

Market Overview

Zambia experienced rapid economic growth in the decade between 2004 and 2014 and the country has attracted some of the region's largest flows of impact capital. Despite these positive trends, access to capital remains a key constraint for businesses in Zambia. Government borrowing is crowding out private lending by commercial banks. Despite large aggregate inflows of impact capital, much of this capital has targeted the financial services, infrastructure and agriculture sectors, or has been placed in large-scale projects by development finance institutions (DFIs).¹ The country has set up a National Advisory Board in 2019 which aims to grow the impact investment market

IMPACT INVESTMENT HIGHLIGHTS

Supply of Impact Capital

- ▲ DFIs have taken the lead in investing in Zambia with their ability to deploy capital and make large-scale investments in the financial services, infrastructure and aquaculture sectors. They have also targeted the renewable energy sector, although at a relatively small scale.²
- ▲ Private sector impact investors have focused on the financial services, agricultural and housing sectors.
- ▲ Investment funds looking at smaller deal sizes are adopting a "build, not buy" strategy, as they have been unable to find a steady pipeline of investable enterprises. To address this challenge, they are beginning to work with companies at an earlier stage of development. Investors such as Inside Capital Partners, AgDevco and Kukula Capital have already started engaging in this way.

Intermediation of Impact Capital

- ▲ The microfinance institution (MFI) sector is growing. Zambia currently has 35 registered MFIs. This growth has been propelled by a government policy seeking to drive financial inclusion through the National Financial Inclusion Policy and the National Development Plan. MFIs complement commercial banks and insurance companies by providing services and products to underserved rural households; micro, small and medium-sized enterprises (MSMEs); and agro-enterprises.

Demand for Impact Capital

- ▲ The majority of social enterprises in Zambia remain in the early stages of business evolution, with fewer in the growth or mature stages.
- ▲ Agricultural and non-utility-scale renewable energy projects continue to attract large impact investments, with respective average ticket sizes of USD 3.1mn and USD 5mn. Agriculture, and especially agro-processing, will also continue to occupy a sizeable space given the rising demand for foodstuffs in sub-Saharan Africa, along with the government's efforts to diversify the economy. The renewable energy sector is expected receive the greatest relative shares of impact capital through 2020 due to current constraints on national grid power generation, along with the need to provide clean energy to people in rural areas.

Government and Regulation

- ▲ The 7th National Development Plan is the government plan for the 2017 – 2021 period. It contains ambitious development goals, many of which are aligned with the development of an impact economy.
- ▲ The government has put incentives in place that promote the flow of investment to its highest priority sectors. This regulatory environment could be seen as being favorable for impact investment within the two high-priority sectors of agriculture and renewable energy.

- ▲ The Zambian government has made strides toward pension reform with the goal of promoting investments by Zambian pension funds in non-traditional asset classes such as private equity and social investments.

Market Builders

- ▲ The country is home to a growing number of ecosystem support providers, with increasing levels of support from donor agencies.
- ▲ Entrepreneurship Support Organisations, as the incubators BongoHive and WECREATE, work with local organizations to enhance their investment readiness.
- ▲ Impact investment networks such as IIX Chapter Lusaka have been active in deepening awareness of impact investment models.
- ▲ Zambia launched and has hosted Impact Capital Africa (ICA) since 2018. This is an innovative and impactful event that supports the development of the country's impact ecosystem.

Indicators ^A	2017
GDP total (2011 PPP \$ billion)	25.86
Per Capita Income (USD)	1,290
Total Population (mn)	17
Poverty Levels	54.4%
GINI Index	57.1

KEY PLAYERS

Asset Owners	Asset Managers	Impact Entrepreneurs
African Development Bank	Madison Asset Management Company	
Development Bank of Zambia	AHL Venture Partners	Zoona
NAPSA	Inside Capital Partners	Zazu Africa
Musangu Foundation	Kukula Capital	Yalelo
	Grofin	Java
	30Thirty Capital	Onyx Connect Zambia Ltd
	Business Partners	Vitalite

SPOTLIGHT DEALS^B

Company	Total Funding	Investor	Sector
Yalelo	10.4mn	FMO	Aquaculture
Zazu Africa	1mn	Seedrs	Fintech
Rent to Own	1.1mn	Shell Foundation	Agriculture
Vitalite	2.4mn	Lendahand	Renewable energy
Better Now Finance	500,000	Kukula Capital	Microfinance

ABC of the Zambia's Impact Economy^C

An impact economy is a just and equitable economic system in which positive impact is produced in an environment of risk and return. In an impact economy, governments, organizations, investors and consumers are motivated to include marginalized and underserved sectors of the society in the mainstream economy, while also giving consideration to the needs of our planet and its environment.

