



# ZAMBIA

IMPACT  
INVESTMENT  
CLIMATE SURVEY

—  
2022



**CREO\_HUB**

## ACKNOWLEDGEMENTS

### ABOUT NATIONAL ADVISORY BOARD FOR IMPACT INVESTING (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 creating 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 incentivize 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 of impact capital. Prospero works through partnerships with public and private Zambian entities, providing a combination of technical assistance, grant support and access to personal impact investment finance. Through our investments and associations, such as Impact Capital Africa and Zambia Business Angel Network, Prospero has supported Zambian SMEs to attract investment capital worth over USD100 million.

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

### ABOUT CREO-HUB

Creo\_Hub is an advisory services business established in 2018 with a mission to help Zambian businesses and organizations to clarify their growth and value-creation strategies to attract capital, partnerships and business opportunities. Creo\_Hub has served local and international clients across various sectors, including Healthcare, Agriculture, Manufacturing and Financial Services.

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# FOREWORD

## FROM THE NATIONAL ADVISORY BOARD FOR IMPACT INVESTING (NABII)



Dr. Austin Mwape  
Chairman



I am delighted to introduce the NABII Zambia's Impact Investor Climate Survey Report 2022. This report is the second edition of a comprehensive study that assesses the current state of impact investment in Zambia. The inaugural Zambia Impact Investor Climate Survey Report (the 2021 Report) provided a valuable baseline of impact investor sentiments. Building on the success of the 2021 Report, the Zambia Impact Investor Climate Survey Report, 2022, includes additional insights on impact investor preferences, perceptions and experiences.

The 2022 survey is therefore unique as it captures important baseline insights from both prospective, and experiences of already active, impact investors. This blend provides a variety of stakeholders with a real opportunity to align expectations with the actual experiences on the ground therefore presenting a critical input into the decision-making process for investments and policy formulation in the impact investment space. These surveys will continue to provide an opportunity for structuring informed interventions that will help attract and retain impact investments in Zambia.

The attraction and retention of impact investments is important for Zambia's future given the new government's leaning towards the creation of policies and institutions that encourage private capital to be deployed productively and creatively as against government attempting to dictate the sectoral direction of private investments. The global economic landscape is also changing with an urgent need for countries to develop coordinated, non-fiscally taxing, solutions to strengthen impact aligned investment climates that will help mitigate inherent social and environmental challenges. NABII Zambia has therefore welcomed the decision, by the Zambian government, to embrace impact investments as a key source of financing for Zambia's 8th National Development Plan (8NDP). This important decision will help the enablement of the envisioned private sector led development over the 8NDP period.

I would like to commend NABII Zambia and Prospero for their dedication to promoting impact investment in Zambia and for producing this insightful report. I am confident that this report will serve as a useful resource for all stakeholders and contribute to the advancement of impact investment in Zambia. Additionally, the report is timely as it is being produced at a time when NABII Zambia is developing a Policy Action Plan to examine the existing policy and regulatory infrastructure that the Zambian impact investment ecosystem can leverage to progress its very ambitious strategic agenda to help Zambia create a private sector driven impact economy.

The annual surveys will be a continuous process that introduces a new, but critical, data driven dynamic to the impact investment ecosystem development process in Zambia. This will enable corrective refinement interventions to be done as the impact investment model takes hold thus enhancing the success probability of attaining targeted outcomes such as the Sustainable Development Goals.



# FOREWORD

## FROM PROSPERO



Brian Ross  
Acting CEO



I am privileged to introduce the second edition of the *Zambian Impact Investment Climate Survey* report, which provides critical insights into the country's investment climate. The report comes at a crucial time when Zambia seeks to achieve a green, inclusive, private sector-led economic recovery and development.

The survey conducted by Prospero, in collaboration with its partners, has given voice to the people deploying capital and making the deals. It provides fresh insights into the investment priorities of finance providers already operating in Zambia and identifies the strengths and weaknesses of the country's impact investing ecosystem.

Zambia's entrepreneurs have demonstrated their resilience, ingenuity, and ambition, while well-established investment advisers and fund managers have shown the potential for financial and impact returns. Additionally, a new generation of highly aware impact investment professionals is eager to build their experience and expertise.

Prospero is committed to collaborating with the private sector, policymakers, and implementers to promote mutual understanding and implement actions that will lead to meaningful change. The report provides an essential foundation upon which the government can prioritize efforts that will be responsive to the needs and expectations of investors.

I encourage all stakeholders to utilize the findings of this report to drive Zambia's sustainable and inclusive economic development, with a clear understanding that achieving this goal will require a long-term commitment and increased capacity across the board. The report shows that Zambia has the potential to become a hub for impact investment in the region. It can realize this potential with the right policies, regulations, and investment incentives.



# FOREWORD

## FROM GLOBAL STEERING GROUP FOR IMPACT INVESTMENT



Cliff Prior  
CEO



As CEO of the Global Steering Group for Impact Investment (the GSG), I am delighted to support and endorse the excellent work of the Zambia Impact Investment Climate Survey Report of 2022.

The GSG drives real impact: putting us on the road to economies where investment decisions actually solve problems faced by people and for our shared planet. We advocate and shape policy through our global community of National and Regional Action Boards and Taskforces, representing a growing movement across over 50 countries. Zambia NABII is a proud and valued member of the GSG and an exemplar of how countries which face challenges can supply solutions through impact policy and investment.

The challenges are clearly visible: education, healthcare, securing investment, and many more. As the climate challenge becomes ever more pressing, the links between energy supply, environment and climate harms are at the forefront. Investment and transition actions are essential, and the voices of the people and their communities must be heard in the course of these developments.

The Zambia Impact Investment Climate Survey Report addresses all of these elements. It is wonderful to see the optimism of investors, with strong intentions to invest more into Zambia in 2023 and beyond. The Report also helps to pinpoint where more work is to be done: for example, in helpful policy and regulatory change, and for investment in more scalable and high impact businesses.

Globally, we are seeing beyond just seeds of change for impact, with more and more countries taking on impact investment at scale, with impact tools, standards, and regulatory systems. Impact investing has reached over \$1.2 trillion in AUM and continuing to climb. Impact transparency is becoming a new norm, with harmonized global standards, regulatory reporting, and impact valuation. Put together, these developments will create a new global financial system for impact: and for the GSG, that means that it is essential that countries across all continents and at all levels of development must have a voice in the design of that future.

The actions of the GSG, NABII, Prospero and UKAID, are a vital part of this new future. The report provides the insights. The Zambia NABII drives the action forward. And the GSG will support your work in creating a positive impact economy.

I congratulate your work to date, and look forward to your continuing success for impact into the future.

**Cliff Prior CBE**

**CEO, Global Steering Group for Impact Investment**



# ABOUT THE REPORT

The Zambia Impact Investment Climate Survey 2022 report (ZIICS-2022) builds upon the first edition of the report (ZIICS-2021) to deepen our understanding of the impact investing landscape in Zambia. In addition, this report provides valuable context for ecosystem-building interventions, measures progress over time and offers an evidence-based foundation for advocacy efforts.

This edition of the report strongly focuses on the preferences and experiences of impact investors who have previously invested or are currently investing in Zambia. Additionally, the survey includes responses from those who have yet to invest in Zambia but are considering doing so, providing valuable insights into the potential of impact investment in Zambia.

## WHY THIS REPORT

Impact investors provide essential funding and support to businesses and ventures seeking sustainability while addressing the numerous socio-economic and environmental challenges we face. In addition, these impact investors support entrepreneurs and social enterprises and contribute to developing a robust impact investment ecosystem through greater collaboration among stakeholders.

This report incorporates several contextual factors into the analysis to provide a comprehensive understanding of the impact investment ecosystem, such as investment opportunities, case studies and success stories, regulatory developments, capital markets developments, and changes in the economic environment. The analysis identified key trends, challenges, and opportunities within the impact investment landscape by analyzing these various aspects. These insights will inform the decision-making of multiple stakeholders, including investors, policymakers, and entrepreneurs, and drive a more collaborative and practical approach to achieve shared social and environmental outcomes.

The ZIICS-2022 report is critical in strengthening this collaborative effort, providing a roadmap for the sustainable growth of the impact investment ecosystem in Zambia.

## WHO SHOULD READ THIS REPORT

The ZIICS-2022 report is a valuable resource for anyone interested in understanding Zambia's current impact investment landscape and growth potential, including the following:

- **Impact Investors** who seek to gain insights into the motivations, strategies, and experiences of other impact investors in Zambia and the region. The report can inform their investment decisions and strategy.
- **Policymakers** who aim to understand the motivations and experiences of impact investors, which are crucial in developing policies and programs that support the growth and development of the impact investment market in Zambia. This report can inform their efforts to create an enabling environment for impact investment.
- **Entrepreneurs and Social Enterprises** who aim to enrich their understanding of impact investors' preferences and considerations. The report can help them better position themselves to attract investment and grow their impact-driven ventures.
- **Intermediaries** who seek to understand their clients needs better and design services and solutions that meet those needs. The findings of this report can inform their work.
- **Accelerators** who are responsible for developing programs that build the capacity of impact investment recipients. This report will assist in better aligning the needs and preferences of impact investors, supporting entrepreneurs and social enterprises to attract investment and drive innovation.
- **Associations and Stakeholder Communities** that represent the interests of key players in specific sectors. This report can inform a range of initiatives and programs aimed at lobbying for increased support in the growth and development of the impact investment market.



# EXECUTIVE SUMMARY

## KEY FINDINGS

### 1. DESPITE ZAMBIA'S DEBT AND ECONOMIC CHALLENGES, INVESTORS ARE OPTIMISTIC AND COMMITTED

Zambia has faced significant economic challenges in recent years, including high debt levels (45.5 % of the country's Nominal GDP in December 2021) and a decline in copper prices from USD9,322/mt in 2021 to USD8,797/mt in 2022, which has impacted the country's growth and development. However, despite these challenges, investors are optimistic about the country's long-term potential for economic development, particularly in Renewable Energy, Sustainable Agriculture, Financial Services and Environment. As a result, 82% of investors with existing investments indicated that they would increase their allocations to support their portfolio companies and explore new growth opportunities.

### 2. INVESTORS ARE READY TO DEPLOY CAPITAL BUT ARE LIMITED BY THE AVAILABILITY OF SCALABLE AND HIGH-IMPACT BUSINESSES

Although investors have ample Assets Under Management, there needs to be a robust deal pipeline of scalable and high-impact businesses, which investors can prioritize. The priority impact areas include providing decent work and economic growth, increasing access to affordable and clean energy, gender equality, climate action, zero hunger and poverty reduction.

### 3. POLICY AND REGULATORY ENVIRONMENT IDENTIFIED AS THE MOST CRUCIAL AREA REQUIRING INTERVENTION

58% of respondents cited policy and regulation as the most critical area where interventions need to happen. The key issues highlighted include the absence of harmonization of policies across industries and sectors, inconsistencies in pricing, especially in sensitive areas such as food and energy security, unfavourable employment and labour requirements, difficulties in export and export procedures, and lengthy approval processes for large-scale projects.

### 4. LOWER INVESTOR CONFIDENCE IN THE PREVIOUS ADMINISTRATION AND THE IMPACT OF COVID IS REFLECTED IN A LOWER NUMBER OF DEALS DONE BEFORE 2021

A higher country risk profile at the time, further exacerbated by the COVID-19 pandemic, was the most significant contributor to the decline in the number of investment deals completed. Respondents indicated 26 deals between 2019 and 2021 compared to 46 completed three years before 2019. However, with the new administration boosting investor confidence and the pandemic subsiding, Foreign Direct Investments are beginning to gain momentum as investors perceptions signal optimism.

### 5. RENEWABLE ENERGY HAS EMERGED AS THE MOST ATTRACTIVE SECTOR FOR INVESTORS

An overwhelming 79% of respondents indicated that they consider Renewable Energy a priority sector, a striking difference from the previous survey, in which Sustainable Agriculture was the most preferred sector. The shift in focus is attributed mainly to the growing need to diversify the country's energy mix, given that the over-reliance on hydropower has led to severe deficits in drought and low rainfall periods.

### 6. STRONG POSITIVE CORRELATION BETWEEN GOVERNMENT INITIATIVES ACROSS THE RENEWABLE ENERGY SECTOR, ENVIRONMENT SECTOR AND CLIMATE ACTION AND INCREASED INVESTMENT INTEREST

The heightened interest amongst government faculties to promote a green economy and increase the potential of energy generation has led to the growth of environmentally focused businesses. As a result, investments in Renewable energy and Green economy stand to capitalize on this growth potential fostered by progressive regulatory developments.

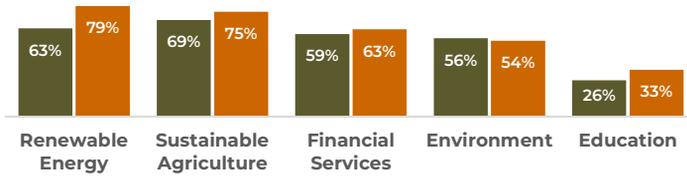
## SURVEY RESULTS

The presentation of the survey results uses twelve (12) Baseline Indicators. By measuring progress across a range of key indicators, we can gain a deeper understanding of the preferences and experiences of impact investors and identify areas of improvement. Additionally, by tracking changes in these indicators over time, we can assess the effectiveness of our interventions and make data-driven decisions.

# INVESTOR PREFERENCE INDICATORS



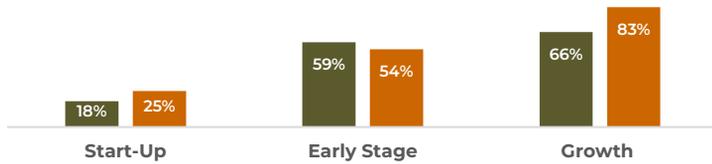
## Preferred Impact Sectors



Renewable Energy has garnered broad support and interest from investors mainly due to the growing demand for power and the upward revision of tariffs. In addition, the lower barriers to obtaining regulatory approvals and Power Purchase Agreements make the sector more attractive. As a result, Zambia is set to add 276 new off-grid Renewable Energy installations in 2023 alone.



