



Country Strategy for  
Development Cooperation with

# ZAMBIA 2014–2017

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## Abbreviations

<b>AFDB</b>	African Development Bank
<b>BRICS</b>	Brazil, Russia, India, China and South Africa
<b>CP</b>	Cooperating Partner
<b>CSO</b>	Civil Society Organization
<b>DFID</b>	Department for International Development (UK)
<b>EU</b>	European Union
<b>FAO</b>	Food and Agriculture Organization (UN)
<b>FDI</b>	Foreign Direct investment
<b>FLC</b>	Fund for Local Cooperation
<b>FNDP</b>	Fifth National Development Plan
<b>GBS</b>	General Budget Support
<b>GBV</b>	Gender Based Violence
<b>GDP</b>	Gross Domestic Product
<b>HDI</b>	Human Development Index
<b>HRBA</b>	Human Rights Based Approach
<b>IFAD</b>	International Fund for Agricultural Development (UN)
<b>ILO</b>	International Labour Organization
<b>JASZ II</b>	Joint Assistance Strategy for Zambia II
<b>KPI</b>	Key Performance Indicator
<b>LDC</b>	Least Developed Country
<b>M&amp;E</b>	Monitoring and Evaluation
<b>MDG</b>	Millennium Development Goal
<b>MMD</b>	Movement for Multiparty Democracy
<b>MRV</b>	Monitoring, Reporting and Verification
<b>MSME</b>	Micro-, Small-, Medium Enterprises
<b>NGO</b>	Non-governmental organization
<b>ODA</b>	Official Development Aid
<b>PF</b>	Patriotic Front
<b>PFM</b>	Public Finance Management
<b>PIU</b>	Parallel Implementation Unit
<b>PRBS</b>	Poverty Reduction Budget Support
<b>PSD</b>	Private Sector Development
<b>RIO+20</b>	United Nations Conference on Sustainable Development
<b>SNDP</b>	Sixth National Development Plan
<b>UK</b>	United Kingdom
<b>UN</b>	United Nations
<b>UNICEF</b>	United Nations Children’s Fund
<b>UPR</b>	Universal Periodic Review
<b>USA</b>	United States of America

# 1 Executive Summary: ZAMBIA

Zambia's vision is to become a prosperous middle-income country by 2030. A strong economic performance, driven by the mining sector and high copper prices is expected to boost this vision. The Revised Sixth National Development Plan 2013–2016 focuses on sustained economic growth and poverty reduction. Zambia experienced a peaceful transfer of political power in September 2011. The new Government has pledged to increase equality, create jobs and make progress in the fight against corruption. The weak implementation capacity, however, continues to pose a risk for the Government's ambitions.

Despite rapid economic growth, poverty levels in Zambia remain high. This is reflected in its low human development score (0.403) and ranking (164/187) and a least developed country status by the UN's definition. While urban poverty has reduced significantly, rural poverty affecting the majority of the population has remained high (80%). Income distribution has also grown more unequal in favour of the skilled urban population. The growing income inequality has exacerbated the differences in access to services such as education and health.

Based on the above, the rationale for Finnish assistance to Zambia for reduction of absolute poverty remains strong. Finland supports Zambia's own development aspirations and efforts to graduate from traditional development aid towards an inclusive and diverse economy. The challenge of fragmentation will be addressed by reducing the number of support interventions. Finland will deepen its human rights based approach in both ongoing and new programmes. The cross-cutting objectives – gender, climate sustainability and reduction of inequality – will be incorporated into all sector work.

Finland will render support to inclusive growth and economic diversification in Zambia through working in three sectors: agriculture, private sector development and environment & natural resources. These sectors have been chosen based on both Finnish and Zambian development priorities, on the country level division of labour as well as the Finnish strengths and experience. Implementation of the recently revised decentralisation policy that foresees the devolution of key public services to the district councils would open doors for improved and more equitable governance and public service delivery.

Finland will contribute to strengthening good governance and accountability by supporting public financial management reforms with high emphasis on revenue collection, tax policy and public procurement, and by supporting the establishment of social safety networks, as well as by supporting local NGOs in related projects. Finland shall also continue to provide general budget support until the end of 2014, when the instrument ceases to exist. This support enables regular dialogue with the Government of Zambia on governance and accountability issues.

Support for organisations' capacity-building and increased efficiency and accountability will be critical in all sectors – in both government institutions and non-governmental organisations.

## 2 Country Analysis

### 2.1 POLITICAL, ECONOMIC AND SOCIAL DEVELOPMENT

Zambia became an independent one-party state in 1964 and experienced a peaceful transfer of power in the 1991 multi-party elections. In 2011, the Patriotic Front (PF) party, led by Michael Sata, managed to break the 20-year rule of the Movement for Multiparty Democracy (MMD) Government. Zambia's democratic institutions are however still considered to be weak and the concentration of power in the executive, the President in particular, is high. Due to the death of President Sata in October 2014, presidential elections take place in January 2015. The decentralisation of the public sector has so far not been implemented and even though the Constitution has been amended several times after independence, more comprehensive review processes have failed. In 2011, the Government of Zambia (GoZ) established a technical committee to review the Constitution. The civil society is fairly free, but there are concerns that the current freedom may be limited by the implementation of the NGO Act of 2009. The political stability of Zambia has also become known as a stabilising factor in the region.

The Zambian economy has seen a decade of continuous growth, averaging 6.5% since 2007 and making the country one of the best-performing economies in Africa. The GoZ's fiscal discipline has contributed to macroeconomic stability, as evidenced by single-digit inflation in the past two years. The local business climate has improved, and the country has attracted increasing volumes of foreign direct investment. However, Zambia relies heavily on mineral exports, and the strong economic development is mainly a result of the rapid increase in world market prices of copper and cobalt. Despite the economic growth, the poverty levels remain high as does the unemployment rate especially among the youth.

