strategy for Zambia II

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KPI	Key Performance Indicator
LDC	Least Developed Country
M&E	Monitoring and Evaluation
MDG	Millennium Development Goal
MMD	Movement for Multiparty Democracy
MRV	Monitoring, Reporting and Verification
MSME	Micro-, Small-, Medium Sized Enterprises
NGO	Non-governmental organization
ODA	Official Development Aid
PF	Patriotic Front
PIF	Public Sector Investment Facility (credit instrument)
PFM	Public Finance Management
PIU	Parallel Implementation Unit
PRBS	Poverty Reduction Budget Support
PSD	Private Sector Development
R&D&I	Research, Development, Innovation
RIO+20	United Nations Conference on Sustainable Development
SNDP	Sixth National Development Plan
TF	Team Finland
UK	United Kingdom
UN	United Nations
UNGJ	UN Green Jobs Project
UNICEF	United Nations Children's Fund
UPND	United Party for National Development
UPR	Universal Periodic Review
USA	United States of America
ZPPA	Zambia Public Procurement Authority



Executive summary

Zambia has performed well in many areas during the first five decades of its independence. It has enjoyed internal political stability and peace and achieved encouraging economic development. Its vision is to become a middle-income country by 2030. However, there are serious challenges to achieving this goal. The country remains heavily dependent on revenue from its traditional copper exports. The lack of economic diversification is a serious problem, exposing the national economy to the volatility of mineral prices. Poverty remains widespread and inequality has continued to increase in the country, despite economic growth. The population growth rate is among the highest in the world, further hampering development efforts. A new government was formed in Zambia after general elections in 2016. Its biggest challenges are to tackle persistent macroeconomic and fiscal challenges and to launch much-needed reforms.

Finland is helping Zambia to address these challenges by providing development cooperation funding. The benefits to Finland from its long-term aid-based relations with Zambia will materialise as cooperation between the countries gradually evolves and assumes more diverse forms. The longer term vision of the Country Strategy is to transform Finnish-Zambian relations into economic and trade-based collaboration. Research, innovation and cultural cooperation are expected to play an ever-increasing role in this evolution. The strategic impact areas have been selected based on Finland's key political and commercial objectives in Zambia as well as on the Zambian national development plan.

A major area of focus in Finnish development cooperation efforts is to strengthen the Zambian private sector. This priority stems from the country's growing number of young people in need of jobs as well as the country's narrow tax base and low productivity. To this end, a new nationwide private sector development programme will be launched with a view to accelerating the growth of micro, small and medium-sized enterprises. Particular emphasis will be placed on creating decent jobs and providing livelihoods and employment through the UN Green Jobs Programme. All interventions



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will also be geared to form partnerships between Finnish and Zambian companies, institutions and organisations.

The business-oriented approach will be complemented by support for public sector development. Given the current state of social and regional inequality in Zambia, the aim will be to push the country towards a more democratic, inclusive and better functioning society. The agenda here is twofold: Finland will support implementation of the national social protection policy and work to strengthen participatory governance of the country's natural resources. Social security will be strengthened through a nationwide social cash transfer programme targeting the most vulnerable people. Environmental and natural resources will be incorporated in this impact area through bilateral project support (Decentralised Forest and Other Natural Resources Management programme) aimed at improving natural resource management at the local level, covering two selected target provinces. These areas have been singled out for support because the Zambian government has signalled its strong political commitment and set out clear roadmaps.

Instead of taking the traditional development cooperation approach and conducting numerous interventions across various sectors, the Country Strategy is streamlined to focus on two impact areas. The application of different development cooperation instruments will allow Finnish technology and expertise to achieve good penetration of the Zambian national economy and society. Besides providing development assistance, the Country Strategy is intended as a vehicle for diversifying bilateral relations between Finland and Zambia as well as for creating partnerships in a wider international playing field.



PART 1

1. Country context

1.1 Political, economic and social development

Zambia gained independence in 1964 and has enjoyed internal political stability and peace ever since. Initially Zambia was a one-party state with socialist leanings. The move to multi-party democracy in 1991 was to a large extent driven by the bankruptcy of the state-led economic model, which was followed by an era of privatisation and economic reforms.

The country remains heavily dependent on revenue from its traditional copper exports. In the 2000s, strong international demand for copper led to annual GDP growth rates of 6–7%. In 2015, however, a slump in copper prices slowed growth to around 3%. The lack of economic diversification remains a serious problem.

Despite recent economic growth, poverty remains a significant problem in the country. Latest estimates put the number of people living in poverty at 54.4% of the population,¹ far in excess of the MDG 1 target of 29%. Poverty is above all a rural phenomenon, and there are major regional differences. Inequality in income distribution is also a major concern: a Gini coefficient of 0.69 makes Zambia one of the most unequal countries in the world.²

Population growth is arguably the biggest current challenge for Zambia. The overwhelmingly young population is growing very rapidly at a rate of 3% a year. Providing employment and livelihood for the young and growing population is a challenge, but also an opportunity.