## Stage of Investee



The surge in preference for businesses in the growth stage indicates a low-risk appetite and appreciation for more predictable companies. Contrastingly, the demand pillar in Zambia is dominated by start-ups and early-stage businesses, presenting an opportunity for high-risk investors to set up a fund with support services for start-ups and early-stage companies.



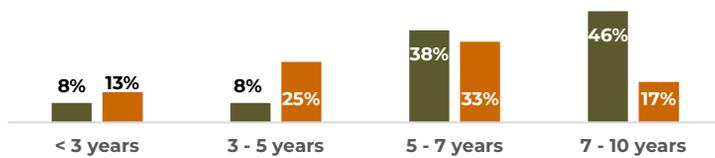
## Investment Instruments



Equity-only investments are losing appeal amongst investors, signalling a higher perceived country risk or a limitation in equity exit options. Therefore, a liquid and vibrant stock exchange, especially one with local retail investor participation, is essential to driving equity investments as it provides more accessible and lucrative exit options for investors.



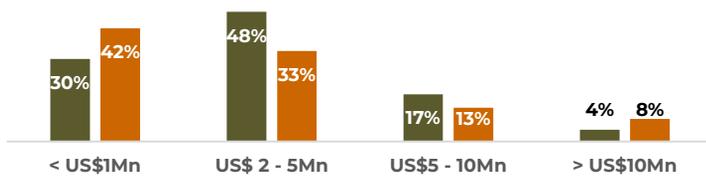
## Investment Horizon



Investors generally favour a 5-7 year investment horizon, allowing ample time for returns to materialize. Nevertheless, declining interest in longer-term investments suggests uncertainty in macroeconomic and policy environments beyond the 5-7-year horizon.



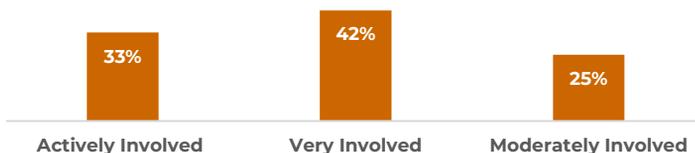
## Deal Size



The notable increase in transactions under \$1mn could signify investors adapting to deal flow availability in Zambia, where opportunities for investments exceeding \$5mn may be limited. Additionally, the limited number of deals above the US\$10mn threshold suggests the limited absorption capacity of Zambia to attract and utilize investment capital without causing adverse effects such as inflation, asset bubbles, or unsustainable economic growth.



## Investor Involvement



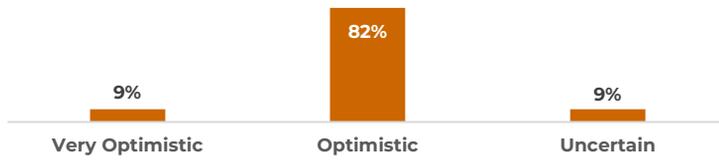
Investors prefer to be heavily involved in the implementation process, indicating that investees require substantial technical assistance and capacity building. This preference for active involvement could also stem from the investor's preferred management style.

# INVESTOR PERCEPTION AND EXPERIENCE INDICATORS



## Overall Perception

2021 2022



There is a general sense of optimism among investors. We expect to see an increase in impact investment in the coming years as barriers, such as limited access to information and uniformity in measuring impact, are addressed through institutional infrastructure enhancements and local capacity building.



## Priority Improvement Areas



According to responses, harmonizing regulations across sectors, reducing compliance costs, and shortening approval processes are essential to galvanizing impact investment activity. In addition, developing a liquid and vibrant capital market is critical to lowering barriers for listing Zambian companies seeking to raise growth funds.



## Investor Exit Routes



Strategic M&A exits have increased significantly, indicating that it is likely the most viable and lucrative exit option for investors. Investee Payouts also increased, indicating that Investees can generate adequate profits within a 5-7 year horizon. Additionally, there is significant scope to enhance Management Buyouts if investors can consider preparing management for this opportunity.



## Financial Returns Strategy



Investors are pricing for risk and seeking significant financial returns above the cost of capital. However, for businesses seeking investment capital, the cost of capital will continue to remain high. As a result, there is a greater need for credit enhancement and risk mitigation products to enable investors to price closer to the expectation of businesses.



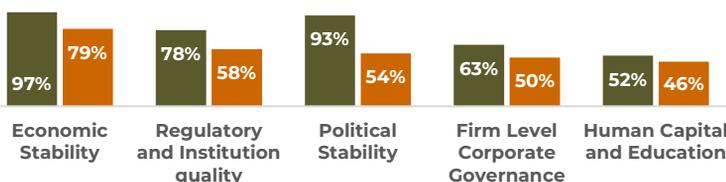
## Investment Challenges



The most prominent challenges investors faced were the limited availability of suitably sized investment deals and a lack of a solid financial track record of investees, reflecting a strong need for ventures, enablers and intermediaries to build the capacity of businesses and investees in financial management to increase the deal flow of sizeable investments.



## Investment Decision Factors



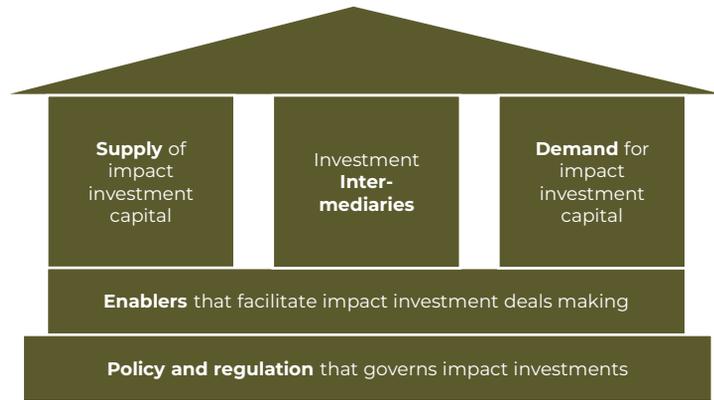
There has been a significant improvement in the perception of economic stability and the effectiveness of the country's public institutions, such as its legal and regulatory systems, as well as its political stability and the drive towards eradicating corruption, a likely result of the investor confidence in the current administration inaugurated in August 2021.



# INTRODUCTION

## IMPACT INVESTMENT ECO-SYSTEM PILLARS

Impact investing involves investing in companies, organizations, and funds to generate financial returns and measurable social or environmental impact. It is essential because it can address social and environmental challenges while generating financial returns and encouraging other investors to support social and environmental initiatives. The absence of impact investing may lead to a lack of funding for sustainable solutions to social and ecological problems, leaving many communities and individuals struggling with systemic issues.



Source: Eco-system pillar by Global Impact Investing Network (GIIN)



### Supply Pillar

The supply pillar represents actors that provide funding, directly or indirectly, to impact businesses or ventures. Development Finance Institutions (DFIs) dominate the Impact Capital supply in Zambia. On the other hand, local pension funds, High Net Worth Individuals (HNWIs), and crowdfunding platforms have minimal activities.



### Intermediary Pillar

This group of actors facilitates the exchange of impact capital between the Supply Pillar and the Demand Pillar (high-impact enterprises). The above pillar includes commercial banks, venture capital, and private equity firms. However, intermediation models are still underdeveloped.



### Demand Pillar

Represents actors that provide impact solutions and have financing needs to carry out those solutions. Start-ups and early-stage businesses dominate this pillar, while venture-stage or mature companies are few.



### Market Enabler Pillar

Represents actors that facilitate the impact investment ecosystem without necessarily providing capital. The pillar comprises development consulting and advisory firms, legal practitioners, auditors, and Entrepreneurship Support Organizations (ESOs), including business accelerators and incubation hubs.

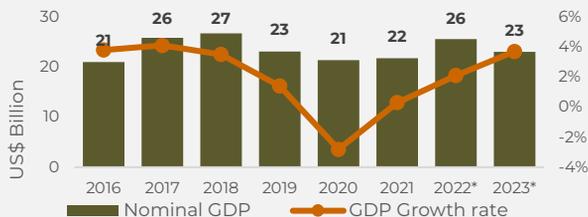


### Policy and Regulation Pillar

These are actors that catalyze the impact investment ecosystem through policy-making tools. They include government agencies, elected officials and other organizations seeking to establish standards and regulations.

## COUNTRY MACROECONOMIC CONTEXT

### GROSS DOMESTIC PRODUCT



Source: Economist Intelligence Unit, RMB Africa Macro Outlook

- The economic growth expected in 2023 is 3.0%, down from the projected 3.2% for 2022. Financial Services, ICT, Manufacturing, Tourism, Retail and Wholesale Trade, and Logistics sectors will drive the 2023 growth.
- The Manufacturing sector, which has been a significant contributor to growth in recent years, is expected to be at the centre of the government’s diversification agenda.
- The finalization of the Extended Credit Facility with the IMF has paved the way for debt restructuring, which will be critical in freeing up resources for the government to finance economic activity within the economy.

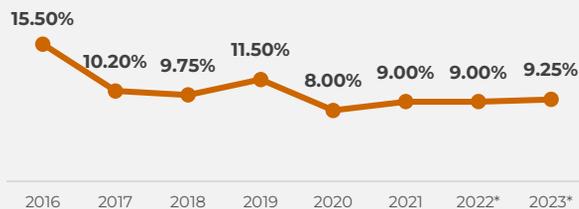
### INFLATION & EXCHANGE RATE



Source: Economist Intelligence Unit, RMB Africa Macro Outlook

- After two years of heightened uncertainty, inflation is expected to stabilize, with a peak of 24.6% in July 2021 and a decline to below 10% since November 2022.
- Improved food supply, particularly meat and poultry products, is expected to support price levels favourably.
- The Kwacha’s movements in 2023 hinge on the completion of the debt restructuring, global risk sentiments and developments in the Mining sector.
- A reversal in global risk sentiments could increase foreign portfolio investments, which could help moderate currency pressures in the domestic market.

### MONETARY POLICY RATE (MPR)



Source: Bank of Zambia, RMB Africa Macro Outlook

- The Central Bank maintained the policy rate at 9% throughout 2022. However, in 2023, there could be upward price pressures, which may pressure the bank to hike rates, resulting in a marginally higher average annual inflation rate.
- Another critical factor closely linked to economic growth is the development of the credit extension space. If economic growth remains flat, the Central Bank will unlikely significantly raise the MPR to stimulate private sector credit extension and growth.

### COPPER PRICES



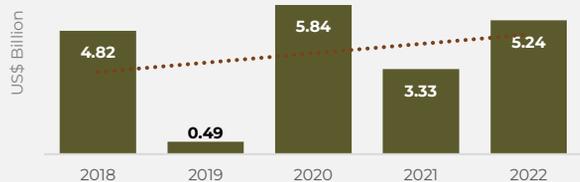
Source: Bank of Zambia, RMB Africa Macro Outlook

- From a low of US\$7,280/mt in July 2022, the copper price has rebounded to over US\$9,190/mt in 2023.
- The Zambian Mining sector is set to recover as covid-19 restrictive measures at the two mining giants in the northwest (Sentinel and Kanshashi) loosen and energy supply continues to remain constant.
- The current Bloomberg median consensus is for copper prices to hover at US\$9050/mt in 2024, which, if it materializes, would be constructive for the Mining sector.

The business environment of Zambia continues to display impressive outcomes, with the nation recently ranking 1st in Africa and fourth globally for ease of getting credit. The country currently stands as the sixth largest economy in the SADC region, which is due to contributing factors such as highly attractive government securities offering high rates of return on government bonds and treasury bills, conducive governance, skilled labour in numerous sectors, excellent transport network systems and the implementation of 80% fibre optic.

## FOREIGN DIRECT INVESTMENT INTO ZAMBIA

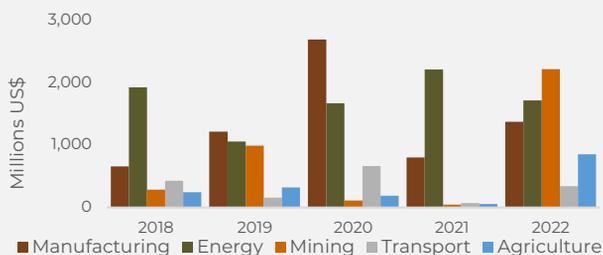
### FOREIGN DIRECT INVESTMENTS RECORDED



Source: Zambia Development Agency

- Foreign Direct Investments (FDI) recorded by ZDA has been erratic over the past five years, although the general trend has been upward.
- For the period under review, FDI was at its highest in 2020, with a total value of US\$ 5.84 Billion, while in 2019, FDI values were at their lowest at US\$ 0.49 Billion. (Note: this does not include direct company investments but is mainly related to large-scale projects).
- The varying levels of FDI indicate a need for more consistent investment incentives and policy frameworks to attract more stable and sustained investment in the country.

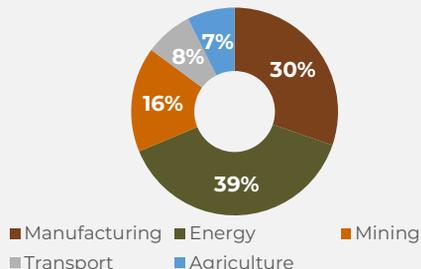
### FOREIGN DIRECT INVESTMENTS (FDI) BY SECTOR BY YEAR



Source: Zambia Development Agency

- Zambia's Energy sector has consistently attracted the highest FDI over the past five years, followed by Manufacturing, which experienced a sharp decline in 2021 due to COVID-19 induced global downturn.
- The Mining sector has had fluctuating FDI but experienced a significant increase in 2022 due to higher copper prices and further investments from existing mining companies.
- In contrast, the Transport sector has experienced the lowest FDI, although it holds potential for growth through infrastructure development and logistics.
- Finally, the Agriculture sector has consistently received FDI and offers significant potential for impact investment in sustainable farming, value addition, and supply chain development.

