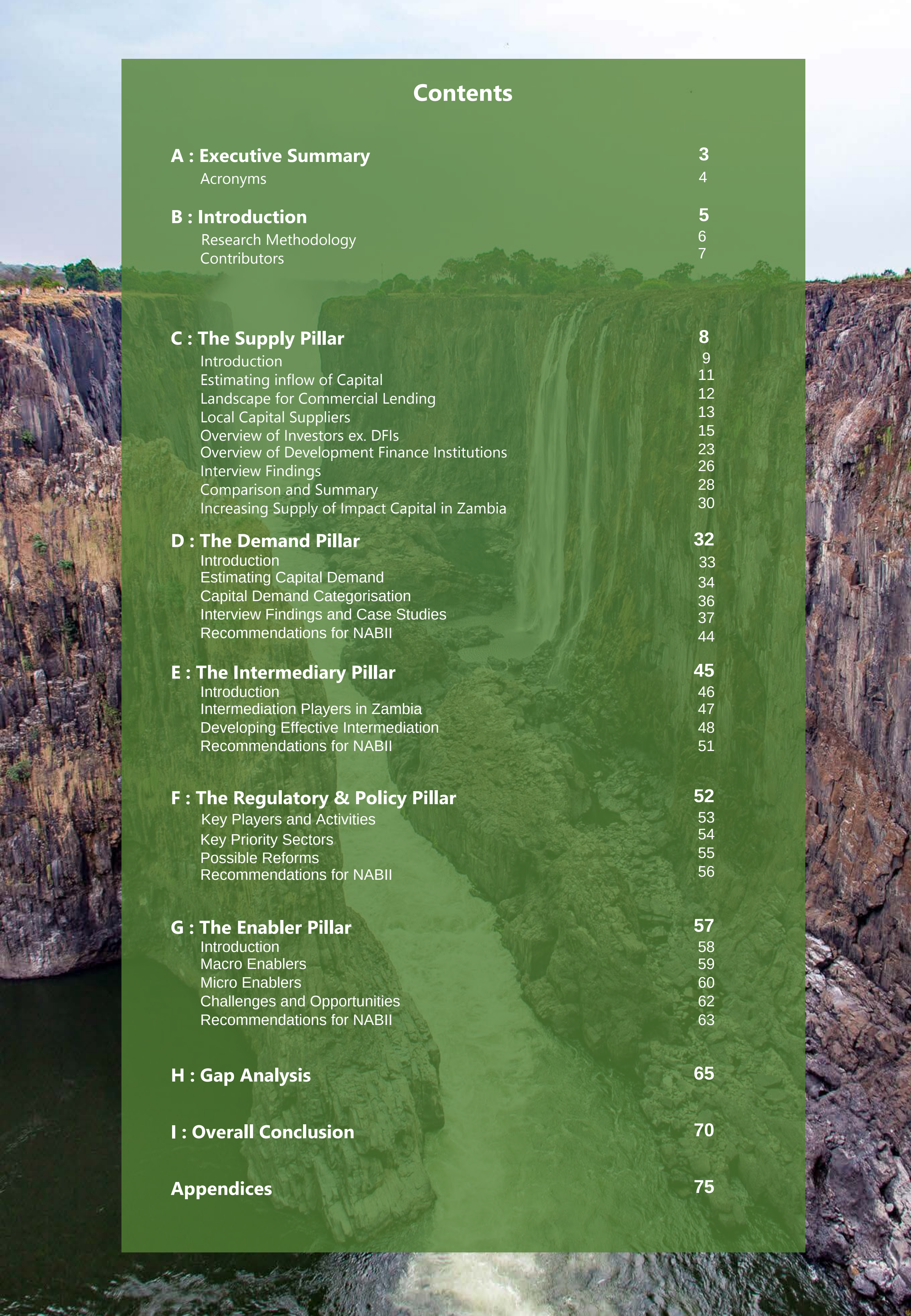
The Zambian Landscape for Impact Investing

Report prepared by Kukula Capital for the Zambian National Advisory Board for Impact Investment

September 2019
Final Report



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Executive Summary

This study explores the state of the five main pillars of the impact investing ecosystem in Zambia by examining: 1) the supply of impact capital; 2) the demand for impact capital; 3) the intermediation of capital; 4) the market builders and enablers of the ecosystem; and 5) the policy and regulatory environment.

The overall conclusion of this report is that the impact investing ecosystem in Zambia is identified by a lack of local impact investors and intermediaries to facilitate impact capital. High transaction costs for foreign investors undermine the market for funding early stage businesses as it is unattractive to do small ticket-size investments. In order to bridge this gap there is a clear need for upgrading the profile and ambition of Zambian businesses to ensure that they demonstrate adequate scale and competence for attracting impact investment.

Each of the five pillars are summarised with key challenges, opportunities and recommendations:

Supply pillar

Out of 700 investors screened, 131 investors were shortlisted as impact investors with a mandate to invest in Zambia. They have made a total of 124 investments since 2015 worth USD 580m and having an average deal size of USD 5m. These investors have large funds allocated for Zambia but face a shortage of deal flow due to a combination of information asymmetry and shortage of investment ready businesses. This can be addressed by aligning the ZDA priority sectors with internationally recognised impact sectors. Significant potential exists for unlocking local impact investments from pension funds in particular.

Demand pillar

Following screening of 503 companies the total current demand for impact capital by Zambian businesses actively fundraising is estimated at USD 957m, of which USD 780m is currently sought after by utility scale renewable energy companies and USD 177m is sought after by 77 other businesses. For the latter category, the average investment sought is USD 3.4m.

Businesses in Zambia find it hard to source impact capital due to lack of information on which investors are active in Zambia. Most businesses lack a clear understanding on how to position themselves towards raising impact capital. These challenges can be addressed by creating a directory of impact investors and their requirements.

Intermediary pillar

In Zambia this segment consists of traditional advisors with limited specialisation within Impact investments. The main challenge is lack of skills among advisors as well as limited access to international impact investors.

New intermediaries such as social banks or crowdfunding platforms could be introduced to the Zambian ecosystem.

Regulatory and Policy pillar

There is currently no specific regulation for impact capital, but the Zambian government has a number of policies and initiatives in place to promote enterprise development and investment in priority sectors which to some extent overlap with internationally recognised impact sectors, such as agriculture. New legislation has to be introduced to allow for new types of impact investment intermediaries.

Enabler pillar

A small handful of enablers are actively promoting impact investments by making businesses ‘investment ready’ and bridging the information asymmetry gap. An opportunity exist for donor agencies and other enablers to supplement the existing work done on impact sectors and to support implementation of the recommendations of this study.

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Acronyms:

SDGs	Sustainable Development Goals
GIIN	Global Impact Investing Network
GSG	Global Steering Group
ESG	Environmental, Social and Governance
GDP	Gross Domestic Product
MFI	Micro Financial Institution
VC	Venture Capital
PE	Private Equity
DFI	Development Finance Institution
ZDA	Zambia Development Agency
BOZ	Bank of Zambia
AUM	Assets Under Management
FUM	Funds Under Management
NAPSA	National Pension Scheme Authority
IRIS	Impact Reporting and Investment Standards
SIB	Social Impact Bonds
HNWI	High Net Worth Individuals
EMEA	Europe, Middle East and Africa
AVCA	African Private Equity and Venture Capital Association
CAGR	Compound Annual Growth Rate Relief (SITR)
MSME'S	Micro Small & Medium Enterprises
NAP	National Agriculture Policy
NAB	National Advisory Board
NA	North America
PACRA	Patents and Companies Registration Agency
SEC	Securities and Exchange Commission
CCPC	Competition and Consumer Protection Commission
WASH	Water Sanitation and Hygiene
WCTF	Workers Compensation Trust fund
PIA	Pensions and Insurance Authority
CEEC	Citizens Economic Empowerment Commission
SOE	State-Owned Enterprise
SSA	Sub-Saharan Africa
EU	European Union
UK	United Kingdom

B

Introduction

In 2015, as a means to address global challenges and provide a global framework, the United Nations (UN) invited the global community to connect around ***17 Sustainable Development Goals*** (SDGs). These 17 goals offer a global agenda and key frameworks for priority areas and actions for its 179 member states until 2030. In addition, the African Union (AU) is implementing its own continental ***Agenda 2063***: A vision which aims for "*an integrated, prosperous and peaceful Africa, driven by its own citizens and representing a dynamic force in the global arena"*.

These ambitious goals represent a major call for transformative changes if they are to become a reality. According to the SDG Centre for Africa (SDGC/A)[1], Africa needs to raise over ***USD 500 billion*** in additional funding every year to achieve the SDGs by 2030. The complex objectives underlying the SDGs require sophisticated funding that will generate more than a simple financial return. This is known as ***Impact Investing***. Impact investments are defined by the Global Impact Investing Network (GIIN) as "*investments made into companies, organisations, and funds with the intention to generate social and environmental impact alongside a financial return*". Therefore it is a vital key to success to support a healthy and prosperous impact investing ecosystem to leverage capital for these agendas. Although the impact investing ecosystem remains relatively incipient, interest is growing from both the supply and demand sides. However Africa still lags behind. This is due to the inherent political and economic risks associated with doing business in Africa.

Assets Under Management (AUM) of the global impact investing industry stood at USD 502bn as of December 2018, 14% of which is allocated to Sub Saharan Africa, which amounts to USD 70bn.

Zambia is a politically stable country compared to several of its neighbouring countries, with a stable outlook. It is ranked 87 among 190 economies[2] for ease of doing business. Zambia has a population of 17.9 million and an official unemployment rate of 12.5% according to government statistics, although the informal rate is significantly higher as only around 0.5 million Zambians have a formal job.

The Zambia Development Agency (ZDA) Act of 2006 offers a wide range of incentives in the form of allowances, exemptions and concessions for companies. The focus sectors for the country are Mining, Agriculture, Energy, Infrastructure, Tourism and Manufacturing. When assessing the opportunities to address the SDGs, Zambia overall provides investors with significant opportunities to have a measurable positive impact on both people and the environment and an increasing number of Zambian companies are trying to meet these challenges. However, many of these companies are not investment ready.

This study dives deep into the Zambian impact investing ecosystem by examining the supply of impact capital, the demand for impact capital and investigating the intermediation of capital, the policy and regulatory environment as well as identifying the market builders. In addition, this study will assess the main barriers and challenges in order to highlight how to support the entire impact investing ecosystem in Zambia.

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Research Methodology

Our research methodology involves primary and secondary data collection methods. Primary data was collected through surveys from ***30 stakeholders*** within the impact investing sector. The survey size was relatively small compared to standard research studies; however this is due to to the informal and small size of the impact investment sector in Zambia. The survey captured current investments, average expected returns, sectors of investment, and targeted SDGs as well as future trends in terms of supply and demand of impact capital.

The study was informed by both ***qualitative*** and ***quantitive data*** while desk research aided the identification of players through a screening process. The ***screening process*** used a 'top down' method of reviewing databases and finding secondary research, and a 'bottom up' research method to assist in catching stakeholders not included in the databases.

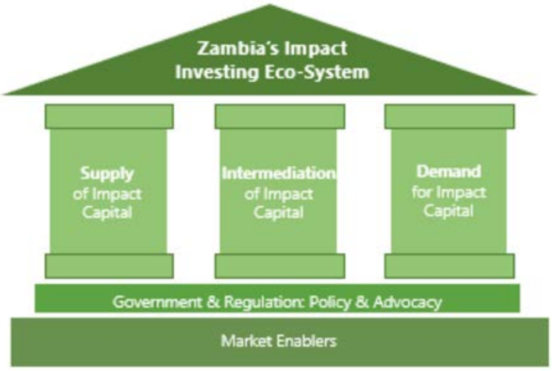
This approach helped to ensure the exhaustiveness of the directory. Furthermore, the study adopts a ***gap analysis*** where a cross-sectional analysis between demand and supply of impact capita was used to identify the absorption capacity of impact capital. This was achieved by comparing how financial instrument, target SDGs and investment size aligns between supply and demand for impact capital.

Scope: In this study, impact investing is defined as: *Investments that are made into companies, organizations, and funds with the intention of generating social and environmental impact alongside a financial return. Impact investment optimizes risk, return and impact to benefit people and the planet. It does so by setting specific social, environmental and financial objectives whilst measuring their achievement*. Private Equity, including venture capital, are defined as suppliers of impact capital and not intermediaries as this aligns better with the state of the Zambian ecosystem for impact investing. Intermediaries are defined as stakeholders used to facilitate single deals without deploying capital whereas market enablers are stakeholders that influence the ease of doing business. This means that the advisory industry are defined as intermediaries and stakeholders such as institutions and incubators are categorized as enablers. The study has focused on the supply and demand pillar as these are the pillars with most data available. On the supply side, it was not a specific selection criteria that impact was being measured after investment as this information was not always available on company websites. Due to the priorities of this study the regulatory pillar does not include a comprehensive list of prior policy measures made to promote investments in general and the enabler pillar does not include a comprehensive list of existing programmes supporting SMEs and impact investments. This study analyses the Zambia's impact investing landscape starting from 2015 where the *GIIN (2015): The Landscape For Impact investing in Southern Africa* report acts as our base[3]. For the purpose of limiting the scope of the screening process the study used the below criteria for screening impact investors:

Selection criteria

- Investment of at least USD 100,000
- Have an expected financial return
- Negative screening of Environment, Social & Governance (ESG) at investment stage
- Positive environmental and societal benefits
- Direct investments into for profit businesses in Zambia
- Focus on Europe, Africa and NA investors

Pillars of Zambia's Impact Investment Eco-system[5]



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Contributors

Supply Pillar

eVA Fund
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IFU
KUKULA SEED Investment - Growth - Impact
IC INSIDE CAPITAL PARTNERS
KUKULA FUND I
Shell Foundation
VESTINVEST

Demand Pillar

java foods
VITALITE
YALELO ZAMBIA'S #1 FISH
Mt. Sunzu Coffee Estate
RENT TO OWN
iSCHOOL
LiveClean
GREEN DAIRY
ALPHA POLYPLAST LIMITED
FOXDALE COURT Convenience at your doorstep

Intermediation Pillar

OPEN CAPITAL ADVISORS
30Thirty Capital
Deloitte.
AFRICAN LIFE FINANCIAL SERVICES (Z) LIMITED
Corpus LEGAL PRACTITIONERS
Ventus Legal Practitioners

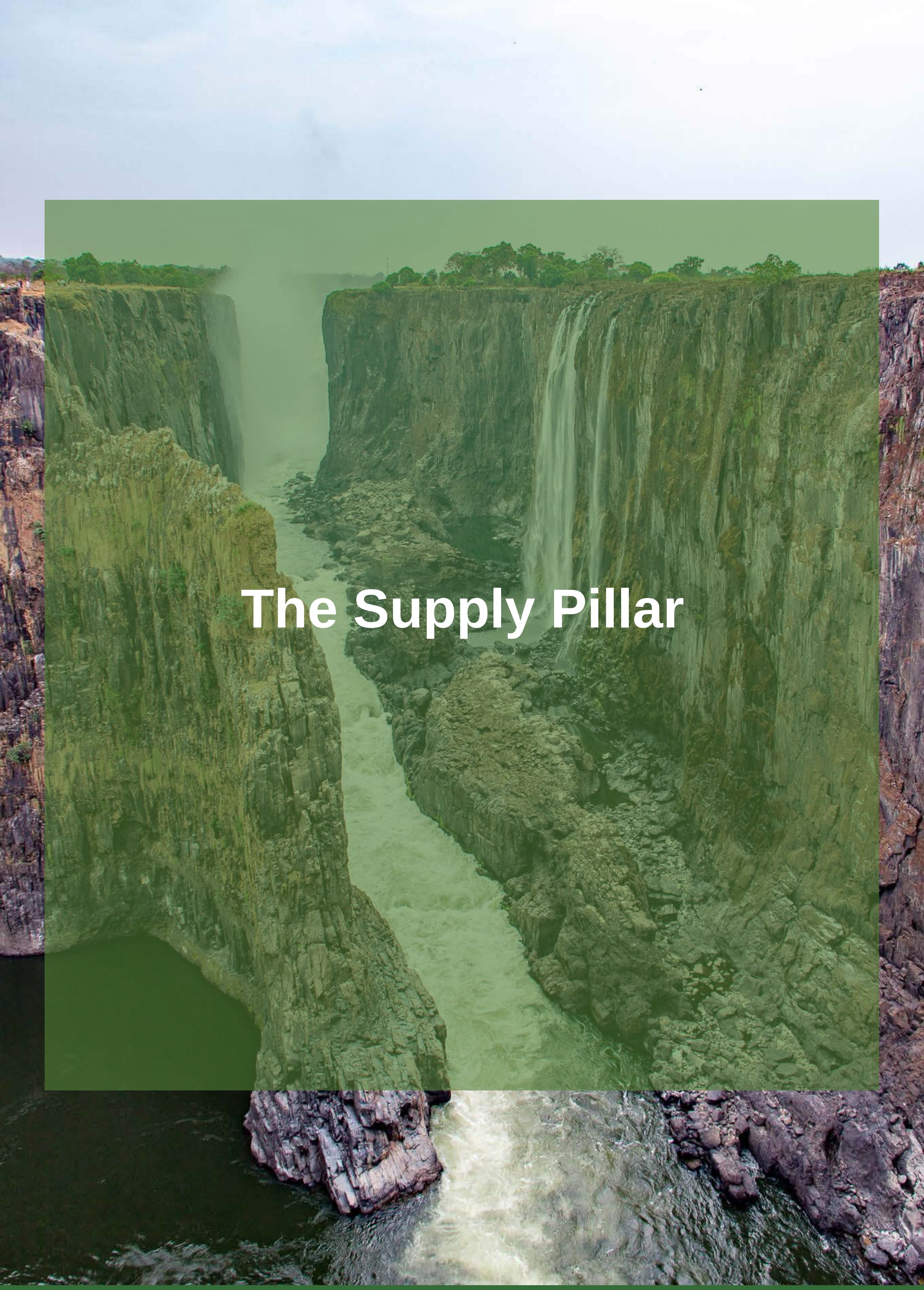
Enabler Pillar

IMPACT CAPITAL AFRICA
BongoHive

Regulatory Pillar

Zambia Development Agency (ZDA)
COMPETITION & CONSUMER PROTECTION COMMISSION (CCPC)
SEC SECURITIES AND EXCHANGE COMMISSION

The Supply Pillar



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The Supply Pillar: Overview

Investors

700 investors with a mandate to invest in Zambia have been screened, and 131 of these were shortlisted.

700 investors

131 Impact investors and DFIs

Geography

Impact investors in Sub Saharan Africa control a total USD 19,5B Funds Under Management (FUM). Since 2015, suppliers of impact capital have committed USD 580M to Zambia.

Sub-Saharan

$19,5B FUM

$580M transactions

Zambia

Type

These suppliers are made up of 131 Development Finance Institutions and impact investors in addition to local suppliers of capital, which have all been included in the study.

98 impact investors

33 DFIs

Financial Instruments

The preferred financial instruments for these impact investors and DFIs are equity and debt, with only a minority using mezzanine.

Equity

Debt

Mezzanine

Sectors

Most of Zambia's inflow of impact capital are allocated the following high impact sectors:

Financial services	Agriculture	Agro-processing
28%	19%	13%

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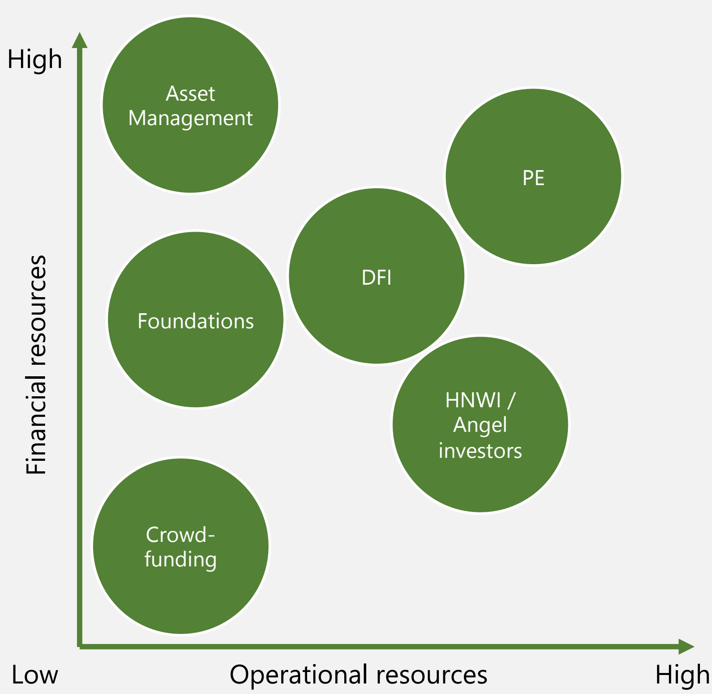
The Supply Pillar: *Introduction*

1) The supply pillar utilises a top-down approach to screen the sourced pool of investors and a bottom-up approach to screen every individual investor. The applied method is similar to the one implemented by GIIN in its 2018 Impact Report where a list of potential impact investors were sourced from global, regional and national networks and individually screened on the selected screening criteria. Unlike the GIIN method, which didn't decide which investments to consider "impact" and which not to, this study will focus solely on ***impact deals*** in Zambia. Some investors with unassigned FUM have been screened out, making the scope narrower and more precise in a Zambian context. Due to the charitable nature of foundations, only foundations commercial impact investment arms and direct transactions in Zambia has been included in the study.

2) The potential supply of capital is estimated in order to compare the actual investments into high impact sectors with the registered impact deals. Using ZDA data of historical investments into Zambia, the section calculates the ratio of actualised to pledged investments and uses this to compute the capital inflow to Zambia's top impact sectors. As this information is assumed to represent foreign investments, local commercial lending in impact sectors are then added to estimate the total potential for impact capital. These estimates are related to our primary findings, where each characteristic of impact suppliers is analysed through the deal flow of impact investments and put into context by comparing to the Sub-Saharan Region as a whole, and finally helps compute the impact ratio to capital for Zambia.

3) The supply section makes a distinction between local suppliers of capital, impact investors and DFIs because the nature of investments and investor-profiles differs significantly. These investors are analysed on geography, capital, instrument, sector focus, etc. and benchmarked to the overall regional Private Equity (PE) market. Key findings from interviews are then compared to these findings in order to conclude what barriers, opportunities and potential initiatives exists to increase the amount of desired suppliers of impact capital.

Comparison of investor types



- **PE (including VC)** can provide financial resources over several rounds and invest their expertise and networks, providing strategic value for the business.
- **DFIs** can be hands-on and promote high levels of accountability in impact measurements because of their reporting requirements.
- **Asset Managers** are usually passive investors that seek to only commit financial capital.
- **HNWI/Angel** commit less capital but are usually hands-on in operations.
- **Foundations** and **Crowdfunding** invests smaller ticket-sizes and are usually hands-off in operations.

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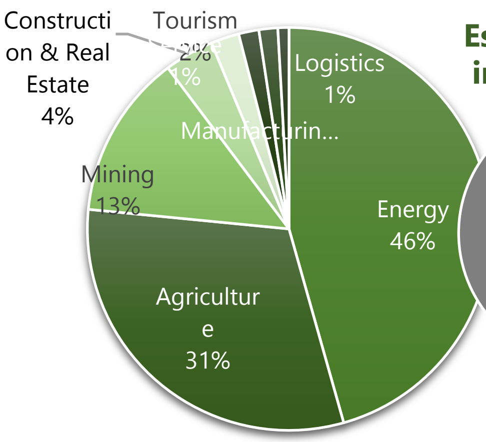
The Overall Inflow of Capital to Zambia

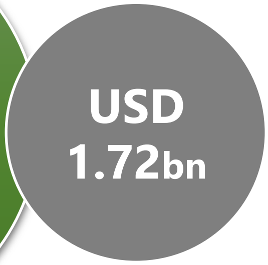
Estimate of investments to Zambia

According to the ZDA, the 2019 total projected capital inflow into Zambia is USD 7.5bn**.** This is split across sectors where Energy, Agriculture and Mining make up 90%. On average, 23% of pledged investments have been actualised from 2015 to 2018, and when applying this to the pledged investments for 2019, the ***estimate for capital inflow is USD 1.72bn*.*** This brings the total actualized investments for 2015-2019 to USD 5,2bn.

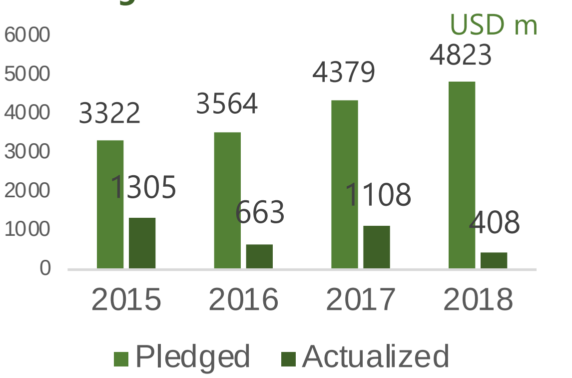
Breakdown of USD 7.5bn in pledged investments



Estimated actualised investments



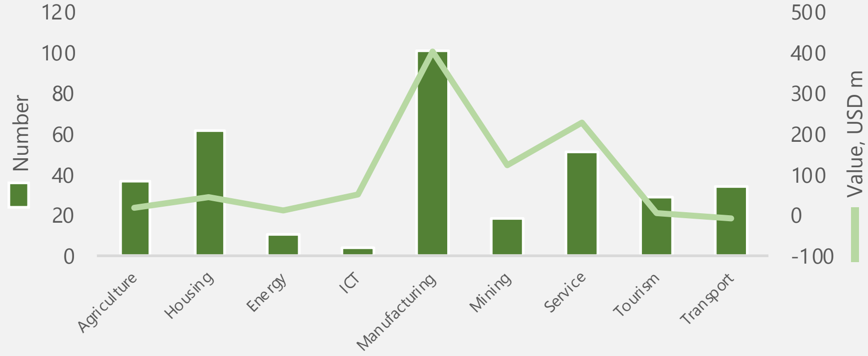
Pledged vs actualised investments

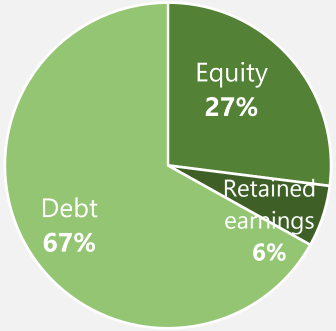


Historical Investments in Sectors

Manufacturing, Housing (Construction and Real Estate), Service (including Financial Services) and Agriculture have been the primary targets for investments since 2015, making up 79% of inflow on average. Applying this average to all years, USD 4,1bn has been committed to these sectors since 2015. The recorded transactions are ***commercial only*** and only in terms of ***impact sectors***. Agriculture and Energy have maintained a sizeable investment flow throughout the period. Furthermore, data from CCPC shows that impact sectors (Agriculture and Financial Services) had a high average number of acquisitions compared to other sectors. The figure shows that most investments have used debt, emphasising that commercial lending is the preferred option for financing. Only 6% of actualised investments from 2015 to 2018 was made through retained earnings, indicating that the investment flow target businesses often don't have the financial capacity to create or reinvest earnings.