The level of human development remains low and Zambia's Human Development Index (HDI) ranking is still behind the averages for Sub-Saharan Africa and low-HDI countries. Wealth and wellbeing is distributed unevenly between rural and urban areas and the gap between the rich and poor has been widening. While the percentage of Zambians living in extreme poverty has declined from 58 % in 1991 to 51 % in 2006 (the latest figure), it is unlikely that Zambia would meet the Millennium Development Goal (MDG) target of 29 % by 2015. As for education, the MDG primary education target of 100% was attained in 2009. Child and maternal mortality have declined but additional action is necessary to reach the related MDG targets. The national HIV prevalence rate has declined from 15,6 % in 2002 to 14,3 % in 2007 but HIV and AIDS continue to pose huge challenges. All in all, Zambia is likely to reach only two of the twelve MDGs.

Like most African LDC-countries, Zambia suffered from the economic stagnation of the 1980s and the subsequent structural adjustment programs throughout the 1990s. In the wake of the rapid economic and political liberalisation, the state did not have the required regulatory and legislative structures in place to provide the basic services and to administer effectively. Weaknesses in the functioning of the public administration and state capacity remain a challenge that affects all other development efforts.

### 2.2 DEVELOPMENT SCENARIOS FOR THE COUNTRY

Zambia is expected to attain the UN's official lower middle-income status. The World Bank noted Zambia's positive economic development by granting it lower middle-income country classification in 2011, based on gross national income per person. This development is backed up by a strong economic performance driven by the mining sector and somewhat weaker but nevertheless real human development improvements.

Poverty and stark inequalities will remain a part of the development scenario. It is possible that through improvements in agriculture and social protection, absolute levels of extreme poverty in rural areas will decline, as they have done in the urban areas. However, income inequality is likely to grow especially along the rural-urban divide. Economic and demographic growth will continue to accelerate urbanisation and it is expected that provincial urban growth will absorb a large portion of rural poverty in the medium term. In the long term, rising inequality - especially between the skilled and unskilled groups in urban areas - may usher in more social and political unrest.

Risks to Zambia's development scenarios can be rated as medium. Zambia continues strong economic growth, but the fiscal deficit increased sharply in 2013 due to overrun in subsidies and wage bill, high public investment and lower collection of revenues than budgeted. In the near to medium term, Zambia may face declining copper prices, slowing growth and increasing borrowing costs. As a risk management strategy, Zambia needs to strike a balance between attracting more foreign direct investment (FDI) and promotion of trade and competitiveness of local industries and agriculture to advance economic diversification. Continued environmental degradation and deforestation together with changes in climatic patterns pose a risk to economic growth and can negatively impact rural livelihoods. Risks associated with rising inequality and competition over political power and dominance are real but difficult to predict. The continuation of Zambia's history of peaceful political culture will depend on its capacity to produce sustainable solutions to enhance broad-based inclusive economic development and social cohesion. Critical to this is the role of civil society organisations (CSOs). The role and impact of traditional donors and development aid will continue to decline in the face of increased influence from the BRIC (Brazil, Russia, India and China) countries and other emerging economies.

## 3 The Development Context

### 3.1 NATIONAL DEVELOPMENT FRAMEWORK, DONOR HARMONISATION AND DIVISION OF LABOUR

Zambia's vision is to become a prosperous middle-income country by 2030. The Revised Sixth National Development Plan (R-SNDP) 2013–2016 aims at accelerating growth further and making it more relevant to improving the livelihoods of the Zambian people, especially in the rural areas. The Joint Assistance Strategy for Zambia (JASZ II) 2011–2015 sets out the Cooperating Partners' support to the SNDP with a focus on economic diversification, reduction of rural poverty and inequality, human development, and provision of high-quality and cost-effective public services. The GoZ has started to implement the principles on aid and development effectiveness, adopted in the Busan High Level Forum in 2011, which are expected to bring greater focus on results, accountability and transparency in development cooperation, as well as broader participation by the private sector and civil society. To this end Mutual Accountability Framework was signed between the donor community and the Zambian government in 2013. Monitoring of development results is however challenged by weak national data collection and monitoring systems. Finland will monitor sector specific Key Performance Indicators (KPIs) and provide support to the strengthening of the monitoring systems.

Because of the discrepancy between the economic growth and the persistent high levels of poverty, a more inclusive and equitable growth needs to be promoted. Fight against corruption, equitable growth, job creation and decentralisation are key priorities for the GoZ, and there is a need to re-orient and implement policies towards these objectives. The Government's commitment to good governance, including the fight against corruption, is clearly stated. However, progress in advancing the reforms that aim to increase efficiency of the public sector has been slow. Zambia's ranking in the Transparency International Corruption Perception Index has improved from 115th in 2008 to 91st in 2011 and further to 83rd in 2013.

Sustained global copper demand and agricultural diversification and increased productivity present an opportunity for internal revenue generation in Zambia. Fiscal deficit can be tackled by fully implementing the current MTEF. However, discrepancies between the budgeted versus actual spending by the Government have been considerable in the past years, weakening the predictability and credibility of the national budget.

Zambia has improved its performance in recent surveys on the Paris Declaration indicators. The data indicates that Zambia has made progress in eight indicators with applicable targets and recorded setbacks in four. It made progress in donor alignment and harmonisation, but challenges remained in alignment of aid with the national priorities.

According to the agreed division of labour under JASZ II, Finland's cooperation with Zambia focuses on agriculture, private sector development and environment including natural resources management. In addition, Finland provides funding for Poverty Reduction Budget Support (PRBS) and good governance initiatives and crosscutting objectives. Finland provides support to these sectors in collaboration with other Cooperating Partners (CPs), the most significant ones being the Nordic countries, the EU, the USA, Japan, the UK, the development banks and the UN organizations. Some CPs have their own domestic pressures to

downscale their activities in Zambia, and for instance Denmark and the Netherlands closed their embassies in 2013. Sector Advisory Groups have been established for each sector to provide advice and a discussion forum for sector issues. The performance of the Sector Advisory Groups has, however varied between the sectors.

The experience in Zambia shows that the division of labour under the JASZ has been a major instrument for rationalising the development partners' sector engagement, which in turn has reduced the transaction costs of aid for the Government. The JASZ has also provided an important framework for EU coordination and harmonisation, including for the EU fast track initiative. However, the lack of indicators for measuring progress of JASZ and little follow-up on commitments have made the JASZ less effective.

