

	Risk 4 Delays in development of policy frameworks e.g. SME and green growth policy, and lack of technical and financial capacity for strategy development and implementation.	Low - Medium	High	Support policy dialogue and collaboration through the Cooperating Partners for PSD. Provision of TA, including through the Economic Governance Support Programme (EGSP). Mobilisation of other resources, such as TAIEX, and D4Dhub.
	Risk 5 Commercial Banks perceptions towards SME financing and risk do not change, thus excluding SMEs from accessing commercial finance.	High	High	The Action stimulates competition and provides alternatives through NBFIs. Involve banks in the discussions and awareness on the green economy and de-risking SME and circular projects. TA to the banks through EFSD+ and regional initiatives.
	Risk 6 Poor enforcement of legislation and regulation.	Medium	Medium	Collaborate with CSOs in the green and circular economy, including using their role as watchdog. Support agencies and build capacity to sustain their operations and effective law enforcement.

Lessons Learnt:

Lessons learnt from other programmes, such as ENTERPRISE Zambia, indicate the need to operate with an integrated and systemic approach, covering both, the business-enabling environment and the investment climate, as well as provide direct support to MSMEs. Work in a systemic way, e.g. combining access to finance with training, business advisory services, market linkages and supporting reforms in the enabling environment, is more effective in terms of MSME development and private sector growth than addressing singular issues and creates higher impact. There are already a number of initiatives of other donors, which could be taken up and further expand/consolidate. Focusing on systemic and behaviour change in the market systems, rather than only giving grants to MSME, is more effective to achieve sustainable results, given the important market failures.

Zambian MSMEs are very small, as compared to the EU definition of MSME. Only few are able to absorb grants or access loans of a size that would reduce transaction costs for financial institutions and/or cooperating partners.

3.5 The Intervention Logic

The action intends to address two fundamental challenges of the Zambian economy:

- 1) The lack of diversification of the economy, with consequent economic and societal vulnerability from external and climate shocks, with low productivity and local value addition.
- 2) The increasing depletion of, and pressure on, natural resources due to linear production and consumption models, fast population growth and urbanisation, and a lack of alternative livelihood opportunities. The action is structured in two components that reflect the systemic approach of the action.

Component 1 intends to create/facilitate the establishment of a positive business enabling regulatory environment and investment climate to catalyse transition towards green and circular business models and practices.

Component 2 aims to consolidate the growth potential of MSMEs, particularly those created and managed by young male/female entrepreneurs, to have more MSME that invest in green, climate smart and digital business opportunities and to increase MSME access to market opportunities. Component 2 will also support MSMEs to respond effectively to the opportunities for private sector growth, which shall be stimulated and incentivised through component 1.

It is expected that through these two components, the conditions for a more resilient, sustainable and inclusive economic growth, will be created/strengthened and that more decent jobs will be created.

Component 1 will operate more specifically at the policy, legislative and regulatory level and related institutional and strategic frameworks. TA will foster collaboration and consultation among key actors, build institutional capacities and review regulatory frameworks and incentives schemes. The TA will also transfer relevant green growth and circular economy expertise from EU MSs and from other African countries, through promoting partnerships with