Average number, value and instrument of ZDA registered investments, 2015 to 2018





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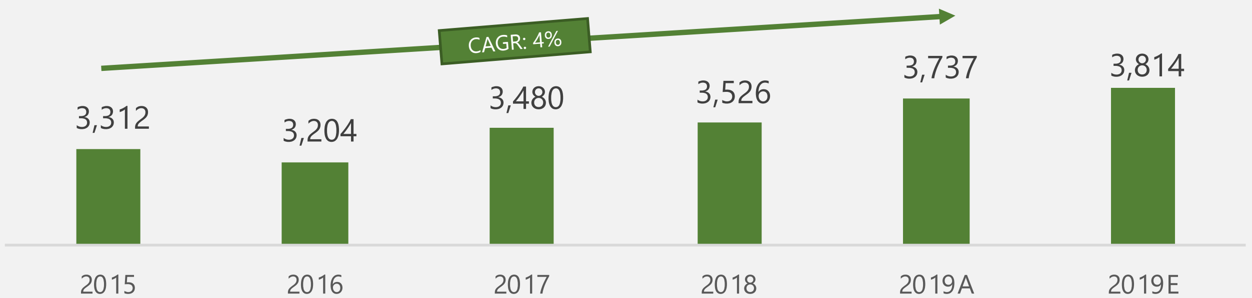
The Overall Inflow of Capital to Zambia

Commercial Lending

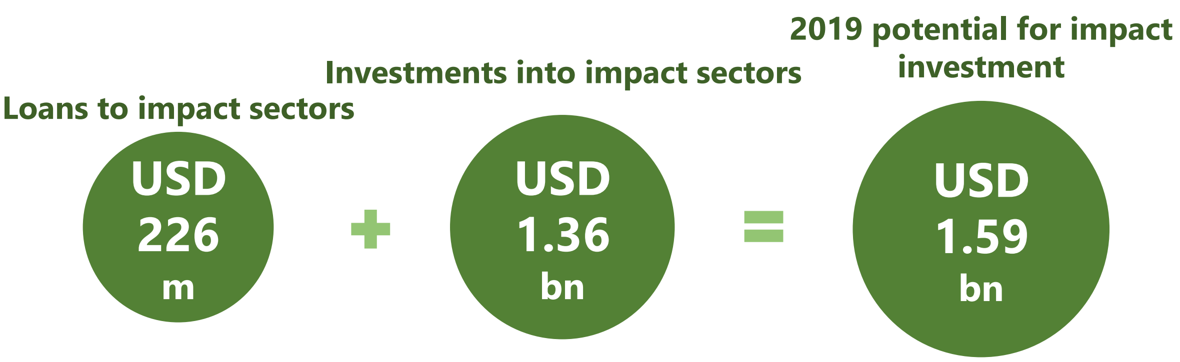
Commercial bank lending has been growing since 2015 with a CAGR of 4% in USD. In 2019, the estimated total outstanding commercial lending is ***USD 3.8bn.*** During the period 2015-2019, lending in US dollars has made up 28% of the total lending with the balance being in Zambian Kwacha. These loans have been distributed across sectors, where impact sectors such as Financial Services sector has received a high amount compared to other impact sectors. The development in commercial lending has been volatile since 2015, but 2019 is expected to be the year with most new loans distributed, amounting to USD 288m. In 2018, 79% of loans where distributed in the high impact sectors, and when applying this ratio to 2019, the projected disbursed loans to overall impact sectors make up ***USD 226m.***

Total Commercial Lending in Zambia, USD m



Estimate for 2019 inflow of impact capital

The estimated investment inflow to the top impact sectors in Zambia is expected to be 79% of the projected investment of USD 1,72bn which amounts to USD 1,36bn. Grossing up the expected investments to impact sectors as well as the estimate for actualized new loans for 2019 of USD 226m, the 2019 potential for impact investing is estimated to be **USD 1,59bn.** As the data provided by ZDA doesn't include information on whether the pledged investments contain commercial bank loans from Zambian banks as well, it is assumed that these are not included. While this number overstates the actualized impact investing drastically by assuming that all projected investments made into impact sectors can in fact be labelled as impact investments, it provides a benchmark for later analysis.



Source: ZDA, Kukula Analysis

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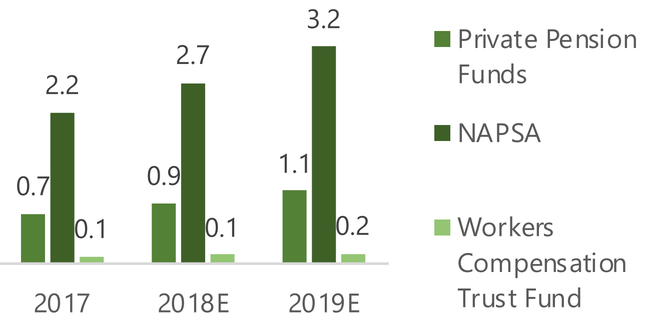
Local Capital Suppliers:
Pension and Compensation Funds

The ***pension and compensation funds*** in Zambia are local capital suppliers that can be segregated as public and private funds. These funds are not impact investors, but they are included because some of their funds are used for impact investments and their role in the impact investing ecosystem can become more dominant over time. These include National Pension Scheme Authority (NAPSA), the Workers Compensation Trust Fund (WCTF) and private funds regulated by PIA.

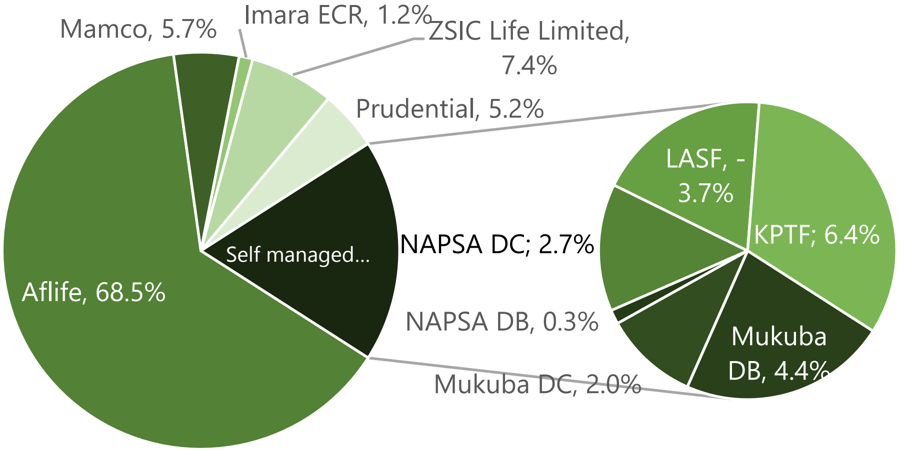
Pension and Compensation Funds

Zambian pension and compensation funds include private funds which are made up of 5 fund managers, with 6 self-managed schemes. In 2017, these private pension funds had USD 0.7bn of FUM which, with an excepted 20% CAGR, amounts to USD 0.9bn in 2018 and USD 1.1bn in 2019. With the same CAGR, NAPSA and WCTF are expected to jointly control USD 3.4bn in 2019.

Pension Funds FUM, USD bn



Fund Managers' Distribution of FUM



Impact Assets

PIA regulates private pension funds through The Pension Scheme (Investment Guidelines) Regulations from 2011. These guidelines state that a maximum of 5% of funds can be invested in unlisted securities, private equity, and that pension funds cannot hold more than a 10% shareholding in a company. This contradicts any private equity investments. In addition, private pension funds can't invest more than 10% of fund size in companies which are less that 3 years old. Each pension fund then has 5% of the FUM for pension funds available for private equity including impact investments. According to the 2017 annual report by PIA, 9% of FUM was in unlisted equities, which translates to ***USD 9.5m*** FUM available for impact assets in 2019.

NAPSA can do a maximum of 10% in unlisted investments and 1% in socially targeted investments. This means that of the capital available from NAPSA, only 10% is available for private social enterprises and 1% targets these enterprises directly. It is assumed that this also applies for WCTF, bringing the available FUM of pension funds in 2019 to ***USD 318m*** with ***USD 32m*** targeted impact investments directly.

	FUM	Impact
2019	$318m	$32m

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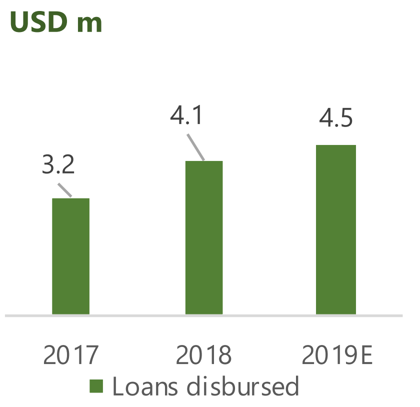
Local Capital Suppliers:
Local Development Finance Institutions

In addition to pension and compensation funds, ***local development finance institutions*** provide impact capital to Zambia's private sector and are therefore included as local capital suppliers. Since the FUM from global and regional DFIs can't be allocated any country specifically, these FUM hasn't been included in the directory.

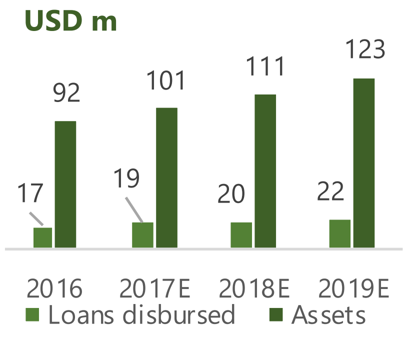
Citizens Economic Empowerment Commission

The Citizens Economic Empowerment Commission (CEEC) is a corporate body established to invest and administer the Citizens Economic Empowerment Fund (CEEF). The purpose of the fund is to support the development of broad-based economic empowerment programs through providing interest bearing business loans to targeted citizens. in 2017, the disbursement of loans was USD 3.15m with 3.8m in AUM. In 2018, USD 4.5m worth of loan was disbursed with 3.26m of AUM. The estimate for 2019 is ***USD 5m*** in disbursed loans with 3.6m in assets.*



Development Bank of Zambia (DBZ)

DBZ provides financing and technical assistance to its customers. DBZ is a joint venture between public and private stakeholders to tackle poor access to capital for investment and remove micro-level structural rigidities that block public and private investment growth. With an expected 10% CAGR in loans distributed and assets since 2016, DBZ is expected to have USD 123m AUM in 2019 with ***USD 22m*** annual loans disbursed.*



Industrial Development Corporation (IDC)

IDC Limited is a State-Owned Enterprise (SOE) created to spearhead the Zambian Government's commercial investments agenda, aimed at strengthening Zambia's industrial base and job creation. IDC focuses on Agriculture and Forestry, Infrastructure, Manufacturing and Tourism by investing in companies and industries that can leverage Zambia's natural resources and other endowments to develop a strong home base. While IDC currently have limited funds available for new investments, an impact transaction of ***USD 18m*** in ZamPalm in 2018 is included in the directory. IDC are planning impact investments in the agri segment with a recent USD 4m investment announced for North Western Province.

ZCCM investment holdings Plc

ZCCM is the mining investment arm of GRZ and is a subsidiary of IDC. Its main investments are in the mining sector where it holds strategic positions in Zambias' main mining assets. It also holds strategic position in energy assets. ZCCM has recently diversified into Real estate, Banking and agriculture. ZCCM is currently not actively investing in impact businesses as defined in this document for which reason it will not be analysed further in this study.

Impact Assets

The gross amount of potential impact assets managed by local DFIs is USD 126m with 27m of loans disbursed in 2019. Combining this with the data from pensions fund, the total capital available for social enterprises can be aggregated to ***USD 454m*** and ***59m*** loans disbursed.

Source: CEEC Annual Reports, DBZ 2016 annual report
*Assumption of 10% CAGR since 2017 due to lack of information

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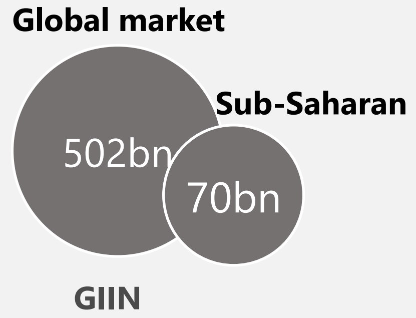
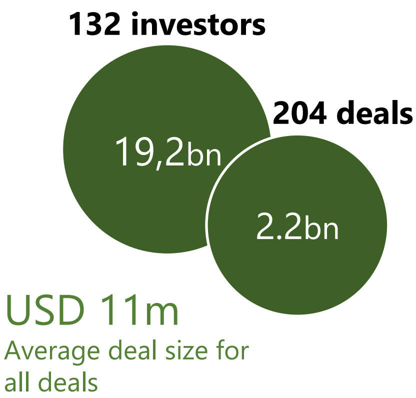
Overview of Investors

GIIN Data

At the beginning of 2019, GIIN estimated that there was ***USD 502bn*** impact AUM controlled by more than 1340 impact investors and DFIs globally. ***14%*** of these investments, the equivalent of ***USD 70bn***, are allocated to Sub-Saharan Africa, with investors originating from all over the world. In this study, investors from Asia and the Middle East as well as investments in public projects have been excluded which creates a smaller but a more precise picture of how many impact assets are in fact allocated to Sub-Saharan Africa and Zambia in particular.*



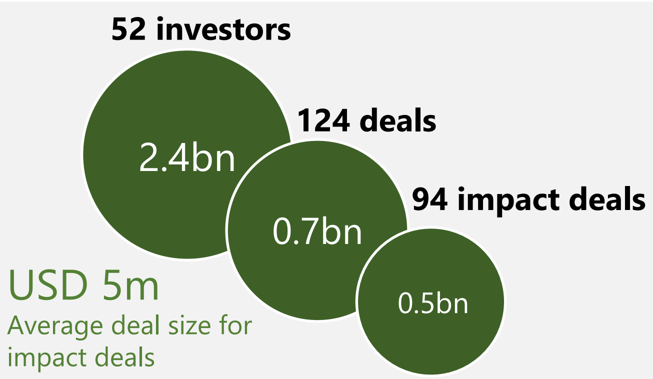


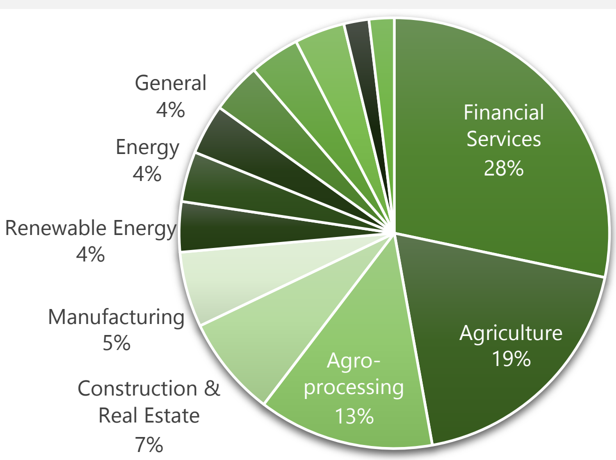
Sub-Saharan Africa

132 Impact investors and DFIs are investing in Sub-Saharan Africa, including Zambia, with the impact investments amounting to ***USD 19,2bn*** in AUM. The total number of deals facilitated since 2015 was 204, with a size of USD 2.2bn across all Sub-Saharan countries.

Zambia

Zooming in on Zambia, 52 impact investors and DFIs have done 124 deals since 2015 with FUM of $2,4B. This amounts to a total of $735M. 94 deals have been impact deals worth $509M. The impact investing landscape is projected to grow with 13% in 2019, bringing the estimated deal volume to 96 and a total value to $515M.





Sectors

Financial Services, Agri-processing, Renewable Energy, Infrastructure and the Agriculture sector have been the most popular sectors for investing capital, with 70% of all deals occurring in these sectors.

*It is difficult to estimate the share of FUM for large-sized investors that are allocated SSA. In an effort to only include funds directly targeted SSA, our estimate of the supply is more conservative than that of GIIN.

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Impact Investor Sample Deals 2015 to 2019

Company	Type	Sector	No. of deals	Investment Size (Aggregate)	SDG
GreenTec Capital Partners	Private Equity	Renewable Energy	1	N/A	7
Golden Palm Investments	Private Equity	Energy	2	N/A	7
AHL Venture Partners	Private Equity	FMCG, Agro-processing, Financial Services	2	USD 5m	12
Agri-Vie	Private Equity	Agro-processing	1	USD 6.4m	12
FINCA Ventures	Private Equity	Agriculture	1	N/A	15
Quona Capital	Private Equity	Financial Services	1	USD19.3m	1
SIMA Fund	Asset Management	Manufacturing	1	USD 2.3m	12
Progression Africa	Private Equity	Financial Services	1	N/A	1
Inside Capital Partners	Private Equity	Manufacturing, Hospitality	2	USD 9m	12,3
Bamboo Capital Partners	Private Equity	Financial Services	1	N/A	1
SilverStreet Capital	Private Equity	Agriculture	3	USD 7.8m	15
Bestseller Foundation	Foundation	Agro-processing	1	USD 0.1m	12
Helios Investment Partners	Private Equity	Agro-processing	1	N/A	12
Oiko Credit	Private Equity	Financial Services	5	USD 7m	1
MCE Social Capital	Private Equity	Agriculture	1	USD 1.6m	15
Twonine Group	Private Equity	Agro-processing, Real Estate	3	N/A	12,11
	HNWI	Financial Services, Real Estate	1	USD 2.45m	1,11
	HNWI	Education	3	USD 4m	4
	HNWI	General, Financial services	5	USD 1.2m	1
eVentures Africa Fund	Private Equity	Tech, Tourism	2	USD 2.7m	15
AgDevco	Private Equity	Agriculture	5	USD 15.32M	15
	HNWI	Real Estate, Tourism	4	USD 1.35m	11, 7
Lendahand	Crowdfunding	General	4	USD 2.61	1
Shell Foundation	Foundation	Financial Services	2	USD 0.4m	1
Kukula Seed & Fund I	Private Equity	WASH, Agro, Financial Services, Tech	10	USD 7.6m	6,12,1
Total			**63**	**USD 96m**	

D

Impact Investor Deals

Private Equity Deals

From 2015 to 2018, AVCA reports that there has been 678 PE deals in Africa, with a total deal size of USD 14bn. When applying the current CAGR of 5.6% to the number of deals and 9% for the deal size, 2019 is projected to be the biggest year for PE deals with ***USD 3.8bn*** in total size and an additional 196 deals. 9% of the PE deals have been targeted Southern Africa (excluding South Africa) where approximately ***50%*** of these deals happened in Zambia. This means that the estimated amount of PE deals from 2015 to 2019 is 39 with a total investment of ***USD 266m***. This means that the CAGR for PE deals was 6% and the CAGR for the value of deals was 11%. This shows that that PE firms on average invested more per transaction, which is underlined by a 20% increase in the average deal size which was USD 5m in 2015 and USD 6m in 2019.

Impact Deals

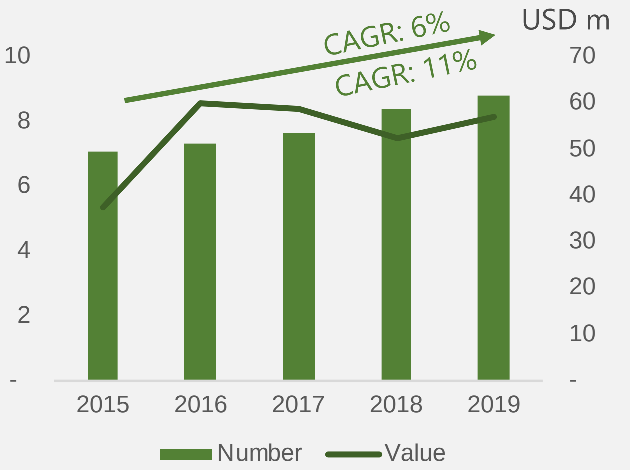
Impact investors have completed a total of 63 impact deals in Zambia since 2015 with an estimated total investment of ***USD 122.3m***. Out of the 63 recorded deals, only 44 have registered transaction amounts and the average of these times the total amount of recorded deals have been used to estimate the total deal value. Of the 63 deals recorded, 47 can be allocated an investment year which constitutes the graph showing the yearly trend. There has been a positive trend in the number and value of deals, with 2017 being an outlier since 2015. The CAGR in number of deals has been 9% during the period while the CAGR of the total value of deals has only been 3%. This is shown by a 20% decrease in the average deal size from USD 4.26m in 2015 to USD 3.4m in 2019. This indicates that investors are adopting an investment approach with smaller ticket sizes.

Total Deal Size Average

USD 6m
Average deal size for PE deals

USD 1.9m
Average deal size for impact deals

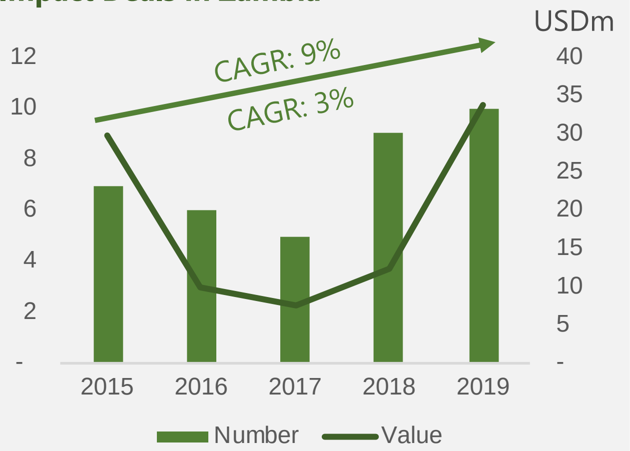
PE deals in Zambia



39
deals

USD 266m
in estimated deal value

Impact Deals in Zambia



63
deals

USD 122m
in estimated deal value

Conclusion

Overall, both the PE market and the impact investing market have increasing deal sizes and volumes, but where the transaction value of PE deals are growing, the average value of impact transactions is decreasing. On average, the deal sizes of impact transaction are a third of PE deals. The impact investing market is showing the highest growth in number of deals, but with smaller sized investments.

D

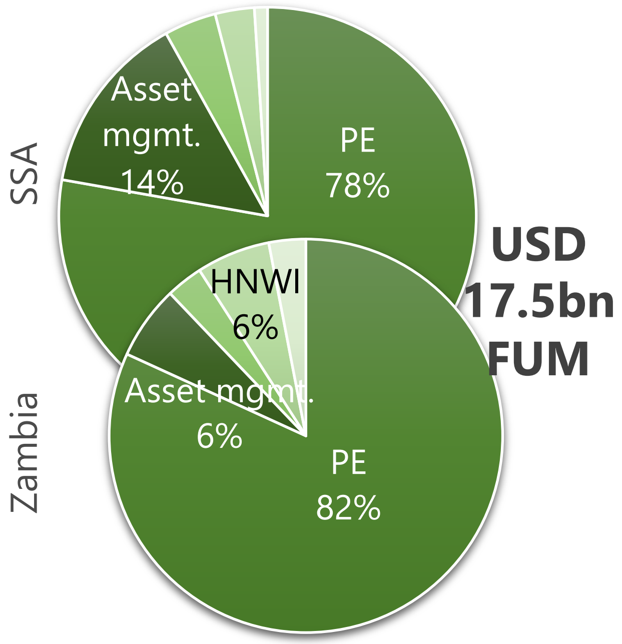
Impact Investor Characteristics:
Investor Types

Type

The study distinguishes between ***five types of impact investors***.

1) ***General Asset Management*** – companies that invest their own or their clients' funds into asset classes not limited by private equity.
2) ***Specialized Private Equity*** – firms that invest solely in private equity, spanning across all investment stages such as Seed, Early Stage, Growth, Expansion and Buyout transactions (including venture capital).
3) ***Foundations*** – charitable organisations that also have commercial investment arms.
4) ***HNWIs*** – HWNIs are angel investors that target often have small ticket-sized investments.
5) ***Crowdfunding*** – platforms that pool impact capital from a broad range of investors.

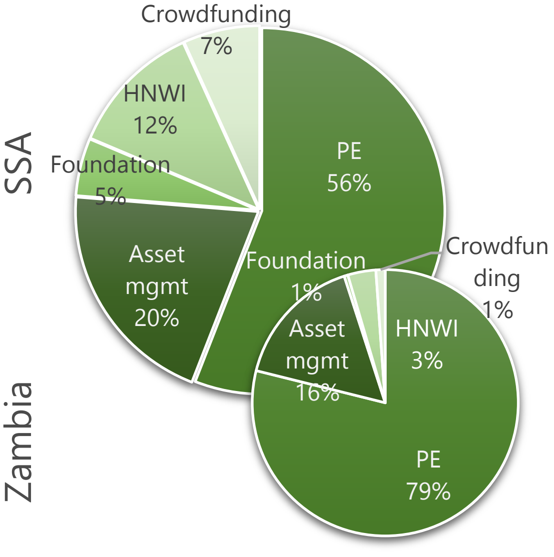
Distribution of Investor Types



The majority of impact investors in Sub-Saharan Africa are ***private equity firms*** with a ***78%*** share of all investors. Many of these firms manage funds that directly target businesses within Sub-Saharan Africa, including Zambia, as opposed to asset managers who invest across asset classes. Private equity firms control ***USD 17.5bn*** of funds under management in SSA and in Zambia they make up ***82%*** of the number of impact investors. On a Sub-Saharan level, asset managers make up the second biggest investor group with a 14% share, and the remaining investor types have an 8% share. In Zambia, the fraction of asset managers are less than half than in SSA as this investor type focuses more on mature markets.