As some of the traditional Cooperating Partners are phasing out their support and several others are revising their country strategies, the working arrangements are changing in Zambia. ODA overall has decreased to less than 5% of the Government's budget in 2014, compared to 21% of the budget in 2004. The largest amount of development financing to Zambia comes from the EU, the UK, and the development banks, as well as the USA. When measured against annual aid disbursements, Finland is among the smaller donors to Zambia. The BRICs are invited to the aid coordination forums and attend these occasionally.

### **3.2 STATUS OF HUMAN RIGHTS BASED APPROACH AND THE THREE CROSS-CUTTING OBJECTIVES OF THE FINNISH DEVELOPMENT POLICY**

Zambia has a fairly good human rights record. Its first Universal Periodic Review (UPR) was conducted in 2008. The second UPR was completed in 2013, and according to the report the remaining challenges relate among other issues to prison conditions and fulfilment of children's rights. Positive developments include progress in the protection of women's rights through the adoption of the Gender-Based Violence (GBV) Act. The Zambian Constitution still allows capital punishment and Zambia has not voted in favour of the UN General Assembly Resolution 63/168 moratorium on death penalty. However, death penalty has not been enforced since 1997 and the current Government has shown increasing interest in the adoption of the key human rights conventions and protocols. The present constitution-making process offers an opportunity for the country to strengthen its rights-based legal framework. The regional inequality has been addressed in the political discussion. Gender equality is considered as a mainstreaming issue in the R-SNDP, which lays down a set of KPIs for the duration of the plan. These relate to a reduction of GBV cases, increased percentage of women in decision-making positions, and a higher percentage of women in formal employment and in accessing financing for economic empowerment projects.

Zambia has developed a National Climate Change Response Strategy. With climate change adaptation and mitigation measures integrated into the strategies and programmes of key sectors in the R-SNDP, there is a good foundation for sectors to mainstream climate change in the implementation of their activities. However, the GoZ recognises the limitations in practical implementation. It is therefore developing tools to assist sectors to mainstream environment and climate change issues through the development of climate change policy. At the RIO+20 Conference in 2012, Zambia announced its commitment to ensuring that Green Economy appears on its agenda in order to promote sustainable development and poverty reduction across all sectors. In recent ministerial level discussions between Finland and Zambia, major discrepancies were not found in the interpretation of the major concepts.



## 4 Finnish Cooperation to Date and Lessons Learned

### 4.1 FINNISH COOPERATION PROGRAMME TO DATE AND CONTRIBUTION TO COUNTRY LEVEL RESULTS

Since the beginning of 2000 and until recently, both Finnish and development partners' development assistance moved towards budget and/or sector support, largely based on the Paris Declaration with the aim of increasing the GoZ's influence and guidance regarding the country's development scenario. In addition to ongoing support to agriculture and environment and natural resources sectors, Finland supported the education sector until 2007. Support to PSD and budget support for poverty reduction started in 2007. CSOs focusing on good governance and human rights and, to a smaller extent, initiatives building cultural linkages between Finland and Zambia have received support through the Fund for Local Cooperation (FLC).

The most recent country evaluation for Zambia was conducted 10 years ago. There have been considerable improvements in Finland's development assistance management in Zambia during the past few years. The projects have been better designed and more closely linked to the country's development agenda. However, the result-based monitoring and evaluation systems need to be strengthened further both at the level of country programme and sector support programmes. In addition, a recent evaluation of Finnish support to Zambia's forestry and biological resources highlights institutional weaknesses in the implementation of the forestry programmes. Similar conclusions have been drawn in the mid-term evaluations of the two sector support programmes.

The 2011 evaluation of the PRBS concluded that the PRBS has given more fiscal space to the GoZ to support social sectors in particular, and strengthened the service delivery in the health and education sectors. However, the aid modality did not perform well when it comes to expected policy objectives and reforms, partly attributable to the inadequate harmonisation of implementation mechanisms by the Cooperating Partners. 2014 is the last year when general budget support is provided, as the larger donors have decided to discontinue it, thus making the instrument irrelevant for having meaningful dialogue.

### 4.2 AID EFFECTIVENESS: KEY LESSONS AND RECOMMENDATIONS FOR FINLAND

Finland's support has been increasingly aligned with the national priorities outlined in the national development plans (FNDP, SNDP and R-SNDP), which has strengthened the Zambian ownership of the Finnish ODA. In order to reduce the transaction costs of aid, Finland has also made good progress towards harmonisation in particular through provision of PRBS, pooling of resources in the sector baskets under the public financial management, environment and PSD sectors, and the use of common procedures in the agriculture sector. These have included joint arrangements with the EU and its member states. Disbursement rates and other performance aspects of Finnish aid are in line with those of other donors in Zambia.

Finland has used the Zambian national systems under the PRBS and in the environment and PSD sectors. In the agriculture sector, Finland has strategically used a Parallel Implementation Unit (PIU) to enhance the capacity of the line ministry before further aligning support with the national systems. Finland's aid has been predictable although a substantial portion of committed aid remains undisbursed every year particularly in the sector programmes using country systems because of the management challenges in the line ministries.

The present Government is committed further to develop the country systems that are based on relatively weak administrative structures. Finland will continue to provide support which aims to strengthen these systems. This should also enable the alignment of Finnish interventions with the Zambian country systems. In accordance with the Busan partnership principles, Finland intends to also broaden its cooperation arrangements beyond the GoZ and engage in partnerships with private and civil society organisations. The performance of these interventions will be monitored carefully in order to avoid creating dependency, but instead encouraging the partner's ownership.

## 5 Objectives of the Finnish Development Cooperation with Zambia

### 5.1 COUNTRY DEVELOPMENT GOAL

Zambia's Revised Sixth National Development Plan (R-SNDP) for 2013-2016 aims at "accelerating growth further and making it more relevant to Zambian people, especially in rural areas". Due to resource constraints the Plan focuses on prioritized sectors of investment that will add value to job creation, rural development and enhancing inclusive growth. The focus sectors are skills development, science and technology; agriculture, livestock and fisheries; energy and infrastructural development, particularly transport infrastructure; and human development related sectors, such as water and sanitation, education and health.