### FOREIGN DIRECT INVESTMENTS BY SECTOR IN TOTAL

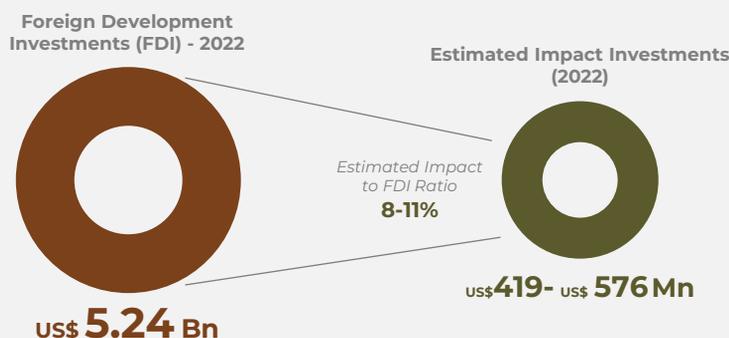


Source: Zambia Development Agency

- Energy has received the significant majority, 39%, of FDI over the last five years, possibly the result of various incentives developed by the Zambia Development Agency and various energy projects granted approval.
- Manufacturing has been the second largest recipient of FDI, representing 30% over the last five years; the result of establishing the Multi-Facility Economic Zones and various incentives have favoured investments in Manufacturing.
- FDI in the Mining sector has been low due to low copper prices pre-2020, which hovered below US\$5,000/mt. With copper prices now trading above US\$9,000/mt, investments in the Mining sector will increase.

## Estimated Impact Investments 2022

It is estimated that the amount of impact investments in Zambia for the year 2022 ranges between US\$419 million to US\$576 million. This estimate is based on the 'Impact to Foreign Development Investments (FDI)' ratio of approximately 8-11%, which compares the size of Impact investments from Development Finance Institutions (DFI) investments and Private Equity (PE) deals done with FDI reported for the years between 2016 and 2022 by Zambia Development Agency (ZDA)\*. The projected amount of FDI in 2022 was US\$5.2 billion.



Source: Cre-Hub Estimation

\* - Creo-Hub Estimation: Assumptions for the 'Impact to FDI' ratio estimated is referenced from the 'Zambian Landscape for Impact Investment Report 2019' representing combined impact deals by DFIs and PE deals investments and then compared against the Foreign Development Investments (FDI) recorded by Zambia Development Agency (ZDA) reported for the years between 2016 and 2022. In 2022, where the FDI recorded by ZDA was US\$5,240 million, the scope of Impact Investments ranged between US\$419 million and US\$576 million.

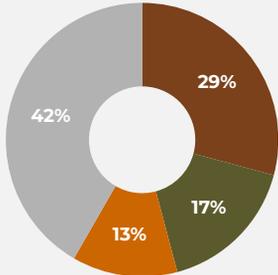


# INVESTORS PERCEPTIONS 2022

## A CLOSER LOOK AT THE INVESTORS

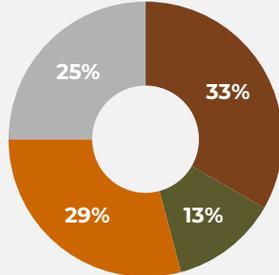
### Investor Type, Domicile & Fund Type

Investor Type



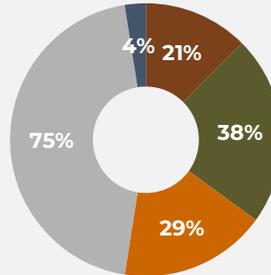
- Private Equity Fund
- Development Finance Institution
- Fund Manager: not-for-profit
- Other

Fund Domicile



- Europe
- North America
- Rest of Africa
- Zambia

Source of Funding



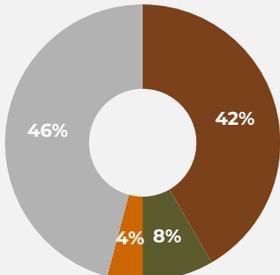
- Zambia
- Rest of Africa
- North Africa
- Europe
- Middle East

Private Equity Funds represent the single most significant investor type, followed by DFIs. Others represent investor types such as VCs, Foundations and Investment Banks.

A deeper look at the domicile of the respondents reveals that the majority are in Europe and the rest of Africa, suggesting that these funds are not 'Zambia only' funds. They have interests in other countries within Africa, and Zambia must compete for a share of the available capital. Overwhelmingly, 75% of investors source their funding from Europe.

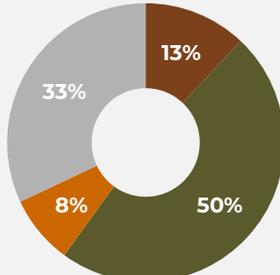
### Funding and Status

Fund Number



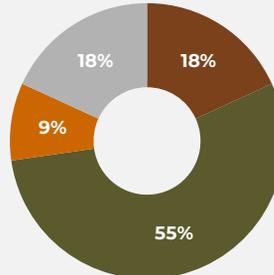
- Fund 1
- Fund 2
- Fund 3
- Not Funds

Investment Status



- Past Investments Exited
- Current Investments Continuing
- Current Investments Exiting
- Not Yet Invested

Fund Status



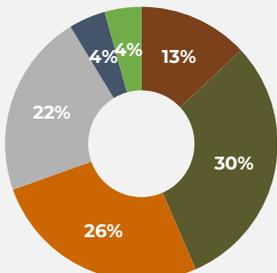
- Fully Deployed
- Fundraising
- Fundraising Closed
- Partially Deployed

42% of investors are on their first fund, with 80% currently fundraising. Additionally, 40% of these first-fund investors are ever-green, while 60% are closed-ended, meaning we can expect a surge in deployments once fundraising is complete.

Half of the investors have current investments continuing, with 33% still needing to invest—however, all those who have yet to invest plan to do so.

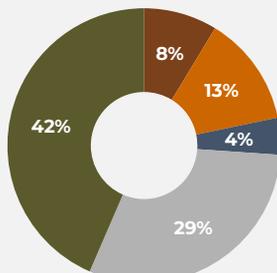
### Assets and Impact Allocation

Assets Under Management (AUM)



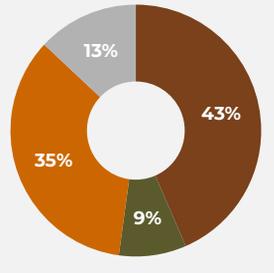
- <US\$1Mn
- >US\$200Mn
- US\$1 to US\$10Mn
- US\$10 to US\$25Mn
- US\$25 to US\$50Mn
- US\$50 to US\$100Mn

Percentage of AUM Allocated to Impact



- 0-10%
- 10-20%
- 20-50%
- 50-75%
- 75-100%

Ticket Size



- <US\$1Mn
- >US\$10Mn
- US\$2 - 5Mn
- US\$5 - 10Mn

The respondents' cumulative Assets Under Management (AUM) ranged between US\$1.5 Billion and US\$3.8 Billion.

Approximately 43% of investors allocate more than half of their AUM towards impact, reflecting the increasing importance of effects in their investment decisions.

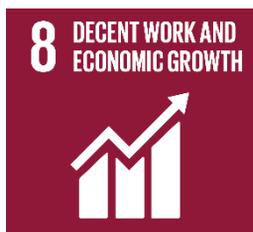
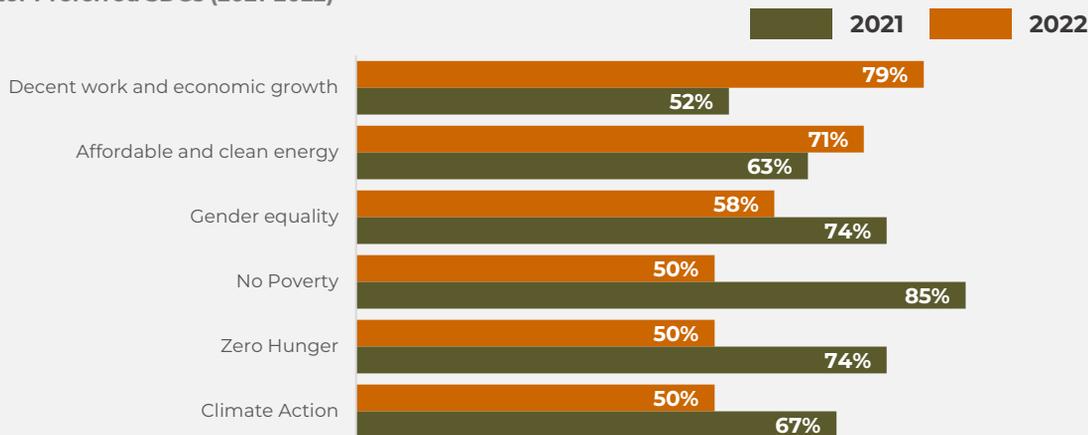
Over 90% of investors prefer to invest directly in the investee companies and be actively involved in helping them achieve their financial and social impact objectives.

## INVESTOR PREFERENCES AND MOTIVATIONS

### IMPACT OBJECTIVES

Using the United Nations Sustainable Development Goals (SDGs) as the generally accepted terminology for describing impact objectives, we asked investors to provide their top five essential SDGs guiding their investment decisions. The top contenders were ensuring Decent Work and Economic Growth, Affordable and Clean Energy, Gender Equality, Climate Action and Zero Hunger. There is a significant contrast from the 2021 survey, which placed Zero Hunger and No Poverty as top considerations.

Top 5 Investor Preferred SDGs (2021-2022)



#### #8: Decent Work and Economic Growth

*Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all*



#### #7: Affordable and Clean Energy

*Ensure access to affordable, reliable, sustainable and modern energy for all*



#### #5: Gender Equality

*Achieve gender equality and empower all women and girls*



#### #13: Climate Action

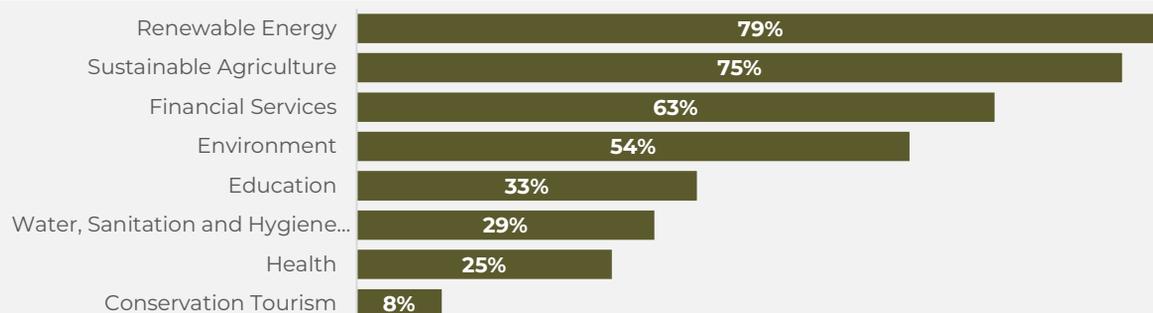
*Take urgent action to combat climate change and its impacts*

Source: United Nations Sustainable Development Platform 2022).

### ZAMBIAS PROGRESS TOWARDS ACHIEVING SDGs

The country has experienced stable economic growth, increased access to clean energy, adopted policies to promote gender equality, and developed initiatives to increase climate resilience. However, challenges such as high levels of informal sector employment, limited social protection, gender-based violence, and vulnerability to climate change remain significant. Further investments in Healthcare, social security, and economic recovery are needed to promote sustainable development in Zambia

## SECTOR PRIORITIES



We asked respondents to tell us their top five impact sectors for their current investment portfolios. There has been an increase in interest in the Renewable Energy sector. In addition, Sustainable Agriculture has remained a top priority given its low entry barriers and capacity for mass employment and improved livelihoods for impoverished communities.

### PRIORITY SECTOR 1: RENEWABLE ENERGY



Zambia's energy resources include hydropower electricity, petroleum, coal, biomass, and renewable energy, of which only petroleum products are imported. However, access to power continues to be an area of concern. 34% of the population nationwide has access to electricity, with 67% of urban residents and 14% of rural residents. (Source: Energy Regulation Board Energy Sector Report 2021).

According to the Zambia Development Agency (ZDA), the power demand is increasing by an average of 3% annually, thus presenting an opportunity to supply power to the remaining 66% of households, potentially through Solar PV, as Zambia endowed with an average of 2,000-3,000 hours of sunshine every year, which is high compared to the rest of the world according to SmartSolar Zambia. In addition, the average irradiation level is 5.5 kWh per m<sup>2</sup> (each day), which makes it naturally suited for solar energy generation.

**Key Stakeholders:** Ministry of Energy, Energy Regulation Board (ERB), Rural Electrification Authority (REA), Zambia Environmental Management Authority (ZEMA), Zambia Electricity Supply Company (ZESCO).

### Macro trends that are impacting the sector



#### Growing demand for clean energy

Zambia's installed Renewable Energy capacity was 277 MW in 2020, with plans to add another 450 MW by 2023.



#### Improving the regulatory environment for mini-grids demand

In 2019, Zambia finalized the mini-grid regulatory framework and approved regulations for licensing, grid encroachment, tariff and technical requirements for mini-grids below 100kW, <1MW, and larger than 1MW.



#### Government policy towards the development of renewable projects

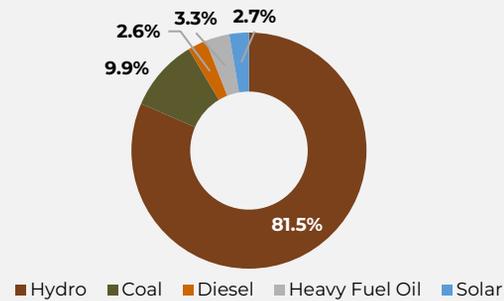
Zambia aims to increase the share of electricity generated from renewable sources to 30% by 2030 through government incentives such as tax breaks, feed-in tariffs, and net metering regulations.

