EVALUATION

of Economic Development, Job Creation and Livelihoods

Volume 2 • Case Studies

Ministry for Foreign Affairs of Finland

Evaluation on Finland's Development Policy and Cooperation

2021/1C

This report can be downloaded through the home page of the Ministry for Foreign Affairs
http://formin.finland.fi/developmentpolicy/evaluations

Contact: EVA-11@formin.fi

ISBN 978-952-281-683-2 (pdf)
ISSN 2342-8341

Layout: Innocorp Oy

Cover photo: Milma Kettunen

EVALUATION OF ECONOMIC DEVELOPMENT, JOB CREATION AND LIVELIHOODS

Final Report

Volume 2 – Case Studies

Sari Laaksonen (team leader)
Tapio Wallenius
Sonja Huhta
Agatha Nderitu
Petra Mikkolainen

Consortium composed of:

particip
Lead Company

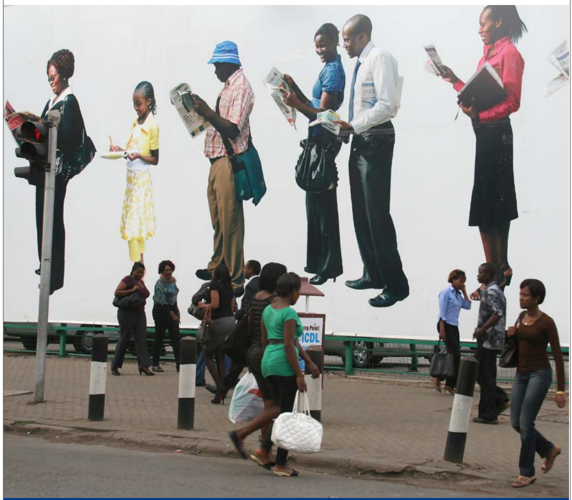
NIRAS

2021/1C

EVALUATION
of Economic Development,
Job Creation and Livelihoods

Ministry for Foreign Affairs of Finland

Volume 1.1 • Main Report



Evaluation on Finland's Development Policy and Cooperation

2021/1A

EVALUATION
of Economic Development,
Job Creation and Livelihoods

Ministry for Foreign Affairs of Finland

Volume 1.2 • Annexes

Evaluation on Finland's Development Policy and Cooperation

2021/1B

EVALUATION
of Economic Development,
Job Creation and Livelihoods

Ministry for Foreign Affairs of Finland

Volume 2 • Case Studies

THIS REPORT

Evaluation on Finland's Development Poli...

2021/1C

EVALUATION
of Economic Development,
Job Creation and Livelihoods

Ministry for Foreign Affairs of Finland

Volume 3 • Study on Private Sector Instruments

Evaluation on Finland's Development Policy and Cooperation

2021/1D

Evaluation of Economic Development, Job Creation and Livelihoods

This evaluation report consists of four volumes:

VOLUME 1.1 – MAIN REPORT	
1)	Introduction
2)	Approach, methodology and limitations
3)	Context
4)	Findings
5)	Conclusions
6)	Recommendations
VOLUME 1.2 – ANNEXES (incl. best practice and thematic studies)	
1)	Terms of Reference
2)	People interviewed
3)	Documents consulted
4)	Definitions of key terms
5)	Detailed methodology
6)	Evaluation matrix
7)	Best practices and peer review
8)	Thematic annexes (on energy, innovation, taxation and women's economic empowerment)
VOLUME 2 – COUNTRY CASE STUDIES	
1)	Country case study Kenya
2)	Country case study Tanzania
3)	Country case study Zambia
VOLUME 3 – STUDY ON PRIVATE SECTOR INSTRUMENTS	
1)	About this study
2)	Approach, methodology and limitations
3)	Findings and conclusions on relevance and effectiveness
4)	Implications and lessons learnt

Overall content

INTRODUCTION VII
COUNTRY CASE STUDY KENYA 1
COUNTRY CASE STUDY TANZANIA 89
COUNTRY CASE STUDY ZAMBIA 177

Introduction

These country case studies are part of the strategic *Evaluation of Finland's support to Economic Development, Job Creation and Livelihoods*. The overall evaluation aims to assist the Ministry for Foreign Affairs of Finland (MFA) in understanding its strengths and weaknesses in contributing towards improving the economies of partner countries to ensure more jobs and livelihood opportunities. In order to improve future Finnish development cooperation with partner countries and institutions in this aspect, the overall evaluation assesses how Finland's objectives related to economic development, job creation and livelihoods are being fulfilled through the various thematic approaches, cooperation modalities and funding instruments. An essential aspect of the evaluation is to provide guidance on how Finland might tailor its efforts in the future and add value to the joint efforts and the division of labour in the donor community. The evaluation relates closely, but is not limited, to the Priority Area 2 (PA2) of the Finnish Development Policy (2016), which states that its overarching objective is that developing countries own economies generate more jobs, livelihood opportunities and well-being.

According to the terms of reference, the objectives of the overall evaluation are:

1. To assess the extent to which the objectives of the PA2 on Economy and Jobs are being achieved;
2. To determine what the MFA can learn from its peer organisations, especially the Nordics as well as from emerging international 'best practices';
3. To suggest how the effectiveness of Finnish development cooperation under PA2 can be further developed, including if and how the Results-based Management system can be strengthened.

The purpose of the overall evaluation is primarily to be strategic and forward-looking as well as utilisation focused. Consequently, the main evaluation report provides practical and implementable recommendations on how the cooperation can be made more coherent and relevant and achieve better results.

The Evaluation of Economic Development, Job Creation and Livelihoods consists of several components, which all contribute evidence to the main evaluation report. The components are:

- Country Case Studies of Kenya, Tanzania and Zambia;
- Private Sector Instruments-study;
- Best Practices and peer Review-study;
- Thematic annexes on
  - Energy;
  - Innovation;
  - Taxation, and
  - Women's Economic Empowerment.

Country Case Study

Kenya

Photo credit: Laura Rantanen

Agatha Nderitu
with contributions from Claes Lindahl

Evaluation of Economic Development, Job Creation and Livelihoods
2021/1C

Contents

ACRONYMS AND ABBREVIATIONS 4

SUMMARY TABLE OF KEY FINDINGS, CONCLUSIONS AND LESSONS / IMPLICATIONS 6

1 THIS COUNTRY CASE STUDY REPORT 11

2 APPROACH, METHODOLOGY AND LIMITATIONS 13
- 2.1 The approach of the strategic evaluation 13
- 2.2 Evaluation questions applied to this Country Case Study 14
- 2.3 Methodology applied to this Country Case Study 14
  - 2.3.1 Selection of the Case Countries 14
  - 2.3.2 Methods of data collection and analysis applied 15
  - 2.3.3 Limitations 17

3 CONTEXT ANALYSIS 18
- 3.1 General Country Context 18
  - 3.1.1 Policy framework 18
  - 3.1.2 The economy 19
  - 3.1.3 Governance 21
  - 3.1.4 Poverty 21
  - 3.1.5 Inequality and gender 22
- 3.2 Summary of the Context Analysis 22
- 3.3 Key Donors in the Sector 24
- 3.4 Finnish development cooperation with Kenya 26
  - 3.4.1 Background 26
  - 3.4.2 Finland's Country strategy 2016–2019 26
  - 3.4.3 Support to economic development and job creation: current and future plans 27

4 FINDINGS 36
- 4.1 Achievement of Finland's objectives on economic development, job creation and livelihoods (PA2) 36
  - 4.1.1 Coherence with the overriding Finnish policy framework for PA2 36
  - 4.1.2 Relevance to partner country needs 38
  - 4.1.3 Relevance and effectiveness for the pursuit of transition, and role of the private sector in transition 42
  - 4.1.4 Effectiveness in improving the economy by providing jobs and livelihoods 43
  - 4.1.5 Effectiveness in addressing climate change mitigation and adaptation 48
- 4.2 Complementarity and added value of partnerships built 49
- 4.3 Results Based Management and Knowledge Management: lessons learnt 51

5 CONCLUSIONS 53
- 5.1 Achievement of Finland's objectives on economic development, job creation and livelihoods (PA2) 53
  - 5.1.1 Coherence with the overriding Finnish policy framework for PA2 53
  - 5.1.2 Relevance to partner country needs 53
  - 5.1.3 Relevance and effectiveness for the pursuit of transition, and role of the private sector in transition 54
  - 5.1.4 Effectiveness in improving economies for jobs and livelihoods 54
  - 5.1.5 Effectiveness in addressing climate change mitigation and adaptation 54

5.2 **Complementarity and added value of partnerships built** 55
5.3 **Results Based Management and Knowledge Management** 55

6 IMPLICATIONS AND LESSONS LEARNT 56

Country Case Annex 1: List of documents consulted..58
Country Case Annex 2: People Interviewed...61
Country Case Annex 3: Context Analysis 62
Country Case Annex 4: Other donors in Kenya 78
Country Case Annex 5: The PA2 Portfolio 83

FIGURES

Figure 1 ODA disbursement to Kenya by donor (US$ Million, 2016–2018)..........................25
Figure 2 Sector distribution of Finnfund's new direct investments in Kenya between 2016–2019 30
Figure 3 New investments through funds in three case countries (nr. of investments) 2016–2019. 31
Figure 4 FP BPS for Kenya (2016–2019) 32
Figure 5 FP BPS for Kenya (2016–2019) 32
Figure 6 Annual FP BPS decision for Kenya between 2016–2019......................................33
Figure 7 Sector distribution of Employment in Kenya – 2005–2020 63
Figure 8 Kenya Energy Supply 2010 and 2017 (ktoe) 72
Figure 9 Consumption of Electricity per capita (2014) 72
Figure 10 Ton Co_2/Person 2017...75
Figure 11 Sector distribution of Finnfund's new direct investments in Kenya between 2016–2019 85
Figure 12 New investments through funds in three case countries (nr. of investments) 2016–2019 86
Figure 13 FP BPS for Kenya (2016–2019), % of interventions..86
Figure 14 FP BPS for Kenya (2016–2019), % of commitments 87
Figure 15 Annual FP BPS decision for Kenya between 2016–2019 87

TABLES

Table 1 Kenya's Ranking in the WGI Reports 21
Table 2 ODA sector breakdown. 25
Table 3 List of BEAM Interventions...34
Table 4 The total number projects and commitment in PA2 and PSI projects in Kenya 2016–2019. 34
Table 5 The Logic Model of the Impact Area 2 Increased employment and livelihoods, Kenya Country Strategy 2016–2019 52
Table 6 PA2 Portfolio 83
Table 7 Regional projects classified as PA2 2015–2019 in which Kenya is involved. 84
Table 8 List of BEAM Interventions...88

Acronyms and Abbreviations

AfCFTA	African Continental Free Trade Area
AfDB	African Development Bank
AGOA	African Growth and Opportunity Act
BAF	Business Advocacy Fund
BTI	Bertelsmann Transformation Index
COMESA	Common Market for Eastern and Southern Africa
CSO	Civil Society Organisation
DBI	Doing Business Index
DDD	Doing Development Differently
DFI	Development Financial Institutions
DKK	Danish Kroner
EAC	East African Community
EQ	Evaluation Question
EUR	Euro
FAO	Food and Agriculture Organization
FDI	Foreign Direct Investment
FLC	Fund for Local Cooperation
GDP	Gross Domestic Product
GNI	Gross National Income
IAEA	International Atomic Energy Agency
ICT	Information, Communication and Technology
IFU	Investment Fund for Developing Countries
ILO	International Labour Organisation
IMF	International Monetary Fund
ITC	International Trade Centre
KAM	Kenya Association of Manufacturers
KFS	Kenya Forest Service
KITP	Kenya Industrialisation Transformation Programme
KNBS	Kenya National Bureau of Statistics
KRA	Kenya Revenue Authority
LMIC	Lower Medium Income Country
MESPT	Micro Enterprises Support Programme Trust
MFA	Ministry of Foreign Affairs
MITC	Ministry of Trade, Industry and Cooperatives

MSE	Micro and Small Enterprise
MSEA	Micro and Small Enterprise Authority
MTP	Medium Term Plan
NEDPS	National Export Development and Promotional Strategy
NORAD	Norwegian Agency for Development Cooperation
NPL	Non- Performing Loans
ODA	Official Development Assistance
OECD	Organisation for Economic Co-operation and Development
OECD/DAC	Organisation for Economic Co-operation and Development's Development Assistance Committee
PA2	Priority Area 2
PAYE	Pay as you Earn
PFMRs	Public Finance Management Reforms
PPP	Purchasing Power Parity
PSI	Private Sector Instruments
RARMP	Revenue Administration Reform and Modernization Program
RDE	Royal Danish Embassy
SACCOs	Savings and Credit Co-operatives
SADC	Southern African Development Community
SDGs	Sustainable Development Goals
SIDA	Swedish Development Agency
SMEs	Small and Medium Sized Enterprises
SSA	Sub-Saharan Africa
TMEA	TradeMark East Africa
TOR	Terms of Reference
TVET	Technical and Vocational Education Training
UNFCC	United Nations Framework Convention on Climate Change
US$	United States Dollar
VAT	Value Added Taxes
WB	World Bank
WDI	World Development Indicators
WEF	World Economic Forum
WGI	Worldwide Governance Indicators
WIPO	World Intellectual Property Organisation

Summary table of Key Findings, Conclusions and Lessons / Implications

Findings	Conclusions	Lessons/Implications
Coherence with the overriding Finnish policy framework for PA2 (EQ 1.1)		
Finding 1. At the level of impact statement, Finland's 2016–2019 Kenya Country Strategy Impact 2 is directly aligned with Finland's Development Policy (2016) Priority Area 2, but alignment at the outcome level is unsatisfactory. **Finding 2.** Various approaches and instruments are omitted from the Country Strategy and the linkages and synergies between the various instruments and projects applied under the framework of Priority Areas 2, although improving, are still weak. **Finding 3.** Due to the demand/market driven nature of the PSIs, their interventions are not designed, though encouraged and supported, to align with the Finnish development policy goals.	**Conclusion 1.** In implementation, there was no coherence between the Country Strategy and the overriding Finnish Policy Framework for PA2. The PA2 outcome of the Country Strategy was built around the main bilateral intervention which did not materialise. *(Based on Finding 1)* **Conclusion 2.** While Finnish support to the private sector used a variety of approaches, interventions were, overall, designed as standalone support, and implemented in isolation. This undermined the huge potential to leverage the instruments, which would contribute to greater opportunity to advance the set objectives. *(Based on Findings 2, and 22)*	**L/I 1.** Internal and external coherence should be ensured by broadening the country strategy to include all instruments and clear actions on improving coherence and synergies.

Findings	Conclusions	Lessons/Implications
Relevance to partner country needs (EQ 1.1)		
Finding 4. The Country Strategy noted both 'poverty and growing inequalities' as key structural problems in Kenya and the FLC, EEP, TMEA and PSI interventions have direct relevance to this constraint. **Finding 5.** The portfolio, excluding Finnfund's direct and intermediated investments and some FLC interventions, has on the whole, marginal relevance for the informal sector and smallholder agriculture where high prevalence of poverty exists. **Finding 6.** The FLC, EEP and Finnfund (through its strategy and role as a DFI and because of the OSM targets) projects have a direct primary objective relevant to creating jobs and providing technical and vocational skills for the youth, while for TMEA the relevance is not as direct. **Finding 7.** The Finnish Country Strategy for Kenya (2016–2019) has no explicit approach to engage in the informal sector, but interventions under the FLC, TMEA and PSI like Finnfund are relevant to the informal sector. **Finding 8.** The Finnish Country Strategy for Kenya (2016–2019) has no explicit approach to enhance manufacturing, although various interventions are relevant in that regard, with both direct and indirect contributions. **Finding 9.** Although there is no explicit approach to enhance exports from Kenya in the country strategy, interventions under the FLC and TMEA are directly relevant to this constraint, with some potential that could be better explored for FLC interventions.	**Conclusion 3.** Finland's FLC, regional programmes and PSI instruments address Kenya's main constraints in economic development, although some of the contribution is indirect and also limited in scale. *(Based on Findings 4, 5, 6, 7, 8 and 9)*	**L/I 2.** Based on consultation of this case, although Finland's policy on economic development has been relevant to Kenya's key needs, in most part, the contribution has been indirect and not targeted. In planning for the next programming cycle, the starting point should be on assessing the needs of the country.
Relevance and effectiveness for the pursuit of transition, and role of the private sector in transition (EQ 1.1)		
Finding 10. Although the Finnish Country Strategy was to commence transition from ODA, no real efforts were made in this direction, and there is currently no plan to pursue a transition in the new strategy.	**Conclusion 4.** The Country Strategy had transition only at the level of an idea and none of the interventions in place provide specific strategic support towards transition. *(Based on Finding 10)*	**L/I 3.** If Finland is planning to transition from ODA in Kenya, there is need to set up a specific strategy. This strategy should be long term (more than 5 years) and tied to the 'next' phase of the country strategy.

Findings	Conclusions	Lessons/Implications
Effectiveness in improving economies for jobs and livelihoods (EQ 1.2 and 1.3)		
Outcome objective 1 of PA2: Decent work, livelihoods and income for all **Finding 11.** Although Finland's country programmes, approaches and interventions under the Kenya Country Strategy 2016–2019 did not directly target access to jobs and livelihoods; employment effects occurred as by-products of the regional programmes (EEP and TMEA), but these remain marginal in relation to the overall Kenyan needs. Those that occurred have a strong gender impact. **Finding 12.** Although the FLC interventions directly targeted jobs and livelihoods, the inefficiency of small funding amounts, spread among many beneficiaries and with short implementation periods does not allow them to have substantial impact. **Finding 13.** Of the PSI, Finnfund's role in improving access to livelihoods and income has been significant. **Outcome objective 2 of PA2: A more dynamic and diversified private sector** **Finding 14.** Regional Programmes (EEP and TMEA) have a positive impact on the private sector and economic activity, making them more dynamic and diversified. Finnfund finances investments, in which it can be financially and qualitatively additional. It thus has a positive impact in the private sector activity and dynamism. **Outcome objective 3 of PA2: International business rules and Outcome objective 4 of PA2: Know-how, value chains, technologies and innovation** **Finding 15.** Finland's Country Strategy for Kenya 2016–2019 intended to enhance the business environment in the forestry sector and to enhance innovation and value chains. However, the bilateral programme did not take place and therefore this objective was not achieved. **Finding 16.** Some FLC projects and EEP contribute to know-how, technologies and innovations, but the effectiveness is too early to assess as review is being undertaken a year after completion (especially for FLC). In contrast, the TMEA programme is a key contributor to an improved business environment. **Finding 17.** Team Finland efforts, as per their mandate, are mainly concerned with generating business opportunities for Finnish companies and do not involve measures to improve compliance with standards for international guidelines for responsible business. Finnfund and Finnpartnership on the other hand require that supported companies, both Finnish and Kenyan, comply with international guidelines for responsible business.	**Conclusion 5.** PSIs, FLC and EEP have directly and significantly contributed to decent jobs and livelihoods, with strong gender impacts. The contribution of TMEA has been indirect but also significant. *(Based on Findings 11, 12 and 13)* **Conclusion 6.** While Finland's results in enhancing the business enabling environment and value chains are limited because the intended bilateral programme did not take place, the Regional Programmes (EEP and TMEA) and Finnfund investments have a positive impact on the private sector and economic activity and make them more dynamic and diversified. *(Based on Findings 14, 15 and 16)* **Conclusion 7.** FLC's impact in improving jobs and livelihoods has been strong but marginal. Its potential impact is yet to be fully exploited. *(Based on Finding 16)*	**L/I 4.** The FLC, with its reach especially to vulnerable groups, could be used more strategically by, among others, reducing the number of projects funded thereby increasing amounts; increasing the duration of implementation as well as building sustainability and scale up into the funding decisions.

Findings	Conclusions	Lessons/Implications
Effectiveness in addressing climate change mitigation and adaptation (EQ 1.3)		
Finding 18. Although the Finnish Country Strategy for Kenya does not directly target adaptation to climate change, EEP contributes to the uptake of renewable energies and CO_2 emissions; HSHC to drought resistant resources while TMEA, with the direct support of Finland, is now integrating climate change into its projects.	**Conclusion 8.** The EEP especially and TMEA, FLC and some PSI instruments have played a vital role in addressing the problem of climate change. *(Based on finding 18)*	**L/I 5.** Given the continued negative impacts of climate change, especially on Kenya's agricultural sector which is the leading employer in the country, Finland should continue supporting climate change mitigation and adaptation through projects like EEP. The next country strategy should ensure that interventions have climate change related targets, where applicable.
Complementarity and added value of partnerships built (EQ 2.3)		
Finding 19. Although there was no bilateral programme, which meant that the main avenue for coordination and partnerships in the PA2 has been in the regional programmes, Finland collaborated with other donors active in the forestry sector before its own programme was suspended. **Finding 20.** Under the regional programmes, Finland has successfully built partnerships with other donors and development institutions in the majority of the projects and programmes which took place in Kenya 2016-2019. **Finding 21.** While cooperation between the Embassy and PSIs is insufficient, it does take place strongly between the various PSIs. All Finnfund investments are partnerships.	**Conclusion 9.** Partnerships under PA2 did not materialise but under the regional programmes they have been successful, as have those between PSIs. Opportunity to strengthen coordination and collaboration between PSIs and the Embassy exists. *(Based on Finding 19, 20 and 21)*	See L/I 1 above

Findings	Conclusions	Lessons/Implications
Results-based Management and Knowledge Management (EQ 3.5)		
Finding 22. The 2016-2019 Country Strategy, its logic model and the portfolio of interventions have been aligned with the objectives of policy priority area 2 of Finland's 2016 Development Policy but indicators were weak in alignment. **Finding 23.** The country strategy is developed as a collaborative effort between the Embassy and the MFA. In In practical terms though, the decision making is centralised, while the planning, scoping, design, implementation and oversight of the strategy is decentralised.	**Conclusion 10.** The Country Strategy could have considered the regional programmes more fully and should have included different modalities of implementing the PA2 objective to spread the risk of targeted implementing partners not being suitable. In essence, the programmatic risk of over-focusing an impact area into a single intervention was realized. (Based on Finding 22) **Conclusion 11.** The Embassy team projects excellent understanding of the country needs and constraints and are likely to provide valuable contribution in designing Country Strategy and Country Programme for Development Cooperation with interventions. (Based on Finding 23)	**L/I 6.** In designing country strategies, different modalities for delivering specific objectives should be considered to ensure that the objectives still get implemented when a partner falls through or other changes occur. The extensive knowledge of the country teams at the Embassy should be utilised in designing the country programme for development cooperation and the country strategy to ensure they are closely aligned to country needs.

1 This country case study report

This country case study of Kenya is one of the three country case studies. The main purpose of each country case study is to provide a contributory evidence stream to the overall strategic evaluation and main evaluation report. Therefore, each country case study applies the same relevant evaluation questions of the strategic level evaluation, while adapting their analysis to the country context (see Chapter 2 for more on the approach, methodology and limitations).

The specific objectives of each country case study are:

- Provide an analysis of the critical constraints and needs in the case country in terms of economic development for job-creation and livelihoods, especially for women, youth and the poor;
- Assess Finland's Country Strategy in the case country for 2016–2019 in terms of the economy and jobs objective and how it was translated into interventions, classified as Priority Area 2 (PA2). This also includes the Private Sector Instruments (PSIs);
- Review the results of this strategy and interventions as they are shown in existing results-reporting;
- Place the strategy and interventions and their results in the context of Finland's policy framework for PA2 and the needs and constraints of the case country in terms of economy, jobs and livelihoods;

The case study is explicitly not a full evaluation of Finland's country-level portfolio, which would be beyond the scope of this evaluation. Accordingly, it does not provide recommendations, but rather lessons/implications. As part of the utilisation-focused model of the strategic evaluation, the lessons and implications presented in the country case studies are either country-specific or general. These are meant to help inform the relevant Embassy and country team (country-specific lessons/implications) and/or other country teams in the MFA (general lessons/implications) in their work, including in finalizing the next Country Strategy and Country Programme for Development Cooperation.

Regarding the Private Sector Instruments (PSIs), the country case studies focus mainly on possible synergies of PSI interventions with other instruments in Kenya, while the analysis of the ownership/government guidance and the MFA's RBM vis-à-vis PSIs is made in a separate PSI-study, annexed to the main evaluation report.

This country case study report consists of a summary table and six chapters. The summary table, presented at the beginning of the report, is meant to provide a compact overview of the country case study findings, conclusions and implications/lessons. The evidence-chains to support each statement are found in the corresponding chapters of the report. This Chapter gives an introduction to the country case study report and Chapter 2 describes the approach, methodology and limitations of the case study in the context of the overall strategic evaluation. Chapter

3 provides the context analysis of Kenya's critical constraints and needs relating to economic development for job creation and livelihoods. The context analysis also includes an overview of other key donors supporting economic development and job creation in Kenya and details Finland's 2016–2019 Country Strategy and portfolio of interventions in Kenya. Chapter 4 presents the evaluation's findings against relevant evaluation questions, including findings from a review of the emerging results of Finnish-funded interventions. Based on the findings, conclusions are drawn in Chapter 5. Finally, Chapter 6 presents lessons/implications for what Finland may do in the future in Kenya to support economic development and what other country teams can learn from the Kenyan experience.

2 Approach, methodology and limitations

2.1 The approach of the strategic evaluation

A strategic evaluation is commonly defined as an evaluation of a strategy with the purpose of determining if the strategy yielded expected results and whether the strategy needs to be modified in the future for better results. The evaluation of Finland's support to economic development, jobs and livelihoods is more complex than that. First, there is no strategy as such for PA2 and the private sector instruments that can be evaluated. There are strategy elements for parts of the portfolio and there is the Government's overriding policy framework, for example manifested in the objectives for the Priority Area at different times, but not a comprehensive PA2 strategy as such. Rather, the actions under PA2 is an assortment of many forms of interventions, large and small, without much of an apparent internal coherence or common strategic orientation.

Second, the Terms of Reference (annexed to the main report) points to a more ambitious approach than only assessing results of the past and on-going activities to guide the future. It also includes learning from peers and international best practices, as well as looking beyond to what extent the support fulfils the stated objectives.

In view of this, the evaluation's approach is both to take stock of the results from past interventions, i.e. "***what has been***", and to draw lessons for the future to identify and suggest "***what could be***". The evaluation follows a mixed-methods, iterative approach where multiple streams of evidence in the form of various evaluation components drive triangulation of both data and analysis of findings. Regarding the evaluation's focus on accountability (and learning), the streams of evidence take the form of the Country Case Studies of Kenya, Tanzania and Zambia, the PSI Study and the Thematic Annexes of Energy, Innovation, Taxation and WEE. For the key part on learning, best practices and peer review, the streams of evidence are formed from assessing on the one hand, separately, the Nordic peers Denmark, Norway and Sweden, and on the other hand, framing the analysis of the Nordics with the global trends context. Such parts of the evaluation constitute the "what has been", and their respective streams of evidence provide the basis for the "what could be", i.e. the strategic, forward-looking aspect of the evaluation. The approach and methodology for the strategic evaluation is fully described in the main report and its Annexes.

2.2 Evaluation questions applied to this Country Case Study

This Country Case Study has applied the relevant evaluation questions of the strategic level evaluation, with limited adaptation for the contextual specifics of the case country, contributing to "***what has been***". The sub-evaluation questions to which it contributes evidence are as follows:

Main evaluation question	Sub-evaluation question
EQ1 To what extent and how are the objectives of the Priority Area 2 on economic development, jobs and livelihoods being achieved and how relevant and effective have the interventions been in relation to partner country needs?	**1.1.** How coherent have the country strategies, approaches and interventions been with the overriding Finnish policy framework for economic development and job-creation in the three case countries? How relevant have they been related to country needs? Have they been relevant and effective for the pursuit of transition (where applicable)?
	1.2. In what way and how effectively have Finland's country programmes, approaches and interventions contributed to improve the economies and provide jobs and livelihoods especially for women, youth and the poor in the three case countries, and in particular decent, decent job?
	1.3. In what way and how effectively have the country programmes, approaches and interventions related to economic development, job creation and livelihoods in the three case countries contributed to advancing the Human-Rights Based Approach and cross-cutting objectives of gender equality, reduction of inequality, and climate change mitigation and adaptation?
EQ 2 What can the Ministry of Foreign Affairs learn from its peer organisations, especially the Nordics as well as from emerging international 'best practices' for more relevant, effective and coordinated support for economic development, jobs and livelihood opportunities?	**2.3.** Have partnerships been built between Finland's economic development interventions and those of other donors and stakeholders? Have the Finnish approaches and interventions, including pooled funding and core-type of funding, been complementary, coordinated stakeholders' and donors' efforts and adding value?
EQ 3 How can the effectiveness of Finnish development cooperation related to economic development be further developed, including if and how the Results-based Management system can be further refined as far as Priority area 2 is concerned?	**3.5.** What lessons can be learnt for Finland's Results-based Management and Knowledge Management, including reporting on results, from the performance under economic development, jobs and livelihood?

2.3 Methodology applied to this Country Case Study

2.3.1 Selection of the Case Countries

The selection of the three case countries – Kenya, Tanzania and Zambia – is based on a set of priority criteria:

- Sub-Sahara Africa, the focus of Finland's development assistance accounting for the main Official Development Assistance (ODA) streams. Furthermore, the MFA is preparing an Africa strategy with linkages to the emerging EU strategy for Africa.
- LDCs as the focus of Finland's development assistance.
- Inclusion of countries in a transitional phase in Finnish development cooperation.
- Core partner countries to Finland.

- Countries with a wide range of PA2 interventions in order to provide the most comprehensive picture possible on how various approaches and instruments function.

2.3.2 Methods of data collection and analysis applied

The Results Framework/Theory of Change approach: The 2016 Development Policy provided impact and outcome statements and a short narrative on "how this will be done". This Country Case Study assesses to the extent possible, results against the expected impact and outcome objectives.

Critical problem analysis: The "bottom-up" approach of the overall strategic evaluation assesses Finland's policies and interventions under PA2 against the partner countries' most critical challenges. This Country Case Study specifically assesses whether Finland is addressing the critical constraints in its support to economic development in Kenya, especially related to job creation for the poor, women and youth.

The Country Case Study provides evidence, which is assessed against the country's critical constraints, identified on the basis of the Evaluation team's context analysis, against the development policy/PA2 results frameworks. This allows for assessing the relevance and coherence of the portfolio, as well as for providing any lessons learned/implications for the policy to better accommodate needs and successful interventions, and for the portfolio to be adjusted to meet the policy priorities.

More specifically, the Country Case Studies include the following elements:

Analysis of the critical constraints in the three case countries in terms of economic development, job creation and livelihood opportunities especially for women and youth.

An analysis of the Finnish Country Strategies including 2013–2016 but focusing on 2016–2019, identifying the elements of the strategies that focus on economic development, job creation and livelihood opportunities; identifying the objectives and envisaged interventions in the strategies; analysing the coherence of the 2016–2019 strategy with the overall Policy Framework for PA2 as elaborated in the 2016 Development Policy, and how the strategies were expressed in envisaged interventions under the PA2 theme.

Mapping the portfolio of interventions under PA2 for the period 2016–2019, identifying what Finland has financed for the period through different themes, sectors, channels and modalities. The portfolio mapping is based on data provided by MFA and the PSIs. It uses the PA2 classification as elaborated in the portfolio analysis of the main report and also covers some major interventions under other Priority Areas if these are considered essential for contributing to economic development and job creation. Additionally, the mapping includes regional programmes that cover the case country.

A country portfolio analysis based on the following interventions:

- Interventions registered 2016–2019 for PA2 as main or secondary objective.
- Regional programmes registered as PA2, covering the case country and implemented during the 2016–2019 period.
- Interventions under the Private Sector Instruments with financial flows (investments, loans and ODA) in the case country during 2016–2019.
- Interventions under other Priority Areas which are essential as means for economic development and job-creation.

Sampling among interventions: The number of interventions under PA2 is far too large to get a detailed overview of the results and requires sampling. The applied principles of sampling are 1) major interventions in financial terms 2) interventions which the MFA and Embassies consider to be of particular interest; 3) interventions for which there is available results-reporting.

Analysis of the results of the portfolio as reported in evaluations, mid-term reviews, completion reports and other forms of results-reporting. The document review has been complemented by interviews with selected stakeholders as a means of validation and triangulation. It must be stressed, given the considerable number of projects in the country portfolios, no independent search for primary data in the field for specific interventions has been attempted by the evaluation, nor does the evaluation provide a second opinion on documented results unless there is clear reason to do so.

Gender equality, equality in society, climate change mitigation and adaptation, and human rights-based approach are assessed throughout strategy, approaches and interventions.

Mapping of the "donor landscape" engaged in similar activities as Finland in the respective case country. This mapping is document-based and complemented by interviews of key informants in the MFA, the Nordic peer organisations and the main donors/MDBs in the focus area. The emphasis is on the Nordics engaged in inclusive economic development and job creation with a focus on women, youth and the poor.

Generalisation: The country contexts in the three case countries are diverse (as are also the Finnish interventions), but generalisation is done in the main evaluation report at the level of Finland's work with its core partners in Africa. Hence, this is useful for the Africa strategy formulation and for the Country Strategies and Country Development Cooperation Programmes for Kenya.

Reporting: The country studies follow a uniform format and to the extent possible the same or similar sources. The Country Case Studies constitute Annexes to the main evaluation report. For reasons of volume of the overall reporting, these Country Case Studies are presented in Volume 2.

Validation: The draft country report was commented on by EVA-11, the evaluation's Reference Group, the Embassy in Nairobi and the Country Teams at the MFA. A specific validation workshop (online) was also held with the same stakeholders on October 14, 2020.

As indicated above, the main data collection methods and sources applied to the Country Case Studies are:

Secondary data: The Country Case Study builds upon existing results-reporting and does not repeat already available studies and research but use existing findings.

Specifically, the country case study makes use of:

- Mapping of the Finnish interventions under the PA2 2016–2019 also including investments and projects by the PSIs.
- Relevant documentation for the evaluation, including relevant policy and steering documents by the MFA, intervention data, country studies, strategies, annual reports, intervention specific reporting, especially result-reporting, etc.
- Analysis of recently completed relevant centralised and decentralised evaluations, the preparatory study for the evaluation and any other preparatory material (such as workshop protocols, etc.) both of more general nature and for interventions selected to be reviewed.

- Reports, studies, data and research on the country context, labour markets, dynamics of the economy, sector specific development, government policies on economic development and job creation, and Finnish cooperation with Kenya produced by the MFA, the PSIs, international organisations such as the World Bank, African Development Bank, IMF, OECD, WIDER, ILO, UNDP, World Economic Forum, etc., the Kenyan government, other donors, academia and civil society. The consulted documents are available in the self-standing bibliography of this report and are not repeated in the main evaluation report.

Primary data: Primary data has mainly been collected through Key Informant Interviews (KIIs) with relevant individuals in Finland, peer countries, Kenya and elsewhere. The KIIs have been conducted both remotely by telephone/over the Internet and in person by the Evaluation team members. KIIs cover:

- MFA staff in Finland, Kenya, Tanzania, Zambia and other countries;
- Staff of the PSIs located in Finland and other countries;
- Partner country government representatives;
- PSI stakeholders such as private sector companies, NGOs and other, located in Finland and Kenya;
- Selected bilateral and multi-bi project and programme staff, partners and other stakeholders located in Finland, Kenya and other countries;
- Selected multilateral organisations' staff;
- Selected Nordic Peer Country representatives.

2.3.3 Limitations

As a case study rather than a full evaluation, this report does not provide a definitive performance assessment of all Finnish assistance to economic development, job creation and livelihoods in Kenya during the period 2016–2020. Rather, it offers limited insights, generated through a systematic approach, to inform a wider evaluative process.

The case study is based on analysis of MFA statistics, review of project documentation (including external reviews and evaluations where available), and stakeholder/partner interviews. Due to the COVID-19 pandemic and in accordance with the agreed methodology for the wider strategic evaluation, the evaluation has not involved a field mission by the core team to Kenya nor visits to individual projects or interviews/focus groups with direct beneficiaries. Instead, experienced country experts have been engaged and worked closely with the core team members to identify and interview relevant informants, gather relevant information as well as ensure adequate reflection of the country context and perspective in the report.

Results data for the study is based on a combination of available project reports, reviews/evaluations where available and interviews with selected stakeholders. The country case study team were not able to independently verify results, and nor were they required to do so under the terms of the Case Study. Results data such as on jobs created is therefore not available for all relevant projects/programmes and presented findings are therefore caveated accordingly.

Notwithstanding these limitations, the case study offers insights into Finnish assistance to Economic Development, Job Creation and Livelihoods in Kenya.

It should also be noted that the COVID-19 pandemic, at least in the short-term, will have a significant negative impact on the Kenyan economy and job market. Trends and data used in the report for the pre-COVID-19 time are likely not be valid for 2020 on almost all fronts, while the outlook for 2021 and beyond is at best uncertain. Throughout the report we have briefly discussed the likely or potential effects of the pandemic.

3 Context analysis

3.1 General Country Context

3.1.1 Policy framework

The Government of Kenya has, through various policy documents, expressed its intention to address the issue of economic development and poverty reduction through job creation.

Kenya's Vision 2030 is the current Government's overriding development plan. It was launched in 2008 covering the period 2008 to 2030 with the objective of making Kenya a "newly industrializing, middle income country providing high quality life for all its citizens by the year 2030 in a clean and secure environment". The vision is divided in three pillars; i) a Social Pillar (covering education & training, health, water & sanitation, environment, housing & urbanization and gender, youth, sports & culture); ii) a Political Pillar that aims to create a "democratic political system that is issue-based, people-centred, result-oriented and accountable to the public" through reforming and capacity building local authorities as well as developing and implementing a decentralization strategic framework; and iii) an Economy and Macro pillar, which identifies six priority sectors that "promised to raise GDP growth rate to the region of 10% in a number of years." These sectors were Tourism, Agriculture and Livestock, Wholesale & Retail, Trade, Manufacturing, Financial Services, Business Process Offshoring and IT-Enabled Services.[1]

The *Sessional Paper No. 9 of 2012 on National Industrialisation Policy framework (2012–2030)* sets the framework for industrial development and targets value addition and enhancing the role of SMEs in industrial development. The Kenya Industrialisation Transformation Programme (KITP) of 2015 envisages interventions to stimulate industrial output, with the aim of raising the manufacturing sector's contribution to GDP from 8% in 2017 to 15% of GDP by 2022[2].

Under the *National Export Development and Promotion Strategy (NEDPS)*, which was crafted in 2017 and launched in 2018, the government aims to address the country's poor export performance that is characterised by two main challenges: one, a narrow export destination markets, with 13 countries accounting for about 70% of all Kenya's exports in 2016, and two, a narrow product base, with 5 broad product categories accounting for 56% of the total exports by value. With a vision to 'Transform Kenya's economy through export led growth in industrial, agricultural and trade in services development', the NEDPS focuses on seven priority sectors, including manufactured products; agriculture; livestock & livestock products; fisheries; handicrafts; emerging sectors (mining and petroleum); and trade in services (business services, education services, financial services, tourism and travel services, health services, transport services, ICT services and recreation, cultural and sports services) to grow export growth from 15% in 2018 to 35% in 2022. The Strategy notes that the framework for enhancing exports has already been established through various preferential arrangements under the East African Community (EAC), Common Market for Eastern and Southern Africa (COMESA), EAC-EU Economic Partnership Agreement (EPA), the African Growth and Opportunity Act (AGOA) with the USA as well as the expected markets under the Tripartite arrangement of EAC, COMESA and SADC and the African Continental Free Trade Area (AfCFTA).[3]

1 Kenya Vision 2030 https://vision2030.go.ke/#
2 National Industrialisation Policy framework (2012-2030) http://industrialization.go.ke/
3 National Export Development and Promotion Strategy (NEDPS), 2018 http://industrialization.go.ke/

In 2017, President Kenyatta introduced in his second term the '*Big Four Agenda*' on 1) Food security; 2) Affordable housing; 3) Manufacturing and 4) Affordable health care for all. Kenyatta's Big Four constitutes the Third Medium Term Plan for the 2030 Vision, covering the period 2017–2022. In terms of food security, the Plan envisages 100% food security and nutrition commitment which will be achieved by increasing large scale production of staple foods under irrigation in a private/public partnership. Aside from large scale crop production, the government also aims to boost the capacity of small-scale food producers. In terms of manufacturing, the Big Four agenda has the target to increase the contribution of the sector to GDP from 9% to 20% by 2022 and to create 500,000 new jobs by 2022; both to be achieved through improved business environment (as measured by the Doing Business index); creation of industrial parks and established export zones; establishment of a US$500 million SME development fund and a guarantee scheme for loans to SMEs. Exports of manufactured goods are expected to grow by 20% annually helped by the establishment of a Kenya ExIm bank, opening up new markets in China and India, and establishing an export strategy, among others. [4]

Half way through the Big Four agenda, the performance has overall been slow, and a newspaper report in early 2020 concluded that only 1% of the targets had been achieved.[5] In March 2020, the Parliament Budget Office concluded that i) it was extremely difficult to achieve the Big Four agenda if national revenues continue to decline, ii) the programmes implemented so far have not spurred the manufacturing sector whose share of GDP has been declining, and iii) the realisation of the agenda on food and nutrition security appears to be bleak.[6] Furthermore, COVID-19 has drastically altered the underlying conditions for the Big Four Agenda as discussed in other another section.

3.1.2 The economy

In 2014 Kenya, which has a population of about 50 million, became classified as a Lower-Middle Income Country (LMIC) by the World Bank (WB). During the last decade Kenya has had an economic growth rate of 5–6% per annum and is one of the fastest growing economies in Sub-Sahara Africa (SSA). The Kenyan economy is dominated by services, accounting for 43% of GDP followed by agriculture, including livestock accounting for about 34%. Industry accounts for 16% (2018), and manufacturing 8% (2018) (WB 2018; KNBS 2018).[7] The trend of the last decade is a shift towards a higher share of agriculture which has grown from 22% of GDP in 2008 while the share of services sector has contracted, and manufacturing has been largely stagnant. The Kenyan economy is, relative to SSA, less trade dependent and export oriented. Exports in 2018 accounted for 13% of GDP, compared to SSA's 25% and have been on a declining trend. For Zambia and Tanzania, the exports were 37% and 15% respectively (WB 2018).

In a conventional model of development from an agrarian to an industrial economy, Kenya might appear to move backwards. But the pattern is more based on comparative advantages in global economic systems, especially in export agriculture commodities such as coffee, tea, horticulture products and flowers and in tourism, combined with lack of such advantages in manufacturing in global value chains, a space occupied by East Asia. While agriculture in relative terms has performed well, Kenya is an importer of food and about 30% of the population is undernourished according to the United Nations Food and Agriculture Organisation (FAO).[8] Smallholder agriculture has been neglected by governments and donors alike over decades. However, in the Kenyan

4 https://www.president.go.ke/enhancing-manufacturing/
5 https://www.theeastafrican.co.ke/tea/news/east-africa/only-1-percent-of-kenya-s-big-four-agenda-targets-met-so-far-1435104
6 https://www.nation.co.ke/kenya/news/dwindling-revenues-cast-doubts-on-uhuru-s-big-four-agenda-255486
7 Industry and manufacturing sectors are captured separately in the World Bank's World Development Indicators (WDI) as well as in the National Economic Surveys. WDI puts manufacturing at 8% in 2018, while the Economic survey puts it at 7.8% for 2018.
8 http://www.fao.org/faostat/en/#country/114

government's *Vision 2030*, one of the objectives is self-sufficiency in food and a number of policy measures have been introduced. The main thrust of the government's objective, nevertheless, is that Kenya by 2030 should be a newly industrialized middle-income country propelled by fast industrial development over the coming decade.

The World Bank in its recent country reporting (2019) saw Kenya's future economic development in positive light:

> *"Kenya has the potential to be one of Africa's success stories from its growing youthful population, a dynamic private sector, highly skilled workforce, improved infrastructure, a new constitution, and its pivotal role in East Africa".* [9]

However, the Bank also listed many challenges for this potential to be fulfilled, including poverty, inequality, governance, the skills gap between market requirements and the education curriculum, climate change, low investments and low firm productivity. In early March 2020, IMF issued the following statement of the Kenyan economy and its macro-economic performance:

> *"Kenya's economy continues to perform well. Real GDP growth was an estimated 5.6 percent in 2019, driven by the continued resilience of the service sector. This helped offset a slowdown in agriculture due to delayed rains in the first half of the year and excessive rains later in the year … The external current account deficit narrowed further to 4.6 percent of GDP from 5.0 percent in 2018, mainly due to lower imports of capital goods and petroleum products, which more than offset a decline in goods exports (e.g., in tea and coffee). Remittances remained strong. External buffers are healthy, with foreign exchange reserves increasing to USUS$9.1 billion (5.4 months of imports) at end-2019".* [10]

In terms of export performance, a World Bank study in 2012 claimed that

> *"Kenya's economy has been running on one engine. Kenya's strong engine is domestic consumption, which accounts for 75 percent of Gross Domestic Product. Kenya's weak engine remains its exports, which have been declining sharply in relative importance. Kenya's top four main exports do not earn enough to pay for oil imports, not to mention other imports. It will be very difficult for Kenya to achieve high growth over an extended period of time because of its existing economic imbalances. Kenya needs to increase its export competitiveness."*[11]

The situation has not changed since then but rather worsened. The export earnings are two thirds made up of agriculture products dominated by traditional products such as tea, coffee and horticulture. Petroleum products in raw form have become another major export item, while manufactured product export is small and mainly comprising agro-processed products (including livestock). As noted earlier, Kenya's exports account for only 13% of GDP; and are concentrated in only 13 export destinations that account for about 70% of all Kenya's exports in 2016, and a narrow product base, with 5 broad product categories accounting for 56% of the total exports by value. Furthermore, there is a strong negative trend from the early 1990s when it peaked at nearly 40% of GDP.[12]

The COVID-19 pandemic has significantly altered IMF's prediction. Forecast for 2020 is a stagnant economy or possible negative growth. In addition, it has had a severe negative impact on Kenya's trade performance, most notably in the tourism sector, and exports of horticulture and flowers.

9 https://www.worldbank.org/en/country/kenya/overview
10 IMF (2020) End of mission press release March 2020.
11 "World Bank (2012). Kenya Exports Performance Overview. World Bank, Washington, DC.
12 https://data.worldbank.org/indicator/NE.EXP.GNFS.ZS?locations=KE. See also National Export Development and Promotion Strategy (NEDPS), 2018 http://industrialization.go.ke/

3.1.3 Governance

Kenya initiated in 2013 one of the most ambitious devolution reforms in the world with transfer of legislative and executive powers to 47 counties.[13] The reform process is working reasonably well, albeit with expected transitional challenges. Kenya is also considered to have taken major steps to a functional democracy since the enactment of the new constitution in 2010, although this was followed by periods of political disturbances around the election season. There is also fragility due to the instability in the region. In the Worldwide Governance Indicators (WGI) Reports, which measure six broad dimensions of governance for over 215 countries and territories i.e. (I) Voice and Accountability; (II) Political Stability and Absence of Violence; (III) Government Effectiveness; (IV) Regulatory Quality; (V) Rule of Law; and (VI) Control of Corruption, Kenya is ranked in the 2019 Report among countries with an improved score.[14] The score rating is linked to the socio-political and economic reforms since 2010 with the new Constitution. Below is a table of Kenya's ranking against the six dimensions for 2017 and 2018.

Table 1 Kenya's Ranking in the WGI Reports

Dimensions	2017	2018
Voice and accountability	40	35
Political stability/no violence	12	12
Government effectiveness	40	39
Regulatory quality	44	44
Rule of law	38	38
Control of corruption	15	19

Source: Worldwide Governance Indicators

Corruption is one of the dimensions where a decline is noted and is considered one of the major constraints for democratic (and economic) development. Kenya is at the bottom of the Transparency International corruption index, ranked as 137 of 180 countries, well below Tanzania (96) and Zambia (113).[15]

In the Bertelsmann's Transformation Index (BTI), which combines difference dimension of governance such as rule of law, stability of democratic institutions, political and social integration, steering capability etc., Kenya was placed at 68 of 129 countries. In the index, Kenya has shown an improving trend during the 2010s.[16]

3.1.4 Poverty

Several measurements can be used to define poverty. One is the World Bank indicator of economic poverty as the population with an income below US$1.9 per person and day in PPP. Up to 2019, Kenya shows a declining trend and is now at about a third of the population. This is low in a Sub-Saharan context but on the high side compared to other lower-middle-income countries. In terms of multidimensional poverty as defined by the Oxford Poverty and Human Development Initiative, about 30% of the population is defined as poor.

The majority of Kenya's income-poor are engaged in agriculture. As a result, rural poverty is more common than urban poverty, and there are also considerable differences in poverty between regions of the country with up to 70% in poverty in the north-east.[17] Nevertheless, the incidence

13 Uusihakala, J. (2015): Evaluation. Finland's development cooperation with Kenya 2007–2013
14 Worldwide Governance Indicators, https://datacatalog.worldbank.org/dataset/worldwide-governance-indicators\
15 https://www.transparency.org/country
16 https://www.bti-project.org/en/reports/country-reports/detail/itc/ken/itr/esa/
17 ODI (2018) Understanding poverty in Kenya. A multidimensional analysis

of poverty has reduced faster in rural areas than in urban ones partly due to better prices in agriculture. The World Bank noted in 2019 that

> *"…households that exclusively engaged in agriculture contributed 31.4 percent to the reduction in rural poverty. Furthermore, agricultural income remains the largest income source for both poor and non-poor households in rural areas".*[18]

In terms of means to reduce poverty, the World Bank argues for "a more focused effort on redistributive policies, such as social protection programs and equality of opportunities, [which] can help accelerate poverty reduction going forward."[19] It is worth highlighting that COVID-19 is likely to impact the poor disproportionally due to less or lack of safety nets and overall vulnerability. Consequently, the trend of declining poverty is likely to reverse at least in the short-term.

3.1.5 Inequality and gender

Inequality has declined in Kenya. The percentage of GNI accruing to the bottom 40% of the population has increased from 5% in the 1990s to near 10%, while the share of the economy of the top 10% income level has declined over the same period (2017).[20] The World Bank attributes this to economic growth rather than a change in the distribution of resources, but also to the pro-poor economic growth policies undertaken by the government.[21] However, not all observers are as satisfied with the progress on equality in Kenya. Oxfam reports that the less than 0.1% of the population owns more than the rest 99.9% and that the number of super-rich is one the fastest growing in the world.[22]

The World Bank's poverty and gender report 2015/16 concluded that Kenyan women, as in other African countries, are more likely to live in poor households than men and this is particularly the case for the age group mid-20s and until 50s. Moreover, women who are separated, divorced, or widowed are more likely to be poor (compared to men). Inequality is also seen in access to land, as well as its ownership, both of which are crucial to support various economic activities as well as being a means to better living for women. Although various Acts such as the Marriage Act, The Matrimonial Property Act, Land Registration Act and the Law of Succession Act all protect women's rights to property, including inherited land, implementation of the laws are beset by various challenges, including poor enforcement and lack of means to pursue the rights accruing from the laws. Inequality is expected to increase because of COVID-19.

3.2 Summary of the Context Analysis

This section presents a summary of the key critical constraints in Kenya in the context of an improved economy, job-creation and livelihoods. The section is drawn from the full context analysis, which is available in Country Case Annex 3: Context Analysis.

1. **Despite sustained robust economic growth, 30% of the Kenyan population is still poor and inequality is still high, with 0.1% of the population owning more than the rest of the 99.9%.**

Poverty affects both rural and urban areas, disproportionately impacting women. Although the majority of Kenya's income poor are engaged in agriculture, the incidence of poverty has reduced much faster in rural areas, mainly due to income from agriculture. Among the main ways to address poverty is enhancing equality of opportunities, especially across those most vulnerable.

18 http://documents.worldbank.org/curated/en/820861554470832579/pdf/Kenya-Economic-Update-Unbundling-the-Slack-in-Private-Sector-Investment-T
19 World Bank (2018) Kenya poverty and gender assessment 2015/2016
20 World Inequality Database https://wid.world/country/kenya/
21 http://povertydata.worldbank.org/poverty/country/KEN
22 Oxfam

This constraint is recognised in the World Bank (2018) Kenya Poverty and Gender Assessment; the ODI (2018) Understanding Poverty in Kenya; The World Inequality Database; the Oxfam Inequalities Report (2017).

2. **Providing technical and vocational skills for youth as well as creating jobs for them is one of Kenya's greatest challenges, if not the most important one.**

The Kenyan economy is unable to provide jobs, especially formal jobs, to the 800,000 new entrants in the labour market annually. Youth unemployment is estimated to be as high as 11.4% (2015/6 Labour Survey), with other figures putting it at 39% (through factoring all youth, including those in school but of working age). Among the unemployed youth are young females, especially in rural areas, who constitute the largest share of unemployed youth. In addition, rural youth in Kenya primarily earn their living in informal jobs within the agriculture sector, which is considered the largest 'employer' of Kenyan youth[23]. Youth unemployment is compounded by the fact that 90% of all unemployed young people lack vocational skills according to the Cabinet Secretary for Youth and Gender Affairs. This study is complemented by an ILO study on youth unemployment in Kenya, which found out that although fostering economic growth and sustainability are important, boosting tertiary school attendance and providing targeted vocational training to young people, particularly women, would be the most effective measures for improving youth employability.[24] Furthermore, radicalization of Kenya's youth, especially along the coastal region, is thought to largely stem from unemployment and marginalization.[25]

This constraint is also underscored in the 2019 Census data undertaken by the Kenya National Bureau of Statistics; is highlighted by the World Bank (2016) Informal Enterprises in Kenya Survey and by the Federation of Kenya Employers (cite Report).

3. **Informality of the economy is entrenched, and the informal sector is taking an increasingly larger role in the creation of jobs and livelihoods.**

The informal sector provides about a third of Kenya's GDP and accounts for 83% of the overall labour force.[26] In addition, 95% of Kenya's businesses are in the informal sector and 90% of the new jobs are created in this sector. Furthermore, informality is often not a temporary stage in a process towards growth and formality but rather a dynamic and expanding large sub-sector of the economy on its own with informality as part of the business concept. The absence of a legal minimum wage level in the informal sector adds to its flexibility to absorb employees. Jobs in the informal sector are often poorly-paid and are mainly concentrated in low-productivity sectors such as informal retail trade, hospitality and "jua kali" – the colloquial term for persons who work by the roadside, under the hot sun' sub-sectors.[27]

This constraint was noted in the MFA Political Analysis 2019; the World Bank Study on Informal Enterprises in Kenya (2016); the AfDB African Economic Outlook (2020).

4. **Kenya's manufacturing sector is weak.**

The transformation from primary product producers, which is rapidly taking place in Asia, has largely by-passed Kenya. Manufacturing's share in GDP has remained around 9% for more than a decade, and manufacturing value added is only 5% of GDP. Rapid industrialization is a corner stone of Kenya's Vision 2030 and its major challenge.

This constraint is recognised in the Kenya Vision 2030; the Big Four Agenda; and the ODI (2017) Ten policy priorities for transforming manufacturing and creating jobs in Kenya.

23 Hall, S. (2017) Youth employment in Kenya, A literature review, British Council & UK Aid
24 ILO (2013) Understanding the drivers of the youth labour market in Kenya.
25 MFA (2019) Political economy assessment. Kenya
26 Kenyan Bureau of Statistics and Institute of Economic Affairs, Most data from the mid 2010s,
27 Ibid

5. **Kenya is underperforming as an open economy with limited, and, to a large extent, undiversified exports dominated by primary products and a persistent negative trade balance.**

Kenya's exports account for only 13% of GDP and are concentrated in only 13 export destinations that account for about 70% of all Kenyan exports in 2016, and a narrow product base, with 5 broad product categories accounting for 56% of the total exports by value.

This constraint is recognised in the National Export Development and Promotion Strategy (NEDPS), 2018.

6. **Adaptation to climate change is critical for the Kenyan economy and job-situation, especially to create resilience in agriculture against changing weather conditions.**

Agriculture accounted for 52% of GDP, 56% of employment, and 65% of foreign exchange earnings in 2018. Changes in weather patterns manifested in droughts and floods result in slowed economic growth, lower employment, reduced food security as well as displacement of vulnerable communities. The cumulative impacts of climate change have the potential to reverse the progress made towards attainment of the SDGs.

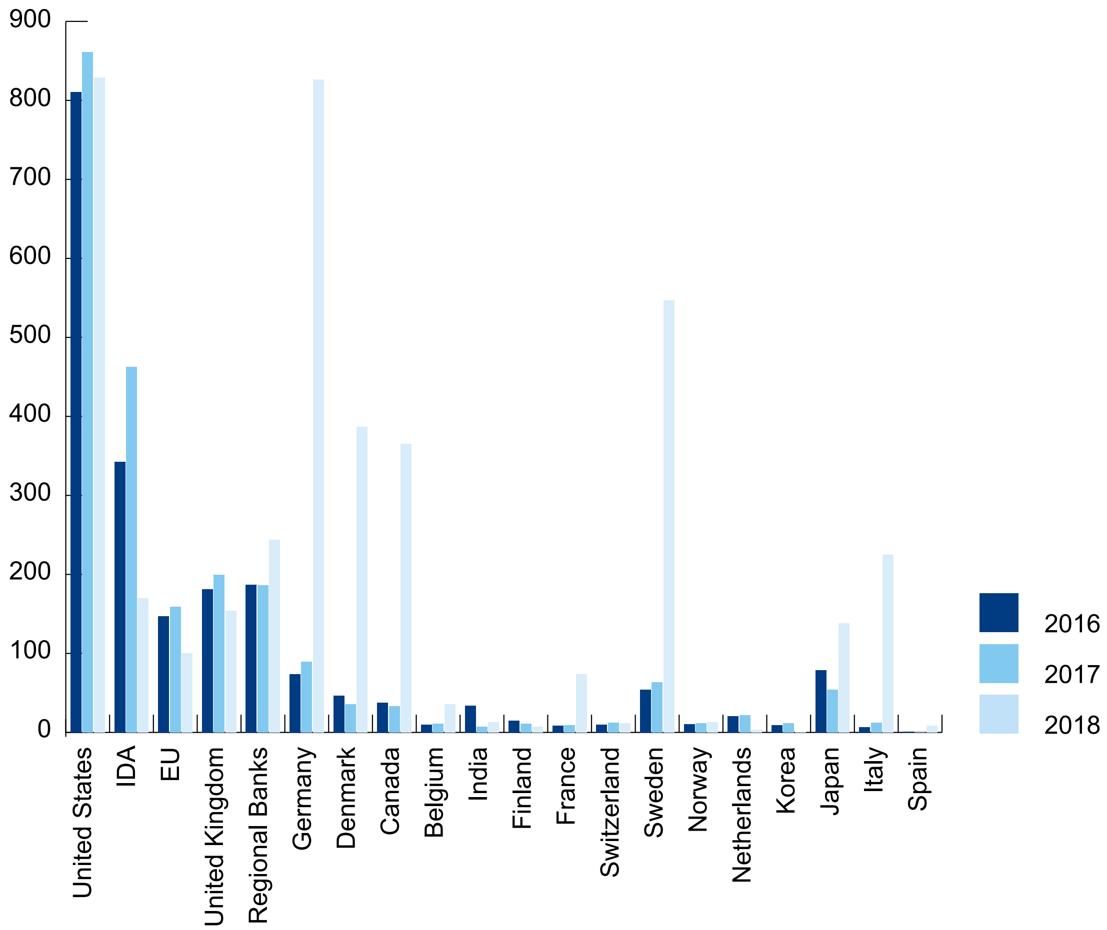
This constraint is recognised in the Vision 2030; the Kenya National Adaptation Plan (2015–2030); the UNFCC and the Global Carbon Project.

COVID-19 has exacerbated many of the critical constraints above, at least in the short-term. The pandemic will reverse the reduction of poverty, likely reduce the inflow of FDI and Kenya's exports, shift the balance in the labour market even more to the informal sector, and possibly decrease the opportunities for adaptation against climate change through fiscal constraints. If the consequences of the financial crisis in 2009 is an indication of longer-term impact, these negative impacts might be felt for a number of years, especially due to changes in the world economy and foreign investors' appetite on higher risk investments in Sub-Sahara Africa. While the COVID-19 impact is not relevant for the assessment of Finland's past support, it must permeate the future programming.

3.3 Key Donors in the Sector

Kenya has received Official Development Assistance (ODA) since its independence in 1963. The inflow of ODA to Kenya was about 3% of GNI in 2018, a share which equals that of Sub Sahara Africa but is far above the 0.5% average for Low Middle Income Countries. With an inflow of about US$2.5 billion per annum, Kenya is the fourth largest recipient of ODA in Africa, at par with Tanzania. The major donors to Kenya are the United States, the World Bank (IDA) and Germany, the latter especially in 2018. Finland is a relatively small donor in the Kenyan context providing about 0.6% of the total aid flows (2018).

Figure 1 ODA disbursement to Kenya by donor (US$ Million, 2016–2018)[28]



Source: OECD (2019), Development Aid at a glance

The table below presents summary of the sector breakdown for 2016–2017[29] US$ million. The ODA data is not explicit on economic development, job creation and livelihood and presents the sectors broadly.

Table 2 ODA sector breakdown.

Sector	2016	2017
Economic infrastructure	496.5	449.6
Social infrastructure services	950	871.3
Agriculture	110.9	143
Production sectors	193.3	158.5
Total	**1,750.7**	**1,622.4**

Source: OECD (2019), Development Aid at a glance

28 OECD, 2019, Development aid at a glance, statistics by region-Africa, https://www.oecd.org/dac/financing-sustainable-development/development-finance-data/Africa-Development-Aid-at-a-Glance-2019.pdf
29 Ibid

Based on OECD/DAC reporting and classification, and looking at 2017 FY, the vast majority of ODA funds have been directed at Social Infrastructure[30] (53.7%), particularly health care, followed by Economic Infrastructure[31] (27.7%) and Production[32] (9.7%).

3.4 Finnish development cooperation with Kenya

3.4.1 Background

Kenya is one of Finland's long-term partner countries in development cooperation, dating back to the late 1960s. A formal framework for bilateral assistance was agreed upon in the 1980s, when Kenya became a 'target country' for Finland. The main sectors of Finnish assistance over the long run included water, health, forestry, livestock production and cooperatives. In 2013, Finland initiated country strategies for the period 2013–2016 for its partner countries. The Kenyan strategy had the following strategic objectives with a bearing on the subject of this evaluation:

- Poverty reduction through inclusive green growth in the agriculture sector;
- Improved management and use of forest and water resources with increased participation of communities, civil society and private sector.[33]

In 2015, an evaluation was carried out of the cooperation for the period 2007–2013. It concluded that continuity had enabled Finland to 'punch above its weight' in the selected sectors. Other factors contributing to Finland's important role, according to the evaluation, included considerable financial contributions to the selected sectors and employment of capable counsellors in the Finnish embassy in Nairobi who actively engaged in the sector coordination.[34]

The evaluation saw continuity and long-term commitment manifested in large scale projects and programs implemented over longer periods of time as a strength in its development cooperation. Following this, the evaluation recommended that Finland stay engaged in the same sectors as earlier but should also start preparing a new strategy for 2017–2020 to pave the way for transition away from aid dominated cooperation.

3.4.2 Finland's Country strategy 2016–2019

The country strategy for Kenya 2016–2019 (which has now been extended to cover 2020) followed the suggestion by the evaluation and formulated the following key objective:

> *To advance regional stability and security, increase trade and commerce and contribute to the attainment of the Sustainable Development Goals (SDGs) through development cooperation and by other means. In the coming years the focus will increasingly shift to developing and supporting commercial relations between the two countries.* [35]

The strategy envisaged that the role of grant ODA would diminish and be used for specific catalytic activities. The relation between Finland and Kenya would increasingly be built upon commercial and institutional cooperation, the latter for example in education and research. The planned budget frame for 2016–2019 was EUR 34 million, which did not include humanitarian aid, private sector instruments or the Finnish CSOs.

30 Social Infrastructure and Services covers Education, Health and Population, Water Supply, Sanitation and Sewerage (excluding irrigation systems for agriculture).
31 Economic Infrastructure and Services covers assistance for networks, utilities and services that facilitate economic activity. It includes, but is not exhausted by: Energy, Transportation and Communications.
32 The Production Sectors includes ODA contributions to all directly productive sectors: Agriculture, Fishing and Forestry; Industry, Mining and Construction; Trade and Tourism.
33 Finland formulated its current four priority areas in 2016.
34 Uusihakala, J. et al (2015): Evaluation. Finland´s development cooperation with Kenya 2007–2013
35 MFA (2015) Country Strategy for Development Cooperation 2016–2019, Kenya

The strategy had three expected impacts:

1. accountable devolved governance that ensures the realisation of rights;
2. ***improved access to jobs and livelihoods***; and
3. improved realisation of women's and girls' rights.

In terms of the second impact objective, the strategy noted that Finland has strong expertise in the forestry sector and had in the past contributed significantly to the recovery of Kenya's forests and water resources. Along the Kenyan Government's strategy, there would be a shift from a focus on forest governance and conservation to productive forestry through private sector development. Strengthening the capacities of the various private sector stakeholders active in forestry was expected to increase opportunities for both jobs and livelihoods. The strategy established ***Increased productivity and economic opportunities in forestry and agriculture*** as the *Outcome objective*. However, the *Output* objectives were only for forestry:

- Kenya Forest Service (KFS) model plantations managed efficiently with stakeholders;
- Improved products and market access among farmers and their organisations;
- Forestry-related SMEs strengthened to efficiently manage and operate timber value chains.

The strategy period foresaw the following results under ***job creation and livelihoods***:

- New jobs are created, especially in the forestry sector;
- The forestry sector becomes more profitable and offers improved economic prospects.

18% of the planned allocation EUR 34 million was to be directed to forestry. Furthermore, Finland would also engage increasingly with relevant private sector actors in Finland and Kenya in order to facilitate the access of Finnish forest technology providers to the Kenyan marketplace. Finland would continue to support Finnish-Kenyan partnerships on training, education and research in forestry.

3.4.3 Support to economic development and job creation: current and future plans

Bilateral Programming

As stated in the previous section, Finland's Country Strategy 2016–2019 foresaw, under its "impact area (2) improved access to jobs and livelihoods" bilateral programming in the areas of forestry and agriculture. During the period under review, one of the big programmes of the previous country strategy, Miti Mingi Maisha Bora (MMMB), was concluded in June 2016 while the other one, Rural Development Programme (PALWECO)[36], in June 2017. Planning for the new bilateral forestry cooperation under the 2016–2019 Country Strategy was undertaken during 2016 and 2017, with a EUR 9.5 million programme – *Private Forestry and Forest Enterprise Support in Kenya* – being approved by the quality board in June and the funding decision made by the Minister in December 2017.[37]

Circumstances related to the programme however changed in 2018, including, among others: a) an announcement by the government of Kenya in March 2018 instituting a 90 day logging moratorium to combat illegal logging (which although initially welcomed by the Embassy as

36 PALWECO is not included in this evaluation. The scope of the evaluation including the Country Case Studies covers interventions with funding decisions made in 2016-2019. This decision was based on the findings of the Inception Phase desk study and stakeholder interviews. PALWECO is not mentioned in the Development Cooperation Projects Funding Decisions with Countries 2015-2019 –excel, received from the MFA at the Inception Phase. It was also not been brought up in any consultations with the MFA, notably the Embassy.

37 Annual Results Report on Country Strategy for Development Cooperation, 2016 and 2017

a measure to address integrity concerns in the sector ended up being a long term measure making the operating conditions of private saw millers virtually impossible); b) integrity concerns at the KFS , which led to suspension of about 24 officers, including key directors (which meant the key partner was not only without revenue streams due to no logging in public forests taking place, but also without functioning staff); and c) allegations of human rights violations by KFS guards in the Cherangani forests, raising international attention and pressure towards the MFA in Finland to end collaboration with governmental forest sector actors in Kenya. Despite efforts by the Embassy to engage in dialogue on these matters, as well as consideration of proposals on different funding and management options for saving the programme, the conditions did not improve sufficiently to commence the programme and Finland decided to cancel it in December 2018.

Fund for Local Cooperation (FLC)

During 2016–2019, the Finnish Embassy in Kenya funded seven FLC projects which were classified by MFA as PA2. The projects had a total grant funding of EUR 0.3 million and spread across different themes such as technical skills training; agro processing, forestry, arts and the like. The funding took place in 2016 and 2017 when the FLC programme in Kenya had a total budget of EUR 1.3 million per year. The FLC program was put on halt in 2018 due to cuts in the overall Finnish development budget and was not resumed until 2020 and then for a two year period with a total funding of EUR 0.6 million, i.e. an annual budget level of a quarter of the pre-2018 period.

The seven FLC partners were identified through competitive bidding during the period under review, with selection of their projects being done on a quarterly basis between 2016–2017. Given there was no bilateral programme, three FLC projects were selected for deeper review as part of this evaluation. These are:

- Help Self Help Centre (HSHC), an NGO established in 1993, was supported with EUR 60,000 to implement the project “Economic Empowerment of Women and Youth through Sustainable Management of Cape Chestnut, Baobab and Marula Essential Oil Value Chain” during the period August 2017 to July 2018. The goal of the project was to improve the livelihood systems of women and youth through targeting non-wood tree products found in adjacent public forests and farming landscape.
- Yusudi Ltd, a social enterprise focused on youth, was supported with EUR 41,300 to implement the project “Blended Learning Platform” during the period December 2017 – November 2018. The goal of the project was to enable unemployed youth to earn stable income through employment or self-employment by growing their career skills and/or entrepreneurship skills. The project comprised the creation of a blended learning platform to develop the capacity of youth, using an online software that would provide learning content and a virtual coach.
- Green Resources Initiative (GRI), a CSO, was supported with EUR 60,000 during the period August 2017 – July 2018 to implement the project “Pro-youth and women Partnership for innovative post-harvest fruit processing, value addition and enterprise development for improved income in Makueni County”. The project sought to utilise the abundant yet unutilised supply of fruits through supporting the youth and women in the area to establish a commercially-oriented fruit value chain enterprise, as well as equipping them with the entrepreneurial and other skills needed to reduced post-harvest losses.

Regional and global PA2 programmes (with Kenyan participation)

In addition to the bilateral projects, Kenya is also part of regional and global interventions with Finnish funding 2016–2019 classified by MFA as PA2 (priority 1 or 2). Relevant regional and global projects for Kenya are:

- *EEP Africa* is a pre-investment facility for renewable energy projects by companies (including start-ups), non-profit organisations and social enterprises. Projects can be feasibility studies or pilot, demonstration, replication, or scale-up projects, including projects aimed at energy efficiency. The programme began in 2010 and is now in its third phase (2017–2021). EEP is an initiative by Finland, and the current phase is funded by Finland, Austria and the Nordic Development Fund (NDF), the latter organization also managing the program during phase III. EEP Africa III, with a total budget of about EUR 30 million, covers 15 countries in Sub-Sahara Africa of which Kenya is one. The approach is a competitive challenge fund in which awarded projects can receive grants of EUR 200,000–500,000 for projects up to 2 years. The project fund is complemented by semi-annual Investor Forums offering investors access to a pipeline of investable clean energy projects. EEP Africa regularly also organizes knowledge exchange forums, which are open events that bring together clean energy stakeholders for discussions on trends, experiences and lessons learned. EEP Africa Phase III is complemented by a Catalytic Fund for follow-up investments by NDF. Finland does not contribute to the latter. The first Catalytical Fund investments are expected in 2020.

  Since 2016, 17 projects have been funded in Kenya with a total grant sum of EUR 5.3 million. (This period covers both part of Phase II and Phase III). During phase III, 47 projects in the 15 countries have been awarded in two calls. Of these, 8 are in Kenya, hence Kenya accounts for near 20% of the awarded projects for the period. Off-grid solar projects dominate the Kenyan portfolio with 7 projects, followed by projects aimed at improving cooking stoves for higher energy efficiency and cleaner energy, with 5 projects. There are also a few projects in making energy from biomass, as well as one each for hydropower and wind power (feasibility studies) (See *Annex VI* for more details).

- *TradeMark East Africa (TMEA)* is a multi-donor, multi country trade facilitation programme. It was established in 2010 focusing on Aid for Trade in East Africa and began operating in early 2011. It has been implemented in two phases, the first 2011-mid-2017 and a second mid-2017–2022. TMEA had become one of the leading Aid for Trade instruments with a cumulative budget of over US$900 million as of 2019. TMEA works currently in seven East African countries: Burundi, DR Congo, Kenya, Rwanda, South Sudan, Tanzania and Uganda as well as in the Horn of Africa (Ethiopia and Somaliland). UKAID (DFID) is the initiator of TMEA and lead funder. The programme is also supported by the EU and nine countries, including Finland.[38] The Finnish contribution in Phase 1 was EUR 6 million; out of which EUR 2.8 million was for the period between FY 2016/17 to 2018/19[39], which was approximately 1% of US$236 million expenditure for that period. Under Phase II, Finland's contribution is EUR 9.8 million.

  The TMEA programme has two core themes: 1) ***Reducing barriers to trade*** involving improved transport infrastructure such as border posts, harbour and access roads at harbours; improved trading standards and reduced non-tariff barriers to trade; effective trade systems and procedures; improved trade regulatory environment and 2) ***Increased business competitiveness*** involving improve trade opportunities, improve the ability of the private sector in Eastern Africa to compete in the global market and with imports. In financial terms, the *Reducing barriers to trade* is by far the most significant, not least due to investments in infrastructure. Objectives for the second phase are to reduce trade costs in East Africa by 10%; reduce the average time it takes to transport goods across the region by 15%; increase exports by 25% in sectors supported by TMEA; and leverage additional investment of USUS$170 million into the region. As a result of this TMEA aims for

38 The current donors are Belgium, Canada, Denmark, the EU, Ireland, Finland, the Netherlands, Norway, the UK and USA. Sweden was a donor until the last phase.

39 As reported during interview with TMEA

2017–2022 to increase exports by 10% above trend 2010–2016. TMEA is expected to indirectly alleviate poverty as a long-term effect.

TMEA receives two types of funding: "core" which is a general contribution which pooled alongside other similar contributions and is not tied to any particular project or country; and "earmarked" which is for a specific purpose (project/programme/country). Finland's contribution has so far been "core", that is to say that it is not tied to specific projects. Thus, it cannot be said that Finland's contribution was used only in Kenya as it was pooled in with funds from other donors. The one exception to this point was that Finnish funds were used specifically to finance improvements to the cruise terminal in Mombasa, Kenya.[40]

The Private Sector Instruments in Kenya

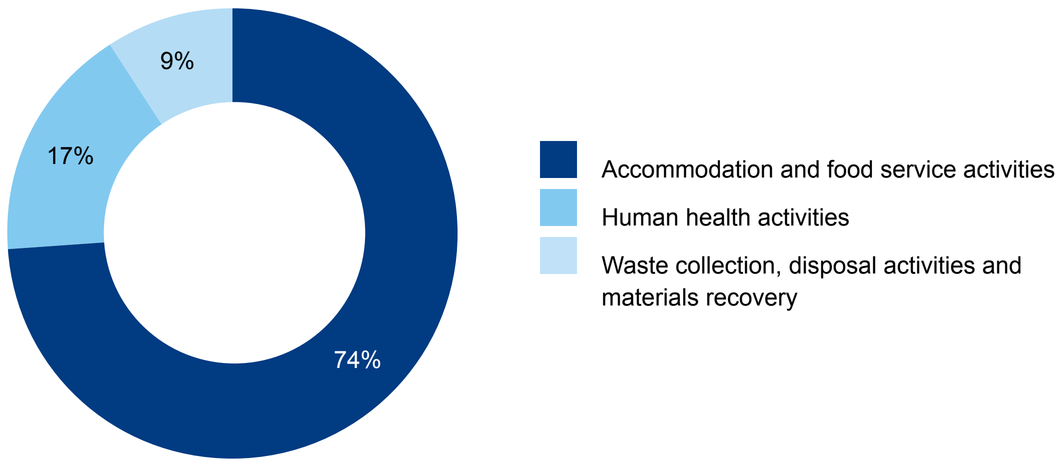
Kenya is a popular destination for the Finnish Private Sector Instruments as shown below:

Finnfund

Five new direct investment decisions to Kenya were made in the period 2016–2019. The total amount of these investment was approximately EUR 12.4 million. The investee companies were Elgon road development/Radisson Blu Hotel, Nairobi; Penda Health: A chain of affordable medical centres, Nairobi; Sanergy Inc.: A waste management and recycling company, Nairobi. Three of the five decisions were additional investments in the Elgon Road/Radisson Blu Hotel that was originally financed already in 2011 but has suffered from delays in the construction phase and has therefore needed additional financing. The 2016 financing to Elgon Road does therefore not necessarily tell much about how the 2016 Development Policy, or how the setting of priority areas (especially PA2) has possibly guided FF investments.

The sector distribution is presented in Figure 2.

Figure 2 Sector distribution of Finnfund's new direct investments in Kenya between 2016–2019



Source: Finnfund

In monetary terms, Elgon Road clearly accounted for a major part of the new investments.

The figure above does not include Finnfund's approximately EUR 1 million investment decision in Fuzu, an online career and recruitment platform, which operates in Kenya, Uganda, Tanzania

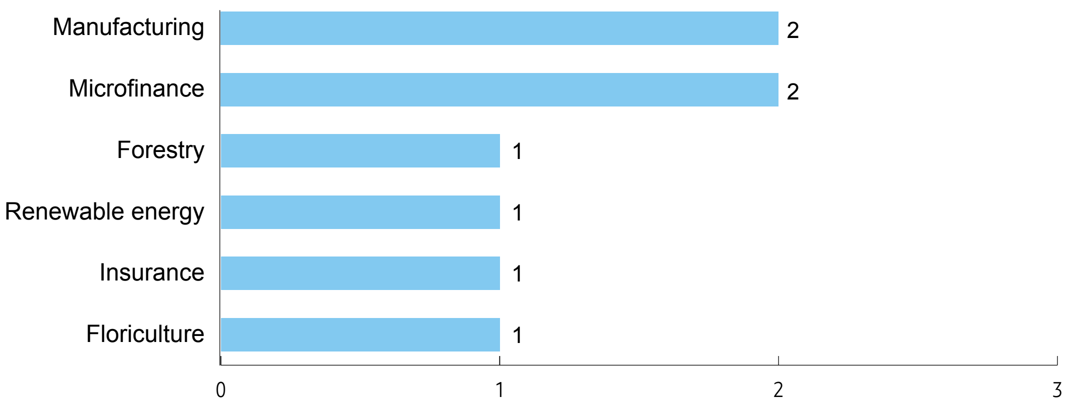
40 As reported during interview with TMEA

and Somalia. Finnfund's investment in Fuzu was made in 2016 through a holding company in Mauritius. It directs funds to Fuzu's companies in East African countries. There was no available data specific enough for this evaluation to separate investments in Kenya and Tanzania from Fuzu's activities in other countries. The same applies also to Mobisol in which Finnfund invested twice between 2016 and 2019. The company operates in three countries (Kenya, Tanzania and Uganda). Fuzu and Mobisol are, however, included in the qualitative analysis of the FF new investments in Kenya (see chapter 4 under Findings).

Finnfund investments through PE funds (PEFs): Finnfund has made only two investments during 2016–2019 in PE funds that invest in the three case countries (among others): a) AgriVie II (food & agribusiness), which had a US$10 million Finnfund investment in 2018 and b) Evolution II (renewable energy), which had a US$15 million Finnfund investment in 2019. AgriVie II invests in Africa generally and Evolution II in sub-Saharan Africa. Of the current active Finnfund PEF investment portfolio, Kenya's share is 5.4 %. Most of these investments, however, have been made through funds in which Finnfund has already invested years ago. The value in the Finnfund balance sheet of all PEFs that have made investments in the three case countries is EUR 34.3 million.

Between 2016–2019 the PEFs in which Finnfund participated made 8 investments in the three case countries with the sector distribution as presented in Figure 3.

Figure 3 New investments through funds in three case countries (nr. of investments) 2016–2019.[41]



Source: Finnfund

Of these, all but one (a microfinance institution in Tanzania) were made in Kenya. Concentration of these recent PEF investments in Kenya may still reflect the situation some years ago, when there were possibilities to build a pipeline and portfolio of reasonable investments, and generally a well-developed operational environment for private equity funds (and also more professional fund managers with appropriate track record). Currently there are professional managers with track record and promising pipelines to also offer in many other African countries. In Kenya (as in many other East African countries), the general business environment, legislations and regulations have improved and made direct investments more feasible.

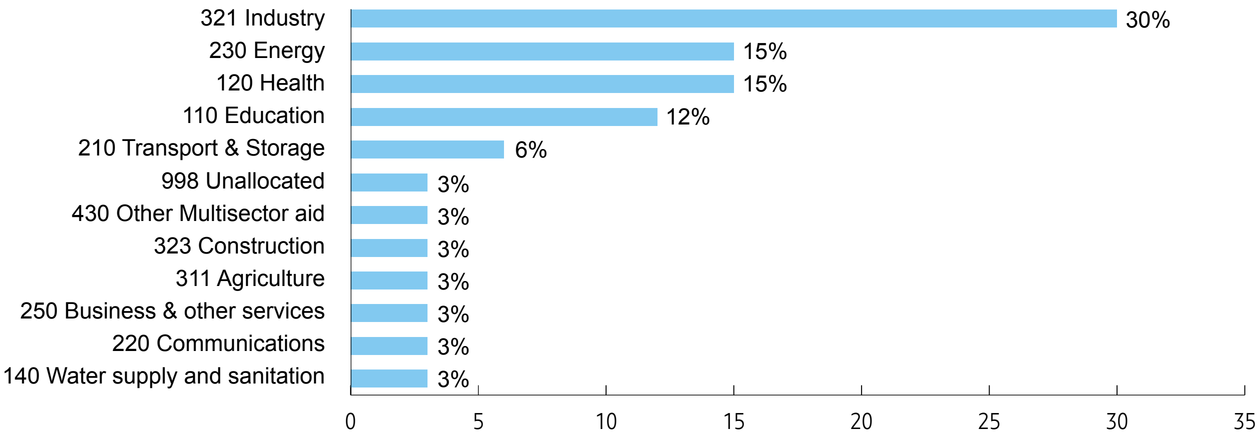
Finnpartnership

According to MFA statistics, there were 33 FP BPS decisions for Kenya between 2016 and 2019, with a total value of EUR 1.83 million[42]. The sector with the biggest number of interventions was

41 There is no CRS classification available for these investments.
42 According to FP the nr. of decisions was 49 and the total value of commitments EUR 1,35 million.

industry, followed by energy, health and education[43]. It is good to notice that the education sector included many projects of non-commercial actors (educational institutes, NGOs etc.).

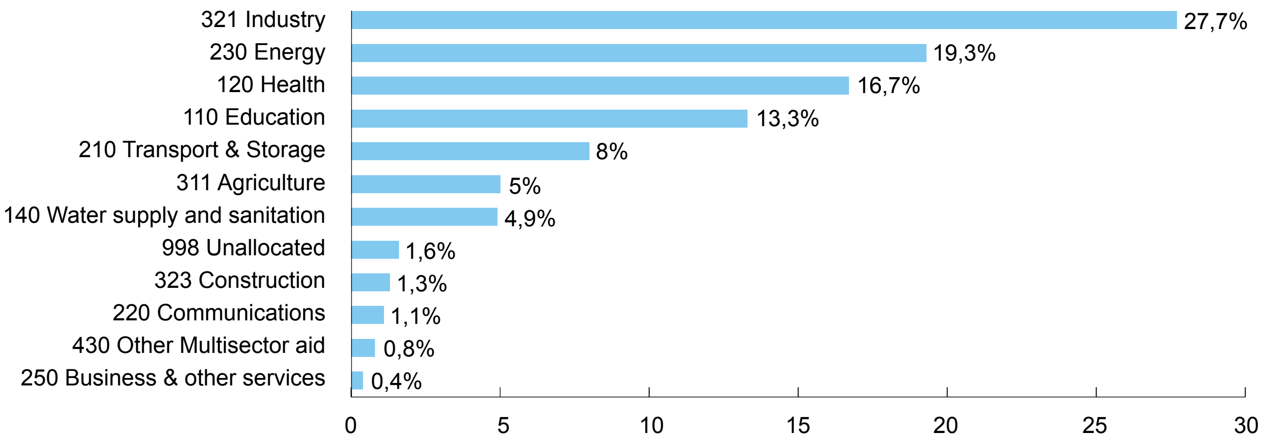
Figure 4 FP BPS for Kenya (2016–2019), % of interventions



Source: MFA

In terms of commitment volume, the energy and agriculture sector increased their share, reflecting in monetary terms somewhat larger projects than in other sectors.

Figure 5 FP BPS for Kenya (2016–2019), % of commitments

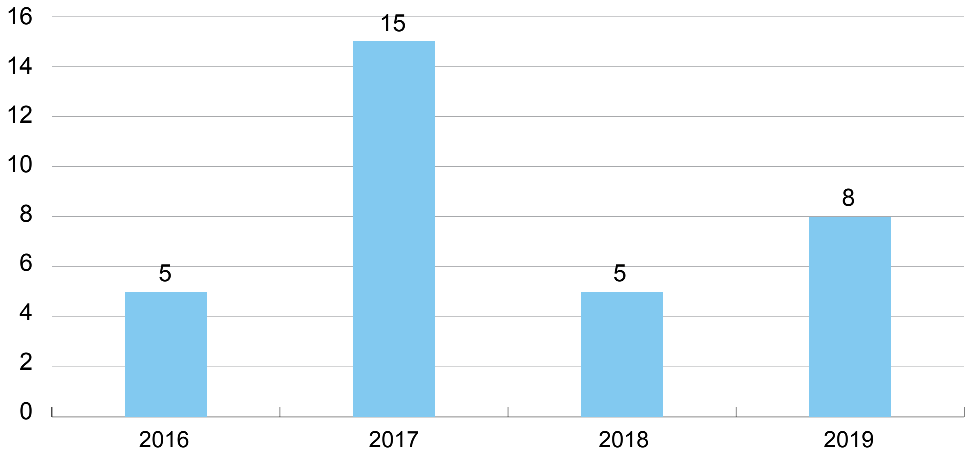


Source: MFA

There appears to be no clear trend since 2016 (when the new Development Policy 2016–2019 with its priority areas was published) in the number of annual BPS decision for interventions in Kenya. In 2017, the number of decisions was high, possibly reflecting the Doing Business with Finland seminar arranged in Kenya. The 2018 similar seminar, on the other hand, does not appear to have made an impact.

43 FP uses sector classification that differs from the OECD/DAC CRS. The OECD classification is used here to ensure conformity with sector classifications elsewhere in this evaluation. The data is retrieved from MFA statistics.

Figure 6 Annual FP BPS decision for Kenya between 2016–2019



Source: MFA

BPS recipients have to submit the first follow-up report one year after the expiration of the support, and the second follow-up report one year after the first follow-up report. FP on the other hand, reports development effects normally four years after the support decision. Therefore, as of yet, there is no available data (e.g. in FP development effects reports) on the support given during the evaluation period of 2016–2019.

For the interventions in Kenya with support decision made between 2012–2015 FP has published e.g. following development effects data:

- 8 projects with BPS disbursements
- 3 new companies established
- 4 New long-term partnership established
- 521 people employed
- 514 women employed
- 68 new jobs created
- 26 persons indirectly employed
- 2 projects have strengthened the host country's exports

There is no information e.g. on:

- Whether new companies were operational at the time of reporting, or whether they have been operational since then
- What are the reported partnerships and whether they have led to actual business operations
- Generally: what is the attributability of these effects to BPS support; what are the criteria and definitions of the indicators?

BEAM

According to BF statistics there were eight decisions for BEAM interventions in Kenya between 2016 and 2019. Of these, six were company projects and two were implemented by foundations or research institutions. The total sum of decisions was EUR 1.13 million.

Table 3 List of BEAM Interventions.

Fuzu II
Humanitaarinen Innovatioekosysteemi
AI-Boos
Kestävä kehitys
Liiketoiminnan ja tuotannon kehittäminen vastaamaan kansainväliseen kasvuun
Nopia Smart City
Mitigation of aflatoxin risks in Kenyan feed-dairy chain
Codeshares – kansainvälisen liiketoiminnan käynnistäminen

Summary of the portfolio

As will be further discussed in the next chapter, the Finnish portfolio for 2016–2019 concerning improved economy and job-creation comprises altogether 170 interventions (if sub-projects under the regional programmes are included). The estimated total MFA Finnish allocation for these projects including in terms of ODA and commercial investments by Finnfund is about EUR 31.66 million as indicated in Table 4.

Table 4 The total number projects and commitment in PA2 and PSI projects in Kenya 2016–2019.

Type of intervention	Number of interventions	Allocation 2016–2019 EUR mill
Bilateral projects		
Bilateral projects (forestry)	1	9.5
CSO projects	2	0.7
FLC projects	7	0.3
Regional projects		
EEP Africa 44	17	3.0*
TradeMark East Africa	86	2.8**
Private sector instruments		
Finnpartnership	33	1,83
BEAM	8	1,13
Finnfund	5	12,4***
Total	**174**	**31.66**

Source: MFA, Finnpartnership, BEAM, Finnfund, TMEA and EEP

** Total allocation in Kenya EUR 5.3 million. Finland is providing about 56% of that EEP budget.*

*** Total Kenya investment (excl. programme overheads) in Kenya 2016–2019 US$236 million expenditure. Finland's share of TMEA budget for the period was approx. 1%*

**** Finnfund investments (equity, loans) expressed in EUR (most of investments are made in USUS$). Finnfund's investments in Kenya through equity in multi-country funds and in some companies (e.g. Fuzu and Mobisol) investing in several countries are not included in this figure.*

44 Includes two projects with more than one country; allocation for those based on number of countries and equal share. The allocation does not include programme overheads and general activities for the EEP programme.

The Portfolio has only one large bilateral cooperation project, the EUR 9.5 million Private Forestry and Forest Enterprise Support. This project never took off as earlier explained. Only a handful of smaller projects under the Fund for Local Cooperation as well as two CSO cooperation projects remained. Of the CSO projects, the larger is an apparent misclassification of a language programme aimed at children, hence, the real bilateral allocation would be EUR 0.5 million over 4 years.

The Finnish support to two major regional development programmes classified as PA2, the EEP and TradeMark East Africa, have had over 100 sub-projects with Kenya as the target alone or jointly with other countries. Given that Finland is one of several funders of these two programmes, the "Finnish' allocation to Kenya can be estimated to about EUR 5.8 million.[45] The private sector instruments with focus on Kenya with commitments 2016–2019 include 46 individual projects with a total commitment of EUR 15.36 million. By far, the single most significant private sector instrument for "Finnish" investments in financial terms in Kenya 2016–2019 was in equities through Finnfund.

45 This is based on the share of Finnish assistance of the total budget of the programmes for 2016–2019. For EEP, Finland accounts for 56% of the budget, For TMEA, the Finnish contribution is 1% of the budget.

4 Findings

4.1 Achievement of Finland's objectives on economic development, job creation and livelihoods (PA2)

This section presents evidence on the achievement of Finland's objectives on economic development, job creation and livelihoods (PA2). It provides the basis for answering the first evaluation question:

> ***EQ1: To what extent and how are the objectives of the Priority Area 2 on economic development, jobs and livelihoods being achieved and how relevant and effective have the interventions been in relation to partner country needs?***

Sections 4.1.1, 4.1.2 and 4.1.3 provide evidence on the coherence of the overriding Finnish policy framework for PA2, the relevance to partner country needs as well as the relevance and effectiveness for the pursuit of transition. Section 4.1.4 provides evidence on the effectiveness of Finland's country programmes, approaches and interventions in contributing to improving the economies and providing jobs and livelihoods especially for women, youth and the poor in the three case countries, and in particular decent jobs. Section 4.1.5 assesses the effectiveness of Finnish-funded interventions in relation to the cross cutting objective of Finnish development policy of addressing climate change mitigation and adaptation.

4.1.1 Coherence with the overriding Finnish policy framework for PA2

Finding 1. At the level of impact statement, Finland's 2016–2019 Kenya Country Strategy Impact 2 is directly aligned with Finland's Development Policy (2016) Priority Area 2, but alignment at the outcome level is unsatisfactory.