¹ Zambia 2015 Living conditions survey.

² Zambia 2015 Living conditions survey.



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Economic growth in Zambia has recently been hampered by an energy crisis. Inadequate investment over the past decades in new energy generation capacity and an over-reliance on large-scale hydro-power has made the country vulnerable to changing weather patterns, and new investment is now needed in more diverse energy sources. Population and economic growth coupled with low rainfall has been a difficult combination for the country.

Climate change is affecting different parts of the country in different ways. Southern Zambia is experiencing droughts and ground water levels are falling. Northern Zambia is enjoying better rainfall, although with a risk of flooding. Deforestation is perhaps Zambia's most serious environmental challenge, exacerbated by increased charcoal production due to the energy crisis.

Although the country has plenty of arable land and significant water resources, food security and malnutrition remain serious problems in Zambia. The prevalence of undernourishment and stunting among children is very high at 40%. Zambian agricultural policy is fixated on the production and stockpiling of maize, which has led to an unbalanced starch-dominated diet.

Corruption remains a serious issue in Zambia. In the 2015 Corruption Perceptions Index, Zambia ranks 76th out of 168 countries, an improvement from 2012 when Zambia's ranking was 88th. Despite this notable improvement in ranking, Zambia's corruption score has in fact improved by no more than one point since 2012.

Zambia's human rights situation compares favourably with other countries in the region. However, gender-based violence is at an alarmingly high level. Traditional cultural practices infringe on the rights of women and girls. Child marriages and teenage pregnancies are common, causing high school dropout rates and continued inequality. As for LGBTI rights, Zambia still outlaws homosexuality. Prison conditions are extremely poor due to overcrowding, and the judicial system suffers from serious capacity constraints. In 2016 the democratic space was increasingly curtailed in Zambia, with a media heavily biased in favour of the government, the abuse of police prerogative against the opposition and the use of government resources in election campaigning. Post-election Zambia is a very divided country in political terms, too, as the southern and western parts overwhelmingly supported the opposition UPND party, while the north and the east backed the government Patriotic Front.



1.2 Development scenario for Zambia

Zambia is richly endowed with natural resources. In addition to its mineral wealth, the country has plentiful arable land and water as well as huge renewable energy resources. Its land-locked position could also be seen as an advantage in that it could become a transport and distribution hub for its eight neighbouring countries.

Zambia will most likely continue to enjoy political stability and peace. Nevertheless it is imperative to give continued attention to the democracy and human rights situation in the country. Policy statements should be followed up by effective implementation and adequate resources. Because of its significant fiscal deficit, Zambia will most likely have to implement an IMF programme from 2016 onwards, requiring a series of unpopular reforms and austerity measures.

In the short term the country will continue to be reliant on externally determined commodity prices, but in the longer term economic diversification will gain a stronger hold. In recent years (with the exception of 2015), non-traditional sectors of the economy have been growing faster than the mining industry. Important investment opportunities include energy, construction, agroprocessing and bioeconomy in general. Zambia has invested heavily in infrastructure, and the country's good road network will be an important asset in the coming years.

Risks include a move towards an authoritarian regime and further divisions within the country, including discrimination against people and regions that have supported the opposition. There is also the risk of a social and political backlash in response to the required austerity measures, including cutbacks in the public payroll. If the new government does not demonstrate a commitment to push through reforms, the country may well slip into economic distress and accumulate increasing debt. The economy needs an independent and thriving private sector to take advantage of the country's natural resources and to provide employment for young people.

1.3 Finland's relations with Zambia and prospects for more diverse relations

Finland has been present in Zambia since the 1970s. So far relations have been based almost exclusively on development cooperation. Zambia is one of Finland's long-term partners of bilateral cooperation. Although classified as a lower middle-income country, Zambia still holds the status of a least developed country (LDC), and its persistent poverty levels have provided sound justification for Finnish aid. In 2013 Zambia was the second biggest recipient of Finnish aid, but since then the level of aid has been drastically reduced.

Some effort has been invested in diversifying Finnish-Zambian relations. Finnish exports to Zambia are higher than the country's relative size among EU member states implies. In an average year annual exports reach around 25 million euros, but in peak years the figure has been several times higher, thanks to the completion of major mining technology orders. Still, trade between Zambia and Finland is far below its potential. Zambia not only boasts great natural wealth, but it also holds great economic interest in the regional context and offers significant opportunities for increased trade and investment. Growth in its neighbouring countries would further increase Zambia's appeal. The transition towards more diverse cooperation should be a gradual process facilitated by continued development cooperation.