The following table describes actions undertaken by a variety of stakeholders in Zambia for the adoption of strategies that

Avoid harm, **B**enefit all stakeholders, and **C**ontribute to solutions. The impact economy in Zambia is rather nascent, and is today dominated by development finance institutions making investments in large-scale projects in the energy, financial services and extractive sectors. However, the social entrepreneurial landscape is slowly expanding thanks to government efforts to support entrepreneurs, as well as grants from technical assistance (TA) funders such as USAID and DFID, which have resulted in a growing pool of incubators.

	Avoid Harm		
	Benefit all stakeholders		Contribute to Solutions
IMPACT IN BUSINESS	▲ The Lusaka Stock Exchange issued a corporate governance code in 2005. The code establishes core governance standards and good practices, but is not mandatory. Rather, companies are required to submit a report to the Lusaka Stock Exchange describing their compliance, and explaining any non-compliance, within three months of the end of every fiscal year. ³	▲ The BIOFIN Initiative is working to develop the green bond market in Zambia. In doing so, it is developing green bond guidelines and listing rules with the Securities and Exchange Commission of Zambia and the Lusaka Securities Exchange. ⁴	▲ Only a small number of organizations in Zambia fit the social-enterprise definition, with their own revenues and an explicit social mission. However, there is growing activity, especially in the energy sector, ⁵ while the education, water and sanitation sectors are still at a nascent stage. Faith-based organizations play an important role in the health sector. ⁶
IMPACT IN INVESTMENT			▲ With over USD 1.7bn in DFI capital disbursed through more than 100 deals, Zambia has received the second-highest quantity of DFI capital in southern Africa. Additionally, Zambia has been the recipient of more than 10% of all non-DFI impact investment deals in the region (58 deals in total), with investors deploying more than USD 157mn. ⁷
IMPACT IN POLICY		▲ To incentivize a shift toward the import of cleaner vehicles, Zambia's government has introduced two tax systems. Importers of vehicles older than five years are required to pay a one-off flat tax called the Motor Vehicle Surtax, which is added to the import duty. In addition, an annual emissions-based fee, called the Carbon Emissions Surcharge, is applied to all vehicles based on their engine displacement. ⁸	▲ Zambia's government encourages the use of renewables, especially in rural electrification and for clean cooking stoves, through tax incentives and subsidies. Some solar and energy-saving products are exempt from VAT. The government collaborates with private sector energy providers by offering financing and subsidies. Social enterprises are often active in these areas. ⁹
IMPACT ON CONSUMPTION	▲ A total of 93% of Zambia's electricity comes from renewable sources. ¹⁰		

SDG Dashboard and Trends

CURRENT ASSESSMENT - SDG DASHBOARD



■ Major challenges
 ■ Significant challenges
 ■ Challenges remain
 ■ SDG achieved
 ■ Information unavailable

SDG TRENDS



↓ Decreasing
 → Stagnating
 ↗ Moderately improving
 → Maintaining
 ↑ On track
 ●● Information unavailable

Key Initiatives

Ease of doing business

The government established the Zambia Development Agency (ZDA) in 2006 to foster economic growth and development in the country. The ZDA regulates most investment activities in Zambia; for example, it can provide investors with the licenses needed to purchase land in Zambia, or assist investors in obtaining self-employment or work permits. The agency is a key player in this

sector given that its purpose is to drive economic diversification, generate employment opportunities, foster innovation, and support a more equitable distribution of wealth, while building up resilience against the uncertainties of commodity markets (on which Zambia is currently heavily dependent).

Road to Impact Economy

PATH TO TIPPING POINT 2020

Maximize the mobilization of impact investment capital

- ▲ Local investments should be promoted in order to strengthen existing impact capital channels and develop local competencies.
- ▲ Actors in the sector should work with the government to introduce and enforce a provision requiring a minimum of 10% of pension fund resources to be invested in alternative assets, including impact investments.

Increase the number of impact investment ready enterprises

- ▲ A platform should be created that serves as a pipeline for impact investment ready enterprises.

Build capacity and skilled intermediaries

- ▲ Sector actors should provide access to capacity-building technical assistance, and promote collaborations among ecosystem players.

Support and build the capacity of market enablers

- ▲ Capacity-building technical assistance should be provided, and business accelerator and incubation programs should be promoted.
- ▲ Sector actors should cooperate with existing incubators and/or create a social entrepreneurship incubator fund.
- ▲ Accelerator programs should be created that provide businesses with mentoring services and workshops, thus improving management quality and company processes.