The coherence between Finland's overall policy for Priority Area 2, the Kenya country strategy 2016–2019 and the interventions pursued during this period is overall unsatisfactory. Although the Country Strategy repeated the Policy objective of improved access to jobs and livelihoods as one of its three lead impact objectives, at the outcome level, this was translated as increased productivity and economic opportunities in forestry and agriculture only. The outputs also link only to the forestry as the Strategy states 'the programme plans to encourage partnerships between the KFS, private sector actors and community forestry associations with a view to increasing productivity' and also refers to 'organised groups of forest owners / tree growers' organisations.' [46]

Forestry, which has been one of Finland's core interventions in Kenya from the late 1970s, was thus the only programme foreseen for the economy and jobs results area under the 2016–2019 Country Strategy. However, the targeted interventions were not implemented due to management and corruption related issues in Kenya. The MFA Evaluation of the Agriculture, Rural Development and Forestry (ARDF) Sector Programmes in Africa (2019) gave the following reasons:

46 Country Strategy for Development Cooperation: Kenya 2016–2019

- A moratorium on logging activities in public and community forests, which eroded the sense of partnership and collaboration between KFS and private sector companies (especially sawmills) and communities and other negative effects
- An official Kenyan report in 2018 which made allegations against the integrity of the Board and Management of the Kenya Forest Service, claiming systemized rampant corruption and abuse of office.

According to the ARDF evaluation, "against the backdrop of ongoing investigations, the foreseen continuation of collaboration with and support for the KFS, as foreseen by the Finnish cooperation, has been put on hold."[47]

According to our interviews with MFA and embassy staff, this resulted in the cancellation of the programme in December 2018. The country team thus decided to redirect this results area slightly, to target youth employment more widely than only in forestry and agriculture. The 2019 period was used to conduct background analyses, scoping and identification of gaps in the current setting, corresponding to requests from the Kenyan Government. It is expected that these efforts will lead to concrete programme planning in 2020 and pave the way for first results in the area of youth employment in 2021.[48]

As the forestry project was never implemented and agricultural support through PALWECO was ended early in the strategy period (in June 2017), the coherence between country strategy and the actual interventions is thus deemed as unsatisfactory, a finding that is also acknowledged in the Annual Results Report of 2019.[49]

Finding 2. Various approaches and instruments are omitted from the Country Strategy and the linkages and synergies between the various instruments and projects applied under the framework of Priority Areas 2, although improving, are still weak.

The larger part of Finnish ODA is not channelled through the Country Strategy, but through Finnish civil society, institutional, research, humanitarian and private sector instruments, with disbursements for these exceeding the country strategy annual appropriations.[50] For example, although the Strategy mentions that Finland's support to Kenya would incorporate the substantial interventions under regional programmes, particularly the TradeMark East Africa and the EEP, this did not materialise. This observation is in line with the Embassy's own findings as well as in line with the findings of the OECD/DAC peer review in 2017 which noted that

> *"In many cases, the Ministry for Foreign Affairs lacks an overview of Finland's investments in a partner country – a gap that could damage the reputation of both embassy and ministry and that prevents Finland from capitalising on potential synergies across the range of instruments and policy communities."*[51]

Another aspect of coherence are linkages and synergies between the various instruments and projects applied under the framework of PA2, i.e. complementarity between different approaches. In Kenya, the Embassy made significant efforts to communicate and collaborate with the Finnish civil society on finding business opportunities, which resulted in several Finnish companies preparing their pilot cases in Kenya. In addition, the Embassy cooperated with PSIs, particularly Finnpartnership, BEAM and Finnfund, which among others resulted in a record number of new projects being initiated during the Nairobi Innovation Week 2017 as well as a growing number of Finnish start-up enablers and SMEs with social impact looking into Kenya for cooperation and

47 MFA (2019) Evaluation of the Agriculture, Rural Development and Forestry Sector Programmes in Africa
48 Annual Results Report on Country Strategy for Development Cooperation, 2019
49 Ibid
50 Annual Results Report on Country Strategy for Development Cooperation, 2017 and 2018
51 OECD/DAC (2017) OECD/DAC Peer Reviews. Finland, page 20

partnerships.[52] With Team Finland, despite the challenges in the intended bilateral programme under PA2, synergies were enhanced through continuous communication and support to Finnish forestry companies, which resulted in a number of them selling machinery to tea farms. In addition, the Embassy also co-hosted targeted workshops on doing business with Finland, as well as other learning events.[53]

Despite the above efforts, there were no notable synergies between the various instruments and approaches, each being overall standalone interventions, not designed or implemented with much concern for others. According to our interviews, there are various contributing factors to this situation. With the Finnish CSOs, the Embassy only gets a list of those that have received support and the amounts, but it does not have oversight of the projects. In addition, there is no requirement that the supported CSO should be undertaking interventions in the focus areas of the Country Strategy, which makes creating synergies difficult when the CSO's focus is in areas different from those of the Country Strategy. With regard to PSIs, the challenge to create coherence and synergies arises from the PSI's commercially driven nature, which may not often align with the Country Strategy focus areas. Furthermore, the Embassy does not usually have a means to know or follow up with Finnish companies using various financial instruments as they are not obliged to report to the Embassy. For CSOs funded through the FLC, there is no evidence of efforts to link mature projects with some of the PSI instruments.

Finding 3. Due to the demand/market driven nature of the PSIs, their interventions are not designed, though encouraged and supported, to align with the Finnish development policy goals.

Separate PSI interventions, for example Finnfund investments or projects supported by Finn-Partnership, are not designed with the Finnish development policy goals in mind, as market demands and the needs and aspirations of private enterprises drive them. They are, however, encouraged and supported, to align with the Finnish development policy goals. Alignment takes place on a higher level, via ownership/government guidance for these PSIs, and through RBM applied to them at the instrument level. An analysis of the ownership/government guidance and the MFA's RBM vis-à-vis PSIs is made in the PSI Annex.

4.1.2 Relevance to partner country needs

This section provides evidence on the first sub-evaluation question, covering the relevance of Finland's Country Strategy for Kenya (2016–2019) and interventions to the critical constraints identified in section 3.2 of this report.

Two points should, however, be noted with regard to relevance to partner country needs. First, the country strategies, approaches and interventions, which are focused on areas where Finland sees its comparative advantage and also on available funding, may not (and indeed would not) respond to all the country needs. Second, with regard to the relevance of PSI interventions, it should be borne in mind that selection of investments or business development projects happens following commercial logic. This logic and the potential of these interventions to address key development challengers are, however, not in contradiction with each other as commercially oriented activities, when profitable and economically sustainable, can tackle development constraints directly via their key stakeholders (owners, employees, suppliers and other parts of the value chain) and indirectly (via e.g. increased demand for other products and services).

Assessment of the relevance of the interventions to Kenya's needs is discussed constraint-by-constraint:

52 Annual Results Report on Country Strategy for Development Cooperation, 2017
53 Annual Results Report on Country Strategy for Development Cooperation, 2018

> ***Constraint 1:*** *30% of the Kenyan population is still poor, with women and youth being affected disproportionately and inequality is very high with 0.1% of the population owning more than the rest of the 99.9%.*

Finding 4. The Country Strategy noted both 'poverty and growing inequalities' as key structural problems in Kenya and the FLC, EEP, TMEA and PSI interventions have direct relevance to this constraint.

All the seven FLC projects designated under PA2 are directly working with traditionally poor populations and almost all had women as specific targets. Looking at those FLC projects for which a deep dive was made, the relevance becomes more obvious: under the Help Self Help Centre (HSHC) project, over 3,000 women and youth in Laikipia, Embu, Nyeri and Thara-ka-Nithi Counties in Kenya were supported to start earning extra household income and employment opportunities were also created, while the Green Resources Initiative (GRI) engaged at least 400 youth and women in fruit agribusiness and also linked at least 500 farmers to the mango processes plant, both alluding to improved livelihoods and incomes. For the Yusudi Ltd, for the period ending December 2018, 451 youth (27% from vulnerable backgrounds) were impacted through skills development and empowerment for growth in career or entrepreneurship within the blended learning program. Of these, 24% of participants in the training, who previously had no income, reported earning one. The number of participants that earned more than KES 20,000 per month increased from 14% to 34%. Additionally, 15% of the participants earned more than 30,000, whereas only 3% earned this amount before the program.[54]

The EEP Africa regional project has a clear poverty profile with most projects aimed at the poorer segment of the population. In addition, it is mainly benefitting women, especially as cookstove projects are a large share of the supported projects. The approach is also relevant as it addresses off-grid energy and clean energy for cooking.

TMEA interventions have also had direct poverty impacts. The 2019 DfID Evaluation found that being in the trade corridor was correlated with poverty reduction (as measured by consumption) in Kenya and generally improved opportunities for income generation. Furthermore, it found employment in the tradable sector was correlated with improved consumption for all households in Kenya when agriculture was excluded. Exposure to trade (either living in the trade corridor or working in a tradable sector) reduced incidence of poverty more among female-headed households than among male-headed households. In Kenya, unemployment decreased in the trade corridor, compared to areas far from the corridor. The improvements in trade efficiency had also the effect of dislocating some workers, including clearing agents, truckers and small-scale vendors who sell their wares to truckers.[55] TMEA is also likely to have overall longer-term impacts on poverty reduction, through longer-term trickle-down effects of an improved trade environment and enhanced business competitiveness.

PSI instruments also have impacts on poverty. The Finnfund's Sanergy investment linked to sanitation issues in urban slums has a direct poverty focus. The Radisson Hotel of Elgon Road Development, besides its direct employment effects, creates direct and indirect demand for many different kinds of products and services, both in the formal and informal sector. IFC estimated that each hotel room creates on average 1.5 jobs in the surrounding economy, with the high-end of market (like Elgon Road's hotel) facilities creating even more. Elgon Road Holdings has also made a serious effort to develop female employees' position, and to advance their career development[56].

54 FLC Project Progress and Final Reports
55 Allison, C. et al (2019) Poverty and Gender Impact Study
56 See case study in Decent Work and Development Finance. Ergon Associates, FMIO, EDFI. March, 2019).

Of the two new PE fund investments in Kenya that Finnfund made between 2016–2019, Agrivie II finances food and agribusiness, thus through value chains improving both formal and informal employment and livelihood options for e.g. rural populations. Of the investments in Kenya by PE funds already in the Finnfund portfolio, two were in microfinance and one in forestry, both sectors being relevant for the identified constraint. Finnfund made two investments (2016 and 2017) in Mobisol that sells individual solar systems to East African (including Kenyan) rural households beyond the grid, paid for in low monthly instalments using mobile money. Though unsuccessful financially (the company filed for insolvency in 2019), the investments' business model was highly relevant for poverty reduction and livelihoods development of rural populations.[57] All Finnfund investments must comply with ILO core labour standards, so they aim at creating formal jobs which are "decent". The expectation is that this will help to lift people out of poverty.

Finding 5. The portfolio, excluding Finnfund's direct and intermediated investments and some FLC interventions, has on the whole, marginal relevance for the informal sector and smallholder agriculture where high prevalence of poverty exists.

The majority of the Kenyan poor are engaged in agriculture in rural areas. Following the exit from agriculture, which is not only the main source of income for rural populations, but which has been the main drive of poverty reduction in rural areas (World Bank, 2019), Finland's focus on poverty decreased. While some FLC interventions such as the HSHC and GRI and the PSI Agrivie II have focused on agriculture, the majority of the other interventions, despite their target of rural populations, are not directly relevant to agriculture.

> ***Constraint 2:*** *Providing technical and vocational skills for the youth as well as creating jobs for them remains Kenya's key challenge.*

Finding 6. The FLC, EEP and Finnfund (through its strategy and role as a DFI and because of the OSM targets) projects have a direct primary objective relevant to creating jobs and providing technical and vocational skills for the youth, while for TMEA the relevance is not as direct.

As reported in the previous section, the Yusudi Blended Learning Platform directly works to enable unemployed youth to earn stable income through employment or self-employment, by growing their career skills and/or entrepreneurship skills. The targeted outcomes for the period ending 2023 is to provide a 100% increase of monthly income for 300,000 youth. The programme supports both men and women. In terms of gender, the Yusudi Final Project Report to the Embassy notes a higher participation of women at 59.5% against 40.5% of male participants. Other FLC projects similarly have employment and technical training objectives: Under the HSHC, over 2,635 members of the project were trained on how to identify mature seeds, tree handing, habitat care and appropriate delivery of seeds and 657 individuals were trained on semi-processing aspects of marula fruit.

Under TMEA, a report to the Finnish Embassy in 2018 indicated that an aggregate of 1,451 jobs had been created under the Trademark East Africa Challenge Fund (TRAC) initiative, which supported 17 projects across the East African region. In addition, the (Allison 2019) report provided indirect evidence of an employment effect by TMEA though manifested especially in self-employment. There was also a negative effect on employment for persons engaged directly in transport and transport services, but they are expected to be short term, as in the longer term, jobs are expected to be created through a more efficient trading system. Under EEP Africa, the 2020 EEP Fact Sheet for Kenya indicates that 2,400 jobs have been created in Kenya since 2010, with 40% of these being among youth.

57 See PSI Annex for more details

Of the Finnfund investments, Elgon Road has an extensive vocational training/employee training programme. In the terms and conditions to its workforce, the hotel provides a series of benefits that exceed Kenyan legal requirements and local industry norms. Regarding training of the employees: "Staff value the hotel's extensive training programme, designed to uphold the standards associated with the Radisson brand and provide ready opportunities for staff to refresh and upgrade skills. This includes e-learning, on-the-job training, and structured in-house training programmes (such as the newly introduced leadership training for supervisors), as well as external professional programmes as required. Employees are entitled to 14 days paid leave each year to pursue studies related to their work at the hotel"[58]

The Fuzu business model includes, besides a recruitment platform for job seekers, an access to career advice and online learning services.

Constraint 3: *Informality of the economy is entrenched, and the informal sector is taking an increasingly larger role in the creation of jobs and livelihoods.*

Finding 7. The Finnish Country Strategy for Kenya (2016–2019) has no explicit approach to engage in the informal sector, but interventions under the FLC, TMEA and PSI like Finnfund are relevant to the informal sector.

The majority of the Finnish Country Strategy portfolio is in the formal sector, implying that jobs created are also formal, which can be considered to reduce to a certain extent the need for persons to seek informal employment.

Notable, however, are the FLC interventions, the majority of which work directly in the informal sector and jobs created are mainly informal. TMEA also had interventions (albeit very small part of TMEA's overall activities) focused on women informal cross border traders (ICBTs). The 2019 TMEA evaluation noted that many of the participating ICBTs reported they had been able to increase their cross-border trade, earn more income, and save more. Some of the Finnfund investments e.g. through funds and indirectly through the hotel investment support informal jobs too, as elaborated in previous sections.

Constraint 4: *Kenya's manufacturing sector is weak and the contribution of the sector to GDP has stagnated at around 9% for over a decade.*

Finding 8. The Finnish Country Strategy for Kenya (2016–2019) has no explicit approach to enhance manufacturing, although various interventions are relevant in that regard, with both direct and indirect contributions.

None of the interventions have manufacturing as their primary objective, but a number of them are still relevant when addressing this need. Under the HSHC, the storage facility established under the project is reported to have improved the handling of products, ensuring quality and overall capacity of the processing facility, which realised an increase in revenue from US$96,000 in 2016 to US$123,000 in 2017, rising to US$139,000 by end of 2019 according to HSHC Management. Additionally, the project supported acquisition of a second de-huller of marula seed, increasing production from 300kg/day to 800kg/day by end of 2018. For GRI, although there are no manufacturing specific goals, the project linked farmers to the mango processing plant in the area of operation, providing the raw material to support continued production.[59]

58 Decent Work and Development Finance. Ergon Associates, FMIO, EDFI. March, 2019.
59 FLC Progress and Final Reports

Other interventions like EEP are marginally relevant through the potential of promoting/scaling up new technologies/businesses in renewable energy. For TMEA, an efficient trading regime and business environment is likely to be an incentive to the manufacturing sector to develop, while supporting EAC integration agenda supports the creation of a larger market conducive for increased manufacturing.

Two of the new investment decisions made by PE funds in which Finnfund participates have been in the manufacturing sector. Some other Finnfund projects might have an indirect effect on Kenya's manufacturing sector by improved functioning of the labour market for skilled personnel (Fuzu) and through a new form of waste processing (Sanergy).[60]

> ***Constraint 5:*** *At 13% of GDP, Kenya's exports are limited and are concentrated in only 13 export destinations that account for about 70% of all Kenya's exports in 2016, and a narrow product base, with five broad product categories accounting for 56% of the total exports by value.*

Finding 9. Although there is no explicit approach to enhance exports from Kenya in the country strategy, interventions under the FLC and TMEA are directly relevant to this constraint, with some potential that could be better explored for FLC interventions.

None of the interventions have enhancing exports as their primary objective, but contribution by project activities to this type of objective can be seen in a number of them. Under the HSHC, not only were market linkages with several new markets and clients identified both regionally and internationally (in the Netherlands and UK), essential oils and other non-wood products present a diversification of Kenya's exports. The HSHC management reported that the potential to contribute to this goal is very high, but constrained by, among others, the lack of certification and insufficient raw materials. The GRI project supported capacity building on EU market requirements, in collaboration with the government regulator KEPHIS and two exporters. Amounts thus far exported could not be established. The potential of these projects to enhance export diversification is high as elaborated under the effectiveness section.

Under the TMEA supported programme, some projects focused on enhancing export capability of SMEs, though none of this support was focused on Kenya. Indirectly, TMEA interventions targeted at improving the trading environment and facilitating trade are likely to lead to reduced cost of doing business and increased competitiveness of firms, both having positive spill over effects on exporting. The EEP and the Finnfund investments have no export orientation, though the potential is there depending on their success as well as specific business strategies.

4.1.3 Relevance and effectiveness for the pursuit of transition, and role of the private sector in transition

Finding 10. Although the Finnish Country Strategy was to commence transition from ODA, no real efforts were made in this direction, and there is currently no plan to pursue a transition in the new strategy.

As noted earlier, the 2015 evaluation of Finnish cooperation in Kenya recommended that the country team should start preparing a new strategy for 2017–2020 to pave the way for transition away from aid dominated cooperation. In response, Finland's Country strategy 2016–2019, in its key objective in the relations with Kenya, noted that '*in the coming years the focus will increasingly shift to developing and supporting commercial relations between the two countries*'.

60 See PSI Annex

The strategy envisaged that the role of grant ODA would diminish and be used for specific catalytic activities. The relation between Finland and Kenya would increasingly be built upon commercial and institutional cooperation, the latter for example in education and research.

Since the bilateral programme under PA2 did not take place and Finland exited from agriculture, one might argue that the Finnish support to Kenya 2016–2019 was 'de facto' on a transition path away from ODA to commercial relationships as far as PA2. For example, there has been a lot (33) of Finnpartnership BPS decisions for interventions in Kenya between 2016–2019, especially in 2017[61]. The embassy has been active in trying to make Finnish companies interested in the market. "Doing business with Finland" seminars were arranged in Kenya in 2017 and 2018. The BPS data, however, shows mixed results of such activities. For example, in origination of Finnfund investments, the embassy does not have a role to mention.

However, interviews with the Embassy team clearly indicated that transition is not part of the current draft Country Strategy for 2021–2024, which is under preparation, nor are there plans to end ODA. The focus, by the time of writing this report, is on youth employment and vocational training, especially in areas where Finland had some strengths. The Embassy team noted that any transition should be well planned and given at least five years to implement.

4.1.4 Effectiveness in improving the economy by providing jobs and livelihoods

This section assesses the effectiveness of Finnish-funded interventions in terms of achieving the main objective of Priority Area 2: improving economies and providing jobs and livelihoods especially for women, youth and the poor, and in particular, decent jobs. The section covers the cross-cutting issues of human rights-based approach, gender equality and reduced inequality. Finland's human rights-based approach is reflected in the focus on decent work / jobs and gender equality, and reduced inequality is incorporated in the focus on women and the poor. The cross-cutting issue of climate change is not explicitly included in the impact statement of Priority Area 2 and is therefore assessed in a separate section 4.1.5.

Some figures and results of PSI interventions are presented in the assessment of effectiveness. However, in evaluation terminology effectiveness relates to "the extent to which the intervention achieved, or is expected to achieve, its objectives, and its results" (OECD DAC). Given that private businesses do not normally design their operations with the PA2 identified needs /constraints as their objectives, it is difficult to assess these interventions' effectiveness against those needs/constraints. The presented figures and results should rather be interpreted as useful additional information. The effectiveness analysis of PSIs is made on the instrument level in the PSI Annex, presented in this evaluation's main report.

> ***PA2 Objective 1:*** *Everyone, including women, young people and the poorest, have better access to decent work, livelihoods and income*

Finding 11. Although Finland's country programmes, approaches and interventions under the Kenya Country Strategy 2016–2019 did not directly target access to jobs and livelihoods; employment effects occurred as by-products of the regional programmes (EEP and TMEA), but these remain marginal in relation to the overall Kenyan needs. Those that occurred have a strong gender impact.

61 See PSI Annex

As noted under Section 4.1.1 on coherence, under the Country Strategy, the policy objective of improved access to jobs and livelihoods was translated as increased productivity and economic opportunities in forestry and agriculture as the Outcome objective with Output objectives linked to this in forestry only. As the forestry project never took place and agriculture was ended early in the strategy period, the are no interventions to assess effectiveness against.

That said, employment effects did occur, but these were by-products of interventions to improve renewable energy, trade facilitation, investment in services industries, health care, etc. As seen in the previous section, under TMEA, an aggregate 1,451 jobs had been created under the TRAC initiative at the time of its closure in 2017 and the recent TMEA evaluation report provided indirect evidence of an employment effect by TMEA but manifested especially in self-employment. Under EEP Africa, the 2020 EEP Fact Sheet for Kenya indicates that 2,400 jobs have been created in Kenya since 2010, out of which 750 have been created in the 2016–2019 period, many of them under sales functions[62]. As neither the policy framework, nor the country strategy had any form of quantifiable expectations, we cannot judge whether objectives were achieved or not. Seen in the context of Kenya's employment needs with entrance of 800,000 job-seekers every year, the direct job-creation is of course very marginal. A substantial share of created jobs is for women and youth, but the poor are unlikely to benefit. Those jobs created directly are mostly in the formal sector and likely to fulfil at least degrees of decency in ILO's terminology. Note should also be taken of the fact that jobs are lost through efficiency gains, for example in TMEA, where jobs for persons engaged in transport, clearing and forwarding and auxiliary services were lost following improvements along the transport corridors and borders. Of greater interests than jobs created directly through the interventions and investments are the multiplier effects in terms of jobs created indirectly. A more efficient trade environment will enhance the productivity and business opportunities which in the longer run is likely to contribute to jobs and livelihood opportunities.

In terms of gender and human rights-based approach, EEP Africa reports that 47% of projects supported (all countries) have women in leadership roles. EEP undertook in 2017 in-depth study of gender in the EEP portfolio. The study concluded that as '*consumers and users of energy, women and girls benefit the most from clean, efficient energy solutions*'. By focusing mainly on low-income groups (due to the nature of the projects), EEP can also be considered to have a strong dimension of equality embedded in the approach. Gender is also a focus area of TMEA and the impact of the programme on gender has been subject for several studies recently. A gender study in 2018 saw significant areas of progress in TMEA's gender mainstreaming work, such as successful implementation of Women and Trade, that most TMEA programmes collected sex-disaggregated data, advanced gender sensitive work in border infrastructure and, to some extent, supported the inclusion of gender concerns into specific trade policies.[63] According to the 2018-19 evaluation, TMEA's gender-related projects were effective in working with women informal cross-border traders to improve their ability to trade. Its export capability projects had some successes with improving access to markets and increasing income, though this work was carried out at pilot scale and no evidence showed systematic change. The Evaluation concluded that: 'TMEA's Women and Trade projects seemed to have yielded considerable benefits for many of the participants. These included increased cross-border trade, increased income, improved ability to save money, greater self-confidence and self-reliance, and the ability to take on new roles in the community as a result. The spread effects of these positive impacts typically included improved access to food, education or higher quality education, and health services for their families and installation of electricity in their homes and/or businesses'.[64]

62 2020 EEP Fact Sheet for Kenya https://eepafrica.org/wp-content/uploads/2020/08/Fact-sheet_Kenya_June2020-1.pdf

63 Amanda Shaw (2018) TradeMark East Africa (TMEA): Gender Review

64 Allison, C. et al (2019) Poverty and Gender Impact Study

Finding 12. Although the FLC interventions directly targeted jobs and livelihoods, the inefficiency of small funding amounts, spread among many beneficiaries and with short implementation periods does not allow them to have substantial impact.

During 2016–2019, the Finnish Embassy in Kenya funded seven FLC projects which were classified by MFA as PA2. The projects had a total grant funding of EUR 0.3 million and were spread across different themes such as ICT training, agro-processing, forestry, arts, etc. The funding took place in 2016 and 2017 when the FLC programme in Kenya had a total budget of EUR 1.3 million per year. The FLC programme was put on halt in 2018 due to cuts in the overall Finnish development budget. It was resumed in 2020, for a two-year period with a total funding of EUR 0.6 million, i.e. an annual budget level of a quarter of the pre-2018 period. The limited FLC budget is spread across several small projects, whose implementation is one or two years. Project amounts vary, but most are around the EUR 60,000 range or below, with upscaling and sustainability not included in the funding process. During interviews with Embassy staff, it was reported that the number of projects funded depends on the proposals submitted and the amount requested; for example, in 2015, 18 projects were funded, while in 2017, the number was 12, out of 1,200 proposals submitted.

Based on the FLC projects reviewed, as well as the Annual reports to MFA from the Embassy, the potential of the projects to be catalytic is strong. From the HSHC, an estimated 3,000 jobs were created, directly benefiting women and youth. The potential to create more jobs is even higher if a more targeted approach incorporating support to upscale is pursued. Under Yusudi Ltd, 451 youth (27% from vulnerable backgrounds) were impacted through skills development and empowerment for growth in career or entrepreneurship within the blended learning program. The potential reach is also high – Yusudi's targeted outcomes is to provide a 100% increase of monthly income for 300,000 youth over the period ending 2018–2023.

Not only have the projects been strong in creating opportunities for jobs and / or income generation, they have also been innovative in their approach and focus on marginalised groups. However, given the budget available for the FLC projects, the number of projects funded, the size of funding amounts given to these projects and the duration for implementing the projects, the FLC interventions have not been used as a strategic tool. They have rather been used as a public relations tool to link the Embassy to various actors, in the areas the bilateral programme focuses on. The small budget for the FLC is spread too thinly to have as strong an impact as its potential. In addition, most of the results framework focus on outputs to be produced (which is expected given the short duration of the projects); and there does not seem to be any follow up after the project closure to establish how the projects started have progressed, nor what additional support they may require to maintain momentum, scaleup or sustain the business. In addition, there is no effort to link FLC project partners to other instruments. This means that even projects that have the potential to grow substantially and offer potential opportunities for Finnish businesses are not exploited. For example, HSHC management indicated the unexploited potential, especially for the supply of essential oils to Europe market, which is hampered by limited processing capacity, as well as lack of certifications.

The gender dimension is also well taken care of in these projects. Under HSHC for example, the target is women and youth who are predominantly active in the agricultural sector. The 21 seed collection groups that were formed were required to be youth or women led. Through the women-led collection centres and the trainings on advocacy and engagement, as well as securing right from the county governments to access the forests, the rights of the women are safeguarded. Yusudi is also strong on gender, although the program supports both men and women, the final Project Report notes a higher participation of women at 59.5% against 40.5% in the number of participants for Phase II.

Finding 13. Of the PSI, Finnfund's role in improving access to livelihoods and income has been significant.

The Fuzu business model reduces transaction costs in the labour market and facilitates the creation of new jobs. It is difficult to estimate employment effects, or generally use standard effectiveness indicators in the case of Fuzu. One of the figures that could be utilized is the number of the platform's users: so far the total number is over 7 million, with the monthly figure approximately 700,000. Before the pandemic the Radisson Hotel of Elgon Road Limited had 320 full time employees. Of these, 35 % of the whole staff and 40 % of senior management is female. Because of COVID-19, the hotel is not currently operational and employs only a minimum number of staff needed for its maintenance. Before the pandemic Sanergy employed directly around 500 and the estimated number of indirect jobs was 2,000. Due to the pandemic, the current figures are lower.

Through its PE fund investments Finnfund has also been involved in financing e.g. microfinance institutions, which have considerable effects on strengthening livelihoods and creating jobs.

> ***PA2 Objective 2:*** *The private sector and economic activity in developing countries are more dynamic and more diversified*

Finding 14. Regional Programmes (EEP and TMEA) have a positive impact on the private sector and economic activity, making them more dynamic and diversified. Finnfund finances investments, in which it can be financially and qualitatively additional. It thus has a positive impact in the private sector activity and dynamism.

As earlier noted, the EEP programme is not directly aiming at improving economies for job-creation, but the projects have had a positive impact on Kenya's economy and jobs as earlier elaborated. In addition, EEP Africa's engagement in Kenya is expected to contribute to the dynamism of the Kenyan economy in the off-grid energy sector. However, many of the organisations receiving grants are already well established in Kenya, hence it is more a question of expansion than new ventures.

The TMEA programme is addressing some of Kenya's key constraints in economic development (enhancing competitiveness, potentially contributing to export performance and attraction of FDI, reducing inefficiencies in trade and strengthening integration with the global economy and global value chains). The 2019 DFID Evaluation of TMEA made an ambitious attempt to determine the contribution of TMEA to economic growth and welfare (consumption). It found that TMEA contributed 0.7% of Kenya's economic growth 2011–2017, far better than other countries in TMEA. This contribution can be seen as a direct contribution to the dynamism of the Kenyan economy. Another key contribution by TMEA is the regional approach, stimulating economic integration of the East African countries as well as regional trade. Furthermore, investments in improved trade infrastructure in Kenya, particularly those benefiting the Port of Mombasa and the Northern Corridor also benefit the bordering countries, especially the landlocked, given that 70% of regional cargo transits through Kenya[65].

It is difficult to assess e.g. FP's or BEAM's effect on private sector and economic activity. When it comes to the financing strategy of Finnfund (like practically any DFI), the focus lies on financial and qualitative additionality and market development. Its de facto investments in e.g. Fuzu, and Mobisol show its impact on private sector enterprises and certain sectors/markets in practice.

For FLC, the effectiveness on private sector activity and dynamism can be enhanced with a more strategic approach.

65 Mombasa Port Charter; https://www.kpa.co.ke/Documents/Mombasa%20Port%20Community%20Charter.pdf

> ***PA2 Objective 3:*** *International business rules lend better support to the development of businesses, their accountability and the observance of internationally agreed standards in developing countries*

and

> ***PA2 Objective 4:*** *Better use is made of new know-how, value chains, technologies and innovations that respect sustainable development*

Finding 15. Finland's Country Strategy for Kenya 2016–2019 intended to enhance the business environment in the forestry sector and to enhance innovation and value chains. However, the bilateral programme did not take place and therefore this objective was not achieved.

Under the Country Strategy, improvement of the business environment had been foreseen under the bilateral programme on forestry, where among others, model plantations managed effectively with stakeholders was foreseen and forestry related SMEs were to be strengthened to efficiently manage /operate value chains. However, as this programme did not take place, the objective was not achieved.

Finding 16. Some FLC projects and EEP contribute to know-how, technologies and innovations, but the effectiveness is too early to assess as review is being undertaken a year after completion (especially for FLC). In contrast, the TMEA programme is a key contributor to an improved business environment.

The TMEA programme contributes to improving the business environment by reducing trade barriers through improved trade environment, improved transport and logistics infrastructure, improved standards framework and compliance, reduced non-tariff barriers (NTBs), automation of trade processes and systems and improved trade regulations. In Kenya, the main projects were upgrading the operations of Mombasa port, creating One Stop Border Posts (OSBP), road constructions linked to container terminals; support to Kenya Revenue Authority to improve custom processing; support to Kenya Bureau of Standards' testing capacity; small holder agriculture products certification, trade policy support etc.

The EPP interventions contribute to enhancing know-how, given that they are aimed at newer technologies in renewable energy and energy efficiency. However, many of the projects take the shape of scaling up of existing business models. The effectiveness of this approach is too early to judge.

For the FLC projects, the HSHC and the GRI interventions contributed strongly to the objective of new know-how and value chains. The HSHC utilized natural occurring wood products resources, trained 2,635 persons rained on how to identify mature seeds, tree handling, habitat care and appropriate delivery of seeds; linked them to collection centres and thereafter to a processing facility. Additionally, value chain studies were supported under the project, which helped identify new markets and clients. For the GRI, the objectives of know-how and value chain integration are met through the coordination of players in the fruit value chain, as well as their capacity building and linking them to the newly constructed Mango fruit processing plant in Makueni. GRI has over 500 members among farmers. Yusudi on the other hand was innovative in approach – by leveraging technology to train on useful life soft skills necessary for youth to thrive in employment, whether by self or by company.

Finding 17. Team Finland efforts, as per their mandate, are mainly concerned with generating business opportunities for Finnish companies and do not involve measures to improve compliance with standards for international guidelines for responsible business. Finnfund and Finnpartnership on the other hand require that supported companies, both Finnish and Kenyan, comply with international guidelines for responsible business.

The Embassy's trade promotion efforts through Team Finland are mainly focused on generating business opportunities for Finnish companies. Improving compliance with standards for international guidelines for responsible business by Finnish businesses operating in Kenya through e.g. capacity building or training is not part of their mandate. The embassy has been offering guidance and advice to Finnish companies to navigate the Kenyan business environment and comply with the legal and regulatory regime and requirements. Team Finland reporting and follow-up with supported businesses is more focused on satisfaction with services and generated business as opposed to development impact or responsible business. On the other hand, the Embassy has no mandate to require such reporting from supported businesses.

Finnpartership eligibility conditions for BPS also include commitment of applicants to e.g. IFC performance standards on ESG issues, ILO core agreements, and UN guiding principles on Human rights, though there is little monitoring on how these are (or would be in the case of real business activities)implemented.

In Finnfund investments commitment to the international standards (e.g. IFC performance standards on environmental and social issues, ILO core labour standards, World Bank health and safety standards) is a prerequisite for financing, and financing agreements condition the financing with the compliance with these standards. For example, in the Elgon Road Holding Ltd's Radisson Hotel, the company clearly exceeds the local average salary level in the sector. By setting e.g. responsibility requirements Finnfund, like any other DFI applying such standards, sets benchmarks for and promotes responsibility and accountability of businesses in their host countries and markets.

4.1.5 Effectiveness in addressing climate change mitigation and adaptation

This section assesses the effectiveness of Finnish-funded interventions in relation to the cross-cutting objective of Finnish development policy of addressing climate change mitigation and adaptation.

Finding 18. Although the Finnish Country Strategy for Kenya does not directly target adaptation to climate change, EEP contributes to the uptake of renewable energies and Co_2 emissions; HSHC to drought resistant resources while TMEA, with the direct support of Finland, is now integrating climate change into its projects.

Although EEP is not a climate change adaption mechanism, the focus on renewable energy is a strong mitigation mechanism. EEP as an environment and climate-oriented programme is an effective tool in addressing climate change as this is its raison d'être. While Kenya has a very low climate footprint compared to industrialised countries, climate is a global issue, and a reduction of X tons of Co_2 in Kenya is worth as much as the same volume in the US or Finland. EEP is systematically following up and reporting on CO_2 emission reductions. Key results reported from the 58 projects implemented in Kenya since 2010, is that 554,000 tonnes of CO_2 emission have been reduced or avoided cumulatively and over 3M people have had their access to renewable energy enhanced.

Until recently, TMEA has not paid strong interest in the climate and environmental issues. In 2017, Finland provided a Climate Change Advisor to TMEA and in 2018, TMEA approved a new Climate Change Strategy in 2018 guiding the integration of climate change mitigation and adaptation into the project portfolio. Twelve projects out of the 35 Strategy 2 projects are confirmed climate change relevant. TMEA has adopted 10 Environment and Social Standards (ESSs) that will enable effective safeguarding processes. The first standard focuses on the detailed assessment of environmental, climate change and social risks and impacts as early as possible during the commencement of a programme life cycle. A funding framework for the 10 most potential climate change projects has been prepared to guide teams in prioritising, designing and supporting fund-raising for climate change projects. An example is the Mombasa resilient infrastructure programme.

Under the FCL projects, the HSHC seeks to integrate use of resources that are drought resistant, as a response to climate change effects. Additionally, the programme involves training of groups and individuals on tree handling and habitat care. By seeking to ensure the protection of the forest environment that the projects work in, as well as capitalizing on use of non-wood products from these forests, in a sustainable manner, the HSHC projects contributes to addressing the issue of climate change, albeit it marginally.

Finnfund: None of the projects are focussed on adaptation, though for example investments through funds in MFIs enhance the economic resilience of external shocks of borrowers. Of the new investments through PE funds one was in renewable energy.

4.2 Complementarity and added value of partnerships built

This section presents evidence on the complementarity and added value of partnerships built. It provides the basis for answering the second evaluation question:

> ***EQ2: What can the Ministry of Foreign Affairs learn from its peer organisations, especially the Nordics as well as from emerging international 'best practices' for more relevant, effective and coordinated support for economic development, jobs and livelihood opportunities?***

Finding 19. Although there was no bilateral programme, which meant that the main avenue for coordination and partnerships in the PA2 has been in the regional programmes, Finland collaborated with other donors active in the forestry sector before its own programme was suspended.

Under the Country Strategy, complementarity for PA2 was expected to be facilitated in the water and forestry, the latter which did not take place. Finland has therefore not been participating in economic and livelihoods related engagements with other donors, as it usually does. Worth noting, however, is that before the forestry programme was suspended, the Embassy acted as the chair of the Forest Issue Group (FIG) for two years ending June 2017 and even after, managed to continue FIG's institutional reform engaging new members from different stakeholder groups. As a result, the group was converted into an active forum for exchange of information and discussions on pertinent matters such as the rights of forest dependent communities or multipurpose dams planned by the Government of Kenya. The 2017 Annual Results Report notes that the embassy mot only chaired participatory meetings, but also had an essential role as a facilitator in dialogue on the rights of forest dependent communities.[66]

66 Annual Results Report on Country Strategy for Development Cooperation, 2017

Finding 20. Under the regional programmes, Finland has successfully built partnerships with other donors and development institutions in the majority of the projects and programmes which took place in Kenya 2016–2019.

EEP Africa, an initiative of Finland, is a pre-investment facility for renewable energy projects by companies (including start-ups), non-profit organisations and social enterprises. Projects can be feasibility studies or pilot, demonstration, replication, or scale-up projects, including projects aimed at energy efficiency. The programme began in 2010 and is now in its third phase (2017–2021). The current phase is funded by Finland, Austria and the Nordic Development Fund (NDF), the latter organization also managing the program during phase III. EEP Africa III, with a total budget of about EUR 30 million, covers 15 countries in Sub-Sahara Africa of which Kenya is one. The approach is a competitive challenge fund in which awarded projects can receive grants of EUR 200,000–500,000 for projects up to 2 years. The project fund is complemented by semi-annual Investor Forums offering investors access to a pipeline of investable clean energy projects. EEP Africa regularly also organizes knowledge exchange forums, which are open events that bring together clean energy stakeholders for discussions on trends, experiences and lessons learned. EEP Africa Phase III is complemented by a Catalytic Fund for follow-up investments by NDF. Finland does not contribute to the latter. The first Catalytical Fund investments are expected in 2020. EEP Africa is a development cooperation programme with many strengths: it has a clear poverty, gender and climate focus; it is well managed and a Finnish 'flagship' project giving Finland as the initiator and leader a high profile. The cooperation with NDF is adding strength not least by the Catalytic Fund which facilitates commercial funding for viable projects. The regional approach adds value by fostering cooperation between different players in Africa and contributes to diffusion of viable business models and technologies in the region.

TradeMark East Africa (TMEA) is a multi-donor, multi country trade facilitation programme. It was established in 2010 focusing on Aid for Trade in East Africa and began operating in early 2011. It has been implemented in two phases, the first 2011-mid-2017 and a second mid-2017–2022. TMEA had become one of the leading Aid for Trade instruments with a cumulative budget of over US$900 million as of 2019. TMEA works currently in seven East African countries: Burundi, DR Congo, Kenya, Rwanda, South Sudan, Tanzania and Uganda as well as in the Horn of Africa (Ethiopia and Somaliland). UKAID (DFID) is the initiator of TMEA and lead funder. The programme is also supported by the EU and nine countries, including Finland.[67] Finland participates in the TMEA Council, the overall governance body of TMEA, whose responsibility includes providing strategic direction to the organization as well as monitoring results and impacts of TMEA interventions. As a Council Member, Finland has been vocal on the issue of climate change as well on the issue of job creation. In 2018, Finland requested a report on the number of jobs created under the TMEA TRAC fund.

Finding 21. While cooperation between the Embassy and PSIs is insufficient, it does take place strongly between the various PSIs. All Finnfund investments are partnerships.

The relationship between the Embassy and the PSI is weak and any involvement is for information purposes only. The EEP, however, cooperates with other instruments like the Finnfund and involves them in their activities like the Investor Forums, based on our interviews with EEP. In addition, the majority of financing for projects that Finnfund invests in comes from other sources of capital. The initiative for investment always comes from private businesses. FF investments therefore are per se partnerships of at least Finnfund, the sponsor/owner/project company, and other financiers.

67 The current donors are Belgium, Canada, Denmark, the EU, Ireland, Finland, the Netherlands, Norway, the UK and USA. Sweden was a donor until the last phase.

That Finnfund is willing to take smaller tickets and finance smaller companies in more early phases of business development than most other financiers (including DFIs), makes it partner with the kind of SMEs that many other financiers shy away from. At the same time (in the case of e.g. Elgon Road) it has been able to partner with a major international hotel chain.

4.3 Results Based Management and Knowledge Management: lessons learnt

This section provides the basis for answering the third evaluation question:

> ***EQ3: How can the effectiveness of Finnish development cooperation related to economic development be further developed, including if and how the Results-based Management system can be further refined as far as Priority area 2 is concerned?***

Finding 22. The 2016–2019 Country Strategy, its logic model and the portfolio of interventions have been aligned with the objectives of policy priority area 2 of Finland's 2016 Development Policy but indicators were weak in alignment.

Finland's actions in support of the Development Policy PA2 of "Developing countries' own economies have generated more jobs, livelihood opportunities and well-being" promote that:

1. Everyone, including women, young people and the poorest, have better access to decent work, livelihoods and income;
2. The private sector and economic activity in developing countries are more dynamic and more diversified;
3. International business rules lend better support to the development of businesses, their accountability and the observance of internationally agreed standards in developing countries;
4. Better use is made of new know-how, value chains, technologies and innovations that respect sustainable development.

The Finnish 2016–2019 Kenya Country Strategy's Theory of Change sought to achieve increased access to jobs and livelihoods through one main outcome – 'increased productivity and economic opportunities in forestry and agriculture'. As shown in the Table 5 presenting the Country Strategy's logic mode for the Impact area 2 of increased access to jobs and livelihoods, the above outcome would be achieved through three outputs, as follows: (1) Kenya Forestry Service model plantations managed effectively with stakeholders; (2) improved products and market access for farmers and their organisations; and (3) forestry related SMEs strengthened to efficiently manage / operate timber value chains.

Table 5 The Logic Model of the Impact Area 2 Increased employment and livelihoods, Kenya Country Strategy 2016–2019

IMPACT	OUTCOME	OUTPUT	KEY ASSUMPTIONS LINKING OUTPUTS/OUTCOMES/IMPACTS	INSTRUMENTS AND INPUTS
2. Improved access to jobs and livelihoods	**2.1.** Increased productivity and economic opportunities in forestry and agriculture	**2.1.1.** Kenya Forest Service model plantations managed efficiently with stakeholders	**Impact-related:** Private sector is motivated and willing to invest in new efficient technology and improve its management. There is increased demand for forest-related expertise in the private sector and among the public. Farm forestry associations are well managed and willing to engage in forestry-related value chains. **Outcome-related:** Sector institutions and stakeholders remain stable and committed to support private sector. KSF willing to open up the forest sector. Anti-corruption measures implemented. Markets for products are available, accessible and competitive. There are private sector actors willing to support or partner with communities in farm forestry. County governments are willing to support community-level business development.	Bilateral programme under planning; policy dialogue; PALWECO programme (outcome level)
		2.1.2. Improved products and market access for farmers and their organisations		Bilateral programme under planning; policy dialogue
		2.1.3. Forestry-related SMEs strengthened to efficiently manage/ operate timber value chains		Bilateral programme under planning; policy dialogue

Source: MFA, Country Strategy for Development Cooperation Kenya: 2016–2019

As the interventions were not realised, they were marked as “red traffic lights” in the annual results reports.

Finding 23. The country strategy is developed as a collaborative effort between the Embassy and the MFA. In practical terms though, the decision making is centralised, while the planning, scoping, design, implementation and oversight of the strategy is decentralised.

The Country Strategy is a product of the Embassy in cooperation with the MFA, but the final decision lies with MFA. Embassy staff are the ‘ears and eyes on the ground and know better the needs of the partner country’ and are thus responsible for identifying the country programme areas, its results areas, design of the programmes and the interventions. The MFA is involved throughout the process and will usually send technical people to support the process, including at pre-identification, identification and appraisal stages. The final decision regarding the Country Strategy, programmes and interventions, as well as any changes that may occur in the programme during implementation period however lies with the MFA in Helsinki. According to the interviews with the embassy, while this division can work well (and usually does), the situation might be challenging when views of the embassy and MFA HQ staff differ. There are different levels of advisors at the MFA HQ, who include country or regional specific advisors, as well as technical advisors for the whole development policy area. Both levels will have statements or opinions about the Country Programme, but no responsibility in implementing the programme and producing results. If the advisors are against a country programme or an issue, the Unit directors will usually not approve it, which undermines the decentralisation, especially as there are technical specialists sitting at the Embassy who have a better understanding of the partner country and the particular issue at hand.

5 Conclusions

5.1 Achievement of Finland's objectives on economic development, job creation and livelihoods (PA2)

5.1.1 Coherence with the overriding Finnish policy framework for PA2

Conclusion 1. In implementation, there was no coherence between the Country Strategy and the overriding Finnish Policy Framework for PA2. The PA2 outcome of the Country Strategy was built around the main bilateral intervention which did not materialise. *(Based on Finding 1)*

During 2016–2019, the Finnish development assistance with economy, jobs and livelihoods as objective pulled out of the main pillars it has focused on in the past: agriculture and forestry. The first was done as a planned effort, the second due to an unexpected collapse related to a logging ban as well as corruption in the sector. As a result, the country strategy became void of its central tenure. Beyond the Country Strategy under PA2 not being implemented, it translated the objective of improved access to jobs and livelihoods to only one outcome area – that of increased productivity and economic opportunities in forestry and agriculture.

Conclusion 2. While Finnish support to the private sector used a variety of approaches, interventions were, overall, designed as standalone support, and implemented in isolation. This undermined the huge potential to leverage the instruments, which would contribute to greater opportunity to advance the set objectives. *(Based on Findings 2, and 22)*

The Country Strategy 2016–2019 only included sentences to indicate that two of the main regional programmes (EEP and TMEA) are being implemented in Kenya, with no effort to consider how the various instruments and inventions can be leveraged. This is a missed opportunity particularly with regard to private sector development where companies with growth and employment potential have been identified in the context of the PSIs, EEP, FLC and other programming, but where support has typically been limited and focused on a very specific activity instead of considerations for leveraging them for more extensive results given. In addition, while acknowledging that the areas of focus by Finnish CSOs are all important, the funding across different focus areas may be interpreted as Finnish funding being spread thinly across different interventions, which has an impact on potential results.

5.1.2 Relevance to partner country needs

Conclusion 3. Finland's FLC, regional programmes and PSI instruments address Kenya's main constraints in economic development, although some of the contribution is indirect and also limited in scale. *(Based on Findings 4, 5, 6, 7, 8 and 9)*

While only a few interventions explicitly approach the country's key constraints, all the interventions have been / are relevant to the identified key constraints in Kenya. Some of the project lend themselves more strongly to addressing some constraints – for example EEP and FCL have stronger relevance for the poor and especially for poor women; while TMEA, given its main focus on enhancing the environment for trade has a potential greater contribution to manufacturing and exporting. The PSIs relevance is strongest in job creation, but also in addressing the needs of the poor. Given Finland is a small donor, this limited impact is not surprising.

5.1.3 Relevance and effectiveness for the pursuit of transition, and role of the private sector in transition

Conclusion 4. The Country Strategy had transition only at the level of an idea and none of the interventions in place provide specific strategic support towards transition. *(Based on Finding 10)*

In part because the main bilateral programme did not take place, the intended transition from ODA towards more commercial relations remained just an idea. In addition, there were no specific activities targeted at transition in the strategy that could have been pursued to actualise or support the move away from ODA and into commercial relations.

5.1.4 Effectiveness in improving economies for jobs and livelihoods

Conclusion 5. PSIs, FLC and EEP have directly and significantly contributed to decent jobs and livelihoods, with strong gender impacts. The contribution of TMEA has been indirect but also significant. *(Based on Findings 11, 12 and 13)*

The results arising directly from the PSI, FLC and the regional EEP interventions with regard to jobs have been impressive. The percentage of these jobs among women and youth is strong and most are decent, as they are in the formal sector. Those in the informal sector have been useful in supporting livelihoods especially of the rural populations as well as youth. Although the contribution of TMEA to jobs is indirect, it has been significant and the multiplier effects of an improved trade environment on jobs is likely to be considerable.

Conclusion 6. While Finland's results in enhancing the business enabling environment and value chains are limited because the intended bilateral programme did not take place, the Regional Programmes (EEP and TMEA) and Finnfund investments have a positive impact on the private sector and economic activity and make them more dynamic and diversified. *(Based on Findings 14, 15 and 16)*

EEP's engagement in Kenya is expected to contribute to the dynamism of the Kenyan economy in the off-grid energy sector as well as in job creation. Similar, TMEA, through enhancing the trade environment has been assessed to have had a direct contribution of 0.7% of Kenya's economy between 2011–2017 and this contribution is set to increase with time as the impacts of investments in trade infrastructure, trade integration, harmonisation of policies and the like continue to be felt.

Conclusion 7. FLC's impact in improving jobs and livelihoods has been strong but marginal. Its potential impact is yet to be fully exploited. *(Based on Finding 16)*

The FLC projects considered for this case study have demonstrated the potential impact of the FLC projects in job creation and improving livelihoods among women and youth. In addition, they have been targeted in the rural communities and have utilised resources within the reach of these communities, with some good innovations like tapping the potential of essential oils. This impact can be enhanced if the FLC is used strategically to achieve targeted results.

5.1.5 Effectiveness in addressing climate change mitigation and adaptation

Conclusion 8. The EEP especially and TMEA, FLC and some PSI instruments have played a vital role in addressing the problem of climate change. *(Based on finding 18)*

The EEP is a strongly environment and climate-oriented programme, that has played a significant role in introducing and scaling up renewable technologies in Kenya, reducing Co_2 emissions as well as enhancing access to clean energy to over 3 million persons since 2010. TMEA on the other hand, though only starting to pay attention to climate change in the recent years is integrating the issue into its programming, with a funding framework in place. For FLC projects, some like HSHC also have positive spill-over effects on climate change, albeit marginal ones.

5.2 Complementarity and added value of partnerships built

Conclusion 9. Partnerships under PA2 did not materialise but under the regional programmes they have been successful, as have those between PSIs. Opportunity to strengthen coordination and collaboration between PSIs and the Embassy exists. *(Based on Finding 19, 20 and 21)*

Finland has leveraged partnerships under the EEP and TMEA regional projects, allowing it to leverage its small contribution especially in TMEA for larger results associated with TMEA. The collaboration across the PSIs has been strong, cutting across different donors and different sizes of business. Opportunity exists to enhance collaboration between Embassy and PSIs, to leverage each other's strengths.

5.3 Results Based Management and Knowledge Management

Conclusion 10. The Country Strategy could have considered the regional programmes more fully and should have included different modalities of implementing the PA2 objective to spread the risk of targeted implementing partners not being suitable. In essence, the programmatic risk of over-focusing an impact area into a single intervention was realized. *(Based on Finding 22)*

Given their magnitude as well as contribution elaborated in the various sections, the EEP and TMEA programmes could be better mainstreamed into the Country Strategy. In addition, providing for more than one intervention to implement the PA2 objective was necessary and should have been anticipated given the challenge of corruption in Kenya.

Conclusion 11. The Embassy team projects excellent understanding of the country needs and constraints and are likely to provide valuable contribution in designing Country Strategy and Country Programme for Development Cooperation with interventions. *(Based on Finding 23)*

Although both the country teams at the Embassy and those at HQ have an important role to play in developing a country strategy, the input of the country teams at the Embassy is critical in ensuring that the Strategy is aligned as best as possible to country needs and constraints. Additionally, as the team accountable for its implementation and results, the country team should ultimately have the final word on the direction and focus of the strategy.

6 Implications and Lessons learnt

Going forward and based on the evidence generated by this case study, the following lessons/implications arise for the future of Finnish-Kenyan relations.

Lesson/Implication 1.	General
Internal and external coherence should be ensured by broadening the country strategy to include all instruments and clear actions on improving coherence and synergies.	

Although each instrument has its own approach, with EEP and TMEA being regional and PSIs being market driven, they all contribute to Finland's overarching objectives. However, the fact that they work mainly in isolation means that opportunities for synergies as well as leverage are missed. Furthermore, given Finland is not a 'large' donor, the opportunity for the Embassy to use some of these instruments to advance and/or influence Finland's agenda in Kenya is not utilised. For PSI instruments, Finland may consider enhancing coherence through ensuring that supported companies observe the cross-cutting themes of importance to Finland, such as decent jobs / work, environment and human rights. The current plans to have comprehensive country development strategies should be actualised. The main report makes further recommendations on how coherence and synergies could be improved going forward.

Lesson/Implication 2.	Kenya
Based on consultation of this case, although Finland's policy on economic development has been relevant to Kenya's key needs, in most part, the contribution has been indirect and not targeted. In planning for the next programming cycle, the starting point should be on assessing the needs of the country.	

Beyond the alignment to the overriding Finnish Strategy, as part of programming and to ensure that the Country Strategy best responds to the country needs, the country team at the Embassy should undertake thorough assessments of the key constraints as well as the most suitable partners to work with to address these constraints. This assessment should include consideration of the short- and long-term effects of the COVID-19 pandemic with a view to supporting efforts to rebuild. The assessment should not only be internal but should also involve consultations with relevant constituencies in the country to help tailor the interventions; secure both ownership and buy-in, not just of the intervention but also the selected implementing partners. Given Finland is a small donor, explicit targeting of interventions (where possible) is likely to align better with country needs and yield better results.

Lesson/Implication 3.	Kenya
If Finland is planning to transition from ODA in Kenya, there is need to set up a specific strategy. This strategy should be long term (more than 5 years) and tied to the 'next' phase of the country strategy.	

To ensure its success, transition should be specifically targeted and supported with a strategy that allows for any approaches to be tailored and recognisant of the two country needs and that is tried and tested and key lessons for success learned. The strategy should ease into the country strategies seamlessly to ensure that the gains already made before transition are sustained and expanded during the transition phase and when ODA ends. Additionally, the intention to transition should be communicated and discussed with the Kenyan government and relevant agencies to ensure that they are made aware of the new strategic directions and what role they / other agencies / private sector partners will play. Zambia may serve as a lesson in this case. Further lessons can be found in the Main Evaluation Report and the Innovation and Taxation Annexes.

Lesson/Implication 4.	**Kenya**
The FLC, with its reach especially to vulnerable groups, could be used more strategically by, among others, reducing the number of projects funded thereby increasing amounts; increasing the duration of implementation as well as building sustainability and scale up into the funding decisions.	

As seen from the consultation on this case study, amounts provided for projects and the implementation durations are too low to reach the FLC's potential impact. Having FLC become more strategic would also mean that the call for proposals is more targeted not only to ensure the highest quality partners are selected, but also that the expectations of applicants are managed. Having to weed through 1200 applications to select only 12 is not an effective approach. Potential for scale up, as well as to more engaged collaboration with partners, for example through linking them with other instruments should be explored.

Lesson/Implication 5.	**Kenya**
Given the continued negative impacts of climate change, especially on Kenya's agricultural sector which is the leading employer in the country, Finland should continue supporting climate change mitigation and adaptation through projects like EEP. The next country strategy should ensure that interventions have climate change related targets, where applicable.	

EEP especially has had impressive results in reducing carbon emission, introducing new clean energy technologies and in enhancing access to clean energy. Kenya's energy supply is still however dominated by biofuels like charcoal and firewood, underscoring the need for the projects supported by EEP. The impacts of climate change in Kenya continue to be pervasive, manifesting in droughts, locusts and floods during the year 2020 alone. This calls for continued support and collaboration to put in place strategies and interventions to both mitigate and adapt to climate change.

Lesson/Implication 6.	**Kenya**
In designing country strategies, different modalities for delivering specific objectives should be considered to ensure that the objectives still get implemented when a partner falls through or other changes occur.	

While recognising that too many partners not only spread resources thin, complicate implementation as well as risk compromising delivery of results, it is imperative that specific objectives, such as the PA2 have different modalities of implementation. This also calls for risks of partners falling through to be anticipated in the Country Strategies and mitigated through a different modality.

Lesson/Implication 7.	**Kenya**
The extensive knowledge of the country teams at the Embassy should be utilised in designing the country programme for development cooperation and the country strategy to ensure they are closely aligned to country needs.	

To ensure that country strategy relates more strongly to the country needs, there is need to follow guidance from the country teams based at the country as they have a pulse on the country dynamics.

Country Case Annex 1: List of documents consulted

Adam, C. (2018): The Fiscal Foundations of Deep Regional Integration: From Customs Unions to Economic and Monetary Unions. Rethinking Regional Integration in Africa. Nairobi, African Economic Research Consortium.

Arndt, C. et al (2016): Growth and poverty in Sub-Sahara Africa

Bertelsmann Stiftung's Transformation Index (BTI) (2018). Country Report, Kenya. https://www.bti-project.org/fileadmin/files/BTI/Downloads/Reports/2018/pdf

Business Call to Action (2019) Innovations that improve lives https://www.businesscalltoaction.org/

Business Daily, Tuesday, February 4, 2020 18,000 youth trained on critical job market skills, https://www.businessdailyafrica.com/corporate/enterprise/18-000-youth-trained-on-critical-job-market-skills/4003126-5442598-ovui8cz/index.html

Capital FM, Generation Kenya delivers another 4,000 youth for Kenya job market, https://www.capitalfm.co.ke/news/2018/02/generation-kenya-delivers-another-4000-youths-kenya-job-market/

Danish Trade Council in Kenya, https://kenya.um.dk/en/the-trade-council/

Danish Trade Union Secretariat (2020): Labour Market Profiles. Kenya; Copenhagen http://www.ulandssekretariatet.dk/content/landeanalyser

Denmark-Kenya Partnership Policy 2015–2020, https://kenya.um.dk/en/danida-en/denmark-kenya-partnership-policy/

Denmark-Kenya Programme 2016–2020 Green Growth and Employment Thematic Programme — Improving the Business Climate for Greener Growth and Sustainable Development — Development Engagement Document https://kenya.um.dk/en/danida-en/green-growth-and-employment/

E-ProMIS (electronic Project Monitoring Information System), https://www.bing.com/search?q=e-premis+kenya&form=IENTNB&mkt=en-gb&httpsmsn=1&msnews=1&refig=892b328dbdde402ccaa32de34fe2d906&sp=1&qs=HS&pq=e-pre&sc=8-5&cvid=892b328dbdde402ccaa32de34fe2d906

FAO (2019) Agriculture data base http://www.fao.org/faostat/en/#country/114

Hall, S. (2017) Youth employment in Kenya, A literature review, British Council & UK Aid

http://documents.worldbank.org/curated/en/820861554470832579/pdf/Kenya-Economic-Update-Unbundling-the-Slack-in-Private-Sector-Investment-T https://data.worldbank.org/indicator/NE.EXP.GNFS.ZS?locations=KE

ILO (2012). Decent Work Country Profile Kenya.
https://www.ilo.org/integration/resources/pubs/WCMS_188575/lang--en/index.htm

ILO (2013) Understanding the drivers of the youth labour market in Kenya

Innovation Norway in Kenya, https://www.govserv.org/KE/Nairobi/293337274203993/Innovation-Norway-Middle-East-and-Africa#:~:text=KENYA%20-

Investment Fund for Developing Countries, https://www.ifu.dk/en/office/nairobi-3/

Karigithi L, Generation Kenya Programme, https://kenya.generation.org/

Kenya Revenue Authority (2010): Revenue Administration Reforms in Kenya: Experience and Lessons. Nairobi

Kenya Revenue Authority (2011): Effects of Tax Incentives in Kenya. Nairobi, KRA

Kenya Revenue Authority (2015) Sixth Corporate Plan, 2015/16-2017/18: Trust and Facilitation. Nairobi: KRA,

McCluskey, W., R. Franzsen, and W. Olima, W. (2017): Property Tax in Africa: Status, Challenges and Prospects. Kenya and Cambridge, Massachusetts: Lincoln Institute of Land Policy.

MFA (2015) Country Strategy for Development Cooperation 2016–2019, Kenya

MFA (2019). Self-assessment of the Country Strategy 2016–2019, Kenya.

MFA (2019) Evaluation of the Agriculture, Rural Development and Forestry Sector Programmes in Africa

Ndung'u, N (2017): "Digitization in Kenya: Revolutionizing Tax Design and Revenue Administration." International Monetary Fund, Washington, DC.

Nietsche, L. (2019) Finding digital solutions to local problems, Kenya's innovation scene is no one-hit wonder, DW Akademie, www.dw.com/en/finding-digital-solutions-to-local-problems-kenyas-innovation-scene-is-no-one-hit-wonder/a-47119339

Nelson H. W. Wawire. 2020. "Constraints to Enhanced Revenue Mobilization and Spending Quality in Kenya." CGD Policy Paper 163. Washington, DC: Center for Global Development. https://www.cgdev.org/publication/constraints-enhanced-revenuemobilization-and-spending-quality-kenya

Norway Development Cooperation in Kenya,
https://www.norway.no/en/kenya/values-priorities/dev-policy-hum-efforts/

ODI (2017) Ten policy priorities for transforming manufacturing and creating jobs in Kenya,

ODI (2018) Understanding poverty in Kenya. A multidimensional analysis

OECD, 2019, Development aid at a glance, statistics by region-Africa,
https://www.oecd.org/dac/financing-sustainable-development/development-finance-data/Africa-Development-Aid-at-a-Glance-2019.pdf

OECD, 2019, Geographical distribution of Financial Flows to Developing Countries 2019 Disbursement, Commitments, Country Indicators, https://www.oecd-ilibrary.org/docserver/fin_flows_dev-2019-en-fr.pdf?expires=1597056023&id=id&accname=guest&checksum=C8F187595100B4FF4CA391A0CB52E7E0

Oxford Poverty and Human Development Initiative (2018). Global MPI Country Briefing 2018: Kenya (Sub-Saharan Africa). https://ophi.org.uk/wp-content/uploads/CB_ZMB_2018.pdf

Sweden-Kenya Development Cooperation 2016-2020 https://www.sida.se/English/where-we-work/Africa/Kenya/Our-work-in-Kenya/

Transparency International – Kenya report (2019) https://www.transparency.org/country

Uusihakala, J. et al (2015): Evaluation. Finland's development cooperation with Kenya 2007–2013

World Bank (2012). Kenya Exports Performance Overview. World Bank, Washington, DC.

World Bank (2016) Informal enterprises in Kenya http://documents.worldbank.org/curated/en/262361468914023771/pdf/106986-WP-P151793-PUBLIC-Box.pdf

World Bank (2018) Kenya poverty and gender assessment 2015/2016

World Bank (2019) Unbundling the Slack in Private Sector Investment. Transforming Agriculture

World Bank (2019). Doing Business 2020. Comparing Business Regulations in 190 countries, Washington DC

World Bank (2019: Poverty and Equality Portal http://povertydata.worldbank.org/poverty/country/KEN

World Bank (2019: World Bank in Kenya https://www.worldbank.org/en/country/kenya/overview

World Economic Forum (2019): Global Competitiveness Report 2019, Geneva

World Inequality Database https://wid.world/country/kenya/

Country Case Annex 2: People Interviewed

MFA		
Petri Wanner	Department for Africa and the Middle East (ALI-30)	Desk Officer, Southern Africa team
Eeva Alarcón	Department for Africa and the Middle East (ALI-02)	Senior Adviser, Development Policy
Jussi Karakoski	Department for Africa and the Middle East (ALI-02)	Senior Adviser, Development Policy
Anu Hassinen	Department for Development Policy (KEO-20)	Senior Adviser, Development Policy, energy questions
Annika Kaipola	Department for Development Policy (KEO-10)	Senior Adviser, Development Policy
Laura Desmoulin	Department for Development Policy (KEO-20)	Senior Adviser (Private Sector Development)
Mika Vehnämäki	Department for External Economic Relations (TUO-10)	Commercial Counsellor in the Trade Policy Unit
Suvi Virkkunen	Department for Development Policy (KEO-10)	Senior Adviser, Development Policy (RBM)
Silja Leinonen	Department for Development Policy (KEO-20)	Senior Adviser, Development Policy (Innovation and Digital Development)
Ilari Lindy	SAIS	Lead Expert
Anni Mandelin, Ph.D.	Embassy of Finland in Kenya	Counsellor for Natural Resources and Private Sector Development
Georginah Gichohi	Embassy of Finland in Kenya	In charge of the LCF projects
Selected Implementers of large programmes		
Jennifer Collier Wilson	TradeMark East Africa	Chief Impact Officer
Catherine Ssekimpi	TradeMark East Africa	Results Programme Manager
Jussi Viding	EEP Africa	Project Manager
Bernard Muchiri	Help Self Help Centre (HSHC)	Executive Director
Vincent Mainga	Green Resources Initiative	Executive Director
Charlotte De Ridder	Yusudi Ltd	Co-Founder
Other donors active in economic development, jobs and livelihoods in Tanzania		
Silas Malema	Ministry of Foreign Affairs of Denmark, Embassy to Kenya	Programme Officer
Felix Osok	Sweden	Programme Manager, Private Sector Development

Country Case Annex 3: Context Analysis

Economic development and job creation

Policy framework

The Government of Kenya has, through various policy documents, expressed its intention to address the issue of economic development and poverty reduction through job creation.

Kenya's Vision 2030 is the current Government's overriding development plan. It was launched in 2008 covering the period 2008 to 2030 with the objective of making Kenya a "newly industrializing, middle income country providing high quality life for all its citizens by the year 2030 in a clean and secure environment". The vision is divided in three pillars; i) a Social Pillar (covering education & training, health, water & sanitation, environment, housing & urbanization and gender, youth, sports & culture); ii) a Political Pillar that aims to create a 'democratic political system that is issue based, people-centred, result-oriented and accountable to the public' through reforming and capacity building local authorities as well as developing and implementing a decentralization strategic framework; and iii) an Economy and Macro pillar, which identifies six priority sectors that "promised to raise GDP growth rate to the region of 10% in a number of years." These sectors were Tourism, Agriculture and Livestock, Wholesale & Retail, Trade, Manufacturing, Financial Services, Business Process Offshoring and IT-Enabled Services.[68]

The *Sessional Paper No. 9 of 2012 on National Industrialisation Policy framework (2012–2030)* sets the framework for industrial development and targets value addition and enhancing the role of SMEs in industrial development. The Kenya Industrialisation Transformation Programme (KITP) of 2015 envisages interventions to stimulate industrial output, with the aim of raising the manufacturing sector's contribution to GDP from 8% in 2017 to 15% of GDP by 2022[69].

Under the *National Export Development and Promotion Strategy (NEDPS)* which was crafted in 2017 and launched in 2018, the government aims to address the country's poor export performance, which is characterised by two main challenges: one, a narrow export destination markets, with 13 countries accounting for about 70% of all Kenya's exports in 2016, and two, a narrow product base, with 5 broad product categories accounting for 56% of the total exports by value. With a vision to 'Transform Kenya's economy through export led growth in industrial, agricultural and trade in services development', the NEDPS focuses on seven priority sectors, including manufactured products; agriculture; livestock & livestock products; fisheries; handicrafts; emerging sectors (mining and petroleum); and trade in services; (business services, education services, financial services, tourism and travel services, health services, transport services, ICT services and recreation, cultural and sports services) to grow export growth from 15% in 2018 to 35% in 2022. The Strategy notes that the framework for enhancing exports has already been established through various preferential arrangements under the East African Community (EAC), Common Market for East and Southern Africa (COMESA), EAC-EU Economic Partnership Agreement (EPA); the African Growth and Opportunity Act (AGOA) with the USA as well

68 Kenya Vision 2030 https://vision2030.go.ke/#
69 National Industrialisation Policy framework (2012-2030) http://industrialization.go.ke/

as the expected markets under the Tripartite arrangement of EAC, COMESA and SADC and the African Continental Free Trade Area (AfCFTA). [70]

In 2017, President Kenyatta introduced in his second term the "Big Four agenda on 1) Food security; 2) Affordable housing; 3) Manufacturing and 4) Affordable health care for all. Kenyatta's Big Four, constitutes the Third Medium Term Plan for the 2030 Vision, covering the period 2017-2022. In terms of food security, the Plan envisages 100% food security and nutrition commitment which will be achieved by increasing large scale production of staple foods under irrigation in a private/public partnership. Aside from large scale crop production, the government also aims to boost the capacity of small-scale food producers. In terms of manufacturing, the Big Four agenda has the target to increase the contribution of the sector to GDP from 9% to 20% by 2022 and to create 500,000 new jobs by 2022; both to be achieved through improved business environment (as measured by Doing Business index); creation of industrial parks and established export zones; establishment of a US$500 million SME development fund and a guarantee scheme for loans to SMEs. Exports of manufactured goods are expected to grow by 20% annually helped by the establishment of a Kenya ExIm bank; opening up new markets in China and India and establishing an export strategy, among others. [71]

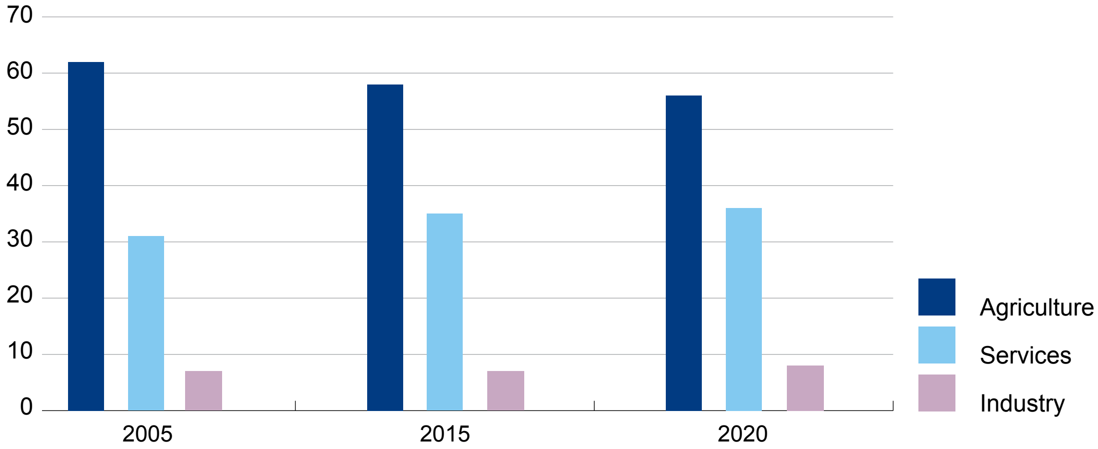
Half way through the Big Four agenda, the performance has overall been slow, and a newspaper report in early 2020 concluded that only 1% of the targets had been achieved.[72] In March 2020, the Parliament Budget Office concluded that it was extremely difficult to achieve the Big Four agenda if national revenues continue to decline, that the programmes implemented so far have not spurred the manufacturing sector whose share of GDP has been declining, and that the realisation of the agenda on food and nutrition security appears to be bleak.[73]

As indicated earlier, COVID 19 has drastically altered the underlying conditions for the Big Four Agenda.

Labour market

Agriculture employs about 60% of the Kenyan work force, while manufacturing employs 7–8%, and the balance in services. Over the last decade, there is a slight shift in the employment structure from agriculture to services, while manufacturing is largely stagnant, as shown in Figure 7.

Figure 7 Sector distribution of Employment in Kenya – 2005–2020. Source: ILO, Employment by sector – ILO modelled estimates, Nov. 2018.



Source: ILO, Employment by sector – ILO modelled estimates, Nov. 2018.

70 National Export Development and Promotion Strategy (NEDPS), 2018 http://industrialization.go.ke/
71 https://www.president.go.ke/enhancing-manufacturing/
72 https://www.theeastafrican.co.ke/tea/news/east-africa/only-1-percent-of-kenya-s-big-four-agenda-targets-met-so-far-1435104
73 https://www.nation.co.ke/kenya/news/dwindling-revenues-cast-doubts-on-uhuru-s-big-four-agenda-255486

The Kenyan labour market is dominated by the informal sector, self-employment and household economic activities. The informal sector, which provides about a third of Kenya's GDP, accounts for 83% of the labour force.[74] Furthermore, this share has increased substantially over the years. In the 1980s informality accounted for a mere 20% of employment. A World Bank study on the informal sector in 2016 concluded that 95% of Kenya's businesses are in the informal sector, and that of 800,000 new jobs that were created in 2015 (the year of the survey), 700,000 were in the informal sector, jobs mainly in services such as trade, restaurants, hotels.[75]

The study concluded that the majority of firms prefer to remain informal because of taxes and the cost of registration, especially younger firms and those that are more dynamic. The conclusion is that informality is not a temporary stage in a process towards growth and formality but rather a dynamic and expanding large sub-sector of the economy on its own with informality as part of the business concept. The absence of a legal minimum wage level in the informal sector adds to its flexibility to absorb employees.

The importance of the informal sector in the Kenyan economy and job-market was stressed in the MFA political analysis 2019:

> *"The enormous informal private sector and its functioning must be analyzed, since it has a large influence that needs to be taken in consideration in our actions. Changes in productivity, jobs and livelihoods cannot be achieved without taking account of the informal sector."*

The short-term impact on COVID 19 on the labour market is a reduction of formal employment as companies closed down or reduced their operation and lay-off staff. The informal sector absorbs some of these as people take whatever jobs there are in the informal sector or start own businesses to survive. However, also the in formal sector is affected negatively by the COVID 19 with declining returns and worse income and working conditions. COVID-19 presents both supply and demand shocks to the informal sector through travel restrictions, closed markets, and overall restrictions especially affecting services. Furthermore, the fiscal, monetary and social policies the government introduced to mitigate the negative impact on the economy largely exclude the informal sector. According to one study:

> *"The informal sector-blind nature of the government rescue package confirms the long-standing contention that the sector is a policy orphan, often excluded in policy discourses. In the current scenario, the government mainly consulted formal sector workers, employers and industry leaders through their representative trade unions and industry associations before coming up with the rescue package. However, no attempt was made at engaging informal sector associations and trade unions organizing workers therein to identify informal sector responsive mitigation measures."* [76]

The longer-term consequences are still not known, but the pandemic is likely to trigger a faster rate of informality in the economy as employers in the formal sector of the economy adjust to the changed economic environment. Unemployment is officially around 10% of the work force. In Kenya, as in other African countries, the unemployment rate is relatively small as people must work to survive. Thus, the main labour market issue in Kenya is not open unemployment but rather a large number of working poor subsisting in the informal sector and smallholder agriculture.[77]

74 Kenyan Bureau of Statistics and Institute of Economic Affairs, Most data from the mid 2010s.
75 World Bank (2016) Informal enterprises in Kenya http://documents.worldbank.org/curated/en/262361468914023771/pdf/106986-WP-P151793-PUBLIC-Box.pdf
76 Omol, E. (2020): How the Pandemic is affecting the informal sector in Kenya, Frriedrich Ebert Stiftung
77 Arndt, C. et al (2016) Growth and poverty in Sub-Sahara Africa

Women's employment and unpaid care work

Kenya's female labour force participation rate is 71% of the 15–64 years age group, compared with a male labour force participation rate of 77%. Female participation in the labour force is related to factors such as religious faith, level of education and responsibilities for young children. Male wage workers earn 30% higher wages and salaries than female wage workers, explained by the fact that women are disproportionately employed in agriculture and services, while men have a higher share of employment in the formal industrial sector. Furthermore, women are also to a higher degree engaged in agricultural activities achieve lower yields (maize, beans) than other households.

More women tend to venture into the small micro enterprises. Women operate 54% of the total enterprises in the country where they dominate wholesale and retail businesses. The World Bank suggests that closing the gender poverty and employment gap, efforts in education, especially secondary school enrolment among adolescent girls which may also delay fertility decisions. Public investments in services for care can reduce time constraints of women. [78]

Unpaid care work is both an important aspect of economic activity and an indispensable factor contributing to the well-being of individuals, their families and societies. The value of unpaid care work is estimated to be 'worth' US$10 trillion of output per year – roughly equivalent to 13% of global GDP (World Bank, 2012). But unpaid care and domestic work is also a poverty trap for women. Around the world, women spend disproportionately more time than men caring for children, the elderly and the sick, cooking, cleaning and other household tasks. Kenya is no exception: A study by Oxfam in Kenyan urban informal settings found that women spent 11,1 hours per day in unpaid work as compared to 2,9 for men, while men spent 10,5 hours a day on paid work compared to 5,3 for women.[79] Time spent on unpaid care work is higher for both men and women in poverty, manifested in no or unreliable access to electricity, piped water and health care. For example, collection of fuel wood can take several hours a day, a task mostly undertaken by women and children. COVID 19 is likely to shift a further burden on women, for example through closed schools, increased need to care for the sick, etc.

While data is not yet available, the likely consequence of COVID 19 is that women with a generally weaker position at the labour market will be hit harder by the pandemic than men.

Youth employment

About 800,000 young Kenyans enter the labour market every year and youth unemployment is estimated to be as high as 35%. Furthermore, 80% of unemployed Kenyans are below 35 years old.[80] A literature review on youth employment in Kenya concluded that there is the danger of a 'lost generation' and that most countries in Africa record significantly lower youth unemployment rates than Kenya's relatively strong economy. The Kenyan economy has not been able to provide the necessary employment opportunities – formal and informal alike. Thus, a report concluded that

> *"economic progress has primarily benefitted the older generation; young females in rural locations constitute the largest share of unemployed Kenyan youth (in absolute numbers), while their counterparts in urban areas are most likely to be unemployed (in relative terms). Gender and living location are defining factors, but youth unemployment is rampant throughout Kenya".*[81]

78 World Bank (2018) Kenya poverty and gender assessment 2015/2016
79 Oxfam (2019) Gendered patterns of unpaid care and domestic work in the urban informal settlements of Nairobi https://oi-files-cng-prod.s3.amazonaws.com/kenya.oxfam.org/s3fs-public/file_attachments/Eng_Kenya_HCS_ES.pdf
80 Business Call to Action, 2019
81 Hall, S. (2017) Youth employment in Kenya, A literature review, British Council & UK Aid

The study furthermore argued that rural youth in Kenya primarily earn their living in informal jobs within the agriculture sector, including pastoralism. Despite a lack of precise data, (informal) work in various agricultural activities is considered the largest 'employer' of Kenyan youth. However, according the study cited above, the sector has not been a key concern for governmental actors in terms of growth, investment and innovation strategies, and it is defined by high vulnerability to natural impacts, for example droughts, flooding and locusts.

A study on youth unemployment by ILO in Kenya found that although fostering economic growth and ensuring economic sustainability are important, they are not sufficient to address youth unemployment. The paper concluded that boosting tertiary school attendance and providing targeted vocational training to young people, particularly women, would be the most effective measures for improving youth employability.[82]

The noted dynamism of the Kenyan, mostly Nairobi-based ICT emerging industry has so far not made a dent in youth under employment. According to Hall:

> *"In spite of the very positive image of the modern services sector (finance, ICT), it only accounts for a minor percentage of employment among youth. It is therefore urgent to promote a transformational agenda, for instance, by optimising the fiscal revenues from the emerging oil industry, by investing in and promoting technical education such as TVET programmes, and by including low-income but work-intense sectors into development strategies for example, certain agricultural sub-sectors."* [83]

The analysis of youth and unemployment and its role in MFA's Political Economic Assessment in Kenya 2019 stressed the linkage between youth unemployment and political radicalization.

> *"The youth play a pivotal role in the way Kenya will develop. In the positive scenario Kenya has a large skilled labour force, but it requires the young to develop the right skills and find jobs to match them. Radicalization of Kenya's youth, especially along the coastal region, stems for unemployment and marginalization, making recruitment easy and returning to society difficult, as returnees are often rejected by family".*[84]

Youth under- and unemployment in Kenya as in Sub-Sahara Africa as a whole is by many observers seen as possibly the most significant challenge to governments and donors, an issue which is likely to worsen due to the demographic structure of the region with 60% of the population under the age of 25.

Decent work

The Danish Trade Union secretariat undertakes labour market profiles for Denmark's partner countries, including Kenya.[85] These profiles assess the performance of the country against ILO's Decent work agenda with its four Pillars: Creating decent jobs, guaranteeing rights at work, extending social protection and promoting social dialogue. In the most recent report for Kenya, the profile report notes that

> *"There have been a few new labour related legislations during the last three years. Notwithstanding, the Employment Act was amended and the Employment and Labour Relations Court (previously Industrial Court) is in the process of decentralizing to county levels. There are flaws on the labour related legislations in terms of protecting trade union rights… Not to mention, in practice, workers are confronting systematic violations of trade union rights."*

82 ILO (2013) Understanding the drivers of the youth labour market in Kenya
83 Hall, S. (2017) op cit.
84 MFA (2019) Political economy assessment. Kenya
85 http://www.ulandssekretariatet.dk/content/landeanalyser

A critical factor is that government is only enforcing the regulations to workers from the formal sector, which is 17% of the total employment in Kenya. With the dominance of the informal sector as a means of livelihood in Kenya, the 'decent work agenda' has long way to go in order to address the life of the vast majority of people, and especially for people, men and women and youth living in poverty. The current trend is the reverse – a large and an increasing share of the labour force are confined to employment in which the decent work agenda does not apply.

The consequence of COVID 19 on the status of decent jobs in Kenya is likely to be negative as the economy contracts, the formal sector, where the opportunities for decent jobs exist, will decline further. Furthermore, the negotiating power of employees will decline as more people seek a shrinking number of jobs. Decent jobs will be a privilege for an increasingly smaller minority in Kenya.

Dynamics of the economy

Business environment

Over the last decade, Kenya has seen a remarkable improvement in its World Bank Ease of Doing Business Index (DBI) ranking, moving 73 places up since 2014, from position 129 to its current one at 56 out of 190 economies and 4th in Africa after Morocco (53), Rwanda (38) and Mauritius (13) and well ahead of Zambia (85) and Tanzania (141/190).[86] The report highlights some improvements over the last few years such as:

- dealing with construction permits more transparent by making building permit requirements publicly available online, and by reducing fees;
- improved the reliability of electricity supply by modernizing its existing infrastructure;
- property registration made faster by moving consents to transfer and payment verification online;
- strengthened access to credit by introducing online registration, modification and cancellation of security interests, and public online searches of its collateral registry.;
- strengthened minority investor protections by requiring shareholders to approve the election and dismissal of an external auditor;
- paying taxes made easier by implementing an online filing and payment system for social security contributions;
- made insolvency easier by improving the continuation of the debtor's business during insolvency proceedings.

Beyond the regulatory framework, the business environment has registered significant improvements fueled in part by increased investment in physical infrastructure (road, rail, airports and ports); improvements in energy provision, modernisation of customs management systems, including automation of several trade logistics procedures and streamlining of cargo transit at ports and borders, among others.

Although Kenya is at the same level as many European countries in its 'Ease of Doing Business', and far better than most Sub-Saharan countries, high trade costs still characterise doing business in Kenya. For example, on the DBI indicator of trading across borders which measures the time and cost (excluding tariffs) associated with documentary compliance, border compliance and domestic transport – within the overall process of exporting or importing a shipment of goods – Kenya's ranking remains poor, in fact registering a decline from 112 in 2019 to 117 in 2020, with a score of 67.4 out of 100, against a SSA average of 53.6 out of 100.[87]

86 World Bank (2019). Doing Business 2020. Comparing Business Regulations in 190 countries, Washington DC.
87 A lower score denotes better export / import facilitation.

Foreign Direct Investment

Foreign direct investments (FDI) increased from about US$620 million in 2015 to US$1.6 billion in 2018, making Kenya one of the top recipients of FDI inflows in the region. However, this inflow represent only 1.8% of Kenya's GDP, below the average of 2% for Sub-Sahara Africa, and less than half of the FDI into Ethiopia and Uganda in 2018, and a third of that into countries such as Vietnam and Cambodia as share of their GDP.[88] According UNCTAD, FDI flows in Kenya decreased in 2019 by 18% to US$1,3 billion despite several new projects in information technology and health care.[89]

The FDI inflow has been volatile over the years, reflecting political disturbances and violence in the country, global investment trends and major discrete investments into the country not least by Chinese investors in resource extractions, (mining, hydro and carbon) as well as in infrastructure. In terms of Chinese investments and economic role in Kenya, MFA's Political economy analysis noted that

> *"China maintains strong financial ties with Kenya, with holding over 70% of the government's loans, summing up to over seven billion dollars. While there have been questions about the value for money and relevance of the large-scale projects, China has maintained its appeal, interfering less in topics of human rights and corruption than western partners".*

The inability of Kenya of not being able to attract larger flows of FDI despite its role as a commercial center of East Africa and a long tradition of a business-friendly nation is a clear weakness in the process of economic transition. The COVID 19 pandemic will severly cut FDI in 2020 and might have longer-term consequences as the world realign its global investment pattern in the aftermath of the crisis similar to what happened in the wake of the 2009 financial crisis under which it took resuming flows to pre-crisis level to higher risk countries 5-6 years.

Competitiveness

In the World Economic Forum's (WEF) Global Competitiveness Index comparing 140 countries based on a number of indicators Kenya is ranked at the lower half of the ranking at place 95, while at the same time Kenya is ranked among the more competitive nations in the Sub-Sahara region and considerably higher in ranking than Tanzania (117) and Zambia (120).

Among the 12 pillars making up the index, Kenya is scoring best (relative to other countries) on business dynamism, for example in entrepreneurial spirit, and innovation capacity, but worse than its overall position, surprisingly given its reputation, on ICT adoption.[90]

Innovativeness

Kenya has established a reputation as an innovation and start up hub in Africa outside South Africa and promoting innovation is also a Government strategy. A World Bank noted in a study 2018 that "the remarkable expansion of telecommunication and mobile-based financial services shifted the economic paradigm of Kenya to an extent rarely seen in developing economies."[91] Also, in international comparisons, Kenya is ranked reasonably high in innovation capability, for example in the WEF index (78 of 140 countries), with strengths in research & development, including R&D expenditures as share of GDP. Its relative weakness in commercialization of innovations. In the Global Innovation Index report issued by Cornell University jointly with WIPO

88 UNCTAD (2020) Handbook on Statistics 2019. https://stats.unctad.org/handbook/EconomicTrends/Fdi.html
89 UNCTAD (2020) World Investment Report 2020. https://unctad.org/en/PublicationsLibrary/wir2020_en.pdf
90 World Economic Forum (2019) global Competitiveness Report 2019, Geneva
91 World Bank (2018) Kenya poverty and gender assessment 2015/2016

and Instead, Kenya is ranked second after South Africa but before Mauritius in the Sub-Sahara region. The report further concluded that

> *"When comparing levels of innovation to the level of economic development, India, Viet Nam, Kenya, and the Republic of Moldova stand out for outperforming on innovation relative to GDP for the ninth consecutive year — a record."*[92]

An observer concluded that Kenya has one of the oldest and most thriving innovation ecosystems in Africa, and that homegrown solutions brands such as M-Pesa, Ushahidi and the iHub have gained global recognition. But Kenya's education system needs to embrace critical and innovative thinking to meet the demands of the digital society.[93]

SME Development

Small and medium-sized enterprises (SMEs) are an important component in the Kenyan economy and their growth is recognised as crucial in attaining the goals of the Kenya Vision 2030. SMEs are also considered as the corner stone for manufacturing and central to realising the President's Big Four Agenda under the manufacturing pillar. According to the ITC's 2019 report on 'Promoting SMEs in Kenya', SMEs represent about 98% of all businesses, and more than 80% of Kenya's working population rely on them for income. SMEs contributed an estimated 34% of Kenya's GDP in 2016. Though mostly informal, SMEs are engines of employment creation, generating 80% of new jobs annually.[94]

At the policy level, the Ministry of Trade, Industry and Cooperatives (MITC) is mandated with promoting industrialization and enterprise development in Kenya. The Micro and Small Enterprise Act of 2012 provides legal and institutional frameworks to support micro and small enterprises; which includes the Office of the Registrar of micro and small enterprise associations to formalize and register MSEs; the Micro and Small Enterprise Authority (MSEA), which operationalises the Act, a tribunal for conflict resolution and a fund to address financing issues. Under the Vision 2030 Medium-Term Plan III (MTP-III) (2018–2022), SMEs are recognised as a priority area for development. Among others, MTP III seeks to support SMEs by facilitating access to affordable credit, skill development, entrepreneurial culture and linkages to domestic and external opportunities.

The ITC 2019 report established that although Kenyan SMEs excel at professionally organising their businesses, with majority having access to utilities; 96% keeping records; 84% being able to prepare business plans; 89% owing a bank account; 82% being able to manage cashflow and execute payments and 81% being conversant with loan processes, several challenges continue to impede their growth and contribution to the economy. These include disparities in access to utilities, with 65% of SMEs based in rural areas lacking access to electricity; a 33% rejection rates for application of financial resources; costly product certification; costly logistics services and high cost of adopting intellectual rights protection, among others. For SMES led by women and youth, these challenges were more pronounced, especially when it comes to obtaining finance, product certification and capacity utilisation.[95]

Given their critical role, interventions targeted at making SMEs more competitive can support Kenya's efforts to achieve its development objectives by creating more jobs, strengthening sectors and developing business models that work.

---

92 Global Innovation Index 2019

93 Nietsche, L. (2019) Finding digital solutions to local problems, Kenya's innovation scene is no one-hit wonder, DW Akademie, www.dw.com/en/finding-digital-solutions-to-local-problems-kenyas-innovation-scene-is-no-one-hit-wonder/a-47119339

94 International Trade Centre (2019). Promoting SME competitiveness in Kenya: Targeted solutions for inclusive growth. ITC, Geneva.

95 International Trade Centre (2019). Promoting SME competitiveness in Kenya: Targeted solutions for inclusive growth. ITC, Geneva

The Financial Sector

The Kenyan financial sector is one of the most advanced in Sub-Sahara Africa and the third largest after South Africa and Nigeria. It comprises deposit taking institutions (over 40 commercial banks and mortgage finance companies, microfinance banks and deposit taking Savings and Credit Co-operatives (Saccos)), non-deposit taking institutions (insurance, pensions, capital markets, and Development Finance Institutions (DFIs)), a fast growing digital and mobile money providers as well as financial markets infrastructure providers. Nairobi is the leading financial centre in East Africa and the Government's Vision 2030 aspires to make Nairobi a competitive financial centre globally.

The Kenyan financial system has gone through and is continuing to go through a digitalization revolution. There are more than 20 digital credit services in Kenya with the ground-breaking Mpesa at the centre, and new services continue to come on stream. Total mobile money transactions in Kenya reached US$38.5 billion in 2018, equivalent to about 45% of GDP. Mobile financial services are used by almost 80% of the adult population. In 2007, there were 4 million holders of bank accounts in Kenya, in 2018 the number of mobile money accounts reached over 45 million, facilitated by near universal coverage of mobile phones.[96] (The mobile phone penetration rate of 100% in Kenya measured as active sim card as percentage of the adult population).[97] The technological change in the financial industry continues, for example, through digital lending.[98]

Availability of affordable financing for micro, small and medium-sized enterprises (MSMEs) which can support their growth and expansion is limited as traditional bank financing is often expensive and not easily accessible due to requirements for collateral, formal registration as well as credit history. In addition, private equity markets are relatively under-developed in Kenya, leaving SMEs to rely on micro finance institutions as well as SACCOs as options to finance their growth[99].

