



Final Report 2021

AN IMPACT INVESTMENT MARKET SIZING STUDY: ZAMBIA

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Submitted by: 4IP Group Sàrl, Geneva and Lusaka.



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This paper contains general information only. 4IP Group is not by means of this report rendering professional advice or services. The content of the report is meant for research purposes, with an aim to broaden and deepen the understanding of impact investors (Zambia based and foreign-based) investing in Zambia in the period 2019 and 2020 only. This paper refers to specific figures, outcomes and performances. Such references are made for research purposes only and are not intended as a solicitation or recommendation to buy or sell any specific investment product or services. Similarly, the information and opinions expressed in the text have been obtained from sources believed to be reliable and in good faith, reflecting the view of the authors on the state of the industry focusing on Zambia, but no representation or warranty, expressed or implied, is made as to its accuracy or completeness. Before making any decision or taking any action that may affect your finances or your business, you should consult a qualified professional adviser. 4IP Group shall not be held responsible for any loss whatsoever sustained by any person who relies on this report.

Table of Contents

| | |
|---|------|
| EXECUTIVE SUMMARY | vi |
| List of Acronyms..... | xiii |
| 1. About the Zambia Impact Investing Market Size Survey (ZIIMS) | 1 |
| 1.1. Addendum to the NABII-Prospero-SVS Impact Investing Climate Survey | 1 |
| 1.1.1. Sections of the 2021 Impact Investing Climate Survey (IICS) | 2 |
| 1.1.2. Overlaps between IICS and ZIIMS and Missing gaps | 2 |
| 1.1.3. Administration of the ZIIMS..... | 2 |
| 1.2. Successor of the Kukula Capital Baseline Survey..... | 2 |
| 1.3. Scope, Market Size & Methodology | 3 |
| 1.3.1. Scope | 3 |
| 1.3.2. Methodology | 4 |
| 1.3.3. Interpretation of the Findings | 5 |
| 1.3.4. Four Practices Define Impact Investing | 5 |
| 1.4. Mapping Impact Investors investing in Zambia | 6 |
| 1.5. Peer Group Definitions | 8 |
| 1.6. Sample Size | 10 |
| 1.7. Summary of Key Findings..... | 11 |
| 2. Trends in the Impact Investing Market | 12 |
| 2.1. Recent macroeconomic and financial developments..... | 12 |
| 2.1.1. Financial Sector Overview | 13 |
| 2.2. Existing Investment Trends, 2019-2020..... | 14 |
| 2.3. Impact Investing Market Size in Zambia | 19 |
| 2.4. Investment Prospects for Zambia, 2021-22 | 21 |
| 3. Investment Fund Management Landscape..... | 23 |
| 3.1. Overview of Impact Investors | 23 |
| 3.1.1. Africa..... | 23 |
| 3.1.2. Sub-Saharan Africa | 24 |
| 3.1.3. Zambia..... | 24 |
| 3.2. Main Motivations for Investing in Zambia..... | 25 |
| 3.3. Business Model..... | 26 |
| 3.4. Market Share and Concentration | 27 |
| 4. Financial Metrics | 29 |
| 4.1. Investment / Financial Instruments / products..... | 29 |
| 4.1.1. Private Equity Deals..... | 30 |
| 4.1.2. Impact Deals..... | 30 |
| 4.1.3. Investor Preference..... | 31 |

| | |
|--|----|
| 4.2. Impact Sectors | 31 |
| 4.3. Geography of Investments | 35 |
| 4.4. Risks Analysis | 37 |
| 4.5. Financial Performance | 40 |
| 5. Impact Measurement and Management approaches | 41 |
| 6. Investees | 47 |
| 6.1. Foreign Private Investment and Investor Perceptions Surveys, 2019 and 2020 | 47 |
| 6.2. Zambia Impact Investing Market Size Survey | 48 |
| 7. Identification of challenges and opportunities to the growth of the impact investment market..... | 50 |
| 7.1. Challenges to the growth of the Impact Investment Market in Zambia | 50 |
| 7.2. Opportunities to the growth of the impact investment market in Zambia | 54 |
| 7.3. Key Policy Recommendations..... | 55 |
| References | 59 |
| Appendix 1: Doing Business Topics in Zambia..... | 62 |
| Appendix 2: Zambia Impact Investing Market Sizing Study (ZIIMS) Survey Questionnaire | 63 |
| Appendix 3: Zambia Impact Investing Fund Interview Protocol..... | 64 |
| Appendix 4: Other Existing Impact Investing Market Sizing Surveys | 67 |
| Appendix 5: Main variables used to delimit and segment the market | 68 |
| Appendix 6: Zambia: Financial Soundness Indicators, 2008–18 (Percent, unless otherwise indicated | 72 |
| Appendix 7: Enterprise Survey | 73 |
| Appendix 8: Interviewed Impact Investors | 74 |
| Appendix 9: Surveyed Impact Investors & Communications..... | 75 |
| Interview Protocol: DFIs investing in Zambia | 76 |
| Interview Protocol: Non-DFIs investing in Zambia | 80 |
| Appendix 10: Service Delivery by Government Ministries and Statutory Bodies, 2017-2019 | 84 |
| Appendix 11: Number of VC deals in Africa, by year..... | 85 |
| Appendix 12: Comparing the Five main Investment Surveys in Zambia | 86 |
| Appendix 13: Impact Investor Deals in Zambia in 2019 and 2020..... | 87 |
| Appendix 14: Foreign Direct Investments to Zambia, 2010-2019* | 88 |
| Appendix 15: Private Sector Foreign Liability Flows (US\$ millions), 2009-2018 | 89 |
| Appendix 16: Asset Under Management Allocated by Sector | 90 |
| Appendix 17: The Ratio of The Inflow of Impact Capital to Inward FDI | 91 |
| Appendix 18: Investors involved in at least one \$100k+ in Africa, by HQ (2021 YTD) | 92 |
| Appendix 19: Africa Inward FDI, 2019-2020..... | 93 |
| Appendix 20: Lusaka Start-up Ecosystem Overview | 95 |

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About Zambian National Advisory Board for Impact Investing

The National Advisory Board for Impact Investment (NABII) Zambia is an independent cross-sector driven organization created to accelerate the growth and effectiveness of the impact investment ecosystem in Zambia under close oversight of the Global Steering Group for Impact Investment (GSG). It's mandate is to mobilize stakeholders and resources to support the creation of a private sector driven impact economy in Zambia.

Within the context of its vision and mission, the NABII focuses on activities organized into four workstreams namely: Market development; (2) Communications development; (3) Research and knowledge development; and (4) Policy development.

NABII provides an all-inclusive platform for impact investment ecosystem players to collaborate and address sector-wide issues and engage in impact investment policy dialogue with Government, target beneficiary communities and development partners. NABII is supported by UKaid in Zambia through Prospero. Additionally, the NABII is supported locally by Stanbic Bank and ZANACO.

About 4IP Group

4IP Group is a Geneva-based Advisory Boutique who offers PPP and Impact Investing services, such as our ESG Toolkit, with a view to help developing countries and support investors.

We advise private bidders in preparing strong proposals, including unsolicited proposals, with an economic and social added value, and help raise the necessary finance. We use innovative financial instruments, commercial project finance, DFI and blended finance to structure and optimize deals that will provide a competitive edge.

4IP facilitates investments that catalyze economic and social change. We advise on investments and develop investment strategies equally driven by purpose and performance. We design new ways to invest in emerging markets and mobilize capital to tackle development challenges. By combining best practices from across the financial services sector with deep understanding of frontier markets, we create tailored capital solutions that accelerate inclusive and sustainable growth. 4IP covers the whole Impact Investing spectrum from full investment management mandate to deal advisory through our so-called ESG Toolkits designed for both Institutional Investors, Family Offices, Venture Capital Funds, and Enterprises wishing to transition from a traditional business approach to becoming Impact Enterprises.

EXECUTIVE SUMMARY

This report is a follow-up study building on the previous **Kukula Capital** baseline study which was prepared in September 2019 for the **Zambian National Advisory Board for Impact Investment (NABII)**.

This report addresses and analyses both the **Private Asset Impact Funds (PAIFs)**, that is **non-Development Finance Institutions (non-DFIs)** self-identifying as impact investors albeit not necessarily in full accordance with the official definition of impact investment, and the **DFIs**.

- ❖ **Study coverage:** The study compiles data on **23 asset managers** of which the headquarters of 4 are located in Zambia and the rest are located in 12 other countries. In terms of assets under management (AUM), the study survey covers **5 DFIs** and another **18 non-DFIs** which all together are deploying capital into (impact) enterprises across the following 7 impact sectors: Financial Services; Renewable Energy; Real Estate; Agriculture; Food and Agro-Processing; Waste Management and Tourism.
- ❖ **Market size:** The study aggregates a total of **USD 85.17 Mn of assets into 28 impact enterprises**, which were split between DFIs: \$47.17 Mn in AUM; Private Equity: \$36.17 Mn in AUM; High Net Worth Individuals (HNWIs): \$1.40 Mn in AUM and Crowdfunding: \$0.43 Mn in AUM.
- ❖ When looking exclusively at **DFIs' 13 Impact Deals Flow into projects** in the period 2019-2020 the total amount **\$706 Mn in AUM** is invested by 8 different Multilateral and Bilateral DFIs.

ANALYTICAL DIMENSIONS

Primary Asset Class

- Fixed Income Funds
- Equity Funds
- Mixed Funds.

Primary Impact Sectors

- Climate & Energy
- Food & Agriculture
- Health & Education
- Housing, Water & Communities
- Microfinance
- SME Development
- Multi-Sector.

Impact Measurement Approaches

- Sustainable Finance principles (ESG integration)
- Impact Investing principles (SDG intent)
- Inclusive finance principles (BOP outreach).

The study brings the most comprehensive data set to date on this investment fund universe focusing on Zambia exclusively during the period 2019-2020 by providing a clear picture state of **the size of the impact investment market in Zambia**. The study does this by:

- i. Mapping all known **23 impact investors** including by highlighting which Sustainable Development Goals (SDGs) they all focus on and investment products they use;
- ii. Estimating the Market size (i.e., the total value of impact investments) including highlighting the methodology used and assumptions made;
- iii. Identifying existing and potential trends in the **Zambian impact investing market** and showing developments from the baseline period 2015-2018 to the follow-up up period from 2019-2020;
- iv. Investigating the fund management landscape in Zambia and describing the impact measurement and management tools which these impact investors are using;
- v. Identifying AUM by sector, instrument and organisation type;
- vi. Investigating the investment performance and the risks of various instruments;
- vii. Mapping the (impact) enterprises who received impact capital from both **the 18 non-DFIs and 5 DFIs**, and counting the actual number of transactions from 2019-2020;
- viii. Finally, by identifying some of the major challenges the impact investors are confronted with and proposing what could be done to ensure that the opportunities associated with growing of the impact investment market size in Zambia eventually materialize within the newly Elected **Zambian Government's** forthcoming 8th National Development Plan (2022-2026).

KEY HIGHLIGHTS ON IMPACT METRICS

The sample Impact Investors (20%), that is only those non-DFIs who replied to our survey, believe in the Impact Measurement task. However, not all non-DFIs use theory of change / Logical Framework approach. A few non-DFIs responded that they measure the social impact of their investments to measure outputs (e.g. number of people reached). On the other hand, a number of ESG screening methods are being used such as: ESG screening integrated into investment decision process; preferential terms for investees demonstrating strong ESG commitment; inclusion of social and environmental covenants / undertaking within investment agreements and ESG reporting to investors. When it comes to SDG mapping used some non-DFIs are using mapping of the vehicle's social/environmental goals against SDGs; impact measurement / assessment tools used for SDGs mapping; targeted SDGs; and SDG reporting to investors. Some of *the Impact Measurement metrics used* by the non-DFIs are: Gender profile of investees' employees, whether female or male; number of active end clients financed, whether urban or peri-urban; location of end-clients; gender profile of end-clients, whether female or male.

Based on the metrics, some only analyse the evolution of outcomes/impacts metrics from one year to the next. In terms of which measurement management approach the non-DFIs prefer, some prefer standard methodology such as IRIS Metrics. In fact, the following frameworks/indicators/tools are embedded in *the impact measurement & management (IMM) system*: IRIS+ when it comes to Standardised indicators; Impact Management Project (IMP) when it comes to IMM frameworks and SDGs for other tools. On the other hand, none in the survey sample used *incentive schemes* for their fund managers linked to the impact performance. Nor did they have any incentive schemes (such as interest-rate discount or unlocking additional funding or carried interest) for the portfolio investees linked to impact performance.

KEY HIGHLIGHTS ON THE FINANCIAL METRICS

Manager location & concentration:

As of December 2020 the combined asset size of USD 85.17 Mn of all **the 23 participants** (both 5 DFIs and 18 non-DFIs) investing directly in impact enterprises was mostly managed out of Western, Northern and Southern Europe (81%), followed by North America (9%); Africa (6.74%), and Zambia (1.80%).

Fund Size & Growth

The ZIIMS database captures several *types of organizations*: 55% of the impact capital flowing into impact enterprises in Zambia was deployed by DFIs while Private Assets Impact Funds (PAIFs) (i.e. non-DFIs) invested 42%. From the ZIIMS sample most of the non-DFI impact investor's AUM is either in the first category of between 1-50 Mn USD or the second category of between 51 – 100 Mn USD. The Impact allocation in percent of AUM ranges from 10-20% up to 100%. For those not already at 100% some are expecting either a slight increase or unchanged impact allocation size over the next 3-5 years.

When it comes to the *stage of business models* targeted the small sample targeted Series A and B funding. In terms of the *preferred investment instruments* all fund managers are using both private equity and private debt instruments. The *investment time horizon* ranges from 0-2 up until 7-10 years. When it comes to the *preferred investment exit route* there was a consensus on strategic acquisition.

Zambia at Glance

- GDP 18,530 Mn current US\$ (2020).
- Projected Real GDP (Annual % Change): 0.6(2021) & -4.8(2020).
- Real GDP (Annual % Change) -4.9% (2020) & 5.7% (2010-2016).
- GDP pc, current US\$ 981.31 (2020).
- FDI Inflows 753.20 Mn US\$ (2019)
- CPI growth 1.4% (2020).
- 2021 Projected Consumer Prices (Annual % Change): 17.8.
- Exchange rate 22.41ZMK/US\$ (2021).
- Country Population: 18,900 Mn.
- Member of groupings: Other resource-intensive countries & (Lower-) Middle-income countries.
- Member of regional groupings: COMESA & SADC.
- Doing Business rank: 85.
- Starting a Business: 117.
- Getting Credit: 4.
- Protecting Minority Investors: 72.
- Paying Taxes: 17.

Sources: IMF, 20th May, 2021; WBG, 2021; UNCTADSTAT.

Perceptions of Zambia as an impact investment location

All the impact investors surveyed had *current investment continuing in Zambia*. However, the percentage of AUM allocated to Zambia range from one extreme 0-5% to the other at 100%. When it comes to the *investment products / financial instruments used* when looking to deploy capital in Zambia some non-DFI impact investors are exclusively private debt (100%) investor; others were almost equally split between equities (e.g. common shares) and debt; while others again have both equities, fixed income securities, investment funds, tangibles (properties) and derivatives (e.g. forwards and futures) across different African countries, including Zambia. None of the surveyed non-DFIs have looked at *investment products / financial instruments* such as Social/Development Impact Bonds Guarantee schemes or payment by result when looking to deploy capital in Zambia, although one impact fund reported that it had access to a debt guarantee.

When it comes to *rating the importance of the factors influencing the non-DFIs' impact investment decision-making* when considering investing in Zambia, the following factors were considered as very important, albeit with widespread opinions. One non-DFI responded: Zambia's strategic location; Firm level corporate governance; and Social impact investing regulation. Another instead responded political stability; the regulatory and institutional quality; economic stability; human capital and education; and market access. The only consensus achieved was on firm-level corporate governance. When it comes to *the rating of the quality of each of these factors specifically for Zambia* the only agreement was that political stability in Zambia was attractive, as shown by the General elections held in on 12 August 2021 to elect the President and National Assembly. One considered economic stability attractive, and another very attractive while a third considered it unattractive. Two respondents found market access and firm-level corporate governance attractive.

When it comes to *rating the quality of these elements of the impact investing ecosystem in Zambia* some respondents had left the box blank, so we can only conjecture based on the replies from one non-DFI who found *the pipeline of investment opportunities* were of medium quality and improving. The same applies to investment intermediary services. No opinions were expressed on Information and transaction support services nor Impact investment policy and regulation. Two-third replied affirmatively that the Point of Exit: Whether or not once the non-DFI decide to exit from a company they *decide or agree on a mission lock criteria* to ensure that the next line of investment won't drift away from the social mission.

Investing in Zambia

Concerning *the types of organisations* the non-DFIs support ranges from: SPOs (Producers Organisations) with a proven financially /self-sustainable business model; others also included SPOs with a proven financially /self-sustainable business model; and another also invest in Traditional businesses with intentional social impact.

The impact investors were then asked to *rate the business growth opportunities in each of the impact sectors in Zambia*: The only consensus was that the food and sustainable agriculture sector as well as the microfinance sector both have strong growth potential. The other sectors potential were considered somewhat or not very important.

Concerning *the investee types* when it comes to *the direct impact portfolio* of the non-DFIs. One respondent covers non-financial corporation; another respondent in addition to this type also covers Micro-, Small, and Medium-sized Enterprises (MSMEs) and projects; and a third respondent covers financial institutions (excluding fund investments). When it comes to *indirect impact portfolio* two had funds and one additional ticked the holdings, networks and other vehicle category.

Concerning *the impact areas* which the sampled non-DFIs's investment strategy focuses on, they range from: Financial inclusion; Climate change; sustainable infrastructure; and to food. Some non-DFIs specifically invest in key sectors which an average household will be spending their income on, such as food, education, electricity, health and financial inclusion.

The non-DFIs all focus on *particular SDGs* in their investment strategies. All focused on the SDG1, 2, 5, and 7; some also focused on 8, 9, 10, 12, and one even included SDG 16 and 17.

The non-DFIs were also asked to rate *the quality of the providers of impact investment information and facilitation support in Zambia*. Some were unaware about both ZDA and NABII-Zambia. But one rated the Impact Capital Africa (ICA) as being of very good quality. Another perceived both ICA and NABII-Zambia's quality in these areas to be good.

Take for example the case of the early-stage fund **Goodwell Investment** focusing on SSA. At the end of 2020 it executed a direct private equity investment into Good Nature Agro (investee) located in Zambia's Eastern Province, which is characterized by being linked to both smallholder farmers and the local farming community. Additionally, the produce (legumes) is climate smart (all attractive features for an impact investor). Its *ticket sizes* range between 500,000 USD to 2 Mn USD, but the fund could continue to invest up until a cap of 5 Mn USD in a particular portfolio investment.

In *terms of screening* how many investments the non-DFIs screen as potential investment opportunities and, among them, how many have they conducted as *in-depth due diligence* in the last fiscal year. It is recommended that the investees always explore what the mandate of a fund is before approaching the fund in order to see if they fit the fund's portfolio company selection criteria. **Serving the under-served**, means that every business models have to be tied to providing access to affordable goods and services and thereby lifting the livelihood of the consumers. The Fund also looks at enterprises creating values being generated on the social or the environmental side or both. Again, in the case of **Goodwell Investment**, it receives around 1,000 applications per quarter or roughly 4000-5000 applications per year through e-mails, excluding applications leveraged through its network on the ground such as market enablers like BongoHive or other investors. Consequently, the fund has to be extremely selective. Another, non-DFI respondent from the survey sample responded that it had screened 30 applications last year, of which 15 had undergone a due diligence, which in turn led to only 4 actual new investments. Most non-DFIs already consider potential exit opportunities while screening for new investments.

The channel(s) through which the non-DFIs search for investees include: Existing portfolio organization; desk research; conferences and organised events, including through the ICA:Zambia events; professional networking and intermediaries outside of organised conferences or events and through the application process open to potential investees all year round as mentioned by Goodwell Investment.

In addition to that the non-DFIs sampled also *engage in collaboration* with public institutions as well as incubators and accelerators in Zambia. Some have carried out co-investments with foundations, impact funds, VC/PE investors as well as corporations. Others have never engaged in any form of collaboration.

In order to make sure that *the impact of the investment is preserved after exit* some non-DFIs only select investees that have social impact embedded in their business model. Others on the other hand, do not take any specific action to make sure the impact is preserved. Amongst those that exited their investment in the last fiscal year they mentioned as *reasons for this* that the fund had achieved its social and financial goals and that the investee had achieved its social and financial goals too, but also that the fund realized that the investee would not achieve its social or its financial goals as a reason for exiting. One-DFI exited to the SPO who either bought back the shares or paid back its liabilities. Another non-DFI exited to both VC/PE investors as well as to other credit providers on business credit.

Preference and Perception

Concerning *the main reasons to consider impact investing* the following answers were stated: Values alignment and Client/Trustee demand; and one non-DFI also mentioned Corporate social responsibility. Most non-DFIs' expect financial returns to be at competitive market rates. And they expect that social impact measurements are well reported and evidence is documented; or well documented evidence using a global standard. Another non-DFI even resorts to anecdotal evidence.

When asked about the non-DFIs' *real and expected social impact performance of current investments* (Impact investments only) the answers covered both under-performing for some and meeting expectations for the majority. All non-DFIs agree with the following statement: *"Impact investing is*

going to become more important over the next 5-10 years.” They all also either strongly agree with (majority) or agree with the following statement: “It is important to consider social/environmental/cultural impact as a metric for investment decisions.” When asked about the main factors preventing investors from entering impact investing the answers provided ranged from: Lack of reliable Research Information and Benchmarks; Insufficient Knowledge; to no recognised Investment Framework; as well as Limited access to investment advice and Not Enough Deals.

When asked about what the main factors likely to make active impact investors increase their allocation to impact investments are, the sample of responding non-DFIs all answered: Evidence of Financial Performance or Longer Track Record. Some answered Evidence of Social Impact and Client/Trustee Demand. One respondent added More Investable Deals to the mix of answers.

Investment & Impact Risk Analysis

In terms of what kind of investment risks the non-DFIs usually forecast when evaluating an investment opportunity, the answers provided include:

- Private Debt: Management Execution ability, Cash Flow / Repayment, and End-Market;
- Private Equity: Lack of Exit options, Management Execution ability, and Governance;
- Counterpart risk (including: Governance, HR, financials, market, ...);
- Country risk; Currency risk; Competition risk; and Liquidity risk.

When asked to forecast possible risks based on investment instrument and/or transaction type and/or sector the following answers were provided:

- Yes: Risks for agricultural entities are different than for MFIs. For example, one non-DFI evaluates the risk differently if it is analysing an agri-business or a MFI.
- The answer from all sampled non-DFIs was yes, of which one named them for each investment instrument and/or transaction type and/or sector to be Crops credit lines.

When asked about how accurate the non-DFIs investment risk forecast is, one non-DFI answered that risk is estimated at 3% of the total debt portfolio. Not all non-DFIs have in place tools to forecast and/or monitor investment risk. But one mentioned that FEFISOL has a dedicated risk scoring tool to evaluate & monitor client risk for different for agricultural entities and MFIs.

Most of the non-DFI respondents do not take impact risk into consideration, and consequently they do not have an impact risk framework to enhance their understanding of impact risk. However, one non-DFI did explain its understanding of risk impact to be the risk that the desired Impact is not achieved or tracked accurately.

Financial Performance

When asked about the return projection for this year how do the non-DFI expect its fund to perform compared to last year, very different answers were provided ranging from Moderate increase; and Stable to Slight decrease due to the fund's divestment phase, but rather stable when the 10 years lifespan of that particular fund is considered.

In terms of the kind of investment performance that the non-DFI usually forecasts (expects) for an investment the following returns were listed: 5-6% on average; 16% IRR Target (Gross); and Explicit IRR >8% and multiple of cost. More specifically when asked about whether the non-DFI forecast a particular investment performance based on the investment instrument and/or transaction type and/or sector the following answers were provided ranging:

- From 6% return on average on the loan portfolio to 16%;
- From 10% IRR on average on the equity portfolio to 25%.

The non-DFIs were also asked about whether they have in place any tools to forecast and/or monitor investment performance to which only one of the sampled non-DFIs confirmed that its fund follows its performance daily via specific inhouse tools.

PRIVATE ASSET IMPACT FUNDS (NON-DFIs)

The analysis of our ZIIMS database includes data regarding the activities of **5 DFIs and 18 non-DFI impact investors in Zambia**. These non-DFIs have completed **28 direct investments** in Zambia. Our ZIIMS study only include active impact investors, that is, those with existing investments in Zambia deployed during 2019-2020 period. The **18 non-DFIs'** inclusion into this study was exclusively based on their *self-declaration as impact investor*, otherwise few of them would even fit the GIIN definition.

Although quite small when compared to the size of the DFIs' market, *the Non-DFIs market* is on the contrary much more diverse, with **investors from 15 different countries**. Zambia itself and UK are the places where most money are invested from. South African based investors are also amongst the highest ranked countries. Here, debt and equity deals are very similar in number, although debt deals tend to be more money-demanding. The disbursed in debt deals are 1.5 times higher compared to equity, accounting for an overall of almost **USD 55 Mn across 35 examined transactions**.

DEVELOPMENT FINANCE INSTITUTIONS (DFIs)

In addition to **18 non-DFIs** the ZIIMS study also covered **7 DFIs** who jointly have invested **618 Mn USD** in AUM in **13 projects** as of December 2020. These DFIs are a combination of:

- ❖ Bilateral DFIs: FMO; US-DFC; DBSA; CDC Group; and Proparco.
- ❖ As well as multi-lateral DFIs: IFC of the World Bank Group and EIB.

The DFIs market size accounts for almost 90% of the total market size of impact investment in Zambia during the 2-year period 2019-2020. This percentage is so high due to the dominant part played by the DFIs' loans, especially the lending from the European Investment Bank (EIB), which lent a total of more than \$66.9 Mn in 2019 alone, and \$42.7 Mn in 2020. The Development Bank of Southern Africa (DBSA), which alone lent a total of \$420 Mn invested in the Renewable Energy sector. The third major DFI creditor to Zambia was the International Finance Corporation (IFC) from The World Bank Group with a loan of \$15 Mn in 2019, allocated to the financial sector.

The loans were handed out in **13 tranches**, and they accounted for almost **\$509 Mn in 2020**, up from **\$109 Mn** lent by these DFIs in 2019 (table 2.2 below).

BARRIERS INHIBITING THE EXPANSION OF THE IMPACT FINANCE INDUSTRY

The survey sampled non-DFIs were requested to list *the three main impact investment challenges* based on their experience in Zambia. These were:

- ❖ The ease of doing business, specifically on the regulatory matters, that is related to the time taken to effect transfer of shares.
- ❖ Availability of affordably priced local currency debt or concessional capital.
- ❖ Depth of pipeline of investment ready companies.
- ❖ Genuine focus on impact measurement and business strategy by potential investees.
- ❖ Resource requirements on investors to accurately track, measure and implement true impact investors.

In addition to these survey responses, from *the interview protocols* we collected the following answers:

- ❖ High currency risk: The devaluation of the local currency (Zambian Kwacha).
- ❖ High policy risk: Government's large interventions at the local capital market which crowds out private sector lending, largely because the commercial banks prefer T-bills/ Government bonds.
- ❖ High interest rate makes local currency term lending too expensive to buy assets.
- ❖ Governance: The corruption-level is still not moving in the right direction.
- ❖ Lack of hydropower is pushing up the cost of doing business in Zambia.
- ❖ There is still no allocation of institutional investment for impact investment (and infrastructure development).

KEY POLICY RECOMMENDATIONS

Finally, both the surveyed as well as interviewed impact investors were asked to list *the three main impact investment opportunities* that would contribute to growing the Zambian Impact Investment market from 2021 to 2030. The policy recommendations are listed not in any prioritized or ranking order:

- ❖ Policy certainty and stability in the political system, including explaining publicly and transparently any Bank of Zambia (BoZ) & Ministry of Finance appointments/reshuffles to top echelon officials.
- ❖ Creating the right incentives to attract private capital, e.g. fulfillment of Purchasing Power Agreement (PPA) payment terms.
- ❖ More involvement by Institutional Investors, especially NAPSA, based on the right policy framework and investment guidelines in order to invest and drive the local VC/PE industry.
- ❖ Creating a deeper pipeline of investment ready companies with a genuine impact focus.
- ❖ Having more exit opportunities for private equity investors.
- ❖ Stability of the electricity power grid system to avoid reliance on expensive diesel generators.
- ❖ Asset leasing – the Productive use of assets targeting Agriculture/small business at the bottom of the pyramid (BoP).
- ❖ Smallholder farmer aggregator schemes, that is, sourcing from local smallholder farmers.
- ❖ Growth in investment services (more funds and more impact investment advisory firms).
- ❖ Growth in the Green New deal around the world and shift to Renewable Energy.
- ❖ Significant investment in human capital development; opportunity and challenge.

List of Acronyms

| | |
|-----------|--|
| 4IP Group | Independent Infrastructure and Impact Investing Partners Group |
| AfCFTA | African Continental Free Trade Area |
| AfDB | African Development Bank |
| APVCA | African Private Equity and Venture Capital Association |
| AUM | Assets Under Management |
| AVPA | African Venture and Philanthropic Association |
| Bn | Billion |
| BoP | Base of the pyramid (BOP) |
| BoZ | Bank of Zambia |
| CAGR | Compound annual growth rate |
| CDC Group | Colonial Development Corporation |
| COMESA | Common Market for Eastern and Southern Africa. |
| DBSA | Development Bank of South Africa |
| DFC | US International Development Finance Corporation |
| DFI | Development Finance Institutions |
| EIB | European Investment Bank |
| FEFISOL | The European Solidarity Financing Fund for Africa |
| FMCG | Fast Moving Consumer Goods |
| FMO | Dutch Entrepreneurial Development Bank |
| FUM | Funds Under Management |
| GIIN | Global Impact Investing Network |
| GRZ | Government of the Republic of Zambia |
| GSG | Global Steering Group (for Impact Investing) (in UK) |
| ICT | Information and Communication Technologies |
| IFC | International Finance Corporation |
| IFU | Investeringsskandelen for udviklingslande (investment fund for developing countries) |
| IICS | Impact Investing Climate Survey |
| IIX | Impact Investing Exchange |
| IMM | Impact Measurement & Management system |
| IMP | Impact Management Project |
| MF | Microfinance |
| MFI | Microfinance institutions |
| Mn | Million |
| MFEZ | Multi-Facility Economic Zones |
| MSMEs | Micro, Small and Medium Sized Enterprises |
| NABII | National Advisory Board for Impact Investing (in Zambia) |
| NAPSA | Zambia National Pension Scheme Authority |
| HNWI | High Net Worth Individual |
| PAIF | Private Assets Investment Fund |
| PE | Private Equity |
| PPA | Power Purchasing Agreement |
| PPP | Public Private Partnerships |
| ODA | Official Development Assistance |
| OECD | Organization for Economic Cooperation and Development |
| OOF | Other Official Flows |
| SDGs | Sustainable Development Goals |
| ToR | Terms of Reference |
| UK | United Kingdom |
| USD | US Dollars |
| VC | Venture Capital |
| ZDA | Zambia Development Agency |
| ZIIMS | Zambia Impact Investing Market Size Study |

1. About the Zambia Impact Investing Market Size Survey (ZIIMS)

One of the most fundamental data points about any industry is its current size. However, a well-defined estimate of **the size of the impact investing market** does not exist and is often the subject of speculation and debate. To date, industry practitioners and stakeholders have relied on **proxies**, such as aggregate assets under management (AUM) figures from the GIIN's Annual Impact Investor Surveys (2010-2020) or estimates of the size of related markets (such as ESG or socially responsible investing). Neither, of course, are accurate or complete indicators of the current impact investing market size (GIIN, 2019a).

An accurate estimate of market size not only acts as a central point of reference, but it enables comparison across various dimensions:

- ❖ to compare the size of Zambia's impact investing market to that of analogous markets,
- ❖ to compare the volume of assets allocated to impact investment with the estimated need for impact capital,
- ❖ to help assess its potential future size, and lastly,
- ❖ to compare the impact investing market to itself over time (i.e. trends) (GIIN, 2019a).

Following GIIN(2019) this Zambia Impact Investing Market Size Survey (ZIIMS) study examines the **current supply of capital allocated to impact investing in Zambia**, using aggregate impact investing AUM as **the indicator of market size**. To calculate this figure, the 4IP Group Study Team built and analyzed a database of *self-identified* impact orientated investing organizations all investing in Zambia and their AUM.

The section is organized as follows. Section 1.1 briefly describes our own ZIIMS as an Addendum to the recent 2021 NABII-Prospero-SVS Impact Investing Climate Survey administered shortly before the administration of our own Survey. Section 1.2 concisely describes the 2019 baseline study carried out by Kukula Capital. Section 1.3 provides a description of the methodology, including assumptions used to estimate various inputs. Section 1.4 provides a mapping of the Impact Investors in Zambia. Section 1.5 classifies the Impact Investors according to asset class. Section 1.6 determines the ZIIMS' sample size. Section 1.7 finally summarizes the key findings of the ZIIMS.

1.1. Addendum to the NABII-Prospero-SVS Impact Investing Climate Survey

A number of factors determines the investment climate in any country. Key among these are:

- ❖ The stability of the macroeconomic environment;
- ❖ Governance and political institutions;
- ❖ The functioning of the legal, business and regulatory framework;
- ❖ The quality of infrastructure; and
- ❖ Productivity of labour and other resources.

A conducive investment climate fosters productive private investment leading to economic growth by creating opportunities for the private sector to create wealth, jobs, and other economic benefits for long-term business success (GRZ, 2019).

This sub-section briefly describes each of the sections of the **Impact Investing Climate Survey (IICS)** and where that Survey overlaps with our study and where there are missing gaps which we have filled out with additional survey questions. This will allow us to collect and verify the secondary data extracted directly from the Impact Investors own documentation and websites. A description of how the survey is administered is also provided.

1.1.1. Sections of the 2021 Impact Investing Climate Survey (IICS)

The Zambia Climate Survey (IICS) aims to capture impact investing organizations' with assets under management (AUM) dedicated to financing social enterprises. The included investors intentionally targeting scalable enterprises that produce measurable social and environmental impacts and help to accelerate progress of meeting the SDGs in line with the Global Impact Investment Network (GIIN) categorization.

1.1.2. Overlaps between IICS and ZIIMS and Missing gaps

In order to be able to reply to all the tasks in the NABII-Zambia Terms of Reference (ToR), we have added additional questions to the **five sections** of the existing Zambia Climate Survey which *per se* would not have allowed us to answer all the questions requested in the ToR:

- Section 1: Respondent's Basic Information;
- Section 2: Perceptions of Zambia as an Impact Investment Location;
- Section 3: Investing in Zambia;
- Section 4: Thank you for Staying in Touch;
- Section 5: Preference and Perception of Impact Analysis.

In addition to inserting additional questions and categories into the five existing sections, we also added **four additional sections** covering the following areas:

- Section 6: The Fund Management Landscape and Investors using Impact Measurement and Management tools;
- Section 7: Risk Analysis;
- Section 8: Financial Performance;
- Section 9: Identification of challenges and opportunities to the Growth of the Impact Investment Market in Zambia.

1.1.3. Administration of the ZIIMS

The objective with the administration of the ZIIMS instrument is to enable us to collect data for the third Zambia Impact Investment Market sizing study from two sources, namely:

- Directly from the Impact Investors own public documentation;
- Indirectly from the Responses to the pending Survey Instrument.

In other words, this triangulation approach allows us to verify the secondary data extracted directly from the Impact Investors own documentation and websites. It is believed that this approach will also contribute to the standardization, transparency and comparability as advocated by The Global Steering Group (GSG) into the impact investment market. This is an essential tool in the build-up of the impact investing industry, thereby helping to crowd in further private sectors investors globally in general and in Zambia in particular.

1.2. Successor of the Kukula Capital Baseline Survey

The ZIIMS (2021) is the third edition of the Zambian Impact Investment Market Sizing Survey Series building on the initial GIIN & Open Capital 2016 study and the subsequent research carried out by Kukula Capital in 2019 with the ambition to provide DFIs, Private Asset Impact Funds (i.e. non-DFIs), their fund managers, advisors and investors with the most comprehensive benchmarking and transparency report on the Impact Investing market sector in Zambia. This

in view of creating a report which will be easily comparable with similar reports in other GSG Member States around the planet.

The Kukula Capital baseline study, 2019, dived deep into **the whole Zambian impact investing ecosystem** by examining not only the supply of impact capital and the demand for impact capital as is the focus of our follow-up ZIIMS study, but it also investigated the intermediation of capital, the policy and regulatory environment as well as identified the market builders. In addition, both the baseline and follow-up study assess **the main barriers and challenges** in order to highlight how to support the growth of the entire impact investing ecosystem in Zambia.

Both the Kukula Capital baseline and the 4IP Group follow-up research methodology involved **primary and secondary data collection methods**.

Primary data was collected:

- ❖ In the case of Kukula Capital through a survey covering **30 stakeholders** within the impact investing ecosystem;
- ❖ In the case of 4IP Group through a survey covering **4 DFIs and 7 non-DFIs** (Appendix 9).

In both cases the survey size was relatively small compared to e.g. the GIIN or GSG research studies, however this was and still is due to **the informal and very small size** of the impact investment sector in Zambia. **Appendix 12** highlights the areas within the Impact Investing Ecosystem which both surveys are capturing.

Moreover, both the baseline and the follow-up study are informed by both **qualitative and quantitative data**. 4IP Group followed the Kukula desk research in order to identify players through a screening process. The **screening process** used a ‘top down’ method by reviewing the existing IICS database following the original GIIN & Open Capital (2016) baseline study.¹ Hence, our study is building on both Kukula Capital (2019) and the GIIN & Open Capital (2016) original baseline study. 4IP Group’s study team likewise as Kukula drew on secondary research especially from AVPA, APVCA, GIIN (captured in the reference list below), and a ‘bottom up’ research method by reaching out to intermediaries and members of the NABII ecosystem to assist with capturing relevant stakeholders missing from the existing databases.

1.3. Scope, Market Size & Methodology

1.3.1. Scope

The Kukula Capital (2019) baseline study covered Private Equity, including venture capital, which are defined as **suppliers of impact capital** and not intermediaries as this aligns better with the state of the Zambian ecosystem for impact investing. This study analysed Zambia’s impact investing landscape **starting from 2015** where the GIIN & Open Capital (2016): *The Landscape For Impact investing in Southern Africa* report acted as baseline for the Kukula Capital study.

Our ZIIMS study did not contrary to the Kukula Capital study use the below criteria for screening of impact investors:

- ❖ Investment of at least USD 100,000;
- ❖ An expected financial return;

¹ A list of potential impact investors was sourced from global, regional and national networks and individually screened on the selected screening criteria.

- ❖ Negative screening of Environment, Social & Governance (ESG) at investment stage;
- ❖ Positive environmental and societal benefits;
- ❖ Direct investments into for profit businesses in Zambia;
- ❖ Focused on Europe, Africa and North America investors.

Kukula Capital (2019) screened 700 investors with a mandate to invest in Zambia, and of these 132 were shortlisted (cf. AlliedCrowd's Capital Finder).² These suppliers were constituted by Development Finance Institutions (34 DFIs) and impact investors (98) in addition to local suppliers of capital, which were all included in the baseline study.

Our ZIIMS study is instead more similar to the seminal GIIN & Open Capital Partners' (2016) method, which didn't decide which investments to consider "impact" and which not to, by instead relying on the self-identification as impact investors. On the other hand, the Kukula Capital (2019) study **focused solely on impact deals in Zambia**.

The potential supply of capital is estimated in order to compare the actual investments into high impact sectors with the registered impact deals. Using ZDA data of historical investments into Zambia, Kukula Capital(2019) calculates the ratio of actualised to pledged investments and uses this to compute the capital inflow to Zambia's top impact sectors.³

Following Kukula Capital (2019) our ZIIMS study also make a distinction between **local suppliers of capital**, 18 non-DFI impact investors and 5 DFIs (7 DFIs investing in projects) because the nature of investments and investor-profiles differs significantly. These investors are analysed in section 4 on geography, capital, instrument, sector focus, etc.

From this approach the Kukula Capital (2019) baseline study found that **from 2015 to 2018, suppliers of impact capital** have committed **USD 588 Mn** to Zambia (i.e. the stock) with expected investments in 2019 at **USD 121 Mn**. The average deal size was USD 5 Mn.

The ZIIMS1 *Sizing the Impact Investing Market in Zambia* provides an in-depth analysis of **the current size and composition of the impact investing market in Zambia in 2019-2020**. The 4IP Group estimates the current size of the total (including DFI and non-DFI) impact investing market to be approximately **USD 1,143.17 Mn**. The total average deal size was USD 22.86 Mn with only USD 2.51 Mn average deal size for non-DFIs.

1.3.2. Methodology

To calculate **the current supply of capital allocated to impact investing in Zambia**, the 4IP Group Study Team examined aggregate impact investing AUM as the indicator of market size in Zambia. The team used the following steps in the process (see **Appendix 5** for details):

1. *Compiled a database of impact investing organizations investing in Zambia*
2. *Gathered data on impact investing AUM for as many of these organizations as possible*

The 4IP Group did not determine, which investments to include or exclude; rather investors self-reported their impact investing AUM.