Finland's objectives, which are defined in 5.2 and 5.3 below, support Zambia's own development goals. The Government will monitor indicators such as GDP growth and domestic revenue collection, sector-specific growth rates and social sector indicators as its national KPIs.

### 5.2 COUNTRY DEVELOPMENT RESULTS AND FINLAND'S STRATEGIC CHOICES

Finland concentrates on four development sectors in Zambia: agriculture; private sector development; environment and natural resources; and good governance and accountability. These sectors were chosen based on country level division of labour (Joint Assistance Strategy for Zambia II, JASZ II) as well as both Finland's and Zambia's development policies while also taking into account Finland's strengths and added value. Based on Zambia's R-SNDP, Finland has made the following strategic choices:

**1. AGRICULTURE:** "To facilitate and support the development of a sustainable, diversified and a competitive agricultural sector that assures food security at national and household levels and maximizes the sector's contribution to Gross Domestic Product (GDP)." (R-SNDP)

Finland has been active in Zambia's agriculture sector for the past 30 years. In the Zambian context, agriculture has the greatest potential to address rural poverty and inequality, as most of the poor are in the rural areas and dependent on the sector for their livelihoods. While overall growth of the sector has been robust for several years and exceeding the CAADP target of 6 percent since 2009, rural poverty and unemployment still remain high. The rural population which mainly consists of smallholder farmers has not significantly benefited from the recent economic growth mainly due to dependency on rain-fed agriculture, low yields to generate marketable surplus and limited levels of diversification. Most smallholders are growing subsidised maize, which distorts the market and prevents them from moving into more profitable crop varieties. Maize subsidies also pose a significant burden on the Government's budget. Given Zambia's favourable conditions and potential for agricultural growth and income generation, Finland has aligned its support to enhance smallholder production and productivity, agricultural commercialization (Farming as a business) and agricultural diversification through irrigation development.

**2. PRIVATE SECTOR DEVELOPMENT:** "To accelerate job creation, increase productivity and competitiveness through continued business environment reforms, MSME development, labour

market reforms and labour productivity, PPP development and trade expansion as well as through establishing an effective and efficient National Science, Technology and Innovation System.” (R-SNDP, Industrialisation and Job Creation strategy, MSME Development Policy)

Finland has been actively engaged in PSD in Zambia since 2007. Zambia remains an open market economy with relatively high growth but growing inequality. The positive economic growth that has been achieved in the past decade in Zambia has not translated into significant employment and job creation. This is mainly due to over-reliance on capital intensive sectors, such as mining, as the main engine of growth, coupled with the lack of fully implemented economic diversification strategies. In line with GoZ’s current priorities to address low formal employment and reduce growing inequality, Finland has aligned its own support to focus more directly on strengthening a conducive business environment for micro, small and medium-sized enterprises and promoting inclusive innovation and skills development in order to create decent green and formal jobs.

**3. ENVIRONMENT & NATURAL RESOURCES:** “Improved environmental management for reduced rate of deforestation, wildlife depletion and degradation of heritage sites, land and wetlands.” (modified from R-SNDP)

Finland has a long history in assisting Zambia in environmental matters - especially in the forestry sector. Environment and natural resources sector has been chosen as one of the primary sectors for Finland’s development cooperation due to the considerable challenges Zambia is facing in this sector, and insufficient resources and attention in tackling them. For example, the rate of deforestation in Zambia is considered to be one of the most alarming in the world.

Finland supports public and private sectors, CSOs and communities because it recognises that the GoZ alone does not have adequate capacity to address environmental management challenges and to promote climate sustainability. Also environment-oriented CSOs do not currently have sufficient capacity to advocate for, or to implement, sustainable environmental management measures and programmes.

**4. GOOD GOVERNANCE & ACCOUNTABILITY:** “Ensure efficient, effective and accountable use of public resources as basis for economic development and poverty eradication through improved service delivery.” (Public Financial Management Strategy 2013)

In addition to focusing on the three sectors described above, Finland provides poverty reduction budget support (PRBS) to promote effective implementation of the SNDP and R-SNDP. Budget support is the preferred aid modality for Zambia as it increases the predictability of aid flows, promotes more efficient systems for allocation of funds to public spending, reduces the administrative burden of the Government and improves both domestic accountability and institutional capabilities. Budget support dialogue provides the CPS with the strongest platform to engage in a broad policy dialogue on key development issues. However, due to the withdrawal of the larger donors, the PRBS instrument will cease to exist after 2014.

Despite the discontinuation of the PRBS, Finland will continue to support programmes that further strengthen the national systems, in particular the Public Finance Management systems (PFM) for improved revenue collection and budget execution and value for money. In addition, support is provided to a targeted programme that improves social protection of the poorest groups, as well as to strategic civil society actors through the FLC.

### **5.3 FINLAND'S OBJECTIVES**

Finland's objectives are based on R-SNDP, the Finnish development policy programme, and the sectorial division of labour among donors, which Finland is committed to in Zambia.

Finland's objectives are presented below, under the Country Development Results which they contribute to:

#### **COUNTRY DEVELOPMENT RESULT 1: AGRICULTURE**

"To facilitate and support the development of a sustainable, diversified and a competitive agricultural sector that assures food security at national and household levels and maximizes the sector's contribution to Gross Domestic Product (GDP)." (R-SNDP)

Finland's objectives under this Country Development Result is:

#### **Increased agricultural production and productivity among smallholders contributing to improved household income**

Improvements in smallholder agricultural production and productivity are important in achieving inclusive economic growth, improving household food and nutrition security, and reducing poverty in a typical agrarian society like Zambia. Even though national policies are clear on the role of agricultural extension services in improving production and productivity, the budget allocation to these has suffered because of GoZ's focus on the two subsidy programmes FRA and FISP. More need to be done to strengthen pluralistic agricultural extension services that promote private sector and farmer-led extension services, in order to effectively package and disseminate appropriate agricultural technologies which enhance productivity among farmers. Investing in smallholder farmers is one of the most effective ways to fight rural poverty. To increase production and productivity, Finland concentrates on working with and improving the capacity of smallholder farmers to use sustainable and improved farming technologies.

