



ZAMBIA

IMPACT INVESTMENT CLIMATE SURVEY

2021



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ABOUT NATIONAL ADVISORY BOARD FOR IMPACT INVESTING ZAMBIA (NABII)

The National Advisory Board for Impact Investment (NABII) Zambia is a non-profit organization that works to accelerate the growth and effectiveness of the local impact investment ecosystem. NABII Zambia mobilizes stakeholders and resources to support the creation of an impact economy by identifying domestic opportunities for change and innovation that help achieve the Sustainable Development Goals. NABII Zambia is a member of the independent Global Steering Group for Impact Investment (GSG).

<https://nabii.org.zm>

ABOUT PROSPERO

Prospero is a private sector development entity funded by FCDO that is designed to incentivise investment in innovation that will change the way market systems work, creating new and profitable growth opportunities for MSMEs and inclusive growth for Zambia in multiple sectors. It operates at the intersection of market systems development and the impact investment ecosystem, transitioning Zambian businesses into viable recipients for impact capital. Prospero works through partnerships with public and private Zambian entities, providing a combination of technical assistance, grant support and access to private impact investment finance. Through partnerships with organisations such as Impact Capital Africa, Prospero helped Zambian SMEs attract investment capital worth over USD 90 million.

<https://prospero.co.zm/>

ABOUT SOCIAL VALUE SOLUTIONS (SVS)

SVS Group is an international advisor with broad skills and experience in the built environment, emerging markets, investments, reporting and sustainability. SVS Group advises on strategy, supports implementation and guides the measurement and reporting of environmental, social and governance across entire pipelines of Social Value, Impact Investing and ESG Reporting.

<http://socialvaluesolutions.co.uk>

ABOUT THIS REPORT

This report is the first impact investment climate survey to be carried out in Zambia. It is intended to provide evidence for NABII's future advocacy work and a baseline against which progress can be measured.

The survey sample was drawn primarily from the supply and intermediary pillars, with a smaller number of respondents from the demand pillar. The survey consisted of structured questions covering the respondent's profile, considerations behind investment strategy, and perceptions on the state of the Zambian impact investing ecosystem and wider climate. The survey questionnaire was followed up through individual interviews – from which the commentary and quotes contained in this report are drawn.

Table of

CONTENTS

FOREWORD	i
THE SURVEY & THE REPORT	1
INTRODUCTION	2
INTRODUCTION TO IMPACT INVESTING	2
UNDERSTANDING THE ECOSYSTEM	2
COUNTRY CONTEXT FOR IMPACT INVESTING	2
A CLOSER LOOK AT THE INVESTORS	4
SUPPLY PILLAR: INVESTOR PRIORITIES	6
IMPACT OBJECTIVES	6
SECTOR PRIORITIES	8
INVESTOR PERCEPTIONS OF THE ZAMBIAN IMPACT INVESTMENT ECOSYSTEM	11
INVESTOR PERCEPTIONS OF ZAMBIA	13
KEY FINDINGS	15
RECOMMENDATIONS	16
STRENGTHENING THE ECOSYSTEM	16
ADDRESSING INVESTOR CONCERNS	18
ANNEXURE 1: LIST OF SURVEY PARTICIPANTS	20

FOREWORDS

FROM THE NATIONAL ADVISORY BOARD FOR IMPACT INVESTMENT (NABII)



Dr. Austin Mwape
Chairman



In Zambia's new dispensation, a good impact investment climate will be central to private sector-led growth and investment, which in turn will be required for employment generation, income growth and poverty reduction. Such a climate will provide opportunities and incentives for firms – large and small – to invest in a productive and responsible manner as they create jobs.

The launch of the inaugural 2021 Zambia Impact Investment Climate Survey therefore comes at a time when Zambia is facing unprecedented challenges that are taking a toll on the welfare of its citizens. The ripple effects of the novel COVID-19 pandemic have exacerbated existing problems of inequalities and poverty, leaving the most vulnerable communities more exposed to new harm. Negative external shocks have further dampened the growth which has remained subdued, as the government grapples with a constrained fiscal space with stagnant revenues, widening deficits and rising debt. The Impact Investment Climate Survey collects all these facets and lays bare the factors that drive investment decisions in Zambia, in addition to capturing investor perceptions of Zambia as an investment destination.

Since our 2019 Zambia Impact Investment Landscape report, we have seen upward foreign investment flow to Zambia and investor focus in sectors that are addressing some of Zambia's biggest social and environmental problems. New opportunities in high impact sectors such as education and healthcare delivery, which have been inherently dominated by the public sector, are showing positive investor focus. By leveraging private-public innovative tools such as results-based financing, more private capital will be mobilised to fund social and environmental outcomes and increased virtuous partnerships between the public sector and non-public stakeholders.

I am convinced therefore that the biggest challenges the country is facing present the biggest opportunities in which private sector-driven impact investments can be harnessed to scale up innovations and new financing instruments and approaches that will help address these challenges. For the government, this survey provides evidence-based recommendations that should help guide reforms that are aimed at providing a more conducive environment to support the private sector-driven impact economy in Zambia.

I am confident that the findings of this survey will be used by the government and a variety of stakeholders to the benefit of the country. The findings have pointers to where the government and policy makers should be looking to improve the country's impact investment climate and the actions that need to be taken for this to happen. These findings also provide a base for beginning public-private dialogue between the government and the impact investment ecosystem stakeholders, through the Zambia National Advisory Board on Impact Investment (NABII), on how the Zambia impact investment climate can be improved. The survey effectively provides the tools and analytical framework to help the government identify reform priorities and the steps to take in order to improve impact investment conditions in the country.

FROM PROSPERO



James Blewett
CEO



Prospero has successfully facilitated some US\$100 million of private impact investing transactions over the last three years. We are already witnessing the transformational effect that this impact capital can have on the investee businesses themselves as they use new capital to finance their growth. But just as important, each of these investments has been made with the clear intention of bringing much wider economic, social and environmental benefits.

This is impact investment in action; we have seen hundreds of jobs created, we have seen how many thousands of small-scale suppliers have found new markets and improved their livelihoods, and we have seen exciting innovations that contribute to the fight against the threats posed by climate change. Together with our partners at the National Advisory Board, Social Value Solutions and Impact Capital Africa, Prospero remains fully committed to supporting efforts to achieve more, by promoting Zambia as an impact investment location, by diversifying and accelerating the flow of impact investing finance within and into the country and by building a strong pipeline of investment ready growth SMEs.

This survey, the first of its type in Zambia, gives voice to the people who are on the front line of impact investment – the people who control the capital and the people who make the deals. It gives fresh insights into the investment priorities of finance providers already operating in Zambia and it gives a very clear sense of where they see strengths and weaknesses in the country's impact investing ecosystem.

The incoming government has set out a vision of green and inclusive, private sector led economic recovery and development. The survey results will give those ministries and agencies responsible for realising the vision a solid foundation on which to shape and prioritise actions that will be responsive to the people who can provide and invest the massive financial resources that will be required over the next few years.

The challenge ahead is significant, but by no means impossible – the conditions are ripe to ensure that future economic growth leads to sustainable and inclusive economic development for Zambia. Investor interest in the country is growing and the impact investment finance is available. Zambia entrepreneurs have demonstrated their resilience, ingenuity and ambition. Well established investment advisers and fund managers have shown the potential for financial and impact returns, and a new generation of highly aware impact investment professionals are anxious to build their experience and expertise.

Creating the environment to unleash these human and financial resources will require continuing and concerted efforts, based on long-term commitment and increased capacity across the board. Prospero stands ready to work with the private sector and the policy makers and implementers to promote mutual understanding and to implement the actions that will lead to meaningful change.

FROM THE GLOBAL STEERING GROUP FOR IMPACT INVESTMENT (GSG)



Cliff Prior
CEO



We at the GSG welcome this report put together by the Zambian National Advisory Board for Impact Investment. The Zambian NABII was only the third to be launched across the 54 countries of Africa and has achieved notable successes since its launch in 2019. This report is an important milestone, as it puts on paper, for the first time, the voices of people and organisations within the impact investment industry in Zambia. From these perspectives, it provides a solid foundation for investors and policy makers to further understand what needs to be done to bring more impact investment into Zambia.

A well functioning impact investing ecosystem in Zambia is one of the most important tools for developing a more equitable economy, and this report is a highly significant step in this journey.

THE SURVEY AND REPORT

The findings from the first Zambian Impact Investment Climate Survey provide important insights into investor perceptions of the country. The Zambian National Advisory Board on Impact Investing (NABII), Prospero and Social Value Solutions (SVS) surveyed and interviewed 27 organizations with a direct stake in the impact investment industry and an interest in Zambia as an investment location to ensure that we obtained a representative set of opinions.

The initial survey was carried out in early 2021 providing a valuable baseline of investor sentiment. But in the light of the recent elections and the change of government, we have updated the report with the thoughts, hopes and ideas of many of the people who participated in the survey – revealing a strong awareness of the challenges ahead, but also of optimism for the future of impact investing in Zambia.

What we asked

We asked our respondents to tell us about:

- **Impact investment priorities:** What kind of impact they want to achieve from their investments; which sectors they see as most important for impact investing and which they see as offering the best growth opportunities for impact investors; and how they expect their impact investing activities in Zambia to develop over the coming years.
- **The Zambian impact investment ecosystem:** How they assess the quality of the Zambian impact investment eco-system as it currently stands.
- **Zambia as an impact investment destination:** What they look for in an investment climate when assessing opportunities in different countries, and how they rate the Zambian investment climate as well as where they see significant risks.

This is a report full of perceptions and opinions and contains the authentic voices of people who are living, working or investing in Zambia – all of whom are trying in their different ways to support the growth of successful businesses that deliver positive social or environmental impact.

What people told us

Overall, the findings give a picture of an impact investing industry that sees enormous need and potential in Zambia, is looking for investment opportunities and is cautiously investing in carefully selected areas, but at the same time is deeply concerned about the risks associated with investing in the country. The desire to invest for social, environmental and financial returns is clearly there, but building investor confidence will be critical to Zambia if these impact investment pioneers are to continue to invest and ultimately be joined by others.

Who should read this report

This report has two primary audiences; first, investors who are considering Zambia as an investment location and want to learn from the experiences of others already on the ground, and second, policy makers who want to design and implement reforms that will bring more impact investment to the country. It is also deeply relevant to Zambia's international co-operating partners who want to ensure that their support for sustainable and inclusive economic growth is targeting the highest priority areas in order to unleash the domestic and foreign private capital flows that will be so desperately needed over the coming years.

Why we are making recommendations for change

In the context of the recent election, this report provides a solid foundation of evidence for policy makers as they work to overcome the economic problems faced by Zambia and contribute to global efforts to address the challenges of climate change and the COVID-19 pandemic. It throws a spotlight on the need for strategic and coordinated policy reform if Zambia is to attract the impact investment capital that will play a vital role in driving inclusive and sustainable growth.