Key Challenges in the sector	Prospects for Impact Investors	Impact KPIs
<ul style="list-style-type: none"> <li>Limited access to financing and investment.</li> <li>Poor grid infrastructure.</li> <li>Lack of reliable grid connection in rural areas.</li> <li>A rigid regulatory and policy framework.</li> <li>Existing tariffs are not cost-reflective to justify significant investments.</li> </ul>	<ul style="list-style-type: none"> <li>Invest in solar energy projects to increase access to clean and affordable energy.</li> <li>Develop mini-grids powered by Renewable Energy sources to provide energy access to underserved communities.</li> <li>Invest in energy-efficient technologies and solutions to reduce energy consumption and improve energy access.</li> </ul>	<ul style="list-style-type: none"> <li>Energy generation (MWh)</li> <li>Carbon emissions (CO<sub>2</sub> MT)</li> <li>Energy access (Connectivity)</li> <li>Financial sustainability (ROI)</li> <li>Technology innovation</li> <li>Energy mix diversification (% Mix)</li> <li>Environmental sustainability</li> </ul>

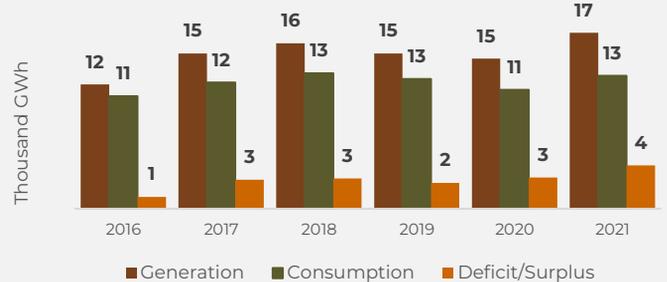
## THE STATE OF ENERGY IN ZAMBIA

Hydropower remains the primary means of power generation in Zambia, with 81.5 per cent, up from 79.6 per cent in 2020. The total installed capacity increased from 3,011.2 MW in 2020 to 3,318.4 MW following the commissioning of 300 MW out of the total 750 MW installed capacity at Kafue Gorge Lower Hydropower Plant and 6 MW out of the 15 MW installed capacity at Lusiwasi Upper Hydropower Plant.

ZAMBIA ENERGY MIX



ZAMBIA ELECTRICITY GENERATION AND CONSUMPTION TREND



Source: Energy Regulation Board (ERB) Energy Sector Report 2021

It's worth noting that Zambia predominantly remains a net exporter of electricity with higher generation than consumption needs. Despite the rise in domestic consumption, the excess electricity generation, after factoring in system losses, is either exported to neighbouring countries or traded on the SAPP market.

### FOSTERING THE DEVELOPMENT OF THE LOCAL ENERGY SECTOR

In 2021, national electricity generation increased by 16.3% to 17,636 GWh, with hydro generation accounting for 16,072.9 GWh, a 13.1% increase from 2020, attributed to improved rainfall patterns during the 2020/2021 season. Given Zambia's significant hydroelectric power potential and its position as a net exporter of electricity, the country has potential to transform its energy sector and meet its future energy needs. To do this, Zambia must prioritize becoming diverse and climate-resilient while minimizing environmental, social, economic, and financial costs. Investors can consider interventions that span distribution and transmission, off-grid individual supply systems, utility-scale generation, mini-grids as well ancillary technologies that support emerging supply models.

### Regulatory Development: Zambia Launches Process to Develop Integrated Resource Plan for the Energy Sector



Zambia's Integrated Resource Plan (IRP) is a 30-year power sector plan aimed at transforming the sector into a diverse, climate-resilient, financially stable, and capable of providing high-quality and affordable services countrywide. The program will assess Zambia's future energy needs and provide an integrated approach to meet those needs by examining both demand and supply-side resources. Launched in March 2021, the IRP project seeks to address the energy sector's four main challenges: climate change effects, hydro-dependency, power shortages, and financial sustainability.

Implementing the IRP will improve access to clean, reliable, and affordable electricity at the lowest environmental, social, economic, and financial costs. In addition, the IRP will ensure that the energy sector can advance economic growth, job creation, and investment in the economy and extend energy access to Zambia's population.

Source: Ministry of Energy

Notably, private sector investment in Renewable Energy has demonstrated the potential to drive sustainable development in Zambia, as evidenced by initiatives such as the Lumwana Copper Mine solar power plant and the Ngonye Falls Hydroelectric Power Station. Additionally, public-private partnerships, such as the GETFIT project, are contributing to the development of the healthcare sector in Zambia and improving access to quality healthcare services, especially in rural areas.

## INVESTMENT OPPORTUNITY: Zambia's Global Energy Transfer Feed-in Tariff (GETFiT)



**GET FiT  
ZAMBIA**

Zambia's Global Energy Transfer Feed-in Tariff (GETFiT) is the government's Programme to facilitate private sector investment in small- and medium-scale Renewable Energy Independent Power Projects (IPPs) in Zambia. GET FiT Zambia is a collaboration between the Department of Energy, KfW (German Development Bank), and the GET FiT Secretariat. It was launched on February 7th, 2018.

The first round of the solar procurement auction targeted 100MW of solar capacity from projects 20MW or smaller. This will be followed by 100MW of hydroelectric power later in the year. However, the low prices achieved through the tender – which ranged from \$3.999c/kWh to 4.8c/kWh – led the Get Fit Zambia investment committee, in coordination with the Zambian government, to award a further 20MW. The projects are expected to generate around 360GWh/yr.

Source: GETFIT Zambia

In addition to the government-led initiatives, notable ventures have capitalized on the growth of the renewable sector in Zambia. These ventures have made significant contributions to the country's sustainable development agenda by promoting access to clean and affordable energy, creating job opportunities, and reducing greenhouse gas emissions.

## SUCCESS STORIES IN THE SECTOR



Buffalo Energy large-scale solar PV, wind and mini-hydro portfolio

Buffalo Energy Limited was established in 2016 to develop small-scale projects to provide low-cost electricity to rural communities in southern Africa that lack access to reliable, clean energy. The company raised seed capital in 2017 to fund the development of a portfolio of projects, including grid-connected, captive, and off-grid schemes utilizing large-scale solar PV and wind technologies.

With the help from the Renewable Energy Performance Platform (REPP), Buffalo Energy has continued to expand its existing projects, including the completion of a complete feasibility study for a 50MW wind project and environmental and geotechnical studies on a 25MW solar that will sell the electricity to the Southern African Power Pool (SAPP) market.

Source: Buffalo EnergyPower



Western Power Hydroelectric Project

Western Power is a Zambian company currently working on the Ngonye Falls run-of-river hydroelectric power project located on the Zambezi River in the Western Province of Zambia. This \$600 million project is expected to be completed by 2026 and will have the capacity to generate 180 MW of electricity. This will add approximately 8% to Zambia's total electricity generation capacity and produce 830 GWh annually of cost-effective, clean, and renewable energy for local consumption and export.

Source: Western Power

## PRIORITY SECTOR 2: SUSTAINABLE AGRICULTURE



In Zambia, agriculture is a critical economic sector that employs half the workforce. In addition, most Zambians live in rural areas, where poverty rates remain high, and agriculture is essential for poverty reduction.

**Key Stakeholders:** *Ministry of Agriculture, Forestry and Fisheries, Zambia Agricultural Research Institute (ZARI), Small-Scale Farmers Association, and the Zambia National Farmers Union (ZNFU)*

### Macro trends that are impacting the sector



#### Increasing government expenditure to the sector

The 2022 Agricultural sector budget rose to ZMW 8.067 billion from ZMW 7.996 billion in 2021. However, the proportion of the national budget allocated to agriculture decreased from 6.7% to 4.7%.



#### Inflationary pressure on commodity prices

Commodity prices rose due to inflation and supply chain disruptions from COVID-19. Inflation peaked at 24.6% in July but declined, with November's rate at 19.3%.



#### Recovery of COVID-19 disruptions of the global value chain

COVID-19 movement restrictions reduced food access, disrupted markets, and increased food waste. The supply, marketing, and consumption supply chain for domestic and imported food was affected.

Key Challenges in the sector	Prospects for Impact Investors	Impact KPIs
<ul style="list-style-type: none"> <li>Limited market access and finance.</li> <li>Poor infrastructure and high transportation costs</li> <li>Limited access to inputs and technical support</li> <li>Climate change negatively affects agricultural productivity</li> </ul>	<ul style="list-style-type: none"> <li>Work with agribusinesses to develop sustainable supply chains that promote environmental and social responsibility.</li> <li>Invest in regenerative agriculture projects to improve soil health and biodiversity while increasing agricultural productivity.</li> </ul>	<ul style="list-style-type: none"> <li>Increased agricultural productivity</li> <li>Sustainable land use</li> <li>Agriculture education</li> <li>Environmental sustainability</li> <li>Improved livelihoods</li> <li>Financial Sustainability</li> <li>Technology innovation</li> <li>Community engagement</li> </ul>

## The Zambia National Agricultural Policy 2012-2030

The Zambia National Agricultural Policy 2012-2030 is a cross-cutting policy whose vision is to develop a competitive and diversified agricultural sector driven by equitable and sustainable agricultural development through;



Farmers engaged in Sustainable Intensification Practices in smart agriculture (Photo credit: Ministry of Agriculture)

- Promoting a sustainable increase in agricultural productivity of major crops with comparative advantage.
- Continuously improving agricultural input and product markets to reduce marketing costs and increase profitability and competitiveness of agribusiness;
- Increasing agricultural exports to fully utilise the preferential markets (regional and international) and increasing contribution to foreign exchange earnings.
- Improving access to productive resources and services for small-scale farmers, especially women and young farmers.
- Continuously strengthening public and private sector institutional capabilities to improve agricultural policy implementation, resource mobilization, agriculture research, technology dissemination, and implementation of regulatory services.

Source: FAO, Ministry of Agriculture

## The Agriculture Support Programme In The 2022/2023 Farming Season



Republican President, H.E Hakainde Hichilema (L) and Minister of Agriculture, Hon. Reuben Mtolo Phiri, MP

The Zambian Ministry of Agriculture will, in the 2022/2023 farming season, commence the use of the direct input supplies system of supplying farmer inputs under a system called the Agriculture Support Programme –ASP.

The intent is to replace the Farmer Input Support Programme –FISP- with a more efficient system. Beneficiaries must submit their biometric details to quickly identify and avoid fraud, whilst the e-voucher system will gradually cease.

The Zambian Ministry of Agriculture is in the process of embarking on a massive sensitization of farmers on how the new system will work and has since appealed to the private sector to come on board and help in the dissemination of information to equip as many farmers as possible with knowledge on how they will be able to access their inputs under the new system according to the Minister of Agriculture.

Source: FAO, Ministry of Agriculture, Phoenix FM Zambia, IDC

## Agro Luswishi Farm Project – Lufwanyama District



Luswishi Farm Block –Lufwanyama District

The aim of this project is twofold: firstly, to establish a commercial farm that prioritizes commercial production, and secondly, to support the creation of smaller, family-owned farms with a similar focus. The project also includes the establishment of regional centers that offer advanced agricultural services. Once completed, the project is expected to produce 75,000 tonnes of fresh farm produce, 25 million eggs, and 6,500 tonnes of livestock feed annually. In addition to this, the 20 private farms and 450 family farms supported by the project are expected to produce 35,000 tons of diverse agricultural products.

Source: Zambia Development Agency

### PRIORITY SECTOR 3: FINANCIAL SERVICES



This sector focuses on providing financial products and services, including banking, insurance, investment, and wealth management, on ensuring that all individuals and businesses have access to affordable and appropriate Financial Services.

**Key Stakeholders:** Bank of Zambia, Securities and Exchange Commission, Zambia Association of Microfinance Institutions (ZAMFI), Bankers Association of Zambia (BAZ).

#### Macro trends that are impacting the sector



#### High borrowing rates

Borrowing rates remain high at an average of 25.2% due to trends in inflation, Kwacha appreciation, and the raising of the monetary policy rate to 9.25%.



#### Improving stock market capitalization

Total market capitalization on the Lusaka Stock Exchange (LuSE) increased by 8.12% to K72.641 billion in 2022, a market capitalization as a percentage of GDP of 17.18%.



#### Development of regulatory sandbox

Securities and Exchange commission (S.E.C) developed a Regulatory Sandbox for innovative financial products and services, as well as emerging technologies to be tested and deployed.

Key Challenges in the sector	Prospects for Impact Investors	Impact KPIs
<ul style="list-style-type: none"> <li>Low financial literacy.</li> <li>Limited access to Financial Services.</li> <li>Lack of adequate regulatory and policy framework.</li> <li>Low technological adoption levels limit the development of digital Financial Services.</li> <li>Poor credit culture.</li> </ul>	<ul style="list-style-type: none"> <li>Invest in fintech startups to increase financial inclusion.</li> <li>Develop innovative financial products and services.</li> <li>Promote financial literacy and education.</li> <li>Working with government and stakeholders to improve regulatory frameworks.</li> </ul>	<ul style="list-style-type: none"> <li>Financial inclusion</li> <li>Economic empowerment</li> <li>Financial sustainability</li> <li>Financial literacy</li> <li>Technology innovation</li> <li>Risk management</li> <li>Responsible finance</li> <li>Community development</li> </ul>

### Zambia's Capital Markets Master Plan



Picture of the Lusaka Stock Exchange Building

The Capital Markets Master Plan is a comprehensive long-term strategy launched in August 2022, which sets out the primary framework for Zambia's Capital Markets development over the next decade. The Master Plan seeks to ensure that Zambia is an attractive destination to local and foreign investors by organising various actors in a manner that will convince holders of the capital.

The other objective of the plan is to introduce products such as Green Bonds, private equity, venture capital, real estate investment trusts, and derivatives, among others. In addition, the scheme aims to enhance the Government Bond Market by implementing measures to improve market operations.

Source: Capital Markets Master Plan 2022, SEC Zambia

### Digital Connectivity Among Micro, Small And Medium Enterprises In Zambia

Currently, 55% of MSMEs in the country participate in the digital economy, focusing on urban areas. However, 56% of the population in rural areas does not participate in the digital economy. This gap is due to infrastructure limitations and geographical factors.