#### **Finland's specific objectives are:**

- ▶ Improved access to resources and use of improved and sustainable agricultural technologies by smallholder farmers in areas supported by Finland
- ▶ Sustainable, efficient and professionally managed small-scale irrigation schemes for smallholder farmers developed in areas supported by Finland

Smallholder farmers need business and technical skills, modern agricultural inputs, productive assets and better markets in order to engage in profitable farming businesses. Interventions targeted at improving access to land are also important in encouraging on-farm medium to long term investments and the use of sustainable agricultural technologies such as conservation agriculture by smallholder farmers. In this regard, Finland supports both the private and public sector in the development and provision of innovative agricultural services. These work as catalysts for facilitating access to on-farm productivity-enhancing technologies, titled land, financial services and markets to increase agricultural productivity, commercialization and diversification among smallholder farmers.

Finland will also continue to support the GoZ initiatives aimed at increasing land under irrigation. Irrigation development increases resilience to climate change, improves yields and enables smallholders to diversify and produce all year round. Finland supports this through

the development of commercially viable irrigation schemes and strengthening the capacity of farmers to professionally manage, operate and maintain the irrigation infrastructure.

As a part of these two specific objectives, Finland will focus on advancing the cross-cutting objectives which underline the sustainability and inclusiveness of the agricultural interventions. A key issue is to recognise the critical role that women play in Zambian agriculture, ensuring that women and vulnerable groups can participate in and benefit from the interventions.

### **Instruments, inputs and resources**

As a lead donor in the Agriculture Cooperating Partners group, and through joint policy dialogue, Finland will advocate for policy consistency, increased national budget allocations to the sector, and reform of the current subsidy programmes to allow for more spending on agricultural extension services and research.

Finland supports the Programme for Luapula Agriculture and Rural Development (PLARD, EUR 11.3 million) which ends in 2015; the Development of Small-scale Irrigation Systems (EUR 10 million) and the Small Holder Production Promotion Programme (EUE 5.5 million). In addition, Finland provides financial support to the ZNFU core support programme phase I and II (EUR 10.3 million). The planning of a successor programme to the Small scale irrigation commences in 2014 to consolidate irrigation scheme management systems, enhance sustainability and upscale the SIP model with an estimated annual budget of EUR 3 million.

### **COUNTRY DEVELOPMENT RESULT 2: PRIVATE SECTOR DEVELOPMENT**

“To accelerate job creation, increase productivity and competitiveness through continued business environment reforms, MSME development, labour market reforms and labour productivity, PPP development and trade expansion as well through establishing an effective and efficient National Science, Technology and Innovation System.” (R-SNDP, Industrialisation and Job Creation strategy, MSME Development Policy)

Finland’s objective under this country development result is:

#### **Increased inclusiveness of the economy by promoting the growth and competitiveness of micro, small and medium-sized enterprises**

The development of a thriving MSME sector that provides an increasing number of formal jobs is key to broad-based wealth and job creation in Zambia like anywhere in the world. The role of MSMEs is highlighted in many national policies and strategies and achievements have been made in recent years in improving the overall business environment and the country’s global competitiveness. However, more could be done by the GoZ to remove the barriers that constrain the growth and competitiveness of Zambian MSMEs. Better access to finance and business development services would enable the MSME sector to realize its potential as an engine of growth and as a major source of innovation in the society.

#### **Finland’s specific objectives are:**

- ▶ Decent green jobs created in competitive enterprises
- ▶ Improved access of MSMEs to services, business development and financial services through continued support to business environment reforms.

- ▣ Increased growth and competitiveness of MSMEs through participation in research, development and inclusive innovation processes.

For the past few years, Finland has been supporting the GoZ to improve the overall business and investment environment with encouraging results and their indicators, as evidenced by the country's improved rankings in World Bank Group's Doing Business Index as well as World Economic Forum's Global Competitiveness Index. Finland's support to policy formulation, legislative and institutional reforms, public-private policy dialogue and e-governance within the Private Sector Development Reform Programme has contributed to Zambia's economic growth. In addition, the UN Green Jobs programme, launched in 2013, aims to create formal decent and green jobs in the building construction sector, bringing together all three pillars of sustainable development as well as inclusive innovation.

Finland will further develop its Private Sector Development support portfolio, highlighting and focusing on the themes of inclusive green economy, women's and youth entrepreneurship and inclusive innovation.

### **Instruments, inputs and resources**

Finland will continue to co-lead the Private Sector Development Co-operating Partners group. Building on Finland's past support, a new PSD support programme will be developed by mid-2015 to complement the UN Green Jobs programme that is expected to continue until 2017. The new programme is expected to be a bridging phase from fully government-led programmes towards more direct support to MSMEs by helping them benefit from the earlier supported reforms. This will involve promoting an environment where MSMEs can expand, increase their productivity and profitability, and graduate as formalised companies. Given the strong interest of Team Finland and Finnish companies to collaborate with Zambian counterparts, the new programme will complement and strengthen the ongoing and planned institutional and business partnerships, including those funded by Finnpartnership and the Business with Impact programme.

The Fund for Local Cooperation will also be used to promote the role of MSME businesses and industry associations (EUR 1.55 million). In addition, the Embassy will encourage the participation of Zambian organisations in regional programmes (SAIS, BioFisa, EEP).

### **COUNTRY DEVELOPMENT RESULT 3: ENVIRONMENT AND NATURAL RESOURCES**

"Improved environmental management for reduced rate of deforestation, wildlife depletion and degradation of heritage sites, land and wetlands." (modified from R-SNDP)

Finland's objective under this country development result is:

#### **Supporting improved capacity of environmental and forestry administrations, CSOs and communities for sustainable management of natural resources and pollution control**

Finland is committed to support Zambia in environmentally, economically and socially sustainable management of natural resources. Cooperation in environmental sector between the two countries has a long history, in particular in the forestry sector. Currently Finland supports strengthening of government capacities in decentralized natural resources management at national and local levels. This includes improving access to relevant information and increased involvement of communities, private sector and CSOs in sustainable use

and management of forest and other natural resources. This will contribute to better planning and management of natural resources at the national and local levels. Enhancing the capacity of CSOs to advocate and participate in the policy dialogue contributes to increased attention to reduce water, air and soil pollution, and thereby improve people's possibilities to benefit from better livelihoods and health conditions.