² **The Capital Finder** is the most powerful alternative finance database in emerging markets. With over **7,000 investors** from around the world — and thousands of businesses being added to the database — AlliedCrowds has created an ecosystem that unlocks new opportunities for entrepreneurs and investors across the world. [AlliedCrowds | Alternative Finance | Technology](#)

³ ZDA kindly provided us with **the actualised data**. However, **the actualised data for the year January to December 2019** is only expected to be available by **30th June 2021**. Further, actualised data for the year 2020 will only be collected later in this year. However, the 2019 data to be availed will also include data for the first half of 2020, i.e. January to June 2020. Unfortunately, the data arrived to late to be included in our study.

3. *Counted only directly invested assets (to eliminate potential double-counting)*

4. *Estimating the AUM of organizations for which AUM figures were unknown*

The 4IP Group Study team only **reported the assets managed** by the 23 identified organisations for which AUM figures were captured via the survey / protocol instrument or via the publicly reported sources above.

5. *Estimated the proportion of the full universe captured*

The 4IP Group Study team decided not to capture the proportion of the universe which might not have been captured in our database by extrapolation of the overall market size.

1.3.3. Interpretation of the Findings

This sub-section is devoted to the Interpretations of the Findings regarding **the definitional challenges of ‘Impact Investing’**. While a sample of the impact investors either interviewed (9) [cf. Appendix 8] or surveyed (14) [cf. Appendix 9] have shared **AUM information based on their own definition of impact investing**,⁴ there is some **subjectivity** involved in determining what counts and what doesn’t.

Elsewhere, **DFIs** — who are among the largest investors in the impact investing ecosystem — think about impact investing in **quite diverse ways**.

- ❖ Some only consider **a small portion** of what they do to be ‘impact investing’, believing most of what they do to be **‘development finance’**.
- ❖ Others consider **everything they do** to be ‘impact investing’.

Practically, this means that some activity may be **underreported** — such as renewable energy — where investors are being **truly intentional** about solving a social or environmental problem, but perhaps do **not self-identify** the allocation as ‘impact investing’. At the same time, some allocations may also be **overreported**, such as some investors counting ESG investing or development finance as ‘impact investing’ (Mudaliar & Dithrich, 2019:10).”

The Zambia Impact Investing Market Size estimate is based exclusively on our database **without conducting any sensitivity analysis** based on assumptions such as:

- ❖ The Yearly AUM growth rate;
- ❖ Proportion of investments that are direct/indirect; and
- ❖ Extrapolation of AUM for organizations for which AUM was not known,

This decision precludes us from varying these assumptions in each direction to determine how it would affect the estimate of market size following the approach suggested by GIIN(2019).

1.3.4. Four Practices Define Impact Investing

Further, in response to the definitional challenge reports that The GIIN (2019) provides, **the greatest clarity to date on the baseline expectations of impact investing** is its Core Characteristics of Impact Investing. The core characteristics outline the elements that **define impact investing** and distinguish it from other complementary investment approaches, so investors entering the market will know exactly what sound impact investing is.

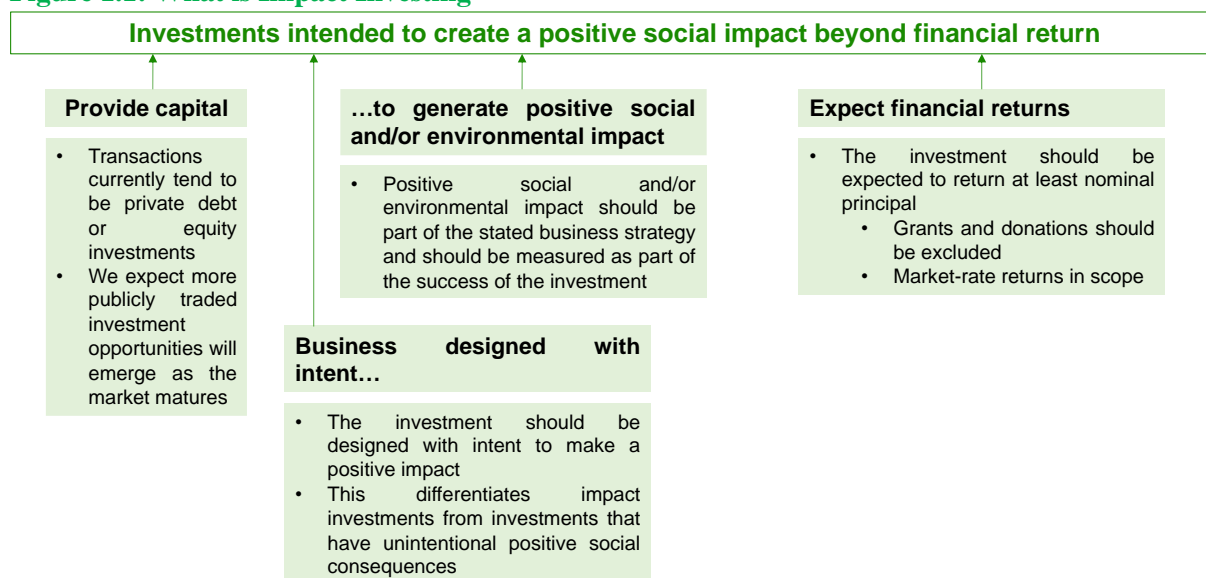
⁴ **Impact investing** is distinct from **philanthropy** in that investors *target a financial return* (or at least a return of capital). It is different from **negative screening strategies**, which seek to *minimize negative impacts* by eliminating certain harmful investments (e.g. tobacco or firearms). It is also different from **strategies that assess environmental, social and governance (ESG) factors** in investment decisions; impact investments *proactively target positive impact* (Mudaliar & Dithrich, 2019).

The set of **Core Characteristics** below aims to provide clear reference points and practical actions to establish *the baseline expectations for impact investing*.

1. Intentionality;
2. Use Evidence and Impact Data in Investment Design;
3. Manage Impact Performance;
4. Contribute to the Growth of the Industry.

These Core Characteristics of Impact Investing complement the **GIIN's existing definition of impact investments**, which are “*investments made with the intention to generate positive, measurable social and environmental impact alongside a financial return.*”⁵

Figure 1.1: What is Impact Investing



Source: IIX Institute, 2017 Lecture.

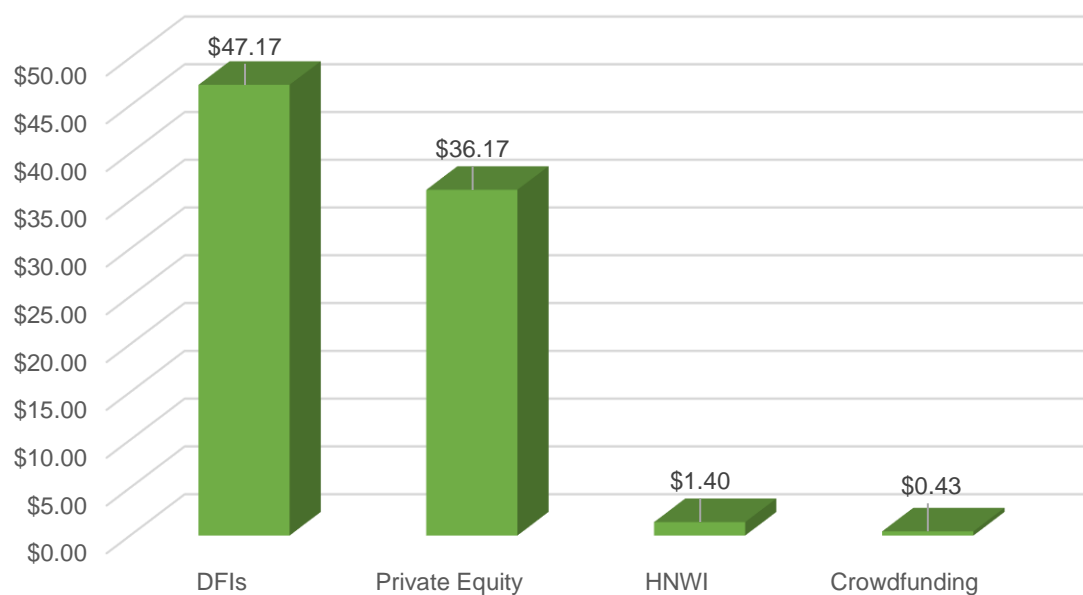
1.4. Mapping Impact Investors investing in Zambia

How does Impact Investing differ from Regular Investments: At the heart of impact investing is the presence of the dual objectives as mentioned in the GIIN definition above, whereas **regular investing** is primarily concerned with financial returns. In other words, the focus on **generating social or financial returns** depends primarily on the investor preference. Different types of impact investors may have different priorities in regards to their targeted financial and social returns. These priorities will generally define the investors preferred methodology for measuring and evaluating social/ environmental impact as well.

The ZIIMS database captures several **types of organizations**. 55% of the impact capital flowing into impact enterprises in Zambia was deployed by DFIs while Private Assets Impact Funds (PAIFs) (i.e. non-DFIs) invested 42%. High-Net-Worth Individuals (HNWIs) and Crowdfunding contributed 2% and 1% respectively (Figure 1.2).

⁵ Sources: [Core Characteristics of Impact Investing | The GIIN](#) and [What You Need to Know about Impact Investing | The GIIN](#)

Figure 1.2: AUM (Impact Deal Aggregate) by Organization type

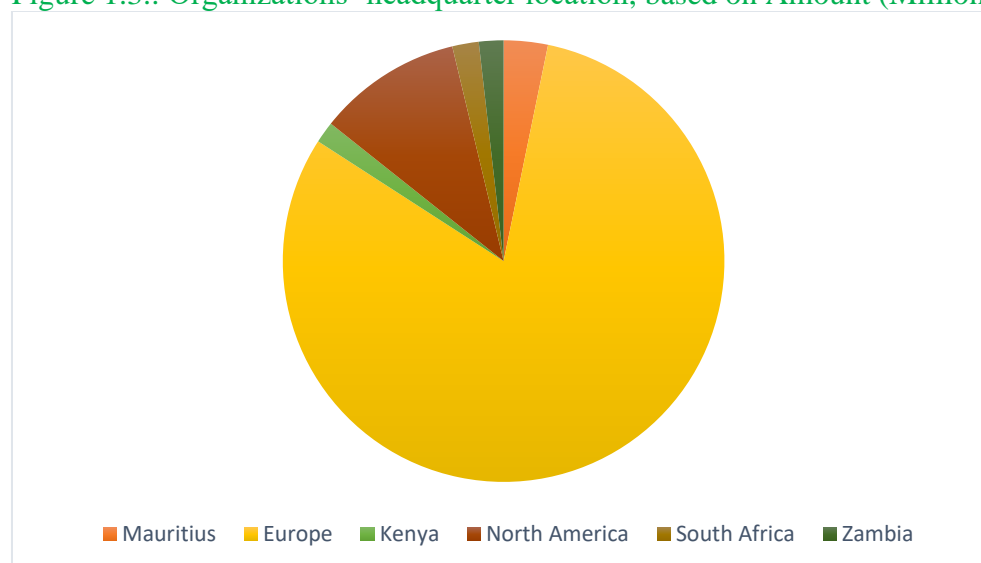


Source: 4IP Group's calculations based on ZIIMS database. Note: N = 23 all organizations in database.

The ZIIMS database also includes **a global group of investors**. The majority of the impact investors are based in developed markets, including:

- ❖ Western, Northern & Southern Europe (81%);
 - ❖ North America (9%);
 - ❖ Africa [South Africa, Kenya and Mauritius] (6.74%);
 - ❖ 4 in Zambia (1.80%),
- as shown in Figure 1.3.

Figure 1.3.: Organizations' headquarter location, based on Amount (Million, USD)



Source: 4IP Group, compilation,

1.5. Peer Group Definitions

In this study, following the Symbiotics & Canopy (2020) study, we also classify PAIFs (i.e. non-DFIs) in distinct peer groups according to their asset class and primary impact sector of focus. Peer group classification according to *asset class*:

- **Fixed Income PAIFs:** Investment vehicles of which the core activity, defined as more than 85% of their total non-cash assets, is to invest in **debt instruments**.
- **Equity PAIFs:** Investment vehicles of which the core activity, defined as more than 65% of their total non-cash assets, is to invest in **equity instruments**.
- **Mixed PAIFs:** Investment vehicles that invest in **both debt and equity**, with more than 15% and less than 65% of their total non-cash assets invested in equity investments.

The analysis of our ZIIMS database includes data regarding the activities of **5 DFIs (7 DFIs investing in projects) and 18 non-DFI active impact investors in Zambia**. These non-DFIs have completed **34 direct investments** in Zambia during 2019-2020 period.

Following Symbiotics & Canopy (2020) we derive a breakdown by impact sectors from the GIIN's recognized definitions and adjust them based on the investors' business models (See table 1.1).

Table 1.1. – Impact Sector Classification

| GIIN Categories | ZDA Priority Sectors | DFI and non-DFI Impact Sectors |
|-------------------------------|----------------------|--|
| Arts & Culture | | |
| Education | | Health & Education ⁱ |
| Energy | Energy | Climate & Energy ⁱⁱ |
| Financial Services (excl. MF) | | |
| Food & Agriculture | Agriculture | Food & Agriculture ⁱⁱⁱ |
| Forestry & Timber | | |
| Healthcare | | Health & Education ⁱ |
| Housing | | Housing, Water & Communities ^{iv} |
| ICT | | |
| Infrastructure | | |
| Manufacturing | Manufacturing | |
| Microfinance | | Microfinance ^v |
| Water, Sanitation & Hygiene | | WASH |
| | Mining | |
| | Tourism | |
| | | SME development ^{vi} |
| | | Multi-sector. |

Sources: 4IP Group based on Symbiotics & Canopy, 2020:18; and Zambia Climate Survey, 2021:8.

Notes: i. Providing student and school loans or financing innovative digital learning solutions. Financing hospitals and clinics, healthcare plans, services and insurances etc.

ii. Energy financing with a sustainable bias includes strategies to reduce energy use and save energy in a more efficient manner and/or use renewable energy and clean technologies for alternative production and consumption, or a combination of both.

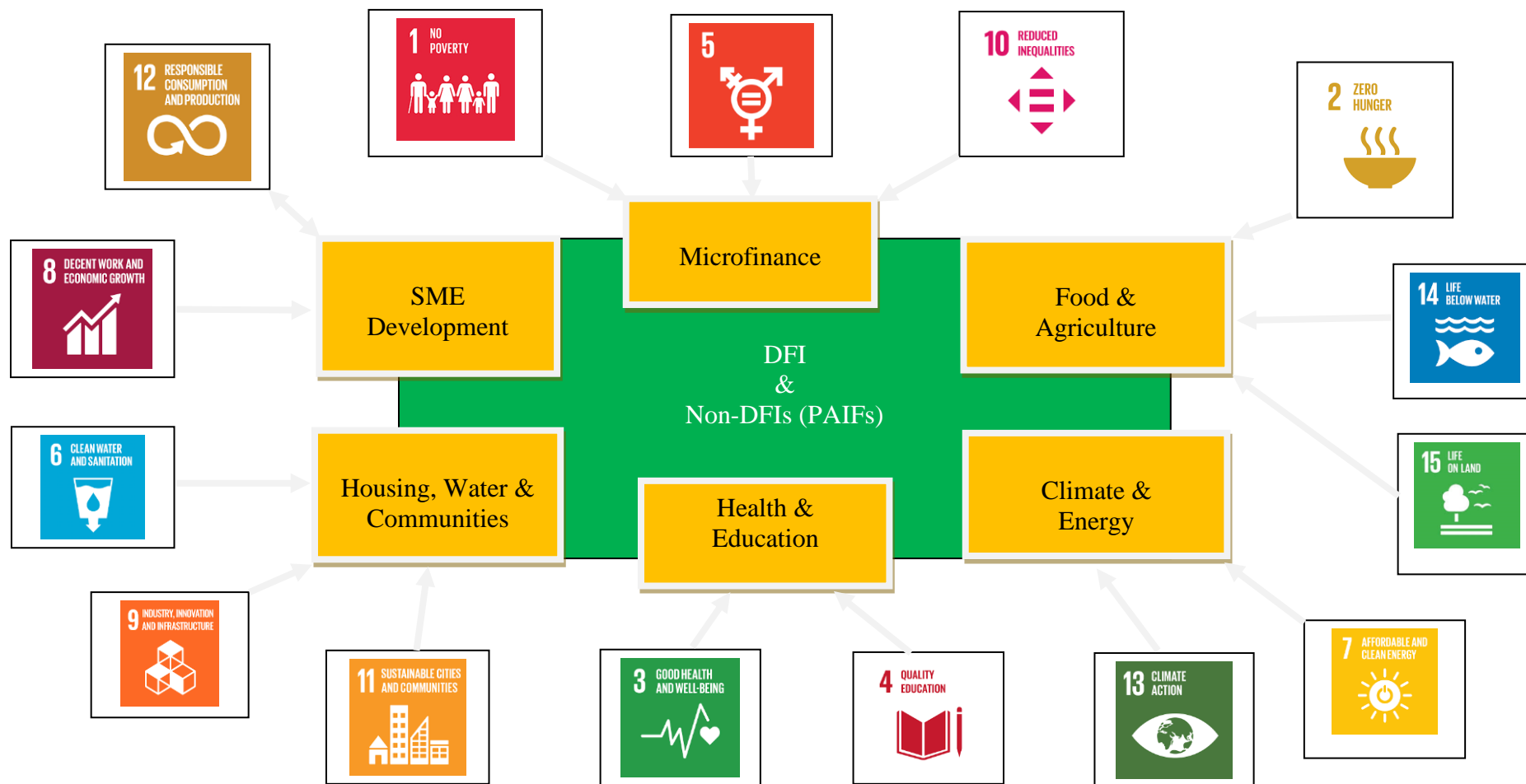
iii. Agricultural value chain financing, whether production, trade, distribution or other models, focuses on businesses that increasingly adopt a sustainable approach.

iv. This category groups housing, infrastructure and utilities investments, and the industries that develop, support and construct them, with a bias towards sustainable innovation.

v. This category refers to the provision of and access to financial services at the base of the pyramid.

vi. Refers to the financing of SMEs, broadly defined as employing respectively 5 to 50 and 50 to 250 employees. It is principally about employment and entrepreneurship as vehicles for growth and development.

Figure 1.4. Mapping SDGs to impact sector Classification



Source: Sybotics & Canopy, 2020:19.

1.6. Sample Size

From the first Zambia Impact Investing Market Sizing (ZIIMS) study by Kukula Capital (2019), past participants have been requested to submit their data, subject to investing in the period 2019-2020, thus ensuring continuity. In the short period which has passed since 2019 we have seen only a small number of new participants active in the impact sectors, still offering a diversity of profiles and investment strategies composing the overall survey sample.

The combined size of all the 23 participants (both 5 DFIs and 18 non-DFIs) amounts to 85.17 Mn USD in AUM in **impact enterprises** as of December 2020.

Additionally **7 DFIs** jointly have invested **618 Mn USD in AUM in projects** as of December 2020. These DFIs are a combination of Bilateral DFIs:

- FMO;
- US-DFC;
- DBSA;
- CDC Group;
- Proparco;

as well as multi-lateral DFIs:

- IFC of the World Bank Group;⁶
- EIB.

⁶ We did reach out to Zambia's national-DFI, The Zambia Development Bank (DBZ), who kindly participated in our first webinar on the role of DFIs in Zambia. Unfortunately, we didn't receive their list of deals and associated investment amounts in 2019-2020 in time to be included in our overall estimation of the market size.

1.7. Summary of Key Findings

| Section | Key Findings |
|---------|--|
| 2 | <p>See Table 2.1, p.17: Pledged Investment went up from 6411 in 2019 to 8732 in 2020.</p> <p>The DFIs project market size accounts for almost 90% of the total market size of impact investment in Zambia during the 2-year period 2019-2020.</p> <p>The total amount of loans offered to Zambia from the DFIs totals \$681 Mn.</p> <p>The loans were handed out in 13 tranches, and they accounted for almost \$509 Mn in 2020, up from \$109 Mn lent by these DFIs in 2019.</p> <p>Although quite small when compared to the size of the DFIs' market, the Non-DFIs market is on the contrary much more diverse, with 4 investors located in Zambia and the rest are located in 12 other countries.</p> <p>The disbursed in debt deals are 1.5 times higher compared to equity, accounting for an overall of almost \$55 Mn across 35 examined transactions.</p> <p>The overall Zambian impact investing industry AUM for the period Q1 2019 to Q4 2020 is thus estimated to be at USD 85.17 Mn as of end of 2020.</p> |
| 3 | <p>See Table 3.1, p.25</p> <p>Number of Impact Investors & DFIs in Zambia 2019-2020: 23 covered by ZIIMS (51 are all the investors that might have invested in Zambia in the period including those who haven't disclosed their investments).</p> <p>Impact Deals (including DFI projects), 2019-2020: 28 (42).</p> <p>Estimated Impact Investing Market Size, 2019-2020: \$703.17 Mn</p> <p>Average deal size (Mn) (Impact Enterprise only), 2019-2020: \$3.04 Mn</p> <p>Average deal size (impact) (including DFIs) (Mn), 2019-2020: \$17.15 Mn.</p> |
| 4 | <p>Over the period, 2019-2020 considered by our study 69% of the reported impact investment were recorded as debt stock while 31% were equity deals.</p> <p>See Table 4.2, p.31</p> <p>The Average deal size for Impact deals in 2019-2020: US\$2.83 Mn.</p> <p>The main type of capital provided by impact investors is:</p> <ul style="list-style-type: none"> • Growth capital (60%); • with seed capital being the second largest type at 28%. <p>In 2020 Agriculture (30%) has replaced Financial Services as the most important recipient of impact capital and AquaCulture (20%) in second place, followed by financial services at 13%.</p> <p>When it comes to the investment done by DFIs the major sector recipient is renewable energy by a very wide margin.</p> <p>It can be concluded that "economic stability" is indeed the major risk factor for impact investors to consider when deciding to invest in Zambia.</p> <p>Impact Investments generated on average at around 2.7% return on investment (RoI).</p> |
| 5 | <p>Many of the impact investors investing in Zambia over the 2019 – 2020 period share common approaches in providing solutions to society's biggest challenges.</p> <p>A significant proportion of investors recorded to have invested in Zambia between 2019 and 2020 focus on addressing SDGs 1, 2 and 8.</p> <p>The most popular indicators used by DFIs are the Harmonized Indicators for Private Sector Operations (HIPSO) and the Global Impact Investing Network's (GIIN) IRIS+.</p> |
| 6 | <p>The highest proportion in terms of impact capital-sector allocation was recorded in Fish Farming, where 30% of the total value of impact deals were executed. While the least allocation was seen in Renewable Energy which received 1% of the total value of impact deals recorded.</p> <p>Overall, there were reductions in percentage allocation in Financial services, Renewable Energy, Real Estate and Agriculture sectors. While there were increase in proportions allocated towards Food & Agro-processing and the Tourism sectors.</p> <p>See Table 6.1: Investees, 2019-2020, p. 49.</p> |
| 7 | <p>Policy Recommendations aligned to forthcoming 8th National Development Plan, 2022-26; Putting Zambia at the heart of SDF financing in Southern Africa.</p> <p>Survey Respondents' policy recommendations:</p> <ul style="list-style-type: none"> • Policy certainty and stability in the political system; • Creating the right incentives to attract private (impact) capital; • More involvement by institutional investors; • Creating a deeper pipeline of investment ready companies etc. |

2. Trends in the Impact Investing Market

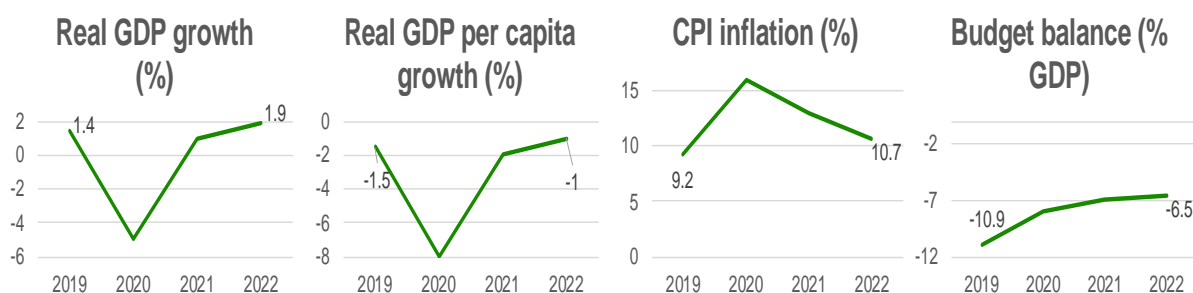
2.1. Recent macroeconomic and financial developments

The Zambian authorities have continued to pursue their long-term development aspirations through the implementation of the Seventh National Development Plan (7NDP), 2017-2021, and Economic Stabilization and Growth Programme. The 7NDP seeks to create a diversified and resilient economy for sustained growth and socioeconomic transformation driven by **agriculture, tourism, manufacturing and mining**, among others. Consistent with this objective, the now former authorities prioritized **public infrastructure investment** financed largely by foreign borrowing (IMF, 2019). With the confirmation on 16th of August 2021 of the election of a new government run by the United Party for National Development (UPND) some of these prioritize are bound to change. According to UPND's Party Manifesto (2021-2026) the party aims to *"take positive and transparent steps to implement an ambitious economic and social transformation to move Zambia forward and achieve overall poverty reduction within a decade."*

The election result could perhaps be partially explained by the fact that the economy of Zambia fell into a deep recession due the adverse impact of the COVID-19 pandemic. **Real GDP contracted** by an estimated 4.9% in 2020, after growing by 4.0% in 2018 and 1.9% in 2019. The output contraction is the result of an unprecedented deterioration in all the key sectors of the economy. **Manufacturing output** fell sharply as supply chains were disrupted, while **the service and tourism sectors** were hurt as private consumption and investment weakened due to measures taken to contain the spread of COVID-19. **Mining output**, which declined initially due to falling global demand for copper, is recovering amidst production disruptions in South America. **Sustained commodity price increases** beyond the current forecast could lead to lower economic contraction (AfDB, 2021).

Even before the pandemic, the economy was experiencing **serious macroeconomic challenges**, such as high inflation, widening fiscal deficits, unsustainable debt levels, low international reserves, and tight liquidity conditions, thereby reducing the capacity to make critical investments in health, education and infrastructure. Price levels and **the financial sector** have not stabilized, despite government efforts to deploy monetary easing in 2019 and 2020. Inflation has been rising, mainly driven by the pass-through effects of the depreciation of the Zambian Kwacha and elevated food and transport prices. Following the outbreak of COVID-19, **inflation** rose to 17.4% in 2020 and is projected to remain above the target range of 6%–8% in 2021 (AfDB, 2021). There is also the issue of inequitable distribution of wealth where 90% of the Zambia's wealth is held by 10% of the population, coupled with an unequal allocation of resources between urban and rural areas (UPND, 2021).

Figure 2.1a-d: Macroeconomic indicators, 2019-2022



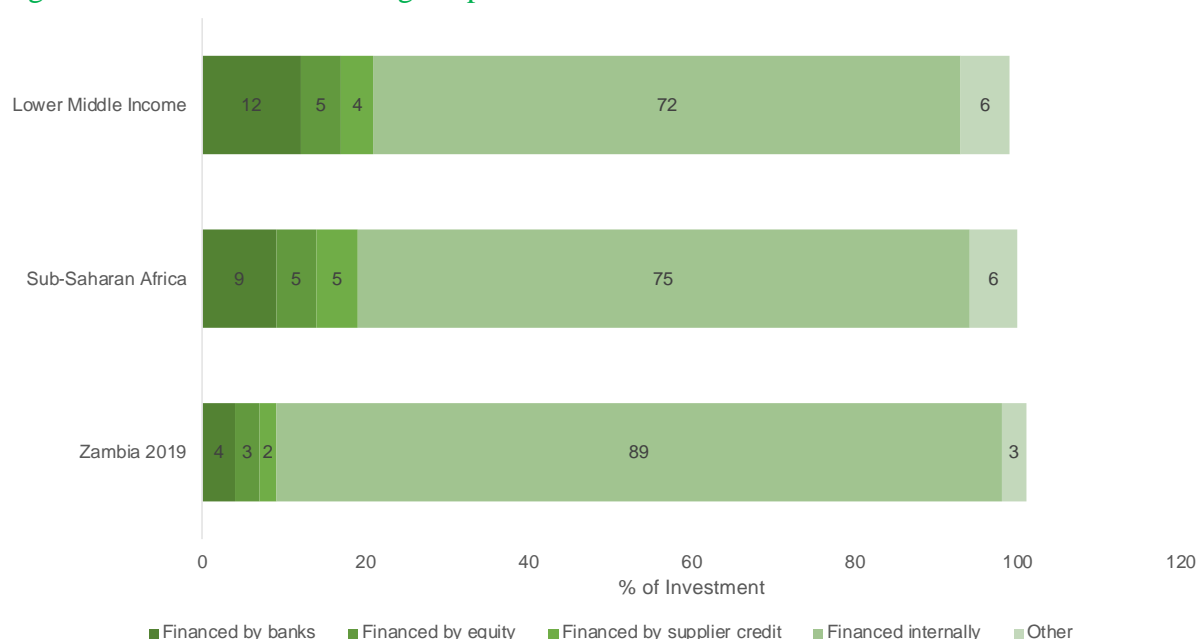
Source: AfDB (2021:160). Data are as of December 2020 and are from domestic authorities; figures for 2020 are estimates and figures for 2021 and 2022 are projections by the African Economic Outlook team.

2.1.1. Financial Sector Overview

Well-developed financial markets provide payment services, mobilize deposits, and facilitate funding for the purchase of fixed assets – such as buildings, land, machinery, and equipment – as well as working capital. **Efficient financial markets** reduce the reliance on internal funds or informal sources such as family and friends by connecting firms that are creditworthy to a broad range of **lenders and investors** (World Bank, 2020).

The World Bank(2020) Enterprise Survey provides **indicators on the sources of firms financing** and on the characteristics of their financial transactions. Finance purchases of fixed assets (investments) can be financed by internal sources, banks, inputs’ supplier credit, or other sources, including non-bank financial institutions (NBFI) or personal networks. Excessive reliance on internal funds may indicate potentially inefficient financial intermediation.

Figure 2.2. Sources of financing for purchases of fixed assets



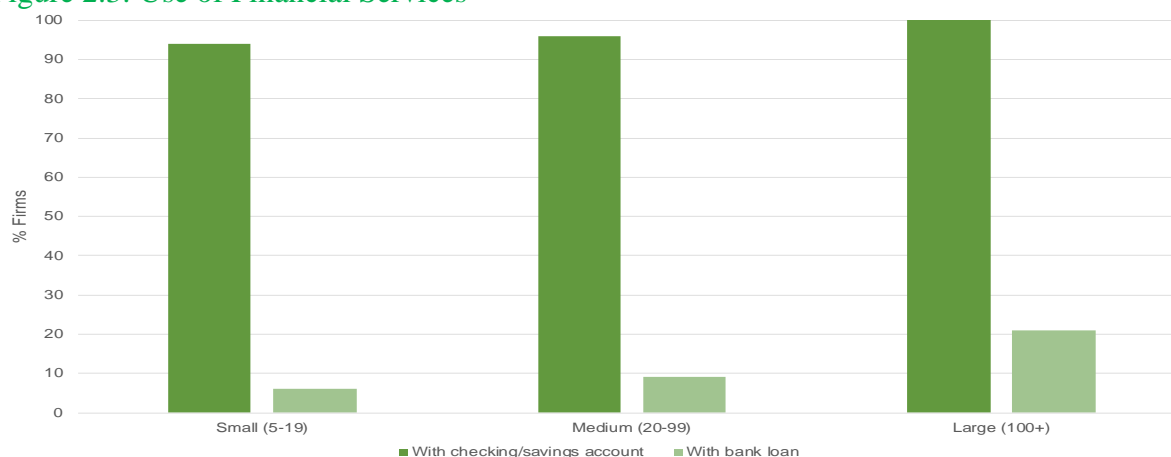
Source: World Bank, 2020:7.

Figure 2.3 below displays **two indicators of the use of financial services by private firms**:

- ❖ the percentage of firms with a **checking or savings account** and
- ❖ the percentage of firms with a **bank loan**.

The former indicator measures the use of deposit mobilization services which helps firms to manage their liquidity and payments. The second indicator measures the use of financial services on the credit side. Availability of credit permits funding projects that otherwise would be constrained by each firm’s limited pool of funds.

Figure 2.3: Use of Financial Services



Source: World Bank, 2020:7.

Zambia's financial sector is relatively underdeveloped and mainly dominated by commercial banks and the state-run National Pension Scheme Authority (NAPSA) established in 2000. The 18 registered **commercial banks** account for about 70 percent of total financial sector assets; the majority are foreign-owned. **The NBFIs sector** is dominated by NAPSA which accounts for around 75 percent of NBFIs assets. NAPSA has a growing pool of assets (around 30 billion Kwacha at end-2018), playing an important role in the domestic government securities market and investment activities. Other NBFIs are the 35 Microfinance Institutions (MFIs), 80 bureaux de change and some building societies, leasing companies and DFIs (IMF, 2019).

Credit to the private sector remains low compared to the South African Development Community (SADC) countries and mainly concentrated in personal loans and the agricultural sector. Private sector credit declined from 15¾ percent of GDP in 2015 to around 11½ percent in 2018 and remains considerably lower than the average of SADC countries. High and growing domestic arrears to suppliers, elevated levels of NPLs, and rising lending rates are contributing to subdued private sector lending activity (IMF, 2019).

Although individual financial inclusion has expanded in recent years, access to finance for SMEs has worsened. Zambia has made significant progress in improving both access and usage of formal and informal financial services since 2010, but still lags its peers: 59 percent of adults make use of financial services (formal or informal), while around 38 percent of adults have a formal transaction account. There are significant disparities in financial inclusion between rural and urban areas, men and women, youth and adults, and between SMEs and large firms. Financing for SMEs remains extremely challenging: a high share of SMEs face loan rejections, and where credit is available, nominal lending rates are significantly higher than for the larger firms. Given these constraints, access to loans by firms in Zambia remains one of the lowest amongst SADC countries (IMF, 2019).

2.2. Existing Investment Trends, 2019-2020

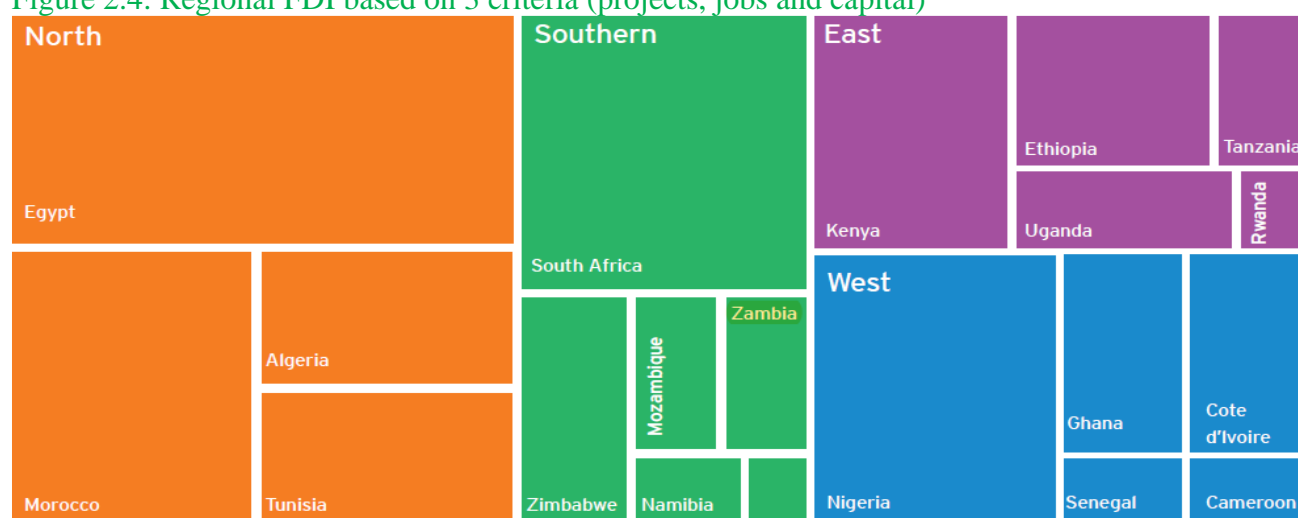
The growth of venture capital investment, as well as private equity investment, in Africa demonstrates the evolving nature of **external financial inflows to the continent**, where the value of Foreign Direct Investment (FDI) surpassed the value of official development assistance (ODA) in 27 countries in 2017.⁷ With such a favourable long-term economic outlook, growing

⁷ There are four different types of foreign investment. These are **Foreign Direct Investment (FDI)**, Foreign Portfolio Investment (FPI), official flows, and commercial loans. However, a global platform capturing, channelling and promoting investment projects aiming to achieve the SDGs through impact investment has not

middle class, and new massive market under the “world’s largest free-trade area (i.e. AfCFTA),” the APVCA(2020) surmises that Africa’s economic potential makes it an increasingly attractive investment destination for investors seeking “high-growth businesses with long-term impact.”

For the first time, EY(2020) has analysed **FDI trends based on three criteria** to determine the largest regions (and markets). In the past EY largely focused on **project numbers** as being the most critical variable but have changed that approach to reflect more poignantly the contribution that all three elements provide. Now, EY(2020) has innovated by including a weighted average, incorporating **project numbers, jobs created, and investment** (measured in US\$ Mn) to determine overall FDI.

Figure 2.4: Regional FDI based on 3 criteria (projects, jobs and capital)



Based on average weighted score of three FDI criteria – jobs, capital and projects.

Source: FDI Intelligence, EY(2020) analysis.

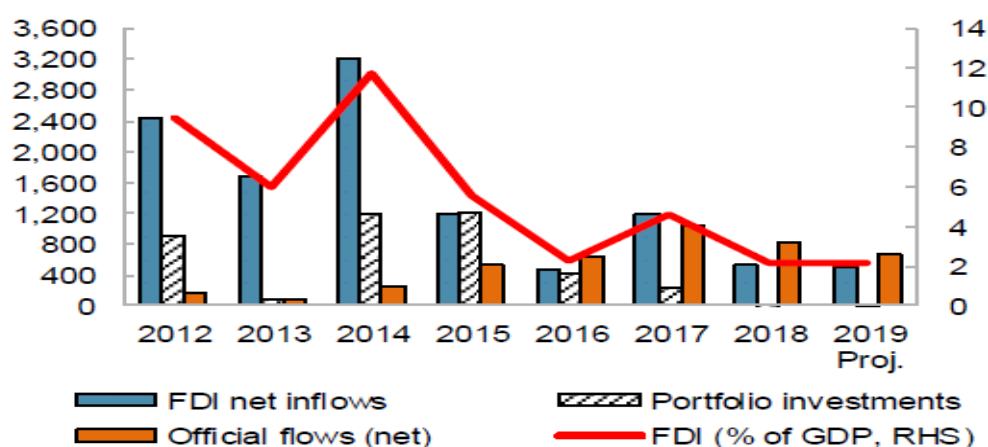
Note: No data is available on countries which are ranked below Namibia in EY(2020). Hence, the empty cell.

Using this scoring mechanism provides a more comprehensive assessment of FDI. It indicates that **North Africa leads as an FDI destination**. Egypt exceeds South Africa in FDI activity, with Morocco placed third. While South Africa attracts more projects than Egypt, the latter attracts more than double the capital and also creates nearly three times more jobs than South Africa. North Africa led in FDI in 2018, with two key markets attracting the bulk of FDI – namely Egypt and Morocco. Morocco (now joined by Egypt) are redefining the FDI landscape, as they focus on *pragmatic market-led policies* in attracting a greater share of foreign investment. These efforts appear to be yielding positive results, making the North region the biggest beneficiary of FDI in Africa in 2019. This is followed by Southern Africa, East Africa and West Africa (cf. GIIN & Open Capital, 2016) (EY, 2020).

Per EY’s regional analysis, EY(2020) has used a similar approach to **measure FDI at the country level**. In 2018 **Zambia** in terms of EY’s (2020) FDI recipient by weighted criteria was ranked 15 slightly above Namibia ranked 17th and slightly below Mozambique ranked 14th.

been established. Nevertheless, the ability to develop and promote impact investment projects, based on a holistic framework, will, therefore, significantly influence and ultimately shape the future of FDI (Suehrer, 2019). To help address these challenges, UNCTAD, together with partners, will at World Investment Forum in October 2021 launch a new initiative, the **UN Global Sustainable Finance Observatory**. This initiative is built on the vision of a future global financial ecosystem in which sustainable development (as defined by the SDGs) is fully embedded into the business model of financial markets and in investment culture. Source: UNCTAD, 2021a.

Figure 2.5: FDI inflows to Zambia have declined.



Source: IMF, 2019:32; see Appendix 14 below.

The GRZ(2019, 2021) Surveys revealed that in 2018, **private sector foreign liability (PSFL) net inflows to Zambia** declined to US\$924.7 Mn from US\$1,045.4 Mn in 2017, and further significantly declined to US\$357.1 Mn in 2019. This was mainly due to **an almost 50 percent drop in FDI inflows** to US\$564.5 Mn in 2018 from US\$1,107.5 Mn in 2017. FDI liability inflows, however, grew to US\$859.8 Mn in 2019.

- ❖ **This FDI outturn** was mainly due to the increase in related party borrowings to meet operational needs amid a rise in losses, especially in the mining and quarrying sector.
- ❖ **Other investment (liability) inflows⁸ into Zambia** increased by US\$279.6 Mn in 2018 due to loan disbursements largely in the deposit-taking corporations, electricity, information and communication, as well as wholesale and retail sectors. This contributed to the increase in **the external debt stock of the private sector** to US\$14.0 Bn in 2018 from US\$12.8 Bn in 2017.
- ❖ **Portfolio equity investment and financial derivatives also rose** by US\$38.0 Mn and US\$42.6 Mn in 2018, respectively. However, net portfolio equity investment inflows reduced significantly to US\$6.2 million in 2019 while financial derivatives registered a net outflow of US\$15.5 million (GRZ, 2019, 2021).

The Mining & Quarrying industry recorded the highest investment at US\$406.5 Mn, representing 47.3 percent of total investment mainly in form of debt, up from 23.0% share in 2018. This was followed by **the Manufacturing industry** at 28.1 percent, and **Bank & NBFI industry** at 10.6 percent in 2019 (GRZ, 2019, 2021; Appendix 14 below). On this background its important to emphasis that from 2015 to 2018 Impact capital inflows constituted on average only 2.95% of FDI inflows to Zambia.

Estimate for 2019 inflow of Impact Capital (a subset of FDI)

According to the ZDA, **the 2019 total projected capital inflow** into Zambia is USD 7.5 Bn (table 2.1). This was split across sectors where Energy, Agriculture and Mining made up 90%. On average, **23% of pledged investments have been actualised from 2015 to 2018**, and when applying this to the pledged investments for 2019, the estimate for capital inflow is USD 1.72

⁸ **Other investments** are a residual category, which includes **positions and transactions** other than those included in direct investment, portfolio investment and financial derivatives (IMF 2009). These include currency and deposits, trade credit and advances, and other foreign borrowings from unrelated parties. In addition, this category includes non-tradable/negotiable equity of less than 10 percent held by non-residents and equity in international organizations (GRZ, 2019: 24).

Bn. This brings the total actualized investments for 2015-2019 to USD 5,2 Bn according to Kukula Capital (2019).

Table 2.1 Pledged vs Actualized investments, Million USD

| Year | Pledged | Actualized (percentage) |
|-------------------------------------|---------|-------------------------|
| 2015 | 3,322 | 1,305 (39.3%) |
| 2016 | 3,564 | 663 (18.6%) |
| 2017 | 4,379 | 1,108 (25.3%) |
| 2018 | 4,823 | 408 (8.5%) |
| 2019 Estimate | | 1,720 |
| 2019 est. Top Impact Sectors | | 1,360 |
| 2019 est. Potential for Impact Inv. | | 1,590 |
| Total Projected Inv in 2015-2019 | 7,500 | 5,200 (69.3%) |
| 2019 | 6411 | n.a.* |
| 2020 | 8732 | n.a.* |

Sources: Kukula Capital, 2019:11 and 4IP Group compilation from Zambia Development Agency (ZDA).

Notes: * Figures for January to December 2019 are expected to be availed to the public by 30th June, 2021.

The estimated investment inflow to the top impact sectors in Zambia was expected by Kukula(2019) to be 79% of the projected investment of USD 1,72 Bn in 2019 which amounts to USD 1,36 Bn (Table 2.1). Grossing up the expected investments to impact sectors as well as the estimate for actualized new loans for 2019 of USD 226 Mn. Kukula(2019)) estimates the **2019 potential for impact investing to be USD 1,59 Bn.**

Figure 2.6: Impact Investing Deals and amounts of deals in Zambia, 2019-2020



Source: 4IP Group, calculations.

As the data provided by ZDA doesn't include information on whether **the pledged investments** contain commercial bank loans from Zambian banks as well, Kukula(2019) assumed that these are not included. While this number **overstates the actualized impact investing** drastically by assuming that all **projected investments made into impact sectors** can in fact be labelled as impact investments, it is argued by Kukula(2019) that it provides a benchmark for later analysis such as ours.

After a careful analysis on the baseline report of the 2015-2018 period, in 2019 growth was expected to be equal to \$515 Mn across a total of 96 deals, with a compound growth rate of 13% a year. **Reality exceeded projections**, since in 2019 the overall performance of investments was higher than \$680 Mn [unknown deals included], with a strong evidence of growth on the market. In fact, the Impact investing market size was equal to \$580 Mn across 3 years from 2015 to 2018, while in 2019 alone the figure was more than 120% of that of the precedent triennium. The average deal size across investor types followed a different trend, compared to the distribution of capital in in 2015-2018.

- ❖ DFIs (loans not considered) had the highest average deal size of USD 6.23 Mn;
- ❖ Asset managers had the second highest of USD 2.516 Mn;
- ❖ PE firms had the third highest of USD 2.01 Mn;
- ❖ HWNI had the fourth highest of USD 1.4 Mn; and
- ❖ Investments from crowdfunding platforms and foundations have a small ticket size on average, indicating that these investments target ventures in the start-up and early stages.

As for **2020** instead, the COVID-19 outbreak completely limited the investments, such that impact investments amounted for only \$7 Mn across the first 2 quarters (Q1-Q2) – January excluded – of 2020, without counting DFIs loans. Then subsequently the market faced a quick, even if not full, recovery across Q3 and Q4 of 2020, especially thanks to the EIB, DFC and DBSA loans operated in these quarters; however, private impact deals did not manage to keep up with the loans.

It is therefore noticeable that **the overall private investment size (Total - DFIs loans) plummeted** -43% in a single year, but when confronted with the overall market, the change is only -23%. We will cover the trends for 2021-2022 in section 2.8, in order to analyze what the future expected outcome, after this fall in investment size, might be.

In fact, although COVID-19 struck the market and investments in general, the impact investing market was not one of the sectors affected compared to the others, and the biennium 2019-2020 produced around **\$703 Mn Mn inflow in impact investing**, a figure higher than the inflow obtained in each of the previous three years.

DFIs Market Size

The DFIs market size accounts for almost 90% of the total market size of impact investment in Zambia during the 2-year period 2019-2020. This percentage is so high due to the dominant part played by **the DFIs' loans**, especially the lending from the European Investment Bank (EIB), which lent a total of more than \$66.9 Mn in 2019 alone, and \$42.7 Mn in Q4, 2020. The Development Bank of Southern Africa (DBSA) lent a total of \$420 Mn invested in the Renewable Energy sector (Q1-Q4, 2020). **The total amount of loans offered to Zambia from the DFIs totals \$618 Mn.**

The loans were handed out in **13 tranches**, and they accounted for almost \$509 Mn in 2020, up from \$109 Mn lent by these DFIs in 2019 (table 2.2 below).⁹

⁹ We do not include the fact that The DBSA participated as a principal lender of record for an infrastructure project in 2019, which encompassed the rehabilitation and upgrading of eight existing roads across Zambia, estimated at USD352 million, which this doesn't fall within the GIIN definition of impact investment. Source: <https://www.dbsa.org/sites/default/files/media/documents/2021-03/DBSA%20Sustainability%20Review%202018-19.pdf>

Other notable figures derived from **the DFIs equity positions** opened in 2019, accounted for more than \$25 Mn, and the debt positions opened, also in 2019, making the overall non-loan DFIs impact investments gain a total of \$45 Mn over the two-year period. These funds were mainly allocated to the Food and the Education sectors.

Local-DFIs, operating in Zambia, according to our calculations, managed to allocate roughly \$31 Mn over the period under analysis.

Non-DFIs Market Size

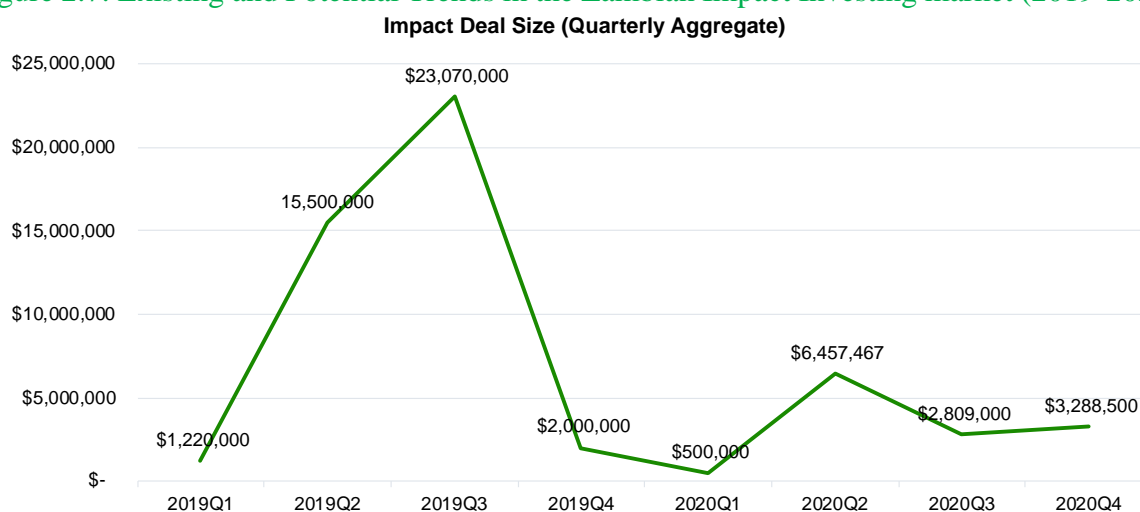
Although quite small when compared to the size of the DFIs' market, the Non-DFIs market is on the contrary much more diverse, with 4 investors located in Zambia and the rest are located in 12 other countries. Zambia itself and UK are the places where most money are invested from. South African based investors are also amongst the first highest ranked countries. Here, debt and equity deals are very similar in number, although debt deals tend to be more money-demanding. The disbursed in **debt deals** are 1.5 times higher compared to equity, accounting for an overall of almost **\$55 Mn across 35 examined transactions**.

It is also noticeable how, when the bigger DFIs loans are not included, the allocation of funding to different impact sectors is much higher with 8 different sectors benefiting from these non-DFI investments.¹⁰

2.3. Impact Investing Market Size in Zambia

Since the first quarter (Q1) of 2019 **the value of Private Equity deals and impact investing activities** were steadily increasing with the highest quarterly aggregate recorded at \$23.07 Mn in the third quarter of that year (Q3 2019). In the fourth quarter (Q4) of 2019 Impact Investments recorded in Zambia fell sharply. **The sharp drop in the value and number of impact deals recorded** can be attributed to the decline FDI inflows (see section 2.2). FDI inflows reduced largely due to the COVID-19 pandemic which caused most African economies to contract (UNCTAD, 2020). By the first quarter (Q1) of 2020 reported impact investment related activities fell to an all-time low of \$0.5 Mn over the period 2019-2020. However, since the Q1 of 2020 the value of reported impact deals has steadily been increasing despite remaining low compared to the previous years of impact investment activities (see Figure 2.7).

Figure 2.7: Existing and Potential Trends in the Zambian Impact Investing market (2019-2020)



Source: 4IP Group, 2021, compilation and calculations.

¹⁰ Notice that the education sector is in the figure as a debt-DFI investment.

The overall Zambian impact investing industry AUM for the period Q1 2019 to Q4 2020 is thus estimated to be at USD 85.17 Mn as of end of 2020. While aggregate AUM is estimated at USD 85.17 Mn, individual investor portfolios vary widely in size. Whereas **the median investor AUM** is USD 1.08 Mn; **the average investor AUM** is USD 2.51 million, with a maximum and minimum investment amount of respectively USD\$12.5 Mn and only USD\$83,500, indicating that **most non-DFIs are relatively small**. On the other hand, several DFIs, such as the EIB, DBSA and IFC each manage very large impact investing portfolios as described in the previous section.

Table 2.2: DFIs Impact Deals Flow 2019-2020

| No. | Year | Quarter of the Year | Amount | Investor. | Instrument Type | Sector | Investment/ Project Name | SDG targeted by investment |
|--------------------------|------|---------------------|--------------|-----------|-----------------|--------------------|---|----------------------------|
| 1 | 2019 | Q1 | \$15 | IFC | Debt | Financial Services | Stanbic Bank to support SME Growth | 1,8 |
| 2 | 2019 | Q2 | \$6 | EIB | Debt | WASH | Water & Sanitation Project | 6 |
| 3 | 2019 | Q4 | \$61.01 | EIB | Debt | Renewable Energy | EGP African Renewable Energy FL | 7 |
| 4 | 2020 | Q4 | \$43 | EIB | Debt | Renewable Energy | EDF OFF-GRID AFRICA | 7 |
| 5 | 2019 | Q4 | \$10 | FMO | Debt | Financial Services | First Capital Bank Zambia | 1,8 |
| 6 | 2019 | Q3 | \$15 | FMO | Debt | Financial Services | Ecobank Zambia | 1,8 |
| 7 | 2020 | Q3 | \$32 | DFC | Debt | Agriculture | ** | 1,2 |
| 8 | 2020 | Q1 | \$35 | DBSA | Debt | Renewable Energy | Mulembo Lelya Hydro Electric Power Limited (MLHEPL) * | 7 |
| 9 | 2020 | Q2 | \$127 | DBSA | Debt | Renewable Energy | | 7 |
| 10 | 2020 | Q3 | \$205 | DBSA | Debt | Renewable Energy | | 7 |
| 11 | 2020 | Q4 | \$53 | DBSA | Debt | Renewable Energy | | 7 |
| 12 | 2020 | Q3 | \$14.29 | CDC Group | Debt | Financial Services | Absa Bank | 1,8 |
| 13 | 2019 | Q2 | \$2.19 | Proparco | Debt | Financial Services | AB Bank | 1,8 |
| Total (2019-2020) | | | \$618 | | | | | |
| Total 2020 | | | \$509 | | | | | |
| Total 2019 | | | \$109 | | | | | |

Source: 4IP Group, 2021.

Notes: * **DBSA 2020 project name:** The Mulembo Lelya Hydro Electric Power Limited (MLHEPL) is intending to exploit the hydro power potential to meet some of the anticipated energy demand within Zambia, the DRC and the Southern Africa Power Pool (SAPP).¹¹ ** **The DFC portfolio in Zambia** consists of three loan guarantees with financial institutions. They include agreements with Zambia National Commercial Bank (ZANACO), Standard Chartered Bank, and Madison Financial Services Company. The loan guarantee with ZANACO focuses on lending to the agricultural sector.¹²

When it comes to the quarterly DFI impact deal flows there are no distinct patterns or trend in the period from Q1 2019 to Q4 2020.

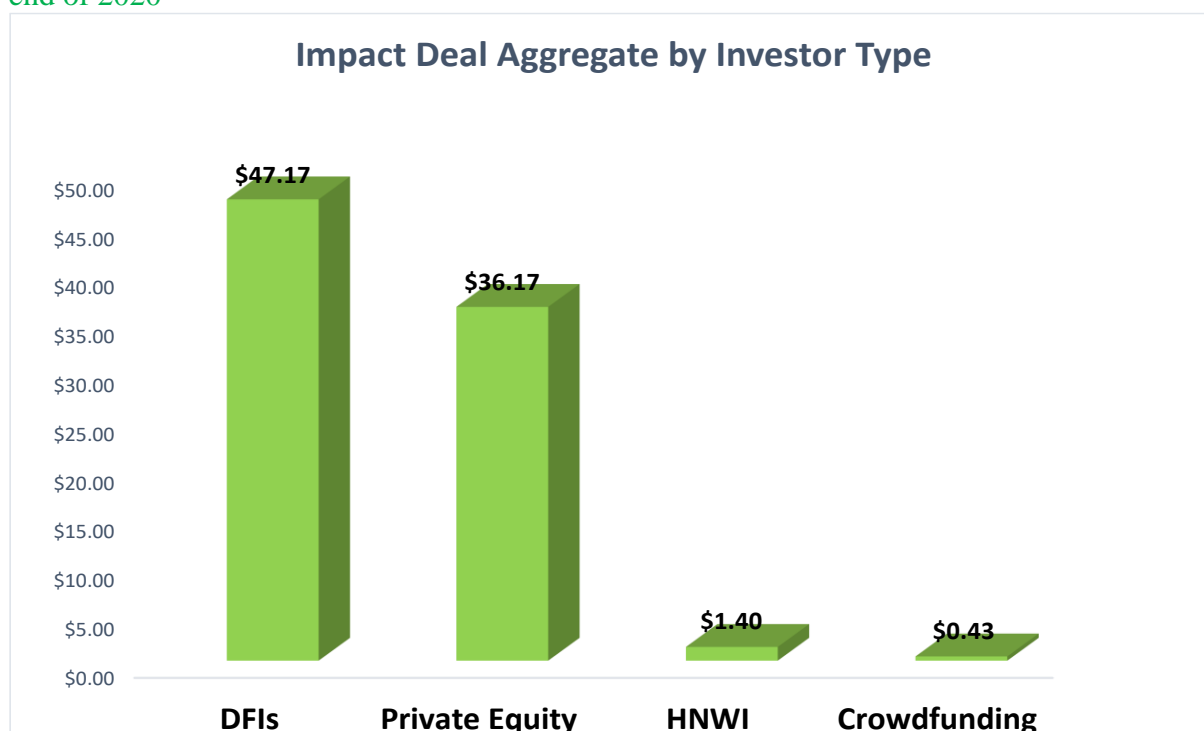
Overall,

¹¹ Source: <https://www.dbsa.org/projects/mulembo-lelya-hydro-power-plant-zambia> accessed 19th of Aug 2021.

¹² Source: https://www.usaid.gov/sites/default/files/documents/FINAL_DCA_Fact_Sheet_2021.pdf

- **DFIs** account for 55% of total AUM;
- **Private Equity** accounts for 42% of total AUM;
- **HNWIs** account for only 2% of total AUM;
- **Crowdfunding** accounts for 1% (see Figure 2.9).

FIGURE 2.9: AUM by Investor type n = 23; figures represent direct investments only, as of the end of 2020



Source: 4IP Group calculations.

2.4. Investment Prospects for Zambia, 2021-22

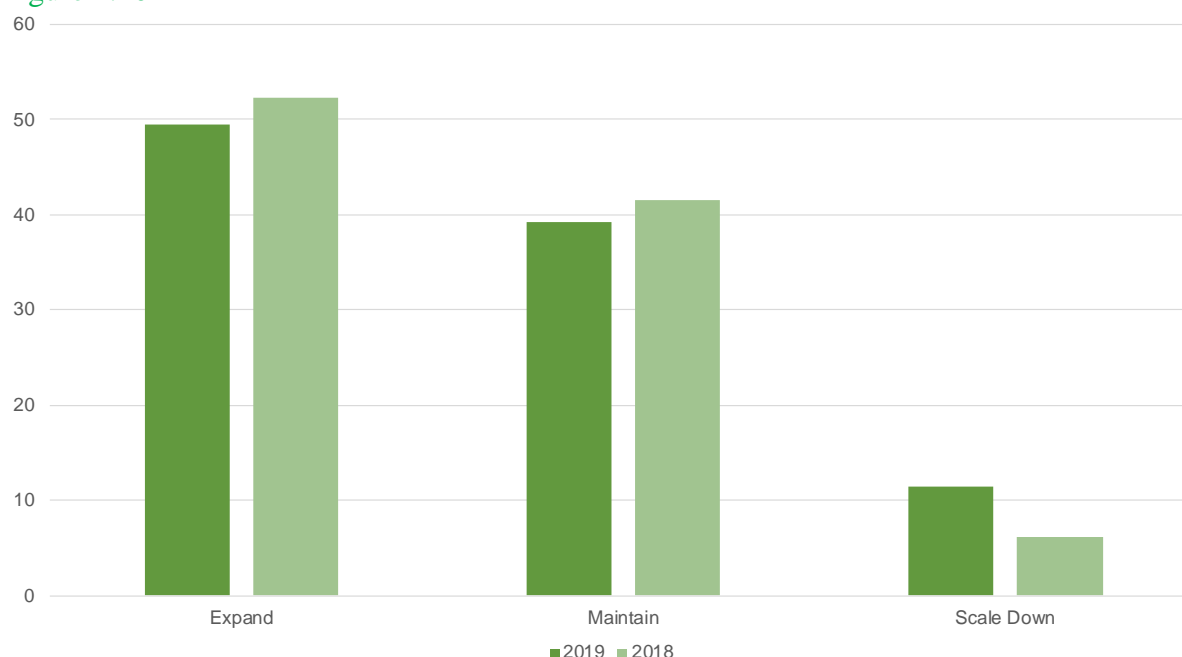
In the medium-term, FDI flows, including impact investment, are expected to increase in the agriculture, construction, energy, manufacturing, mining and tourism sectors. The expected rebound in FDI, particularly in the agriculture, energy and manufacturing sectors follows registration of high value greenfield investment projects in 2019 (see table 2.1 above).

Recent Government policies and measures to promote private sector development, such as infrastructure development, promotion of Public Private Partnerships (PPPs) and Joint Ventures, legislative tax reforms, and provision of fiscal incentives are expected to boost investment inflows in the medium-term. Further, the promotion of the development of Multi-Facility Economic Zones (MFEZ), Industrial Parks and Farm Blocks is expected to contribute to the growth of FDI inflows, especially for the agriculture, energy and manufacturing sectors.

According to the GRZ Foreign Private Investment and Investor Perceptions Survey, 2019, nearly half of the respondents (49.4 percent) were **optimistic about growth and investment prospects of their companies** compared to 52.2 percent in 2018. On the other hand, about 11 percent of the respondents were pessimistic about their growth prospects compared to only 6.2 percent in 2018. The other 39.2 percent revealed that they would maintain the current levels of their companies compared to 41.6 percent in 2018.

In terms of expansion strategies, 76.7 percent of the respondents would employ value addition, 74.3 percent would expand their existing facility, 71.2 percent would acquire machinery and equipment, and 52.8 percent plan to diversify (GRZ, 2019).

Figure 2.10: Investors' Outlook



Source: GRZ, 2019: 76.

Moreover, **the Zambian economy is projected by the AfDB (2021) to grow by 1.0% in 2021 and 2.0% in 2022, underpinned by recovery** in the mining, tourism, and manufacturing sectors. The recovery in international demand and copper prices are positive developments, while a reduction in COVID-19 cases will boost activity both in manufacturing and tourism. However, the economy faces substantial risks that a second wave of the pandemic will impede global economic recovery and stifle demand for copper. A second wave could also undermine the revival of such critical sectors as tourism and manufacturing.

The AfDB(2021) also predicts that in the banking sector, **the ratio of non-performing loans** is expected to increase and contribute to a drying up of bank liquidity, dampening private sector activity. Against this backdrop, poverty is expected to increase due to significant job losses in the service sector (on average, 30.6%), manufacturing (39%), personal services (39%), and tourism (70%).

However, with the newly unexpected election victory of the pro-business and pro-investment UPND party, this might present a historic opportunity to use the power of the vote to change these low growth forecasts. The UPND expects a speedy economic and social development, with a targeted economic growth rate of 10.0 percent per year for Zambia to achieve the Vision 2030.

3. Investment Fund Management Landscape

In this section we investigate the fund management landscape and investors using impact measurement and management tools. We will start in section 3.1 with providing an overview of impact investors in respectively Africa, Sub-Saharan Africa and Zambia. Then in section 3.2 we look at the major motivating factors which investors are looking at when choosing to invest in Zambia. Section 3.3 looks at their business models. Section 3.4 takes a brief look at the market share and the market concentration.

3.1. Overview of Impact Investors

At the beginning of 2019, GIIN estimated that there was USD 502 Bn impact AUM controlled by more than **1340 impact investors and DFIs globally**. 14% of these investments, the equivalent of USD 70 Bn, are allocated to **Sub-Saharan Africa**, with investors originating from all over the world.

3.1.1. Africa

The first free **directory of impact investors across Africa** created by AlliedCrowds(2018) registered 204 active Impact Investors as of March 2018. The data is based on the AlliedCrowds Capital Finder, a database of over 7000 alternative finance capital providers across 137 emerging markets and based on more than 1 million webpages searched and analysed.¹³

According to the APVCA(2020) there were **613 reported VC deals in Africa between 2014 and 2019** with a total value of 3.9 Bn USD, of which 139 VC deals in Africa was reported in the year 2019 reaching a six-year high valued at 1.4 Bn USD, which represented a 22% increase from 114 VC deals in 2018 valued at 0.7 Bn USD. In the same period Southern Africa, East Africa and West Africa accounted for the greatest share of VC deals by volume, while multi-region deals attracted the largest share by value. Moreover, 29% of the total number of early-stage investments reported in Africa between 2014 and 2019 were Series A & Series B; 32% were seed stage deals. Of the total number of VC deals, 613, that were recorded in Africa between 2014 and 2019, a significant minority (44%), that is 270, had the participation of at least one impact investor. PE/VC Fund managers represented 39% of the total number of investors that participated in VC deals from 2014 - 2019 (APVCA, 2020).

While the ZIIMS team has not itself been able to provide an estimate of the exact number of impact investors in Africa by end of 2020, Africa: The Big Deal¹⁴ finds that of **the 369 investors who have been involved in at least one \$100k+ deal in Africa in 2021**, 110 (30%) are headquartered on the African continent.

- The US is home to more investors involved in a deal in Africa: 133. US-based investors are however significantly less active than Africa-based investors: 87% of them have so far only participated in one deal.
- In Europe, the UK and France combined (with 20 each) make up more than half of investors active in Africa this year; the remaining 39 investors originate from quite a diverse group of countries, 12 in total.
- Japan (9) is by far the country with the most active investors from Asia-Pacific (23 in total); the absence of almost any recorded activity from China-based investors is worth noting.

¹³ When compiling the list, AlliedCrowds(2018) went for a **broad definition**: If the funders mention impact as part of what they do, then AlliedCrowds classified them as impact investors. It does not distinguish among 'degrees' of impact.

¹⁴ <https://thebigdeal.substack.com/> accessed 7th of July 2021.

- Finally, of the 21 active investors based in the Middle East, the majority are from either the UAE (8) or Saudi Arabia (7) (see Appendix 18).

Caveat, this source doesn't distinguish impact investors from traditional investors.

3.1.2. Sub-Saharan Africa

To complement these key findings the inaugural African Venture Philanthropic Alliance (AVPA, 2020) study, *The Landscape for Social Investments in Sub-Saharan Africa*, maps the diverse field of social investment across East (317), West (256) and Southern Africa (250).¹⁵ In the period from 2015 to 2019 the AVPA research identified **over 820 social investors active in East, West, and Southern Africa**.

The majority of social investors have a focus on **East Africa**. Regional based corporate social investors in East Africa are, however, increasingly contributing to social investments through long term innovative programs aimed at solving development challenges. In **West Africa**, the governments have been participating in the space and promoting impact investment by setting up funds and angel investor networks, while in **Southern Africa**, governments have been active in promoting impact bonds by paying for outcomes. Bilateral/multilateral Donors and DFIs are the largest providers of social capital across the SSA regions deploying billions of dollars annually (AVPA, 2020a).

According to Kukula Capital (2019) in 2019 **132 Impact investors and DFIs** were **investing in Sub-Saharan Africa**, including Zambia, with the impact investments amounting to USD19,2 Bn in AUM. **The total number of deals** facilitated between 2015 and 2018 was 204, with a size of USD 2.2 Bn across all Sub-Saharan countries.

3.1.3. Zambia

In Zambia **53 impact investors and DFIs** have done 123 deals from 2015 to 2018 with Funds Under Management (FUM) of \$2,4 Bn. This amounts to a total of \$735Mn. **93 deals** have been impact deals worth \$509Mn. **The impact investing landscape** was projected by Kukula (2019) to grow with 13% in 2019, bringing the estimated deal volume to 96 and a total value to \$515 Mn. This projection did not factor-in the black swan event known as COVID19, which when looking at the latest Africa Inward FDI figures by UNCTAD actually partially resulted in an almost 16% decline in FDI from 2019 to 2020 (see Appendix 19). So, while impact investing in general and DFIs in particular are known to have played an important countercyclical role in 2020 by continuing to invest with a long-term view despite the short-term uncertainties associated with the current crisis, the projected number of deals didn't prove to be correct (table 3.1).

¹⁵ Social investors include foundations, corporates, family offices, high net worth individuals, sustainability-aligned fund managers, development finance institutions, bilateral and multilateral donors, governments, diaspora, and faith-based organisations.

Table 3.1: Comparison between Baseline and Follow-up studies

| | Baseline | | Follow-up |
|--|---------------------|-----------------------|----------------------------|
| | 2015-2018 | 2019 (Projections) | 2019-2020 |
| Number of Impact Investors & DFIs in Zambia | 53 | | 23 (51 ⁱ) |
| Number of Deals | 123 | | |
| FUM | \$2.4Bn | | \$3.671Bn ⁱⁱ |
| Total | \$735Mn | | |
| Impact Deals (including DFI projects) | 93 | | 28 (42) |
| Impact Deals Worth | \$509Mn | | \$1.271 Bn |
| Impact Investing Market Size (growth rate %) | | 13% | 74.85% |
| Estimated Number of deals | | 96 | |
| Estimated Impact Investing Market Size | | \$515Mn | \$703.17 Mn ⁱⁱⁱ |
| Average deal size (Mn) (Impact Enterprise only) | 5.98 | | \$3.04 Mn ^{iv} |
| Average deal size (impact) (including DFIs) (Mn) | 5.47 | | \$17.15 Mn ^v |
| Median AUM | | | \$1.08Mn |
| Impact Investment / FDI | 2.95% ^{vi} | | vii |

Sources: Kukula Capital (2019:15) and 4IP Group (2021).

Notes: i. 51 are all the investors that might have invested in Zambia in the period including those who haven't disclosed their investments. ii. This is the sum of FUM (2015-2018) plus Impact Deal worth (2019-2020). iii the accumulated sum of Impact Deals in 2015-2018 plus impact deals in 2019-2020. iv This is the average deal size without the loans. v is the average deal size including loans from DFIs. vi see Appendix 17 below. vii FDI data not yet released by ZDA at the time of the completion of our compilation and calculations.

3.2. Main Motivations for Investing in Zambia

According to the GRZ(2019, 2021:9) Foreign Private Investment and Investor Perceptions Surveys (2019-2020), **The investors who chose to invest in Zambia** were primarily motivated by the following factors ranked in order of importance:

- Peace and security (93.7 percent),
 - 70% initial,
 - 65.2% continued;
- Political stability (91.0 percent),
 - 65.2% initial,
 - 46.0% continued;
- Market potential (92.0 percent),
 - 78.3% initial,
 - 63% continued;
- Ease of doing business (82.0 percent) [see Appendix 1]¹⁶
- Stable macroeconomic environment (89.0 percent),
- Good governance (82.0 percent),
 - 46.0% initial,
 - 48.0% continued;
- A favorable legal environment (83.0 percent),
 - 59.0% initial,
 - 35.0% continued;

¹⁶ Broadly, respondents did not find starting a business in Zambia difficult. However, they indicated that the ease of doing business has generally deteriorated since 2017 (GRZ, 2021:12).

that existed in the country (see Figure 3.1). In addition, investors perceived availability of resources, favorable tax regime, incentives, good infrastructure, and access to finance as factors influencing their investment and re-investment in Zambia.

Figure 3.1: Major Motivating Factors for Investing in Zambia (Percent), 2018-2019



Source: GRZ, 2019: 67.

The importance of these factors in the impact investment decision making were confirmed by the respondents to our own ZIIMS with for example **political stability** perceived as either very or somewhat important, but the quality of this factor being rated as attractive with a moderate risk attached to this factor. Similarly, Zambia's **strategic location** was perceived as either very or somewhat important, but the quality of this factor ranged from attractive to unattractive also with a moderate risk attached.

Our ZIIMS also ask about **the regulatory and institutional quality**, which is perceived as either very or somewhat important, but in Zambia the quality is rated as being unattractive although the attached risk is perceived as moderate. When it comes to **ICT/Infrastructure** which is considered somewhat important for the decision-making process, in Zambia this factor is rated as unattractive albeit with a low risk attached. Although **labour availability** is considered as not very important to the decision-making process, this factor is also rated between attractive and unattractive with an associated risk factor ranging from moderate to high. While **human capital and education** is somewhat important determinant for the investment decision making, in Zambia the opinion rating on the quality of this factor is divided rated between unattractive and attractive with a moderate associated risk. **Market access** is considered to a somewhat important determinant on investment decision making, but some impact investors considered the quality of this factor in Zambia as being attractive with a moderate associated risk. Finally, we asked about **firm-level corporate governance** which is considered a very important factor for the investment decision making. Some respondent considered the quality of this factor in Zambia as being attractive with moderate associated risk attached to it.

3.3. Business Model

Non-DFIs (PAIFs) are stand-alone investment vehicles with a dedicated balance sheet; in most cases they are set-up as a registered investment fund in a given jurisdiction, pooling money

from multiple investors and investing it on their behalf in a diversified set of private assets, either debt or equity, or a mix of both. Their specific legal status, and the needs, rights and obligations that go with them, vary from one jurisdiction to another. The way they are managed, and their governance set-up, also vary from one another (Symbotics & Canopy, 2020).

A breakdown of their **key functions** will include:

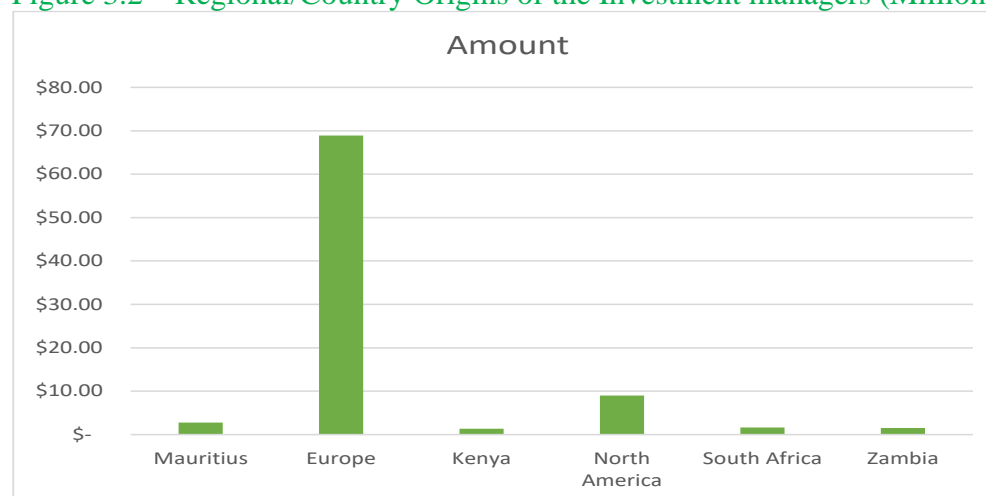
1. Fund management (holding the regulatory license for running the fund, overseeing other functions, and usually managing the risk and compliance requirements).
2. Fund administration (running the administrative, accounting, legal, tax and audit functions).
3. Fund distribution (selling the fund to investors and managing those relations).
4. Investment management (portfolio construction and monitoring, either as a delegated discretionary portfolio manager, or as an advisor to the fund manager).
5. Other sub-advisory functions (market research and access, sourcing and origination, investee due diligence, credit risk analysis, impact assessments, deal structuring, deal valuation, brokerage, etc.) (op.cit., p.23).

The governance of non-DFIs (PAIFs) vary greatly based on the segmentation of the roles and functions along the investment value chain. Whatever the set-up PAIFs sit at the center for the value chain (see figure 3.3. below), pooling investor money and injecting it with an impact bias at the base of the pyramid (BOP) in underserved emerging and frontier economies such as Zambia.¹⁷

3.4. Market Share and Concentration

Our study sample includes 23 investment managers – a number that encompasses both fund managers covering the full PAIF value chain, as well as other more specialized entities offering only investment management services. The impact investors are geographically located in addition to Zambia (4), in Africa (South Africa, Kenya and Mauritius), but predominantly in Europe (mainly The Netherlands (5), UK (3), France (2)) with Washington DC based IFC being the only one outside these two other regions. In the period 2019-2020 we find that these impact investors together originated from 13 different countries with a strong concentration in Europe.

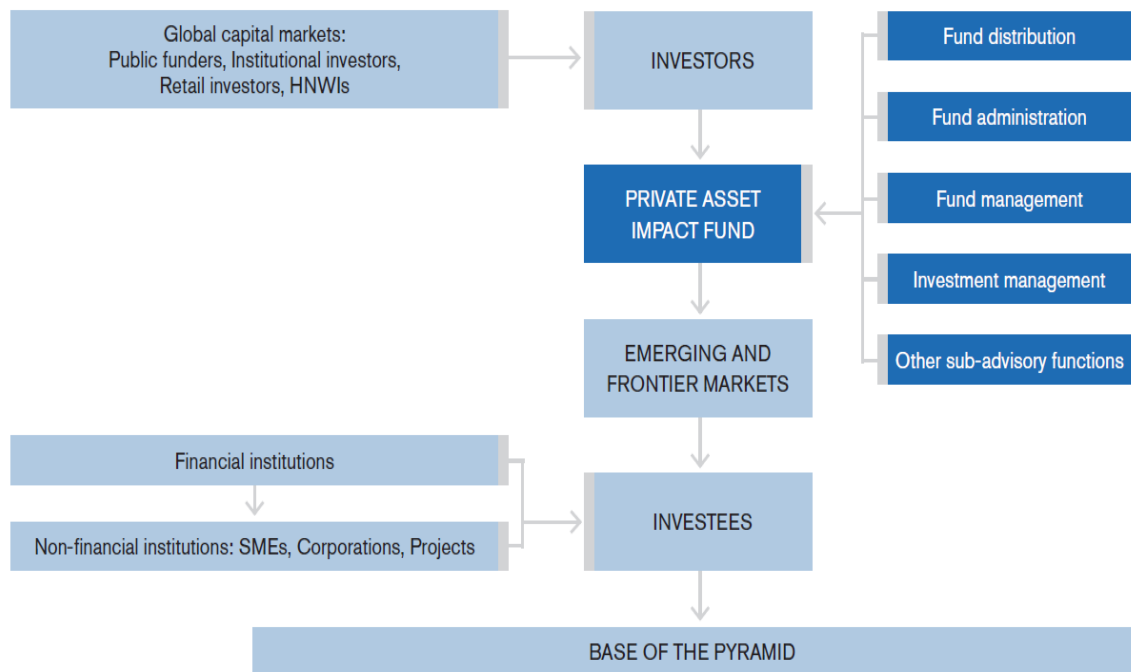
Figure 3.2 – Regional/Country Origins of the Investment managers (Million, USD)



Source: 4IP Group, compilation and calculation.

¹⁷ **The base of the Pyramid** can be defined as low-and middle-income households and/or micro-small and medium sized businesses in low-and middle-income economies.

Figure 3.3: Investment value chain



Source: Symbiotics and Canopy, 2020:23.

4. Financial Metrics

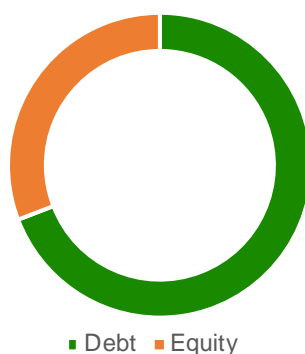
This section presents **aggregated metrics of our PAIFs (non-DFIs) & DFIs**. Section 4.1 describes more specifically on both PAIF and DFI the investment instruments. Section 4.2 describes the Impact Sectors. Section 4.3 describes the geography. Section 4.4 provides a risks analysis. Finally, section 4.5 focuses on investors and financial performance.

4.1. Investment / Financial Instruments / products

Equity continued to be the **main source of financing for investment**. The GRZ (2019) Survey revealed that 46 percent of respondents used **equity** to finance their investments in 2019, lower than the 52.5 percent recorded in 2018. However, respondents reported an increase in **borrowing** (44.1 percent) in 2019 compared to 2018 (39.7 percent). This is in line with the Kukula (2019:20) baseline study which also found that **the preferred financial instruments** for the impact investors and DFIs are equity (43%) and debt (36%), with only a minority using mezzanine (21%).

On the contrary, over the period considered by our own ZIIMS study 69% of the reported impact investment were recorded as **debt stock** while 31% were **equity deals**. In other words, Debt instruments were more preferred to compared to Equity instruments in the period between 2019-2020 (figure 4.1).

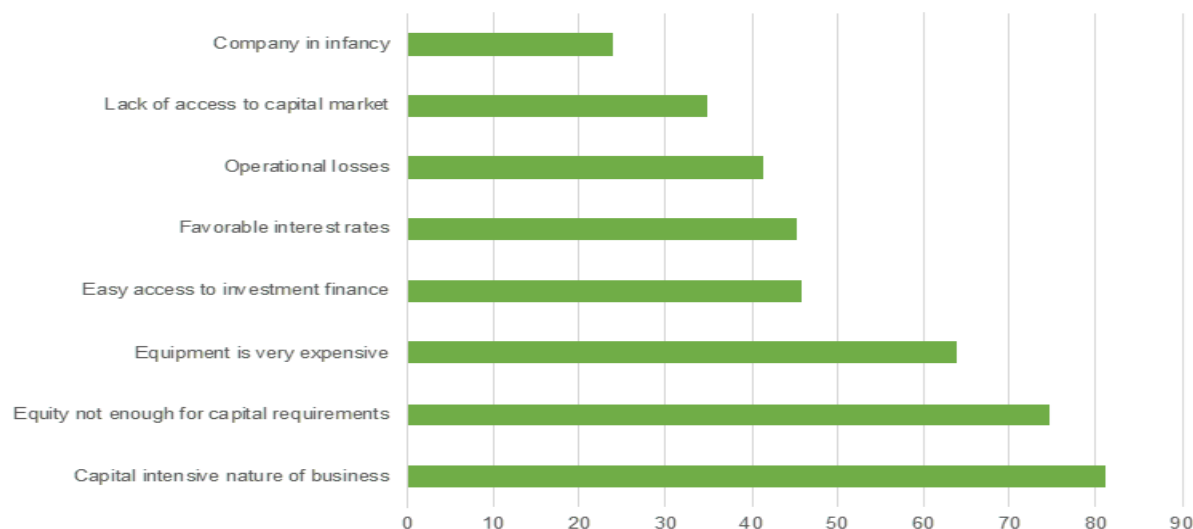
Figure 4.1: Sources of Financing, 2019-2020



Source: 4IP Group, 2021, calculations.

The reason given by impact investors surveyed/interviewed for higher preference for debt over equity was that debt investments have a simple exit strategy because it is self-liquidating. **Among the investors that used borrowing as a source of finance**, over half (50 percent) revealed that the capital-intensive nature of business, the inadequacy of equity for capital requirements, and expensive equipment were the main reasons for borrowing (Figure 4.2). Other reasons cited for borrowing included easy access to investment finance, favourable interest rates, operational losses, lack of access to capital market and company in infancy (GRZ, 2019).

Figure 4.2: Reasons for Borrowing



Source: GRZ, 2019:70.

4.1.1. Private Equity Deals

According to Kukula Capital (2019) from 2015 to 2018, African Private Equity and Venture Capital Association (APVCA) reports that there had been **678 PE deals in Africa**, with a **total deal size of USD 14 Bn**. When applying the CAGR of 5.6% to the number of deals and 9% for the deal size, Kukula projected 2019 to be the biggest year for PE deals with **USD3.8 Bn** in total size and an **additional 196 deals**.

9% of the PE deals have been targeted **Southern Africa** (excluding South Africa) where approximately **50%** of these deals happened in **Zambia**. This means that **the estimated amount of PE deals from 2015 to 2019 is 39** with a total investment of **USD 266 Mn**. This means that the CAGR for PE deals was 6% and the CAGR for the value of deals was 11%. This shows that that PE firms on average invested more per transaction, which is underlined by a 20% increase in the average deal size which was USD 5 Mn in 2015-2018 and USD 6 Mn in 2019. However, the average deal size dropped to only around USD2Mn in 2019-20 (Table 4.1).

Table 4.1: Private Equity Deals

| | 2015-2018 | 2019E | 2015-2019E | 2019 | 2020 |
|-----------------------------|-----------|------------|-------------|------|------------|
| PE Deals in Africa | 678 | 196 | | | |
| Total Deal Size in Africa | US\$14 Bn | US\$3.8 Bn | | | |
| Average Deal Size in Africa | 20.65 Mn | 19.39 Mn | | | |
| PE Deals in Zambia | 63 | | 39 | | 13 |
| Total Deal Size in Zambia | 122.3 Mn | | US\$266 Mn | | \$26.12 Mn |
| Average Deal Size in Zambia | US\$ 5 Mn | US\$6 Mn | US\$6.82 Mn | | \$2.01 Mn |

Sources: Kukula Capital, 2019:17 and 4IP Group, 2021.

4.1.2. Impact Deals

Impact investors have completed a total of 63 impact deals in Zambia from 2015 to 2018 with an estimated total investment of **USD 122.3 Mn**. Out of the 63 recorded deals, only **44 had registered transaction amounts** and the average of these times the total amount of recorded deals have been used to **estimate the total deal value**. There has been a **positive trend in the number and value of deals**, with 2017 being an outlier since 2015. The CAGR in number of deals has been 9% during the period while the CAGR of the total value of deals

has only been 3%. The **average deal size** from 2015 to 2019 is slightly fluctuating around the average size of USD 3.29 Mn, only falling below USD3 Mn in 2020 when it reached as low as USD 2.26 Mn. This indicates that the COVID19 has led to investors adopting **an investment approach with smaller average ticket sizes**.

Table 4.2 Impact Deals and estimated deal value

| | 2015 | 2016 | 2017 | 2018 | 2019E | 2019 | 2020 |
|-------------------|------------|------------|-----------|------------|-----------|-------------|------------|
| Deals | 7 | 6 | 5 | 9 | 10 | 10 | 13 |
| Est value of deal | US\$23 Mn | US\$20 Mn | US\$16 Mn | US\$30 Mn | US\$33 Mn | US\$35.74Mn | \$29.41Mn |
| Avg deal size | US\$3.29Mn | US\$3.33Mn | US\$3.2Mn | US\$3.33Mn | US\$3.3 | US\$3.57Mn | US\$2.26Mn |

Source: Kukula Capital, 2019:17 and 4IP Group, 2021.

- The Average deal size for PE deals in 2015-2018: US\$6 Mn.
- The Average deal size for Impact deals in 2015-2018: US\$3.29 Mn.
- The Average deal size for Impact deals in 2019-2020: US\$2.83 Mn.

On average the deal sizes of impact transaction are lower than the PE deals. On the other hand, the impact investing market was showing the highest growth in number of deals, but with smaller sized investments.

4.1.3. Investor Preference

Instrument and Investment

Impact investors are **targeting early-stage businesses** with direct equity investments. From our ZIIMS we also find impact investors who both target financial institutions, non-financial corporations from their direct portfolio and funds from their indirect impact portfolio, as well as impact investors exclusively doing direct investments into non-financial corporations or MSMEs.

Preferred Investment Stage

The main type of capital provided by impact investors is:

- Growth capital (60%);
- with seed capital being the second largest type at 28%;
- None of the impact investors focus on buyout investments.

Preferred Investment Size

From our ZIIMS we find that some impact investors invest as low as 50,000 USD up until 2 Mn USD with a median of \$1.025 Mn USD. In another case the ticket sizes ranged from as little as 3,600 USD up to 9.5 Mn USD with a median of 264,000 USD. A third example of an Impact investor had investment tickets ranging from 250,000 USD to 1 Mn USD with a median of 500,000 USD (see also appendix 9).

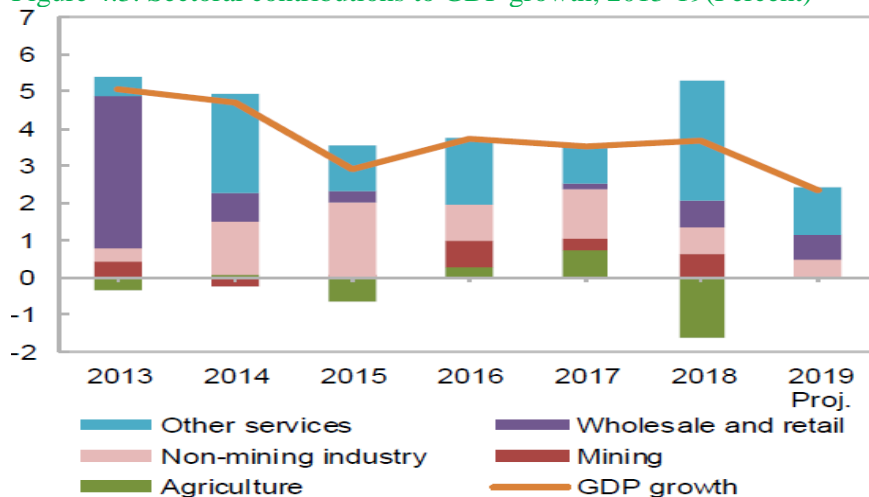
4.2. Impact Sectors

As mentioned above the Government of Zambia has identified **agriculture, energy, infrastructure, manufacturing, mining, and tourism sectors** for public and private investments to drive economic diversification, industrialization and job creation in line with aspirations of the Seventh National Development Plan (7NDP): 2017 to 2021 (See Figure 4.3).

A number of investment opportunities exists in these sectors. There are **numerous investment opportunities that exists in other sectors** of the economy too, including health, education, ICT, infrastructure, real estate, and service sectors. Other investment opportunities include development of inland especially for perishable non-traditional exports, dry ports, border-trading zones especially for perishable non-traditional export and bulk water supply/irrigation systems projects (GRZ, 2019).

Zambia is endowed with abundant natural resources, but the poverty rates remain high particularly in rural areas that remain dependent on rain-fed agriculture and with large infrastructure gaps. Zambia's water resources, at 6,000 cubic meters per inhabitant, are second to Angola in southern Africa. Just 14 percent of arable land is under cultivation despite the high incidence of agriculture as an economic activity. Agriculture remains labour-intensive and highly vulnerable to climatic shocks. The electricity access rate is 31 percent. Transport logistics and communication services are particular constraints in rural areas, where 77 percent of the population live in poverty. The informal sector dominates employment (IMF, 2019).

Figure 4.3. Sectoral contributions to GDP growth, 2013-19(Percent)



Source: IMF, 2019:30.

Supply of Impact capital allocated to high Impact Sectors

The Kukula Capital (2019) baseline study finds that most of Zambia's inflow of impact capital are allocated the following high impact sectors: Financial Services (28%); Agriculture (19%) and Food and Agro-processing (13%). In our ZIIMS we find that in 2020 Agriculture (30%) has replaced Financial Services as the most important recipient of impact capital and AquaCulture (20%) in second place, followed by financial services at 13% (See Table 4.3).

Table 4.3: High Impact Sectors

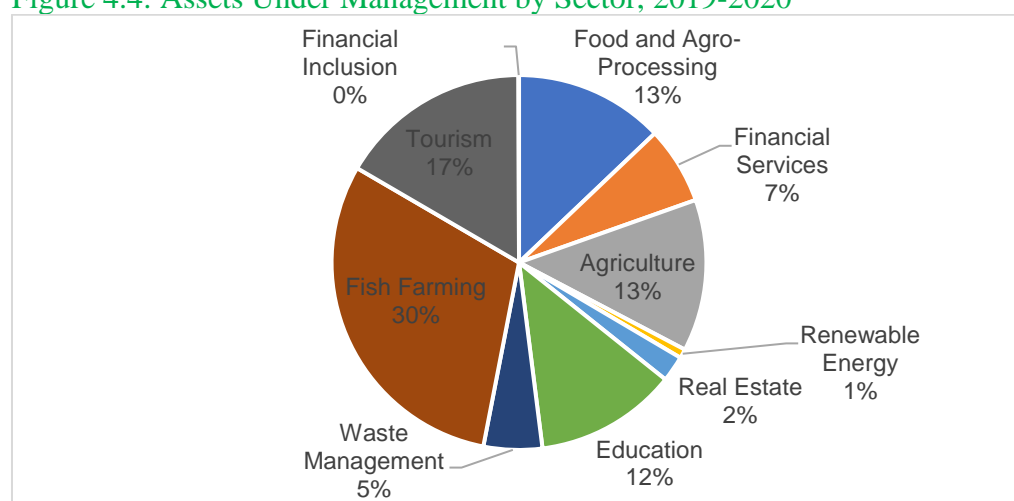
| High Impact Sector | Kukula Capital (2019) Study | 4IP Group (2021) Study: 2019 | 4IP Group (2021) Study: 2020 |
|------------------------|-----------------------------|------------------------------|------------------------------|
| Financial Services | 28% | 28% | 13% |
| Agriculture | 19% | 19% | 30% |
| Food & Agro-Processing | 13% | 13% | 8% |
| Real Estate | | 7% | 4% |
| Renewable Energy | | 4% | 11% |
| Tourism | | 4% | 11% |
| AquaCulture | | | 20% |
| Waste Management | | | 3% |

Sources: Kukula Capital(2019) and 4IP Group, 2021, calculations.

According to ZIIMS(2021) Financial Services, Agriculture and Food & Agro-processing had been **the primary targets for investments** between 2019-2020, making up 60% of inflow on average in 2019.¹⁸ In 2020 the primary targets for investments were Agriculture; AquaCulture; and Financial Services capture 63% of all inflows.

The Financial Services, Food & Agro-processing and Real Estate sectors had experienced a decrease in percentage of impact capital allocations compared to the period 2015-2018. On the other hand, the Tourism, Renewable Energy and Agriculture sectors had seen an increase in the percentage allocations of impact capital flowing to enterprises in the period 2019-2020 compared to 2015-2018.

Figure 4.4: Assets Under Management by Sector, 2019-2020



Source: 4IP Group, 2021, Compilation and calculation.

Sectors in Zambia (Investor preferences)

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

Sector Activity (Completed deals)

Due to the difference in the risk appetite between non-DFI and DFI impact investors there exists a difference in the nature and size of impact deals executed by these two categories of investors. From the deals sampled we find that DFIs had an average deal size of \$47.54 Mn while non-DFI Impact investors recorded \$3.04 Mn per transaction (Table 4.4). It was also observed that almost 90% of Impact deals conducted by DFIs were project specific or targeted at a particular public project with only a few flowing into Impact Enterprises. None of the non-DFI impact investors reported to have invested in PPPs over the period analysed by the study.

¹⁸ Kukula Capital (2019) also wrote that Financial Services, Agri-processing, Renewable Energy, Infrastructure and the Agriculture sector have been the most popular sectors for investing capital, with 70% of all deals occurring in these sectors.

Table 4.4: Impact Enterprise vs Project Targeted Investments

| Category | No. of deals | Total deals value USD Mn | Average USD Mn | Share |
|---|--------------|-----------------------------|-------------------|-------|
| Impact Enterprise targeted Investments | 28 | \$85.17 | \$3.04 | 12% |
| Specific Project targeted Investments | 13 | \$618 | \$47.54 | 88% |
| Total | 41 | \$703.17 | \$17.15 | |

Source: 4IP Group, compilation and calculations.

In what follows we present two samples of Impact deals taking place between 2019-2020. **The first set of impact inflows** were conducted by both DFIs and non-DFIs and ranged between 0.01 Mn to 15 Mn, this capital was **flowing to impact enterprises**.

The second sample of impact deals exclusively focused on impact deals conducted by DFIs, with an average size of 47.54 Mn per transaction and were flowing into publicly managed projects like Renewable energy and WASH projects.

Deal Distribution Across Sectors

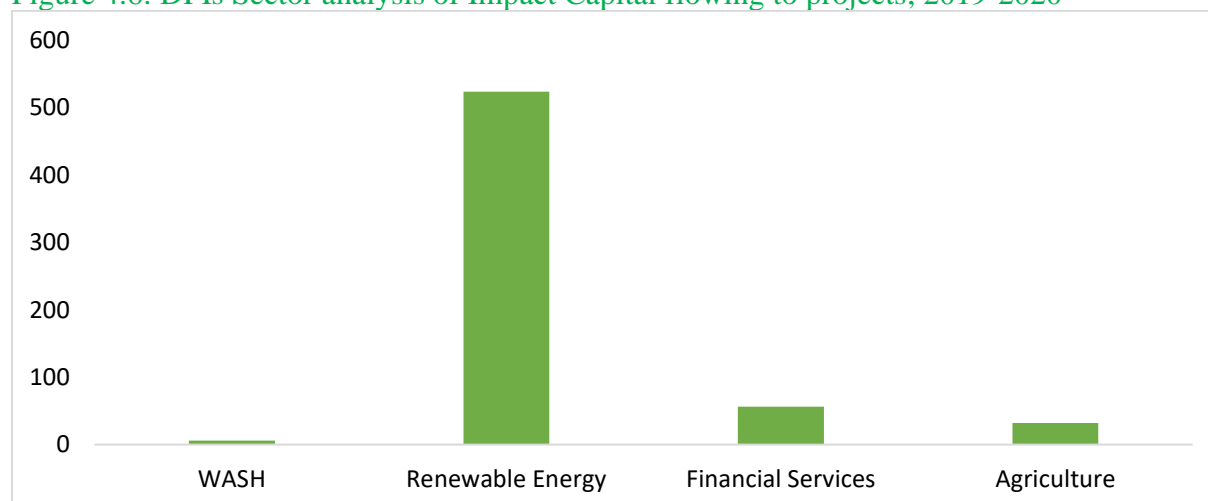
Figure 4.5: Sector analysis of Impact Capital flowing to Impact Enterprises, 2019-2020



Source: 4IP Group, 2021, compilation.

In the period covered by our ZIIMS study there is a clear difference in terms of sector allocations between non-DFIs compared to DFIs. We see from the figures 4.5 and 4.6 that the former category as mentioned earlier follows the same patterns as described in the baseline study except that Agriculture is now the major recipient of impact capital (figure 4.5). On the other hand, when it comes to the investment done by DFIs the major sector recipients are renewable energy by a very wide margin down to second place financial services, ahead of agriculture and Water Supply, Sanitation and Hygiene (WASH) (figure 4.6).

Figure 4.6: DFIs Sector analysis of Impact Capital flowing to projects, 2019-2020



Source: 4IP Group, compilation.

Average Deal Size Across Sectors, USD Million

Infrastructure, Healthcare and Manufacturing doesn't follow an equal distribution of volume and value. These sectors have the highest **average deal sizes ranging from USD 2.5 Mn to 7 Mn**. These sectors are targeted with **large ticket-size investments** whereas Tech, Energy and Real Estate all have **less than USD 1Mn** in average deal size.

4.3. Geography of Investments

Origins of Investors and Funds

Of the **369 investors** who have been involved in at least one **\$100k+ deal in Africa** in 2021 (see Appendix 18),

- 70% is headquartered outside the continent and
- 40% have been involved in more than one deal in the past 6 months.

The '**Big Four**' are home to 84% of active 'local' investors, with

- **South Africa (30)** leading the way, including from our ZIIMS sample:
 - Africa Trust Group¹⁹
 - Enygma Ventures located in City of Cape Town, South Africa
 - SilverStreet Capital located in Cape Town, South Africa as well as London, UK, followed by:
- **Nigeria (28);**
- **Egypt (23);**
- **Kenya** is quite further behind, with 11 active investors so far this year, none of which are in the Top20 in terms of number of deals, including from our ZIIMS sample:
 - Shelter Afrique (Head Office) located in Nairobi, Kenya.

The US is home to more investors involved in a deal in Africa than Africa itself: 133 US-based investors are however significantly less active than Africa-based investors: 87% of them have so far only participated in one deal.

In Europe,

- **the UK and France** combined (with 20 each) make up more than half of investors active in Africa this year, including e.g. Private Infrastructure Development Group

¹⁹ Enygma Fund (Seed VC Fund); Shift Fund (pre-seed) VC Fund; & Empress Fund. <https://africatrustgroup.com/>

(PIDG)/InfraCo (Head Office London, UK); AgDevCo (London, UK); and Proparco (Paris, France);

- the remaining **39 investors** originate from quite a diverse group of countries, 12 in total.

Japan (9) is by far the country with the most active investors from Asia-Pacific (23 in total); the absence of almost any recorded activity from China-based investors is worth noting.

These are **investments exceeding \$100k**. In other words, this analysis looks at publicly disclosed deals and deals exceeding \$100k. There are evidently many deals that either was executed privately or which do not meet this (random) cut-off of \$100k.²⁰

As mentioned above (section 3.4) **the 23 impact investors covered by our ZIIMS** are geographically located in addition to Zambia (4), in Africa (South Africa, Kenya and Mauritius), but predominantly in Europe (mainly The Netherlands (5), UK (3), France (2)) with Washington DC based IFC and US-DFC being the only ones outside these two other regions. In the period 2019-2020 we find that these impact investors together originated from 13 different countries with a strong concentration in Europe (see Box 4.1).

Box 4.1

One example being **Goodwell Investments** a pioneering investment firm focused on financial inclusion, fintech and inclusive growth in sectors providing basic goods and services and income generation opportunities to the underserved. Goodwell manages its funds with teams on the ground that have become local leaders in the impact investment sector. Goodwell, which is headquartered in **Amsterdam, The Netherlands**, works with local partners in India (Aavishkaar), Nigeria (Alitheia) and Ghana (JCS), and has investment team for East Africa, located in **Nairobi, Kenya**, and another investment team for Southern Africa, located in **Cape Town, South Africa**.

Another example is **Triple Jump**, which is an impact-focused investment manager that provides meaningful and responsible investment opportunities in emerging markets. The Triple Jump head office and more than half of its staff are located in **Amsterdam**. Globally, the team consists of more than 70 professionals which is organized along regional lines, with offices in Lima, Mexico City, Tbilisi, Bangkok, and **Nairobi**.

Oikocredit International is based in LA Amerfoort, **The Netherlands**. They offer loans and investments in Benin, Burkina Faso, Côte d'Ivoire, Ghana, Kenya, Malawi, Mali, Niger, Nigeria, Rwanda, Senegal, Uganda and Zambia with a regional Oikocredit offices in Kenya and further offices in Côte d'Ivoire, Ghana and Nigeria.²¹

Bettervest GmbH is based in Frankfurt am Main, **Germany**. It is an online investment platform that finances sustainable development projects across the globe. With the help of ordinary citizens, we provide companies or organisations with the financial means to implement *renewable energy as well as energy and resource efficiency projects*. From as little as 50€ onwards, retail investors can jointly finance these measures and benefit from the resulting cost reductions or generated revenue, while knowing they have had a positive environmental and social impact. With over 90 successfully funded projects they have reduced emissions by more than 500000 tons of CO₂. 2019 marks the launch of **Enygma Ventures**, located in **Cape Town South Africa**, is a private investment fund focused on investing in women-led businesses in Southern Africa. As the local partner of Enygma Ventures, **The Africa Trust Group (ATG)** is committed to bridging the gender gap in access to finance for early-stage women entrepreneurs in the SADC region by providing them with the holistic support they require to become investor-ready.

SilverStreet Capital is a **UK, South Africa and Zimbabwe** based investment advisor managing African agricultural funds. Its objectives are to achieve a positive long term social, environmental and climate impact whilst making attractive returns for investors. Silverlands I is the largest *Sub-Saharan African agricultural fund*. SilverStreet Capital invests across the agricultural value chain, including the seed sector, primary production, processing, storage and trading in six countries in Southern and East Africa. SilverStreet Capital has closed **Silverlands II**, the successor fund to its original Silverlands Fund I. Silverlands II invests into the agricultural and food production sectors of Sub-Saharan Africa.²²

²⁰ Sources: [Max Cuvellier](https://thebigdeal.substack.com/welcome) and [Maxime Bayen](https://thebigdeal.substack.com/welcome). June 2021. Newsletter: <https://thebigdeal.substack.com/welcome>. Underlying data: <https://gumroad.com/l/bQSRD>.

²¹ Sources: <https://www.goodwell.nl/>; <https://triplejump.eu/about-us/>; and <https://www.oikocredit.coop/en/>

²² Sources: <https://www.silverstreetcapital.com/our-story>; <https://www.linkedin.com/company/bettervest-gmbh/>.

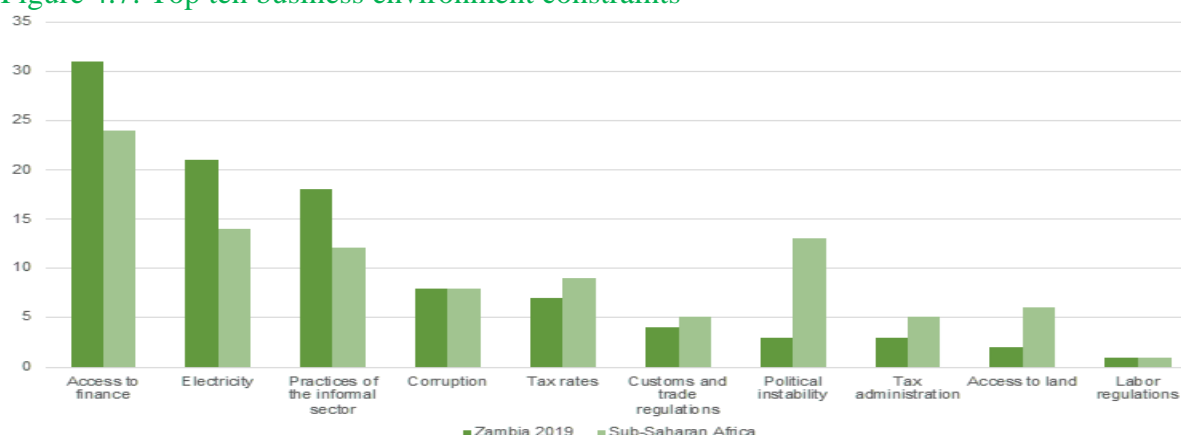
4.4. Risks Analysis

The Zambian economy stands among **the most attractive investment destinations** in Sub-Saharan Africa (SSA). Efforts have been made by The Government of Zambia to **improve the investment climate** for both domestic and foreign investors as evidenced by Zambia's ranking as 6th in SSA and 85th among 190 countries in the World Bank Ease of Doing Business in 2020 (World Bank, 2021) (See Appendix 1). Further, Quantum Global Group based on a set of indicators (13 in total), ranked Zambia as the 8th best performing economy in Africa and 3rd in COMESA behind Egypt and Ethiopia by the Africa Investment Index.²³ RMB(2020) ranked Zambia 17 in both 2019 and 2018 in terms of investment attractiveness, and ranked 19 when it comes to alternative investment ranking, when prioritising economic activity.²⁴ These indices reflect Zambia's advantageous business and investment environment, which is anchored on macroeconomic stability (GRZ, 2019).

Business Environment Obstacles

Most indicators in the Enterprise Survey are derived from survey questions that ask businesses for their actual experiences dealing with the business environment. A small number of survey questions ask business owners or top managers for their subjective opinion regarding the importance of various business environment elements. Figure 4.7 shows the percentage of firms that consider a **specific business environment obstacle as the most important one**. The respondent was asked to choose the biggest obstacle to their business from a list of 15 business environment obstacles. The figure 4.7 presents Zambia's top 10 ranking obstacles compared to the regional averages.

Figure 4.7: Top ten business environment constraints



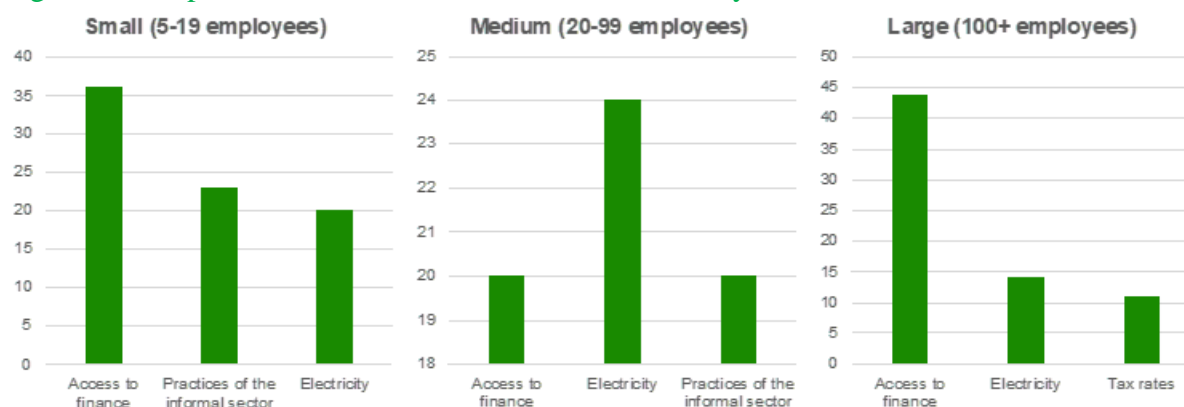
Source: World Bank, 2020:10.

Figure 4.8 in turn displays **the top 3 obstacles for small, medium, and large firms**. In many economies, the perceptions of managers of large firms are very different from the perceptions of managers of medium and small firms. This is related to the capacity to navigate business environment obstacles: larger firms may have more options to face obstacles but at the same time they are also more visible and more exposed to failures of the business environment (World Bank, 2020).

²³ Source: http://quantumglobalgroup.com/wp-content/uploads/2018/03/AII2018-Final_Web_26.03.2018.pdf Accessed 21st of May 2021.

²⁴ RMB(2020) has constructed alternative rankings (based on their core methodology) to offer an array of views that prioritise different aspects of its methodology and include an added measure of political risk when looking at the ease of doing business.

Figure 4.8: Top three business environment constraints by size



Source: World Bank, 2020:10.

Forecasting investment associated risks

When evaluating investments in Zambia, survey respondents have demonstrated to be focusing on different risks based on their background, mission and investment mandate. From our ZIIMS questionnaire both interviewed DFIs and PAIFs confirmed that they forecast possible risks based on the investment instruments they use as well as in relation to transactions type and/or sector.

Interviewed PAIFs operate through a variety of investment tools. When evaluating investment opportunities they especially concentrate on investment risks associated with those tools. For example, **private debt providers** are keen on forecasting: Management execution ability, cash flows, ability to deliver the repayment as well as the end market the investees are in. Equally, **private equity providers** focus on assessing risks such as: management execution ability, effective governance, as well as liquidity and exit strategies.

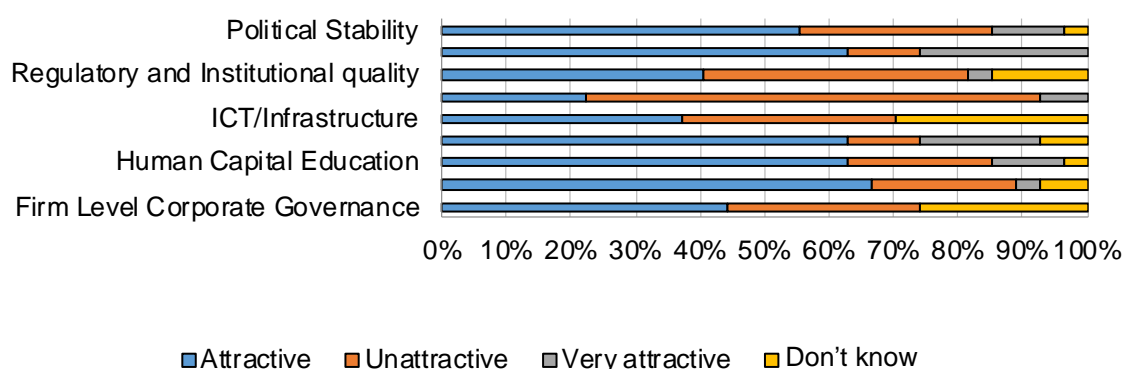
DFI survey respondents seem to consider the investment as a broader event. As a consequence, they happen to be less engaged with investment tools only related risks, but rather focus on forecasting a wider set of risks such as: corporate governance, human resources, financials, market conditions, competitors as well country risk and currency risk.

As far as the investment life cycle is concerned, the majority of both DFIs and PAIFs interviewed have declared not having in place any tools to forecast and/or monitor investment risk. When in particular it comes to impact risk, only interviewed DFIs have confirmed to taking impact risk into consideration. On the contrary, interviewed PAIFs have declared not to take impact risk into consideration nor to have any impact risk framework in place or use.

Zambia market key elements evaluation

The IICS data shows that investors evaluate the quality of Zambia's marketplace investment related external factors very differently. Not all the survey respondents see the Zambian marketplace in the same fashion. Notwithstanding the different point of views, the majority of them consider the Zambia marketplace **attractive** because of its "political stability", "strategic location", "labour availability", "human capital education", "market accessibility" and "corporate governance". Those areas appear to be **appealing factors** to consider when doing business in Zambia as opposed to: "regulatory", "ITC" and "infrastructure" quality which are believed by the majority of the takers to be **fairly unattractive** together with "economic instability" as mentioned above.

Figure 4.9: Attractiveness and quality of external factors of Zambia’s investment marketplace

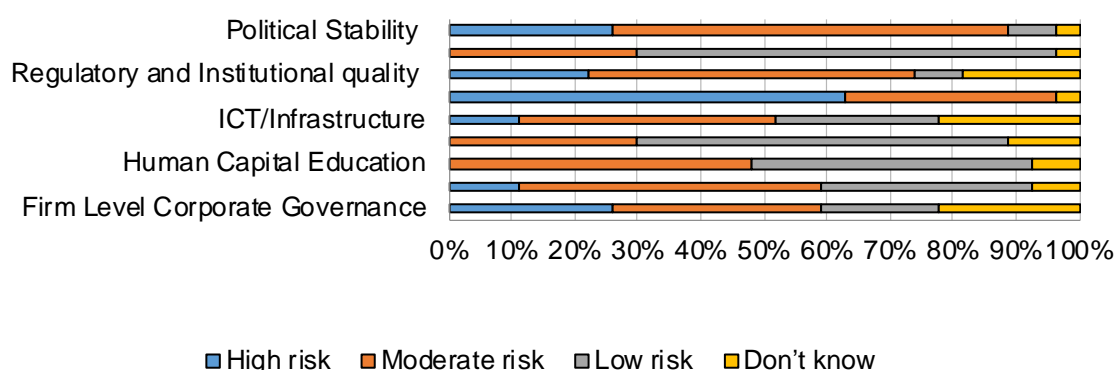


Source: “How would you rate the quality of each of these factors specifically for Zambia?” IICS 2021 data.

Zambia market risk factors evaluation

The most attractive Zambia market key elements as expressed by the survey respondents happen to be those with less associated risks – in an aggregate way. On the other hand, this is not necessarily correlated for less attractive features as demonstrated below. For example, elements considered by the survey respondents as **fairly attractive** such as: “political stability”, “strategic location”, “labour availability”, “human capital education”, “market accessibility” and “corporate governance” are regarded also as less hazardous. Investors were asked to consider the risk level associated with them as **mainly moderate or low**. On the other hand – and not perfectly in line with the above trend – investors consider **less attractive features** more uncertain and unsafe but not as much as a red flag. The remaining elements are regarded as “**moderate risk**” or “**low risk**” even if unattractive, with the exception of the “economic stability” – which investors happen to grade as number one risk in the Zambia marketplace ranking it as “high risk”.

Figure 4.10: Risks attached to each Factor in Zambia, 2021



Source: “How would you rate the risks attached to each of these factors specifically for Zambia?” IICS, 2021.

Economic stability focus – Sector associated risks

The reported impact deals captured by the Zambia Climate Survey (2021) study, where deployed across a number of sectors: Financial sector, renewable energy, food and agro-processing, real estate, agriculture, education, waste management, fish farming and tourism. Those sectors appear to be those that investors were able to assess with a fair degree of accuracy and valued – at a given price - **more attractive to invest in**.

In particular, the highest impact capital-sector allocation was recorded in fish farming (equal to 30% of the total value of executed impact deals), while the least allocation was seen in renewable energy (equal to 1% of the total value of executed impact deals). The market direction has shifted over the period. Overall, there were reductions in percentage allocation to sectors considered less stable and possibly less profitable such as: Financial services, renewable energy, real estate and agriculture sectors. While the market considered food and agro-

processing as well tourism as sectors better positioned and committed to increasing investments.

Economic stability focus – Market resilience risks

In line with other markets across the globe, African local economies including the Zambia impact investing marketplace suffered enormously from the outbreak caused by the Covid-19 pandemic hit. Such a market risk proved to be not manageable by investors to such an extent that they decided – for a given time – to not invest and FDI inflows reduced enormously (UNCTAD, 2020). As a matter of fact, by the first quarter (Q1) of 2020 reported that impact investment related activities fell to an all-time low of \$0.5 Mn over the period 2019-2020.

It can be concluded that “**economic stability**” is indeed the **major risk factor** for impact investors to consider when deciding to invest in Zambia. The “economic stability” risk factor entails a number of **associated issues** such as: the marketplace resilience, the local economy ability to provide technical and political solutions, the capacity of the local currency to absorb such market-shocks and the investee companies’ chances to deliver an acceptable output given the surroundings.

4.5. Financial Performance

Table 4.5: Financial Performance of Non-DFIs and DFI, 2018-2020

| | Investment (000s) | | | Return (000s) | | | Return (%) | | |
|----------------------|-------------------|--------|--------|---------------|-------|-------|------------|--------|--------|
| | 2020 | 2019 | 2018 | 2020 | 2019 | 2018 | 2020 | 2019 | 2018 |
| AHL Venture Partners | | 42,063 | 35,818 | | 667 | 1,246 | ROI | 1.59% | 3.48% |
| Norfund | | | | | | | (IRR) | 6.30% | 5.90% |
| FMO | | | | | | | ROI | 3.60% | 2.60% |
| DFC | 4,670,000 | | | | | | 7.40% | | |
| CDC | | | | | | | | -2.10% | -2.60% |
| Findev Canada 2019 | | 51,000 | 16,000 | | 1,853 | 1,300 | | 3.63% | 8.13% |
| IFC | | | | | | | | 0.10% | 1.40% |

Source: 4IP Group, 2021, compilation and calculations.

After a careful analysis of the baseline report of the 2015-2018 period, in 2019 growth was expected to be equal to \$515 Mn across a total of 96 deals, with a CAGR of 13% a year. **These projections were not met**, since in 2019 the overall performance of investments was equal to \$417 Mn [non-normalized], but there is still a strong evidence of growth on the market: In fact, the Impact investing market size was equal to \$580 Mn across 3 years – 2015-2018, while in 2019 alone the figure was roughly 72% of that of the precedent triennium [EIB loan included]. As for 2020 instead, the COVID-19 outbreak completely limited the investments, such that impact investments amounted to only \$6 Mn [non-normalized] across the first 2 quarters – January excluded - of 2020.

The market faced a quick, even if not full, recovery across Q3 and Q4 of 2020, with a total of \$195 Mn [non-normalized] of debt and equity deals across 28 deals [EIB loan included].

It is therefore noticeable that **the overall investment size plummeted** - 53% in a single year, but with slight signals of **recovery** towards the end of the year. It is quite improbable a return to 2019 parameters in 2021, and we should expect the investments to go back to their 2019 peak from Q4 of 2022, assuming no second COVID19 wave nor any other worldwide big crises will arise.

Impact Investments generated both **positive and negative returns** in the 2019-2020 period, but the average remains strong at around **2.7% return on investment (RoI)**.²⁵

²⁵ If we get new data, we can calculate it better and thereby avoid to normalize.

5. Impact Measurement and Management approaches

This section investigates **the fund management landscape and investors using impact measurement and management tools**. More specifically, it looks at the impact measurement and management practices of both non-DFIs (PAIFs) and DFIs.

Our research shows that many of the impact investors investing in Zambia over the 2019 – 2020 period share **common approaches in providing solutions to society's biggest challenges** today. In terms of targeted challenges, for most of these investors the primary objective is to respond to SDG 1 which aims at tackling poverty. However, it can also be noticed that different investors – despite having a number of shared SDGs on their spotlight – have various investment vehicles and **strategies** which optimize their use of impact capital, not only for financial profitability but also for environmental and social returns.

When it comes to setting objectives, a significant proportion of investors recorded to have invested in Zambia between 2019 and 2020 **focus on addressing SDGs 1, 2 and 8** (which refer to Poverty, Zero Hunger, and Decent Work and Economic Growth, respectively) with some focusing on Affordable & Clean Energy (SDG #7) and a few others seeking to address challenges due to inadequate Industries, Innovation and Infrastructure (SDG #9).

In addition, research done by the Overseas Development Institute (ODI) has found evidence of an **increasing use of harmonized impact indicators by DFIs** in order to increase the reliability and comparability of the data for SDG contribution (Priscilla Boiardi and Esme Stout, 2021).

The most popular indicators used by DFIs are the Harmonized Indicators for Private Sector Operations (HIPSO) and the Global Impact Investing Network's (GIIN) IRIS+. From our sample size, a certain number of the organizations followed IRIS metrics of GIIN, including:

- ❖ Norsad Finance
- ❖ AgDevCo
- ❖ Oikocredit
- ❖ FINCA Ventures
- ❖ Goodwell Investments
- ❖ Danish SDG Investment Fund (IFU)
- ❖ Dutch Development Bank (FMO)
- ❖ Finnfund
- ❖ International Finance Corporation (IFC).

While evidence found by the ODI suggests that **a number of DFIs** are using both the HIPSO and IRIS+ indicators, the two organizations are at the same time committed to avoiding duplication and consolidating their alignment. On this basis, the European Development Finance Institution (EDFI) and the GIIN recently launched a subset of HIPSO and IRIS catalogue of metrics with a **focus on Jobs, Gender and Climate** (GIIN and HIPSO, 2021), named the Joint Impact Indicators (JII). These three areas of the JII appear to be the most relevant for DFIs to track and report on.

In addition, the commitment by DFIs to disclose **both the direct and the indirect impacts** of their investments increased with the launch of the Joint Impact Model (JIM) in 2020. However, while the JIM highlights increasing DFI efforts to engage in the alignment of their indirect impact reporting, it is not yet clear whether the JIM will be the established model across all DFIs.

Box 5.1

The French DFI Proparco uses Joint Impact Model (JIM) tool to estimate jobs and value added by country at the project level, and for ex-ante assessment during the due diligence stage of an investment. Similarly, **CDC Group** is using the tool to estimate the number of jobs supported at the portfolio level (JIM, 2020).

The Investment Fund for Developing Countries (IFU) is Denmark's DFI acting as a Danish impact investor. The ambition is that IFU's new investment strategy will enable IFU to become a best-in-class impact investor. IFU has a comprehensive framework for managing sustainability risks and impacts as an integral part of the investment process for both direct investments and investments in funds and financial institutions. When an investment opportunity is approved for consideration, IFU engages in a thorough due diligence of the project. The impact potential is assessed further in relation to the SDGs, and project-specific impact areas are identified. The due diligence also includes a comprehensive assessment of E&S risks, adverse impacts and mitigation measures related to the specific project based on the E&S categorisation. The primary standards for high-risk projects that guide the scoping of IFU's due diligence of investments are the IFC. In low-risk projects, the E&S performance is assessed using the UN Global Compact Self-Assessment Tool co-developed by IFU.