By developing innovative solutions that address the challenges faced by rural communities, technology companies and financial institutions can play a pivotal role in bridging the digital divide and promoting financial inclusion. These solutions include the provision of internet connectivity and digital skills training in rural areas, as well as the developing of financial products and services that cater to the needs of rural communities. By leveraging technology and promoting financial inclusion, Zambia can unlock the potential of its rural economy and drive sustainable development.

Source: ZICTA

## PRIORITY SECTOR 4: ENVIRONMENT



The Ministry of Green Economy and Environment focuses on formulating legislation and regulations on carbon and environmental pricing, such as carbon tax, carbon prices, carbon fees and dividends, carbon finance, emissions trading, climate finance and ecotax.

**Key Stakeholders:** Ministry of Green Economy and Environment, Zambia Environmental Management Authority (ZEMA), Ministry of Land and Natural Resources, Ministry of Local Government.

### Macro trends that are impacting the sector



#### Technological changes

New technologies are being developed to improve energy efficiency, reduce waste, and increase the use of Renewable Energy sources.



#### Demographic Changes

As the population grows and urbanization rises, water, food, and energy demand will increase and put pressure on natural resources and ecosystems and require new approaches to resource management and conservation.

Key Challenges in the sector	Prospects for Impact Investors	Impact KPIs
<ul style="list-style-type: none"> <li>Low climate change literacy</li> <li>Inability to effectively tackle climate and environmental risks</li> <li>Lack of adequate regulatory and policy framework</li> <li>High poverty levels</li> <li>Distractive farming practices</li> </ul>	<ul style="list-style-type: none"> <li>Increasing awareness on the effects of climate change</li> <li>Participating in the green bond market</li> <li>Promote financial literacy and education</li> <li>Working with government and stakeholders to improve regulatory frameworks</li> </ul>	<ul style="list-style-type: none"> <li>Economic empowerment</li> <li>Climate change literacy</li> <li>Environment management</li> <li>Carbon emissions</li> <li>Community projects</li> </ul>

### Regulatory Development: Development of the Ministry of Green Economy



Minister of Green Economy and Environment, Hon. Collins Nzovu

The Zambian government recently established the Ministry of Green Economy and Environment following the country's President's attendance at the COP26 summit in Glasgow and the signing of the Green Growth Compact with the UK. The Ministry's alignment secures up to £1 billion for Zambia and aims to collaborate with UK institutions to develop Renewable Energy solutions.

The newly created Ministry reflects the government's commitment to a green economy, defined by the United Nations Environment Programme as low-carbon, resource-efficient, and socially inclusive. It aims to drive economic growth while reducing carbon emissions and pollution, enhancing energy and resource efficiency, and preserving biodiversity and ecosystem services.

#### Evolving Regulatory Landscape to Support Sector Growth

##### Forests Act 2015

The Act provides for the establishment and declaration of forests, participation of local communities and other stakeholders in sustainable forest management, conservation and use of forests and trees for sustainable management of forest ecosystems and biological diversity, the establishment of the Forest Development Fund, and implementation of relevant international agreements.

##### Environmental Management Act 2011

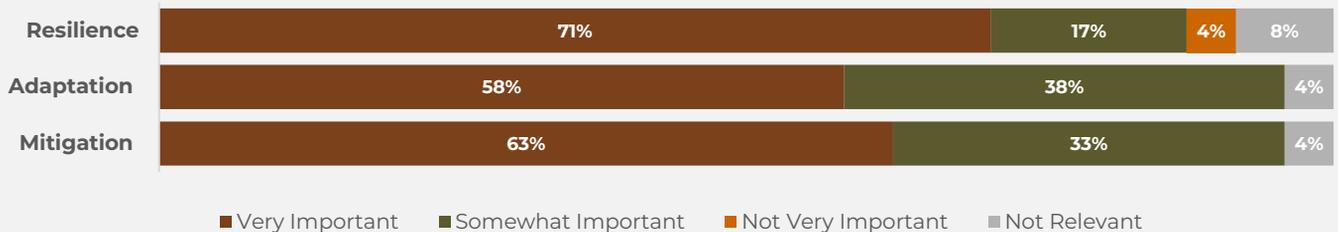
The Act provides for integrated environmental management, protection and conservation of the environment and natural resources, preparation of environmental management plans and strategies, strategic environmental assessments of proposed policies, public participation in environmental decision-making, environmental audit and monitoring, and implementation of international environmental agreements and conventions.

Source: Ministry of Green Economy and Environment

## ENVIRONMENT SECTOR AND CLIMATE ACTION

Given the increasing importance of climate action to mitigate the adverse effects on the climate and environment, we asked respondents to rate the importance of the following climate strategies to their investment strategies:

1. Adaptation (taking steps to live with the effects of global warming)
2. Mitigation (slowing the rate of global warming)
3. Resilience (becoming better able to withstand and cope with the effects of climate change)



Investors have shown a strong inclination towards approaches that address climate change by reducing greenhouse gas emissions and developing strategies to enhance resilience against its impacts. Achieving this will take a sector-specific focus, involving ventures implementing strategies and actions to help individuals, communities, and systems cope with the unavoidable effects of climate change.

These may include but are not limited to building resilient agricultural systems that promote practices like crop diversification, conservation agriculture, and improved irrigation systems, investing in Renewable Energy sources like solar, wind, and hydropower to reduce greenhouse gas emissions, developing diverse and robust financial strategies that can withstand economic shocks and support vulnerable populations, and establishing robust health systems that can respond to climate-related health impacts such as heat stress, disease outbreaks, and food insecurity. By prioritizing these efforts, investors aim to create a more sustainable future and build the necessary resilience to address the impacts of climate change.

### Zambia’s Green Bond Market



Minister of Energy, Hon. Peter Kapala

Green bonds are financial instruments designed to support initiatives with climatic and environmental advantages. The Zambian government, in 2019, released the Securities (Green Bond) Guidelines to promote green growth. The idea has arisen as a new strategy to reinterpret the traditional development model and to evaluate multiple investment choices to fulfil resource demands for economic expansion, such as those for energy, agriculture, and water, without jeopardizing long-term growth and aspirations to reduce poverty.

The 2023 budget includes Zero Withholding tax on investments in green bonds listed on the Lusaka Stock Exchange as well as a 50% Customs Duty tax reduction of 15% on the importation of electric cars, a 10% rise in the Surtax for carbon emissions, a 15% Excise Tax on plastic items, and more.

Source: Ministry of Green Economy and Environment

### Investment Opportunity: Carbon Trading Market in Zambia



Minister of Green Economy and Environment (R) , Hon. Collins Nzovu

The Zambian Ministry of the Green Economy and Environment recently launched a carbon market and trading guidelines. The carbon market involves buying and selling carbon credits to offset carbon footprints and promote environmental management. Although Zambia will enact its first climate change legislation in the first half of 2023, the government issued Statutory Instrument 66 of 2021 to encourage community forest management groups to participate in carbon trading. However, this instrument only addresses forest-related carbon and no other forms of carbon.

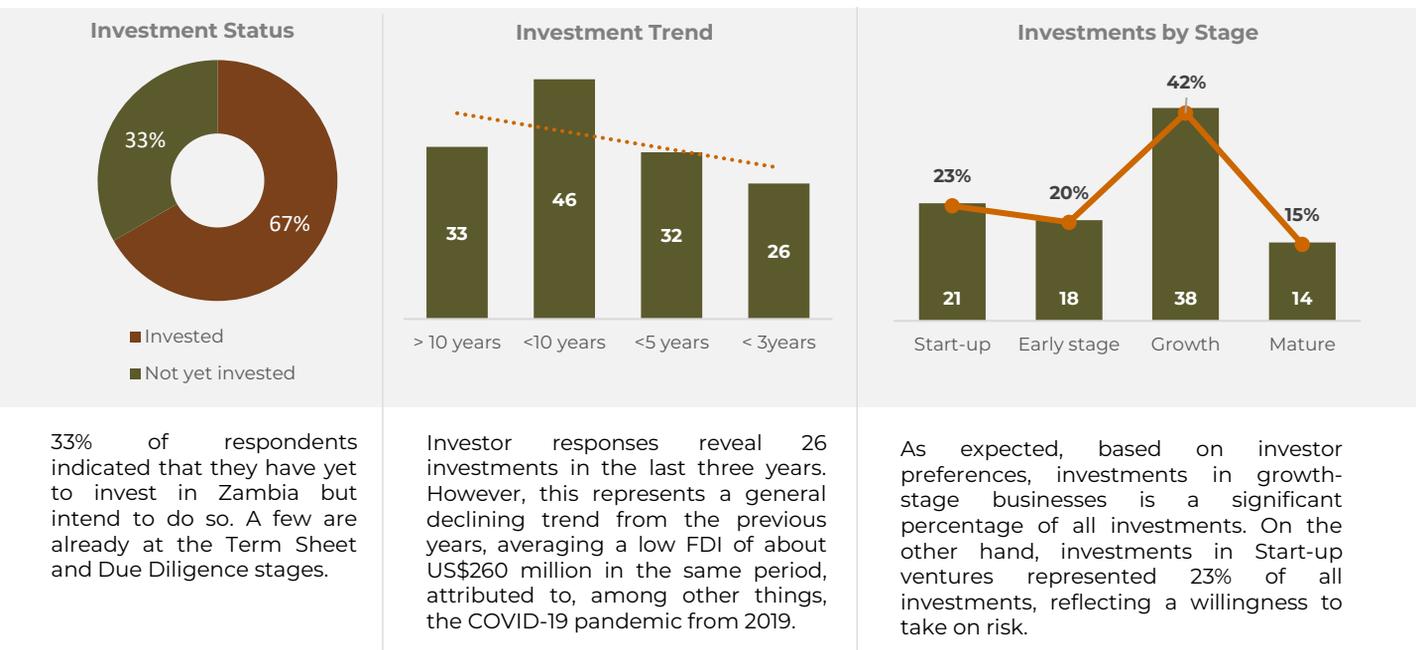
To address this gap, the Ministry of Green Economy and Environment developed interim guidelines for carbon markets and trading to facilitate the regulation and management of carbon projects in the interim period until the climate change act comes into effect. In addition, these guidelines provide administrative measures and procedures for the law and management of the carbon market in Zambia during this interim period.

Source: Ministry of Green Economy and Environment

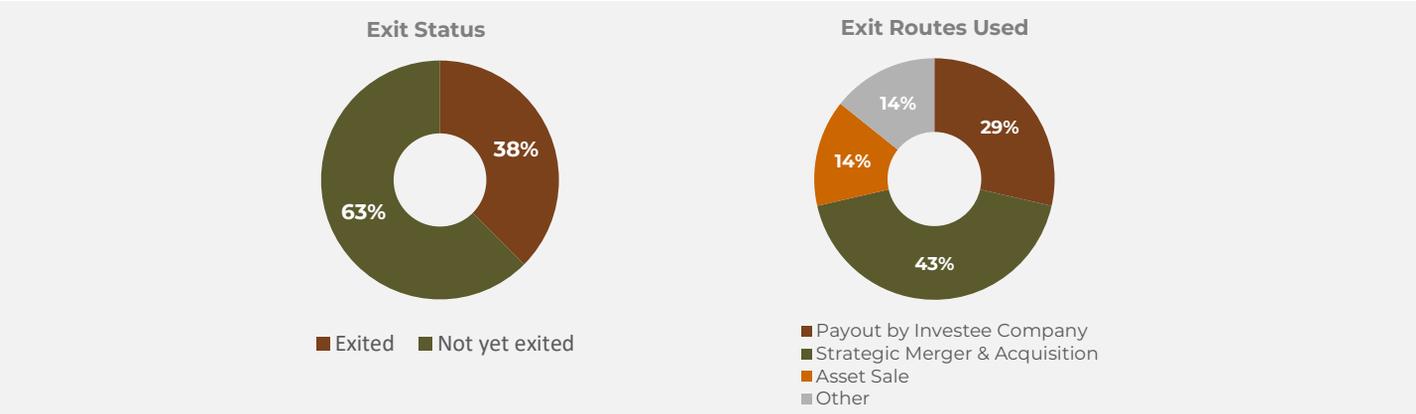
## INVESTOR EXPERIENCES

This section explores investors' experiences investing in Zambia to understand investment trends, successes and challenges and inform policy and other stakeholder engagements.

### INVESTMENTS STATUS AND PORTFOLIO



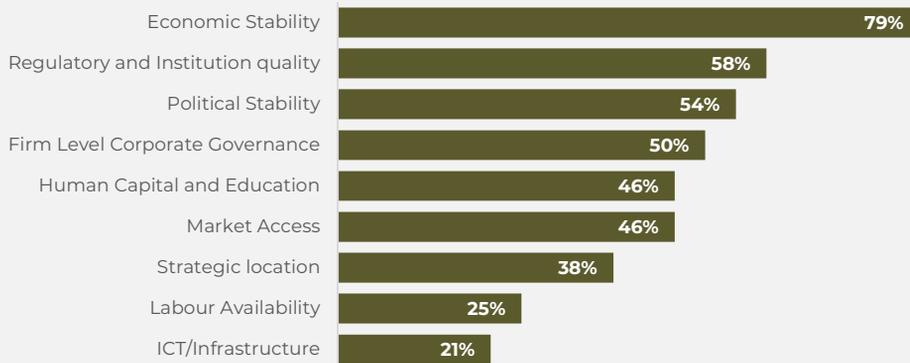
### INVESTMENT EXITS



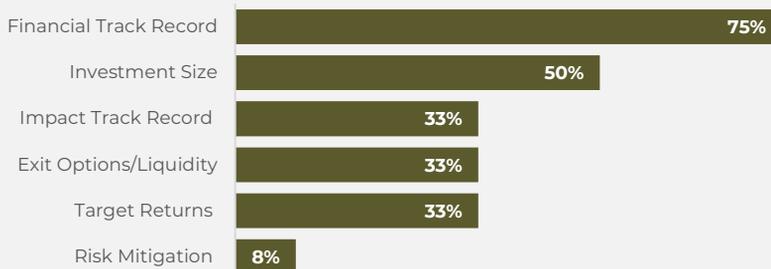
- About 38% of those who invested in Zambia have successfully exited, while 63% are either still in the process of leaving or not yet ready. Strategic Mergers and Acquisitions( M&A) and Payouts by Investee companies have been the most common exit routes, while debt refinancing remains another prominent option.
- Due to cost and availability challenges of liquidity in the listing process, Initial Public Offering route has not been utilized. Strategic M&As and Payouts by Investees remain the most viable exit options. To address the low capital market development, the Ministry of Finance and National Planning launched the first-ever capital markets master plan in August 2022, anchored on five key development areas, namely enhancing the government bond market; improving other traditional security markets; developing new and innovative products/markets; enhancing capacity building across capital markets, and; strengthening the capital market regulatory environment.
- Furthermore, there is potential to improve Management Buyouts(MBO) as an exit option by proactively preparing the management team for this prospect. Investors can provide lead advisory services to business owners and management teams and advise on different MBO structures and funding options. The MBO route offers advantages to all concerned, and there is ample room for growth and development of this option in Zambia

## INVESTMENT DECISIONS AND CHALLENGES

### Investment Decision Factors



### Investment Challenges



Economic stability, regulatory and institutional quality, and political stability are the top 3 factors that investors consider for making an investment decision.

