

Through this action, the EU supports the green economy agenda. Structured in two components, the action will support both GRZ and the private sector, particularly young men/women led MSMEs, in achieving sustainable and inclusive economic growth and diversification, through promoting the green and digital transition, using in particular circular economy business models. The action's overall objective is “to promote an environmentally sound, gender/youth sensitive and economically viable diversification of the economy and invest in the creation of green growth and decent jobs in the circular economy”. The action feeds into priority area 1 “Green partnerships for sustainable recovery, growth and decent jobs” of the MIP 2021-2027<sup>2</sup>, which was jointly developed with and endorsed by EU Member States (EU MS). The action will directly contribute to SDG 8 – decent work and economic growth, SDG 12 – responsible consumption and production, and to SDG 13 – climate action. It will indirectly contribute to SDG 5 – gender equality and women empowerment and to SDG 10 – reducing inequalities.

The action includes technical assistance (TA), such as advice, institutional strengthening and peer review to government and other key stakeholders, to set up a suitable business-enabling environment and investment climate to stimulate green growth, working with key ministries and agencies. The action further envisages TA and capacity building of MSMEs, to build and consolidate entrepreneurship, especially among women and youth<sup>3</sup>, connecting enterprises with markets and facilitating access to information, business services, and markets. Improving access to finance, including through the mobilisation of EFSD+ funding, will be crucial to complement and scale up interventions. The action also supports the development of the business services market, of business services modalities to reach out to MSMEs in remote areas and of innovative financing products for MSMEs. Likewise, the action promotes innovations and technology development through a virtuous cooperation between research institutions and the private sector.

The action will ensure continuity in relevant areas to the work undertaken under the component on *Inclusive regulatory business environment* of the 11<sup>th</sup> EDF funded Economic Governance Support Programme. It will also provide inputs and coordinate with the ongoing and future EU and MS interventions in the area of skills development and Technical Vocational Education and Training (TVET). At regional level, the action will coordinate and foster synergies with EU regional initiatives implemented in Zambia and relevant to its objectives, such as the EU-ACP *Development mineral programme*, the EU-ACP *Support to Business Friendly and Inclusive National and Regional Policies*, and *Strengthening Productive Capabilities and Value Chains*, as well as new regional initiatives in the area of circular and green economy, and trade promotion, such as the new *Invest in Young Businesses in Africa* (IYBA) programme. The action will closely cooperate and promote synergies with the other actions under the MIP addressing green growth and private sector, in particular with the action *Green Partnership and Investment Programme along the Agriculture, Forestry, Biodiversity, Water and Climate Nexus*. On access to markets, it will work in close cooperation with the programme of the Swedish National Trade Board on trade facilitation started in April 2022. The action is in line with the Green Deal and the Global Gateway priorities of accelerating green and digital transition of private sector and creation of sustainable growth and decent jobs.

## 2 RATIONALE

### 2.1 Context

The Zambian economy is yet to undergo any significant degree of structural transformation. Economic activities remain concentrated in relatively non-complex and low productivity sectors, including agriculture, tourism and mining, which together account for more than 90% of Zambia's total exports.<sup>4</sup> The agricultural sector is the largest employer, with more than 50% of the population being employed in the sector.<sup>5</sup> GDP per capita was USD 1,050 in 2021, well below the average for Sub-Saharan Africa (SSA) of USD 1,600 and the global average of USD 11,000<sup>6</sup>. According to World Bank estimates<sup>7</sup>, 60.3% of the population live below the poverty line of USD 1.90 per day, and 40% of the poor live in extreme poverty. According to a recent report by the Chronic Poverty Advisory Network, rural poverty rates are 76.6% and urban poverty rates 35%.

Zambia's economy is largely dominated by MSMEs, which currently account for 70% of GDP, 88% of total employment and 97% of all businesses in the country. MSMEs also fill a key role in society, as they tend to employ a large share of the most vulnerable segments of the workforce, including youth and women. The Zambian MSMEs sector is not homogeneous and small growing businesses, with the potential to create more and better jobs, fall into

<sup>2</sup> [https://international-partnerships.ec.europa.eu/system/files/2022-01/mip-2021-c2021-9057-zambia-annex\\_en.pdf](https://international-partnerships.ec.europa.eu/system/files/2022-01/mip-2021-c2021-9057-zambia-annex_en.pdf)

<sup>3</sup> In coherence with the GAP III and Youth Action Plan for EU external action

<sup>4</sup> Data drawn from the Harvard Atlas of Economic Complexity

<sup>5</sup> Based on ILO estimates accessed at [data.worldbank.org](https://data.worldbank.org)

<sup>6</sup> Based on data provided by the FCDO Economic and Evaluation Directorate <https://assets.publishing.service.gov.uk>

<sup>7</sup> World bank Zambia Country Overview, April 2022, <https://www.worldbank.org/en/country/zambia/overview#1>