KEY FINDINGS

1. **INVESTORS ARE READY TO DEPLOY CAPITAL BUT ARE NERVOUS:** Impact investors have the funds to invest and want to invest in Zambia, but they have been holding back because of political and economic uncertainty.
2. **IMPACT INVESTORS' PRIORITY SECTORS ARE ALIGNED WITH NATIONAL PRIORITY SECTORS:** Zambia offers impact investment opportunities that play to the natural strengths and potentials of the economy in sectors that are attractive to impact investors.
3. **INVESTORS ARE WARY OF DEPLOYING CAPITAL IN HIGH SOCIAL IMPACT SECTORS DUE TO CREDIT RISKS ASSOCIATED WITH WORKING WITH THE GOVERNMENT:** Expanding or improving education and health services could be dramatically accelerated by investment in infrastructure and innovative service provision solutions, but investors are concerned about the government's credit worthiness.
4. **FRESH INVESTOR OPTIMISM SURROUNDING THE INCOMING ADMINISTRATION:** Pro-impact investment signals from the incoming government are changing the mood in Zambia, but nobody underestimates the challenges ahead or the time and policy consistency that it will take to build investor confidence.
5. **IMPACT INVESTMENT REQUIRES PROACTIVE PUBLIC SECTOR ENABLEMENT AND FACILITATION:** Creating a genuinely enabling environment for impact investment will require positive policy intervention and institutional strengthening; Zambia is competing for capital on a world stage and investors want to see tangible evidence of commitment.

INTRODUCTION

INTRODUCTION TO IMPACT INVESTING

Impact investing is an exciting and rapidly growing industry powered by investors who are determined to generate positive and measurable social and environmental impact alongside a financial return. Impact investments can be made in both emerging and developed markets, and target a range of returns from below market to market rate, depending on investors' strategic goals. The growing impact investment market provides capital to address the world's most pressing challenges in sectors such as sustainable agriculture, renewable energy, conservation, microfinance, and affordable and accessible basic services including housing, healthcare, and education.

From the Global Impact Investing Network (GIIN)

In the context of strong global growth of impact investing activity, NABII and other organisations are working intensively to strengthen and promote Zambia as an investment location. The country offers enormous potential for investors focused on achieving social and environmental impact alongside financial returns, but this survey shows that more needs to be done if Zambia is to attract impact capital to build the commercial, social and physical infrastructure necessary to diversify the economy, tackle inequality and reduce poverty.

There are some encouraging signs of progress; sustainable agriculture and renewable energy, particularly important sectors for impact investors, along with other priority sectors, have seen a number of significant deals completed in the last few years. However, the NABII recognizes that Zambia competes for attention in a global market for impact capital and if gains are to be consolidated and accelerated, it is vital that the country makes a determined effort to build an impact investing ecosystem and to increase its competitiveness as an investment location.

This impact investment climate survey was designed to identify the factors that drive investment decisions and reveal investors' perceptions of Zambia as an impact investment destination. The analysis and insights set out in this report are intended to help:

1. Investors who are looking at Zambia as a potential impact investment location to understand the experiences of other investors with similar interests; and
2. Policy makers to prioritise reform efforts and increase the competitiveness of the country as it seeks to recover from the economic problems of sovereign debt default, currency depreciation and high inflation, as well as the negative effects of the COVID-19 pandemic.

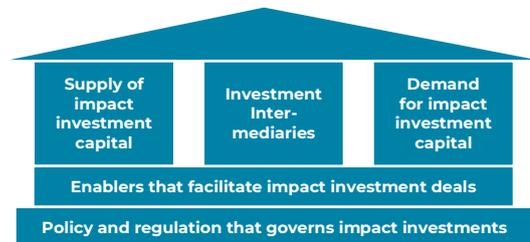
UNDERSTANDING THE ECOSYSTEM

This report complements the work that NABII is doing on market sizing; together these initiatives will provide a much more complete picture of the impact investment ecosystem in Zambia.

Using the GSG model, the impact investing ecosystem can be visualized as five pillars:

- **Supply of capital:** The impact investors looking for opportunities for social and/or environmental impact alongside financial returns;
- **Intermediaries:** The local fund managers and transaction advisers that directly participate in impact investment deal making;

- **Demand for capital:** The Zambian businesses seeking to attract impact investment for growth;
- **Enablers:** The organisations that facilitate impact investment by providing information and transaction support services; and
- **Policy and regulation:** The legal and regulatory environment that governs impact investment.



In the first section of this report, we set out to understand the investors that make up the supply pillar in Zambia, exploring their impact and sector priorities. We then turn to how our respondents regard the condition of the other four pillars, looking at perceptions of how well each pillar is currently functioning. In the final section of this report we look at how these key players perceive Zambia as an investment destination.

COUNTRY CONTEXT FOR IMPACT INVESTMENT

The Zambian economy remains deeply dependent on the mining sector as the main source of export earnings and formal job creation at scale. Private investment in non-mining sectors is extremely low, reflecting structural impediments to access to traditional forms of finance. Businesses overwhelmingly operate at a micro-level, with very few SMEs.

While agriculture has provided employment to as much as 49.4% of total employed persons, it has contributed less than 10% to the national Gross Domestic Product (GDP) each year over the past 10 years¹. Productivity is extremely low and rural poverty is widespread, and many households rely on subsistence farming with maize as the dominant crop. Food insecurity, under-nutrition and stunting are particularly prevalent in rural Zambia. Value addition to agricultural produce is growing as more businesses make inroads into food processing, so creating new, cash-generating opportunities for thousands of small-holder farmers through out-grower schemes.

Access to reliable electricity supply is among the lowest in Africa. Zambia largely relies on hydro as a source of generation, with some new on- and off-grid solar power coming on stream. Grid connectivity is low, reaching less than 5% of the rural population.²

Prior to the COVID-19 pandemic, tourism was among the fastest growing sectors in the country, but has suffered enormously due to international travel restrictions. However, as travel becomes possible once more, given the sector's reliance on Zambia's natural assets, it represents a clear opportunity to link environmental conservation with rural job and livelihood creation.

Zambia has one of the youngest populations in the world (mean age is 17 years), with rapid growth and urbanisation placing significant pressure on basic social services such as housing, healthcare and education, in addition to emphasizing the vital importance of job creation. Poverty incidence is around 60%, with extreme poverty slightly over 40%.³

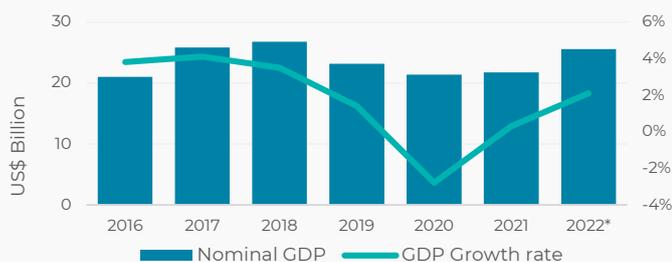
¹ GRZ National Budget Speeches 2010-2019

² Energy Regulation Board Energy Sector Report 2019

³ Zambia Demographic & Health Survey 2018

ECONOMIC INDICATORS

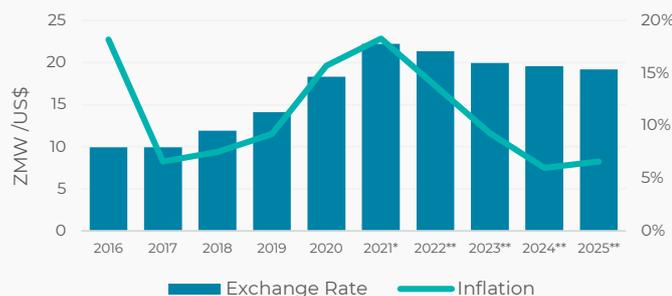
GROSS DOMESTIC PRODUCT



Source: Economist Intelligence Unit

The Gross Domestic Product has declined following 2018 highs of US\$ 26.7 billion, primarily due to declines in export earnings as a result of plummeting copper prices and the negative effects of the COVID-19 pandemic on economic activity. GDP in 2020 reduced to US\$ 21.4 billion, falling by 7.3% from 2019 levels of US\$ 23.1 billion. Growth of GDP is expected in 2022 on the back of rising copper prices and an improving business environment (now that the elections have passed for Zambia) resulting in an economic recovery push. Copper prices are forecasted to remain stable going forward due to the strong demand to wire the green economy, thereby supporting a growth and recovery case for a nation that derives 70% of export earnings from copper.

EXCHANGE RATE AND INFLATION



Source: Economist Intelligence Unit

The Zambian kwacha remained stable prior to 2016, with depreciations observed beyond 2018. The depreciation was predominantly influenced by declining copper prices, Zambia's main export commodity. Subsequent declines were influenced partly by the impact of the COVID-19 pandemic and pressure of meeting foreign currency-denominated debt repayment obligations on US\$ 3 billion worth of Eurobonds. Inflation was partly influenced due to this exchange rate depreciation and partly due to drought, which resulted in food shortages and power shortages from hydro power which Zambia is reliant on. Forecasts remain positive, however, for both inflation and exchange rate due to rebounding commodity prices and record crop harvests. Stabilisation of output from copper miners, negotiations with multilateral agencies on debt restructuring, and confidence from the international market will determine the extent of this recovery.

DEVELOPMENT INDICATORS

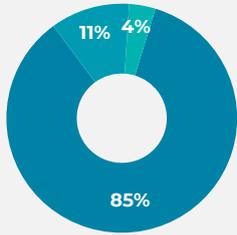
Indicator	Description
Human Development Index (2020)	Zambia's human development index is 0.548 and ranks in 146 th position globally. This shows relatively higher human development than the Sub-Saharan Africa average rated with a score of 0.547 but lower than the global average with a score of 0.737.
GINI Coefficient (%) (2018)	The Gini index measures the distribution of income or consumption expenditure amongst a population across a scale of 0% reflecting perfect equality and 100% reflecting perfect inequality. Zambia has a score of 49.5%.
Ease of Doing Business (2020)	Zambia has a rating of 66.9, reflecting the fairly undeveloped nature of business and regulation environments and the need for more efficient reforms to support domestic small and medium-size companies throughout their life cycle.
Poverty Index (% of population) (2019)	In Zambia, about 47.9% of the population lives in multidimensional poverty. This is lower than the regional average of 55% and significantly lower than that of South Africa at 6.3%.
Gender Inequality Index (2019)	This indicator measures inequality in achievement between women and men across dimensions of reproductive health, empowerment and the labour market. Zambia has an index of 0.54 which is lower than the regional average of 0.57.
Income Index (2011)	This measures the standards of living being afforded to individuals based on equal distribution of gross national income. Zambia has a score of 0.52 and is ranked 146 th of 189 countries, which is slightly lower than the regional average of 0.54 and global average of 0.77.
Corruption Index (2020)	This assesses the level of perceived public sector corruption. Zambia has a score of 33/100 and is ranked 117 th out of 179 countries, fairs similarly to the regional average of 32 but poorly against Botswana, with the best perception in Africa at 60/100 and ranked 35 th out of 179.
Population earning below US\$1.9 /Day (%) (2018)	Despite having a growing middle-income population, there is still widespread inequality and disproportionate distribution of wealth amongst different demographic groups. 57.5% of Zambia's population are below the poverty line, higher than the regional average of 40.4%. Both Zambia and the region are way above the 9.3% global average.
Unemployment Rate, total (% of labor force) (2020)	Despite significant growth in manufacturing and the services industry over the past years, Zambia's unemployment rate has continued to soar and was at 66.2% in 2020. This is way higher than the regional average of 6.6% and the global average of 6.4%.
Literacy rate (% of ages 15 and older) (2018)	Zambia has a relatively high literate population at 86.7%. This is higher than the regional average of 65% and closer to the global average of 86%.