Distribution of Deals

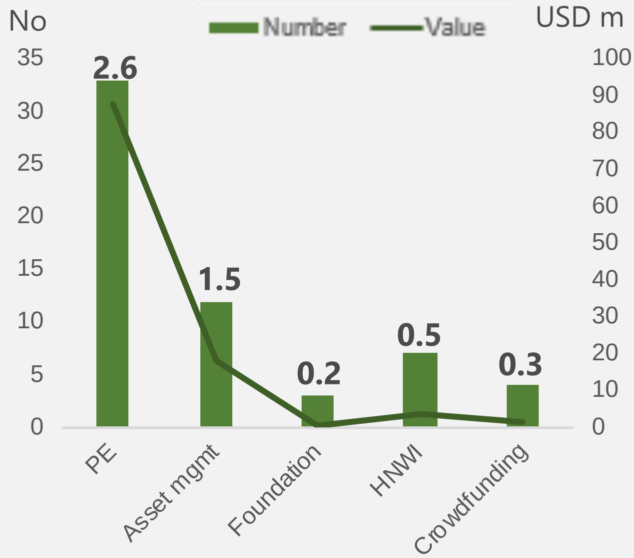
Similar to the distribution of the amount of investors, ***PE firms*** are responsible for most deals in Zambia with a ***56%*** share. ***Asset Managers*** make up a ***20%*** share of all deals, with ***HWNI*** accounting for ***12%***. Even though the other investor types account for a higher amount of deals in Zambia, PE firms account for ***79%*** of the total deal value. On both distribution of deals and the distribution of the amount of investors, PE is the dominant type of investor in SSA and Zambia, with the greatest activity and the highest amount of investments by volume and size.



D

Impact Investor Characteristics:
Deal Sizes and Distribution

Average Deal Distribution



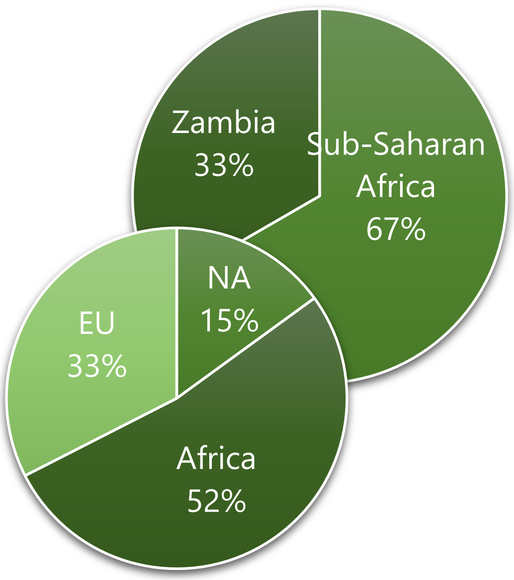
Average Deal Sizes

The average deal size across investor types follows a similar trend to the distribution of capital. ***PE firms*** have the highest average deal size of ***USD 2.6m***, ***asset managers*** have the second highest of ***USD 1.5m*** and then ***HWNI*** have the third highest of ***USD 0.54***. Investments from crowdfunding platforms and foundations have a small ticket size on average, indicating that these investments target ventures in the startup and early stages. Since PE firms cover both venture capitalists and the traditional PE market, the high average indicates that a minor amount of deals are done by venture capitalists.

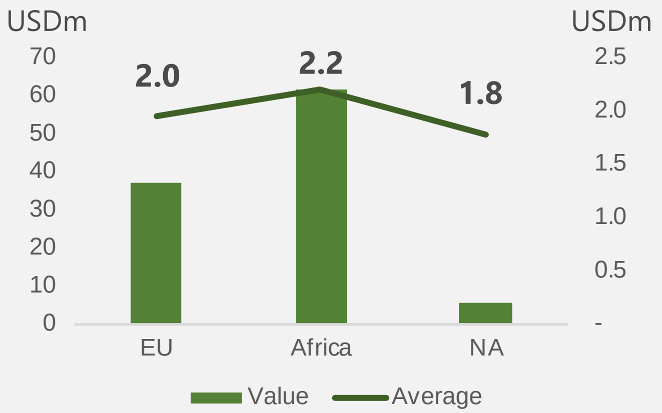
Geography

Most investors target Sub-Saharan Africa and a third of these investors have had successful investments in Zambia. The investors reside primarily in Africa (52%) and Europe (33%) with only 15% investing from North America. While Africa has the highest share of investors, European investors make up almost 50% of the funds under management. This distribution highlights that not many in the global investor landscape target SSA, since African investors account for the majority. Despite the high amount of investors, investors within Africa have significantly less FUM than foreign investors.

Origin of Investors and Funds



Average Deal Distribution



Conclusion

African investors make up most of the total deal sizes in Zambia and have the highest average deal size across regions. However, the average deal size for EU, NA and African investments are all between USD 1.8m to 2.2m. This shows that the size of FUM is not necessarily correlated with the size of deals and African investors, on average, invest more than foreign investors.

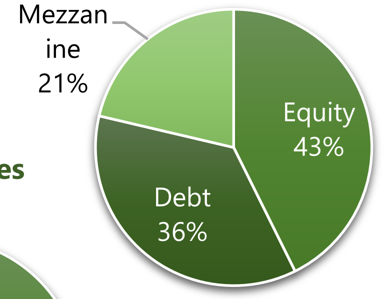
D

Impact Investor Characteristics:
Investor Preferences

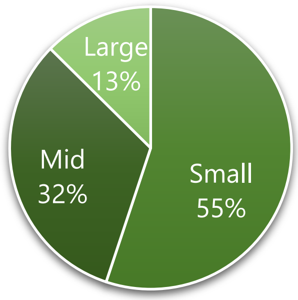
Instrument and Investment

Impact investors are targeting early-stage businesses with direct equity investments. Impact investors indicate that they primarily invest in ***small and medium-sized companies (SMEs),*** which are defined as having less than USD 50m or USD 500m in revenue respectively (covering all Zambian companies). While the preferred instrument is equity, many investors combine a mixture of capital to support businesses. A majority invests directly into businesses, with only 6% investing in both funds and businesses, and a small minority of 2% target funds exclusively.

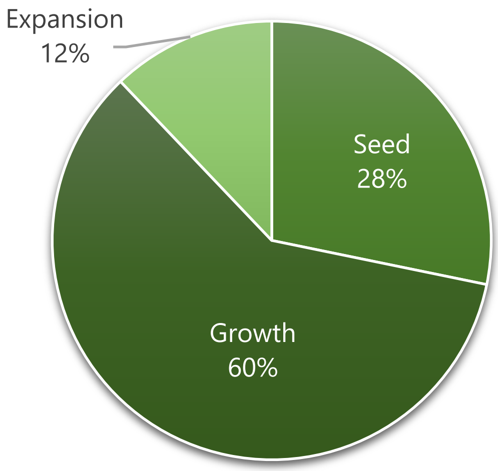
Preferred Capital Structure



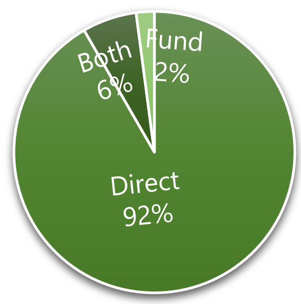
Target Companies



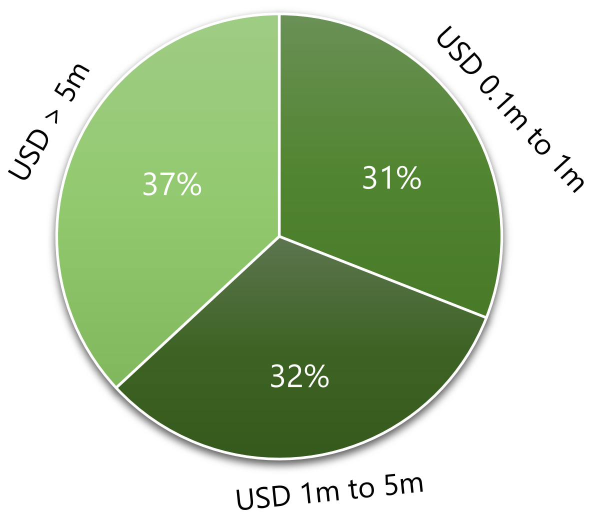
Preferred Investment Stage



Direct vs. Indirect



Preferred Investment Size



Conclusion: *Capital and Ticket Size*

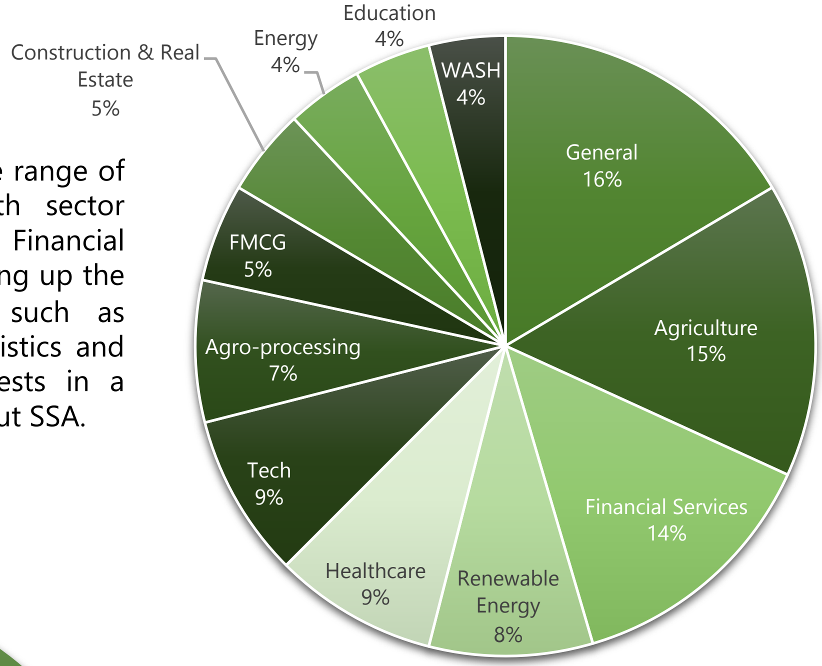
The main type of capital provided by impact investors is ***growth capital (60%)*** with ***seed capital*** being the second largest type at ***28%***. As the landscape and ecosystem for impact investing is still maturing, the need for early-stage investments to expand operations are a driver for the demand. None of the impact investors focus on buyout investments. By investing in these SMEs, impact investors have a high risk compared to other types of investment, while also having limited scale and opportunity for high financial, social and environmental returns. While the preferred ticket size is balanced across impact investors, most investors prefer to commit more than 5 million dollars over an investment period and only a minority seeks to invest less than 1 million.

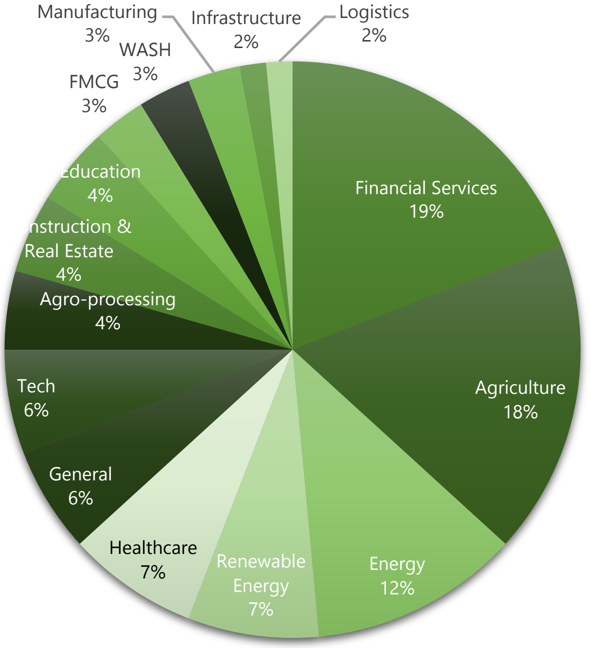
D

Sector Analysis: *Target Sectors*

Sectors in Sub-Saharan Africa

Impact investors are targeting a wide range of sectors in Sub-Saharan Africa with sector agnostic investments in Agriculture, Financial Services and Renewable Energy making up the majority of 49%. Other sectors such as Manufacturing, WASH, Tourism, Logistics and Infrastructure. Impact investors invests in a total of 19 different sectors throughout SSA.



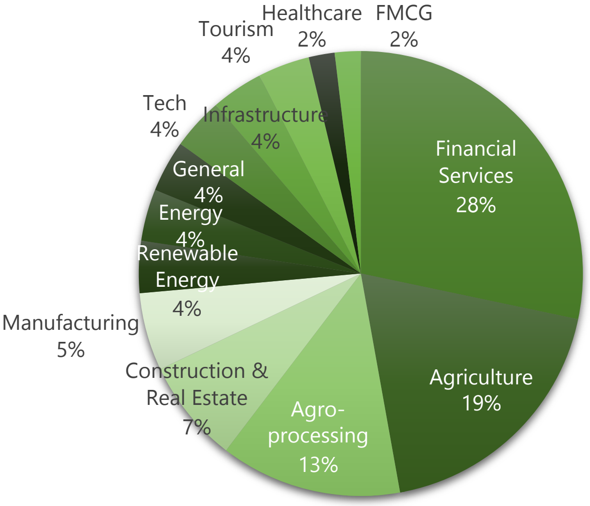


Sectors in Zambia (Investor preferences)

In Zambia the landscape looks different. Less sector agnostic investors invest in Zambia and the dominant part focus on Financial Services, Agriculture and Energy which makes up 56% of the total amount of investors. The macroeconomic factors surrounding Zambia attract more industry specific investors compared to SSA.

Sector Activity (Completed deals)

By comparing the actual deal inflow within each sector to the investors' sector preferences, it shows that Financial Services have an even bigger amount of transactions and that the Agro-processing industry is one of the top 3 most active sectors. The Energy industry is the fourth most active sector when combining Renewables and traditional Energy and the rest make up 29% of the overall activity.



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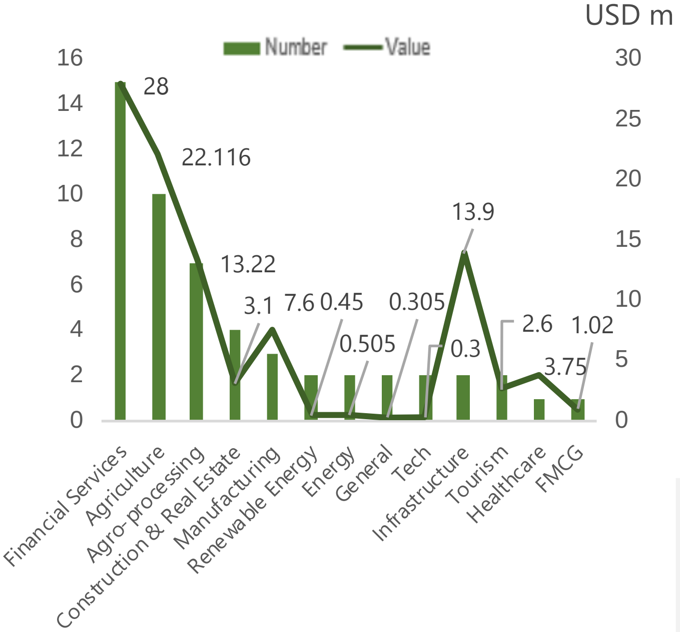
Sector Analysis:
Deal Size Across Sectors

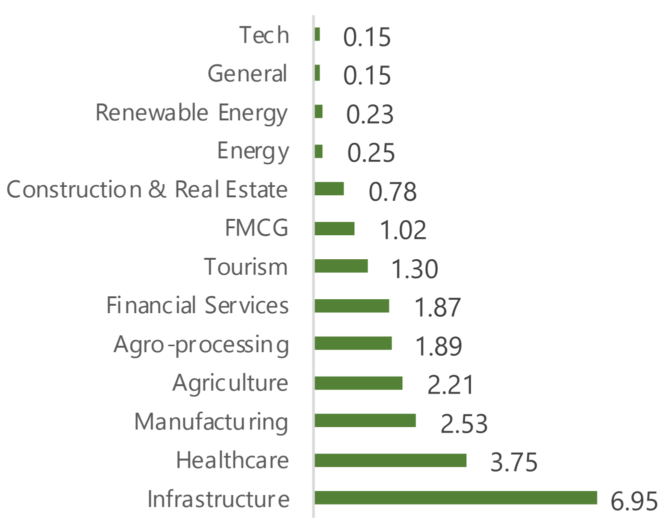


Deal Distribution Across Sectors

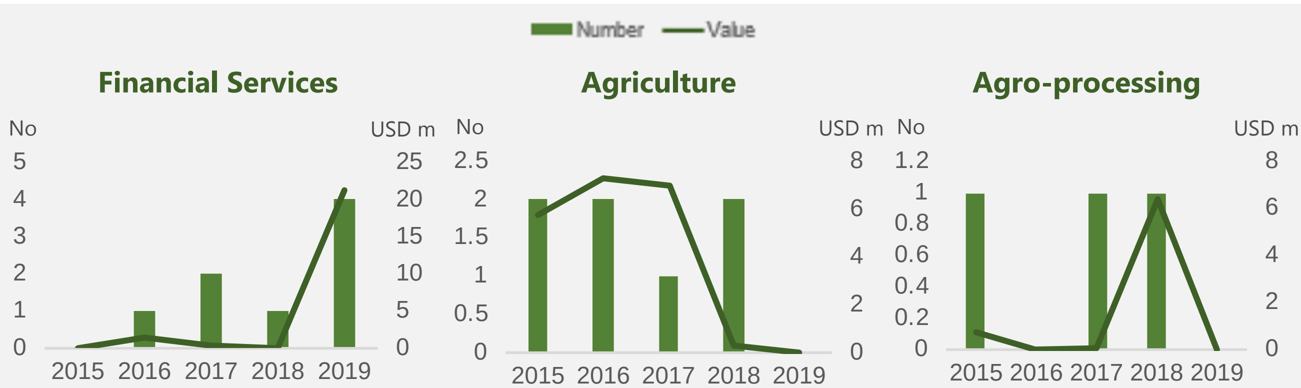
The distribution of the amount and value of deals across sectors follows a similar trend, where sectors with high volumes also have a higher value of total deals. The sectors with most activity also have the highest amount of value with USD 28m of impact capital flowing into Financial Services, USD 22m into Agriculture and USD 13m flowing into Agro-processing. The sectors with the smallest amount of impact capital inflow since 2015 have been Tech, Energy and FMCG.

44	**USD 97m**	**USD1.9m**
transactions	in deal value	in average deal size

Average Deal Size Across Sectors, USD m



Infrastructure, Healthcare and Manufacturing doesn't follow an equal distribution of volume and value. These sectors have the highest average deal sizes ranging from USD 2.5m to 7m. These sectors are targeted with large ticket-size investments whereas Tech, Energy and Real Estate all have less than USD 1m in average deal size. Since 2015, the Financial Services sector has had a significant growth in both number of deals and the total deal value, whereas Agriculture and Agro-processing have remined fairly stable without any recorded transactions in 2019.



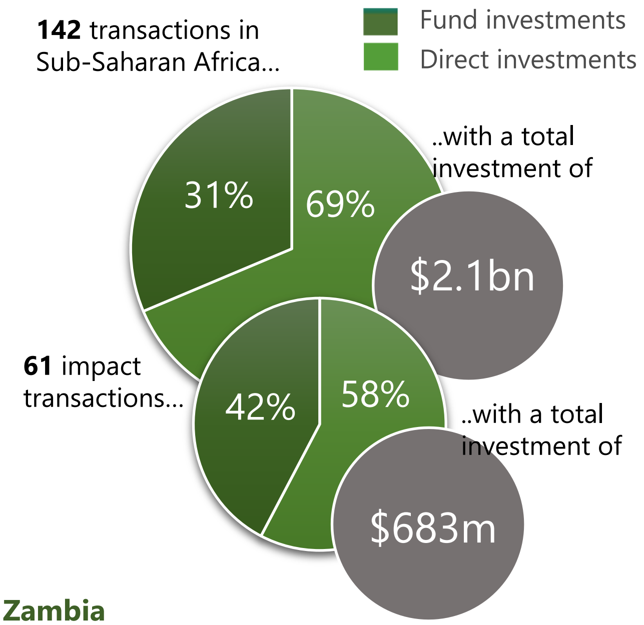
D

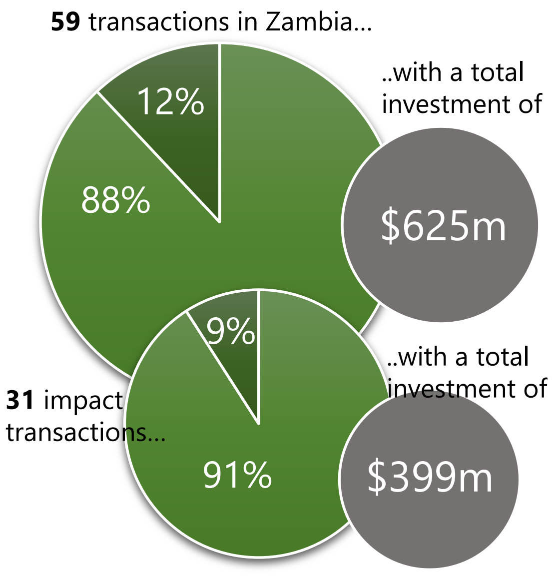
Development Finance Institutions

Sub-Saharan Africa

33 Development Finance Institutions (DFIs) have completed most of the impact deals in Sub-Saharan Africa and Zambia since 2015. These DFIs have completed more than ***140 deals*** in Sub-Saharan Africa, adding up to a total investment sum of ***USD 2.1bn***. 69% of these deals have been direct investments into businesses, with a minority being directed at funds.

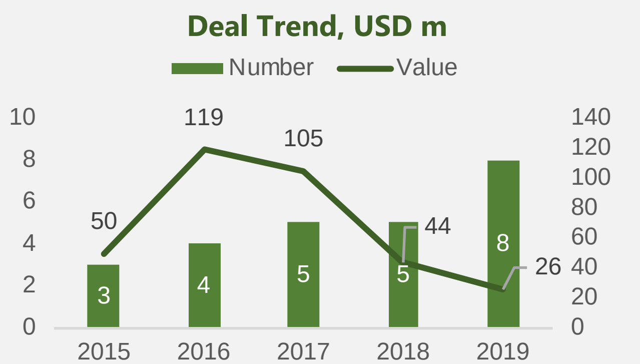
According to our definition, ***USD 683m*** has been ***impact investing***, making up 32,5% of the total capital inflow with 61 transactions. While most use direct investments, an increasing amount of impact capital is placed with impact funds.

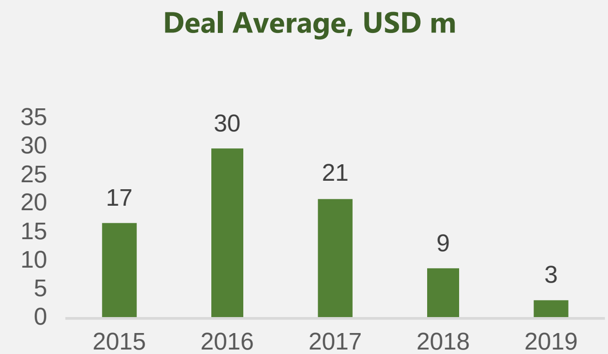




Zambia

Of the registered DFIs, only 19 have done deals in Zambia with 59 transactions amounting to USD 625m in the period and with ***USD 399m*** of these assigned to ***31 impact investments***. The dominant part of investments are directly targeted businesses, as there are a limited amount of funds headquartered in Zambia.
The DFIs' investments have had a three-fold increase over the period, with 2019 being the biggest year for number of investments, but the lowest year in terms of value. More DFIs are investing in businesses and in earlier stages of the lifecycle than before.
The deal average of transaction has decreased significantly from USD 16.7m in 2015 to 3.2m in 2019.