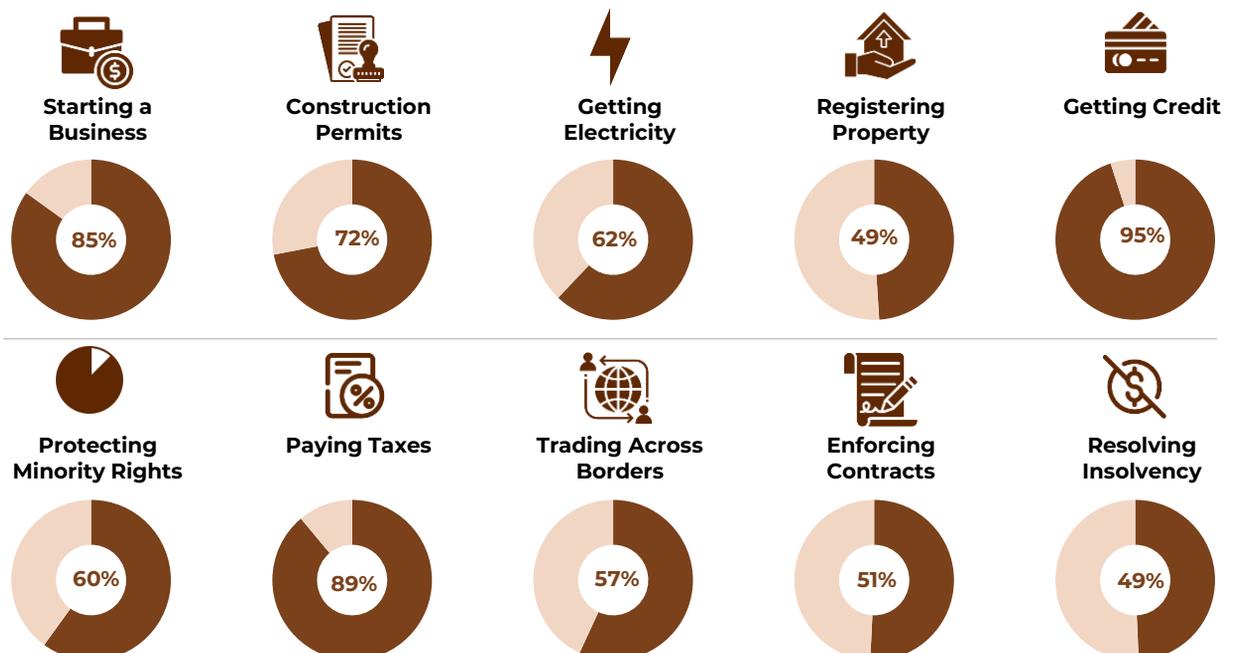
Human capital and market access remain vital considerations for investors, and interventions in this regard will significantly impact the viability and scalability of local businesses, hence addressing the challenges around available sizeable investment opportunities.

Financial track record represents investors' most significant challenge with Zambian ventures—a critical consideration for financial literacy and tools to enhance financial record keeping.

Exit options are also a vital consideration and intervention to improve options and channels for investment exit, which will drive the flow of capital further.

## EASE OF DOING BUSINESS

This index reflects the scale of simplicity to complexity of running a business in Zambia based on various factors that affect businesses. Zambia currently has an average score of 55.6 out of 100 and ranks 135th of 190 countries globally. This score indicates that Zambia has challenges in its business environment that represent areas for improvement to make a more effervescent impact investment destination.



Source: Ease of Doing Business Index (2020)

## OPERATIONAL MFEZS AND INDUSTRIAL PARKS



Lusaka South Multi-Facility Economic Zone

### Multi-Facility Economic Zone and Industrial Park Incentives

In addition to the above-stated incentives, investors that set up in a Multi-Facility Economic Zone (MFEZ) or Industrial Park are eligible for additional tax incentives.

#### Tax on dividends declared on export profits

- First 10 years: 0%

#### Tax on Exports

- First 10 years: 0%
- Years 11-13: 50%
- Years 14-15: 75%

#### Corporate income tax on profits from local sales of corn starch

- 2023-2033: 0%
- 2034-2036: 50%
- 2037-2038: 75%

#### Withholding tax on dividends on profits from local sales of corn starch

- 2023-2033: 0%

Lusaka South Multi-Facility Economic Zone	ZCCZ Chambishi Multi-Facility Economic Zone
ZCCZ Lusaka East Multi-Facility Economic	Jiangxi Multi Facility Economic Zone
Kalumbila Multi Facility Economic Zone	Roma Industrial Park
Sub-Sahara Gemstone Exchange Industrial Park	

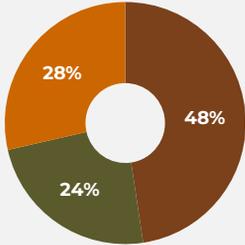
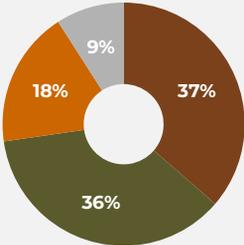
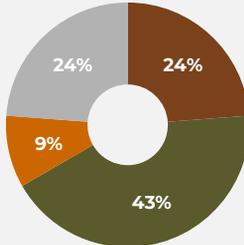
Source: Zambia Development Agency

## NOTABLE TAX INCENTIVES

	10% CIT on Agriculture And Agro-Processing		15% Tax Rate Reduction on Income from Nontraditional Export
	0% CIT on Ceramic Products Manufacturing		0% Import Duty Capital Equipment And Machinery Used In A PPP Project
	15% CIT for Copper Processing		0% VAT on imported capital equipment and machinery used in a PPP Project
	10-Year carry forward on tax losses and disallowed interest for mining operations.		Accelerated depreciation on capital equipment and, implement, plant and machinery used in a PPP Project
	Duties paid on inputs which go into production of exports are refunded		5% Income tax on nontraditional exports, manufacture of fertilizers, and copper cathodes.

Source: Zambia Development Agency

INVESTOR PERCEPTION OF ECOSYSTEM PLAYERS

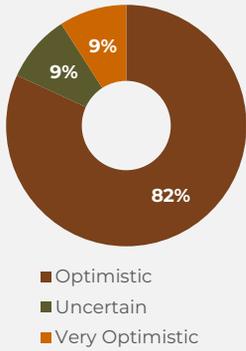
	IMPACT CAPITAL AFRICA	NATIONAL ADVISORY BOARD FOR IMPACT INVESTING	ZAMBIA DEVELOPMENT AGENCY
			
Investor Perceptions	 <ul style="list-style-type: none"> <li>■ Attractive</li> <li>■ Don't know</li> <li>■ Unattractive</li> <li>■ Very attractive</li> </ul>	 <ul style="list-style-type: none"> <li>■ Attractive</li> <li>■ Don't know</li> <li>■ Unattractive</li> <li>■ Very attractive</li> </ul>	 <ul style="list-style-type: none"> <li>■ Attractive</li> <li>■ Don't know</li> <li>■ Unattractive</li> <li>■ Very attractive</li> </ul>
Recent Notable Achievements	<ul style="list-style-type: none"> <li>▪ Facilitating investments and support for over 20 SMEs across Healthcare, Education, Renewable Energy, and Agriculture sectors.</li> <li>▪ Providing expertise to help SMEs scale, develop business models and improve operations.</li> <li>▪ In 2020, ICA was named the "Best Private Equity Firm" in Africa by Capital Finance International (CFI.co).</li> </ul>	<ul style="list-style-type: none"> <li>▪ Participating in the Credit Risk Guarantee Scheme, collaborating with Pensions and Insurance Authority to develop the supply pillar of the local impact investment ecosystem, advocating for pro-impact policies and regulations.</li> <li>▪ Raising awareness on impact investing among ecosystem stakeholders through the annual Zambia Impact Investment Summit (ZIIS).</li> <li>▪ Joint iMetrics platform development with Africa GREENCO and Stanbic Bank has been initiated.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Implementation of the "One Stop Shop" service centre to simplify obtaining investment and business permits.</li> <li>▪ Investment incentives including tax holidays and duty-free importation of capital goods.</li> <li>▪ Development of Special Economic Zones to encourage investment and economic.</li> <li>▪ Capacity building programs and access to finance for small and medium-sized enterprises (SMEs).</li> </ul>

## INVESTOR OUTLOOK

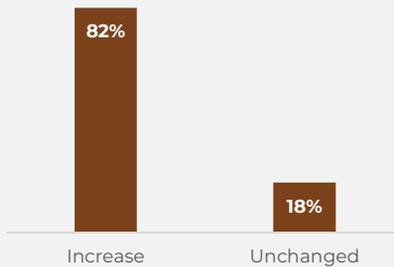
As part of our survey, we sought the feedback of investors on their general outlook and their future expectations. Additionally, given their lived experiences we sought their input as to which areas need to be focused on to improve the impact investment eco-system in Zambia.

### GENERAL MOOD AND OUTLOOK

General Outlook

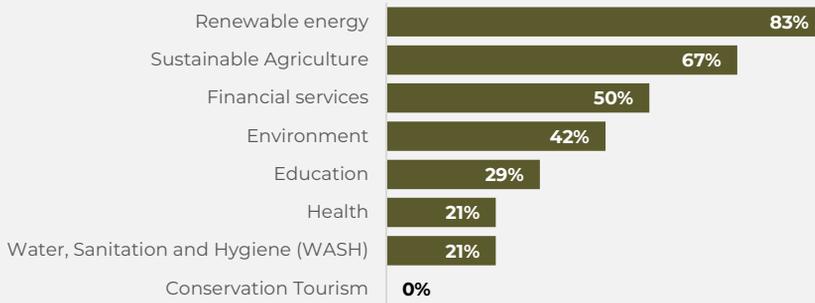


Expectations for Future Investments



Investors' optimism is at an all-time high despite the country's economic challenges. As a result, 82% of investors expect to increase their investments in Zambia, and ecosystem participants must be geared to capitalize on this optimism.

### FUTURE SECTOR PRIORITIES



Future sector priorities align with current sector priorities suggesting that investors have a high level of confidence in the long-term prospects of those sectors. In addition, investors do not see any significant disruptive events that could significantly impact these priority sectors. Therefore, they expect Renewable Energy, Sustainable Agriculture, Financial Services and Environment to grow and provide favourable returns over time.

### IMPROVEMENT AREAS



Investors prioritized policy and regulatory interventions which boost consistency, transparency, efficiency, and cost-effectiveness in the impact ecosystem. In addition, they recognized the importance of building capacity in financial management and technical abilities through professional support services. Investors also emphasized Capital Markets development as a critical area of improvement aimed at addressing fundraising and liquidity options, focusing on broader retail investor participation.



# KEY FINDINGS



## **DESPITE ZAMBIA'S DEBT AND ECONOMIC CHALLENGES, INVESTORS ARE OPTIMISTIC AND COMMITTED**

Zambia has faced significant economic challenges in recent years, including high debt levels (45.5 % of the country's Nominal GDP in December 2021) and a decline in copper prices from USD9,322/mt in 2021 to USD8,797/mt in 2022, which has impacted the country's growth and development. However, despite these challenges, investors are optimistic about the country's long-term potential for economic development, particularly in Renewable Energy, Sustainable Agriculture, Financial Services and Environment. As a result, 82% of investors with existing investments indicated that they would increase their allocations to support their portfolio companies and explore new growth opportunities.



## **INVESTORS ARE READY TO DEPLOY CAPITAL BUT ARE LIMITED BY THE AVAILABILITY OF SCALABLE AND HIGH-IMPACT BUSINESSES**

Although investors have ample Assets Under Management, there needs to be a robust deal pipeline of scalable and high-impact businesses, which investors can prioritize. The priority impact areas include providing decent work and economic growth, increasing access to affordable and clean energy, gender equality, climate action, zero hunger and poverty reduction.



## **POLICY AND REGULATORY ENVIRONMENT IDENTIFIED AS THE MOST CRUCIAL AREA REQUIRING INTERVENTION**

58% of respondents cited policy and regulation as the most critical area where interventions need to happen. The key issues highlighted include the absence of harmonization of policies across industries and sectors, inconsistencies in pricing, especially in sensitive areas such as food and energy security, unfavourable employment and labour requirements, difficulties in export and export procedures, and lengthy approval processes for large-scale projects.



## **LOWER INVESTOR CONFIDENCE IN THE PREVIOUS ADMINISTRATION AND THE IMPACT OF COVID IS REFLECTED IN A LOWER NUMBER OF DEALS DONE BEFORE 2021**

A higher country risk profile at the time, further exacerbated by the COVID-19 pandemic, was the most significant contributor to the decline in the number of investment deals completed. Respondents indicated 26 deals between 2019 and 2021 compared to 46 completed three years before 2019. However, with the new administration boosting investor confidence and the pandemic subsiding, Foreign Direct Investments are beginning to gain momentum as investors perceptions signal optimism.