Source: United Nations Development Program, World Bank Intelligence Unit Zambia Report 2021, Ease of Doing Business Zambia Report 2019

A CLOSER LOOK AT THE INVESTORS

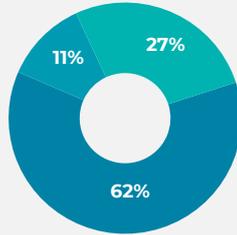
INVESTOR TYPE AND GEOGRAPHIC FOCUS

Investment Focus – SSA



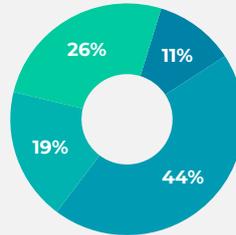
- Current investment continuing
- Current investment exiting
- Have not invested but interested

Investment Focus – Zambia



- Current investment continuing
- Current investment exiting
- Have not invested but interested

Investor Type



- Foundation
- Others
- Private Equity
- Venture Capital

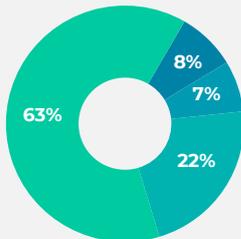
Venture Capital and Private Equity represented 26% and 19% of respondents, respectively. The remaining respondents were foundations, individual investors, institutional capital investors, managed debt funds and family offices.

Commonality in the investor sample observed 4 out of 5 investors have existing investments in Sub-Saharan Africa. The remainder having exited past investments or having not invested but showing interest in the region.

A large majority (62%) of respondents have current investments continuing in Zambia. The remaining respondents either indicated current investments exiting (27%) or interest within the country (11%).

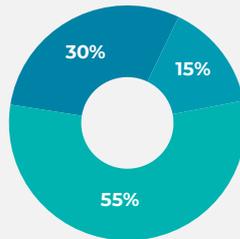
IMPACT ALLOCATION

Impact Allocation in % of AUM



- 0-5%
- 10-20%
- 20-50%
- >50%

Impact Allocation Change in 3-5 Years



- Significant Increase
- Slight Decrease
- Unchanged

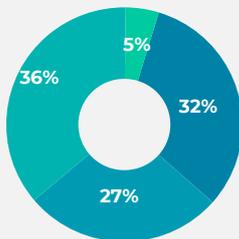
The majority of survey respondents were impact investors, representative by the significant majority having over 50% of their Assets Under Management (AUM) allocated to impact investments. The respondents with less than 20% of their AUM allocated towards impact investments included a sovereign wealth fund, an insurance company, and a fund primarily capitalised through pension funds. This is telling as the risk-return profiles of these investors do not match the (oftentimes incorrectly perceived) risk of impact investments.

The AUM allocation for impact investments remains largely unchanged for most respondents.

About a third of respondents noted a growth in allocation of AUM towards impact investments, which strengthens the case/ signals of a growing impact investment space in the region. The above more generally speaks to confidence in impact investment space. This however contrasts with the low deal flow in Zambia, and therefore confidence within the country. More needs to be done to attract/retain this interest.

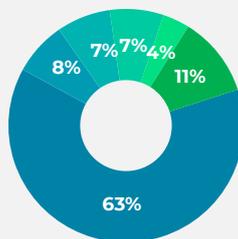
INVESTOR ASSETS

Stage of Current Fund/Vehicle Operation



- Fundraising
- Completed first close
- Second fund
- Completed second close

Assets Under Management



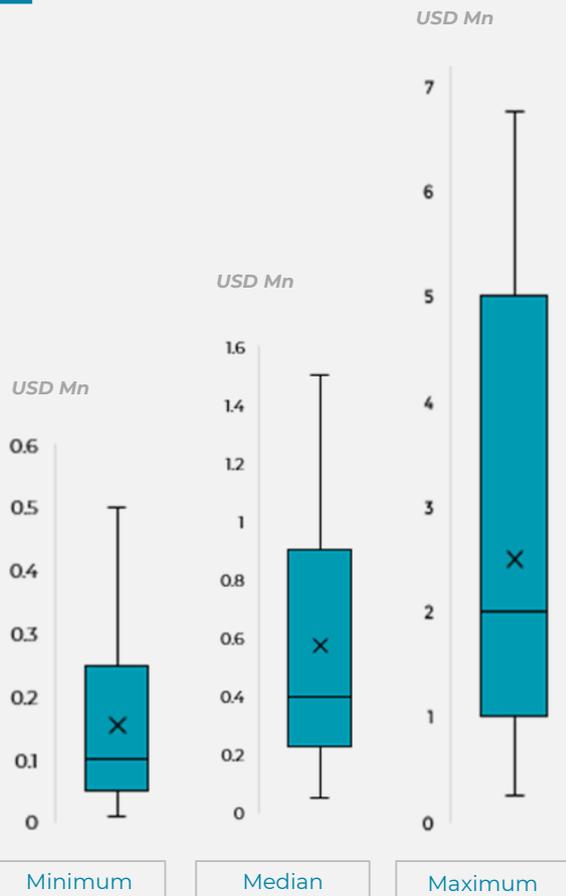
- US\$1 to US\$50Mn
- US\$51 to SU\$100Mn
- US\$101 to US\$150Mn
- US\$ 151 to US\$200Mn
- US\$201 to US\$250Mn
- Above US\$250Mn

The stages of the respective investors' funds varied from initial fundraising all the way to completion of the second close, indicating no pattern amongst impact investors. 32% of the investors surveyed were in the fundraising rounds, indicating the continuing growth of the impact investment supply base in Sub-Saharan Africa and Zambia.

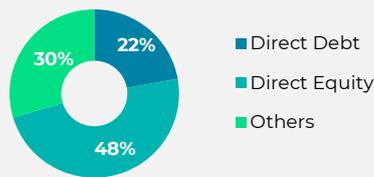
A clear pattern is noticed when analysing AUM. About two-thirds of investors who responded to our survey have AUM of US\$ 1m to US\$ 50m. This sizing is preferable and likely correlated with the size of deals in Sub-Saharan Africa.

A CLOSER LOOK AT THE INVESTORS (continued)

DEAL SIZING

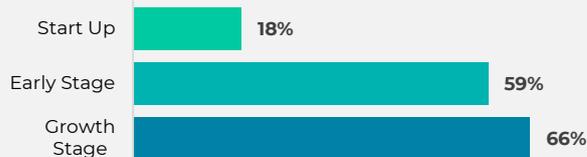


PREFERRED INSTRUMENT

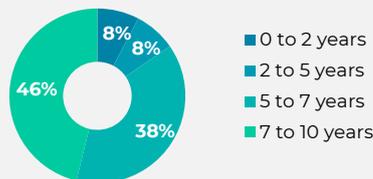


Respondents allocate impact capital across asset classes which reflects the diversity of the impact investing landscape. Direct debt is the preferred investment instrument for insurance companies, sovereign wealth funds, Development Finance Institutions (DFIs) and private debt-focused funds—the majority of which have AUM of > US\$ 50m.

STAGE OF BUSINESS TARGETED



INVESTMENT HORIZON



PREFERRED EXIT ROUTE



Deal size is correlated to AUM. Investors who manage over US\$ 50m in assets tend to have larger minimum ticket sizes and mostly invest using debt instruments. Two out of 3 respondents in our survey have AUM under US\$ 50m and mostly invest using equity and quasi-equity structures. The above represents the minimum, median and maximum deal size of all investors with AUM under US\$ 50m.

ZAMBIAN IMPACT INVESTMENT DEALS SPOTLIGHT

Company	Sector	Amount Raised	Investor
Alphapolyplast	Recycling	\$ 2,750,000 (2019)	Inside Capital
Zambia Home Loans	Housing	\$1,340,000 (2020)	Shelter Afrique
Zambia Potato Company	Agriculture	\$2,700,000 (2019)	Rabo Bank
Good Nature Agro	Agriculture	\$2,100,000 (2019)	Goodwell Investments
Natures Nectar	Agriculture	\$250,000 (2019)	Musika
Alliance Ginneries	Agriculture	\$11,000,000 (2020)	

FINDING A WAY OUT: DEALING WITH THE EXIT ISSUE

There are few conventional exit options for equity impact investments in Africa, which acts as a critical deterrent for investment on the continent and consequently hinders the supply of capital to mission-driven enterprises.

Typically, at the end of an initial investment period in traditional markets, private equity and venture capital investments seek to capitalise by selling their stakes in an enterprise, which can be done through Initial Public Offerings (IPOs); however, this option is scarcely available to investors in Africa as capital markets are undeveloped.

The challenge in the impact investment industry in Africa circles back to established investors being limited in their ability to raise capital for follow-on funds. Showing a track record is key for investors and this is done by realising their investment value through successful exits. This is why many established funds report that it is harder for them to raise additional capital than it is for new investors and funds. Therefore, because the raising of new funds is tied to difficulties in exiting impact investment, this restrains the growth of capital allocation and funds to impact opportunities in the region.

However, the survey conducted points to evidence that impact investors are aligning their exit strategy and expectations to the market. The survey reported that 46% of investors had time horizons of 7-10 years and 38% had time horizons of 5-7 years. This is representative of more patient forms of capital, for that particular investment to mature and also for more time to identify exit opportunities. The investors' preferred exit options also moved away from the traditional IPO exits and secondary sales in favor of strategic acquisitions. This was clear evidence of a near-term addressing of the exit conundrum vs the long-term capacity building and development of capital markets. The respondents also noted favouring more interest income/dividends which is indicative of longer holdings periods and also a preference for debt, quasi-equity type investments.

We have seen all manner of exits in the Zambian capital markets including trade sales, secondary buyouts, buybacks, and self-liquidation. We have yet to exit by way of an IPO. Our fund has experience in structured exits by way of a merger. I believe, this market is exciting for scalable impact investments and that the onus is on fund managers to find ways to work with business promoters to help them implement and or redirect their growth strategies.

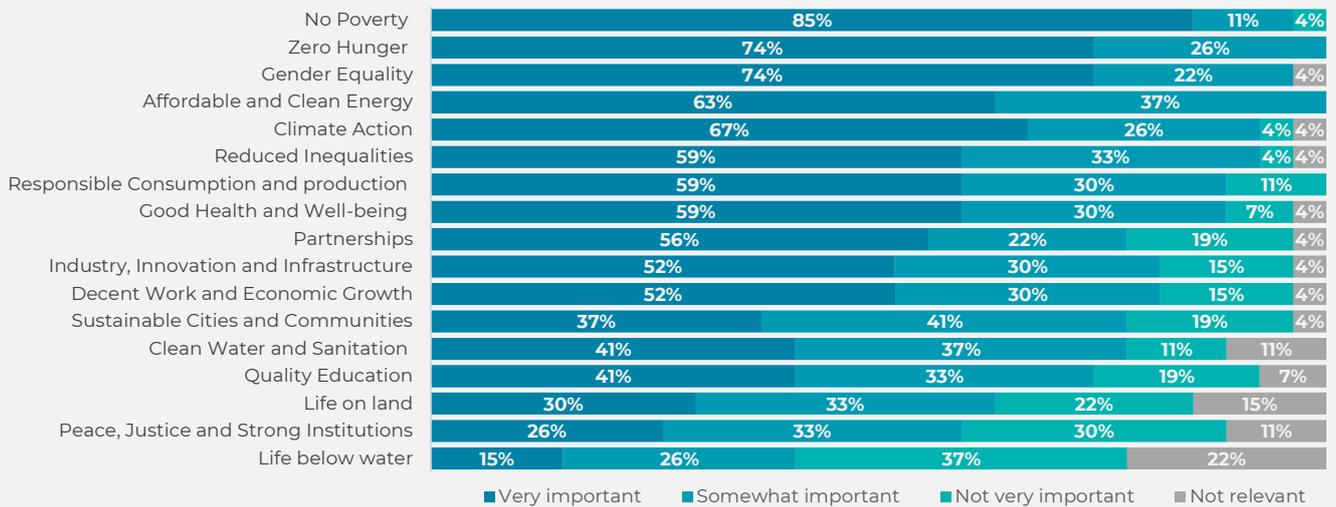
-Investor Quote

SUPPLY PILLAR: INVESTOR PRIORITIES

IMPACT OBJECTIVES

We asked investors about the kind of environmental and social impact returns that they expected from their investments in Zambia. Most impact investors refer to the United Nations Sustainable Development Goals (SDGs) as a framework for articulating their desired impact, so we asked them to tell us how important each of the 17 SDGs was to their investment strategy. The highest priority impacts (those ranked as very important or somewhat important) for impact investors in Zambia are related to poverty reduction, food security and nutrition, and climate and inequality.