Finland will continue to advocate for and support the promotion of human rights and good governance in the country. It will make aid available for the purpose of enhancing the role of the private sector as an engine of longer term sustainable growth and also for addressing the current problems of poverty and inequality in Zambia. Attention will also be paid to promoting decent working conditions and responsible business practices.



1.4 Themes of dialogue and advocacy

Given the limited resources available and the new approaches to development cooperation, implementation of the Country Strategy will require that dialogue and advocacy be carried out in a strategic manner. At the same time, flexibility is needed to take advantage of any opportunities that may arise. The Country Strategy themes will focus on issues that are relevant to Zambia's democratic and sustainable development and that are at once priorities in Finland's foreign and development policy, such as human rights (e.g. the rights of women, the right to social security and freedom of the press), the reduction of poverty and inequality, good governance and economic reforms, and sustainable natural resource management and climate sustainability (e.g. deforestation).

The dialogue will be carried out at various levels (HOMs, sector coordination groups, etc.) and often in coordination with the EU delegation and member states, as well as with other partners. Finland's lead position in the social protection and environment sectors offers important opportunities. Finland will also put to good use its experience, technology and expertise in order to promote best practices through increased cooperation between Finnish and Zambian private and public stakeholders.

In order to achieve its objective of a more dynamic and responsible private sector in Zambia, Finland will continue to promote reforms for an enabling business environment and to advocate for enhanced public-private dialogue through multiple forums. Key government partners will engage in bilateral consultations on specific issues as well as in a partner group for the promotion of private sector development. The Embassy will also participate in the recently launched EU-Zambia Business Club that is envisaged as a private-sector led joint EU platform for engagement with the Zambian government.



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To achieve its objective of a more democratic, inclusive and better functioning society in Zambia, Finland will continue to advocate for evidence-based and transparent policy-making and budgeting as well as for the development of a free civil society. The dialogue will include such areas as minimising spending on subsidies that burden the national budget without effective and evidenced benefits for people living in poverty, or that might undermine economic development in the country. Examples include the fuel subsidy, electricity allowance and agricultural subsidies. On the other hand, Finland will engage in dialogue to advocate for the sustainable implementation of policies that have been shown to effectively support poverty reduction or economic development, such as social cash transfers.

Finland will continue to promote the sustainable use of natural resources as part of Zambia's sustainable economic growth as well as indigenous management of Zambia's natural resources with a view to advancing Zambia's Intended Nationally Determined Contributions (INDCs). Programme implementation in the impact area provides the main forum for dialogue and advocacy.



2. Development Cooperation Context

In Vision 2030, Zambia sets itself the development goal of becoming a prosperous middle-income country by 2030. The attainment of this goal is facilitated through five-year national development plans. By the end of 2016, the new government was expected to finalise the seventh national development plan, the focus of which will likely remain on sustained economic growth and poverty reduction. This is to be achieved through infrastructure development, economic diversification, job creation, accelerated investment in rural areas and tackling poverty. It is expected that under the upcoming IMF programme, social protection will also be emphasised.

The development and operational plans are not well resourced. Currently more than 50% of the national budget is allocated to personnel expenditure, 30% goes to subsidies of questionable effectiveness and the remaining 20% to the payment of loan interests. Very little space is therefore left for the implementation of these plans. On a positive note, the Zambia Revenue Authority has been successful in improving domestic revenue collection, and it is expected that these improvements will continue in the future.

In the past few years official development assistance (ODA) in Zambia is estimated to correspond to about 5–6% of national revenue collection. In 2014, ODA funding accounted for 2.6% of the government budget; the rest of registered ODA was provided outside the budget. By far the largest recipient sector of ODA is health care (42%). Other notable ODA recipients are governance and security, humanitarian aid and agriculture. EU member states represent the largest provider of ODA in Zambia. The largest single ODA donor is the United States, accounting for around 25% of ODA to Zambia between 2008 and 2014, followed by the EU (10%), the UK (9%), the Global Fund (8%), and the International Development Agency (IDA) (6%). Finland is one of the smaller donors, providing 2% of Zambia's ODA during this period. In the last three years (2013–2015) Finland has disbursed about 58 million euros in ODA.



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China and other BRIC countries have a very visible presence in Zambia, and much of the development taking place in the country involves affordable technology and often financing originating from China. A large part of the country's retail outlets are South African and South Asian, creating links with these regions. Investments coming in from the BRIC countries are detracting from the relevance and importance of development aid, although they do not always provide solutions to typical development challenges.

Donor coordination structures are well established in Zambia, and EU member states including Finland are working constantly to further improve coordination.

There is active political and legislative discussion within Zambian civil society. However, opportunities for grassroots influence are limited as government planning and implementation often allow for no interaction with civil society. Limited financing and lack of capacity is still hampering the involvement of a few well-established organisations. An NGO act potentially restricting the freedom and activities of civil society organisations was adopted in 2009, but that act is currently under revision following a swift response from civil society.