Lack of affordable finance is recognised as one of the challenges facing SMEs under the Vision 2030 Strategy and the Big Four Agenda. In response to this, the government announced in February 2020 its' intention to roll out roll out Ksh4Billion (US$400M) 'Stawisha SME Mashinani', an initiative focused on strengthening MSMEa through provision of affordable credit, including asset financing, working capital, project finance, and grants. This will be complemented by advisory services. The initiative, which is targeted at the manufacturing sector, brings together the Ministry of Trade with other government agencies as well as financial providers.

Export Performance

A World Bank study in 2012 claimed that

> *"Kenya's economy has been running on one engine. Kenya's strong engine is domestic consumption, which accounts for 75 percent of Gross Domestic Product. Kenya's weak engine remains its exports, which have been declining sharply in relative importance. Kenya's top four main exports do not earn enough to pay for oil imports, not to mention other imports. It will be very difficult for Kenya to achieve high growth over an extended period of time because of its existing economic imbalances. Kenya needs to increase its export competitiveness."*[100]

96 https://www.globenewswire.com/news-release/2020/02/05/1980053/0/en/Kenyan-Banking-Industry-Report-2019-Featuring-Profiles-of-37-Industry-Players.html

97 Cytonn (2019) Fintech impact on Kenya's Financial Service industry https://cytonnreport.com/topicals/fintech-impact-on-kenyas-financial-services-industry

98 Safaricom (the company behind M-Pesa) launched Fuliza, an overdraft facility that enables M-Pesa customers to send or complete mobile payment transactions even if their M-Pesa balance is below the required amount

99 https://fsdkenya.org/an-introduction-to-growth-cap/

100 "World Bank (2012). Kenya Exports Performance Overview. World Bank, Washington, DC.

The situation has not changed since then but rather worsened. The export earnings are two thirds made up of agriculture products dominated by traditional products such as tea, coffee and horticulture. Petroleum products in raw form has become another major export item, while manufactured product export is small and mainly comprising agro-processed products (including livestock). As noted earlier, Kenya's exports account for only 13% of GDP; and are concentrated in only 13 export destination that account for about 70% of all Kenya's exports in 2016, and a narrow product base, with 5 broad product categories accounting for 56% of the total exports by value. Furthermore, there is a strong negative trend from the early 1990s when it peaked at nearly 40% of GDP.[101]

COVID 19 has so far had a severe negative impact on Kenya's trade performance, most notably in the tourism sector, and exports of horticulture and flowers.

Key economic sectors

Energy

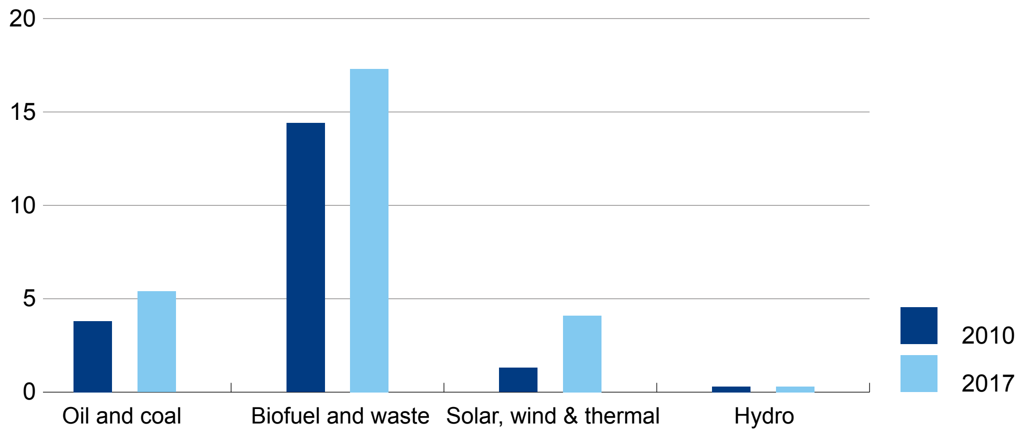
Kenya has performed well in developing its power sector over the last decades and has today one of the most advanced power sectors in Sub-Saharan Africa. This is manifested, for example, in a very rapid increase in providing the population with access to electricity. Currently 75% have access, up from 8% twenty year ago, which according to International Atomic Energy Agency (IAEA) is one of the fastest electrifications in SSA. Kenya has also a diversified supply system of energy including renewables such as solar, wind, hydropower and geothermal power. Fossil fuel accounts for a shrinking part of the supply, currently at about 17%. Kenya has overcome the many shortage which plagued the power system a decade ago and become an exporter of energy[102] Factors behind the success are: 1) multiple energy reforms which, for example in the mid-1990s opened up the supply to independent power producers; 2) good conditions for renewables especially geothermal production as evidenced by its track record as one of the lowest cost developers of geothermal power in the world 3) Kenya Power's long track record as a creditworthy off-taker and 4) aggressive policies for universal access to electricity embedded in the government's strategy The Last Mile Connectivity aiming at universal access by 2022. The largest wind project in Africa, the 315 MWh Lake Turkana Wind Power project with Finnfund ownership which was completed in 2017 and integrated with the national grid in 2019 provides a substantial increase in renewables in the electricity supply, besides is a pioneer in private financing of energy infrastructure.

Despite the successes, there are many issues in the sector:

- The supply is dominated by traditional biofuel such as fuelwood and charcoal, accounting for almost two thirds of the overall energy supply as shown in figure below. 85% of the population use this source for cooking, mainly in three-stone fires[103] the fuel provided mainly through informal, illegal harvesting from forests that are being depleted. See Figure 8 below.

101 https://data.worldbank.org/indicator/NE.EXP.GNFS.ZS?locations=KE. See also National Export Development and Promotion Strategy (NEDPS), 2018 http://industrialization.go.ke/
102 USAID Kenya Power sector report https://www.usaid.gov/sites/default/files/documents/1860/Kenya_Power_Sector_report.pdf
103 IAEA – https://www.iaea.org/

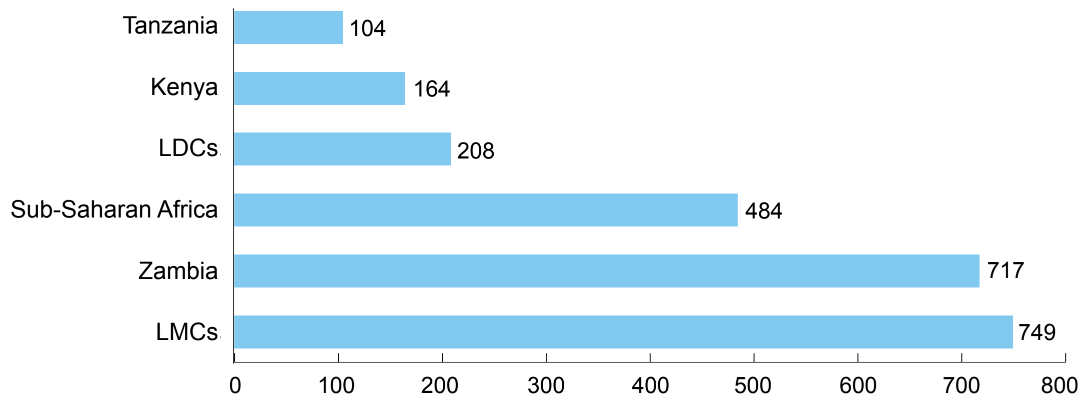
Figure 8 Kenya Energy Supply 2010 and 2017 (ktoe)[104]



Source: https://www.iea.org/countries/kenya https://www.iea.org/countries/kenya

- Despite the progress of electrification, Kenya is overall a low consumer of electricity even in a sub-Saharan context as shown in Figure 9.

Figure 9 Consumption of Electricity per capita (2014)



Source: World Bank

With reservation that data are somewhat old, the relatively low consumption is a reflection of Kenya's low degree of industrialisation, especially absence of heavy, energy consuming industries and a very low use of electricity in the population. (The per capita consumption corresponds to keeping two 60 watt light bulbs lit about 3 hours a day.)[105] In general, access to *affordable* enegy for the poor is a critical issue.

Agriculture

Agriculture is, as noted earlier, Kenya's economic core and the source of economic livelihood for the majority of the population and also in the engine for reduction of poverty. While outperforming the other parts of the economy recent years, and accounting for two thirds of Kenya's export earnings, it is yet beset by problems. In the World Bank's most recent economic outlook report for Kenya (2019), the Bank noted that

104 https://www.iea.org/countries/kenya https://www.iea.org/countries/kenya
105 Note, must however be taken that the data are from 2014, the most recent used by the World Bank in international statistics.

"The real agricultural value added has declined relative to levels attained in 2006, primarily due to weather related shocks, prevalence of pests and disease, and dwindling knowledge delivery systems (i.e. lack of extension services on adoption of modern technology). Consequently, Kenya's agriculture Total Factor Productivity growth over 2006–2015 lags Rwanda, Ethiopia and Tanzania and is also well below levels attained by countries in South Asia and East Asia".[106]

The Bank report points to several factors for the situation, including the Government's strong involvement in the agriculture marketing with commodity boards with price distortions and opportunities for corruption; low use of fertilizers in the smallholder sector; small and declining size of farms due to land pressure and fast population growth; low degree of irrigation (Only 2% of Kenyan agriculture land is irrigated as compared to 6% in Sub Sahara Africa, and 37% in Asia.) and poorly developed agriculture credit systems.

Climate change with more extreme weather conditions combined with environmental degradation are major threats to the sector. For example, the MFA Political economy assessment noted that

"Climate change affects Kenya through extreme weather events such as droughts, floods, frost and hailstorms. It adversely impacts food security and has led to displacement of communities and migration of pastoralists into and out of the country. Over 85 per cent of the area is classified as arid and semi-arid land. Also overgrazing and conversion of forests to farming lands have led to environmental degradation, exposing the country to recurrent natural hazards. Yet disaster management has largely remained reactive, forcing the Government to re-direct resources to address emergencies and reconstruction needs at the expense of development programmes".

The Covid pandemic is impacting negatively on Kenya's agriculture. As noted earlier export commodities are experiencing a decline, for flower highly dramatic but also primary products such as tea and coffee have declining export sales. Also, staple products for local consumption have been negatively hit with closed markets, disruptive transport systems, etc., In the short-term perspective, the combination of a locust invasion and the pandemic risk having a devastating impact on Kenya's food security according to FAO, whose focus on the recently-released Global Report on Food Crises indicated that more than 25 million people will experience acute hunger in Eastern Africa in 2020. The COVID-19 pandemic will likely further undermine food security.[107]

Industrial development

A policy paper by the Kenyan Association of Manufacturers in association concluded that

"The performance of the manufacturing sector in Kenya has been weak. While manufacturing has traditionally been relatively sophisticated given Kenya's level of income, it is becoming less so and is failing to keep pace with developments in the sector in other East African countries. Further, the share of manufacturing in gross domestic product (GDP) was the same in 2015 as it was in 1965, and it has actually declined over the last five years". [108]

The stagnation in the sector is partly due to low overall productivity and large efficiency differences in firms across subsectors, which allows uncompetitive companies to remain in business.

106 World Bank (2019) Unbundling the Slack in Private Sector Investment. Transforming Agriculture Sector Productivity and Linkages to Poverty Reduction, Washington DC

107 http://www.fao.org/news/story/en/item/1276919/icode/ May 2020

108 ODI (2017) Ten policy priorities for transforming manufacturing and creating jobs in Kenya.

The World Bank report has indicated that the value added per worker in manufacturing firms has declined steadily since the 1970s, which points to structural issues. The manufacturing is dominated by the food, beverage and tobacco subsector which from one perspective is positive as it adds value to Kenya's key primary sector, but also is a sign that Kenya largely remains an agricultural economy. The transformation from primary product producers which rapidly is taking place in Asia has largely by-passed Kenya (as most of SSA.) The challenge posed by the Government's plan in Vision 2030 of making Kenya a newly industrialised country by 2030 and manufacturing accounting for 20% of GDP by then is possibly the most challenging of all tasks in the plan. COVID 19 has not made it simpler.

Tourism and other services

Tourism has become one of the growth engines of the Kenyan economy as well as a major service export with rapid growth. Tourism accounted for about 9% of GDP in 2018 (latest figure available). Tourism with about 2 million international arrivals, is providing jobs for about 1 million Kenyans, partly in the formal sector, but mostly in the informal. The projection was, prior to COVID 19, that the employment in the sector would, according to the World Travel and Tourism Council grow to 2 million jobs by 2025.[109] It is, however, a volatile industry affected by events such as terrorism attacks. The current COVID 19 pandemic has caused a near total collapse of the sector and a change during 2020 is unlikely given the current pattern of the pandemic.

Climate and environment

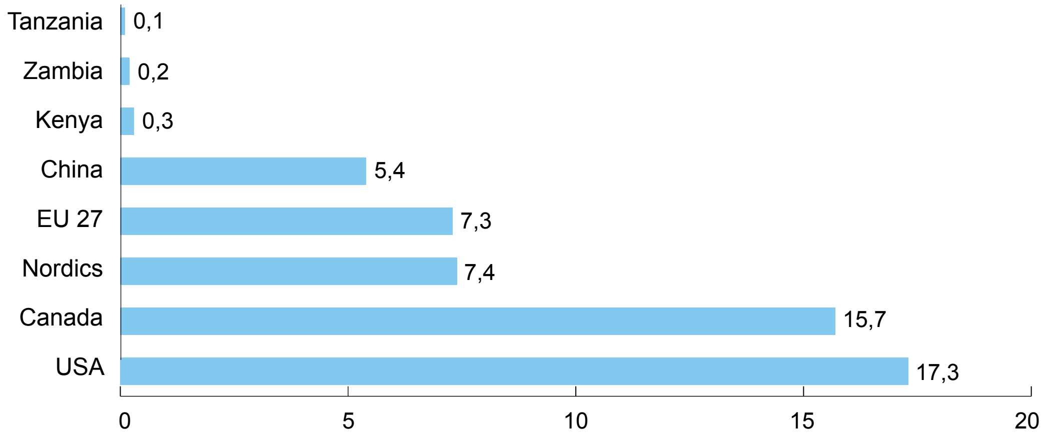
The United Nations Framework Convention of Climate Change (UNFCC) defines Kenya situation as

> *"Climate change threatens to adversely affect economic growth in Kenya, and endangers Kenya becoming a prosperous country with a high quality of life for all its citizens. The cumulative impacts of climate change over the next two or three decades have the potential to reverse much of the progress made towards the attainment of the Sustainable Development Goals and Vision 2030. …Kenya is most vulnerable to climate change since the key drivers of the economy (agriculture, livestock, tourism, forestry, and fisheries) are climate sensitive".*

Kenya's vulnerability to climate change is furthermore affected by relatively weak institutional capacity, low resource management capabilities, inadequate technology and information infrastructure as well as land degradation, which combined pose serious hurdles to effective climate change responses. In addition, Kenya is vulnerable to a global change process that the country has not been responsible for. Kenya, like most Sub-Saharan countries, has very light carbon footprints relative to most nations, and especially industrialized countries. The Figure 10 below shows data for 2017[110]

109 World Travel & Tourism Council
110 OWID based on CDIAC; Global Carbon Project; Gapminder & UN OurWorldInData.org/co2-and-other-greenhouse-gas-emissions/

Figure 10 Ton Co_2/Person 2017



Source: IAEA

Kenya's total greenhouse gas emissions in 2013 were 60 million metric tons of carbon dioxide equivalent totaling 0.13% of global emissions. The agriculture sector emitted 63% of total emissions, followed by the energy sector (31%), industrial processes sector (5%).[111]

Kenya has enacted a National Climate Change Action Plan 2018–2022[112] which identifies strategic areas where climate action is linked to the Big Four agenda. The Plan recognises that climate change is likely to limit the achievement of the Agenda. For example, food security is threatened through climate change-driven declines in agricultural productivity; housing and manufacturing are impacted by damage to infrastructure caused by flooding and storm events. Key mitigation strategies of the Plan are:

- Increase food and nutrition security through enhanced productivity and resilience of the agricultural sector in as low carbon manner as possible;
- Increase forest cover to 10% of total land area; rehabilitate degraded lands, including rangelands; increase resilience of the wildlife and tourism sector;
- Improve energy and resource efficiency in the manufacturing sector; and Climate-proof energy and transport infrastructure; encourage electricity supply based on renewable energy; encourage the transition to clean cooking; and develop sustainable transport systems.

Taxation

The Kenya Revenue Authority (KRA), which was established by an act of parliament in 1995, is the principal agency mandated with tax administration in Kenya. To safeguard it from political interference, KRA was designed with autonomy enhancing mechanisms, including self-financing mechanisms and a Board of Directors with public and private sector representatives. Although Kenya has experienced rapid economic growth over the last decade, the average tax-to-GDP ratio has not grown in tandem, averaging 17.8% of GDP during the period 2014–2017 , a decrease from 19% during the 2000 to 2002 period, according to data from the IMF (Wawire, 2020). Over the last two decades, reforms have been implemented aimed at enhancing tax collection and compliance. These include the Revenue Administration Reform and Modernization Program (RARMP), which were aimed at improving efficiency in tax administration; digitization of tax administration, which introduced the iTax system in 2013, a web-enabled application that allows

111 https://www.climatelinks.org/resources/greenhouse-gas-emissions-factsheet-kenya
112 Government of Kenya (2018). National Climate Change Action Plan (Kenya): 2018–2022. Nairobi: Ministry of Environment and Forestry

the taxpayer to register, file, pay, and make queries and the KRA M-Service platform launched in 2014, a mobile phone application that enables taxpayers to make payments and access tax information using their mobile phones (Ndung'u 2017). Others were the public finance management reforms (PFMRs), which were implemented with the aim of enhancing the Kenyan government's responsiveness to fiscal policy priorities and improving accountability and transparency in operations (Wawire, 2020).

The results have been mixed: arising from reforms that emphasized withholding taxes through Pay-as-You-Earn (PAYE) system which broadened the tax base (KRA 2010; Wawire 2016) as well as reforms that introduced digitisation and compulsory filing of individual tax returns thus reducing the level of undeclared economic activities as well as bringing SMEs into the tax bracket (KRA 2015; Ndung'u 2017), the contribution of income taxes to revenue has increased from an average of 5.1% of GDP during the period 2000–2002 to 8% of GDP during the period 2014–2017; with contribution to total revenue increasing from an average of 26.4% to 44.9% during the same period. Of this, personal income tax had the largest increase compared to corporate income tax, rising from an average of 2.6% of GDP and 13.4 % of total revenue to 4.4% of GDP and 24.6% of total revenue. Corporate tax income rose from 2.5% to 3.6% in relation to GDP and 13% to 20.3% in relation to total revenue. The granting of various tax incentives designed to encourage companies to invest (KRA 2011) contributed to low performance of corporate taxes relative to income taxes. through the rollout of the iTax system and the Kenya Revenue Authority (KRA) M-Service.

During the same period, income from value added taxes (VAT) and excise tax have registered a 1% decline, from an average of 7.7% of GDP in 2000/02 to an average of 6.5% in 2014–2017; with total contribution to revenue decreasing from an average of 40.3% to 36.3%. Contributing factors include the exemption from VAT for numerous goods, with some being zero-rated as well as a VAT withholding system that had led to build up of refunds, lowering tax-payers motivation to pay. Income from trade taxes has decreased from an average of 2.8% to GDP to 1.6% to GDP, with average contribution to total revenue falling from 14.6% to 8.8%. This decrease can be attributed to, among others, regional integration initiatives that have reduced tariffs Trade taxes also performed poorly, as was expected, because tariffs are not used specifically to raise revenue but rather for purposes of protection. Furthermore, with the AfCFTA gaining momentum, the contribution of trade taxes in total revenue will continue to decline (Adam 2018).

Contribution of income from taxes is constrained by various factors, among them the structure of the economy that is dominated by a large informal sector that is yet to fall under the tax bracket; predominance of agriculture, which is largely unrecorded, informal, subsistence, and rain-dependent as well as inadequate information on owners of property, coupled with a lack of a legal framework for property taxation and inadequate resources for property valuation (KRA 2015; McCluskey, Franzsen, and Olima 2017), leading to dismal income from property taxes. Other constraints include perceived corruption; inefficient use of public resources; political interference; volatile election cycles; abuse of tax incentives; uneven transfer pricing; illicit financial flows; and untaxed online businesses, coupled with poor administrative capacity and tax policy design. (Wawire, 2020)

Potential Impact of the COVID pandemic on the Economy

It is important to separate the manifested impact of COVID 19 on the Kenyan economy for 2020 and the potential longer-term consequences. In the short-term (2020), the projection of economic growth has been adjusted from the pre-Corona estimates of near 6% to a stagnant economy and possible even with a negative growth.[113] (Export) agriculture and tourism is hardest hit.

113 See for example, African Development Bank (2020): East Africa Economic Outlook 2020

Some sectors such as Kenya's significant flower exports has come to a near standstill. This sector employs 100,000 persons directly and 2 million indirectly, mostly women.[114] Also exports of coffee, tea, and horticultural products are showing decline. Tourism which provide direct and indirect employment to 1 million persons has also come to a near halt and is not expected to improve during 2020. Remittances from Kenyans working abroad, which in 2019 was about US$2.9 billion representing 3% of Kenya's GDP[115], is likely to decline at least short-term due to contracting economies in countries where Kenyans work.

The poor are likely to be the hardest hit economically. The World Bank argued late April 2020 that:

> *"The hardship from the crisis would disproportionately befall the poorest and the most vulnerable households in Kenya. Many of these depend on farming (for the rural), self-employment and informal wage (for the urban). Protecting their earnings and reaching households through cash transfers is considerably more challenging due to a nascent system of social safety nets, lack of proper physical address system, and updated welfare registers".*[116]

In general, the Bank estimates that the "*Though Sub-Saharan Africa so far has been hit relatively less by the virus from a health perspective, our projections suggest that it will be the region hit hardest in terms of increased extreme poverty.*"

According to the African Development Bank (AfDB), already by 2021 Kenya is expected to resume its economic growth rate of around 6%, hence 2020 would be a short dip in a long-term steady trend of economic development.[117] However, these predictions are based on the assumption that the world economy will bounce back to normal towards the latter part of 2020.

The Kenyan government is perceived to have handled the COVID 19 well and provided mitigation efforts for sectors of the economy which have been hardest hit. However, these efforts have reduced the capacity of the Government to pursue its *Vision 2030* and its *Big Four Agenda* as financial resources have had to be diverted from planned investments to emergency measures. As many of the projects under the Big Four are planned to be private-public partnerships with foreign investors, there is an increased uncertainty to what extent they will be financed. Kenya's political stability is vulnerable, and the President's ability to deliver essential. The combination of rampant unemployment, corruption and a decline in the economy might translate into political volatility.[118]

114 https://inspireafrika.com/en/the-growing-flower-industry-in-kenya/
115 https://data.worldbank.org/indicator/BX.TRF.PWKR.CD.DT?locations=KE
116 World Bank Press release April 29, 2020. https://www.worldbank.org/en/news/press-release/2020/04/29/covid-19-dampens-kenyas-economic-outlook-as-government-scales-up-safety-net-measures
117 AfDB (2020) op cit
118 Fortune Magazine May 2020

Country Case Annex 4: Other donors in Kenya

The Nordic countries active in Kenya comprise Denmark, Sweden, Norway and Finland. The Development Cooperation by each of these players in Kenya is based on the strategic priorities of each country.

Denmark-Kenya Partnership Policy 2015–2020

Denmark's Development Cooperation in Kenya is based on the Partnership Policy for 2015–2020 between the two countries[119]. Denmark-Kenya Partnership Policy presents the Danish Governments view on the current and emerging challenges as well as objectives and strategic focus areas for future engagement. The Partnership Policy 2015–2020 has three strategic focus areas: (i) Implementing the Constitution towards a prosperous and equitable Kenya (ii) Inclusive green growth and employment and (iii) promoting regional cooperation and stability. Kenya Country Programme 2016–2020 (KCP) is derived from the overall three strategic focus areas in the Partnership Policy.

The KCP is large and comprehensive in scope with eighteen development engagements and an overall budget is 1070.5 million DKK. It includes three Thematic Programmes as follows: i) Health (TP Health) with a budget of DKK 245.5m, ii) Governance (TP Governance) with a budget of DKK 225m and (iii) Green Growth and Employment (TP GGEP) with a budget of DKK 600m.

Green Growth and Employment Programme

The Green Growth and Employment thematic programme objective is an inclusive greener growth with higher employment-through two interventions: (i) Sustainable growth and jobs from investment and trade and (ii) Sustainable use of natural resources and community resilience. There are two interventions related to job creation from investment and trade, namely:[120]

- *Business Advocacy Fund* (BAF) (DKK 68million) – an initiative for the improvement of the business environment in Kenya by supporting private sector institutions to take ownership and responsibility for the improvement of the business climate and to encourage them to engage more effectively in public private dialogue and private sector advocacy. The principal rationale of BAF is to enable Business Membership Organisations to develop policy positions, which they use to advocate policy reform in government.
- *Value Chain Greening and Financing Programme-Micro Enterprises Support Programme Trust (MESPT) (DKK 70million)* – MESPT intervenes in five growth oriented agricultural value chains with significant potential for pro-poor focus and green growth. The MESPT engagement facilitates growth by enhancing competitiveness of these value chains. The

119 Denmark-Kenya Partnership Policy 2015-2020, https://kenya.um.dk/en/danida-en/denmark-kenya-partnership-policy/

120 Kenya Programme 2016–2020 Green Growth and Employment Thematic Programme — Improving the Business Climate for Greener Growth and Sustainable Development — Development Engagement Document https://kenya.um.dk/en/danida-en/green-growth-and-employment/

value chains adopted resource and cost-efficient systems of production enabled by access to tailored credit facilities and non-financial services. Access to domestic, regional and export markets been enhanced. Increased market demand stimulates increase in primary and secondary production, which consequently creates employment and income opportunities for poor farmers, unemployed youth and women.

Besides the above Denmark-Kenya Green Growth and Employment Programme 2016–2020, there are two separate trade and investment platforms: i) the Trade Council, which creates value, growth and knowledge for Denmark through global consulting services. It is housed at the Danish Embassy and has as a strong presence and large networks in the local business and government. The Trade Council assists Danish companies in entering and expanding on the Kenyan market, tailoring every task to desired needs and the local conditions.[121] ii) Investment Fund for Developing Countries (IFU), which provides advisory services and risk capital. IFU has invested in a range of sectors including manufacturing, infrastructure, agriculture, healthcare, textiles, tourism as well as hotels and restaurants[122]. IFU also invests predominantly in corporate companies with minimum shares of 1.5 DKK Billions. IFU's investment in Kenya includes power plants, Hotels (Radisson Blue in Upper Hill-Nairobi) and Lake Turkana wind power Project. The IFU investment in Kenya over the last 4 years is estimated to be US$80 million.

Upcoming Programme

A new bilateral programme – the Denmark-Kenya Strategic Framework 2021–2025, sets the strategic priorities of the Danish cooperation with Kenya as well as outlines the bilateral development engagements within the areas of i) sustainable, inclusive and green growth, ii) democratic governance, human rights and equitable access to services and iii) resilience, peace and stability governance. Besides the three areas, the new Denmark-Kenya Bilateral Programme will also finance Technical Assistance, Monitoring, Evaluation, Accountability and Learning (MEAL), including reviews, technical studies and learning. The Denmark MFA is in the process of adjusting the approach to Development Cooperation. The current focus is on enabling a more holistic and coherent, flexible and adaptive approach across the Danish portfolio in multilateral, bilateral and civil society engagements, under the heading "Doing Development Differently" (DDD). The RDE in Nairobi has been piloting the DDD in connection with formulating a new Strategic Framework for the overall Denmark-Kenya engagement, which includes the overall strategic foundation for Denmark's entire engagement with Kenya as well as the bilateral programme, formerly defined and structured as a country programme. The overall budget of the Bilateral Programme is 910 million DKK, which includes DKK 380 million to engagements in support of sustainable, inclusive and green growth and decent jobs with an emphasis on youth as well as market opportunities for Danish companies and investors with relevant solutions.

Sweden-Kenya Cooperation Strategy 2016–2020

The current Sweden-Kenya Cooperation Strategy 2016–2020[123] largely focuses on climate change and environmental management, democratization and improved opportunities for the poor people to support themselves. The strategy also contributes to the prevention of conflicts in Kenya and support the transition from development cooperation to broader economic relations. The total value of the strategy is SEK1.7 billion. The development cooperation is through Swedish Development Agency (SIDA)-a government agency working on behalf of the Swedish Parliament and Government with mission to reduce poverty in the world.

121 The Trade Council, https://kenya.um.dk/en/the-trade-council/
122 Investment Fund for Developing Countries, https://www.ifu.dk/en/office/nairobi-3/
123 Sweden-Kenya Development Cooperation 2016-2020 https://www.sida.se/English/where-we-work/Africa/Kenya/Our-work-in-Kenya/

Sweden's development cooperation is aimed at helping to strengthen the bridge between economic growth and poverty reduction by contributing to more inclusive and therefore more sustainable economic development. Sweden supports productive employment with decent working conditions, focusing on women and young people. The operational plan identifies the private sector as a key actor that can contribute to positive development of society.

Swedish development cooperation within the framework of the strategy is expected to contribute to:

- A better environment, limited climate impact and greater resilience to environmental impacts, climate change and natural disasters;
- Strengthened democracy and gender equality, and greater respect for human rights;
- Better opportunities and tools to enable poor people to improve their living condition;
- Improved opportunities – particularly for women and young people – for productive employment with decent working conditions.

Employment focus: Generation Kenya Programme

'Generation Kenya' was introduced in Kenya in 2015, in partnership with the private sector; public and private Technical and Vocational Education and Training (TVET) institutions; central and county governments; and the youth. Generation Kenya Employment Programme focuses on preparing, placing and supporting people into life changing careers[124]. It is a specific programme for students and employers focusing on the employer needs in training students focusing across five areas (i) sowing machine operator (ii) distributed sales (iii) financial services sales (iv) food beverage and (v) retail and restaurant. SIDA has committed US$4.5 million (representing 22% of the total budget) for five years, to expand the programme to reach over 45,000 marginalised youth. The training, offered during a five week period, focuses on (i) coaching (ii) resume building (iii) interview rehearsal and (iv) ongoing support after graduation including a trusted network. The programme targets youth (20–35 years), who have attained a secondary school grade of D+ (which would normally not be sufficient to afford them placement in good tertiary education. Between 2016 and 2019, the programme trained 18,000 youth trained on critical job market skills[125]. In 2018, the programme delivered 4,000 for job market in Kenya[126].

Inclusive Growth through Decent Work in the Great Rift Valley

This is a Public Private Development Programme (PPDP) with the objective to reduce poverty and improve living conditions through decent work and access to basic services among the rural population in Great Rift Valley. The PPDP has been running since May 2018 and is expected to end in 2022. The PPDP is co-implemented by ILO and Forum Syd. ILO is responsible for skills development and job creation and Forum Syd develops capacity of the local communities to advocate for their rights and access basic services. The programme has more than 20 partners, including county governments, central government, CSOs, local communities, academia and public and private TVET institutions. SIDA has committed US$4,870,000 (63%) of its total funding, while mobilized capital amounts US$2,890,000 (37%).

The programme objectives include:

- Increased production of and improved access to renewable energy;

124 Karigithi L, Generation Kenya Programme, https://kenya.generation.org/
125 18,000, youth trained on critical job market stills. Business Daily, Tuesday, February 4, 2020 18,000 youth trained on critical job market skills, https://www.businessdailyafrica.com/corporate/enterprise/18-000-youth-trained-on-critical-job-market-skills/4003126-5442598-ovui8cz/index.html
126 Generation Kenya delivers another 4,000 youth for Kenya job market, https://www.capitalfm.co.ke/news/2018/02/generation-kenya-delivers-another-4000-youths-kenya-job-market/

- Improved opportunities – particularly for women and young people – for productive employment with decent working conditions;
- Strengthened democratic institutions at national and local levels;
- Strengthened capacity among public institutions and civil society organisations that promote gender equality and respect for human rights, with a focus on women and girls.

Sweden also supports Financial Sector Deepening Trust that ensures financial inclusion through partnership with the DFID and other donors and financial institution partners.

Upcoming Programmes (new Development cooperation strategy 2021–2025)

The Sweden-Kenya Cooperation Strategy 2021–2025 is being designed with focus in similar areas but exploring scaling up the Youth Employment Generation Programme. Sweden's new strategy 2021–2025 (due in September 2020) will in particular focus on devolution and efforts to reduce corruption at both National and County Governments' level. The strategy will also focus on how democracy can be strengthened through support for Kenya's decentralization process and efforts to reduce corruption. SIDA will also explore options for strengthening the focus on sexual and reproductive health and rights (SRHR) in the new strategy.

Norway in Kenya

The Norway Development Cooperation in Kenya contributes to: (i) eradicate extreme poverty by 2030 (ii) good governance and respect for human rights for all by 2030 (iii) promote right based implementation of the Sustainable Development Goals (iv) Humanitarian support and (v) sustainable development[127]. However, the development cooperation programmes are annual thematic areas with no long- term strategy like Denmark and Sweden. For last three years, Norway has supported (i) Human Rights and (ii) Democratic Governance. Gender is mainstreamed across the two programmes. The total budget for 2019 was 114 million NOK kr.

The development cooperation is based the annual thematic focus areas. For 2019, the following were the focus: (i) Governance, civil society and conflict prevention (ii) Environment and energy (iii) productive sectors and trade, (iv) Health and Social Service (v) Economic Infrastructure and service and (vi) Education.

Norwegian Agency for Development Cooperation (NORAD)

NORAD is not engaged in the Development Cooperation in Kenya, instead getting involved only where there are large development and infrastructure projects. Since 2015, Norfund has invested in the energy, agriculture and banking sectors. Norfund and investment company Norfinance jointly acquired a large stake in Equity Bank, which is Kenya's second largest bank. The purpose of the investment was to support access to capital for small and medium-sized businesses. Norfund has also invested in the Kenya's largest wind farm, the Lake Turkana Wind Power Project. The Government Pension Fund Global (the Petroleum Fund) also has investments in Kenya, in 15 different companies, worth approximately 1 billion NOK in March 2017. The investments included companies in the finance, energy, cement production, consumer goods and telecommunications sectors.

Norway has no specific employment and job creation programmes apart from support to SMEs through Norfund's investment in Equity Bank.

127 Norway Development Cooperation in Kenya, https://www.norway.no/en/kenya/values-priorities/dev-policy-hum-efforts/

Innovation Norway

Innovation Norway East Africa is based in Nairobi but housed outside the Norwegian Embassy. It serves as the commercial section of the Embassy by promoting cooperation with Norwegian companies through identifying trade and investment opportunities that can benefit from products, technology and services available from Norway[128]. The clients are Norwegian companies seeking assistance to develop opportunities for trade and investment in Kenya and wider business community in the region to proactively promote opportunities for cooperation. It also organises entrepreneurial events that bring together young Kenyans between 18 and 25 years.

Upcoming programmes

Norway will continue with the current programmes with a 2021 annual plan. There are however no plans for employment and job creation programming apart from the trade and investment through Innovation Norway.

128 Innovation Norway in Kenya, https://www.govserv.org/KE/Nairobi/293337274203993/Innovation-Norway-Middle-East-and-Africa#:~:text=KENYA%20-

Country Case Annex 5: The PA2 Portfolio

The 2016–2019 PA2 Portfolio

The mapping of Finland's interventions classified by the Ministry of Foreign Affairs as Priority Area 2 (primary objective and significant objective) with allocations 2016–2019 is shown in Table 6 below.

The interventions are divided in three "case types": Fund for Local Cooperation (FLC), which are smaller projects decided and implemented by the Embassy in Kenya; Bilateral projects (only the forestry project mentioned above with new allocation for the period) and Project Support (projects implemented by Finnish Civil Society Organisations)[129]. In MFA's record for commitments under PA2 for 2016–2019 there are also twelve Finnpartnership projects. We have excluded them from the table below and shown them separately under the Finnpartnership programme for Kenya further below. The reason is that most of the 49 FP projects in Kenya are not classified in any Priority Area.

Table 6 PA2 Portfolio

Project number	Channel of delivery	Short description	Commit-ments EUR	Case type	Deci-sion year
PA2 priority "1"					
24821158	ADRA Finland Säätiö	Improving livelihood opportunities among the youth in Nyanza province Western Kenya.	213,948	Project support (CSO)	2016
24821203	Recipient Government	Private Forestry and Forest Enterprise Support in Kenya	9,500,000	Bilateral programme	2017
24821233	Embassy of Finland	Tunapanda Institute – Spreading ICT and Coding Skills to girls and boys in Kibera Slum	8,700	FLC	2017
24821243	Embassy of Finland	Help Self Help Centre – Economic empowerment of women and youth through sustainable management	60,000	FLC	2017
24821244	Embassy of Finland	Green Resources Initiative – Pro-youth and women partnership for innovative post-harvest fruit processing	60,000	FLC	2017
24821250	Embassy of Finland	East Africa Wildlife Society – promoting sustainable management of Mt. Suswa conservancy	60,000	FLCnt	2017
24821253	Embassy of Finland	The Art of Music Foundation – promoting the performance and appreciation of art of music	20,000	FLC	2017

129 There might be interventions aimed at economic development and job creation undertaken by Finnish CSO's under their framework agreement which are not included in the list above. The Evaluation has not attempted to identify these.

Project number	Channel of delivery	Short description	Commit-ments EUR	Case type	Deci-sion year
24821256	Embassy of Finland	Coaching digitally enabled coaches – apprenticeship program to enable young people to become both teachers and digital professionals	30,000	FLC	2017
24821258	Embassy of Finland	Yusudi Limited – Blended learning platform; development of a highly impactful and sustainable learning	41,300	FLC	2017
24821168	Wycliffe Raamatunkääntäjät ry	Mother Tongue Education Program for Indigenous Languages in Kenya	470,000	Project support (CSO)	2018

Source: MFA. Development Cooperation projects Funding decisions 2015–2019.

Regional and global PA2 programmes (with Kenyan participation)

In addition to the bilateral projects, Kenya is also part of regional and global interventions with Finnish funding 2016–2019 classified by MFA as PA2 (priority 1 or 2). Relevant regional and global projects for Kenya are:

Table 7 Regional projects classified as PA2 2015–2019 in which Kenya is involved.

Project Number	Channel of delivery	Short description	Commit-ments	Deci-sion year
29892417	Co-financing Programme	TradeMark East Africa (TMEA) – support to economic integration of East Africa Community.	9,800,000	2016
28924139	Nordic Develop-ment Fund	Energy and Environment Partnership Southern and East Africa Multi-donor Trust Fund (EEP)	15,000,000 1,900,000	2017 2019
29892455	International non-governmental organisations	Publish What You Pay (PWYP): Promoting equitable and transparent generation and allocation of extraction industries	1,000,000	2019

Source: MFA. Development Cooperation projects Funding decisions 2015–2019.

The Private Sector Instruments in Kenya

Kenya is the destination for the Finnish Private Sector Instruments as shown below:

Finnfund

Finnfund made 5 new direct investment decisions to Kenya in the period 2016–2019. The total amount of these investments was approximately EUR 12.4 million.

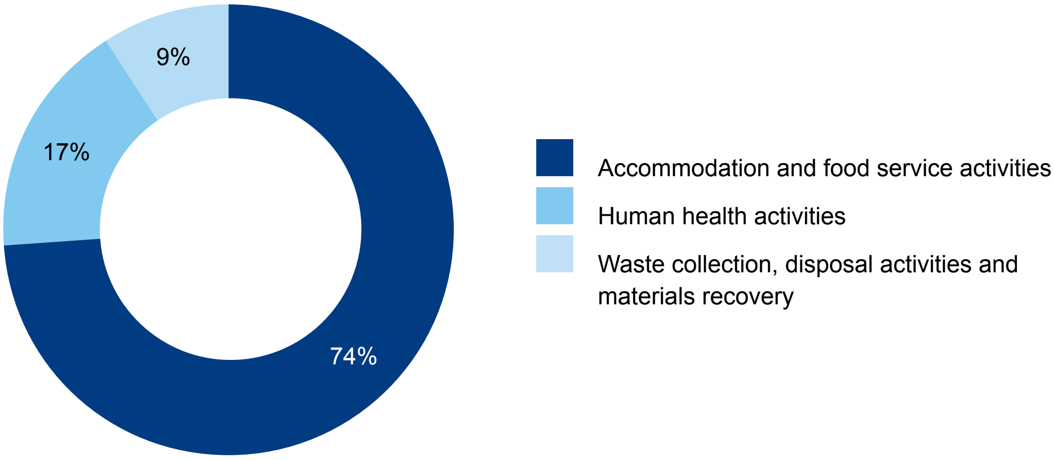
The investee companies were:

- Elgon road development/Radisson Blu Hotel, Nairobi
- Penda Health: A chain of affordable medical centres, Nairobi
- Sanergy Inc.: A waste management and recycling company, Nairobi

Three of the five decisions were additional investments in the Elgon Road/Radisson Blu Hotel that was originally financed already in 2011 but has suffered of delays in construction phase and has therefore needed additional financing. The 2016 financing to Elgon Road does therefore not necessarily tell much about how the 2016 Development Policy, or how the setting of priority areas (especially PA 2) has possibly guided FF investments.

The sector distribution is presented in the Figure 11.

Figure 11 Sector distribution of Finnfund's new direct investments in Kenya between 2016–2019



Source: Finnfund

In monetary terms Elgon Road accounted clearly for major part of the new investments.

Figures above do not include Finnfund's approximately EUR 1 million investment decision in Fuzu, an online career and recruitment platform, which operates in Kenya, Uganda, Somalia Tanzania and Somalia. Finnfund's investment in Fuzu was made in 2016 through a holding company in Mauritius. It directs funds to Fuzu's companies in East-African countries. There was not data specific enough available for this evaluation to separate investments in Kenya and Tanzania from Fuzu's activities in other countries. The same applies also to Mobisol in which Finnfund invested twice between 2016 and 2019. The company operates in three countries (Kenya, Tanzania and Uganda).

Fuzu and Mobisol are, however, included in the qualitative analysis of the FF new investments in Kenya (see chapter 4 under Findings.

Finnfund investments through PE funds

Finnfund has made only two investments during 2016–2019 in PE funds that invest in the 3 case countries (among others):

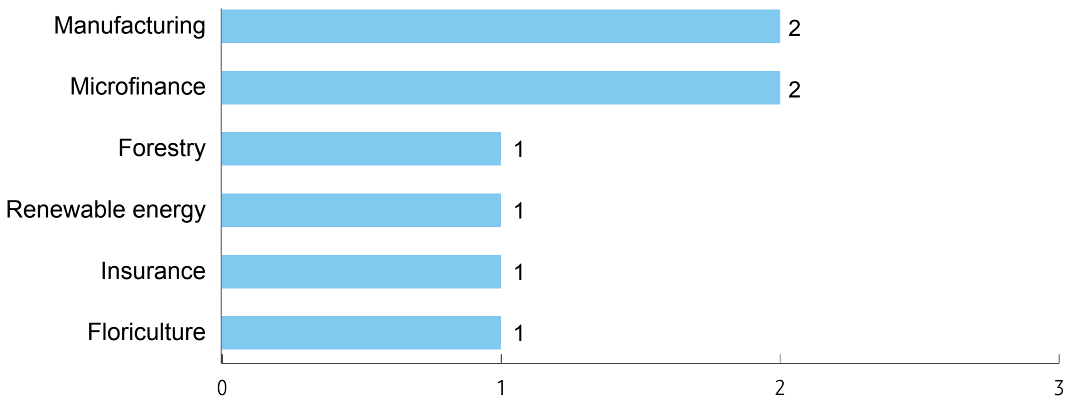
- AgriVie II (food & agribusiness); US$10 million. Finnfund investment in 2018
- Evolution II (renewable energy); US$15 million. Finnfund investment in 2019

AgriVie II invests in Africa generally AND Evolution II in sub-Saharan Africa,

Of the current active Finnfund PEF investment portfolio Kenya's share is 5.4 %. Most of these investments, however, have been made through funds in which Finnfund has invested already years ago. The value in the Finnfund balance sheet of all PEFs that have made investments in the 3 case countries is EUR 34,3 million.

Between 2016–2019 the PEFs in which Finnfund participates made 8 investments in the 3 case countries with the sector distribution as presented in Figure 12.

Figure 12 New investments through funds in three case countries (nr. of investments) 2016–2019[130]



Source: Finnfund

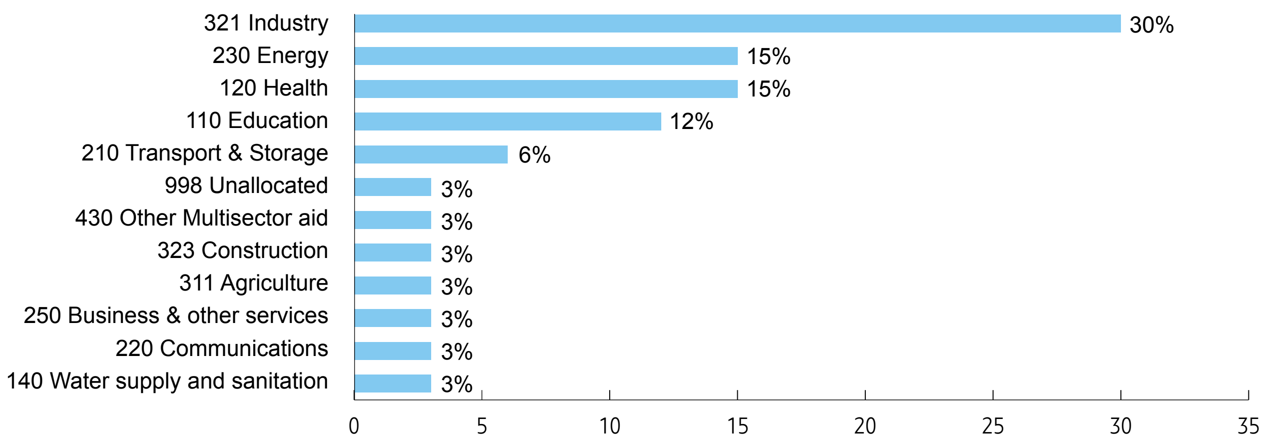
Of these, all but one (a microfinance institution in Tanzania) were made in Kenya. Concentration of these recent PEF investments in Kenya may still reflect the situation some years ago, when in Kenya there were possibilities to build a pipeline and portfolio of reasonable investments, and generally a well-developed operational environment for private equity funds (and also more professional fund managers with appropriate track record). Currently there are professional managers with track record and promising pipelines to offer also in many other African countries. In Kenya (as in many other East-African countries) the general business environment, legislation and regulation has improved and made direct investments more feasible.

Finnpartnership

According to MFA statistics, there were 33 FP BPS decisions for Kenya between 2016 and 2019, with a total value of EUR 1,83 million[131].

The sector with biggest number of interventions was industry, followed by energy, health and education[132]. It is good to notice that in the education sector there are included many projects of non-commercial actors (educational institutes, NGOs etc.).

Figure 13 FP BPS for Kenya (2016–2019), % of interventions

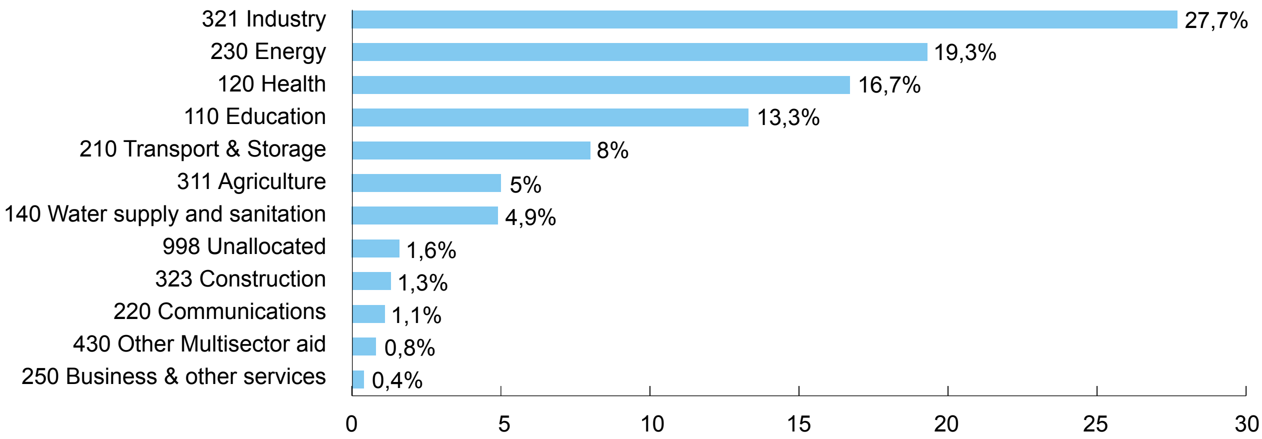


Source: MFA

130 There is no CRS classification available for these investments.
131 According to FP the nr. of decisions was 49 and the total value of commitments EUR 1,35 million.
132 FP uses sector classification that differs from the OECD/DAC CRS. The OECD classification is used here to ensure conformity with sector classifications elsewhere in this evaluation. The data is retrieved from MFA statistics.

In terms of commitment volume the energy and agriculture sectors increased their share due to somewhat larger projects than in other sectors.

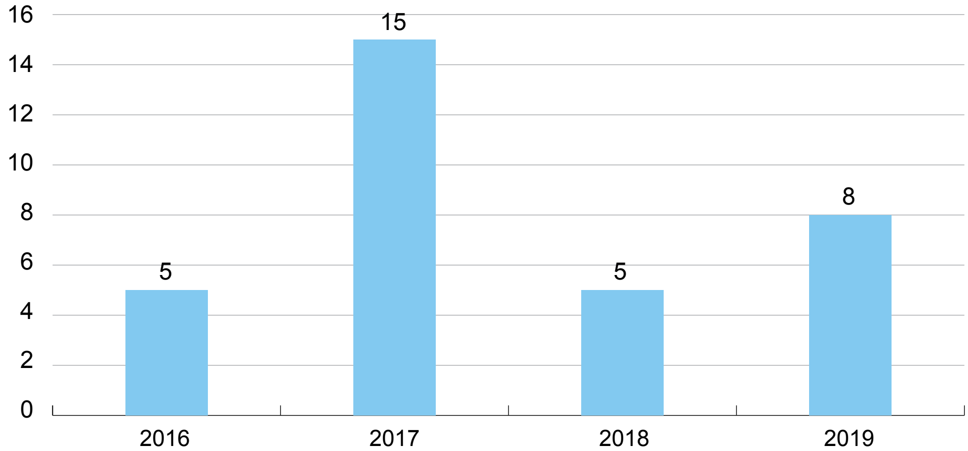
Figure 14 FP BPS for Kenya (2016–2019), % of commitments



Source: MFA

There appears to be no clear trend since 2016 (when the new Development Policy 2016–2019 with its priority areas was published) in the number of annual BPS decision for interventions in Kenya. In 2017 the number of decisions was high, possibly reflecting the Doing Business with Finland seminar arranged in Kenya. The 2018 similar seminar, on the other hand does not appear to have made an impact.

Figure 15 Annual FP BPS decision for Kenya between 2016–2019



Source: MFA

Development effects

BPS recipients have to submit the first follow-up report one year after the expiration of the support, and the second follow-up report one year after the first follow-up report). FP on the other hand reports development effects normally four years after the support decision. There is therefore as of yet no data available (in e.g. FP development effects reports) on the support given during the evaluation period of 2016–2019.

For the interventions in Tanzania with support decision made between 2012–2015 FP has published e.g. following development effects data:

- 8 projects with BPS disbursements
- 3 new companies established
- 4 New long-term partnership established
- 521 people employed
- 514 women employed
- 68 new jobs created
- 26 persons indirectly employed
- 2 projects have strengthened the host country's exports

There is no information e.g. on

- Whether new companies were operational at the time of reporting, or whether they have been operational since that
- What are the reported partnerships and whether they have led to actual business operations
- Generally: what is the attributability of these effects to BPS support; what are the criteria and definitions of the indicators?

BEAM

According to BF statistics there were 8 decisions for BEAM interventions in Kenya between 2016 and 2019. Of these 6 were company projects and 2 were implemented by foundations or research institutions. The total sum of decisions was EUR 1.13 million.

Table 8 List of BEAM Interventions.

Fuzu II
Humanitaarinen Innovatioekosysteemi
AI-Boos
Kestävä kehitys
Liiketoiminnan ja tuotannon kehittäminen vastaamaan kansainväliseen kasvuun
Nopia Smart City
Mitigation of aflatoxin risks in Kenyan feed-dairy chain
Codeshares – kansainvälisen liiketoiminnan käynnistäminen

Country Case Study

Tanzania

Photo credit: Marja-Leena Kultanen

Sari Laaksonen
Kenneth Mdadila

Evaluation of Economic Development, Job Creation and Livelihoods
2021/1C

Contents

ACRONYMS AND ABBREVIATIONS 92

SUMMARY TABLE OF KEY FINDINGS, CONCLUSIONS AND LESSONS / IMPLICATIONS 94

1 THIS COUNTRY CASE STUDY REPORT 100

2 APPROACH, METHODOLOGY AND LIMITATIONS 102

2.1 The approach of the strategic evaluation 102

2.2 Evaluation questions applied to this Country Case Study 102

2.3 Methodology applied to this Country Case Study 103

2.3.1 Selection of the Case Countries 103

2.3.2 Methods of data collection and analysis applied 104

2.3.3 Limitations 106

3 CONTEXT ANALYSIS 107

3.1 General country context 107

3.1.1 Economy 107

3.1.2 Governance 108

3.1.3 Poverty 108

3.1.4 Inequality and gender equality 109

3.1.5 Policy framework 110

3.2 Summary of the context analysis 111

3.3 Key donors in economic development and job creation 114

3.4 Finland's development cooperation in Tanzania 115

3.4.1 Background 115

3.4.2 Finland's country strategy 2016–2019 116

3.4.3 Support to economic development and job creation: current and future plans 116

4 FINDINGS 123

4.1 Achievement of Finland's objectives on economic development, job creation and livelihoods (PA2) 123

4.1.1 Coherence with the overriding Finnish policy framework for PA2 123

4.1.2 Relevance to partner country needs 124

4.1.3 Effectiveness in improving the economy by providing jobs and livelihoods 130

4.1.4 Effectiveness in addressing climate change mitigation and adaptation 137

4.2 Complementarity and added value of partnerships built 138

4.3 Results Based Management and Knowledge Management 140

5 CONCLUSIONS 143

5.1 Achievement of Finland's objectives on economic development, job creation and livelihoods (PA2) 143

5.1.1 Coherence with the overriding Finnish policy framework for PA2 143

5.1.2 Relevance to partner country needs 143

5.1.3 Effectiveness in improving the economy by providing jobs and livelihoods 144

5.1.4 Effectiveness in addressing climate change mitigation and adaptation 145

5.2 Complementarity and added value of partnerships built 146
5.3 Results Based Management and Knowledge Management: lessons learnt........146

6 IMPLICATIONS AND LESSONS LEARNED 147

Country Case Annex 1: List of documents consulted 150

Country Case Annex 2: People Interviewed 153

Country Case Annex 3: Context Analysis 155

Country Case Annex 4: Other donors in Tanzania 169

Country Case Annex 5: PA2 portfolio..173

FIGURES

Figure 1 Top Ten Donors of Gross ODA for Tanzania, 2017–2018 average 114
Figure 2 FP BPS for Tanzania (2016–2019), % of interventions per DAC sector 120
Figure 3 FP BPS for Tanzania (2016–2019), % of commitments per DAC sector 121
Figure 4 BEAM support decisions for Tanzania by DAC sector (2016–2019) 121
Figure 5 Employment by aggregated sector in Tanzania, 2001–2014 157

TABLES

Table 1 Summary of commitments for PA2 and PSI projects in Tanzania 2016–2019. 122
Table 2 The Logic Model of the Impact Area 2 Increased employment and livelihoods, Tanzania Country Strategy 2016–2019..141
Table 3 MFA funding decisions for Bilateral Programmes with PA2 as first or second priority for Tanzania 2016–2019. 173
Table 4 MFA funding decisions for Regional and global Programmes with PA2 as first or second priority for Tanzania 2016–2019. 174
Table 5 MFA funding decisions for Fund for Local Cooperation with PA2 as first or second priority for Tanzania 2016–2019. 175
Table 6 MFA funding decisions for NGO project support with PA2 as first or second priority for Tanzania 2016–2019. 176

Acronyms and Abbreviations

US$	United States Dollars
AfCFTA	African Continental Free Trade Agreement
AfDB	African Development Bank
ALI	Department for Africa and the Middle East of MFA
ARDF	Agriculture, Rural Development and Forestry
ASDP	Agriculture Sector Development Program
BEAM	Business with Impact –programme
BEE	Business Enabling Environment
BPS	Business Partnership Support
CBFM	Community based forest management
COSTECH	Southern African Development Community
CS	Country strategy
CSO	Civil Society Organisation
CTA	Chief Technical Advisor
DevPlat	Developing Markets Platform -programme
DP	Development Partner
EAC	East African Community
EEP	Energy and Environment Partnership (Africa Trust Fund)
EIF	Enhanced Integrated Framework for Trade-Related Technical Assistance to Least Developed Countries
EQ	Evaluation Question
EU	European Union
FAO	Food and Agriculture Organisation of the United Nations
FBD	Forest and Beekeeping Division
FDI	Foreign direct investment
FF	Finnfund
FLC	Fund for Local Cooperation
FORVAC	Forestry and Value Chains Development Programme
FP	Finnpartnership
FYDP	Five Year Development Plan
GBS	General Budget Support
GDP	Gross Domestic Product
GoF	Government of Finland
GoT	Government of Tanzania
GNI	Gross National Income
HDIF	Human Development Innovation Fund
HRBA	Human Rights Based Approach
ICI	Institutional Cooperation Instrument
ILO	International Labour Organisation
INGO	International Non- Governmental Organisation
KVTC	Kilombero Valley Teak Company

LGA	Local Government Authorities
LIMAS	Lindi and Mtwara Agribusiness Support
LTPP	Long Term Perspective Plan
MCDI	Mpingo Conservation & Development Initiative
MFA	Ministry for Foreign Affairs
MNRT	Ministry of Natural Resources and Tourism
MPI	Multidimensional Poverty Index
MSME	Micro, Small and Medium Scale Enterprises
NDF	Nordic Development Fund
NFBKPII	National Forestry and Beekeeping Programme Phase II
NFC	New Forest Company
NFP	National Forest Policy
NGO	Non-Government Organisation
NTB	Non-Tariff Barrier
ODA	Official development assistance
PA	Priority Area
PFMRP	Public Finance Management Reform Programme
PFP	Participatory Plantation Forestry Programme, Private Forestry Programme
PIF	Public Investment Facility
PMO	Prime Minister's Office
PPP	Public Private Partnership
PSI	Private Sector Instrument
PSSN	Productive Social Safety Net
RALG	Regional Administration and Local Government
RBM	Results Based Management
SADC	Southern African Development Community
SAIS	Southern Africa Innovation Support programme
SDG	Sustainable Development Goal
SUA	Sokoine University of Agriculture
SUMAFOVA	Sustainable Management of Forests and Value Chain Development Programme
TASAF	Tanzania Social Action Fund
TCP	Tanzania Country Programme
TDV	Tanzania Development Vision
TFS	Tanzania Forest Service
TGA	Tree Growers Association
TMEA	TradeMark East Africa
TMP	Tax Modernisation Programme
TOSP	Tree Outgrowers Support Programme
TRA	Tanzania Revenue Authority
TTGAU	Tanzania Tree Growers' Association Union
TVET	Technical and Vocational Education and Training
UCDW	Unpaid Care and Domestic Work
VC	Value Chain
VETA	Vocational Education and Training Authority
VLFR	Village Land Forest Reserve
VLUP	Village Land Use Plan
VNRC	Village Natural Resources Committee
WB	World Bank
WEF	World Economic Forum
WTO	World Trade Organisation

Summary table of Key Findings, Conclusions and Lessons / Implications

Findings	Conclusions	Lessons/Implications
Coherence with the overriding Finnish policy framework for PA2 (EQ 1.1)		
Finding 1. Finland's 2016–2019 Tanzania Country Strategy's Impact Area 2 is directly aligned with Finland's Development Policy (2016) Priority Area 2; and interventions which have been implemented are well aligned with it too.	**Conclusion 1.** While the focus of the country strategy and funded interventions has been coherent with the overriding Finnish policy framework, coherence in the implementation shows mixed results. *(This conclusion is based on Findings 1, 31 and 32)*	**L/I 1.** The new Country Strategies may allow for improved strategizing to ensure coherence of the Private Sector Instruments, based on market logic, with the development policy, approaches and interventions. This will entail consultations both at the programme and country levels.
Relevance to partner country needs (EQ 1.1)		
Finding 2. Finland's forestry interventions and part of the regional/global programmes try to ensure that their activities strengthen the livelihoods of poor and vulnerable; there are, however, challenges to overcome to ensure that the poorest of the poor be benefit. **Finding 3.** Finland's programming is only limitedly addressing the gap between the skills gained by graduates and the expectations of the various industries. **Finding 4.** Finland's programming is relevant to the employment, participation and income-earning opportunities of women. **Finding 5.** While most of Finland's interventions are relevant in enhancing the Business Enabling Environment, they typically only target rather limited parts of the BEE. **Finding 6.** Finland's forestry interventions and EEP are relevant to climate change mitigation and adaptation; other regional/global programmes are not. **Finding 7.** Interventions supported by Finland are largely relevant to Tanzania's quest to become a regional trade and manufacturing hub.	**Conclusion 2.** The interventions evaluated show a high degree of relevance to most of the constraints. Yet, there are uncertainties in meeting the needs of the poorest and very little is done towards closing the skills gap. *(This conclusion is based on Findings 2, 3, 4, 5, 6 and 7)*	**L/I 2.** Ensuring that programming in economic development, jobs and livelihoods benefits the poorest is challenging. The Government of Tanzania's Productive Social Safety Net (PSSN) programme, supported among others by the World Bank and Norway, has been recently evaluated and is meetings its targets. Finland could consider joining in to support the PSSN, also vis-à-vis the COVID19-related increase in vulnerability to poverty.

Findings	Conclusions	Lessons/Implications
Effectiveness in improving economies for jobs and livelihoods (EQ 1.2 and 1.3)		
Decent work for all **Finding 8.** FORVAC aims at a “more equal economy and opportunity for all” and has, in its first actual year of implementation 07/2019–06/2020, made progress by establishing 36 community producer groups, which enable their members’ engagement in wood and non-wood forest products harvesting, processing and marketing. **Finding 9.** On HRBA, FORVAC met the target for 2019/2020, where an extension strategy was developed on the principles of HRBA, incorporating value chain development. This may, however, not be enough to ensure a full application of HRBA. **Finding 10.** PFP II’s baseline surveys and Human Rights Situation Analysis (HRSA) could not be developed during the programme’s inception phase; the COVID-19 pushed back big part of activities scheduled for the phase and most PFP 2 staff were only contracted to start in July 2020. **Finding 11.** PFP II’s approach to encourage women to own assets including land is expected to facilitate gender equality in forestry sector. Among specific interventions spelled out, is facilitation of land ownership among women through their economic groups, training women on forestry practices and assistance in getting employment in the value chain. **Finding 12.** Dating back to the PFP I, there may be cases where the ownership of the planted tree may be disputed and the intended owner who planted the tree may face challenges in indicating the ownership. **Finding 13.** TMEA’s programming in the reduction in the time and cost to trade has been successful, but since other factors have reduced the actual volume of trade, impact upon growth and ultimately poverty alleviation in Tanzania has not yet been significant. **Finding 14.** In addition to direct and indirect jobs, women benefit from Finnfund’s forestry investments in many ways. For example, women hold 80% of saving schemes established by the New Forest Company through its outgrower programme.	**Conclusion 3.** Materializing the potential gains of Finland’s forestry programming in livelihoods and income generation in rural areas and inclusive of the poor and women requires a long-term commitment. Finnfund’s investments are already showing results on this account. *(This conclusion is based on Findings 8, 9, 10, 11, 12, 13 and 14)* **Conclusion 4.** In spite of the significant effort placed in addressing HRBA and gender concerns in Finland’s current forestry programming, there are still HRBA and gender issues related to equitable division of economic benefits. *(This conclusion is based on Findings 9, 10, 11 and 12)* **Conclusion 5.** Finland’s long-term programming on forestry has brought about a large number of jobs, and the current forestry programmes are well on track to continue contributing to job creation and overall dynamic economic activity in Tanzania. Finnfund’s forestry investments are equally important in this context. *(This conclusion is based on Findings 15, 16, 17 and 19)* **Conclusion 6.** While the forestry programming and Finnfund’s investees are building commercially viable responsible forestry value chains, issues pertaining to Tanzania’s business enabling environment pose risks. *(This conclusion is based on Findings 20, 21, 22, 23 and 25)*	**L/I 3.** The MFA could consider investing into human resources, such as in a HRBA and commercial forestry expert, who would work both with FORVAC and PFP to help to make the programmes meet their HRBA and gender objectives. **L/I 4.** Finland should take an active role in the efforts to improve the business enabling environment in general, and to finalise and implement the National Forest Policy in particular. **L/I 5.** The plan to become a trade and manufacturing hub has the potential to boost the administration’s motivation for undertaking reforms important for the economic development of the country in any case, notably enhancing the business enabling environment. As such, should the objective continued to be pursued, it might be worth the while to support. **L/I 6.** Albeit limited, Finland’s forestry programming, both former and current, has made some inroads into vocational training and skills development. The MFA could consider building on this experience and lessons learned, and expand such vocational training and skills development either within the sector of commercial forestry or to other sectors.

Findings	Conclusions	Lessons/Implications
Businesses and jobs **Finding 15.** Assessment by the government reveals that over 400,000 jobs have been created in forestry value chains. The challenge remains on how to isolate direct contribution of Finland's forestry programming. **Finding 16.** Contribution to forest-based livelihoods in form of money to the villagers owning and managing the village forests is slow; the miombo woodlands trees don't grow very fast and the market is not fully in place. Nevertheless, progress towards improved value chains and increased private sector involvement in the forest sector was made during the first actual year of FORVAC implementation. **Finding 17.** For PFP II, contributing to forest-based livelihoods is a key objective, with forest planted during PFP I still growing and no major cutting scheduled any time soon. This means that any poverty/affluence impact is yet to be seen but with the current prices, if there is patience to wait and only cut at the prime time, a big number of families could be brought out of poverty. **Finding 18.** EEP, SAIS and EIF interventions are likely to positively impact the private sector and economic activity, making them more dynamic and diversified. TMEA's main programme has already produced results on this account, albeit the key impact does not yet quite show. **Finding 19.** Finnfund has been one of the few, in many cases the only/leading DFI, or generally a financier willing to invest in the sector in Africa. By investing in commercial forestry in Tanzania Finnfund has thus significantly contributed to the PA2 objective.		

Findings	Conclusions	Lessons/Implications
International business rules AND Know-how and innovation **Finding 20.** Finland's forestry programming in Tanzania is based on the overall strategy of modernising and making the forestry sector sustainable by commercialising it. So far, the strategy has received support, but the administration's suspicion over "the private" poses a potential risk to the programming, its sustainability and the industry as whole. **Finding 21.** Both FORVAC and PFP play facilitating role in enhancing Tanzania's business environment and market on forestry. However, the main item, the updated National Forest Policy, is not approved yet. **Finding 22.** Administrative and contradicting mandate issues between the forestry authorities pose challenges to forestry programming and the sector at large. **Finding 23.** PFP's sustainability strategy is first and foremost based on institutional and economic sustainability. This assumes a success – promoted by the key sector administrative entities – in the institution building and still the risk of beneficiaries' unwillingness to pay remains high. **Finding 24.** TMEA-TCP is a key contributor to BEE by reducing trade barriers through improved trade environment, improved transport and logistics infrastructure, improved standards framework and compliance, reduced non-tariff barriers, automation of trade processes and systems and improved trade regulations. **Finding 25.** In some Finnfund investments an effort is made, for example, to build new or strengthen existing value chains. Finnfund's direct forestry investments in Tanzania are examples of this, having outgrower programmes, tying local communities to the value chain, and comprising of e.g. acquisition of more land for cultivation.		

Findings	Conclusions	Lessons/Implications
Effectiveness in addressing climate change mitigation and adaptation (EQ 1.3)		
Finding 26. The two forestry programmes assist in technology transfer to ensure that efficient technology is utilised in timber processing and wood wastage is thus reduced. **Finding 27.** The PFP assists to retain trees and get them to the optimal age where such timber fetch higher price but also assist conserving the environment. The programme has introduced new species for diversification and made seeds available. **Finding 28.** FORVAC seeks to make a change in people's behaviour towards sustainable forest management, and this requires a change in their perception and attitude – all these are processes that often take a long time to happen.	**Conclusion 7.** The forestry programmes play vital role in national efforts towards combating climate change effects as they bring in the aspect of sustainable, commercial utilisation of forestry resources. The two programmes assist in technology transfer where appropriate and efficient technology is utilised in timber processing. *(This conclusion is based on Findings 26, 27 and 28)*	**L/I 7.** The MFA could consider building on the lessons learnt from forestry, taking a more proactive role in helping Tanzania to main-stream climate resilience in the relevant economic policies, strategies and activities. Such help could be paired with facilitating Tanzania's access to Finnish cleantech. **L/I 8.** To ensure environ-mental gains for climate change mitigation and adaptation, as well as the socio-economic gains, investing into natural forest programming has to be done on a long-term basis. FORVAC would require a follow-up phase.
Complementarity and added value of partnerships built (EQ 2.3)		
Finding 29. In Tanzania, Finland has not built partnerships with other donors on economic development interventions assessed for this Country Case Study, although some of the regional partnerships cover Tanzania. **Finding 30.** Finland is the only donor in commercial forestry and while partnering with other donors is not in place, there is some collaboration with the Finnfund investees.	**Conclusion 8.** Being the only development partner covering commercial forest-ry brings about unutilised opportunities and also risks. *(This conclusion is based on Findings 29 and 30)*	**L/I 9.** Finland could consider making efforts to attract partners to join in support-ing the current commercial forestry programmes and/ or to expand them. Also, campaigns by PSIs such as the Finnpartnership or DevPlat to try and attract more Finnish private sector investment into forestry and related industries could be encouraged.

Findings	Conclusions	Lessons/Implications
Results-based Management and Knowledge Management (EQ 3.5)		
Finding 31. The CS 2016–2019 takes into account the recommendations of the 2016 CS evaluation. It seeks to strengthen Results-based Management and includes a logic model against which the Annual Results Reports have been presented. **Finding 32.** Actual results-based management shows mixed outcomes with the continued focus on forestry aligning with RBM but the fate of the TANZIS innovation programme and limited attention to regional and global programmes is not encouraging. **Finding 33.** FORVAC and PFP are particularly relevant for sustainable natural resources management and, parked under the PA2 on economic development and jobs, there have been some challenges in reporting comprehensively on all results. **Finding 34.** Finally, interesting also from the perspective of RBM and learning, the FORVAC should be continued after the current phase as will the PFP, although the question has been posed on whether the two programmes should be joined into one.	**Conclusion 9.** The 2016-2019 Country Strategy's RBM elements could have been used more effectively in managing the country programme, and the regional and global programmes considered more fully as a part of it. *(This conclusion is based on Findings 31, 32, 33 and 34)*	**L/I 10.** For the next Country Strategy and Country Programme for Development Cooperation period, the Embassy should be sufficiently and appropriately resourced to effectively cover all Finland-funded programming and instruments related to economic development, jobs and livelihoods so as ensure their optimal RBM, coherence and any linkages to (other) Team Finland support work.

1 This country case study report

This country case study of Tanzania is one of the three country case studies. The main purpose of each country case study is to provide a contributory evidence stream to the overall strategic evaluation and main evaluation report. Therefore, each country case study applies the same, relevant evaluation questions of the strategic level evaluation, while adapting their analysis to the country context (see Chapter 2 for more on the approach, methodology and limitations).

The specific objectives of each country case study are:

- Provide an analysis of the critical constraints and needs in the case country in terms of economic development for job-creation and livelihoods especially for women, youth and the poor;
- Assess Finland's Country Strategy in the case country for 2016-2019 in terms of the economy and jobs objective and how it was translated into interventions, classified as Priority Area 2 (PA2). This also includes the Private Sector Instruments (PSIs);
- Review the results of this strategy and interventions as they are shown in existing results-reporting;
- Place the strategy and interventions and their results in the context of Finland's policy framework for PA2 and the needs and constraints of the case country in terms of economy, jobs and livelihood;

The case study is explicitly not a full evaluation of Finland's country-level portfolio, which would be beyond the scope of this evaluation. Accordingly, it does not provide recommendations, but rather lessons/implications. As part of the utilisation-focused model of the strategic evaluation, the lessons and implications presented in the country case studies are either country-specific or general. These are meant to help inform the relevant Embassy and country team (country-specific lessons/implications) and/or other country teams in the MFA (general lessons/implications) in their work, including in finalizing the next Country Strategy and Country Programme for Development Cooperation.

Regarding the Private Sector Instruments (PSIs), the country case studies focus mainly on possible synergies of PSI interventions with other instruments in Tanzania while the analysis of the ownership/government guidance and the MFA's RBM vis-à-vis PSIs is made in a separate PSI-study, annexed to the main evaluation report.

This country case study report consists of a summary table and six chapters. The summary table, presented at the beginning of the report, is meant to provide a compact overview of the country case study findings, conclusions and implications/lessons. The evidence-chains to support each statement are found in the corresponding chapters of the report. This Chapter gives an introduction to the country case study report and Chapter 2 describes the approach, methodology and limitations of the case study in the context of the overall strategic evaluation. Chapter 3 provides the context analysis of Tanzania's critical constraints and needs relating to economic development for job creation and livelihoods. The context analysis also includes an overview of other key donors supporting economic development and job creation in Tanzania and details Finland's 2016–2019 Country Strategy and portfolio of interventions in Tanzania. Chapter 4 presents the evaluation's findings against relevant evaluation questions, including findings from a review of the emerging results of the Finnish-funded interventions. Based on the findings, conclusions are drawn in Chapter 5. Finally, Chapter 6 presents lessons/implications for what Finland may do in the future in Tanzania to support of economic development and what other country teams can learn from the Tanzanian experience.

2 Approach, methodology and limitations

2.1 The approach of the strategic evaluation

A strategic evaluation is commonly defined as an evaluation of a strategy with the purpose of determining if the strategy yielded expected results and whether the strategy needs to be modified in the future for better results. The evaluation of Finland's support to economic development, jobs and livelihoods is more complex than that. First, there is no strategy as such for PA2 and the private sector instruments that can be evaluated. There are strategy elements for parts of the portfolio and there is the Government's overriding policy framework, for example manifested in the objectives for the Priority Area at different times, but not a comprehensive PA2 strategy as such. Rather, the actions under PA2 is an assortment of many forms of interventions, large and small without much of an apparent internal coherence or common strategic orientation.

Second, the Terms of Reference (annexed to the main report) points to a more ambitious approach than only assessing results of the past and on-going activities to guide the future. It also includes learning from peers and international best practices, as well as looking beyond to what extent the support fulfils the stated objectives.

In view of this, the evaluation's approach is both to take stock of the results from past interventions, i.e. '***what has been***', and drawing the lessons from this for the future; and identify and suggest '***what could be***' going beyond what is already going on. The evaluation follows a mixed-methods, iterative approach where multiple streams of evidence in form of the various evaluation components drive triangulation of both data and analysis of findings. For the part of the evaluation focusing on accountability (and learning) these streams of evidence take the form of the Country Case Studies of Kenya, Tanzania and Zambia, the PSI Study and the Thematic Annexes of Energy, Innovation, Taxation and WEE. For the key part on learning, best practices and peer review, the streams of evidence are formed from assessing on one hand, separately, the Nordic peers Denmark, Norway and Sweden, and other hand, by framing the analysis of the Nordics with the global trends context. These parts of the evaluation, focusing on accountability and learning, constitute the "what has been", and their respective streams of evidence, jointly, provide the basis for the "what could be", i.e. the strategic, forward-looking part of the evaluation. The approach and methodology for the strategic evaluation is fully described in the main report and its Annexes.

2.2 Evaluation questions applied to this Country Case Study

This Country Case Study has applied the relevant evaluation questions of the strategic level evaluation, with limited adaptation for the contextual specifics of the case country, contributing to '***what has been***'. The sub-evaluation questions to which it contributes evidence are as follows:

Main evaluation question	Sub-evaluation question
EQ1 To what extent and how are the objectives of the Priority Area 2 on economic development, jobs and livelihoods being achieved and how relevant and effective have the interventions been in relation to partner country needs?	**1.1.** How coherent have the country strategies, approaches and interventions been with the overriding Finnish policy framework for economic development and job-creation in the three case countries? How relevant have they been in relation to country needs? Have they been relevant and effective for the pursuit of transition (where applicable)?
	1.2. In what way and how effectively have Finland's country programmes, approaches and interventions contributed to improving the economies, jobs and livelihoods especially for women, youth and the poor in the three case countries, and in particular decent, rights-based jobs?
	1.3. In what way and how effectively have the country programmes, approaches and interventions related to economic development, job creation and livelihoods in the three case countries contributed to advancing the human rights-based approach and cross-cutting objectives of gender equality, reduction of inequality, and climate change mitigation and adaptation?
EQ 2 What can the Ministry of Foreign Affairs learn from its peer organisations, especially the Nordics as well as from emerging international 'best practices' for more relevant, effective and coordinated support for economic development, jobs and livelihood opportunities?	**2.3.** Have partnerships been built between Finland's economic development interventions and those of other donors and stakeholders? Have the Finnish approaches and interventions, including pooled funding and core-type funding, been complementary, coordinated with other stakeholder and donor efforts, and added value?
EQ 3 How can the effectiveness of Finnish development cooperation related to economic development be further developed, including if and how the Results-based Management system can be further refined as far as Priority area 2 is concerned?	**3.5.** What lessons can be learnt for Finland's Results-based Management and Knowledge Management, including reporting on results, from the performance under economic development, jobs and livelihoods?

2.3 Methodology applied to this Country Case Study

2.3.1 Selection of the Case Countries

The selection of the three case countries – Kenya, Tanzania and Zambia – is based on a set of priority criteria:

- Sub-Sahara Africa, the focus of Finland's development assistance accounting for the main Official Development Assistance (ODA) streams. Furthermore, the MFA is preparing an Africa strategy with linkages to the emerging EU strategy for Africa.
- LDCs as the focus of Finland's development assistance.
- Inclusion of countries in a transitional phase in Finnish development cooperation.
- Core partner countries to Finland.
- Countries with a wide range of PA2 interventions in order to provide the most comprehensive picture possible on how various approaches and instruments function.

2.3.2 Methods of data collection and analysis applied

The Results Framework/Theory of Change approach: The 2016 Development Policy provided impact and outcome statements and a short narrative on "how this will be done". This Country Case Study assesses to the extent possible, results against the expected impact and outcome objectives.

Critical problem analysis: The "bottom-up" approach of the overall strategic evaluation assesses Finland's policies and interventions under PA2 against the partner countries' most critical challenges. This Country Case Study specifically assesses whether Finland is addressing the critical constraints in its support to economic development in Tanzania, especially related to job creation with relevance for the poor, women and youth.

The Country Case Study provide evidence, which is assessed against the country's critical constraints, identified on the basis of the Evaluation team's context analysis, against the development policy/PA2 results frameworks. This allows for assessing the relevance and coherence of the portfolio, as well as for providing any lessons learned/implications for the policy to better accommodate needs and successful interventions, and for the portfolio to be adjusted to meet the policy priorities

More specifically, the Country Case Studies include the following elements:

Analysis of the critical constraints in the three case countries in terms of economic development, job creation and livelihood opportunities especially for women and youth.

An analysis of the Finnish Country Strategies including 2013–2016 but focusing on 2016-2019, identifying the elements of the strategies that focus on economic development, job creation and livelihood opportunities; identifying the objectives and envisaged interventions in the strategies; analysing the coherence of the 2016–2019 strategy with the overall Policy Framework for PA2 as elaborated in the 2016 Development Policy, and how the strategies were expressed in envisaged interventions under the PA2 theme.

Mapping the portfolio of interventions under PA2 for the period 2016–2019, identifying what Finland has financed for the period through different themes, sectors, channels and modalities. The portfolio mapping is based on data provided by MFA and the PSIs. It uses the PA2 classification as elaborated in the portfolio analysis of the main report and also covers some major interventions under other Priority Areas if these are considered essential for contributing to economic development and job creation. Additionally, the mapping includes regional programmes that cover the case country.

A country portfolio analysis based on the following interventions:

- Interventions registered 2016–2019 for PA2 as main or secondary objective.
- Regional programmes registered as PA2, covering the case country and implemented during the 2016–2019 period.
- Interventions under the Private Sector Instruments with financial flows (investments, loans and ODA) in the case country during 2016–2019.
- Interventions under other Priority Areas which are essential as means for economic development and job-creation.

Sampling among interventions: The number of interventions under PA2 is far too large to get a detailed overview of the results and requires sampling. The applied principles of sampling are 1) major interventions in financial terms 2) interventions which the MFA and Embassies consider to be of particular interest; 3) interventions for which there is available results-reporting.

A***nalysis of the results of the portfolio*** as reported in evaluations, mid-term reviews, completion reports and other forms of results-reporting. The document review has been complemented by interviews with selected stakeholders as a means of validation and triangulation. It must be stressed, given the considerable number of projects in the country portfolios, no independent search for primary data in the field for specific interventions has been attempted by the evaluation, nor does the evaluation provide a second opinion on documented results unless there is clear reason to do so.

Gender equality, equality in society, climate change mitigation and adaptation, and human rights-based approach are assessed throughout strategy, approaches and interventions.

Mapping of the "donor landscape" engaged in similar activities as Finland in the respective case country. This mapping is document-based and complemented by interviews of key informants in the MFA, the Nordic peer organisations and the main donors/MDBs in the focus area. The emphasis is on the Nordics engaged in inclusive economic development and job creation with a focus on women, youth and the poor.

Generalisation: The country contexts in the three case countries are diverse (as are also the Finnish interventions), but generalisation is done in the main evaluation report at the level of Finland's work with its core partners in Africa. Hence, this is useful for the Africa strategy formulation and for the Country Strategies and Country Development Cooperation Programmes for Kenya and Tanzania.

Reporting: The country studies follow a uniform format and to the extent possible the same or similar sources. The Country Case Studies form Annexes to the main evaluation report. For reasons of volume of the overall reporting, these Country Case Studies are in the Volume 2.

Validation: The draft country report was commented on by EVA-11, the evaluation's Reference Group, the Embassy in Dar es Salaam and the Country Teams at the MFA. A specific validation workshop (online) was also held with the same stakeholders on October 14, 2020.

As indicated above, the main data collection methods and sources applied to the Country Case Studies are:

Secondary data: The Country Case Study builds upon *existing results-reporting* and does not repeat already available studies and research but use existing findings.

Specifically, the country case study makes use of,

- Mapping of the Finnish interventions under the PA2 2016–2019 also including investments and projects by the PSIs.
- Relevant documentation for the evaluation, including relevant policy and steering documents by the MFA, intervention data, country studies, strategies, annual reports, intervention specific reporting, especially result-reporting, etc.
- Analysis of recently completed relevant centralised and decentralised evaluations, the preparatory study for the evaluation and any other preparatory material such as workshop protocols etc. both of more general nature and for interventions selected to be reviewed.
- Reports, studies, data and research on the country context, labour markets, dynamics of the economy, sector specific development, government policies on economic development and job creation, and Finnish cooperation with Tanzania produced by the MFA, the PSIs, international organisations such as the World Bank, African Development Bank, IMF,

OECD, WIDER, ILO, UNDP, World Economic Forum, etc., the Tanzanian government, other donors, academia and civil society. The consulted documents are available in the self-standing bibliography of this report and are not repeated in the main evaluation report.

Primary data: Primary data has mainly been collected through Key Informant Interviews (KIIs) with relevant individuals in Finland, peer countries, Tanzania, and elsewhere. The KIIs have been conducted both remotely by telephone/over the Internet and in person by the Evaluation team members. KIIs cover:

- MFA staff in Finland, Kenya, Tanzania, Zambia and other countries;
- Staff of the PSIs located in Finland and other countries;
- Partner country government representatives;
- PSI stakeholders such as private sector companies, NGOs and other, located in Finland and Tanzania;
- Selected bilateral and multi-bi project and programme staff, partners and other stakeholders located in Finland, Tanzania and other countries;
- Selected multilateral organisations' staff;
- Selected Nordic Peer Country representatives.

2.3.3 Limitations

As a case study rather than a full evaluation, this report does not provide a definitive performance assessment of all Finnish assistance to economic development, job creation and livelihoods in Tanzania during the period 2016–2020. Rather, it offers limited insights, generated through a systematic approach, to inform a wider evaluative process.

The case study is based on analysis of MFA statistics, review of project documentation (including external reviews and evaluations where available), and stakeholder/partner interviews. Due to the COVID-19 pandemic and in accordance with the agreed methodology for the wider strategic evaluation, the evaluation has not involved a field mission by the core team to Tanzania nor visits to individual projects or interviews/focus groups with direct beneficiaries. Instead, experienced country experts have been engaged and worked closely with the core team members to identify and interview relevant informants, gather relevant information as well as ensure adequate reflection of the country context and perspective in the report.

Results data for the study is based on a combination of available project reports, reviews/evaluations where available and interviews with selected stakeholders. The country case study team were not able to independently verify results, and nor were they required to do so under the terms of the Case Study. Results data such as on jobs created is therefore not available for all relevant projects/programmes and presented findings are therefore caveated accordingly.

Notwithstanding these limitations, the case study offers insights into Finnish assistance to Economic Development, Job Creation and Livelihoods in Tanzania.

It should also be noted that the COVID-19 pandemic, at least in the short-term, will have a significant negative impact on the Tanzanian economy and job market. Trends and data used in the report for the pre-COVID-19 time are likely not be valid for 2020 on almost all fronts, while the outlook for 2021 and beyond is at best uncertain. Throughout the report we have briefly discussed the likely or potential effects of the pandemic.

3 Context analysis

3.1 General country context

3.1.1 Economy

On July 1, 2020, the World Bank announced that the Tanzanian economy had been upgraded from low to lower-middle income status[133]. According to the Bank, Tanzania's gross national income (GNI) per capita increased from USUS$1,020 in 2018 to USUS$1,080 in 2019, which exceeds the 2019 threshold of USUS$1,036 for lower-middle income status. Thus, Tanzania is currently classified as a lower-middle income country.

The upgrade for Tanzania is the product of the country's strong economic performance of over 6% real gross domestic product (GDP) growth on average for the past decade. While the poverty rate in the country has declined, the absolute number of poor citizens has not because of the high population growth rate. The country's overall population is over 59 million (2020). In 2017, the share of agriculture in Tanzania's gross domestic product (GDP) was 28.74%, industry contributed approximately 25.1% and the services sector contributed about 37.92% [134].

Until the end of the first quarter of 2020, the economic outlook for Tanzania remained positive with a markedly diversified economy, characterised by robust private consumption, substantial public spending, relatively strong investment growth, and an upturn in exports. As such, Tanzania is in a better position than many other countries in the region to respond to the COVID-19 crisis given favourable commodity price changes as an oil importer and gold exporter, as well as fiscal space given its relatively low fiscal deficits and low risk of debt distress. Nevertheless, as a result of COVID-19, the World Bank[135] projects Tanzania's GDP growth to slow sharply to 2.5% in 2020, down from the 6.9% growth the government reported in 2019. This projection is echoed by the IMF and the EUI; the Government's outlook remains very positive and projects growth of 5.5% for 2020; this seems not substantiated by the current trends in the economy.

Tourism, which had been one of the fastest-growing sectors in the economy, contributed an estimated one percentage point to GDP growth in 2019[136] and accounted for approximately 17% of the GDP[137], as well as constituted more than 26% of total exports. However, under the pandemic, international travel bans and caution against contracting the virus have severely affected the sector; tourism operators in the country are forecasting revenue contractions by 80% or more this year, and expecting only a mild recovery next year, based on how well global demand rebounds[138].

133 https://blogs.worldbank.org/opendata/new-world-bank-country-classifications-income-level-2020-2021
134 https://www.statista.com/statistics/447719/share-of-economic-sectors-in-the-gdp-in-tanzania/
135 World Bank, The 14th Tanzania Economic Update (TEU), Addressing the Impact of COVID-19: With a Special Section on the Role of ICT, 2020
136 Ibi
137 Peter Donelan, Théo Mbise, Visvanathan Subramaniam; COVID-19, LEAST DEVELOPED COUNTRIES AND FINANCIAL SUPPORT, Trade for Development News by EIF, April 01, 2020; https://trade4devnews.enhancedif.org/en/news/covid-19-least-developed-countries-and-financial-support
138 World Bank, The 14th Tanzania Economic Update (TEU), Addressing the Impact of COVID-19: With a Special Section on the Role of ICT, 2020

3.1.2 Governance

Since 2015, when elected as the President, John Pombe Magufuli's Government has prioritised efforts to clampdown on corruption, improve public administration and manage public resources for improved economic and social outcomes. The Mo Ibrahim Index of African Governance shows Tanzania has improved in its overall governance indicators in 2015–2017[139]. Instead, the World Bank's Worldwide Governance Indicators show that, between 2012 and 2018, Tanzania has either deteriorated or been stagnant in all other governance indicators except for control of corruption[140]. In the Transparency International corruption index, Tanzania ranks 96 of 180 countries, well above Kenya (137) and Zambia (113)[141].

Many civil society organisations, development partners and others have, over the past couple of years, noted that the state of democracy, notably enjoyment of civil liberties, space for civil society and freedom of expression, have been deteriorating in Tanzania. Land rights defenders face arrest, harassment and intimidation, and security forces have used excessive force to disperse peaceful assemblies[142]. The legal framework that governs freedom of expression is restrictive, with new legislation including the Statistics Act imposing harsh penalties on those found guilty of publishing misleading and inaccurate statistics[143]. In online content regulation, a key item in face of the global trend of business digitalisation, the 2018 Electronic and Postal Communications Regulations, according to civil society, academic and legal professional critics the regulations prohibit content in overly broad terms and impose confusing registration or licensing requirements which are in breach of international standards on freedom of expression. The lack of any clear definitions in the regulations is especially concerning given that failure to comply with the regulations is punished with heavy sanctions. The regulations also grant sweeping powers of content removal to Tanzania Communication Regulatory Authority (TCRA). The excise duty in the form of licence-related fees for online content services is seen by some law specialists and members of the international academia as a violation of international human rights norms and standards, because the fees imposed are so high that they make the cost of posting content online and, thus, effective Internet use unaffordable for the vast majority of Tanzanians[144].

As noted in the MFA's detailed self-assessment of the Country Strategy Tanzania 2016–2019 (in 2019), Tanzania's socialist history still affects thinking regarding private sector development. The government is interested in developing its strategies related to the private sector but the skills and understanding required for it are not fully in place.

Presidential and parliamentary elections took place in October 2020, and President Magufuli was re-elected, winning 84% of the votes.

3.1.3 Poverty

World Bank's 2019 Tanzania Mainland Poverty Assessment notes that, measured by the percentage of the population living below the national poverty lines, poverty decreased by eight percentage points in 10 years, down from 34.4% in 2007 to 26.4% in 2018. Yet, the number of poor people remains high. In 2018, Tanzania recorded 14 million poor people, up from 13 million in 2007. Moreover, the report notes that a significant proportion of the population remains vulnerable to falling into poverty and about half of the population continues to live below the international poverty line of USUS$1.90 per person per day (in 2011 purchasing power parity).[145]

139 http://iiag.online/
140 https://databank.worldbank.org/source/worldwide-governance-indicators
141 https://www.transparency.org/country/TZA
142 www.civicus.org
143 Ibid.
144 https://www.article19.org/resources/tanzania-electronic-and-postal-communications-online-content-regulations-2018/
145 https://www.worldbank.org/en/country/tanzania/publication/tanzanias-path-to-poverty-reduction-and-pro-poor-growth

As per the Oxford Poverty and Human Development Initiative's Multidimensional Poverty Index (MPI), about 55% of the population is defined as poor[146].

As per the Bank's 2019 assessment, extreme poverty (reflecting inability to meet minimum food needs) declined from 11.7% in 2007 to 8.0% in 2018. The depth of poverty also declined. Most of the reduction in poverty was witnessed in rural areas, followed by urban areas outside Dar es Salaam. In the same time, more and more Tanzanians live in urban areas; in 2009, 27.4% of Tanzanian were urban dwellers, in 2019, 34.5%[147].

The pace of poverty reduction, however, has slowed down since 2012. During 2007–2012, poverty averaged a decline of one percentage point a year, but this lowered to 0.3 percentage points per year in 2012–2018. The impact of economic growth on poverty reduction has dampened in recent years. During 2007–2012, a 10% increase in gross domestic product per capita growth produced a 10% decline in the proportion of poor people. This has declined to 4.5% in 2012–2018.

The COVID-19 pandemic came at a time when poverty reduction in Tanzania has lagged despite strong economic growth, and as a result, according to the World Bank, there is a significant risk that an additional 500,000 Tanzanians could fall below the poverty line, particularly those in urban settings relying on self-employment and informal/micro enterprises[148]. This underscores the need for stronger policies and investments in safety nets and human capital to ensure future resilience. The Bank's findings, from before the pandemic, suggest that without the Tanzania Social Action Fund (TASAF) III – Productive Social Safety Net (PSSN) Programme (TASAF PSSN), run by the President's office, there would have been an additional one million poor people in 2018.

3.1.4 Inequality and gender equality

The Gini coefficient[149] went up from 38.5 in 2007 to 39.5 in 2018. Significant gaps in living standards persist between rural and urban areas. Rural households lag considerably behind their urban counterparts in almost all monetary and non-monetary dimensions of poverty. Yet, disparities in well-being within urban areas are becoming more pronounced. Both consumption inequality and inequality of opportunity are higher in urban areas than in rural areas. Beyond the rural-urban divide, significant regional disparities in living standards persist. Poverty is highest among the lake zone districts, which are further disadvantaged in terms of vulnerability to climate-change induced natural disasters.[150]

While Tanzania has achieved progress towards gender equality, women and girls continue to suffer violence and discrimination in access to employment, health services, education and decision-making processes. This is reflected in UNDP's Gender Inequality Index[151], where Tanzania ranks 130 out of 162 countries in 2017[152]. Root causes for gender inequalities include historical and structural power imbalances between women and men and pervasive gender stereotypes.

146 https://ophi.org.uk/multidimensional-poverty-index/databank/country-level/
147 https://www.statista.com/statistics/455940/urbanization-in-tanzania/
148 World Bank, The 14th Tanzania Economic Update (TEU), Addressing the Impact of COVID-19: With a Special Section on the Role of ICT, 2020
149 The Gini index measures the extent to which the distribution of income (or, in some cases, consumption expenditure) among individuals or households within an economy deviates from a perfectly equal distribution. The Gini index measures the area between the Lorenz curve and the hypothetical line of absolute equality, expressed as a percentage of the maximum area under the line. A Gini index of zero represents perfect equality and 100, perfect inequality. (https://stats.oecd.org/glossary/detail.asp?ID=4842)
150 World Bank's 2019 Tanzania Mainland Poverty Assessment at https://www.worldbank.org/en/country/tanzania/publication/tanzanias-path-to-poverty-reduction-and-pro-poor-growth
151 Gender Inequality Index: A composite measure reflecting inequality in achievement between women and men in three dimensions: reproductive health, empowerment and the labour market.
152 http://hdr.undp.org/en/composite/GII

Some of the main challenges for gender equality in Tanzania are inequitable access to and ownership of land and resources, the low participation of women at all levels of decision making, gender-based violence and women's exclusion from the economy. These issues are augmented by the impacts of HIV/AIDS and high levels of income poverty among women.

The current administration's Five-Year Development Plan (FYDP II) "Nurturing Industrialisation for Economic Transformation and Human Development", has made economic empowerment of the women a key objective. While the legal and regulatory framework and the sector-specific policies of government ministries and independent departments have yet to be better aligned with these policies, recent focusing on women's empowerment seems to bear some fruit already. The World Economic Forum's (WEF) 2019 Global Gender Gap Index[153] ranks Tanzania at 68 out of a total 153 countries, up by 3 ranks from 2018[154].

3.1.5 Policy framework

After attaining political independence and prior to 1986, Tanzania embarked on a more socialist ideology in driving its national development agenda. From 1986 onwards, Tanzania shifted to a more open oriented approach, liberalised its economy and implemented a number of reforms, including privatisation of state-owned enterprises. Tanzania through its Development Vision (TDV) 2025 aspires to become middle-income country (has already achieved the status) with high-quality livelihoods, peaceful nation with stability and unity, good governance, a well-educated society, and a competitive economy capable of sustaining economic development. The TDV 2025 is implemented through the Long-Term Perspective Plan (LTTP), which is translated into a series of three Five Year Development Plans, which started being implemented in 2011. Tanzania is in the last year of implementing its second Five Year Development Plan (FYDP) II, which focuses on Transformation through Industrialisation and fostering Human Development. In the TDV, LTTP and the FYDPs, Tanzania's Government is committed to realising broad-based job creation, including through entrepreneurship, for its young population, throughout the country.

The theme of *The Second Five Year Development Plan (FYDP II) 2016/17–2020/21 (FYDP II)* "Nurturing Industrialisation for Economic Transformation and Human Development" incorporates the focus of the previous two national development frameworks, namely Growth and Transformation (FYDP I) and Poverty Reduction (MKUKUTA II). The FYDP II outlines new interventions to enable Tanzania to industrialise in a way that will transform its economy and its society. It also implements aspects of Tanzania's Development Vision (TDV) 2025 which aspires to have Tanzania transformed into a middle income and semi industrialised nation by 2025.

FYDP II is built on three pillars of transformation, namely industrialisation, human development, and implementation effectiveness. The FYDP II concerns itself with attaining higher economic growth through an industrial "jump", including catch up in technology and innovation, and development of critical mass of industrial and trade infrastructure, focusing on maximising the country's comparative advantages and trade opportunities to heighten economic growth to the envisaged level.

The current Plan paves the way for the upcoming FYDP III (2021/22–2025/26) with the theme "Realizing Competitiveness-led Export Growth". The FYDP III will take on board the ongoing strategic interventions of the FYDP II, while focusing on how to enhance Tanzania's competitiveness globally based on its comparative advantage, which primarily lies in natural resource endowment.

153 The Global Gender Gap Index benchmarks 153 countries on their progress towards gender parity in four dimensions: Economic Participation and Opportunity, Educational Attainment, Health and Survival and Political Empowerment.
154 https://www.weforum.org/reports/gender-gap-2020-report-100-years-pay-equality

A number of other policies and programmes relevant to economic development have also been developed in recent years and are presented in more detail in Country Case Annex 3: Context Analysis.

3.2 Summary of the context analysis

This section presents a summary of the key constraints that affect economic development and job creation in Tanzania. The section is based on the full context analysis, which is available in Country Case Annex 3: Context Analysis.

Based on the context analysis, the World Bank, UN and other leading analysers' reporting, Government policies and strategies presented in this section of the report, and interviews of some of the leading senior analysts of Tanzanian political economy and economic environment as whole, the following key constraints and opportunities for economic development in Tanzania have been identified:

1. **In spite of the reduced percentage of the poor, the absolute number of people living in poverty remains high. There is a large number of vulnerable people in high risk of falling into poverty and the vast majority of people, including masses of new entrants into the work force, find their livelihood in the informal[155], low-productive economy.**

In urban settings, where poverty has reduced less, this means relying on self-employment and informal/micro enterprises; in the countryside, this also means relying on subsistence agriculture. The pace of poverty reduction has slowed down since 2012 and the impact of economic growth on poverty reduction has dampened. Population growth and growth of urbanisation remain high, with the COVID 19-pandemic intensifying the risk of the vulnerable to fall and be trapped into poverty.

In particular, the World Bank has in its regular Tanzania Economic Updates (inclusive and until to-date) maintained the findings of its latest Tanzania Systematic Country Diagnostics (2017) and the Tanzania Mainland Poverty Assessment (2019). These state that the poverty head count remains high, the pace of poverty reduction has slowed down, and a large number of Tanzanians remain very vulnerable falling into poverty. The Bank also acknowledges the relation of these phenomena to the fact that the poor and vulnerable typically earn their living in the informal sector.

While Tanzania's current Five Year Development Plan, FYDP II (2016–2021), for the implementation of the Tanzania Development Vision 2025, based it's poverty assessment on a 2011/2012 Household Budget Survey according to which poverty, at the time, was becoming more responsive to economic growth[156], the main objective of the FYDP II is still to substantially reduce poverty. The FYDP II seeks to do this by accelerating broad-based and inclusive economic growth that allows shared benefits among the majority of people through increased productive capacities and job creation especially for youth and disadvantaged groups.

2. **The Government of Tanzania's increased focus in the education sector has not yet impacted the gap between the skills gained by graduates and the expectations of their future employers.**

155 By "informal sector" or "informal employment" we refer to the ILO's definition as defined in the ILO's Guidelines concerning a statistical definition of informal employment.

156 See section 3.1.3 Poverty of this report for details on the World Bank's 2019 Tanzania Mainland Poverty Assessment's account on the slowdown of reduction of poverty and poverty reduction's responsiveness to economic growth since 2012skills.

Most of the graduates from the system require substantial on the job trainings before they can fit the labour market needs. TVET was neglected for a number of years but now intends to build skills needed to support self-employment and to supply skilled manpower, particularly to the formal sector. This is a necessity in any process attempting to increase the size of the formal sector at the cost of the informal.

FYDP II makes a strong case for skills development and the related increase in productivity. It states, inter alia, that "In the medium to long term, Tanzania will continue enhancing its stock of skills in order to facilitate utilisation of the country's comparative advantages and building of competitive advantages by targeting more technology-intensive and internationally competitive, transformed domestic production system and an increasingly diversified export basket." Skills development has increasingly become a focus of development partners too, including the World Bank[157], ILO[158] and others.

3. **Compared to Tanzanian men, Tanzanian women are highly likely to live in poverty and face inequality of income and opportunities.**

Tanzanian women are grossly underrepresented in the formal economy and one of the reasons is that they suffer from enormous time poverty resulting from the burden of Unpaid Care and Domestic Work they shoulder. In Tanzania, women spend over five times more time than men doing domestic work. On average, a Tanzanian man earns almost 40% more than what a woman earns; women's participation in company ownership and in top-management is very low. These imbalances result in reduced opportunities for women and girls to participate in education, decent paid work, public life and leisure, and further reinforce gender-based socio-economic disadvantages. They also cost money and hinder the country's overall economic development because of underutilisation of women and girls' talent, capacity and ambition.

FYDP II has made economic empowerment of women a key objective. The National Strategy on Gender Development (2011) acknowledges that "… women in rural and urban areas bear a heavier workload than men that inhibit them in participating in development activities. In addition to reproductive and productive roles women in rural areas spend between 16 to 18 hours per day working compared to men who work between 8 to 10 hours per day." The Strategy's objective of "Families practicing equitable division of labour and resources" is far from met; the AU states (2019) that Tanzanian women spend five times more time than men doing domestic work, and this discrepancy is much higher than the African average.

Reducing the burden of UCDW is not the only measurement needed for women's economic empowerment and attaining gender equality in job markets and economic development but as noted by, for example, the ILO[159], it is of key importance in it.

4. **According to the foreign and domestic business communities and many development partners, Tanzania's challenging business environment is the single most important impediment to sustainable economic growth in the country.**

The policy and regulatory environment governing doing business is part of the overall governance framework. In Tanzania, the former alone is perceived overburdening, and lack of capacity and resources as well as governance issues in its implementation result in unpredictable and haphazard applying of rules, and regulations and levying of taxes, fees and other costs to business. Those with a bird-eye view into Tanzania's economy interviewed for this analysis even talk about a regression – perceived or real – and refer in particular to the unwillingness of the

157 https://blogs.worldbank.org/education/tanzania-how-boosting-work-skills-through-education-can-lead-economic-diversification
158 https://www.ilo.org/africa/countries-covered/tanzania/WCMS_702229/lang--en/index.htm
159 ILO (2018). Care work and care jobs for the future of decent work.

local investors, in the current situation, to invest in their country. The latter, overall governance framework, including the state of civil liberties, space for civil society and freedom of expression, have been deteriorating in Tanzania over the past couple of years, and this too, is not conducive of enhancing the business environment.

FYDP II acknowledges that "a conducive business environment is paramount for ensuring competitiveness. Such an environment is characterised by effective political, economic and social policies that are favourable to investors seeking to take advantage of the vast and, in many instances, untapped investment opportunities without undermining development prospects of host countries." It also states that Tanzania has missed its FYDP I target of ending up among the top 100 countries in the world in "Doing business environment rankings" and presents the adverse more of the country in the rankings already before 2016.

In addition to the World Bank, many multilateral development partners such as AfDB and TMEA as well the EU and numerous bilateral partners concern themselves with the state of Tanzania's business environment, and the overall governance framework, which also shows in the type of programming they have under economic development (see section 3.3.).

5. **Tanzania is highly vulnerable to climate change, with the average temperature rising and precipitation becoming increasingly unpredictable. There is a need for concerted and sustained efforts to establish an economic development strategy that is resilient to climate variability.**

The Government's identified priority sectors for adaptation are agriculture, livestock, coastal and marine environments, fisheries, water resources, forestry, health, tourism, human settlement and energy, while priority sectors for mitigation are energy, transport, forestry and waste management.

Tanzania has developed a National Climate Change strategy (2012), National Adaptation Programme of Action (NAPA) and National Strategy for REDD+ aimed at dealing with climate change effects. Financing of Climate Change actions face challenges. It is estimated that between US$500 million and US$1 billion is needed in the country per annum to reduce the current climate risks, reduce future impacts and build national resilience. The FYDP II recognises the challenge and has suggested tomainstream climate change in the development policy and planning process by including climate change in the economic analysis and budgeting.

Tanzania's development partners duly acknowledge the gravity of the risk caused by the changing climate; a notable champion in voicing out the concerns and the need for a concerted response is the World Bank[160].

6. **Tanzania has made plans to become a regional trade and manufacturing hub.**

High population growth and large numbers of young entrants into the job market have been discussed as challenges to sustainable economic development. As pointed out by those with the bird-eye view to the country's economy, together with Tanzania's geographic position, these factors also present an opportunity. There is no other country in Africa with a sea front that would have as many landlocked neighbours as Tanzania, and Tanzania's relations with the landlocked neighbours are very amicable. Tanzania is the biggest country in the East African Community (EAC) and, indeed, it has a very large young workforce.

One of the FYDP II objectives is to consolidate Tanzania's strategic geographical location through improving the environment for doing business and positioning the country as a regional production, trade and logistic hub. The TradeMark East Africa, in particular, is a strong backer of this

160 See in particular the World Bank Group: Tanzania Systematic Country Diagnostic 2017.

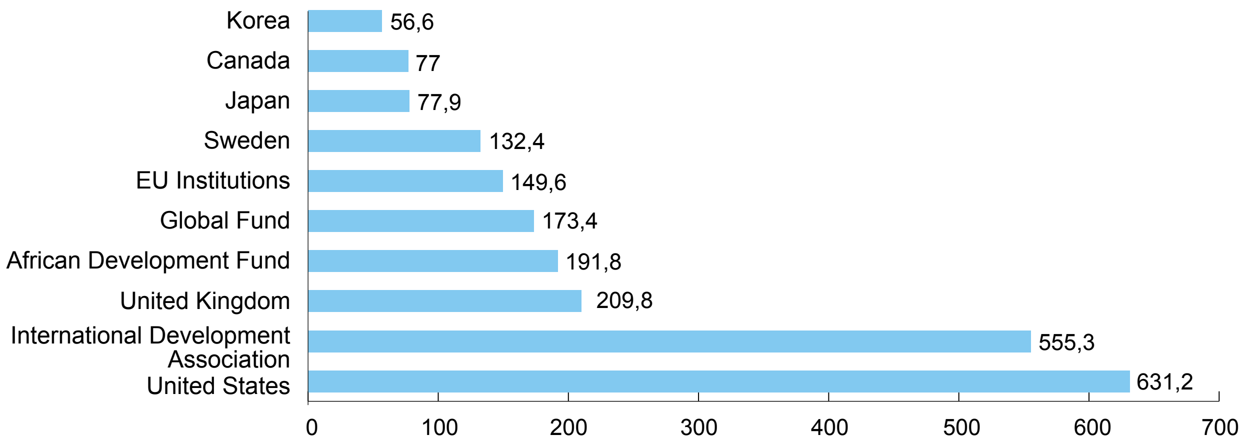
strategic objective, well founded in geo-political and socio-economic factors, but yet in a need to fully materialise through improvement in the business enabling environment, connectivity and deepening of implementation of the regional integration arrangements.

3.3 Key donors in economic development and job creation

High economic growth and domestic revenue partly in the form of taxes have resulted in some reduction of Tanzania's historically high aid dependency. However, aid continues to finance approximately 30% of the central government's expense (2017). In 2018 net ODA constituted 4.4% of GNI, down from 5% in the previous year. Total ODA flows to Tanzania amounted to USUS$ 2,453 million in 2018 compared to USUS$ 2,585 million in the previous year. At the same time, GNI per capita went from USUS$ 970 (2017) up to USUS$ 1020 in 2018[161]. While Tanzania's aid dependency has slightly reduced and the country has just moved from the low to lower-middle income status, the limited number of development partners interviewed for this country case study did not indicate any immediate plans to transition out of providing ODA.

As per the Figure 1, Tanzania's largest donors are the United States and the World Bank Group (International Development Association), followed by the United Kingdom, African Development Bank (African Development Fund), Global Fund, EU and Sweden. Finland is a small donor to Tanzania with a country programme of USUS$ 14.68 million in 2018 constituting 0.6% of Tanzania's total ODA inflow. Compared to Finland's Nordic peers, Sweden's country programme to Tanzania in 2018 was USUS$ 125.34 million, Denmark's USUS$ 54.32 million and Norway's USUS$ 48.84 million.

Figure 1 Top Ten Donors of Gross ODA for Tanzania, 2017–2018 average, in US$ million



Source: OECD Aid at a glance charts.[162]

In 2017–2018, the largest share of bilateral ODA to Tanzania was allocated to the "health and population" sector (42%); "education" received 17%, and "other social infrastructure and services" received 15%. After these came "production" (8%), "economic infrastructure and services" (6%) and "humanitarian aid" (6%). Based on the proportion of ODA funding allocated to "economic infrastructure and services" and to "production" (as per OECD/DAC reporting) the main bilateral donors focusing on economic development, job creation and livelihoods in Tanzania

161 As noted in the introductory section of this Report, Tanzania's GNI per capita further increased from US$1,020 in 2018 to US$1,080 in 2019, which exceeds the 2019 threshold of US$1,036 for lower-middle income status, and Tanzania in July 2020 became classified as a lower-middle income country. The impact on the one hand of that and on the other hand of the COVID 19 pandemic into the ODA flows to the country remains to be seen.

162 http://www.oecd.org/dac/financing-sustainable-development/development-finance-data/aid-at-a-glance.htm#recipients

(2017) were the governments of the US, the UK, Sweden, Japan and Germany. In addition, multilaterals including the World Bank, the African Development Bank, the EU, and the UN provided support to economic development, job creation and livelihoods. Summaries of some of the donors, and programmes which Finland's PA2 portfolio in Tanzania has concretely linked to during the evaluation period, are presented in Country Case Annex 4: Other donors in Tanzania.

3.4 Finland's development cooperation in Tanzania

3.4.1 Background

Finland's cooperation with Tanzania is long-standing: Close political relations started when Finland recognised Tanganyika immediately after its independence in 1961. Development cooperation started in the 1960s. The first joint Nordic projects were followed by substantial bilateral cooperation, making Tanzania one of Finland's major long-term development partners. After some decades of mostly project-based support and fluctuating budget levels, Finland added general budget support contributions from 2001 and began supporting the Local Government Reform Programme in 2005. By 2009 the overall value of the bilateral portfolio reached EUR 40 million. Forestry was and remains a core theme.

Finland's Country Strategy for Development Cooperation with Tanzania 2013–2016, focused on promoting and strengthening: 1) good governance and equitable service delivery; 2) sustainable management of natural resources; and 3) promotion of inclusive, sustainable and employment enhancing growth.

The 2013–2016 Country Strategy (CS) approached the promotion of human rights from a broad perspective. Its overall thrust was to promote the rights and access of people to land, natural resources, food, decent livelihoods, employment as well as basic services. The strategy sought to enhance openness in natural resources management and thus increase people's awareness and rights. It also aimed to enhance the rights and status of women and youth, minorities, people with disabilities and other marginalised groups through dialogue and targeted interventions. Special attention was paid to gender equality and the status of women. At the same time, good governance, the rule of law and participatory development were promoted by means of political dialogue and specific interventions. The CS 2013–2016 went to reduce the number of interventions, increase programme coherence and create more strategic synergies. One of the objectives was also to create more broad-based partnerships between Finland and Tanzania.

The Evaluation of Finland's Country Strategy for Tanzania, 2013–2015 found the objectives of the CS relevant, and some interventions effective in establishing promising paradigms, but not yet in implementation at scale. The evaluation report also states that "complementarity with other Finnish development cooperation instruments, channels and programmes could be greatly strengthened by more explicit presentation of the full range of these, and explanation of how they interlock, in the CS". According to the evaluation, the CS's effectiveness in addressing economic, social and cultural rights could not be directly measured. More focused support was given on gender issues through a women's political participation project implemented by UN Women, but this intervention only partially achieved its intended outcomes. Two years from the start of the CS implementation, the evaluation could not identify clear or convincing signs of development impact yet from activities carried out under the CS, but it stated that future evaluations might identify some if the initial promise of private sector forestry, the seed potato project and the Information Society and ICT Sector Development Project (TANZICT) proved sustainable.

3.4.2 Finland's country strategy 2016–2019

Finland's second Country Strategy built on the targets outlined in Tanzania's Five Year Development Plan for 2016–2021. Employment creation for the rapidly growing population as well as accountable and effective public financial management and inclusive decision-making are crucial for Tanzania's future development. Therefore, the Country Strategy aimed to accelerate progress by strengthening the country's economic base, promoting job creation in the innovation and forest sectors, and by consolidating public finance management, taxation capacity and good governance. While the 2016-2019 strategy was based on previous cooperation, learning from the evaluation of the previous programme, it had a narrower sectoral focus and fewer interventions than the first Country Strategy. It stated that Finland was to withdraw from agriculture[163] and some other sectors, and at the same time intensify its efforts in public sector management and in the private sector. In the forest sector the focus was to be on livelihoods and entrepreneurship.

Finland's Country Strategy for Tanzania 2016–2019 had two impact areas: (1) Improved performance of the public sector; and (2) Increased employment and livelihoods.

Regarding job creation, the 2016–2019 strategy stated that Finland would concentrate on bilateral private sector forestry programmes with a regional focus (PFP, FORVAC) and a nationwide innovation programme (TANZIS). Finland was a leading partner with Tanzania in these sectors and had developed sectoral institutions, policies and legislation as well as working with local communities. According to the 2016–2019 strategy, Finnish programmes highlight the role of the private sector and its productivity and link the cooperation with Finnish partner organisations. Special attention was to be given to creating an enabling environment for businesses and livelihoods as well as competitive and responsible businesses and value chains. In the forestry sector, Finland's efforts were to also contribute to Tanzania's national climate change action plan.

3.4.3 Support to economic development and job creation: current and future plans

Bilateral Programming

As stated in the previous section, Finland's Country Strategy 2016–2019 foresaw, under its "impact area (2) increased employment and livelihood", bilateral programming in the areas of forestry and innovation.

In forestry programming, implemented under three interventions (FORVAC, PFP II and TOSP), Finland's support has mainly been on enhancing conservation in a sustainable manner through enhancing of application of market solutions to the forestry sector of the country, which have deliberate intentions of supporting livelihood, job creation and reducing gender-related inequalities. Forestry and Value Chains Development (FORVAC) programme focuses on forest value chain development based on production of timber, charcoal and Non-Wood Forest Products (NWFP)/Non-Timber Forest Products (NTFP) in areas allocated to local communities. Private Forestry Programme, formally in Tanzania the Participatory Plantation Forestry Programme, Phase 2 (PFP 2) is "to promote sustainable and inclusive private forestry that contributes to Tanzania's economic growth and alleviates poverty". The programme aims to achieve this by engaging with people who are involved in the value chain and enabling them to improve performance. The Tree Outgrowers Support Programme in Tanzania, TOSP, provides support to smallholder tree plantations via companies or other organisations in all tree-growing activities, starting from site preparation and ending to thinning of the stands. The purpose is to help develop commercial

163 Yet, the PSI may operate in the agricultural sector; notably there is Finnfund's investment in Africado.

tree growing and strengthen plantation forestry by smallholder tree growers as sustainable livelihoods. Activities now carried out by TOSP were before a component of the PFP (phase 1). Due to budgetary restrictions, they could not be incorporated in the PFP II and a separate project, much smaller in financial terms than FORVAC and PFP, was formed to support the tree outgrowers. Whereas FORVAC and PFP are implemented by consultancy companies, TOSP is largely managed from the Embassy, yet supported by the PFP. Finding the situation challenging from the implementation perspective and because tree outgrowing really is a key function to PFP, the plan is to again make the TOSP part of the PFP. This evaluation focuses on FORVAC and PFP and considers, as it is, tree outgrowing a function of the latter.

The planned nationwide innovation programme (TANZIS), intended as a follow-up to the Information Society and ICT Sector Development Project (TANZICT) implemented under the CS 2013–2016, never started. It appears in the MFA's system for development cooperation funding decisions because a funding decision for TANZIS was indeed taken in 2016. According to the MFA, there is something on the drawing table to replace the initially intended TANZIS, now focusing on rural areas, job creation and in particular skills development/vocational training.

Finland's bilateral programming in Tanzania, under the CS impact area 2 and Finland's development policy PA2 as the first priority, funded in 2016–2019 consists of:

- The ongoing Forestry and Value Chains Development (FORVAC) Programme with a budget of EUR 9,950,000[164];
- The Private Forestry Programme II (as in the MFA funding decisions), also known as the Participatory Plantation Forestry Programme II (as it is formally referred to in Tanzania; always shortened as PFP II), with a budget of EUR 9,400,000;
- The Tree Outgrowers Support Programme in Tanzania (TOSP) with a budget of EUR 1,850,000.

Finland's Country Strategy for Tanzania 2016–2019 impact area (1) Improved performance of the public sector also contains programming relevant for economic development, jobs and livelihoods, and thus, for this evaluation. This programming, in the area of taxation, is in this evaluation assessed in the Main Evaluation Report's Thematic Annex Taxation. This programming on taxation in the MFA system does not have Finland's development policy PA2 marked as the first or even second priority.

- TAN/Tax Modernisation Programme, a co-financing programme, with budget from Finland of EUR 4,000,000; and
- Two TRA Tax Administration Twinning programmes with budget of EUR 1,000,000 (funding decision made in 2017) and EUR 230,000 (funding decision made in 2019).

Regional and Global programming covering Tanzania

The following MFA-funded regional and global programmes with Finland's development policy PA2 as the first or second priority have covered Tanzania in 2016–2019 with Tanzania-specific interventions:

- The Energy and Environment Partnership Trust Fund (EEP Africa) is a pre-investment[165] facility for renewable energy projects by companies (including start-ups), non-profit organisations and social enterprises initiated by Finland in 2010. The programme's ongoing third

164 While FORVAC's funding decision dates back to 2015, it has been included in the evaluation because of its significance to Finland's portfolio and since its implementation only started in 2018.

165 A catalytic loan window has been opened to the EEP in 2020. However, main focus of the programme is still in the pre-investment stage funding.

phase is currently run by the Nordic Development Fund (NDF) with funding from Finland, Austria and NDF. EEP II has a total budget of about EUR 30 million, covering 15 countries in Sub-Sahara Africa, including Tanzania. According to the MFA statistics, since 2016, four projects have been funded in Tanzania with a combined ODA allocation of EUR 1,651 million. Given that Finland is providing about 56% of that EEP budget, the "Finnish' allocation to Tanzania through EEP can be estimated at about EUR 0,925 million. In addition to the four projects covering Tanzania only, since 2016, EEP has funded two such multi-country projects where Tanzania has been one of the beneficiaries.

- The Southern African Innovation Support Programme (SAIS) phase II is a regional initiative funded by Finland, with a budget of EUR 8,7 million. It supports the growth of new businesses through strengthening innovation ecosystems and promotion of cross-border collaboration between innovation role-players in Southern Africa. SAIS 2 is implemented by in partnership with the Ministries responsible for Science, Technology and Innovation of Botswana, Namibia, South Africa, Tanzania and Zambia, and the Southern African Development Community (SADC) Secretariat. In Tanzania the main partner institution is the Tanzania Southern African Development Community (COSTECH)[166]. Eight projects have been funded in Tanzania with a combined ODA allocation of EUR 1,3 million.
- TradeMark East Africa. TMEA Tanzania Country Programme (TMEA-TCP) has been operational in Tanzania since 2011, and is currently implementing its strategy 2 programme, with 2 expected outcomes: Outcome 1 seeks to reduce trade barriers through improved trade environment, improved transport and logistics infrastructure, improved standards framework and compliance, reduced non-tariff barriers (NTBs), automation of trade processes and systems and improved trade regulations. Outcome 2 aims at increased business competitiveness through improved logistics services, enhanced export capacity for businesses, participation of women in trade and private sector led advocacy. The overall aim of the programme is to contribute to increased export by 25%, reduce trade costs by 10%, and reduce transport time by 15%. Finland is one of TMEA's 12 donors and their programming covers EAC and its member countries, Democratic Republic of Congo and the Horn of Africa.
- Enhanced Integrated Framework (EIF) for trade-related assistance for LDC. EIF assists least developed countries (LDCs) use trade as an engine for growth, sustainable development and poverty reduction. EIF-programming in Tanzania 2016–2019, consists of capacity building to the Ministry of Industry and Trade (MIT, mainland) and Ministry of Trade and Industry (MTI, Zanzibar); a trade diagnostics (2017); and a project to increase MSME's exports, approved for funding at the end of 2019. Finland is one of the EIF's over 20 donors – currently the 6th largest – and the programme covers all LDCs. Direct funding per country from the EIF Trust Fund is limited and targets key priority activities; the programme supports the countries' capacity to leverage more funding for trade.

There are also other Finland-funded programmes with economic development, jobs and livelihoods as priority and funding decision made in 2016–2019 which *may* benefit Tanzania. These programmes, however, are not earmarked for Tanzania nor for the region or any of the RECs Tanzania is a member of and they are only covered in this Evaluation's main report. They include, notably, the African Circular Economy Programme (ACESP) with African Development Bank[167]; the Publish What You Pay -initiative (PWYP) for promoting equitable and transparent generation and allocation of extraction industries; programming by the International Trade Centre (ITC); programming by UNIDO; and the WCO-ESA Project to progress the trade facilitation agenda within the framework of the WCO Mercator Programme.

166 COSTECH is a parastatal organisation under the Ministry of Education, Science and Technology.
167 ACESP's funding decision was made in 2019 but it was only set to start in 2020.

The following regional programmes funded by Finland and covering Tanzania, which in the MFA system do not have Finland's development policy PA2 marked as the first or even second priority, are nevertheless relevant for economic development, jobs and livelihoods, and thus, for this evaluation and evaluated in the Main Evaluation Report's Thematic Annex Taxation.

- African Tax Administration Forum. Finnish Tax Administration's Technical Assistance to African Tax Administration Forum (ATAF) with budget from Finland of EUR;
- African Tax Administration Forum – ATAF with budget from Finland of EUR.

Fund for Local Cooperation

During the 2016–2019 strategy period, Finland's Fund for Local Cooperation (FLC) in Tanzania was to focus on democracy and human rights, enhancing the capacity of CSOs to participate in and monitor public processes. As per the FLC Annual Reports 2017–2019, the focus has indeed been on activities aimed to enhance capacity of civil society to hold the government accountable, and increased opportunities of women and youth to fulfil their rights. From 2017–2018, some limited FLC results also relate, as results secondary to those on democracy, human rights and CSO's participation, to economic development, jobs and livelihoods; notably on women's land rights; women's economic rights overall and land certification in the 2018 draft National Forest Policy. Some very small funding has gone to innovation by way of supporting start-up events, namely the Bits & Bytes Technology Convention 2017 and the Sahara Sparks Event 2017 have both received less than EUR 10 000 to support their organisation; this is only mentioned here because of the reason that these events are part of the Tanzanian innovation ecosystem, and the TANZICT programme (2011–2017) for its part served the purpose of establishing the ecosystem.

In total seven FLC projects funded in 2016–2019 had Finland's development policy PA2 marked as their first or second priority. The projects totalled to EUR 211,794 in funding.

Support to Civil Society Organisations

Finnish non-governmental organisations have traditionally been very active in Tanzania. A number of NGOs receiving the MFA's multiannual programme-based support are active in Tanzania (in 2016, these were KEPA[168], WWF Finland, FELM, FIDA International, Frikyrklig Samverkan and Abilis Foundation). However, within these NGO projects funded by the MFA's NGO project support in 2016–2019, none had Finland's development policy PA2 marked as their first priority. Consequently, it seems appropriate to say that the Finnish NGOs' focus in Tanzania is not primarily on economic development, jobs and livelihoods. Only four NGO projects funded during the period in question had PA2 as a second priority. The total funding for these health, gender and media projects was EUR 1,626,342.

The Private sector instruments in Tanzania

Finnfund

Finnfund made four new direct investment decisions in Tanzania in 2016–2019. Two of these were additional financing for investments already in FF portfolio at the beginning of 2016.

The investee companies were:

- Africado Limited: A avocado producer, Dar Es Salaam;
- Kilombero Valley Teac Company (KVTC): Forestry and logging company. Morogoro Region. (Finnfund investment since year 2000);

168 Now called Fingo since its merger with Kehys in 2018.

- New Forest Company (NFC): Forestry and logging company with operations in Tanzania, Rwanda and Uganda. (Finnfund investment since 2014.);
- Sound and Fair: A forestry and logging company, Lindi region.

Regarding industrial sectors, three of these investments were into forestry and logging and one into agriculture/growing of perennial crops.

Regarding Finnfund investments through Private Equity Funds, between 2016 and 2019 Finnfund made two investments in PE funds that invest in the 3 case countries, including Tanzania:

- AgriVie II (food & agribusiness); US$ 10 million. Finnfund investment in 2018
- Evolution II (renewable energy); US$ 15 million. Finnfund investment in 2019

AgriVie II invests in Africa generally and Evolution II in sub-Saharan Africa.

The value in the Finnfund's balance sheet of all PEFs that have made investments in the three case countries is EUR 34.3 million. Of the current active Finnfund PEF investment portfolio, Tanzania's share is 7.1%. Most of these investments have been made through funds in which Finnfund has for the first time invested already years ago.

Values of the individual investments made by the PEFs are not public information, or not coherently available.

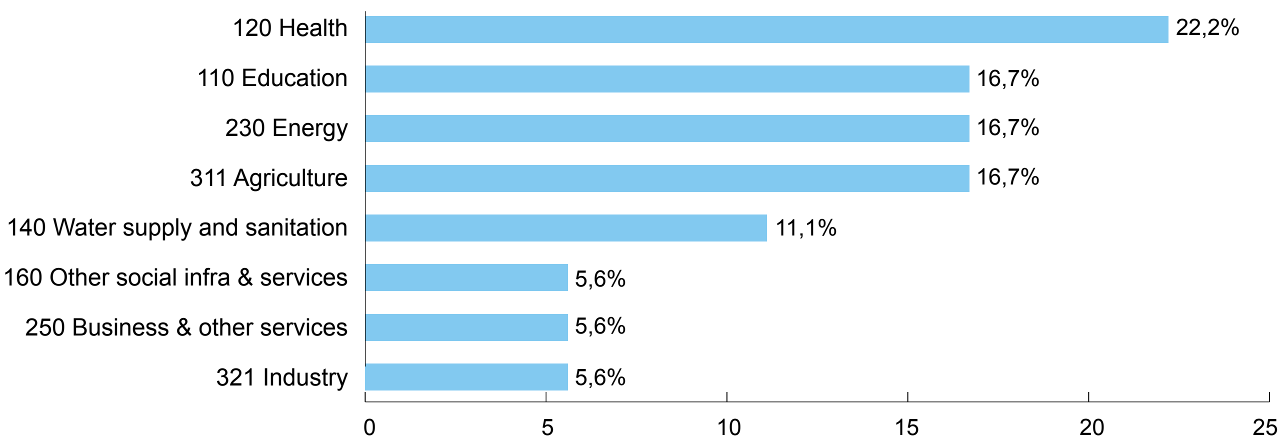
Between 2016 and 2019 the funds in which Finnfund participated made one new investment in Tanzania, namely a microfinance institution.

Finnpartnership (Business Partnership Support, BPS)

According to MFA statistics, there were 18 FP BPS decisions for Tanzania between 2016 and 2019, with a total value of EUR 0.88 million[169].

The sector with the biggest number of interventions was health, followed by agriculture, energy and education.[170] In the education sector there are projects of businesses and non-commercial actors (educational institutes, NGOs, etc.).

Figure 2 FP BPS for Tanzania (2016–2019), % of interventions per DAC sector

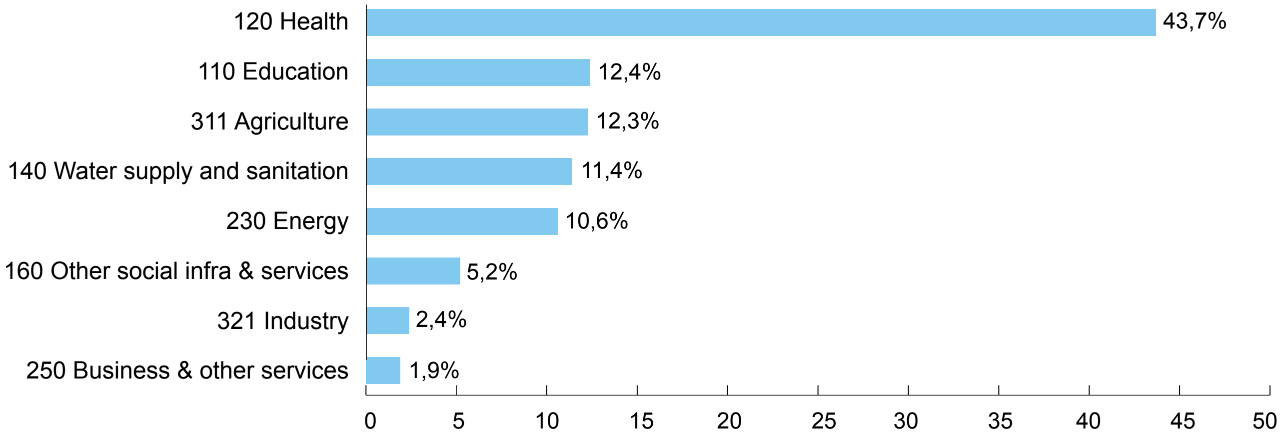


Source: MFA

169 According to FP the nr. of decisions was 32 and the total value of commitments EUR 1.72 million.
170 FP uses sector classification that differs from the OECD/DAC CRS. The OECD classification is used here to ensure conformity with sector classifications elsewhere in this evaluation. The data is retrieved from MFA statistics.

In terms of commitments, health sector interventions appear to have been relatively large, which increases health sector's share of the total volume of commitments.

Figure 3 FP BPS for Tanzania (2016–2019), % of commitments per DAC sector



Source: MFA

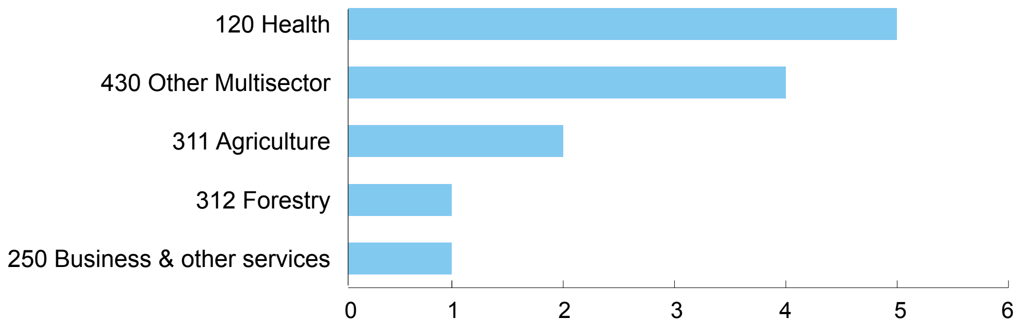
There appears to be no clear trend since 2016 (when the new Development Policy with its priority areas was published) in the number of annual BPS decision for interventions in Tanzania, though in 2017 the number of decisions – 11 – was high in relation to other years; in 2016 and 2018 there were only two decisions each year and in 2019, three decisions.

BEAM

For Tanzania there were 13 interventions, of which eight were by foundations or research institutions and five by private companies. The total amount was EUR 2.85 million.

The sector division of BEAM support decisions for Tanzania between 2016 and 2019 is shown in Figure 4.

Figure 4 BEAM support decisions for Tanzania by DAC sector (2016–2019)



Source: MFA, CRS classification by the evaluation team.

Other PSIs

There were no investments by Finland IFC Blended Finance for Climate Programme or FCA investments, or projects supported by PIF in Tanzania between 2016 and 2019.

Finnish portfolio in economic development, jobs and livelihoods in Tanzania 2016–2019 and future plans

Relevant Finnish portfolio for Tanzania for 2016–2019 targeting improved economy, job-creation and livelihoods is *de facto* in the form of bilateral cooperation, regional and multilateral programmes covering Tanzania, and the Private Sector Instruments. These jointly comprise in the order of 53 interventions (if sub-projects under EEP and SAIS are included). The estimated total Finnish allocation for these interventions (excluding TMEA and EIF[171]) in terms of ODA, commercial investments by Finnfund and all BEAM funding is about EUR 39,9 million[172].

Table 1 Summary of commitments for PA2 and PSI projects in Tanzania 2016–2019.

Type of intervention	Number of interventions	Commitment 2016–2019 (EUR million)
Bilateral projects		
Bilateral projects	5	26,4
Regional projects[173]		
EEP Africa	4	0,9
SAIS	8	1,3
Private sector instruments		
Finnpartnership (BPS)	18	0,9
BEAM	13	2,9[174]
Finnfund direct investments	4	7,5
Finnfund through PE funds	1	n.a.[175]
PIF	0	0
Total	**53**	**39,9**

Source: MFA (Finnpartnership, BEAM, PIF), Finnfund

MFA's Future Plans

The MFA is currently drafting new Country Strategies and Country Programmes for Development Cooperation for 2021 onwards. The new Country Strategies will be covering all aspects of Finland's foreign policy for each country. Country Programmes for Development Cooperation, on the other hand, will focus on Finnish development cooperation in the partner countries. The latter are equivalent to the Country Strategies 2013–2016 and 2016–2019. The Country Programmes for Development Cooperation will cover also private sector instruments and are hoped to provide improved synergies and coherence for the MFA's different instruments.

According to the MFA, the Tanzania Country Programme for Development Cooperation 2021–2024, is expected to continue focusing on forestry, but where the thematic emphasis of the CS 2016–2019 was in employment and livelihoods, in the CP 2021–2024 it is expected to be in sustainable natural resources management and livelihoods. There is also expected to be a component focusing into vocational training and skills development; the funding that was reserved for the TANZIS programme, which never started, would be used in such programming.

171 In TMEA and EIF, donor contributions are pooled and the programmes cover a large number of countries.
172 If the seven FLC projects funded in 2016-2019 which had PA2 marked as their first or second priority are added, with their total commitment of EUR 0.2 million, then the total number of interventions is 60, and EUR amount is 39,5 million.
173 The allocation does not include programme overheads and general activities for the EEP programme.
174 This figure includes all BEAM financing, i.e. also BF loans, BF grants, and applicants' own financing. No data is available on exclusively MFA's share of financing between 2016 and 2019.
175 A big part of the information on PE funds' investments in individual companies is classified, including monetary value.

4 Findings

4.1 Achievement of Finland's objectives on economic development, job creation and livelihoods (PA2)

This section presents evidence on the achievement of Finland's objectives on economic development, job creation and livelihoods (PA2). It provides the basis for answering the first evaluation question:

> ***EQ1: To what extent and how are the objectives of the Priority Area 2 on economic development, jobs and livelihoods being achieved and how relevant and effective have the interventions been in relation to partner country needs?***

Sections 4.1.1 and 4.1.2 provide evidence on the first sub-evaluation question, covering the coherence of the overriding Finnish policy framework (2016) for PA2 as well as the relevance to partner country needs.

Section 4.1.3 provides evidence on the effectiveness of Finland's Tanzania Country Strategy 2016–2019 and its interventions in terms of contributions to achieving the main objective of Priority Area 2: improving economies and providing jobs and livelihoods especially for women, youth and the poor, and in particular decent, rights-based jobs. The section covers human rights-based approach, and the cross-cutting issues of gender equality and reduced inequality. Finland's human rights-based approach is reflected in the focus on decent and rights-based jobs and gender equality, and reduced inequality is incorporated in the focus on women and the poor. The cross-cutting issue of climate change is not explicitly included in the impact statement of Priority Area 2 and is therefore assessed in a separate section 4.1.4.

It should be noted at the outset that according to the interviews and information provided by the MFA, including Finland's Embassy in Dar es Salaam, the MFA is not planning any time in the near future, to transition away from development cooperation in Tanzania. Thus, the latter part of the sub-EQ 1.1 (Have they been relevant and effective for the pursuit of transition (where applicable)?) is not applicable to Tanzania and, thus, not covered in this country case study report. Nevertheless, the MFA is endeavouring, through Team Finland-related work and other means, to increase non-aid commercial, cultural and other partnerships and ties between Tanzania and Finland, and to thus make the two countries' relations yet more versatile and strong.

4.1.1 Coherence with the overriding Finnish policy framework for PA2

Finding 1. Finland's 2016–2019 Tanzania Country Strategy's Impact Area 2 is directly aligned with Finland's Development Policy (2016) Priority Area 2; and interventions which have been implemented are well aligned with it too.

Finland's 2016–2019 Tanzania Country Strategy's Impact Area 2) Increased employment and livelihoods is aligned with Finland's Development Policy (2016) Priority Area 2) Developing countries' own economies have generated more jobs, livelihood opportunities and well-being.

Finland's key interventions in economic development, jobs and livelihoods in Tanzania 2016–2019, namely the bilateral programmes on forestry, the regional programmes covering Tanzania and the PSI interventions were in line with the Development Policy.

One of the intended bilateral interventions (TANZIS innovation progamme) did not materialize in spite of the financing decision made. Getting the intended programme started was first stalled at Tanzania's administration and once cleared by the Tanzanian authorities, it has been stalled at the MFA. Reasons given for this vary. The Tanzanian authorities seem to mostly link the proposed change of the host entity of the programme to issues pertaining to the current administration's suspicion over programming benefiting the private sector. Nevertheless, the design of the intended innovation-programme, TANZIS, was also aligned with the PA2.

It should also be noted that due to the demand/market driven nature of the PSIs the separate PSI interventions (for example Finnfund investments or projects supported by Finnpartnership) are not designed, though encouraged and supported, to align with the Finnish development policy goals and partner country needs. They arise from the needs and aspirations of private enterprises. Alignment takes place on a higher level, via ownership/government guidance for these PSIs, and through RBM applied to them at the instrument level. An analysis of the ownership/government guidance and the MFA's RBM vis-à-vis PSIs is made in the PSI Study of this evaluation.

4.1.2 Relevance to partner country needs

Assessment is made in relation to critical constraints and needs, as summarized in section 3.2 of this report.

> ***Constraint 1:*** *Absolute number of people living in poverty remains high, there is a large number of vulnerable people in high risk of falling into poverty, and the vast majority of people, including masses of new entrants into the work force, find their livelihood in the informal, low productive economy.*

Finding 2. Finland's forestry interventions and part of the regional/global programmes try to ensure that their activities strengthen the livelihoods of poor and vulnerable; there are, however, challenges to overcome to ensure that the poorest of the poor be benefit.

FORVAC works on Community-Based Forest Management (CBFM), which is part of Participatory Forest Management (PFM). Noted in the FORVAC Programme Document, as sources of cash and subsistence products, PFM forests contribute significantly to rural livelihoods and in some cases to village government coffers. Yet, while the poorest are significantly more dependent than the more well off households are on forest income, it is the more well off households who extract the highest absolute values from forests. These inequitable socio-economic effects of PFM appear rooted in the locally devised PFM rules that the more well off households have influenced to their advantage. The project holds that more equitable local-level distribution of benefits from PFM seems to require top-down promotion of minority rights and interests at village-level. The PFP II Programme Document acknowledges that the poorest of the poor often do not have property and/or the other prerequisites for growing and selling trees. Thus, they are not usually members of Tree Growing Associations (TGAs), which are the central means for driving benefits from the programme's tree growing to the village growers. The PFP notes, though, that by mutual decision-making, TGAs can promote the participation of the most vulnerable and poor. Both programmes enlist a number of actions to take to try and ensure that their activities indeed benefit the poor.

In EEP, the expected outcome (enhanced clean energy development and investments) is expected to eventually contribute to sustainable and inclusive green growth. EEP grantees are required to report on business performance, savings in CO_2 and job creation. EEP's Tanzania portfolio 2016–2019 consists of solar energy projects and they aim at enhancing access to clean electricity, typically in the rural and often off-grid areas. As such, they tend to target the poorer segments of the population. EEP's primary objective and impact is not poverty reduction, safeguarding the vulnerable or provision of livelihood; it can and does, however, contribute to ease the burden on the poor, in the project areas, by providing cost- and time-savings in accessing electricity.

In SAIS, focus of the Phase 2 is on strengthening early-stage enterprises and young entrepreneurs, connecting innovation ecosystems, and promoting innovations serving socially or economically disadvantaged populations. The SAIS 2 portfolio in Tanzania includes projects that aim at providing ICT and entrepreneurial skills development; enhancing communities ability to innovate and turn innovations into products/services; and some small-scale sectoral projects of innovative solutions in health, water and business development. These projects are often geared to service the underprivileged, grassroots communities and/or rural areas. SAIS is not primarily focused on poverty reduction but facilitates innovations that can and do, so far in a very small scale, service the poor, vulnerable and people in the informal sector.

TMEA Tanzania Country Programme's targeted impact is increasing exports and intra-regional trade, reducing transport transit times, and their contributions to growth and poverty reduction. EIF assists least developed countries (LDCs) use trade as an engine for growth, sustainable development and poverty reduction. Out of the EIF-programming in Tanzania 2016–2019, the project to increase MSME's exports may have some direct impact on poverty reduction, vulnerability and livelihoods. The MSME-project was only approved for funding at the end of 2019 and with the COVIC19 slowdown, it is yet too early to assess its relevance in implementation.

Finnfund's new direct investments have been made mostly in the forestry (3) and agriculture (1) sectors, both of which may have positive effects on the livelihoods, jobs and generally on income generation, especially in the rural areas. Finnfund investee KVTC is the biggest employer in Ulanga district, where it operates. The only new investment through PE funds was made in an MFI, which focus on mostly informal micro and small enterprises and a large share of female entrepreneurs.

Regarding Finnpartnership and BEAM projects, a straight link from supported activities to potential or materialised effects on e.g. poverty or the situation of marginalised groups cannot be drawn in a similar way, due to the nature of these instruments (see the PSI Study). Coherence with host country needs is difficult to assess. This said, the biggest share (both in terms of numbers of interventions and of monetary value) of the FP BPS support decisions between 2016 and 2019 has gone to health sector, with potential major, though indirect beneficial effects on poverty. The two next biggest sectors are agriculture and energy, of which especially interventions on agriculture may be assumed to potentially lead to positive impacts on rural poverty. Health has been the biggest sector also of the 2016–2019 BEAM support decisions, with five out of 13 interventions. Agriculture was on 3rd position, with two out of 13 interventions.

Constraint 2: *Government of Tanzania's increased focus in the education sector has not yet impacted the gap between the skills gained by graduates and the expectations of their future employers.*

Finding 3. Finland's programming is only limitedly addressing the gap between the skills gained by graduates and the expectations of the various industries.

FORVAC in collaboration with Sokoine University of Agriculture (SUA) have developed a degree programme, which will bring the business aspect into forestry sector education, and this can be expected to contribute to closing the skills gap in commercial forestry.

EEP is not very relevant to skills development, albeit in one of the Tanzania projects there was a provision for business development training for the women entrepreneurs targeted. There is also some training and capacity building made available at the programme level through the business support services.

SAIS is relevant to skills development because of its focus on strengthening early-stage enterprises and young entrepreneurs and the projects that aim at providing ICT and entrepreneurial skills development. The number of graduates and other potential employees covered in Tanzania is low, though, because the Programme has only been active in the country on its second phase and the number of projects it supports there is limited.

While not focusing on skills development, most TMEA interventions in Tanzania include a training component. Capacity building and training is provided to those holding a job (public sector, trade support institutions/TSIs) or to entrepreneurs; i.e. beneficiaries and stakeholders of TMEA programming aiming at increasing exports and intra-regional trade, and reducing transport transit times. Training is not directed at graduates/job-seekers.

EIF is not focused on skills development and any training and capacity building is, as in the case of TMEA, in the context of other programming and directed at the targeted public sector officials, TSI's and MSME's.

There appears not to be a strong link between the PSI's activities and this constraint and/or reporting is not yet available. There are, for example, NFC support programmes for local communities, including e.g. schools, and many Finnfund financed companies train their employees in various ways. These activities do, however, not have a significant link to the critical constraint. As for FP & BEAM, there is no sufficient data available to assess e.g. in how many FP BPS supported projects in Tanzania there are education/training elements. For example, FP reports on the number of interventions, in which training has been arranged for own, partner's or sub-contractor's staff, but these figures are not yet available for interventions supported between 2016 and 2019. The corresponding figure for interventions supported between 2012 and 2015 is nine.

Constraint 3: *Compared to Tanzanian men, Tanzanian women are highly likely to live in poverty and face inequality of income and opportunities.*

Finding 4. Finland's programming is relevant to the employment, participation and income-earning opportunities of women.

With formalisation of forestry sector, particularly through commercialisation, while ensuring women's involvement is encouraged, their contribution to economic activities in general and to GDP in particular will be more visible. Both FORVAC and PFP have a space to contribute in this regard.

FORVAC for instance brings in the aspect of equal opportunities in rural areas where the theory of change advocates on support to the vulnerable groups, including women. Also, the revenue sharing model of forestry products implemented by FORVAC stipulates a need to take into account gender aspect. Further, for both programmes, involvement of women, youth and the poor are mainly guided by government regulations including in administration of natural resources at village level where there is a requirement of representation of different groups.

EEP's in-depth study of gender in its portfolio[176] recognises energy's relevance to women, particularly in the context of the UCDW. The study also states that "Women are considered as key beneficiaries from increased access to electricity and to cleaner sources of energy, and their role as active participants in EEP project implementation is particularly emphasised". At least three EEP projects in Tanzania (2016–2019) target women, including as entrepreneurs.

SAIS, acknowledging that women are underrepresented in the field of technology entrepreneurship, in partnership with Hivos Southern Africa, conducted a study[177] to gain insight into barriers encountered by female-driven businesses in the field of technology and have the findings to contribute to a paradigm shift where women become better represented in the SADC tech entrepreneurship. SAIS has a Human Rights and Gender Strategy which outlines gender mainstreaming approaches and gives directives on how HRBA is integrated in internal and programme management procedures. Of the limited number of SAIS projects in Tanzania, two seem to be geared at capacitating young women; their scope only covers approximately 200 participants.

Noted in a TMEA Tanzania Country Programme (TCP) evaluation (2019), which covered the TCP until mind-year 2017, gender awareness and mainstreaming had not been strongly reflected in the overall TCP strategy or individual programmes but TMEA had ambitions to become a pioneer in the field of women and trade. Since, TMEA's gender specific programming has been strengthened by the inauguration of the Capacity Building for Women Cross Border Traders project. The project aims, inter alia, at women traders to increase the use of formal trade channels.

Globally, the EIF runs "Empower Women, Power Trade" initiative to join global and national efforts in improving the lives of women in the LDCs. In Tanzania, the EIF's MSME-project's results statement "Benefits of trade reach more parts of the country and more women and youth than before" is implemented through the outcome "Increased sales and exports by MSMEs with prioritised focus on women and youth entrepreneurs".

Finnfund aims at promoting women's participation in the formal economy in forestry and other investments. In the forestry sector, which accounts for majority of Finnfund's new investments in Tanzania, women are, as discussed above, still underrepresented. The PSI interviewees of this evaluation reported persistent attitudes hampering women's involvement in forestry. For details on Finnfund's promotion of women in the formal economy see the PSI Study in main evaluation report.

In BEAM and FP interventions, it is often difficult to extract specific effects on women's economic participation, due to the early phase of the funded interventions. Some examples, like the case of the multipartner collaboration between the company Lunette and the NGO Fida, supported by the FP, in bringing menstrual health products in the Eastern African markets, exists.

> ***Constraint 4:*** *Tanzania's challenging business environment is the single most important impediment to sustainable economic growth in the country.*

Finfing 5. While most of Finland's interventions are relevant in enhancing the Business Enabling Environment, they typically only target rather limited parts of the BEE.

176 EEP (2017) Understanding the role of women and girls in renewable and energy efficiency projects. An in-depth study of gender in the EEP portfolio.

177 Breaking Barriers. Female Technology Entrepreneurship in Southern Africa; Southern Africa Innovation Support Programme (SAIS 2) and Hivos Southern Africa. 2019.

To improve Tanzania's business enabling environment, FORVAC works closely with the government and communities to ensure that constraints related to market access are overcame. PFP on the other hand works closely with the TFS to ensure quality particularly on timber from planted forest.

PFP works with Tanzania Bureau of Standards on timber grading standards for product valuation (timber of 12 years and above). Standard for age and treatment of timber has been worked on by PFP and TBS. Further, PFP is working with SMEs with sawmills and helped them to change machines, improve skills in production and business management including dealing with regulatory requirements.

EEP is not directly relevant to the enhancement of the business enabling environment. It does, however, assist potential investors to navigate through the countries' energy markets' investment and business environments, notably in the context of the EEP Africa Investor Forum.

SAIS relevance to the enhancement of the business enabling environment is indirect and reducing. While SAIS 1 had a strong innovation policy focus including training, focus of the phase 2 is on strengthening early-stage enterprises and young entrepreneurs, connecting innovation ecosystems, and promoting innovations serving socially or economically disadvantaged populations. Its three elements, (i) innovation fund (ii) capacity building, and (iii) knowledge and networking, focus less on innovative business environment than under phase 1.

TMEA-TCP has two expected outcomes. Outcome 1 is fully relevant to BEE and seeks to reduce trade barriers through; improved trade environment, improved transport and logistics infrastructure, improved standards framework and compliance, reduced non-tariff barriers (NTBs), automation of trade processes and systems and improved trade regulations.

The EIF's MSME-project is relevant to BEE through the Outcome 1) improved trade and investment environment for inclusive and sustainable growth of MSMEs. The Project aims at building capacity for and supporting in implementation of evidence-based policy and regulatory frameworks for trade and investment; and strengthening institutional coordination for trade and industrial development and investment, including at the Local Government Authorities level.

There are very little private companies, or PSIs at the MFA's disposal can do for the challenges in the BEE. Some of the interviewed, PSI funded companies also expressed scepticism regarding Finland's capacity to bring about any changes in the overall business environment.

Interviewed companies complained particularly about heavy bureaucracy and arbitrary taxation by Tanzanian authorities. According to interviewees, the Tanzanian tax administration carries out surprise audits followed by oversized, arbitrary taxing decisions. Surplus VAT collected from companies have not been paid back in due time. In addition, some forestry companies report of even 26 different kind of licences and permissions they have to get annually to keep on operating. Both licences themselves, but also bureaucracy of applying and reporting on them is costly.

The government was also e.g. seen to hamper efforts to ensure, in cooperation with local communities and NGOs, sustainable development of natural forests. The reason behind this was seen to be the government's short-term goal of securing revenues, in this case the fear of losing royalties, paid by formalised companies.

Constraint 5: *Tanzania is highly vulnerable to climate change, with the average temperature rising and precipitation becoming increasingly unpredictable. There is a need for concerted and sustained efforts to establish an economic development strategy that is resilient to climate variability.*

Finding 6. Finland's forestry interventions and EEP are relevant to climate change mitigation and adaptation; other regional/global programmes are not.

FORVAC's impact statement goes "Increased economic, social and environmental benefits from forests and woodlands" and its credo is that investing in locally controlled forests offers a framework for balancing acceptable returns from financial investments with social justice and environmental sustainability. Similarly, PFP aims at environmentally sustainable plantation forestry sector through proper commercial use of the resources. One of the PFP related four indicators is: "At least 50% of tree growers are managing their plantations according to best operating practices (BOPs)", where the BOPs is assumed to include environmental sustainability. Another one of the four indicators, "30% of SMEs have adopted new wood processing technologies that significantly improve recovery rates, reduce waste and increase economic returns" implies more effective use of the wood and that should have environmental implications too.

EEP's expected outcome is enhanced clean energy development and investments which eventually will contribute to sustainable and inclusive green growth. Grantees are expected to report on savings in CO_2. EEP's Tanzania portfolio 2016–2019 consists of solar energy projects, expected to contribute – albeit limitedly, relatively small projects because they are – into CO_2 reductions.

SAIS is not directly relevant to climate change mitigation or adaptation and its potential indirect relevance depends on the type of innovation projects that seek for its funding. The limited SAIS 2 portfolio in Tanzania does not include projects relevant to climate change mitigation or adaptation.

TMEA TCP is not relevant to climate change mitigation or adaptation; as per the 2019 evaluation, the programme's approach has reportedly been 'do no harm' and there has not been more proactive efforts to make infrastructure more climate resilient and environmentally friendly. The EIF Tanzania MSME-project document does not refer to climate change mitigation or adaptation.

The Finnfund portfolio of new direct investments in Tanzania is heavily forestry focused and expected to positively contribute to mitigating the climate change. FF estimates of aggregate CO_2 reductions of its new investments in Tanzania by the end of 2019.

> ***Constraint 6:*** *Tanzania has made plans to become a regional trade and manufacturing hub.*

Finding 7. Interventions supported by Finland are largely relevant to Tanzania's quest to become a regional trade and manufacturing hub.

The forestry programmes are likely to contribute to Tanzania's quest to became a hub particularly in the following ways: first, bring in aspect of sensitivity on the quality by working close with TFS and TBS – the standard controller; second, supply of improved seeds and diversification of species in planted forestry ensures sustainability of supply and variety in timber value chain; third, technology transfer brought in by the two programmes ensure efficiency in production (by reducing wastage) and hence put timber enterprises on competitive position, with potential to make positive return and grow overtime. Also, through the FORVAC and PFP, Tanzania can play as medium of technology transfer, on commercial basis, to the neighbouring countries such as Congo; fourth, assistance to timber-related enterprises to build production skills, improve business management skills and formalisation of businesses; assist in establishment of forest and wood training centers, which is instrumental in enhancing supply of required skills for the country's forest and wood processing industry; fifth, enhancement to market access, for instance private forest growers working with private enterprises such as Kilombero Valley Teak Company (KVTC), an FF investee, which has extensive knowledge of and access to global timber market.

EEP and SAIS are not relevant to Tanzania's quest to become a regional trade and manufacturing hub. None of their current programming aims at enhancing Tanzania's ability to facilitate regional manufacturing – or services – value chains, logistics/connectivity, or trade.

TMEA TCP's targeted impact to increase exports and intra-regional trade, particularly by reducing transport transit times, is directly relevant to Tanzania becoming a trade and manufacturing hub; in a much smaller scale, so is the EIF's MSME-project's objective of strengthening the enabling environment for Tanzanian MSMEs to benefit from market access and increasing MSME's exports by improving their productivity and helping them to penetrate to existing and emerging markets.

Private Sector Instruments: Investments/funding may serve the purpose indirectly by developing projects that may provide a source of exports or international partnering; strengthen the foothold of international best practices, standards and business operating procedures, etc.

4.1.3 Effectiveness in improving the economy by providing jobs and livelihoods

This section assesses the effectiveness of Finland's Tanzania Country Strategy 2016–2019 and its interventions in terms of contributions to achieving the main objective of Priority Area 2: improving economies and providing jobs and livelihoods especially for women, youth and the poor, and in particular decent, rights-based jobs. The section covers human rights-based approach, and the cross-cutting objectives of gender equality and reduced inequality[178]. Finland's human rights-based approach is reflected in the focus on decent and rights-based jobs and gender equality, and reduced inequality is incorporated in the focus on women and the poor. The cross-cutting objective of climate change is not explicitly included in the impact statement of Priority Area 2 and is therefore assessed in a separate section 4.1.4.

In evaluation terminology effectiveness relates to "the extent to which the intervention achieved, or is expected to achieve, its objectives, and its results" (OECD DAC). Due to the fact that private businesses normally do not design their operations with the here identified critical needs/constraints as their objectives, it is difficult to assess these interventions' effectiveness against those needs/constraints. The presented figures and results should rather be interpreted as useful additional information. The effectiveness analysis of PSIs is made on the instrument level in the evaluation's PSI Study.

> ***PA2 Objective 1:*** *Everyone, including women, young people and the poorest, have better access to decent work, livelihoods and income.*

Finding 8. FORVAC aims at a "more equal economy and opportunity for all" and has, in its first actual year of implementation 07/2019–06/2020, made progress by establishing 36 community producer groups, which enable their members' engagement in wood and non-wood forest products harvesting, processing and marketing.

In the other component towards a "more equal economy and opportunity for all", social fund distribution from forest produce sales, information on the achievement will only be available after an impact assessment is done towards the end of the programme. These two components seek to impact increased economic, social and environmental benefits from forests and woodlands but after the Inception Phase, there is not yet information available on the achievement of the annual target on increased household incomes derived from forests.

178 The cross-cutting issue of climate change is not explicitly included in the impact statement of Priority Area 2 and is therefore assessed in a separate section 4.1.4.

Finding 9. On HRBA, FORVAC met the target for 2019/2020, where an extension strategy was developed on the principles of HRBA, incorporating value chain development. This may, however, not be enough to ensure a full application of HRBA.

FORVAC's Programme document states that: "FORVAC will mainstream a Human Rights-Based Approach (HRBA) and Gender Equality and Social Inclusion (GESI) issues through programme activities, including communications. In particular, aspects of transparency and participation are supported by the communications activities." However, noted in the interviews of both the Embassy/MFA staff and the programme stakeholders, sometimes issues pertaining to land management do not allow for full application of HRBA, including full observation of gender equality, and these situations are challenging for a donor like Finland to resolve as there are typically complex ownership issues and politics, of different levels, involved.

Going into the level of the household, where eventually the tangible result of increased income would have to equally benefit men and women, there may be issues. Noted by the programme stakeholders, at times, it may be difficult to control bargains at household level after having received revenues from forestry. In a typical rural household, it is common for male partners to control income/financial resource generated. While recent interventions dedicated to empower women might have reversed this trend, it still remains visible.

Finding 10. PFP II's baseline surveys and Human Rights Situation Analysis (HRSA) could not be developed during the programme's inception phase; the COVID-19 pushed back big part of activities scheduled for the phase and most PFP 2 staff were only contracted to start in July 2020.

The Phase 2 of the PFP focuses on the consolidation of the achievements of Phase 1 while taking a more people-centred approach through facilitation, communication and inclusiveness with the aim of building greater sustainability. It addresses key challenges that have been identified in Phase 1, many which relate to HRBA: security of land tenure, technical forestry and processing expertise, access to improved seedlings, new technologies and finance, management of wild fires, support to vulnerable people, attention to gender issues and communication and coordination with the participants in the forestry sector.

According to the PFP II implementing partners, the programme's baseline surveys and Human Rights Situation Analysis (HRSA) could not be developed by its approval and they were to be produced during the inception phase. The COVID-19 pushed back big part of activities scheduled for the Inception Phase and most PFP 2 staff were only contracted to start on 1st July 2020. As a result, the programme was to focus on internal capacity building during July and August. The next priorities would be the HRSA, baseline surveys and finalising the programme document revision.

Finding 11. PFP II's approach to encourage women to own assets including land is expected to facilitate gender equality in forestry sector. Among specific interventions spelled out, is facilitation of land ownership among women through their economic groups, training women on forestry practices and assistance in getting employment in the value chain.

Traditionally, all planted trees in household land will be controlled by male spouse, normally the household head. PFP II has outlined strategies to allow for women's control of the same, including facilitation of land ownership through women's economic groups, training on forestry practices and assistance in getting employment in the value chain.

Finding 12. Dating back to the PFP I, there may be cases where the ownership of the planted tree may be disputed and the intended owner who planted the tree may face challenges in indicating the ownership.

The potential issue relates to the practice of facilitating participatory village land use planning, where normally six steps/phases need to be followed to finish the process, and where apparently the PFP I facilitated the process only up until the 4th step. The issue of ensuring that the right individuals can claim ownership over planted trees, and any financial and other benefits accruing, is now left in the shoulders of the PFP II.

Finding 13. TMEA's programming in the reduction in the time and cost to trade has been successful, but since other factors have reduced the actual volume of trade, impact upon growth and ultimately poverty alleviation in Tanzania has not yet been significant.

TMEA-TCP aims at growth and poverty reduction through increasing exports and intra-regional trade, and in this, reducing transport transit times is a key. In terms of implementation, an evaluation of the TMEA Tanzania Country Programme found that while TMEA had made progress in the reduction in the time and cost to trade, since other factors reduced the actual volume of trade, impact upon growth and ultimately poverty alleviation in Tanzania and the region was not necessarily foreseen. In terms of gender/WEE, the Capacity Building for Women Cross Border Traders project aims at women traders to increase the use of formal trade channels. No results reporting is available yet.

EEP's expected outcome aims to contribute to sustainable and inclusive green growth. The three EEP projects in Tanzania (2016–2019) targeting women, including as entrepreneurs, are likely to impact women's access to decent work, livelihoods and income positively, especially those projects that are a result of the round of calls for application in 2019 with focus on women entrepreneurship. Results from these projects are not yet available though.

The SAIS 2 portfolio in Tanzania includes projects that aim at providing ICT and entrepreneurial skills development; enhancing communities ability to innovate and turn innovations into products/services; and some small scale sectoral projects of innovative solutions in health, water and business development. These projects are to service the underprivileged, grassroots communities and/or rural areas. Two SAIS 2 projects in Tanzania capacitate young women but the projects' scope only covers approximately 200 participants. No results reporting is available yet.

The EIF's project to increase MSME's exports is likely to impact women's access to decent work, livelihoods and income positively. The project was approved for funding in December 2019 and no reporting on results is in place yet.

Finding 14. In addition to direct and indirect jobs, women benefit from Finnfund's forestry investments in many ways. For example, women hold 80% of saving schemes established by the New Forest Company through its outgrower programme.

The latest investment of Finnfund in KVTC fills the 2X criteria regarding e.g. the share of women in management positions in the company. This has been one of the Finnfund's goals for the investment.

In the only direct FF investment in agriculture/primary production, approximately half of the new employees to be contracted as a consequence of the investments were, at the time of the investment decision, expected to be women.

PA2 Objective 2: *The private sector and economic activity in developing countries are more dynamic and more diversified.*

Finding 15. Assessment by the government reveals that over 400,000 jobs have been created in forestry value chains. The challenge remains on how to isolate direct contribution of Finland's forestry programming.

The assessment on the number of forestry value chains was conveyed to the Evaluation Team at the interview of Mr. Deusdeit Bwoyo, Assistant Director, Forest Developments from Forest and Beekeeping Division, MNRT,(27.07.2020).Finland's previous forestry programmes, predecessors to FORVAC and PFPF II, have undoubtedly largely contributed to this achievement and Finland's support to the forestry-sector is for a good reason long-term; it takes several years for most tangible key results to materialise – the created jobs and enhanced livelihoods against other interventions.

Finding 16. Contribution to forest-based livelihoods in form of money to the villagers owning and managing the village forests is slow; the miombo woodlands trees don't grow very fast and the market is not fully in place. Nevertheless, progress towards improved value chains and increased private sector involvement in the forest sector was made during the first actual year of FORVAC implementation.

Contributing to forest-based livelihoods is a key FORVAC objective. Here, it should be noted that in terms of the tangible results to the final beneficiaries, i.e. the contribution to forest-based livelihoods in form of money to the villagers owning and managing the village forests is slow; the miombo woodlands trees don't grow very fast and the market is not fully in place – in many villages there has not been sales of wood in several years and while there might be demand, at least latent demand, the buyers do not necessary come to all the villages any more. The wood needs to grow and the market needs to be built.

In improving value chains and increasing private sector involvement in the forest sector, progress was made during the first actual year of implementation 07/2019–06/2020 by 22 Village Land Use Plans approved by relevant District Councils, and forest management planning taking place 18 villages. Most plans during this time period were updates for villages where FORVAC's predecessor programmes, National Forest and Beekeeping Programme (NFBKP II, 2013–2016) and Lindi and Mtwara Agribusiness Support (LIMAS, 2010–2016), had already worked under the Community-based Forest Management regime. The land use and forest management planning processes are a prerequisite – along with a number of other preparatory processes – to eventually launch the actual trade on timber, honey, and other forest products.

Finding 17. For PFP II, contributing to forest-based livelihoods is a key objective, with forest planted during PFP I still growing and no major cutting scheduled any time soon. This means that any poverty/affluence impact is yet to be seen but with the current prices, if there is patience to wait and only cut at the prime time, a big number of families could be brought out of poverty.

For instance, eucalyptus takes 8-12 years and pine 15 years in the Tanzania Southern Highlands to reach the prime. The programme has introduced new species for diversification and made available seeds (up to 2.5 million); it has started seed plantation in 13 villages with a total of 170 ha improved seeds/species plantations. There are also potential issues with farmers' time availability and prioritisation: Reportedly, it is at times challenging for the farmers to participate in trainings in Best Operations Practices (BOP) and other because they need to attend farming – forestry is practically always only side/secondary source of income.

Finding 18. EEP, SAIS and EIF interventions are likely to positively impact the private sector and economic activity, making them more dynamic and diversified. TMEA's main programme has already produced results on this account, albeit the key impact does not yet quite show.

The EEP solar energy projects, most in the rural and off-grid areas, may be expected to positively contribute to access to energy by Tanzanian MSMEs and, thus, eventually to the economic activity in the country. Also, EEP grantees are required to report on business performance and job creation. Results from the Tanzania projects are not yet available though.

Similarly, with reporting on the results not yet available, the SAIS II Tanzania portfolio of projects that aim at providing ICT and entrepreneurial skills development; enhancing communities ability to innovate and turn innovations into products/services; and some small scale sectoral projects of innovative solutions in health, water and business development, may be expected to contribute – even if on a small scale – to the country's economic activity.

TMEA-TCP's main aim is increasing exports and intra-regional trade, and their main means is the reduction of transport transit times. While their progress in the reduction in the time and cost to trade had not had, according to the 2019 evaluation[179], the desired impact upon growth because of other factors reducing the actual volume of trade, on a medium to long run, it is highly likely that the desired impact be there.

The EIF project to increase MSME's exports is also, albeit on a much smaller scale than TMEA's work, likely to positively impact Tanzania's economic activity. The MSME-project was only approved for funding at the end of 2019 and with the COVID19 slowdown, it is yet too early to expect the results.

Finding 19. Finnfund has been one of the few, in many cases the only/leading DFI, or generally a financier willing to invest in the sector in Africa. By investing in commercial forestry in Tanzania Finnfund has thus significantly contributed to the PA2 objective.

Majority (67 %) of Finnfund new direct investments between 2016 and 2019 in Tanzania have been made in the forestry sector. The investment periods in the sector are long, even up to 20 years, with the overall risk level of such investment correspondingly high. Furthermore, ES risks are often considerable, due e.g. to the issues related to land acquisition and use. Financing private forestry requires thus certain risk appetite and thorough, specific kind of understanding of the sector. Due to these and other reasons there has constantly been a serious lack of patient, risk tolerant capital for commercial private forestry companies in practically all Sub-Saharan countries, including Tanzania.

The Finnfund investment in avocado production (Africado) also supports employment in Tanzania, and creates export earnings and strengthens the commercial agriculture sector in the country. However, its additional effect on availability of capital or diversification of the economy in the country is probably not as significant as the forestry investments.

There is as of yet not consistent information available of the Finnpartnership and BEAM projects decided upon in 2016–2019.

> ***PA2 Objective 3:*** *International business rules lend better support to the development of businesses, their accountability and the observance of internationally agreed standards in developing countries.*

and

> ***PA2 Objective 4:*** *Better use is made of new know-how, value chains, technologies and innovations that respect sustainable development.*

179 MarketShare Associates; TMEA Tanzania Country Programme Evaluation, 2019

Finding 20. Finland's forestry programming in Tanzania is based on the overall strategy of modernising and making the forestry sector sustainable by commercialising it. So far, the strategy has received support, but the administration's suspicion over "the private" poses a potential risk to the programming, its sustainability and the industry as whole.

The forestry stakeholders have taken note on the Government's changing tax policy where the overall more ambitious goals on revenue collection meet with the heavier burdening of the private sector. According to the PFP managers, procuring services from Tanzanian private sector was VAT-exempted still during the PFP I and at the time of designing PFP II, the change made to pay VAT makes for the PFP II a difference of approximately EUR 1 million. Negotiations between the Programme and the Government were still under way in June on how to go about this; FORVAC had started operations still under the old regulations.

Finding 21. Both FORVAC and PFP play facilitating role in enhancing Tanzania's business environment and market on forestry. However, the main item, the updated National Forest Policy, is not approved yet.

FORVAC has reportedly made progress towards the objective "Supportive legal and policy frameworks to forest value chain and sustainable forest management developed"[180]. However, the main item, the updated National Forest Policy, is not approved yet.

FORVAC works closely with the government and communities to ensure that constraints related to market access, both domestic and international, are overcame. In contributing to enhanced Business Enabling Environment (BEE) and functioning of the markets, progress has been made in 07/2019–06/2020 towards the targets "forest sector businesses better linked with financing alternatives"; and "VC included in the curricula of forestry training institutions"[181]. FORVAC supported Sokoine University of Agriculture (SUA) in Morogoro to develop the MSc Curricula for Mainstreaming Forest Products Value Chains and Business Development.

PFP's active contribution to the enhancement of the BEE is on ensuring the quality of timber from planted forest is maintained. PFP works with the Tanzania Bureau of Standards on timber grading to internationally acceptable standards for product valuation (timber of 12 years and above). Standard for age and treatment of timber has been worked on by PFP and TBS. The PFP assists to retain trees and get them to the optimal age where such timber fetch higher price and also assist consumers to get appropriate grade/quality of timber. Ever since demand has shifted from government to private plantations. Further, PFP is working with SME sawmills, including in helping to deal with regulatory requirements.

In skills development, PFP is working with SMEs (mostly sawmills) and helps them to change machines, improve skills in production and business management. The programme gives business training, it has already on the first phase opened forest and wood training centres.

VET curricula implementation of forestry vocation and business skills will increase ability of self-employment and entrepreneurship to youth and the poor. PFP, already since the first phase, has trained the youth through Forest and Wood training centres.

Finding 22. Administrative and contradicting mandate issues between the forestry authorities pose challenges to forestry programming and the sector at large.

Authorities concerned are the Ministry of Natural Resources and Tourism, Forest and Beekeeping Division (FBD), and the President's Office Regional Administration and Local Government (PO-RALG) District Authority, responsible for Village Land Forest Reserves (VLFR), and the Tanzanian Forest Services Agency (TFS), which is responsible for state forests.

180 FORVAC Annual Report from 1 July 2019 to 30 June 2020; 13 June 2020
181 Ibid.

However, according to the FORVAC CTA, the issues are less pronounced at village and district levels than at the regional and national levels. MNRT supports the “FORVAC -way” but doesn’t have a budget/income generation; TFS generates income. The issues between MNRT and the PO-RALG, TFS are perhaps more pronounced in the PFP. The TFS operates as a regulator but also as a business practitioner; District Forest Officers are under PO-RALG but forest control under Forest and Beekeeping Division of the MNRT; at times this complicates coordination. Further, the Government Notice # 419 requires mandate of management of village forest to be under the MNRT, contrary to the current Forestry Policy, Laws and Regulations. Apart from coordination, when a village defines a land area for forestry cultivation and makes use of it for the purpose, they gain certain rights over the land. The more villagers take over land for forestry plantation, the less land and thus power and resources remain with the TFS, and this can eventually pose a risk.

As per the PFP II Programme Document the Competent authorities in the intra-governmental programme are the Ministry of Natural Resources and Tourism, Tanzania and the MFA Finland. Yet, according to the implementing partners, and the PFP I documentation, the Programme operates “independently” rather than as a part of any host Government entity. The arrangement, while put the management/control mandate under the government, was meant to overcome problems in reporting about project activities whereby the consulting firms bring in the Finnish resources and expertise but avoid possible reallocation of the project fund within the government machinery. A concern will rather be on sustainability of such arrangement, calling for a need to ensure exit plan addressing the issue.

Finding 23. PFP’s sustainability strategy is first and foremost based on institutional and economic sustainability. This assumes a success – promoted by the key sector administrative entities – in the institution building and still the risk of beneficiaries’ unwillingness to pay remains high.

Continuing with the interplay between the business enabling environment and the PFP II concerns, PFP’s sustainability strategy is first and foremost based on institutional and economic sustainability. Phase 2 seeks to build strong Tree Growers´ Associations (TGA), an effective and functioning Tanzania Tree Growers´ Association Union (TTGAU), as well as SME associations of viable enterprises and PPPs. These institutions would eventually provide their respective members/constituencies with the types of services the Programme is now granting, but against fee. Efforts are being made to render services valuable – including and notably to the tree growers – so that there would be willingness to pay and the Programme-brought best practices would sustain. Yet, as noted by the Programme stakeholders, this assumes a success – promoted by the key sector administrative entities – in the institution building and still the risk of unwillingness to pay remains high. The 250,000 private tree growers need a properly functioning market, again with sufficient goodwill from the authorities to enable it – if the market doesn’t work properly, they will not plant again after the first round supported by the Programme.

Finding 24. TMEA-TCP is a key contributor to BEE by reducing trade barriers through improved trade environment, improved transport and logistics infrastructure, improved standards framework and compliance, reduced non-tariff barriers, automation of trade processes and systems and improved trade regulations.

EEP and SAIS projects in Tanzania are expected to contribute to know-how, technologies and innovations that respect sustainable development; SAIS also – in a small scale – to skills development. Results reporting is not yet available.

The EIF's MSME-project is expected to contribute to BEE by improving trade and investment environment for inclusive and sustainable growth of MSMEs. Results reporting is not yet available.

Finding 25. In some Finnfund investments an effort is made, for example, to build new or strengthen existing value chains. Finnfund's direct forestry investments in Tanzania are examples of this, having outgrower programmes, tying local communities to the value chain, and comprising of e.g. acquisition of more land for cultivation.

Profitable, financially and economically sustainable investments require functioning value chains and tested, reliable technologies. In most Finnfund investments these elements are already there, as prerequisites for investments.

One of the objectives of especially BEAM, but also of FP is development and utilisation of new technologies for sustainability objectives in developing markets. There is, however, not information available for this evaluation to assess effectiveness of interventions supported by these instruments on the country level. An assessment of their effectiveness on the instruments level is made in the PSI Annex

4.1.4 Effectiveness in addressing climate change mitigation and adaptation

This section assesses the effectiveness of Finnish-funded interventions in relation to the cross-cutting objective of Finnish development policy of addressing climate change mitigation and adaptation.

Finding 26. The two forestry programmes assist in technology transfer to ensure that efficient technology is utilised in timber processing and wood wastage is thus reduced.

The wood recovery rate is low in Tanzania at 25% to 35% (the rest is wasted) and attributed by poor technology used in timber processing. Already under PFP 1, technology transfer has seen productivity (reduction in timber wastage) improved by over 20% in the programme implementation areas.

Finding 27. The PFP assists to retain trees and get them to the optimal age where such timber fetch higher price but also assist conserving the environment. The programme has introduced new species for diversification and made seeds available.

PFP phase 1 started in 2014 as Private Forest Programme aimed to plant trees. Seedling supply by the government was unable to meet the demand, hence, the programme assisted citizens to access seedlings to fill the supply gap. Before, limited supply replantation led to resource depletion but also quality of timber supplied in the market deteriorated due to premature harvesting. PFP has enhanced the availability of improved seeds. Diversification of species was not available prior to the programme and 75% of trees were pines. The programme has introduced new species for diversification and made available seeds (up to 2.5 million); it has started seed plantation in 13 villages with total of 170 ha improved seeds/species plantations.

In PFP, Climate Sustainability and Disaster Risk Reduction (DRR) analysis has been conducted and the Programme's contribution to mitigation and adaptation is well described.

Finding 28. FORVAC seeks to make a change in people's behaviour towards sustainable forest management, and this requires a change in their perception and attitude – all these are processes that often take a long time to happen.

Widely noted by various types of forestry interviewees, Community-Based Forest Management stakeholders often think that business and conservation are two different things. FORVAC, however, is based on internationally acknowledged ethos that business = conservation in the context of Community-Based Forest Management. As per the interviews, environmentally sustainable forest management is a very strong element within the Programme.

In its first year of actual implementation, FORVAC co-organised with the FELM (Finnish Lutheran Evangelical Mission) two events on climate change. Reporting on the result on climate change mitigation and adaptation is yet too early for both FORVAC and PFP.

EEP's Tanzania portfolio's solar energy projects are expected to contribute into CO_2 reductions; reporting on potential results is not yet available. The limited SAIS 2 portfolio in Tanzania does not include projects relevant to climate change mitigation or adaptation; TMEA TCP has reportedly not been pushing for efforts to make infrastructure more climate resilient; and the EIF Tanzania MSME-project document does not refer to climate change mitigation or adaptation and while the document states that "some environmental gains are anticipated as a result of adaptation of better and greener technology and use of better standards and procedures resulting in lower levels of wastage", it does not explain the how to.

4.2 Complementarity and added value of partnerships built

This section presents evidence on the complementarity and added value of partnerships built. It provides the basis for answering the second evaluation question:

> ***EQ2: What can the Ministry of Foreign Affairs learn from its peer organisations, especially the Nordics as well as from emerging international 'best practices' for more relevant, effective and coordinated support for economic development, jobs and livelihood opportunities?***

Finding 29. In Tanzania, Finland has not built partnerships with other donors on economic development interventions assessed for this Country Case Study, although some of the regional partnerships cover Tanzania.

Finland partners with other donors in taxation. This programming is covered in the Thematic Annex Taxation attached to the evaluation's Main Report.

Regional programmes benefiting Tanzania where Finland's funding is pooled with that from other donors are in economic development the Energy and Environment partnership programme (EEP), and Trademark East Africa (TMEA).

EEP Africa provides early-stage grant and catalytic financing to innovative clean energy projects, technologies and business models in 15 countries across Southern and East Africa (including Tanzania). The programme began in 2010 with funding from Finland and Austria for a three year period (EUR 25 million). A second phase was for 2013–2017 in which the UK (DFID) joined. The total funding was EUR 35 million. After a mid-review in 2017, the EEP was overhauled when a new management structure was put in place with the Nordic Development Fund (NDF) as the fund manager as well as trust fund contributor. UK Aid did not continue funding. The current fund of EUR 28 million is open ended. EEP Africa is a challenge fund based on applications with grants between EUR 200,000 and 500,000 with minimum own contribution of 30% of the project cost. Eligible applicants are companies (including start-ups), non-profit organisations and social enterprises. Projects can be feasibility studies or pilots, demonstration projects, replication or scale-up projects, including projects aimed at energy efficiency.

Trademark's Strategy 2 aims to increase sustainable and shared prosperity in East Africa by increasing East Africa's trade with the region and the rest of the world. Specifically the programme (i) invests in improving the efficiency and capacity of transport, logistics and trade infrastructure at key port and border points; (ii) invests in systems to improve trading standards, reduce non-tariff barriers and enhance transparency in trade processes; (iii) improves the regulatory and policy environment for trade; and (iv) supports private sector advocacy for trade competitiveness, the export capacity of East African businesses and the greater participation of women and small and growing businesses in trade.

Finding 30. Finland is the only donor in commercial forestry and while partnering with other donors is not in place, there is some collaboration with the Finnfund investees.

In the early days of FORVAC's programme design, talks were hold with the EU concerning production of sustainable charcoal, and some of the interviewees said that the EU might still be interested in investing, through FORVAC, approximately EUR 10 million into it. Some of the stakeholders state, though, that the environmental issues in charcoal production (80% of the energy used for cooking in Dar Es Salaam comes from "unsustainable" charcoal) are so massive and challenging that the proposed budget would not allow for really making a difference.

In terms of recent/current linkages between the forestry programmes and the companies invested in by Finnfund, Sound and Fair, a supplier of wood from community forests, is a buyer – with expected more significance when the trees mature – from the FORVAC villages. Kilombero Valley Teak Company (KVTC) and the New Forest Company partner with the Tree Outgrowers Support Programme in Tanzania, TOSP. KVTC's collaboration in supporting outgrowers started already under the PFP 1; as stated earlier, tree outgrowing thereafter became a separate project because it could not be made part of the PFP 2 for budgetary restrictions. Tree Outgrowers Support Programme in Tanzania, TOSP, provides support to smallholder tree plantations via companies or other organisations in order to establish economically viable, sustainable and inclusive plantation forestry. Activities include all tree-growing activities, starting from site preparation and ending to thinning of the stands. The purpose is to help develop commercial tree growing and strengthen plantation forestry by smallholder tree growers as sustainable livelihoods in the Southern Highlands of Tanzania. The grants to four organisations for TOSP implementation are EUR 1.73 million in total during 2019–2022. TOSP is now managed from the Embassy but there appears to be a plan to join it together with the PFP 2.

Here, it should also be noted that there is a DFID programme that links to Finland's programming in economic development, jobs and livelihoods in Tanzania during the previous CS period: Human Development Innovation Fund (HDIF) supports innovative approaches to improving the quality, value for money and sustainability of basic services in the education, health and water and sanitation sectors in Tanzania. HDIF considers that the closure of Finland's innovation-programme TANZICT in 2017 left a void in the entrepreneurship and skills space, and the Fund adapted their programme to fill the gap[182].

182 HDIF's Reflections and Recommendations 2013–2018: Investing in Social Innovation and Technology in Tanzania, 2019

4.3 Results Based Management and Knowledge Management

This section provides the basis for answering the third evaluation question:

EQ3: How can the effectiveness of Finnish development cooperation related to economic development be further developed, including if and how the Results-based Management system can be further refined as far as Priority area 2 is concerned?

Finding 31. The CS 2016–2019 takes into account the recommendations of the 2016 CS evaluation. It seeks to strengthen Results-based Management and includes a logic model against which the Annual Results Reports have been presented.

That the 2017 ARR was presented against the CS's logic model has been verified by the evaluators. As for the ARR's for the period 2016–2019, only the ARR 2017 was made available for this evaluation. As recommended in the 2016 CS evaluation, the 2016–2019 Tanzania Country Strategy focused on two Impact Areas only and it continued Finland's support to natural resource management and equitable growth as well as good governance. Particular emphasis was to be given to complementarity with other instruments of Finnish support as well as to cooperation with the private sector and civil society; complementarity with other instruments materialised has been described in the section 4.2, and as for the private sector, all sections of this report discuss the PSIs role in Finland's support to economic development, jobs and livelihoods in Tanzania.