FIGURE 1: DEVELOPMENT OBJECTIVES



In terms of progress towards achieving these important SDGs, the country is experiencing worsening poverty, hunger, and economic and ethnic inequalities compared to five years ago. This was reported by Afrobarometer, a Pan-African, non-partisan survey research network through an SDG Scorecard. Many of the gains made in the early part of the decade have seen significant declines as we enter the new decade. The following looks at the 6 priority SDGs for the surveyed investors.

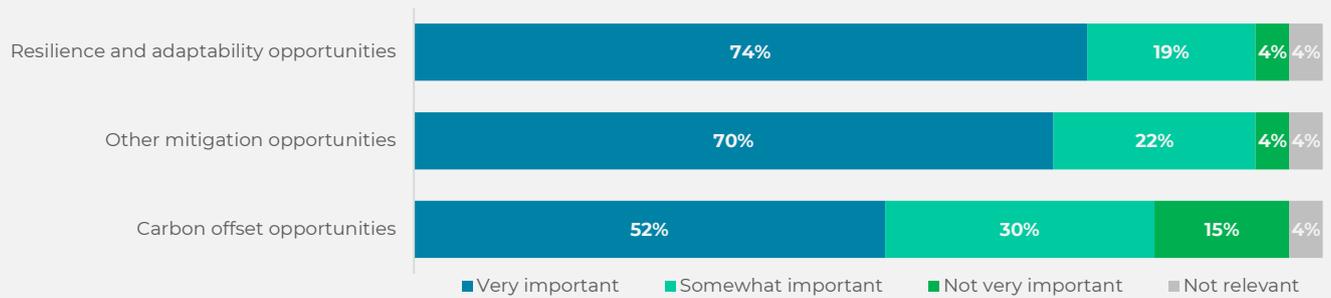
ZAMBIA'S PROGRESS TOWARDS SDGs – AFROBAROMETER SCORECARD

SDG	Indicator	5-year trend			
		Doing worse	No Change	Doing better	Meeting this target
SDG 1: No Poverty	Reduce Lived Poverty Index (LPI) score	●	○	○	○
SDG 2: Zero Hunger	Reduce frequency of ever going without food	●	○	○	○
	Reduce frequency of going without food many times/always	●	○	○	○
SDG 5: Gender equality	Reduce Lived Gender equality in technology use	○	●	○	○
	Gender equality in financial control	○	●	○	○
SDG 7: Affordable and clean energy	Increase reliable connections to the grid	●	○	○	○
SDG 13: Climate Action	Increase % of who have heard of climate change	○	●	○	○
	Increase understanding of negative impacts of climate change	○	○	●	○
SDG 10: Reduced inequalities	Decrease % experiencing high levels of poverty	●	○	○	○
	Decrease % treated unfairly due to ethnicity	●	○	○	○

Key: ● Performance worsened by >3 percentage points ● Change between -3 and +3 percentage points (not statistically significant)
 ● Performance improved by >3 percentage points

NOTE: The newly developed Afrobarometer SDG Scorecards highlight citizens' experiences and evaluations of their country's performance on democracy and governance, poverty, health, education, energy supply, water and sanitation, inequality, gender equity, and other priorities reflected in 12 of the 17 SDGs. These citizen assessments can be compared to official UN tracking indicators. Seven rounds of surveys have been conducted in up to 38 countries between 1999 and 2018. Round 8 surveys in Zambia were completed from 2019 to 2021.

FIGURE 2: CLIMATE CHANGE AGENDA



Drilling down into climate related objectives, we asked investors about their particular areas of interest. The answers showed almost equal levels of interest in resilience and adaptability (helping people to cope with the effects of climate change) and mitigation (helping to reduce the impact of climate change).

Interestingly, a significant number of respondents indicated interest in investment opportunities that could be used to generate carbon offset credits – a sub ecosystem, in its own right, that is still largely under-developed in Zambia. This is exciting as it shows willingness from the finance industry for finding innovative solutions to the climate challenges.

CARBON OFFSET OPPORTUNITIES

To inform our understanding on what opportunities exist for investors and to better position ecosystem building efforts, Prospero, in conjunction with Hamerkop International, conducted a feasibility study on carbon offset opportunities in which various projects were evaluated against select criteria. This study clearly highlighted that the transition to a low carbon future presents several opportunities in the Zambian context which could be capitalised. Two notable opportunities have been highlighted below:



1. DOMESTIC BIOGAS

Considering that 88% of Zambia's households rely on wood for fuel, and that 89% of fuelwood in Zambia is considered non-renewable, there is a significant opportunity for the provision of an affordable, sustainable alternative fuel source which could also provide significant social and environmental benefits to farmer households. One alternative source of energy in rural context is biogas, where biodigester plants convert animal manure into combustible biogas. The Hamerkop assessment found that each family-sized biodigester (6m³) could save around 4.6 tCO₂e and could be certifiable under the Gold Standard with a United Nations' carbon accounting methodology to generate real, verifiable emission reductions as carbon credits. Each carbon credit could be sold for between US\$ 4 and US\$ 10 on the voluntary carbon market. While the potential is much larger, with an estimation of supplying approximately 10,000 biodigesters across the country, this could generate between US\$ 230,000 to US\$ 460,000 per annum in revenue from carbon credits. The Dutch development organization, SNV, has already supported the installation of 3,500 biodigesters across the country, however the potential is much larger.



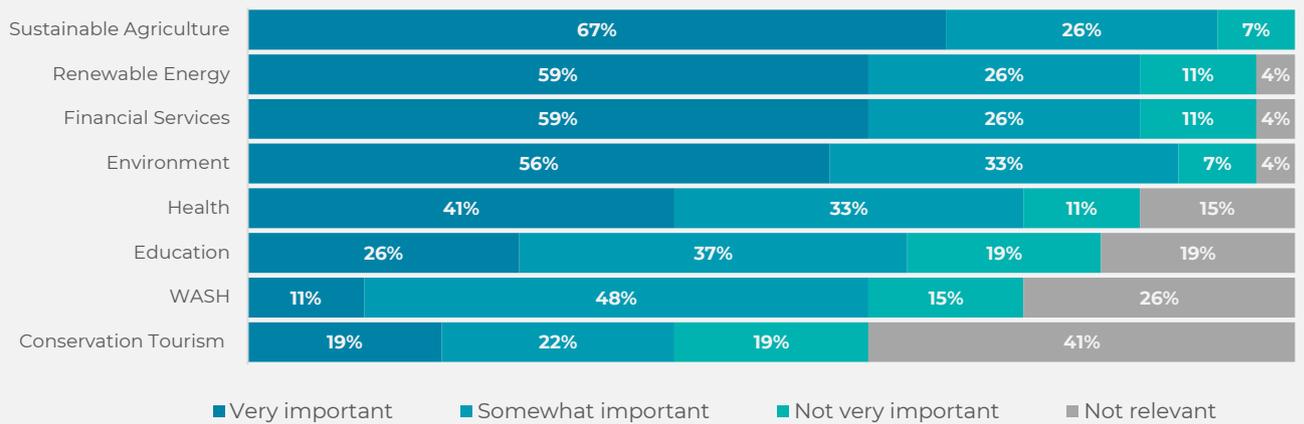
2. GEOTHERMAL POWER

In 2019, Zambia had an installed electricity generation capacity of 2,347 MW, with hydropower generation contributing up to 92% of Zambia's energy generation. Electricity demand in the country is growing by approximately 6% per annum and Zambia is thought to be facing a "critical power deficit" in the coming years. In addition, hydropower is highly vulnerable to climate change. While Zambia needs to grow its electricity capacity production and avoid fossil fuels, the country has been identified as having significant potential for geothermal energy generation. Since 2011, Kalahari GeoEnergy has been investigating the potential for a 10 MW geothermal power plant in the Bweengwa River geothermal resource area in the south of Zambia. This source of power is low-carbon and could avoid more carbon-intensive alternatives to generate electricity. A 10 MW plant, into which investment would amount to US\$ 20-25 million, could avoid more than 50,000 tCO₂e in emissions per year, which could be sold between US\$ 4 and US\$ 10 per unit over a period of 10-15 years. In addition to selling electricity, the sale of carbon credits would offer complementary revenues that could increase the return on investment and make the project more financially viable.

While these projects present an interesting potential, the way they will be designed, sized, operated and funded will also have an implication on the viability of the use of carbon finance mechanisms.

SECTOR PRIORITIES

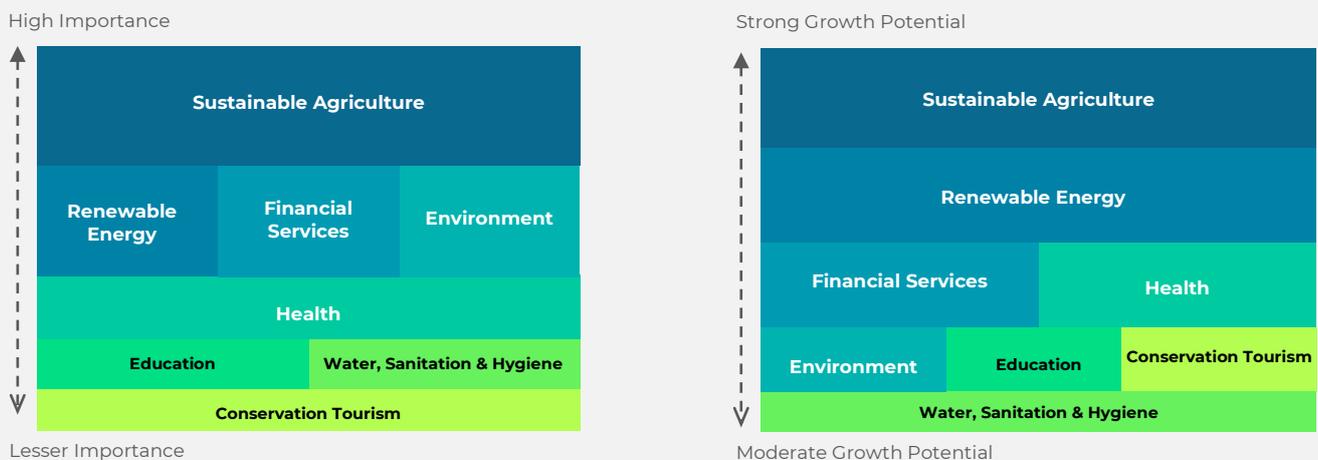
FIGURE 3: SECTOR IMPORTANCE



We also asked respondents to tell us which impact investing sectors are most important to them and where they see the best growth opportunities for impact capital in Zambia. Not surprisingly, given the current structure of the Zambian economy and the need to dramatically increase access to power and financial inclusivity for businesses and consumers (particularly in rural areas), sustainable agriculture (93% of respondents describing it as very important or somewhat important), renewable energy (85%) and financial services (also 85%) came out as the top three sectors of interest.