3. Finnish Development Cooperation to Date and in the Future

Finland has provided development cooperation assistance to Zambia since the early 1970s. Since 2013, guided by the previous Country Strategy and bilateral consultations with Zambia, Finland has been active in four sectors, namely (i) agriculture, (ii) private sector development, (iii) the environment and (iv) good governance. Until 2014 Finland also provided budget support.

The Country Strategy evaluation (2016) found that Finnish support to Zambia has been clearly relevant to both Zambian and Finnish priorities. The combined focus on poverty and economic growth has mirrored the priorities set out in Zambia's national development plan. The choice to include social protection was seen as particularly relevant as it enhances the focus on equality issues and brings key cross-cutting objectives such as gender and human rights to the platform. Finland has played a key role as a reliable, long-term partner with good technical expertise across all areas of involvement. Finland has been consistent in its support, providing critical 'gap filling' funding in some areas. Even when funding joint initiatives, Finland has created added value through choices around engagement and through its contributions to policy dialogue. However, delays and other challenges in implementation due to the large number of interventions, poor programme design as well as lack of ownership and commitment from national counterparts have reduced the practical relevance of some interventions, especially in the agriculture and environment sectors.

Over the past three years the number of projects has been systematically reduced in order to rationalise the portfolio. Still, following the recommendations of the Country Strategy evaluation and given the budget constraints, streamlining will be continued to create two results areas with a maximum of 3–4 projects.



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Finland's 2016 development policy states that, in Zambia, Finland can capitalise on its long-term relations to ensure development while gradually shifting to other, multidimensional forms of cooperation in various fields. Development cooperation will lay particular emphasis on strengthening the private sector in order to create decent jobs. The country strategy evaluation also recommends that the next strategy build on areas where Finland has achieved good results and that are in line with the evolving transition context. The evaluation states that given the results achieved in poverty reduction and in addressing inequalities, there is a strong justification for Finland to continue to support the development of social protection. Finland's development policy priorities, including the human rights based approach and the cross-cutting objectives, are reflected in the social protection programme. There is also clear justification for continued private sector development and support for the longer term transition from ODA to facilitating business partnerships and trade opportunities.

Support for agriculture as well as the environment and natural resource sectors will be phased out. Future support will focus on impact areas concentrated on supporting economic development through private sector development and, on the other hand, poverty reduction through a focus on the most vulnerable groups in society.

In this vision, Finnish-Zambian relations in 2030 will be based on economic and trade relations, research, innovation and cultural cooperation. The new Country Strategy highlights the key areas of Finnish technical and commercial expertise as well as the use of different financial instruments (including development cooperation, other public and private instruments). The opportunities offered by the new Public Sector Investment Facility will be especially examined.

Bilateral cooperation has become increasingly diverse in the past few years. It is essential to take advantage and further build on this momentum while traditional uses of development cooperation funds are phased out and replaced by other forms of financing. The use of private sector instruments is gradually increasing in Zambia. There are 14 approved Finnpartnership financing packages with a combined value of 380,000 euros in various fields, including construction, education and agriculture. In 2015 Finnpartnership disbursements amounted to 27,000 euros. In addition, Finnpartnership has been providing matchmaking services for Finnish companies seeking business partners in Zambia. There are currently three initial-stage projects using BEAM support in Zambia.

Finland is working closely with a core-funded UNICEF programme to implement a social protection programme. UN Women and UNFPA also receive core funding from Finland for their activities in Zambia, which thus links them indirectly with the Country Strategy. The Government of Zambia has not called for international humanitarian assistance, although the country is partly affected by El Niño. There are several Finnish NGOs that receive multi-annual programme support for their activities in Zambia. These NGOs are Frikyrklig Samverkan, Pelastakaa Lapset, Taksvärkki, SASK, Vammaisjärjestöjen kehitysyhteistyöyhdistys FIDIDA and Demo. The total amount of disbursements for Finnish NGOs' activities in Zambia in 2015 came to 1.1 million euros.

PART 2

4. Expected Results of the Development Cooperation Programme

4.1 Impact

Building on the lessons from past cooperation and the above country context, the Country Strategy identifies two impact areas for the years 2016–2019:

- Developing a more dynamic and responsible private sector
- Developing a more democratic, inclusive and better functioning society

The rationale for focusing on these two priorities stems from a thorough analysis of likely development scenarios for Zambia. Even though the country is currently in the grips of an economic and energy crisis, Zambia's rich natural resources and young and growing population mean it is well placed to return to a strong growth path in the medium and long term. On the other hand, there is evidence from the recent past that without further efforts, strong economic growth does not translate into increased job creation, especially formal employment, mainly because of an over-reliance on mining and other capital-intensive sectors as the main engine of growth, coupled with inadequate economic diversification. Furthermore, the wealth that has been created has been unevenly distributed among Zambians, as evidenced by the increase in the Gini coefficient. Growing inequality and lack of future prospects among young people can potentially threaten the peaceful and democratic development of Zambia. Given the high rate of population growth and the entry of about 300,000 young people into the labour market every year, it is essential that the government is com-



mitted to create an enabling business environment and that gives priority to investments that create more decent jobs.