Source: Kukula Analysis

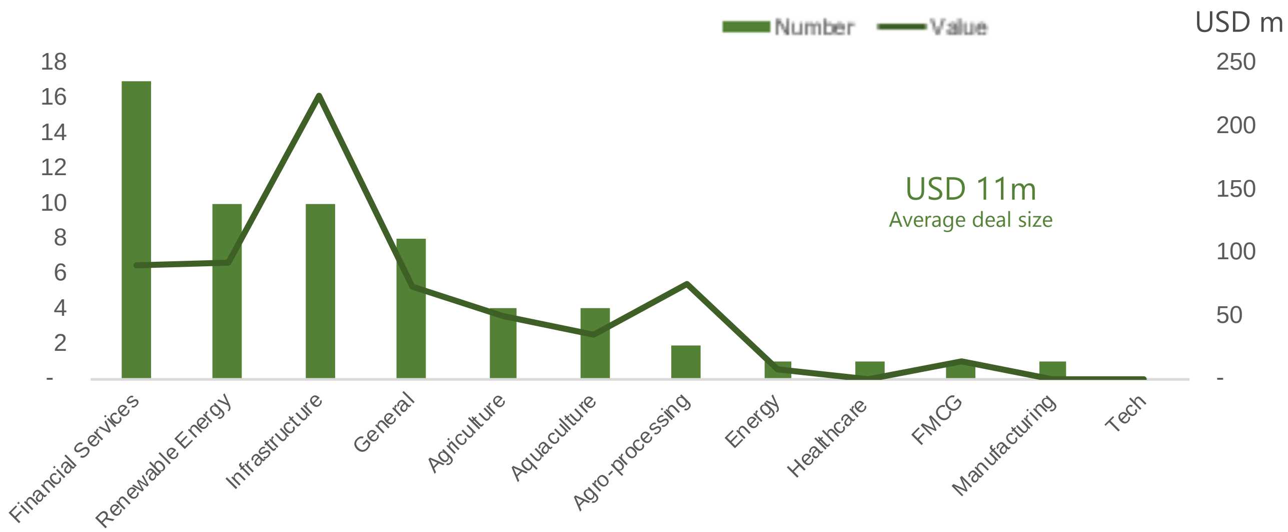
D

DFI Sample Deals 2015 to 2019

DFI	Sector	No. of deals	Investment Size, USDm	SDG
IFU	Aquaculture, Financial Services	2	USD 10.12m	14,1
CDC	Agriculture, Agro-processing	2	USD 85m	15,12
Finn Fund	Aquaculture, Infrastructure, Financial Services	3	USD 14m	14,9,1
Norfund	Renewable Energy	1	USD 2m	7
OPIC	Renewable Energy	2	USD 29m	7
Africinvest	Agro-processing, Financial Services	1	N/A	12,1
Triple Jump	Financial Services	1	N/A	1
IFC	Agriculture, Infrastructure, Financial Services	3	USD 52m	14,9,1
European Investment Bank	Renewable Energy	1	USD 12m	7
Dutch Good Growth Fund	Financial Services	2	USD 19m	1
Proparco	Financial Services	1	USD 3m	1
FinDev Canada	Financial Services	1	USD 8m	1
ImpactAgri	Energy	1	USD 7m	7
AFD	Infrastructure	2	USD 51m	9
FSD	Real Estate	1	N/A	9
Belgian Investment Company	Financial Services	1	USD 9.7m	1
DBZ	Aquaculture	1	USD 12.5m	4
FMO	Financial Services, Aquaculture, Infrastructure	4	USD 18.67m	1
Total		31	USD 387m	

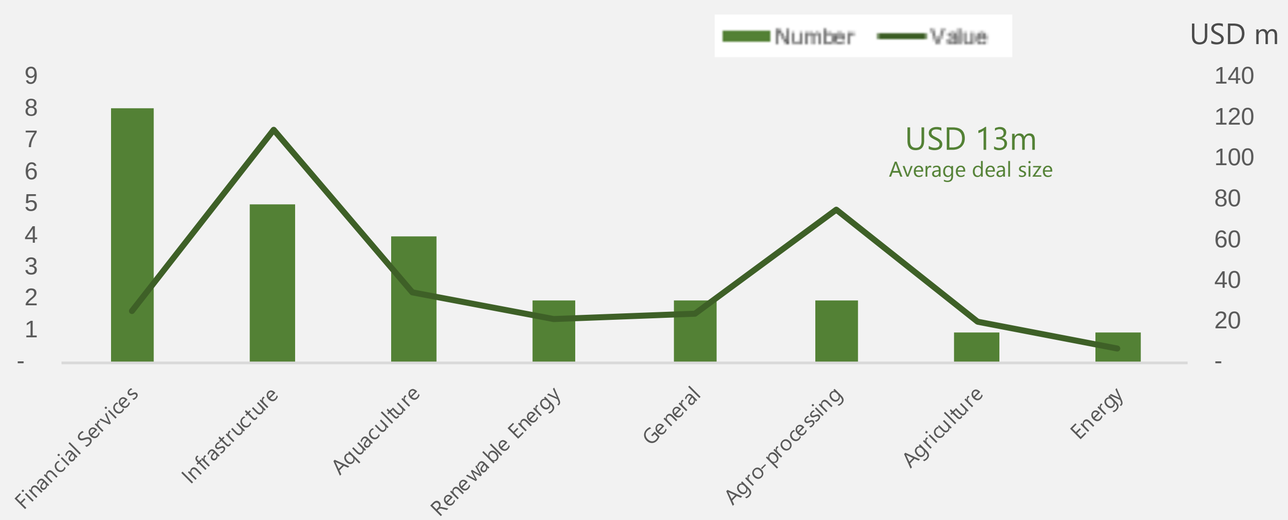
Sector Analysis – DFIs

Sub-Saharan Africa Impact Transactions By Sector



Financial Services, Renewable Energy and Infrastructure are the biggest sectors targeted by DFIs. The Financial Services sector has the highest amount of deals whereas Infrastructure has the highest amount of value inflow. 64% of deals are allocated to the top 3 sectors, with 64% of the total deal size as well. The average deal size is USD 11m compared to the average deal size of all DFI transactions which is USD 15m.

Zambia Impact Transactions By Sector



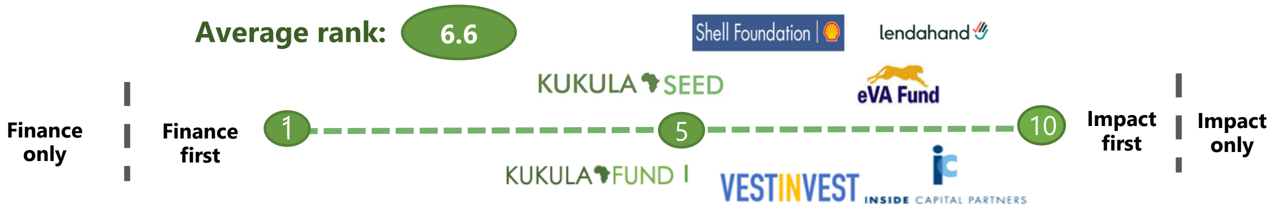
The main sectors targeted by DFIs in Zambia are similar to in Sub-Saharan Africa. The top 3 sectors make up 69% of the total number of deals and 56% of the total value. The overall value is more evenly spread out, but Financial Services and Infrastructure are still the highest deal number although the value of deal size for Financial Services is low. The average deal size is USD 13m compared to the average deal size of all DFI transactions in Zambia which is USD 14.6m.

D

Interviews Findings:
Investment and Sector Trends

Impact Spectrum

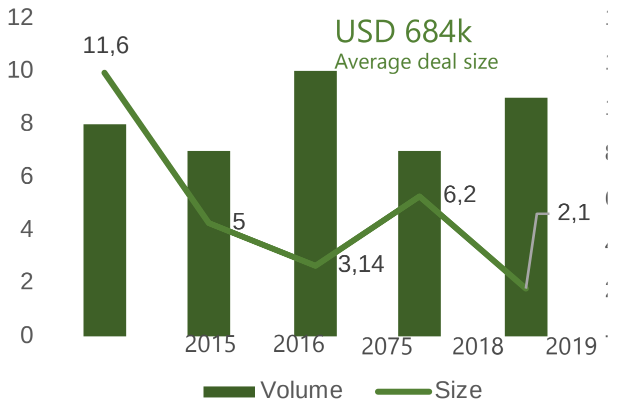
When asked how impact versus finance focused our respondents are on a scale from 1 to 10 (with 1 being purely focused on Finance, and 10 being purely focused on Impact), the average score was ***6.6*** showing a clear focus on investments with a strong impact.



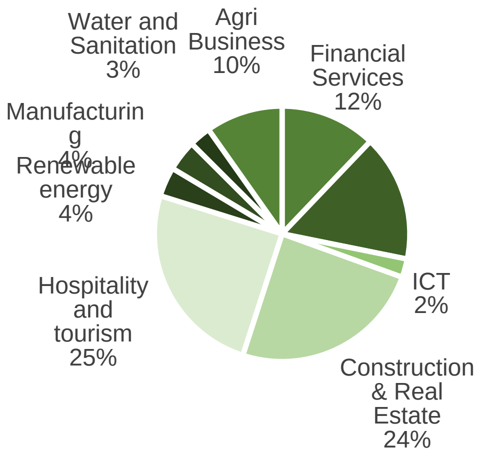
Investment Trends

Respondents have invested a total amount of ***USD 28m*** since 2015 with an average deal size of ***USD 684k***. A total of ***41 investments*** have been made in Zambia and relatively equally distributed over the period. While the volume hasn't changed significantly, the total size of deals has decreased from approximately USD 12m in 2015 to USD 2m in 2019.

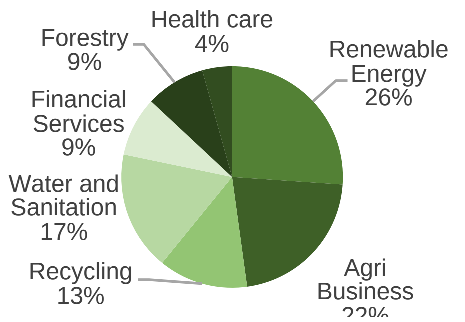
Investment (USD m)



Historical Sector Focus (share of past investments)

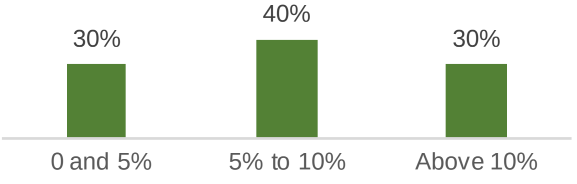


Forward Looking Sector Focus (number of respondents)*



This top 3 sectors between 2015 and 2019 have been Tourism, Construction and Real Estate. Forward looking the most top 3 most preferred sectors are: Renewable Energy, Agri Business and Water and Sanitation.

Return Expectations in USD (% of respondents)



Most of the respondents' investment strategies weighs impact and social return higher than a financial one. This can be seen from the fact than only 30% are seeking commercial returns of above 10%.

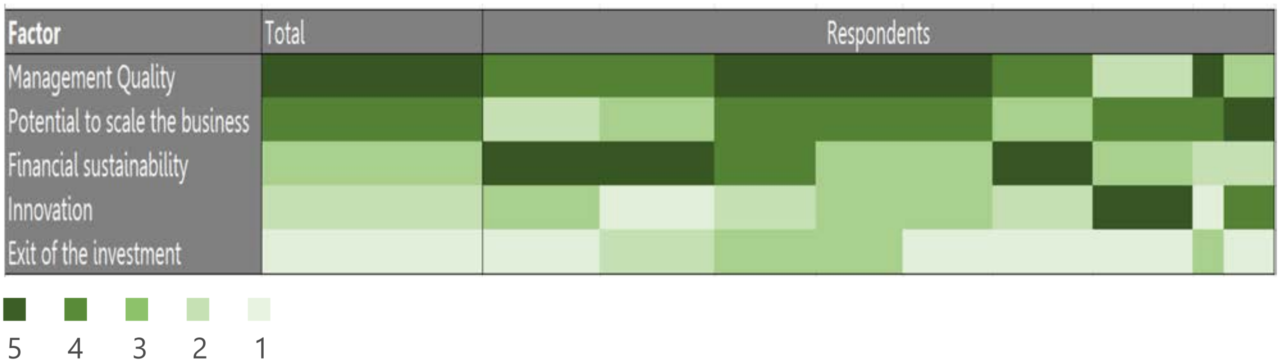
*Respondents were asked to highlight 3 focus sectors for impact investments in the future

D

Interview Findings:
Screening and Challenges for Investments

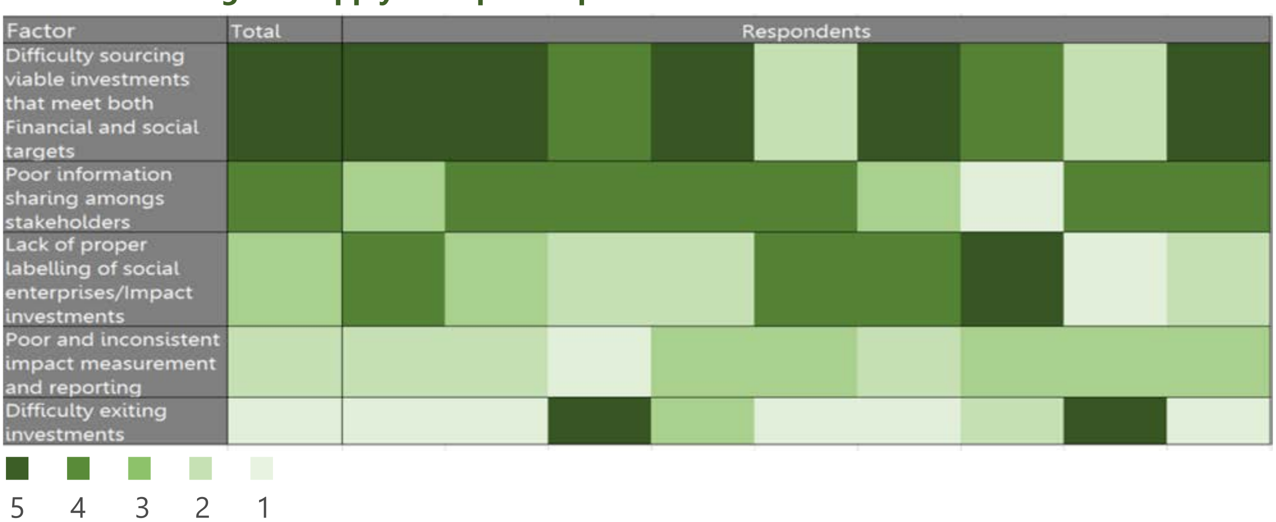
The interviewed investors were asked questions relating to what they focus on when investing and what the challenges of investing are. This provides a background to the recommendations provided. Respondents were asked to measure the importance with a number between 1 and 5, with 1 being the least important, and 5 being the most important.

Investment Selection Criteria



The most important criteria for impact investors is ***Management Quality***. Investments targeting minority stakes will be highly dependent on the quality of the existing management, whereas investors seeking control will often focus on other criteria. The ***potential to scale the business*** and ***financial sustainability*** are also important selection criteria as they provide the foundations for investment growth and ensure long term value creation. Respondents identify the possibility of exiting the investment as the least important criteria. This also indicates that the respondents are focused more on impact than return.

Factors Affecting the Supply of Impact Capital in Zambia



Difficulty ***sourcing viable investments*** that meets both financial and social targets is the largest barrier for supplying impact capital to Zambia according to the respondents. This, combined with a ***lack of transparency*** between stakeholders, and ***lack of labelling*** indicates that the ecosystem for for-profit social enterprises is still maturing. Poor reporting and difficulty in exiting investments also affect the supply of capital, but to a minor degree compared to the other barriers.

D

Summary and comparison:
Zambian investors and sectors

The Inflow of Impact Capital

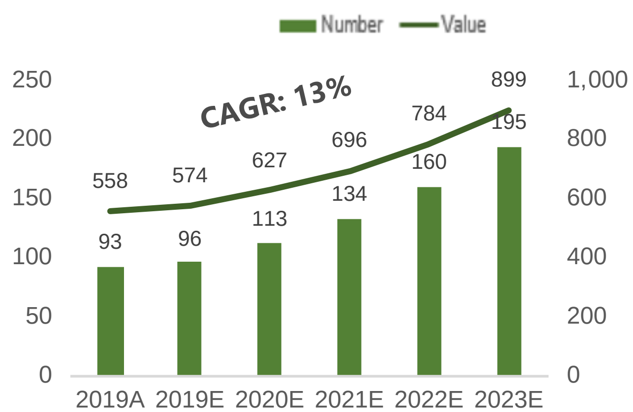
Since 2015, USD 4,1bn of investments in addition to USD 502m in newly disbursed loans have been invested in the top impact sectors Manufacturing, Agriculture, Housing (Construction & Real Estate) and Services.* USD 580m of impact transactions across local and international suppliers have been tracked, computing an impact vs. traditional investment ratio of 13%. In 2019, the total potential for impact investments of USD 1.58bn compared to the actual impact deal transactions of USD 120m computes an impact ratio of 8%. The impact ratio for investments into high impact sectors in Zambia, segregated on both equity and loans, is thus estimated to be between 8-13% by comparing the potential impact flow to the actual impact deal flow. The impact investing market is growing faster that the overall PE market in terms of deals, with a CAGR of 9% for impact investors and 35% for DFIs, which means that the impact ratio is likely to increase in the coming years.

$4.6bn potential

$580m transactions

8-13% impact ratio

Projected Growth in the Impact Capital Inflow (USD m)



The Zambian Impact Investing Market is expected to increase with a CAGR of 13% towards 2023, totaling an accumulated deal size of ***USD 733m and 166 deals***. The forecast uses the expected growth for 2019 of 13% to find 2019E. The 2015 to 2019 CAGR for DFIs of 35% and the CAGR for impact investors of 9% are then used to project the increase in volume. Deal value is found by multiplying the volume with the current average deal size of each investor.

Investor types

Local and international suppliers of capital controls a total of USD 2,86bn funds targeted partly or fully for impact investments in Zambia. Local suppliers of capital, including pension funds as well as local DFIs, control USD 458m of these funds, which makes up only 16% of the total. Local suppliers have a large potential for increasing impact investments as they are placed within Zambia and can help attract foreign investments and have easier access to deal flow. Impact investors and DFI account for 84% of FUM and have completed a large number of transactions since 2015. They are often hands-on in operations providing a mixture of financial- and human capital, which alongside their activity and funds make them a desired type of investor for Zambian businesses.

FUM

$2.86 bn

*From ZDA data

D

Summary and comparison:
Zambian investors and sectors

Impact investors and Development Finance Institutions

Impact investors have facilitated the largest number of deals but with the lowest total value compared to DFIs. While DFIs have contributed with an impact deal flow three times the size of impact investors, their average investment is USD 13m which indicates that they target projects and businesses in later lifetime stages. Coupled with the fact that DFIs are often hands-off in operations and merely a financial investor, impact investors are more likely to be a desired supplier of capital for Zambian businesses.

Investor	No. of deals	Total deal value USD m	Average USD m
Impact Investors	63	122	1.9
DFIs	30	377m	13

Of the impact investors, the majority of investors are private equity firms as asset management companies often focuses more on mature markets and HNWI, crowdfunding platforms and foundation have very limited activity in Zambia. Most investors are located in Africa but despite the high amount of investors, these investors have significantly less FUM that investors from other continents. The average deal size of investors is not necessarily correlated with region or FUM, but African investors are on average more active than others.

Most investors prefer to invest more that USD 1m, which poses a challenge for the immature Zambian ecosystem. Foundations, HWNIs and crowdfunding platforms have an average deal size of less than USD 0.5m which is attractive for the seed and start-up stage businesses and PE firms have the highest average of USD 2,6m.

Sectors

Impact investors have most transactions in the Financial Services, Agriculture, Agro-processing and Construction & Real Estate sector and DFIs invest heavily in Financial Services, Infrastructure and Aquaculture while also targeting Renewable Energy but to a smaller degree. Respondents project that the biggest impact sectors of Zambia will be Renewable Energy, Agribusiness and WASH in the coming years. This shows that while both investor types are needed to fuel investments in future impact sectors, there is a potential mismatch between existing investment preferences and the projection for which industries need impact investing.

Desired Type of Investors

The supply pillar shows that it is important to increase all type of investors as they each have diversified and important characteristics; local suppliers have local expertise, high activity and can help anchor foreign investments; impact investors provide financial and human capital at different stages and DFIs invest larger ticket sizes in not only businesses but infrastructure and energy projects. The current state of the ecosystem requires proactive investors prepared to commit early-stage capital to grow and in the status quo, DFIs and PE firms have been the largest contributor to the impact investing landscape followed by local suppliers of capital. ***To increase the impact inflow for early stage investments, the desired investor types are the venture capital subcategory of private equity, foundations, angel investors and crowdfunding platforms.*** These, combined with local suppliers of capital, can bridge the financing gap between businesses and investors by contributing with both financial capital and strategic value and investors such as angel investors can provide early stage investments to businesses.

D Increasing the Supply of Impact Capital in Zambia

The supply of impact capital in Zambia is growing and can complement public spending and official development assistance by utilising private sector capital and skills. This will reduce the vulnerability of Zambia's economy to external shocks as well as addressing socio-economic needs. There are several challenges and opportunities that needs to be addressed or leveraged to increase the supply of impact capital from desired investor types:

Barriers

1. Lack of Investment Opportunities

Many foreign investors prefer investments with a large ticket size, but Zambian businesses are demanding smaller investments which is made evident through a decreasing average impact deal size. African impact investors control fewer AUM that foreign investors indicating that foreign investors sees it unattractive to commit large-scale capital to the region. Few foreign investors invests in local impact funds which decrease their ability to deploy capital. Investors prefer to invest growth capital at a minimum ticket size of ***USD 1m*** which exceeds the capacity and demand of most Zambian businesses. This, along with an average ticket size of ***USD 11m*** for DFIs, creates a financing gap that reduces the attractiveness for foreign investors to commit capital and lessens the pool of investment-ready opportunities. Impact investing is a new asset class and as other countries in SSA have more developed ecosystems, the relative risk perception of impact assets is higher for Zambia. This combined with low fund management capacities for impact investments at local funds lowers the opportunities for investment.

2. Lack of Scalable Businesses

Zambian businesses are in the very early stages with a lack of knowledge and experience with balancing financial and social returns in a scalable way. Respondents highlight that the limitations to the scalability of businesses is a large barrier for committing impact capital as these businesses need to then increase their impact reach and size of revenue to align with the investment strategies of suppliers. Zambia's application of technology in business is low and this increases the amount of tangible assets, decreases information flow between business units and along with an underdeveloped enabling environment to aid early stage businesses survive early lifecycle stages, this create a barrier to scalability.

3. Lack of Transparency

A lack of transparency between businesses and investors as well as an underdeveloped market increases the risk perception of the Zambian Impact Market. This creates barriers for impact investments, due to an overall lack of knowledge of asset classes and ESG guidelines. In addition to this, management quality is rated as the most important selection criteria for impact investors when screening potential investment opportunities, and the lack of transparency among stakeholders diminishes the investors' ability to screen the management teams of target investments. The difficulty in sourcing viable investment opportunities that meet both financial and social targets is also mentioned as a barrier to impact capital which could be mediated with an improved level of information between stakeholders. Investors calculate risk from available information and as the channels for information between the demand and supply pillar is suboptimal, because of a lack of platforms, networks and intermediaries to facilitate this information, the lack of transparency increases the risk perception without a proportional increase in the perceived return.

4. Threatening Macro economic environment

Several Impact investors highlighted ***exchange rate volatility, governance structures, corruption, and the macro economic environment in general*** *as concerns which might affect their appetite for increased investments in Zambia.*

Source: Kukula Analysis

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Increasing the Supply of Impact Capital in Zambia: *Opportunities*

A number of initiatives which NABII can pursue towards growing the supply of impact capital is listed below.

Initiatives for increasing impact flow..

- ***Promote investments*** into local investment funds to strength existing channels for impact capital and develop local competences.
- ***Help incorporate*** standardized ESG reporting guidelines for businesses to promote transparency towards investors.
- ***Promote Zambian crowdfunding*** platforms.
- ***Promote Zambia-specific*** business-angel networks for HNWI.
- ***Create improved platforms*** for businesses to communicate value propositions to investors.
- ***Use the capital of local pension funds*** to anchor or seed local investment funds and attract additional foreign capital as co-investments.
- ***Use local platforms*** and communities to faciliate partnership with regional investor networks to attract capital

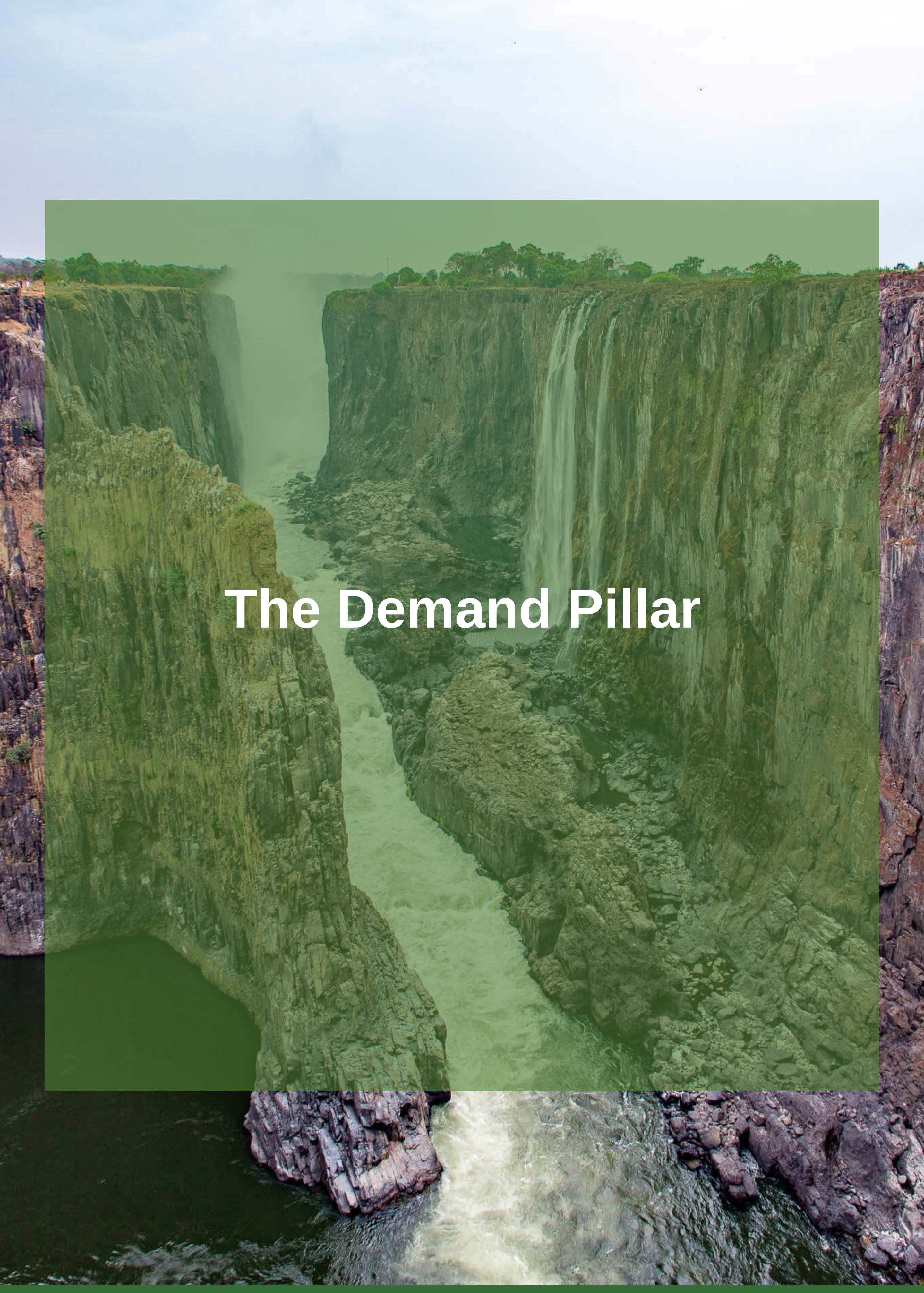
…to high impact sectors*

- ***Create incubator funds*** within impact sectors that are partly funded by national pension funds or government.
- ***Improve the regulatory framework*** for impact capital, promoting private equity activity within impact sectors.
- ***Offer incentives to support projects / businesses*** within high impact sectors and develop stronger connection with international impact communities.
- ***Promote DFI activity*** in impact sectors by using government or corporate bodies to co-invest and share risk.

The SDGs

The Africa 2030 plan for reaching the Sustainable Development Goals requires a minimum financing of USD 500 billion annually. Zambia's economy constitutes 1% of Africa's total GDP which means that for Zambia to contribute to the 2030 SDG plan, ***USD 5 billion*** needs to be invested towards SDGs annually. With an average of USD 1bn in total investments over the past 5 years, Zambia has to increase current investments **five fold** if the SDGs are to be achieved.

*Source: interview respondents



The Demand Pillar

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The Demand Pillar: *Introduction*

Strictly speaking, impact businesses are companies that have an objective to create positive social or environmental outcomes for their customers, employees, business partners and the public at large. In looking at the demand for impact capital, the study has defined three (3) models of impact businesses that exist in the Zambian context based on the 77 impact businesses profiled. Categorisation is based on the specific positive outcomes that are created for specific stakeholders of the business.