SECTORS OF IMPORTANCE VS. PERCEIVED GROWTH POTENTIAL

FIGURE 4: SECTOR IMPORTANCE VS. PERCEIVED GROWTH POTENTIAL



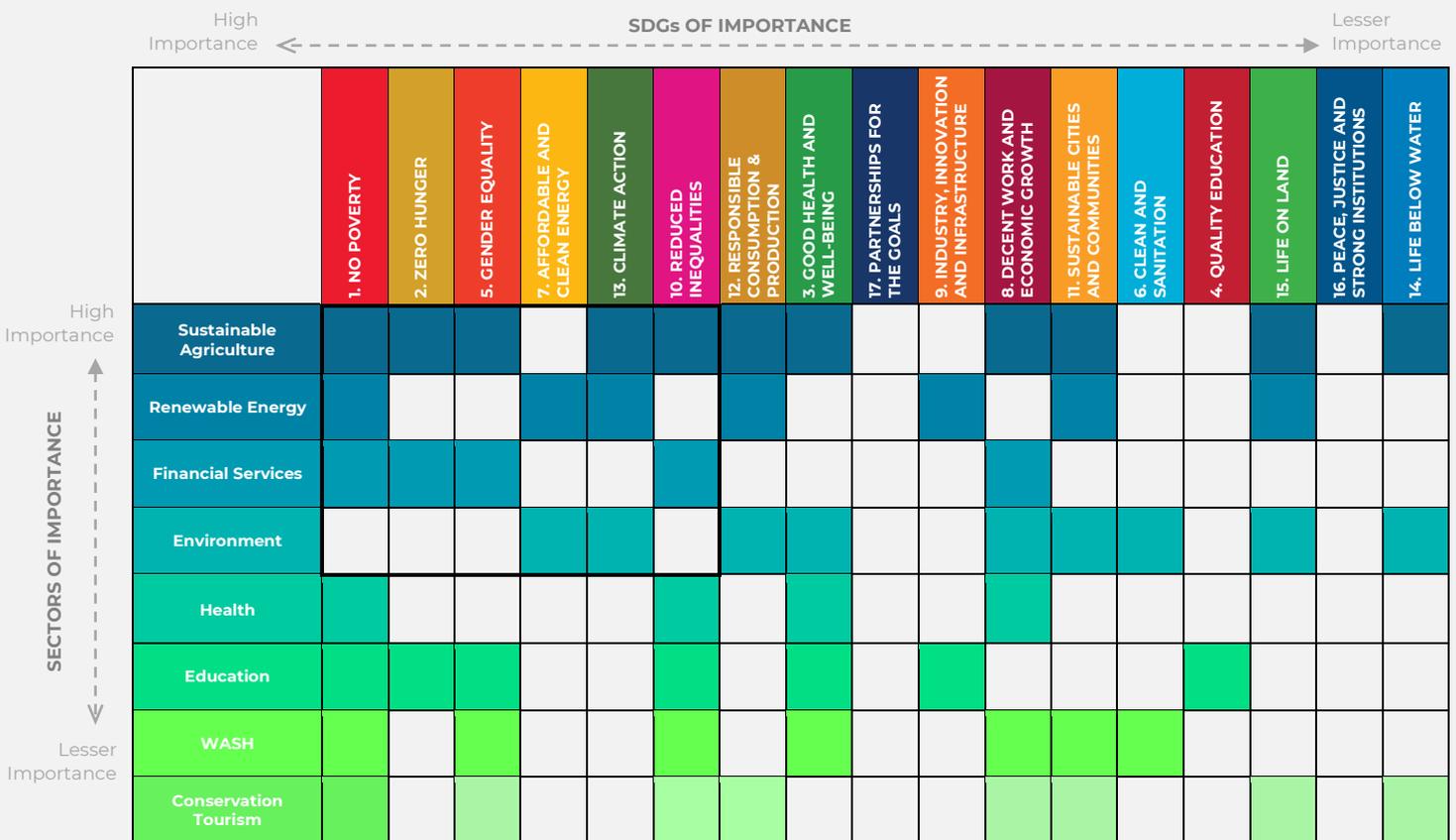
Agriculture accounts for a relatively low proportion of the Zambian economy (approximately 4% of annual GDP) but provides jobs and livelihoods for more than half of the population. Low agricultural productivity and little value addition are significant issues for the sector, with many people relying on small-scale, subsistence or close to subsistence farming. Rural poverty remains stubbornly high, so the potential to achieve significant social impact through agricultural investment is particularly high.

Considering that tourism was (until COVID-19) probably the fastest growing sector in the Zambian economy and that regional comparisons indicate strong growth potential; and that it is directly dependent on protection and sustainable commercialization of natural assets and biodiversity, it is perhaps more surprising that conservation tourism ranks relatively low down on investors' perceptions of importance and growth potential.

VALUE ADDITION IN AGRICULTURE – ALLIANCE GINNERIES	SOLERA RURAL ENTERPRISE HUB IN EASTERN PROVINCE	INNOVATIVE FINANCIAL SERVICES FOR ECONOMIC GROWTH - ZHL
		
<p>Alliance Gineries is a cotton processing enterprise based in Kafue. The company provides inputs and market access to over 45,000 smallholder cotton farmers. Alliance recently expanded their portfolio and received impact investment for an oilseed solvent extraction plant, reducing imports and increasing income opportunities for 50,000 soybean farmers.</p>	<p>Solera has established a pilot phase of SunSquare solar-powered mini grids, each supplying power to local micro businesses. Customers include small health facilities, local shops (for lighting and refrigeration), maize mills, and at one site, one of the nearby shops has diversified to offer laundry services.</p>	<p>Zambia has an estimated 1.5 million housing deficit that is likely to grow to 3 million by 2030 if not addressed. Since 2013, Zambia Home Loans has been working to bridge the housing deficit by providing innovative and affordable finance options to buy land, and build and upgrade housing.</p>

SECTORS OF IMPORTANCE VS. SDGs OF IMPORTANCE

FIGURE 5: SECTORS OF IMPORTANCE VS. SDGs OF IMPORTANCE



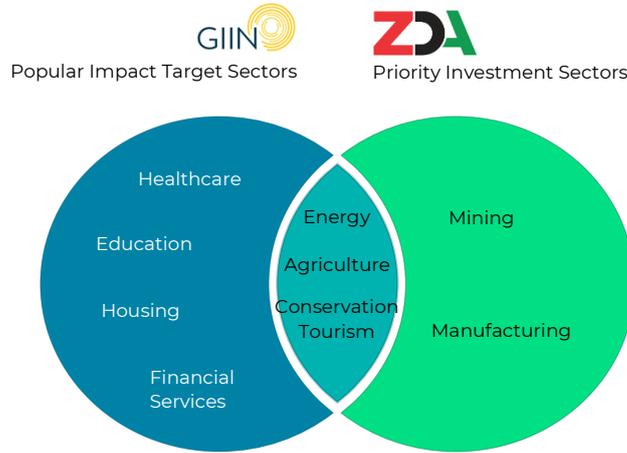
On analysis of the most important sectors and the most important SDGs to investors, the matrix assessment above indicated an overlap suggesting that target sectors of importance to investors wholly addressed the investors' SDGs of importance.

SECTORS OF IMPORTANCE VS. ZAMBIAN GOVERNMENT PRIORITY DEVELOPMENT SECTORS

The 2020 GIIN Annual Impact Investment Survey surveyed global impact investors on their allocation of assets by sector. The popularity of each sector was determined by gauging the percentage of investors having allocation by sector. The higher the percentage, the more the number having allocation in that sector. The most popular sectors were as follows:

The premise of national priority sectors is based on the potential to unlock and contribute strongly to economic development and job creation in the context of Zambia's natural and mineral resources and existing business environment.

Sector popularity amongst global impact investors as reported by the 2020 GIIN Survey was comparatively identical with investors' sectors of importance from our survey.



Mining, Tourism, Agriculture and Processing / Manufacturing overlap with the sectors of importance to Prospero as part of their development agenda.

MISMATCH IN NATIONAL DEVELOPMENT PRIORITY SECTORS VS TARGETED IMPACT INVESTMENT SECTORS. A MORE ALIGNED STRATEGY IS REQUIRED WITH THE ADVENT OF IMPACT CAPITAL. THE POTENTIAL OF GENERATING A DOUBLE BOTTOM LINE, LEVERAGING PRIVATE CAPITAL TO OBTAIN FINANCIAL RETURNS AND ADDRESS SUSTAINABLE DEVELOPMENT GOALS IS THE OUTCOME THAT SHOULD INCENTIVIZE THE GOVERNMENT TO ALIGN TARGETED IMPACT INVESTMENT SECTORS AND NATIONAL PRIORITY SECTORS.

INVESTOR PERCEPTIONS OF THE ZAMBIAN IMPACT INVESTMENT ECOSYSTEM

FIGURE 6: PERCEPTIONS OF IMPACT INVESTMENT ECOSYSTEM



1. Intermediaries: Fund managers and transaction advisers

Intermediaries facilitate the exchange of impact capital between the supply and demand sides. These include funds (often venture capital, growth funds or funds of funds), as well as wholesalers and stock exchanges.

There is an urgent need for a high-functioning ecosystem of intermediation to fill the gap of deficient capital markets that are currently unable to achieve this connection. Respondents indicated an overall positive response to the quality of intermediation services in Zambia with 58% of respondents rating it as medium quality and improving. Over 35%, however, didn't share the view and perceived this element as "low quality and improving". A primary potential cause of this may be a lack of experienced intermediaries and specifically impact-focused intermediaries within the nascent impact capital space in Zambia.

This was a key finding in the 2019 *Zambian Impact Investment Landscape* report by Kukula Capital. Within the intermediary ecosystem in Zambia, there is a general skills gap on impact investment deal structuring and best practices. As a result, there are missed opportunities in facilitating mission-driven enterprises with the available impact capital thus resulting in limited deal flow. Promoting collaboration and knowledge sharing amongst investment intermediaries could well bridge the capacity building gap amongst intermediaries in Zambia. A possible consideration is for the facilitation of platforms where intermediaries can share insights, ideas, and key learnings and best practices amongst local and international players to catalyse the impact investments market.

Demand: The pipeline of investment opportunities

Pipeline of investment opportunities is a problematic element not only in Zambia but worldwide. The lack of adequate scalable investment opportunities is consistently highlighted as a top challenge to the growth of the impact investment industry. An impact investment opportunity needs to demonstrate both its ability to provide a financial return and the ability to generate measurable social and environmental impact, and additionally show sufficient track record and capacity development to align with the risk appetite of investors.

A generally positive outlook was reported on the pipeline of investment opportunities with over half of the respondents rating it as "medium quality and improving". Impact Capital Africa and Prospero have played a key role in working with enterprises and getting them to an 'investment ready' state.