## **RENEWABLE ENERGY HAS EMERGED AS THE MOST ATTRACTIVE SECTOR FOR INVESTORS**

An overwhelming 79% of respondents indicated that they consider Renewable Energy a priority sector, a striking difference from the previous survey, in which Sustainable Agriculture was the most preferred sector. The shift in focus is attributed mainly to the growing need to diversify the country's energy mix, given that the over-reliance on hydropower has led to severe deficits in drought and low rainfall periods.



## **STRONG POSITIVE CORRELATION BETWEEN GOVERNMENT INITIATIVES ACROSS THE RENEWABLE ENERGY SECTOR, ENVIRONMENT SECTOR AND CLIMATE ACTION AND INCREASED INVESTMENT INTEREST**

The heightened interest amongst government faculties to promote a green economy and increase the potential of energy generation has led to the growth of environmentally focused businesses. As a result, investments in Renewable energy and Green economy stand to capitalize on this growth potential fostered by progressive regulatory developments.



# RECOMMENDATIONS

ADDRESSING KEY ISSUES AND INVESTOR CONCERNS		ECOSYSTEM PILLARS				
		SUPPLY	DEMAND	ENABLERS	INTERMEDIARIES	REGULATORS
Capitalizing on Investor optimism	1 Enhance Investor readiness programs to gear businesses for impact capital					
	2 Streamline legal and regulatory approval processes when it comes to large scale investments					
	3 Ensure better transparency and communicate a clear road map around economic recovery and debt restructuring					
Enhancing attractiveness and scalability	4 Strengthen aggregator models to anchor investments for smaller ventures					
	5 Promote credit enhancement and risk mitigation products to de-risk impact investments					
	6 Strengthen export capabilities and infrastructure to enhance regional market access for Zambian businesses					
Improving the policy and regulatory environment	7 Consistency of policies to ensure stability over the preferred investment horizon					
	8 Harmonization of legislation and policies across sectors and agencies					
	9 Undertake wide stakeholder engagement in the formulation and implementation of policies					
Incentivizing continuity and local participation	10 Scale up initiatives to reduce barriers to capital markets access and encourage local participation					
	11 Build pandemic resilience within businesses, impact sectors and markets					
	12 Incentives for investors to commit more resources and local presence to better support Zambian businesses					

ADDRESSING SECTOR SPECIFIC CHALLENGES OF THE TOP FOUR PRIORITY SECTORS		ECOSYSTEM PILLARS				
		SUPPLY	DEMAND	ENABLERS	INTERMEDIARIES	REGULATORS
Renewable Energy	1	Develop a more efficient framework for off take of power from Independent Power Producers (IPPs)				
	2	Create more incentives for importation of Renewable Energy equipment and implementation of off-grid solutions				
	3	Consider relaxation of pricing controls towards a more market driven and cost-reflective pricing structure				
Sustainable Agriculture	4	Undertake more sensitization on the benefits of sustainable agricultural practices				
	5	Build resilience of ventures against climate change through technology, insurance products and technical assistance				
	6	Streamline approval processes for large scale agricultural projects				
Financial Services	7	Enhance credit referencing, credit infrastructure and legal framework for collections and loan recoveries				
	8	Enhance proliferation of digital Financial Services for better reach and access				
	9	Strengthen dissemination of financial literacy and education programs.				
Environment	10	Developing a regulatory framework for Green Bonds in Zambia				
	11	Establish incentives for Green Bond issuers				
	12	Promote the development of Green Infrastructure for Zambia				

## ADDRESSING KEY ISSUES AND INVESTOR CONCERNS

### CAPITALIZING ON THE HIGH INVESTOR OPTIMISM

#### 1. ENHANCE INVESTOR READINESS PROGRAMS TO GEAR BUSINESSES FOR IMPACT CAPITAL.

The Kauffman Foundation, a nonprofit organization promoting entrepreneurship, describes investor readiness as "the state of being ready to attract and secure investment capital from investors interested in funding high-growth, high-potential businesses." Therefore, investor readiness programs assist in preparing a business to attract and secure investment capital by ensuring that critical elements, such as value proposition, management team, impact measurement and reporting, and financial management, are in place before seeking outside funding.

Capitalizing on the high investor optimism requires that key investment eco-system stakeholders promote investor readiness programs on a larger scale. Such programs would involve building a coalition of stakeholders, including government agencies, impact investors, eco-system builders & accelerators, business associations, academia, and civil society organizations. By developing a range of resources and tools, providing customized support for businesses, and building partnerships with impact investors, a large-scale investor readiness program can help companies to become more attractive to impact investors and achieve their social and environmental objectives.

#### 2. STREAMLINE LEGAL AND REGULATORY APPROVAL PROCESSES FOR LARGE SCALE INVESTMENTS

Streamlining legal and regulatory approval processes can help attract large-scale investments by reducing uncertainty, delays, and costs for investors and businesses. The Government can simplify regulatory requirements for firms seeking large-scale investments by reducing the number of permits and approvals needed, consolidating application processes, and creating one-stop shops or online portals for submitting applications.

Additionally, government agencies can increase the capacity and resources of regulatory agencies to process large-scale investment applications, including investing in modern technology and infrastructure to streamline processes. Enhancing the Public-Private Partnerships model should be incentivized to promote large-scale investments in infrastructure and other vital sectors.

#### 3. ENSURE BETTER TRANSPARENCY AND COMMUNICATING A CLEAR ROAD MAP AROUND ECONOMIC RECOVERY AND DEBT RESTRUCTURING

Ensuring better transparency and communicating a clear roadmap around economic recovery and debt restructuring can help build investor confidence and promote sustainable economic growth. By publishing regular financial reports, establishing clear guidelines for debt restructuring (including timelines and expected outcomes), communicating a clear roadmap for economic recovery, promoting transparency in public finances, and engaging with stakeholders, the government can create a more favourable environment for investment and economic development, and keep the confidence and commitment strong.

### ENHANCING ATTRACTIVENESS, SCALABILITY AND ACCESS TO MARKETS

#### 1. STRENGTHEN AGGREGATOR MODELS TO ANCHOR INVESTMENTS FOR SMALLER VENTURES

Scalability is often challenging for small businesses, which may lack the resources or infrastructure to support rapid growth. An aggregator model can help address this challenge by enabling investors to fund larger companies that support or off-take from numerous smaller businesses. In addition, by pooling resources and coordinating operations among smaller firms, an aggregator model can create economies of scale that enable the company to grow more rapidly than it could. Therefore, the aggregator businesses become an attractive proposition for investors in terms of size, impact and investment returns.

For example, an aggregator model that supports Sustainable Agriculture may invest in larger farms that provide processing or distribution services to numerous smaller farms in the same region, thereby helping the smaller farms access larger markets and benefit from economies of scale while also providing a reliable supply chain for the larger farm. With the rollout of such a model on a large scale spanning various sectors, we expect to see more investments in those sectors.

## 2. PROMOTE CREDIT ENHANCEMENT AND RISK MITIGATION PRODUCTS TO DE-RISK IMPACT INVESTMENTS

Credit enhancement products such as credit guarantees, letters of credit and credit insurance can mitigate the risk of default on impact investments and enable investors to recover their capital in the event of a default. Credit enhancement products, therefore, make impact investments more attractive to investors who may hesitate to take on too much risk.

Risk mitigation funds can be set up and managed by intermediaries, who can identify and select investment opportunities eligible for support, attracting more investors and helping to build a more diversified impact investing ecosystem.

Training and capacity-building programs for intermediaries can help build expertise in credit enhancement and risk mitigation strategies, including training in financial analysis, underwriting, and risk management techniques. In addition, by building capacity among intermediaries, impact investing can become more mainstream and attractive to a broader range of investors.

## 3. STRENGTHEN EXPORT CAPABILITIES AND INFRASTRUCTURE TO ENHANCE REGIONAL MARKET ACCESS

Enhancing export capabilities and infrastructure can benefit the Zambian economy and its businesses. By expanding market access beyond the domestic sphere, companies can tap into new foreign-denominated revenue streams and diversify their customer base, reducing dependence on a single market and enhancing resilience to external shocks. Moreover, by bolstering their export capabilities and infrastructure, Zambian businesses can gain a competitive edge in the regional markets by improving product quality, streamlining supply chains, and lowering costs, thus helping to increase market share and competitiveness with other regional players.

To strengthen export capabilities for local businesses, the policy and regulation pillar stakeholders must dedicate resources to reduce export frictions, including export processes and procedures, providing export logistics and fast-tracking border and tax clearing procedures. Such efforts can also support regional integration by reducing trade barriers and improving connectivity, making it easier for Zambian businesses to participate in regional value chains and drive greater economic cooperation.

## IMPROVING THE POLICY AND REGULATORY ENVIRONMENT

### 1. CONSISTENCY OF POLICIES TO ENSURE STABILITY OVER THE PREFERRED INVESTMENT HORIZON

Policy inconsistencies have been prominent in the mining, agricultural and energy sectors. For example, in 2016, the government cancelled the tender for developing a 120 MW solar power plant, citing irregularities in the bidding process. The cancellation led to a loss of confidence among investors and raised concerns about the government's commitment to renewable energy. *(Source: African Energy)*

Similarly, the government has frequently changed the pricing of maize, the country's staple food, which has led to market distortions and reduced incentives for farmers to produce more. These policy inconsistencies have led to inefficiencies in the sector and hindered its growth potential. *(Source: African Business Magazine)*

Consistent policies, regulations, and frameworks favourable to business operations provide stability and reduce uncertainty for investors, leading to a longer-term investment horizon. This stability is critical to attracting foreign investment and retaining local investors, as it fosters confidence in the investment climate, thereby reducing the risks associated with an investment.

### 2. HARMONIZATION OF LEGISLATION AND POLICIES ACROSS SECTORS AND AGENCIES

When policies and legislation are not aligned, investors may face challenges in understanding and comply with the various rules and regulations, which can increase their risk and decrease their confidence in investing. In addition, in some cases, investors may be forced to seek legal recourse, which can be time-consuming and costly, further discouraging investment.

The need for harmonization is particularly more pronounced when dealing with land acquisition or leasing projects, environmental assessments, licensing and approvals and labour requirements. In addition, investors have to deal with numerous ministries and agencies that have their needs and can sometimes not speak to each other regarding timings, costs and ongoing obligations. Policymakers should therefore work towards creating consistent and streamlined policies and regulations that are easy for investors to understand and comply with, increasing investment and economic growth, benefiting investors and the broader economy.

### **3. UNDERTAKE WIDE STAKEHOLDER ENGAGEMENT IN THE FORMULATION AND IMPLEMENTATION OF POLICIES**

By involving a wide range of stakeholders in the policy-making process, governments can ensure that policies are more inclusive, effective, and reflective of the needs and interests of all stakeholders. Government and regulatory agencies can consult with stakeholders to gather input on policy proposals, identify potential impacts, and develop strategies to mitigate adverse effects. In addition, stakeholders should have access to information on policy proposals, including relevant data, research, and analysis.

On the part of investors, there is a need for more engagement with government and regulatory agencies to align objectives and strategies openly and transparently. Openness and transparency in investor-government dialogues are essential to promote accountability and trust between the parties. When investors engage in closed-door meetings or negotiations with government officials, it can create a perception of backroom dealings, eroding public confidence in the government and damaging the investor's reputation. By ensuring that the engagement process is open and transparent, investors and government agencies can build and maintain trust with the public, demonstrating their commitment to fair and equitable decision-making, thereby reducing the risk of corruption and promoting good governance practices.

## **PROMOTING AND INCENTIVIZING CONTINUITY AND LOCAL PARTICIPATION**

### **1. SCALE UP INITIATIVES TO REDUCE BARRIERS TO CAPITAL MARKETS ACCESS AND ENCOURAGE LOCAL PARTICIPATION**

Zambia's capital markets are considered underdeveloped compared to other regions, with limited retail investor participation, high transaction costs, low liquidity, and lengthy procedures. As a result, businesses have been discouraged from accessing capital markets, and potential investors have limited investment exit options. As such, key players must take initiatives to reduce barriers to capital market access and encourage local participation, including simplifying procedures and reducing transaction costs, as well as increasing awareness and education about the benefits of capital market participation.

Launching the Capital Markets Master Plan in 2022 is an excellent step in the right direction. However, the Capital Markets Association, Securities and Exchange Commission and Lusaka Stock Exchange need to engage stakeholders to actualize the master plan actively. In addition, the launch of the SEC regulatory sandbox has also seen some businesses coming to the capital markets to launch innovative investment products.

### **2. BUILD PANDEMIC RESILIENCE WITHIN BUSINESSES, IMPACT SECTORS AND MARKETS**

The impact of the COVID-19 pandemic on investments is clear from the decline in deals done during the same period. Therefore, there is a need to build resilience in businesses, sectors and markets to withstand future pandemics by encouraging the development of pandemic preparedness plans and strategies for companies and sectors, including identifying potential risks and impacts and implementing mitigation measures. Other measures include financial support and incentives for businesses and sectors to invest in pandemic resilience measures, such as remote working capabilities, supply chain diversification, and contingency planning.

Promoting collaboration and knowledge sharing between businesses, sectors, and governments to identify best practices and effective strategies for pandemic resilience. Encouraging the development and implementation of pandemic-related regulations and policies that promote business continuity and stability while protecting public health and safety. Supporting the development of innovative solutions and technologies can help businesses and sectors adapt to pandemic-related challenges, such as telemedicine, e-commerce platforms, and virtual meeting tools.

### **3. INCENTIVES FOR INVESTORS TO COMMIT MORE RESOURCES AND LOCAL PRESENCE TO BETTER SUPPORT ZAMBIAN BUSINESSES**

Zambian businesses require more support, technical assistance, and capacity building to achieve their financial and impact objectives. As such, investors must have a local presence and commit more resources to support these businesses. One approach could be to offer tax breaks or other financial incentives to investors who commit to a certain level of investment in Zambian companies and maintain a local presence.