1. **Traditional businesses**: Businesses which have a strong focus on commercial aspects but also have deliberate environmental or social strategies such as employing disadvantaged groups, using supply chain strategies that reduce poverty, attempting to strengthen national economic development through import substitution, job creation or other means.

2. **Shared economy businesses:** Businesses that recognise or use distributive ownership models for its stakeholders such as use of independent agents.

3. **Social enterprises:** For-profit businesses that produce products or services designed to provide significant social benefit to consumers such as improvement of basic education, health, water and food.

According to PACRA records, there are over 15,000 registered businesses in Zambia. Most registered firms were within Manufacturing and Agriculture, following the government's prioritization of these sectors. Therefore, the sample of businesses is not an exhaustive list and merely form a small fraction of the total number of Impact businesses. A full mapping for the demand for impact businesses would require detailed feedback from NAPSA, ZCCM_IH, CEEC, ZDA and DBZ as these institutions often receive applications for funds from businesses with a social focus. With the exception of ZDA, we did not get feedback from all institutions in time to include in this study.

Distribution of Shortlisted Businesses Currently Fundraising

Lusaka : 56
North Western:2
Northern: 2
Southern :2
Central: 2
Copperbelt:10
Eastern: 2
Luapula: 1

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The Demand Pillar:
Estimating Overall Capital Demand

Overall Capital Demand Estimation

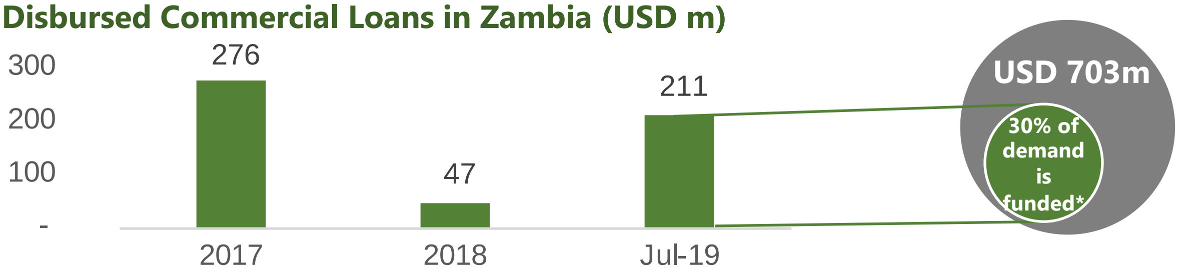
When estimating the demand for impact capital the starting point is to estimate the size of total current demand for capital among private companies. This is estimated by triangulating data from the banking sector, corporate finance advisors and enablers and is estimated at USD 2.9 billion. This is divided into two angles. The first angle covers all sectors excluding utility-scale renewable energy projects, as this sector involves very large investments which would otherwise skew the data analysis. The second angle relates specifically to utility scale renewable energy projects. We have not considered infrastructure projects as the majority of these fall under GRZ. We have also excluded energy projects done by GRZ.

Non-bank demand USD 0.3bn + **Bank demand** USD 0.7bn + **Energy demand** USD 1.9bn = **Total demand** USD 2.9bn

Estimating Non-Energy Sector Demand

The total current demand for capital from businesses in Zambia (ex utility-scale energy) is estimated based on commercial lending levels, as this is the main funding avenue for Zambian businesses. Only around 30% of applications for commercial bank loans are granted* and from January to July 2019, USD 211m net addition to the commercial bank lending was recorded. By grossing up this number we get a rough estimate of the current demand of ***USD 703m***. This excludes projects that would typically not be funded by the commercial banks.

Disbursed Commercial Loans in Zambia (USD m)



Estimating Non-bank Sector Demand

Deal flow data from one of the largest Zambian private pension funds covering 2018 and 2019 shows that they received formal proposals to the tune of USD 23m from businesses which are currently raising capital. Using the assumption that the number of proposals received among pension funds is proportionate to assets under management then the total demand for non-bank funding which is actively pursued at the moment is ***USD 295m***.

Estimating Renewable Energy Sector Demand

Following a review of 29 Energy pipeline projects, 5 were shortlisted as being private sector led, being actively fundraising and being within Renewable Energy.

*According to one of the leading commercial banks they approve roughly 3 in 10 loan applications.

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The Demand Pillar:
Estimating Impact Capital Demand

As part of this exercise 503 companies looking for financing were screened. The list of companies were sourced through a combination of Intermediaries, Enablers and data base research. Out of these, 77 companies were identified as looking for impact capital according to our definition. The total funding sought amounts to ***USD 177m***.

Under utility scale Renewable Energy projects the 5 companies are raising an estimated USD 780 m* bringing the total current demand for impact capital to USD 957m.

Zooming in on Impact Investments

USD 2.9bn
2019 total estimated capital demand

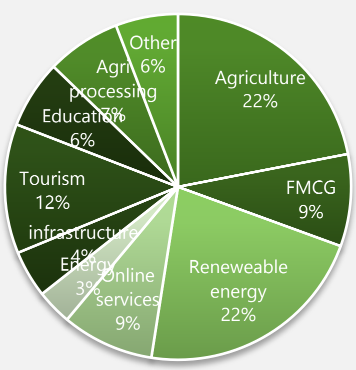
All sectors ex. Energy

503 businesses screened
77 Impact businesses currently fundraising a total **USD 177m** across **12 impact sectors**

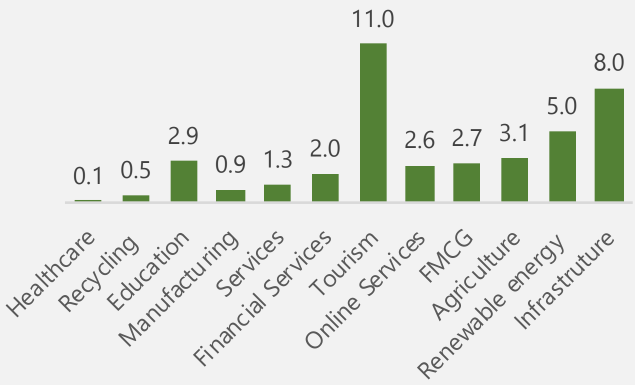
Utility scale Energy

8 Projects analysed
5 Renewable energy companies seeking to raise
USD 780m

Split of impact capital investment demand sector, total = USD 177m



Average investment size per sector of demand for impact capital



The core impact sectors: Agriculture and non-utility scale Renewable Energy continue to account for larger impact investments with an average ticket size of ***USD 3.1m*** and ***5m*** respectively. The two sectors are bound to be the highest impact capital recipients into 2020 due to the constraint of national grid power generation and the need to provide clean energy to people in rural areas. Agriculture and specifically agro-processing will also continue to occupy a sizeable space in line with elevating hunger in SSA and the government's efforts to diversify the economy[13].

*amount of capital sought is estimated based on size of the power plants
** Seventh National development plan

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Capital Demand Categorisation

We screened a total of 503 companies currently fundraising and out of these, 77 fit our study scope as impact deals. The businesses are categorised below:

	Number of Businesses	Sectors	Total investment, USD m	SDG Contribution
Traditional Businesses Businesses which fill a gap, but have a strong SE impact	47	Agri processing Agriculture Education Financial Services FMCG Healthcare Infrastructure Manufacturing Online Services Renewable Energy Services Tourism	147	Almost all
Shared Economy Businesses Use model of acquiring, providing and sharing goods and services	6	Logistics Renewable Energy Transportation Technology	4	• Sustainable Cities and Communities • Affordable and Clean Energy
Social Enterprises Solve a social problem	24	Agriculture Healthcare Micro-insurance Healthcare Education	27	• No Poverty • Decent Work and Economic Growth • Clean Water and Sanitation • Good health and wellbeing • Zero hunger
Total	77		178	

61% of businesses in the sample are traditional but have an incorporated impact strategy and relate to virtually all SDGs. Businesses in this category operate in 12 sectors and together have a ***USD 147m*** demand for impact capital.

ZICTA statistics show that mobile penetration is around 90%, but the uptake of internet-based technologies is slow, which coupled with a high rural population, has adversely impacted the proliferation of the shared economy industry. In the sample, only 6 out of 77 businesses (8%) are classified as shared economy businesses.

Social Enterprises make up 31% of total businesses profiled and contribute to five key SDGs. There is a lot of potential for social enterprises as they solve some of the basic social challenges. However, they often have smaller ticket sizes with an average of USD 1m per transaction compared to an average of USD 3m for traditional businesses.

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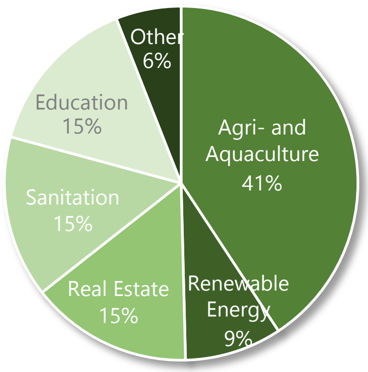
Interview Findings:
Investment and Sector Trends

10 Zambian companies were interviewed as part of the research in order to gain a deeper understanding of the challenges and opportunities faced in the Demand Pillar.

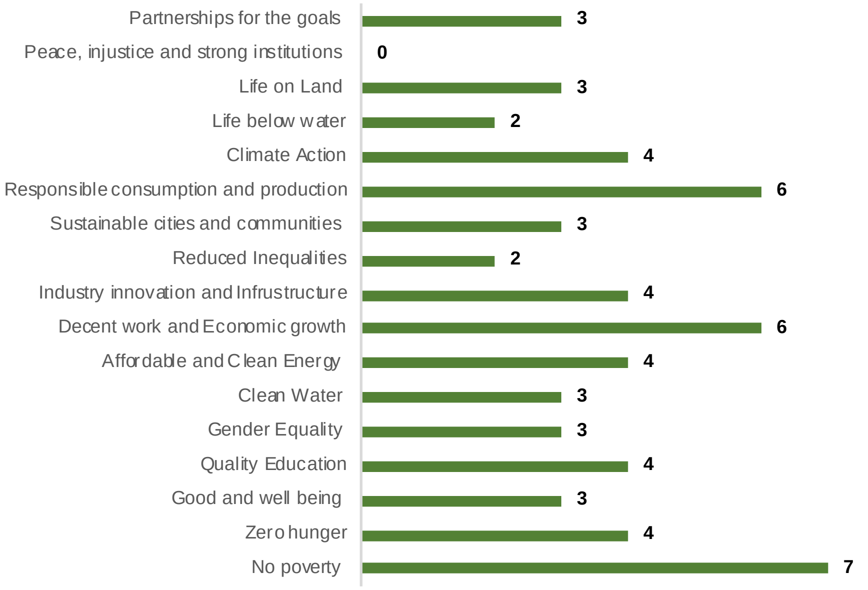
Respondent Characteristic Summary	
Average turnover for profile companies	**1.35**
Total number of employees	**1489**
Respondents who were impact capital recipients	**80%**
Time range for impact deal completion	**3-36 months**
Ticket Size range USD m	**0.2-11m**
Total Impacts capital raised	**26.9**

8 out of the 10 companies interviewed had received impact capital of which Agriculture and Aquaculture accounted for the highest proportion **of 41%** followed by Education, Real Estate and Food Processing with **15% each.**
All sectors are known to be basic necessity sectors for human survival and **80%** contributed to SDG 1: No Poverty.

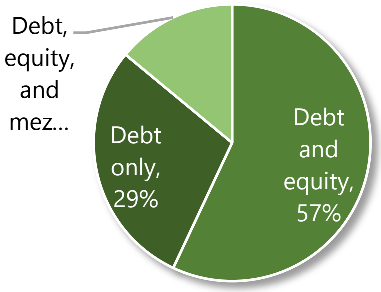
Sector Breakdown



Interviewed Companies' Contribution to SDGs

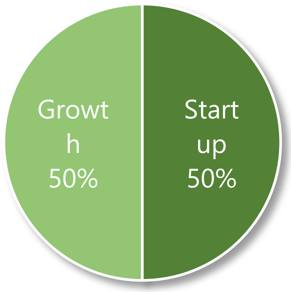


Financial Instrument Distribution



Even though **80% of respondents** preferred debt, only **29% received** debt while 57% had a combination of debt and equity as risk mitigation from investors

Business' Stage at Time of Impact Capital Receipt



.... **50% of respondents** were actually at start up level when they first received impact capital

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Interview Findings:
Key Challenges

Below is a list of the companies interviewed as well as the key learning from each company in relation to raising impact capital. On the following pages three of the companies interviewed are presented in more detail.

Company	Sector	Main funder	Investment Size (Impact capital)	SDG Focus	Key challenges relating to Impact capital
Live Clean	Sanitation	**Kukula Seed / Prospero**	USD 0.5m		▪ Need for strong monitoring and reporting on impact KPIs in order to attract impact investors.
iSchool	Education	**Elma Foundation**	USD 4m		▪ Not enough focus on Education as key impact investment sector.
Vitalite	Renewable Energy	**Iendahand**	USD 2.4m		▪ Using Crowdfunding has proven a viable source of risk capital as funding hard to raise in Zambia
Foxdale Court	Real Estate	**IFU**	USD 2.1m		▪ Time consuming to raise capital from impact investors which diverts management focus from operational and strategic matters.
Yalelo	Aqua-culture	**FMO Finnfund**	USD 16m		▪ Impact investors require a higher level of due diligence screening ▪ Impact investors force fit business strategies to meet impact fund criteria ▪ Time-consuming reporting
Alpha Polyplast	Recycling	**N/A**	USD 5m (fundraising)		▪ Need for more awareness on Impact capital as this business is only learning about it now despite being in a clear Impact sector
Java	Food products	**AHL Partners**	USD 4m		▪ A lot more reporting is required with impact capital ▪ Impact Investors have a broader assessment framework and risk appetite but similar financial expectations as traditional investors
Mr. Sunzu Coffee Estate	Agriculture	**N/A**	USD 3m (fundraising)		▪ Lack of data base of Impact investors looking at Zambia. Hard to know where to start.
Rent to own	Financial Services	**AHL Partners, Shell Foundation, Triple Jump**	USD 3.5m		▪ Challenging to meet the ambitious growth and impact targets targeted by the investors.

D Case 1: iSCHOOL

Description	iSchool helps teachers improve educational standards through the provision of teacher training, e-learning content and supportive technologies. The curriculum-aligned content and robust tablet provides modern interactive enquiry-based learning resources, lesson plans and an assessment platform for primary school students and teachers.
Mission	To bring talent, teacher and technology together across Africa to help raise education standards so that all learners can contribute to and benefit from a new future for them and their continent.
Value proposition	iSchool helps students become problem solvers and to change their life circumstances, the first step on the road out of poverty. Technology costs are falling and it will soon be more cost-effective to deliver digital education than text-book.
Social enterprise explained	Access to education breaks the poverty cycle. Innovative education will help students reach their potential, connecting teachers and students will create independent thinkers of the future.
Other	Content is approved by CDC. MoGE is deploying the content into schools. Verified results available. Developing assessment platform and data analytics. Plans to expand across SSA

Key Facts

USD 1m	17	USD 4m	6	35,000
2018 Turnover	Employees	Total Funds raised	Years in operations	Educational tablets distributed

Partnerships

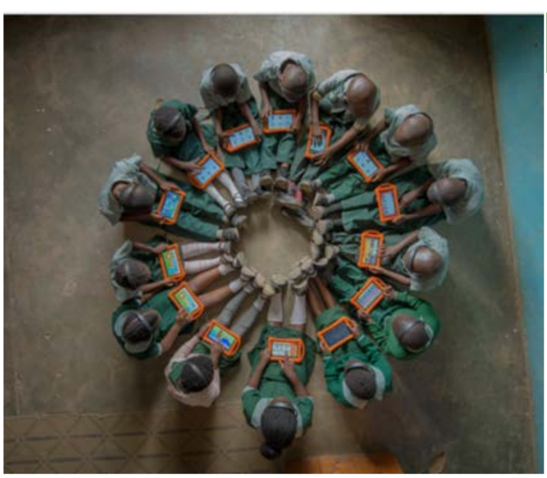
ChildFund International, SOS Children's Villages International, Suas Educational Development, World Vision

Ex funds raised, USD m

Impact

Education delivered **in 8 Zambian languages**

1000 Lesson plans for primary education



Key learnings

Social businesses such as iSchool which cannot absorb commercial lending rates have to rely on high-risk impact investors.

No investor interest from Zambian investors as there are no, or very few, investors with the financial capacity and social interest to take the necessary risk.

Too little attention on improving primary education in Zambia. Education should be promoted as a priority Impact sector.

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Case 2: FOXDALE COURT

Convenience at your doorstep

13 CLIMATE ACTION | 11 SUSTAINABLE CITIES AND COMMUNITIES | 15 LIFE ON LAND

Description	Foxdale Court is a highly innovative and 'green' retail and office space in Lusaka with an area of 4900 sqm. It was launched in 2011. The company also supports local markets under their Farmer's Market initiative.
Value Proposition	Foxdale Court is an innovative and sustainable office and retail space with more than 55 tenants, most of them SMEs. Foxdale Court has rainwater harvesting and grey water harvesting plants, sustainable energy efficiency solutions and waste management initiatives that reduce carbon emissions and promote sustainability. Its solar plant is one of the largest in Zambia.
Social enterprise explained	Foxdale Court consistently operates at +95% capacity with space for more than 55 tenants. The tenants are on a mix of short- and long-term contracts with the majority being on rent escalation agreements. Its management team is female only.
Other	+95% occupancy rate with an experienced and dedicated property management team to maintain a high standard of maintenance and operations. +300 people working in one location provides convenience and natural foot traffic.

Key Facts

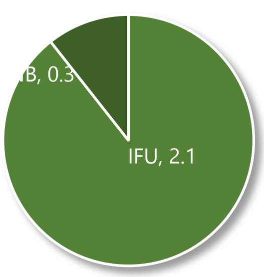
USD 750k	32	USD 4m	8	400
2018 Turnover	Employees	Total Funds raised	Years in operations	Tonnes CO2 saved

Partnerships

THE GREEN JOBS PROGRAMME

IFU

External funding raised, USDm



Impact

12000L rainwater harvesting tanks

Recycle plastic, paper & food waste

30% Electricity produced from solar

Key learnings

Beneficial to have DFI on board as they often have access to technical assistance and grant funding. Foxdale Court received a matching grant of USD 80k towards green initiatives from Danida – arranged through IFU.

Very time consuming to raise new capital. Attempted to raise USD 150k from DFI but it took too long and eventually the money was borrowed from a Zambian bank as this was faster and cheaper. Typically it is only worth engaging a DFI if the investment is large whereby the bureaucratic process is worthwhile.

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Case 3: YALELO

ZAMBIA'S #1 FISH

Description	Yalelo brings together local resources and world-leading practices to implement scalable solutions to ease the pressure on Zambia's struggling wild-capture fisheries sector. Founded in 2011, Yalelo breeds and grows tilapia and sells their product nation-wide. Yalelo's group company has also embarked on a regional expansion and downwards integration into fish feed.
Mission	To significantly strengthen national food security by sustainably producing a reliable supply of affordable fish.
Value proposition	Yalelo provides nutritious food to their customers, improving national food security, while actively investing in their community and minimizing their environmental footprint.
Social enterprise explained	Yalelo seeks to grow and sell healthy fish to support the growing population of Zambia, while simultaneously making their operation environmentally sustainable. Yalelo is also contributing to the development of the broader local aquaculture sector by providing smallholder tilapia farmers with inputs and training.
Other	Yalelo is implementing several local community support programmes focusing on local medical dispensaries, and HIV/AIDS and malaria awareness. Yalelo is also a running a primary school in Siavonga.

Key Facts

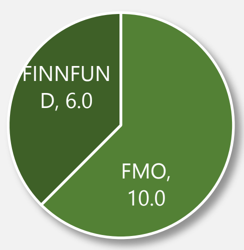
USD 30m	850	Aquaculture	47	Tilapia farming
2019 estimated Group Turnover	Group Employees	Sector	No of Outlets	Social Enterprise

Main investors

finnfund

FMO

External funding raised, USDm



Impact

850 jobs created

+150 children to school

Key learnings

Yalelo has been very successful in presenting an appealing story to impact investors, local and international and both private impact investors and DFI. A key to success has been strong impact sector, strong management and a scalable business model.

Secondly the business has a presence internationally, making investor engagement easier as they have not used any advisors.

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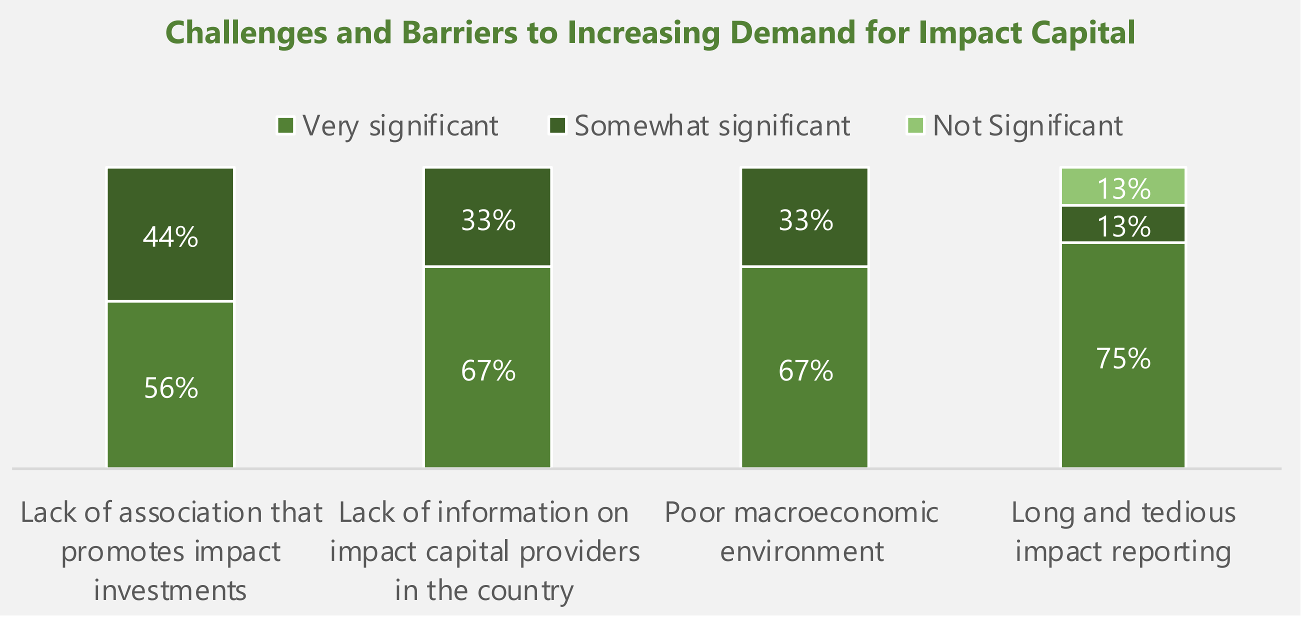
Interview Findings:
Challenges and Barriers Summary

From the interviews and case studies its clear that a number of challenges and barriers exist. From a high level perspective the illustration below summarizes the key barriers.



Long and tedious impact reporting was cited as a very significant challenge by 75% of respondents, while lack of information of impact capital providers and the poor macroeconomic environment was the most common challenge cited.

When diving into each of the analysed companies, the key challenges can be summarised as follows:

1. There is lack of information available on which impact investors are active in Zambia.

2. There is lack of knowledge within businesses on what impact investors are looking for.

3. There is limited capacity to meet impact-specific reporting requirements during the life-span of the project, as well as on-going due diligence

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Interview Findings:
Opportunities

A number of success stories among Zambian businesses illustrate the opportunities for growing impact investments in Zambia. Specific examples from the interviews are illustrated below.

Company	Successes and Opportunities with Impact Investments
iSchool	iSchool has built a scalable business model and managed to attract significant impact capital from a number of impact investors. There is an opportunity to further develop the educational sector in Zambia through impact capital both through traditional education and technology.
Vitalite	Vitalite has been the most successful company in Zambia when it comes to raising capital through crowdfunding. A Zambian crowdfunding platform would allow many more businesses to benefit from this type of funding where traditional collateral is not required.
Foxdale Court	Foxdale Court have managed to raise impact capital and combined it with matching grants for green initiatives which have enabled it to become one of the "greenest" commercial buildings in Zambia. There is an opportunity for more companies to access a mix of impact capital and grants which allows companies to take risk they would not otherwise be willing to take.
Yalelo	Yalelo has managed to attract significant impact capital on the back of meeting the key criteria from impact investors such as having strong management, being in a high impact sector as well as presenting a scalable and ambitious business opportunity. Other businesses could learn from their successes in this regard.
Java	Java Foods has successfully managed to source impact investments from a number of impact investors such as AHL Ventures, Open Road Alliance and the Bestseller Foundation. The combination of strong promotion, being within an impact sector and a strongly scalable business and impact model has been key to successful fundraising.
Rent to Own	Rent to Own has managed to source a variety of impact capital. One of its investors, the Shell Foundation, has provided so-called *Returnable Grants*. This is structured in such a way that gives the business an incentive to meet certain growth and impact targets. Due to its scalable business model and strong impact this business has been successful in raising funds from a number of impact investors.

From the various examples above it is clear that opportunities exist within the following areas:

- Improve the awareness among businesses of the different types of impact capital.
- Strengthen the business' understanding of priority areas when pitching for funding with impact investors, e.g. strong management, scalability of impact etc.
- Promote the less popular impact sectors such as Education.
- Analyse which alternative financing instruments and intermediaries can be adopted in Zambia.

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The Demand Pillar:
Recommendations to NABII

The Success Factors

The interviewed businesses that managed to secure funding have common denominators which helped them to achieve the funding. Despite outliers, the businesses all have the potential for scalability through either technology or replication of assets, and by addressing a big and unsatisfied need. This is documented by iSchool's e-learning platform or Rent to Own's business model.

Secondly, the businesses operate in sectors that are either attractive to impact investors, defined as high impact by GIIN or defined as priority sectors by the ZDA with a niche-focus such as aquaculture.

Lastly, the businesses have a high quality of management, which is one of the key drivers for investors when assessing target to invest in. In addition to this, all these businesses had the capacity to meet investors' demand of reporting impact through monitoring and evaluating (ME) their initiatives and outcomes. Although all businesses saw this as a hurdle, their capacity for ME was essential for raising capital.

As impact investors need to balance a social and financial return, the key drivers in deciding whether to invest in a business are the historical financial performance, and the impact mission of the businesses.