Zambian Intermediaries - Amano Capital and Zenga Ventures

Towards the end of 2019, the National Advisory Board for Impact Investment in Zambia undertook a study to assess the state of the Zambian landscape for impact investment. The study revealed several gaps within the local impact investment ecosystem. One such gap was the low capacity of local fund managers, which translates to reduced opportunities for investment for local businesses.

As one of the leading enablers in the ecosystem, Prospero recognises some of these gaps that, if filled, could lead to increased impact investments, hence its efforts to build the ecosystem through supporting the various players within the impact investment space. In 2020, Prospero began working with upcoming local fund managers, namely Zenga Ventures and Amano Capital. Both the promoters of these funds have a wealth of personal experience both locally and internationally and are now working to establish local funds to invest in Zambian businesses.

Prospero's support has so far helped both entities strengthen their internal systems and processes and put together solid teams in preparation for their fundraising efforts, which would help to build on their current advisory work. Fundraising for first-time managers anywhere in the world is not an easy task. However, both Amano and Zenga have taken the crucial first steps of "putting their houses in order". Both entities have made progress on the curation of the SME pipeline. The next crucial steps are the finalisation of the licensing process and the fundraising. Prospero will continue to support both entities with the goal of having both funds raised for onward investment into local businesses.

This positive development in the impact ecosystem in Zambia is largely attributed to the two entities and they remain committed to continue building the pipeline of investment ready impact enterprises.

Policy and Regulation: The enabling environment

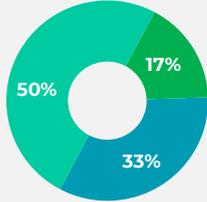
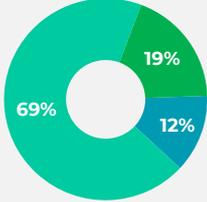
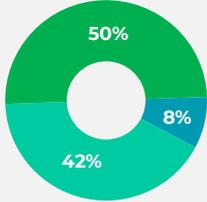
Policy and regulation around impact investments affect the ability of investors to generate sustainable returns and the intended impact. Effective policy and regulation help reduce investor uncertainty and incentivise more impact capital flow to the market, which in turn reduces the constraints that businesses face to access capital and reduce risk.

Beyond the 50% of respondents who rated this element as “medium quality and improving”, the other half of the respondents rated this element less positively. Currently, there is little to no impact-specific policy and regulation in Zambia. Whereas in other countries social enterprises are independently recognised, in Zambia these enterprises lack a bespoke policy and regulatory framework to govern them. Lastly, there is limited incentivisation for funds to domicile locally. Therefore, resolving all of the above would have the effect of facilitating much needed impact capital flow to the local market.

Enablers: Information and transaction support services

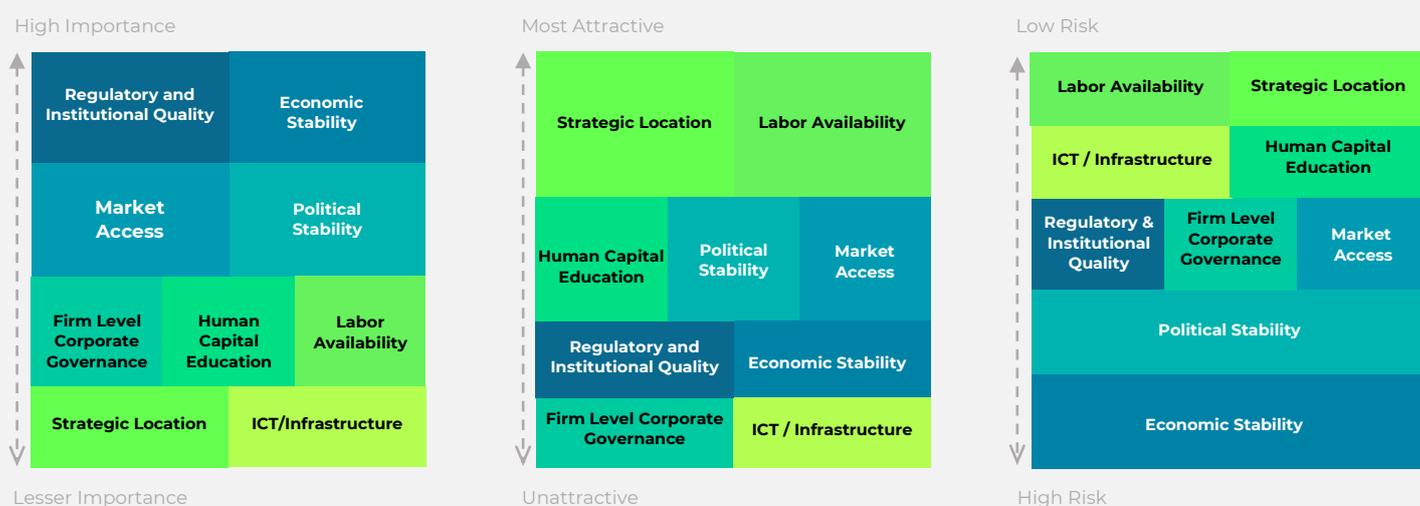
This service is usually offered by ecosystem enablers/market builders, including actors that facilitate the impact ecosystem without necessarily providing capital. These range

from financial advisors to research centers or National Advisory Boards. Respondents' sentiments towards this element were mixed. Of the four elements assessed, this one ranked lowest in quality. In comparison NABII, a key enabler in the impact investment ecosystem in Zambia, received fairly positive reviews with over 69% reporting it to be “good” and 12% reporting it to be “very good”. This disparity could possibly be due to the recognition of NABII's effective engagement thus far, despite the ecosystem enabler having only been set up in 2019. Respondents' sentiments indicated that there are wide gaps within the service delivery of the fifth GSG impact investment pillar.

	IMPACT CAPITAL AFRICA	NATIONAL ADVISORY BOARD FOR IMPACT INVESTING	ZAMBIA DEVELOPMENT AGENCY
	 <p>Partners with other agencies to identify, develop and support growth of SMEs to become investment ready and to increase market access of pipeline investment ready SMEs. Also works to provide impact ecosystems insights and networking opportunities and maps potential exit scenarios.</p>	 <p>A non-profit organisation established to accelerate the growth and effectiveness of impact investment in Zambia. Their mandate is to mobilise stakeholders and resources to support the creation of a private sector-driven impact economy.</p>	 <p>Promotes and facilitates impact investment flow in Zambia via the provision of information on impact markets and industries, assists in seeking business partners for Joint Venture Partnerships, and provides information regarding impact investment incentives etc.</p>
Investor Perceptions	 <p>■ Very good ■ Good ■ Not very good</p>	 <p>■ Very good ■ Good ■ Not very good</p>	 <p>■ Very good ■ Good ■ Not very good</p>
Notable Achievements	<p>Over US\$80m in deals closed between 2018 and 2021 across 21 deals with 55 businesses prepared and presented.</p> <p>Facilitated for two seasons of international deal-focused conferences in Lusaka in 2018 and 2019.</p>	<p>As a market builder, NABII has been providing key insights on the state of impact investment in Zambia, informed by research studies.</p> <p>Deploying and amplifying impact narratives among the ecosystem players via knowledge sharing events targeted at early-stage businesses, the government, investors, and market builders.</p>	<p>ZDA has adopted two impact sectors (i.e. agriculture and renewable energy) among their main priority sectors.</p>
Future Targets	<p>Informed panel discussions amongst ecosystem players to catalyse discussion in industry, regulation, investment, services provision, and innovation in Zambia.</p> <p>SME showcasing through networking, engagements through quick-fire pitches of pipeline businesses.</p>	<p>NAB will continue to lead innovative finance initiatives in partnership with ecosystem players to enhance financial access, market strengthening and business development services to SMEs.</p> <p>NABII will be hosting an inaugural impact investment summit with support from AGS.</p>	<p>Continued support and engagement from the government and cooperating partners to provide impactful leadership in raising the capacity of local businesses.</p>

INVESTOR PERCEPTION OF ZAMBIA

FIGURE 7: COUNTRY LEVEL FACTORS IMPORTANCE VS PERCEIVED QUALITY AND RISK



Significant amongst the set of survey findings is what investors think of Zambia as an investment destination.

Zambia needs to attract international private impact finance. Domestic capital is in short supply and public borrowing has reached its limit. Existing public debt levels have proven to be unsustainable, with some 50% of the government's revenues being swallowed up by servicing past borrowing.

However, investment capital is an extremely mobile commodity in the global economy, and investors have a number of options as to where they deploy their resources to achieve impact and financial returns.

Impact investing as a sustainable market-based approach to solving critical social and environmental issues, whilst the government has limited spending power, offers an opportunity to integrate it into the government's overall investment and development strategy.

Zambia is competing for its share of that capital, and it is worth taking note of how investors perceive Zambia as a country for their investments.

Which factors influence investment decisions?

First, we asked investors about the country level factors they consider to be most important to their investment decision making process – in other words, when they are considering investment opportunities in one country or another, what drives their choices about where to place their money.

Top of the list for most investors were four key criteria:

- Quality of regulations and institutions
- Economic stability
- Market access
- Political stability

Impact investors are patient investors; almost half of the respondents to this survey said that they are looking to hold investments for 7-10 years, and more than 80% hold investments for at least 5 years. This kind of outlook requires confidence in the factors dictating the success of the investment over the short term and the realised value in the long term.

REGULATION LANDSCAPE IS CHANGING FOR THE BETTER



SECURITIES AND EXCHANGE COMMISSION
Protecting Investors in the Capital Markets

The Securities and Exchange Commission (SEC) is cognizant of the regulatory gaps, hence, they continue to form indispensable regulation that promotes capital market development of impact investments. Recent works include the development of the Green Bond's regulatory frameworks, the private equity and venture capital guidelines—which will complement the already existing Securities Act, specifically on collective investment schemes, and the Sandbox Regulatory Framework under which firms can test their proposed FinTech or other innovative products or service.

According to the Act, "Green Bonds" means a fixed income or debt security instrument, either unlisted or listed on a securities exchange, approved by the SEC, whose proceeds are used to finance or refinance existing or new projects that generate climate or other environmental benefits that conform to green guidelines and standards.

Furthermore, some of the innovations categories in the sandbox include:

- Alternate financial intermediation platform (e.g. peer to peer lending and investment)
- Crowdfunding (equity, debt, donation, rewards)
- Innovative insurance underwriting
- Alternative risk transfer mechanisms
- Artificial Intelligence

With this, the commission anticipates increased private capital flows that benefit the wider society, especially those who are financially excluded, and the environment.

Institutional and regulatory factors influence a range of issues, from the ability to repatriate capital to the quality of available labour. Zambia's investor-friendly reputation has waned over the last decade, with issues around resource nationalism setting the tone and policy inconsistency unsettling investor certainty. This is in large part shaped by political and governance factors. The lack of an overarching, consistent economic strategy determined by tangible productive outcomes heightened investor caution, as evidenced by a fall in foreign direct investments (FDI) inflows as a percent of GDP from 7.5% in 2015 to 2.4% in 2019.

Instances like replacing the central bank governor and reshuffles in the trade and finance ministries also indicate a level of inconsistency in approach. Such upheaval has characterised deterioration in macroeconomic conditions. The kwacha has depreciated 230% over the last 6 years against the dollar, making forecasting more difficult, while increasing the cost of doing business, ultimately discouraging long-term investment in the country.

Looking more broadly, GDP per capita has declined 31% between 2017 and 2020, highlighting lower purchasing power and less customers for enterprises. Such conditions increase the importance of access to markets in different countries, allowing investors to hedge against in-country risks, through geographic diversification.