Finland's 2016–2019 Tanzania Country Strategy's Theory of Change seeks to achieve increased employment and enhanced livelihoods through (1) improving the business and livelihood enhancing environment, and (2) supporting the creation of competitive and responsible businesses and value chains. As shown in the Table 2 presenting the CS's logic mode for the Impact area 2 of increased employment and livelihood, the first outcome would entail the following outputs: (1) increased access to innovation finance; (2) increased access to skills development; and (3) strengthened forest management. The second outcome entails also three outputs: (1) Innovative products and services contributing to Tanzanian society; (2) Forest resource base widened and inclusive products developed; and (3) New Finnish-Tanzanian business/institutional partnerships facilitated.

Table 2 The Logic Model of the Impact Area 2 Increased employment and livelihoods, Tanzania Country Strategy 2016–2019

Impact	Outcome	Output	Key assumptions linking outputs/outcomes/ impacts	Instruments and inputs
2. Increased employment and livelihoods	**2.1.** Enabling environment for business and livelihoods enhanced	**2.1.1.** Increased access to innovation finance	**Impact-related:** Political and macroeconomic stability maintained in the Union. Government delivers on improvements to enabling business environment, including regulatory framework and adequate infrastructure. Land conflicts are better managed and land-security improved. Control on illegal activities and corruption improves. **Outcome-related:** New ICT policy will be implemented, and innovation policy approved. Government delivers on its commitment to innovation funding. Skills development receives adequate support from the government. Government, including LGAs, sustains leadership in the sustainable use of forest and climate policy. People's and communities- responsiveness to entrepreneurship increases. Local communities are motivated in sustainable use of forests. Private sector has adequate interest to collaborate with the public sector. Supply of raw wood for entrepreneurs and availability of land for plantations is secured. Interest in forest investments and demand of forest products increases. Integration in the EAC region improves.	**Project support to:** TANZIS Programme (EUR 8.9 million) Private Forestry Programme (EUR 19.7 million) FORVAC (EUR 9,9 million) Regional support to Trademark East Africa ICI, BEAM, EEP, Finnpartnership, Finn- fund, PIF, Team Finland Policy dialogue in sector working groups/coordination as well as in technical working groups and programme steering committees.
		2.1.2. Increased access to skills development		
		2.1.3. Strengthened forest management		
	2.2. Competitive and responsible businesses and value chains created	**2.2.1.** Innovative products and services contributing to Tanzanian society		
		2.2.2. Forest resource base widened, and inclusive products developed		
		2.2.3. New Finnish-Tanzanian business/ institutional partnerships facilitated		

Source: Finland's 2016–2019 Tanzania Country Strategy

Finding 32. Actual results-based management shows mixed outcomes with the continued focus on forestry aligning with RBM but the fate of the TANZIS innovation programme and limited attention to regional and global programmes is not encouraging.

Outputs 2.1.1. Increased access to innovation finance, and 2.2.1. Innovative products and services contributing to Tanzanian society were, as per the CS' logic model, to be delivered solely by the TANZIS innovation programme. TANZIS was to serve as a follow-up programme to TANZICT (2011–2017) and while a funding decision for TANZIS was indeed taken in 2016, the programme never started. The logic model fails to consider the regional programme SAIS, and the ARR the contribution of both EEP and SAIS, both of which have in Tanzania contributed – albeit in limited terms – towards access to innovation finance and innovative products, as has been showed, at the level of the related CS and PA2 outcomes, in the section 4.1 of this report. Neither does the logic model consider the EIF or any other global level programmes contributed to by Finland and operational in Tanzania.

Finding 33. FORVAC and PFP are particularly relevant for sustainable natural resources management and, parked under the PA2 on economic development and jobs, there have been some challenges in reporting comprehensively on all results.

The forestry programming falls under the CS 2016–2019 Impact Area (2) Increased employment and livelihoods and has indeed, as discussed in this Report, a role to play in increasing employment and livelihoods. However, the large bilateral programmes on forestry are multidimensional and have a relatively comprehensive approach to development thus bearing some relevance to basically all Finland's development policy priority areas.

Finding 34. Finally, interesting also from the perspective of RBM and learning, the FORVAC should be continued after the current phase as will the PFP, although the question has been posed on whether the two programmes should be joined into one.

They already share the same set of members in their steering committees, and they frequent the same authorities. While their focuses – natural forests and plantation forests – differ, there are similarities in their theories of change – sustainable development outcomes from forestry. Their geographical locations are different; they both seem to deal with changing attitudes and behaviours, and struggle when it comes to managing positive outcomes related to HRBA.

5 Conclusions

5.1 Achievement of Finland's objectives on economic development, job creation and livelihoods (PA2)

5.1.1 Coherence with the overriding Finnish policy framework for PA2

Conclusion 1. While the focus of the country strategy and funded interventions has been coherent with the overriding Finnish policy framework, coherence in the implementation shows mixed results. *(This conclusion is based on Findings 1, 31 and 32).*

Finland's 2016–2019 Tanzania Country Strategy's Impact Area 2 Increased employment and livelihoods, has two outcomes: 2.1. Enabling environment for business and livelihoods enhanced, and 2.2. Competitive and responsible businesses and value chains created. They are aligned with Finland's Development Policy (2016) Priority Area 2) Developing countries' own economies have generated more jobs, livelihood opportunities and well-being.

Also, the Finnish portfolio for Tanzania for 2016-2019 targeting improved economy, job-creation and livelihoods, consisting de facto of bilateral programmes in forestry and taxation, regional and multilateral programmes covering Tanzania, and the Private Sector Instruments, is in line with the Finnish policy framework.

However, one of the intended bilateral interventions (in innovation) did not materialize in spite of the financing decision made. Getting the intended programme started was first stalled at Tanzania's administration and once cleared by the Tanzanian authorities, it seems that MFA's appetite for its intended outcomes was no longer there.

5.1.2 Relevance to partner country needs

Conclusion 2. The interventions evaluated show a high degree of relevance to most of the constraints. Yet, there are uncertainties in meeting the needs of the poorest and very little is done towards closing the skills gap. *(This conclusion is based on Findings 2, 3, 4, 5, 6 and 7).*

Finland's forestry programming addresses all those key constraints and one opportunity that were identified as the top priorities in analysing Tanzania's needs in economic development for job-creation and livelihoods. Apart from some exceptions, this applies to Finnfund investments in forestry and agriculture, too. Particularly in the case of closing the skills gap, more could have been done.

While Finland's programming in Tanzania at large is relevant to poverty alleviation and enhancing livelihoods in the informal economy, it faces challenges ensuring it benefits the poorest of the poor. The forestry programming, Finnfund, EEP, TradeMark East Africa (TMEA) and the Enhanced Integrated Framework (EIF) aim at benefiting women operating both at the informal and formal sectors; SAIS mostly those in the formal.

While the bilateral programming and Finnfund investments on forestry are highly relevant to climate change mitigation and adaptation, particularly by increasing the commercialization of forestry sector, which is crucial for sustainable conservation, Finland is currently not actively progressing any overall economic development strategy that is resilient to climate change. Some of the Finland-funded programming supports interventions which may contribute building Tanzania a trade and manufacturing hub. Becoming a hub entails, foremost, addressing issues in Tanzania's business enabling environment but Finland's ability to impact Business Enabling Environment in Tanzania is considered limited.

5.1.3 Effectiveness in improving the economy by providing jobs and livelihoods

Conclusion 3. Materializing the potential gains of Finland's forestry programming in livelihoods and income generation in rural areas and inclusive of the poor and women requires a long-term commitment. Finnfund's investments are already showing results on this account. *(This conclusion is based on Findings 8, 9, 10, 11, 12, 13 and 14).*

Finland's main programming in economic development, jobs and livelihoods, namely the forestry programmes, with funding decisions made in 2016–2019, is still in the early stages of implementation. FORVAC had a slow start with the Inception Phase (07/2018–06/2019) spent mostly on planning. Even before, it took the Government of Tanzania about 12 months to endorse the programme for implementation. According to the Annual Progress Report 07/2019–06/2020 and supporting interviews, in spite of the delays caused by the COVID-19 crises, FORVAC's implementation is in line with the work plan and some progress has been made towards a provision of better access to decent work, livelihoods and income by the programme beneficiaries, including women.

PFP 2 started de facto 11/2019 with an 8-months Inception Phase to catch up with the Tanzania fiscal year, i.e. it is, since 07/2020, on its first year of actual implementation and there is not yet much to report in terms of results. The overall objective of the programme is "to promote sustainable and inclusive private forestry that contributes to Tanzania's economic growth and alleviates poverty". The programme aims to achieve this by engaging with people who are involved in the value chain and enabling them to improve performance. Recognising that this is a long-term endeavour the programme was conceived as a sixteen-year intervention to be delivered in four phases. Phase 1 run from 2014 to July 2019.

Conclusion 4. In spite of the significant effort placed in addressing HRBA and gender concerns in Finland's current forestry programming, there are still HRBA and gender issues related to equitable division of economic benefits. *(This conclusion is based on Findings 9, 10, 11 and 12).*

HRBA and gender have attracted a lot of concern and guidance in the forestry programme development, appraisals and evaluations. FORVAC and PFP seem to have assumed a human rights-based approach and mainstreamed gender. Yet, it seems that there are some fundamental issues pertaining to land management; indicating ownership of planted trees; ensuring fair division of forestry income within the household, etc. in which it has not been ascertained that the programmes have the capacity, resources and tools to try and make things right. New avenues to solve these issues need to be explored.

Conclusion 5. Finland's long-term programming on forestry has brought about a large number of jobs, and the current forestry programmes are well on track to continue contributing to job creation and overall dynamic economic activity in Tanzania. Finnfund's forestry investments are equally important in this context. *(This conclusion is based on Findings 15, 16, 17 and 19).*

It may not be feasible to assess how many of the stated 400,000 jobs created in the forestry sector in the recent past are the result of Finland's earlier forestry programmes. However, PFP I, predecessor to both PFP II and FORVAC, supported establishment of nearly 12,000 ha of smallholder plantations and thus generated an asset with net present value of about EUR 17 million (at a discount rate of 6%) as of December 2018.

Studies carried out by the programme found that, in 2016–2018 (the implementation period of the PFP I was from 2014 to 2019), the reported average annual income in the programme's core area of operation increased from TZS 1.8 million to over TZS 2.2 million. The wealth ranking scores and food security of beneficiaries also increased, as did their access to health services. In late 2018, since few plantations were mature enough to harvest, only a minority of the interviewed beneficiary tree growers reported having received income from selling wood. However, those who had sold wood earned more than half of their annual incomes from such sales. This profitability demonstrates the potential that tree growing has to support livelihoods in the programme's area of operation. According to the PFP I completion report, under commercial management, these 12,000 ha of new plantations would create about 400 jobs.

Conclusion 6. While the forestry programming and Finnfund's investees are building commercially viable responsible forestry value chains, issues pertaining to Tanzania's business enabling environment pose risks. *(This conclusion is based on Findings 20, 21, 22, 23 and 25).*

Stated by a number of stakeholders, Tanzania's current administration holds an aversion/suspicion over all things "private". As a result, moving from the PFP I to PFP II, even the name Private Forestry Programme had to be changed to Participatory Plantation Forestry Programme. At the programme level, what can be done about the situation with regards to this and the overall administrative context, is limited. Finalisation of the National Forest Policy is still pending too. Both FORVAC and PFP play facilitating role in enhancing Tanzania's business environment and market on forestry but the BEE issues addressed by the forestry programmes are limited in number and scope, and it is unclear into what extend the efforts, approached bottom-up, are contributing to the bigger picture of enhancing the BEE.

5.1.4 Effectiveness in addressing climate change mitigation and adaptation

Conclusion 7. The forestry programmes play vital role in national efforts towards combating climate change effects as they bring in the aspect of sustainable, commercial utilisation of forestry resources. The two programmes assist in technology transfer where appropriate and efficient technology is utilised in timber processing. *(This conclusion is based on Findings 26, 27 and 28).*

FORVAC has set out to show that sustainable commercial use of community-based natural forests brings in more gains in climate change mitigation and adaptation than conservation. Growing trees and effecting behavioural change is slow and there is not yet a decision on any follow-up programme to FORVAC. The PFP assists to retain trees and get them to the optimal age where such timber fetch higher price but also assist conserving the environment. The programme has introduced new species for diversification and made available seeds.

5.2 Complementarity and added value of partnerships built

Conclusion 8. Being the only development partner covering commercial forestry brings about unutilised opportunities and also risks. *(This conclusion is based on Findings 29 and 30).*

Finland's forestry programming is relevant and effective, and merits the long-term large bilateral investment. Finland's interventions do not exhaust the potential of commercial forestry in Tanzania, and there would be space in the country for additional development aid and commercial investments to the sector.

5.3 Results Based Management and Knowledge Management: lessons learnt

Conclusion 9. The 2016–2019 Country Strategy's RBM elements could have been used more effectively in managing the country programme, and the regional and global programmes considered more fully as a part of it. *(This conclusion is based on Findings 31, 32, 33 and 34).*

The 2016–2019 Country Strategy's logic model has mainly been used for reporting purposes, less so for management. The intended innovation programme, TANZIS, never started, left a large envelope of resources idle for the duration of the Country Strategy's implementation. The logic model – de facto the Theory of Change of the country programme – was not adjusted even when it should have become clear that TANZIS would not fly. Not considering all the key regional programmes a part and parcel of the Country Strategy, made their contribution towards the intended results unaccounted for.

6 Implications and Lessons Learned

Going forward, and based on the evidence generated by this case study, the following lessons/implications arise for future of Finnish-Tanzanian relations and other country teams:

Lesson/Implication 1.	General
The new Country Strategies may allow for improved strategizing to ensure coherence of the Private Sector Instruments, based on market logic, with the development policy, approaches and interventions. This will entail consultations both at the programme and country levels.	

Due to the demand/market driven nature of the PSIs the separate PSI interventions (for example Finnfund investments or projects supported by Finnpartnership) are not designed to align with the Finnish development policy goals and partner country needs. This logic and the potential of these interventions to address key development challengers are, however, not in contradiction with each other. Commercially oriented activities, when profitable and economically sustainable, can tackle development constraints directly via their key stakeholders (owners, employees, suppliers and other parts of the value chain) and indirectly (via e.g. increased demand for other products and services). These effects can be seen in various ways in businesses' financial documentation (e.g. salaries, dividends, taxes) and in ways not visible there (so called externalities, like market effects, or social return). Profitable endeavours can also arise as direct answers to a development challenge (demand created by such a challenge) though there always needs to be an adequate, functioning market mechanism to intermediate between the two.

It is hoped that the MFA's new type of Country Strategy, going "beyond development aid", could offer ways to build coherence between the PSIs interventions and the development policy objectives and framework, still recognising the deviating logic of the former.

Lesson/Implication 2.	Tanzania
Ensuring that programming in economic development, jobs and livelihoods benefits the poorest is challenging. The Government of Tanzania's Productive Social Safety Net (PSSN) programme, supported among others by the World Bank and Norway, has been recently evaluated and is meetings its targets. Finland could consider joining in to support the PSSN, also vis-à-vis the COVID19-related increase in vulnerability to poverty.	

The 2019 evaluation of the PSSN[183] indicates that the programme is meeting its targets by reducing poverty and increasing household consumption; improving the productive potential; enhancing and protecting human capital of the children and the entire household, and building households' resilience and ability to cope with shocks. The PSSN has been discussed in the sections related to relevant Government policies and programmes, and support to economic development by other donors, respectively[184].

183 World Bank: Evaluating Tanzania's productive Social Safety Net; Findings from the Midline Survey, September 2019.

184 These sections are in the Annex 3 and Annex 4 of this Country Case Study.

Lesson/Implication 3.	Tanzania
The MFA could consider investing into human resources, such as in a HRBA and commercial forestry expert, who would work both with FORVAC and PFP to help to make the programmes meet their HRBA and gender objectives.	

Fully addressing the HRBA and gender concerns and opportunities related to the forestry programming requires committed attention and a specific experience and skills set that covers, inter alia, the different contexts from the administrative and market to the household level; critical factors related to land use and ownership as well as to other key issues; and the forestry-specific HRBA and gender dynamics. As a part of such activity should also be yet more effective communication of what the programmes aim to achieve and are doing and achieving in HRBA and gender.

Lesson/Implication 4.	Tanzania
Finland should take an active role in the efforts to improve the business enabling environment in general, and to finalise and implement the National Forest Policy in particular.	

However, in order to ensure, in the complex administrative environment, continued safe space for the forestry programmes' implementation, the MFA could consider driving the policy development and any other policy, legal and regulatory framework revisions separately, not as a part of FORVAC programming.

Lesson/Implication 5.	Tanzania
The plan to become a trade and manufacturing hub has the potential to boost the administration's motivation for undertaking reforms important for the economic development of the country in any case, notably enhancing the business enabling environment. As such, should the objective continued to be pursued, it might be worth the while to support.	

Moreover, the pursuit of becoming a trade and production hub turns some of Tanzania's potential development challenges – notably the fast growing young population – into opportunities. It also plays on the country's strengths – such as its geographic location, amical relations with neighbours and improved connectivity.

Lesson/Implication 6.	Tanzania
Albeit limited, Finland's forestry programming, both former and current, has made some inroads into vocational training and skills development. The MFA could consider building on this experience and lessons learned, and expand such vocational training and skills development either within the sector of commercial forestry or to other sectors.	

Expanding on vocational training/skills development could possibly include engaging some education export partners and/or considering making use of any instrument/programmes facilitating building partnerships to provide also unconventional and on-the-job training opportunities. One such facilitating scheme to consider is the UNIDO Business Partnerships –fund through which Finland and some Finnish companies have already been supporting initiatives elsewhere.

Lesson/Implication 7.	Tanzania
The MFA could consider building on the lessons learnt from forestry, taking a more proactive role in helping Tanzania to mainstream climate resilience in the relevant economic policies, strategies and activities. Such help could be paired with facilitating Tanzania's access to Finnish cleantech.	

Clearly, all action needs to be taken to ensure that Tanzania's economic development contributes to making the country climate change resilient. Finland is already taking part, notably through the forestry programming and this participation could be expanded.

Lesson/Implication 8.	Tanzania
To ensure environmental gains for climate change mitigation and adaptation, as well as the socio-economic gains, investing into natural forest programming has to be done on a long-term basis. FORVAC would require a follow-up phase.	

While there are other reasons, related to socio-economic results, discussed in this report to recommend a continuous long-term commitment to the forestry programming, with the commitment in place for the PFP, it is particularly important to FORVAC in the case of the climate resilience. FORVAC seeks to make a change in people's behaviour towards sustainable forest management, and this requires a change in their perception and attitude – all these are processes that often take a long time to happen, just like the actual growing of the miombo-forests.

Lesson/Implication 9.	Tanzania
Finland could consider making efforts to attract partners to join in supporting the current commercial forestry programmes and/or to expand them. Also, campaigns by PSIs such as the Finnpartnership or DevPlat to try and attract more Finnish private sector investment into forestry and related industries could be encouraged.	

In commercial forestry, as in any other sector, partnering with other donors would potentially reduce risks, including on the sustainability of the interventions, and add to the sector's overall impetus. On the other hand – and even if other donors joined – there would be scope for Finland to build business cases that would be commercially viable for Finnish companies to participate in the Tanzanian forestry sector too.

Lesson/Implication 10.	Tanzania
For the next Country Strategy and Country Programme for Development Cooperation period, the Embassy should be sufficiently and appropriately resourced to effectively cover all Finland-funded programming and instruments related to economic development, jobs and livelihoods so as ensure their optimal RBM, coherence and any linkages to (other) Team Finland support work.	

Making the RBM system to work for strategic management is even more important in the current and near-future context of the COVID-19 where decisions on targeting resources for results need to be taken quickly.

Country Case Annex 1: List of documents consulted

African Union (2019). AU Strategy for Gender Equality (2018–2028).

Breaking Barriers. Female Technology Entrepreneurship in Southern Africa; Southern Africa Innovation Support Programme (SAIS 2) and Hivos Southern Africa. 2019

Danish Trade Union Council for International Development Cooperation; Tanzania and Zanzibar Labour Market Profile 2018 http://www.ulandssekretariatet.dk/content/landeanalyser

Diao, X., Kweka, J. and McMillan, M. (2016). "Economic Transformation in Africa from the Bottom Up: Evidence from Tanzania", NBER Working Paper No. 22889.

Donelan, Peter; Mbise, Théo; Subramaniam, Visvanathan; COVID-19, LEAST DEVELOPED COUNTRIES AND FINANCIAL SUPPORT, Trade for Development News by EIF, April 01, 2020; https://trade4devnews.enhancedif.org/en/news/covid-19-least-developed-countries-and-financial-support

Financial Sector Deepening Trust (FSDT): "State of the Financial Sector – Supply-side Report 2017", 2017

FinScope Tanzania 2017

FORVAC Annual Report from 1 July 2019 to 30 June 2020; 13 June 2020.Government of Tanzania; Agriculture Sector Development Programme Phase II (ASDP II)

Government of Tanzania; Development Cooperation Framework (DCF) 2017/18–2024/25 and the Action Plan for the Implementation of the DCF

Government of Tanzania; The Second Five Year Development Plan (FYDP II) 2016/17–2020/21

Government of Tanzania; Trade Strategy – DTIS Update 2017

HDIF's Reflections and Recommendations 2013-2018: Investing in Social Innovation and Technology in Tanzania, 2019.

ILO (2018). Care work and care jobs for the future of decent work.

ILO – Measuring decent work. Accessed at: https://www.ilo.org/integration/themes/mdw/lang--en/index.htm

ILO modelled estimates, Nov. 2019 at https://www.ilo.org/gateway/faces/home/statistics?_adf.ctrl-state=l6hr2bcas_9&locale=EN&countryCode=TZA

IMF: Seventh Review Under the Policy Support Instrument, Staff Report, 2018

MarketShare Associates; TMEA Tanzania Country Programme Evaluation, 2019

MFA; Finland's Country Strategy for Development Cooperation with Tanzania 2013–2016

MFA; Finland's Country Strategy for Development Cooperation with Tanzania 2016–2019

MFA's Detailed self-assessment of the Country Strategy Tanzania 2016–2019

MSME Baseline Survey; FSDT and the Ministry of Industry and Trade; 2010.

Ngeze, Lucian V.: "ICT Integration in Teaching and Learning in Secondary Schools in Tanzania: Readiness and Way Forward", International Journal of Information and Education Technology, Vol. 7, No. 6, June 2017

The World Bank Group: Tanzania Economic Update, December 2019

The World Bank Group: Tanzania Economic Update, July 2019

The World Bank Group: Tanzania Systematic Country Diagnostic 2017

Topper, E., Talvela, K., Verheijden, C., Mikkolainen, P., Frestadius, S. (2019). Evaluation of the Agriculture, Rural Development and Forest Sector Programmes in Africa. Final Report. Accessed at: https://um.fi/publications/-/asset_publisher/TVOLgBmLyZvu/content/evaluointi-maatalous-maaseutukehitys-ja-metsasektorin-kehityshankkeista-afrikassa/384998

Turner, S., Killian B.; Venäläinen R. (2016). Evaluation of Finland's Development Cooperation Country Strategies and Country Strategy Modality. Tanzania Country Report

World Bank: Evaluating Tanzania's productive Social Safety Net; Findings from the Midline Survey, September 2019.

World Bank's 2019 Tanzania Mainland Poverty Assessment at https://www.worldbank.org/en/country/tanzania/publication/tanzanias-path-to-poverty-reduction-and-pro-poor-growth

World Bank, The14th Tanzania Economic Update (TEU), Addressing the Impact of COVID-19: With a Special Section on the Role of ICT, 2020

WTO: Trade Policy Review of Tanzania, 2019

https://www.article19.org/resources/tanzania-electronic-and-postal-communications-on-line-content-regulations-2018/

https://blogs.worldbank.org/opendata/new-world-bank-country-classifications-income-level-2020-2021

https://blogs.worldbank.org/education/tanzania-how-boosting-work-skills-through-education-can-lead-economic-diversification

www.civicus.org

https://databank.worldbank.org/source/worldwide-governance-indicators

https://www.doingbusiness.org/en/doingbusiness

http://www.fao.org/emergencies/crisis/desertlocust/intro/en/

https://www.globalinnovationindex.org/gii-2019-report

http://hdr.undp.org/en/composite/GII

http://iiag.online/

https://www.ilo.org/africa/countries-covered/tanzania/WCMS_702229/lang--en/index.htm

http://www.oecd.org/dac/financing-sustainable-development/development-finance-data/aid-at-a-glance.htm#recipients

https://ophi.org.uk/multidimensional-poverty-index/databank/country-level/

https://www.nordeatrade.com/fi/explore-new-market/tanzania/investment?vider_sticky=oui

https://www.statista.com/statistics/447719/share-of-economic-sectors-in-the-gdp-in-tanzania/

https://stats.oecd.org/glossary/detail.asp?ID=4842

https://www.tanzania.go.tz/egov_uploads/documents/Enocomic_Empowerment_Policy[1]_sw.pdf

https://www.tra.go.tz/images/SPEECH.pdf

https://www.transparency.org/country/TZA

http://www.ulandssekretariatet.dk/content/landeanalyser

https://unevoc.unesco.org/wtdb/worldtvetdatabase_tza_en.pdf

https://unctad.org/en/Pages/DIAE/World%20Investment%20Report/World_Investment_Report.aspx

https://unctad.org/en/PublicationsLibrary/wir2020_en.pdf

https://www.weforum.org/reports/gender-gap-2020-report-100-years-pay-equality

https://www.worldbank.org/en/country/tanzania/publication/tanzanias-path-to-poverty-reduction-and-pro-poor-growth

https://www.worldbank.org/en/country/tanzania/overview

https://www.wto.org/english/res_e/statis_e/daily_update_e/trade_profiles/TZ_e.pdf

Country Case Annex 2: People Interviewed

MFA		
Petri Wanner	Department for Africa and the Middle East (ALI-30)	Desk Officer, Southern Africa team
Eeva Alarcón	Department for Africa and the Middle East (ALI-02)	Senior Adviser, Development Policy
Jussi Karakoski	Department for Africa and the Middle East (ALI-02)	Senior Adviser, Development Policy
Annika Kaipola	Department for Development Policy (KEO-10)	Senior Adviser, Development Policy
Laura Desmoulin	Department for Development Policy (KEO-20)	Senior Adviser (Private Sector Development)
Mika Vehnämäki	Department for External Economic Relations (TUO-10)	Commercial Counsellor in the Trade Policy Unit
Suvi Virkkunen	Department for Development Policy (KEO-10)	Senior Adviser, Development Policy (RBM)
Silja Leinonen	Department for Development Policy (KEO-20)	Senior Adviser, Development Policy (Innovation and Digital Development)
William Nambiza	Embassy to Tanzania	Coordinator, development cooperation (forestry)
Kari Leppänen	Embassy to Tanzania	Counsellor, forestry sector, innovations systems (retaired in July)
Riitta Swan	Embassy to Tanzania	Ambassador
Riikka Raatikainen	Embassy to Tanzania	Counsellor, Head of Cooperation, good governance
Asna Mshana	Embassy to Tanzania	FLC Coordinator
Jenny Sjöberg	Tanzania Team/Unit for the Horn of Africa and Eastern Africa/Department for Africa and the Middle East	Desk Officer
Minna Hares	Department for the Americas and Asia (ASA-01)/current & Tanzania Team/ Unit for the Horn of Africa and Eastern Africa (former)	Senior Adviser, Development Policy (current) and former Desk officer for Tanzania

Selected Implementers of large programmes		
Tuire Ylöstalo	Niras Oy (TANZICT, SAIS)	Project Manager
Kristiina Lähde	Saliens Oy (was Niras/TANZICT)	former, first TANZICT CTA
Esa Haapasalo	Niras Oy (PFP II)	Project Manager, Senior Consultant
Thomas Selänniemi	Indufor Oy (PFP II)	Head of Natural Resources Management
Juha Kiuru	Indufor (PFP II)	Capacity Building Advisor, PFP
Juhani Härkönen	FCG (FORVAC)	CTA
Other donors active in economic development, jobs and livelihoods in Tanzania		
Jema Ngwale	Ministry of Foreign Affairs of Denmark, Embassy to Tanzania	Team Leader, Business Sector
Anthony Mhagama	Ministry of Foreign Affairs of Denmark, Embassy to Tanzania	Programme Manager
Helen Diyu Masele	Ministry of Foreign Affairs of Denmark, Embassy to Tanzania	Programme Manager
Mikko Leppänen	Embassy to Tanzania, Finland (former)	Counsellor, forestry sector, innovations systems (former)
John Ulanga	TMEA Tanzania	Country Director
Trond Augdal	Ministry of Foreign Affairs of Norway, Embassy to Tanzania	Country Economist
National stakeholders		
Deusdedit Bwoyo	Ministry for Natural Resources and Tourism	
Forest and beekeeping division	Assistant Director, Forest Developments	
Sanford Kway	President's office, Regional Administration and Local Government Ministry	
Agness Shirima	Sokoine University of Agriculture	
Dr. Stephen Nindi	National Land Use Planning Commission (NLUPC)	CEO
Devotha Salukele	National Land Use Planning Commission (NLUPC)	
Tanzania PSI/Private Sector stakeholders		
Irvine Kanyemba	Kilombero Valley Teak Company	CEO
James Parson	Africado	CEO
Tanzania Private Sector stakeholders		
Ben Sulus	Tanzania Forest Industries Federation	Federation president
Tanzania CSO Stakeholders		
Jasper Makala	Mpingo Conservation and Development Initiative	CEO
Charles Meshack	Tanzania Forest Conservation Group	CEO

Country Case Annex 3: Context Analysis

Economic development and job creation

Policy framework

The Tanzania Government has, through various policy documents, programmes and regional and international agreements expressed its intention to address the issue of economic development and poverty reduction through job creation, with the aim of creating a sufficient number of decent jobs for all in one way or another.

Trade Strategy – DTIS Update 2017

The Tanzania Diagnostic Trade Integration Study (DTIS) Update 2017 identifies priority actions in support of the country's strategy to deliver broad-based growth through trade integration. The DTIS focuses on agribusiness, mining, and tourism, but more broadly addresses the issues of regional integration, trade facilitation, small-scale trade, and gender. The report identifies a package of measures that support Tanzania's effective delivery of its Integrated Industrial Development Strategy 2025. According to the DTIS, further trade reforms are needed for diversification, job creation, and poverty reduction, and an enhanced strategy to reduce trade costs needs to be deployed.

The Government is currently preparing a Trade Policy, too, but the process is still at its inception.

Agriculture Sector Development Programme Phase II (ASDP II)

The objective of the ASDP II is to: "Transform the agricultural sector (crops, livestock & fisheries) towards higher productivity, commercialisation level and smallholder farmer income for improved livelihood, food security and nutrition". The programme has four interlinked components: (1) Sustainable Water and Land use Management, including mainstreaming resilience of sustainable and smart farming systems; (2) Enhanced Agricultural Productivity and Profitability by sustainable technology generation and promotion/use; (3) Rural Commercialisation and Value Addition to build competitive value chains; and (4) Strengthening Agricultural Sector Enablers, including policy framework, food security and nutrition, institutional capacity and coordination, and sector-wide M&E.

Productive Social Safety Net (PSSN) Programme

Using a loan from the World Bank, Tanzania is implementing its safety net programme – Productive Social Safety Net (PSSN) programme aimed to break intergenerational transmission of poverty through: labour intensive public works programme (PWP); targeted conditional cash transfer (CCTs); Livelihood enhancement; and Targeted infrastructure. PWP provides temporary employment to enrol poor households to be employed on labour intensive activities and earn seasonal income. The PWP is aimed to smoothen consumption among poor households. By December 2017, a total of TZS 715.9 billion had been paid to PSSN beneficiaries in form of both CCT and PWP where a total of TZS 46.7 billion were paid on the latter (PWP).

The National Economic Empowerment Policy

The National Economic Empowerment Policy (2004) is intended to address economic empowerment needs in Tanzania, touching individuals and businesses owned by Tanzanians for not less than 50% shares . The policy takes on board farmers, livestock keepers, fishermen, employees, traders, etc. The policy does not explicitly mention treatment of those involved in the forestry sector, but they are broadly covered under farmers segment. The policy recognise a number challenges constraining effective participation of the citizen in economic activities, and it intends to address them: unavailability of capital; lack of knowledge and experience aggravated by inhibitive customs and traditions and inappropriate mind-set towards development; lack of reliable markets and inability to penetrate competitive markets; weakness in the tax regime, legal and regulatory framework and public service delivery; and deficiencies in economic, social and administrative infrastructure. The government through the Local Government Authorities (LGA) have set a policy where LGA would set aside 10% of its revenue and allocate it to its economic empowerment fund. Such fund is intended to benefit women (4%), youth (4%) and people with abilities (2%).

Development Cooperation Framework (DCF) 2017/18–2024/25 and the Action Plan for the Implementation of the DCF

The DCF 2017/18–2024/25 establishes general principles for an effective development cooperation in Tanzania and reaffirms the Government's commitment to the Paris Declaration on Aid Effectiveness (2005), Accra Agenda for Action (2008) and Busan Partnership for Effective Development Cooperation (2011).

Tanzania's trade policies and regional integration

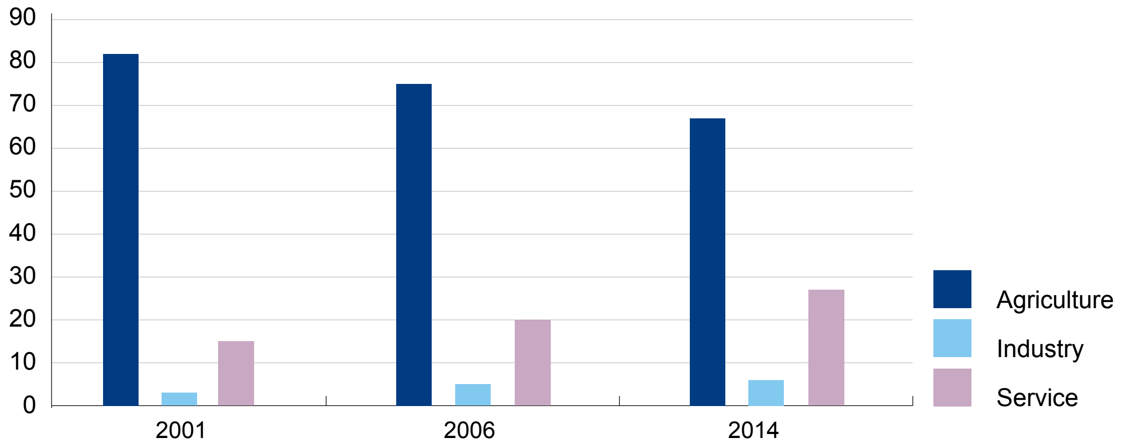
Tanzania is a founding Member of the WTO and grants at least Most Favoured Nation (MFN) treatment to all its trading partners. As a least developed country, Tanzania benefits from the special and differential treatment afforded developing countries in the form of exemptions or delayed implementation of certain provisions. Tanzania is also actively pursuing a regional integration strategy. It is a signatory of the Common Market for Eastern and Southern Africa (COMESA), although it has announced its intention to withdraw from COMESA . Tanzania is also a member of the Southern African Development Community (SADC), which it has indicated is more compatible with its national interests. More recently, it has been moving forward with the strengthening of the East African Co-operation (EAC) agreement with neighbouring Kenya and Uganda. All these regional efforts are intended to harmonise economic policy and facilitate trade although long-term plans call for the EAC to become a political federation with authority to represent the common interests of member States. The Agreement Establishing the African Continental Free Trade Agreement (AfCFTA) entered into force in May 2019 for the 24 countries that had deposited their instruments of ratification; Tanzania has not yet ratified the AfCFTA.

Labour market

According to ILO, in 2019, Agriculture provided for 65% of total employment, Industry 6%, and Services 27% [185]. As seen in Figure 5, over the past two decades, there has been a noticeable shift in the employment structure from agriculture mainly to services. However, the growth in services employment has stagnated since 2014 with the same number of Tanzanians employed by the sector in that year and last.

185 ILO modelled estimates, Nov. 2019 at https://www.ilo.org/gateway/faces/home/statistics?_adf.ctrl-state=l6hr2bcas_9&locale=EN&countryCode=TZA

Figure 5 Employment by aggregated sector in Tanzania, 2001–2014



Source: Danish Trade Union Council for International Development Cooperation; Tanzania and Zanzibar Labour Market Profile 2018; from ILO, Key Indicators of the Labour Market (KILM).

The difference between the shares of the GDP versus employment in the largest sector providing livelihood, agriculture, is in Tanzania even more striking than it is in the neighbouring Kenya. In Tanzania, the share of agriculture in the GDP is less than 29% and in employment 65%; in Kenya the respective figures are 35% and 60%. This reflects differences in productivity between the countries, just like the fact that, in Tanzania, industry contributes approximately 25% of the GDP and employs 6% of the workforce, reflects differences in capital intensity and productivity between the sectors. While in services, the difference between their share of the GDP, about 38%, and in employment, 27%, is a bit less, a job in the services sector, just like in the industrial sector, has meant improved wage levels, formality of jobs and enhanced livelihoods.

In Tanzania, employment off the farm in small household enterprises of the informal sector is growing much faster than in the formal wage sector and is helping absorb some of the youth entering the workforce. Women are overrepresented in these enterprises, as are urban areas. Better earnings can be found in the formal sector, but the earnings of the informal sector offer gains when compared with those in agriculture. A broader definition of employment in the informal economy (i.e. including workers from subsistence farming) demonstrates that the vast majority of workers in Tanzanian mainland and Zanzibar, 85% and 88%, respectively, subsist outside the formal economic framework[186].

According to the National Bureau of Statistics, Tanzania's unemployment rate is 9,7% (2018). Since the narrow formal sector in Tanzania does not create many new job opportunities, and as the workforce is not covered by an unemployment protection scheme and confronting rampant poverty, a large majority of the workforce is instead seeking underemployment in informal activities as a survival strategy.

Women's employment and unpaid care work

Tanzanian women's labour force participation rate is 78% of the 15–64 years age group, compared with a men's labour force participation rate of 81%. Labour legislation in Tanzania promotes equal treatment and remuneration in employment; accords the right to take maternity and even parental leaves; and forbids discrimination at the workplace in access to resources and financial tools and requires equal pay for equal work. Yet, gender inequality remains present in

186 Danish Trade Union Council for International Development Cooperation; Tanzania and Zanzibar Labour Market Profile 2018

the country. This is exemplified by women's access to decent work. In Tanzania there is a dominance of men among paid employees in the formal sector, i.e. men cover 66% of total employees and women cover 34%. On average, a Tanzanian man earns 39% more than what an average woman earns in total.

Women have slightly lower levels of education; many women are locked out of land ownership and have limited access to credit and productive farm inputs as well as often lacking support from extension services and access to markets. At home, division of responsibilities and decision-making within a family is unequal. While women have some decision-making powers on the utilisation of their income, the amount of money earned is often insufficient to meet household needs adequately. Many rely on their children's earning to supplement the family income – there is a relatively high child labour rate in Tanzania mainland.

24% of firms have women participation in ownership in Tanzania, significantly lower than the sub-Saharan Africa average at 34%. Tanzania furthermore has a lower score in terms of firms with women in top management; 14% and 16%, respectively[187]. As an illustration, in agricultural estates women are frequently the pickers and packers while it is not easy for them to obtain better-paid jobs on the estates; very rarely they attain management positions.

Women and girls carry an unequal share of Unpaid Care and Domestic Work (UCDW). According to the African Union, on average, women in Africa spend twice as much time as men on domestic work, which includes child and elderly care, domestic work, and fetching water and wood. In Tanzania, women spend more than five times more time than men doing domestic work[188]. This imbalance results in time poverty for women and girls, reducing their opportunities to participate in education, decent paid work, public life and leisure, and further reinforcing gender-based socio-economic disadvantages. According ILO, the most common profile of an unpaid carer in Africa is a woman aged between 15 and 54, with few economic resources, several children, low level of education, often with health problems or disabilities, who simultaneously works for pay or profit, mostly in the informal economy, and receives little or no formal care support[189].

Without care work societies wouldn't function. Yet despite this vast and invaluable contribution to society and the economy, UCDW is not included in official GDP calculations and remains, everywhere in the world, largely absent from government policies. In Tanzania, the National Strategy on Gender Development (2011) acknowledges that "Both men and women are involved in reproductive, productive, community and leadership roles. However, women in rural and urban areas bear a heavier workload than men that inhibit them in participating in development activities. In addition to reproductive and productive roles women in rural areas spend between 16 to 18 hours per day working compared to men who work between 8 to 10 hours per day. Customs, traditions and culture are the main cause of unequal division of labour between women and men." The Strategy sets a Policy Objective of "Families practicing equitable division of labour and resources" with two strategies for achieving the objective: (i) Campaign against customs and traditions that limit equal division of labour and resources between women and men at all levels; and (ii) Sensitise and encourage men to participate fully in household chores. Implementation of the strategies seems limited (no information is available in the public domain) and, as per the AU statement (2019) that Tanzanian women spend five times more time than men doing domestic work, there appears to be no significant change in the gender division of UCDW.

187 Danish Trade Union Council for International Development Cooperation; Tanzania and Zanzibar Labour Market Profile 2018

188 African Union (2019). AU Strategy for Gender Equality (2018-2028).

189 ILO (2018). Care work and care jobs for the future of decent work.

Youth employment and skills development

Tanzania's population distribution is youthful (about half the population is below the age of 15), and the country has about one million new entrants into the domestic labour market every year. Official unemployment rate of the youth hovers around the same 10% as the overall unemployment. Yet, with only 50,000 to 60,000 formal sector jobs created each year, the youth gets mainly employed into the informal sector.

The education system in Tanzania is confronting a pressure on all levels because of the fast-growing young population. The lower the level of education, the higher the proportion of youth entering into vulnerable employment in the informal economy. In addition, with the shortcomings of the different education levels, including tertiary, resulting into a lack of proper entrepreneurship competences, even the young graduates face challenges in setting up proper formal businesses to employ themselves in a proper way. Enrolment in vocational training has been, in recent years, on an increase in Tanzania.

For many years the government has focused on enhancing enrolment in mainstream education, which has seen improvement in enrolment into: primary schools; secondary schools; and tertiary education. Access to education up to lower secondary education is now universal in the country. While these achievements put Tanzania in a better position with regard to education attainments of its population, its translation into skills required in various productive sector has been minimal. Most of the graduates from the system require substantial on-job trainings before they can fit to the labour market needs. Further, technical and vocational education and training (TVET) was left neglected for a number of years. Some technical colleges transformed to Universities. Following an increase pressure in skills requirements across the sectors, enrolment in TVET has been, in recent years, on an increase in Tanzania[190]. TVET in the country is offered through two formal channels: vocational education and training (VET); and technical education and training (TET). The former mainly focuses on masonry and bricklaying, welding and fabrication, carpentry and joinery, electrical installation, secretarial duties, tour guiding, hospitality services etc. There are also non-formal TVET programmes offered in the country: lifelong learning programmes; adult programmes such as long-distance learning and development colleges. TVET system of the country intends to build skills needed to support self-employment and to supply skilled manpower particularly to the formal sector.

ICT- and digital skills are required in almost every sector of the economy. According to a 2017 study published in the International Journal of Information and Education Technology[191], most Tanzanian secondary schools do not have computers and Internet connections in place. In schools where ICT infrastructure is present, the student to computer ratio is very high. The findings also revealed that most of the secondary school teachers (77%) possess either a personal laptop or smartphone, or both. This implies that they have some ICT familiarity, but in addition to the hardware and connection, they will need additional training on how to use such tools in the teaching and learning process.

Child labour rate at 29% is displaying a dysfunctionality of the education system and the labour market. The largest number of working children is among unpaid family workers (93%) and nine out of ten (92%) are in the agricultural sector. Children work most often as domestic workers, street vendors, shopkeepers, and in transportation, fishing, clove picking, small businesses, and gravel making. Law prohibits the exploitation of children in the workplace. Among others, the minimum age for contractual employment is 14. Children over 14 but younger than 18 may

190 https://unevoc.unesco.org/wtdb/worldtvetdatabase_tza_en.pdf
191 Ngeze, Lucian V.: "ICT Integration in Teaching and Learning in Secondary Schools in Tanzania: Readiness and Way Forward", International Journal of Information and Education Technology, Vol. 7, No. 6, June 2017

be employed to do only light work, that can't harm their health, development, or attendance at school. However, the government does not effectively enforce the law[192].

Decent work

The Danish Trade Union secretariat undertakes labour market profiles for Denmark's partner countries[193]. These profiles, including for Tanzania, assess the performance of the country against ILO's decent work agenda with its four Pillars: Creating decent jobs, guaranteeing rights at work, extending social protection and promoting social dialogue. In the most recent report for Tanzania (2018), the profile report notes that "Several legal reforms of the labour market were approved with some improvements in recent years. However, there are some flaws on the labour legislations of the right to organise, right to collective bargaining and right to strike in relation to the international standards. It is still not easy of doing business. A point often overlooked is that the labour regulations are only reaching a relatively small formal sector in practice, which includes the minimum wages. In reality, a large majority (85%) of the total employment is enclosed by a growing informal economy due to insufficient job creation in the formal sector."

Dynamics of the economy

Business environment

Regarding the World Bank's Ease of Doing Business Index (2020)[194], Tanzania ranked 141 out of 190 economies, up from 144 in 2019. The 2019 ranking was a setback in comparison to the 2018 (137th) and 2017 (132nd)[195]. The Bank identifies making starting a business easier by launching online company registrations as the single most important improvement since the previous ranking.

Tanzania's current administration, acknowledging "that the system of State regulation of business has been taken with some scepticism by a cross section of private stakeholders who have occasionally argued that the conduct of business should be left to be determined by market forces" prepared, in 2017, the "Blueprint for Regulatory Reforms to Improve Tanzanian Business Environment". The Blueprint notes also that "These concerns [by the above mentioned private stakeholders] have been addressed in some aspects by the Blueprint, but it does not purport to remove government oversight."

Start of official implementation of the Blueprint, the Government's main framework for enabling a holistic review of the business enabling environment in order to improve the business climate in Tanzania, supported by the World Bank, was delayed and only started in 2019. As it is, Tanzania's ranking in the Ease of Doing Business Index out of the 48 Sub-Saharan economies is 22, whereas its usual East African Community (EAC) "peers" rank before it: Rwanda 2nd, Kenya 3rd and Uganda 12th. It is also a ranking much worse than the third country of specific interest to this evaluation, Zambia, which in the SSA rankings sits at place 5.

Evaluation of the implementation of the Blueprint has been planned by the Prime Minister's office but no information is yet available concerning its timing, scope or other parameters.

192 Danish Trade Union Council for International Development Cooperation; Tanzania and Zanzibar Labour Market Profile 2018
193 http://www.ulandssekretariatet.dk/content/landeanalyser
194 https://www.doingbusiness.org/en/doingbusiness
195 Here, it should be noted that the World Bank Group has suspended the publication of the Doing Business report after a number of irregularities have been reported regarding changes to the data in the Doing Business 2018 and Doing Business 2020 reports, published in October 2017 and 2019. The changes in the data were inconsistent with the Doing Business methodology. (WB Statement in August 2020)

Foreign direct investments (FDI)

Despite of the stated issues in the business environment, according to the 2020 World Investment Report of UNCTAD, in 2019 the FDI inflow in Tanzania reached USUS$1.112 billion and showed a 5% increase compared to the previous year (USUS$1.10 billion)[196]. Tanzania's net inflow of FDI translates to 1.8% of Tanzania's GDP and is at par with Kenya, slightly below the average of Sub-Saharan Africa (2.0%) and slightly above Zambia (1.5%)[197].

The mining sector, the oil and gas industry, as well as the primary agricultural products sector (coffee, cashew nuts and tobacco) draw most FDI. In 2017, Tanzania approved new regulations in the mining sector that allows the government to tear up and renegotiate mining contracts, partially nationalise mining companies, introduce higher royalties, enforce local beneficiation of minerals and bring in strict local-content requirements, which could put foreign investments at risk. The country's primary investors are China, India, Kenya, United Kingdom, Mauritius, Oman, the United Arab Emirates, Canada, the United States, the Netherlands, South Africa, and Germany.

Doing far worse in the World Bank's Ease of Doing Business Index (see the previous section) than the neighbouring Kenya, net FDI inflow per GDP at the same level, investors are drawn to the country's commitment to implement sound macroeconomic policies, its privatisation programme and abundant natural resources. However, low levels of industrial development, environmental concerns, lack of transparency and poor compliance with legislation are barriers to investment. Reforms being delayed, the business environment remains hampered by ineffective regulations. Labour regulations are not flexible enough to support a dynamic labour market. Foreign investment in land is limited and investment in other sectors can be screened. Since the election of President John Magufuli in 2015, the authoritarian turn of the government has been widely criticised. Its governance style and unfavourable investor policies are causing growing mistrust of international investors and are damaging the perception of the business climate. State-owned enterprises distort the economy.

Competitiveness

In the World Economic Forum's (WEF) Global Competitiveness Index 2019, comparing 140 countries based on a number of indicators, Tanzania is ranked 117 (one rank down from the previous year), much behind Kenya (95) and close to Zambia (120).

Among the 12 pillars making up the index, Tanzania is scoring best (relative to its over ranking among all the ranked countries) on market size, macroeconomic stability and labour market, and worse than its overall position, on ICT adoption and skills.

Innovativeness

The innovation ecosystem in Tanzania is limited but has developed rapidly over the past few years and between 2013 and 2018, the country's ranking in the Global Innovation Index (GII) climbed 27 positions (from 123 in 2013 to 92 in 2018)[198]. Co-published by Cornell University, INSEAD, and the World Intellectual Property Organisation (WIPO), the GII relies on two sub-indices—the Innovation Input Sub-Index and the Innovation Output Sub-Index—each built around

196 https://unctad.org/en/PublicationsLibrary/wir2020_en.pdf
197 https://www.nordeatrade.com/fi/explore-new-market/tanzania/investment?vider_sticky=oui
198 https://www.globalinnovationindex.org/gii-2019-report

key pillars[199]. Tanzania's performance can be viewed as an achievement for a country lacking a strong innovation environment. Whilst Tanzania's ranking in 2019 dropped five positions from 2018 and is now 97, it is still the only country in the low-income group that achieves high impact for its innovation efforts with a considerably low levels of input[200].

With a large and growing population, a competitive mobile network operators (MNOs) market and increasing mobile service delivery, the trajectory of growth of mobile Internet users is positive. Building the National ICT Broadband Backbone (NICTBB), connected to the region's main submarine cables, has resulted in lower mobile data prices for end-users. By the end of 2018, 3G and 4G networks covered around 61% and 28% of Tanzania's population, respectively. This remains considerably lower than the 2G coverage of around 90%.

Although mobile data prices are reasonably low, they remain unaffordable for segments of the population that mostly reside in rural areas. This has resulted in a large gap in Internet use between urban and rural areas. Also, fewer women than men access and use the Internet. Given that most Tanzanians access the Internet through their mobile phones, the low Internet penetration rate of 25–30% is likely due to the high cost of obtaining an Internet-enabled phone.

The Government has adopted a series of e-Government services, including the establishment of a Government Portal that serves as a one-stop centre for public services. The Government has also recently introduced the Government electronic Payment Gateway (GePG) that enables all Government entities (Central, Local and Agencies) to use a single payment platform. The Tanzania Investment Centre (TIC) runs an e-Regulations website providing detailed step-by-step guidance for investing in Tanzania; the Ministry of Industry and Trade (MIT), is also currently developing a National Business Portal.

SME development

MSMEs contribute to 27% of GDP in Tanzania, employing more than 5.2 million people. Informality continues to be a characteristic feature of MSMEs; according to the 2010 MSME baseline survey conducted by FSDT, only 5% of MSMEs had TIN numbers, and only 4% were registered with BRELLA – the national business licensing agency[201]. Unfortunately, no more recent numbers are available and publications even from this year still refer to these numbers from the 2010 Survey[202]. As noted in discussing the labour market, the vast majority of workers, nearly 90%, is employed/engaged in livelihoods in the informal economy, including in the subsistence farming. A large majority of enterprises, 97%, are household "micro" enterprises (1-4 employees), with 66% of the total being own account (one person) activities.

It has been estimated, by Diao et al. (2016) that between 2002 and 2012, informal, private, and non-agricultural firms accounted for 73% of the increase in Tanzania's total employment. Shown in the same study, MSME growth in Tanzania has been contributing to aggregate labour productivity growth. The non-agricultural sector, which includes informal small firms, is more productive than agriculture and workers shifting from the agricultural to the non-agricultural sector

199 Five input pillars capture elements of the national economy that enable innovative activities: (1) Institutions, (2) Human capital and research, (3) Infrastructure, (4) Market sophistication, and (5) Business sophistication. Two output pillars capture actual evidence of innovation outputs: (6) Knowledge and technology outputs and (7) Creative outputs. Each pillar is divided into sub-pillars and each sub-pillar is composed of individual indicators (80 in total in 2019). Innovation Input Sub-Index is the weighted average of the first five pillar scores; Innovation Output Sub-Index is the weighted average of the last two pillar scores; and the overall GII score is the average of the Input and Output Sub-Indices.

200 Tanzania's Innovation Input Sub-Index ranking is 115 and Innovation Output Sub-Index ranking 73 (2019).

201 MSME Baseline Survey; FSDT and the Ministry of Industry and Trade; 2010. Author's note: Unfortunately, no more recent numbers are available and publications even from this year still refer to these numbers from the 2010 Survey.

202 MSME Baseline Survey; FSDT and the Ministry of Industry and Trade; 2010.

raises productivity – the so called 'structural transformation productivity growth'. The key finding of the study is, though, is that the contribution of the MSME sector comes primarily from a small set of high growth MSMEs (about 5% of the total, depending on different definitions), that also contribute disproportionately to employment growth. The evidence therefore suggests that MSMEs in Tanzania have had a large contribution to employment growth and a significant impact on productivity growth[203].

Financial sector

Financial sector service providers in Tanzania include banks, microfinance institutions (MFIs), insurance providers, self-organised Savings and Credit Cooperative Organisations (SACCOs), social security and pension providers, and non-traditional players such as mobile network operators that offer financial products. Despite the manifold options, usage of the services is limited, mainly due to the lack of awareness of available services and also high costs. Mobile money has emerged as the main tool used by Tanzanians to access financial services.

The financial sector in Tanzania has expanded in recent years and foreign-owned banks account for about 48% of the banking industry's total assets. Competition among foreign commercial banks has resulted in improvements in the efficiency and quality of financial services, though interest rates are still relatively high, reflecting high fraud risk.

The emergence of mobile money has helped Tanzania achieve a fivefold increase in financial inclusion, going from 12% of the adult population in 2006 to 65% in 2017[204]. Based on information from the Bank of Tanzania, in 2019 there were 40 fully-fledged commercial banks, three development financial institutions, 11 community banks, five microfinance banks, three financial leasing companies and one mortgage finance institution in Tanzania. In addition, 250 MFIs and 5,871 SACCOs are registered in the country. Other financial service providers include insurance providers, social security and pension providers, as well as non-traditional financial sector players such as mobile network operators. In 2017, over 1,500 different financial products were used in the market (16% more than in 2015) and the number is expected to grow as the sector continues to innovate to meet the needs of customers. [205]

Micro, small and medium-sized enterprises' (MSMEs) inability to access financing is one of the most frequently cited constraints to their growth, and its adverse impact to the economy overall is tremendous. In 2010, only 10% of the 3.1 million MSMEs in Tanzania (half owned by women) had access to banking financial services[206]. Among the EAC countries the per centage of SMEs claiming difficulties in accessing bank credit is the highest in Tanzania (44%), and the cost of financing remains prohibitive for smaller companies [207].

Formal financing for MSMEs is limited and almost all financial service providers (FSPs) have products targeting individuals rather than businesses or groups. Only MFIs, who at their core were developed to support small businesses, target MSMEs as a significant portion of their portfolio (50%)[208]. The lack of access to financing for MSMEs is partly attributed to financial services providers' strict requirements related to Know Your Customer (KYC) and the need for formal registration, collateral and credit history. The lack of products tailored for MSMEs is also a barrier.

203 Diao, X., Kweka, J. and McMillan, M. (2016). "Economic Transformation in Africa from the Bottom Up: Evidence from Tanzania", NBER Working Paper No. 22889.
204 FinScope Tanzania 2017
205 Financial Sector Deepening Trust, 2017
206 MSME Baseline Survey; FSDT and the Ministry of Industry and Trade; 2010.
207 IMF: Seventh Review Under the Policy Support Instrument, Staff Report, 2018
208 Financial Sector Deepening Trust (FSDT): "State of the Financial Sector – Supply-side Report 2017", 2017

The Tanzania Development Vision (TDV) 2025 highlights small and medium-sized enterprises (SMEs) as an important contributor to the country's long-term development. The National Financial Inclusion Framework 2018–2022, the second framework implemented under the Financial Inclusion National Council, recognises the financing challenges faced by SMEs. The priority areas identified in the Framework include: ensuring the existence of a robust electronic information infrastructure for individual and business profiles; making proper use of credit history and collateral; ensuring that customers are informed and protected; and encouraging the design and development of demand-based solutions.

Export performance

2016–2018, Tanzania's exports accounted for 17.5% of its GDP and were USUS$188 per capita. Tanzania's ranks in the world trade (2018) were 117th in merchandise exports (or 91st excluding intra-EU trade) and 106th (or 80th) in imports; and 93rd in commercial services exports (or 66th excluding intra-EU trade) and 116th in imports (or 89th). The country's merchandise exports in 2018, were of total value of USUS$3,853 million (share in world total exports 0.02%) and services exports USUS$3,749 million (share in world total exports 0.06%). For the merchandise, over 40% of which is agricultural products, largest export markets were India (23.5%), South Africa (16.7%), European Union (11.1%), Viet Nam (7.5%), and Kenya (7%)[209].

The trade balance deteriorated in 2018, with exports contracting by 3.9% in gross value and imports increasing by 7.8%[210]. The value of exports dropped largely because cashew exports shrank from nearly USUS$530 million to under USUS$200 million. Meanwhile, the value of imports went up because capital imports rose from USUS$2.7 billion to USUS$3.2 billion[211]. Launch of major public investment projects, such as the standard gauge railway and expansion of the port of Dar es Salaam, has required imports of building and construction materials and transport equipment.

Unlike goods exports, earnings from services exports still went up in 2018. Though slight, the USUS$189 million increase in earnings from services more than offset the USUS$56 million rise in payments for services[212]. The earnings from services were largely driven by travel activities, especially more tourist arrivals, and transportation of goods to and from neighbouring countries. The small rise in payments for services was mainly for transport and related services.

Key economic sectors

Tourism, agriculture, mining, services, construction, and manufacturing are notable sectors. Discussed here are tourism as the largest export services sector and foreign exchange earner, and agriculture – with forestry – as the largest provider of employment and mainstay of Tanzanians. As climate and environment are closely linked to tourism, agriculture and forestry, they are also discussed here.

Tourism. In 2015, more than a million tourists travelled to Tanzania, contributing (directly and indirectly) nearly 12% of GDP, making it the country's largest export services sector. Travel and tourism-related services receipts totalled USUS$2.2 billion, representing more than 25% of the country's total exports and 60% of the country's services receipts. In 2015, the industry directly supported 467,000 jobs, and, through backward links, was responsible for more than 1.3 million jobs or 12.2% of the nation's total employment. And, in 2014, Tanzania earned more per visitor (USUS$1,770) than each of its main competitors, Kenya (USUS$643), Uganda (USUS$628), Botswana (USUS$634), and South Africa (USUS$978).

209 https://www.wto.org/english/res_e/statis_e/daily_update_e/trade_profiles/TZ_e.pdf
210 https://www.worldbank.org/en/country/tanzania/overview
211 The World Bank Group: Tanzania Economic Update, July 2019
212 The World Bank Group: Tanzania Economic Update, July 2019

Agriculture. Tanzanian economy depends on agriculture, which accounts for slightly less than one-quarter of GDP and employs about 65% of the work force and contribution to GDP. Agricultural transformation, as a way to reduce poverty and achieve shared prosperity, is specified in such strategic documents as the Tanzania Development Vision 2025, the Five-Year Development Plan II, and ASDP II (all discussed in this report). However, recent analysis by the World Bank proposes that, de facto, the policy and regulatory regime does not seem favourable to agricultural growth. In spite of this, the WB analysis states that after 2008, a structural transformation of Tanzanian agriculture began with the rise of medium-scale farms. Between 2008 and 2014 the value of main-season crop production rose from TZS 3.2 trillion to 5.1 trillion in real inflation-adjusted 2015 values. This implies annual real growth of 8%, a world-class achievement, at the same time when the annual average growth of agricultural GDP was only 4%. Simultaneously with this growth rate, 35% of Tanzanian farms were medium-scale (5–20 ha per farm) in 2014, compared to 23% in 2008—a very rapid size scale-up compared to neighbouring countries. Tanzania also saw a steady decline in the proportion of farms categorised as primarily subsistence-oriented, farm-focused, and small-scale, from 43% of all farms in 2008 to 31% in 2014. The WB analysis by location found that in areas with greater concentrations of medium- and large-scale farms, small-scale farms, too, are more likely to use improved seed and fertiliser, to cultivate a larger proportion of their land, and to access agricultural extension and credit. The analysis found that in Tanzania the 368,000 medium-scale farms added between 2008 and 2014 were associated with creation by 2014 of almost 13 million days of additional paid work for hired agricultural labour and USUS$225–300 million in net additional back and consumption growth links—with associated employment implications. The WB concludes that the increasing prominence in Tanzania of medium-scale farmers presents opportunities for catalysing agricultural transformation through a market-led model for reducing poverty among small-scale farmers through positive spill-overs.[213]

Forestry. Forestry is an integral component of sustainable livelihood: Forestry sector accounts for about 4 per centage of the GDP; 95% of the citizens use firewood for energy source. While the commercial side of forestry, particularly, on engaging the poor and vulnerable groups into the value chain is still at infancy, the potential is huge and there are deliberate steps towards bridging the gap. Initial interventions have shown utilisation of appropriate technologies including productive saw mills have increased the revenue by up to 60%. Participation of women and youth is encouraged but so far is more visible on village forestry committees and little on production and marketing side. Tanzania has reserved almost one-third of its land for conservation purposes with large part of it covered by natural forest. Tanzania has 40.1 million ha where 55% of it is properly reserved, while 45% is on village land where without appropriate intervention/supervision such endowment is at risk depletion. Tanzania is one of the countries that has reserved its land for conservation purposes. Over one-third of land is reserved and forestry forms an integral part of that ecosystem.

Climate and environment. With the population growth, risks to economic sustainability in Tanzania include climate change and weak governance of natural resources. If the current pace of water depletion continues, in 10 years Tanzania will become water-stressed. Climate change is already causing problems: changing rain patterns are affecting a variety of sectors but especially agriculture and power. The deleterious effects on agriculture could also push up food prices and thus inflation. Climate change can be a risk multiplier, intensifying pressure on water, energy, and food resources, which would heighten societal vulnerability. A rise in sea level could have a devastating impact on the landscape and livelihood of Mainland coastal areas, Zanzibar, and other islands.

213 The World Bank Group: Tanzania Economic Update, December 2019

Climatic variability generates significant economic costs because Tanzania depends on climate-sensitive activities. About 70% of current natural disasters in Tanzania are associated with climate change, and the economy is increasingly affected by prolonged droughts, severe storms and floods, and rising temperatures, costing more than 1% of GDP. Current annual weather-related losses in agricultural productivity are estimated to be at least USUS$200 million. A 2°C rise in temperature could reduce maize yields by 13% and rice yields by over 7%. Higher temperatures are also likely to worsen the stresses on water resources.[214]

Across Tanzania's complex landscape the climate varies considerably, from tropical at the coast to temperate in the highlands; the two predominant precipitation regimes average annual rainfall of 600–800mm. The impacts of climate change differ across these areas, with unpredictable variations in when rainy seasons begin (particularly in the south) and seasonal fluctuations. Rainfall is likely to become heavier, particularly in the Lake Victoria basin, coastal areas, and the northeast highlands. Other places, particularly many arid and semiarid areas, are likely to experience less rainfall. Climatic conditions are predicted to continue worsening, with temperatures rising by 1–3°C in the next 50 years, more warming during the dry season and in interior regions, more volatile precipitation, higher drought risks, more frequent and more severe floods, and rising sea levels threatening coastal livelihoods and assets.[215]

As the cost of adapting to climate change continues to rise, deferring climate adaptation activities will be increasingly expensive. Tanzania's costs of adaptation are estimated at about USUS$500 million annually and by 2030 could hit USUS$1 billion annually. Recognising the looming risks, Tanzania in 2013 adopted the National Climate Change Strategy (NCCS) and Zanzibar launched its Zanzibar Climate Change Strategy (ZCCS). Although these are moves to integrate climate change into development planning, much work must still be done to clearly identify priority investments in building up Tanzania's resilience to climate change in order to leverage and channel climate finance more strategically.

The Government has identified priorities for both mitigation and adaptation. In its Intended National Defined Contribution (INDC) to the United Nations Framework Convention for Climate Change 21st Conference of Parties (COP21) in 2015, Tanzania committed to supporting adaptation activities in water, agriculture, health, land use, land change and forestry, the environment, energy, and urban and social development—recognising that it needs to build capacity. Tanzania specified coastal areas, transport, and tourism as priorities for support.

Efforts to build climate resilience into agriculture need to be intensified. To build resilience in food systems, adapt to climate change, and sustainably increase food production, climate-smart agriculture (CSA) is a promising approach. The Government endorsed CSA in its INDC and has developed a CSA program. There is clearly a need for a holistic approach to agriculture, based on partnerships between the public and private sectors, civil society, and citizens.

Sustainability of natural resources is critically needed for sustainable economic development while the country faces risks of resource depletion for some resources. The average annual per capita volume of renewable freshwater is falling alarmingly to a level characterised as water-stressed. Climate variability, resource degradation, and pollution threaten the sustainability of such critical water-using sectors as hydropower, irrigation, mining, tourism, livestock, and urban and rural water supply.

Tanzania will have to strengthen its natural resource management by carefully balancing competing demands on the resources through effective inter-sectoral coordination in resource uses. As the country continues to benefit from its rich natural resources, such frameworks should

214 The World Bank Group: Tanzania Systematic Country Diagnostic 2017
215 Ibid.

ensure a higher level of efficiency in managing and leveraging natural resources. This includes well-coordinated planning of resource uses across sectors given the risk of resource depletion has been propelled by uncoordinated resource exploitation in the context of resource based economic growth. For instance, the planning and development of water basins needs to be synchronised with the plans of other sectors.

Institutional capacity of managing natural resources has to be strengthened particularly at the central level. The Government's environmental agency (Vice President's Office – Environment) has a cross-sectoral mandate and works to mainstream environmental issues across government. Some sectoral ministries have developed sectoral environmental action plans. Diagnosed by the World Bank, ministries lack sufficient capacity in terms of budget, staffing, and expertise to adequately address the issues related to environment and natural resource management, including climate change[216].

Transparency in the natural resource sectors has to be strengthened. For example, as noted by the WB, the effectiveness of Wildlife Management Areas (WMAs), which are designed to promote community-level stewardship of natural resources, can be enhanced by increasing transparency of the flow of funds to involved stakeholders. Given the significance of the tourism industry to Tanzania's economy, enhancing the effectiveness of WMAs to achieve the better protection of wildlife and to indirectly tackle the poaching crisis is critically important. The experiences from the Extractive Industries Transparency Initiative (EITI) in Tanzania as well as elsewhere in the world show that the improved transparency in revenue collections also lead to improved revenues for governments[217].

Regulations to govern natural resources have to be well designed for effective impacts for conservation while avoiding unnecessarily burdens on the side of private sector, notes the WB. The Government needs to take a holistic approach in setting an effective regulatory regime so that overlaps among regulations are removed to address multiplicity in taxes, licenses, and fees in tourism.

Taxation

Tax administration in Tanzania is under the Tanzania Revenue Authority (TRA). Over the last two and half decades since the inception of the TRA, Tanzania has undertaken reforms aimed at improving its taxation system. Some of the major reforms taken place include: integration of TRA operations; payment of tax through banks and later through mobile money services for some of the taxes such as property tax; use of ICT systems for Tax administration – ITAX including TIN and e-filling, computerised motor vehicle registration system. The reforms have led to increase in revenue collection. According to TRA, between 2014/15 and 2018/19, domestic revenue increased by 69.1%, from TZS 11.0 trillion to TZS 18.5 trillion. Tax revenue increased by 56.5% over the same period. Also, stated by the TRA; between July 2019 and April 2020, the revenue increased by 13.6% compared to the similar period in 2018/19[218]. According to the authorities, strengthening enforcement of tax laws, proper management of Electronic Fiscal Devices (EFDs), promotion of tax payer's education and tax payment services, and strengthen of minerals control are among the factors pointed to have contributed to the increase in revenue collection. Further, compliance in paying tax has increased as a result of improvement in provision of economic and social services. The country has made notable achievement in infrastructural development from railways, roads to the ports. Further, over 400 health centres have been built within the last five years. Furthermore, the authorities state that abolition of nuisance fees and levies to

216 Ibid.
217 Ibid.
218 https://www.tra.go.tz/images/SPEECH.pdf

improve business and investment following on Blueprint recommendations have also contributed to increase in revenue. Yet, stakeholders interviewed and the business community at large, lamenting the overall worsening governance and business enabling environment, in particular voice their concerns concerning arbitrary taxation, number of different kinds of fees, non-repayment of surplus VATs by government etc.

Potential impact on the economy of COVID-19 pandemic

The first COVID-19 case in Tanzania was reported in March 2020. Unlike other countries, including neighbours in the region, Tanzania did not opt for a lockdown. Instead it allowed social and economic activities to take place while taking some precautionary measures. The health impact remains rather unknown; Tanzanian government has claimed it has erased corona virus from the country and there is no information available on the actual situation.

On the possible economic impact, the projections by EUI/IMF for 2020 pull down growth prospects for Tanzania to 2%, down from earlier forecast of 5.3%. A number of factors are pointed out as possible attributes for the slowdown. These include: decline in tourism sector's revenue and growth as a result of imposition of travels restrictions globally; disruption in global value chain supply resulted from into decline in international trade volume, which will mainly affect agriculture and mineral exports. Nonetheless, the Government is – likely rather unsubstantiated – optimistic about the economic performance for 2020 and has projected a growth of 5.5%. Looking at macro economy and other key indicators: inflation is projected to rise to 3.9% in 2020 from 3.4% in 2019; Tax GDP ratio decline from 13.5% in 2018/19 to 13.1% in 2019/20; current account deficit increase from US$1.7 billion in 2019 to US$2.4 billion in 2020; over 1.5 million jobs in tourism sector are at risk, so is the sector's contribution to GDP; decline in tourism revenues, the important contributor to the FOREX, together with decline in revenue from minerals export is expected to reduce reserves from the current US$5.6 billion to US$4.7 billion. Further, retail business, which mainly depends on merchandise from China, India and some European countries is projected to shrink.

The 2020/21 Government budget identifies areas of challenge: air transport and tourism as a result of cancelation of international flights, causing shrinkage in economic activities, layoff of employees and loss in revenue; decline in transportation activities following shutdown of borders; fall in global demand for traditional exports such as cashew nuts, coffee and tea.

Country Case Annex 4: Other donors in Tanzania

US-AID. In Tanzania, USAID focuses on accelerating growth in rural-based, job-creating sectors (e.g., agriculture and food production and processing and natural resource-based tourism) while reducing constraints to private sector investment in these areas. USAID objectives include advancing Tanzania's socio-economic status toward middle-income status by 2025; sustaining inclusive, broad-based economic growth; supporting private sector investment in energy as well as agriculture and natural resource-based tourism; and increasing the access of women and youth to resources and knowledge that allow them to take advantage of opportunities in these sectors. US-AID's latest Country Development Cooperation Strategy is for the years 2014–2019.

UK/DFID. With the UK as the largest provider of Foreign Direct Investment in Tanzania, DFID's work to strengthen the economy seeks to create further investment opportunities for British business. At the same time, a stronger economy is expected to help to manage the stability, migration and security risks associated with a large, young and disillusioned population. DFID's country programme's component on economic development, for the financial years 2018/19 to 2019/2020, has focused on connecting farmers with markets, increasing the capacity of Dar es Salaam port, and other efforts to create jobs and become a bigger trading partner for the UK.

Sweden/SIDA. Sida's development cooperation with Tanzania aims to contribute to sustainable growth and giving people who live in poverty better opportunities to provide for themselves. The main target groups are women, children and young people. Specifically, in growth and jobs, Sida is supporting work to develop agricultural markets and the private sector, via various Tanzanian organisations, the UN's Challenge Funds system, civil society and collaboration with trade and industry. Sida has supported access to financial services, small farmers' income generation and assuming of sustainable farming methods, and entrepreneurship training programmes for students. Sida also supports social safety nets in Tanzania.

Japan/JICA. JICA's support to Tanzania is primarily focused on: 1) economic growth toward poverty reduction, 2) infrastructure development sustaining economic growth and poverty reduction, and 3) improvement of public services to all citizens. In private sector & industry development, JICA interventions to the sector are five-fold: first, providing policy advice to the Ministry of Industry, Trade and Investment (MITI); second, improving business environment and job creation through general budget support; third, developing local potential industries through development of industrial clusters; fourth, strengthening the support for quality and productivity improvement of manufacturing enterprises through KAIZEN approaches; and fifth, open up opportunities for young future leaders in Tanzania by providing master degree and internship programmes in Japan through the ABE (African Business Education) Initiative. Also closely linked to economic development, JICA supports Tanzania in agricultural, energy, transportation and water sectors.

Germany. While the German-Tanzanian cooperation focuses on health, water and biodiversity, through various multi-country initiatives Germany supports income generation and employment and aim to improve the competitiveness of the Tanzanian economy. For example, a programme funded by Germany, the UK, Norway and the private sector has been launched to improve vocational training and employment options for local workers, focusing on the resource sector. The Competitive African Rice Initiative (CARI) is working to make smallholder farmers along the rice value chain more competitive and increase their incomes on a sustainable basis. In another programme, public, private sector and civil society stakeholders are working together to develop solutions for the sustainable management of water resources in selected areas. On behalf of the Federal Ministry for Economic Affairs and Energy (BMWi), the Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH is supporting the development of renewable energy markets.

World Bank. The World Bank supports Tanzania's growth through policy analysis, grants, and credits, with a focus on infrastructure and the private sector. The World Bank's active portfolio in Tanzania includes 20 national International Development Association (IDA) projects with total net commitments of USUS$4.07 billion. Key sectors supported include transport (26%), urban development (20%), energy (15%), water (12%), education (9%), social protection (8%), health/nutrition (5%), environment/natural resources (4%) and agriculture, governance and poverty projects make up the rest of the portfolio. Tanzania is also included in seven regional projects, with its total commitments reaching USUS$938.35 million supporting the transport, energy, environment, health and education sectors. The Bank's Tanzania Country Partnership Framework 2018–2022 (CPF) has three focus areas: (1) enhance productivity and accelerate equitable and sustainable growth, (2) boost human capital and social inclusion, and (3) modernise and improve the efficiency of public institutions. The CPF 2018–2022 seeks to deepen investments in transport, information and communication technology, and energy to support spatial transformation and inclusive growth, and scales up human capital development. The Bank also focuses on innovating to maximise access to finance and generate jobs.

As a part of the World Bank Group, **International Finance Corporation (IFC)**. IFC's strategy in Tanzania involves proactively developing infrastructure projects through investment and advisory (Public-Private Partnerships) interventions, focusing on power, oil, and transportation. IFC also works closely with the IDA to identify actions to promote more rapid commercialisation of agriculture. IFC's strategy places emphasis on strengthening financial markets, particularly in terms of access to finance for micro and small-medium enterprises. IFC seeks to provide advisory services to improve the investment climate through reform programmes that cover licensing, regulatory reform and other areas tracked in the Doing Business indicators.

African Development Bank. ADB's Country Strategy Paper (CSP) 2016–2020, continues to support the Government's strategies to transform the economy towards inclusive and green growth. The CSP is articulated around the following two strategic pillars: (i) Infrastructure development, and (ii) Strengthening governance and accountability. ADB's interventions under the first pillar focus on improving both domestic and regional transport connectivity as well as access to electricity. The second pillar, which reinforces the first pillar, focuses on improving financial management and institutional and capacity building support reforms to unlock private sector investments and finance for job creation.

EU. The 11th European Development Fund (EDF) National Indicative Programme (NIP) allocated EUR 626 million for the 2014–2020 funding period. This is the main strategic instrument to implement the EU priorities in Tanzania, which respond to a large extent to 3 priorities areas: (1) Good governance and development – focuses on core issues that are of the upmost importance to drive Tanzania in its transformation process: governance, fight against corruption and accountability, protection of human rights, non-discrimination and freedom of speech, economic governance, fiscal stability, and structural reforms, including business environment; (2) Energy – focuses on access to electricity, particularly in rural areas, promoting renewable energy and energy efficiency, as well as sector policy and regulatory reforms; and (3) Sustainable agriculture – aiming to transform agriculture into a key driver for inclusive and smart climate growth, poverty eradication, sustainable development, job creation and industrialisation. Additional support is provided through measures in favour of civil society. Specific support to gender-related measures is also provided. The strategy for the 2014-2020 programming period aims at promoting pro-poor, inclusive and sustainable growth in Tanzania. It will tap into opportunities to promote trade, investment and cooperation with and through the private sector.

UN. United Nations Development Assistance Plan (UNDAP) II (2016–2021) aims at twelve programme outcomes, grouped under four inter-related, mutually dependent themes which acknowledge that Inclusive Growth requires a Healthy Nation, which is Resilient to shocks (both natural and man-made) within the context of transparent and accountable Governance serving citizens' needs. The outcomes aimed at under the theme Inclusive Growth are: The economy is increasingly transformed for greater poverty reduction, competitiveness and increased opportunities for decent and productive employment; Enhanced equitable and inclusive access to quality basic education and lifelong learning; and Increased coverage of comprehensive and integrated social protection for all, especially the poor and vulnerable.

While their support to economic development, jobs and livelihoods is not, according to the OECD/DAC classification and data, in the top-five for the bilateral donors in Tanzania, Denmark and Norway are nevertheless providing such support, and they are important peers to Finland:

Denmark. Denmark has been supporting the Tanzanian business sector since the late 1990s. The purpose is to improve the business environment that is necessary for business to be competitive, grow and develop. The Business Sector Programme Support (BSPS) is currently in its fourth phase with a total budget of 600 million DKK for the period 2013–2019, extended until 12/2020. Denmark's new country programme is, according to the Embassy of Denmark to Dar es Salaam, expected for 2022. The BSPS IV focuses on smallholder farmers and businesses related to agriculture including local processing of agricultural crops to add value to the crops. The aim of BSPS IV is to increase employment and income opportunities for farms and MSME in a way that is environmentally sound, and where businesses respect and promote human rights. Through three main initiatives, the design of BSPS IV addresses some of the major factors hindering private sector growth and employment: (1) Agricultural Markets Development Trust (AMDT). Denmark – in collaboration with other donors[219] – supports farmers and businesses within sunflower oil, maize and pulses production and processing in order to realise their growth potential. Key interventions include linking the farmers and the agri-businesses to relevant markets and supporting removal of obstacles, which prevent farmers and business from realising their growth potential. (2) Improved Business Climate (LIC). The initiative supports local government authorities and business communities in selected geographical regions of Dodoma and Kigoma to identify obstacles to business development and improve the implementation of the existing legal framework. Small infrastructure investments shall address identified obstacles, and thus help unlock local business potential and economic development. (3) Improved Access to Finance. This initiative focuses on finance for small and medium sized enterprises, agricultural finance and mobile money. The support is continuations and expansions of the Financial Sector Deepening Trust (FSDT) and the Private Agricultural Sector Support (PASS) Trust. Both organisations have been successful in facilitating access to finance for a large group of Tanzanians. The continued support will allow PASS and FSDT to reach a larger number of MSMEs, farmers and agribusinesses.

Norway. Norway considers their support to economic development to consist of the Productive Social Safety Net (PSSN) Programme; the Public Financial Management Reform Programme V; and the Tanzania Tax Modernisation Programme and support to the Tanzanian Revenue Authority (TRA) and Zanzibar Revenue Board (ZRB) by the Norwegian Tax Administration. The PSSN,

219 Denmark, Sweden, Ireland and Switzerland.

as referred to discussing poverty in this Report, is implemented by the Tanzania Social Action Fund (TASAF) and supported initially by the World bank only with other donors, notably Norway, joining in later (Norway's first disbursement was in 2020). The PSSN aims at reducing extreme poverty and breaking its intergenerational transmission. It is based on integrated interventions targeted to the poorest households: a labour-intensive public works (PW) programme and conditional cash transfers (CCTs). The specific objective of the PSSN is to increase income and consumption and improve the ability to cope with shocks among vulnerable populations, while enhancing and protecting the human capital of their children. In 2013, the Government of Tanzania decided to scale up the PSSN to cover all households in extreme poverty and by 2015 the programme was delivering cash transfers to over 1 million households across the country. A randomised impact evaluation (2019) suggests that the PSSN is generating the intended impacts[220].

The Public Finance Management Reform Programme (PFMRP) is also supported by Finland. Finland, however, considers this support as a contribution towards "societies to become more democratic and better-functioning" (development policy priority area 3), more precisely towards improved performance of the public sector (Tanzania Country Strategy 2016–2019 Impact Area 2); Norway – operating without a written-down country programme – considers their support as a contribution predominantly towards economic development. The PFMRP Phase V Strategy recommends core activities to achieve the overall goal of transparency, accountability, efficiency, and fiscal discipline in the management of public resources. Its key objectives are Improved Macro Economic Management to provide the basis for credible budget; efficient use of resources in alignment with national priorities; Planned, timely and accurate reporting of the budget execution; Public Financial Management's effective control and oversight functions by oversight institutions; Improved Public Financial Management systems and outcomes in Local Governments and improved Public Financial Management and outcomes in Zanzibar.

Tanzania Tax Modernisation Programme is jointly funded by a number of donors, including Finland and Norway. Like in the case of the PFMRP, Finland considers this support as "improved performance of the public sector" and Norway as support to economic development. The Tax Modernisation Programme (TMP) is implemented by the Tanzania Revenue Authority (TRA) and its overall vision is to increase domestic revenue through enhancement of voluntary tax compliance, under the mission "We make it easy to pay tax and make lives better". According to the Norwegian Embassy, implementation of the programme faces challenges because the TRA is under a lot of pressure to increase Domestic Revenue Mobilisation (DRM) on an immediate basis and the TMP rather focuses on long-term gains. Support by the Norwegian Tax Administration to the TRA and the Zanzibar Revenue Board (ZRB) only started when the COVID19 hit; nevertheless the early experiences indicate that again to get traction with the TRA is challenging, however, the ZRB is, according to the Embassy, rather interested and well engaging.

Finland is the main development partner supporting Tanzania when it comes to the development of Forestry sector. Other DPs involved in the sector provide limited support which is typically focused on conservation only, natural resources management or policy. These include: Swiss government and its Sustainable Charcoal program; Norway (East Africa Forest Endowment – Reserve and Livelihood); WWF; European Union; Commercial Forest Development Trust – DFID; YAMAHA cooperation, which supports private sector conservations; Belgium – Enable supports Kigoma management of natural resource; World Bank; GEF; and FAO – Policy Change influence.

220 World Bank: Evaluating Tanzania's productive Social Safety Net; Findings from the Midline Survey, September 2019.

Country Case Annex 5: PA2 portfolio

Table 3 MFA funding decisions for Bilateral Programmes with PA2 as first or second priority for Tanzania 2016–2019.

Project number	Channel of delivery	Short description	Commit-ments	Case type	Decision year
PA2 priority "1"					
28235796	The Ministry of Finance and Economic Affairs of Tanzania	Forestry and Value Chains Development FORVAC	9,950,000	Bilateral programme	2015[221]
28235793	The Ministry of Finance and Economic Affairs of Tanzania	Support to Tanzanian innovation system TANZIS	8,950,000	Bilateral programme	2016
28235874	Other implementers	Private Forestry Programme II in Tanzania	9,400,000	Bilateral programme	2018
28235919	Other implementers	Tree Outgrowers Support Programme in Tanzania TOSP	1,850,000	Bilateral programme	2019
PA2 priority "2"					
-					
PA2 not marked as a priority, but relevant to the evaluation					
28235863	Recipient Government	TAN/Tax Modernisation Programme	4,000,000	BI Co-financing programme	2017
28235868	Donor Government	TRA Tax Administration Twinning	1,000,000	Bilateral programme	2017
28235868	Tax Administration	TRA Tax Administration Twinning	230,000	Bilateral programme	2019

Source: MFA. Development Cooperation projects Funding decisions 2015–2019

221 While FORVAC's funding decision dates back to 2015, it has been included in the evaluation because of its significance to Finland's portfolio and since its implementation only started in 2018.

Table 4 MFA funding decisions for Regional and global Programmes with PA2 as first or second priority for Tanzania 2016–2019.

Project Number	Channel of delivery	Short description	Commit-ments	Covering Case countries	Decision year
REGIONAL[222]					
-					
PA2 priority "1"					
28924126	Recipient Government	Southern African Innovation Support Programme (SAIS) phase II	8,700,000	TAN, ZAM	2015
29892337	International non-governmental organisations	TMEA TradeMark East Africa.	2,000,000	KEN, TAN	2015
29892468	African Development Bank	ALUE/African Circular Economy	600,000	ALL	2019
29892417	BI Cofinancing Programme	TMEA TradeMark East Africa – support to economic integration of East Africa Community.	9,800,000	KEN, TAN	2016
29892455	International non-governmental organisations	Publish What You Pay (PWYP): Promoting equitable and transparent generation and allocation of extraction industries	1,000,000	ALL	2019
89892281	EIF/WTO	Enhanced Integrated Framework (EIF) for trade-related assistance for LDC	9,000,000	TAN, ZAM	2015
89800109	ITC	International Trade Centre	5,170,000 3,110,000	ALL	2015 2018
89892387 **89889201** **89889201**	UNIDO	UNIDO	1,181,671 2,100,000 450,000	ALL	2016 2017 2019
PA2 priority "2"					
28924139	Nordic Development Fund	Energy and Environment Partnership Southern and East Africa Multidonor Trust Fund (EEP)	15,000,000 1,900,000	ALL	2017 2019
Relevant but not PA2 marked					
29892383	Institutional cooperation instrument.	African Tax Administration Forum. Africa Finnish Tax Administration's Technical Assistance to African Tax Administration Forum (ATAF).			
29892356	International non-governmental organisations	African Tax Administration Forum. African Tax Administration Forum – ATAF			

Source: MFA. Development Cooperation projects Funding decisions 2015-2019

222 While FORVAC's funding decision dates back to 2015, it has been included in the evaluation because of its significance to Finland's portfolio and since its implementation only started in 2018.

Table 5 MFA funding decisions for Fund for Local Cooperation with PA2 as first or second priority for Tanzania 2016–2019.

Project Number	Channel of delivery	Short description	Commit-ments	Covering Case countries	Decision year
PA2 priority "1"					
28235856	Embassy of Finland	Joint Forest Management- A solution to large scale forest ecosystem governance and community capacity.	41,216	Fund for Local Cooperation instrument	2016
28235864	Embassy of Finland	Bits & Bytes Technology Convention 2017	9,474	Fund for Local Cooperation instrument	2017
28235867	Embassy of Finland	Sahara Sparks Event 2017	9,120	Fund for Local Cooperation instrument	2017
28235866	Embassy of Finland	World of Weaving- The beau-ty of handwoven 2	10,245	Fund for Local Cooperation instrument	2017
PA2 priority "2"					
28235788	Embassy of Finland	Climate Change Adaptation Initiative: Advancing Commu-nity – Based Climate Change Adaptation	5,159	Fund for Local Cooperation instrument	2016
28235883	Embassy of Finland	Amka Mwanamke (Wom-an Arise) Campaign in Response to Women's Land Rights	46,580	Fund for Local Cooperation instrument	2017
28235926		Addressing informal sector sexual and gender based violence: core support.	90,000	Fund for Local Cooperation instrument	2019
PA2 not marked as a priority, but relevant to the evaluation					
-					

Source: MFA. Development Cooperation projects Funding decisions 2015–2019

Table 6 MFA funding decisions for NGO project support with PA2 as first or second priority for Tanzania 2016–2019.