It is then paramount for early stage businesses who can't document their financial performance **to create a compelling story of what impact they create, why this makes them achieve their mission and how the outcomes are measured.** Thus, NABII can increase the likelihood of attracting impact capital to early stage businesses by focusing on their impact narrative.

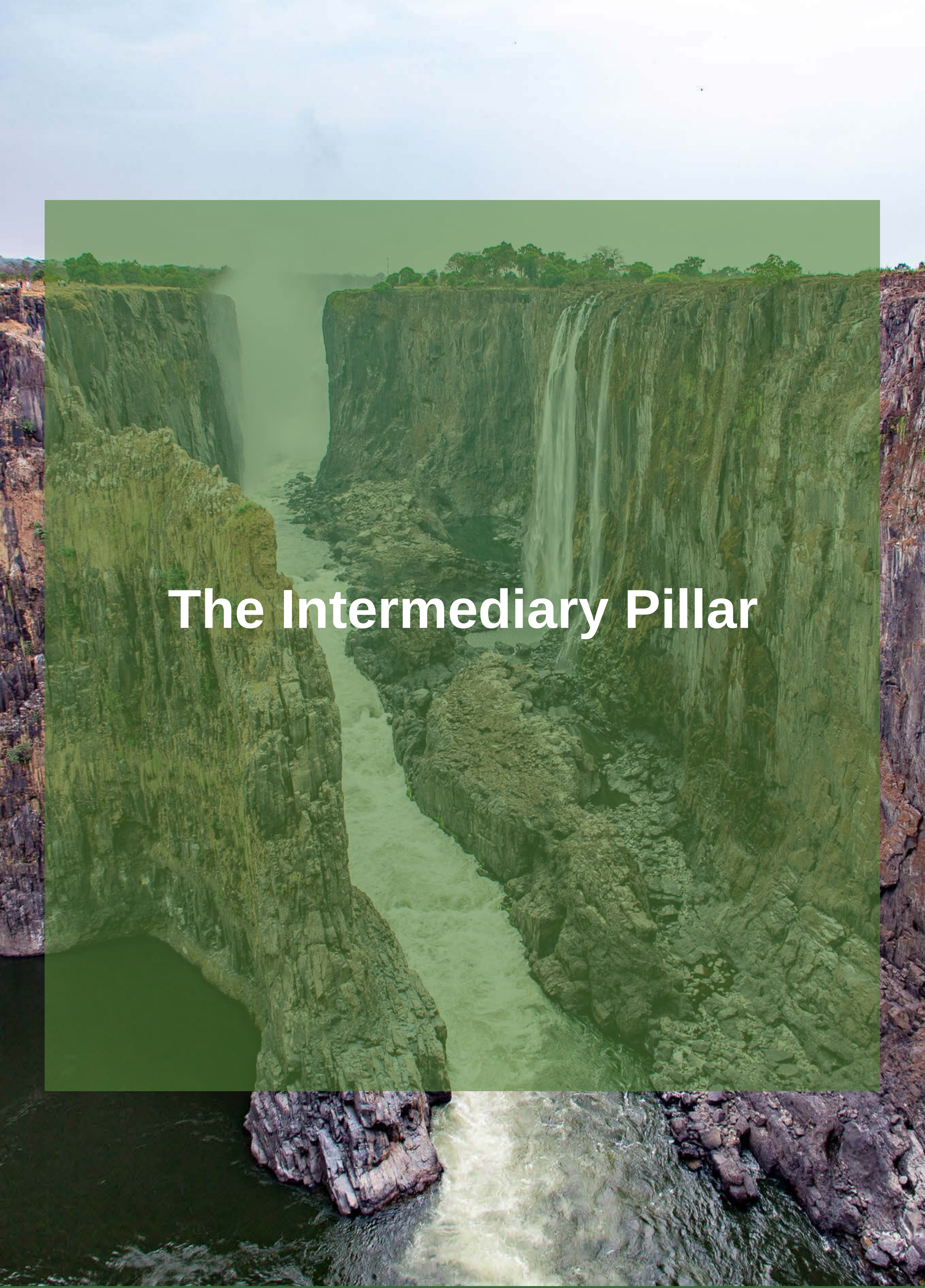
In addition to creating a compelling impact narrative, a number of opportunities exist where NABII can intervene and address the challenges of raising impact capital in the Demand Pillar. These are summarised below:

1. **Support** the creation of an investor database with clear distinctions on the different types of impact capital provided. A point of departure can be taken in the comprehensive database created as part of this study

2. **Improve** the awareness on various types of impact capital and which best fits various types of companies

3. **Analyse** and recommend which alternative financing instruments or intermediaries (such as crowdfunding platforms) would be relevant to promote in Zambia.

4. **Leverage** existing business associations on the importance of education of impact investment, or how certain businesses can transition to an impact-focused business through development of an impact strategy and enhanced reporting structures.



The Intermediary Pillar

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The Intermediary Pillar: *Introduction*

Intermediation models for Impact Investments in Zambia is quite underdeveloped due to the small ticket-size of investment in the sector. This directly hints to the fundamental challenges from the ***demand vs. supply*** of impact capital. Despite this, there is a substantial number of service providers including legal, audit, financial/corporate advisors, and private equity firms. However, to avoid ambiguity in determining the size of potential funds available for Zambia, PE and venture capital (VC) firms have been included in the supply sections of this study. Therefore this section covers ***all intermediation models*** except PE and VC firms. Many players offer other corporate advisory services such as tax and audit consulting, and mergers and acquisitions, as well as investment advisory services.

In a more mature market such as the U.K., there are many intermediation models that exist for impact investments and these include:

1. **Impact-Focused Arrangers and Advisors:** Firms that provide investment advice and deal structuring for businesses and investors.
2. **Infrastructure:** Includes platforms used to move funds from impact capital suppliers to businesses such as crowdfunding platforms and social stock exchange.
3. **Instruments:** Models of delivering impact capital to businesses, an example of which is social impact bonds.
4. **Impact-Focused Private Equity & Venture Capital Firms:** Investment management businesses that provide financial backing to private businesses and start ups
5. **SME-Focused Arrangers and Advisors:** Firms that provide investment advice and deal structuring for businesses and investors.

We undertook a gap analysis to determine the intermediation models present in Zambia by making comparisons with a more mature market such as the UK. Zambia has a sizeable number of intermediaries, though they all fall within one category and there is little variation in the services being offered.

Gap Analysis of the Intermediation Models

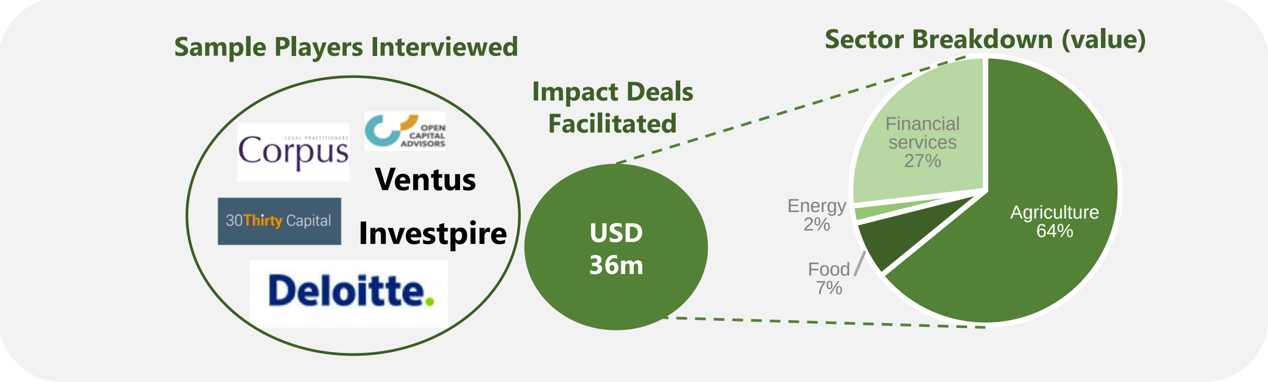
Intermediation model type	United Kingdom	Zambia*
Impact-Focused Arrangers and Advisors	Investing for Good, worthstone	Market Gap
Impact-Focused PE/ Venture Capital Firms	Rise Fund, Northstar Ventures, Cheyne Capital	Partial market gap: Kukula Seed, Two Nine Group, Inside Capital Partners
SME-Focused Arrangers and Advisors	Numbers for Good, Good Finance	Zenga, Open Capital Advisors, Kukula Capital
Non-specialised Corporate Advisory Firms	BainCapital, EY, JPMorgan Chase & Co.	Imara Investing in Africa, Pangaea Securities, pwc
Social Stock Exchanges, Social Banks, Crowdfunding	social stock exchange, Triodos Bank	Market Gap

*The list above is not an exhaustive list but is only used to illustrate the gaps

Intermediation Players in Zambia

Out of shortlisted advisors and focusing on impact transactions, ***6 intermediaries*** who had facilitated Impact deals worth USD 36m over a period of 4 years were shortlisted, covering 4 major sectors, namely Agriculture, Financial Services, Food and Energy .

Feedback shows that challenges are similar across the entire ecosystem and mostly resolves around ***small ticket-size*** and ***lack of readiness***, lack of ***fundraising***, ***limited management capacity***, and lack of ***reporting*** and ***governance*** structures in place.



Corporate Financial Advisors

With Corporate Financial Advisors being the ***main intermediator*** of Impact Capital, these players account for the facilitation of most deals in Zambia. Therefore, the incumbent players can be placed on a spectrum ranging from traditional financial advisors to advisors focusing on smaller deals where most of the impact transactions occur.

These categories are determined by the profile and motivation of the advisor; if the advisor seeks commissions and facilitates deals regardless of the type, it is a traditional intermediator. When certain deals are blacklisted because it contradicts with ESG guidelines or if the intermediator is actively seeking ESG opportunities, they begin to adopt an impact-driven practice. ***There are still no impact-only intermediators in Zambia as the impact investment market is not mature enough.***

Recent Impact Transactions by Selected Advisors

Name	Recent or Current Impact Transactions
ZENGA	Advising on investment in NetOne subsidiary
Pangaea Securities	Advised on CDC investment in Zambeef Plc
PWC	Advising North Western Energy Company on Fundraising
Deloitte	Advised on CDC acquisition of Zampalm from Zambeef.
Kukula Capital	Advised on Agri-vie investment in Capital Fisheries
Imara Capital Plc	Advised on investment in Zambezi blueberry farm

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Developing Effective Impact Intermediation:
Activities and Policy Measures

Despite the indirect promotion of impact sectors from a government perspective through different ministries, statutory bodies and government institutions, there is very little that has been done to ensure that intermediaries are well positioned and offer varied services that could promote the impact investment landscape as it grows. A few activities include:

1. **The Capital Markets Association of Zambia (CMAZ)** was established in 2016 with the aim of strengthening capital market players including advisors and fund managers within alternative asset classes. The association promotes growth through policy advocacy, dialogue and lobbying, and aims to develop efficiency and integrity in local capital markets by connecting advisors with other participants.

2. **Local Programs Spearheaded by Donor Agencies** which are building competencies amongst businesses by offering technical assistance for optimising their operations and making them investment ready. Specifically, the role of certain programs such as PEPZ has promoted the intermediary pillar by offering a matching financial grant towards advisory fees. Without programs like this, typically many businesses that have raised funds would not have engaged advisors as most would not have sufficient funds.

3. **The Pension and Insurance Authority (PIA)** regulates private pension funds investment guidelines. PIA has introduced a percentage threshold* of not more than 5% of total assets of pension funds and long-term insurers can invest in unlisted securities such as private equity, which increases the capital available for suppliers, the deal flow in Zambia and subsequently the traffic for intermediaries (see supply pillar). Similar and more ambitious targets has been made for NAPSA. The expected availability of local capital for alternative asset classes including impact investments is expected to ease the role of local intermediaries as they will not only have to look for funding internationally, but will have tangible options locally.

* Pension Scheme Regulation Act, 1996 Statutory Instrument No: 141 of 2011

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Developing Effective Impact Intermediation: *Challenges and Barriers*

Challenges of Building Strong Pipelines

The current state of the Zambian ecosystem creates a paradox whereby the underdeveloped market of impact investing makes it unattractive for intermediaries to adopt practices for facilitating impact deals only. Many of the challenges experienced by impact capital suppliers spill over to the intermediaries. However, experience shows that unlike impact capital suppliers, many intermediaries often do not have a challenge in sourcing impact deals due to the approach of being more hands on and being based in Zambia.

Feedback from the interviewed intermediaries indicates that most had no structured process to develop bankable impact investment pipelines in Zambia but often projects were obtained through networking and relationship building. Due to their local presence, many intermediaries have strong pipeline of impact deals but struggle to find impact capital suppliers willing to take risks in a volatile market, especially with businesses with no forex earnings.

Intermediaries are also faced with the challenge that many deals under USD 1m are often relationship-based and require constant follow-ups, which exacerbates the high transactional costs. Small businesses typically cannot afford to pay any up-front fees to advisors which is why most intermediaries prefer to focus on medium to large deals of above USD 5m as the success fees then better justify the efforts.

Barriers to Effective Intermediation

Challenge	Mitigation Strategy
There is a gap in specialised skills among intermediaries due to lack of standardisation and lack of experience in complex deal structuring.	More intermediaries are utilising international expertise that is below the labour market price, such as retired professions and international graduates looking to build experience in emerging markets. This helps to keep costs minimal. However, this does not result in the long-term solution of building local skills, and there there is a demand for local intermediary training.
Low willingness amongst businesses to pay for financial advice upfront, which impends the development of the impact investment sector.	Intermediaries have adopted a pragmatic approach to this where they focus on larger transactions. Programs such as PEPZ bridges the gap for small enterprises by subsidising the upfront fees.
'Green washing' – i.e. labelling all deals as impact so as to increase the pool of interest among investors, subsequently increasing chances of accessing capital.	Need for intermediaries to apply clear definitions within impact investments to avoid the term being diluted.

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Developing Effective Impact Intermediation: *Opportunities*

As illustrated in the comparison with the U.K., there are clear gaps in the Zambian intermediary pillar, in particular among specialised enablers such as Crowdfunding platforms, Social Banks and Social Stock Exchanges. Whilst the Zambian capital markets may not yet be ready for a Social Stock Exchange, it is clear from the descriptions belo that Social Banks and Crowdfunding platforms could provide excellent opportunities.

Social Banks

Social Banks conduct their business not only to achieve financial returns but also have a strong focus on providing opportunities for social and environmental agendas. There is great potential for developing Social Banks in Zambia as there are an increasing number of social enterprises who seek funding but are currently not served by commercial banks as they are considered high risk.

The number of Zambians who are becoming socially conscious is increasing, and this can be seen in the 'village banking concept' whereby small saving groups are now lending within the group at subsidised rates and with no collateral. This is a concept that could be capitalised on and respond effectively to the needs of society at a grassroots level. A Social Bank in Zambia would also be instrumental in promoting community development and the effective provision of community services.

Furthermore, the implementation of a Social Bank would be an inspiring step for the impact investing ecosystem and would help shift the mainstream attitude towards money and finance in a more humanistic direction.

Crowdfunding

It was shown in a recent feasibility study and pilot conducted by Kukula Capital that Zambian investors have an appetite for crowdlending to support Zambian businesses so long as risk adjusted returns are competitive and the social impact is high.

Crowdfunding would serve two interlinked purposes in Zambia: To assist in showcasing social enterprises to a broader audience of impact investors as well as assist with the local capital mobilisation.

Between July and September 2019 two Zambian companies raised debt as part of a crowdfunding pilot targeting local investors. Both fundraises were successful. Vitalite has also successfully raised debt via crowdfunding 6 times from international investors, illustrating the strong opportunity.

It is currently not possible to raise capital from Zambian investors to Zambian businesses through a crowdfunding platform as international platforms do not generally allow Zambian investors. Furthermore, no Zambian platform exists to facilitate local investments. Regulation on crowdfunding/p2p-lending is currently absent in Zambia, which is the largest obstacle to fulfilling the potential. However, SEC and Bank of Zambia are very positive about designing a regulatory framework that can accommodate the future development of such a platform. Such a platform would allow for expediated flow of impact capital and avail a pool of local financial resources that could be leveraged for the local businesses.

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The Intermediary Pillar:
Recommendations to NABII

1. **The Capital Markets Association of Zambia (CMAZ)** would be a a natural starting point for NABII. The association has all the regulated players under this pillar in its membership and could be a starting point for promoting training in impact investments among intermediaries. The competency trainings will assist in lowering transaction costs for impact capital suppliers.

2. **A Zambian Crowdfunding Platform** would not only require an updated regulatory framework but also also need a commercial promoter who will invest in and establish a platform. NABII should promote this opportunity once the regulatory framework is in place.

3. **A Social Bank** would service the needs of socially conscious customers and provide much needed finance to viable social enterprises. Therefore, a detailed study should be undertaken to assess the viability of setting up a Zambian Social Bank. As in the case of the U.K., this could perhaps commence with the assessment of unclaimed funds either from money transfer businesses or bank accounts.

The Regulatory Pillar

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The Regulatory and Policy Pillar:
Key Players and Activities

Key Government Players and Awareness

Main regulatory bodies for investments in Zambia include: Bank Of Zambia (BOZ), Securities Exchange Commission (SEC), Competition and Consumer Protection Commission (CCPC), and Zambia Development Agency (ZDA).

Zambia Development Agency (ZDA) | COMPETITION & CONSUMER PROTECTION COMMISSION (CCPC) | SECURITIES AND EXCHANGE COMMISSION, Protecting Investors in the Capital Markets | Bank Of Zambia

Research and engagements with delegates from the above entities demonstrate that there is no specific regulation governing for Impact Investments in Zambia, except for the ZDA although different terminology is used. The Zambian Government has a number of policies and initiatives in place aimed at creating social impact through job creation. This shows a general awareness of the importance of creating impact although it is not explicitly addressed as Impact Investments.

Key Activities and Policy Measures

The Zambian Government has established the following key institutions with a mandate to promote what could be termed impact investments (as explained in more detail under the supply pillar section):

CITIZENS ECONOMIC EMPOWERMENT COMMISSION | IDC Industrial Development Corporation | ZCCM-IH | dbz Development Bank of Zambia

These institutions are all making tangible efforts towards increasing the supply of capital into high impact sectors. The Zambian Government through the ZDA has outlined six priority sectors for investment: Agriculture, Energy, Infrastructure, Manufacturing, Mining and Tourism. The below matrix illustrates which sectors can contribute to each SDG.

SUSTAINABLE DEVELOPMENT GOALS

Priority Sectors	1 No Poverty	2 Zero Hunger	3 Good Health and Well-Being	4 Quality Education	5 Gender Equality	6 Clean Water and Sanitation	7 Affordable and Clean Energy	8 Decent Work and Economic Growth	9 Industry, Innovation and Infrastructure	10 Reduced Inequalities	11 Sustainable Cities and Communities	12 Responsible Consumption and Production	13 Climate Action	14 Life Below Water	15 Life on Land	16 Peace, Justice and Strong Institutions	17 Partnerships for the Goals
Agriculture	X	X	X					X				X			X		
Energy	X						X	X	X		X	X					
Infrastructure	X							X	X								
Manufacturing	X							X	X								
Mining	X							X				X					
Tourism	X							X									

The above matrix highlights the following:

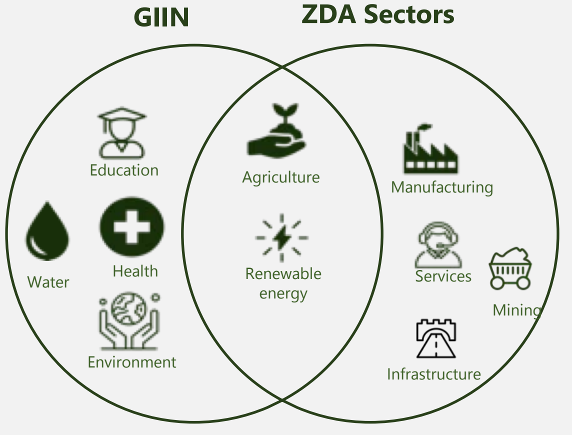
- All six of the ZDA priority sectors can contribute towards the SDC goal of **NO POVERTY**.
- All six of the ZDA priority sectors can contribute towards **DECENT WORK AND ECONOMIC GROWTH**.
- ***Agriculture*** and ***Energy*** can contribute towards the largest number of SDGs.

Therefore, a recommendation would be for ZDA to prioritise ***Agriculture*** and ***Energy*** but with specific focus on ***Renewable Energy*** to align with best practice for impact investors.

The Regulatory and Policy Pillar:
Key Priority Sectors

Furthermore, a cross-check of the ZDA priority sectors with the GIIN high impact sectors shows some similarities, even though the ZDA does not specifically incentivize Renewable Energy. Therefore, there is a good basis for promotion of Impact Investment, especially in sectors which are already defined as impact sectors. A refinement of already existing regulation could fast-track the implementation process by government.

Intersection of the GIIN impact sectors and Zambia's priority sectors



Impact Areas and Objectives

Agriculture: Environmentally and socially sustainable agricultural production and food systems.
Housing and Community Facilities: Access to quality and affordable housing, sustainable and accessible community facilities.
Financial Services: Financial inclusion for marginalised individuals, industries and small/micro enterprises.
Education: Quality education and academic opportunity for all students.
Health: Expanded access to basic, low-cost preventive and treatment services, particularly among poor and rural populations.
Environment: Conservation of natural resources, reduced threats to biodiversity, and reduced pollution.
Energy: Expanded access to clean energy technologies, reduction of carbon emissions, and climate change mitigation.
Water: Access to safe drinking water and sanitation, particularly for poor and vulnerable populations; water conservation.

Government has put incentives in place that promote investment flows to these sectors and this regulation could be seen as pro-impact investment for the two priority sectors Agriculture and Renewable Energy. Incentives include accelerated depreciation on capital equipment and zero percent import duty on capital equipment and machinery for five years*. Non-fiscal incentives include: investment guarantees and protection against state nationalisation; land acquisitions; and expediated immigration permit processing.

- Better alignment of the ZDA Priority Sectors with GIIN Impact Sectors would help to reduce the gap between supply and demand for impact capital in Zambia.
- The Zambian Government has made strives towards pension reform with the aim of promoting investments by Zambian Pension funds in non-traditional asset classes such as private equity and social investments.
- In 2017 a Statutory Instrument was passed which allows the largest pension fund NAPSA to invest in alternative asset classes of up to 10%, including social investments of up to 1%**. These are expected to be made operational during 2019 and it is expected to have a significant effect on supply of impact capital in Zambia.

Key Hurdles

They key hurdles under this pillar include:

- Only partial alignment between government defined impact sectors and internationally recognized Impact sectors
- Regulatory framework under SEC are not fully up to date with new Impact investment products such as Social Impact bonds and Crowdfunding platforms.
- Current incentives for priority sectors are not easily obtained and realized.
- Despite recent reforms there is still low supply of capital towards impact sectors being facilitated through government institutions or pension funds.
- Limited experience and lack of dedicated funding towards impact investments among government investment arms such as IDC and ZCCM.

*Certain fiscal incentives are currently suspended
** National Pension Scheme (Investment) Regulation, Statutory Instrument no 19 of 2017

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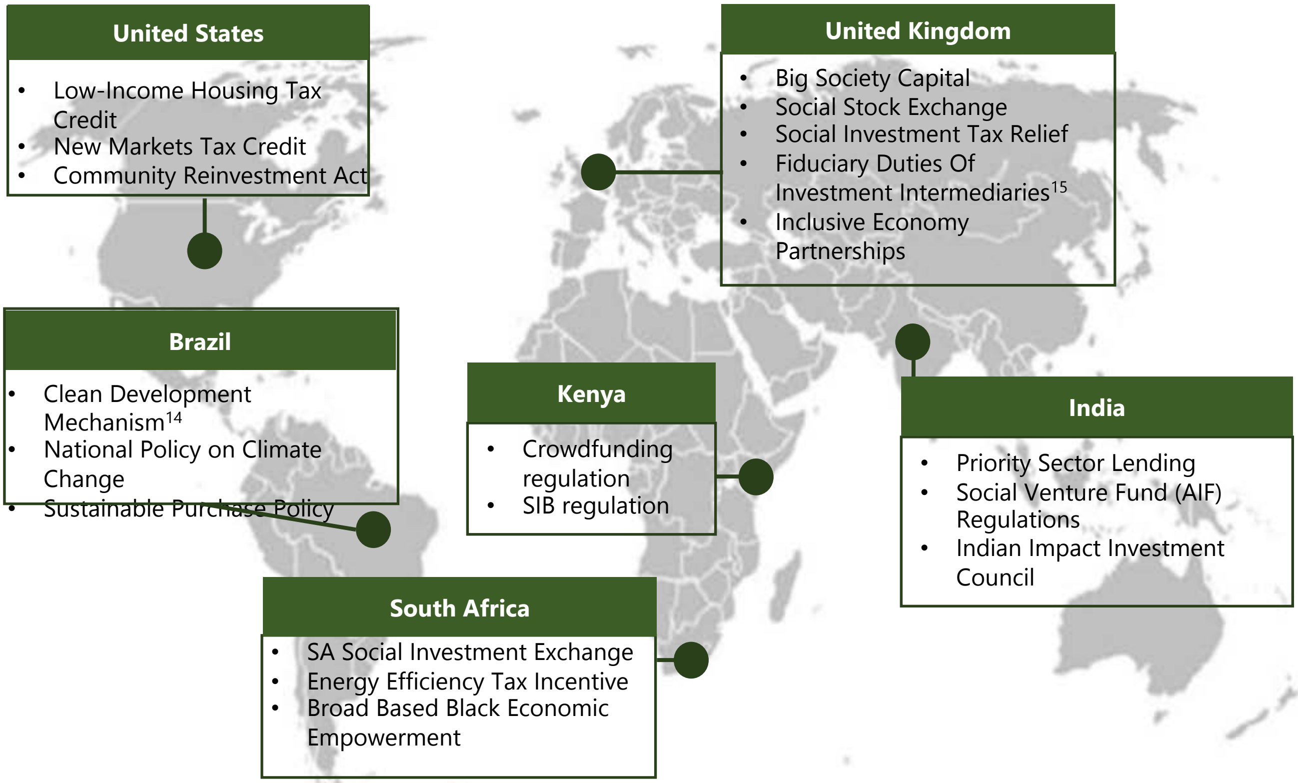
The Regulatory and Policy Pillar: *Possible Reforms*

Possible Regulatory and Policy Reforms

Globally, the number of tax reforms, acts, investment councils, social stock exchanges etc. are promoting Impact Investments. These are illustrated below:



Category	Country	Regulation	Description
Supply	United Kingdom	Big Society Capital	A “wholesaler of capital and a champion of the sector” whose purpose it is to invest in social investment intermediaries while increasing the knowledge of, and confidence in, impact investing. Individual investors can receive a 30% tax break on SITR investments.
Tax Reform	United Kingdom	Social Investment Tax Relief	The government's tax relief for social investment. It was introduced to encourage individuals to invest into social enterprises, charities and community businesses by offsetting the risk to investors.
Fiduciary Duties	United Kingdom	Fiduciary Duties Of Investment Intermediaries	Addresses the lack of clarity around such duties when taking into account social and environmental impact in making investment decisions.
Social Stock Exchange	South Africa	SA Social Investment Exchange	A public social stock exchange (SSE)—a trading platform that exclusively lists companies with a social or environmental purpose.
Tax Reform	South Africa	Energy Efficiency Tax Incentive	Income Tax Act, 1962 (Act No. 58 of 1962) provides an allowance for businesses to implement energy efficiency savings. The savings allow for tax deduction of 95c/kwh saved on energy consumption
Priority Sectors	India	Priority Sector Lending	Reserve Bank of India (RBI) has required all public and private banks to direct a fixed percentage of lending to priority sectors. one-fifth of priority sector lending must go to “weaker section” small business and agricultural borrowers.
Incentive Program	United Kingdom	Inclusive Economy Partnerships	Helps government identify business solutions to specific societal challenges, incentivize more businesses to follow approaches and best practices identified through the IEP.
Investment Council	India	Indian Impact Investment Council	IIIC acts as a Self-Regulatory Organization that enforces ethics, transparency and consumer protection and implements operating, governance and measurement standards
New product regulation	Kenya	Capital market Authority of Kenya	The Capital Markets Authority (CMA) regulates crowdfunding under the Mandate of the Public Collections Act of Kenya-Cap 106

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The Regulatory and Policy Pillar:
Sector specific Policies

In addition to implementing best practice policies from around the globe, policies incentivizing impact investments into specific sectors of investor preferences are likely to attract impact capital. As the Gap analysis later on in this report shows, there are sectors such as Financial Services, forestry and renewable energy where supply of Impact capital exceeds the demand.