**Finland's specific objectives are:**

- ▶ Improved integrated sustainable forest and other natural resources management
- ▶ Strengthened monitoring and reporting systems for environmental protection
- ▶ Enhanced role of CSOs to implement sound environmental management projects and promote sustainable and equitable development

A large proportion of wealth in Zambia is tied to environmental assets: fertile soil, clean water, biomass and biodiversity. Unsustainable use and management of natural resources and inadequate control of environmental hazards threaten the country's development. Therefore, Finland has deemed it important to support Zambia in the environmental issues and climate change within a wide range of policies and institutions, starting from the local level.

Finland also supports the strengthening of national monitoring and reporting systems in environmental management, and the development of Monitoring, Reporting and Verification (MRV) systems of forest resources for national and local level planning. It is important that these systems are in place and effective, not only from the watchdog and prevention point of view, but also to obtain up-to-date information on the state of the environment. This in turn provides tools for assessing if the actions taken are working, in order to provide guidance for future decision-making. In addition, Finnish support aims at increasing institutional capacity for poverty alleviation and climate change adaptation. This is done through promoting better planning of sustainable use and management of forest and other natural resources.

Finland also channels support to civil society organizations, as they are important resource for awareness raising and sustainable use and management of environment and natural resources. Strengthening their capacity will allow them to more effectively hold the government and non-state actors accountable and advocate for the development of better environmental policies and legislation. CSOs can address challenges and improve livelihoods of the poor and vulnerable households by providing support services, and they can facilitate use of communities' own resources.

**Instruments, inputs and resources**

Direct support to district-level integrated planning and management of forests and other natural resources will be increased based on the GoZ's focus on decentralisation. In addition to the GoZ's ongoing Forest Policy reform and other relevant natural resources policy reforms, Finland will support improved capacity of government institutions, research institutions, private sector, CSOs and communities in the sustainable use and management of environment and natural resources through Decentralised Forest and other Natural Resources Management Programme (EUR 4.5 million).

Civil society will be supported through the implementation of "Support to Civil Society Organisations in Environmental Management" phase 1 and 2 (EUR 4.6 million).



### **COUNTRY DEVELOPMENT RESULT 4: GOOD GOVERNANCE & ACCOUNTABILITY**

“Ensure efficient, effective and accountable use of public resources as basis for economic development and poverty eradication through improved service delivery.” (Public Financial Management Strategy 2013)

Finland’s objective under this country development result is:

#### **Efficient revenue collection, good and transparent governance of public procurement and efficient mechanisms of participation**

Increased revenues and efficient and transparent use of government resources is a prerequisite for economic growth and equitable distribution of wealth. Improved access to key public services will enhance productivity and social wellbeing and enable even the more vulnerable members of the society to meaningfully take part in public affairs. Zambia’s annual budget has been supported through Poverty Reduction Budget Support (PRBS), which has assisted the Government in meeting the needs of people and in ensuring that sufficient funds are available for the sectors considered important for poverty reduction and human development, such as education and health. Budget support also provides a platform for a broad policy dialogue on key development issues including human rights. Finland continues to complement the PRBS with programmes that further strengthen the national systems, such as public financial management reforms and social protection programmes.

#### **Finland’s specific objectives are:**

- ▶ Integrated Financial Management System (IFMIS) developed into an efficient and transparent mechanism
- ▶ ZPPA oversight and regulatory role and the capacity of procurement entities strengthened
- ▶ Increased effectiveness of revenue administration
- ▶ Social protection mechanisms strengthened for vulnerable groups
- ▶ Strengthened civil society capacity to protect the rights of vulnerable groups, influence policies and promote transparency, accountability and public participation

Finland provides budget support since it contributes towards aid effectiveness, the implementation of national development plans and provides a platform for policy dialogue. Public financial management reforms will enhance more efficient revenue collection and more transparent and effective use of public funds, ultimately improving public service delivery. In addition, Finland promotes socio-economic equality through strengthened social protection mechanisms that will help provide safety nets and reduce poverty levels among the most vulnerable. Finland also strengthens the capacity of civil society organizations so that these can play an active role in promoting human rights and good governance.

**Instruments, inputs and resources**

Together with other PRBS donors, Finland engages in dialogue with the government on overall country performance and the agreed underlying principles such as sound macroeconomic management and respect for human rights.

The instruments to attain the specific objectives are PRBS which will end in 2014 (EUR 12 million), the Public Financial Management Reform Programme (EUR 4 million), and NGO activities supported through the Fund for Local Cooperation (EUR 2.4 million). Furthermore, Social Protection Expansion Programme (EUR 3.4 million) will be concluded in 2014 and a follow-up programme will be formulated (EUR 5 million).

**5.4 HUMAN RIGHTS BASED APPROACH AND THE THREE CROSS-CUTTING OBJECTIVES OF THE FINNISH DEVELOPMENT POLICY AS PART OF THE COUNTRY STRATEGY**

Finland's human rights based approach to development (HRBA) contains the principle that all human beings are born free and equal in dignity and rights. Finland continues its active participation in Zambia in the development and implementation of the EU Human Rights Strategy, as well as the EU Gender Equality and Women's Empowerment Action Plans. The dialogue on human rights will be deepened also under the PRBS. In addition, Finland will strengthen its human rights based approach in sector cooperation – both in ongoing and new programmes – through a review of the HRBA in all project cycle stages from appraisal to final evaluations. Capacity development of programme staff in this field will be provided by internal and possible external expertise.

Similarly, the cross-cutting objectives will be integrated into all stages of each intervention following the three-pronged approach of mainstreaming, targeted actions and policy dialogue, in which the mainstreaming is the minimum requirement.