There is a strong need for direct support to help create a more dynamic and responsible private sector. This is achieved first and foremost by accelerating the creation and growth of micro, small and medium-sized enterprises (MSMEs) that are yet to become the backbone of the Zambian economy. Therefore, Finland will continue to support private sector development in Zambia by capitalising on the results of the previous government-led sectoral reform programmes that have improved the overall business environment. Given the diminishing resources available, it is foreseen that the use of appropriate funding mechanisms to channel Finland's further support directly to the private sector will have greater and more immediate impacts and maximise the leverage of those resources. The private sector will be supported by creating opportunities for the transfer of knowledge and experience between Finnish and Zambian private and public sector actors, including start-up and mature enterprises, educational and research institutions and NGOs. The stronger business linkages and research, development and innovation partnerships between Finland and Zambia will facilitate cooperation.

Finland's support will contribute to reversing the trends of increasing inequality in Zambian society and at the same time build a more solid foundation for inclusive economic development and human rights by improving social protection in Zambia. The support for social security development has a strong focus on women and people in vulnerable and marginalised situations. Social protection, according to the OECD, 'is an essential investment that contributes to economic growth and makes growth more pro-poor while directly reducing poverty'. Recent impact evaluations have shown that the past support has contributed directly to reducing the poverty gap by lifting the poorest people out of poverty and increasing economic activity at the local level, thus allowing people to become full members of society.

The chosen two-pronged strategy allows for quick strategic adjustments to any positive or negative changes in the development context. Finnish support in Zambia will fall within the following two priority areas of Finland's 2016 development policy: first, improving the economies of developing countries to ensure more decent jobs, livelihood opportunities and well-being, and second, creating more democratic and better functioning societies. The two other priority areas, that is, enhanc-

ing the rights and status of women and girls and increased food security, better access to water and energy and sustainable use of natural resources, will also be incorporated in the two selected impact areas.

4.2 Outcomes and outputs

Following personnel cutbacks, the inputs to the two impact areas from 2017 onwards will include two counsellors, one locally employed sector advisor and two LCF programme coordinators at the Embassy.



IMPACT 1: A MORE DYNAMIC AND RESPONSIBLE PRIVATE SECTOR

Outcome 1.1: Accelerated growth of micro, small and medium-sized enterprises (MSMEs)

Finland's support for private sector development will directly target MSMEs in order to accelerate their growth and their contribution to both job and wealth creation in the Zambian economy. It is expected that Finland's support for strengthening the innovation and start-up ecosystem in Zambia will also contribute to Zambia's economic diversification agenda in addition to accelerating decent job creation and increasing the tax base. Finland will target its support to sectors where Finnish stakeholders have special expertise, including bioeconomy, cleantech, circular economy and digitalisation. MSME growth is supported through the provision of business development and financial services and through creating research, development and innovation partnerships and business linkages between educational and research organisations, innovation and start-up communities and companies in Zambia, in the region and in Finland. Close cooperation will be built up with other relevant donor and government supported programmes to ensure maximum complementarity and impact. In addition, Finland will continue to participate in the policy dialogue to improve the business environment through existing and new forums and programme interventions.

Outputs:

- 1.1.1: Strengthened innovation and start-up ecosystem
- 1.1.2: Increased MSME access to finance and markets
- 1.1.3: Extension of basic social protection to MSMEs and workers to contribute to the formalisation of the economy

Finland will continue to support MSMEs in the construction sector through the Zambia Green Jobs programme until the programme ends in April 2018. A twinning programme is also being planned under the social security pillar to create models for including workers from the informal sector under social security schemes. A new private sector support programme to support the innovation ecosystem, commercialisation of innovations and start-up companies with a focus on youth entrepreneurship is expected to start in early 2018. All interventions have a strong emphasis on creating business linkages and partnerships between Zambian and Finnish start-up and anchor companies, educational and research institutions, associations and other NGOs. Linkages with relevant regional programmes, such as the Southern African Innovation Support (SAIS) programme, will be ensured by close coordination.

Instruments, inputs and linkages:

Instruments to be used include stand-alone multi-bi/bilateral programmes/projects, political/policy dialogue, the Local Cooperation Fund, the Institutional Cooperation Instrument (ICI) as well as MFA, EU and other private sector and research, development and innovations instruments, including HEI ICI and Business with Impact (BEAM). ODA grant funds will be used as seed funding in order to leverage additional resources from development financing institutions, especially Finnfund and the Nordic Development Fund, and other public and private sector funding instruments.