The above sectors could be promoted with new policies/reforms such as:

Renewable energy

1. Ease the process for Independent power producers to supply private off takers
2. Streamline/coordinate approval processes for independent power producers among regulatory bodies.

Sustainable Forestry

1. Ease the process of land ownership which is currently bureaucratic and time consuming.
2. Provide fiscal incentives for replanting of forest

As for Financial services no specific regulatory challenges were found. Main reasons for the supply-demand gap seems to be relating to other factors such as deal size.

The Regulatory and Policy Pillar:
Recommendations to NABII

Based on the input from the other pillars, NABII should engage GRZ on a number of regulatory and policy recommendations:

- Lobby for ***regulatory changes at SEC*** to implement specific regulation for Crowdfunding platforms, similar to what has been done in Kenya.
- Lobby ZDA[16] to ***revise the Zambian priority sectors*** and incentives in line with GIIN Impact sectors.
- Lobby GRZ to review and possibly ***align fiscal and non-fiscal incentives*** with best practice from other markets.
- Lobby ZDA to prepare and ***publish annual research reports on impact sectors.***
- Lobby GRZ to ***review the current framework for GRZ-led impact investments*** and recommend the most effective structure going forward.
- Lobby for ***tax incentives for energy efficient companies.***

The Enabler Pillar

G The Enabler Pillar: *Introduction*

Zambian enablers facilitate the private sector environment to help businesses grow. They cover a range of support services that are carried out by public and private actors on an international, regional and local level. The enabling environment is made up of local statutory bodies, councils and institutions such as Embassies, Universities and advisory boards, ESG and gender specialists that play a central role in determining the ease of doing business. In the private sector, a range of international, regional and local organisations and programs play a key role in providing businesses with the necessary tools to create impact. Deal facilitators, such as legal practitioners and finance advisors are described in the 'intermediary pillar' section of this study, as they mediate deals, rather than impact the overall ecosystem.

Enablers are divided into two overall groups:

a. Enablers focused on creating and improving an ecosystem that enables impact investment (macro enablers) for all businesses
b. Enablers focused on enabling individual businesses' potential for obtaining impact investment (micro enablers). Micro enablers are further segmented based on which stage the businesses they target are in

Macro Enablers

There exists a range of institutions, associations and advisory boards which all work towards improving the Zambian macro environment for businesses. For example, doing business for startups and supporting them to obtain impact investments. We divide these enablers into the following four (4) groups: Educational Institutions, Advisory Boards and Councils, Associations and Embassies.

Overview of Macro Enablers

Enablers:
Macro Enablers

Educational Institutions

Universities play a dual role in providing tangible training and education for students. Additionally, they create a network amongst students and between the students and businesses. As seen in the Supply Pillar, impact investors find the quality of management to be the most important selection criteria when evaluating impact investments. Consequently, Zambian Universities are a fundamental macro enabler as their proficiency determines how capable the next generation of entrepreneurs, investors and business leaders will be. As a first for Zambia, the University of Lusaka has recently started offering courses on shared value and investing, thereby incorporating social entrepreneurship and impact investing into its curriculum. The Copperbelt University has launched a Center of Excellence in Sustainable Mining, which includes training in Entrepreneurship and CSR. As a whole, Zambian Universities have taken the first steps into the realm of impact investment within formal education. In addition to formal education, Universities have the opportunity to draw upon their faculty and network within the business sector, to launch support programmes for young entrepreneurs.

Advisory Boards and Councils

In an impact investment context, advisory boards and councils are bodies which provide advice to Government and other stakeholders on which policies and programs to implement to better enable businesses to attract impact investment. As such, advisory boards and councils have the potential to play a large role in shaping the Zambian business ecosystem. Awareness of impact investment is increasing in this group of macro enablers. The Zambian Development Agency (ZDA) is a partner of the Impact Capital Africa forum. The National Science and Technology Council works to develop the field of science and indigenous technological capacity and has established a small fund to invest in promising technologies. The Zambian Chamber for Small and Medium Business Association has partnered with BongoHive to conduct a business plan competition for budding entrepreneurs. Zambia Business in Development Facility (ZBiDF) and Incite held a Shared Value Master Class. Lastly, the National Advisory Board is building the foundation for a roadmap on improving the conditions for and prevalence of impact investment in Zambia.

Associations

Various governmental actors, companies and trade groups set up specialised associations to focus on different aspects of economic development. These associations typically facilitate events and conferences, workshops and network building. By doing so, associations can act as enablers of a business environment which is more conducive to impact investment. 4IP has had an active role in building the impact investing ecosystem in Zambia through co-organizing two series of Impact Investing conferences with AFSIC and WaterPreneurs, matching beneficiaries of the EMEPRETEC programme with impact investors in Switzerland, setting up the Taskforce for NABII Zambia and now aim to set up an Infrastructure Impact Fund. Impact Capital Africa (ICA) is an association established to connect investment-ready African businesses with motivated Impact investors. ICA organizes an annual impact investment conference in Lusaka. Further, ICA identified 53 investment-ready businesses who received technical assistance from PEPZ towards getting investment ready. IIX Chapter has operated a roundtable to establish a professional network of professionals interested in positive impact. The Capital Markets Association of Zambia (CMAZ) has worked together with the Zambian SEC to develop a 10-year capital markets master plan on how capital markets can function as an enabler to achieving sustainable and significant economic development. DFID is currently the major supporter of the impact investment enterprise ecosystem through the Private Enterprise Programme, PEPZ.

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Enablers:
Macro and Micro Enablers

Embassies

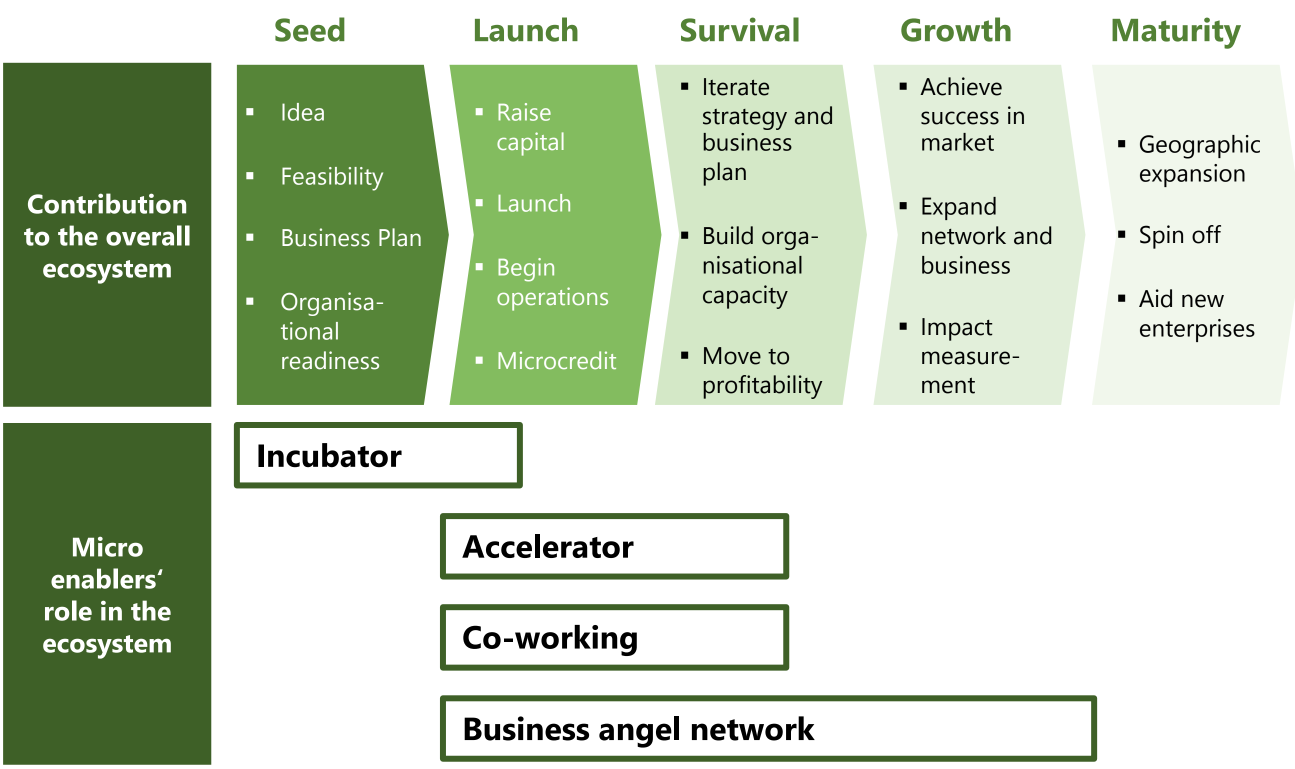
Several embassies or diplomatic missions aspire to assist to improve the Zambian business environment. This includes both micro and macro-level programs and initiatives. The next section will explore the micro-level initiatives. On the macro-level, various embassies sponsor networking and knowledge-sharing events as well as influence policy-making to improve framework conditions for private sector involvement. GET FiT Zambia, funded by the German Government, entails the procurement and support of 200 MW renewable energy as well as boosting institutional capacity. The US Embassy has arranged social entrepreneurship bootcamps, entrepreneurship financing bootcamps amongst others.

These macro-enablers conclude the ‘ecosystem’ whereas the remaining types, like incubators and accelerators, will be divided into the lifecycle stage for businesses that they target to assess the importance of their contribution to the ecosystem.

Micro Enablers

While macro enablers play an important part in shaping the overall ecosystem wherein businesses operate, there are also a range of enablers, e.g. incubators and accelerators, who operate on a micro level, enabling individual businesses. In this section, we will divide these according to which stage of the startup lifecycle they enable businesses. Generally, the earlier in its startup lifecycle a business is, the more assistance it needs. Consequently, most enablers target businesses at the earlier stages.

Stages in the Business Lifecycle



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Enablers:
Micro Enablers

Incubators

Incubators help entrepreneurs incubate startup ideas with the hope of building a business model and company. An incubator provides mentoring, advice on idea refinement, business plan formation, product-market fit and networking. A typical incubator[17] will have a shared space in a co-working environment where entrepreneurs lease a space, but this is not a given. Some incubators have an application process while others work with companies and ideas that they encounter through their network. Incubators enable these businesses to better refine their concept and thus progress towards a more advanced stage, and fundraising, quicker.

Zambia has two incubators, BongoHive and WeCreate (for female entrepreneurs). They provide a wide range of assistance including tax, legal and financial advice, mentorship, and free co-working space. BongoHive alumni have gone on to raise more than USD 750k. The US Embassy has established an incubator program for female entrepreneurs in partnership with BongoHive and WeCreate. UKAID/DFID has also supported this part of the ecosystem through an ambitious business plan competition as well as through co-investing in startups with Kukula Seed. Kukula Seed is a permanent capital vehicle focusing on early stage investments.

Accelerators

Entrepreneurs who join accelerators are typically slightly further ahead than those joining incubators. The business are typically given a small seed investment by the accelerator along with access to a large mentorship network, in exchange for a limited amount of equity. Some of the same services are provided as in incubators, but with greater emphasis on mentorship and scaling the business. A successful accelerator program ideally enables the participant business to go on to raise external capital. There are no accelerators in Zambia.

Co-working Spaces

Most entrepreneurs do not have their own office and start out working from home or public spaces. To cater to this growing demographic, co-working spaces are proliferating globally and offer entrepreneurs a professional work setting with other entrepreneurs. Aside from a tranquil working environment a key draw of co-working spaces is a professional community of likeminded individuals, which can provide business opportunities. Additionally, some co-working spaces also arrange networking events. Thus, providers of co-working spaces enable individual businesses to work in a more professional environment while potentially meeting future investors, co-workers or business partners. Providers of co-working space rent out desks on a short-term basis to entrepreneurs. In Zambia, Impact Hub and LSK Co-op provide co-working spaces.

Business Angel Network

A business angel network is a place for business angels to meet, discuss investment opportunities and share knowledge. The business angel network thus enables HNWIs a more organised way of engaging with startups. There is no Zambian business angel network.

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Enablers:
Challenges and Opportunities

Challenge: **Lack of Data On Sectors, Industries and Markets**

- A low degree of available information on impact sectors increases the risk perception of investors by lowering the level of analysis on trends and characteristics within each sector, and creates a barrier to investments.
- Businesses lack information to innovate their offerings, make data-driven decisions and seek out competitors or collaborators to increase the overall value creation within the respective industry.

Opportunity: Improving the information outflow from impact sectors will increase transparency and ease the due-diligence process of all investors and for international investors, in particular who controls the largest amount of FUM.

Challenge: **Lack of Risk Appetite Among Most International Investors**

The missing transparency between businesses, sectors and investors increases the overall risk perception of asset classes in Zambia. With a low risk appetite among international investors, the high level of risk perception creates a barrier for foreign investments.

Opportunity: Enablers have an opportunity to lower this risk through underwriting the risk of new impact investments instead of focusing on donor programmes or GRZ initiatives.

Challenge: **Lack of University Programmes Within Corporate Finance and Investments**

University programmes fail to educate students on corporate finance and investments which is a prerequisite even before doing specific impact investment courses. A lack of education lowers the competencies and quality of the future labour pool and creates a barrier for social innovation and impact investing.

Opportunity: Increasing the knowledge around finance and investments are essential to develop the private sector.

Challenge: **Lack of Skills Among Intermediaries**

The intermediary pillar is underdeveloped and has an insufficient amount of experience in facilitating impact transactions. This market gap creates a barrier for businesses to connect with impact investors.

Opportunity: The enabling environment should focus on developing intermediaries and not only businesses.

Challenge: **Lack of Co-operation Across Pillars**

A lack of co-operation between stakeholders from the five pillars creates a barrier for developing the ecosystem.

Opportunity: The enabling environment has an opportunity to research if impact bonds, which are developing fast in SSA and other regions, are a viable option to promote cross-pillar partnerships. These bonds are instruments that NABII can initiate and use to enable stakeholders from all pillars to combat social issues in impact sectors through results-based financing. They require impact investors to fund social enterprises, intermediaries to create tangible milestones for the social enterprise to reach and either GRZ or donors to provide investors with a return on investment if milestones are reached*.

*See Appendix A

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The Enabler Pillar:
Recommendations for NABII

The enabling environment is the main channel for improving the impact investing landscape because enablers can influence the ease of doing business (macro) and the attractiveness of individual businesses (micro) at different stages in the startup life cycle. The following recommendations will address how NABII can improve the macro enabler setup as well as the early stage micro enablers.

Macro-level Enabling

NABII should engage with macro enablers and:

1) Lobby ZDA to publish annual reports for high impact sectors, which would improve information flow and transparency – two substantial barriers to attracting impact investment.
2) Collaborate with Universities to foster innovation and entrepreneurship through setting up career fairs with social enterprises, student-led organisations within impact investment, and incubation programmes for student entrepreneurs.
3) Lobby for increased government funding for Renewable Energy projects because of an abundance of resources.

Micro-level Enabling – Seed Stage

NABII should lobby for increased funding for incubators to increase their provision of social business development tools, hence producing more financially sustainable social businesses. NABII can either cooperate with existing incubators or set up a dedicated social entrepreneurship incubator.

Micro-level Enabling – Launch Stage

For a business to receive impact investment, it will have to have professionalized (to as great degree as possible) and have solid data reporting, especially when it comes to impact measurements. Consequently, NABII should:

1) Create accelerator programmes to provide businesses with mentorship and workshops, which can improve management quality and company processes.
2) Implement a social impact measurement handbook to assist businesses in the sometimes daunting task of providing accurate, reliable impact measurements in a cost-effective and efficient way.

Micro-level Enabling – Survival Stage

NABII should organise a group of stakeholders to develop a platform connecting businesses, impact investors and intermediaries who are working to solve social challenges. As businesses survive the early life-cycle stages, scale up operations and achieve impact at scale, the need for partnerships and funding increases. Once businesses reach a size where they can pay advisory firms to help them streamline processes, ensure governance and iterate strategies, this makes it an interesting time for intermediaries to attend and meet potential clients. By encouraging knowledge sharing and bringing together key suppliers of capital and the startups which are creating impact at scale, NABII would enable the flow of capital to said startups.

The Enabler Pillar:
Recommendations for NABII

Renewable Energy

Zambia's energy mix comprises of 95% hydro and the balance being thermal from coal and heavy fuel. The country currently has a power deficit that has exceeded 750 MW, according to a statement by ZESCO. This is owing to the low rainfall that feeds into the reservoirs of Zambia's largest hydroelectric power generation facilities. This crisis has sparked a discussion around power generation diversification.

The options that would mitigate against drought conditions are solar, run of river hydro, wind and geothermal. Numerous independent power producers that cover these alternative generation technologies have expressed interest in investing in Zambia. The main challenges to this endeavor are;

1. **ZESCO's credit worthiness**
2. **Grid stability**

ZESCO is heavily indebted with obligations to suppliers and independent power producers. With the tariff that ZESCO charges consumers being lower than the cost of power generation, distribution and other operational costs, the its financial model has been unsustainable and resulted in insolvency. Additionally, the power grid is said to have limited capacity to take on the volatility of solar and caps it at 300MW. These factors have impeded investment but there have been initiatives undertaken by donors and development finance institutions to mitigate them and promote investment.

These initiatives are:

1. **The REFIT police (US funded)**
2. **Scaling solar (IFC/World Bank and IDC)**
3. **GETFIT (KFW)**

These initiatives have mitigated investor risk through the provision of capital, partial payment guarantees and standardization of legal documentation such as development agreements and power purchase agreements. Impact investments should be channeled to:

1. **Supporting existing initiatives that have limitations in their scope. This can be to donors/DFIs in the form of additional partial payment guarantees for reduced default risk from ZESCO.**

2. **Supporting Commercial and Industrial power suppliers who are able to supply large power consumers directly through private captive power plants. This can be done by providing concessional debt to corporates to acquire the captive plants or CAPEEX investment in the C&I facilities**

3. **Support utility scale independent power producers who have off-take agreements with large scale consumers and can supply them through the national grip under a wheeling agreement with ZESCO. This can be done by providing equity or debt capital to bridge funding gap of development.**

Gap Analysis

H Gap analysis: Supply and demand

The gap analysis analyses the match between historical performance and future expectations by comparing the desired amount of impact capital requested by for-profit social enterprises in the private sector with the impact deals from 2015-2018.

Impact ratios

77 businesses are actively fundraising USD 177,5m in Zambia across 19 sectors and the current total value of impact transaction for the first 9 months of 2019 is USD 120m. Applying a CAGR of 13% equal to the projected growth, the next 12 months will include impact deals of USD 135 m. This creates a USD 40m gap of excess demand between supply and demand. In reality, this gap is likely to be bigger as mismatch in sectors, deal sizes as well as investor and demand preferences opposes a perfect match.

Excess demand

USD 40m

Average deal size

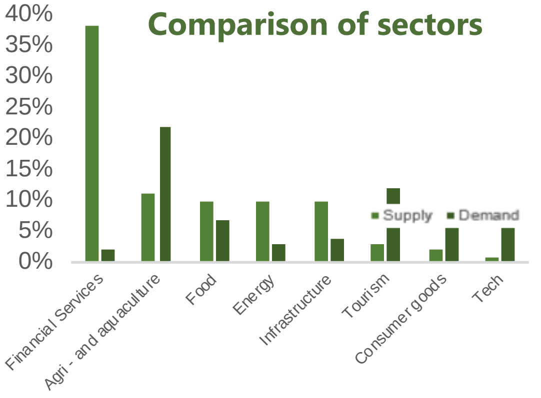
The 77 businesses fundraising for impact capital have a desired average deal size of USD 3,2m, which is unusually high because sample outliers that are in their second, third or fourth funding round. The historical deal size average for DFIs and impact investors is USD 5m, indicating that even with outliers, the average deal size of impact transaction is way above the demand of businesses. When zooming in on three top impact sectors, the average supply deal exceeds the future demand and shows that a gap exists across sectors (besides Agriculture) with manufacturing having the biggest gap. This can create challenges for SMEs within Agro-processing and attenuate the growth.

Average deals comparison

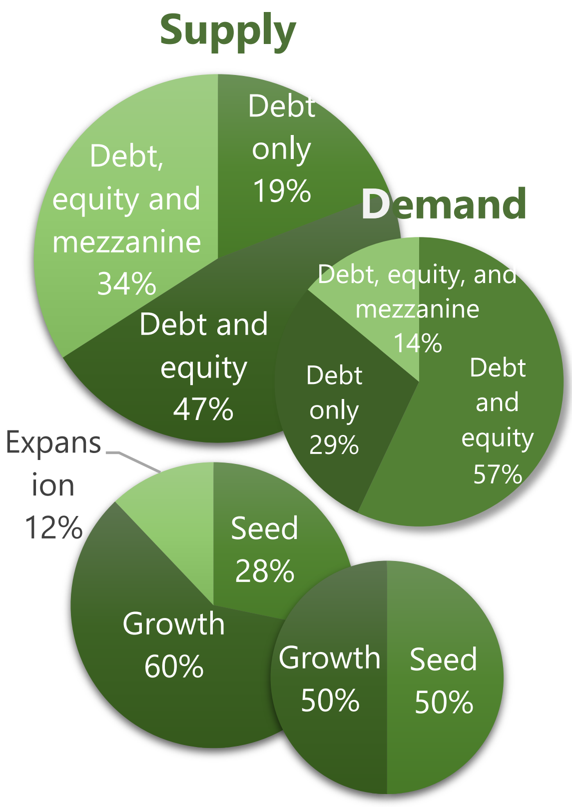
	Average deal size (supply)	Desired deal size (demand)
Renewable Energy	4	3,5
Agriculture	2,4	2,4
Manufacturing	3,8	0,9
Overall	5	3,2

Sectors

There is a significant gap between the distribution of historical impact deals into sectors and the future fundraising demand for businesses. Most transaction deals have been made in the financial services sector, but only 2% of SME's looking to fundraise are within this sector. Agri – and Aquaculture, Tourism and Tech are sectors where there is a bigger share of MSME's demanding impact capital than the percentage of historical transaction deals. The mismatch indicates an increasing demand for impact capital in sectors that has previously received less funding.



H Gap analysis: Supply and demand



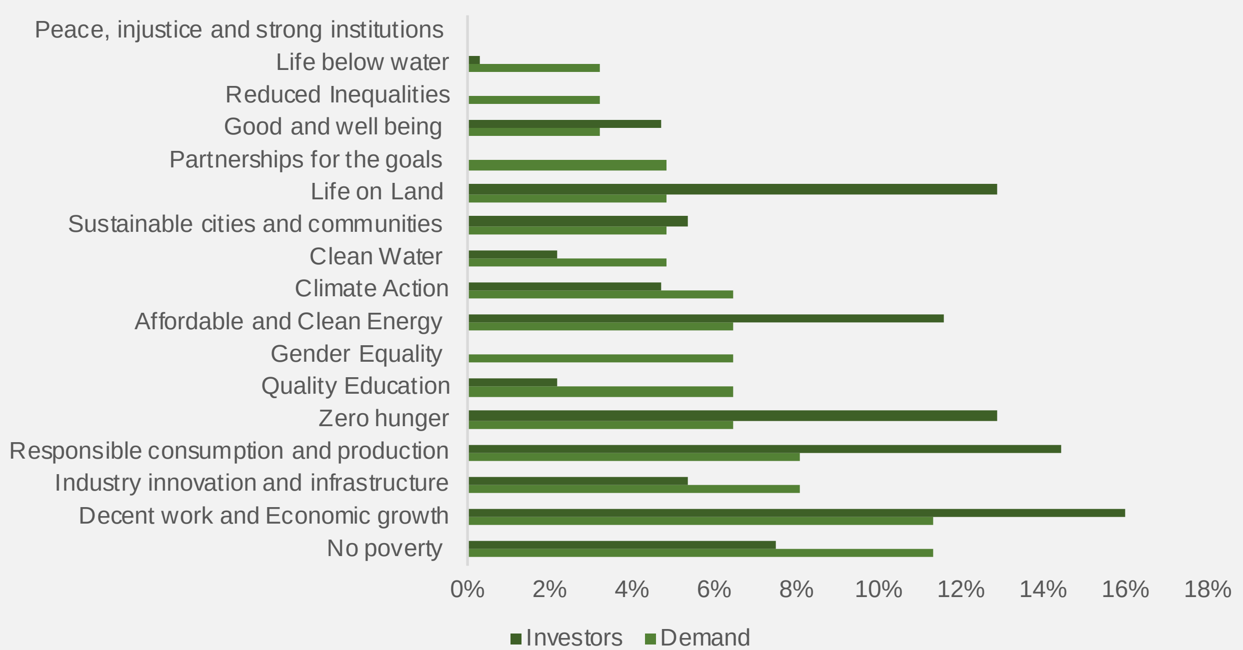
Financing instruments

Most businesses interviewed have received funding through a combination of debt and equity while only a minority have received debt, equity and mezzanine separately. This is similar for impact investors, who prefer to use a mix of debt and equity but are less willing to offer debt only. Most impact investors prefer to provide growth capital over seed or startup capital, but half of all businesses interviewed have had seed investments. As businesses grow and the ecosystem matures, the availability of impact capital are likely to grow as more Zambian businesses fall under the scope of a larger share of investors.