Project Number	Channel of delivery	Short description	Commitments	Covering Case countries	Deci-sion year
PA2 priority "1"					
-					
PA2 priority "2"					
28235777	Finnish Christian Medical Society	Contributing to capacity building of developing and using Health Information Systems in Tanzania	357,000	Project support	2016
28235843	SOS-lapsiky-läsäätiö rs.	Women's empowerment and child rights in Mufindi	619,142	Project support	2016
28235834	Liikunnan kehitysyhteistyö Liike ry	Empowered Girls Speak Out – Securing education of girls through sports in secondary schools and voca.	350,200	Project support	2016
28235891	Media and Development Fund	Empowering rural commu-nities in Tanzania through media	300,000	Project support	2018
PA2 not marked as a priority, but relevant to the evaluation					
-					

Source: MFA. Development Cooperation projects Funding decisions 2015–2019

Country Case Study

Zambia

Photo credit: Marja-Leena Kultanen

Sonja Huhta
Chiwama Mwamba Musonda

Evaluation of Economic Development, Job Creation and Livelihoods
2021/1C

Contents

ACRONYMS AND ABBREVIATIONS 180

SUMMARY TABLE OF KEY FINDINGS, CONCLUSIONS AND LESSONS / IMPLICATIONS 183

1 THIS COUNTRY CASE STUDY REPORT 190

2 APPROACH, METHODOLOGY AND LIMITATIONS 192

2.1 The approach of the strategic evaluation 192

2.2 Evaluation questions applied to this Country Case Study 192

2.3 Methodology applied to this Country Case Study 193

2.3.1 Selection of the Case Countries 193

2.3.2 Methods of data collection and analysis applied 194

2.3.3 Limitations 196

3 CONTEXT ANALYSIS 197

3.1 General country context 197

3.1.1 Economy 197

3.1.2 Governance 198

3.1.3 Poverty 198

3.1.4 Inequality and Gender 199

3.1.5 Policy framework 199

3.2 Summary of the context analysis 200

3.3 Key donors in the sector 205

3.4 Finnish development cooperation with Zambia 206

3.4.1 Background 206

3.4.2 Finland’s Country Strategy 2016–2019 208

3.4.3 Support to economic development and job creation: current and future plans 209

4 FINDINGS 214

4.1 Achievement of Finland’s objectives on economic development, job creation and livelihoods (PA2) 214

4.1.1 Coherence with the overriding Finnish policy framework for PA2 214

4.1.2 Relevance to partner country needs 216

4.1.3 Relevance and effectiveness for the pursuit of transition 221

4.1.4 Effectiveness in improving the economy by providing jobs and livelihoods 227

4.1.5 Effectiveness in addressing climate change mitigation and adaptation 236

4.2 Complementarity and added value of partnerships built 237

4.3 Results Based Management and Knowledge Management: lessons learnt 239

5 CONCLUSIONS 242

5.1 Achievement of Finland’s objectives on economic development, job creation and livelihoods (PA2) 242

5.1.1 Coherence with the overriding Finnish policy framework for PA2 242

5.1.2 Relevance to partner country needs 242

5.1.3 Relevance and effectiveness for the pursuit of transition, and role of the private sector in transition 243
5.1.4 Effectiveness in improving economies for jobs and livelihoods 245
5.1.5 Effectiveness in addressing climate change mitigation and adaptation 245
5.2 Complementarity and added value of partnerships built 246
5.3 Results Based Management and Knowledge Management 246

6 IMPLICATIONS AND LESSONS LEARNED 248

Country Case Annex 1: List of documents consulted 251
Country Case Annex 2: People Interviewed 255
Country Case Annex 3: Context Analysis 258
Country Case Annex 4: Other donors in Zambia 274
Country Case Annex 5: PA2 portfolio....280

FIGURES

Figure 1 ODA disbursements to Zambia by donor 2015–2018 205
Figure 2 Finnish ODA to Zambia 2009–2018....207
Figure 3 Finnish exports to the three case countries (EUR million) 225
Figure 4 Number of Finnpartnership BPS funding decision 2016–2019 225
Figure 5 Share of sectors in employment (%)....260
Figure 6 Tons of CO_2 per person 2017....272
Figure 7 Finnpartnership BPS for Zambia 2016–2019, % of commitments (EUR)....283

TABLES

Table 1 Objectives of the 2016–2019 Country Strategy for Zambia. 208
Table 2 Summary of projects and commitments for PA2 and PSI projects in Zambia 2016–2019....212
Table 3 Country Strategy for Zambia 2016–2019 – logic model....240
Table 4 MFA funding decisions for Zambia 2016–2019....281
Table 5 Regional projects covering Zambia....282

Acronyms and Abbreviations

AfDB	African Development Bank
AgDevCo	Agricultural Development Company
AGR	African Green Resources
AGS programme	Accelerated Growth for Micro, Small and Medium-Sized Enterprises in Zambia.
BEAM	Business with Impact programme
BGF	Beyond the Grid Fund
BPS	Business Partnership Support
BTI	Bertelsmann Stiftung's Transformation Index
CEDP	Citizens' Entrepreneur Development Programme
CEE	Citizens' Economic Empowerment
CEO	Chief Executive Officer
COMESA	Common Market for Eastern and Southern Africa
CSO	Civil Society Organization
DFI	Development finance institution
DFID	Department for International Development (UK)
DFNRMP	Decentralized Forestry and Other Natural Resources Programme
ECIS	Extension of Coverage for the Informal Sector project
EDF	European Development Fund
EEP	Energy and Environment Partnership
EITI	Extractive Industries Transparency Initiative
EQ	Evaluation question
ERP	Economic Recovery Programme
ESG	Environmental and Social governance
ESGP	Economic Stabilisation and Growth Programme
EU	European Union
FAO	Food and Agriculture Organization
FDI	Foreign Direct Investment
FLC	Fund for Local Cooperation
FMO	the Dutch bilateral development finance institution
FORVAC	Forestry and value chains development programme
FP	Finnpartnership
FSDP	Financial Sector Development Programme
FSDZ	Zambia Financial Sector Deepening Limited
GDP	Gross Domestic Product
HDI	Human Development Index

HIPC	Heavily Indebted Poor Countries
IAEA	International Atomic Energy Agency
IAPRI	Indaba Agricultural Policy Research Institute
ICI	Institutional Cooperation Instrument
ICT	Information and Communication Technology
IDA	International Development Association
IFAD	International Fund for Agricultural Development
IFC	International Finance Corporation
IFI	International Finance Institution
IFMIS	Integrated Financial Management Information System
ILO	International Labour Organization
IMF	International Monetary Fund
IOM	International Organization for Migration
ITC	International Trade Centre
JASZ	Joint Assistance Strategy for Zambia
JICA	Japan International Cooperation Agency
LCMS	Living Conditions Monitoring Survey
LDC	Least Developed Country
Luke	National Resource Institute Finland
MCTI	Ministry of Commerce, Trade and Industry
MDB	Multilateral Development Bank
MDGs	Millennium Development Goals
MFA	Ministry for Foreign Affairs of Finland
MoU	Memorandum of Understanding
MSMEs	Micro-, small- and medium-sized enterprises
MSTF	Zambia's Mining Skills and Training Framework
NAPSA	National Pension Scheme Authority
NDP	National Development Plan
NEFCO	Nordic Environment Finance Corporation
NGO	Non-governmental organization
NORAD	Norwegian Agency for Development Cooperation
NORTEC	Northern Technical College
NTBC	National Technology Business Centre
ODA	Official Development Assistance
OECD/DAC	Organisation for Economic Co-operation and Development's Development Assistance Committee
OEM	Original Equipment Manufacturer
PA2	Policy Priority Area 2 of the 2016 Finnish Development Policy
PACRA	Patent and Companies Registration Agency
PE	Private equity
PEF	Private equity fund
PEPZ	Private Enterprise Programme Zambia
PIF	Public Sector Investment Facility
PPDP	Public Private Development Partnerships

PSD	Private Sector Development
PSDRP	Private Sector Development Reform Programme
PSI	Private Sector Development Instrument
RBM	Results-based management
REEEP	Renewable Energy and Energy Efficiency Partnership
SADC	Southern Africa Development Community
SAIS	Southern Africa Innovation Support programme
SDF	Skills Development Fund
SI	Statutory Instrument
Sida	Swedish International Development Cooperation Agency
SMEs	Small- and medium-sized enterprises
SPIREWORK	Social Protection for the Informal Economy and Rural Workers
TEVETA	Technical Education, Vocational and Entrepreneurship Training Authority of Zambia
THL	Finnish National Institute for Health and Welfare
ToC	Theory of Change
ToR	Terms of Reference
TTS	Rolling plan of the MFA
TVET	Technical Vocational and Entrepreneurship Training
UK	United Kingdom
UN	United Nations
UNDP	United Nations Development Programme
UNECA	United Nations Economic Commission for Africa
UNEP	United Nations Environment Programme
UNESCO	United Nations Educational, Scientific and Cultural Organization
UNFPA	United Nations Population Fund
UNHCR	United Nations High Commissioner for Refugees
UNIDO	United Nations Industrial Development organization
USUS$	US dollars (currency)
USAID	United States Agency for International Development
VAT	Value Added Tax
WFP	World Food Programme
ZAFFICO	Zambia Forestry and Forest Industries Corporation
ZAMITA	Zambia Industrial Training Academy
ZCCM	Zambia Consolidated Copper Mines
ZDA	Zambia Development Agency
ZMLCI	Zambian Mining Local Content Initiative
ZMW	Zambian kwacha (currency)
ZSA	Zambia Statistics Agency

Summary table of Key Findings, Conclusions and Lessons / Implications

Findings	Conclusions	Lessons/Implications
Coherence with the overriding Finnish policy framework for PA2 (EQ 1.1)		
Finding 1. The Country Strategy 2016–2019 and the interventions funded by Finland in Zambia during the evaluation period have been coherent with the Finnish policy framework for Priority Area 2 in focusing efforts on private sector development (particularly MSMEs), incorporating Team Finland efforts, but also in focusing on improving access to decent work through expansion of social protection to the informal sector. **Finding 2.** The efforts to phase out development cooperation in Zambia and to transition to a trade-based relationship is consistent with the 2016 development policy but the transition process has been faster than originally intended. **Finding 3.** The projects and programmes developed under the previous development policy (2012) were more coherent with the objective of targeting the poorest than those designed after 2016, but often lacked sufficient attention to private sector (business and market) linkages for real impact on livelihoods and income. **Finding 4.** Continuity and synergies have been generated particularly between two interventions (Green Jobs Programme and SPIREWORK project). While coherent with the Country Strategy, others have been relatively stand-alone interventions.	**Conclusion 1.** The focus of the Country Strategy and funded interventions have been coherent with the overriding Finnish policy framework for PA2. There has, however, been limited continuity between individual interventions and focus has not been on targeting the poorest. Given the advanced transition process, Finnish commercial objectives are gradually taking the lead on Finland's agenda for Finnish-Zambian relations. *(This conclusion is based on findings 1, 2, 3 and 4)*	**L/I 1.** If a separate transition strategy is not developed and the Country Strategy functions as the *de facto* transition strategy in a partner country, then the vision of the Country Strategy needs to be kept further in the future and the decision to transition needs to be better prepared and resourced than it has been in Zambia. Such measures would help to ensure both coherence with the overriding policy framework and an effective transition process.

Findings	Conclusions	Lessons/Implications
Relevance to partner country needs (EQ 1.1)		
Finding 5. Finnfund's investment in Yalelo Limited is expected to offer formal (and fairly decent) employment and on-job training to low-skilled people in rural areas, including specifically youths. Results in terms of improving youth employment have been mixed in other Finnish-funded programmes. **Finding 6.** Interventions funded by Finland in collaboration with the ILO have directly contributed to Zambia being seen as a frontrunner at the level of the African Union in its programmatic approach to extending social protection to the informal sector. **Finding 7.** Finnfund's investment in aquaculture directly contributes to the Zambian government's objective of economic diversification. Other programmes have also aimed to contribute to economic diversification, but most have ended before they could make a significant contribution in this aspect due to the measures to phase out of development cooperation. **Finding 8.** Mining is one of the focus sectors of the AGS programme. This may not be relevant for the Zambian government's aspirations to diversify but matches the programme's objective of generating business opportunities and trade between Zambia and Finland. **Finding 9.** After dropping agriculture as a focus sector from the 2016–2019 Country Strategy, Finland has still funded some relevant efforts that address agricultural productivity. These efforts are, however, small-scale and unable to comprehensively address the fundamental challenges for agricultural productivity at the level of small-scale farmers. **Finding 10.** The 2016–2019 Country Strategy did not target technical and vocational training and secondary education, which are some of the main bottlenecks for employment for youths and women. **Finding 11.** Finland made a conscious decision to move focus from governance issues or a business enabling environment in Zambia to more direct support to private sector development in the 2016-2019 Country Strategy. **Finding 12.** Finland's Country Strategy, approaches and interventions in Zambia during the evaluation period have specifically targeted MSME's capacity to grow and create more jobs. Together with considerably larger donors, such as DFID, Finland has been one of the leading cooperating partners to Zambia in this sector.	**Conclusion 2.** The main guiding principle of Finland's Country Strategy for 2016-2019 has been to create the basis for transitioning to a trade-based relationship with Zambia. The relevance of the transition for addressing Zambia's critical constraints for economic development is currently limited due to the deteriorated macroeconomic environment, worsened by the covid-19 pandemic, and relatively modest levels of trade. *(This conclusion is based on findings 7, 8, 9, 10, and 11)* **Conclusion 3.** Within the limitations of a reduced budget for Finnish development cooperation in Zambia, the chosen focus on private sector development, specifically increasing decent work in the informal sector and strengthening the capacity of MSMEs, has matched the strategic priorities of the Zambian Government well. *(This conclusion is based on findings 5, 6 and 12)* **Conclusion 4.** Finnfund's investment in Zambia is highly relevant for Zambia's critical constraints in terms of creation of decent work in rural areas for youths, for economic diversification and for increased FDI. However, macro-economic uncertainty and volatility present challenges for Finnfund to make direct investments in Zambia. *(This conclusion is based on findings 5, 7, 21 and 25)*	See Lesson/Implication 2, 6 and 9.

Findings	Conclusions	Lessons/Implications
Relevance and effectiveness for the pursuit of transition, and role of the private sector in transition (EQ 1.1)		
Finding 13. The Zambian economy has experienced a downturn since 2015, when the MFA made its official decision to pursue transition in Zambia based on the country's economic growth. Still, the transition process has moved faster than planned as a combined result of cuts in Finnish development cooperation funds, disenchantment due to corruption cases, and a shift in the MFA's overall strategic priorities. **Finding 14.** The Finnish Embassy in Lusaka has made proactive efforts to support the transition process and increase interest in the Zambian market among the Finnish private sector. Its possibilities of incorporating best practices and lessons in its approach to transition and for fostering a trade-based relationship have, however, been hampered by the reduction in resources, both human and financial. **Finding 15.** While not directly within the MFA's control, the Embassy in Lusaka has consistently pursued to deploy PSIs to support the MFA's ambition to transition Zambia's and Finland's collaboration on to a trade-based relationship. **Finding 16.** The results of the Embassy's efforts to promote the Zambian market to Finnish businesses are not yet observable in trade and PSI statistics. **Finding 17.** Potential increase in trade in the short- or medium-term is likely to mostly involve Finnish exports to Zambia. Currently, most Finnish businesses operating in Zambia are selling a product or service, which does not directly generate jobs or income for Zambians or revenue for the Zambian government. **Finding 18.** While its implementation is still in the early stages, the AGS programme is in many ways a pilot for bilateral programmes that may serve to bridge the transition period with a partner country.	**Conclusion 5.** In retrospect, Finland's decision to transition to a trade-based relationship with Zambia based on the country's economic growth appears premature, considering the economic downturn since 2015, including persistent poverty levels, dwindling levels of FDI, escalating indebtedness and the lack of competitiveness of the Zambian private sector. *(This conclusion is based on Context and findings 13 & 14)* **Conclusion 6.** For the Embassy to proactively build up business partnerships and trade between Finland and not only Zambia but also the Democratic Republic of Congo and Zimbabwe, the current human resources available in the Embassy are insufficient. *(This conclusion is based on findings 14 and 16)* **Conclusion 7.** The proactive efforts in recent years and current instruments available to the MFA have not yet resulted in increased trade between Finland and Zambia. A prosperous, mutually beneficial trade-based relationship between Finland and Zambia will require long-term efforts. *(This conclusion is based on findings 16 and 17)* **Conclusion 8.** While interlinkages are possible, the MFA does not have control over the Private Sector Instruments in order to utilize them for the benefit of a transition agenda. They operate based on private sector interest and market >>>	**L/I 2.** If the ambition is to generate a genuine, mutually beneficial trade-based relationship in transition countries, the respective Finnish Embassies have a role to play in maintaining broader relations, identifying opportunities and linking up actors. This requires, however, sufficient human resources specialized in private sector and trade from the beginning of the process. **L/I 3.** In order to better harness the PSIs in transition countries, the MFA could consider leveraging its position as owner to launch campaigns for relevant instruments directed at transition countries. Such campaigns may be more challenging for Finnfund, but relevant for instruments such as Finnpartnership or DevPlat (former BEAM). **L/I 4.** Considering the pilot-nature of the AGS programme, it should be allowed sufficient time for following through on its design. Providing it with sufficient time to drive for results would also allow better harnessing of it to support the transition and build the new commercial relations. **L/I 5.** Regional programmes such as SAIS and EEP are a valuable instrument in supporting the phasing out of bilateral cooperation while maintaining a presence in a transit country such as Zambia.

Findings	Conclusions	Lessons/Implications
	>>> logic that may or may not align to MFA or partner country priorities. The tools within the Embassy's control for supporting the transition process are consequently few once development cooperation has been phased out. *(This conclusion is based on findings 14 and 15)* **Conclusion 9.** Piloting of AGS presents an opportunity for lessons learnt in 'transition', but not within the currently planned timeframe. *(This conclusion is based on finding 18)*	
Effectiveness in improving economies for jobs and livelihoods (EQ 1.2 and 1.3)		
Finding 19. As a result of the MFA's decision to phase out development cooperation in Zambia (officially in 2016) and the cuts in financial resources, a number of Finnish-funded programmes related to PA2 objectives have been discontinued just as they were gaining momentum and/or before sustainability of results could be ensured. **Outcome objective 1 of PA2: Decent work, livelihoods and income for all** **Finding 20.** The potential impact of the relatively small SPIREWORK project on improving access to decent work in the informal sector is considerable. Benefits for women depend on its expansion beyond the pilot phase. **Finding 21.** While decent work has been incorporated into all Finnish-funded bilateral and multilateral programmes funded under the 2016-2019 Country Strategy, they have not managed to combine the two objectives of both generating as many decent jobs as possible and specifically benefiting the poor, women and youths. Finnfund's investment in aquaculture presents an exception by addressing both. **Outcome objective 2 of PA2: A more dynamic and diversified private sector** **Finding 22.** The total direct employment effect of Finnish funded interventions targeting PA2 objectives since 2016 is estimated to be in the order of 5,240-5,540 jobs.	**Conclusion 10.** The discontinuation of programmes as a result of the transition decision has adversely affected the effectiveness and sustainability of results achieved in Finnish funded interventions in terms of economic development, job creation and increased livelihoods opportunities. *(This conclusion is based on findings 7, 19, 23 and 25)* **Conclusion 11.** Time pressure and targets for maximizing the number of jobs created through Finnish-funded interventions has limited the ability of bilateral private sector development programmes to specifically benefit women, youths and the poor for decent, rights-based jobs. *(This conclusion is based on findings 5, 9, and 21)*	**L/I 6.** Transitions should be allowed sufficient time to follow through on ongoing commitments and programmes to ensure the sustainability of results, unless premature termination is otherwise justified. This can also serve to safeguard the reputation of Finland and contribute towards broader relations. Transitioning in a country in which private sector cooperation is still low requires at least two programming periods (8–10 years).

Findings	Conclusions	Lessons/Implications
Outcome objective 3 of PA2: International business rules **Finding 26.** Finland's Country Strategy for Zambia 2016-2019 or its portfolio did not target support to capacity development of the Zambian government to comply with the rules of international trade, but Finland has provided support outside the Country Strategy through ITC (non-traceable). **Finding 27.** Team Finland efforts, as per their mandate, are mainly concerned with generating business opportunities for Finnish companies and do not involve measures to improve compliance with standards for international guidelines for responsible business.		
Outcome objective 4 of PA2: Know-how, value chains, technologies and innovation **Finding 28.** The main programmes contributing to better use of new know-how, value chains, technologies and innovations in Zambia have been the regional Southern Africa Innovation Support programme (Phase II) and the AGS programme. Results on these aspects are yet to be reported for both. **Finding 29.** Introduction of Finnish technology through Team Finland efforts has been successful in e.g. higher education. In sectors such as agriculture the hurdle for Finnish technology is the labour-intensive nature of the sector in Zambia and competition on price with similar Chinese solutions.		
Effectiveness in addressing climate change mitigation and adaptation (EQ 1.3)		
Finding 30. Programmes designed and approved under the 2012 development policy had a clear focus on climate change mitigation and adaptation while later country-level programmes targeting PA2 objectives have prioritized job creation. **Finding 31.** The three years of the DFNRMP was insufficient for achieving observable impacts on community livelihoods, which would have been important for the sustainability of results. **Finding 32.** Finland gained significant influence in the forestry and natural resources sector in Zambia when support was embedded in the government systems through bilateral cooperation such as the DFNRMP. Finland is still highly respected in the sector.	**Conclusion 12.** Private sector development and job creation has been prioritized in major interventions funded after 2016. Considering the adverse effect that climate change is having on the Zambian economy through e.g. failed harvests and the energy crisis, climate change would have merited a stronger focus also in the 2016–2019 programming period. *(This conclusion is based on findings 21, 25, 30 and 31)*	**L/I 7.** Finnish aid to countries preparing for or currently in transition could fully incorporate climate change in their strategic focus in order to leave a legacy pointing in the right direction, and to actively pave the way for and identify opportunities for Finnish clean tech and other adaptive solutions.

Findings	Conclusions	Lessons/Implications
Complementarity and added value of partnerships built (EQ 2.3)		
Finding 33. There has been somewhat of a paradigm-shift in donor cooperation in Zambia that started with the end of budget support and co-funded sectoral development programmes and currently involves many donors, including Finland, phasing out development cooperation and/or increasingly emphasizing direct collaboration with the private sector. **Finding 34.** The ILO has been a key partner for all Finnish-funded interventions relating to decent work. The weight of the UN and its agencies has, in some cases, been important for gaining the attention and interest of the government for policy level advocacy work. **Finding 35.** Individual Finnish-funded interventions focusing on economic development and job creation have involved conscious coordination of efforts with other donors also outside the donor coordination groups. **Finding 36.** Zambia presents a good case in point for understanding Chinese influence in African countries and its potential consequences. There is no solution to Zambia's debt crisis that does not involve China but collaboration between the western donor community and China is challenged by conflicting approaches and values.	**Conclusion 13.** Finland has been a leading member of the cooperating partners' coordination group in the area of PSD throughout the evaluation period. The paradigm shift in the donor landscape in Zambia has, however, reduced the importance of donor coordination. *(This conclusion is based on findings 12, 33 and 35)* **Conclusion 14.** Overall, Finland has partnered with the most relevant actors and organizations in its interventions. In a transition context, Finland has also developed its own programmes even where the objectives are quite similar with existing ones. This has been necessary in order to incorporate the objective of linking the interventions to the Finnish private sector. *(This conclusion is based on findings 12, 34, and 35)*	**L/I 8.** Collaboration with multilateral organizations that have a long-standing relationship with the partner country government, like the ILO, has proven particularly successful and should be pursued in cases where the interventions deal with issues where the leverage of multilaterals is needed, e.g. policy influencing and regulatory reform.

Findings	Conclusions	Lessons/Implications
Results Based Management and Knowledge Management (EQ 3.5)		
Finding 37. The 2016-2019 Country Strategy, its logic model and the portfolio of interventions have been aligned with the objectives of Policy Priority Area 2 of Finland's 2016 Development Policy, but indicators have been set at a very high level compared to actual support in Zambia. **Finding 38.** The 2018 and 2020 ToCs with their indicators have mostly been relevant for reporting and accountability towards the Finnish parliament at the country level, but not for results-based management of Finnish development cooperation in Zambia as such. **Finding 39.** There is no overriding strategy or theory of change to guide the ongoing transition process and envisaged trade-based relationship when the current Country Strategy expires in 2020.	**Conclusion 15.** The PA2 objectives are reflected in both the 2016-2019 Country Strategy for Zambia and the related interventions but the ToCs have mostly been relevant for reporting and accountability to the Finnish parliament. Other factors and priorities at the MFA have influenced management of the Country Strategy. As of 2021 the MFA will no longer be reporting against development policy objectives in Zambia. *(This conclusion is based on findings 1, 2, 37 and 39)* **Conclusion 16.** In the absence of a Country Strategy from 2021 onwards, the objectives, theory of change and strategy for the new commercial relationship are yet to be defined. *(This conclusion is based on finding 39)*	**L/I 9.** The Embassy should, in collaboration with the Zambian government, draw up a strategy to guide how to go about the remaining transition period and how to arrange the new relations.

1 This country case study report

This country case study of Zambia is one of three country case studies. The main purpose of each country case study is to provide a contributory evidence stream to the overall strategic evaluation and main evaluation report. Therefore, each country case study applies the same, relevant evaluation questions of the strategic level evaluation, while adapting their analysis to the country context (see Chapter 2 for more on the approach, methodology and limitations).

The specific objectives of each country case study are:

- Provide an analysis of the critical constraints and needs in the case country in terms of economic development for job-creation and livelihood especially for women, youth and the poor;
- Assess Finland's Country Strategy in the case country for 2016–2019 in terms of the economy and jobs objective and how it was translated into interventions, classified as Priority Area 2 (PA2) also including the Private Sector Instruments (PSIs);
- Review the results of this strategy and interventions as they are shown in existing results-reporting;
- Place the strategy and interventions and their results in the context of Finland's policy framework for PA2 and the needs and constraints of the case country in terms of economy, jobs and livelihood;

The case study is explicitly not a full evaluation of Finland's country-level portfolio, which would be beyond the scope of this evaluation. Accordingly, it does not provide recommendations, but rather lessons/implications. As part of the utilisation-focused model of the strategic evaluation, the lessons and implications presented in the country case studies are either country-specific or general and meant to help inform the relevant Embassy and country team (country-specific lessons/implications) and/or other country teams in the MFA (general lessons/implications) in their work.

Regarding the Private Sector Instruments (PSIs), the country case studies focus mainly on possible synergies of PSI interventions with other instruments in Zambia while the analysis of the ownership/government guidance and the MFA's RBM vis-à-vis PSIs is made in a separate PSI-study, annexed to the main evaluation report.

This country case study report consists of a summary table and six chapters. The summary table, presented at the very beginning of the report, is meant to provide a compact overview of the country case study findings, conclusions and implications/lessons. The evidence-chains to support each statement are found in the corresponding chapters of the report. This Chapter gives an introduction to the country case study report and Chapter 2 describes the approach, methodology and limitations of the case study in the context of the overall strategic evaluation. Chapter 3 provides the context analysis of Zambia's critical constraints and needs relating to economic development for job creation and livelihoods. The context analysis also includes an overview of other key donors supporting economic development and job creation in Zambia and details Finland's 2016–2019 Country Strategy and portfolio of interventions in Zambia. Chapter 4 presents the evaluation's findings against relevant evaluation questions, including findings from a review of the emerging results of the Finnish-funded interventions. Based on the findings, conclusions are drawn in Chapter 5 and lessons/implications for what Finland might do in the future in Zambia in the transition context and what other country teams can learn from the Zambian experience are presented in Chapter 6.

2 Approach, methodology and limitations

2.1 The approach of the strategic evaluation

A strategic evaluation is commonly defined as an evaluation of a strategy with the purpose to determine if the strategy yielded expected results and whether the strategy needs to be modified for the future for better results. The evaluation of Finland's support to Economic development, jobs and livelihoods is more complex than that. First, there is no strategy as such for PA2 and the private sector instruments that can be evaluated. There are strategy elements for parts of the portfolio and there is the Government's overriding policy framework, for example manifested in the objectives for the Priority Area at different times, but not a comprehensive PA2 strategy as such. Rather, the actions under PA2 is an assortment of many forms of interventions, large and small without much of an apparent internal coherence or common strategic orientation.

Second, the Terms of Reference (annexed to the main report) points to a more ambitious approach than only assessing results of the past and on-going activities to guide the future. It also includes learning from peers and international best practices, as well as looking beyond to what extent the support fulfils the stated objectives.

In view of this, the evaluation's approach is both to take stock of the results from past interventions, i.e. "***what has been***", and to draw lessons for the future to identify and suggest "***what could be***". The evaluation follows a mixed-methods, iterative approach where multiple streams of evidence in form of the various evaluation components drive triangulation of both data and analysis of findings. Regarding the evaluation's focus on accountability (and learning), the streams of evidence take the form of the Country Case Studies of Kenya, Tanzania and Zambia, the PSI Study and the Thematic Annexes of Energy, Innovation, Taxation and WEE. For the key part on learning, best practices and peer review, the streams of evidence are formed from assessing on the one hand, separately, the Nordic peers Denmark, Norway and Sweden, and the other hand, framing the analysis of the Nordics with the global trends context. Such parts of the evaluation constitute the "what has been", and their respective streams of evidence provide the basis for the "what could be", i.e. the strategic, forward-looking part of the evaluation. The approach and methodology for the strategic evaluation is fully described in the main report and its Annexes.

2.2 Evaluation questions applied to this Country Case Study

This Country Case Study has applied the relevant evaluation questions of the strategic level evaluation, with limited adaptation for the contextual specifics of the case country, contributing to "***what has been***". The sub-evaluation questions to which it contributes evidence are as follows:

Main evaluation question	Sub-evaluation question
EQ1 To what extent and how are the objectives of the Priority Area 2 on economic development, jobs and livelihoods being achieved and how relevant and effective have the interventions been in relation to partner country needs?	**1.1.** How coherent have the country strategies, approaches and interventions been with the overriding Finnish policy framework for economic development and job-creation in the three case countries? How relevant have they been related to country needs? Have they been relevant and effective for the pursuit of transition (where applicable)?
	1.2. In what way and how effectively have Finland's country programmes, approaches and interventions contributed to improve the economies and provide jobs and livelihoods especially for women, youth and the poor in the three case countries, and in particular decent, rights-based jobs?
	1.3. In what way and how effectively have the country programmes, approaches and interventions related to economic development, job creation and livelihoods in the three case countries contributed to advancing the Human-Rights Based Approach and cross-cutting objectives of gender equality, reduction of inequality, and climate change mitigation and adaptation?
EQ 2 What can the Ministry of Foreign Affairs learn from its peer organisations, especially the Nordics as well as from emerging international 'best practices' for more relevant, effective and coordinated support for economic development, jobs and livelihood opportunities?	2.3. Have partnerships been built between Finland's economic development interventions and those of other donors and stakeholders? Have the Finnish approaches and interventions, including pooled funding and core-type of funding, been complementary, coordinated stakeholders' and donors' efforts and adding value?
EQ 3 How can the effectiveness of Finnish development cooperation related to economic development be further developed, including if and how the Results-based Management system can be further refined as far as Priority area 2 is concerned?	**3.5.** What lessons can be learnt for Finland's Results-based Management and Knowledge Management, including reporting on results, from the performance under economic development, jobs and livelihood?

2.3 Methodology applied to this Country Case Study

2.3.1 Selection of the Case Countries

The selection of the three case countries – Kenya, Tanzania and Zambia – is based on a set of priority criteria:

- Sub-Sahara Africa, the focus on Finland's development assistance accounting for the main Official Development Assistance (ODA) streams. Also, as the MFA is preparing an Africa strategy with linkages to the emerging EU strategy for Africa.
- LDCs as the focus of Finland's development assistance.
- Inclusion of countries in a transitional phase in Finnish development cooperation.
- Core partner countries to Finland.
- Countries with a wide range of PA2 interventions in order to provide as a comprehensive picture as possible how various approaches and instruments function.

2.3.2 Methods of data collection and analysis applied

The Results Framework/Theory of Change approach: The 2016 Development Policy provided impact and outcome statements and a short narrative on "how this will be done". This Country Case Study assesses to the extent possible, results against the expected impact and outcome objectives.

Critical problem analysis: The "bottom-up" approach of the overall strategic evaluation assesses Finland's policies and interventions under PA2 against the partner countries' most critical challenges. This Country Case Study specifically assesses whether Finland is addressing the critical constraints in their support to economic development in Zambia, especially related to job creation with relevance for the poor, women and youth.

The Country Case Study provide evidence, which is assessed against the country critical constraints, identified on the basis of the Evaluation team's context analysis, against the development policy/PA2 results frameworks. This allows for assessing the relevance and coherence of the portfolio, as well as for providing any lessons learned/implications for the policy to better accommodate needs and successful interventions, and for the portfolio to be adjusted to meet the policy priorities.

More specifically, the Country Case Studies include the following elements:

Analysis of the critical constraints in the three case countries in terms of economic development, job creation and livelihood opportunities especially for women and youth.

An analysis of the Finnish Country Strategies including 2013–2016 but focusing on 2016–2019, identifying the elements of the strategies that focus on economic development, job creation and livelihood opportunities, identifying what the objectives and the envisaged interventions in the strategies were; the coherence of the 2016–2019 strategy with the overall Policy Framework for PA2 as elaborated in the 2016 Development Policy, and how the strategies were expressed in envisaged interventions under the PA2 theme.

Mapping the portfolio of interventions under PA2 for the period 2016–2019, identifying what Finland has financed for the period through different themes and sectors, channels and modalities. The portfolio mapping is based on data provided by MFA and the PSIs. The mapping uses the PA2 classification as elaborated in the portfolio analysis of the main report and covers also some major interventions under other Priority Areas if these are considered essential for contributing to the economic development and job creation. It also includes regional programmes that cover the case country.

A country portfolio analysis based on the following interventions:

- Interventions registered 2016–2019 for PA2 as main or secondary objective.
- Regional programmes registered as PA2, covering the case country and implemented during the 2016–2019 period.
- Interventions under the Private Sector Instruments with financial flows (investments, loans and ODA) in the case country during 2016–2019.
- Interventions under other Priority Areas which are essential as means for economic development and job-creation.

Sampling among interventions: The number of interventions under PA2 is far too large to get a detailed overview of the results and requires sampling. The applied principles of sampling are 1) major interventions in financial terms 2) interventions which the MFA and Embassies consider to be of particular interest; 3) intervention for which there is available results-reporting.

Analysis of the results of the portfolio as reported in evaluations, mid-term reviews, completion reports and other forms of results-reporting. The document review has been complemented by interviews with selected stakeholders as a means of validation and triangulation. It must be stressed, given the considerable number of projects in the country portfolios, no independent search for primary data in the field for specific interventions has been attempted by the evaluation, nor does the evaluation provide a second opinion on documented results unless there is clear reason to do so.

Gender equality, equality in society, climate change mitigation and adaptation, and human rights-based approach are assessed throughout strategy, approaches and interventions.

Transition issues: As Finland is planning or in the process of transit from 'conventional' grant assistance to institutional and commercial relationships in Zambia, the process of transition is a subject for this particular country case study, addressing issues such as the planning of the transition, the tools used, considerations of sustainability of past development, the emerging results and issues of the new forms of cooperation, especially as it comes to the Private Sector Instruments.

Mapping of the "donor landscape" engaged in similar activities as Finland in the respective case country. This mapping is document-based and complemented by interviews of key informants in MFA, the Nordic peer organisations and the main donors/MDBs in the focus area. The focus is on the Nordics engaged in inclusive economic development and job creation with a focus on women, youth and the poor.

Generalisation: The country contexts in the three case countries are diverse (as are also the Finnish interventions), but generalisation is done in the main evaluation report at the level of Finland's work with its core partners in Africa and hence useful for the Africa strategy formulation and for the Country Strategies and Country Development Cooperation Programmes for Kenya and Tanzania.

Reporting: The country studies follow a uniform format and to the extent possible the same or similar sources. The Country Case Studies form Annexes to the main evaluation report. For reasons of volume of the overall reporting, these Country Case Studies are in the Volume 2.

Validation: The draft country reports were commented on by EVA-11, the evaluation's Reference Group, the Embassy in Lusaka and the Country Teams at the MFA. A specific validation workshop (online) was also held with the same stakeholders on October 14, 2020.

As indicated above, the main data collection methods and sources applied to the Country Case Studies are:

Secondary data: The Country Case Study builds upon existing results-reporting and does not repeat already available studies and research but use existing findings.

Specifically, the country case study makes use of,

- Mapping of the Finnish interventions under the PA2 2016–2019 also including investments and projects by the PSIs.
- Relevant documentation for the evaluation, including relevant policy and steering documents by the MFA, intervention data, country studies, strategies, annual reports, intervention specific reporting, especially result-reporting, etc.
- Analysis of recently completed relevant centralised and decentralised evaluations, the preparatory study for the evaluation and any other preparatory material such as workshop protocols etc. both of more general nature and for interventions selected to be reviewed.

- Reports, studies, data and research on the country context, labour markets, dynamics of the economy, sector specific development, government policies on economic development and job creation, and Finnish cooperation with Zambia produced by the MFA, the PSIs, international organisations such as the World Bank, African Development Bank, IMF, OECD, WIDER, ILO, UNDP, World Economic Forum, etc., the Zambian government, other donors, academia and civil society. The consulted documents are available in the self-standing bibliography of this report and are not repeated in the main evaluation report.

Primary data: Primary data has mainly been collected through Key Informant Interviews (KIIs) with relevant individuals in Finland, in peer countries, in Zambia, and elsewhere. The KIIs have been conducted both remotely by telephone/over the Internet and in person by the Evaluation team members. KIIs cover:

- MFA staff in Finland, Kenya, Tanzania, Zambia and other countries;
- Staff of the PSIs located in Finland and other countries;
- Partner country government representatives;
- PSI stakeholders such as private sector companies, NGOs and other, located in Finland and Zambia;
- Selected bilateral and multi-bi project and programme staff, partners and other stakeholders located in Finland, Zambia and other countries;
- Selected multilateral organisations' staff;
- Selected Nordic Peer Country representatives.

2.3.3 Limitations

As a case study rather than a full evaluation, this report does not provide a definitive performance assessment of all Finnish assistance to economic development, job creation and livelihoods in Zambia during the period 2016–2020. Rather, it offers limited insights, generated through a systematic approach, to inform a wider evaluative process.

The case study is based on analysis of MFA statistics, review of project documentation (including external reviews and evaluations where available), and stakeholder/partner interviews. Due to the covid-19 pandemic and in accordance with the agreed methodology for the wider strategic evaluation, the evaluation has not involved a field mission by the core team to Zambia nor visits to individual projects or interviews/focus groups with direct beneficiaries. Instead, experienced country experts have been engaged and worked closely with the core team members to identify and interview relevant informants, gather relevant information as well as ensure adequate reflection of the country context and perspective in the report.

Results data for the study is based on a combination of available project reports, reviews/evaluations where available and interviews with selected stakeholders. The country case study team were not able to independently verify results, and nor were they required to do so under the terms of the Case Study. Results data e.g. on jobs created is therefore not available for all relevant projects/programmes and presented findings are therefore caveated accordingly.

Notwithstanding these limitations, the case study offers insights into Finnish assistance to Economic Development, Job Creation and Livelihoods in Zambia, particularly in a transition context.

It should also be noted that the covid-19 pandemic, at least in the short-term, will have a significant negative impact on the Zambian economy and job market. Trends and data used in the report for the pre-covid time are likely not be valid for 2020 on almost all fronts, while the outlook for 2021 and beyond is at best uncertain. Throughout the report we have briefly discussed the likely or potential effects of the pandemic.

3 Context analysis

3.1 General country context

3.1.1 Economy

Zambia reached lower middle-income country status in 2011. Despite continuous economic growth since 2001 up until 2020, Zambia remains a Least Developed Country (LDC) according to the United Nation's definition, with 58% of the population living below the international poverty line (USUS$1.90 per day) in 2015 (World Bank, 2020). The persistent poverty levels are inconsistent with the fact that Zambia is rich in natural resources. In addition to minerals, it also has ample arable land and water as well as massive renewable energy resources.

After booming economic growth at an average of 7.4% annually between 2004–2014[223], the Zambian economy has suffered from both economic and electricity crises in the past five years. Zambian is the second largest copper producer in Africa and its economy is heavily dependent on copper mining (70% of exports). Efforts to diversify economic activity or transfer revenues from mining to investment in other sectors have been limited. Since 2015 growth was slowed down by a reduction in international demand for copper and accompanying lower market prices, resulting in the closing of mines, reduced export earnings and loss of employment. The downward trend has been further aggravated by erratic weather patterns caused by El Niño, which has severely affected agricultural production since 2016. The lack of rains coupled with lack of investment in electricity generation has also driven the hydropower-dependent country into an electricity crisis (AfDB, 2020). In 2019 the average annual growth rate in GDP was down to 2% but with the impact of the covid-19 pandemic the Zambian Ministry of Finance projects GDP to contract by as much as 4.2% in 2020.

Zambia's development strategy has targeted a rapid scale-up of public investment to address infrastructure needs. This has resulted in large fiscal deficits, financed by non-concessional debt and the accumulation of domestic arrears, adversely impacting also the private sector. Recent efforts to adjust the fiscal stance have delivered some improvement in revenues, but deficits have continued to grow following faster-than-budgeted execution of foreign-financed capital spending. As a result, the debt burden has risen sharply, resulting in currency weakness and rising local borrowing costs that have further pushed up the interest rates. In 2019 foreign reserves also dropped to 1.7 months of import cover (Ministry of Finance of Zambia, 2020).

In 2019 Zambia's risk of overall and external debt distress had reached a very high level and the country is approaching a similar situation as prior to the debt relief by Heavily Indebted Poor Countries (HIPC) in 2005 (IMF, 2019). In its Update on Economic Developments, the Zambian Ministry of Finance reported in May 2019 that the official debt ratio was at 70%, bringing it close to the 77% threshold identified by the World Bank as the point in which economic growth is hampered.[224] The situation will most likely require major, unpopular fiscal adjustment in the coming years, which tend to be incompatible with the upcoming general elections in 2021. Based on the African Development Bank's assessment, however, the 2020 budget reflects the requirements for fiscal adjustment (AfDB, 2020).

223 GDP data from the Zambia Statistics Agency
224 According to a World Bank study, every percentage point increase in debt slows economic growth down by 1.7% (Grennes et al., 2010).

Just as talks with the International Monetary Fund (IMF) came to a close, Zambia is reportedly now in the process of engaging the World Bank and African Development Bank on the possibility of direct budget support and additional support towards the fight against the covid-19 pandemic.

Services (including spill-over effects from mining into construction, transport, communications, wholesale and retail) account for 50% of GDP, followed by industry at 42.1%, while agriculture accounts for only 2.7% (2019). The trend of the last decade has been a shift towards a lower share of agriculture, which has decreased from 11.6% of GDP in 2009, while services reduced by 1.5% and industry increased by 11.9% in the same years (Statista). Officially, mining accounts directly for 10% of GDP, but according to the Extractive Industries Transparency Initiative (EITI, 2020), it may indirectly contribute as much as half of GDP. Sectors such as mining, energy, construction, manufacturing, tourism, transport and trade are expected to record particularly poor performance due to the covid-19 pandemic (Sakala, 2020).

3.1.2 Governance

Zambia has long been one of the most peaceful and politically stable countries in Africa. The Global Peace Index ranked Zambia as the fourth most peaceful country in Africa, behind Mauritius, Botswana and Ghana (Institute for Economics & Peace, 2020). Despite an ongoing decentralisation process, the political system and administrative structure remains very centralized. After an unplanned presidential by-election in 2015 and a scheduled five-year presidential and general election in 2016, the next general elections are set for August 2021. In its 2018 Systematic Country Diagnostic of Zambia, the World Bank notes that populistic and unplanned spending in connection to elections has been an important challenge for the Zambian economy, leaving less resources available for planned public services and development initiatives.

Zambia is ranked 113 of 180 in the Transparency International corruption index (Transparency International, 2020). Despite some progress in the last decade, corruption remains an important challenge for growth. The 2019 Global Competitiveness Report found corruption to be the third most important constraint for businesses in Zambia, after access to finance and tax rates (Schwab, 2019). According to the Global Corruption Barometer Africa 66% of Zambians also felt that corruption had increased in the past 12 months (Afrobarometer & Transparency International, 2019).

3.1.3 Poverty

Several measurements can be used to define (multi-dimensional) poverty. One is the World Bank incidence of economic poverty (income below USUS$1.90 per person and day in PPP) which for Zambia shows a very slowly declining trend in comparison to the rapid growth in GDP, with more than half of the population (57.5%) still living below the international poverty line in 2015 (World Bank Group, 2020). In terms of multi-dimensional poverty as defined by the Oxford Poverty and Human Development Initiative, about 53% of the population is defined as poor (OPHI, 2018). Comprehensive information on poverty in Zambia is collected through the Living Conditions Monitoring Survey (LCMS). The last LCMS was carried out in 2015. Another one was planned for 2018 but could not be undertaken due to lack of funding. Hence developments in subsequent years such as the declining economic activity or worsening economic conditions, crippling energy crisis and more recently the impact of the covid-19 pandemic have not been factored in the available poverty data. Based on these developments, it is prudent to speculate that poverty indicators will have deteriorated.

Economic growth has mainly benefitted a small segment of the urban population – looking good in national GDP figures but having limited or no impact on overall poverty or reduction of inequalities. The proportion of the population living below the poverty line has decreased unusually slowly compared to neighbouring countries. According to the 2015 LCMS Report, the majority of the poor (82%) live in rural areas, where poverty reduced from 77.9% in 2010 to 76.6% in 2015. More than half (58.5%) of Zambians derive their livelihoods from agriculture, which means that the weak agricultural performance in recent years is likely to have further aggravated poverty in rural areas.

3.1.4 Inequality and Gender

Income and social inequality have been increasing in Zambia over the past decade. With a Gini coefficient of 49.50 in 2018 Zambia is one of the least equal societies in the world, behind only South Africa, Namibia, Sri Lanka and China and compared to 42.2 in Tanzania and 41.6 in Kenya.[225] Zambia's Human Development Index (HDI) value in 2018 was 0.591, putting the country in the medium human development category, and positioning it at 143 out of 189 countries and territories (UNDP, 2019). The big question in Zambia is: why has the sustained economic growth not translated into reduced poverty? In its 2018 Country Diagnostic of Zambia the World Bank outlined three main reasons for the lack of inclusive growth: growth has been based on the extractive industry, particularly the copper mining sector; development has been territorially uneven and characterised by a large urban-rural divide; and while Zambia is known for being a democracy and politically stable, governance is still characterised by limited transparency and accountability and weak and personalised public institutions, which has allowed for counter-productive public resource allocation and policies in terms of poverty alleviation and economic diversification despite promising plans and budgets.

The Zambian population is one of the world's fastest growing and is expected to triple by 2050. High fertility rates impact on both economic and gender equality. According to the United Nations Population Fund, the average Zambian woman gives birth to 4.9 children and the population is consequently growing by nearly 3% annually (UNFPA, n.d.). The high fertility rate, particularly in rural areas, is associated with high maternal mortality, health issues, and low female economic participation but it also results in an increasing number of people living in poverty.

Despite the persistently high poverty levels, economic growth in Zambia has been accompanied by improved development outcomes in both health and education. Five out of eight Millennium Development Goals (MDGs) linked to the education sector were achieved fully or partially, including eliminating gender disparity in primary education. The quality of education, transition to secondary education and high drop-out-rates remain a challenge, particularly for girls.

3.1.5 Policy framework

The Zambian Government has, through various policy documents, expressed its intention to address the issue of economic development and poverty reduction through job creation, with the aim of creating a sufficient number of decent jobs for all in one way or another.

The Vision 2030 is Zambia's overarching long-term vision for national development and guides all other policies related to economic development and job creation. It aims at transforming Zambia into a full middle-income country by 2030, recognizes employment as a foundation for achieving this objective and highlights the importance of decent work in this context.

225 The Gini index measures the extent to which the distribution of income (or, in some cases, consumption expenditure) among individuals or households within an economy deviates from a perfectly equal distribution. The Gini index measures the area between the Lorenz curve and the hypothetical line of absolute equality, expressed as a percentage of the maximum area under the line. A Gini index of zero represents perfect equality and 100, perfect inequality. (https://stats.oecd.org/glossary/detail.asp?ID=4842)

The National Development Plans (NDP), geared towards achieving the 2030 objective, serve as the main policies guiding Zambia's socio-economic development and growth strategy, including job creation. The current 7th NDP (2017–2021) aims to create a diversified and resilient economy for sustained growth and social economic development and it includes specific measures to promote economic diversification. Among its strategies for economic diversification and job creation, it includes improving production and productivity, enhancing agriculture value chains, diversification and investment.

The National Labour Market Employment Policy was launched in October 2019 and provides mechanisms for formalising the informal sector and strategies for enhancing social security system for all Zambians. The policy identifies priority sectors of agriculture, manufacturing, tourism and education and training as key for employment creation based on the assumption that a strong manufacturing base would increase demand for raw agriculture materials, leading to a spiral effect of increasing output and employment in agriculture.

The Industrialisation and Jobs Creation Strategy was launched in 2013 as part of the Government's measures to promote economic diversification and reduce dependency on mining. It specifically addresses job creation as a key priority for the Zambian government by focusing on job creation in the formal sector. The strategy selected four priority sectors which were deemed to have the greatest potential in terms of high labour intensity, ability to absorb youth labour, and the skilled and semi-skilled workers: agriculture, tourism, construction and manufacturing.

According to most international observers, including the Embassy of Finland in Lusaka, implementation of national plans and strategies, including the 7th NDP, has been hampered by insufficient budgets and unpredictable and unreliable funding. With the 2021 elections approaching, public expenditure may be affected by political interests and development priorities are likely to change and most likely divert from the 7th NDP.

A number of other policies and macro-economic policy directives have also been developed in recent years and are presented in more detail in Country Case Annex 3: Context Analysis.

3.2 Summary of the context analysis

This section presents a summary of the key constraints that affect economic development and job creation in Zambia. The section is based on the full context analysis, which is available in Country Case Annex 3: Context Analysis.

The analysis of critical constraints for the Zambian economy to reduce poverty and create (decent) jobs for the population at large and women and youth specifically is summarised below. Most of these issues have been recognised also in Zambia's (current) 7th National Development Plan, but resourcing and implementation of policies remain a major challenge for actually addressing them. The ongoing covid-19 pandemic is also projected to have severe indirect effects on livelihoods in Zambia.

1. **The majority of the Zambian young, working-age population is unable to find formal employment, resulting in self-employment in the informal sector.**

> *The constraint is recognized e.g. in the 7th National Development Plan, the World Bank's 2018 Systematic Country Diagnostic of Zambia, ILO's 2019 Future of Work – The Zambian Experience report, the ITC's Promoting SME Competitiveness report and in the World Bank's 2017 Job Diagnostic of Zambia.*

The importance of the informal sector[226] for Sub-Saharan African economies cannot be overstated and the same applies to Zambia. A shift among young people from agriculture to services in urban areas is taking place but it is not coupled with skills that match the demand in the private sector nor with creation of new jobs, especially not in the formal sector.

The young work force in Zambia is large and growing with youths comprising 55% of the working age population and an estimated 300,000 people entering the work force each year. While this "demographic dividend" of a youthful population is also a strength, jobs have not been increasing at the same rate. As a result, 93% of Zambian youths are engaged in the informal sector (Ravillard, 2017). The trend is particularly increasing the self-employed people working in the informal services sector, which is characterised by low productivity, low incomes and a lack of social protection.

Considering the slow pace at which new wage-jobs emerge in the formal sector, the informal sector and self-employment will unavoidably continue providing most jobs for youths for some time. Youths in rural areas mainly earn their livelihoods through unpaid household work and self-employment in agricultural activities. In urban areas youths are mainly engaged in non-agricultural activities such as informal wage employment and self-employment.

According to the 2019 Labour Force Survey, youths in the labour market are disproportionately represented both among the unemployed (17.9%) and the under-employed. In short, the most pressing issue for the Zambian labour market is the youth and how to create employment opportunities for them.

2. **The Zambian economy has long been heavily dependent on copper with insufficient efforts to diversify, which has made it vulnerable to external shocks, such as fluctuations in the global price and demand in the international markets.**

> *The constraint is recognized e.g. in the MFA's 2019 Political and Economic Analysis of Zambia, the 7th National Development Plan, the World Bank's 2018 Systematic Country Diagnostic of Zambia, and the ILO's 2019 Future of Work – The Zambian Experience report.*

Zambia's economic growth has been heavily driven by copper mining. The full potential benefits of the mining sector have not been realized in Zambia due to few links and inefficient transfer of mining sector revenues to investment in other sectors.

The mining industry has provided the traditional base for Zambia's foreign exchange earnings and copper continues to be the major contributor to exports (70%). Foreign Direct Investment (FDI) in Zambia is almost entirely (80%) composed of investments in the mining sector by Canadian, Australian, UK and Chinese companies. The extractive industry is capital-intensive with a very limited capacity to create new jobs, particularly for the semi-skilled and unskilled population. Copper mining in itself provides employment for only 1.7% of the workforce (mostly formal employment) and directly contributes 10% of GDP, but the Extractive Industries Transparency Initiative (EITI) estimates that the mining sector and its support industries contribute indirectly to an estimated 50% of the Zambian GDP. The decline in international demand and accompanying lower market prices between 2015 and 2016 consequently had a major negative impact on the whole Zambian economy, resulting in the closing of mines, reduced export earnings and loss of employment.

226 By "informal sector" or "informal employment" we refer to the ILO's definition as defined in the ILO's Guidelines concerning a statistical definition of informal employment.

Benefit-sharing in mining has been notoriously difficult to achieve worldwide and, so far, Zambia has had trouble striking a balance between revenue collection and attracting foreign investment. In 2018 the government changed its minerals tax regime for the 10th time in 16 years and in 2020 the mining code is again under revision. Revisions have included initiatives to close loopholes for tax evasion (e.g. related to transfer pricing) with the support of international initiatives, such as the African Tax Administration Forum, but also changes that aim at maximising revenue collection (e.g. by reducing profit-based taxation but increasing mineral royalties). According to EITI, the frequent changes are causing uncertainty in the sector and discouraging investments. Or as expressed by the International Growth Centre (Siwale & Chibuye, 2019) in relation to the 2019 policy changes, which are expected to again increase taxation of the mining sector:

The Zambian government, in an attempt to return to 'fiscal fitness', may be prioritising short-term mobilisation of revenue from the sector, at the expense of building a sustainable fiscal regime with consistency over time.

3. **The agriculture sector forms the main source of livelihood for the majority of the working age population, but it is lagging behind its potential with limited ability to generate economic growth, provide sufficient incomes and create jobs for the work force.**

> *The constraint is recognized e.g. in the 7th National Development Plan, the World Bank's 2018 Systematic Country Diagnostic of Zambia, the ILO's 2019 Future of Work – The Zambian Experience report, and the World Bank's 2017 Job Diagnostic of Zambia.*

The labour force in Zambia remains largely rural, agricultural and informal. Some 54% of working age Zambians derive their main incomes from agriculture, but productivity remains far below potential and hampers its potential to generate incomes and meaningfully contribute to future jobs. The majority of agricultural workers are subsistence farmers producing mainly for household consumption. The agriculture sector in Zambia is characterized by its reliance on traditional farming methods and rain-fed agriculture, making it vulnerable to climate change and seasonality.

The reduction in the contribution of agriculture to the GDP (from 11.5% in 2009 to 2.7% in 2019) is partly explained by the droughts in recent years, but the shift started already in 2010 as a result of low agricultural productivity, which has been mainly attributed to ineffective, maize-focused and poorly managed agricultural support-programmes and insufficient investment in e.g. irrigation, feeder roads and research (Resnick & Thurlow, 2014). The current public subsidies to the agriculture sector have been found to be counterproductive for both poverty reduction (they benefit better-off farmers) and shifting towards higher value-added farming. Intentions to diversify the agricultural sector and improve productivity have suffered from the fact that agricultural subsidies are one of the main political and campaigning tools for the ruling party.

In its 2017 Jobs Diagnostic for Zambia (Merotto, 2017), the World Bank concludes that agricultural productivity will need to be significantly increased and processing industries developed at a faster pace in order to secure future economic growth. Agriculture, livestock and fisheries have also been identified by the Zambian Government's Agriculture Policy as drivers of job creation. The agricultural sector, including agribusiness, provides the greatest potential for the involvement of marginalised or disadvantaged groups such as the semi-skilled and unskilled, poor, disabled, youth and women. The potential for development, growth and competitiveness for MSMEs in agriculture and agribusiness lies in non-maize commodities such as aquaculture value-chains, poultry and small livestock and cash crops such as soya beans, cashew nuts, cassava and horticulture due to their potential to create jobs and contribute to livelihoods improvement and economic development.

4. **There is a mismatch between the demand (businesses in the private sector) and supply (labour force) of skills in the labour market, which is proving to be a major challenge for the employability of youths and particularly women.**

> *The constraint is recognized e.g. in the 7th National Development Plan, the World Bank's 2018 Systematic Country Diagnostic of Zambia, the ILO's 2019 Future of Work – The Zambian Experience report and the World Bank's 2018 Enterprise Skills and Firm Performance in Zambia report.*

Based on several studies on the reasons for poor employment outcomes for youths in Zambia, one of the main contributing challenges is the lack of basic skills. Education levels have been rising among Zambian youths and primary school enrolment rates have progressed significantly since the early 2000's. This would indicate good news for Zambian youths, as education directly correlates with higher likelihoods of employment and higher wages in Zambia ("education dividend") (Merotto, 2017). However, more than a third of Zambian youths still have either no education at all or have left school before completing primary education. Progress from primary to secondary schooling is low compared to other Southern Africa Development Community (SADC) countries and tertiary education is limited to a fraction of the population (less than 1%) (Bhorat et al., 2015).

While education levels are improving in Zambia, the quality of education and transition from primary school to higher levels of education is still a major issue. Technical and Vocational Education and Training (TVET) is not widely accessible nor has it been well aligned with the private sector's or industry needs. This is particularly affecting employment prospects for youths. According to the 7th NDP, inadequate technical and vocational education and training, attributed to outdated curricula, low instructor qualifications and a general lack of opportunities for practical training at colleges or Trades Training Institutes or in industry through temporal attachments and placements is contributing to a mismatch between the skills available in the labour market and industry needs.

Higher quality and more evenly accessible education, including vocational training that matches the needs of the private sector as well as on-the-job training are key for integrating youths in the labour market but also for raising productivity in agriculture, self-employment or wage employment (Koyi et al., 2012)especially in\nthe formal economy. Unemployment is highest\namong youths (15–24 years old.

5. **Despite a comparatively open investment climate and stable political environment, the looming economic crisis, governance issues and the unreliable power supply caused by climate change and years of lack of investment in electricity generation have deteriorated the investment climate and competitiveness of Zambian businesses.**

> *The constraint is recognized e.g. in the MFA's 2019 Political and Economic Analysis of Zambia, the World Bank's 2018 Systematic Country Diagnostic of Zambia and the IMF's 2019 Staff Report for the 2019 Article IV Consultation with Zambia.*

The World Bank/IFC assesses business enabling environments in each country based on ten dimensions, focusing on regulations[227]. In the 2020 annual Doing Business study, Zambia ranked 85th out of 190 countries with a doing business score of 66.9. This places Zambia behind Kenya (56/190) but well ahead of Tanzania (141/190). Zambia scores higher than the average country in the Sub-Saharan region on all dimensions except registering property.

Despite Zambia's comparatively favourable political and stable environment for doing business, the overall regulatory environment is still an obstacle for improved productivity and increased investment. The Zambian economy has a dualistic nature for which the political economic context has a major role to play. In most of the manufacturing and services sectors (such as beef, beer, cement, retail, sugar and telecoms) there is usually one large company with a significant share of the market (Adam et al., 2014). The strategy of monopolists has mainly been threefold: limiting competition from outside the country, limiting input exports (if produced in Zambia) and limiting internal competition as much as possible. This is where public sector regulations have played a role in helping some of these big firms to perpetuate their current market share and failed to address anti-competitive business practices.

The 2019 Global Competitiveness Report ranks Zambia as 120th out of 141 countries. Zambia's ranking has been descending along with its economy, down from a high of 96th between 2014–2016. This places it behind both Kenya (95th) and Tanzania (117th). Based on the Global Competitiveness Report (Schwab, 2019), Zambia's decline has been driven by much the same issues that have challenged its overall economy.

The IMF forecasts inflation to rise to 10% by the end of 2020. The rise in inflation, deterioration in the exchange rate and high cost of borrowing is expected to increase the cost of doing business. The reliance on imports also means that high exchange rates will increase the costs of inputs and the prices of goods and services produced by Zambian businesses. Both factors have an adverse impact on the competitiveness of the Zambian private sector and its ability to grow and create jobs.

6. **Zambian MSME's competitiveness and capacity to grow and create more jobs is limited.**

> *The constraint is recognized e.g. in the MFA's 2019 Political and Economic Analysis of Zambia, the 7th National Development Plan, and the World Bank's 2018 Systematic Country Diagnostic of Zambia.*

Micro, small and medium-sized enterprises (MSMEs) are a crucial component in the Zambian economy. MSMEs represent 97% of all businesses in Zambia, contribute 70% to GDP and provide 88% of jobs (ITC, 2019). As recognised also by the Zambian government in its Vision 2030 and 7th National Development Plan, MSMEs are key for overall economic development through job creation and for economic diversification.

The 2009 MSME policy states that 90% of businesses in Zambia are not registered, i.e. they are informal. Most of these firms are very small operations, with less than five employees. The 2010 Zambia Business Survey found that a majority of the employees in MSMEs are unpaid family members (44%) or paid in kind (23%) and only one-third of workers are remunerated in cash.

227 Ease of 1) starting a business, 2) dealing with construction permits, 3) getting electricity, 4) registering property, 5) getting credit, 6) protecting minority investors, 7) paying taxes, 8) trading across borders, 9) enforcing contracts, 10) resolving insolvency.

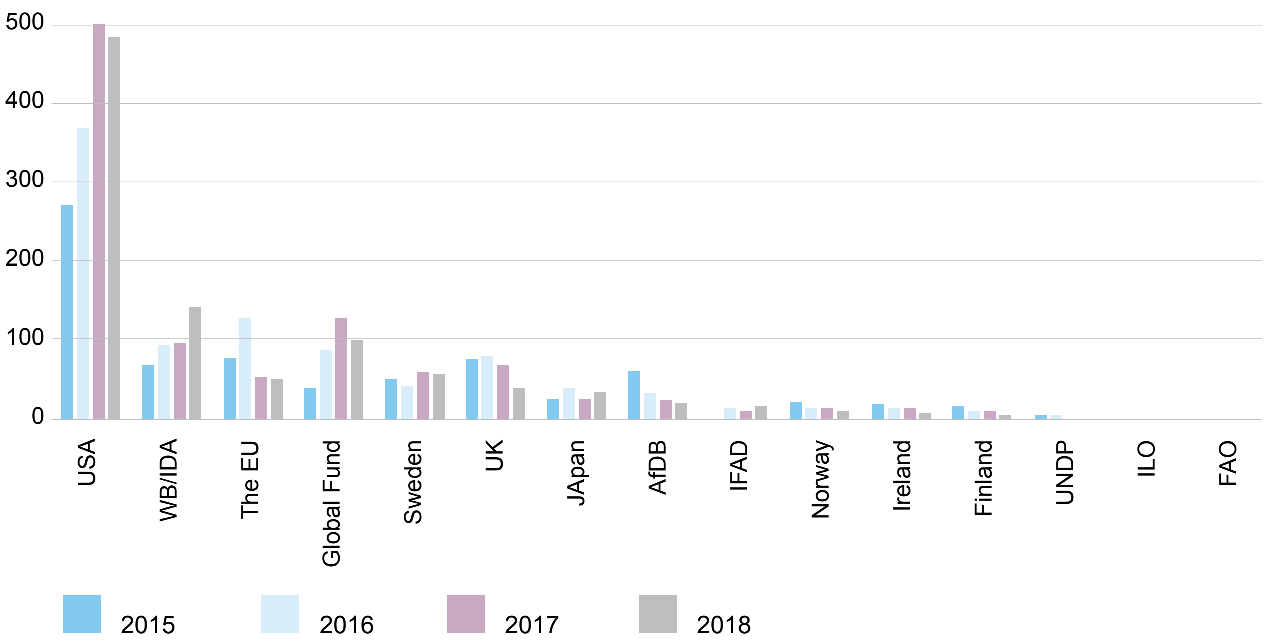
While technology start-ups are also gradually emerging among the urban youth, most MSMEs are characterised by reliance on low technology and social networks and targeting the lower income segments of the market (Mubita et al., 2017). A study on informality among Zambian businesses found that particularly rural businesses are usually characterised by both low skills and low productivity and would not reach the threshold to pay taxes even if they did register (Shah, 2014).

In addition to macro-economic factors, several studies confirm that major constraints for Zambian MSME's capacity to grow and create more jobs include inadequate business management, entrepreneurship and technological skills, limited access to affordable financing, limited access to markets, limited use of and access to appropriate technology, lack of competitiveness, governance challenges, difficulties in penetrating procurement chains, legal and regulatory environment, minority shareholders' protection, lack of access to appropriate information, and uneven access to infrastructure and facilities, such as energy, transport and telecommunications. Efforts have been made to address the constraints but are reportedly still hampered by challenges such as corruption and bribery, informality of processes, and a lack of coordination and harmonisation.

3.3 Key donors in the sector

After graduating to LMIC status, the volume and importance of ODA flows to Zambia in relation to its GDP has been reducing, making Zambia less dependent on development assistance. In 2018 net ODA constituted 3.8% of Zambia's GNI. This has contributed to many donors' decision to phase out their bilateral aid. The Netherlands and Denmark made their exits in 2013 and Norway closed its embassy and phased out bilateral cooperation in 2016. The figure below shows that ODA disbursements to Zambia have been on the decline between 2015–2018 for most donors. Total ODA flows to Zambia amounted to USUS$992 million in 2018 compared to USUS$1.142 million in 2013. The United States and the World Bank have been the exception, with increasing ODA volumes, while the volumes disbursed by Sweden, Japan and UN institutions during this period have remained quite stable.

Figure 1 ODA disbursements to Zambia by donor 2015–2018 (US$million)



Source: Evaluation Team based on OECD statistics at https://stats.oecd.org/qwids/

Based on OECD/DAC reporting and classification, the vast majority of ODA funds have been directed at Social Infrastructure[228] (65%), particularly health care, followed by Economic Infrastructure[229] (14%) and Production[230] (9%). As shown in the figure above, Finland is a small donor in this group with a country programme of USUS$6.4 million in 2018, translating into 0.6% of total ODA to Zambia. For comparison, the country programmes of Sweden and the UK that same year amounted to USUS$58.4 million and USUS$55.1 million respectively.

Zambia's Vision 2030 and 6th and 7th National Development Plans emphasize economic development and job creation, so the country strategies or programmes of most bilateral donors and MDBs have been targeting these issues in one way or another during the evaluation period. Based on the proportion of ODA funding allocated to "Economic Infrastructure and Services" and to "Production" (as per OECD/DAC reporting) the main donors focusing on economic development, job creation and livelihoods in Zambia in 2019 were the governments of the UK (through DFID), the US (through USAID), Sweden (through Sida), and Japan (through JICA), as well as the World Bank/IDA, the African Development Bank, the EU, and the UN (through e.g. ILO and UNIDO). Summaries of some of the donors and programmes which Finland's PA2 portfolio in Zambia has concretely linked to during the evaluation period as well as the main non-traditional cooperating partners are presented in Country Case Annex 4: Other donors in Zambia.

Zambia was long considered an example of donor coordination and alignment to national development plans. Between 2007 and 2015 the Government of Zambia and its Cooperating Partners had Joint Assistance Strategies for Zambia (JASZ I and II). The relevance of JASZ declined, however, with the end of budget support in 2014 and with several donors phasing out development cooperation after Zambia reached lower-middle income status. The 6th NDP was sector-based and donor coordination was consequently also grouped by sector. Up until 2017 Finland led the group for Private Sector Development. Coordination of the multi-sector approach of the 7th NDP has, however, proven more complicated for the Government of Zambia. As a result, sector-specific donor groups with a number of sub-groups have been continuing to meet alongside the cross-sectoral NDP coordination groups with or without government participation. Active donors in the private sector development group have included DFID, Finland, World Bank, JICA and USAID.

3.4 Finnish development cooperation with Zambia

3.4.1 Background

Zambia has been one of Finland's long-term partners for bilateral cooperation and Finland has been present in the country since the 1970's. Finland is a small donor in the Zambian context providing about 0.6% of the total aid flows in 2018. As a result of Zambia's graduation to lower-middle income status and booming economic growth, Finland made the decision to transition away from development aid in Zambia a decade ago. Finland's 2016 development policy (MFA, 2016) confirmed that "Zambia is about to reach middle-income level, enabling Finland to move on to more diversified forms of cooperation with it". Since 2016, Finnish cooperation has consequently been increasingly geared towards transitioning from traditional development cooperation to a mutually beneficial trade-based relationship. This means that ODA funded bilateral cooperation will cease and be replaced entirely by collaboration between other stakeholders, particularly the

228 Social Infrastructure and Services covers Education, Health and Population, Water Supply, Sanitation and Sewerage (excluding irrigation systems for agriculture).

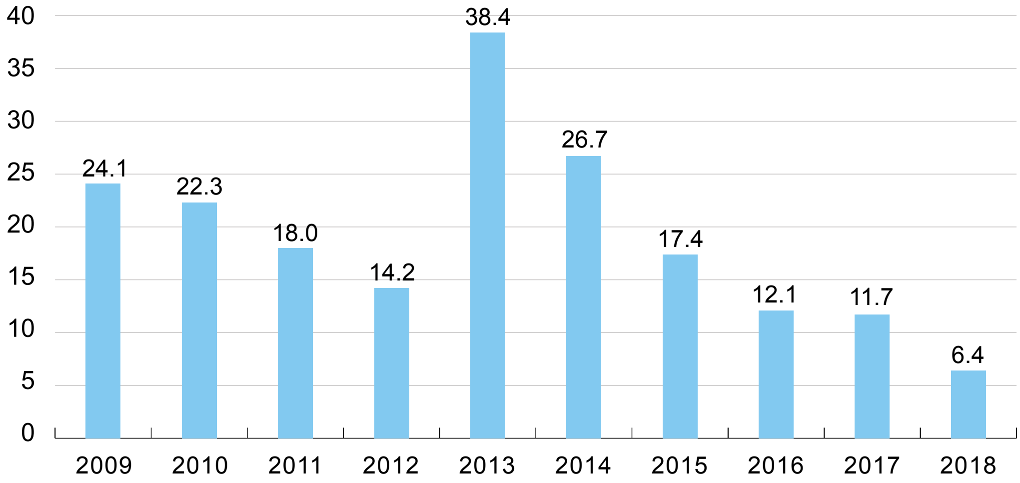
229 Economic Infrastructure and Services covers assistance for networks, utilities and services that facilitate economic activity. It includes, but is not exhausted by: Energy, Transportation and Communications.

230 The Production Sectors includes ODA contributions to all directly productive sectors: Agriculture, Fishing and Forestry; Industry, Mining and Construction; Trade and Tourism.

private sector. The Finnish Embassy in Lusaka is meant to have a facilitating role in ensuring an enabling and positive working environment for new forms of collaboration.

Finnish ODA funding has consequently reduced significantly since development cooperation between the two countries peaked in 2013. Zambia was the second largest recipient of Finnish ODA in 2013 with USUS$38 million but by 2018 it had dropped to USUS$6 million.

Figure 2 Finnish ODA to Zambia 2009–2018 (US$ Million)



Source: Evaluation Team based on OECD statistics at https://stats.oecd.org/qwids/

Between 2008 and 2012 the Finnish portfolio in Zambia grew significantly to comprise a total of some 20 interventions by 2012. According to MFA staff working in the country team at the time, some of the larger programmes in the portfolio experienced challenges in getting off the ground. A backlog of funding was finally released in 2013, leading to a peak in Finnish ODA to Zambia and making Zambia one of the largest recipients of Finnish ODA that year (see Figure 2 above). The 2012 Finnish development policy recommended that the size of programmes and projects be increased, and the number decreased. As a result, the first results-based Country Strategy for Zambia sought to reduce the number of interventions, resulting in decreased disbursements between 2013–2016 (Visser et al., 2016).

The speed at which funding has dropped since 2015 has, however, been the combined result of several factors. The budget cuts in 2015, which affected all Finnish development aid, contributed to further reduction of Finnish funding in Zambia. The 2016 evaluation of the Country Strategy modality recommended that the MFA reduce fragmentation and streamline its collaboration in Zambia by focusing on a maximum of two result areas with a manageable number of projects (they suggested four to five projects). As ongoing interventions in the agriculture and environmental sector ended, new ones were consequently not started. Furthermore, cases of irregular use of funds in at least two of the largest Finnish-funded programmes have ended support in areas previously considered to be successful in targeting the poor, including agriculture and social cash transfers. Recovery of the misused funds is still ongoing for some of these cases.

Finland's Country Strategy for Zambia 2013–2016 covered agriculture, private sector development, environment and natural resources, as well as good governance and accountability with a total of some 16 projects and programmes, not counting interventions funded through the Fund for Local Cooperation (FLC), the Institutional Cooperation Instrument (ICI), Private Sector Development Instruments (PSIs) or CSOs (MFA, 2013). In the 2016–2019 strategy (MFA, 2017) the recommendations to streamline the portfolio and reduce the number of interventions were taken into consideration. Agriculture was dropped from the list of supported sectors and the number of interventions was reduced to six (dropping to two as projects have ended), excluding interventions funded through the FLC, PSIs and CSOs. General budget support and use of country systems have also been attempted but challenges related to public financial management and slow implementation caused Finland and other cooperation partners to backtrack on these attempts.

3.4.2 Finland's Country Strategy 2016–2019

The Finnish Country Strategy for Zambia 2016–2019 was, in practice, the MFA's transition strategy for Zambia, packaged into the Country Strategy form. The strategy stated that the transition towards more diverse cooperation should be a gradual process facilitated by continued development cooperation.

"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." (MFA, 2017)

The planned budget frame for 2016–2019 amounted to EUR 30.4 million. This did not include humanitarian aid, private sector instruments or the Finnish CSOs.

The strategy was meant to stand on two legs, focusing on one hand on supporting economic development through private sector development and on the other hand on poverty reduction through a focus on the most vulnerable groups in society. The dual objective was combined into two impact areas, out of which the first had a direct bearing on the subject of this evaluation.

Table 1 Objectives of the 2016–2019 Country Strategy for Zambia.

Impact area	Outcomes	Outputs
1. Developing a more dynamic and responsible private sector	**1.1.** Accelerated growth of micro, small and medium-sized enterprises (MSMEs)	**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
2. Developing a more democratic, inclusive and better functioning society	**2.1.** Improved Social protection for the most vulnerable people	**2.1.1.** Increased coverage of social assistance programmes
	2.2. Strengthened participatory governance	**2.2.1.** Improved natural resource management at local levels

Source: MFA (2017)

Finnish support was expected to contribute to the creation of jobs for Zambia's growing number of young people, expand the country's tax base and increase productivity. Promotion of decent work and responsible business practices were also highlighted as means towards this end. Since 2007 Finland had been supporting private sector development through policy development and government-led programmes that aimed at improving the business enabling environment through sectoral reforms. This was, however, found to yield limited results and was dropped in the 2016–2019 Country Strategy in favour of other "more immediate objectives" (MFA, 2019b). Consequently, support for private sector development under the 2016–2019 Country Strategy has mainly been delivered through bilateral technical assistance programmes and multilateral thematic funding. Planned instruments and inputs also included the Fund for Local Cooperation

(FLC), the Institutional Collaboration Instrument (ICI), all PSIs (Finnfund, Finnpartnership, BEAM and PIF) and it envisaged linking to the second phase of the regional bilateral innovation programme *Southern Africa Innovation Support Programme (SAIS 2)* as well as to Team Finland. Policy level dialogue was to be also maintained, particularly through donor coordination groups.

The 2016 evaluation of the 2013–2016 Country Strategy suggested that the continued levels of poverty in Zambia warranted Finland to have a continued strong focus on prioritizing poverty alleviation and inclusion in Zambia. The 2016–2019 Country Strategy did indeed continue support to the national social protection policy through a nationwide co-funded social cash transfer programme targeting the most vulnerable people and a new twinning programme was developed to create models for including workers from the informal sector under contributory social protection schemes. The social cash transfer programme was, however, discontinued in 2018 (last disbursement in 2017) due to suspected irregularities in the use of funds.

As part of the purpose of coordinating efforts towards the transition objective, the 2016–2019 Country Strategy also explicitly includes the PSIs (Finnpartnership, BEAM and Finnfund) and links to regional programmes, such as SAIS 2.

3.4.3 Support to economic development and job creation: current and future plans

The 2016–2019 PA2 portfolio

In terms of monetary value, the bulk of the PA2 portfolio in Zambia has consisted of four relatively large programmes funded through ***bilateral or multilateral thematic funding***, amounting to a total of EUR 15.29 million in commitments made between 2015 and 2019.

- The ongoing bilateral *Accelerated Growth for Micro, Small and Medium Sized Enterprises in Zambia (AGS) programme* with a budget of EUR 9 million (bilateral funding) combines the objectives of accelerating growth among Zambian MSMEs through business development services, acceleration programmes, access to finance and access to markets, as well as transitioning to a trade-based relationship by facilitating business linkages between Finnish and Zambian companies.
- The "Enhancing Competitiveness and Sustainable Business among MSMEs in the Building Construction Sector" or *Zambia Green Jobs Programme* implemented between 2013–2018 with a total budget of EUR 11.1 million[231] (multilateral thematic funding). The programme was implemented as a UN Joint Programme (One UN) under the leadership of ILO with technical support from UN Environment Programme (UNEP), Food and Agriculture Organization (FAO), United Nations Conference on Trade and Development (UNCTAD) and International Trade Centre (ITC). The objective was to promote the creation of green and decent jobs through MSME development in the Zambian construction sector through three major outcomes: (i) *Green "mind-set" and attitude*. Increased appreciation in the Zambian public at large, and building industry stakeholders in particular, of green building principles; (ii) *Enabling green business environment*. A refined industry-specific regulatory framework that stimulates demand among private and public housing developers for environmentally friendly building materials, products and methods; and (iii) *Sustainable enterprises and green decent jobs*. MSMEs have enhanced capacity to effectively participate in the building construction and green building products and services market.

231 The original funding approved by the MFA was some EUR 8 million, but an additional and final tranche of EUR 3.04 million was approved in 2015. Only the latter amount is included in the total commitments made between 2015–2019.

- The *Social Protection for Informal and Rural Economy Workers Sub-Project in Zambia (SPIREWORK)* project is an institutional partnership between the National Institute for Health and Welfare (THL) of Finland, the National Pension Scheme Authority (NAPSA) of Zambia and ILO. The project is part of NAPSA's broader initiative "Extension of Coverage for the Informal Sector" (ECIS) and specifically provides Technical Assistance to NAPSA for developing and piloting innovative benefit prototypes to expand the coverage and adequacy of contributory social protection among the informal and rural economy workers in Zambia. The SPIREWORK project is currently on a non-cost extension, winding up by the end of the year 2020. The project emerged both from the African Union's policy directions and from the Zambia Green Jobs Project. The MFA has not in fact classified the SPIREWORK project as contributing to PA2 objectives, but the evaluation has included it in the portfolio based on the recommendation of the Reference Group and its relevance to PA2 objectives.
- The MFA also funded the *Decentralized Forestry and Other Natural Resources Management Programme (DFNRMP)* between 2015–2018 (EUR 2.25 million). The DFNRMP targeted improved incomes and livelihoods through sustainable forest and natural resource management and thus had PA2 as a significant objective. The programme was originally intended to be the same kind of innovative long-term programme for integrated forest management as the MFA has been funding in the forestry sector in Tanzania (FORVAC). It was meant to have three phases over the course of 12 years. The first three-year period was meant to be an introduction project where the aim was to lay the foundations for a devolved sustainable forest and other natural resources management system. The programme was, however, discontinued after the first phase as part of the MFA's budget cuts and the country team's efforts to scale down the MFA's development cooperation portfolio in Zambia and focus on private sector development and social protection. The objective of the introductory phase was to set up an enabling regulatory framework and strengthen and operationalize devolved integrated sustainable forest and other natural resource management system, including improved livelihoods in the project districts and communities. Although the funding decision was made already in 2015, the programme has been included in the portfolio due to Finland's perceived comparative advantage in forestry and to allow comparison across the three case countries included in this evaluation.

Out of MFA-funded ***regional programmes*** targeting PA2 objectives, two major programmes have been active in Zambia.

- The *Energy and Environment Partnership Trust Fund (EEP Africa)* is a pre-investment facility for renewable energy projects by companies (including start-ups), non-profit organisations and social enterprises initiated by Finland in 2010. The programme's ongoing third phase is currently run by the Nordic Development Fund (NDF) with funding from Finland, Austria and NDF. EEP III has a total budget of about EUR 30 million, covering 15 countries in Sub-Saharan Africa, including Zambia. The EEP has funded six projects in Zambia since 2016 ranging from EUR 225,000 to EUR 1 million in size (excluding counterpart funding). The funded projects have involved feasibility studies, pilot projects and scaling up of cooking stoves, wind power, briquette production, energy from municipal waste and solar home systems.
- The *Southern African Innovation Support Programme (SAIS) phase II* is a regional initiative with a budget of EUR 8.7 million. It supports the growth of new businesses by strengthening innovation ecosystems and promoting cross-border collaboration between innovation role-players in Southern Africa. SAIS 2 is implemented in partnership with the Ministries responsible for Science, Technology and Innovation in Botswana, Namibia, South Africa, Tanzania and Zambia, and the Southern African Development Community (SADC) Secretariat. In Zambia the programme works with the National Technology Business Centre (national

focal point) as well as private sector entities such as BongoHive and WECREATE (now WEAC). Since 2016 SAIS has funded eight projects covering Zambia, two of them being coordinated by Zambian organizations. The funded projects cut across various sectors, including agriculture, water and sanitation, and support to connecting national and regional start-ups and to start-up acceleration programmes.

Between these two regional programmes, a total of eight projects have been awarded to enterprises operating from Zambia with a combined ODA allocation of EUR 2.9 million. Given that Finland is one of several funders of the EEP trust fund, the total Finnish allocation to Zambia through these two programmes can be estimated at about EUR 1.8 million.[232]

There are also other Finnish-funded ***global programmes*** with economic development, jobs and livelihoods as priority and funding decisions made in 2016–2019 which may benefit Zambia. These programmes, however, are not earmarked for Zambia nor for the region or any Regional Economic Communities Zambia is a member of, and they are only covered in this Evaluation's main report. These programmes include, notably, the Enhanced Integrated Framework (EIF) for trade-related assistance for LDCs; the African Circular Economy programme (ACESP) with the African Development Bank; the Publish What You Pay -initiative (PWYP) for promoting equitable and transparent generation and allocation of extraction industries; programming by the International Trade Centre (ITC); programming by UNIDO; and the WCO-ESA Project to progress the trade facilitation agenda within the framework of the WCO Mercator Programme.

Between 2015–2019 all MFA ***private sector development instruments*** except the Public Sector Investment Facility (PIF) were also applied in Zambia. In 2019 Finnfund made its first ever direct investment in Zambia by approving a USUS$ 6 million equity investment to support the largest aquaculture company in Zambia, Yalelo Limited, in expanding its operations. In addition, between 2016 and 2019 Finnfund made two investments in private equity funds (PEFs) that invest in the three case countries, including Zambia:

- AgriVie II (food & agribusiness); USUS$10 million. Finnfund investment in 2018.
- Evolution II (renewable energy); USUS$15 million. Finnfund investment in 2019.

AgriVie II invests in Africa generally and Evolution II in Sub-Saharan Africa.

The value in the Finnfund's balance sheet of all PEFs that have made investments in the three case countries is EUR 34.3 million. Of the current active Finnfund PEF investment portfolio Zambia's share is 7.1%. Most of these investments have been made through funds in which Finnfund has for the first time invested already years ago.

Compared to Kenya and Tanzania, the number of funding decisions under *Finnpartnership* has been very small in Zambia. According to MFA statistics, there were only three Finnpartnership Business Partnership Support decisions for Zambia between 2016 and 2019, with a total value of EUR 0.2 million[233]. One project targeting Zambia was awarded funding through BEAM between 2016–2019. Due to the indebtedness of the Zambian government, the country has not been eligible for the use of the PIF instrument.

Nine smaller ***CSO and FLC projects*** classified by the MFA as having PA2 either as a principal or significant target and amounting to a total of EUR 1.3 million have also been funded during the evaluation period. This does not include CSOs that receive core-funding ("programme funding") from the MFA and may be operating on topics related to PA2 objectives in Zambia.

232 A total of EUR 2 632 000 has been granted under EEP Africa (six projects) and EUR 310 270 under SAIS 2 (2 projects). The share of Finnish assistance of the total budget of EEP for 2016–2019 was 56%.

233 According to Finnpartnership's own records the number of decisions was eight and the total value of commitments EUR 0.345 million.

FLC projects funded by the Embassy during the evaluation period were purposefully directed towards private sector development until the use of the instrument in Zambia was finally discontinued in 2018 due to the reduced resources in the Embassy. No call for proposals was organized in 2019. The two *CSO* projects have had other policy priority areas as their main objective, namely water and sanitation (Global Dry Toilet Association of Finland's Zambia Dry Sanitation Country Programme for 2017–2020) and climate change adaptation (Green Living Movement's project on Community Strategies for Climate Resilient Livelihoods II). Both have, however, also involved aspects of income generation and improved livelihood opportunities for participating communities.

The Finnish portfolio for Zambia for 2016–2019 targeting improved economy and job-creation in the form of bilateral cooperation, multilateral thematic funding, FLC projects, CSO projects, regional projects with interventions in Zambia, and the Private Sector Instruments jointly comprise in the order of 26 interventions (if sub-projects under the regional programmes are included). The estimated total Finnish allocation for these projects in terms of ODA and commercial investments by Finnfund is about EUR 23.9 million.

Table 2 Summary of projects and commitments for PA2 and PSI projects in Zambia 2016–2019

Type of intervention	Number of interventions	Commitment 2016–2019 (EUR million)
Bilateral projects		
Bilateral projects	3	12.25*
Multilateral thematic funding	1	3.04**
CSO projects	2	0.93***
FLC projects	7	0.36
Regional projects		
EEP Africa	6	1.47 ****
SAIS 2	2	0.31*****
Private sector instruments		
Finnpartnership	3	0.2
BEAM	1	(Not available)
Finnfund direct investments	1	5.3
Total	**26**	**23.9**

Source: MFA (bilateral, multilateral, CSO, FLC, regional projects, Finnpartnership, BEAM); Finnfund

** Includes the funding decision for one bilateral programme made in 2015.*

*** Only includes the last tranche for the Zambia Green Jobs Programme (decision made in 2015).*

**** Does not include CSOs that receive core-funding ("programme funding") from the MFA and may be operating on topics related to PA2 objectives in Zambia.*

***** Total allocation in Zambia EUR 2.63 million. Finland is providing about 56% of that EEP budget.*

****** Only includes projects coordinated from Zambia.*

Future plans

The MFA is currently drafting new Country Strategies and Country Programmes for 2021 onwards. The new Country *Strategies* will be covering all aspects of Finland's foreign policy for each country. Country *Programmes for Development Cooperation*, on the other hand, will focus on Finnish development cooperation in the partner countries. The latter are equivalent to the Country Strategies 2013–2016 and 2016–2019. The Country Programmes for Development Cooperation will cover also private sector instruments and are hoped to provide improved synergies and coherence for the MFA's different instruments.

Since Finnish development cooperation in Zambia is being phased out with the final bilateral programme (AGS) winding up in 2022 and Zambia is no-longer considered a long-term partner country, neither a strategy nor a country programme for development cooperation will be prepared for Zambia, even though other funding instruments are meant to be used. Instead, the country team will make use of the rolling plan of the Ministry (TTS), the Ambassador's Strategic Plan and the Team Finland plan. In the absence of a portfolio of bilateral programmes guiding the focus-sectors, the Embassy in Lusaka has in their 2019 Political and Economic Analysis (PEA) of Zambia (MFA, 2019) identified the following sectors for cooperation based on their assessment of supply (offering and interest of Finnish expertise) and demand (sector specific characteristics): mining, agriculture and forestry, energy, infrastructure and construction, and consumer markets.

4 Findings

4.1 Achievement of Finland's objectives on economic development, job creation and livelihoods (PA2)

This section presents evidence on the achievement of Finland's objectives on economic development, job creation and livelihoods (PA2). It provides the basis for answering the first evaluation question and related sub-questions:

> ***EQ1: – To what extent and how are the objectives of the Priority Area 2 on economic development, jobs and livelihoods being achieved and how relevant and effective have the interventions been in relation to partner country needs?***

Sections 4.1.1, 4.1.2 and 4.1.3 provide evidence on the coherence of the overriding Finnish policy framework for PA2, the relevance to partner country needs as well as the relevance and effectiveness for the pursuit of transition. Section 4.1.4 provides evidence on the effectiveness of Finland's country programmes, approaches and interventions in contributing to improving the economies and providing jobs and livelihoods especially for women, youth and the poor, and in particular decent, rights-based jobs; and Section 4.1.5 assesses the effectiveness of Finnish-funded interventions in relation to the cross cutting objective of Finnish development policy of addressing climate change mitigation and adaptation.

4.1.1 Coherence with the overriding Finnish policy framework for PA2

Finding 1. The Country Strategy 2016–2019 and the interventions funded by Finland in Zambia during the evaluation period have been coherent with the Finnish policy framework for Priority Area 2 in focusing efforts on private sector development (particularly MSMEs), incorporating Team Finland efforts, but also in focusing on improving access to decent work through expansion of social protection to the informal sector.

As part of the MFA's objective to transition from development cooperation to a trade-based relationship in Zambia, the Embassy has actively promoted collaboration between development cooperation projects, Team Finland efforts and the private sector instruments (PSIs), all of which were included in the Country Strategy. Finland applied practically all available funding modalities between 2016–2019 in Zambia, including bilateral funding, regional programmes, multilateral thematic funding, project support through CSOs, the Fund for Local Cooperation, and all PSIs except PIF.

Interventions funded by the MFA in Zambia have contributed to the objectives outlined in the 2016–2019 Country Strategy. Evidence collected by the Evaluation Team confirms that the Country Strategy was developed with the 2016 development policy objectives in mind. Most interventions funded by Finland during this period have targeted MSME and private sector development, decent work and transition. Only support to innovation and start-ups has been lesser than originally envisaged in the 2016–2019 Country Strategy due to a change in the design of the AGS programme. In practice, the reduced budget and human resources at the Embassy in Lusaka have limited the possibility of funding anything that was not already mentioned in the strategy. Evidence also shows that new priorities emerging from change of government in Finland have been reflected in ongoing programmes. For example, women's economic empowerment was, according to the implementing team, worked into the design of the AGS programme at the MFA's request during the inception phase.

The different funding modalities and instruments have been complementary in Zambia in relation to PA2 objectives. Bilateral programmes like the AGS programme are unable to provide funding for Zambian companies but are able strengthen their capacity and coach them in order to qualify for funding from regional matching grant funds such as EEP or SAIS or other donor-funded programmes, such as the DFID funded PEPZ / Prospero. A bilateral programme like AGS can also identify and build the capacity of suitable MSMEs to match with Finnish companies through e.g. Finnpartnership. Finnfund, on the other hand, provides the kind of investments and loans that no other Finnish instruments are able to offer. Multilateral organizations have had their comparative strengths in leveraging their weight for policy influencing and large-scale programmes to improve the business enabling environment or build national capacity for economic development and job creation. In the transition context, regional programmes have also served to maintain a link to relevant national stakeholders and in some cases to create linkages with trade promotion efforts. They also provide visibility for the Embassy/Finland.

Regarding the coherence of individual interventions, it is good to note that, due to the demand/market-driven nature of the PSIs, the separate PSI interventions (for example Finnfund investments or projects supported by Finnpartnership) are not designed, though encouraged and supported, to align with the Finnish development policy goals. They arise from the needs and aspirations of private enterprises.

Finding 2. The efforts to phase out development cooperation in Zambia and to transition to a trade-based relationship is consistent with the 2016 development policy but the transition process has been faster than originally intended.

The 2016–2019 Country Strategy did not set a timeframe for the transition process but stated that its *longer-term vision* was to transform Finnish-Zambian relations into economic and trade-based collaboration through a gradual process facilitated by continued development cooperation. Hence, the Country Strategy itself and interviews with MFA staff involved in its development and implementation indicate that the 2016–2019 Country Strategy was not originally meant to be the very final strategy for Finnish development cooperation in Zambia. The swifter-than-expected phasing out of development cooperation has been the result of a combination of other contributing reasons (see section 4.1.3 below).

While the transition agenda is fully in line with the 2016 development policy, which confirmed Finland's intention to move on to more diversified forms of cooperation with Zambia, and although Finland will still aim to contribute to development impact in Zambia through PSIs, such as Finnfund and Finnpartnership, and regional programmes/funds, such as SAIS and EEP, the advanced transition process means that development policy objectives, such as those for PA2, are no longer at the forefront of the Finnish-Zambian relationship. As development cooperation is being phased out, the main task of the Finnish Embassy becomes increasingly the same as in other countries in which Finland has diplomatic missions but no development cooperation: to promote the interests of Finland and Finns abroad, including Finnish businesses.

Finding 3. The projects and programmes developed under the previous development policy (2012) were more coherent with the objective of targeting the poorest than those designed after 2016, but often lacked sufficient attention to private sector (business and market) linkages for real impact on livelihoods and income.

The Finnish-funded programmes with a strong poverty-reduction focus have often been more closely linked to Priority Area 4. Evidence gathered through interviews with stakeholders and programme reports shows that the Decentralized Forestry and other Natural Resources Management Programme (DFNRMP) spent a lot of time and effort on carrying out a number of participatory exercises and studies to identify and include the most vulnerable members of participating communities. The step from subsistence farming to cash-based trading with local market access was, however, found to be major for many rural households. Adopting a business and market-driven value chain approach would have required not only building production capacities and improving quality of the commodities or produce for sustainable and reliable production but also linking up with business development service providers and the private sector. Based on evidence gathered by the evaluation team through document review and interviews, the final version of the programme design did not have adequate resources and expertise for this.

As part of its ambition to target the most vulnerable members of society, the Zambia Green Jobs programme started out by focusing only on small-scale contractors/MSMEs. According to programme reporting, this proved to be at the expense of private sector development and job creation, since the capacity to grown of these enterprises tended to be low and affected their ability to create jobs and to participate in the value/procurement chains of larger anchor companies. Focus was consequently shifted to slightly more established MSMEs.

Finding 4. Continuity and synergies have been generated particularly between two interventions (Green Jobs Programme and SPIREWORK project). While coherent with the Country Strategy, others have been relatively stand-alone interventions.

The fragmentation makes it challenging to assess the PA2 portfolio as a whole. Since Private Sector Development can cover practically any sector, the PA2 classified interventions in Zambia have been spread across a variety of target groups, areas and sectors, without apparent synergies in this regard. The Green Jobs programme focused on green building construction, the DFNRMP focused on community management of forests and other natural resources, while the AGS programme targets five different sectors, all of them based on a logic related to programme objectives, but none of them interlinked. While the AGS programme does not build on previous PSD interventions as such, it does seek to link and create synergies with the regional SAIS programme and EEP as well as Finnpartnership.

Continuity and synergies are clearest in Finland's support to social protection in the informal sector. The SPIREWORK project was built on the efforts of the Green Jobs Programme, which, among other things, aimed to improve the quality of jobs by finding ways to extend social protection to the informal workers in the construction sector.