IMPACT 2: A MORE DEMOCRATIC, INCLUSIVE AND BETTER FUNCTIONING SOCIETY

Outcome 2.1: Improved social protection for the most vulnerable people

Finland will support implementation of the national social protection policy through dialogue, technical assistance and financial assistance. This support will directly impact the lives of the most vulnerable people and have an impact on poverty rates, access to school and health care, participation in society and participation in economic activities. This line of work is recommended by the evaluation of the previous strategy. Impact evaluations have shown that the support so far has been effective and that it does not create dependency. Necessary economic reforms in Zambia might have negative consequences for the poor, such as rising food or fuel prices, and social protection can have a cushioning effect. The IMF programme that is expected to start in 2017 will probably also require increased budget allocations for social protection in order to reduce inequality.

Outputs:

- 2.1.1 Increased coverage of social assistance programmes

Finland will support implementation of the national social protection policy by concentrating on the areas that have clear roadmaps. Social cash transfers and the home grown school feeding programme are identified as areas of special interest.

Instruments, inputs and linkages:

Social protection programme (Technical assistance through UN and financial assistance for upscaling the social cash transfer programme through the government).



Outcome 2.2: Strengthened participatory governance

Finland will contribute to strengthening local-level participatory governance in the environment sector by continuing to support Zambia in the environmentally, economically and socially sustainable management of natural resources. This will be done through support to improve the capacity of environmental and forestry administrations, local governments, civil society organisations (CSOs), communities and the private sector for the sustainable management of natural resources. Support will also be provided to CSOs in order to enhance their capacity to advocate and participate in the policy dialogue in the environment sector. This support will be phased out as the current programmes come to their end in 2018 and 2019.

Outputs:

- 2.2.1: Improved natural resource management at local level

Instruments, inputs and linkages:

The Decentralized Forest and Other Natural Resources Management programme implemented in cooperation with the Ministry of Lands, Natural Resources and Environmental Protection as well as the Civil Society Environment Fund, are the main instruments contributing to the expected outcome. Finland will move to more diversified forms of cooperation and facilitate cooperation between Finnish and Zambian stakeholders with relevant expertise within the Institutional Cooperation Instrument (ICI) and Business with Impact (BEAM). Finland will engage actively in policy dialogue on environmental and climate change issues with relevant stakeholders in Zambia.

5. Implementation

5.1 Complementarity and coherence

Finland will continue to engage in political dialogue and increase its involvement in the sector dialogue carried out by the EU delegation together with the member states. As part of this process sector documents are being prepared to identify the common EU objectives in sectors where the member states are active. These include agriculture and private sector development, social protection and the environment and climate change. Finland will continue to contribute to preparing the EU agenda for the sectors in which Finland is active and on the other hand take part in the EU dialogue as a member state. Furthermore Finland will actively work together with the EU delegation and other member states in order to take forward joint programming.

In the area of social protection, Finland works together with UNICEF and the ILO and will cooperate with these agencies in implementing the joint programmes. Through the National Institute of Health and Welfare, Finland also joins forces with the OECD and the EU to implement a multi-country programme on social protection in Zambia. NGO financing will also be provided to the sector for nutrition sensitive social protection by Save the Children Finland, which ultimately receives financing from the Finnish Ministry for Foreign Affairs.

As Finland aims to diversify and strengthen its relationship with Zambia over the medium term, synergies will also be sought within the Team Finland network. It is expected that other Finnish-financed development cooperation instruments, such as Finnfund and the BEAM programme, will also bring financing to Zambia.



5.2 Partnerships and modalities for development cooperation

All Finnish cooperation will contribute to Zambia's national development objectives.

The latest trends of development cooperation among the donors present in Zambia are the discontinuation of budget support and an increasing interest in project modality. Finland's aid levels have been coming down.

In these circumstances Finland will continue to promote joint initiatives with other partners, as has been the case in the social protection sector. Finland is financing UN joint programmes and providing direct financing to the government in a harmonised manner with other donors. Finland will look at innovative and sustainable ways of supporting private sector development through bilateral programming, and it will also seek to attract and leverage financing through other sources, such as Finfund and the BEAM programme and private investments. Furthermore, the modality of twinning arrangements between Finnish and Zambian institutions will be used. The MFA in Finland and the Embassy are exchanging views and information on a regular basis with the NGOs active in Zambia.

5.3 Long-term sustainability

Zambia has rich but underutilised natural resources that it could harness to pull itself out of poverty. The country's development should not be dependent on outside funding. The structural reforms that are needed to realise the country's economic potential require both political will and administrative capacities, the latter of which have received significant donor support in the past years. At the same time, the continuing problems of poverty and growing inequality need to be addressed.