SDGs

SME's were asked which SDGs they contributed towards to compare the answers to the SDGs that investors focus on. Most of businesses, 29%, contribute to SDG 1; No poverty, SDG 8; Decent work and Economic growth and SDG 9; Industry innovation and infrastructure. The same percentage of investors focus on these SDGs with the majority targeting SDG 8. As shown, some industries have a significant gap in the SDG focus between investors and businesses. Increasing the amount of businesses within Manufacturing, Agriculture, Agro-processing and Renewable Energy could then help attract impact capital. These sectors are experiencing an upwards trends in deal volume, which could indicate that investors and businesses impact focus will be more align in the coming years.

SDGs



H Gap analysis: Supply and demand

Monitoring and evaluating impact

Accountability counters green washing and a dilution of impact investing as a term by ensuring that commercial-only businesses can't access the realm of impact investing. Public and private stakeholders are incentivizing businesses to create social value and as most impact-centered businesses aim to solve human-centered issues where people are at the center, monitoring and evaluation of impact is a necessity.

The aspect of accountability highlights a gap in the ecosystem. Takeaways from the interviews with respondents show that businesses have challenges complying with the impact reporting standards of suppliers and that intermediaries, regulators and enablers fail to assist businesses in compliance and to commit to impact guidelines. The gap lowers impact deal inflow because investors screen out investment targets that can't comply with their reporting standards early as they have an obligation to report their value creation to other stakeholders.

Investors impact requirements

The different investor types have different requirements for monitoring and evaluating impact. Of the investors, DFIs have the most rigorous reporting standards and some of their requirements are listed below.

1. **Policy:** Have an active and written CSR/ESG policy
2. **Action plan:** Create an action plan for the social impact policy, appoint a social impact manager, adopt a management system and commit to creating annual impact reporting
3. **Exclusion list:** Adopt an investment exclusion list (e.g. tobacco, weapons, gambling)
4. **Guidelines:** Implement sector specific impact guidelines
5. **Management system:** Create descriptions of how the management system assesses & monitors input and ensures compliance and commitment to recognized principles
6. **ME channels**: If the target is a fund; description of which channels are used to monitor and evaluate impact of portfolio companies such as board representation, company visits, reporting and dialogue
7. **Social impact manager:** Assign social impact manager to oversee implementation of input policies
8. **Annual reporting**: Submitting of annual report containing impact performance and compliance

For early stage businesses with scarce resources these requirements are costly and difficult to manage. This create a strong need for the enabling environment to aid the businesses in complying with the reporting standards of investors. DFIs provide the largest amount of impact investments in Zambia and other impact investors trust their expertise and uses their flow of capital as a cornerstone for their own decisions. If the enabling environment can help businesses comply with the reporting standards of DFIs, the deal flow from all investors will increase.

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Gap analysis: Supply and demand

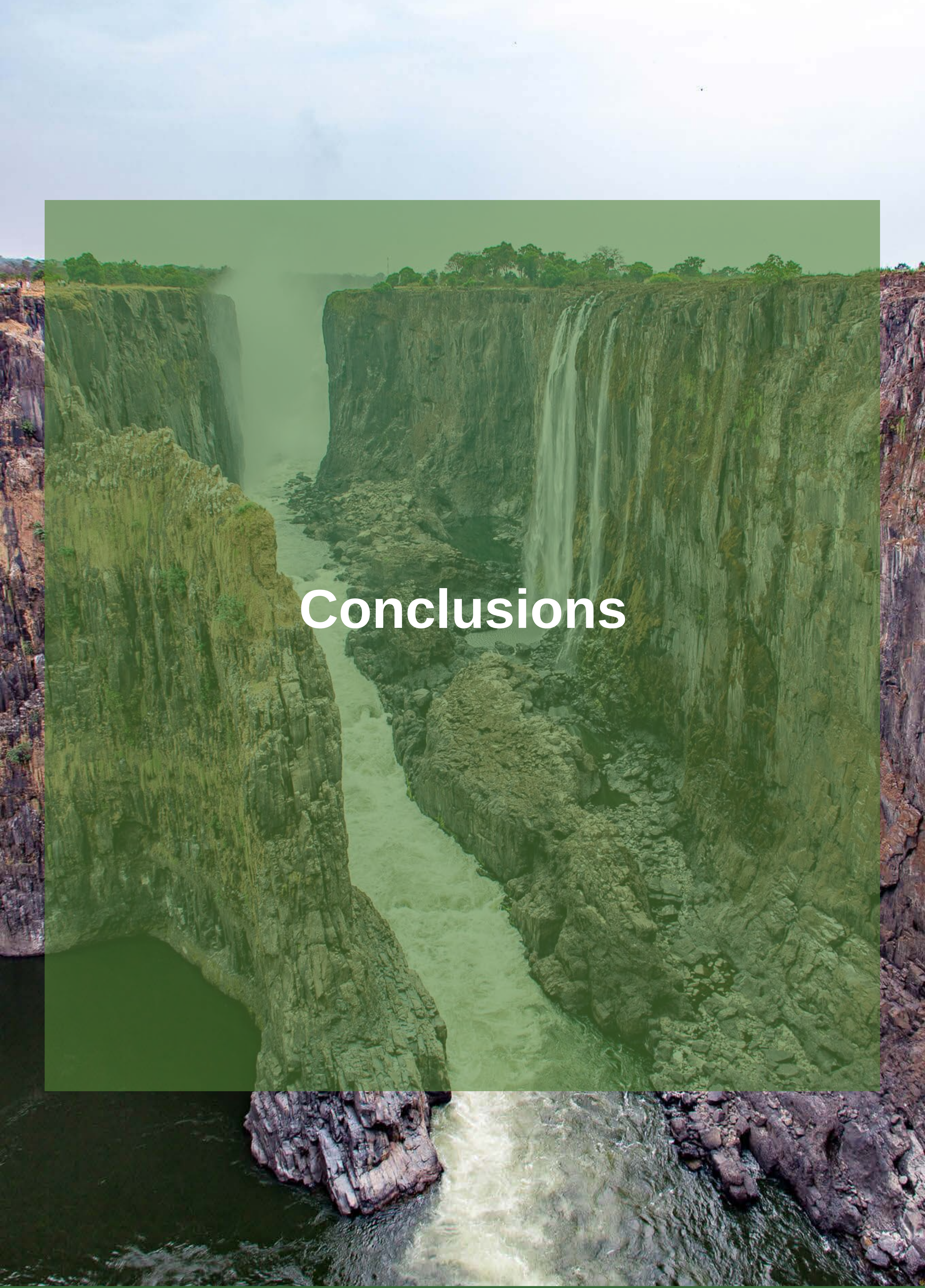
Initiatives which could narrow the supply/demand gap

Even though average **investment amounts** between the supply and the demand pillar are relatively similar for most sectors, there are many outliers in the lower end of the scale who will find it very difficult attracting impact capital. Specifically within investments between USD 100k and USD 1m. Initiatives such as a local crowdfunding platform would help bridge this gap as its one of the funding types where impact investors consider lower ticket sizes.

The **sector gap** shows that more funding is available in certain sectors compared to demand. The biggest gap exist within financial services, despite multiple numbers of businesses are fundraising in this sector. The mismatch on investment amount can help explain the mismatch. Several of the investors interviewed under the supply pillar mentioned sustainable forestry as a key future sector for new investments. Few companies in Zambia are focusing on this sector, so there is clearly an opportunity from a demand perspective. Zambia have an abundance of renewable energy sources with a high level of water resources and sun. This creates a strong foundation for developing the renewable energy sector which is lacking transformation. As the analysis in this report shows, investors find forestry attractive and invest large amounts in the renewable energy sector.

A gap exists on **financial instruments** where there is more demand for debt than what the investors are looking at. There is an opportunity for changing the perception on private equity investments as most Zambian business prefer raising debt.

Zambia has a gap on **monitoring and evaluating** impact as businesses find it challenging to comply with the impact requirements of investors. The intermediary, regulatory and enabling pillar have an opportunity to bridge this gap through implementing impact account standards, support the creation of impact policies and educate businesses on monitoring and evaluation of impact.



Conclusions

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Overall Conclusion

The objective of this study is to develop a guide to increase impact investments in Zambia, through mapping and assessment of the ecosystem**. Five main pillars** were analysed, being *supply of impact capital, demand for impact capital, intermediaries, enablers, policy and regulation*

Factors which were analysed include the key players, the size of the market, return expectations, impact measurement goals and future trends. Our research methodology was similar to that adopted internationally with a few alterations made, to cater for the Zambia context, where there is limited availability of data.

Our research methodology was premised on primary surveys obtained from industry players, operating within the five pillars and supplemented through secondary data. Generally, our findings are inline with past research on the impediment to the growth of impact investment in Africa, which includes information asymmetry between investors and businesses and the lack of quality deal-flow.

The total **supply of impact capital** available to Zambian businesses is estimated at USD 2,2 bn. USD 580m in impact investments have been recorded since 2015, with expected investments in 2019 at USD 121m. The average deal size has been USD 5 million.

The **total current demand for impact capital** by Zambian businesses actively fundraising is estimated at USD 957m, of which USD 780m is currently sought after by five utility scale renewable energy companies and USD 177m is sought after by 77 businesses across other sectors. For the latter category, the average investment sought is 3.4m.

A **supply - demand gap** exists between the investment size and impact sectors. On average investors prefer larger investments than the amount demanded by Zambian businesses. There is a gap between the sectors investors prefer and the sectors businesses who are seeking capital operate in. Examples include financial services, renewable energy and forestry where there is inadequate deal-flow. A gap in monitoring and evaluating of impact creates a mismatch between Zambian businesses and investors that lowers the investment readiness of businesses.

A paradox exist whereby local impact investors have a strong pipeline but limited capital available for investments. Whereas international investors often have excess capital available for impact investments, but experience challenges in identifying investment opportunities. The supply-demand gap could be bridged by lobbying for Zambian pension funds to make impact investments directly and indirectly through local impact funds. Alignment of the ZDA priority sectors with globally defined impact sectors would facilitate a better match between supply and demand.

A business angle network could be established to promote local HNWIs carryout impact investments. The **intermediaries** in Zambia contain mainly traditional advisors who lack skills, capacity and access to international investor networks to adequately advise businesses on how to attract impact capital. This could be addressed through training programmes specifically targeted at intermediaries. New intermediaries such as social banks or crowdfunding platforms could be introduced to the Zambian ecosystem.

Continued on next page

Overall Conclusion - Continued

There is currently **no specific regulation** for impact capital, but the Zambian government has a number of policies and initiatives in place to promote investment in priority sectors which to some extend overlap with internationally recognised impact sectors, such as agriculture. New regulation would have to be introduced to allow for new types of impact investment intermediaries.

A small handful of **enablers** are actively promoting impact investments by making businesses 'investment ready' and bridging the information asymmetry gap between supply and demand. An opportunity exist for donor agencies and other enablers to supplement the existing work done on impact sectors and to support implementation of the recommendations of this study.

When extrapolating research data from SDG Centre for Africa, **Zambia needs to increase the level of investments in impact sectors five fold to USD 5 bn per year in order to achieve the SDGs by 2030**. This corresponds to 1000 new investments per year when applying the average historical deal size. This illustrates the significant interventions required within the Zambian Impact investment ecosystem.

Log Frame

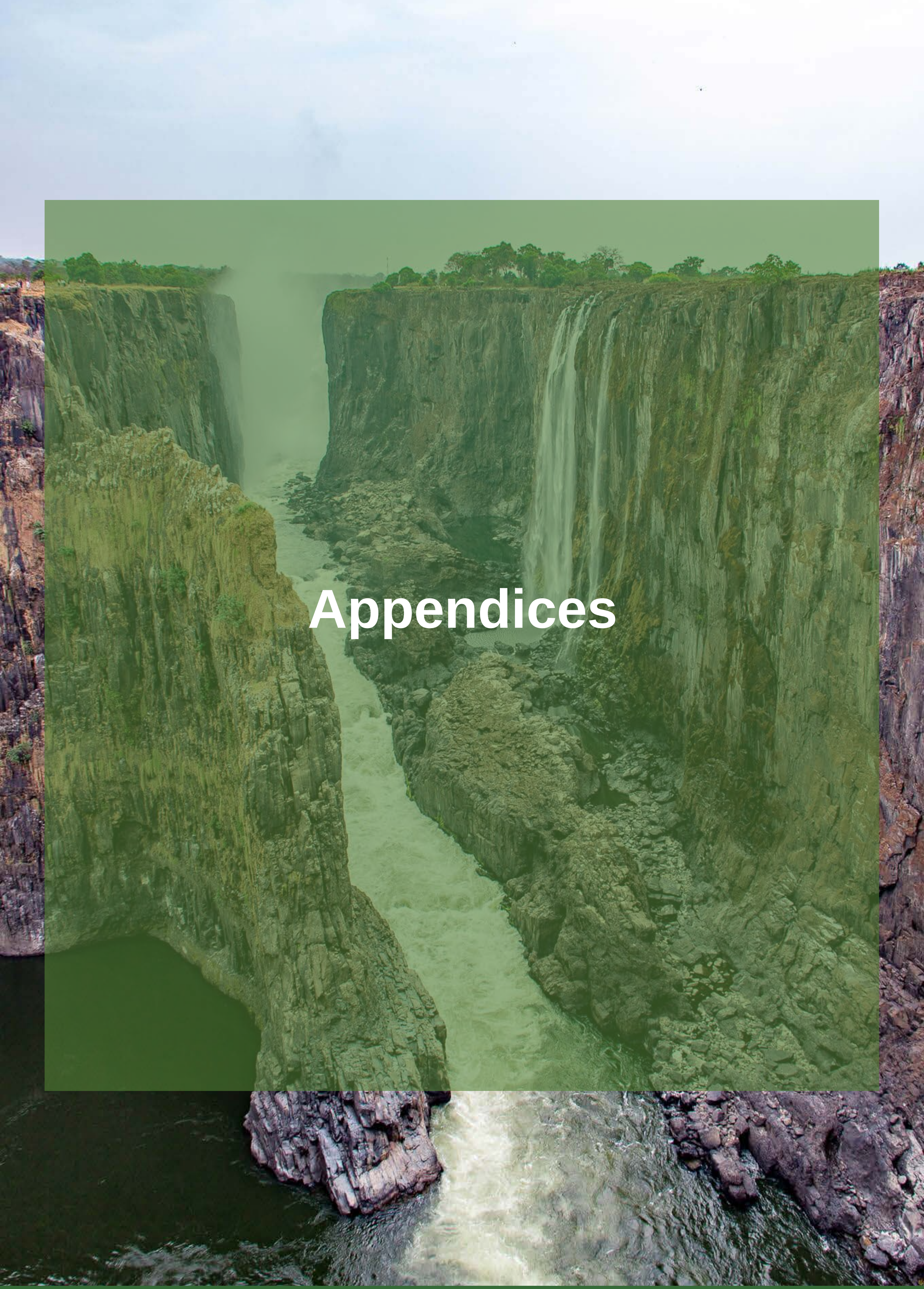
Based on main recommendations, a Log Frame is illustrated below in order to create a tangible list of Actions for NABII to further pursue.

Overall Outcome	Pillar Responsible for Outcome	Activities	Potential stakeholders	Proposed timeline for implementation		
				2020	2021	2022
Strong pipeline of viable impact investment opportunities that meet financial, social and environmental requirements.	Demand / Intermediary / Supply	I. Create an exhaustive list of all social enterprises in Zambia through engagements with local investing stakeholders such as commercial banks, NAPSA, CEEC, ZCCM-IH, and IDC. II. Engage with business owners to get approval for listing. III. Full and comprehensive profiling to ascertain social impact enterprises. IV. Create a database on the enterprises selected, including company name, sector, products, annual revenue, business stage and high level financial position. This could be on a website or the Zambian NABII website. V. Design and develop a program to lobby (both from government and donor) for the advancement of the impact investing sector through compilation of campaigns, events, mentorship programmes etc. VI. Fundraised moneys could be utilised in enhancing businesses and providing support for start–ups. VII. Assess the possibility of adoption of the IFC measurement framework and build capacities for businesses to do this. VIII. Lobby ZDA to issue annual industry research reports on main priority sectors to create transparency on the commercial potential for each sector.	Website owner investing stakeholders NABII			
Create database of Impact investors active in Zambia	Intermediary	I. Review the complete directory of Impact investors developed as part of this study II. Make further analysis of potential future impact investors who would be likely to invest in Zambia III. Published complete data base. IV. Promote the establishment of a business angle network in Zambia	NABII PEPZ ICA			
Pro-impact investment policy and regulatory environment	Regulation and Enabler	I. Lobby for ZDA to align the priority sectors with the global impact priority sectors. II. Formally engage with government bodies on social enterprise labelling so as to incentivize business in that space and spur growth of bankable opportunities III. Advocate social impact investment tax relief where investors can receive up to 15% in tax relief on dividends earned in social enterprises. IV. Lobby the government to introduce and enforce that a minimum 10% of pension funds are invested in alternative assets including impact investments. Local or international co-investment should be required in order to improve transparency and value addition from other experienced impact investors. V. Lobby for Government to introduce new legislation to allow for new types of intermediaries	ZDA, NABII Sector line Ministries NAPSA			

Log Frame - continued

Overall Outcome	Pillar Responsible for Outcome	Activities	Potential stakeholders	Proposed timeline for implementation		
				2020	2021	2022
Capacitated and skilled intermediary pillar that responds to the needs of impact capital suppliers	Intermediary	I. Lobby UNZA and other educational stakeholders to incorporate impact investing in curriculums so as to start building knowledge in the country. II. Facilitate links by building on the compiled businesses data base in order to develop impact investment platforms. III. Address Social Enterprise capacity gaps such as management shortfalls and lack of scale.	NABII Intermediary players Educational stakeholders			

Appendices



Appendix A: *Case on Social Impact Bonds*

It is clear that many NGOs face a lot of challenges in their implementation of social projects due to a financial and operational strain. Social Impact Bonds are commercial financial instruments used to create social value and yield financial returns. They are a pay-for-success model within the area of Result-Based Financing (RFP) that involves an investor, a service provider and the government or a donor as the outcome payer. The investor finances the service provider, a social venture, and receives a financial return if predefined goals are achieved. The structure of SIB ensures an efficient service delivery where the government only spends when the target is met. There have been a number of SIBs done in African countries, with South Africa and Kenya leading the way.

Social Impact Bonds helps government to fund infrastructure and services, especially as public budgets are cut, and municipal bond markets are stressed. They have a low risk and high return since private capital supports social programs with a proven track record instead of innovative programs. Bonds promote comparative advantages; private investors make calculated risks in pursuit of profits, government pays a fixed return only if a social venture create verifiable results, thereby avoiding risk of programme failure and shifting the risk from taxpayers to investors. The major downside to SIB remains the the human rights component of commodifying individuals, which could alter the commitment to basic human and democratic rights

Key SIB Information

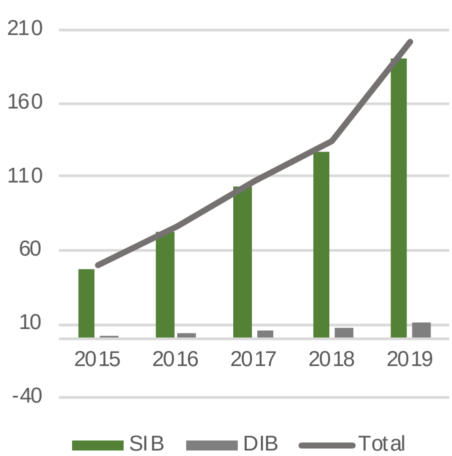
- A Social Impact Bond contains 5 key stakeholders including an outcome payer, service provider, private investors, an independent evaluator and a program manager[18].

51 months	**..average contract duration**
14,111	**..beneficiaries per bond***
USD 3.6m	**..average upfront capital investment**
USD 403m	**..upfront capital provided**
4	**..bonds in Sub-Saharan Africa**

***half of bonds services Only an avg 494 beneficiaries**

Trend

Assuming that the current growth rate of impact bonds continues, the projected number of impact bonds globally will be 202 in 2019, a 403% growth since 2015 where the total number was 50. Of the 165 impact bonds that have currently been completed or are active, 95% are Social Impact Bonds. The growth rate for SIB and DIB are 35% and 40% respectively from 2017 to 2019.



404% **...2015-19 growth**

42% **...annual growth**

As SIBs dominate the impact bond landscape, governments play a central role in choosing which sectors to develop. Around the globe, bonds are focusing on:

Sectors	Employment	Education	Social welfare	Criminal Justice	Health	Environment and agriculture
	50	18	58	11	25	3

Appendix A: *Social Impact Bonds*

Key Facts[19]

Client: USAID-DIV, DFID
Partners: Village Enterprise, Instiglio, Delta fund, silicon valley Social Venture Fund, Idinsight
Location: Kenya, Uganda
Sector: Social Protection
Dates of service: 2017 to 2021
Status: Active

The Problem

Despite decades of development work and billions of dollars spent, over 760 million people still live in extreme poverty, with over half in Sub-Saharan Africa. Village Enterprise offers a household graduation program where they provide first-time entrepreneurs with inputs such as seed capital, training, and mentoring. The goal is for these households to start sustainable businesses, grow their income and elevate their households out of poverty.

Need For Evidence

Village Enterprise, IDinsight, Instiglio, USAID, and DFID are partnering together on the Village Enterprise Development Impact Bond to impact **over 12,000** households in Kenya and Uganda. The outcome payers, USAID and DFID, will pay Village Enterprise and its investors based on results achieved rather than the traditional model of program delivery. With a razor-sharp focus on results, the set-up guarantees that donor money is linked to measurable increases in consumption and net assets (as a proxy for income).

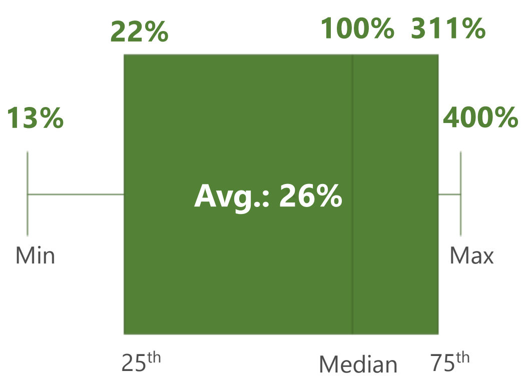
Results

The project is on-going.

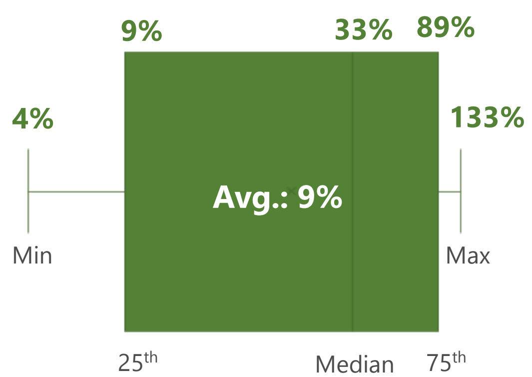
Return Analysis

Of 19 completed impact bonds in the UK, EU and US with public disclosed information, 89% have had a positive return, 11% have had no return and 0% have had a negative return.

Total return



Yearly return



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Appendix B:
The Case For Promoting Impact Investing:
The United Kingdom

The U.K. has long been recognised as a pioneering leader within impact investing and thereby highlights the achievements of deliberatively promoting impact investments in an economy. Through successfully launching the first social investment wholesaler, the first social impact bond, the first social investment tax relief and many other initiatives, the U.K. has shown the 'Best Practice' of increasing investments into the social sector. In 2015, the Global Steering Group (GSG) was formed under the U.K. presidency of G8 and in 2019, the UK has launched an impact investing institute whose main aim is to spur the growth of the impact investment ecosystem.

Pillar Overview: Milestones of Promoting Impact Investing

SUPPLY

£150bn Impact capital commitment[6]

£2bn committed to social sector enterprises

Big Society Capital (2012)

Big Society Capital is the world's first independent wholesale social investment institution. Big Society Capital acts as a market champion for the sector and provides funding to intermediaries. It will receive up to £400 million from dormant bank accounts and £200 million from the UK's four biggest high street banks.

ENABLERS

- What Works Centres
- Unit Cost Database
- GREAT Britain Campaign
- Commissioning Academy
- G8 Social Impact Investment Taskforce
- Impact Investing Institute

INTERMEDIATORS

67 Social impact bonds have been successfully completed

Investing for Good
provides innovative solutions to address the financing needs of social enterprises. They specialise in structuring blended capital funds and corporate bond programs, which enable social organisations to benefit from unrestricted, unsecured funding at scale.

DEMAND

120,000 purposeful businesses[7]

3000+ social sector organisations

£165bn turnover and **1.4m** employees

Investment Readiness Program (2012 and 2014)
The programme developed the £14 million Investment and Contract Readiness Fund (ICRF) in 2012 to allow social sector organizations to purchase tailored capacity-building support. This helped to secure social investments and enhance the capacity for business to win public sector contracts. An additional £100m was committed in 2015 and will run until 2025.

REGULATIONS

- Social Investment Tax Relief[8]
- Social Value Act
- Investment Intermediaries Fiduciary Duties Reform
- Inclusive Economy Partnerships

The Social Investment Tax Relief (SITR) was launched in April 2014 to address the gap in the tax system for incentivizing risk capital for small social sector organizations. Encourage investment in companies that invest in social organizations by offering 30% tax relief on investments

Achievements in the UK impact economy[9]

£87 Billion impact investment AUM*	**55%** of investment produce competitive returns	Expecting **USD 1 trn** AUM by 2020 globally	**30%** tax relief on individual income tax	**56%** of public interested in impact investing	**194** funds in the spectrum

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