4.1.2 Relevance to partner country needs

Assessment is made in relation to critical constraints and needs as summarized in section 3.2 of this report.

Regarding PSI interventions, it is noted that the selection of investments or business development projects happens following commercial logic. PSI interventions can consequently be supportive of tackling the country's development needs, but they are not necessarily designed to do so.

Constraint 1: *The majority of the Zambian young, working-age population is unable to find formal employment, resulting in self-employment in the informal sector.*

Finding 5. Finnfund's investment in Yalelo Limited is expected to offer formal (and fairly decent) employment and on-job training to low-skilled people in rural areas, including specifically youths. Results in terms of improving youth employment have been mixed in other Finnish-funded programmes.

According to Finnfund's pre-investment screening, the investment in Yalelo Limited is expected to generate some 500 direct new jobs and 600 indirect new jobs throughout the value chain as well as indirect livelihood opportunities for women in the informal sector, many of which in rural areas. In addition to formal employment, the supply of crops by local farmers for fish feed production and the onward selling of fish in local markets (such as informal markets, restaurants and guesthouses and lodges) is also likely to have a positive impact on livelihood opportunities in the informal sector. Results in this regard have, however, not yet been reported.

While the bilateral and multilateral programmes related to Private Sector Development have specifically aimed to create jobs, their ability to increase employment opportunities for youths has been mixed. As described in its programme document, the AGS Programme aims to create jobs in the formal sector to help absorb the "youth bulge" by supporting registered MSMEs in high-potential sectors. This is highly relevant for the Zambian Government's ambition to generate more jobs in the formal sector, but the focus on formally registered MSMEs means that the potential benefits generated by the programme will be beyond the reach of the majority of the working-age population, i.e. the semi-skilled, un-skilled, rural and self-employed working in the informal sector.

The Green Jobs Programme also aimed to create jobs by strengthening the capacity of MSMEs in the construction sector. Youth employment was also targeted by strengthening marketable skills among youths through skills development and training. As a result, the programme's final evaluation found that the vast majority of jobs created or improved as a result of the programme had been occupied by youths. This can be considered very relevant, but green construction was and still is a new concept in Zambia. Based on interviews conducted by the evaluation team, the market for such skills remains limited.

Regional programmes/funds such as the EEP and SAIS are not directly aiming at improving economies for job-creation and livelihoods but can have this indirect effect. One of the objectives of DFNRMP, on the other hand, was to improve livelihoods and incomes for people in rural areas, which was highly relevant for the target population. According to the programme's final report and interviews conducted with stakeholders, relevance suffered, however, from insufficient development of sustainable forest and natural resource value chains and linkages with the private sector within the short implementation period.

Finding 6. Interventions funded by Finland in collaboration with the ILO have directly contributed to Zambia being seen as a frontrunner at the level of the African Union in its programmatic approach to extending social protection to the informal sector.

Both the Green Jobs Programme and the SPIREWORK project have aimed to improve the quality of jobs in the informal sector. The SPIREWORK project has taken these efforts a step further together with Zambia's National Pension Scheme Authority (NAPSA) to develop a benefit prototype designed specifically to answer to the needs of informal and casual workers with irregular income. As also noted by the project's mid-term evaluation, through cooperation with the ILO, the project (and NAPSA) has had access to the expertise, networks and resources of ILO. ILO coordinates regional cooperation related to the African Union's wider SPIREWORK initiative. According to interviewed stakeholders, Zambia is considered a frontrunner in this group. Despite commencing the process much later, Zambia has received recognition at the regional level for having a structured project on extending and increasing social protection to the informal sector. Through the partnership with THL, the project has also benefitted from linkages with Finnish institutions as well as the EU Social Protection Systems programme (also run by THL).

Constraint 2: *The Zambian economy is heavily dependent on copper mining with insufficient efforts to diversify, which has made it vulnerable to fluctuations in price and demand in the international markets.*

Finding 7. Finnfund's investment in aquaculture directly contributes to the Zambian government's objective of economic diversification. Other programmes have also aimed to contribute to economic diversification, but most have ended before they could make a significant contribution in this aspect due to the measures to phase out of development cooperation.

Finnfund's investment in the Yalelo Limited aquaculture company is highly compatible with the strategic priorities of the Zambian government, which identify aquaculture as a sector that offers great potential for food security, diversification, gainful employment and poverty reduction.

Other Finnish-funded programmes have also targeted other sectors than mining. The DFNRMP, for instance, aimed to contribute to economic diversification by unlocking the potential of sustainable community forest management for livelihoods and income. The Green Jobs programme was also relevant for economic diversification by focusing on the construction sector, which was booming at the time the programme was designed. Both were, however, ended somewhat midway before reaching a level where they could have a meaningful impact on economic diversification due to Finland's decision to reduce the number of sectors and funding for development cooperation in Zambia.

Smaller projects funded through e.g. FLC, CSOs, Finnpartnership or BEAM are also relevant to this critical constraint by looking to generate income locally in sectors other than mining, usually the agriculture sector. While they are potentially highly relevant for improving livelihoods at the local level, the projects are too small-scale to generate lasting impact on economic diversification.

Finding 8. Mining is one of the focus sectors of the AGS programme. This may not be relevant for the Zambian government's aspirations to diversify but matches the programme's objective of generating business opportunities and trade between Zambia and Finland.

While pursuing diversification, the importance of mining for the national economy is also recognized by the Zambian Government in the 7th NDP, especially in relation to increased exploration for other types of minerals and investment in downstream activities. The fact that AGS includes mining supply chains as one of its five target sectors is related to the dual objective of not only supporting growth in Zambian MSMEs but also strengthening business partnerships and economic relations between Zambia and Finland. This is evidenced in the *Zambia-Finland Private Sector Collaboration Mapping and Assessment* report, commissioned during the programme's inception phase and used to identify the programme's target sectors which support both the Government of Zambia's priorities and Finland's capacity and skill set to support the sectors. Mining continues to be one of the most appealing sectors for foreign direct investment in Zambia and presents business opportunities for both Zambian and Finnish companies. The inclusion of the mining sector among the target sectors for the AGS programme can consequently be considered relevant also for the purpose of capturing benefits of the sector for Zambian MSMEs and work force. The new Local Content Bill presents opportunities for Zambian MSMEs to benefit from the mining value chains. Finnish companies, such as Outotec, have long been providing solutions and technology in the Zambian mining sector.

> ***Constraint 3:*** *The agriculture sector forms the main source of livelihood for the majority of the working age population, but it is lagging behind its potential with limited ability to generate economic growth, provide sufficient incomes and create jobs for the work force.*

Finding 9. After dropping agriculture as a focus sector from the 2016-2019 Country Strategy, Finland has still funded some relevant efforts that address agricultural productivity. These efforts are, however, small-scale and unable to comprehensively address the fundamental challenges for agricultural productivity at the level of small-scale farmers.

Support to the agriculture sector, and particularly to agricultural productivity and application of modern technologies, but also value chain development, is usually categorized under Priority Area 4 of the Finnish 2016 Development Policy (Climate Resilience and Low Greenhouse Gas Emissions Development are Promoted by Sustainable Use of Natural Resources). The 2016–2019 Country Strategy did not focus on this priority area but there is some overlap with Priority Area 2 in terms of improved livelihood opportunities. Consequently, some relevant but small-scale efforts to address agriculture productivity have been made in FLC and CSO projects during the evaluation period. Relevant projects include the *Pilot Project for Improving Livelihoods through Solar Powered Irrigation and Market Access for Smallholder Female and Youth Farmers in Western Province* by Entrepreneurship and Technology Park Limited and the *Community Strategies for Climate-Resilient Livelihoods II* project by the Green Living Movement.

The DFNRMP also made some attempts to introduce new technologies (including irrigation) and crops in agro-forestry and agri- and aquaculture. According to the programme's own assessment in the completion report, the efforts would have been relevant but suffered from attempts to introduce new value chains as opposed to strengthening existing ones in a very short implementation period. The AGS programme also targets agribusiness and sustainable agriculture, but at the level of formally registered MSMEs and potentially cooperatives. Through innovations and introduction of modern technologies it can potentially have an indirect impact on productivity and income generation in the agriculture sector.

Interviews conducted by the evaluation team indicate that Finnish businesses have been actively encouraged through both Finnpartnership, Team Finland and the AGS programme's efforts to participate in the annual Agritech Expo. Based on Embassy records, some 20 Finnish businesses have attended the event in 2019 (in Zambia) and 2020 (virtual). No evidence is, however, available to confirm whether these efforts have served to address productivity and the lack of improved agricultural practices and technologies among small-scale farmers. The portfolio review of Business Partnership Support decisions made by Finnpartnership in Zambia between 2016–2019 shows that the share of projects in the agriculture sector is (in monetary terms) relatively high, indicating at least some kind of contribution to the identified need. This, however, depends on the realization and results of the project, which is still unknown.

> ***Constraint 4:*** *There is a mismatch between the demand and supply of skills in the labour market, which is proving to be a major challenge for the employability of youths and particularly women.*

Finding 10. The 2016–2019 Country Strategy did not target technical and vocational training and secondary education, which are some of the main bottlenecks for employment for youths and women.

Finnish support to economic development and job creation and livelihoods in Zambia has recognized this critical constraint and while some efforts have been incorporated into funded interventions, Finnish development cooperation has not been focused on strengthening marketable skills and quality education for youths.

As part of its main effort to strengthen MSMEs in the construction sector, the Green Jobs Programme did collaborate with established universities, the Technical Education, Vocational and Entrepreneurship Training Authority (TEVETA), and trade schools to support the skilling and reskilling of artisans in green techniques and technologies. The aim was to develop a cadre of skilled labour force that would support the transition to a green economy. This intent was fully coherent with and highly relevant for this critical constraint. During the programme period jobs in supported MSMEs did increase, but according to interviewed stakeholders, this niche market in the construction sector had not taken off sufficiently by the time the programme ended to create a sustained demand for such skills in the labour market in the long term, hence reducing the relevance of the skills development efforts.

Finnpartnership does not yet have results reporting from the 2016–2019 business partnership support decisions, including on training given to own, partner's or supplier's employees, that could be of relevance for the identified country need. Reporting (Operational reports 2016–2019) also do not share country specific information on the planned training activities in these interventions. Relevance for the identified country need thus cannot be assessed.

BEAM reporting and evaluations (e.g. BEAM Developmental Evaluation, Final report) single out capacity building capabilities, competitiveness and generally capacities, but these refer to the project implementing company/organisation generally, not specifically sorting out effects in the target market or on the local partners. The relation to the identified country need thus cannot be assessed for this instrument either.

Constraint 5: *Despite a comparatively open investment climate and stable political environment, the looming economic crisis, governance issues and the unreliable power supply have deteriorated the investment climate and competitiveness of Zambian businesses.*

Finding 11. Finland made a conscious decision to move focus from governance issues or a business enabling environment in Zambia to more direct support to private sector development in the 2016–2019 Country Strategy.

During the previous Country Strategy, Finland participated in the co-funded Private Sector Development Reform Programme (PSDRP I and II) 2009–2015 and the Financial Sector Development Programme (FSDP), 2010–2015 which aimed to improve the investment climate and the competitiveness of Zambian businesses. While relevant, the support through government systems was considered inefficient and was dropped in the 2016–2019 Country Strategy, which aimed to produce more "immediate results" for the private sector. As the main bilateral donors in PSD have reduced their direct support to the Zambian government, policy influencing and sector reforms in Zambia are currently mostly supported by multilateral organizations such as the AfDB, UNDP, the EU and the World Bank. During the evaluation period Finland has maintained some level of policy dialogue through bilateral programmes, like the AGS programme, the EU and sector coordination groups.

> ***Constraint 6:*** *Zambian MSME's competitiveness and capacity to grow and create more jobs is limited.*

Finding 12. Finland's Country Strategy, approaches and interventions in Zambia during the evaluation period have specifically targeted MSME's capacity to grow and create more jobs. Together with considerably larger donors, such as DFID, Finland has been one of the leading cooperating partners to Zambia in this sector.

Both the AGS programme and the Green Jobs Programme have specifically focused on MSME growth and enhanced skills and capacities through business development services (BDS), acceleration programmes, access to markets, access to finance and access to and use of adequate technology.

Finnfund's strategic documents and interviews with Finnfund's staff show that Finnfund, like most DFIs, intends to provide financing – within its risk management strategies – especially to businesses that have difficulty in accessing finance, and at terms not available elsewhere. Finnfund has also found (voluntarily or involuntarily) a niche in smaller and riskier companies and investments/" tickets" than bigger DFIs and especially commercially oriented (only for profit) financiers. It also uses private equity funds and micro-finance institutions for this purpose, drawing on their presence and expertise, and on the ability of the fund/MFI structure to drive down transaction costs per investment. The evaluation team's assessment is, thus, that Finnfund is well positioned to alleviate the identified need regarding access to finance for enterprises looking for financing of EUR 0.5–1 million or above. It has, however had difficulties in finding suitable investments in Zambia, for many reasons (e.g. currency risks). The ability of Finnfund to finance MSMEs through funds has also been strongly restricted by the MFA's ownership steering.

Finnpartnership, on the other hand, is only able to fund Finnish companies because of its mandate. It can only indirectly help Zambian SMEs to access funding through joint projects with a Finnish company.

4.1.3 Relevance and effectiveness for the pursuit of transition

Finding 13. The Zambian economy has experienced a downturn since 2015, when the MFA made its official decision to pursue transition in Zambia based on the country's economic growth. Still, the transition process has moved faster than planned as a combined result of cuts in Finnish development cooperation funds, disenchantment due to corruption cases, and a shift in the MFA's overall strategic priorities.

The decision to phase out development cooperation in Zambia, first agreed upon as a principle in the 2010 bilateral consultations between Finland and Zambia, was influenced by Zambia's rapid economic growth and transformation at the time and a political interest to increase participation of the Finnish private sector in development cooperation. Although the Zambian Government has been keen on promoting "equal partnerships" with cooperating partners and welcomes a trade-based relationship and foreign direct investments, the decision to transition was, according to both interviewed staff from the MFA and from the Zambian Government, ultimately unilateral on Finland's side. As expressed by an interviewed representative of the Zambian Government:

> *"The reclassification of Zambia's economy to a Lower Middle-Income Country is theoretical and academic. Poverty is rife and remains the same as before the reclassification. In fact, it might be worsening. [...] The financing gap has been widening in the budget, hence there is need to seek more resources to fill that gap. [...] Interventions in agriculture and forestry are still critical. Value chain support and development are cardinal and require a lot of financial resources to undertake interventions."*

As in most of Finland's partner countries, the volume of Finnish ODA flows to Zambia only constitute a fraction of the country's GDP, meaning that its withdrawal will not make a major difference to the Zambian economy. Yet, the impact of development cooperation can be greater than the volumes of funding.

There is a rather stark difference in both Zambia's economic development as well as Finnish development cooperation in Zambia compared to other countries where Finland has transitioned from traditional development assistance to a trade-based relationship, such as Vietnam. In Vietnam development cooperation continued eight years after the country had reached middle income status with an ODA budget amounting to an average of USUS$10 million still in 2017–2018 and a high level of interest from Finnish companies towards the Vietnamese markets. In contrast, Zambia graduated to lower middle-income status in 2014 based on its GDP, but poverty levels are still very high and economic growth has furthermore slowed down significantly since then. Judging based on indicators such as applications for Finnpartnership Business Partnership Support (see Figure 4) and Finnish exports, Finnish commercial interest in Zambia is at present far from what it was in Vietnam and less than what it currently is in e.g. Kenya, where the 2016–2019 Country Strategy also envisaged shifting focus to commercial relations. For example, Finnish exports (including both services and goods) to Vietnam amounted to EUR 187.7 million in 2019 compared to 63.9 million to Kenya and 28.6 million to Zambia.[234] The difference is even bigger for imports to Finland from these countries. It should be noted, however, that in southern Africa companies tend to operate through sister-companies in South Africa and do not show in Finnish export data.

Evidence gathered through several interviews with MFA staff confirmed that the fact that the transition process has progressed even faster than originally planned despite the economic downturn in Zambia has been the combined result of cuts in Finnish development cooperation funds, disenchantment due to corruption cases, a lack of tangible results from the interventions and a shift in the MFA's strategic priorities towards more funding through multilaterals and an increased focus of Finnish development aid on fragile states and departure-countries of immigration to the EU.

Finding 14. The Finnish Embassy in Lusaka has made proactive efforts to support the transition process and increase interest in the Zambian market among the Finnish private sector. Its possibilities of incorporating best practices and lessons in its approach to transition and for fostering a trade-based relationship have, however, been hampered by the reduction in resources, both human and financial.

Throughout this evaluation, representatives of both the MFA and PSIs often characterised the Finnish Embassy in Lusaka as very proactive in promoting business relations between Finland and Zambia. Based on the evidence gathered for this evaluation, it really seems that the Embassy has done as much as it can within the reduced human and financial resources to support the transition process.

Based on interviews with MFA staff, the country team's original plan was to make the 2016–2019 Country Strategy a comprehensive private sector development programme to support the transition process. In addition to what later became the AGS programme, plans involved a project on circular economy and a technical assistance fund. As the development cooperation budget allocated to Zambia was significantly cut in connection to the 2015–2016 general cuts in Finnish ODA, these plans never reached the formulation stage. As foreseen in the 2016–2019 Country Strategy, the Embassy has instead focused on promoting other existing instruments, particularly the regional programmes funded by the MFA and the PSIs as well as their linkages with the final bilateral AGS programme.

234 Export figures based on data from Finnish Customs (goods) and Statistics Finland (services).

In order to increase interest in the Zambian market, the Finnish Embassy in Lusaka has taken a proactive approach to promoting business opportunities for Finnish companies since 2018 through, among other measures, a "boots-on-the-ground" approach. The approach involves proactive promotion of business opportunities in Zambia to Finnish companies by phone calls and e-mails as well as linking interested Finnish companies to two Zambian consultants who assist in finding suitable Zambian business partners and navigating the local business culture and regulations. The approach was developed by the Embassy's advisor in charge of Team Finland at the time based on best practices and lessons from similar efforts by Denmark in Kenya and Vietnam. If measured against Team Finland indicator of "number of companies supported", the approach has been successful. Before launching the approach, the Embassy supported, according to its estimates, some 60 Finnish MSMEs annually. In 2019 and 2020 the equivalent number has risen to an estimated 100 per year. The Embassy estimates active Finnish companies including MSMEs in Zambia to be around 20. Outcome-level information on if and how the operations by these companies and the Team Finland efforts have contributed to trade or economic development and job creation in Zambia is, however, not available.

The human resources at the Embassy in Lusaka for fostering a trade-based relationship and for strengthening collaboration with the PSIs have, however, been limited. Compared to a staff of some 20 people in 2015 the Embassy now has three advisors and four administrative staff in addition to the ambassador. Based on their own assessment, the country team for Zambia lacked human resources specialized in private sector and business development already before the staff at the Embassy was reduced in order to better contribute to the development and implementation the transition process and related programmes. As noted already in the 2016 evaluation of the Country Strategy Modality and its country report on Zambia (Visser et al., 2016), private sector development efforts in Zambia have consequently been guided by MFA advisors and staff with a strong background in traditional development cooperation as opposed to expertise in private sector interests and trade promotion. The MFA's solution has been to adjust the job descriptions but the criteria for selected staff have not been fit for purpose. The MFA's structure and system of rotating permanent staff between the head office and Embassies is an obstacle for the kind of fit-for-purpose recruitment that would allow Embassies involved in transition processes to tailor their teams to the Embassy's tasks.

Finding 15. While not directly within the MFA's control, the Embassy in Lusaka has consistently pursued to deploy PSIs to support the MFA's ambition to transition Zambia's and Finland's collaboration on to a trade-based relationship.

Between 2016–2019 all of the MFA's private sector development instruments except PIF have made decisions for interventions in Zambia. The Finnish development cooperation and PSI scene in Zambia is small compared to e.g. Kenya and Tanzania, so the Finnish Embassy in Lusaka has been able to maintain a relatively good overview of everything that is going on in the country with MFA funding. Interviewed Embassy staff would, however, have liked to have more information on e.g. the Finnpartnership pipeline projects before the funding decision has been made. Interviews indicate that there is a certain frustration at the Embassy level relating to their mandate to increase commercial cooperation but simultaneously being detached from some information flows and lacking a concrete role in the processes.

The Embassy has actively sought to promote interlinkages between the PSIs and other forms of development cooperation. As part of its objective to strengthened business partnerships and economic relations between Zambia and Finland, the AGS programme and the Embassy's Team Finland staff coordinate and collaborate regularly. The AGS programme shares Finnpartnership's ambition to link up Finnish and Zambian businesses. In order to strengthen these synergies, Finnpartnership joined the programme's Steering Committee in 2020. FLC funding was also targeted at social enterprises and MSMEs during the period under evaluation, but efforts to link them up with Finnish companies did not produce any results. One of the FLC grantees was linked up with several potential Finnish business partners through Finnpartnership and the Zambia-Finland Business Forum, but the attempts did not lead to business partnerships.

Since the selection of investments or business development projects in the PSIs happens based on commercial logic, PSI interventions can be supportive of the MFA's priorities and objectives, such as the transition agenda, but they are not necessarily designed to do so. This logic and the potential of these interventions to address development challenges are, however, not necessarily in contradiction with each other. Commercially oriented activities, such as those funded by the PSIs, have the potential of tackling development constraints directly via their key stakeholders (owners, employees, suppliers and other parts of the value chain) and indirectly (via e.g. increased demand for other products and services) if profitable and economically sustainable.

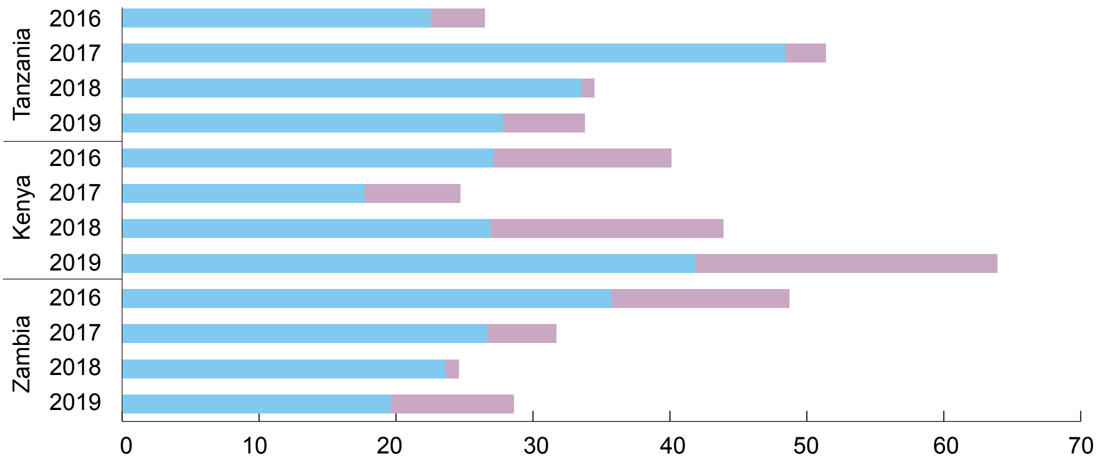
Finding 16. The results of the Embassy's efforts to promote the Zambian market to Finnish businesses are not yet observable in trade and PSI statistics.

As opposed to simply exiting, Finland made a conscious choice to transform its relations with Zambia from having been based on development cooperation for the past 50 years to "economic and trade-based collaboration". Based on interviews with representatives of the Zambian Government, it appears that Finland is among few, if not the only, traditional cooperation partner who has attempted such a transition in Zambia. For comparison, Denmark has phased out development cooperation over a long period with focus on sustainability and gradual phasing-in of commercial relations in countries where opportunities for Danish business were considered to be substantial, such as Vietnam and India. In Zambia, however the Danish exit involved phasing out within a given period with focus on achievement of outputs but without much efforts to develop commercial relations (Danida, 2015).

Finland's Country Strategy 2016–2019 makes reference to Finnish export volumes to Zambia in connection to reflecting on Finland's relations with Zambia and prospects for more diverse relations, particularly trade. A comparison of Finnish exports to the three case countries during the 2016-2019 programming period (see Figure 3 below) reveals that Finnish exports to Zambia was less than to Tanzania and Kenya in 2019 although transition processes are not yet underway in the latter two. The statistics do show a slight increase in Finnish exports to Zambia from 2018 to 2019, but a longer period of observation would be needed in order to know whether or not this is the start of a rising trend. The covid-19 pandemic is, however, likely to affect also trade worldwide in 2020 and subsequent years, potentially counteracting such positive developments.

When interpreting the trade data it is good to note that larger Finnish companies present in Zambia often operate through sister companies based in South-Africa and do not show in statistics of Finnish exports, business deals in the mining sector tend to be large but several years apart, and intensified Team Finland efforts were stepped up only in 2018.

Figure 3 Finnish exports to the three case countries (EUR million)

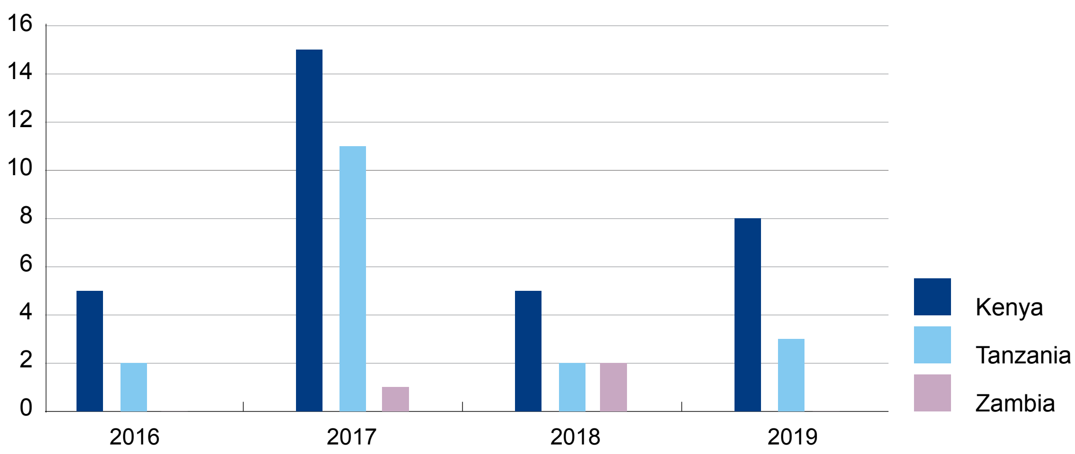


	Zambia				Kenya				Tanzania			
	2019	**2018**	**2017**	**2016**	**2019**	**2018**	**2017**	**2016**	**2019**	**2018**	**2017**	**2016**
Goods	19,6	23,6	26,7	35,7	41,9	26,9	17,7	27,1	27,8	33,5	48,4	22,5
Services	9	1	5	13	22	17	7	13	6	1	3	4

Source: Evaluation team based on trade data from Finnish Customs (goods) and Statistics Finland (services).[235]

Well-established, large Finnish companies have long been operating independently mainly in the Zambian mining sector but attracting Finnish SMEs to the Zambian market requires long-term and proactive efforts. Since 2016, Finnpartnership has, according to the MFA's records, funded three business partnership projects in Zambia while the equivalent number in Kenya is 33 and 18 in Tanzania (see Figure 4 below.[236] There appears to be no clear trend in BPS interventions in Zambia since 2016. One of the objectives of the AGS programme is indeed to collaborate with Finnpartnership to increase successful business partnerships between Finnish and Zambian companies. Since the programme's implementation phase only began in March 2020, such efforts cannot yet show in statistics.

Figure 4 Number of Finnpartnership BPS funding decision 2016–2019



Source: Evaluation team based on data on funding decisions provided by the MFA.

235 The value of service exports to Kenya in 2018 is non-public information. The value used for the sake of this figure is an average of the values in 2015–2017 and 2019.

236 According to Finnpartnership's own records the equivalent numbers are eight in Zambia, 49 in Kenya and 32 in Tanzania.

Finnpartnership does not in general try to steer the interest of the Finnish private sector, but applications are based on companies' market interests. Based on assessments by interviewed stakeholders, the concentration of Finnish development cooperation and the presence of a Finnish community in Tanzania is likely to have given rise to more business linkages there than in Zambia and may make the country a more familiar destination for Finnish companies applying for Finnpartnership funding. The dynamism of the Kenyan private sector and the country's role as a hub for international organizations also sets Kenya in a different league for private sector interest. The Zambian market is also simply smaller than the Kenyan and Tanzanian in terms of the size of the populations, and while bordering eight countries, Zambia's landlocked location is a challenge for logistics. The fact the Zambian economy has been struggling with increased indebtedness, rising inflation, a dwindling exchange rate and a rising cost of doing business for some years now is not helping to attract foreign investment or trade.

According to interviewed Finnish stakeholders in the private sector, Eastern African countries have also been subject to more activities and support both through Business Finland (who have an office in Nairobi) and through the Embassies for a longer period of time. In Southern Africa interest from Finnish businesses has been strongly focused on South Africa, where Finland also has a Business Finland representative. The proactive work of the Embassy in Lusaka to promote Zambia as a potential market to Finnish companies has been more recent and may take longer to produce tangible results.

Finding 17. Potential increase in trade in the short- or medium-term is likely to mostly involve Finnish exports to Zambia. Currently, most Finnish businesses operating in Zambia are selling a product or service, which does not directly generate jobs or income for Zambians or revenue for the Zambian government.

While interviewed representatives of the Zambian government welcome the idea of an equal, trade-based relationship between Finland and Zambia, nearly all Zambian stakeholders interviewed by the evaluation team (both government and private sector), raised concerns as to whether the Zambian public and private sectors are in fact ready to benefit from such a change. The competitiveness of Zambian MSMEs is not yet at par with Finnish companies and Zambia lacks the kind of trade promotion instruments that e.g. Team Finland and Business Finland provides to Finnish MSMEs. Zambian exports (goods) to Finland have been fluctuating between EUR 34,000 and EUR 969,000 annually for the past ten years, averaging some EUR 400,000 per year and comprising almost entirely of food products in 2018 (99.6%).[237] The AGS programme also notes in its programme document that penetration of Zambian businesses to the Finnish markets is challenged by restrictive EU trade regulations, high volumes required by Finnish and other EU companies, logistical challenges and the fact that Zambian products tend to be more attractive in southern Africa (AGS, 2020).

Any growth in trade between Zambia and Finland in the short- or even medium-term is thus likely to be mostly one-way from Finland to Zambia. This of course has the theoretical potential of being beneficial to b*oth parties* if it results in e.g. more business investments in Zambia, Joint Ventures and other commercial partnerships, as well as deepening trade between the two countries, translating into increased tax revenue for the Zambian government, business for Zambian companies or job creation for Zambians. This would, however, require that Finnish companies also establish and register companies in Zambia. This is currently not usually the case, since larger Finnish companies tend to operate through sister companies in South Africa or as suppliers of equipment or technology and business linkages facilitated by the Embassy as part of Team Finland work are usually between MSMEs, mostly involving Finnish companies selling a product or service. Sectors emerging in interviews with AGS stakeholders as having most immediate

237 International trade statistics published by Finnish Customs. Accessible at https://tulli.fi/en/statistics

potential for mutual benefit and business partnerships include agriculture, renewable energy and mining.

Finding 18. While its implementation is still in the early stages, the AGS programme is in many ways a pilot for bilateral programmes that may serve to bridge the transition period with a partner country.

The MFA considers the AGS programme to be somewhat of a pilot for bilateral programmes that serve to bridge the transition period with a partner country. After much back-and-forth during the design stage, the AGS programme became a package that tests what kind of financial instruments can be applied within the limitations of Finnish legislation and what the MFA is willing to do in a government-led project to enable private sector operations. Other country teams in the MFA could learn from the AGS experience. Due to the delays during the inception phase the AGS programme would, however, need more time for supported MSMEs to grow and for the programme to ascertain whether this can actually contribute to increased linkages between Finnish and Zambian businesses.

4.1.4 Effectiveness in improving the economy by providing jobs and livelihoods

This section assesses the effectiveness of Finnish-funded interventions in terms of achieving the main objective of Priority Area 2: improving economies and providing jobs and livelihoods especially for women, youth and the poor, and, in particular, decent, rights-based jobs. The section covers the cross-cutting objectives of human rights-based approach, gender equality and reduced inequality. Finland's human rights-based approach is understood to be reflected in the focus on decent and rights-based jobs and gender equality and reduced inequality is incorporated in the focus on women and the poor. The cross-cutting objectives of climate change is not explicitly included in the impact statement of Priority Area 2 and is therefore assessed in a separate section below.

In evaluation terminology effectiveness relates to "*the extent to which the intervention achieved, or is expected to achieve, its objectives, and its results*" (OECD DAC). Due to the fact that private businesses normally do not design their operations with the PA2 objectives as their objectives, it is difficult to assess these interventions' effectiveness against them. The analysis of PSIs, below, should rather be interpreted as useful additional information, not as effectiveness analysis. The effectiveness analysis of PSIs is made on the instrument level in the PSI Annex.

Finding 19. As a result of the MFA's decision to phase out development cooperation in Zambia (officially in 2016) and the cuts in financial resources, a number of Finnish-funded programmes related to PA2 objectives have been discontinued just as they were gaining momentum and/or before sustainability of results could be ensured.

As expressed by several interviewed staff at the MFA, perseverance and continuity are not strengths commonly attributed to the MFA. Project management and administrative aspects were said to often take the upper hand at the expense of results in development cooperation. The statement relates to the fact that the reduced budget and transition decision have meant that all Finnish-funded larger programmes focused on economic development, job creation and livelihoods, and assessed as part of this evaluation, have been discontinued after what was meant to be an introductory phase or not extended even when delayed due to external factors. Considering that the final AGS Programme is in its initial stages, the only intervention of Finnish funded programmes since 2018 with tangible results in terms of job creation and livelihood opportunities is Finnfund's investment in Yalelo.

Programmes such as the Green Jobs Programme, DFNRMP and SPIREWORK have worked to generate mind-set change and policy or regulatory reforms. This kind of efforts take longer than the standard project lifespan to bear fruit. As evidenced in these interventions and confirmed in evaluation reports and interviewed project stakeholders, three to five years has not been sufficient for piloting new and innovative approaches, achieving the necessary regulatory reforms, concluding whether the new approaches deliver real sustainable impacts for jobs and livelihoods, and documenting best practices that allow for scaling up. Let alone having a sustained impact on economic development. Gains achieved during programme implementation may quickly be erased with staff rotation or changes. The MFA has in fact spent more time on developing and designing e.g. the DFNRMP and the AGS programme (if terminated in 2022 as planned) than on their implementation. Both programmes were designed over the course of five to six years but implemented only during three to four years.

Outcome objective 1 of PA2 in Finland's Development Policy 2016: *Everyone, including women, young people and the poorest, have better access to decent work, livelihoods and income*

Finding 12. The potential impact of the relatively small SPIREWORK project on improving access to decent work in the informal sector is considerable. Benefits for women depend on its expansion beyond the pilot phase.

The SPIREWORK project has been developed and implemented in a way that provides a good basis for sustainability. It is led by NAPSA and fully in line with and part of the Zambian Government's and NAPSA's priorities. According to interviewed representatives of NAPSA, the project has added value to NAPSA's wider efforts by developing innovative benefit prototypes that, if followed through, have the potential of providing important social protection for the majority of the Zambian work force – the informal sector – and lessons for neighbouring countries undertaking similar initiatives. A contributory social protection scheme through a semi-autonomous body such as NAPSA also has the benefit that it does not cost the Zambian government practically anything and its funding is not subject to changes in government.

Interviews conducted by the evaluation team suggest that THL has been proactive in promoting gender equality and broadening the thinking, innovation and inclusion of marginalised or disadvantaged groups in the SPIREWORK programme. As a result, the benefit prototype includes three months of maternity benefit for contributing women. The SPIREWORK project is, however, targeting self-employed farmers engaged in cash-crops and outgrower schemes (dairy farming, cotton and soya beans). For expanding social protection to the informal section, this is a practical solution since the company buying the produce from farmers or other collection centres can act as aggregators, taking on the role of the employer in collecting contributions. Outgrower schemes and cash-crops are, however, usually male-dominant (FAO, National gender profile of agriculture and rural livelihoods, 2018). As noted by the project's mid-term evaluation done in 2018, this means that there is a risk that the uptake of the new benefit package by women will remain low unless deliberate targeting is done. If piloting is successful and NAPSA expands the scheme to the whole informal sector in Zambia, it can of course increase the inclusion of women beyond the project's target groups and sectors.

Because of Finland's decision to phase out bilateral cooperation in Zambia as well as delays in implementation caused by external factors, and, last but not least, the covid-19 pandemic, the project will, however, end before the piloting of the designed benefit packages and related institutional systems can be fully tested and finalized. It will be up to NAPSA to follow through on the piloting, fine tuning and extension of the prototype. While highly committed[238], NAPSA is entering uncharted territory in developing and extending innovative social protection packages for the informal sector. It is not able to draw on lessons from neighbouring countries as Zambia seems to be the first to get this far in the process. Based on information gathered from stakeholders by the evaluation team, piloting, testing and fine tuning of the benefit prototype developed by the SPIREWORK project, as well as awareness raising and convincing of target beneficiaries will take longer than currently reserved for the project.

Finding 21. While decent work has been incorporated into all Finnish-funded bilateral and multilateral programmes funded under the 2016–2019 Country Strategy, they have not managed to combine the two objectives of both generating as many decent jobs as possible and specifically benefiting the poor, women and youths. Finnfund's investment in aquaculture presents an exception by addressing both.

The strategy of the AGS programmes is consciously tailored to the objective of creating the maximum number of jobs within the available timespan and budget. This means that support will be limited to formally registered MSMEs that are either relatively established or have good growth potential. The logic is that the supported companies have the highest potential to grow, generate revenue for the government and create jobs. While the approach is appropriate considering the programme targets and the programme includes the target that 30% of all supported MSMEs should be owned by women, the criteria do not match most micro and small enterprises owned by youths, women and the poor, nor are they the most likely employers of these groups. Most enterprises owned by youths, women and the poor are not formally registered and, as evidenced in the Zambian Labour Force Surveys, only 13% of Zambians are employed in the formal sector (i.e. public sector or formally registered enterprises). According to the 2018 Labour Force Survey, women represent only 29% of the formally employed work force in Zambia. According to the AGS Programme Document, they are also under-represented in the sectors targeted by the programme. Considering the set targets and scope of the AGS programme, however, the level of ambition in terms of human rights-based approach ("human rights sensitive") and inclusiveness appear reasonable. A higher target for women-owned enterprises might have made it difficult for the programme to identify a sufficient number of high-potential MSMEs.

On the other hand, MSME development programmes that have aimed to target the most vulnerable members of society have often ended up doing this at the expense of private sector development and job creation. The capacity to grow of such enterprises tends to be low and affects their ability to create jobs and to participate in the value or procurement chains of larger anchor companies. This was a particular challenge for the Zambia Green Jobs Programme, which ended up shifting its approach to working with more established MSMEs.

Finnfund includes parameters related to decent work in its requirements by requiring that financed companies commit themselves to e.g. compliance with national law and the ILO core labour standards, the IFC Performance Standard 2 on Labour and Working Conditions and when appropriate, with international initiatives and certification schemes such as SA8000 by Social Accountability International. Finnfund's investment memo of the investee company in Zambia, Yalelo Limited, shows that the company is well established and already relatively advanced in aspects of environmental and social responsibility. The investment, which is set to support the expansion of Yalelo's operations, is, however, expected to increase access to decent work in rural areas by providing formal employment for non-skilled and semi-skilled labour. It also has the potential to create livelihood opportunities for local farmers through its demand for agricultural produce for fish feeds.

238 Extending social protection to the informal sector is one of the key priorities in the Zambian Government's agenda (also part of the 7th NDP) and one of the strategic objectives of NAPSA. NAPSA's commitment to following through on the project was also confirmed by the evaluation team through interviews with key officials.

Finnfund's investment in Yalelo also fulfils the 2 X Challenge criteria. The 2X Challenge[239], launched in June 2018, is a commitment to unlock resources that will help advance women as entrepreneurs, as business leaders, as employees and as consumers of products and services that enhance their economic participation. Finnfund joined the challenge in 2019 and now screens all its investments with 2 X criteria. Whereas women comprise in average only 8% of the workforce in the fisheries and aquaculture value chain in Zambia, at Yalelo, they make up 14% of the workforce and 33% of the management team. In addition to direct employment of women, more than 90% of Yalelo products' retailers ("city ladies") are women.

> ***Outcome objective 2 of PA2 in Finland's Development Policy 2016:*** *The private sector and economic activity in developing countries are more dynamic and more diversified*

Finding 22. The total direct employment effect of Finnish funded interventions targeting PA2 objectives since 2016 is estimated to be in the order of 5,240–5,540 jobs.

The estimated total of 5,240–5,540 jobs[240] generated by Finnish funded interventions includes both realized full-time-equivalent jobs and expected jobs. The figure can be considered indicative at best, since the information is not yet available for all programmes, the available numbers are not verified by independent sources and the additionality and sustainability is not known. Non-quantifiable improvements in the livelihoods and incomes of participants of CSO and FLC projects and jobs indirectly created as a result of funded interventions are not included in this figure. While this figure is marginal in comparison to Zambia's employment needs with entrance of 300,000 jobseekers every year, it is proportionate with the volumes of Finnish funding.

From available data it is not possible to assess what proportion of the total number of created jobs has been for women, youths and the poor. Those jobs created directly are mostly in the formal sector and likely to fulfil at least degrees of decency in ILO's terminology. Interventions such as the Green Jobs Programme, the AGS Programme and the Finnfund investment in Yalelo have also made conscious efforts to promote adherence to decent job standards. In addition to new jobs created, the Green Jobs programme reportedly also improved the quality of 3,450 existing jobs.

The results of the projects funded by SAIS 2 in Zambia are yet to be reported as none of the projects has been completed. Employment is not a prime objective of SAIS 2 and not among its indicators but is expected to emerge through business development over time as a result of an enhanced system for innovation in the targeted countries, capacity building amongst the players and better networking in-country and in the region. Building innovation and start-up ecosystems in the SADC area is a long-term proposition likely to require many years and success of such a programme should not be measured against the number of jobs created during the lifespan of a programme. Some of the funded projects in Zambia do specifically aim to generate employment. For example, the grantee BetterWorld Energy Ltd Zambia is implementing the project *Ntaka Hyperlocal Soil Health Advisory Services* in collaboration with Impact Agri Ltd, Grassroots Trust, Musika and Stellenbosch University to provide affordable soil advisory services to economically and

239 The "2X Challenge" calls for the G7 and other development finance institutions (DFIs)to join together to collectively mobilize $3 billion in commitments that provide women in developing country markets with improved access to leadership opportunities, quality employment, finance, enterprise support and products and services that enhance economic participation and access. The group now includes the DFIs of the Netherlands (FMO), Sweden (Swedfund), Finland (Finnfund) and Denmark (IFU).

240 AGS programme: realistic projection 300-600 new full time equivalent (fte) jobs; Green Jobs programme: actual 4 326 new fte jobs + 3 450 improved existing jobs; DFNRMP: actual 0 (not targeting job creation); Finnfund investment in Yalelo: expected 500 direct jobs + 600 indirect jobs; Finnpartnership: not known; BEAM: not known; EEP Africa: actual approx. 100 jobs (MFA records on projects funded in 2016); SAIS II: Not yet reported; FREE (FLC): Not measurable (commission basis); ETP (FLC): actual 0; Huussi Ry (CSO): 15 builders/artisans making dry toilets (+ improved livelihoods from vegetable sales); Green Living (CSO): actual 0 jobs (livelihoods improved).

environmentally challenged small-scale farmers in Zambia and intends to provide employment and training opportunities to young technical staff and micro-entrepreneurs in the process.

The EEP trust fund is not mentioned in the MFA's 2016–2019 Country Strategy for Zambia, but it is coherent with its objectives, given that it is supporting access to finance and scaling up of private sector investments in renewable energy. Based on EEP's records, six projects related to e.g. solar home systems and improved cooking stoves have been funded in Zambia since 2016, generating an estimated 100 direct jobs (figure not verified). The sustainability of these jobs cannot be determined based on the available information, nor how many are "decent". Interviewed stakeholders in Zambia noted, however, that the entities that manage to qualify for EEP funding need to be able to present a very compelling business case and tend to have European or American ownership. According to interviews with NDF, local projects are now being explicitly targeted with many projects (an estimated 50%) being hybrids between local and international operators. The employment potential of funded projects in Zambia is somewhat limited by the fact that they have mostly involved selling solutions such as solar home systems, as opposed to e.g. manufacturing. Indirect jobs and livelihoods may, however, also be generated from better access to energy for MSMEs and savings of time in unpaid care and household work.

Finding 23. The observable results in terms of supporting MSME growth and fostering business linkages between Finnish and Zambian companies as a result of the AGS programme are likely to remain at the output level due to delays in the early stages and the programme's management structure.

Considering the extended inception phase and additional delays due to the covid-19 pandemic, observable results generated by the AGS programme are likely to remain at the output level if the programme end date remains as originally planned. An end date in August 2022 would mean that implementation of activities would end shortly after 2021. Based on their experiences from past similar efforts in Zambia, interviewed stakeholders and the implementation team agree that five years to be a more realistic timeframe for the programme's theory of change. Supporting and coaching identified MSMEs to mature to a level where they could be successfully matched with suitable Finnish business counterparts or companies would warrant more time to ensure sustainability and best practices. Based on interviews with stakeholders in the Zambian private sector, government and other donor-funded programmes, an "evolutionary, not revolutionary" approach to MSMEs development is imperative for sustainability. Particularly in the case of micro and small enterprises in their early stages, there is a need to first focus on improving their internal capacities to adequately prepare them for business linkages along the value chain. To start with, domestic linkages may be more appropriate for smaller businesses than international business partnerships.

Given that all supported MSMEs do not need to go through the full development path of the AGS programme, starting from basic training, the programme can of course make some advances towards both objectives (MSME growth and linkages with Finnish companies) quite soon through initiatives like the annual Impact Capital Africa event and collaboration with Finnpartnership. The programme's sustainability mechanisms suppose, however, that the programme will raise awareness on the benefits of Business Development Services among Zambian MSMEs to a level where they are willing to pay the existing entities for the services themselves after the programme has ended. This kind of change in mindsets is unlikely to happen over the course of 18 months.

The current management structure of the AGS programme is also likely to cause further delays in programme implementation. Based on the programme appraisal document and interviews with MFA staff involved in the early stages of the programme, the AGS programme was originally designed to be implemented outside the structures of the Zambian Government, as a free standing project managed and coordinated by a consultancy team chosen by the MFA. For sustainability, the implementation of project activities was to be done through existing structures, such as Technical Education, Vocational and Entrepreneurship Training Authority (TEVETA) and the National Technology Business Centre (NTBC), but government involvement was intended to be limited to their participation in the Steering Committee and Supervisory Board. Evidence gathered by the evaluation team indicates that the proposed set-up was thought to present a combination of the traditional, public-sector led bilateral development cooperation programme, which based on previous experience and evaluations had been found to significantly slow down implementation of projects and make the achievement of sustainable results for private sector development difficult, and totally stand-alone projects run by a consultancy team with little connection to the government structures, such as the DFID funded PEP Zambia project (currently Prospero Zambia), which is criticized by the Government of Zambia for having side-lined them entirely. As confirmed in interviews conducted as part of this evaluation, the Zambian Government's standpoint is, however, that it cannot be divorced from the institutional framework or architecture for providing support to MSMEs in Zambia.

A bilateral agreement was indeed signed between the Finnish MFA and the Zambian Ministry of Finance in 2018, making the Ministry of Commerce, Trade and Industry (MCTI) the project owner. While the programme is still consultancy-driven and funds for implementation are not channelled through the Zambian government, components to support MCTI capacity have been introduced during the inception phase and the decision making powers of the Steering Committee over programme implementation have been increased in order to improve ownership. The Steering Committee currently approves individual operational aspects of the programme including all ToRs, recruitments, supported MSMEs, etc. With approvals sometimes taking several weeks, the arrangement increases bureaucracy and government influence over programme implementation, increasing the likelihood of delays in implementation. This presents a challenge for achieving the planned results within the set timeframe.

Finding 24. Limited access to affordable financing is still a major hurdle for Zambian MSMEs but Finnish regulations limit the MFA's ability to effectively address this issue through bilateral programmes.

An important component of the AGS programme's original design was a EUR 1 million loan/equity facility for start-ups and MSME's to increase their access to affordable business financing. During the inception phase the MFA confirmed, however, that Finnish legislation could not allow the establishment of such a fund, because ODA cannot be transformed into equity or loans. According to interviewed MFA staff, the unofficial guidance for the AGS Programme was also that grants should not be disbursed to private sector enterprises. Interviews with the MFA indicate that both the financial risks and administrative burden of setting up financing instruments at the country level were considered too high. The compromise was finally to establish an "equipment fund", which the programme will use to procure strategically important equipment needed to build the capacity of supported MSMEs. Access to finance will be supported by linking supported businesses to existing sources. It remains to be seen whether the solution will be able to help supported MSMEs to access affordable financing and take them to the next level in order to generate jobs and contribute to economic development.

The issue of using Finnish ODA funds for a loan/equity facility is a long-standing debate in the MFA and whether or not they have been allowed seems to have depended on the interpretations of the individuals in charge in the MFA. Based on interviews conducted as part of this evaluation it appears that unclear instructions in relation to this topic has caused such funds to be categorically forbidden in some countries but applied in others (e.g. Vietnam). In some of the latter cases they have later been shut down. Currently, Finnish-funded matching *grant* funds are available in

Zambia through regional programmes/funds like EEP and SAIS. Since 2018 the EEP trust fund also issues loans to its portfolio companies.

While Finnfund has funded also start-ups in the other case countries, neither Finnfund nor other PSIs or bilateral instruments (not including regional programmes) have been able to provide direct financing for micro- and small enterprises in Zambia, which have particular challenges with access to affordable finance.

Finding 25. Good efforts towards economic diversification were started with Finnish funding in e.g. the DFNRMP and Green Jobs Programme, but effectiveness was low as implementation periods were too short for the envisaged results. Finnfund's first direct investment in Zambia is very likely to both generate jobs and contribute towards diversification of the economy.

The Green Jobs programme, which focused on introducing green building construction in Zambia's booming construction sector, ended before it was able to raise the necessary level of awareness and required mindset change in order to produce sustained demand and a real impact on the Zambian economy. Although other donor-funded programmes have built on the regulatory framework generated by the DFNRMP in order to unlock the potential of sustainable community forest management, large-scale impact on the Zambian economy cannot be expected in the short- or even medium-term.

Based on Finnfund's internal investment memo (based on a thorough pre-investment analysis of the company) and the investee company's track record, Yalelo Limited is well established and has proven capacity to scale up its operations with the combined financing from Finnfund and FMO (the Dutch bilateral DFI). The investment is expected to generate 500 direct jobs (mainly in rural areas) and contribute to diversification of the Zambian economy by targeting one of the high-potential sectors identified by the Zambian Government: aquaculture.

In principle Finnpartnership and the BEAM programme also aim at and may contribute to the diversification of Zambian economy. The sector distribution of the funding decisions between 2016 and 2019, with emphasis on the agriculture sector, indicate such a contribution. There is, however, not yet information available on the actual results of these interventions.

> ***Outcome objective 3 of PA2 in Finland's Development Policy 2016:*** *International business rules lend better support to the development of businesses, their accountability and the observance of internationally agreed standards in developing countries*

Finding 26. Finland's Country Strategy for Zambia 2016–2019 or its portfolio did not target support to capacity development of the Zambian government to comply with the rules of international trade, but Finland has provided support outside the Country Strategy through ITC (non-traceable).

Outside the Country Strategy Finland has funded the International Trade Centre (ITC) with EUR 3.11 million between 2018–2020. EUR 1.5 million of this funding is non-earmarked and therefore not traceable to any of the case countries. The bulk of the other half (EUR 1.56 million) is also general support, directed at supporting the participation of SMEs in international value chains and promotion of participatory and green trade. It is not known how much of this has been directed to Zambia during the evaluation period.

Finding 27. Team Finland efforts, as per their mandate, are mainly concerned with generating business opportunities for Finnish companies and do not involve measures to improve compliance with standards for international guidelines for responsible business.

While Finnfund and Finnpartnership require that supported companies, both Finnish and Zambian, comply with international guidelines for responsible business, the Embassy's trade promotion efforts through Team Finland are mainly focused on generating business opportunities for Finnish companies. Improving compliance with standards for international guidelines for responsible business by Finnish businesses operating in Zambia through e.g. capacity building or training is not part of their mandate. Based on the Embassy's account, the Embassy has been offering guidance and advice for Finnish companies to navigate the Zambian business environment and comply with the legal and regulatory regime and requirements through two local consultants engaged as part of the "boots on the ground" approach to Team Finland efforts. Team Finland reporting and follow-up with supported businesses is more focused on satisfaction with services and generated business as opposed to development impact or responsible business. On the other hand, the Embassy has no mandate to require such reporting from supported businesses.

Finnpartnership eligibility conditions for Business Partnership Support also include commitment of applicants to e.g. IFC performance standards on Environmental, Social, and Corporate Governance (ESG) issues, ILO core agreements, and UN guiding principles on Human rights, though there is little monitoring on how these are (or would be in the case of real business activities) implemented.

SAIS 2 does not include requirements or screening processes for grantees related to international guidelines for responsible business. EEP Africa, currently managed by NDF, screens grantees for compliance with its environmental and social safeguards.

Outcome objective 4 of PA2 in Finland's Development Policy 2016: *Better use is made of new know-how, value chains, technologies and innovations that respect sustainable development*

Finding 28. The main programmes contributing to better use of new know-how, value chains, technologies and innovations in Zambia have been the regional Southern Africa Innovation Support programme (Phase II) and the AGS programme. Results on these aspects are yet to be reported for both.

SAIS 2 is a regional initiative that supports the growth of new businesses through strengthening innovation ecosystems and promotion of cross-border networking and collaboration between innovation actors in Southern Africa (Botswana, Namibia, Tanzania, South Africa and Zambia). The bulk of programme funding is directed at companies, NGOs, social enterprises, non-profit companies, and research organisations through an innovation fund (approx. EUR 4 million), which awards grants through a competitive call for proposals. The second phase of the programme has included a specific window to assist innovation support organizations and enterprises to adopt open approaches in developing and delivering services to and with communities excluded due to social and/or economic reasons ("inclusive innovation"). While the effectiveness of funded projects in terms of better use of innovations, new know-how and technologies cannot yet be measured, the aim of SAIS 2 is to open up a variety of possibilities for innovation actors. Innovation hubs in Zambia have long been functioning mainly within the city in which they operate with limited networking nationally, let alone regionally. This limits the operations of a hub, its possibilities to learn from peers and its ability to support start-ups. Although only two projects funded by SAIS 2 are being coordinated by entities operating from Zambia, Zambian organizations, such as BongoHive and WECREATE (now WEAC), are involved in eight out of 21 projects funded by SAIS.

Interviewed government stakeholders involved in the SAIS 2 programme felt, however, that Zambia would still need a more comprehensive and robust focus and approach to innovation at the national and/or sector level, including an Innovation Strategy. SAIS 2 is not designed to address such aspects at the national level, which might be better supported by existing actors with local presence, such as multilateral organizations, which are better positioned to interact more closely with relevant stakeholders to support policy reforms.

The AGS programme was originally intended to focus on innovation and start-ups and this is reflected in the Country Strategy's emphasis on these issues. According to the last appraisal report, priority was, however, given to the creation of jobs within the programme's four-year period, which was considered more likely to be achieved through increased competitiveness, development and growth of existing SMEs. A bilateral programme focusing on innovation and start-ups was also thought to overlap with the SAIS programme, which had already been rolled out by the time of the final appraisal of AGS. The AGS programme still includes a co-creation and innovation component that is intended to fund e.g. in-country feasibility and market navigation studies and facilitate market linkages and development of prototypes for collaboration between Zambian start-ups and MSMEs, Finnish "lead firms" and Zambian/Finnish academia. It is too early to tell whether these efforts will improve the use for new know-how, technologies and innovations in Zambia. According to the implementation teams, collaboration between SAIS and the AGS programme, including organizing common events, is hampered by the fact that the two programmes are in very different stages of implementation. The SAIS programme's third and final call for proposals will take place before AGS supported co-creation initiatives could theoretically be linked up with it. So far collaboration has been linked to the regional connected hubs pitching-competition organized by SAIS. The winners of the national-level competition in Zambia will qualify for the AGS programme's acceleration programme.

The Zambia Green Jobs Programme also introduced climate-friendly technologies and aimed to develop related know-how and value chains related to green building construction. The approach was to promote these efforts on the policy, industry and individual level. As part of the skills development efforts, the programme collaborated with the Technical Education, Vocational and Entrepreneurship Training Authority (TEVETA), established universities and trade schools in order to develop curriculum relevant and appropriate for developing green construction skills among youths. In order for these measures to be effective in improving the actual use of the promoted know-how, technologies and skills, a longer implementation period or second phase of the programme would, however, been needed. Other than some limited but notable youth empowerment success stories, the programme's final evaluation and interviews conducted by the evaluation team with programme stakeholders indicate that the tangible results of the work on skills development were not realized during the lifespan of the programme because the market for green building construction skills is still very small due to limited awareness about the benefits.

Finding 29. Introduction of Finnish technology through Team Finland efforts has been successful in e.g. higher education. In sectors such as agriculture the hurdle for Finnish technology is the labour-intensive nature of the sector in Zambia and competition on price with similar Chinese solutions.

In 2019 Finnfund invested in Maarifa (Africa Edu Holdings), an education platform that, according to Finnfund, provides "high quality and market relevant" tertiary education in Sub-Saharan Africa. Maarifa owns the Cavendish University in Zambia. Through Team Finland efforts at the Embassy of Finland in Lusaka, the Finnish ed-tech company ClanEd was linked up with

Cavendish university and is currently providing new technology for the university's online learning platform. Based on interviews with representatives of the investee company, intentions to link Finnish technology with Yalelo Limited were, however, unsuccessful because of the labour-intensive nature of aquaculture in Zambia while the Finnish solutions are made for automated processes.

4.1.5 Effectiveness in addressing climate change mitigation and adaptation

This section assesses the effectiveness of Finnish-funded interventions in relation to the cross-cutting objective of Finnish development policy of addressing climate change mitigation and adaptation.

Finding 30. Programmes designed and approved under the 2012 development policy had a clear focus on climate change mitigation and adaptation while later country-level programmes targeting PA2 objectives have prioritized job creation.

The Green Jobs Programme, the DFNRMP and the regional EEP, all designed and approved before 2016, were explicitly designed to address climate change through, respectively, green construction, sustainable management of forest and other natural resources and renewable energy. Both the Green Jobs Programme and the DFNRMP were designed based on the assumption that there would be one or two follow-up phases, but they were discontinued after the first phase due to the reduction in Finnish development cooperation funds and the transition process that had effectively begun with the 2016–2019 Country Strategy. The processes started by both programmes were consequently left midway and their effectiveness in addressing climate change mitigation suffered. The regulatory framework created with the support of DFNMRP, has, however, allowed other donors to design, fund and implement other, much larger programmes with the purpose of addressing climate change and generating alternative livelihoods and incomes in rural areas, e.g. the World Bank funded Transforming Landscapes for Resilience and Development Project (TRALARD, USUS$100 million) and the Zambia Integrated Forest Landscape Project (ZIFLP, USUS$32.8 million) as well as the USAID funded Community Forests Programme (CFP).

The FLC project Community Strategies for Climate-Resilient Livelihoods II implemented by the Green Living Movement also explicitly targets climate change adaptation but is a follow-up phase of a programme originally started in the previous programming period.

Although climate change has been a cross-cutting objective also at the time of their design, the AGS programme and the SPIREWORK project do not target climate change. The SPIREWORK project incorporates climate change adaptation as part of the "weather index" included in the developed benefit prototype, but the AGS programme document does not, in fact, even mention climate change.

Finding 31. The three years of the DFNRMP was insufficient for achieving observable impacts on community livelihoods, which would have been important for the sustainability of results.

Based on the analysis carried out by the Technical Assistance team in the programme's completion report, observing impacts during the lifespan of the programme is particularly important for interventions that require changes in attitudes and behaviour that lead to enhanced environmental impacts. In the case of forest and natural resource management, expansion or upscaling of the project approach would have been needed to produce meaningful environmental change at landscape level. Communities did not have sufficient time to start generating income from sustainable forest management, let alone upscaling, within the three years of the DFNRMP. Interviewed programme stakeholders in Zambia concur with this assessment. Sustainability was meant to be achieved during the originally planned subsequent phases of the programme.

Finding 32. Finland gained significant influence in the forestry and natural resources sector in Zambia when support was embedded in the government systems through bilateral cooperation such as the DFNRMP. Finland is still highly respected in the sector.

While policy influencing may in general be more effective through larger donors and multilateral organizations, the forestry sector is an exception in Finnish development cooperation. Even though the DFNRMP ended two years ago, forestry and natural resources are still considered a clear competitive advantage for Finland among interviewed stakeholders. Access to and influence over the Zambian forestry sector diminishes, however, with the end of bilateral development and with no significant levels of or prospects for trade in the sector to make up for it. Forestry and natural resources need government involvement and, according to interviewed stakeholders at the Zambian Forestry Department, a lot of resources are still needed for regulation, control, support, monitoring etc. in order to reduce deforestation and enable sustainable private sector engagement in the forestry sector in Zambia. Currently, some 90% of existing forest plantations are managed by Zambia Forestry and Forest Industries Corporation (ZAFFICO) PLC, which has been marred by cases of corruption, illegal logging and lack of adequate capacity in recent years. The Forestry Department does not yet have the capacity to carry this responsibility without external support. After the withdrawal of Finland, the main donors supporting this sector have been the World Bank, USAID, and FAO. Based on studies commissioned by the Embassy of Finland in Lusaka, business opportunities for Finnish companies in the Zambian forestry sector are currently very limited and complex – being either too small to interest larger companies or too risky for SMEs.

4.2 Complementarity and added value of partnerships built

This section presents evidence on the complementarity and added value of partnerships built. It provides the basis for answering the second evaluation question and related sub-questions:

> ***EQ2: What can the Ministry of Foreign Affairs learn from its peer organisations, especially the Nordics as well as from emerging international 'best practices' for more relevant, effective and coordinated support for economic development, jobs and livelihood opportunities?***

Finding 33. There has been somewhat of a paradigm-shift in donor cooperation in Zambia that started with the end of budget support and co-funded sectoral development programmes and currently involves many donors, including Finland, phasing out development cooperation and/or increasingly emphasizing direct collaboration with the private sector.

Coordination of Finnish support to economic development and job creation in Zambia has been regular and structured through development partners' coordination groups. Finland led the donor coordination group for PSD in Zambia during the Zambia Green Jobs Programme, involving other donors such as DFID, AfDB, World Bank, JICA, Sida and UNDP. Interviews with MFA staff involved in the implementation of the Green Jobs Programme revealed that this position provided the Embassy with a channel for policy influence as well as direct and informal contact with the cabinet office and very easy access also to other ministries since the group had monthly meetings with invited speakers from different government organizations and representation from Cabinet Office (through the now defunct Reforms Coordination Division).

As a result of phasing out development cooperation and/or increasingly emphasizing direct collaboration with the private sector, the meetings of the PSD group have become less regular and the number of donors involved has reduced. Given that the transition process has introduced more than just development cooperation objectives to the Finnish agenda, the importance of donor coordination has also reduced overall for Finland. Currently, Finland is still the main cooperation partner supporting the MCTI in coordinating PSD efforts in Zambia through the AGS programme. When the AGS programme ends, there is no obvious candidate to take over that role.

Finding 34. The ILO has been a key partner for all Finnish-funded interventions relating to decent work. The weight of the UN and its agencies has, in some cases, been important for gaining the attention and interest of the government for policy level advocacy work.

All interviewed stakeholders as well as the programme's 2018 final evaluation agree on the fact that the Zambia Green Jobs Programme implementation through the One UN system proved costly in comparison to the achieved results. The programme did, however, bring in an entirely new concept to Zambia (green construction and green jobs) and required policy level influencing and awareness raising. According to interviewed stakeholders, the weight of the UN and its agencies, including the ITC, was important for gaining the attention and interest of the government for the programme's policy level advocacy work, for which Finland alone might not have had the same power of influence. The ILO's long-standing relationship in advocating and supporting the Zambian Government to extend social protection has also been central for the SPIREWORK project and served to gain Zambia and the project international attention through the regional SPIREWORK-events organized by ILO.

Finding 35. Individual Finnish-funded interventions focusing on economic development and job creation have involved conscious coordination of efforts with other donors also outside the donor coordination groups.

The final design of the AGS programme was inspired by DFID's Private Enterprise Programme Zambia (PEPZ, also known as Prospero) and discussions regarding potential synergies between the UK and Finnish Embassies have been frequent. Other similar, existing initiatives in Zambia include Musika (Sida), the Rural Finance Expansion Programme RUFEP (IFAD), the Growing Inclusive Business Programme (UNDP) and the Zambia Agribusiness and Trade Programme (World Bank). The AGS programme and PEPZ both aim to work with Zambian MSMEs that either have good potential for growth or that are already relatively established. Some of the focus sectors also overlap, which means that these programmes will be going after and supporting some of the same MSMEs along the way, raising questions of added value from the point of view of Zambian MSMEs. The potential overlap is, however, acknowledged in AGS and the intention is to refer MSMEs between the programmes for relevant support services or financing opportunities. The practical effectiveness of such collaboration remains to be seen.

Other planned key national partners, which can serve to identify potential businesses to support and link to Finnish companies, are the active Chambers of Commerce and Industry in Kitwe and Ndola. Together, the two have a membership of close to 600 Zambian businesses, 80% of which are Micro, Small and Medium-sized enterprises. The chambers also have a long institutional memory of what has worked and what has not in previous donor funded programmes, which merits tapping into.

Selected partnerships seem highly relevant for the programme's objectives, but the practicalities of collaboration will take shape only once implementation is rolled out. There is a tendency of donors feeling the need to brand "their" programmes. Although the objective of strengthening Zambian MSMEs could have been achieved by funding one of the existing programmes, the

AGS programme is Finland's main instrument for transition in Zambia so "Finnish branding" is important to the MFA.

Finding 36. Zambia presents a good case in point for understanding Chinese influence in African countries and its potential consequences. There is no solution to Zambia's debt crisis that does not involve China but collaboration between the western donor community and China is challenged by conflicting approaches and values.

When talking about Zambia's current and expected economic development, there is an elephant in the room the size of China. Antipathies among Zambians towards the Chinese have risen along with public debt to China and Chinese companies entering the Zambian markets, but at the same time Chinese investments and funds have been instrumental for many essential large-scale infrastructure projects and the Zambian government has a very close relationship with China. While the Finnish Embassy in Lusaka reportedly acknowledges the importance of China for Zambia's economic development, China is only acknowledged at the level of mention in Finnish strategic documents. It is hard to find meeting points for China's and the western donor community's approaches and values to cooperation with Zambia. The conflicting approaches and values in terms of human rights, corruption, transparency, etc. have been a major hindrance for collaboration.

4.3 Results Based Management and Knowledge Management: lessons learnt

This section provides the basis for answering the third evaluation question and related sub-questions:

EQ3: How can the effectiveness of Finnish development cooperation related to economic development be further developed, including if and how the Results-based Management system can be further refined as far as Priority area 2 is concerned?

Finding 37. The 2016–2019 Country Strategy, its logic model and the portfolio of interventions have been aligned with the objectives of Policy Priority Area 2 of Finland's 2016 Development Policy, but indicators have been set at a very high level compared to actual support in Zambia.

Finnish support under the 2016–2019 Country Strategy for Zambia was expected to contribute to the creation of jobs for Zambia's growing number of young people, expand the country's tax base and increase productivity. Promotion of decent work and responsible business practices were also highlighted as means towards this end. Based on the Country Strategy's logic model (Table 3), this was to be done by focusing Finnish support on a more dynamic and responsible private sector (impact) and specifically accelerated growth of micro, small and medium-sized enterprises (outcome). When reflected against the objectives of the second policy priority area of the 2016 Finnish development policy, the Country Strategy contributed towards the first, second and fourth outcomes: (1) Everyone, including women, young people and the poorest, have better access to decent work, livelihoods and income; (2) The private sector and economic activity in developing countries are more dynamic and more diversified; and (4) Better use is made of new know-how, value chains, technologies and innovations that respect sustainable development.

As analysed in sections 4.1.1 and 4.1.4 above, the actual portfolio of interventions has indeed been coherent with and contributed towards these objectives and all of the envisaged instruments and inputs have been applied (except PIF), but the achieved results have been limited by the reduced funds and changed focus and late start of the AGS programme.

The Embassy's annual reporting has been done against the objectives and indicators of the Country Strategy. The evaluation team's assessment is that the reports during the evaluation period have been informative and analytic. While the link to PA2 objectives and indicators is implicitly present through the related objectives, the PA2 objectives or indicators that the report answers to are, however, not stated. The report for 2019 also notes that the impact level indicators have been set at a very high level, which makes them detached from Finland's actual support in Zambia and reporting on their achievement challenging. The challenge is likely to persist in the future given the use of SDG indicators at the outcome level in the new 2020 Theory of Change for Policy Priority Area 2 (e.g. average hourly earnings of female and male employees, annual growth rate of real GDP per employed person, level of national compliance with labour rights, etc.).

Although the Country Strategy covers PSIs and other instruments, reporting on the results of these instruments is done at instrument level and elsewhere (Business Finland, Finnfund, etc.). The Embassy's reporting has therefore been limited to its own perspective and involvement.

Table 3 Country Strategy for Zambia 2016–2019 – logic model

<table>
<tr><th>IMPACT</th><th>OUTCOME</th><th>OUTPUT</th><th>Key assumptions linking outputs/outcomes/ impacts</th><th>Instruments and inputs</th></tr>
<tr><td rowspan="3">1. A more dynamic and responsible private sector</td><td rowspan="3">1.1 Accelerated growth of micro, small and medium-sized enterprises</td><td>1.1.1 Strengthened innovation and start-up ecosystem</td><td rowspan="3">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</td><td rowspan="3">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</td></tr>
<tr><td>1.1.2 Increased access to finance and markets</td></tr>
<tr><td>1.1.3 Extension of basic social protection to MSMEs and workers to contribute to formalisation of the economy</td></tr>
</table>

Source: MFA (2017)

Finding 38. The 2018 and 2020 ToCs with their indicators have mostly been relevant for reporting and accountability towards the Finnish parliament at the country level, but not for results-based management of Finnish development cooperation in Zambia as such.

Should results based management towards economic development and job creation in Zambia have been the main driving force, the MFA might have continued some of the programmes that showed good results in relation to the PA2 objectives, such as the Green Jobs Programme and the SPIREWORK project, and reconsidered its decision to transition in Zambia based on the country's economic development during the past 10 years. Other contributing reasons have, however, been the driving force for the transition process.

While the indicators in the 2018 and 2020 ToCs for the policy priority areas have been incorporated into bilateral and regional programmes wherever relevant and feasible, the indicators and reporting for Team Finland efforts and PSIs have not been designed to correspond to the information needs related to the ToCs and are consequently unlikely to provide the necessary data.

Finding 39. There is no overriding strategy or theory of change to guide the ongoing transition process and envisaged trade-based relationship when the current Country Strategy expires in 2020.

The 2016–2019 Country Strategy stated that its *longer-term* vision was to transform Finnish-Zambian relations into economic and trade-based collaboration through a gradual process facilitated by continued development cooperation. The MFA's Political Economy Analysis of Zambia in 2019 and interviews with MFA staff also confirm that the 2016–2019 Country Strategy was not meant to be the last, but development cooperation was phased out faster than planned because of the several contributing factors outlined above.

Although the transition process is still underway, Zambia is no longer considered one of Finland's "long-term partner countries". Consequently, no new Country Strategy will be developed for Zambia when the current one expires by the end of 2020. Instead, the MFA will make use of the rolling plan of the Ministry (TTS), the Ambassador's Strategic Plan and annual consultations, as well as the Team Finland plan. These do not outline the Zambian Government's role in the new set-up, an important reason being that a commercial relationship is principally between private sector actors.

Biennial consultations between Zambia and Finland were planned for June 2020. According to the Embassy, in preparation of this meeting the possibility of a Memorandum of Understanding between Finland and Zambia has been discussed to replace the bilateral agreement for development cooperation, but the contents had not yet been concretized at the time of writing this report. The discussions were also meant to cover issues such as which Zambian entity would become Finland's counterpart in the new set-up, the most likely solution being the Zambian Ministry of Foreign Affairs. The meeting and its agenda have, however, been postponed due to the covid-19 pandemic.

5 Conclusions

5.1 Achievement of Finland's objectives on economic development, job creation and livelihoods (PA2)

5.1.1 Coherence with the overriding Finnish policy framework for PA2

Conclusion 1. The focus of the Country Strategy and funded interventions have been coherent with the overriding Finnish policy framework for PA2. There has, however, been limited continuity between individual interventions and focus has not been on targeting the poorest. Given the advanced transition process, Finnish commercial objectives are gradually taking the lead on Finland's agenda for Finnish-Zambian relations. *(This conclusion is based on findings 1, 2, 3 and 4)*

The selected focus on private sector development and a more democratic, inclusive and better functioning society has provided logical continuity to previous development cooperation with Zambia and matched both the transition decision and Priority Area 2 objectives well. While Finnish support to PSD in Zambia goes back 15 years, the Finnish portfolio was, however, spread across a variety of sectors for a long time and larger programmes that focused on PA2 only ran for a few years each before being stopped by the transition process, budget cuts or a reduction in focus sectors, limiting the potential benefits of long-term support. Programmes that targeted the poorest were discontinued for different reasons halfway through the programming period, shifting the attention entirely towards private sector development and the transition process. Once the last development cooperation programmes have been wound up within the next two years, the objectives of the Finnish development policy framework will no longer guide Finnish-Zambian relations.

5.1.2 Relevance to partner country needs

Conclusion 2. The main guiding principle of Finland's Country Strategy for 2016-2019 has been to create the basis for transitioning to a trade-based relationship with Zambia. The relevance of the transition for addressing Zambia's critical constraints for economic development is currently limited due to the deteriorated macroeconomic environment, worsened by the covid-19 pandemic, and relatively modest levels of trade. *(This conclusion is based on findings 7, 8, 9, 10, and 11)*

The evaluation found that transition to a mutually beneficial trade-based relationship is in principle desirable for the Zambian government if it results in increased trade, foreign direct investment and tax revenue. Zambia's critical constraints for economic development and job creation will, however, still require major efforts that the country itself will be unable to finance through its budget. While the Zambian government has the main role to play in fiscal adjustment and stabilizing its economy, the financing gap has widened further in the context of covid-19 as a result of severely reduced exports and domestic revenue collection in the mining sector. Efforts to increase trade between Finland and Zambia have only just begun in the 2016–2019 programming period. Whether or not the Finnish-Zambian relations will be able to contribute to Zambia's economic development after development cooperation is phased out is yet to be seen.

Conclusion 3. Within the limitations of a reduced budget for Finnish development cooperation in Zambia, the chosen focus on private sector development, specifically increasing decent work in the informal sector and strengthening the capacity of MSMEs, has matched the strategic priorities of the Zambian Government well. *(This conclusion is based on findings 5, 6 and 12)*

With its limited financial and human resources Finnish development cooperation could only be expected to contribute to some of Zambia's critical constraints and priorities for economic development, job creation and livelihoods. The selected focus on private sector development, specifically on increasing decent work in the informal sector and strengthening the capacity of MSMEs, has been relevant and is well in line with the Zambian policy priorities. Evidence shows that the strategic priorities of the Zambian Government have been consistently incorporated into the funded programmes.

Conclusion 4. Finnfund's investment in Zambia is highly relevant for Zambia's critical constraints in terms of creation of decent work in rural areas for youths, for economic diversification and for increased FDI. However, macro-economic uncertainty and volatility present challenges for Finnfund to make direct investments in Zambia. *(This conclusion is based on findings 5, 7, 21 and 25)*

Finnfund's investment in aquaculture is highly relevant for Zambia's needs at several levels, including strengthening the agriculture sector and creating formal employment in rural areas for semi-skilled and non-skilled people. While partner government priorities are not a decisive criterion for Finnfund's investments, aquaculture is included in the Zambian government's current national development plan as part of efforts to speed up economic diversification. Macro-economic uncertainty and volatility, partly attributable to the dependency on mining sector, has contributed to the fact that it has taken long for Finnfund to identify direct investments in Zambia and will contribute to present a challenge at least in the near future.

5.1.3 Relevance and effectiveness for the pursuit of transition, and role of the private sector in transition

Conclusion 5. In retrospect, Finland's decision to transition to a trade-based relationship with Zambia based on the country's economic growth appears premature, considering the economic downturn since 2015, including persistent poverty levels, dwindling levels of FDI, escalating indebtedness and the lack of competitiveness of the Zambian private sector. *(This conclusion is based on Chapter 3 Context and findings 13 and 14)*

All interviewed stakeholders at the MFA agree that the decision to transition to a trade-based relationship with Zambia based on the projection that the country was "about to reach middle-income level" was overly optimistic in light of the economic downturn that has followed. While reconfirming the transition decision the Country Strategy also recognized that there were still serious challenges to achieving middle income status, including heavy dependency on revenue from copper exports and lack of economic diversification, persistent and widespread poverty and increasing inequality despite the economic growth. The reasons for the decision therefore appear to have been more political and administrative.

Conclusion 6. For the Embassy to proactively build up business partnerships and trade between Finland and not only Zambia but also the Democratic Republic of Congo and Zimbabwe, the current human resources available in the Embassy are insufficient. *(This conclusion is based on findings 14 and 16)*

In practice the transition process has meant that development cooperation resources at the Embassy of Finland in Lusaka have been reduced, but resources to support the objective of building up business partnerships and trade between Zambia and Finland have not been strengthened. Taking into account that the Business Finland office in South Africa is not able to provide support to the Embassy in Lusaka and that increasing interest from Finnish businesses towards Zambia as well as maintaining broader relations with Zambian stakeholders and identifying business opportunities for Finnish companies is labour intensive work, the resources with the necessary expertise and skills are limited compared to the tasks.

Conclusion 7. The proactive efforts in recent years and current instruments available to the MFA have not yet resulted in increased trade between Finland and Zambia. A prosperous, mutually beneficial trade-based relationship between Finland and Zambia will require long-term efforts. *(This conclusion is based on findings 16 and 17)*

In 2016 Finland made a conscious decision to transform relations with Zambia as opposed to simply exiting so as not to waste 50 years of cooperation. Resourcing has, however, not matched the policy-level commitment. Achieving and maintaining the envisaged mutually beneficial trade-based relationship will still require long-term effort. The objectives of promoting economic development and job creation for Zambians and the political and commercial objectives of Finland are not incompatible, but in Zambia they do not yet go hand in hand. How far the ongoing, final bilateral program can go in terms of contributing towards the dual objective cannot yet be assessed.

Conclusion 8. While interlinkages are possible, the MFA does not have control over the Private Sector Instruments in order to utilize them for the benefit of a transition agenda. They operate based on private sector interest and market logic that may or may not align to MFA or partner country priorities. The tools within the Embassy's control for supporting the transition process are consequently few once development cooperation has been phased out. *(This conclusion is based on findings 14 and 15)*

Currently the AGS programme is acting as a link between the Embassy's Team Finland work, relevant PSIs, mainly Finnpartnership, and regional programmes. The possibility of Finnpartnership to support the transition process is, however, challenged by the fact that it operates based on Finnish companies' interests and applications and the initiatives that it funds are very early stage. Whether or not they actually lead to continued business in Zambia or with Zambian business partners is very uncertain. Finnfund, on the other hand, makes its investment decisions independently and it is not within the MFA's powers to increase investments to specific countries, such as those undergoing transition. The MFA can, however, provide guidance at the instrument level, promote the involvement of Finnfund in investors' meetings and introduce Finnfund to individual potential investees at the country level. In terms of regional programmes/funds like SAIS and EEP, their selection criteria limit the ability of these instruments to concretely support trade promotion. When the AGS programme ends in 2022, the main remaining tool within the Embassy's control for increasing trade between Zambian and Finland will consequently be Team Finland.

Conclusion 9. Piloting of AGS presents an opportunity for lessons learnt in 'transition', but not within the currently planned timeframe. *(This conclusion is based on finding 18)*

Given its pioneering nature as a pilot for transition programmes and considering that the MFA is soon embarking on transition also in other partner countries, the AGS programme has the potential of generating valuable lessons in terms of what the MFA's regulatory framework and institutional culture can allow in terms of private sector development in bilateral programmes and whether or not (or under what conditions) such a programme is able to increase interest from the Finnish private sector towards new markets and generate sustainable business partnerships while simultaneously strengthening MSMEs in the partner country. The remaining implementation period is, however, short and achieved results are likely to remain at the output level.

5.1.4 Effectiveness in improving economies for jobs and livelihoods

Conclusion 10. The discontinuation of programmes as a result of the transition decision has adversely affected the effectiveness and sustainability of results achieved in Finnish funded interventions in terms of economic development, job creation and increased livelihoods opportunities. *(This conclusion is based on findings 7, 19, 23 and 25)*

Since 2016 four large programmes contributing towards Priority Area 2 objectives have been funded by Finland in Zambia through bilateral or multilateral thematic funding. Two of them were terminated after what was meant to be a first phase of a longer programme and before the sustainability of results could be ensured. The other two ongoing programmes, including the MFA's flagship programme for the transition process, are set to end before they will have achieved their intended objectives due to delays caused by both internal and external factors (including covid-19).

Conclusion 11. Time pressure and targets for maximizing the number of jobs created through Finnish-funded interventions has limited the ability of bilateral private sector development programmes to specifically benefit women, youths and the poor for decent, rights-based jobs. *(This conclusion is based on findings 5, 9, and 21)*

An example is the AGS programme. In order to maximize the number of jobs created within the available budget and timeframe and to match this objective with linking supported MSMEs with Finnish counterparts, the chosen approach is to work with formally registered, relatively well established Zambian MSMEs, or those that have good potential for growth. Such MSMEs can be expected to grow faster and generate most jobs as a result of programme support. While the programme includes a target for women-owned businesses among supported MSMEs (30%) this means that it does not specifically target women, youths or the poor. Essentially, programmes would need to clarify from the outset whether they are prioritizing targeting the poor, women or youths or creating a maximum number of jobs and be designed accordingly. As evidenced e.g. in the Zambia Green Jobs programme, the objectives can be combined but there will be some trade-offs.

5.1.5 Effectiveness in addressing climate change mitigation and adaptation

Conclusion 12. Private sector development and job creation has been prioritized in major interventions funded after 2016. Considering the adverse effect that climate change is having on the Zambian economy through e.g. failed harvests and the energy crisis, climate change would have merited a stronger focus also in the 2016–2019 programming period. *(This conclusion is based on findings 21, 25, 30 and 31)*

The Finnish 2012 Development Policy and Finnish-funded programmes in Zambia that originate from that time had a particularly strong focus on climate change and green growth. Later interventions, such as the AGS programme and the SPIREWORK project have focused on generating new jobs and improving the quality of existing ones. Considering the effects that climate change is having on the Zambian economy in the form of failed harvests and the energy crisis, continued and serious attention to reducing deforestation and climate change mitigation is, however, still needed.

5.2 Complementarity and added value of partnerships built

Conclusion 13. Finland has been a leading member of the cooperating partners' coordination group in the area of PSD throughout the evaluation period. The paradigm shift in the donor landscape in Zambia has, however, reduced the importance of donor coordination. *(This conclusion is based on findings 12, 33 and 35)*

Finland has been very visible in supporting private sector development in Zambia during the evaluation period. There has, however, been a clear shift in the donor landscape during the evaluation period with several donors phasing out bilateral cooperation and others shifting to supporting the private sector directly. This has reduced the relevance and activity of the government-led donor coordination groups significantly. Coordination is still relevant among remaining donors and programmes but is less organized and more dependent on informal structures and initiatives. Coordination is currently done in connection to the AGS programme, but in the future, if Finland no longer has its own development cooperation programmes to coordinate, EU cooperation will play more important role.

Conclusion 14. Overall, Finland has partnered with the most relevant actors and organizations in its interventions. In a transition context, Finland has also developed its own programmes even where the objectives are quite similar with existing ones. This has been necessary in order to incorporate the objective of linking the interventions to the Finnish private sector. *(This conclusion is based on findings 12, 34, and 35)*

Particularly Finland's collaboration with ILO in the programmes related to social protection and decent work has brought added value through the ILO's regional linkages and long-standing experience in supporting the Zambian government in related initiatives. Evidence also shows that other bilateral and regional programmes have worked with the relevant national stakeholders. In principle, much of the work aimed at accelerating MSME growth that the AGS programme intends to do could have been achieved by funding existing programmes. The double objective of not only fostering and identifying promising Zambian MSMEs but also linking them up with Finnish counterparts as part of a transition strategy meant, however, that the programme could only be a separate bilateral programme.

5.3 Results Based Management and Knowledge Management

Conclusion 15. The PA2 objectives are reflected in both the 2016–2019 Country Strategy for Zambia and the related interventions but the ToCs have mostly been relevant for reporting and accountability to the Finnish parliament. Other factors and priorities at the MFA have influenced management of the Country Strategy. As of 2021 the MFA will no longer be reporting against development policy objectives in Zambia. *(This conclusion is based on findings 1, 2, 37 and 39)*

The Country Strategy and funded interventions have been consciously aligned to Priority Area 2 objectives in Zambia. Many other factors, including country context, partner government needs and priorities, as well as the transition agenda have, however, equally influenced the Finnish Country Strategy and its implementation in Zambia. The PA2 theory of change and related indicators are mainly used for reporting by the Embassy staff and funded programmes. While the relevant objectives of the Finnish Development Policy are incorporated into PSIs at the instrument level, individual interventions adhere to instrument-specific logics and objectives. Reporting on the achievements of the PSIs in relation to PA2 objectives is done centrally by the entities managing the instruments and not always available at the country level.

Conclusion 16. In the absence of a Country Strategy from 2021 onwards, the objectives, theory of change and strategy for the new commercial relationship are yet to be defined. *(This conclusion is based on finding 39)*

While the Ambassador's strategic plan and annual consultations, Team Finland plan and TTS provide guidance for the Embassy's work, these are not public documents. They also do not provide a focused plan with a clear theory of change or timeframe for the remaining transition process and Finland's presence in Zambia. Interviewed stakeholders in the Zambian government who have been involved in the implementation and coordination of Finnish funded development cooperation in Zambia are not clear on what the future relationship entails, how it will function nor what its objectives and targets are. An important underlying reason may be that a commercial relationship is by definition principally between the private sectors of the two countries and the Embassy's attention will increasingly be turning towards facilitating these linkages.

6 Implications and Lessons Learned

Going forward, and based on the evidence generated by this case study, the following lessons/implications arise for the future of Finnish-Zambian relations and other country teams in the MFA facing transition processes:

Lesson/Implication 1.	**General**
If a separate transition strategy is not developed and the Country Strategy functions as the de facto transition strategy in a partner country, then the vision of the Country Strategy needs to be kept further in the future and the decision to transition needs to be better prepared and resourced than it has been in Zambia. Such measures would help to ensure both coherence with the overriding policy framework and an effective transition process.	

Particularly the new, wider Country Strategies, which cover also economic and political relations, have the potential of serving as *de facto* transition strategies while ensuring linkages to the overriding Finnish policy framework. The challenge of basing the transition process on the Country Strategy is, however, its four-year length. Particularly in partner countries like Zambia, where the economy of the partner country is vulnerable to fluctuations in the world commodities market and the commercial relationship between the two countries still needs to be built up, four years is insufficient to ensure a sustainable and effective transition process from development assistance to a mutually beneficial trade-based relationship. The transition decision should be well prepared, resourced and planned, taking into account the country context and best practices.

Lesson/Implication 2.	**General**
If the ambition is to generate a genuine, mutually beneficial trade-based relationship in transition countries, the respective Finnish Embassies have a role to play in maintaining broader relations, identifying opportunities and linking up actors. This requires, however, sufficient human resources specialized in private sector and trade from the beginning of the process.	

This is particularly the case in countries where the PSIs (Finnpartnership, Finnfund and Business Finland) lack local presence. For Embassies undergoing transition to play a meaningful role, their staffing should include personnel with a good understanding of the private sector and trade, preferably from the start of the transition process. This would also make them more relevant partners for the Private Sector Instruments. Investing resources and efforts towards strengthening the commercial relationship between Finland and a transition country like Zambia could be justified considering Finland's upcoming Africa Strategy, which aims to expand and deepen Finland's relations with Africa. The development of economic and political relations is considered particularly important in this context.

Lesson/Implication 3.	**General**
In order to better harness the PSIs in transition countries, the MFA could consider leveraging its position as owner to launch campaigns for relevant instruments directed at transition countries. Such campaigns may be more challenging for Finnfund, but relevant for instruments such as Finnpartnership or DevPlat (former BEAM).	

The main vehicle for the Embassy in Lusaka to harness the existing PSIs for transition processes has been the bilateral AGS programme. Leveraging the MFA's role as owner in selected PSIs at the headquarter level for campaigns targeting transition countries could involve e.g. stronger promotion of market opportunities in these countries to the Finnish private sector and increased resourcing by e.g. adding Team Finland resources in the relevant Embassies and offering increased support to Finnish businesses in identifying local partners, getting established, mobilizing NGOs and universities, etc. Such efforts are a matter of additional resources compared to the current situation but could be considered justified as a better use of resources than the current situation by creating an enabling environment for generating the envisaged "mutually beneficial trade-based relationship" with former partner countries. Such campaigns may be less useful for instruments such as Finnfund, which depend on numerous external factors and little on the Finnish private sector but could be considered for e.g. Finnpartnership or DevPlat.

Lesson/Implication 4.	Zambia
Considering the pilot-nature of the AGS programme, it should be allowed sufficient time for following through on its design. Providing it with sufficient time to drive for results would also allow better harnessing of it to support the transition and build the new commercial relations.	

The programme's monitoring and reporting should take into account this role and include identification of lessons on these aspects for the MFA.

Lesson/Implication 5.	General
Regional programmes such as SAIS and EEP are a valuable instrument in supporting the phasing out of bilateral cooperation while maintaining a presence in a transit country such as Zambia.	

Both have significant linkages to Finland through the management and cooperating innovation organisations (SAIS) and involvement in grantee projects (both) and the potential to link with efforts to foster and maintain broader relations with the partner country. While global programmes through multilaterals are also valuable for continued support to economic development in former partner countries, they cannot be expected to support a trade-based relationship, since multilaterals cannot be seen to favour involvement of actors from any given country over another.

Lesson/Implication 6.	General/Zambia
Transitions should be allowed sufficient time to follow through on ongoing commitments and programmes to ensure the sustainability of results, unless premature termination is otherwise justified. This can also serve to safeguard the reputation of Finland and contribute towards broader relations. Transitioning in a country in which private sector cooperation is still low requires at least two programming periods (8–10 years).	

In Zambia the MFA should consider extending the ongoing programmes (SPIREWORK and AGS) to allow them to run to completion. Considering the implications of what the SPIREWORK project is aiming to achieve for informal sector workers in Zambia, sufficient time should be allowed for piloting, testing and fine tuning of the benefit prototype before rolling it out to a wider audience, particularly considering that gaining the trust and convincing the informal sector workers to sign up for and contribute to a public sector scheme is a sensitive issue. The AGS programme is considered a pilot of a bilateral programme that is aimed at bridging the transition period and should be allowed sufficient time to generate useful results and lessons. The continuation of the ongoing programmes beyond the current phases could be considered if justified based on results. In general, when phasing out development cooperation, close coordination and collaboration with other development partners at the country level can assist in identifying other sources of support for components of such projects/programmes that show positive results but still need more time or resources to make full impact.

Lesson/Implication 7.	**General**
Finnish aid to countries preparing for or currently in transition could fully incorporate climate change in their strategic focus in order to leave a legacy pointing in the right direction, and to actively pave the way for and identify opportunities for Finnish clean tech and other adaptive solutions.	

Since Finnish commercial interests and business opportunities may lay in several sectors, this does not need to be the sole focus, but could merit considerable attention.