Finland's aid volume is relatively low and therefore it exercises only limited policy influence. However, the intervention areas have been selected so that they are in line with national development plans and therefore have the government's backing. Moreover, participation in joint donor programmes, policy dialogue and joint advocacy work will provide leverage.



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Under impact area 1, Finland's support builds on the government's increased interest in public-private partnerships for job creation. It is expected that if results can be demonstrated in the innovation and start-up ecosystem through the provision of support to multi-stakeholder partnerships, including private sector, government, educational and research institutions, then the government will be keen to support similar work in the future. In addition, Finland's support is aimed at leveraging more private financing for entrepreneurship.

Under impact area 2, long-term sustainability is based on Zambia's commitment to financing social protection and improved natural resource management at the local level by continuing the devolution process. Finland will contribute to generating evidence on the impacts of different social protection programmes as well as piloting ways of governance for natural resource management at the local level. The final aim is to promote better policy decisions in Zambia. The social cash transfer programme, which is one of the priority areas of support, is mostly financed by the government (80%), and it is expected that government will fully cover the programme budget in 2021.

5.4 Risk management

The risks to effective implementation of the Country Strategy are divided into contextual, programmatic and institutional risks. The acknowledgement of certain risks has also guided the preparation and selection of the modalities for new interventions as well as the wider strategic choices in the Country Strategy.

Relevant contextual risks to the Country Strategy in Zambia are related to a possible deterioration of the business environment due to government policies and actions and to underdeveloped infrastructure. An erratic power supply and high interest rates, for example, increase the costs of doing business. Uncertainty about the government's commitment to allocating funds to the impact areas of this Country Strategy constitutes a major risk. Zambia's low ranking in corruption indices presents both an institutional and a programmatic risk. The lack of good governance practices might adversely affect the achievement of the Country Strategy's objectives, and possible mismanagement cases could significantly undermine the readiness of Finnish stakeholders to operate and form partnerships

in Zambia. Internal political divisions within Zambia as well as the possibility of even further restrictions in the political space also present a political risk. This would make cooperation with the government more difficult.

Risk management is based on good development management practices, which include the screening and selection of partners and frequent monitoring, evaluation and auditing of Finnish support. In addition, active and well-prepared participation in the administrative and governing bodies of different programmes will be an essential part of the risk response. Attention will be paid to Finland's own human resource management and development. Actual risk management measures will be adapted to the needs of individual interventions and instruments.

6. Monitoring and evaluation

Country Strategy monitoring is based on ongoing monitoring of development projects, programmes, policy dialogue and other cooperation by the Embassy. This work follows the MFA's principles and guidelines, especially the Guideline on Results-based Management, the Manual for Bilateral Programmes and the Evaluation Guidelines. In joint arrangements, Finland will participate in joint reviews and evaluations.

The Country Team will continuously monitor the validity of the assumptions made in the Country Strategy and its Logic Model (Annex I) as well as the identified risks, and take corrective measures as needed. The use of Country Strategy budgeted funds is monitored on an ongoing basis using automated reports from the MFA financial accounting systems.

The Country Team will prepare an annual report following the MFA reporting format in the first quarter of the calendar year. The annual report provides an overview of Country Strategy monitoring and reporting. The potential need for corrective measures will be determined by the Department for Africa and the Middle East.

Findings of project-level management reviews and mid-term, final and potential impact evaluations, as well as relevant thematic evaluations also feed into Country Strategy monitoring and reporting.

The Country Strategy as a whole will be evaluated towards the end of the strategy period (MFA Evaluation Unit).