Surrounded by eight countries, Zambia is well placed to trade with its neighbours. The Kazangula Bridge has opened routes to more traditional trading partner's south of the border, boosted by the SADC Free Trade Area, which will be complemented by the African Continental Free Trade Area, when in full effect.

How do you rate Zambia against each of these factors?

Having identified the factors that are most important to investors, we then asked them about how attractive these factors are in Zambia and how much risk they attached to their current perceptions of these factors. Their responses highlight the challenges that Zambia is facing when trying to attract and retain impact investment finance. Our respondents rate:

- The quality of regulations and institutions (one of the most important factors) as relatively unattractive;
- Economic stability and trade/market access (also important factors) as relatively unattractive; and
- Firm-level corporate governance was rated as unattractive.

At the same time, strategic location (often cited as one of the factors that bring investors to Zambia) was rated as attractive, but unimportant in investment decision making.

How much risk is attached to each of these qualities?

Questions around investors' perceptions were followed up with questions around the risk of them worsening. Although the responses are predictions of an uncertain future, these views have a real effect on investment decisions being taken today. The highest risk was attached to:

- Political stability – based on considerations taken prior to the 2021 general election;
- Economic stability appears as a high risk area – investors are concerned about how the wider economic context will affect the returns they will see on their investments; and
- Quality of regulations and institutions – in addition to being unattractive, investors expect them to get worse.

CHANGE IN GOVERNMENT HAS IMPROVED INVESTOR PERCEPTIONS

A victory for President Hakainde Hichilema on a pro-business and pro-democracy mandate has improved the confidence

of international markets in the Zambian economy. The kwacha appreciated 12% in the week following the announcement of the country's new president.

In a follow up to the original survey, after the recent election outcome, we asked select investors how this would affect perceptions of Zambia as an investment destination, and investors' policy and regulation recommendations for the new administration. The following is a summary of answers provided:

1. Investors' perceptions of Zambia as an investment destination under the new administration

The general consensus is that the new administration is likely to restore investor confidence and the effects of an improved macroeconomic outlook will be felt over the short and long term. Investors predict that improvement in governance and stable policies will attract FDI inflows into mining, manufacturing and other investment-industries which will catalyse and crowd in domestic investments. Greater foreign exchange inflows and liquidity pressure easing will also strengthen the kwacha, drive economic stability and significantly lower the cost of doing business.

"I anticipate them (government) to have a proactive investment strategy that will start building back the trust base with the international investment community that has strongly eroded over the last few years."

-Investor Quote

2. Potential of Zambia as an investment destination over the next 5-10 years

Confidence is high amongst all investors that the new administration will implement the right changes to ensure macroeconomic stability over the next 10 years. The forward outlook of rising and stable copper prices supported by the global push for greener economies will serve as a foundation for stability and growth. Zambia's strategic location, a young and affordable labour force and its abundance of natural resources allows the country to stand out regionally as an attractive option for growing foreign capital and seeking higher returns in emerging markets.

"I would set the bar high and work on becoming the Switzerland or Singapore of Sub-Saharan Africa."

-Investor Quote

3. Recommendations on what policy and regulatory reforms Zambia should adopt to improve Zambia's attractiveness as an investment destination

- Clamping down on corruption and detangling institutions from political influence
- A more permissive and targeted immigration policy to attract committed international investors and highly qualified people across sectors and functions
- Reforms around taxation and incentives to ease the pressure on SMEs and enable growth and investment
- Clear long-term rules on taxation, tariffs or investment incentives in Zambia
- Reduction in corporate taxes to attract companies to set-up their regional headquarters in Zambia
- In line with global trends of creating greener economies and a focus on digital, Zambia's economic diversification push should consider circular economies, shared economies, digitisation and electrification to create a more inclusive and sustainable economy

KEY FINDINGS



1. INVESTORS READY TO DEPLOY CAPITAL BUT ARE NERVOUS

Investors have expressed a strong willingness to enter or increase existing allocations in Zambia but are hesitant to make major commitments. This investor anxiety is characterised by concern over regulatory and institutional quality and the long-term outlook of the country's economic and political spheres. Confidence in the investment environment has eroded with deteriorating in-country factors, but this is expected to change with the incoming administration.



2. IMPACT INVESTORS PRIORITY SECTORS ALIGNED WITH NATIONAL PRIORITY SECTORS

Impact capital flows of the surveyed investors and the world over overlap with priority sectors as set through the agenda for national development. Top focus areas for impact investors are sustainable agriculture, renewable energy and financial services and are shaped by global investment themes like digitisation, urbanisation and the energy transition. Ever increasing interest in climate change mitigation throws a new spotlight on conservation tourism as an impact sector in Zambia.



3. INVESTORS ARE WARY OF DEPLOYING CAPITAL IN HIGH SOCIAL IMPACT SECTORS DUE TO CREDIT RISKS ASSOCIATED WITH WORKING WITH THE GOVERNMENT

Investors can generate the most social benefit by targeting sectors in public service delivery that were previously neglected by others. Health, education and WASH provide the opportunity to create large-scale impact but investors are cautious to enter such spaces on account of poor public sector creditworthiness. Over time, this is expected to change with the incoming administration who are expected to prioritise these sectors and will need to access and deploy private impact capital.



4. FRESH INVESTOR OPTIMISM SURROUNDING THE INCOMING ADMINISTRATION

The markets have reacted quickly and positively to the newly elected government – indicated by exchange rate appreciation and yield spikes of international government debt. The consensus amongst investors is that the new administration is likely to attract large-scale international investors and subsequently draw in domestic capital. The new government has emphasized the importance of the rule of law, a tougher stance against corruption and more stable policy around mining and investment. Moreover, increased political stability enhances optimism among investors allowing them to take a long-term view. This optimism is further backed and strengthened by a positive macro outlook – rising demand and stable prices for metals and agriculture commodities.



5. IMPACT INVESTMENT REQUIRES PROACTIVE PUBLIC SECTOR ENABLEMENT AND FACILITATION

Investors want enabling policy and support mechanisms that capitalise the markets, unlocking domestic capital, and promote and support entrepreneurship and innovation. Impact capital is a crucial source of finance for the government to drive sustainable and inclusive development. Leveraging private capital for public good will catalyse and enhance the overall development of the country with restricted liquidity.

RECOMMENDATIONS: STRENGTHENING THE ECOSYSTEM

> DEMAND PILLAR: BUILDING THE PIPELINE OF ZAMBIAN IMPACT INVESTMENT OPPORTUNITIES

Creating and encouraging more entrepreneurs, building more investable businesses

1. CREATE A NEW GENERATION OF HIGHLY EDUCATED IMPACT ENTREPRENEURS Introduction of an entrepreneurship course at higher-level education institutions in partnership with international business schools and the Zambian private sector, focusing on strategic management, corporate governance, financial management, innovation, social entrepreneurs and impact capital. This will enhance the quality of entrepreneurs and create more indigenously-owned investable businesses. Embedded in the course should be an effective learning delivery methodology that incorporates critical thinking, problem solving and self-learning that sets the standard and transforms how students learn – a potential first step to wider educational reform to equip graduates with the skills demanded by a competitive economy.

2. DEVELOP BUSINESS MANAGEMENT SKILLS THROUGH LIFELONG LEARNING Business membership organisations and professional bodies should play a leading role in promoting and delivering career development managerial and technical skills needed for managers to drive business growth. Support the development of comprehensive business management training that is accessible by all levels of current and aspiring leaders.

3. IMPACT ENTERPRISE SPECIAL CLASSIFICATION Mission-driven enterprises that provide social and environmental development outcomes should be issued separate legal classification and/or certification. This could subsequently serve as a framework to govern enterprises targeting development outcomes. This has the effect of transparently identifying these enterprises for government backing – grant support, tax subsidies and preferential procurement from government tenders and projects.

4. FISCAL INCENTIVES TO ENCOURAGE MORE SOCIAL ENTREPRENEURS

Once a special legal form for enterprises targeting social and environmental outcomes is established, this can facilitate target fiscal incentives such as special tax considerations. There are currently no fiscal incentives in place with regards to social enterprises.

> SUPPLY PILLAR: INCREASING IMPACT CAPITAL FLOWS TO ZAMBIA

Raising awareness of Zambia and improving investor perceptions of Zambia as an investment location

1. COORDINATION BETWEEN DIFFERENT GOVERNMENT INVESTMENT UNITS SETTING CLEAR AGENDA, INVESTMENT STRATEGY AND TARGETING The government's strategic investments in the private sector to enhance development are channeled through multiple entities such as ZCCM-IH, IDC, DBZ, NAPSA and CEEC. A cross-functional investment strategy needs to be reviewed to enhance cohesion from all supply channels and harmonise the effective deployment of capital into the market. This restructuring should include the deployment of capital to social enterprises. This reform should also reconsider existing restrictions of pension funds deployment of capital. Pension funds play a critical role in easing the role of local fund managers as it allows them not only to look for funding internationally, but also enables them to have tangible options locally. Yet, pension assets remain heavily invested in government securities and listed equities, despite regulatory reforms and Zambia's investment needs to support the real economy. In order to support SME development and improve local investments to the real economy, the government should enforce that the existing minimum 10% of pension funds be invested in alternative assets including impact investments via local venture capital and private equity funds. Further, the government should introduce local or international co-investment requirements to improve transparency, skills transfer and value addition from other experienced impact investors.

2. REGULATORY FRAMEWORK AROUND FUND DOMICILING Riding the new wave of investor optimism, effective policy around local fund domiciling is likely to incentivise more investors to setup locally. The ambition to become a regional hub for impact investing starts with attracting more locally domiciled impact capital funds. Surveyed investors reported appetite, however, historically this hasn't translated to committed capital – a trend common in many African countries. The consensus for this issue is that the perceived risks of investing in the region are much higher than the actual risks. This perception stems from foreign investors who, unlike their local counterparts, do not have the benefit of being on the ground and of being able to acclimatise themselves to the regional investment profile. Incentivising more funds to domicile in Zambia would not only allow us to compete for capital allocated to the region more effectively but would also help ensure that we convert investor appetite into investments made.

3. INNOVATIVE INVESTMENT VEHICLES / INSTRUMENTS Attracting private investment for public good can be accomplished by aligning the risk and return profile of investments. Innovative investment vehicles can help in this regard to support service delivery by public sector. This also speaks directly to alleviating the risks associated with Zambia as an impact investment destination heightened by the factors viewed as riskiest by investors. Examples of this form of catalytic capital include blended finance – by putting the first dollar on the table, the government can attract private investments to support important social and environmental development goals. Other investment vehicles include social impact bonds or green bonds.

4. REGULATION TO PROMOTE EARLY STAGE INVESTMENT (ANGEL INVESTING AND CROWD FUNDING) Angel investors are an important functional component of the investment hierarchy. They provide capital source and mentoring support for startups and early-stage businesses which, as investors in our survey confirmed, generally struggle to find seed capital to get started and for businesses to “grow legs”. Their expertise and experience is added value to the operational and management side of the business. Policies that encourage more angel capital will unlock domestic capital and offer local investors alternative investment avenues to traditional real estate. To encourage more angel investors, policy makers can grant catalytic first loss capital to angel funds. Amend regulation to allow crowd funding initiatives to raise and deploy local private capital, avoiding the FOREX and risk constraints of having to use offshore platforms.