Lesson/Implication 8.	**General**
Collaboration with multilateral organizations that have a long-standing relationship with the partner country government, like the ILO, has proven particularly successful and should be pursued in cases where the interventions deal with issues where the leverage of multilaterals is needed, e.g. policy influencing and regulatory reform.	

Such arrangements can also allow Finland to save on resources required for programme identification and formulation while still maintaining visibility and avoiding duplication of efforts. Implementation though multilaterals has experienced challenges relating to efficiency and cost-effectiveness, but collaboration with the ILO on decent work and social protection for the informal sector in Zambia has proven particularly successful in policy influencing and enabling regional linkages and visibility.

Lesson/Implication 9.	**General**
The Embassy should, in collaboration with the Zambian government, draw up a strategy to guide how to go about the remaining transition period and how to arrange the new relations.	

The transition process in Zambia is too far along to be reversed at this stage, but it is still ongoing. The MFA should consider clarifying the objectives and theory of change of the process in a practical paper with tangible information on roles as well as objectives and milestones as well as a mechanism for follow up. This can take the shape of the planned MoU between the MFA and the Zambian government or be additional to it but should be accessible also to the Zambian counterpart.

Country Case Annex 1: List of documents consulted

Adam, C., Collier, P., & Gondwe, M. (2014). *Zambia: Building Prosperity from Resource Wealth*. Oxford University Press. https://econpapers.repec.org/bookchap/oxpobooks/9780199660605.htm

AfDB. (2020). *Zambia Economic Outlook*. African Development Bank Website; African Development Bank Group. https://www.afdb.org/en/countries-southern-africa-zambia/zambia-economic-outlook

Afrobarometer, & Transparency International. (2019). *Global Corruption Barometer Africa 2019. Citizens' Views and Experiences of Corruption*. https://afrobarometer.org/sites/default/files/publications/Publications%20conjointes/partenaires/ab_r7_global_corruption_barometer_report.pdf

AGS. (2020). *Accelerated Growth for Micro, Small and Medium-Sized Enterprises in Zambia (AGS) Programme 2018–2022* [Programme Document]. Ministry for Foreign Affairs of Finland (MFA) and Ministry of Commerce, Trade and Industry of Zambia (MCTI).

Bhorat, H., Cassim, A., Masumbu, G., Naidoo, K., & Steenkamp, F. (2015). *Youth Employment Challenges in Zambia A Statistical Profile, Current Policy Frameworks and Existing Interventions*. International Development Research Centre (IDRC); International Development Research Centre (IDRC). https://www.africaportal.org/publications/youth-employment-challenges-in-zambia-a-statistical-profile-current-policy-frameworks-and-existing-interventions/

BTI. (2018). *Bertelsmann Stiftung's Transformation Index (BTI) Country Report, Zambia*. https://www.bti-project.org/content/en/downloads/reports/country_report_2018_ZMB.pdf

Cobham, A., & Janský, P. (2017). *Global distribution of revenue loss from tax avoidance. Re-estimation and country results (WIDER Working Paper No. 15/2017)*. United Nations World University World Institute for Development Economics Research. https://www.wider.unu.edu/sites/default/files/wp2017-55.pdf

Daka, E., & Toivanen, H. (2014). Innovation, the informal economy and development: The case of Zambia. *African Journal of Science, Technology, Innovation and Development*, 6(4), 243–251. https://doi.org/10.1080/20421338.2014.902563

Danida. (2015). *A Guidance Note on Country Exit from Bilateral Development Cooperation*. https://amg.um.dk/en/tools/exiting-with-efficiency-and-effectiveness/

EITI. (2020). *EITI Zambia*. Extractive Industries Transparency Initiative Webpage. https://eiti.org/zambia

Grennes, T., Caner, M., & Koehler-Geib, F. (2010). *Finding The Tipping Point—When Sovereign Debt Turns Bad*. The World Bank. https://doi.org/10.1596/1813-9450-5391

ILO. (2012). *Decent Work Country Profile – Zambia*. http://www.ilo.org/integration/resources/pubs/WCMS_188575/lang--en/index.htm

ILO. (2018, August 22). *National Pension Scheme Authority (NAPSA) of Zambia signs Memorandum of Understanding with Seven (7) Informal Sector Associations* [Press release]. http://www.ilo.org/africa/media-centre/pr/WCMS_644052/lang--en/index.htm

ILO. (2019). *Future of Work. The Zambia Experience*. https://www.mlss.gov.zm/?wpfb_dl=94

IMF. (2019). *Zambia: 2019 Article IV Consultation-Press Release; Staff Report; and Statement by the Executive Director for Zambia*. International Monetary Fund. https://www.imf.org/en/Publications/CR/Issues/2019/08/02/Zambia-2019-Article-IV-Consultation-Press-Release-Staff-Report-and-Statement-by-the-48558

Institute for Economics & Peace. (2020). *Global Peace Index 2020: Measuring Peace in a Complex World*. http://visionofhumanity.org/reports

ITC. (2019). *Promoting SME competitiveness in Zambia*. International Trade Centre. https://platform.shetrades.com/shetrades-uploads/publications/docs/TPromoting_SME_comp_Zambia_web.pdf

Koyi, G., Masumbu, G., & Halwampa, A. (2012). *Constraints on the Demand for Youth Labour in Zambia*. Zambia Institute for Policy Analysis and Research (ZIPAR). https://www.africaportal.org/publications/constraints-on-the-demand-for-youth-labour-in-zambia/

Merotto, D. (2017). *Zambia Jobs Diagnostic*. World Bank. https://doi.org/10.1596/27008

MFA. (2013). *Country Strategy for Development Cooperation with Zambia 2013–2016*. Ministry for Foreign Affairs of Finland (MFA).

MFA. (2016). *Finland's Development Policy. One world, common future—Towards sustainable development*. https://um.fi/documents/35732/48132/government_report_on_development_policy_2016

MFA. (2017). *Country Strategy for Development Cooperation ZAMBIA 2016–2019*. Ministry for Foreign Affairs of Finland (MFA). https://um.fi/documents/35732/48132/country_strategy_for_development_cooperation_with_zambia_2016_2019/81e86719-c5f7-9ab9-af46-99768563d2a0?t=1528711359516

MFA. (2019). *Political and Economic Assessment of Zambia*.

Ministry of Finance of Zambia. (2015). *Harnessing the Demographic Dividend. The Future We Want for Zambia*.

Ministry of Finance of Zambia. (2020). *Annual Economic Report 2019*.

Mubita, A., Mulonda, M., Libati, M., Mwale, N., & Vincent, K. (2017). Urban Informality and Small Scale Enterprise (SME) Development in Zambia: An Exploration of Theory and Practice. *Journal of Behavioural Economics, Finance, Entrepreneurship, Accounting and Transport, 5*, 19–29. https://doi.org/10.12691/jbe-5-1-3

Musika. (n.d.). *About Us | Musika*. Retrieved 23 November 2020, from https://www.musika.org.zm/about-us/

Mwitwa, J., Vinya, R., Kasumu, E., Syampungani, S., Monde, C., & Kasubika, R. (2012). *Drivers of Deforestation and Potential for REDD+ Interventions in Zambia* [UN-REDD Zambia National Programme Policy Brief]. UN-REDD. https://pdfs.semanticscholar.org/b66c/dba06f690914870d8e8cb797270466fda40f.pdf

Nalishebo, S., & Halwampa, A. (2014). *Uncovering the Unknown: An Analysis of Tax Evasion in Zambia*. Zambia Institute for Policy Analysis and Research (ZIPAR). https://media.africaportal.org/documents/Uncovering_the_Unknown-An_Analysis_of_Tax_Evasion_in_Zambia.pdf

NAPSA. (2019, November 1). *NAPSA Dates Copperbelt Informal Sector Workers*. National Pension Scheme Authority Website. https://www.napsa.co.zm/napsa-dates-copperbelt-informal-sector-workers/

Nordea. (2020). *Foreign direct investment (FDI) in Zambia – Investing – Nordea Trade Portal*. https://www.nordeatrade.com/fi/explore-new-market/zambia/investment?vider_sticky=oui

OPHI. (2018). *Global MPI Country Briefing 2018: Zambia (Sub-Saharan Africa)*. Oxford Poverty and Human Development Initiative OPHI. https://ophi.org.uk/wp-content/uploads/CB_ZMB_2018.pdf

Ravillard, P. (2017). *Zambia's Employment Outlook: Diversification, Formalization and Education* [Working paper]. International Labour Organization (ILO). http://www.ilo.org/employment/Whatwedo/Publications/working-papers/WCMS_551638/lang--en/index.htm

Resnick, D., & Thurlow, J. (2014). *The Political Economy of Zambia's Recovery: Structural Change without Transformation?* https://doi.org/10.2139/ssrn.2405715

Ritchie, H., & Roser, M. (2017). *CO2 and Greenhouse Gas Emissions*. Our World in Data. https://ourworldindata.org/co2-and-other-greenhouse-gas-emissions

Sakala, N. (2020, July 14). *Zambia's economy to contract by four percent this year – Ng'andu*. Zambia: News Diggers. https://diggers.news/business/2020/07/14/zambias-economy-to-contract-by-four-percent-this-year-ngandu/

Schwab, K. (2019). *The Global Competitiveness Report 2019*. World Economic Forum. http://www3.weforum.org/docs/WEF_TheGlobalCompetitivenessReport2019.pdf

Shah, M. K. (2014). *The Informal Sector in Zambia: Can it disappear? Should it disappear?* International Growth Centre.

Sinkala, M., & Zhou, W. (2014). Chinese FDI and Employment Creation in Zambia. *Journal of Economics and Sustainable Development, 5*(23), 39–43.

Siwale, T., & Chibuye, B. (2019). Mining taxation policy in Zambia: The tyranny of indecision [Blog Post]. *International Growth Centre*. https://www.theigc.org/blog/mining-taxation-policy-in-zambia-the-tyranny-of-indecision/

SPIREWORK. (2020). *SPIREWORK ZAMBIA-FINLAND, Social Protection for Informal and Rural Economy Workers* [4th Semi-Annual Progress Report, July–December 2019]. Ministry for Foreign Affairs of Finland (MFA), National Pension Scheme Authority (NAPSA), ILO.

Statista. (n.d.). *Share of economic sectors in the GDP 2009–2019, Zambia*. Retrieved 23 November 2020, from https://www.statista.com/statistics/457737/share-of-economic-sectors-in-the-gdp-in-zambia/

Transparency International. (2020). *Zambia—Transparency.org*. https://www.transparency.org/en/countries/zambia

UNCTAD. (2019). *World Investment Report 2019: Special Economic Zones*. United Nations Conference on Trade and Development. https://doi.org/10.18356/8a8d05f9-en

UNDP. (2019). *Human Development Reports—Zambia profile*. http://hdr.undp.org/en/countries/profiles/ZMB

UNFPA. (n.d.). *World Population Dashboard. Zambia*. World Population Dashboard. Retrieved 23 November 2020, from https://www.unfpa.org/data/world-population/ZM

Visser, M., Bartholomew, A., & Poutiainen, P. (2016). *Evaluation of Finland's Development Cooperation Country Strategies and Country Strategy Modality. Zambia Country Report*. Ministry for Foreign Affairs of Finland (MFA). https://um.fi/publications/-/asset_publisher/TVOLgBmLyZvu/content/evaluointi-suomen-kehitysyhteistyon-maaohjelmista/384998

Wang, Y., Yu, K., Halle, M., Velásquez, S. O., Zhang, L., & Wang, H. (2016). *Sustainability impacts of Chinese outward direct investment: A review of the literature*. International Institute for Sustainable Development.

World Bank. (2018). *Republic of Zambia. Systematic Country Diagnostic* (No. 124032-ZM). http://documents.worldbank.org/curated/en/290011522954283481/pdf/Zambia-SCD-March-29-Final-04022018.pdf

World Bank. (2019). *Doing Business 2020: Comparing Business Regulation in 190 Economies—Economy Profile of Zambia* [Text/HTML]. World Bank Group. https://documents.worldbank.org/en/publication/documents-reports/documentdetail

World Bank. (2020). *The World Bank in Zambia. Overview*. https://www.worldbank.org/en/country/zambia/overview

World Bank Group. (2020). *Poverty & Equity Brief, Zambia*.

Zambia Development Agency. (2019). *2019 Annual Report*.

Zambia Statistics Agency. (2019a). *2019 Labour Force Survey Report*.

Zambia Statistics Agency. (2019b). *Zambia Labour Force Survey Report, Quarter 1 of 2019*.

Country Case Annex 2: People Interviewed

Name	Position	Organization
MFA staff		
Eeva Alarcón	Senior Adviser	Development Policy, Department for Africa and the Middle East (ALI-02), MFA
Jussi Karakoski	Senior Adviser, Development Policy	Department for Africa and the Middle East (ALI-02), MFA
Petri Wanner	Desk Officer	Southern Africa team, Department for Africa and the Middle East (ALI-30), MFA
Anu Hassinen	Former adviser at the Embassy in Lusaka	Department for Development Policy (KEO-20), MFA
Harri Sallinen	Former Zambia Desk officer	MFA
Pirjo Suomela-Chowdhury	Ambassador	Embassy of Finland in Lusaka
Matti Väänänen	Senior Specialist, environmental issues and natural resources (in charge of AGS programme)	Embassy of Finland in Lusaka
Marko Heikkilä	Adviser, Team Finland	Embassy of Finland in Lusaka
Matti Tervo	Senior Advisor	Embassy of Finland in Hanoi
Timo Olkkonen	Head of Delegation (former Finnish Ambassador to Zambia)	EU Delegation to Zimbabwe
Selected implementers of large projects /programmes		
Jussi Viding	Project Officer (EEP Africa)	NDF
Gareth Evans	Chief Technical Advisor, AGS programme	NIRAS Finland
Anna Erkkilä	Home office expert, AGS programme	NIRAS Finland
Timo Sorsa	Chief Technical Advisor, SPIREWORK	THL
Mwenya Kapasa	National Project Coordinator, SPIREWORK	ILO
Kagisanyo Kelobang	Technical Advisor	Social Protection Unit, ILO
Ilari Lindy	Lead Expert, Southern Africa Innovation Support Programme (SAIS 2)	NIRAS Finland
Evans Lwanga	Former ILO National Programme Coordinator, Zambia Green Jobs Programme	–
Musoli Kashinga	Former National Programme Officer, Zambia Green jobs Programme	UNEP

Name	Position	Organization
Thomas Selänniemi	Head of Natural Resources Management	Indufor
Alastair Anton	Former Chief Technical Adviser, DFNRMP	Zambia Integrated Forest Landscape Project (ZIFLP), World Bank
Ethel Mudenda	Former National Programme Coordinator of DFNRMP	Transforming Landscapes for Resil-ience and Development Project (TRALARD), World Bank
PSI stakeholders		
Adam Taylor	Chairman	FirstWave / Yalelo
Jari Ala-Ruona	CEO	Aion Sigma
CSO stakeholders		
Dawn Close	Founder	F.R.E.E. (Foundation for the Realization of Economic Empowerment) Woman Ng'ombe Youth Empowerment
Dr Liane Moosho Imakando	Managing Consultant	Entrepreneurship and Technology Park Ltd
Mr Harrington Kanema	Programme Manager	Entrepreneurship and Technology Park Ltd
Other donors active in Economic Development, Job Creation and Livelihoods		
Magdalena Svensson	First Secretary (Energy)	Embassy of Sweden
Mr Jan Vandenbroek	Officer in Charge, Inclusive Growth & SDGs	UNDP
Mdaniso Ernest Sakala	Responsible for Private Sector Development	African Development Bank (AfDB)
James Blewett	Team Leader, PEPZ programme	DfID
Mr Andrew Sinyangwe	Manager, Agricultural Technology	Musika
Mr Michael Mbulo	Programme Coordinator, Rural Finance Expansion Programme (RUFEP)	IFAD
Caiaphas Habasonda	Technical Adviser, Rural Finance Expansion Programme (RUFEP)	IFAD
National Stakeholders		
Joseph Chanda	Principal Economist, Multilateral Cooperation	Ministry of Finance
Kayula Siame	Permanent Secretary	Ministry of Health (previously PS at MCTI)
Mushuma Mulenga	Permanent Secretary	Ministry of Commerce, Trade & Industry (MCTI)
Aaron Mutale	Chief Economist, former Chairperson, Steering Committee for the ZGJP	Ministry of Commerce, Trade & Industry (MCTI)
Mukula Makasa	Director, Enterprise Development	Zambia Development Agency (ZDA)
Cosam Ngoma	Director of Planning and Policy, Policy and planning	Zambia Development Agency (ZDA)
Owen Mukando	Partnerships Specialists	Zambia Development Agency (ZDA)

Name	Position	Organization
Dr Chitundu Kasase	Director and CEO	National Technology and Business Centre (NTBC)
Ignatius Makumba	Director	Forestry Department, Ministry of Land and Natural Resources
Mindenda Pande	Principal Forestry Officer	Forestry Department, Ministry of Land and Natural Resources
Deuteronomy Kasaro	Principal Forestry Officer	Forestry Department, Ministry of Land and Natural Resources
Kalaba Mwimba	Manager, Extension of Coverage to the Informal Sector	National Pension Scheme Authority (NAPSA)
Anthony Kabaghe	President	Kitwe & District Chamber of Commerce and Industry (KDCCI)
Chimuka Nyanga	Chief Executive Officer at the time ZGJP was being implemented	Association of Building and Civil Engineering Contractors (ABCEC)
Danny Simumba	General Secretary	National Association for Medium and Small-Scale Contractors (NAMSSC)
Lameck Kashiwa	Secretary General	Alliance of Zambia Informal Economy Associations (AZIEA)
Eugene Kaimpa	Managing Director (Team Finland consultant to the Finnish Embassy)	Sierra Group, South Africa
Chris Ndhlovu	Managing Director (Team Finland consultant to the Finnish Embassy)	Elextract Limited

Country Case Annex 3: Context Analysis

Economic development and job creation

Policy framework

The Zambian Government has, through various policy documents, expressed its intention to address the issue of economic development and poverty reduction through job creation, with the aim of creating a sufficient number of decent jobs for all in one way or another.

The Vision 2030 is Zambia's overarching long-term vision for national development and guides all other policies related to economic development and job creation. Its objectives aim at transforming the country into a full middle-income country by 2030. The Vision 2030 recognises employment as a foundation for achieving this objective and it states that the future of work in Zambia should be one that provides opportunities for all citizens to become resourceful and prosperous nationals through provision of decent work. It includes targets for the national unemployment rate, coverage of decent work and adherence to labour laws, improvement of Labour Market Information Systems and minimum wage.

The National Labour Market Employment Policy was launched in October 2019 with the aim of supporting inclusive economic growth, poverty reduction and development through the promotion of gainful and decent work in all sectors of the economy. The policy provides mechanisms for formalising the informal sector and strategies for enhancing social security system for all Zambians. The policy identified priority sectors of agriculture, manufacturing, tourism and education and training as key for employment creation based on the assumption that a strong manufacturing base would increase demand for raw agriculture materials, leading to a spiral effect of increasing output and employment in agriculture.

The National Development Plans (NDP), geared towards achieving the 2030 objective, serve as the main policies guiding Zambia's socio-economic development and growth strategy, including job creation. The current 7th NDP (2017–2021), titled "Accelerating Development Efforts towards Vision 2030 Without Leaving Anyone Behind", which is anchored on the Sustainable Development Goals (SGDs), aims to create a diversified and resilient economy for sustained growth and social economic development and it includes specific measures to promote economic diversification (climate resilient agriculture, diversified sources of energy production and diversification of the mineral sector). Among its strategies for economic diversification and job creation, it includes improving production and productivity, enhancing agriculture value chains, diversification and investment.

The Industrialisation and Jobs Creation Strategy was launched in 2013 as part of the Government's measures to promote economic diversification and reduce dependency on mining. It specifically addresses job creation as a key priority for the Zambian government by focusing on job creation in the formal sector. The strategy selected four priority sectors which were deemed to have the greatest potential in terms of high labour intensity, ability to absorb youth labour, and the skilled and semi-skilled workers: agriculture, tourism, construction and manufacturing.

Some of these were absorbed into the 7th NDP. Although the strategy has not been consistently implemented, the targeted sectors have experienced growth, resulting in some job creation.[241]

Recent macro-economic policy directives affecting particularly MSMEs and the business environment in the long term include also:

- Firmer expenditure control measures by improving the functionality of the Integrated Financial Management Information System (IFMIS), complemented by full application of the provisions of the Public Financial Management Act.
- Cancellation of loan agreements, where feasible, restricting contracting of new loan agreements and tight cash budget management. This measure is expected to help reduce national debt levels and loan repayments and improve liquidity.
- Financial infrastructure to support MSME growth, including the development of the movable collateral registry, roaming registrations of MSMEs by the Patent and Companies Registration Agency (PACRA), and the finalisation of a national switch to speed up transactions and payments.
- Implementation of various measures that have been outlined under the Economic Stabilisation and Growth Programme (ESGP) or Zambia Plus or Economic Recovery Programme (ERP). The measures are aimed at fiscal consolidation and restoring overall macro-economic stability to create a conducive business environment for sustained inclusive growth and development.

Public-Private Dialogue structures include the Cluster Advisory Groups that were established under the 7th NDP, with coordination provided by the Ministry of National Development Planning.

According to the ILO, implementation and consistency of the policies as well as follow-up has been lacking to ensure that what was planned has actually been implemented. These issues have been recognised in the 7th NDP, which has been generally appreciated for being more concrete in its formulation of strategies and target setting compared to previous NDPs. According to most international observers, however, including the Finnish Embassy in Lusaka, implementation of national plans and strategies, including the 7th NDP, has been hampered by insufficient budgets and unpredictable and unreliable funding. With the 2021 elections approaching, public expenditure may be affected by political interests and development priorities are likely to change and most likely divert from the 7th NDP.

Labour market

The labour force in Zambia remains largely rural, agricultural and informal. Some 54% of working age Zambians derive their main incomes from agriculture, while the services sector employs 36% and industry the balance.[242] As shown in Figure 5 below, there has been a gradual shift in the employment structure from agriculture to commerce and other services over the last decade as a result of increased urbanisation[243]. Despite the gradual transition from rural areas and

241 Other relevant economic policies include the MSME Development Policy (currently under revision), the National Industrial Policy, the National Trade Policy, the Competition and Consumer Protection Policy, the National Investment Promotion Strategy, the National Export Strategy, the National Local Content Strategy, the Citizens' Economic Empowerment (CEE) Policy, the National Youth Policy, the Action Plan for Youth Empowerment and Employment, the National Employment and Labour Market Policy, the Technical Vocational and Entrepreneurship Training (TVET) Policy, the National Gender Policy and the National Policy on Disability.

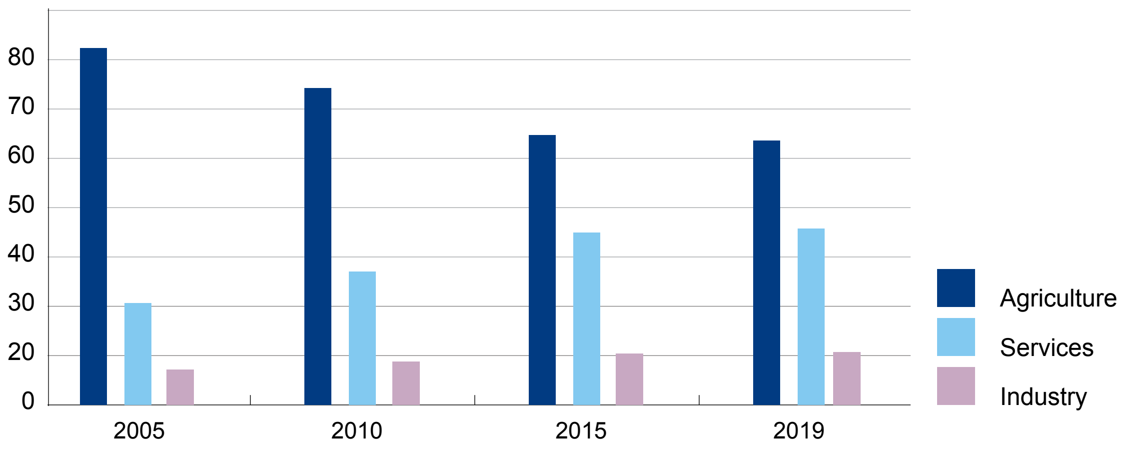
242 Based on the Zambia Statistics Agency's new definition of "employed", the percentages of the workforce deriving their main incomes from the three sectors are as follows: agriculture 20.8%, services 63.2% and industry the balance (Zambia Statistics Agency, 2019b)).

243 The urban population grew from 35% in 2000 to 39% in 2010 and is projected to increase to 48% by 2030 (Ministry of Finance of Zambia, 2015).

agriculture towards wage employment in the main urban centres, most of the labour force is still self-employed farmers and new non-agriculture jobs have mainly been created in the informal services sector, which is characterised by low productivity (World Bank, 2018).

It should be noted here that the Zambia Statistics Agency (ZSA) changed its definition of "employed" in 2017 to refer only to individuals who are engaged in activities aimed at producing goods and services for profit or pay, including farming mainly for sell and contributing family workers. This means that individuals who produce goods and services mainly for own consumption (including subsistence farmers), i.e. 58% of the working-age population, are now categorised as "own-production workers" and no longer considered part of the labour force. In order to allow for analysis of labour market trends over time and comparison with other countries, this report considers the own-production workers as part of the labour force engaged in the informal sector. When using the term "work force" or "labour force" in the report, own-use production workers are therefore included. Wherever sufficient data is not available on this group in the 2019 Labour Force Survey, this report will refer to the 2014 survey or secondary sources.

Figure 5 Share of sectors in employment (%)



Source: ILO, Employment by sector – ILO modelled estimates

There is a stark difference between the proportion of the labour force engaged in each sector compared to the sector-shares to the GDP. Agriculture accounted for about 2.7% % of GDP in 2018 but 49% of the labour force derives its main income from the sector, while industry accounts for 36% of GDP but only 11% of employment. This reflects differences in capital intensity and productivity, which is also shows as different wage levels and formality of jobs and livelihoods.[244]

While labour productivity increased somewhat during the years of rapid growth, this was not the result of improved productivity within sectors, but the result of a shift of part of the labour force from agriculture into industry and services sectors. While labour productivity in the latter is higher than in agriculture, none of them significantly improved during this time (Merotto, 2017).

A job in the formal sector is commonly good protection against poverty. According to the 2019 Labour Force Survey only 13% of the Zambian work force is, however, employed in the formal sector. This means that formal sector employment has not significantly increased in proportion since 1998 (ILO, 2012). More than half of the people employed in the formal sector are working in the public sector, which is the preferred employer for the vast majority of young Zambians due to its relatively higher wage level. Capital-intensive sectors with a higher proportion of formal employment, such as mining, only employs 1.7% of the total labour force and requires few new

244 https://data.worldbank.org/indicator/SL.AGR.EMPL.ZS?end=2019&locations=ZM&start=2000

jobs to grow. This means that 87% of working-age Zambians earn their livelihoods *outside* the formal sector through e.g. informal employment, self-employment, contributing household work or own-use production work (e.g. subsistence farming). Despite employing the vast majority of the population, the informal sector accounted for only 33% of GDP in 2010 (ILO, 2019).

According to the World Bank's 2018 Systematic Country Diagnostic of Zambia (World Bank, 2018), one of the main challenges for growth in Zambia is the fact that poor infrastructure, low skills and a high cost of doing business mean that most enterprises do not expand beyond the household level or create employment. Most new jobs in Zambia are thus created in the informal non-agricultural sector and they are mainly self-employment. When including also own-use production workers, the proportion of self-employed among working-age Zambians accounts for 76% of the workforce.

Zambia's population is young and growing quickly with an average of 294,000 people expected to enter the work force each year between 2014 and 2030 and another 446,000 people annually between 2030 and 2050. This means that Zambia would need to create an average of 328,000 jobs each year up until the year 2050 just to maintain the current labour force participation and unemployment rates. In numbers this seems low compared to e.g. Kenya or Tanzania because of Zambia's comparatively smaller population (total estimated at 17 million compared to 51 million in Kenya and 56 million in Tanzania). For perspective, however, this is 252% more than the number of jobs that were created annually in Zambia during the years of rapid economic growth in 2000–2014 (130,000 jobs per year) (Merotto, 2017).

Unemployment in Zambia was officially at 12,5% of the labour force in 2019. As in most African countries, the unemployment rate is relatively low as poorer people cannot afford not to work. The main labour market problem in Zambia is a quickly growing labour force of young people with insufficient improvements in productivity and job creation. Consequently, most of the labour force is earning their main livelihoods from low-productivity and poorly diversified agriculture, shifting gradually to vulnerable self-employment in the informal sector.

In its thorough Jobs Diagnostic in 2017, the World Bank concluded that to create jobs for youth and low-skilled workers in Zambia, higher productivity jobs would need to be promoted particularly in rural areas by focusing on value chains with high growth potential (such as livestock) and a potential to link actors along the value chains, including agro-processing firms, feed-producing small-scale farmers, outgrowers and commercial farms (Merotto, 2017). Organisations such as the ILO, argue that efforts in the rural areas need to be complemented by expanding economic opportunities in urban areas where many, particularly the youth, are moving to find work (ILO, 2019).

Women's employment

Based on the labour market statistics, Zambia's female labour force participation rate was 86.58% of the 15–64 years age group in 2019, compared to a male labour force participation rate of 87.01%. The male share has marginally increased over time (83% in 2010) while the female share has substantially increased during the same period.[245] According to the 2019 Labour Force Survey (Zambia Statistics Agency, 2019a), women are earning less than men in all sectors and types of employment. Overall women's lower earnings are mainly explained by the fact that they are disproportionately represented in agriculture and services, while men have a higher share of employment in the industrial sector. In short, women in Zambia are working, but their work is not fairly rewarded.

245 The Zambia Labour Force Survey 2019 gives a labour force participation rate of 26.7% for women and 44.8% for men due to the change in definition of labour force in 2017, which lead to people of working-age who work or produce mainly for own consumption (i.e. not for profit or pay) no longer being considered to participate in the labour force. For the sake of comparison with the other case countries, the percentages presented here are based on the modelled ILO estimate for Zambia.

More than 90% of women work in the informal sector and they are most commonly self-employed or contributing family workers (i.e. unpaid work for the family's farm or business). Out of all contributing family workers, 73% are women. Women hence constitute a minority of wage-workers (people in paid employment) (33%). With most jobs that fulfil the definition of "decent work" being in the formal sector, this means that women in Zambia have clearly poorer access to decent work than men (Zambia Statistics Agency, 2019a).

While women's participation in the labour force is relatively high, it is hampered by the fact that traditional gender roles place the main responsibility for family care and household management on women. As highlighted by organizations such as the UN and Oxfam, the responsibility for doing unpaid care and domestic work, including everything from raising children to caring for disabled and elderly family members to keeping homes clean and safe and putting meals on the table, falls disproportionately on women and girls in the whole world. Coupled with a lack of basic infrastructure (like electricity and water) or time-saving equipment (like washing machines) and the lack of an affordable childcare system this has a major effect on the ability for women to effectively participate in in economic, political and social activities including education, employment, and entrepreneurship in Zambia. Gender roles are also reflected in the legislation, which only provides paid leave for women to take care of a hospitalised sick child, not for men.

Another factor challenging women's opportunities to earn a living and develop businesses is the lack of access to land. Access to registered land is a common problem in Zambia, and the government is planning interventions to address this e.g. with support from the EU. The Zambian system of traditional leaders exercising informal but publicly legitimised judiciary power in rural areas based on traditional norms and custom has a tendency of particularly discriminating against women in cases of inheritance, especially relating to land (BTI, 2018).[246]

Women operate some 30% of Zambian MSMEs and play an important role in regional value chains and trade (ITC, 2019). According to Word Bank estimates, some 70–80% of small-scale traders of fish and agriculture products at ports and land borders with neighbouring countries are women.

In its 2018 Systematic Country Diagnostic of Zambia, the World Bank concluded that the low quality and lack of inclusiveness of education and health services are some of the main obstacles for opportunities particularly for women. Improving poor rural girls' access to and completion of secondary education would have substantial impact on their employment prospects and on overall economic growth. Girls' education is known to reduce early marriage and pregnancies and school dropout rates for girls, which in return reduces population growth and has a long-term impact on the following generation (World Bank, 2018).

Youth employment

The young and growing population is both an opportunity and a challenge for the Zambian economy. The young work force is large and growing with youths comprising 55% of the working age population and an estimated 300,000 people entering the work force each year. Jobs have not been increasing at the same rate and youths in the labour market are disproportionately represented both among the unemployed (17,9%) and the under-employed (Zambia Statistics Agency, 2019a). In short, the most pressing issue for the Zambian labour market is the youth and how to create employment opportunities for them.

246 BTI assesses the transformation toward democracy and a market economy as well as the quality of political management in 129 countries.

Almost all young workers are engaged in the informal sector (93%). Considering the slow pace at which new wage-jobs emerge in the formal sector, the informal sector and self-employment will unavoidably continue providing most jobs for youths for some time (Ravillard, 2017). Youths in rural areas mainly earn their livelihoods through unpaid household work and self-employment in agricultural activities. In urban areas youths are mainly engaged in non-agricultural activities such as informal wage employment and self-employment. Surveys among youths show that youths reportedly start their own businesses mainly because they are not able to find wage-work. As a result, they also abandon their businesses when better forms of employment or income generation present themselves. This is a contributing factor to the short lifespan of businesses in Zambia, with only 2% of MSME's graduating beyond 3,5 years of existence (Bhorat et al., 2015).

Based on several studies on the reasons for poor employment outcomes for youths in Zambia, one of the main contributing challenges is the lack of basic skills. Education levels have been rising among Zambian youths and primary school enrolment rates have progressed significantly since the early 2000's. This would indicate good news for Zambian youths, as education directly correlates with higher likelihoods of employment and higher wages in Zambia ("education dividend") (Merotto, 2017). More than a third of Zambian youths still have, however, either no education at all or have left school before completing primary education. Progress from primary to secondary schooling is low compared to other Southern Africa Development Community (SADC) countries and tertiary education is limited to a fraction of the population (less than 1%) (Bhorat et al., 2015). In addition to access, technical and vocational training has been poorly aligned with private sector needs and is affecting the employability of youths.

Higher quality and more evenly accessible education, including vocational training that matches the needs of the private sector as well as on-the-job training are key for integrating youths in the labour market but also for raising productivity in agriculture, self-employment or wage employment (Koyi et al., 2012).

Decent work

In 2019 the International Labour Organisation (ILO) commissioned a diagnostic study on the key issues in the Zambian labour market, including one of the ILO's core themes: decent work for all. According to the diagnostic, only 11% of the Zambian work force can be said to have decent jobs. This is mainly due to the fact that according to the 2019 Labour Force Survey informality is high with 87% of the labour force engaged in informal work (69% if excluding own-use production workers), which is characterised by both low productivity and low incomes but also undefined contracts, low and/or unpredictable wages, and a lack of access to social protection. The shares between the formal and informal sectors have remained relatively unchanged in the past 10 years, meaning that little change has happened in Zambia in terms of access to decent jobs.

The quality of jobs for those in formal wage employment has, however, been improving, including increasing social security coverage and formal contracts (World Bank, 2018). According to the ILO's report The Future of Work, Zambia, the five industries with the highest proportion of decent jobs are also those with the highest proportion of formal jobs: public administration and defence, professional, scientific and technical, education, financial and insurance activities, and mining and quarrying.

Since informality has been growing faster than formal employment, increasing access to decent work in the shorter term would require that informal operators and employers adhere to minimum labour standards working to formalise, which in turn would require authorities to enforce labour standards in the informal sector (ILO, 2019).

In recent years the Zambian government has taken steps to improve the policy framework to promote decent jobs and made conscious efforts to extend social protection to the informal sector. In 2018 the National Pension Scheme Authority (NAPSA) signed an MoU with seven informal sector associations to facilitate extension of social security coverage to informal sector workers as part of the Extension of Coverage for the Informal Sector (ECIS) Project, which focuses on five priority sectors: domestic workers, bus and taxi drivers, saw-millers, marketeers and traders. Since commencement in 2017, more than 33,000 new members from the informal sector have been registered with NAPSA (SPIREWORK, 2020). Various sensitisation programmes (seminars, roadshows and exhibitions) have been undertaken in various parts of the country by NAPSA to raise awareness on the benefits of this project (NAPSA, 2019). As part of these efforts, Finland has since 2017 funded the Social Protection for Informal and Rural Economy Workers, SPIREWORK, Project where NAPSA in partnership with the Finnish National Institute for Health and Welfare (THL) with support from ILO has worked towards extension of social security to small scale farmers and rural agriculture workers (ILO, 2018).

Another challenge for decent work has been insufficient legislation and requirements for use of the local work force, goods and services by foreign companies working in Zambia (Local Content Policy). Chinese Foreign Direct Investment (FDI) is significant and created an estimated 76,000 new jobs in 2000–2012 (Sinkala & Zhou, 2014). Many of these were, however, filled with Chinese (foreign) workers brought in for jobs that Zambians could, in principle, have been employed for. National labour regulations concerning e.g. minimum wages are not always respected, resulting in underpayment or poor working conditions for Zambian workers (Wang et al., 2016).

According to the ILO, another important challenge for decent work is the fact that multinationals operating in the country tend to favour sub-contracting arrangements for labour, meaning that instead of directly contracting the necessary workforce, the service is outsourced to a smaller firm. In principle this has the potential of engaging national firms in the value chain and create jobs, but a study conducted in 2017 also found that the sub-contracting agreements tend to be such that the multinational does not have responsibility for or say in the working conditions of the people hired by the sub-contractor, meaning that many workers lose out on the potential benefits of decent jobs (ILO, 2019).

Dynamics of the economy

Business environment

The term Business Enabling Environment is broadly defined in Finnish policy documents as the development of relevant legal framework, taxation and innovations, to ensure that the economic development benefits all groups of the society. The World Bank/IFC assesses business enabling environments in each country based on ten dimensions[247], focusing on regulations. In the 2020 annual Doing Business study, Zambia ranked 85th out of 190 countries with a doing business score of 66.9. This is an improvement of two places compared to the previous edition, leaving Zambia behind Kenya (56/190) but well ahead of Tanzania (141/190). Zambia is scoring higher than the average country in the Sub-Saharan region on all dimensions except registering property.

The World Bank's Systematic Country Diagnosis of Zambia in 2018 highlighted several areas that are particularly challenging in terms of a business enabling environment:

247 Ease of 1) starting a business, 2) dealing with construction permits, 3) getting electricity, 4) registering property, 5) getting credit, 6) protecting minority investors, 7) paying taxes, 8) trading across borders, 9) enforcing contracts, 10) resolving insolvency.

While private sector performance is mostly hampered by insufficient access to finance and poor infrastructure (electricity and transport mostly), the authorities' limited private sector capacity exacerbates these challenges and translates into a distorted investment climate. In addition, private sector operators are suffering due to the inconsistency of policies and regulations with respect to access to land, contract enforcement, business and property registration, taxes, licensing and permitting, and trade regimes.

Although further improvements are clearly still needed, the Zambian government has implemented reforms to reduce the cost of doing business, improve infrastructure (particularly the road network), improved access to credit, made paying taxes easier and made exporting and importing easier through measures such as online platforms for filing and paying taxes and for customs data management (World Bank, 2019). Despite Zambia's comparatively favourable political and stable environment for doing business, the overall regulatory environment is still an obstacle for improved productivity and increased investment. The Zambian economy has a dualistic nature for which the political economic context has a major role to play. In most of the manufacturing and services sectors (such as beef, beer, cement, retail, sugar and telecoms) there is usually one large company with a significant share of the market (Adam et al., 2014). The strategy of monopolists has mainly been threefold: limiting competition from outside the country, limiting input exports (if produced in Zambia) and limiting internal competition as much as possible. This is where public sector regulations have played a role in helping some of these big firms to perpetuate their current market share and failed to address anti-competitive business practices.

Foreign direct investments

Foreign investments (FDI) can be considered an indicator of the business environment in a country. FDI is an important contributor to Zambia's GDP and the country's FDI regime is considered being one of the most open in Africa. Zambia's net inflow of FDI (USUS$569 million in 2018) translates to 1.5% of GDP. This is slightly below the average of Sub-Sahara Africa (2.0%) and below Tanzania and Kenya (both at 1.8%) (Nordea, 2020).

FDI in Zambia is almost entirely composed of investments in the mining sector (80%) by Canadian, Australian, UK and Chinese companies. The rest is mostly large-scale infrastructure projects by Chinese companies (Nordea, 2020). In the current national development plan Zambia is looking to increase FDI in agriculture and energy projects as a way of diversifying the economy. Finland's Country Strategy for Zambia 2016–2019 also identified energy and agro-processing as well as bioeconomy as important investment opportunities.

The political economy surrounding Government's perception of the private sector, policy uncertainty, regulatory environment, and power shortages, among other issues, have had a severe impact on FDI in Zambia. In five years FDI decreased by 73% from USUS$2.1 billion in 2013 to only USUS$569 million in 2018 (UNCTAD, 2019). The Zambia Development Agency (ZDA), the public agency mandated to promote and facilitate investments, reported total capital investment of US$5.471 billion in 2013 and US$921.6 million at the end of 2019 (Zambia Development Agency, 2019).

Factors working in Zambia's favour in terms of FDI include the politically stable environment, geographical location, membership in SADC and the Common Market for Eastern and Southern Africa (COMESA), ongoing business environment reforms, a trade environment considered to be one of the most open in Africa, as well as several tax incentives to foreign investors introduced by the Government as a way of reducing dependency on mining and diversifying the economy. The effect of such measures is, however, diluted by issues such as weak public finances and increased domestic arrears / Government domestic borrowing leading to an unstable macro-economic environment hence hindering investment (also through crowding out private sector and lack of payment to service providers and suppliers of goods), unreliable power supply due to the energy crisis, long export and import times due to trade bureaucracy, and most importantly, frequent changes to policies and taxation. The latter include, among others, frequent changes to the mining tax regime, plans to reduce tax deductions on investment expenses in 2020, uncertainties concerning the tax framework (mining code currently under revision) and high interest rates. Taxation is discussed in more detail below.

Competitiveness

The World Economic Forum's Global Competitiveness Index measures the competitiveness of some 140 countries based on 12 pillars related to institutions, policies and factors that determine the level of productivity. The 2019 Global Competitiveness Report ranks Zambia as 120th out of 141 countries. Zambia's ranking has been descending along with its economy, down from a high of 96th between 2014–2016. This places it behind both Kenya (95th) and Tanzania (117th) (Schwab, 2019).

Based on the Global Competitiveness Report, Zambia's decline has been driven by much the same issues that have challenged its overall economy. The IMF forecasts inflation to rise to 10% by the end of 2020, increasing the cost of doing business. Reliance on imports means that high exchange rates increase the costs of inputs and the prices of goods and services produced by Zambian businesses. Both factors have an adverse impact on the competitiveness of Zambian businesses.

Innovativeness

In the 7th National Development Plan (NDP), the Zambian government has selected Economic Diversification and Job Creation as one of its key result areas. As part of the binding constraints for achieving this goal it also identified inadequate skills and innovation to drive diversification. The Government has also outlined its intention in the *Strategy on Industrialisation and Job Creation* to facilitate the development of human resources and skills by implementing curriculum review and development in the education sector (from primary to tertiary education levels) to mainstream innovation and entrepreneurship. This is coherent with the World Economic Forum's assessment of innovation capability in Zambia, placing it 120th out of the 141 countries in the 2019 Global Competitiveness ranking (Schwab, 2019). In actualising these intentions, the Government set up the Skills Development Fund (SDF) through enactment of the Skills Development Levy Act (2016) to support skilling, up-skilling and re-skilling for enhanced productivity, efficiency and material utilisation. This promotes collaboration between various stakeholders, including Government and private sector. This is equally in line with Zambia's TVET strategy.

According to the 7th NDP, inadequate skills in the labour force and limited technology innovation in Zambia are contributing to low labour productivity and consequently hindering economic growth. Inadequate technical and vocational education and training, attributed to outdated curricula, low instructor qualifications and a general lack of opportunities for practical training at colleges or Trades Training Institutes or in industry through temporal attachments and placements is contributing to a mismatch between the skills available in the labour market and industry needs. Not only does limited skills result in low productivity, it also reduces potential uptake of innovation and competitiveness of Zambian companies. According to the NDP's analysis, entry into technology and science-related fields, capacity for research and development, and use of ICT are consequently relatively low in Zambia.

Research on the topic of innovation in Zambia has found that there has been a major gap between the objective of harnessing science, technology and innovation to fight poverty and actual policy instruments and measures to deliver this intention. Insufficient investment in higher education, research, development and innovation, the absence of national strategies for adapting science and technology as well as a lack of interactive learning and networking opportunities between the government ministries and key actors within the national innovation system have been some of the factors contributing to the inadequate skills and innovation to drive economic diversification and poverty reduction. Here, too, the heavy reliance on the mining sector has been found to disincentivise the development in science, technology and innovation (Daka & Toivanen, 2014).

Like in most Sub-Saharan African countries, Zambia underfunds its TVET sector and only allocates 1% of the total education budget to TVET. Development partners' support is limited except for the ongoing AfDB Support to Science and Technology Education Project (SSTEP), which is being implemented between 2016–2021 and partly supports TVET. The AfDB Skills Development and Entrepreneurship Project (SDEP-SWY) aims to promote job creation, gender equality and poverty reduction. It seeks to improve the livelihood opportunities of Zambia's working poor, especially in rural areas and should benefit, particularly, women and youth through enabling infrastructure and entrepreneurship for MSME business development (including entrepreneurship and business skills development).

The Finnish-funded Southern Africa Innovation Support programme (SAIS) covers Zambia. Based on the programme's collaboration with the National Technology and Business Centre and innovation hubs, such as Bongo Hive and the quality of funding applications submitted by Zambian entities, the Zambian innovation scene is at par with e.g. Tanzania and ahead of countries such as Namibia and Botswana. While the link between public and private actors in the innovation ecosystem may be weak, the Zambian private sector actors and hubs participating in the programme see themselves as some of the leading actors in the SADC innovation scene.

SME development

Micro, small and medium-sized enterprises (MSMEs) are a crucial component in the Zambian economy. According to the ITC (ITC, 2019), MSMEs represent 97% of all businesses in Zambia, contribute 70% to GDP and provide 88% of jobs. MSMEs are primarily engaged in the agriculture and services sectors, more specifically in trading, simple manufacturing and processing as well as in service provision. As recognised also by the Zambian government in its Vision 2030 and 7th National Development Plan, MSMEs are key for overall economic development through job creation and for economic diversification.

In order to better harness this potential, the Zambian government commenced the review of its MSME Development Policy in 2019, and the process is ongoing. Once finalised, the new MSME Development Policy is expected to provide distinct strategies for supporting and graduating MSMEs from one category to another. Along with other cooperating partners, Finland is supporting the review through its bilateral AGS Programme.

The 2009 MSME policy states that 90% of businesses in Zambia are not registered, i.e. they are informal. Most of these firms are very small operations, with less than five employees. The 2010 Zambia Business Survey found that a majority of the employees in MSMEs are unpaid family members (44%) or paid in kind (23%) and only one-third of workers are remunerated in cash. While technology start-ups are also gradually emerging among the urban youth, most MSMEs are characterised by reliance on low technology and social networks and targeting the lower income segments of the market (Mubita et al., 2017). A study on informality among Zambian businesses found that particularly rural businesses are usually characterised by both low skills and low productivity and would not reach the threshold to pay taxes even if they did register (Shah, 2014).

Several studies confirm that major constraints for Zambian MSME's capacity to grow and create more jobs include inadequate business management and technological skills, lack of or limited access to financing, limited access to markets and relevant information, limited use of and access to appropriate technology, lack of competitiveness, and uneven access to infrastructure and facilities, such as energy, transport and telecommunications. With support from donors and NGOs the Zambian Government has made efforts to address these constraints through a number of initiatives. The efforts are, however, still hampered by challenges such as corruption and bribery, informality of processes, and a lack of coordination and harmonisation, a challenging business environment and limited or lack of ownership of such initiatives by relevant Zambian authorities.

As the main source of employment for the labour force, raising the competitiveness of MSMEs also has the potential of contributing to reduced youth unemployment and increasing the number of women in employment (ITC, 2019).

The financial sector

The large fiscal deficits caused by non-concessional public debt and the accumulation of domestic arrears have resulted in currency weakness and rising local borrowing costs that have further pushed up the interest rates. This is severely affecting Zambian MSME's access to affordable financing. In its programme document, the AGS programme estimates that less than 25% of MSMEs can access reasonably priced funding from commercial banks and non-banking financial institutions (AGS, 2020). A recent survey conducted by the DFID-funded Zambia Financial Sector Deepening Limited (FSDZ) and BFA Global established that as many as 72% of MSMEs are currently unable to raise funds for expansion in Zambia due to the impact of the covid-19 pandemic outbreak.

Commercial Banks lending rates in Zambia are averaged 25.1% as the end of August 2020 (for personal and commercial loans). The average rates have been coming down slightly since May 2020 due to the monetary policy interventions by the central bank or the Bank of Zambia (such as the lowering of the Policy Rate). This has resulted in the improved liquidity position in the financial market hence reduced cost of borrowing. The commercial loans include lending to MSMEs and big corporates. However, some corporates are able to borrow at below the market rates due to the relationships they have with commercial banks. The rates are much higher for the unsecured borrowers such as MSMEs and depend on who the lender is and the risk profiling of the MSME business. For businesses accessing finance from non-bank financial institutions, excluding predominantly salary lenders, the annual interest rates range from 50 to 72%. The rates are relatively lower for non-bank financial lending institutions that are deposit taking (particularly those that are Government-owned i.e. the Development Bank of Zambia, Zambia National Building Society and the National Savings & Credit Bank).

The Government has made significant advances over the last few years in improving the financial infrastructure to improve access to finance. This has included the finalisation of the national switch – which will make payments and transfers between financial institutions quicker and cheaper. The development of the credit reference bureau, which allows consumers and businesses to track their credit profile and reduces asymmetry of information between financial institutions and clients, with the goal of reducing risk to the lender. The movable collateral registry, which allows people without traditional forms of collateral, such as land tenure documents, to pledge any asset that can be uniquely identified, including items such as individual cattle to vehicles. This is beneficial to female borrowers who are less likely to hold land tenure documents. The Zambia Credit Guarantee Scheme enables financial institutions to share the risk of lending to the SME sector. The Development Bank of Zambia is also seeking to address the cost of borrowing by financial institutions by developing a new wholesale financing product for financial service providers lending to agriculture and MSMEs.

Government schemes, such as the Citizens Economic Empowerment Commission, have the mandate for preferential loans to Zambian enterprises, but it is not able to meet the demand from MSMEs. The commission is also not independent of government interference, meaning that MSME's political affiliations may affect their prospects of accessing finance. The pre-conditions placed by development finance institutions and programmes limit access for most local MSMEs, which do not have the capital for counterpart funding themselves or cannot access it through commercial banks due to the high interest rates. In addition to high interest rates, many enterprises lack in sufficient business management skills to put forward a sufficiently compelling business case to qualify for funding. Those that do have the capacity are also challenged by the fact that banks are only lending short-term and Zambian businesses have a relatively weak asset base to use as collateral to secure financing.

Export performance

Export performance provides an indication of a country's openness and integration into global value chains. Trade flows also give an understanding of the import and export opportunities in a country. In 2018 exports constituted 29% of Zambian GDP. Zambia's aspiration is to become a net-exporter and diversify its main export from copper to non-traditional exports. In 2019, however, imports still exceeded exports (9.5 billion compared to 9.1 billion respectively) and copper mining provided 70% of exports. While non-traditional exports are growing (sugar, coffee, cotton, tobacco, copper cables and wires), agriculture contributed only some 23.3% of non-traditional exports, i.e. approx. 6% of total exports.[248] The low proportion of agriculture in exports compared to the high proportion of the labour force engaged in this sector is a reflection of low productivity in agriculture and most people being engaged mainly in subsistence agriculture.

In 2018 the most important destinations for Zambian exports were Switzerland (42%), China (14%) and the Democratic Republic of the Congo (14%) while the main countries of origin for imports were South Africa (29%), the Democratic Republic of the Congo (15%) and China (14%). Finland ranked as the 54th largest importer to Zambia in 2018.[249] The reliance on imports has been concretised with the covid-19 crisis in 2020 as restricted transactions between Zambia and South Africa have resulted in a shortage of basic consumer goods in Zambia.

According to a study conducted in 2019 by the bilateral Accelerating MSME Growth (AGS) Programme funded by the MFA of Finland, Finnish exports to Zambia varied between USUS$20 and 80 million between 2008 and 2017. In 2017 the largest source of Finnish exports to Zambia was machinery, nuclear reactors and boilers (48%), electrical and electronic equipment (20%), plastics (20%) and paper and related products (8%). Zambian exports to Finland reduced from USUS$22 million to just USUS$341,550 between 2008 and 2018, comprising almost entirely of food products (99,6%) in 2018. The same study showed that although there is margin for Zambia to increase exports to Finland, products of Zambian MSMEs have a higher demand on the African markets and the trade regulations are more favourable compared to the strict EU Trade regulations and the high volumes required by EU firms.

Key economic sectors

Mining

As established, the mining industry has provided the traditional base for Zambia's foreign exchange earnings and continues to be the major contributor to exports. Although copper mining

248 World Integrated Trade Solution (WITS). World Bank. Zambia trade data https://wits.worldbank.org/countrysnapshot/en/ZMB
249 World Integrated Trade Solution (WITS). World Bank. Zambia trade data https://wits.worldbank.org/CountryProfile/en/Country/ZMB/Year/LTST/TradeFlow/Export/Partner/all/

in itself is capital intensive and provides formal employment for a fraction of the workforce, the Extractive Industries Transparency Initiative (EITI) estimates that the mining sector and its support industries contribute indirectly to an estimated 50% of the Zambian GDP (EITI, 2020). The decline in commodity prices between 2015 and 2016 had a negative impact on mining productivity, and more recently the covid-19 pandemic has dampened prospects of a resurgence.

Zambia's mining sector is generally described as having a relatively bigger supply cluster than those of other countries in Southern Africa. The suppliers and contractors in the mining industry include agents and distributors, Original Equipment Manufacturer (OEM) subsidiaries, specialised firms, general services manufacturers and suppliers and informal businessmen. OEM subsidiaries constitute direct suppliers of equipment and after-sales services to the mining companies (usually European, North American and South African companies). Specialised firms are skill-intensive chemical, electrical and mechanical engineering firms.

Since 2000, after completion of privatisation of the mining industry, mining in Zambia is predominantly private sector driven. The Zambian Government transformed the Zambia Consolidated Copper Mines (ZCCM) PLC into an investment holding company, the ZCCM Investment Holdings PLC. The ZCCM-IH PLC retains minority interests, on behalf of the government, in all the mining companies. Since 2000, copper mining in Zambia has attracted billions of dollars of Foreign Direct Investments, primarily from Australia, Canada, Brazil and Switzerland. However, Zambia has seen this interest waning in recent years, primarily due to a worsening business environment and investment climate, including the government's increased interference in the operations of mining companies (see section on taxation below).

Agriculture

As outlined above, agriculture constitutes the main source of livelihood for a majority of the working age population, but productivity remains far below potential and hampers its potential to generate incomes and meaningfully contribute to future jobs. The majority of agricultural workers are subsistence farmers producing mainly for household consumption. The agriculture sector in Zambia is characterized by its reliance on traditional farming methods and rain-fed agriculture, making it vulnerable to climate change and seasonality.

The reduction in the contribution of agriculture to the GDP (from 11.5% in 2008 to 2.6% in 2018) is partly explained by the droughts in recent years, but the shift started already in 2010 as a result of low agricultural productivity, which has been mainly attributed to ineffective, maize-focused and poorly managed agricultural support-programmes and insufficient investment in e.g. irrigation, feeder roads and research (Resnick & Thurlow, 2014). The current public subsidies to the agriculture sector have been found to be counterproductive for both poverty reduction (they benefit better-off farmers) and shifting towards higher value-added farming. Intentions to diversify the agricultural sector and improve productivity have suffered from the fact that agricultural subsidies are one of the main political and campaigning tools for the ruling party.

In its 2017 Jobs Diagnostic for Zambia (Merotto, 2017), the World Bank concludes that agricultural productivity will need to be significantly increased and processing industries developed at a faster pace in order to secure future economic growth. Agriculture, livestock and fisheries have also been identified by the Agriculture Policy as drivers of job creation. The agricultural sector, including agribusiness, provides the greatest potential for the involvement of marginalised or disadvantaged groups such as the semi-skilled and unskilled, poor, disabled, youth and women. The potential for development, growth and competitiveness for MSMEs in agriculture and agribusiness lies in non-maize commodities such as aquaculture value-chains, poultry and small livestock and cash crops such as soya beans, cashew nuts, cassava and horticulture due to their potential to create jobs and contribute to livelihoods improvement and economic development.

Donors such as the Swedish and US governments (through Sida and USAID) as well as the World Bank have focused specifically on supporting the agriculture sector. Finland also supported the agriculture sector for over 30 years until the sector was phased out in the last Country Strategy 2016–2019. Although agricultural productivity is traditionally the mandate of public sector extension work, there are also notable private sector investments, such as the Agricultural Development Company (AgDevCo) Limited, which is incorporated in the UK. AgDevCo invests in Zambia's agricultural sector for impact, including in smallholder and emerging SME opportunities. Another notable company is the African Green Resources (AGR), which focuses on agribusiness, provision of inputs and a market for produce from small, medium, emergent and commercial farmers across the country. In addition, various smallholder outgrower schemes have been established in different parts of the country for agricultural commodities such as sugar cane, cassava, cotton, tobacco and horticulture. Other private sector initiatives targeting the agriculture sector include the Citizens' Entrepreneur Development Programme (CEDP), and the Indaba Agricultural policy research Institute (IAPRI).

Energy

Zambia relies almost entirely on large-scale hydropower for its electricity. Consequently, climate change has had a major and concrete impact on the Zambian economy in the last years as the El Niño weather phenomenon has resulted in erratic or lacking rains, which has driven Zambia into an energy-crisis. The lack of rains has made the need for investment in new energy generation capacity apparent, recognized also by the Zambian Government. The energy sector is critical for powering businesses, mining, manufacturing and the economy as a whole. Energy reforms are high on the Government's agenda and are needed to attract private sector investments. The government's goal is to turn Zambia into an electricity exporter.

The power shortage, still critical, has reduced the productivity in the private sector and discouraged foreign direct investments. The need to diversify energy sources presents an investment opportunity for green energy which has also been highlighted in the current National Development Plan, but which also depends on aspects such as regulation, tariffs, feed-in tariffs, transmission and distribution capacity. The national budget for 2020 includes plans related to solar power and new hydropower stations.

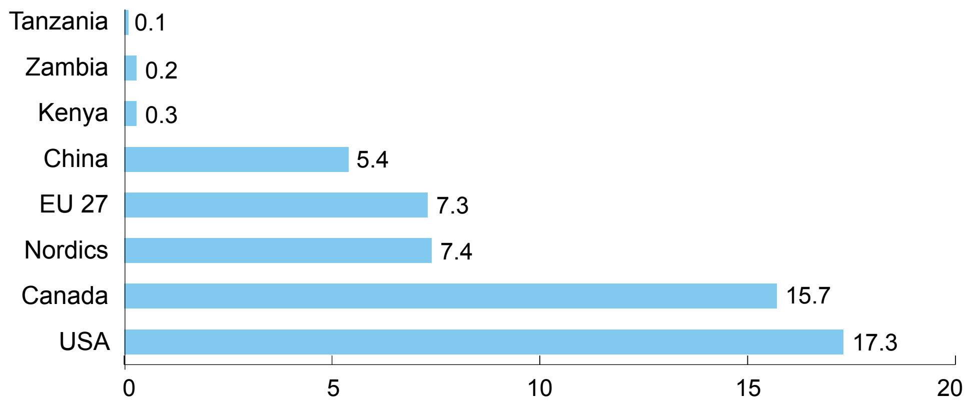
Over 70% of all Zambians have no access to modern energy (95% in rural areas). Expansion of the national utility grid to rural areas with a highly dispersed population is in the near term neither economically nor technically feasible. Considering that 76.6% of rural Zambians live below the national poverty line, the connection cost to the national grid is beyond their reach. The market for rural energy has struggled to take off, lacking in investment and in capacity of energy service providers able to deliver energy to rural areas. Most donors are indeed including support to renewable energy in their current country strategies for Zambia through programmes like the Beyond the Grid Fund, financed by Sida, and aiming to harness the private sector in increasing off-grid access to renewable energy on a commercial basis. Off-grid solutions have, however, proved to be difficult sustainably in many countries.

Climate and environment

As noted in the 7th NDP, Zambia has been experiencing the effects of climate change resulting in extreme weather conditions, such as droughts, rising temperatures and unpredictable rainfall patterns. The frequency and intensity of climate events is expected to rise in the future, with negative impact on the economy and consequently people's livelihoods. Zambia, like most Sub-Saharan countries, has very light carbon footprints relative to most nations, and especially industrialized countries. The figure below shows data for 2017 (Ritchie & Roser, 2017). Zambia's total greenhouse gas emissions were 4,230,584 tons in 2016, equivalent to 0,26 tons per person.

Zambian emissions are mostly resulting from industrial combustion (40%), including cement production. Due to its reliance on hydropower for electricity, only 1% of Zambia's emissions are caused by the power industry, compared to 17% in both Kenya and Tanzania.

Figure 6 Tons of CO_2 per person 2017



Source: IAEA

Deforestation is a concern and links closely to the need to increase agricultural productivity. Zambia is ranked among the countries with the highest rate of deforestation in the world. According to the UN, agriculture accounts for 90% of deforestation as a result of shifting cultivation. Any increase in agricultural production has not been the result of improved productivity but of clearance of more land for agricultural use. The energy crisis is also contributing to deforestation through increased charcoal production (Mwitwa et al., 2012). Poverty is a major underlying driver of deforestation due to income generation through unsustainable natural resource utilization (e.g. charcoal production and wood fuel use, uncontrolled logging and overharvesting of key timber species, slash-and-burn shifting cultivation, mining and opening up of forests for new settlements).

In the 7th NDP the Zambian government estimates that the impact of climate change will cost Zambia approximately 0.4 percent of annual economic growth. Without action, rainfall variability alone could lead to losses of 0.9 percent of GDP growth over the next decade.

Taxation

Like most governments, the Zambian government relies significantly on tax revenue to finance both its key infrastructure development and social services. Mainly due to a decline in mining revenue, a shrinking tax base and weak tax administration, tax revenue declined from 30% of GDP in the 1970s to some 13% in the 1990s (Nalishebo & Halwampa, 2014). After significant tax reforms, tax revenue collection had only increased to 15.2% of GDP by 2017.[250]

International corporate tax is an important source of revenue for governments worldwide, even more so in low-income countries. According to research on revenue loss from tax avoidance done by the United Nations University UNU-WIDER, the greatest intensity of losses occurs in low- and lower middle-income countries. According to their research, Zambia lost USUS$1,13 billion in revenue in 2013 due to tax avoidance and tax evasion, equivalent to 5,10% of its GDP (Cobham & Janský, 2017). Later studies have indicated as much as USUS$3 billion.

250 World Bank Open Data https://data.worldbank.org/indicator/GC.TAX.TOTL.GD.ZS

For Zambia one of the main challenges for tax revenue collection is the need to attract foreign investment while simultaneously ensuring that it sufficiently contributes to economic and social development. Here, too, the extractive industry in Zambia, which is dominated by multinational companies, has a central role, contributing 26% to government revenue in 2016.

Benefit-sharing in mining has been notoriously difficult to achieve worldwide and, so far, Zambia has had trouble striking a balance between revenue collection and attracting foreign investment. In 2018 the government changed its minerals tax regime for the 10th time in 16 years and in 2020 the mining code is again under revision. Revisions have included initiatives to close loopholes for tax evasion (e.g. related to transfer pricing), but also changes that aim at maximising revenue collection (e.g. by reducing profit-based taxation but increasing mineral royalties). The frequent changes are causing uncertainty in the sector and discouraging investments (EITI, 2020). Or as expressed by the International Growth Centre in relation to the 2019 policy changes, which are expected to again increase taxation of the mining sector:

> *The Zambian government, in an attempt to return to 'fiscal fitness', may be prioritising short-term mobilisation of revenue from the sector, at the expense of building a sustainable fiscal regime with consistency over time (Siwale & Chibuye, 2019).*

Potential impact on the economy of covid-pandemic

As already outlined, the Zambian economy has been experiencing significant macro-economic challenges during the last half of the previous decade, which has manifested in declining growth, high fiscal deficits, rising inflation and debt service obligations, as well as low international reserves. The outbreak of the global covid-19 pandemic, has exacerbated the already dire situation, resulting in a serious strain on public health and the economy. The full impact is yet to be determined, but tourism and mining are likely to be the worst affected. Preliminary data show that the impact will be unprecedented.

In order to provide relief to businesses, the Zambian Government removed provisions of Statutory Instrument (SI) 90 related to VAT claims on imported spare parts, lubricants and stationery to eases pressure on companies. Import duties on the importation of mineral concentrates and export duty on precious metals and crocodile skin have also been suspended. A three- to five-year ZMW 10 billion (approx. EUR 0.44 billion) stimulus package to be managed by the Bank of Zambia was established to support SMEs but has been marred by low uptake and will mainly benefit formal businesses. The Government also announced the creation of a ZMW 30 million (approx. EUR 1,3 million) Empowerment Scheme in June 2020 to support artists. Further, the central bank introduced measures in response to the deteriorating macro-economic environment. These include the scaling up of open market operations to provide short-term liquidity support to commercial banks, revising rules governing the operations of the inter-bank foreign exchange market the Government of Zambia has, however, not introduced specific measures targeting the informal economy.

In mid-July 2020, the Ministry of Finance estimated that the country's economy was expected to contract by as much as 4.2% in 2020. Zambia is reportedly in the process of engaging the World Bank and African Development Bank (AfDB), side by side, on the possibility of direct budget support and additional support towards the fight against the covid-19 pandemic just as talks with the International Monetary Fund (IMF) came to a close. Sectors such as mining, energy, construction, manufacturing, tourism, transport and trade are expected to record particularly poor performance.[251]

In short, the indirect economic effects are feared to have deeper consequences for the livelihoods and lives of Zambians than the virus itself.

251 https://diggers.news/business/2020/07/14/zambias-economy-to-contract-by-four-percent-this-year-ngandu/

Country Case Annex 4: Other donors in Zambia

Sweden

Sweden has remained one of the five largest individual donors to Zambia throughout the evaluation period with ODA flows having remained relatively stable over the past five years. Sweden considered phasing out bilateral development cooperation and transitioning to a purely trade-based relationship some ten years ago but does not consider it relevant today since the economic situation in Zambia has changed. Instead, the focus is on reducing inequality and leaving no-one behind by collaborating with the private sector to find solutions that work for people with low regular income, i.e. market based solutions. In the current Country Strategy for 2018–2022, Sida concentrates its support to economic development and job creation under the objective "Environment, climate, renewable energy and sustainable, inclusive economic development and livelihoods". The objective has been translated into practice by having a strong focus on agriculture and renewable energy, and there a focus on market development and women's economic empowerment. In 2019 Sida's budget in Zambia amounted to USUS$55.5 million.

While Sweden does not have plans to phase out development cooperation in Zambia, establishing and maintaining "broader relations" has been a key objective for the Swedish embassy for some 10 years. Zambia has been a pilot for Sweden in pursuing this kind of broader relations. According to interviews with the Swedish embassy, a conclusion from the Swedish experience has been that fostering a trade relationship requires more instruments than just trade. Development cooperation instruments, such as the challenge funds, Public Private Development Partnerships (PPDP), loan guarantees, and international training programmes are used to generate mutually supportive networks and contacts.

Sida's market development-approach has had the benefit of linking to this objective by providing contacts for Swedish business development. The agriculture challenge fund ***Musika***, for example, has allowed the Swedish embassy to expand their networks of relevant Zambian companies, some of which are interesting business partners for Swedish companies. Musika was founded in 2011 with Swedish financing and offers both technical advisory services and early-stage, catalytic investment support to agribusinesses. Musika was created as a result of the agricultural market development work started under the USAID-funded Production, Finance and Technology (PROFIT) programme and it has also received funding from DFID and NORAD. Musika is one of the organizations which Finland's Programme for Accelerated Growth in SME's (AGS) intends to partner with. Musika is also one of the partners of the Ntaka Soil Health Advisory Services project funded by SAIS 2.

As part of the Power Africa initiative[252], Sida launched ***Beyond the Grid Fund Zambia*** (EUR 10 million) in 2016 to increase access to energy in rural areas and scale-up off-grid energy. The next phase, Beyond the Grid Fund (BGF) Africa (EUR 50 million), was initiated in 2019 and will cover Burkina Faso, Liberia, Mozambique and Zambia. The Nordic Environment Finance

252 Power Africa is a U.S. Government-led partnership, coordinated by USAID, that brings together the collective resources of over 170 public and private sector partners to double access to electricity in sub-Saharan Africa.

Corporation (NEFCO) will be managing the second phase, together with the Renewable Energy and Energy Efficiency Partnership (REEEP). While the main objective of the programmes has been to increase access to energy, they have also served to generate jobs particularly for youths working as agents and in the distribution networks. There are potential synergies between the BGF Africa and the Finnish co-funded EEP Africa Trust Fund hosted by the Nordic Development Fund in the renewable energy sector. Applicants to EEP Africa can apply for grants and repayable grants between EUR 200,000–500,000 while the BGFA's indicative individual contract ticket size per company is expected to be EUR 1–3 million. A step further for the companies successful in EEP could consequently be to bid for BGF Africa opportunity.

Sida has also supported ***Public Private Development Partnerships (PPDPs)*** in Zambia, namely the UNIDO managed PPDP within the development of Zambia's Mining Skills and Training Framework (MSTF) between 2015–2018. The PPDP is a partnership between Sida (USUS$1.64 million), Volvo (USUS$1.71 million) and Northern Technical College (NORTEC) in Ndola (USUS$1.26 million). The partnership established an academy for operations and maintenance of heavy equipment used in the mining industry and construction and transport (expected to grow as a result of the mining industry growth). The project served as a pilot aimed at offering offer an example within the MSTF to foster systematic change within the vocational training system and to increase the supply of skilled Heavy Equipment Repair workers and generate productive employment for young Zambians. The ***Zambia Industrial Training Academy (ZAMITA) Phase II*** (2019–2022, Sida USUS$1.25 million, Volvo USUS$0.96 million) is a continuation to the first phase and aims to bring similar development into the transport sector workforce development. The PPDP has led to more interest from the private sector to invest and engage, but the contribution to job creation is longer term and more indirect.

Sweden is currently also working to develop a similar PPDP with ILO and the Kafue Gorge Regional Training Centre on renewable energy and energy efficiency technologies. The partnership will not involve any individual anchor company like Volvo but will work with a broader range of companies that have an interest in having skilled clients and employees. Such a set-up requires significant efforts in terms of relationship management. The plan is for ILO to serve as the implementing entity.

On a more abstract level, Sida's ***international training programmes*** target participants from low- and middle-income countries and aim to contribute to institutional strengthening and capacity development at sector level in the co-operating countries. Trainings have covered issues such as trade (how to fulfil trade agreements, standards, environmental standards in the mining sector, etc.).

The Swedish private sector is also involved in the Swedish Embassy's efforts to establish and maintain broader relations through initiatives such as the Swedish-Zambian network on sustainable business, which deals with topical issues, including environment and climate, procurement practices, gender equality, taxation, working conditions and the decent work agenda. Most members are SMEs and social enterprises, but some of the large Swedish export-oriented mining companies also attend. The network serves to encourage responsible business among Swedish companies, but also to network on opportunities such as the planned Public Private Development Partnership with ILO and Kafue Gorge Regional Training Centre on renewable energy and energy efficiency technologies.

DFID

The bulk of UK funding goes to the health and education sectors, but DFID has also been one of the main actors in the donor coordination group on Private Sector Development throughout the evaluation period. For the financial year 2018/19, 26% of DFID's planned budget to Zambia

(£42 million) specifically targeted Economic Development. It is noted that DFID has been dissolved in September 2020 to be merged with the UK foreign service.

DFID's operational plans have for nearly 10 years now included the objective to transition beyond aid and identified jobs and productivity as key binding constraints for this in Zambia. This objective is reflected in the UK's reduced ODA disbursements to Zambia over the past five years. DFID's support to private sector development is currently focused on "creating jobs, improving economic management which attracts investment, and helping government increase its tax revenues and so reduce its reliance on the UK and others who provide aid".

The DFID funded ***Private Enterprise Programme Zambia (PEPZ)*** (Phase I 2013–2020, £21 million; Phase II 2020–2027, £55.9 million) is often cited as the main donor-funded private sector development programme in Zambia and also served as inspiration for the MFA when designing the Accelerated Growth for MSMEs in Zambia (AGS) Programme. The objectives of the two programmes are very similar. PEPZ aims to tackle low levels of productivity and to increase the competitiveness of the private sector by strengthening the capacity of SMEs through capacity building, access to finance for investment, and linking up small companies to big suppliers and multinationals. The Accelerator Fund that facilitates early stage investment and intensive management support into start-ups and early stage companies in order to create jobs and strong, growing businesses is implemented through a Special Purpose Vehicle called ***Prospero***. Prospero focuses on sectors perceived to have high growth-potential, including Food and Agriculture, Mines and Mining Services, Tourism and Hospitality, Investment Services. Prospero is also one of the organizations which Finland's Programme for Accelerated Growth in SME's (AGS) intends to collaborate with.

European Union

When combined with the budgets of individual member states, the EU has been the largest donor in Zambia during the evaluation period. The EU's support to Zambia during the evaluation period has been guided by the National Indicative Programme 2014–2020 (11th EDF) as well as the Annual Action Programmes approved under it. The National Indicative Programme for 2014–2020 focuses on three pillars:

1. Energy – Improved access to clean, reliable and affordable energy (budget EUR 244 million)
2. Agriculture – Reduced rural poverty and improved livelihoods (budget EUR 110 million)
3. Governance – Advanced democratic governance, accountability and state effectiveness for all (budget EUR 100 million).

The Annual Action Programmes for 2017 and 2019 includes two programmes that directly target economic development: Support to the Sustainable Commercialization of Zambia's Smallholder Farmers (EDF contribution EUR 87 million) and the Economic Governance Support Programme (EDF contribution EUR 21.5 million). The latter aims to improve the business climate and investment opportunities, employability of youth and the land governance system. Addressing the existing challenges in these sectors is expected to have a multiplier effect on job creation and promotion of investments. In the action document Finland, and specifically its AGS programme, is mentioned as one of the Cooperation Partners with which the EU will seek synergies and complementarity.

World Bank

The World Bank (through IDA) has been one of the largest donors to Zambia during the evaluation period with a budget of USUS$141 million in 2018 and most of the interventions funded by the World Bank/IDA have arguably been geared towards economic development, job creation and livelihoods. Based on a Systematic Country Diagnostic finalized in March 2018 (also referred to in the first section of this report), the World Bank has been focusing on increasing opportunities and jobs particularly in the rural areas since 2019 through improved infrastructure (roads, electricity, water and sanitation), agribusiness and trade, and women's economic empowerment (education and livelihood opportunities). The Bank has also worked on the policy level to increase the pro-poor focus of fiscal policy and supporting the Government of Zambia to address the current debt situation. On the policy level the World Bank and the IFC have for instance facilitated the Zambian Mining Local Content Initiative (ZMLCI) to allow local manufacturers to become an integral part of mining supply chains. Lending, insurance and advisory in private and financial sector development is also provided through MIGA and IFC.

African Development Bank

As can be expected, the African Development Bank's support to Zambia has fully focused on economic development during the evaluation period. The current strategy (2017–2021) has, like most donors, an increased emphasis on private sector development to support the industrialization and jobs creation agenda. The strategy recognizes that Zambia is still early in its transition from low income and that the declining trend in economic growth may exacerbate the already high inequality and unemployment. Focus is on productive employment opportunities for the growing population and private sector led investment and policy level reforms are considered essential for addressing this.

The development objective is pursued through two strategic goals: i) raising productivity and strengthening trade competitiveness to expand non-traditional exports and reduce vulnerability to copper; and ii) creating a business-friendly environment to support diversification and industrialisation while improving nutrition. Finland has not been involved in co-financing AfDB interventions in Zambia during the evaluation period. According to AfDB classification, Zambia is eligible for both concessional and non-concessional financing, but since 2016 no public sector projects have been financed because of credit risk.

Among the AfDB's initiatives to improve SMEs access to finance, the ***Affirmative Finance Action for Women in Africa (AFAWA)*** is a USUS$300 million risk sharing instrument aimed at "unlocking" USUS$3 billion in credit for women businesses and enterprises throughout Africa. The programme also provides advisory services to financial institutions to ensure successful implementation of their product portfolios for women and strengthen the capacity of women entrepreneurs through training to enhance business productivity and growth. The Programme also supports legal, policy and regulatory reforms.

The AfDB's ***Jobs for Youth in Africa (JfYA)*** Strategy (2016–2025) was launched in 2016 in Lusaka, Zambia. The aim of the strategy is to support African countries to scale up responses to the youth unemployment and underemployment crisis on the continent and will involve skills development and support to youth entrepreneurship. The strategy includes a Youth Entrepreneurship and Innovation Multi-Donor Trust Fund (YEI Trust Fund), funded among others by Denmark and Norway. The programme also covers Zambia but is still in the process of determining its country-specific focus

UN

The United Nation's (UN) 2016–2021 Partnership Framework for Zambia is based on the principle of "Delivering Transformation as One" or "One UN", which aims to increase coherence, effectiveness and efficiency of the UN at country level and reduce transaction costs for host countries. The 2016–2021 partnership framework is valued at USUS$806 million and builds on three pillars: Inclusive Social Development (Pillar 1, USUS$ 473 million); Environmentally Sustainable and Inclusive Economic Development (Pillar 2, USUS$ 157 million); Governance and Participation (Pillar 3, USUS$ 176 million).

UN organizations contributing towards the second pillar include UNDP, ILO, FAO, WFP, UNHCR, IFAD, UNECA, IOM, UNEP, UNFPA, UNESCO. The pillar is focused on supporting the Government and national institutions, private sector employers and service providers (the duty bearers) in: i) inclusive labour and pro-poor economic policies and programmes; ii) access to finance through modern innovative technology, such as digital financial services; and iii) access to productive assets, environmentally friendly industries, natural resources and climate-smart investments. Focus is on the agriculture, manufacturing, energy, construction, tourism and mining sectors.

Finland has worked closely with ILO through the Finnish-funded ***"Enhancing Competitiveness and Sustainable Business among MSMEs in the Building Construction Sector" or Zambia Green Jobs Programme*** in 2013–2018 (USUS$12.3 million) and the ***Social Protection for Informal and Rural Economy Workers Sub-Project in Zambia (SPIREWORK) project*** since 2017.

Rural Finance Expansion Programme (RUFEP) funded through loans from IFAD and the Spanish Trust Fund (2013–2021, total budget USUS$26.3) looks to increase access to and use of sustainable financial services by poor rural men, women and youth through enhanced capacity of financial service providers and improved efficiency and sustainability of rural financial services. The Finnish funded AGS programme links up with RUFEP under its access to finance component.

The UNDP is also implementing the ***Growing Inclusive Business Programme (GIBP)*** and in the process of formulating a new ***innovation challenge fund*** to support start-ups and MSMEs to come up with sustainable waste management solutions. The latter will directly link with the AGS programme's intention to focus on circular economy.

Non-traditional cooperating partners

External support to economic development in Zambia cannot be discussed without taking into consideration non-traditional cooperating partners, such as China, India, Saudi Arabia and South Africa, which play an increasingly important role in Zambia, focusing particularly on infrastructure projects and programmes in the areas of energy and transport. The volume of funding (including grants, investments and loans), coming from these countries has further reduced the relevance and importance of traditional development aid. China has been particularly active in the infrastructure, trade and mining sectors while South Africa and Southern Asian partners are present particularly in retail. China's role both as one of the main investors (the Chinese government has supported at least two of the Multi-Facility Economic Zones, in which most of the investee-companies are Chinese) and as one of the main sources of Zambian debt has caused wide-spread debate and controversy in Zambia.

Despite its vested interests, China has been a pivotal partner in Zambia's infrastructure development since independence. Zambia-Sino relations have been underpinned by the construction of the 1,860 km Tanzania Zambia Railway (TAZARA) from the port of Dar-es-Salaam in Tanzania to Kapiri Mposhi in Zambia in 1975, for which China provided the resources and manpower and which Zambia is still to settle to this day. More recently Chinese loans to Zambia have been used to develop infrastructure, including ambitious road projects such as the Link Zambia 8,000 project, which is estimated at a cost of USUS$ 5.46 billion (all phases included). Most major flagship projects that have been financed with Chinese loan funds have lagged behind the planned schedules and remain unfinished. China has also provided loans and human resources (contractors) to construct new international airports, water supply systems, hydropower plants, government offices and other public buildings, shopping malls, housing and other infrastructure through provision of non-concessional loans. Zambia's need for improved infrastructure is undeniable, but the major downside of these projects has been the inflated cost and their contribution to the indebtedness of the country.

Country Case Annex 5: PA2 portfolio

Bilateral and multilateral thematic funding

During the evaluation period the MFA has funded two major programmes directly relating to the PA2 objectives: the ongoing EUR 9 million bilateral AGS programme for accelerated growth of MSMEs (bilateral) and the Green Jobs programme implemented by ILO 2013–2018 with a total budget of EUR 12,2 million (multilateral thematic funding). The SPIREWORK project (EUR 1 million), an institutional partnership between the National Institute for Health and Welfare (THL) of Finland the National Pension Scheme Authority (NAPSA) of Zambia and ILO to create models for including workers from the informal sector under social security schemes, also directly contributes towards PA2 objectives but has for some reason not been classified as such in the MFA's case management system. The evaluation has included the project in the portfolio based on its relevance and the recommendation of MFA staff. The MFA also funded the Decentralized Forestry and Other Natural Resources Management Programme (DFNRMP) between 2015–2018. The DFNRMP targeted improved incomes and livelihoods through sustainable forest and natural resource management and thus had PA2 as a significant objective. Although the funding decision was made already in 2015, the programme has been included in the portfolio due to Finland's comparative advantage in forestry and to allow comparison across the three case countries included to this evaluation.

Fund for Local Cooperation

During the 2016–2019 country programme FLC funding was focused on supporting private sector development. The instrument was finally discontinued in 2018 due to the reduced resources in the embassy.

NGO projects

The CSO projects included in the PA2 portfolio have Economic Development, Job Creation and Livelihoods as a significant objective, but have had other policy priority areas as their main objective, namely water and sanitation (Global Dry Toilet Association of Finland's Zambia Dry Sanitation Country Programme for 2017–2020) and climate change adaptation (Green Living Movement's project on Community Strategies for Climate Resilient Livelihoods II). Both have, however, also involved aspects of income generation and improved livelihood opportunities for participating communities. The Dry Sanitation Country Programme trained 15 artisans who have gone on to earn income from building dry toilets and other buildings using skills learnt through programme activities. The programme also includes a research and development component that aims to develop organic fertilizer for agriculture, gardens and forestry out of urine and compost. The Green Living Movement's Community Strategies for Climate Resilient Livelihoods has involved efforts to diversify livelihoods and increase incomes in participating communities by increasing the number of planted crops and taking on livestock rearing, training in farming as a business and market linkages.

Table 4 details the interventions funded between 2016–2019 through the following funding modalities: bilateral funding, multilateral thematic funding, Local Cooperation Fund, Project Support to Civil Society Organizations. Information on regional programmes and projects funded under the Private Sector Development Instruments are presented separately since all data relevant to them cannot be detailed at the country level (regional programmes) and the entities in charge of their implementation and corresponding reporting apply different sector classification (PSI) and not all have been recorded in the MFA's case management system.

Table 4 MFA funding decisions for Zambia 2016–2019[253]

Project number	Channel of delivery	Short description	Commit-ments	Case type	Deci-sion year
PA2 priority "1"					
28816568	Other implementers	**Accelerated Growth for SMEs in Zambia (AGS) Programme**	9,000,000	Bilateral programme	2017
28816501	Internation-al Labour Organisation – Assessed Contributions	Enhancing Competitiveness and Sustainable Business among MSMEs in the Building Construction Sector – The **Zambia Green Jobs Programme**	3,040,000*	Multilateral thematic funding	2015
28816595	Embassy of Finland	Entrepreneurship and Technology Park Ltd	150,000	Fund for Local Cooperation instrument	2017
28816588	Embassy of Finland	Hackers Guild – Project Ada	80,000	Fund for Local Cooperation instrument	2017
28816594	Embassy of Finland	F.R.E.E. Woman Ng'ombe Youth Empowerment.	10,500	Fund for Local Cooperation instrument	2017
PA2 priority "2"					
8816523	Recipient Government	**Decentralised Forest and other Natural Resources Management Programme**	2,250,000	Bilateral programme	2015
28816590	Embassy of Finland	Water Supply Social Enterprise Promotion in Manyama Solwezi	93,00	Fund for Local Cooperation instrument	2017
28816594	Embassy of Finland	F.R.E.E. Woman Ng'ombe Youth Empowerment.	2,050	Fund for Local Cooperation instrument	2018
28816582	Käymäläseura Huussi ry	Zambia Dry Sanitation Country Programme (2017–2020)	790,000	Project support	2016
28816530	Green Living Movement Finland	Community strategies for climate-resilient livelihoods	142,355	Project support	2016
PA2 not marked as a priority, but relevant to the evaluation					
28816585	Terveyden ja hyvinvoinnin laitos	**SPIREWORK project**	1,000,000	Bilateral programme	2017
Total commitments			**26,047,004**		

Source: MFA

** The total budget of the programme was EUR 11,1 million, but the decision for additional funding in 2015 was for EUR 3,04 million.*

253 Includes two programmes for which funding decisions were made in 2015: The Zambia Green Jobs Programme and the Decentralized Forest and Other Natural Resources Management programme.

Regional/Global projects covering Zambia

Relevant MFA funding decisions for Regional and Global Programmes covering Zambia with PA2 as first or second priority are listed below.

Table 5 Regional projects covering Zambia.

Project number	Channel of delivery	Short description	Commit-ments	Case type	Deci-sion year
PA2 priority "1"					
28924126	Recipient Government	Southern African Innovation Support Programme (SAIS) phase II	8,700,000	Bilateral programme	2015
29892468	African Develop-ment Bank	ALUE/African Circular Economy	600,000	BI Cofinancing programme	2019
29892455	International non-governmental organisations	Publish What You Pay (PWYP): Promoting equitable and transparent generation and allocation of extraction industries	1,000,000	Development cooperation by International non-governmental organisations	2019
89892281	EIF/WTO	Enhanced Integrated Frame-work (EIF) for trade-related assistance for LDC	9,000,000	General core contribution	2015
89800109	ITC	International Trade Centre	5,170,000 3,110,000	Multilateral the-matic funding	2015 2018
89892387 **89889201** **89889201**	UNIDO	UNIDO	1,181,671 2,100,000 450,000	Subscription fee / General core contribution	2016 2017 2019
PA2 priority "2"					
28924139	Nordic Develop-ment Fund	Energy and Environment Partnership (EEP) Southern and East Africa Multidonor Trust Fund	15,000,000 1,900,000	BI Cofinancing programme	2017 2019

Source: MFA

There are also other Finnish-funded global programmes with economic development, jobs and livelihoods as priority and funding decision made in 2016–2019 which may benefit Zambia. These programmes, however, are not earmarked for Zambia nor for the region or any Regional Economic Community Zambia is a member of, and they are only covered in this Evaluation's main report. These programmes include, notably, the African Circular Economy programme (ACESP) with African Development Bank; the Publish What You Pay – initiative (PWYP) for promoting equitable and transparent generation and allocation of extractive industries; programming by the International Trade Centre (ITC); programming by UNIDO; and the WCO-ESA Project to progress the trade facilitation agenda within the framework of the WCO Mercator Programme.

Finnfund

In 2019 Finnfund signed its first direct investment agreement for Zambia. The USUS$6 million investment aims to support the largest aquaculture company in Zambia, Yalelo Limited, in expanding its operations. Apart from producing affordable fish for improved nutrition, the investment is justified by the fact that it has a positive impact on the local economy by providing formal employment opportunities in both the production site as well as its distribution network. At the time of the investment agreement, Yalelo employed 800 people and is expected to create another 200 jobs as a result of the expansion.

Between 2016 and 2019 Finnfund also made two investments in private equity funds that invest in the three case countries, including Zambia:

- AgriVie II (food & agribusiness); USUS$10 million. Finnfund investment in 2018.
- Evolution II (renewable energy); USUS$15 million. Finnfund investment in 2019.

AgriVie II invests in Africa generally and Evolution II in sub-Saharan Africa,

The value in the Finnfund's balance sheet of all PEFs that have made investments in the 3 case countries is EUR 34,3 million. Of the current active Finnfund PEF investment portfolio Zambia's share is 7,1%. Most of these investments have been made through funds in which Finnfund has for the first time invested already years ago.

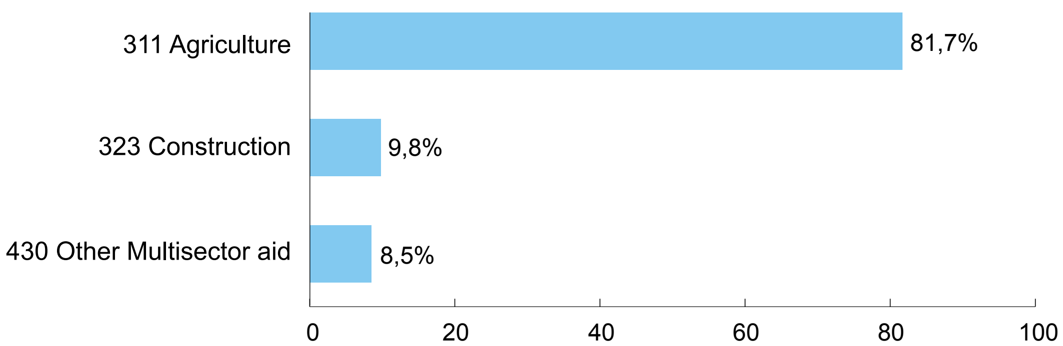
Values of the individual investments made by the PEFs are not public information, or not coherently available.

Between 2016 and 2019 the funds in which Finnfund participates made no new investments in Zambia.

Finnpartnership

Compared to Kenya and Tanzania, the number of funding decisions under Finnpartnership has been very small. According to MFA statistics Finnpartnership made three Business Partnership Support (BPS) decisions for Zambia between 2016 and 2019, with a total value of EUR 0,2 million.[254] One intervention was in agriculture, one in construction and one in "other multisector aid". In terms of commitment value, the intervention in the agricultural sector was by far the biggest, with the two others being approximately of the same size

Figure 7 Finnpartnership BPS for Zambia 2016–2019, % of commitments (EUR)



Source: MFA

Between 2016 and 2019 there was only one BEAM funding decision on a project (in agriculture) targeting Zambia.

254 According to Finnpartnership decisions were made for eight projects, totalling EUR 345,000 during the evaluation period.

Only one project has been funded by BEAM in Zambia during the evaluation period. The funding (amount unknown) to the National Resource Institute Finland (Luke) was approved in 2016 for the purpose of preparing a project to study pathogens related to potato production, develop a local certification system and start disease-free seed production in Zambia. The project involved cooperation between the Finnish and Zambian public sector organizations Luke and ZARI (Zambia Agriculture Research Institute), as well as Finnish and Zambian companies.[255] For comparison, 12 and eight projects have been funded in Tanzania and Kenya respectively during the same period.

Public Sector Investment Facility (PIF)

Since PIF projects are still in the preparatory stages, no funding decisions have yet been made for any country. Due to the indebtedness of the Zambian government, the country has also not been eligible for the use of PIF instrument.

255 https://www.luke.fi/projektit/beam-sambia/

EVALUATION OF ECONOMIC DEVELOPMENT, JOB CREATION AND LIVELIHOODS

VOLUME 2 • CASE STUDIES

Ministry for Foreign Affairs of Finland