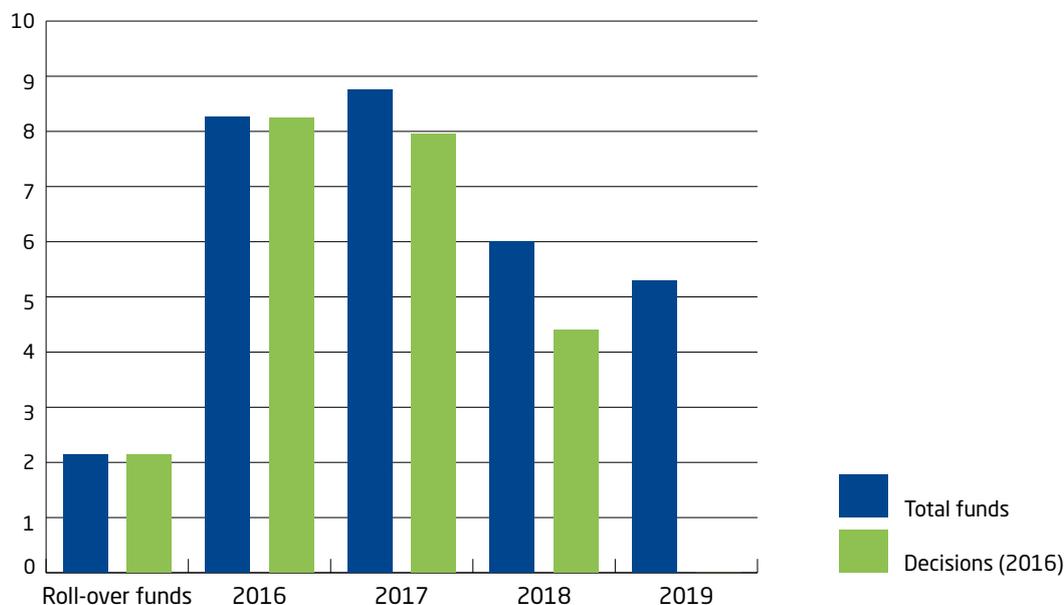


7. Tentative financing plan (budget)

The planned budget frame for 2016–2019 is 30.4 million euros. The financing plan only applies to the bilateral development cooperation that comes under the Country Strategy. It does not include humanitarian aid, private sector instruments or Finnish CSOs referred to in Chapter 3. Environment and forestry programmes will be phased out during the programming period.

Budgeting framework 2016-2019

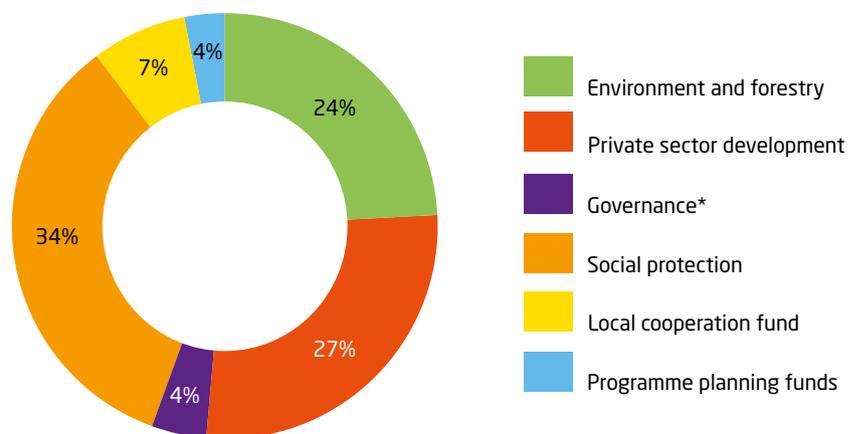
(million euros)



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Planned budget allocation 2016-2019

(Total funds 30.4 million euros)



*) Twinning programme between HAUS and ZPPA on the development of state procurement capacity 2016–2018.



Annexes

Annex I. Logic Model Zambia

IMPACT	OUTCOME	OUTPUT	Key assumptions linking outputs/outcomes/impacts	Instruments and inputs
1. A more dynamic and responsible private sector	1.1. Accelerated growth of micro, small and medium-sized enterprises	1.1.1. Strengthened innovation and start-up ecosystem	Impact-related: Government policies continue to promote enabling business environment Outcome-related: Finnish stakeholders interested in partnering with Zambian stakeholders Applicability of resources and instruments of MFA and other stakeholders (Tekes, BEAM, Finnfund, NDF) Public policies and fiscal practices allow for positive development in financial sector	New private sector development programme 2017–2021 (EUR 9 million) Green Jobs 2014–2018 EUR 8.5 million (total including UN contribution EUR 10 million) Twinning programme on inclusion of informal workers under social security 2018–2020 (EUR 1 million) FLC EUR 0.9 million Regional innovation programme SAIS ICI, BEAM, Finnpartnership, Finnfund, Finnvera, EU Horizon 2020, PIF Team Finland, policy dialogue, sector working group/coordination
		1.1.2. Increased access to finance and markets		
		1.1.3. Extension of basic social protection to MSMEs and workers to contribute to formalisation of the economy		

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IMPACT	OUTCOME	OUTPUT	Key assumptions linking outputs/outcomes/impacts	Instruments and inputs
2. A more democratic, inclusive and better functioning society	2.1. Improved social protection for most vulnerable people	2.1.1. Increased coverage of social assistance programmes	Impact-related: <ul style="list-style-type: none"> Continued political stability in the country NGO act will not be implemented in current form 	Zambia social protection expansion programme 2016–2018 (EUR 9.6 million) Policy dialogue, lead donor in cooperating partners group for social protection 2016–
	2.2. Strengthened participatory governance	2.2.1. Improved natural resource management at local level	Outcome-related: <ul style="list-style-type: none"> Continued political commitment after elections to social protection and budgets are not reversed Sufficient political will to create fiscal space for social protection Regular payments to beneficiaries Political will to implement devolution plans 	NGO support to social protection by Save the Children Finland Decentralized forest and other natural resources management programme 2015–2018 (EUR 4.4 million) Civil Society Environment Fund II 2015–2019 (EUR 4.6 million) (FLC)



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