The following measures will be taken to ensure that the interventions will address the needs of women and other easily marginalised groups (for instance persons with disabilities or persons living with HIV or AIDS): provide direct support to vulnerable groups through matching grants; initiate innovative interventions addressing gender and cultural barriers, such as promotion of labour saving technologies/ services and ICT- mobile phone based extension; and facilitate women's access to land, markets and credit.

The FLC will continue to be used for targeted projects that contribute to improved access to justice and safeguarding of human rights, with a particular focus on women and persons with disabilities. The current FLC portfolio includes, among others, projects aimed at the improvement of women's inheritance rights and enhancement of prisoners' rights and conditions. Cooperation is also conducted with an umbrella body for disability organisations in the country. Finland will also maintain its active role in the environment and natural resource sector and will follow developments regarding opportunities for the practical implementation of Green Economy in Zambia.

### **5.5 POVERTY REDUCTION IN THE COUNTRY PROGRAMME**

Finland's Development Policy Programme and this Strategy are anchored to the objective of reducing poverty in line with the MDGs. Finland's annual official development assistance (ODA) disbursements in Zambia, amounting to approximately EUR 10 to 15 million per year feed into the poverty reduction efforts as stated in the SNDP and R-SNDP. The key underlying criteria in Finland's aid through the GoZ's systems (52% in 2011) is that the Zambian budget operations are pro-poor and efficiently executed.

Finland's project support as well as support through the FLC is targeted at specific pro-poor interventions that address high inequality, environmental concerns, and the cross-cutting objectives of gender and HIV and AIDS, which all are part of the poverty challenge in Zambia.

## 6 Management of Strategy and Programme Implementation

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### 6.1 PARTNERSHIPS

The key partners in Finland's development cooperation are the Zambian Government's line ministries represented at central, provincial and district levels, Zambian CSOs and the private sector. Finnish CSOs and research institutes have experience of and a long tradition of working in Zambia. This provides a good basis for continued partnerships.

Finland works closely with the other Cooperating Partners and long-term partnerships have evolved. In the environment sector, close coordination takes place with USAID, FAO and UNDP. The EU, Sweden, AfDB and IFAD are the key partners in the agriculture sector, and the World Bank (WB), DFIF and KfW in the area of public financial management. In the area of private sector development, Finland continues to work especially with ILO, DFID, Japan and international financial institutions, while also seeking new partnerships. In the field of social protection, Finland works with UNICEF, Irish Aid and DFID.

Collaboration among the cooperating partners has deepened participation, allowing valuable sharing of information and bringing complementarities between support mechanisms and modalities. The emerging economies have strengthened their presence in Zambia during the past 5 to 10 years. The traditional donor community has made efforts to involve the new players into the dialogue, but this has not yet resulted in active participation.

### 6.2 AID MODALITIES, IMPLEMENTATION AND AID EFFECTIVENESS

Finland supports Zambian development efforts through a variety of aid modalities in a complementary manner. Finnish support comprises budget support until 2014 and programme-based support in two of the focal sectors as well as more traditional projects that are aligned with government priorities. Efforts are made to enhance participation by other stakeholders in the implementation and monitoring of all interventions. Public Private Partnerships (in agriculture), civil society funds (environment sector and FLC) and specific interventions such as Finnpartnership and FinnFund support (private sector) are, among others, concrete ways to broaden collaboration. In addition, there are twinning arrangements between Zambian and Finnish organisations, as well as NGO collaboration. Collaboration with the multilateral organisations in Finland's main result areas and those that are related to Finnish multilateral aid priorities will continue. Synergies between the sectors and different aid platforms are used to bring about effective results. Finland participates actively in donor cooperation forums in Zambia for improved aid effectiveness and holds sector lead donor responsibilities in all its priority sectors.

### **6.3 MAIN FORUMS OF POLITICAL AND POLICY DIALOGUE**

The main forums for the political and policy dialogue with the GoZ are bilateral and joint EU consultations (including Article 8) and Cooperating Partners' dialogue (Cooperating Group) in Zambia. Finland is participating actively in the established joint dialogue structures. Regular dialogue on budget support provides important opportunities to discuss a wide range of national and sector level policy issues as well as cross cutting issues with the Zambian counterparts.

### **6.4 INTERNAL MANAGEMENT ARRANGEMENTS**

The country strategy is implemented by a team of civil servants in the Ministry for Foreign Affairs in Helsinki and in the Embassy of Finland in Lusaka. The internal management arrangements are defined and regularly updated by the Ministry's Department of Africa and the Middle East/Asia and Oceania and the Embassy. The expertise available in the Unit for Sectoral Policy will be systematically used to support the implementation (and updating) of the Strategy. Members of the team will participate in skills training based on the needs identified. The division of labour within the team, including issues of delegation, will be further clarified.

## 7 Strategic Steering

### 7.1 MONITORING AND REPORTING OF RESULTS AT COUNTRY LEVEL, AND OF FINLAND'S PERFORMANCE

Measuring progress towards well-defined, desired results and using results-based information to improve decision-making and performance is an important aspect of this Strategy. To a large extent, Finland relies on the national monitoring and evaluation systems as defined in the National Development Plan in monitoring of results at country level and in terms of its performance. On the country development result level, the R-SNDP programme implementation monitoring matrix has defined national KPIs per sector at outcome/impact levels.

Finland will monitor sector specific KPIs and provide support to the strengthening of Zambia's monitoring systems (agriculture and environment). The SNDP and R-SNDP progress reports are compiled annually by the GoZ and provide a macro, sectoral and regional perspective on implementation of planned interventions. These reports also capture lessons learnt, providing an opportunity to review the approaches used in order to improve future outcomes. There are, however, weaknesses in the data collection and analysis systems as surveys are not carried out regularly by the National Statistical Office and the release of the survey results is at times untimely.