> INTERMEDIARIES PILLAR: BUILDING DEAL MAKING CAPACITY IN ZAMBIA

Developing and attracting new deal making talent, establishing Zambia as a regional hub

1. ENCOURAGING INTERNATIONAL/REGIONAL FUND MANAGERS TO LOCATE IN ZAMBIA TO COMPLEMENT LOCAL FIRMS A step change in the number of skilled deal makers based in Zambia is critical to attracting more impact capital and accelerating the deal flow. Local well- and newly-established firms have already proven their value add proposition by providing investors with an entry point to Zambia, but the size of the talent pool and opportunities for professional skills transfer and development are both limited. Attracting new intermediaries to the market would provide the human capital injection required to kickstart the impact investment ecosystem and by extension would bring a whole new network of potential investors to Zambia.

2. BUILDING CAPACITY TO STRUCTURE INVESTMENT PRODUCTS WITHIN PUBLIC INSTITUTIONS Building in-house capacity to structure and create financial products that target impact capital for profit and purpose. Especially, financial engineering capacity specific to designing products that require ingenuity around channeling private sector capital to complement public fiscal spending on development. This entails leveraging new products such as social impact bonds and old ones such as blended finance to create equitable financial return structures for impact investors. This capacity would be best placed within the restructured Investment Promotion Agency.

> ENABLERS PILLAR: SUPPORTING IMPACT INVESTMENT IN ZAMBIA

Supporting the creation and strengthening of public and private investment enablers

1. STANDARDISED MEASUREMENT AND RATING FRAMEWORK A stronger impact economy needs a standardised measurement and reporting framework for impact outcomes. This creates transparency across the impact economy for asset allocators, investors, policy makers and impact organisations who can use these reliable and consistent ratings for evaluation purposes. This then advocates for more public funding and helps donors and investors direct their resources to interventions that have the most impact.

2. SOCIAL ENTERPRISE FOCUSED ACCELERATOR / INCUBATOR The government should support the formation of a local social enterprise incubator / accelerator. This newly created unit complements the other existing accelerators such as BongoHive, who focused on traditional technology business. The two entities can co-exist and the diversity of thought between the different accelerators enables a broader set of skills development amongst aspiring entrepreneurs.

3. RESTRUCTURING AND CAPACITY DEVELOPMENT OF ZDA AS A DEDICATED INVESTMENT PROMOTION AGENCY ZDA was originally created through the merger of a number of institutions and while its mandate includes investment promotion, it does not have a clear identity or a strong reputation as an impact investment enabler. It is not perceived as a champion of impact investment with the political backing to make a real difference. Within the context of the creation of the new Ministry of SMEs, ZDA could become the key government executive agency tasked with promoting Zambia as an impact investment location, acting at the interface of the government and the domestic/international impact investing ecosystem. Building internal capacity in terms of investment promotion and facilitation and strengthening policy communication/feedback between ZDA and the Ministry, would create a valuable entry point for investors and allow the government to constantly check and respond to the temperature of investor concerns and sentiment.

4. TIGHTENING STRATEGIC FOCUS AND IMPROVING CO-ORDINATION OF DEVELOPMENT INSTITUTIONS AND PROGRAMMES While several DFIs have made investments in Zambia over many years, the absence of a critical mass of large-scale investment opportunities has so far meant that these DFIs have been unable to deploy available capital at scale and tend to regard Zambia as a part of a region, rather than a specific investment destination in its own right. There is now an opportunity to change this dynamic, effort should be made to encourage DFIs to establish a local presence in Zambia and to proactively work with local fund managers, and with SME focused agencies and programmes to build a pipeline and deploy their funds at an earlier stage of growth than has been the case in the past.

5. BUILDING PARTNERSHIPS WITH INTERNATIONAL INVESTMENT ORGANISATIONS The creation of the National Advisory Board on Impact Investment and the recognition of NABII by the Global Steering Group on Impact Investment has shown the value of international partnerships – providing a support network and a framework for advocating change at a national level. Partnerships between Zambian entities and other international organisations could play a similarly value-adding role in raising the profile of Zambia as an impact investment location and strengthening the breadth and depth of the impact investing ecosystem in Zambia.

RECOMMENDATIONS: ADDRESSING INVESTOR CONCERNS

> INVESTOR PERCEPTIONS: POLICY STABILITY

Improving the policy framework for impact investment

1. CREATING POLICY CERTAINTY BUILT ON INVESTOR PRIORITIES Economic policy uncertainty correlates strongly with the macroeconomic environment, business conditions and other economic variables that affect investment. Surges in economic policy uncertainty increase the systematic risk, and thereby the cost of capital in the economy. As a result, higher economic policy uncertainty lowers investment, especially because of the irreversibility of investment and/or longer horizons of investment. Unlike generic economic uncertainty, which cannot be controlled, policymakers can reduce economic policy uncertainty to foster a beneficial investment climate in the country. In order to enhance policy certainty, policy makers must make their actions predictable, provide forward guidance and reduce ambiguity and arbitrariness in implementation. To create predictability, policy around investments must ensure that gaps and challenges are understood and rigorous stakeholder consultations to ensure policy falls in line with considerations such as investor priorities and overall enhancement of the industry.

2. BUILDING POLICY IMPLEMENTATION CAPACITY Building on global best practices and successful models within the impact investment space, the government must select what has worked in other countries and contextualise this as implementation occurs locally. This model ensures that implementation speed and effectiveness is enhanced and that the early progress of the existing ecosystem is catalysed to capture the development potential that impact investing has in Zambia.

> INVESTOR PERCEPTIONS: ECONOMIC STABILITY

Creating an economic context that allows investors to think long term

1. CREDIT ENHANCEMENT FINANCIAL STRUCTURES AND FACILITIES As the economy sees early signs of stabilisation, economic risks are still prevalent. Policy makers should actively try and crowd in private investment through credit enhancement instruments that improve the attractiveness of opportunities providing strong impact but perceived to have significant financial risk. These opportunities that meet the criteria of additionality, should be actively hedged through innovative instruments and vehicles delivered by the government. The strategy is likely to yield stronger delivery of public services despite the constraints within the fiscal space.

2. ECONOMIC STABILITY AND DIVERSIFICATION Economic dependent industries such as the mining sector require stable, predictable policy to encourage investment and growth of output. Going forward, copper will be a crucial commodity in the planet's attempt to decarbonise therefore providing strong, long-term price support and subsequently, stability to the Zambian economy. Zambia's diversification strategy should put climate change and future pandemics as central considerations. The agricultural diversification push should root its strategy in irrigation and decentralised input and finance provision mechanisms and promote output productivity and alternative crops. Diversifying our energy mix by promoting non-hydro energy sources should take the lead. A few easy wins are possible – first, liberating the energy production and transmission market and considering payment guarantees to improve confidence amongst promoters of power projects. Second, upgrading infrastructure of the grid and putting in place mechanisms to allow net metering. Ensuring our natural resources are strong economic contributors, the strengthening of the tourism sector should start with ministerial and agency reforms. A digital-first approach to promote the sector managed by a vibrant, youthful team can achieve double-digit growth. Zambia's diversifications push also requires a fresh story to capture economic opportunities created by technological breakthroughs. Cultural and creative industries that can find international markets more easily due to industry democratisation should be targeted. A new industry adds to our GDP and creates strategic employment opportunities for the unemployed, talented youth. Reducing our dependence on imported oil, improving trade deficits and stabilising currency volatility is strongly contingent on more investment into mobility electrification, especially as this strategy creates value addition opportunities for Zambia's mineral resources. Technology, the driver of the fourth industrial revolution, apart from providing economic diversification opportunities, creates opportunities for improved public service delivery such as education and healthcare. New narratives will enable steady economic growth and sustainable and inclusive development.

> INVESTOR PERCEPTIONS: REGULATORY QUALITY

Streamlining legislation and regulation and building implementation capacity to facilitate investment in Zambia

Creating a regulatory taskforce with a mandate to develop a comprehensive Investor Roadmap for Zambia, and then to review and propose amendments to the legislative and regulatory environment, will be critical if the government is to achieve its policy objectives. The taskforce should be drawn from the private and public sectors to ensure that there is a balance of interests represented. The purpose of the taskforce would be to bring an impact investing lens to legislative and regulatory reform, supporting the relevant ministries as they set out their policy objectives and priorities, mobilising the technical expertise necessary to effective reform, and feeding ideas and evidence into existing bodies involved in the preparation and review of draft legislation. Implementation capacity and key performance indicators for all state institutions responsible for policy implementation should be developed to ensure that reform is effective. Too often reforms take place on paper, but do not flow down into practical actions. The taskforce will also be responsible for a monitoring function to ensure that all state institutions adapt to the new pro-impact investment environment and make concerted efforts to implement policy.

> INVESTOR PERCEPTIONS: MARKET ACCESS

Creating a trade context that allows easy access to neighboring markets

1. LOCAL TRADE ENHANCEMENT AGENCY Zambia's strategic location is recognised by investors as the most attractive country factor, whereas market access is rated moderately attractive. An advantageous geographical positioning without the ease and ability to access regional markets is of little value, a sentiment echoed by the investors who rated market access as one of the top 4 important country considerations for investment. Bordering 8 countries with a total immediate addressable market of over 245 million people, Zambia has a complementary opportunity to the limited local market. To enhance market access potential and leverage our strategic location benefits, there is need for a multinational collaborative trade development organization to spearhead close corporation and coordinate strong partnerships between Zambia and its neighboring markets. The organisation will be responsible for promoting investments in physical transport and communication infrastructure and by facilitating increased incorporation of soft infrastructure such as integrated ICT systems in trade processes. When combined, these interventions will provide efficiencies in trade procedures and reduce trading time and costs significantly. Additionally, measures targeting non-tariff barriers through the simplification and adoption of harmonised trade standards as well as an improved trade regulatory environment through implementation and enforcement of trade-related laws, regulations and policies could work to increase intra-regional trade, ultimately driving enhanced export competitiveness and firm connectivity to markets.

ANNEXURE 1: LIST OF INVESTORS THAT PARTICIPATED IN THE SURVEY

Investor Name	Fund Type	Local Office
30Thirty Capital	Family Office	Yes
AECF	Impact Investor	No
African Life Financial Services Zambia Limited	Private Equity	Yes
Ag-Dev Co.	Private Equity	Yes
AHL Venture Partners	Foundation	No
Amano Capital	Venture Capital	Yes
BESTSELLER Foundation	Foundation	No
Development Bank of Zambia	Development Finance Institution	Yes
DOB Equity	Venture Capital	No
FINCA Ventures	Foundation	No
French Development Agency	Sovereign Wealth Fund	No
Gaia Impact Fund	Venture Capital	No
Goodwell Investments	Venture Capital	No
Grameen Crédit Agricole Foundation	Micro-Finance Investment Vehicle	No
GreenTec Capital GmbH	Venture Capital	No
INOKS Capital	Private Debt	No
Kukula Capital	Venture Capital	Yes
Norsad Finance	Permanent Capital Vehicle	No
Oikocredit	Co-operative	No
Persistent Energy Capital	Venture Capital	No
Private Investor Fund	Private Equity	Yes
Proodos Impact Capital	Private Equity	No
Secha Capital	Private Equity	No
Shared Interest	Social Enterprise	No
SIDI	Social Enterprise	No
Zenga Lending Services	Private Credit Fund	Yes
ZSIC Life Plc.	Insurance Company	Yes