Additionally, providing investors access to resources such as market research, networking opportunities, and business development support could encourage them to invest more heavily in Zambia. Another effective strategy would be to create public-private partnerships that allow investors to collaborate with government agencies and local businesses to address specific challenges and opportunities in the Zambian market. Furthermore, these collaborations could provide investors with access to government resources and expertise that can help mitigate risks and facilitate investment.

## ADDRESSING SECTOR SPECIFIC CHALLENGES FOR THE TOP FOUR SECTORS

### RENEWABLE ENERGY

#### 1. DEVELOP A MORE EFFICIENT FRAMEWORK FOR OFF-TAKE OF POWER FROM INDEPENDENT POWER PRODUCERS (IPPS)

Developing a more efficient framework for off-taking power from Independent Power Producers (IPPs) is essential for improving the Renewable Energy sector. The current off-take framework is often bureaucratic and slow, discouraging investment. Policymakers should explore options such as establishing standardized Power Purchase Agreements (PPAs) that are easy to navigate and more predictable, thereby reducing the time and costs of negotiating PPAs and making it more attractive for IPPs to invest in the Renewable Energy sector.

Another approach could be establishing a centralized authority responsible for overseeing and coordinating the off-take of power from IPPs, streamlining the process, and ensuring that it operates more efficiently. In addition, the administration could work with local utilities to ensure they have the necessary infrastructure and capacity to deliver power to end users.

#### 2. CREATE MORE INCENTIVES FOR THE IMPORTATION OF RENEWABLE ENERGY EQUIPMENT AND IMPLEMENTATION OF OFF-GRID SOLUTIONS

To further develop the Renewable Energy sector, creating more incentives for importing Renewable Energy equipment and implementing off-grid solutions by establishing favourable tax policies and tariff structures that reduce the cost of importing Renewable Energy equipment. Additionally, governments can provide subsidies and grants to encourage the use of off-grid solutions, especially in rural and underserved areas.

Moreover, the government can work with private sector stakeholders to create financing mechanisms that reduce the barriers to entry for Renewable Energy projects, including loan guarantees, risk-sharing instruments, and innovative financing structures encouraging private investment in Renewable Energy projects. It is also essential to build capacity within the Renewable Energy sector in terms of technical expertise and institutional capacity. Governments can work with universities and training institutions to develop curricula and training programs that equip individuals with the skills necessary to work in the Renewable Energy sector.

#### 3. CONSIDER RELAXATION OF PRICING CONTROLS TOWARDS A MORE MARKET-DRIVEN AND COST-REFLECTIVE PRICING STRUCTURE

Pricing controls, such as price ceilings or subsidies, may distort market signals and discourage private sector investment in Renewable Energy projects. By allowing for more flexible pricing that reflects the actual costs of producing and delivering Renewable Energy, investors may be more willing to finance these projects. As a result, the sector can become more financially sustainable over the long term.

Moreover, sudden price shocks are challenging to implement and, as such, must be avoided through the gradual relaxation of pricing controls, thereby ensuring a smooth transition towards a more market-driven pricing structure. Additionally, targeted subsidies or assistance programs must protect vulnerable consumers who may be negatively affected by higher energy prices.

### SUSTAINABLE AGRICULTURE

#### 1. UNDERTAKE MORE SENSITIZATION ON THE BENEFITS OF SUSTAINABLE AGRICULTURAL PRACTICES

Undertaking more sensitization on the benefits of sustainable agricultural practices is essential to promote Sustainable Agriculture in Zambia. Farmers must know the long-term advantages of adopting sustainable practices, such as increased crop yields, reduced costs, and improved soil health, through various means, such as training programs, field demonstrations, and awareness campaigns highlighting sustainable agriculture's benefits.

Moreover, partnerships between government agencies, non-governmental organizations, and the private sector can help to promote Sustainable Agriculture practices. These partnerships can provide farmers with the knowledge, tools, and resources to implement sustainable farm practices. In addition, these partnerships can facilitate the exchange of information between farmers and other stakeholders, such as policymakers and researchers, to promote the adoption of sustainable practices at the national level.

Farmers need to be encouraged to adopt sustainable practices. These incentives may include tax breaks, access to financing, or preferential treatment in accessing markets. By incentivizing adopting sustainable agricultural practices, more farmers may be encouraged to implement these practices, ultimately leading to more sustainable and resilient farming systems in Zambia.

## **2. BUILD RESILIENCE OF VENTURES AGAINST CLIMATE CHANGE THROUGH TECHNOLOGY, INSURANCE PRODUCTS AND TECHNICAL ASSISTANCE**

Building resilience against climate change requires a multi-pronged approach that includes technology, innovation, sustainable practices, technical assistance, and insurance products. One way could be to promote adopting climate-smart agriculture practices, such as conservation agriculture and agroforestry. Another strategy could be to encourage the use of technology and innovation in agriculture, such as precision agriculture and digital farming tools, which can help farmers to manage their resources better and improve their yields.

In addition to promoting sustainable agricultural practices, there is also a need to provide technical assistance and training to farmers on climate-resilient agriculture, including water management, soil conservation, and crop diversification. Furthermore, insurance products can help farmers mitigate the risks associated with climate change, such as droughts and floods. These products can help to protect farmers from financial losses and provide them with the support they need to continue their agricultural activities.

## **3. STREAMLINE APPROVAL PROCESSES FOR LARGE SCALE AGRICULTURAL PROJECTS**

It is essential to recognize that large-scale agricultural projects often require significant investment and planning, and delays in approvals can harm both the investor and the local community. To address this challenge, governments can simplify and expedite approval processes for agricultural projects while maintaining appropriate environmental and social safeguards, including establishing clear timelines and requirements for approvals, providing greater clarity on the regulatory framework, and creating a one-stop shop for investors to navigate the approval process. In addition, developing infrastructure and support services around large-scale agricultural projects, such as roads, irrigation systems, and marketing facilities would help build investor confidence and create opportunities for local farmers and businesses.

## **FINANCIAL SERVICES**

### **1. ENHANCE CREDIT REFERENCING, CREDIT INFRASTRUCTURE AND LEGAL FRAMEWORK FOR COLLECTIONS AND LOAN RECOVERIES**

In Zambia, a comprehensive credit reporting system already exists that collects and maintains accurate and reliable credit information on individuals and businesses, which can help lenders make informed decisions and reduce the risk of default. However, the system needs to be widely adopted to provide timely information. As such, there is a need to encourage and promote the widespread adoption of credit history in financial transactions to build a better credit profile for individuals and businesses.

Additionally, to improve the legal framework for collections and loan recoveries, there is a need to update and modernize the relevant laws and regulations governing the financial sector in Zambia, to establish clear and transparent rules for collections and loan recoveries, reducing the risk of default and improving overall credit quality. Another key initiative is promoting financial education and literacy to enhance Zambians' financial knowledge and skills, empowering individuals to make informed financial decisions and improve their economic well-being.

### **2. ENHANCE PROLIFERATION OF DIGITAL FINANCIAL SERVICES FOR BETTER REACH AND ACCESS**

To encourage the growth of digital Financial Services, the government can work with private sector partners to create an enabling regulatory environment and infrastructure that supports digital Financial Services, including improving regulatory frameworks for mobile money operators and promoting the interoperability of different digital payment platforms to ensure seamless and efficient transactions across other networks.

It is also essential to promote transparency and accountability in the financial sector through increased regulatory oversight and enforcement and the implementation of consumer protection measures. By ensuring that financial institutions operate fairly and ethically, individuals and businesses can have greater confidence in the financial system and be more likely to use Financial Services.

### 3. STRENGTHEN DISSEMINATION OF FINANCIAL LITERACY AND EDUCATION PROGRAMS

Many individuals and small businesses in Zambia may need a clearer understanding of how credit works and how to manage their finances effectively. Financial literacy programs, delivered through various channels, including community workshops, online courses, and mobile applications, can educate individuals and companies on budgeting, saving, investing, and credit management.

Furthermore, promoting financial literacy and digital skills can also help to increase the uptake and usage of digital Financial Services through public education campaigns and partnerships with local communities and organizations to raise awareness and understanding of the benefits of digital Financial Services.

## ENVIRONMENT

### 1. DEVELOPING A REGULATORY FRAMEWORK FOR GREEN BONDS IN ZAMBIA

In collaboration with the capital market stakeholders, the Ministry should develop a clear and comprehensive regulatory framework for Green Bonds to provide clarity and transparency to investors. This framework should include guidelines on the selection and certification of green projects and reporting requirements to ensure the transparency and accountability of issuers.

Additionally, educating investors, issuers, and the general public about green bonds and their benefits is essential for the growth of the green bond market, including developing training programs, workshops, and seminars and creating informational materials.

### 2. INCENTIVES FOR GREEN BOND ISSUERS

To encourage more companies to adopt sustainable business practices and promote the growth of the green bond market, the government should consider developing incentives and tax breaks for issuers of Green Bonds. One way to do this is by providing tax exemptions, such as exemption from income tax or withholding tax on interest income generated from the green bonds.

In addition to tax exemptions, the government could offer reduced regulatory fees for issuers of green bonds, including lower fees for registration, disclosure, and ongoing reporting. Reducing the regulatory burden on issuers may incentivize more companies to adopt sustainable business practices and issue green bonds.

Another intervention the government could consider is implementing preferential interest rates for issuers of green bonds by offering lower interest rates on loans or credit lines to companies that issue green bonds.

### 3. PROMOTING THE DEVELOPMENT OF GREEN INFRASTRUCTURE FOR ZAMBIA

Green infrastructure refers to the physical systems and structures designed to manage and deliver sustainable natural resources and ecosystem services while promoting economic and social benefits. Examples of green infrastructure include Renewable Energy infrastructure such as solar, wind, and hydroelectric power plants; Sustainable transportation infrastructure such as electric vehicles, bike lanes, and pedestrian walkways.

Other green infrastructure includes water management infrastructure such as rain gardens and green roofs that help to reduce storm water runoff and improve water quality; Sustainable building and urban design infrastructure such as green buildings, smart cities, and green infrastructure networks that promote energy efficiency and reduce greenhouse gas emissions; Natural infrastructure such as forests, wetlands, and grasslands that provide vital ecosystem services, including carbon sequestration, biodiversity conservation, and water regulation.

Developing these green infrastructure projects can provide a pipeline of investment opportunities for the green bond market. Investors can support sustainable development and generate financial returns by financing these projects through green bonds.



# ANNEXURE

## SURVEY BASELINE INDICATOR DEFINITIONS

INVESTOR PREFERENCES	
Indicators	Considerations
<b>1 Preferred Impact Sectors</b>	By understanding the impact sectors investors prefer, we can understand where they see the most significant opportunities for financial and social returns. Moreover, monitoring changes in these preferences over time can help eco-system participants keep abreast of emerging trends and adjust their strategies accordingly.
<b>2 Stage of Investee</b>	Understanding an investor's preferred stage of focus is crucial in assessing their investment style and overall risk profile, as it provides insight into whether they are more interested in emerging companies with high growth potential or established firms that offer more predictable returns.
<b>3 Investment Instruments</b>	The predominant instruments chosen by investors are a reflection not only of their risk appetite but also of their expectations for growth and returns.
<b>4 Investment Horizon</b>	This will aid in understanding the level of patient capital and the expectations investors have regarding the length of time they are willing to wait before realizing their returns.
<b>5 Deal Size</b>	A helpful indicator of Investor deal flow, as it provides insight into the volume and value of investment opportunities. Additionally, it can reveal how much exposure they are willing to take on individual deals, which can provide clues about their overall risk profile and investment philosophy.
<b>6 Investor Involvement</b>	This can reflect the calibre of investees and their need for capacity building and technical assistance. This indicator can be used to correlate the level of involvement with successful investors.
INVESTOR PERCEPTIONS & EXPERIENCES	
Indicators	Considerations
<b>7 Overall Perception</b>	An indicator of the overall mood of investors can provide valuable insights into the broader market sentiment.
<b>8 Intervention Focus Areas</b>	By identifying key areas where investors feel the most interventions are needed, we can gain valuable insights into the challenges and opportunities within the impact investment landscape.
<b>9 Exit Options</b>	This could speak to the availability of exit routes and ease of exit and provide helpful insight into the development of exit channels by impact eco-system stakeholders.
<b>10 Financial Returns Achieved</b>	Financial returns achieved by impact investments are an essential indicator of the success and viability of impact investments in Zambia.
<b>11 Investment Challenges</b>	Understanding the investment challenges impact investors face is an essential component of building a sustainable and impactful impact investment market. By analyzing the obstacles investors encounter, we can identify areas where improvements are needed and develop more effective solutions to these challenges.
<b>12 Investment Decision Factors</b>	By analyzing the factors influencing investment decision-making the most, we can better understand the priorities of impact investors and develop strategies to support the growth and development of impactful businesses and initiatives.

## LIST OF INVESTORS THAT PARTICIPATED IN THE SURVEY

INVESTOR	FUND TYPE	LOCAL OFFICE
30Thirty Capital	Investment Holding and Advisory Company	Yes
Absa Africa	Investment Bank	Yes
AFD (Agence Française de développement)	Development Finance Institution	Yes
Africa Eats	Private Equity	No
African Life Financial Services Ltd	Fund Manager: for-profit	Yes
BIO Invest (Belgian DFI)	Development Finance Institution	No
Bongo Hive	Ecosystem Builder	Yes
Development Bank of Zambia	Development Finance Institution	Yes
EG Capital	Development Finance Institution	Yes
FINCA Ventures	Fund Manager: not-for-profit	Yes
Growth Africa	Fund Manager: not-for-profit	No
InfraCo Africa	Private Equity	No
INOKS Capital	Asset Manager Debt Provider	No
Inside Capital	Private Equity	Yes
Kukula Capital	Private Equity	Yes
Mangwana Capital	Private Equity	No
Oikocredit	Fund Manager: not-for-profit	No
Proodos Capital	Private Equity	No
Qlab Fund	Fund Manager: for-profit	No
REGMIFA	Blended Finance Fund	No
Renew Capital	Impact Investors / Venture Capitalists	No
wCap Limited	Private Equity	Yes
ZBAN	Angel Investor	Yes
Zenga Venture Fund	Investment Bank	Yes



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