Development Bank of Southern Africa (DBSA) is a South African State-owned entity and a DFI whose role it is to deliver development impact: Inclusive growth, job creation, promotion of economic/social development and spatial development. The DBSA supports six of the 17 SDGs directly and by implication the South African government's efforts towards our Nationally Determined Contributions in terms of the Paris Agreement. DBSA has also linked its SDG contributions to several National Development Plan (NDP) outcomes. The DBSA's overall contribution to these initiatives shows DBSA's commitment to sustainable development at a global and national level.

The IFC's Impact Principles, launched in April 2019, provide a framework for investors to ensure that impact considerations are purposefully integrated throughout the investment life cycle. The Impact Principles are intended to be a framework for investors for the design and implementation of their impact management systems, ensuring that impact considerations are integrated throughout the investment lifecycle. **The IFC's Operating Principles for Impact Management** provide a reference point against which the impact management systems of funds and institutions may be assessed.

Norsad Finance has a 30-year legacy of purpose-driven work alongside like-minded partners for the co-creation of a more resilient and sustainable Africa. Norsad's purpose is to build a better Africa. The company provides tailored long-term financing solutions of between USD5Mn and USD10Mn to companies that are profit-oriented and contribute to the SDGs in the region. The company is backed by a balanced mix of **Nordic and African institutional investors**. Norsad's international shareholders — European DFIs: Finnfund, IFU, Norfund, and Swedfund — are **ahead of the curve in ESG and responsible investing**.

Norsad's preferred sectors are those which can achieve impact in line with the UN-SDGs. The progress made towards achieving these goals in the Southern African Development Community (SADC) region has informed the alignment of Norsad's investments to local and regional impact priorities. Norsad also remain focused on aligning its work to the goals set out in the SDGs, in ensuring that Norsad plays its part towards addressing poverty and inequality in the region through impact projects focused on clean and renewable energy, food and agribusiness, hospitality, education and financial accessibility & inclusion.

Norsad carries out a systematic monitoring and measuring of its impact.²⁶ Norsad Finance adheres to **the World Bank/IFC Performance Standards and International Labour Organization (ILO) core conventions**. Norsad is both a member of the GIIN and a signatory of the **UN-supported Principles for Responsible Investment (UNPRI)** and reports its impact in line with PRI reporting requirements. In the 2020 PRI reporting and assessment cycle, Norsad outperformed peers in all categories and achieved the highest possible rating (A+) for strategy

²⁶ Source: <https://norsadfinance.com/our-impact/> accessed 7th of July 2021.

and governance. CFI.co also declared Norsad Finance as the worthy winner of **the 2020 award for Best Impact Investor (Africa)**.²⁷ Norsad believes that subscribing to best ESG practices creates sustainable brands, increases productivity and enables companies to unlock further funding. Norsad assists investee companies to formulate and implement adequate internal social and environmental policies. Norsad expects sustainability objectives and activities to become fully anchored in its investee companies' business strategies and to be adapted and integrated into their procedures and operations.²⁸

AgDevCo is a United Kingdom (UK) based agribusiness investor and project developer operating in Sub Saharan Africa. It is active in eight countries, with country offices in six. AgDevCo's investment objective is to build profitable businesses that contribute to food security, drive economic growth and create jobs. AgDevCo fulfils a unique niche, providing capital and ongoing management and technical support to early stage agriculture companies, accepting high risks and moderate returns.²⁹ AgDevCo has updated **the ESG framework** and integrated it into the wider due diligence process, to better assess risk associated with ESG at the pre-investment stage and produce action plans to mitigate risks. In 2017, AgDevCo started implementing **an Environmental and Social Management System**, to help higher risk, larger investees improve monitoring and management of ESG risks (AgDevCO, 2018).

AgDevCo develops **an impact business case for each proposed investment** it makes. These impact business cases include an impact thesis (the logic and assumptions behind how its investment will create impact at a firm, market and livelihood level), projections for key indicators, and the additionality and transformational change scores. Different investment strategies have different impact strengths, but all together the AgDevCo portfolio contributes to each dimension of AgDevCo's impact:

- Transformational Change;
- Additionality;
- Farmers Reach;
- Farmers Income.

In addition to the four primary impact areas, AgDevCo also tracks the following indicators for all its investments. All the indicators and targets are included in AgDevCo's DFID global log frame (table 5.1):

Table 5.1. Indicators and Methodology

| Indicator | Methodology |
|------------------------------------|---|
| Jobs created /sustained (M/F) | Measure full time equivalent (FTE) jobs using verified HR records |
| Income uplift from employment (\$) | Measure the annual additional revenue men and women receive from employment created by verifying salary records |
| Annual capital leveraged (\$m) | Measure the additional capital that AgDevCo investments attract into our investees using verified financial records |
| Value of goods exported (\$m) | Measure the contribution of our investments to regional and intercontinental trade using verified sales records |

Source: AgDevCo, 2019:13.

²⁷ Source: <https://norsadfinance.com/2021/02/04/norsad-finance-best-impact-investor-africa-2020/> Accessed 7th of July 2021.

²⁸ Source: <https://norsadfinance.com/our-approach/> Accessed 7th of July, 2021.

²⁹ Separate business cases in Rwanda and Uganda underpin funding to AgDevCo from the respective Country Offices. A single funding agreement and monitoring and oversight system ensures coordination across DFID, with ARD leading the corporate relationship with AgDevCo. This Annual Review covers all countries of AgDevCo operations, although a separate dedicated Annual Review process continue to be implemented in Uganda.

Gender equality is not the primary purpose of its investments, but AgDevCo believes that gender equality and women's empowerment are significant factors in the commercial success of its investments, and in delivering development impact. Gender equality is mainstreamed throughout the investment and operational cycle (AgDevCo, 2019).³⁰

Oikocredit has been a leader in implementing social impact measurement. Oikocredit's value proposition for partners is to work with partners to maximise social impact for their clients and members. They do this by combining their funding with additional support. Assessing social impact involves collecting data on their partners' outreach, targeting methodology, employment rates, sustainability, compliance with client protection principles, care for the environment and products and services offered. Oikocredit works with partners to implement industry tools to monitor indicators of social performance.³¹

The standards Oikocredit uses to help strengthen its partners' social performance include the Smart Campaign's Client Protection Principles (CPP), the Social Performance Task Force's Universal Standards on Social Performance Management (USSPM), and the Consumer Protection Code created by Gogla, the global association for the off-grid solar energy industry. By helping their partners enhance their performance, Oikocredit supports them to achieve their growth and sustainability goals, and their social mission. Oikocredit actively contributes to the UN's SDGs. In particular, Oikocredit contributes towards SDG 1, 2, 5, 7, 8, 10 and 17. They evidence their contribution to these goals with over 50 indicators. These indicators are closely aligned with standard impact investing indicators included in **the GIIN's IRIS+ measurement system** through which they collect data to track Oikocredit's contribution to the SDGs.³²

FINCA Ventures is an impact investing initiative of FINCA International which builds on over 35 years of experience creating a global microfinance network that delivers financial access at scale. Each of Finca Ventures' investees, including Good Nature Agro located in Chipata in Zambia's Eastern Province (co-investor Goodwell Investments),³³ is creating lasting impact for their customers. Finca Ventures' goal is to help them grow faster and smarter, and reach low-income populations more effectively and responsibly.

With Finca Ventures' initial investments, the team **assembled impact metrics using the approach of some more experienced co-investors**. This proved useful at the time, balancing the need for impact measurement and management with the realities of being new at the table. Three years since making that initial equity investment, and being able to reflect on their engagement with portfolio companies on both business and impact performance indicators, Finca Ventures wanted to **more actively drive the impact conversation**. This required going back to the drawing board and **crafting an impact framework** that reflected their overarching theory of change anchored in FINCA's mission.

FINCA Ventures invests in early-stage companies that offer affordable, high-quality and life-enhancing products and services in energy, education, health and agriculture. **To assess outcomes across** such diverse sectors, FINCA Ventures utilizes universal standards for measuring, monitoring and optimizing the impact of investments. These include the UN SDGs and the GIIN IRIS+ metrics. Custom survey instruments and metrics are deployed as needed

³⁰ The full details are provided in AgDevCo's Gender Equality Strategy.

³¹ Source: <https://www.oikocredit.coop/en/what-we-do/social-impact/measuring-social-impact> Accessed 7th of July, 2021.

³² Source: https://www.oikocredit.coop/l/en/library/download/urn:uuid:09275732-6814-4c16-835d-4218555edb6c/oikocredit+impact+report+2020.pdf?format=save_to_disk Accessed 7th of July, 2021.

³³ <https://goodnatureagro.com/> and <https://fincaventures.com/why-we-invested-good-nature-agro/>

for deeper or more specific evaluation and understanding. Complementing their effort to align impact goals to the SDGs, FINCA Ventures also assesses portfolio companies across **three dimensions of impact** to develop a theory of change which articulates how the company is improving access to basic services and unlocking productivity for low-income populations. These three dimensions are: scale, depth and the target poverty level of end-customers (FINCA, 2020).

Goodwell Investments is a fund manager committed to the development of an inclusive economy in the emerging and frontier markets. They invest in businesses that increase access to basic goods and services for un(der)served communities. Goodwell is now considered one of the most active early growth stage investors across the impact sectors on the African continent. **In terms of Impact (ESG Management) Framework Goodwell Investments** applies the highest standards in fair business practices, including The Client Protection Principles (‘the Smart Campaign’) of which Goodwell was an inaugural signatory, and the UN Principles for Investors in Inclusive Finance, of which Goodwell was co-founder and inaugural signatory. The Guidelines for Responsible Investment in Digital Finance launched in June 2018 are an initiative of Goodwell and IFC (Goodwell Investments, 2019).

The Challenge of Aligning Frameworks

Research by the ODI indicates that the majority of DFIs do not implement a harmonized impact management framework due to the complication of such task. Unlike principles, frameworks need to be tailored to the size of the DFI, the sectors it is active in, the type of projects and investees it supports, and its internal processes. Consequently, any attempt at harmonization is debatably too high-level and **even runs the risk of allowing investors to backward-engineer impact**.

This research’s findings suggests that an increasing number of DFIs prefer to initiate proprietary frameworks in order to set impact objectives and assess the results afterwards. As a consequence, the OECD and the United Nations Development Program (UNDP) together developed the Impact Standards for Financing Sustainable Development (IS-FSD). These standards help DFIs and asset managers find a common language and integrate impact management into investment practices and decision-making, in order to evaluate both positive and negative effects on people and the planet.

In addition, research by the ODI suggests that there might be some positive selection bias, and only those investors with robust impact management systems will feel comfortable committing to follow the Operating Principles and disclosing their alignment. Hence, the patterns presented here should be seen as indicative of where the leading edge of the impact investing industry is going. There is work to be done to bring others up to emerging industry good practices.

In conclusion, DFIs have come a long way into impact measurement and standardization of such methodologies. Nevertheless, these frameworks and methodologies do not guarantee that they will be applied across firms and projects. It is crucial to take into account the dual nature of DFIs – namely, to pursue development goals and obtain a financial return at the same time – since it plays a role in the way these impact measurement methodologies are used.

Box 5.2: Cases of Non-DFIs' Impact Measurement and Management Approaches

Silverland's Fund's eighth Annual Impact and ESG Report covers the period 1 July 2019 to 30 June 2020. The report covers investments in both the Silverlands Funds (Silverlands I and II). The aim for the report is to provide an update on the Silverlands Funds' impact and a review of ESG compliance within the investment portfolios. Silverlands Fund has considered:

- ❖ the UN Sustainable Development Goals (SDGs),
- ❖ relevant IRIS metrics,
- ❖ the International Finance Corporation (IFC) Performance Standards,
- ❖ their own Responsible Investment Code (RIC),
- ❖ the UN Global Compact and
- ❖ the UN-PRI.

On top of this SilverStreet is also a signatory of the UNPRI.

Another example is **Triple Jump**, who as an impact-focused investment manager is committed to generating positive social and environmental outcomes through its investment activities, while at the same time mitigating unintended negative impacts that may arise. They assess, mitigate and monitor the potential negative impacts investments may have on the environment and society and exclude investments where the risk of harm cannot be adequately mitigated. Along with providing capital to their investees they also engage with them where possible to improve their ability to manage their environmental and social risks. Their approach is based on several **international standards** such as the UN Principles for Responsible Investment, the IFC Performance Standards and sector specific standards such as the Universal Standards for Social Performance Management (USSPM). Triple Jump's commitment and approach are outlined in their Responsible Investment Policy, which includes a description of the principal adverse sustainability impacts and how they are managed.

From our own ZIIMS Survey we find that all surveyed non-DFIs believe in **the task of Impact Measurement**. Some of the reasons mentioned are the following: It's critical for true change in development with local investors focused on Impact Measurement; it helps targeting investments and provides accountability. On the other hand, the majority do not apply **a logical framework / theory of change approach**. One surveyed impact investor replied yes and stated that it has developed its own theory of change combining the different sectors of focus. The impact investor defines its approach in accordance with **the traditional impact value chain approach**: Inputs>Outputs>Outcomes and Impact. When it comes to this same impact investor's measure of social impact of its investments, three examples of indicators used are:

- Number of jobs,
- Number of beneficiaries and
- Suppliers: Percentage of women is tracked where possible.

Another Impact Investor mentioned that they think when there is improved financial resilience they use outputs as an indicator that financial resilience is increasing for example.

When it comes to **the ESG screening methods used**, the following were highlighted:

- ESG Screening integrated into investment decision process (all);
- ESG Reporting to investors (2/3);
- Inclusion of social or environmental covenants / undertaking within investment agreements (1/3).

Some of **the impact measurement metrics used** by the surveyed impact investors include:

- Number of people directly employed by investees (3/3);
- Gender Profile of investees' employees (3/3);
- Number of active end clients financed (3/3);
- Location of end-clients (2/3);
- Gender profile of end-clients (3/3).

One impact investor expressed that the IRIS Metrics was the **preferred standard measurement management methodology**, while others didn't have an opinion on this measurement issue. In the former case when it comes to the main stakeholders involved in IMM process, the response was that the Portfolio Company Middle management is in charge of providing the data to the Impact Investor's Impact measurement team, who in turn presents the data to the investment committee. Moreover, both IRIS+ and the Impact Management Project have been embedded in **the impact investor's IMM system**. Other tools include the SDGs. On the other hand, no impact investors surveyed are using **incentive systems for the fund managers** linked to their impact performance.

6. Investees

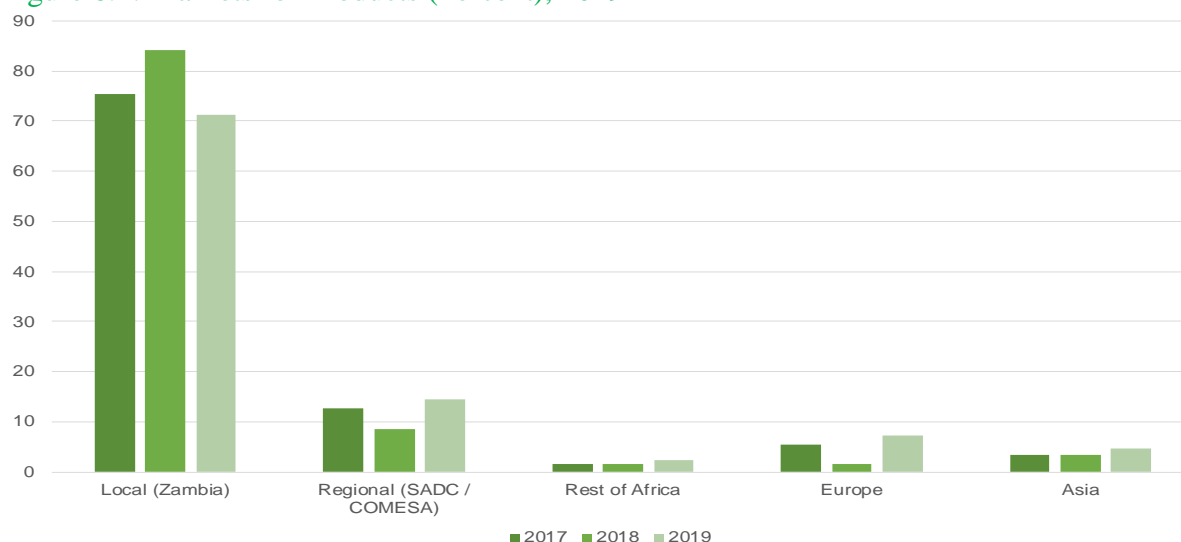
This section maps enterprises who received impact capital and the number of transactions.

6.1. Foreign Private Investment and Investor Perceptions Surveys, 2019 and 2020

The global economy was hit by the devastating COVID-19 pandemic in 2020. As a result, the Zambian economy contracted by about 3.0 percent. Going forward, the recovery in growth is expected to be mainly driven by the private sector while **economic diversification** will be anchored on agriculture, mining, manufacturing, tourism and energy sectors (GRZ, 2021).

The Foreign Private Investment and Investor Perceptions Survey, 2019 revealed that domestic market continued to be the main destination for products and services. **The percentage of enterprises whose market was mainly domestic** reduced to 71.2 percent in 2019 from 84.2 percent in 2018 (figure 6.1). This reduction is explained by an increase in the percentages of firms participating in the regional markets (SADC/COMESA) and Europe.

Figure 6.1: Markets for Products (Percent), 2019



Source: GRZ, 2019: 64.

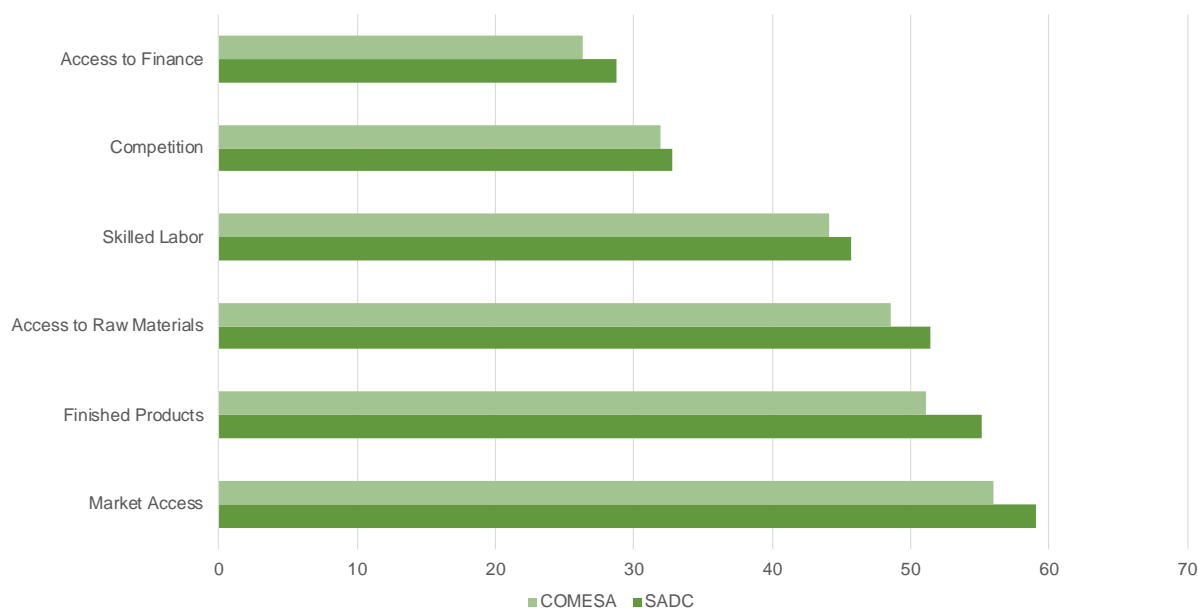
Services

Out of the surveyed firms, 77.3 percent predominantly **offered services to the domestic market**, while 13.6 percent and 5.7 percent provided services to the regional (COMESA and SADC) and European markets, respectively. The remaining 3.3 percent extended their services to Africa, Asia and America (GRZ, 2019).

Impact of Zambia's Membership to SADC and COMESA

The survey findings revealed that **Zambia's membership to SADC and COMESA has reaped benefits to firms** that trade within these regional blocs. **Wider market access** was reported to be the most beneficial element, while access to finance was the least (Figure 6.2). This may demonstrate the reaped benefits of firms operating in Zambia on **duty and quota free market access to SADC and COMESA**. Further, some respondents indicated that competition faced in the region did not adversely affect their business operation.

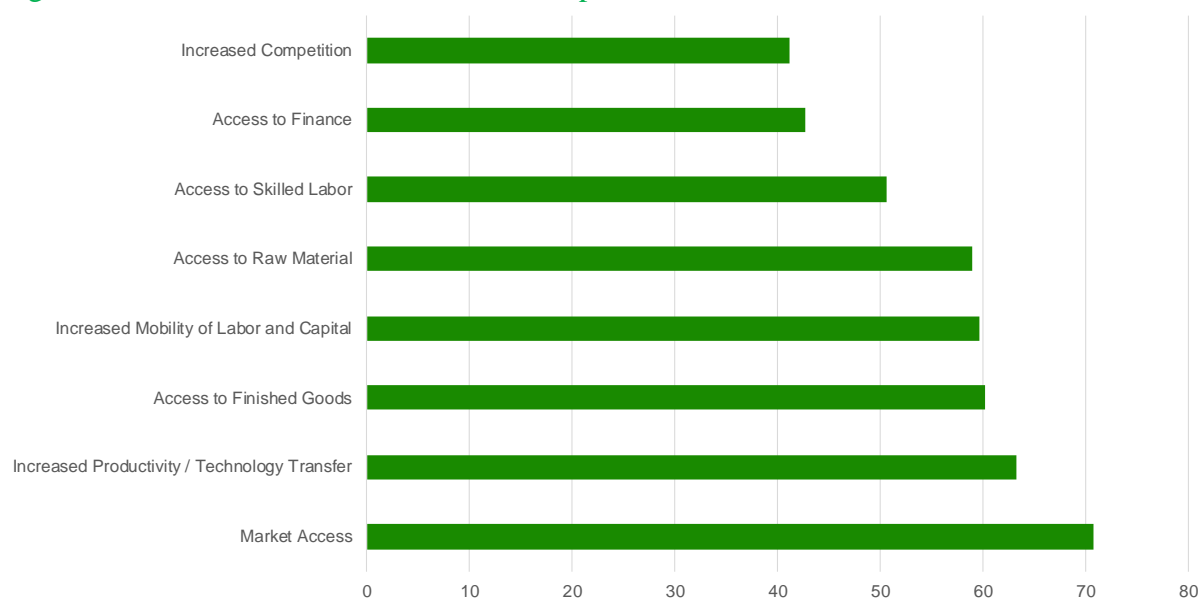
Figure 6.2: Benefits of Membership to SADC and COMESA (Percentage), 2019



Impact of Zambia's Membership to AfCFTA

The GRZ (2019, 2021) Surveys revealed that **Zambia's membership to the African Continental Free Trade Area (AfCFTA)** may benefit businesses in terms of increased market access and technology transfer. Slightly over half (57.5 percent) of the respondents were aware of the AfCFTA Agreement. Of these respondents, the majority (70.7 percent) were of the view that the AfCFTA would **enhance their access to markets** and their productivity through technological transfers. Further, most of the firms (60.2 percent) expect Zambia's membership to AfCFTA to enhance their access to finished goods, raw materials, finance, and skilled labour through increased mobility of labour and capital (Figure 6.3).

Figure 6.3: Perceived Benefits of Membership to the AfCFTA



Source: GRZ, 2019:66; GRZ, 2021:20.

6.2. Zambia Impact Investing Market Size Survey

With most of the reported impact deals captured by the 4IP Group ZIIMS study, a number deals were reported to have occurred but their value were never disclosed by the impact investors

in question. The highest proportion in terms of impact capital-sector allocation was recorded in **Fish Farming**, where 30% of the total value of impact deals were executed. While the least allocation was seen in **Renewable Energy** which received 1% of the total value of impact deals recorded. Overall, there were reductions in percentage allocation in Financial services, Renewable Energy, Real Estate and Agriculture sectors. While there were increase in proportions allocated towards Food & Agro-processing and the Tourism sectors.

Table 6.1: Investees, 2019-2020

| No | Impact Investor | Investee | Deal Type | Deal Size | Deals |
|-----------------|---|--|-----------|-------------|-----------|
| 1 | IFC | Protea Hotels | Debt | \$ 9.00 | 1 |
| 2 | IFU | GreenCo Services | Equity | \$ 6.67 | 2 |
| 3 | Inside Capital Partners | Alpha PolyPlast Ltd | Equity | \$ 2.75 | 3 |
| 4 | AgDevCo | Goldenlay | Debt | \$ 2.00 | 4 |
| 5 | Goodwell Investments | Good Nature Agro | Equity | \$ 2.10 | 5 |
| 6 | Finnfund | Yalelo Fish | Equity | \$ 6.00 | 6 |
| 7 | FMO | Agora Micro Finance Zambia Ltd. | Debt | \$ 2.50 | 7 |
| 7 | FMO | Yalelo Fish | Debt | \$ 10.50 | 8 |
| 8 | Enygma Ventures | PremierCredit | Equity | \$ 0.65 | 9 |
| 8 | Enygma Ventures | Lupiya | Equity | \$ 1.00 | 10 |
| 9 | Private Infrastructure Investment Group (InfraCo) | GreenCo Services | Equity | \$ 0.50 | 11 |
| 9 | Private Infrastructure Investment Group (InfraCo) | Western Power Company | Equity | \$ 2.04 | 12 |
| 10 | Africa Trust Group Fund | Sage Valley Foods | Equity | Undisclosed | 13 |
| 11 | Tripple Jump Bv | Rent 2 Own | Equity | \$ 2.22 | 14 |
| 12 | Africa Agriculture Trade Investment Fund (AATIF). | Mt. Meru Millers | Debt | \$ 5.00 | 15 |
| 13 | Amano Capital | ComGrow | Equity | \$ 0.04 | 16 |
| 13 | Amano Capital | Lusaka Grocery Delivery | Debt | \$ 0.05 | 17 |
| 14 | BetterVest | WidEnergy Africa | Equity | \$ 0.43 | 18 |
| 15 | Marc Menase | Zazu Africa | Equity | \$ 1.40 | 19 |
| 16 | Musika | Nature's Nectar | Debt | \$ 0.25 | 20 |
| 17 | Rabo Bank | Zambia Potato Company | Debt | \$ 2.70 | 21 |
| 18 | Shelter Afrique | Zambia Home Loans | Equity | \$ 1.34 | 22 |
| 19 | Proparco | Seed Co Group | Debt | \$ 12.50 | 23 |
| 20 | Oikocredit | Undisclosed | Debt | \$ 7.31 | 24 |
| 21 | Thirty30 Capital | Commodity Trading company (name undisclosed) | Equity | \$ 0.45 | 25 |
| 21 | Thirty30 Capital | Agro-business (name undisclosed) | Equity | \$ 0.25 | 26 |
| 22 | Silverlands II | Zamseed | Equity | \$ 5.03 | 27 |
| 23 | Zenga Ventures | Undisclosed | Debt | \$ 0.50 | 28 |
| Total | | | \$ 85.17 | | 28 |
| NON-DFIs | | | | | 15 |
| DFIs | | | | | 8 |

Source: 4IP Group, 2021, Compilation.

From our ZIIMS Survey we find that none of the impact investors surveyed are using incentives schemes for their investees such as: Interest rate discount; SIINC (Social Impact Incentives): financial rewards to the enterprise based on outcomes that would have not happened without these incentives; Unlock additional funding; or carried interest.³⁴

³⁴ See Eva Yazhari, 2021. The Good Your Money Can Do. <https://www.thegoodyourmoneycando.com/>

7. Identification of challenges and opportunities to the growth of the impact investment market.

In this final section the key findings from our webinar interviews with both DFIs and non-DFIs are then compared to the preceding findings in order to conclude what barriers, opportunities and potential initiatives exist to increase the amount of desired suppliers of impact capital in Zambia.

7.1. Challenges to the growth of the Impact Investment Market in Zambia

Context.

Zambia is facing slowing growth and acute vulnerabilities. The growth slowdown seen since 2011 reflects a protracted fall in copper prices and severe droughts in 2015/2016 and 2018/2019 that constrained hydropower electricity generation and lowered agriculture output. An expansionary fiscal stance financed by non-concessional borrowing and domestic expenditure arrears has resulted in a rapid increase in debt and negative spillovers to the private sector (IMF, 2019).

Poverty and inequality are among the highest in SSA. The poverty rate has risen since the early 2000s, though it declined somewhat during 2010–15, while the GINI coefficient also has risen (see UPND, 2021). Unemployment stood at 12.5 percent at the end of 2018.

The 31st of December 2018 the mid-rate of the Zambian Kwacha to the USD stood at 11.9. 31st of December 2020 the mid-rate stood at 21.2.³⁵ Amid continued limited fiscal space, some authorities have relied on monetary policy to help provide emergency support, with cumulative policy rate reductions since January 2020 of as much as 500 basis points (bps) in Zambia (IMF, 2020). In fact, The Bank of Zambia's Monetary Policy Committee lowered the policy rate by 225 bps to 9.25 percent on May 19, 2020, and by 125 bps on August 19, 2020, to mitigate the adverse impact of the pandemic. The BoZ provided 10 billion kwacha (2.9 percent of GDP) of medium-term liquidity support to eligible financial services providers. It also scaled up open-market operations to provide short-term liquidity support to commercial banks and embarked on a bond purchase program worth 8 billion kwacha to provide liquidity to the financial sector. In other words, they have introduced facilities to inject liquidity into the banking system equivalent to 3 percent of GDP in Zambia (IMF, 2020).

In addition, BoZ implemented several measures to stimulate the use of e-money and reduce the use of cash. **The BoZ has allowed financial service providers to renegotiate the terms of credit facilities with borrowers affected by the pandemic.**³⁶ High levels of domestic arrears are exerting pressure on private sector creditworthiness, slowing the decline in NPLs and holding back credit growth and private sector-led economic activity. Recent delays in remitting pension contributions and payroll-based deductions for civil servants' loan repayments could

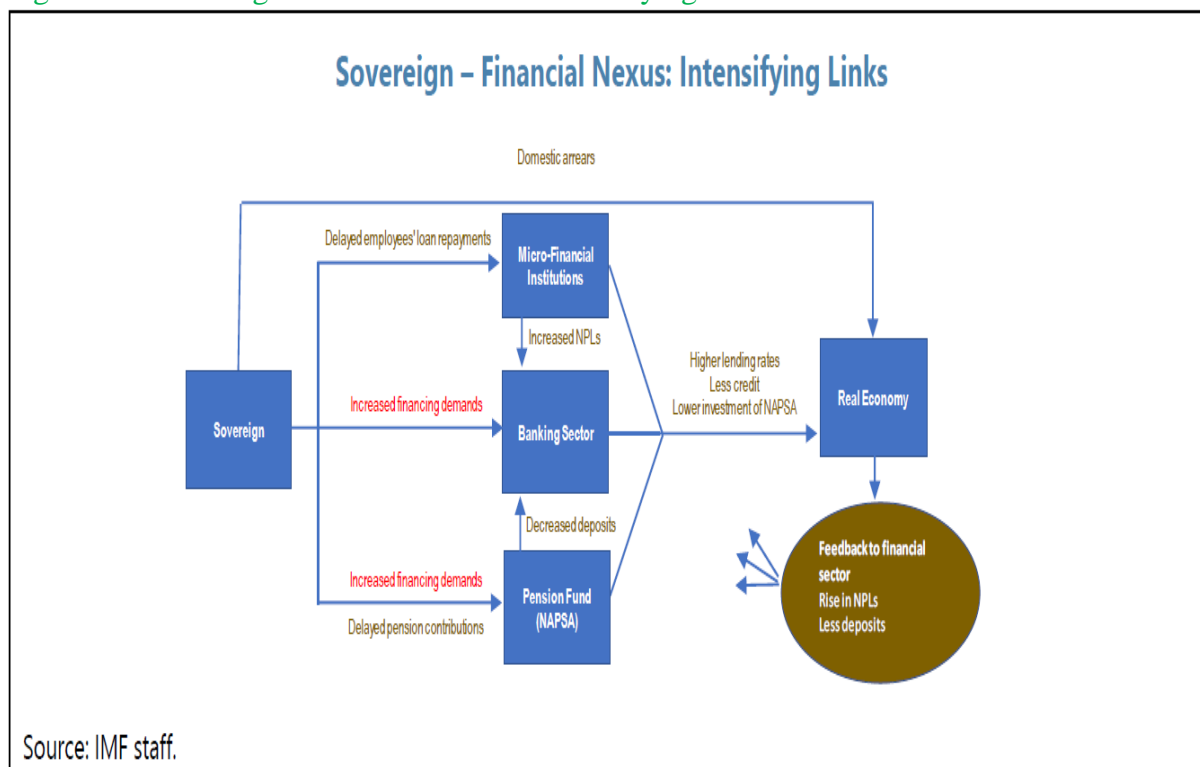
³⁵ Source: <https://www.boz.zm/historical-series-of-daily-zmw-usd-exchange-rates-zmw.htm>

Zambia's kwacha extended its gains versus the dollar, making it the world's best-performing currency since HE Hakainde Hichilema was announced the winner of the Aug. 12 presidential vote. **The kwacha has appreciated by 7.8% this week to 17.92 per dollar**, the best performance out of more than 140 currencies tracked by Bloomberg globally and on track for the strongest close since May 2020. The southern African nation's \$1 billion Eurobonds due 2024 advanced for a fourth straight day to the highest level in more than two years. Source: <https://www.bloomberg.com/news/articles/2021-08-19/zambia-election-euphoria-extends-currency-s-world-beating-streak> accessed 19th of August 2021.

³⁶ Source: <https://www.imf.org/en/Topics/imf-and-covid19/Policy-Responses-to-COVID-19#Z> accessed 20th of May 2021.

increase liquidity pressures in the financial system and boost NPLs at MFIs, which provide large share of loans to individuals and play a vital role in financial inclusion.

Figure 7.1: Sovereign – Financial Nexus: Intensifying Links



Steady focus on the business climate is also needed. While Zambia compares favourably with SSA average on several dimensions of the 2019 and 2020 Doing Business Indicators, economic growth has slowed and private investment has remained subdued in the current challenging environment (See Appendix 1) (IMF, 2019).

COVID19 Pandemic

Zambia recorded its **first COVID-19 cases on March 18, 2020**, and the number of daily new cases peaked in early August 2020. A **second wave** started in mid-December 2020 and peaked in January 2021. **Early actions to contain the spread of the virus in the spring of 2020** included, *inter alia*:

- (i) Suspension of non-essential foreign travel;
- (ii) Mandatory quarantine for all foreign travellers;
- (iii) Closure of bars, cinemas, and casinos;
- (iv) Delivery and take-out regime for restaurants;
- (v) A temporary lockdown on the towns of Kafue and Nakonde; and
- (vi) A partial closure of the border with Tanzania.³⁷

Since **late April 2020** the government has been slowly lifting lockdowns, border closures, and restrictions, subject to social distancing. In **early May 2020**, cinemas, gyms, casinos, tourist spots, and restaurants were allowed to open as long as they adhere to strict social distancing and sanitary guidelines. Primary and secondary school examination classes reopened June 2020. A reopening of international airports was announced in **late June**. All schools, colleges, and universities were allowed to reopen in **September 2020**, together with bars and nightclubs.

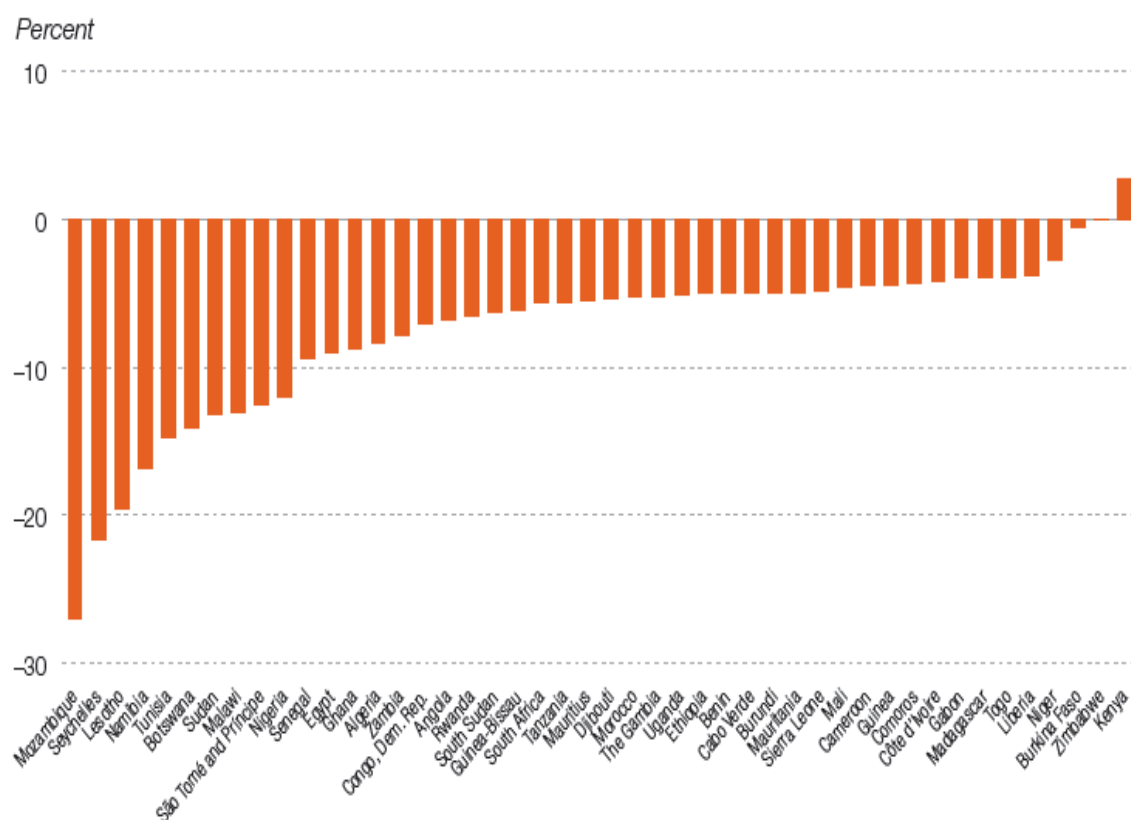
³⁷ Source: <https://www.imf.org/en/Topics/imf-and-covid19/Policy-Responses-to-COVID-19#Z> accessed 20th of May 2021.

In response to **the second wave of the pandemic**, on January 6 2021 Lusaka city council suspended all special gatherings and ordered bars and restaurants to work on a takeout basis.³⁸

According to the AfDB(2021) **financial inflows** have been significantly disrupted by the pandemic. Major inflows, including FDI, portfolio investments, remittances and ODA, declined between 2019 and 2020. The decline in investment flows is broad-based, affecting all sectors, including tourism, leisure, energy, aviation, hospitality, and manufacturing.

Remittances, the most significant source of external financial inflows to Africa, had been increasing until the pandemic in 2020 (figure 7.2). Remittances to Africa declined from \$85.8 billion in 2019 to \$78.3 billion in 2020 (AfDB, 2021).

Figure 7.2 Remittance inflows declined in almost all African countries between 2019 and 2020



Note: Data for 2020 are estimated values. Zambia country number 15 from the left side.

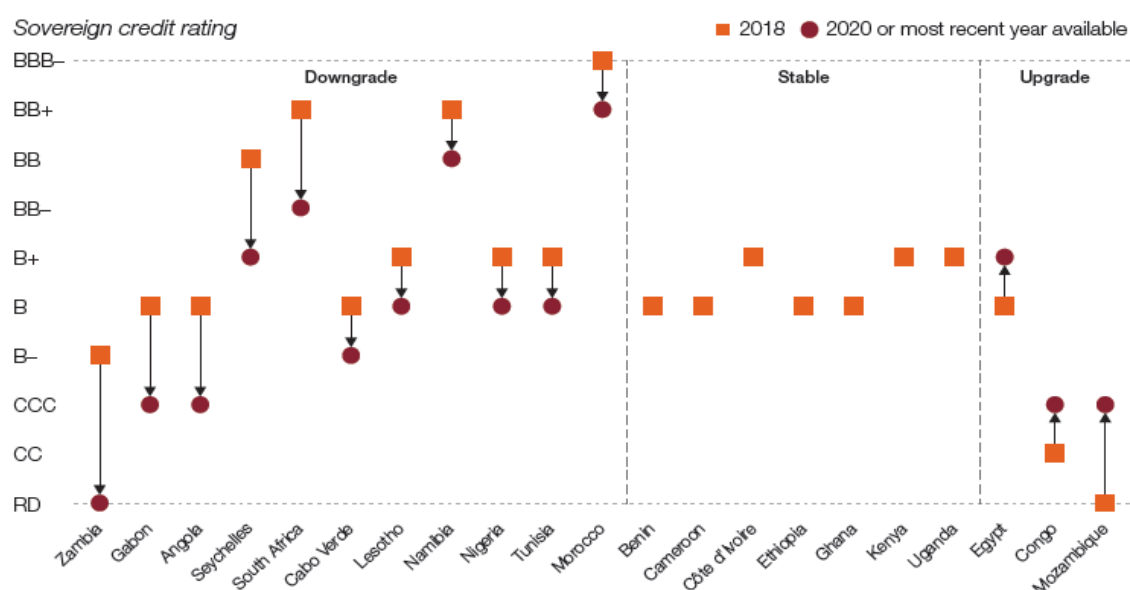
Source: African Development Bank, World Bank, and IMF Balance of Payments Statistics database, AfDB(2021).

On October 22, 2020, the Ratings agency S&P slashed **Zambia's credit rating to "selective default"** after the government missed an interest payment last week and announced it would suspend debt service to external commercial creditors. *"We [S&P] forecast that Zambia will remain in payment default for at least the six months of the standstill period, during which the government hopes to complete a broader debt restructuring."* S&P previously rated Zambia's **long- and short-term foreign currency sovereign credit ratings** at 'CCC-/C' - signalling the prospect of an imminent default. On October 14, 2020, **Zambia missed payment of a \$42.5 million coupon on one of its Eurobonds**, with a 30-day "grace period" kicking in (table 7.3).³⁹

³⁸ Ditto.

³⁹ Source: <https://www.reuters.com/article/zambia-bonds-ratings-idUSL8N2HD2GE>

Figure 7.3: Sovereign Credit ratings



Note: Fitch uses a letter system: a country rated AAA has the lowest expectation of default risk, while a country rated RD has defaulted on a payment.

Source: AfDB (2021:59) Staff calculations based on Fitch ratings (as of November 2020).

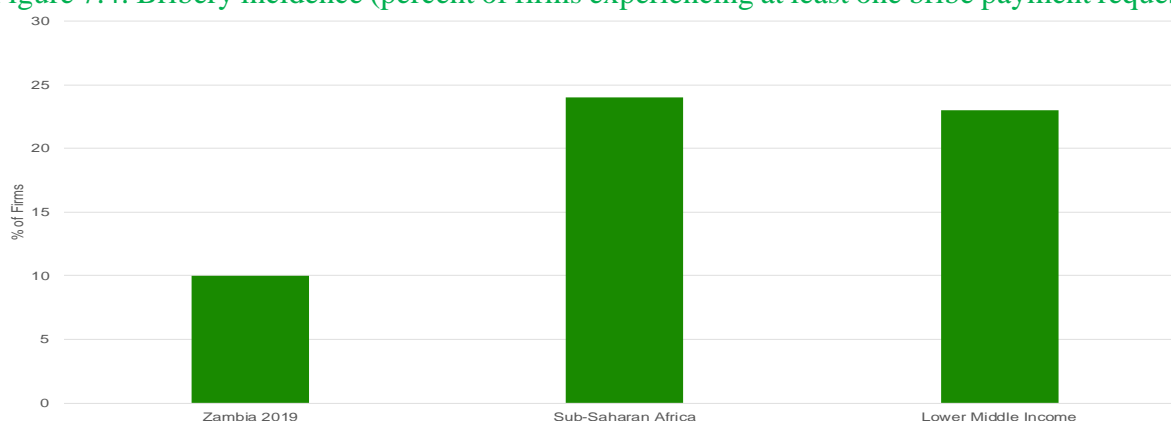
Regulations, Permits, and Taxes

According to The World Bank Enterprise Survey complying with regulations is costly for businesses operating in Zambia. Excessive or inefficient regulations can discourage private sector activity and FDI (World Bank, 2019), including impact investment.

Corruption

Corruption by public officials can be a major administrative and financial burden on firms. Inefficient regulations constrain firms' operations as they present opportunities for soliciting bribes, where firms are required to make "unofficial" payments to public officials to get things done. Figure 7.4 provides a composite index of corruption, the bribery incidence, that reflects the percentage of firms experiencing at least one bribe payment request across six different transactions including paying taxes, obtaining permits or licenses, and obtaining utility connections. The percentage of firms in Zambia experiencing corruption is less than half the SSA average.

Figure 7.4: Bribery incidence (percent of firms experiencing at least one bribe payment request)



Source: World Bank, 2019a:9.

7.2. Opportunities to the growth of the impact investment market in Zambia

Government Policies and Measures to Promote Growth and Investment

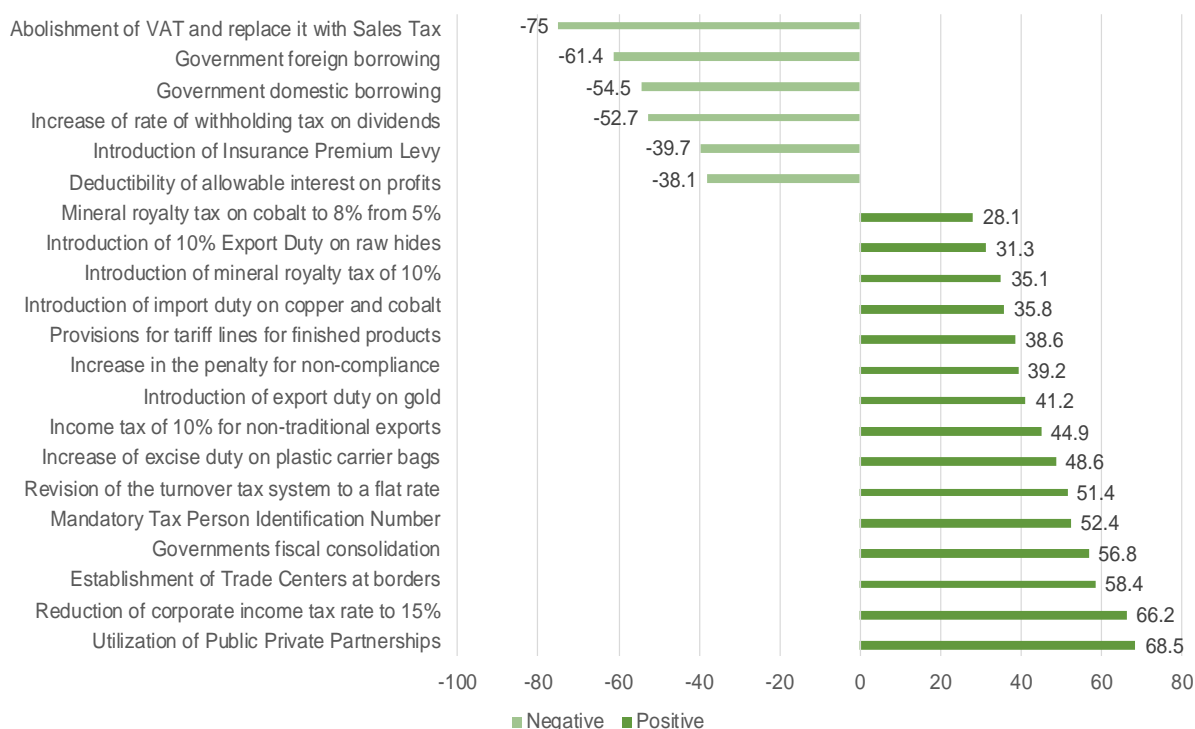
The Zambian Government outlined measures in the **Economic Recovery Plan (ERP)** to resuscitate the economy, which contracted by 3 percent due to the COVID-19 pandemic. The ERP aimed at restoring macroeconomic stability, attaining fiscal and debt sustainability, restoring growth and economic diversification, as well as dismantling of arrears and safeguarding social protection programmes. These measures were expected to create a favourable environment for the expansion of the export base and attraction of higher foreign investment inflows (GRZ, 2021). The role of Impact Investment doesn't feature in the ERP.

In response to COVID-19, the Bank of Zambia (BoZ) established a refinancing facility, the Targeted Medium-Term Refinancing Facility (TMTRF), to provide liquidity to eligible financial institution for onward lending to their customers on concessional terms to support businesses. In addition, Government provided tax relief to sectors adversely affected by the COVID-19 pandemic (GRZ, 2021).

Impact of Fiscal Policy Measures on Private Sector Investment

To enhance and sustain private sector investment, the Government had introduced a number of fiscal policy measures aimed at improving the business and investment climate for the private sector. The GRZ(2019) Survey assessed investors' perceptions of the impact of these measures on enhancing and sustaining private sector investment. The results revealed that the perception of Government fiscal policy measures were mixed. Policy measures relating to the utilization of public-private partnerships and joint ventures, reduction of corporate income for value addition to copper cathodes, the establishment of trade centers and fiscal consolidation were regarded as **favorable to investment** (Figure 7.5). However, the proposed abolishment of VAT and its replacement with GST, Governments domestic and foreign borrowings were reported as **not supportive to investment**.

Figure 7.5: Other Investments Liability Stocks by Industry (US\$ millions), 2017 – 2018



Source: GRZ, 2019: 72.

Impact of the recent Monetary Policy Measures on Private Sector Investment

On monetary policy, the respondents of the GRZ(2019) Survey felt that the increase in the policy rate to 10.25 percent from 9.75 percent would constrain their businesses and ultimately economic growth as **the borrowing cost increased further**. Further, credit constraints, in particular **the high cost of borrowing and lack of available credit sources remain one of the key hindrances to investment**. However, the respondents noted that interventions by the BoZ to dampen volatility in the exchange rate was perceived to be supportive of the investment environment as it made the exchange rate stable and thus predictable. In addition, the introduction of enhanced security features on bank notes had a favourable impact on the operations of the private sector as this prevented losses that may arise from receiving counterfeit notes during cash business transactions (GRZ, 2019:73).

Service Delivery by Government Ministries and Statutory Bodies

With regard to investors' perceptions of service delivery by government institutions, the Patents and Company Registration Agency (**PACRA**) continued to be highly rated followed by the **BoZ**, **NAPSA**, and the **ZDA**. The lowly ranked agencies included Zambia Medicines Regulatory Authority (**ZAMRA**), Zambia Compulsory Standards Agency (**ZCSA**), and Food and Drugs Labs (GRZ, 2019).

7.3. Key Policy Recommendations

According to the Election Commission of Zambia Mr. Hakainde Hichilema (UPND Party) received 2,810,757 votes, whereas the Incumbent Mr. Edgar Lungu (PF Party) received 1,814,201 at the August 2021 General Election.⁴⁰ Hence, we will attempt to align our proposed key policy recommendations with **UPND's Party Manifesto 2021-26**, which is the only official document available ahead of President-elect HE Michilema's inauguration in Lusaka on Tuesday, 24 August 2021.

8th National Development Plan, 2022-2026

The previous Government of the Republic of Zambia (GRZ) had continued to make positive strides in its effort towards economic diversification, industrialization and job creation for inclusive growth as espoused in **the Seventh National Development Plan (7NDP), 2017 to 2021**. This was achieved through the promotion of:

- ❖ A diversified and export-oriented **agriculture and mining sectors**;
- ❖ A diversified **tourism sector**;
- ❖ Improved **energy** production and distribution;
- ❖ Improved **transport system and infrastructure**, including enhancing the Information, Communication and Technology (ICT) sector an enabler of growth in other sectors, productivity growth and technological progress (GRZ, 2019).

Additionally, the impact investing market offers diverse and viable opportunities for investors/businesses to advance social and environmental solutions through investments that also produce financial returns and is **well aligned to the Zambia's next development plans** and the broader SDGs. This could be accelerated in Zambia if the focus of investments is directed towards social and environmental impact alongside financial returns.

The four focus strategic development areas for government in yet to be finalized the eight national development plan (8NDP) are:

⁴⁰ Source : https://zambiaelections2021.org.zm/home/results_by_constituency

- ❖ Industrial and economic diversification;
 - a. *“Advancing value addition, industrialization and the integration into global markets through an Economic Transformation Programme (ETP) (UPND, 2021).”*
- ❖ Human and social development;
 - a. *“Establish a durable constitutional order that will catalyse the political, economic and social development of the country (UPND, 2021).”*
- ❖ Environmental sustainability;
 - a. *“Our focus is to build inclusive solutions that cut across the four corners of the sustainability framework: human, social, economic and environmental considerations (UPND, 2021).”*
- ❖ Good governance environment.
 - a. *We will ensure that public institutions conduct public affairs and manage public resources in a transparent and accountable manner (UPND, 2021).”*

This shows that with the arrival of new government policy inconsistency will not be a big issue, given the alignment between the UPND Manifesto and the draft 8NDP. However, in delivering the above, a pronouncement to **direct and focus on Impact investment as a key driver to the achievement of the 4 key areas** becomes critical success factor for Zambia. Impact investment has the potential to play an increased and significant role in the delivery of these development priorities (NABII, 2021).

The NABII-Zambia should therefore make the following policy recommendations to the GRZ:

- ❖ **Refinement of existing regulation:**
 - Government should consider **reinforcing the existing minimum 10% of pension funds be invested in alternative assets** including impact investments via local VC/PE funds.
 - Government should further introduce **local or international co-investment requirements** in order to improve transparency, skills transfer and value addition from other experienced impact investors.
 - Promote **innovative financial vehicles**, particularly Green/Development/Social Impact Bonds (GB/DIB/SIBs) and **crowdfunding funding platforms** through enacting appropriate regulatory frameworks.
 - Encourage the implementation of **Result-Based Financing (RFP) models** such as Pay-for-success model which involves an investor, a service provider and the government or a donor as the outcome payer (NABII, 2021).
- ❖ **Tax and other incentives for impact investment into the strategic development areas**
 - Introduced some **incentives for investors that supply capital into the high impact sectors** if the investment meets the criteria for impact investment with proactive, tangible and measurable social and environmental impact.
- ❖ **Promoting Inclusive Businesses (IB)**
 - The 8NDP 2022-2026 should emphasize the need to make **more rapid structural and innovative transformations** from mainstream businesses on the one side and NGO driven social enterprises and corporate social responsibility activities towards commercially viable (and hence sustainable) Inclusive Business models, activities and social enterprise initiatives.

“Putting Zambia at the heart of SDG financing in Southern Africa”

The NABII-Zambia should also invite the Zambian financial authorities to substantially strengthen their support to the Impact Investing sector by **improving its enabling environment**, in order to secure, grow and mainstream this practice in within both the AfCFTA and the Tripartite-FTA with a special focus on the Member States of COMESA and SADC. Zambia should seize the opportunity to anchor itself at the heart of SDG financing, becoming by 2030 the Southern African (SADC) reference business hub for private sector development finance (PAIFs).

The NABII-Zambia stakeholders believe much more is needed to achieve this objective, **improving Zambia’s framework conditions** to create a competitive enabling environment for the private sector to thrive, which is not possible without committed financial authorities and appropriate public-private partnerships which can scale up the Zambian Impact Investing Market size.

To that effect The NABII-Zambia should ask the GRZ, and the Governmental Departments it represents and manages, in coordination with and support from the Zambian Parliament, as well as Zambia’s financial regulator (Bank of Zambia),⁴¹ to develop the framework conditions, policies and practice that would enable the three following objectives that we recommend that NABII-Zambia put forward:

i. Investor needs and expectations.

We suggest **improving the enabling environment** for Zambian-based investors wishing to invest in products addressing SDGs in the AfCFTA and T-FTA markets, including COMESA/SADC, in particular for a) Zambian pension funds, b) Zambian HNWIs & Angel Networks, and c) Zambian private and retail investors, including the Zambian Diaspora. **Lack of favourable or consistent framework conditions** are very often pointed out as the main impediment to growth, by asset managers wishing to assist asset owners to invest in development finance products. We recommend that a thorough review of these framework conditions be carried out on the basis of a comparative study analyzing peer country best practices in this field (e.g. South Africa, Kenya and Mauritius). Such a review should pave the way for **a broad policy dialogue** on improving Zambian-based and Zambian Diaspora investors' access to development finance products, enabling law-makers to unite politically towards this goal. Reviewing and removing barriers to entry in order to set development finance / impact investments on equal footing with mainstream investments is a necessary step in order to achieve **scalability of the Zambian Impact Investing Market size**.

ii. Financial center promotion.

We suggest that the GRZ launch **a strong development finance diplomacy strategy**, by systematically promoting Zambia as the logical turn-to business hub for foreign investors attracted to investment products and solutions addressing SDGs in both Zambia, AfCFTA and T-FTA markets. These promotional efforts could build on the existing network of Zambian representations abroad. We also propose that more effort and resources should be allocated to **scale-up the ICA:Zambia event** from a National Impact Investing Conference to a Regional (COMESA/SADC) Impact Investing *Summit* initiative, anchored in the fact that Zambia is the only Member State of COMESA with a NABII within the T-FTA landscape of financial centers, leveraging the fact that Zambia is a land-linked country with 7 neighbouring countries and the host of the COMESA Secretariat and a brand new international airport. We strongly recommend organizing and repeating a COMESA or T-FTA Impact Investing Summit regularly, which

⁴¹ <https://www.boz.zm/financial-stability-regulatory-framework.htm>

resonates both regionally and globally, federates domestically and furthers the goal to **create a leading regional marketplace for SDG financing in Lusaka.**

iii. Investment capacity and expertise

We suggest that the inflow of official development assistance (ODA) and Other Official Flows (OOF) should be **coherently and materially put forward, aligning the instruments and approaches** of multilateral and bilateral development agencies, and national (DBZ), regional (DBSA & AfDB), bilateral (e.g. CDC Group, Proparco, FMO and IFU) and multilateral DFIs (IFC and EIB), as well as other GRZ Central Government departments, in order to leverage and scale private sector capital, and make the most of public sector contributions, including through public private partnerships (PPPs) involving private donors. We would in particular welcome additional efforts and initiatives aimed at catalyzing, incubating and enhancing expertise, innovation and mobilization, geared towards addressing SDG financing needs. A good example of this is the Swiss Development Corporation (SDC) financed global Accelerator 2030 programme being implemented in Zambia for the first time this year. We also believe that in order to achieve this goal, Zambian policy makers should include development finance and impact investing in their **training curricula for finance professionals**, in coordination with leading academic centers and African Capacity Building Foundation (ACBF). We finally think that fintech is a blessing for both impact investors as well as impact enterprises in Zambia. **Digital innovation** should be considered as a key asset in promoting Zambia as a center of excellence for SDG financing in the T-FTA and COMESA.

iv. Survey Respondents' policy recommendations

Finally, both the surveyed as well as interviewed impact investors were asked to list *the three main impact investment opportunities* that would contribute to growing the Zambian Impact Investment market from 2021 to 2030. The policy recommendations are listed not in any prioritized or ranking order:

- ❖ **Policy certainty and stability in the political system**, including explaining publicly and transparently any Bank of Zambia (BoZ) & Ministry of Finance appointments/reshuffles to top echelon officials.
- ❖ **Creating the right incentives to attract private capital**, e.g. fulfillment of Purchasing Power Agreement (PPA) payment terms.
- ❖ **More involvement by Institutional Investors**, especially NAPSA, based on the right policy framework and investment guidelines in order to invest and drive the local VC/PE industry.
- ❖ **Creating a deeper pipeline of investment ready companies** with a genuine impact focus.
- ❖ **Having more exit opportunities** for private equity investors.
- ❖ **Stability of the electricity power grid system** to avoid reliance on expensive diesel generators.
- ❖ **Asset leasing** – the Productive use of assets targeting Agriculture/small business at the bottom of the pyramid (BoP).
- ❖ **Smallholder farmer aggregator schemes**, that is, sourcing from local smallholder farmers.
- ❖ **Growth in investment services** (more funds and more impact investment advisory firms).
- ❖ **Growth in the Green New deal** around the world and shift to Renewable Energy.
- ❖ **Significant investment in human capital development.**

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Appendix 1: Doing Business Topics in Zambia

| | | | | | |
|--|---------|--|------|--|------|
| Starting a Business (rank) | 117 | Getting Credit (rank) | 4 | Trading across Borders (rank) | 155 |
| Score of starting a business (0-100) | 84.9 | Score of getting credit (0-100) | 95.0 | Score of trading across borders (0-100) | 56.9 |
| Procedures (number) | 7 | Strength of legal rights index (0-12) | 11 | <i>Time to export</i> | |
| Time (days) | 8.5 | Depth of credit information index (0-8) | 8 | Documentary compliance (hours) | 96 |
| Cost (number) | 34 | Credit registry coverage (% of adults) | 0.0 | Border compliance (hours) | 120 |
| Paid-in min. capital (% of income per capita) | 0.0 | Credit bureau coverage (% of adults) | 9.1 | <i>Cost to export</i> | |
| | | | | Documentary compliance (USD) | 200 |
| Dealing with Construction Permits (rank) | 67 | ✓ Protecting Minority Investors (rank) | 72 | Border compliance (USD) | 370 |
| Score of dealing with construction permits (0-100) | 72.1 | Score of protecting minority investors (0-100) | 60.0 | <i>Time to export</i> | |
| Procedures (number) | 10 | Extent of disclosure index (0-10) | 4.0 | Documentary compliance (hours) | 72 |
| Time (days) | 188 | Extent of director liability index (0-10) | 6.0 | Border compliance (hours) | 120 |
| Cost (% of warehouse value) | 2.3 | Ease of shareholder suits index (0-10) | 7.0 | <i>Cost to export</i> | |
| Building quality control index (0-15) | 10.0 | Extent of shareholder rights index (0-6) | 4.0 | Documentary compliance (USD) | 175 |
| | | Extent of ownership and control index (0-7) | 5.0 | Border compliance (USD) | 380 |
| | | Extent of corporate transparency index (0-7) | 4.0 | | |
| Getting Electricity (rank) | 129 | Paying Taxes (rank) | 17 | Enforcing Contracts (rank) | 130 |
| Score of getting electricity (0-100) | 62.1 | Score of paying taxes (0-100) | 88.9 | Score of enforcing contracts (0-100) | 50.8 |
| Procedures (number) | 5 | Payments (number per year) | 11 | Time (days) | 611 |
| Time (days) | 117 | Time (hours per year) | 158 | Cost (% of claim value) | 38.7 |
| Cost (% of income per capita) | 2,035.6 | Total tax and contribution rate (% of profit) | 15.6 | Quality of judicial processes index (0-18) | 6.5 |
| Reliability of supply and transparency of tariff index (0-8) | 4 | Postfiling index (0-100) | 85.9 | | |
| | | | | ✓ Resolving Insolvency (rank) | 79 |
| Registering Property (rank) | 149 | | | Score of resolving insolvency (0-100) | 49.3 |
| Score of registering property (0-100) | 49.3 | | | Recovery rate (cents on the dollar) | 51.0 |
| Procedures (number) | 6 | | | Time (years) | 1.0 |
| Time (days) | 45 | | | Cost (% of estate) | 9.0 |
| Cost (% of property value) | 9.5 | | | Outcome (0 as piecemeal sale and 1 as going concern) | 0 |
| Quality of the land administration index (0-30) | 7.0 | | | Strength of insolvency framework index (0-16) | 7.0 |

Source: World Bank, 2021.

Appendix 2: Zambia Impact Investing Market Sizing Study (ZIIMS) Survey Questionnaire

As soon as **the original comprehensive questionnaire** containing a total of 98 questions had been approved by NABII,⁴² The 4IP Group Study team started to send out the survey questions by e-mail to the original IICS sample of respondents and the newly identified investors, along with a letter of introduction explaining the objective of our study.

The 4IP Group study team requested each prospective respondent to either chose to submit the survey through a MS Word document or alternatively a MS Excel document, in addition to the answers that might already have been provided on the NABII Monkey survey platform. The questionnaire was split into **8 Excel sheets**, each related to **a specific task** associated with the ZIIMS ToR, while indicating that all of them should be filled in as completely as possible. Data should be reported as of 31 December 2020, in the accounting currency of the fund in question.

Since only 3 impact investors (20% of non-DFIs) responded to the original full questionnaire and they reported back that the response time had been more than 2 hours. We decided to further shorten the questionnaire down to 80 questions with an estimated response time of 90 minutes. The 4IP Study team kept following-up with the prospective respondents after a few days. Since we still didn't receive any further filled-out survey questionnaires, after an additional 7-10 working days despite offering each impact investor to help them fill out the comprehensive survey questionnaire either in person (in the case of Lusaka and Geneva-based investors) or via Zoom calls, we then decided to scrap the comprehensive ZIIMS questionnaire. Instead, we introduced the Zambia Impact Investing Fund Interview Protocol (**Appendix 3**), which only contained **10 main questions** and a few sub-questions with an estimated response time of around 20-30 minutes. The Study Team kept pushing (with an additional 5 follow-up e-mails and telephone calls in some cases) the targeted impact investors to reply until we reached **a sample size of 78%** (that is, 18 out of 23 impact investors) of the known total universe, in order to help bring more transparency to the Zambian Impact Investment Market place.

⁴² The full Survey questionnaire can be issued upon request by the NABII Secretariat.

Appendix 3: Zambia Impact Investing Fund Interview Protocol

We will refer below to **the scope of finance for social impact**, defined as follows:

For **impact investments** we intend a wide range of investments based on the assumption that private capital can intentionally contribute to creating - in some cases combined with public funds - positive **social impacts** and, at the same time, **economic returns**.

In operational terms, **the perimeter** includes all the products and financial instruments that meet these criteria, commonly defined by the **impact triad**: Intentionality, Measurability and Additionality.

- a) **Intentionality**: A conscious and deliberate search for a social impact, with the aim of pursuing *a positive result* for the community and explicitly declared "*ex ante*" to the use of capital. This declines in the proactive search for activities that pursue the creation of social value as an objective.
 - b) **Measurability**: The social impact objectives, that are intended to be generated with capital, must be identified in order to be measurable. Indeed, the social objectives must be *measured* (quantitatively and/or qualitatively) with the aim of being able to define the expected and "*ex post*" impacts "*ex ante*" to *verify* whether the expected impacts have been achieved. **Measurability** is a fundamental characteristic even during the activity-monitoring phase as the measurement system can be used as a management tool by the organizations involved in the investments and to demonstrate intentionality.
 - c) **Additionality**: Social impact investments intervene in under-capitalised areas, or in those activities that would otherwise be overlooked by other investors. It is, therefore, common that the activities subject to social impact investments are characterized by *a trade-off* between social performance and economic return: the achievement of a greater social impact requires giving up a share of economic performance and vice versa.
-

1a) What are **the main differences between the interpretation** of impact finance of your organization and the one that we, GSG-NABII-Zambia, proposes on the basis of the so-called "*impact triad*"?

1b) Looking at **additionality**, there are differing positions and interpretations. What is the **interpretation of additionality** that best fits the way your organisation operates? How is that applied in the provision of capital?

1c) How does your organisation, following the criteria you use as a guideline, **allocates its impact capital**?

*PLEASE NOTE: From now on, we will refer to **social impact finance** as defined by the interpretation that your organization adopts.*

This scheme shows a possible, simplified, representation of **the impact finance industry**:

Table A3.1: Investor Type (Organization)

| Asset owner | Intermediary | Impact organisations |
|---|---|--|
| <ul style="list-style-type: none"> • National promotional bank (NPB) • Public administration • Public financial agency • Company • Family office • Banking foundation • Business and family foundation • Insurance fund • Pension fund • Social security fund • Retail • Others | <ul style="list-style-type: none"> • Commercial bank • Investment/merchant bank • Private equity • Venture capital • Investment fund • Company • Public financial institution • Equity / Debt crowdfunding platform | <ul style="list-style-type: none"> • Profit with purpose • Benefit corporations (B-Corp) • Not-for-profit organizations |

PLEASE NOTE: **Profit with purpose** = organizations that consider social impact as a secondary objective, subject to the achievement of a satisfying financial performance. Cf. Q.1.7 below.

2a) Where would you **place your organisation in the above scheme**? In particular, which type of actor best describes your **organisation's profile**?

2b) Within your organization, does **the governance of the activities related to impact** include a dedicated business unit or is it actually the core business of your organisation?

2c) If you are a **financial intermediary**, who are your capital providers (e.g. main investors)? What kind of **requirements/conditions to the use of capital** do these investors set or expect? Do these capital providers **constrain your mission of social impact**?

2d) Which organizations (if possible, provide names) have you invested so far? What specific **characteristics** (sectors, legal form, size) must the organizations in which you invest your capital satisfy?

3a) Why did you **start operating** in the field of impact finance?

4a) How much capital for your fund have you **collected**?

4b) Is **the fundraising** still ongoing? If so, what is **the fundraising target**?

4c) How much of what has been raised to date has **already been used**?

4e) What is your estimation for **2021's allocation of capital**?

4f) Through which **types of financial products** are you providing capital to target social impact objectives? In particular, can you specify, for each of those products, the expected and actual **level of return**, the expected level of risk, and the social **impact targets**?

4g) What **complementary activities** to investment does your organization offer, if any? We are talking about **non-financial support** e.g. structured relationships with intermediaries (social incubators, accelerators...).

5a) With respect to **the risk-return trade-off** that can be hypothesised for an ordinary financial transaction: In your opinion, **how much** does a typical social impact investing/financing operation **deviate from** a mainstream transaction (disproportionate returns)?

6a) Could you explain what is, in your investment strategy, **the link** between expected impact and expected return?

Referring to **the impact capital supply pipeline**:

7a) How do you **scout for** potential investment targets?

7b) What is **the screening process** like? What are **the selection criteria** you employ?

7c) How do you and your counterparty **set the social and financial objectives** to be achieved through the capital employed?

7d) After the capital deployment, how is **monitoring and measurement carried out**?

7e) Could you describe **what methodologies** your organisation uses for impact measurement?

8a) Do you consider so-called **social risk (or impact risk)** in your operations?

8b) If yes, which one of these definitions best describes **your notion of social risk**?

- the probability of generating **negative impact**;
- the probability of *not achieving* the social impact objectives declared *ex ante*;
- the probability that the objective of achieving economic returns will overcome **the initial mission** of generating social impact (*mission drift*).

8c) How does **social risk** enter into the assessment of the capital employment?

9a) What is the expected average **lifespan of your impact investments**?

9b) What are your expectations in terms of **exit strategies**? What do you think could be **typical exits** in the impact investing industry?

Or:

9c) What is **the average duration of the impact loan**? (Short - medium-long - stock at the end of the year - average volumes)

10a) In your opinion, **what are the barriers** that currently inhibit the expansion of the impact finance industry in Zambia?

10b) What are **the drivers that could influence the growth** of the impact finance industry in Zambia?

10c) **Who** do you think could be **the game-changer** for the development of the Zambian social impact finance industry? (Please refer to **table** presented before question 2)

Appendix 4: Other Existing Impact Investing Market Sizing Surveys

| Organization | Data source | Criteria for inclusion as impact investing | Market size + segmentation | Data from |
|--------------|--|--|---|-----------|
| Italian NAB | Semi-structured interviews (38 interviews from population of 50) | - Investor has demonstrated social intent | €3.190,5 M <ul style="list-style-type: none"> Strictly impact (I+M+A)*: €197 M Impact (I+M or I+A)*: €1.939,1 M Quasi impact (I only)*: €1.054,4 M | 2019 |
| German NAB | Online survey (81 responses from population of 400) | [Investor has displayed social intent] | €18,14 bn total, €6,46 bn survey respondents <ul style="list-style-type: none"> Close understanding – Impact first†: €62 M Close understanding – Finance first‡: €2,80 bn Broad understanding – SRI‡: €344 M Broad understanding – ESG‡: €3,25 bn | 2019 |
| French NAB | Secondary data + direct communication with public agencies | - Investor has displayed social intent - Membership in II prof. networks - Public agency investments justified as II - Availability of certified data | €3.996 M <ul style="list-style-type: none"> Specialists: €1.620 M Generalists: €550 M Social housing: €798 M Public banks: €683 M Commercial banks: €415 M | 2018 |
| SpainNAB | Primarily online survey + direct communication | - Investor has articulated social intent - Investee contributes to solutions to concrete and significant social or environmental challenges (IMP Class C) | (To be finalized) Total Class C: <ul style="list-style-type: none"> C1: C2: C3: C4: C5: C6: | 2020 |

* I = intentionality, M = measurement, A = additionality

† [Brackets] indicate best guess by research team.

‡ “Close understanding”: seeks social return, w/ “Impact first” accepting concessionary financial returns. ”SRI”: seeks positive social or environmental externalities. “ESG” avoids ESG risks and harm.

| Organization | Data source | Criteria for inclusion as impact investing | Market size + segmentation | Year |
|---------------------|--|---|--|------|
| Big Society Capital | Primarily public data | - Investor has displayed social intent - Investee has displayed social intent | £5,1 bn (outstanding investment) <ul style="list-style-type: none"> Social property funds: £2,2 bn Secured bank lending: £1,7 bn Venture investing: £473 M Charity bonds: £362 M Unsecured non-bank lending: £327 M Social Outcomes Contracts: £68 M | 2019 |
| EVPA | Primarily online survey | - Investor provides financial support - Investor provides non-financial support - Investor measures social impact | €6,2 bn | 2019 |
| IFC | Secondary data + direct communication with some dev. banks | - Investor has articulated social intent - Potential to fulfill measurement and contribution* attributes, even if information on whether they actually do so is incomplete | Between \$505 bn and \$3.5 trn <ul style="list-style-type: none"> Private market – I+M:** \$505 bn Private market – I only:** \$1.567 bn Public market – GSS bonds: \$747 bn Public market – Shareholder action strategies: \$9.835 bn | 2019 |

* “Contribution” is defined as following a credible narrative that describes how the investment contributes to outcomes that would not have occurred—at least not to the same extent—without the investment.

** I = intentionality, M = measurement.

| Organization | Data source | Criteria for inclusion as impact investing | Market size + segmentation | Year |
|---------------|---------------|--|--|------|
| GIIN | Online survey | - Investor has articulated social intent - Manage at least USD 10 million in II assets OR have made at least 5 impact investments | USD 715 bn total, USD 404 bn survey respondents | 2019 |
| IMP / IMP+ACT | Online survey | n/a – self-classification tool | Investments classified on 2x2 matrix: <ul style="list-style-type: none"> Type of impact of the underlying asset Investor strategy | 2020 |

* “Contribution” is defined as following a credible narrative that describes how the investment contributes to outcomes that would not have occurred—at least not to the same extent—without the investment.

** I = intentionality, M = measurement

Appendix 5: Main variables used to delimit and segment the market

Intentionality

| Subvariable | Italian NAB | German NAB | French NAB | Big Society | EVPA | IFC | GIIN | IMP | Spain NAB |
|---|-------------------------|-------------------|--------------|--------------|------------------|---------------|---------|--------------|-----------|
| Intention to generate positive social/environmental impact | D | ✓ | D | ✓ | ✓ | D | Exclude | ✓ | Exclude |
| Type of impact sought (IMP classes A, B, C) | | ✓ | | | ✓ | | | ✓ | Exclude |
| Intention expressed in explicit impact objectives (what outcomes, for who)* | D | ✓ | | | | D Principle 1 | SDG | ✓ | Report |
| Intention manifested in investment selection | D | | D | | | | | ✓ | Report |
| Intention manifested in non-financial support (NFS)** | ✓ | | D | | ✓ | | | ✓ | Segment |
| Relative importance of social vs. financial return | | ✓ | | | | | | | Report |
| Conduct exits considering effect on sustained impact | not reviewed | not reviewed | not reviewed | not reviewed | not reviewed | Principle 7 | | not reviewed | |
| Improve approach based on experience and impact achieved | not reviewed | not reviewed | not reviewed | not reviewed | not reviewed | Principle 8 | | not reviewed | |
| Use(s) | D: exclude ✓: report | exclude + segment | exclude | exclude | exclude + report | exclude | | segment | See above |

D = subvariable is part of the study's explicit definition of "intentionality".

✓ = subvariable appears in the study but is not part of an explicit definition of "intentionality".

* Overlaps with "measurement" variable.

** Overlaps with "investor 'contribution' or 'additionality'" variable.

Source: ESADE, 2021, slide 9.

Measurement

| Subvariable | Italian NAB | German NAB | French NAB | Big Society | EVPA | IFC | GIIN | IMP | Spain NAB |
|---|--------------|--------------|--------------|--------------|--------------|---------------|--------|--|-----------|
| Have a measurement system | D | ✓ | D | | Exclude | D | ✓ | n/a (IMP helps investors measure but does not assess their measurement to classify investors) | Report |
| Use standardized measurement tools/frameworks/principles | | | | | Report | | ✓ | | Report |
| Define impact objectives ex ante* | D | ✓ | D | | | D Principle 4 | *** | | Report |
| Assess, monitor and manage potential negative impacts | not reviewed | not reviewed | not reviewed | not reviewed | not reviewed | Principle 5 | | | |
| Monitor and manage impact of investments | D | | D | | Report | D Principle 6 | *** | | Report |
| Verify impact ex post | D | ✓ | D | | Report | D | *** | | Report |
| Manage impact on portfolio basis | not reviewed | not reviewed | not reviewed | not reviewed | not review'd | Principle 2 | | | Report |
| Establish Manager's contribution to achievement of impact** | maybe | | | | Report | D Principle 3 | | | Report |
| Report impact performance | not reviewed | not reviewed | not reviewed | not reviewed | not review'd | Principle 9 | ✓ | | Report |
| Audited impact report | | | | | | Principle 9 | ✓ | | Report |
| Manager's financial incentives linked to social return | ✓ | | D | | | | | | Report |
| Use(s) | segment | report | exclude? | not found | See above | segment | report | | See above |

D = subvariable is part of the study's explicit definition of "measurement"

✓ = subvariable appears in the study but is not part of an explicit definition of "measurement"

* Overlaps with "intentionality" variable

** Overlaps with "investor 'contribution' or 'additionality'" variable

*** GIIN reports on (1) the use of standardized approaches to define objectives, measure impact and report impact and (2) changes in IMM practices but does not report actual practices.

Source: ESADE, 2021, slide 10.

Investor “contribution” or “additionality”

| Subvariable | Italian NAB | German NAB | French NAB | Big Society | EVPA | IFC | GIIN | IMP | Spain NAB |
|--|-------------|------------|------------|-------------|------|-----|------|-----|-----------|
| Intervene in under-capitalized areas | | (not used) | (not used) | (not used) | | | | | |
| Provide flexible capital | | | | | | | | | |
| Engage actively to improve impact* | | | | | | | | | |
| Social outcomes are better than what would likely have happened w/o the investment** | | | | | | | | | |

* Overlaps with “intentionality” variable

** Overlaps with “measurement” variable

*** IFC defines “additionality” as “providing services and financing beyond what the commercial market offers” and differentiates between financial and non-financial additionality.

Source: ESADE, 2021, slide 11.

Investor “contribution” or “additionality”

| Subvariable | Italian NAB | German NAB | French NAB | Big Society | EVPA | IFC | GIIN | IMP | Spain NAB |
|--|-------------|------------|------------|-------------|--------|--------|-------------------|-----|-----------|
| Intervene in under-capitalized areas | D | | | | ✓ | D | Catalytic capital | ✓ | Segment |
| Provide flexible capital | D | ✓ | | | ✓ | D | ✓ | ✓ | Segment |
| Engage actively to improve impact* | ✓ | | | | ✓ | D | | ✓ | Segment |
| Social outcomes are better than what would likely have happened w/o the investment** | maybe | | | | ✓ | D | | | Report |
| Use(s) | segment | report | not used | not used | report | define | report | | See above |

D = subvariable is part of the study’s explicit definition of the term it uses

✓ = subvariable appears in the study but is not part of an explicit definition of the term it uses

* Overlaps with “intentionality” variable

** Overlaps with “measurement” variable

Source: ESADE, 2021, slide 12.

Methodology to calculate the current supply of capital allocated to impact investing in Zambia:

To calculate **the current supply of capital allocated to impact investing in Zambia**, the 4IP Group Study Team examined aggregate impact investing AUM as the indicator of market size in Zambia. The team used the following steps in the process:

1. Compiled a database of impact investing organizations investing in Zambia

The 4IP Group Study Team compiled a database of **23 impact investors** (including only organizations, not individual investors). **To build the list**, the team drew from a variety of sources, including:

- ❖ The Existing Prospero-NABII-SVS directory/dataset from the recent IICS (2021);
- ❖ The past Kukula baseline study Survey (2019);
- ❖ IIX Chapter Lusaka’s previous Impact Investing Ecosystem Mapping (2017);
- ❖ NABII’s own membership network including intermediaries;
- ❖ The GIIN’s detailed estimates of the proportion of assets invested directly/indirectly by various organization types;
- ❖ AVPA Africa’s deal-sharing platform (2019 - on-going);
- ❖ Crunchbase platform;⁴³
- ❖ Other deal-making websites such as:

⁴³ <https://www.crunchbase.com/organization/the-platform>

- Africa.businessinsider.com;
- Zambian Business Deals on LinkedIn;
- Africa private equity news.com;
- The African Private Equity and Venture Capital Association (APVCA);
- Africa Capital Digest;
- Pitchbook, a capital markets research firm.⁴⁴

2. *Gathered data on impact investing AUM for as many of these organizations as possible*

From the original NABII-Prospero-SVS list of 158 impact investors, the 4IP Study team attained impact investing AUM information from **23 organizations**. The AUM data were identified from various sources, including:

- ❖ Data submitted by investors via the ZIIMS Survey conducted by the 4IP Group;
- ❖ Information submitted by investors via 4IP-SIIA-IPA Impact Investor Circle webinars;⁴⁵
- ❖ Data submitted by investors to NABII-Prospero SVS Survey;
- ❖ Data submitted to the Foreign Private and Investor Perception Report 2019 (GRZ, 2019);
- ❖ Online research of the public sources listed above;

The 4IP Group did not determine, which investments to include or exclude; rather investors self-reported their impact investing AUM.

3. *Counted only directly invested assets (to eliminate potential double-counting)*

Our database **includes** exclusively asset managers (and NOT asset owners). It only includes those that make **direct investments** into impact enterprises. We exclude those that make **only indirect investments** through funds or other vehicles, and those that **do both**. This addresses the risk that the AUM of some organizations likely includes investments into other organizations in the database.⁴⁶

4. *Estimated the AUM of organizations for which AUM figures were unknown*

Next, the 4IP Group Study team **reported the assets managed** by the 23 identified organisations for which AUM figures were captured via the survey / protocol instrument or via the publicly reported sources above. The team identified each investor by **their organization type** and then applied the average direct AUM of each organization type (drawing from averages of those with known AUM).⁴⁷

5. *Estimated the proportion of the full universe captured*

While the 4IP Study Team made best efforts to validate which of the impact investors in the comprehensive NABII-Prospero-SVS database of active impact investors in Africa actually

⁴⁴ We reached out to Pitchbook but since Pitchbook's representatives were charging US\$25,000 to grant us access to PE and VC deals in Africa we declined the offer.

⁴⁵ Episode 5, 6 and 7 in the IIC series: <https://www.youtube.com/channel/UCakL--Kk3vBS0NrBHzLWhg>

⁴⁶ For instance, a family office might invest in a fund manager who then invests into a social enterprise. The family office might be in the database as well as the fund manager managing a portion of the family's assets. To avoid such **cases of potential double-counting**, the team sought to include only the proportion of assets **invested directly** by each organization, versus those invested indirectly (GIIN, 2019a).

⁴⁷ The team excluded large outliers such as EIB with the following signed amounts: 4 Sept 2020 for the Great North Road T2 Upgrade (Transport Sector): **EUR72,450,000**; 25th of October 2019 for EGP African Renewable Energy FL (Energy Sector): **EUR 50,027,000** and 17 May 2019 for Zambia Water and Sanitation Project (Water Sewerage Sector): **EUR 4,825,000** to be more conservative and realistic with our estimates. The total estimated direct AUM for all 23 organizations in the database was **USD 85.17 Million**. Source: <https://www.eib.org/en/projects/loans/index.htm?q=zambia&sortColumn=loanParts.loanPartStatus.statusDate&sortDir=desc&pageNumber=0&itemPerPage=25&pageable=true&language=EN&defaultLanguage=EN&loanPartYearFrom=1959&loanPartYearTo=2021&orCountries.region=true&orCountries=true&orSectors=true>

invested in Zambia (via e-mails and LinkedIn contacts), there are undoubtedly actors that have not been captured in our final list.⁴⁸ The African market is fast-growing and dynamic, and new investors are entering the African market frequently from all over the world (see **Appendix 11**).

Based on an understanding of the NABII-Prospero-SVS's own coverage of the Zambian market, in which it's reported that ICA:Zambia has achieved **over USD 80 million in deals closed** between 2018 and 2021 across **21 deals** with 55 businesses prepared and presented. This was facilitated for two seasons of international deal focused conferences in Lusaka in 2018 and 2019. These findings seem to be aligned with findings of 4IP Study team's estimation of **USD 85.17 Million in enterprise deals** closed between 2019 and 2020 across **34 deals** (excluding 16 DFI project investments). Given the sharp drop in the inflow of foreign investments starting already in 2018 (see **Appendix 14** below) and which surely has been amplified by the COVID19 pandemic in 2019 and 2020, the 4IP Group Study team decided not to capture the proportion of the universe which might not have been captured in our database by extrapolation of the overall market size.

⁴⁸ For example the Team encountered by chance a Nigerian Investor at a recent Empower Africa On-line Networking event who confirmed she had several portfolio companies in Zambia. The Investor never came back to us nor filled out the questionnaire, and therefore is not included in the study.

Appendix 6: Zambia: Financial Soundness Indicators, 2008–18 (Percent, unless otherwise indicated)

| | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 Dec |
|---|-------|------|------|------|------|------|------|------|------|------|-------------|
| Capital adequacy | | | | | | | | | | | |
| Regulatory capital to risk-weighted assets | 18.6 | 22.3 | 22.1 | 19.2 | 21.3 | 26.8 | 27.0 | 21.2 | 26.2 | 26.5 | 22.1 |
| Tier 1 regulatory capital to risk-weighted assets | 15.7 | 18.9 | 19.1 | 16.8 | 19.4 | 24.5 | 24.6 | 19.2 | 23.4 | 24.5 | 20.1 |
| Capital to total assets | 9.9 | 11.2 | 10.4 | 10.2 | 12.0 | 14.1 | 15.1 | 12.2 | 13.5 | 12.6 | 12.3 |
| Asset quality | | | | | | | | | | | |
| Past due advances (NPL) to total advances | 7.2 | 12.6 | 14.8 | 10.4 | 8.1 | 7.0 | 6.1 | 7.3 | 9.7 | 11.5 | 11.0 |
| Loan loss provisions to nonperforming loans | 104.6 | 86.6 | 80.3 | 76.7 | 73.5 | 83.2 | 76.5 | 70.5 | 71.5 | 69.2 | 86.4 |
| Bad debt provisions to advances | 6.1 | 10.9 | 11.9 | 8.0 | 6.0 | 5.8 | 3.9 | 4.6 | 5.6 | 8.0 | 9.5 |
| Loan concentration | | | | | | | | | | | |
| <i>Of Which</i> | | | | | | | | | | | |
| Households | 30.1 | 30.9 | 32.2 | 30.8 | 34.3 | 34.5 | 36.0 | 30.2 | 28.7 | 28.8 | 29.0 |
| Government and parastatals | 1.9 | 3.1 | 4.6 | 4.7 | 3.9 | 2.1 | 4.3 | 3.0 | 4.8 | 5.4 | 7.5 |
| <i>Sectoral Breakdown</i> | | | | | | | | | | | |
| Agriculture | 16.0 | 19.0 | 17.6 | 17.7 | 22.6 | 20.2 | 16.6 | 17.3 | 17.0 | 20.3 | 16.8 |
| Mining | 5.0 | 4.0 | 3.2 | 4.2 | 5.7 | 6.6 | 5.0 | 6.4 | 6.3 | 7.5 | 7.1 |
| Manufacturing | 11.0 | 12.0 | 12.7 | 12.2 | 11.3 | 9.5 | 11.5 | 13.5 | 12.8 | 8.2 | 9.2 |
| Construction | 4.0 | 3.0 | 5.8 | 4.2 | 3.7 | 3.5 | 3.4 | 3.4 | 3.9 | 3.7 | 3.0 |
| Services | 9.0 | 8.0 | 7.0 | 7.1 | 3.9 | 4.1 | 2.5 | 2.7 | 1.8 | 2.4 | 4.2 |
| Others | 55.0 | 54.0 | 53.7 | 54.6 | 52.8 | 56.1 | 61.0 | 56.7 | 58.2 | 58.1 | 59.8 |
| Earnings and profitability | | | | | | | | | | | |
| Return on average assets | 3.6 | 2.1 | 2.9 | 3.7 | 3.9 | 3.4 | 3.7 | 2.8 | 2.5 | 3.1 | 3.0 |
| Return on equity | 20.8 | 9.4 | 12.1 | 25.5 | 20.8 | 18.2 | 17.3 | 13.1 | 12.3 | 15.4 | 14.7 |
| Gross interest income to total gross income | 66.6 | 65.1 | 58.6 | 59.3 | 61.3 | 64.5 | 66.4 | 67.1 | 68.6 | 69.0 | 67.9 |
| Gross noninterest income to total gross income | 33.4 | 34.9 | 41.4 | 40.7 | 38.7 | 35.5 | 33.7 | 32.9 | 31.4 | 31.0 | 32.1 |
| Net interest margin | 10.4 | 10.7 | 9.0 | 8.1 | 8.4 | 8.3 | 8.5 | 8.2 | 8.7 | 9.1 | 9.1 |
| Liquidity | | | | | | | | | | | |
| Liquid assets to total assets | 35.5 | 38.0 | 43.8 | 40.3 | 36.0 | 38.9 | 35.8 | 34.8 | 39.1 | 45.5 | 47.0 |
| Liquid assets to total deposits | 49.9 | 52.6 | 58.5 | 53.3 | 49.0 | 52.6 | 49.8 | 47.9 | 54.2 | 56.5 | 57.0 |
| Advances to deposits ratio | 66.3 | 60.1 | 53.1 | 57.1 | 66.0 | 61.4 | 62.0 | 56.4 | 50.0 | 45.2 | 47.3 |
| Exposure to foreign currency | | | | | | | | | | | |
| Foreign currency loans to total gross loans | 42.1 | 36.4 | 32.8 | 39.1 | 28.7 | 25.6 | 29.0 | 36.9 | 35.7 | 41.6 | 44.5 |
| Foreign currency liabilities to total liabilities | 35.8 | 38.0 | 39.6 | 39.0 | 22.9 | 30.4 | 32.1 | 48.9 | 45.0 | 44.0 | 46.6 |
| Net open position in foreign exchange to capital | 6.9 | 2.5 | 4.1 | 5.5 | 2.8 | 3.6 | 1.6 | 4.7 | 0.8 | 1.4 | 1.7 |

Source: IMF, 2019: 41.

Appendix 7: Enterprise Survey

| | Zambia2019 | | | | Sub-Saharan Africa | Lower Middle Income |
|---|------------|-------------|--------------|-------------|--------------------|---------------------|
| | All Firms | Small firms | Medium firms | Large firms | | |
| Firm Characteristics | | | | | | |
| Age of the establishment (years) | 16.4 | 15.0 | 17.0 | 18.3 | 14.4 | 17.4 |
| Percent of firms with at least 10% foreign ownership | 25.7 | 17.7 | 27.9 | 39.6 | 17.5 | 12.5 |
| Percent of firms with at least 10% government/state ownership | 0.1 | 0.0 | 0.0 | 0.6 | 1.5 | 1.1 |
| Gender | | | | | | |
| Percent of firms with female participation in ownership | 41.5 | 37.5 | 46.4 | 39.6 | 29.4 | 35.5 |
| Percent of firms with a female top manager | 12.9 | 13.5 | 12.6 | 12.1 | 15.2 | 20.0 |
| Proportion of permanent full-time workers that are female (%) | 34.7 | 35.5 | 37.2 | 26.7 | 27.4 | 31.5 |
| Percentage of permanent full-time non-production workers that are female* | 41.5 | 40.1 | 43.1 | 39.2 | 31.1 | 31.9 |
| Percentage of permanent full-time production workers that are female* | 45.2 | 53.0 | 42.8 | 31.9 | 21.2 | 27.8 |
| Finance | | | | | | |
| Percent of firms with a checking or savings account | 95.6 | 93.6 | 95.8 | 99.7 | 86.6 | 82.2 |
| Percent of firms with a bank loan/line of credit | 10.1 | 6.3 | 9.3 | 21.3 | 20.4 | 26.2 |
| Proportion of investment financed internally (%) | 88.7 | 83.6 | 90.5 | 91.9 | 75.0 | 72.2 |
| Proportion of investment financed by banks (%) | 3.5 | 3.4 | 3.4 | 4.0 | 9.2 | 12.2 |
| Proportion of investment financed by supplier credit (%) | 1.7 | 2.0 | 1.8 | 1.2 | 4.7 | 4.2 |
| Percent of firms using supplier/customer credit to finance working capital | 25.2 | 25.6 | 25.8 | 22.4 | 24.5 | 25.0 |
| Proportion of investment financed by equity or stock sales (%) | 3.1 | 2.6 | 4.0 | 1.9 | 5.4 | 5.2 |
| Regulations and Taxes | | | | | | |
| Senior management time spent dealing with the requirements of government regulation (%) | 8.1 | 7.8 | 9.3 | 5.9 | 8.4 | 9.3 |
| Percent of firms that were visited or required to meet with tax officials | 75.8 | 80.1 | 69.6 | 80.4 | 71.5 | 60.2 |
| Days to obtain an import license | 18.1 | 16.1 | 16.5 | 23.0 | 14.1 | 16.5 |
| Days to obtain a construction-related permit | 35.3 | 28.2 | 39.2 | 32.9 | 46.0 | 47.9 |
| Days to obtain an operating license | 20.0 | 22.3 | 17.7 | 21.1 | 20.9 | 22.4 |
| Biggest Obstacle | | | | | | |
| Access to finance | 31.1 | 36.2 | 20.1 | 44.4 | 23.2 | 15.6 |
| Access to land | 2.4 | 3.5 | 2.2 | 0.2 | 5.4 | 3.9 |
| Business licenses and permits | 0.6 | 0.8 | 0.6 | 0.1 | 1.8 | 2.8 |
| Corruption | 8.1 | 3.4 | 12.1 | 10.6 | 8.3 | 9.3 |
| Courts | 0.0 | 0.0 | 0.0 | 0.0 | 0.6 | 1.0 |
| Crime, theft and disorder | 0.6 | 0.5 | 1.0 | 0.0 | 3.2 | 3.6 |
| Customs and trade regulations | 3.7 | 3.9 | 1.7 | 8.1 | 4.7 | 4.1 |
| Electricity | 20.6 | 20.4 | 23.5 | 14.0 | 12.7 | 9.4 |
| Inadequately educated workforce | 0.3 | 0.4 | 0.2 | 0.4 | 2.3 | 5.2 |
| Labor regulations | 1.1 | 0.0 | 2.4 | 0.7 | 1.0 | 2.4 |
| Political instability | 2.6 | 1.5 | 2.0 | 6.8 | 9.9 | 13.5 |
| Practices of the informal sector | 18.3 | 23.2 | 19.6 | 3.1 | 10.4 | 13.6 |
| Tax administration | 2.5 | 0.8 | 5.2 | 0.6 | 4.1 | 3.6 |
| Tax rates | 7.8 | 5.2 | 9.2 | 10.9 | 9.5 | 9.1 |
| Transportation | 0.1 | 0.2 | 0.1 | 0.0 | 2.6 | 3.0 |

Source: World Bank, 2020:11-12.

Appendix 8: Interviewed Impact Investors

| Date of Interview / Webinar | Name of Impact Investor | Type of Impact Investor |
|---------------------------------|--------------------------|-------------------------|
| 30 th of March 2021* | Goodwell Investments | Non-DFI (PAIF) |
| 5 th of May 2021** | IFC | DFI |
| 5 th of May 2021** | DBZ | DFI |
| 13 th of May 2021*** | Kukula Capital | Non-DFI (PAIF) |
| 13 th of May 2021*** | Zenga Ventures | Non-DFI (PAIF) |
| 13 th of May 2021*** | Zebu Investment Partners | Non-DFI (PAIF) |
| 9 th of June 2021# | Oikocredit* | Non-DFI (PAIF) |
| 10 th of June 2021# | Proparco* | DFI |
| 11 th of June 2021# | IFU* | DFI |
| 11 th of June 2021# | Thirty30 Capital | Non-DFI (PAIF) |

Sources:

* 4IP Group: Diagnosis of The Goodwell Investment – Good Nature Agro Transaction: <https://www.youtube.com/watch?v=A8Ejka3aeNo&t=2s>

** 4IP Group: Supply of Impact capital by DFIs to Zambia: <https://www.youtube.com/watch?v=jIJws207rww>

*** 4IP Group: The Role of Non-DFIs in supporting the growth of Zambia's Impact Investing Market: <https://www.youtube.com/watch?v=zfzrBsEQfbY&t=4516s>

Recorded and available upon request and the approval by the interviewee.

Appendix 9: Surveyed Impact Investors & Communications

| No. | Full Questionnaire Respondent (Impact Investor) | Date of Survey submission |
|-----|--|------------------------------|
| 1 | Zenga Lending Services, Zenga Venture Fund (Mr. Njavwa Mulwanda) | 13 th of May 2021 |
| 2 | SIDI (Ms. Cristina Alvarez) | 19 th of May 2021 |
| 3 | AHL Venture Partners (Ms. Lello Halake) | 21 st of May 2020 |
| No. | Interview Protocol & Communications | Date of Final Answer |
| 4 | Ms. Zunaira Javed, Investment Officer - Venture Capital, FMO | 1 June, 2021 |
| | Mr. William Nyaoke, Regional Director, East Africa, Norfund | 1 June, 2021 |
| 5 | Ms. Lelemba (Chitembo) Phiri, Africa Trust Group & Enygma Ventures | 2 June, 2021 |
| 6 | Mr. Curtis Musembi, OikoCredit | Monday, June 7, 2021 |
| | Ms. Julia Wakeling Silverstreetcapital.com | Tuesday, June 8, 2021 |
| 7 | Mr. Mdaniso Ernest SAKALA Senior Private Sector Investment Officer, Country Office Zambia African Development Bank | Wednesday, June 9, 2021 |
| 8 | Mr. Sean Carey, Director, AgDevCo | Thursday, June 10, 2021 |
| 9 | Ms. Kim Humby, Goodwell Investment | Thursday, June 10, 2021 |
| 10 | Ms Diana Njuguna, Africa Investment Advisor – Southern Africa, Contractor, U.S. International Development Finance Corporation (DFC) | Thursday, June 10, 2021 |
| 11 | Mr. Jeremy Cleaver, Development Finance Consultant [Former CDC Official responsible for Zambia] | Friday, June 11, 2021 |
| 12 | Ms. Lorna McNae, Communications Manager, InfraCo Africa | Friday, June 11, 2021 |
| 13 | Ms. Nadège Hopman, Lending Operations Southern Africa & the Indian Ocean – Public Sector, EIB | Friday, June 11, 2021 |
| | Mr. Mutasa Simbah, Southern Africa, Regional Director, Norfund | Friday, June 11, 2021 |
| | Ms. Orli Arav Managing Director Facility for Energy Inclusion (FEI) Lion's Head Global Partners | Friday, June 11, 2021 |
| 14 | Ms. Anne Kathrine Oxenvad, Senior Investment Manager, IFU | Friday, June 11, 2021 |
| 15 | Mr. Sven Haefner, CEO, Thirty30 Capital | Friday, June 11, 2021. |

Note: That is 14 out of 23 replied either in writing or via (recorded) interview, in addition to the 5 who participated in our webinar series, which gives a response rate of 78% (excluding Kukula Capital and AfDB, which didn't invest in the covered period 2019-2020).

Interview Protocol: DFIs investing in Zambia

| Question | International Finance Corporation (IFC), WBG | Development Bank Zambia (DBZ) |
|--|--|---|
| 1. Through which types of financial products is the DFI providing capital to target impact objectives? | <ul style="list-style-type: none"> • Role to grow the Private Sector. • Operational Principles for Impact Investment • Impact Investing can play a major force in helping DCs recover from COVID19 pandemic and tackle climate crisis & SDGs. • Targeted investment to address global social and environmental challenges esp. in DCs. • Mainly use Debt Financing for Imp Investing • Work with Fin. Inst and PSO to make available the capital they need to establish IEs. • IFC3.0 create markets itself – upstream – project preparation funding to help structure projects that will address these social and environmental challenges. | <ul style="list-style-type: none"> • Core mandate aligned with Impact Investing • Debt and equity financing to both private and public sector and support GRZ development agenda. • Impact Themes aligned to Gov sectoral development agenda – to make sure what DBZ is supporting is aligned with the NDPs, which is aligned with the GIIN themes. • Direct lending: debt and equity to the SMEs • Indirect investment through the financial institutions in Zambia. • Engaging on guarantees – provide capital into such structures to address e.g. inclusive finance. • Programme on rural finance. |
| 2. What complementary activities to impact investment – wrt what the DFI is offering to its clients e.g. non-financial support. | <ul style="list-style-type: none"> • IFC3.0 – creating markets and making sure able to structure the projects in a way that they are able to respond effectively to the soc-env challenges. • Scaling Solar programme – so that others can be able to replicate in order to increase impact on the ground. • Inclusive finance – working on a number of programmes – secure transactions and collateral registry programme – since access to finance is affecting most firms in Zambia – difficult – related to collateral and ability to create own credit profile. Working with BoZ and PACRA on credit reporting structures – so IEs can be able to access finance. | <ul style="list-style-type: none"> • New strategic objectives 2020-24 – activities deemed complementary to Imp Investment such as Impact Investment advisory – via strategic partners such as Prospero – engage pro-actively – and via the NABII on the credit guarantee scheme to address inclusive finance. • Given challenge to access finance – a new initiative to develop pipeline – and help the IEs know what kind of finance they can access to ensure a wider coverage. |
| 3. How many investments has the DFI carried out and how do you scout for potential investment targets? | <ul style="list-style-type: none"> • 2019-2021 – IFC has made numerous investments. • Tourism sector investment – supported est of Bonanza Hotel development – looking from an Imp Inv angle – how this inv could linked up with other projects done by the WBG e.g. Agriculture Commercialization programme. • Linking SMEs to Value Chain (VC) – supply of food products to the hotels. • Real Estate – Shopping centres – as a way to creating an outlet for the VCs being supported. • Increasing the digital footprint – more demand for digital services. • The impact that the investment will make – making sure its financial sustainable and delivering specific impacts into the Zambian economy. | <ul style="list-style-type: none"> • A proactive approach engaging in deal sourcing activities e.g. ICA:Z 2019 where DBZ was present and engaged with 26 IEs. • Walk-in clients submitting an application. • Appraisal sys paying attention to impact objectives in addition to financial return. • Successful projects https://www.dbz.co.zm/supported-projects/ e.g. Yalelo project which raised equity from DBZ, attracting also other impact investors. |
| 4. How work with project owners / CEO ito defining the social and financial objectives – what is the methodology? | <ul style="list-style-type: none"> • Upfront agrees with the project owner / developers on the specific objectives hope that the project will achieve and it has to be measurable. Incorporating the measurable objectives in the term-sheets, measuring the financial performance and also pro-actively measuring the impact the project is delivering. | <ul style="list-style-type: none"> • Similar approach to IFC • Different sourcing of financing. Appraise the projects in line with criteria and investment policy to make sure that whenever approved the covenant agreed upon and executed by both parties. |
| Question | International Finance Corporation (IFC), WBG | Development Bank Zambia (DBZ) |
| 5. In your opinion, what are the barriers that currently inhibit the expansion of the impact finance industry in Zambia? | <ul style="list-style-type: none"> • Biggest challenge is that IFC doesn't find the projects/companies at the right kind of scale that enables sustainable, resilient and climate smart investments. • Issue of project developers/promoters – difficult to get committed ones that are keen to add and embrace the whole approach of impact investment in their projects. • Not immune to economic and macroeconomic issues affecting things on the ground as well as impact on the strength of the promoters that IFC is engaging with. | <ul style="list-style-type: none"> • Lack of enabling environment that is suitable to attract investors. • DBZ is working on a fund – a credit line under Renewable Energy sector – which has a lot of potential investors who have approached DBZ, but the problem is that there is not a regulatory framework that distinguishes between smaller packages of renewable types of projects – has to obtain licenses – through the same onerous process, incurring a lot of costs in the process. |

| | | |
|---|---|---|
| | <ul style="list-style-type: none"> Consequently, IFC has developed more co-investment platforms in order to aggregate some of the Impact Inv into larger ticket sizes in order to have a better impact. Ramp up upstream work to increase the pipeline of bankable projects. Informality is high in Zambia and most SMEs have not yet graduated into the formal sector. Need to build the capacity of the SMEs to better absorb capital. | <ul style="list-style-type: none"> Mainstream investment regulation – and impact investing regulation – there isn't much difference between the two. Yet to see more proactive policies to address this. A challenge to get the right kind of impact project – need to put in a fair mind of project development to get the right kinds of projects. The perceived risk of Zambia from outside investors. Unlocking impact capital in the intern capital markets – credit rating upgrading needed. |
| 6. What are the drivers that could influence the growth of the impact finance industry in Zambia (Policy Recommendations for the NABII-Zambia)? | <ul style="list-style-type: none"> Scaling up the floating of green and social bonds – as an opportunity to increase the footprint of impact investing in Zambia, because then able to harness capital from numerous resources that can be used for the scaling of projects e.g. a Green bond / Social Bond focused on providing SMEs involved in certain strong impact projects. To have a fund that is targeting SMEs, but it must be purposeful – working with the SMEs so that they can start scaling-up and be able to absorb more capital as they grow. IDA Private Sector Window eligibility extended to Zambia – financing available through WBG – there is a number of funding including local currency facility – IFC able to lend in local currency while hedging against the risk of currency depreciation. Make hard currency financing to Zambian Financial Institutions so they can provide USD financing esp during period of liquidity shortage. | <ul style="list-style-type: none"> Impact Investing industry – via NABII – a big step in the right direction. Should lead to changes in policy that governance the capital in Zambia e.g. the Pension Funds, sidelines wrt impact investments. Advocate for policy that Pension Funds subscribes to a certain impact investment approach. Address the needs of impact sectors to help attract more financing into Zambia. Inform the Ministry of Finance on how best to unlock the Pension fund capital. DBZ can't provide foreign currency to a project who has its cashflow in local currency, but DBZ is in discussion for a local currency facility with a cooperating partner. |

Source: 4IP-NABII (2021a).

| Question | Proparco | Investment Fund for Developing Countries (IFU) |
|---|--|---|
| 1. Which SDGs does the DFI focus on? | <ul style="list-style-type: none"> Key outcome is Job creation (SDG8) – cross-cutting – in everything they do. Intervention – Regional – agriculture – (SDG2) - secondary Most operations focus the private sector and expansion of SME and corporate operations. Lines of Credit to Banks on-lending to SMEs. | <ul style="list-style-type: none"> Focus on all the SDGs, some more than others. A few focus areas: Climate Investment Team and an Agricultural Team; Gender equality Poverty Reduction is the main target to ensure that the industries have a development impact that affect the bottom 40%. |
| 2. Which Investment products does the DFI use? | <ul style="list-style-type: none"> Long-term debt solutions Equity interventions s.t. the nature of the sector: If its financial institution – tier-two capital intervention. Senior capital if its corporate – Mezzanine intervention. Investment operations with a grant element supporting TA. | <ul style="list-style-type: none"> Equity -is the main focus; (max 20% AUM in PEF); Quasi-equity; Debt (e.g. Green Future Fund) Ticket size a min 10 Mn USD up to 40-50 Mn USD. MoFA (DANIDA) funding targeting high risk and high impact projects where able to accept less than commercial return against a higher impact. Does expect a commercial return on investment. |
| 3. Measurement and management tool does DFI use? | <ul style="list-style-type: none"> Impact team use a common European-DFI Measurement tool. | <ul style="list-style-type: none"> IFU has its own tool. Impact Screening tool to assess upfront impact showing if a sector or country to be priorities, neutral or outside the scope of IFU. SDG fund – most commercial fund – with the funding from Pension Funds (LPs) with IFU and Danish Government. And other funds. Screening areas: Annual Impact Reporting for each project – as part of documentation Impact priority areas – annual reporting on a project by project basis. E.g. permanent or temporary employment; Youth unemployment rate etc. |

| | | |
|--|--|---|
| | | <ul style="list-style-type: none"> Annual sustainability report – from project companies related to compliance with local legislation and international standards or impact in terms of job creation etc. |
| 4. Financial Products and deal sizes | <ul style="list-style-type: none"> Whether able to support project directly or whether partner with intermediate financial institution Direct involvement to corporate and medium-sized business 10-15 Mn range. Projects that are small than that range not able to intervene directly. Intermediated route partnering with local financial institution provided with LoC or guarantee and then on-lend to SMEs for productive use. 10 Mn USD threshold can be lower in smaller countries e.g. Malawi / Eswatini – where the intervention can be smaller for a financial institution. Equity operations are closer to min ticket of 5 Mn, below that partner with PE Funds who will source projects due to economies of scale consideration. VC – from Series B-C interventions – post-revenue and pre-profit, where able to consider smaller ticket min ½ -2 Mn but not considered main focus area. | <ul style="list-style-type: none"> Beginning of 2020 – small investment in Zambia under the Project Development Facility (High Risk – High Impact) African Green Corp – as a co-investment with InfraCo-Africa – A power project – using a debt instrument – (cf. Annual IFU report). |
| 5. Performance & Risks of the instruments | <ul style="list-style-type: none"> Zambia has been challenging in recent times e.g. Commodity pricing (Copper driven econ.); Debt repayment uncertainty and currency instability; Political environment not clear-cut at the moment. Elevated levels of risks. Partners are able to be sustainable in general in terms of repayment of credit while reaching impact objectives. | <ul style="list-style-type: none"> Too early to say anything about the performance of the 2020 investment Challenges by the macroeconomic environment especially the devaluation of the Zambian Kwacha, which is also one of the reasons why IFU hasn't focused on Zambia in the past few years. Focus on investment with hard currency exposure where the income is generated in hard currency or where there is natural hedge against the currency devaluation. Use loan instruments to mitigate the risks instead of participating at the equity level to avoid any conflicts. |
| 6. Which enterprises received impact capital and how many transactions in 2019-2020? | <ul style="list-style-type: none"> No PE Fund in Zambia, usually Pan-African Funds (not country specific) measured by IRR. Local Financial Institution in 2019 – no views on the performance of this operation at this stage. Debt Facility for a regional corporate in 2020 operating also in Zambia | <ul style="list-style-type: none"> 2020 – small investment in Zambia under the Project Development Facility (High Risk – High Impact) African Green Corp. https://africagreenco.com/ |

| Question | Proparco | Investment Fund for Developing Countries (IFU) |
|---|--|---|
| 7. In your opinion, what are the barriers that currently inhibit the expansion of the impact finance industry in Zambia? | <ul style="list-style-type: none"> • Debt sustainability. • IMF Art.IV consultations. • Micro-level: High interest rate due to the high levels of inflation. • GRZ large intervention at the local capital market which crowds out private sector lending since banks prefers Gov T-bills (has come down somewhat) and bonds, which stifles SME and MF lending with 35-40% interest rates. • Local currency term lending is too expensive for a MSMEs to buy an asset. • Drought – impacting the agricultural sector and irrigation systems and rural infrastructure but also knock-on economy via the lack of hydroelectricity pushing up the costs of doing business in Zambia, since the grid is unreliable resorting to the use of generating making products uncompetitive. | <p>Macrolevel:</p> <ul style="list-style-type: none"> • Devaluation of the local currency. <p>Microlevel</p> <ul style="list-style-type: none"> • Difficult to assess the business environment since IFU hasn't not been investing since 2015/16. <p>Governance</p> <ul style="list-style-type: none"> • Corruption level is not moving in the right direction. |
| 8. Policy Recommendations. | <ul style="list-style-type: none"> • Policy Certainty a good starting-point. • Changes in the Central Bank and Ministry of Finance – not knowing why some of these changes are happening which is creating uncertainty from international investor perspective. • IMF interventions at the macro-level is being observed. • Agriculture is a fantastic opportunity especially if water and electricity gets sorted out – the farmers are able to repay their debt much quicker given fertile ground. | <ul style="list-style-type: none"> • Stability into the Political system which would improve the macroeconomic environment. • Stability of the of the power system is a significant issue which leads to reliance of alternative power. • Creating the right incentives to attract private capital to investment s.t. the right incentive and a business environment, e.g. when entering into a PPA need to live up to the PPA and make the required payments. |

Source: 4IP Group, 2021.

Interview Protocol: Non-DFIs investing in Zambia

| Questions | Kukula Capital (2009-On-going) | Zenga Ventures (2016- on-going) | Zebu Investment Partners |
|--|---|---|---|
| <p>Q1a) What are the main differences between the interpretation of impact finance of your organization and the one that we, GSG-NABII-Zambia, proposes on the basis of the so-called “<i>impact triad</i>”?</p> <p>Q1b) Looking at additionality, there are differing positions and interpretations. What is the interpretation of additionality that best fits the way your organisation operates? How is that applied in the provision of capital?</p> <p>Q1c) How does your organisation, following the criteria you use as a guideline, allocates its impact capital?</p> | <p>13 investments in Zambian SME ranging from 200,000 USD to 2-3 Mn USD.</p> <p>Definition is aligned – deliberately trying to create social impact since 2010 (1st Fund).</p> <p>Measurability has been fine-tuned over the years to having deal measuring before and after the investment – being tracked in a consistent way.</p> <p>Additionality – is a broad consideration – since most sectors are undercapitalized in the SME space.</p> <p>Mainly Looking for new investment – where are the underserved areas with potential better margin and more scalability</p> <p>Additionality used in different context – able to get co-investors in to scale-up the investment beyond own initial investment.</p> <p>Criteria – no firm guidelines in terms of structuring the historic investment, but has worked on this in the past few years.</p> | <p>Early and growth stage capital with a focus on equity and debt.</p> <p>Fundraising for credit fund.</p> <p>Deal by deal on an opportunistic basis.</p> <p>Impact Finance definition is aligned with Zenga’s.</p> <p>Track specific (8) SDGs which they do diligence on.</p> <p>Aligned with the GSG and NABII-Zambia framework.</p> <p>The Impact Triad is new for Zenga.</p> <p>Ito Additionality – Emphasis is on how else Zenga can help SMEs even if the investment decision is that Zenga can’t invest, but can provide TA and consulting around governance which Zenga has found to be quite a challenge in the Zambian space.</p> <p>Governance and talent acquisition.</p> <p>If can provide capital as well as advice or only the latter – seen as additionality – to make the investee more investor ready for larger institutional investors.</p> <p>Ticket sizes ranges from 25,000 USD to 2 Mn USD.</p> <p>Focus more on growth stage investment with ticket sizes going up.</p> <p>Challenge is whether the SMEs are measuring the impact to better inform potential SMEs.</p> | <p>Managing two funds within food security.</p> <p>Invest within the whole Value Chain.</p> <p>European-DFIs have invested in Zebu along with US WMs as LPs.</p> <p>Does not differentiate a lot between main (wealth creation) and impact investments which goes hand-in-hand, since the LPs are mainly DFIs with a strong impact investment mandate.</p> |
| <p>1. Organisation’s profile?</p> | <p>A small integrated team where everyone doing many different things.</p> <p>Ito transactions – wide range of investments (13) of which 7 are still active, some of been sold and others closed since not worked out.</p> <p>Broad range of investments, with a broad definition of what impact investments are in private companies.</p> <p>One social enterprise investment – orphanage – which didn’t work out in the end. The model of having it detach between business and social side didn’t work out in practice.</p> <p>So Kukula’s current portfolio companies are now purely Ltd companies with an intention of having a social impact.</p> | <p>A team of 12 members of which 8 are based in Zambia with 4 co-founders from Zambian diaspora in the US. No specifically focused governance function. Do have an investment committee and a few partners that focuses on each investment before the decision is made. Thereby serving as an initial governance framework.</p> <p>Zenga takes minority or slight majority equity positions in technology-enabled businesses across financial services, renewable energy, consumer, and value addition along the mining industry.</p> <p>Backing Zambian entrepreneurs with a viable business exporting products and services across the region looking for debt or equity investment for growth. Zenga also institute a board before the investment if equity that helps with the governance framework post-investment and one of the founders will join the board from LP perspective or elect investor representative.</p> <p>Equity 3 investments have been made so far, and 1 in the mining space.</p> <p>Debt 5 investments 5 Mn directly.</p> | <p>Zebu consists of 16 team members of which half dedicated to value created where have a dedicated ESG team including Impact Investment.</p> <p>Dedicated person for TA – id specific impact areas –</p> <p>Fund 1 – raised funds from EC</p> <p>Fund 2 – raised funds from CDC and AfDB to fund TA facility which allows to focus on some elements which a normal PE Fund would not necessarily dedicate time to.</p> <p>Half team focusing on growing the companies they invest in and creating ESG procedures and impact.</p> |

| | | | |
|---|--|---|--|
| 3a) Why did you start operating in the field of impact finance? | A passion for SME growth (driver). A combination of the amazing investment opportunities in Zambia and trying to fill the gap in the market. | Doing Good and Doing well but if you can't measure it it didn't happen. Before the focus on impact capital, the objective was always to transfer skills and connect capital to opportunity (job-), offering access to capital. Creating a path back home for the Zambian diaspora. Many challenges on the investee side tied to talent. Help with capacity building and job creation. Use of proceeds making sure the local community benefit from their advisory services. Aligned with key UN-SDGs. | Came to Africa 15 years ago as a business management consultant working in SADC region. Joined IFU to make a difference – the impact side of the DFI attracted the managing partner to join. Worked for 10 years for IFU Zebu's investment mandate is aligned with the DFI thinking. Closed-ended fund. DFIs do have high expectations to their fund managers who have to provide a min 12% return in hard currency Internal expectation 20% IRR+ in hard currency. Working on the impact side is a main driver. |
| 4f) Through which types of financial products are you providing capital to target social impact objectives? 4g) What complementary activities to investment does your organization offer, if any? We are talking about non-financial support e.g. structured relationships with intermediaries (social incubators, accelerators...). | Blended approach depending on transactions whether growth investment and seed investment. For the seed investment – running the company with a transition plan. Growth equity – support and on-going handholding. Strategic initiative corporate financing support to better fundraising. Growth equity investments – have had to step in to run some of the portfolio companies for a while. | Primarily invest in equity – if so, try to use preference shares or ordinary if prior investment – tied to how invest and how much invest – tied to whether investees qualified or gets through impact DD. Road-map to when impact will be measure and what the KPIs of the investees will be. Investing HNWI's money and own money on each investment hence commercial return is important. Why using equity or senior secured debt (security is not always adequate, e.g. property or movable assets not easy to track with impact targets). | Only provide equity. Can do follow-on investment in the forms of loans and mezzanine. Follow-on services linked to value creation team, including ESG Team and a TA consultant – working closely with the management of the portfolio companies in putting up procedures and creating impact and value in the companies preparing them for the exit. |
| 5a) In your opinion, how much does a typical social impact investing/financing operation deviate from a mainstream transaction (disproportionate returns)? | Not much! There are slightly more risk and uncertainty in some of these impact investments areas. The risk adjusted return on impact investment is slightly worse. | Agrees with Kukula's assessment because of the added cost in terms of the level of reporting of the measurement and doing it right both before and after the investment, when adjusting for the risk-return trade off it is quite a significant investment. No 100% pure impact investment yet. Had a partial exit with an investee – the costs to time and effort put in and its complementary activities vs the return. The actual costs were more expensive. | Difficult to answer this question. There is no real difference. e.g. CDC Group dedicated fund for impact investment with no return expectations for that fund other fund expect 5-10% If driven by investments which need to have impact and required to measure that – it has no significant impact on the investments looking at. |
| 6a) Could you explain what is, in your investment strategy, the link between expected impact and expected return ? | In Zambian Kwacha (ZMK) returns there is need to go further above 30% due to an average depreciation of the ZMK of 30% every year, especially with impact investing coming from abroad only to achieve a 5-10% USD return. The investor needs a double-digit Kwacha returns which is difficult to find. This has been one of the huge challenges in this space in Zambia particularly during the last 4-5 years due to the strong depreciation of the ZMK which is eroding the USD denominated returns. | Benchmarks (aiming to achieve): Credit side in the fundraise – are targeting 16% gross IRR and net IRR 11-12% Equity side 25% IRR with 3-5 years investment horizon but have not reached this so far given some of the macroeconomic challenges and currency fluctuation in Zambia. | They go hand-in-hand. Clear measures If you can't measure it you can't manage it. Measure their impact on the wealth on countries GDP, food security impact, how much extra tonnage of, upscaling of the training of the employees, youth and gender. Process certification e.g. ISO, and therefore helped improve governance of the company. Deploy proper constituted boards with international experts in their field. Job creation (direct and indirect). Measure all these different factors both in reporting and also when structuring the company for sales, since it will have a significant impact on the price you can obtain. |

| | | | |
|---|--|--|---|
| <p>7a) How do you scout for potential investment targets?</p> <p>7b) What is the screening process like? What are the selection criteria you employ?</p> <p>7c) How do you and your counterparty set the social and financial objectives to be achieved through the capital employed?</p> <p>7d) After the capital deployment, how is monitoring and measurement carried out?</p> <p>7e) Could you describe what methodologies your organisation uses for impact measurement?</p> | <p>All the investments have been through own network in Zambia. Only 1 with an introduction.</p> <p>Screening – if sector like – look at scalability and management to exit the equity investment.</p> <p>Social and financial objectives are part of the DD and transaction structure based on forecasts and targets and quarterly reporting tracking key measures – high level in terms of job creation, training, CO2 emission etc.</p> | <p>Local and international networks for investment targets and good partnership with BongoHive where mentored two of first investees before investments.</p> <p>Screening focused around growth initiatives and business scale, opportunity for growth, regional expansion, what is the size of the business, prior track record.</p> <p>In terms of how setting financial and social objectives: A big focus on governance – One of the founders will join the board to help the management team commercially and help the financial professionals in the organization with reporting and setting reporting templates.</p> <p>Provide a questionnaire up-front that has questions focused on the 8 SDGs focused on and quarterly reporting based on that questionnaire. Help after the deployment on how to monitor and measure. It is manual its methodology. Does not have a systematic framework but instead is currently using Excel for reporting and measurement tracking.</p> <p>Would like to get this to be more systematic.</p> | <p>Have a good network.</p> <p>Has been active in Zambia for 20 years through partners and employees.</p> <p>Select certain sectors/areas they believe in and keep themselves up-to-date in those areas.</p> <p>Look at established – brownfield – projects.</p> <p>Build up expertise through employees and advisors in terms of scouting for investments.</p> <p>Advantage of not only investing in Zambia if the conditions are not attractive enough. Have personally worked on 6 investments in Zambia.</p> <p>Through Zebu has 1 investment in the beverage industry, a fruit producer originally located in Zimbabwe, which was moved to Zambia. Will relaunch it as a bottling plant for local breweries.</p> |
| <p>8a) Do you consider so-called social risk (or impact risk) in your operations?</p> | <p>Hands-on involvement with investees.</p> <p>Pick up some of these issues as part of the DD and also subsequently to ensure that they will be addressed along the way whether labour or environmentally related.</p> <p>Combination of initial screening and having an exclusion list.</p> <p>Being hands-on involved to know what is going on in the company.</p> | <p>Do measure impact and social risks.</p> <p>All of these definitions best describes their notion of social risk?</p> <ul style="list-style-type: none"> the probability of generating negative impact; the probability of <i>not achieving</i> the social impact objectives declared <i>ex ante</i>; the probability that the objective of achieving economic returns will overcome the initial mission of generating social impact (<i>mission drift</i>). <p>If risk not achieving the true impact then won't make the investment. There shouldn't be mission drift nor scope creep. Having a sustainable impact platform There has to be a commercial return first.</p> <p>Social risk is a critical part of risk assessment. In addition to making sure that there is preservation of capital for the investors it is important that the social risk element is objectively quantified its how it is going to affect the performance of the investment.</p> | <p>Essential to have impact as part of investment strategy. Go for project that can generate more value creation in portfolio.</p> <p>In investment committee has a leading member of the impact investment environment.</p> <p>Have two dedicated team members focusing on this and always receives great attention when presenting to the IC.</p> <p>Do a through risk assessment when doing investment but it is a requirement that investment does have an impact creation.</p> <p>All 3 definitions are being considered but an emphasis on the mission drift notion of social risk.</p> |
| <p>9a) What is the expected average lifespan of your impact investments?</p> <p>9b) What are your expectations in terms of exit strategies? What do you think could be typical exits in the impact investing industry?</p> | <p>Except one transaction which was sold after 3-4 years, otherwise have realized that it's a lot longer lifespan than they initially had thought.</p> <p>10 years on the average is a realistic exit horizon given the bumps along the way (rocky road).</p> <p>Initially thought that there could be room for IPOs in the local market, but there has been no interest from some of the local pension funds to underwrite SME</p> | <p>Equity side – larger equity tickets – 10-15 years.</p> <p>Early-stage investment – 3-5 years.</p> <p>Debt side – 5-7 years (Permanent Fund)</p> <p>Preferred Exit to other VCF</p> <p>Strategic sales.</p> <p>Listing option at Lusaka Stock Exchange is not practically even for larger corporations.</p> | <p>A closed fund 10+1+1.</p> <p>It is limited since the focus is Africa.</p> <p>Agriculture, Food production and SMEs. 3 challenges which a lot of international investors would not dare to take on.</p> <p>Open-Ended Fund with a longer horizon would be beneficial to avoid ending up in Exit to other PEF</p> |

| | | | |
|---|---|--|--|
| | transactions which consequently hasn't been a viable exit route. The exits done has only been in trade sales. | Challenging to get local institutional investors to take larger equity positions in emerging businesses that doesn't fit the NDP. Should increase over time to increase the exit opportunities. | where forced to sell at a discount, who could gain from the advantages of the initial build up. Fund 1 slowly existing via trade sales. Assuming to list the companies is too optimistic within the time frame 4-7 years. |
| 10a) In your opinion, what are the barriers that currently inhibit the expansion of the impact finance industry in Zambia? | Depreciation of ZMK. No allocation of institutional investment for impact investment. NAPSA can invest in these sectors – VC – e.g. as underwriter – but only very little appetite for this. | A deeper pipeline of investment ready companies. Having more exit opportunities. Having companies with a genuine focus on impact measurement and business strategy vs companies that adjust those strategies simply to raise funding. Resource requirements on investors – tough to accurate track, measure and implement true impact, if that could be unlocked would be significant. | Don't need to invest in Zambia if the conditions are not right. Unfortunately, the political risk and the currency risk is at the moment quite high. These are the two main barriers. Food production fund have to consider Zambia being landlocked and the market opportunities – some beneficial e.g. exporting to surrounding countries but some products have low local demand. |
| 10b) What are the drivers that could influence the growth of the impact finance industry in Zambia? | In VC space to make SMEs investment ready by getting in at an early stage to help build the SMEs as part of the impact investment ecosystem. In other markets having a right framework and investment guidelines for the public pension funds has been able to drive the VC/PE industry. Impact investment space closely connected to pushing the VC/PE space ZMK denominated entities willing to take Kwacha risk. Most investors are holding back on Zambia because of the ZMK depreciation which is eroding the equity return when converted into hard currency. | Last several years with the focus on the Green New Deal, Renewable Energy and Green Economy – attract focus on the right sectors with impact perspective. Mining sector will change how its pursued through local capacity building and through contribution to the local economy. Focus on institutional investors. More intermediaries and local impact investors. The more professional focused on the impact sectors e.g. Prospero – critical ito how to grow the depth of investment services firms. More information on what can be the game-changer. The NABII is a big part of this. Would like to see more involvement of local AMs such as NAPSA – investing in the space. NAPSA has only 1% which can be put to early-stage PE in their portfolio – corresponding to 40-50 Mn USD (significant) if it could be deployed locally. | Commitment from GRZ on certain factors: <ul style="list-style-type: none"> Stability around payment terms would be drivers for bringing in further investment to Zambia. Game-changer – commitment to co-investment or funding either by the GRZ or by funds backing the government would attract more impact investment into Zambia. |

Source: 4IP-NABII (2021b).

Appendix 10: Service Delivery by Government Ministries and Statutory Bodies, 2017-2019

| Institution | 2019 | 2018 | 2017 |
|---|------|------|------|
| Patents and Company Registration Authority (PACRA) | 74.2 | 90.2 | 90.5 |
| National Pension Scheme Authority (NAPSA) | 64 | 89.1 | 85.6 |
| Zambia Electricity Supply Corporation (ZESCO) | 37.7 | 72.5 | 74.3 |
| Zambia Revenue Authority (ZRA) | 56.8 | 72.3 | 75 |
| Road Transport and Safety Agency (RTSA) | 48.1 | 70.5 | 76 |
| Zambia Development Agency (ZDA) | 59.6 | 68.3 | 77.1 |
| Ministry of Finance | 43.4 | 67.6 | 77.1 |
| Zambia Bureau of Standards (ZABS) | 37.4 | 66.7 | |
| Department of Immigration (DOI) | 49 | 66.1 | |
| Zambia Environmental Management Agency | 50 | 65.7 | 69.7 |
| Zambia Information and Communication Technologies Authority (ZICTA) | 36.7 | 64.4 | 71.6 |
| Bank of Zambia (BOZ) | 69.1 | | 88.1 |
| Ministry of Commerce Trade and Industry (MCTI) | 32.2 | 63.5 | 69.5 |
| Energy Regulation Board (ERB) | 35.3 | 61.1 | 63.8 |
| Competition and Consumer Protection Commission (CCPC) | 34.4 | 61 | |
| Road Development Agency (RDA) | 38.1 | 59 | 68.8 |
| Water and sewerage utilities Companies | 30.7 | 53.4 | 60.2 |
| Ministry of Works and Supply | 28 | 52 | 48.5 |
| Local Authorities (Councils) | 33.1 | 51.4 | 43.3 |
| Zambia Public Procurement Authority | 36 | 49.4 | 52 |
| Ministry of Transport and Communication | 32.7 | 48.9 | 58.1 |
| Ministry of Lands | 27.8 | 48.4 | 39.2 |
| Ministry of Tourism and Arts | 29.6 | 44.4 | 46.5 |
| Zambia Police (ZP) | 29 | 43.6 | 42.7 |
| Ministry of Agriculture | 27.6 | 42.2 | 45.1 |
| Ministry of Livestock and Fisheries | 28.5 | 40.9 | 38.8 |
| Food and Drugs Labs | 25.5 | | |
| Zambia Medicines Regulatory Authority (ZMRA) | 24.4 | | |
| Zambia Compulsory Standards Agency | 25.5 | | |
| Zambia Metrology Agency | 26.8 | | |
| Workers Compensation Fund Control Board | 42.9 | | |

Source: GRZ, 2019: 75.

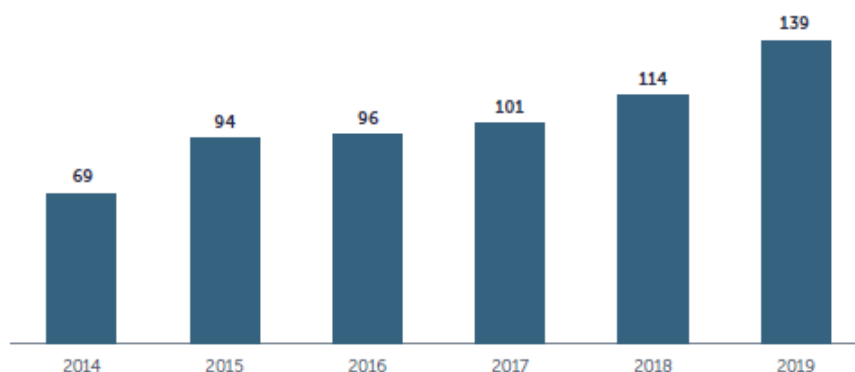
Appendix 11: Number of VC deals in Africa, by year

613

Number of reported
VC deals in Africa,
2014 – 2019

139

Number of reported
VC deals in Africa in
2019; representing
a 22% increase from
114 VC deals in 2018



The number of VC deals in Africa has been on an upward trend since 2014. In 2019, the number of VC deals reported on the continent reached a six-year high of 139 VC deals.

US\$3.9_{bn}

Total value of reported
VC deals in Africa,
2014 – 2019

US\$1.4_{bn}

Total value of
reported VC deals
in Africa in 2019

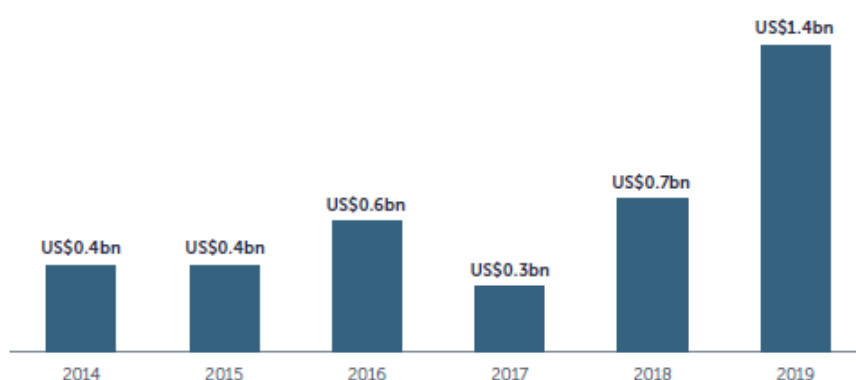
US\$0.7_{bn}

Average annual
total deal value of
reported VC deals in
Africa, 2014 – 2019

US\$2.1_{mn}

Median deal size of VC
deals, 2014 – 2019

Value of VC deals in Africa, by year



2019 was also a record year in terms of VC deal value. The value of VC deals reported in Africa reached US\$1.4bn in 2019; the highest on record.

Source: APVCA, 2020: 5.

Appendix 12: Comparing the Five main Investment Surveys in Zambia

| Section | GIIN & Open Capital (2016) | Kukula (2019) Baseline Study | GRZ (2019): Investor Perception Survey | Mukuni Labs (2021) Investor Focus | 4IP Group (2021) Follow-up Study |
|---------|---|----------------------------------|---|---|---|
| 1 | Introduction | Executive Summary | Executive Summary | Executive Summary | Executive Summary |
| 2 | Country Context | Introduction | Introduction | Introduction | About the ZIIMS |
| 3 | Supply of Impact Investing Capital | The Supply Pillar | Overview of Investment Climate in Zambia | About This report | Mapping Impact Investors investing in Zambia |
| 4 | Broader Investing Landscape | Estimating Inflow of Capital | Recent Macroeconomic Developments in Zambia | Methodology | Trends in the Impact Investing Market |
| 5 | Impact Capital Disbursed | Landscape for Commercial Lending | Recent FDI Trends & Prospects | Country Context | Investment Fund Management Landscape |
| 6 | Investments Over Time | Local Capital Suppliers | Private Sector Foreign Liabilities | A closer look at the Impact Investors | Main Motivations for Investing in Zambia |
| 7 | Sector | Overview of non-DFIs and DFIs | Private Sector External Debt Stock | Characteristics | Financial Metrics |
| 8 | Deal Size | Interview Findings | Private Sector Foreign Assets | Strategic Considerations | Financial Instruments / Products |
| 9 | Instrument | Comparison and Summary | Foreign Affiliates Statistics | Market Perceptions | Impact Sectors |
| 10 | Local Presence | The Demand Pillar | Contribution to Corporate Social Responsibility | Summary of Findings | Risk Analysis |
| 11 | Standards for Tracking Impact | The Intermediary Pillar | Investor Perceptions | Annexure 1: List of Survey Participants | Impact Metrics |
| 12 | Demand and Need for Impact Investing Capital | The Regulatory & Policy Pillar | Conclusion | | Investees |
| 13 | Enabling Impact Investing: The Ecosystem | Gap Analysis | Annex | | Identification of challenges and opportunities to the growth of the impact investing market |
| 14 | Ecosystem players | Overall Conclusion | | | References |
| 15 | Challenges and Opportunities for Impact Investors | Appendices | | | Appendices |

Source: 4IP Group.

Appendix 13: Impact Investor Deals in Zambia in 2019 and 2020

| Investor. | Type | Sector | No. of deals | Investment Size (Aggregate) | SDGs targeted by Investor. |
|---|----------------|--------------------------|--------------|-----------------------------|----------------------------|
| Enygma Ventures | Private Equity | Financial Services | 2 | \$1.65 | 1, 5, 8, 10, 12 |
| Private Infrastructure Development Group (InfraCo). | Private Equity | Renewable Energy | 2 | \$2.54 | 1, 6, 7, 8, 9 |
| Shelter Afrique | Private Equity | Real Estate | 1 | \$1.34 | 1,11 |
| Musika | Private Equity | Agriculture | 1 | \$0.25 | 1,2 |
| Tripple Jump BV (Dutch Good Growth Fund). | Private Equity | Real Estate | 1 | \$2.22 | 1,2,11, 7. |
| Rabo Bank | Private Equity | Agriculture | 1 | \$2.70 | 1,2 |
| Africa Agriculture Trade Investment Fund (AATIF). | Private Equity | Food and Agro-Processing | 1 | \$5.00 | 1,2,8 |
| Amano Capital | Private Equity | Financial Services | 2 | \$0.08 | 1,2,17, |
| Silverlands II | Private Equity | Agriculture | 1 | \$5.03 | 1,2,17,6 |
| BetterVest | Crowdfunding | Renewable Energy | 1 | \$0.43 | 1,7,15,17 |
| Marc Menase | HNWI | Financial Services | 1 | \$1.40 | 1,2 |
| IFU | DFI | Renewable Energy | 1 | \$6.67 | 1, 3,5,7, 8 |
| Inside Capital Partners (IC) | Private Equity | waste Management | 1 | \$2.75 | 6,8, 11, 13, 15 |
| AgDevCo | Private Equity | Food and Agro-Processing | 1 | \$2.00 | 1,2, 5, 8,12 |
| Goodwell Investments | Private Equity | Agriculture | 1 | \$2.10 | 1, 2,8,17 |
| FMO | DFI | Agriculture | 1 | \$2.50 | 1,2,13,15,11 |
| FMO | DFI | Aquaculture | 1 | \$10.50 | 1,2,13,15,11 |
| Finnfund | DFI | Aquaculture | 1 | \$6.00 | 1,2,3,4,5 |
| Oikocredit | Private Equity | Financial Services | 5 | \$7.31 | 1,2, 5, 8, |
| Proparco | DFI | Agriculture | 1 | \$12.50 | 1,2 |
| Thirty30 Capital | Private Equity | Agriculture | 2 | \$0.70 | 1,2 |
| IFC | DFI | Tourism | 1 | \$9.00 | 1,11,15 |
| Zenga Ventures | Private Equity | Financial Services | 4 | \$0.50 | 1,7, 5, 8, 10 |
| Total | | | 34 | \$85.17 | |

Source: 4IP Group compilation, June, 2021.

Appendix 14: Foreign Direct Investments to Zambia, 2010-2019*

| Year | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
|---------------------------------|---------|---------|---------|---------|---------|---------|-------|---------|-------|-------|
| FDI Flows (US\$ million) | 1,729.3 | 1,047.6 | 1,731.6 | 2,099.9 | 1,488.7 | 1,304.9 | 662.8 | 1,107.5 | 564.1 | 859.8 |

Source: ZDA, BOZ and ZSA Foreign Private Investment and Investor Perceptions in Zambia, GRZ(2019, 2021:3).

Foreign Direct Investment Liability Inflows by Sector (US\$ Mn), 2010-2019*

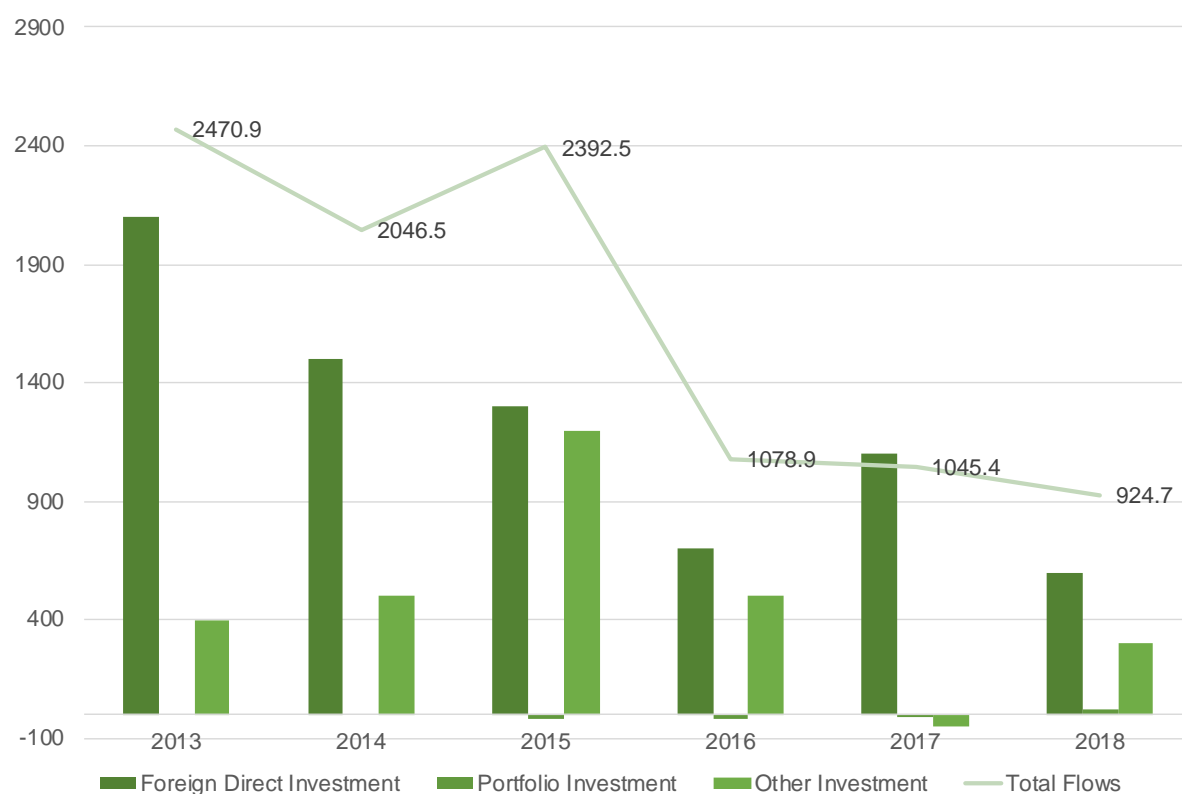
| SECTOR | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
|--|----------------|----------------|----------------|----------------|----------------|----------------|--------------|----------------|--------------|--------------|
| Mining & Quarrying | 1,141.3 | 955.6 | 933.7 | 1,375.5 | 994.2 | 325.0 | 41.6 | 282.3 | 129.6 | 406.5 |
| Manufacturing | 373.9 | (178.4) | 469.6 | 444.1 | 199.1 | 604.1 | 345.8 | 344.8 | 273.3 | 241.3 |
| Bank & non-bank financial institutions | (11.2) | 71.1 | 193.6 | 197.9 | 128.4 | 77.4 | 65.2 | 216.5 | 159.7 | 90.8 |
| Wholesale & Retail Trade | (2.2) | 76.6 | 38.3 | 30.5 | 225.0 | 76.5 | 74.9 | 217.0 | 28.2 | 47.6 |
| Transport & Communications | 179.3 | 41.6 | 1.3 | (8.1) | (161.6) | 42.9 | 78.2 | 24.8 | 147.0 | -1.9 |
| Tourism | 4.3 | 13.8 | - | (4.5) | - | 5.0 | 5.3 | (19.4) | -9.8 | -1.6 |
| Agriculture, Forestry & Fishing | 13.2 | 31.7 | 28.3 | 86.3 | 39.2 | 37.3 | 47.5 | (13.4) | -147.7 | 1.7 |
| Real Estate | (4.5) | 42.8 | 4.9 | 23.0 | (3.6) | 159.1 | 2.8 | (18.2) | -72.4 | 42.4 |
| Construction | 17.4 | 39.2 | 54.6 | (0.2) | 90.5 | (38.7) | 40.4 | 13.3 | -66.1 | -6.4 |
| Electricity, Gas and Steam | - | 13.3 | 6.5 | (46.8) | (24.5) | 16.5 | (16.7) | 59.7 | 110.2 | 54.7 |
| Others | 17.8 | (59.7) | 0.8 | 2.2 | 2.0 | (0.4) | (22.2) | - | 11.1 | 4.0 |
| TOTAL | 1,729.3 | 1,047.6 | 1,731.6 | 2,099.9 | 1,488.7 | 1,304.7 | 662.8 | 1,107.4 | 564.1 | 859.8 |

Source: ZDA, BOZ and ZSA Foreign Private Investment and Investor Perceptions in Zambia

Note: * Please note that the figures provided for 2019 are for the 1st half of the year, i.e. January to June 2019. Figures for January to December 2019 was made available to the public on the 30th June, 2021.

<https://www.boz.zm/private-capital-flows.htm> accessed on the 9th of July 2021.

Appendix 15: Private Sector Foreign Liability Flows (US\$ millions), 2009-2018



Source: GRZ, 2019: 23.

Appendix 16: Asset Under Management Allocated by Sector

Figure A16.1 Percentage of Money Allocated per sector (DFIs' Loans included)

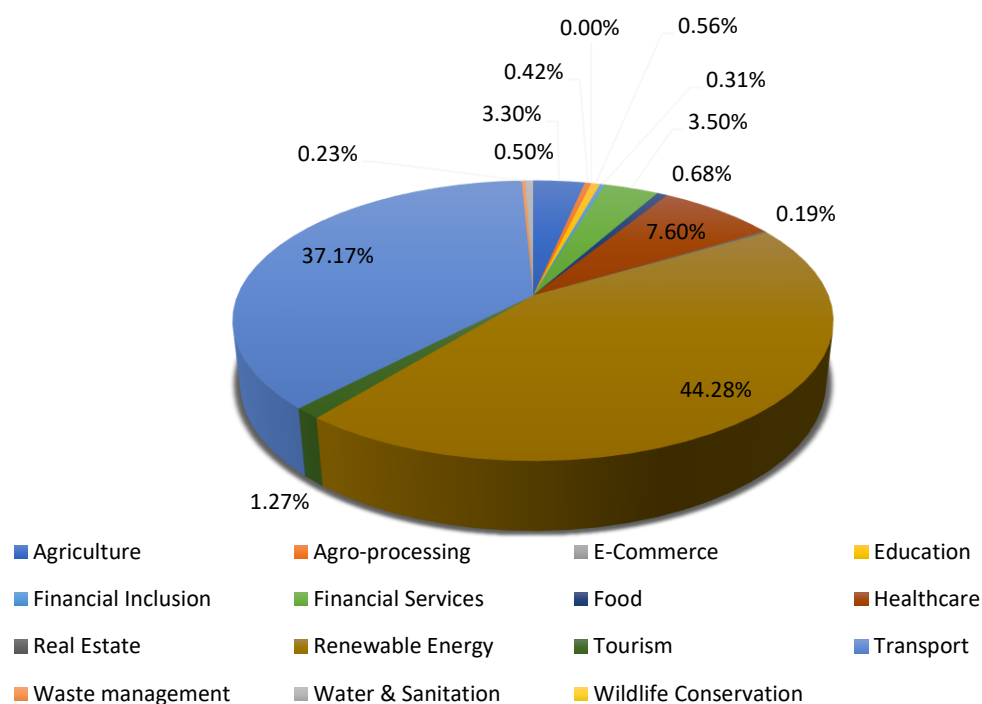
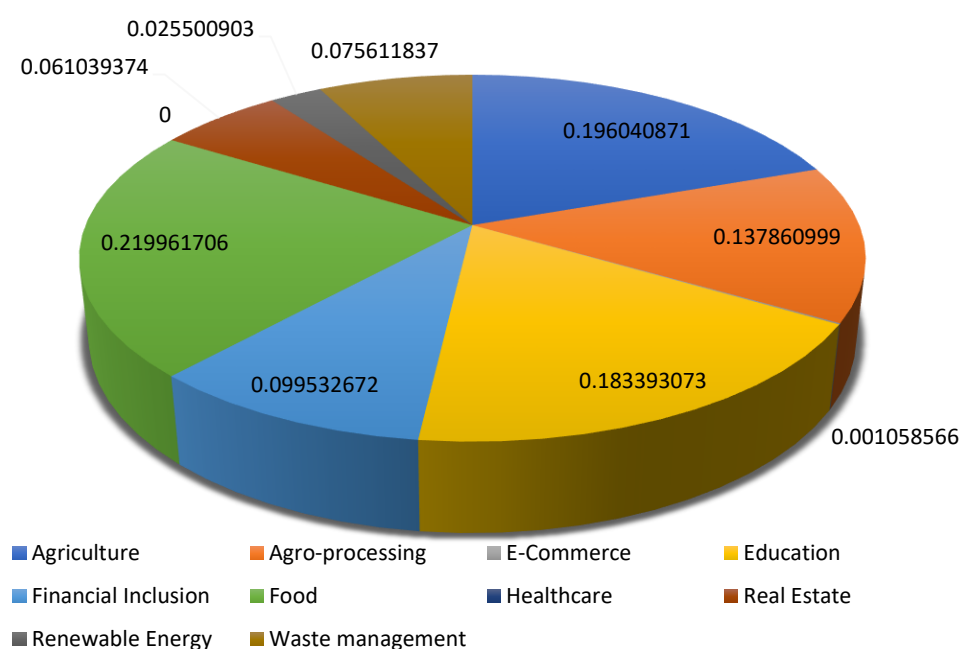
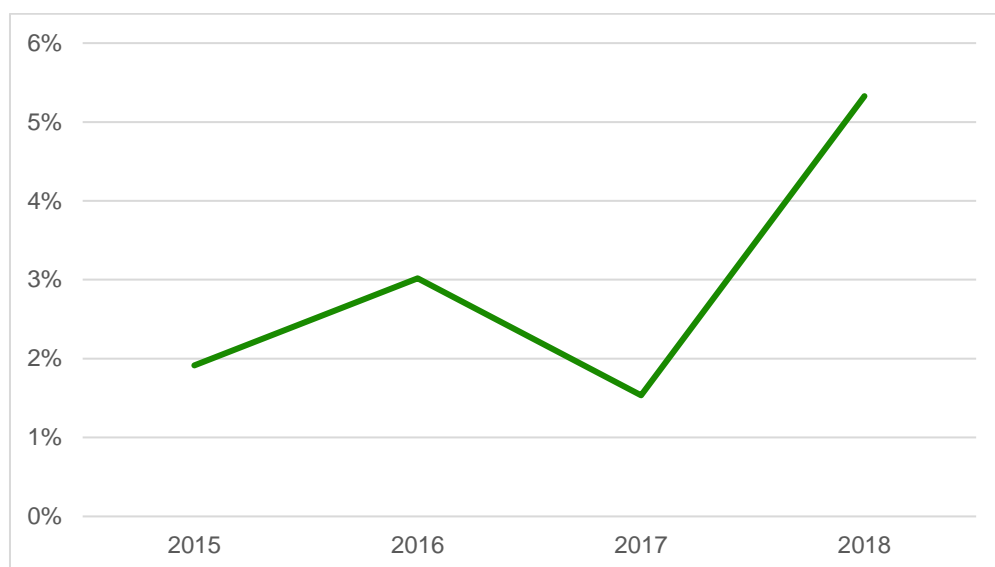


Figure A16.2 Percentage of Money Allocated per Sector (DFIs' loans excluded)



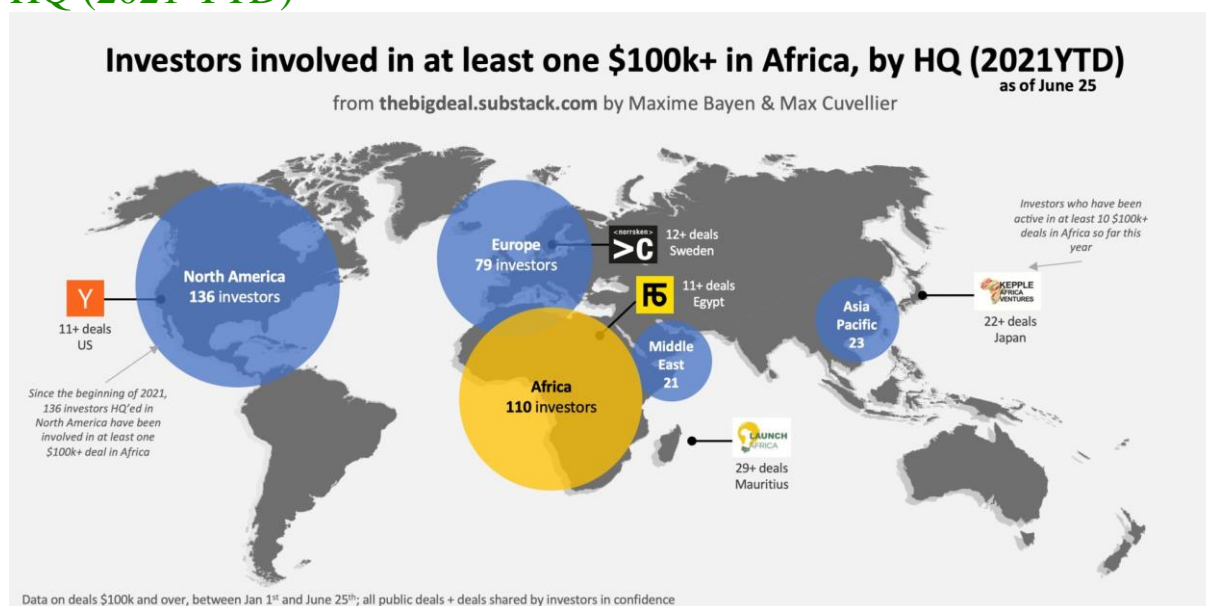
Source: 4IP Group, compilation and calculations.

Appendix 17: The Ratio of The Inflow of Impact Capital to Inward FDI



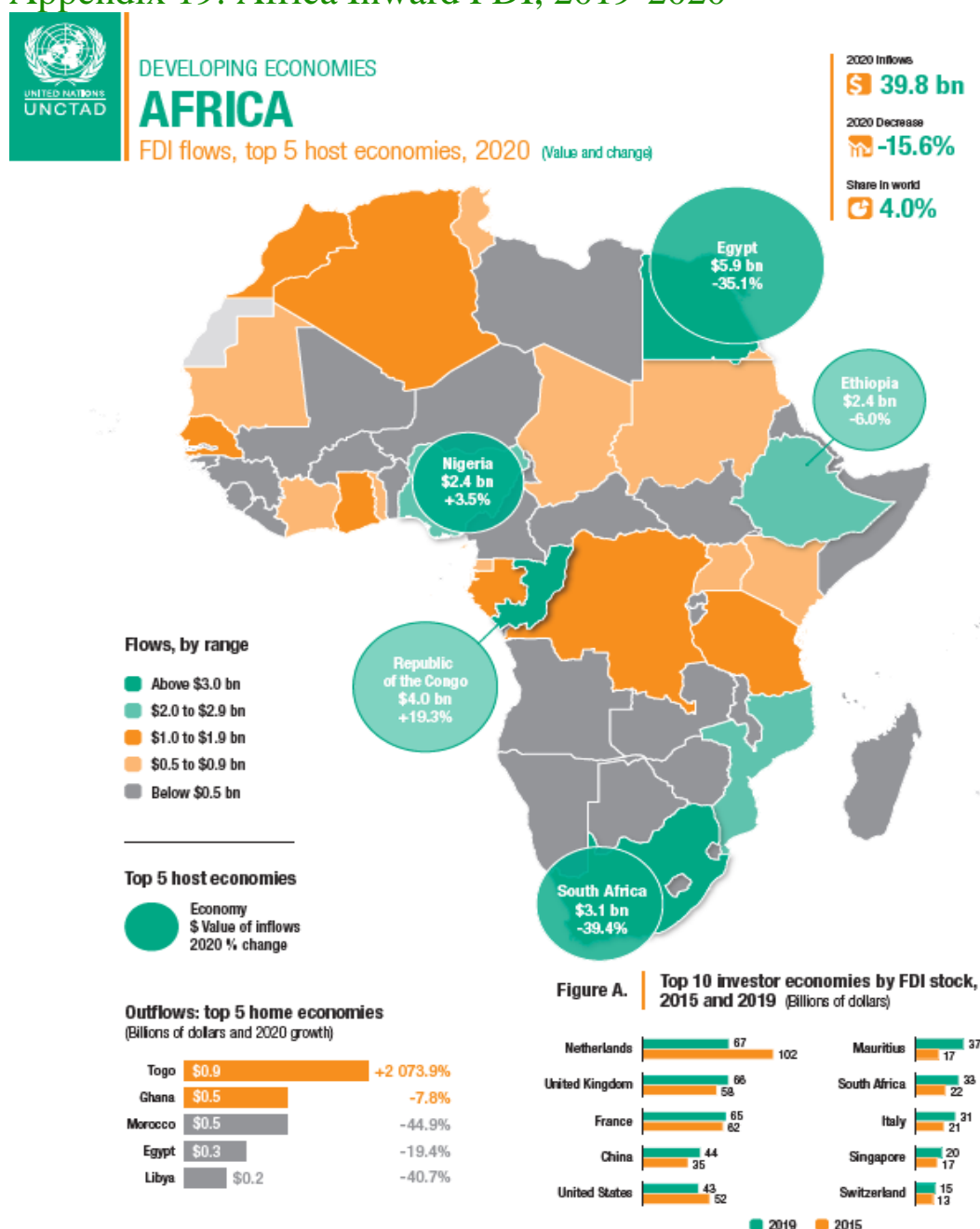
Source: 4IP Group calculations.

Appendix 18: Investors involved in at least one \$100k+ in Africa, by HQ (2021 YTD)



Source: The Bigdeal.substack.com accessed 28th of June 2021.

Appendix 19: Africa Inward FDI, 2019-2020



Source: UNCTAD, 2021 <https://unctad.org/topic/investment/world-investment-report> – accessed 6th of July 2021.
HIGHLIGHTS:

- The African continent's commodity-dependent countries have been affected more severely than non-resource-based economies.
- FDI inflows to sub-Saharan Africa decreased by 12% to \$30 billion, with investment growing in only a few countries. FDI to Southern Africa decreased by 16% to \$4.3 billion even as repatriation of capital by multinational enterprises (MNEs) in Angola slowed down. Mozambique and South Africa accounted for most inflows in Southern Africa.
- Pandemic and low oil prices depressed FDI flows
- Greenfield projects dropped by 62 per cent
- Flows to increase marginally in 2021 (UNCTAD, 2021a-b).

Figure B. FDI inflows, 2007–2009 and 2018–2020
(Billions of dollars and per cent)

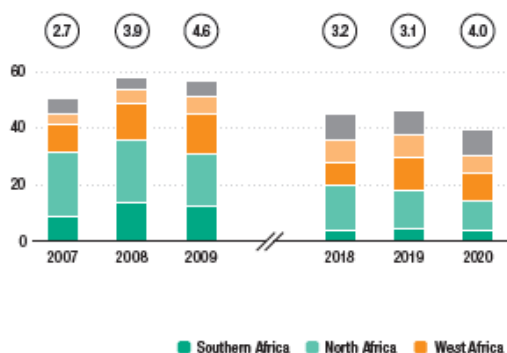


Figure C. FDI outflows, 2007–2009 and 2018–2020
(Billions of dollars and per cent)

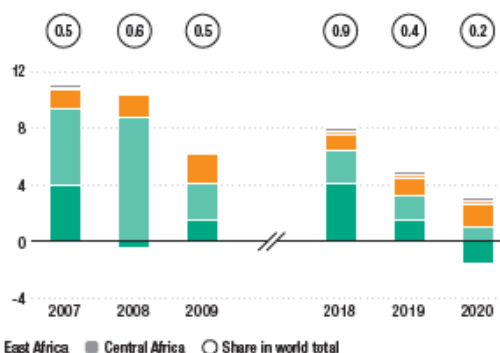


Table A. Net cross-border M&A sales, 2019–2020

| Sector/industry | Value (Millions of dollars) | | Number | |
|--------------------------------|--------------------------------|--------------|------------|-----------|
| | 2019 | 2020 | 2019 | 2020 |
| Total | 5 835 | 3 334 | 140 | 87 |
| Primary | 184 | 498 | 18 | 9 |
| Manufacturing | 2 114 | 2 247 | 36 | 18 |
| Services | 3 537 | 590 | 86 | 60 |
| <i>Top industries by value</i> | | | | |
| Food, beverages and tobacco | 1 052 | 1 438 | 13 | 1 |
| Pharmaceuticals | 9 | 776 | 2 | 5 |
| Extractive industries | 143 | 458 | 15 | 6 |
| Transportation and storage | 533 | 235 | 10 | 6 |
| Information and communication | - 90 | 193 | 13 | 9 |
| Finance and insurance | 20 | 74 | 24 | 20 |

Table B. Announced greenfield projects, 2019–2020

| Sector/industry | Value (Millions of dollars) | | Number | |
|--------------------------------|--------------------------------|---------------|--------------|------------|
| | 2019 | 2020 | 2019 | 2020 |
| Total | 76 637 | 28 907 | 1 063 | 556 |
| Primary | 2 829 | 1 381 | 23 | 12 |
| Manufacturing | 32 621 | 8 468 | 409 | 198 |
| Services | 41 186 | 19 149 | 631 | 346 |
| <i>Top industries by value</i> | | | | |
| Information and communication | 4 639 | 8 960 | 100 | 115 |
| Energy | 10 228 | 5 312 | 64 | 37 |
| Coke and refined petroleum | 7 727 | 2 315 | 13 | 3 |
| Food, beverages and tobacco | 2 448 | 1 382 | 54 | 38 |
| Transportation and storage | 5 402 | 1 277 | 50 | 26 |
| Automotive | 4 015 | 1 111 | 63 | 29 |

Table C. Announced international project finance deals, 2019–2020

| Sector/industry | Value (Millions of dollars) | | Number | |
|---------------------------------|--------------------------------|---------------|------------|-----------|
| | 2019 | 2020 | 2019 | 2020 |
| Total | 122 930 | 32 073 | 119 | 72 |
| <i>Top industries by number</i> | | | | |
| Renewable energy | 8 725 | 11 132 | 48 | 31 |
| Mining | 12 251 | 2 287 | 32 | 13 |
| Transport infrastructure | 9 885 | 13 969 | 7 | 7 |
| Energy | 3 587 | 1 448 | 9 | 5 |
| Industrial real estate | 3 192 | 846 | 5 | 5 |

Table D. SDG sectors: greenfield and project finance, selected trends, 2019–2020

| Sector/industry | Value (Millions of dollars) | | Number | |
|----------------------|--------------------------------|--------|--------|------|
| | 2019 | 2020 | 2019 | 2020 |
| Infrastructure | 60 473 | 15 417 | 17 | 12 |
| Renewable energy | 8 725 | 11 132 | 48 | 31 |
| WASH | 326 | 339 | 3 | 3 |
| Food and agriculture | 7 559 | 1 680 | 69 | 43 |
| Health | 639 | 267 | 37 | 14 |
| Education | 259 | 143 | 17 | 15 |

Source: UNCTAD, 2021a-b.

Appendix 20: Lusaka Start-up Ecosystem Overview



Source: <https://www.startupblink.com/startupecosystem/lusaka+zambia> accessed 1st of July 2021.

| Rank | City | Country/Territory | Rank Change (from 2020) | Total Score |
|------------|------------------|-------------------|-------------------------|-------------|
| 347 | San Juan | Puerto Rico | +25 | 0.70 |
| 365 | Saint Helier | Jersey | new | 0.66 |
| 492 | Yangon | Myanmar | +463 | 0.37 |
| 512 | Tehran | Iran | -174 | 0.36 |
| 527 | Caracas | Venezuela | -114 | 0.34 |
| 613 | Abidjan | Ivory Coast | +202 | 0.26 |
| 620 | Phnom Penh | Cambodia | new | 0.26 |
| 621 | Guatemala City | Guatemala | +29 | 0.26 |
| 724 | Dar es Salaam | Tanzania | +13 | 0.20 |
| 800 | San Salvador | El Salvador | +159 | 0.17 |
| 802 | Andorra la Vella | Andorra | new | 0.17 |
| 827 | Dakar | Senegal | -20 | 0.17 |
| 843 | Gibraltar | Gibraltar | +151 | 0.16 |
| 877 | Lusaka | Zambia | -72 | 0.15 |
| 882 | Tashkent | Uzbekistan | +84 | 0.15 |
| 923 | Victoria | Seychelles | -114 | 0.13 |
| 934 | Harare | Zimbabwe | +28 | 0.12 |

Note: Many of these cities are from countries where the augmented national ecosystems were not strong enough to have the country featured in the global top 100, and some are from territories or quasi-states, such as San Juan in Puerto Rico. A few of those locations face challenging conditions, and their ranking is a testament to their entrepreneurs ability to disconnect from geopolitical barriers, inefficient governments, or the painful lack of national resources available to support their growth.

Source: StartUpBlink, 2021:254.