In addition, the Zambian Ministry of Finance coordinates the monitoring processes using a number of monitoring systems and tools such as (i) Budget Execution Monitoring; (ii) Project Spot Monitoring; (iii) Management Information Systems; and (iv) Surveys. Supplemented by surveys made by the National Statistical Office and UN agencies and sector-specific in-depth surveys, progress is assessed against set national and international set indicators. Constant attention will be paid to the international benchmarks such as GINI index, HDI rank, EIU democracy index and CPI rankings, as well as the WB's doing business ratings. The Performance Assessment Framework (PAF) is another important tool in monitoring the overall country performance against PRBS performance indicators.

Finland's performance monitoring is based on the bi-annual reporting of the KPIs in the Country Strategy Results Framework which is mainly based on its interventions and their indicators. Interventions are monitored through regular programme oversight carried out by the steering committees and supervisory boards quarterly, bi-annually and annually. Finland will make use of the monitoring and evaluation tools and systems which include the MFA score card, monitoring of programme disbursements and progress, the AHA system, annual reviews, and mid-term and end of programme evaluations. The lessons learnt derived from the systems in improving current programme/project activities and in designing new ones will also be used. Finland will participate bilaterally and jointly in evaluations, reviews, and assessments of sector projects/programmes to improve results-based reporting and actual results in the country.

Fragmentation is a challenge in Finland's current aid portfolio. Some of the programmes have been delayed or started later than originally expected while the new ones have started as planned. This combination has resulted in a high number of ongoing interventions. Actions to reduce fragmentation are being taken. New interventions and possible new phases for the ongoing activities will be carefully considered.

In addition to support to the Finnish and Zambian NGOs and institutional cooperation, about 15 interventions were on-going in Zambia at the beginning of 2013. In accordance with the current plan to reduce fragmentation, there would be 9 interventions in Zambia by 2016.

### 7.2 RISK MANAGEMENT

There are a number of intervention-specific risks for Finland's country programme in Zambia and a few Zambia-specific risks that are highlighted below.

Zambia has enjoyed a long period of peace and stability and has an open economy where conflicts and adverse situations can usually be flexibly managed. Many of the systemic weaknesses have been highlighted in the sections above. Most programme-related risks under Finland's control can be managed by further systematising and fine-tuning the general risk management framework in the implementation of the country programme.

The risks inherent in the country programme are performance and management-related. Performance-related risks are associated with the capacity of the chosen aid mechanisms to deliver the expected development results. Management-related risks are associated with the behaviour of the institutions charged with the responsibility of managing allocated development resources. Risk management is meant to ensure the attainment of the expected development results and prudent management of allocated development resources.

The standard risk management practices applied to all interventions include careful studies and preparations before the start of the interventions, active monitoring of ongoing activities and forward-looking processing of lessons learnt from completed interventions.

Actual risk management measures are adapted to meet the needs of the intervention and instrument. The general principles applied to all interventions and instruments concentrate around risk prevention, close cooperation among partners, maintaining a good internal risk management capacity, and entering into agreements and building long-term relationships with expert service providers such as consultants and accountants.

Finland seeks to adhere to these principles and will strive towards deeper understanding of partners' capabilities during the intervention preparation stages, enhanced monitoring in order to optimise the flow of timely first-hand information, and paying even greater attention to lessons learnt especially in the cases where follow-up phases are planned. Finland also seeks to enter into one or more partnership agreements with selected consultants and audit firms in order to enhance monitoring capacity as close to the implementation level as possible.

Natural disasters are not a significant risk in Zambia. However heavy rains can cause floods and wash out roads. Especially during the rainy season outbreaks of disease can occur on high-density areas, for example at the compounds surrounding the bigger cities.

## 8 Tentative Financing Plan (Budget)

Budget estimates for Finnish development cooperation with Zambia 2014-2017 (EUR million).

<b>AGRICULTURE SECTOR</b>				
<b>Project name</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>
PLARD phase II: Programme for Luapula Agriculture and Rural Development	3.00			
Small holder Production Promotion Programme	1.04	1.04	1.04	
Irrigation Programme			3.00	
Financial support to ZNFU (Phase 1 and 2)		2.00	2.00	3.0
<b>Sector Total</b>	<b>4.04</b>	<b>3.04</b>	<b>6.04</b>	<b>3.0</b>
<b>PRIVATE SECTOR DEVELOPMENT</b>				
<b>Project name</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>
Support to private Sector Development Reform Programme II	1.15			
Enhancing Competitiveness and Sustainable Business among MSMEs in the Building Construction Industry in Zambia		2.30		
New Programme		2.00	2.00	2.0
<b>Sector Total</b>	<b>1.15</b>	<b>4.30</b>	<b>2.00</b>	<b>2.0</b>
<b>ENVIRONMENT &amp; NATURAL RESOURCES SECTOR</b>				
<b>Project name</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>
Support to Civil Society Organisations in Environmental Issues (CSEF) Phases 1 and 2	0.95	1.20	1.265	1.125
Integrated Land Use Assessment phase II		0.40		
Decentralised Innovative Programme on Forest and other Natural Resources Management		2.25	1.000	2.000
<b>Sector Total</b>	<b>0.95</b>	<b>3.85</b>	<b>2.265</b>	<b>3.125</b>
<b>GOOD GOVERNANCE AND HUMAN RIGHTS</b>				
<b>Project name</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>
Poverty Reduction Budget Support, Budget support and support to PRBS secretariat	5.54			
Public Financial Management Reform Programme	1.00	1.00	2.00	2.0
Social Protection Expansion Programme	2.25	2.50	2.50	2.5
<b>Sector Total</b>	<b>8.79</b>	<b>3.50</b>	<b>4.50</b>	<b>4.5</b>
	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>
Funds under planning				
<b>TOTAL BILATERAL BUDGET</b>	<b>14.93</b>	<b>14.69</b>	<b>14.805</b>	<b>12.625</b>

All figures above are subject to change.

In addition to the above-mentioned interventions, the implementation of the Country Strategy is supported by assisting Zambian NGOs through the Embassy's FLC (EUR 3.95 million) and by supporting Finnish NGOs' cooperation in Zambia. In addition, the regional cooperation and activities between Zambian and Finnish institutions are a significant and important part of the Finnish development cooperation.



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