Advocate for pro-impact investment policies

- ▲ Sector actors should collaborate with the government to advocate policies and laws that promote impact investment.
- ▲ Sector actors should lobby the government to introduce legislation allowing for new types of intermediaries such as venture capital firms, private-equity funds and crowdfunding mechanisms.
- ▲ Sector actors should engage with government bodies to regularize social enterprise labelling so as to incentivize businesses in that space and spur the growth of bankable opportunities.

TRANSITION TO IMPACT ECONOMY 2030

Sustainable agriculture

- ▲ The agriculture sector is a crucial element in Zambia's growth and poverty reduction agenda. Over 60% of the population derives its livelihood from agriculture. The NAB therefore recognizes the interlinkages in supporting environmentally and socially sustainable agriculture by empowering small farmers, promoting gender equality, ending rural poverty and promoting food security for all.

Affordable and clean energy

- ▲ Zambia's energy mix is 95% hydroelectric power, with the rest coming from thermal sources (e.g., coal and heavy fuel). The country faces a power deficit in excess of 750 MW.¹¹ As the population continues to grow, the demand for affordable energy has increased. Against this backdrop, the NAB seeks to promote the expansion of access to clean energy technologies, a reduction of carbon emissions, and greater climate change mitigation efforts.

Sustainable forestry

- ▲ Forests are an important element of Zambia's natural capital, providing benefits critical to rural populations, the national economy and the global community at large. In Zambia, forests support over 1mn jobs, a figure that equates to supporting more than 60% of rural households. The NAB will seek to support the conservation of natural resources, while reducing threats to biodiversity and reducing pollution.

Clean water, sanitation and hygiene (WASH)

- ▲ More and more countries are experiencing water stress, with drought and desertification already worsening these trends. The NAB will promote investments in infrastructure and sanitation facilities, and will additionally encourage good hygiene, especially for poor and vulnerable populations. Efforts to protect and restore water-related ecosystems are critical for a healthy economy.

Footnotes:

^A **Environmental Performance Index** Available at: <https://epi.envirocenter.yale.edu>; All other **indicators** available at: <http://hdr.undp.org/en/countries>

^B Information tends to be limited for specific rounds of funding. Therefore, in **Spotlight Deals**, "Total Funding" refers to the total money that a specific company has raised. The investors listed may have participated in one or several rounds, and may have done so as lead or co-investors.

^C The **ABC of the Zambia's Impact Economy** table is adapted from the IMP framework.

Sources:

¹ GIIN (2016). The landscape for impact investing in Southern Africa. Available at: https://thegiin.org/assets/documents/pub/Southern%20Africa/GIIN_SouthernAfrica.pdf

² Ibid.

³ World Bank (2006). Corporate Governance Country Assessment Zambia. Available at: <http://documents.worldbank.org/curated/en/483401468350182244/pdf/691590ESWOROSC0Zambia0December02006.pdf>

⁴ UNDP (2017). Biofin Initiative in Zambia. Available at: <https://www.biodiversityfinance.net/zambia>

⁵ World Bank (2017). Emerging Social Enterprise Ecosystems in East and South African Countries. Available at: <https://bit.ly/34SwO3M>

⁶ World Bank (2017). Emerging Social Enterprise Ecosystems in East and South African Countries. Available at: <http://documents.worldbank.org/curated/en/418391494927850302/pdf/115052-WP-P152203-PUBLIC-AfricaSEEcosystemMay.pdf>

⁷ GIIN (2016). The landscape for impact investing in Southern Africa. Available at: https://thegiin.org/assets/documents/pub/Southern%20Africa/GIIN_SouthernAfrica.pdf

⁸ UNEP (2018). Zambia proposes a review of its carbon tax to promote cleaner vehicles. Available at: <https://www.unenvironment.org/news-and-stories/story/zambia-proposes-review-its-carbon-tax-promote-cleaner-vehicles>

⁹ World Bank (2017). Emerging Social Enterprise Ecosystems in East and South African Countries. Available at: <https://bit.ly/34SwO3M>

¹⁰ UNEP (2018). Zambia proposes a review of its carbon tax to promote cleaner vehicles. Available at: <https://www.unenvironment.org/news-and-stories/story/zambia-proposes-review-its-carbon-tax-promote-cleaner-vehicles>

¹¹ *Zambian Business Times* (2019). Zambia's power deficit is over 750MW – Energy Minister. Available at: <https://zambianbusinesstimes.com/zambias-power-deficit-is-over-750mw-energy-minister/>

SUPPORTED BY:

