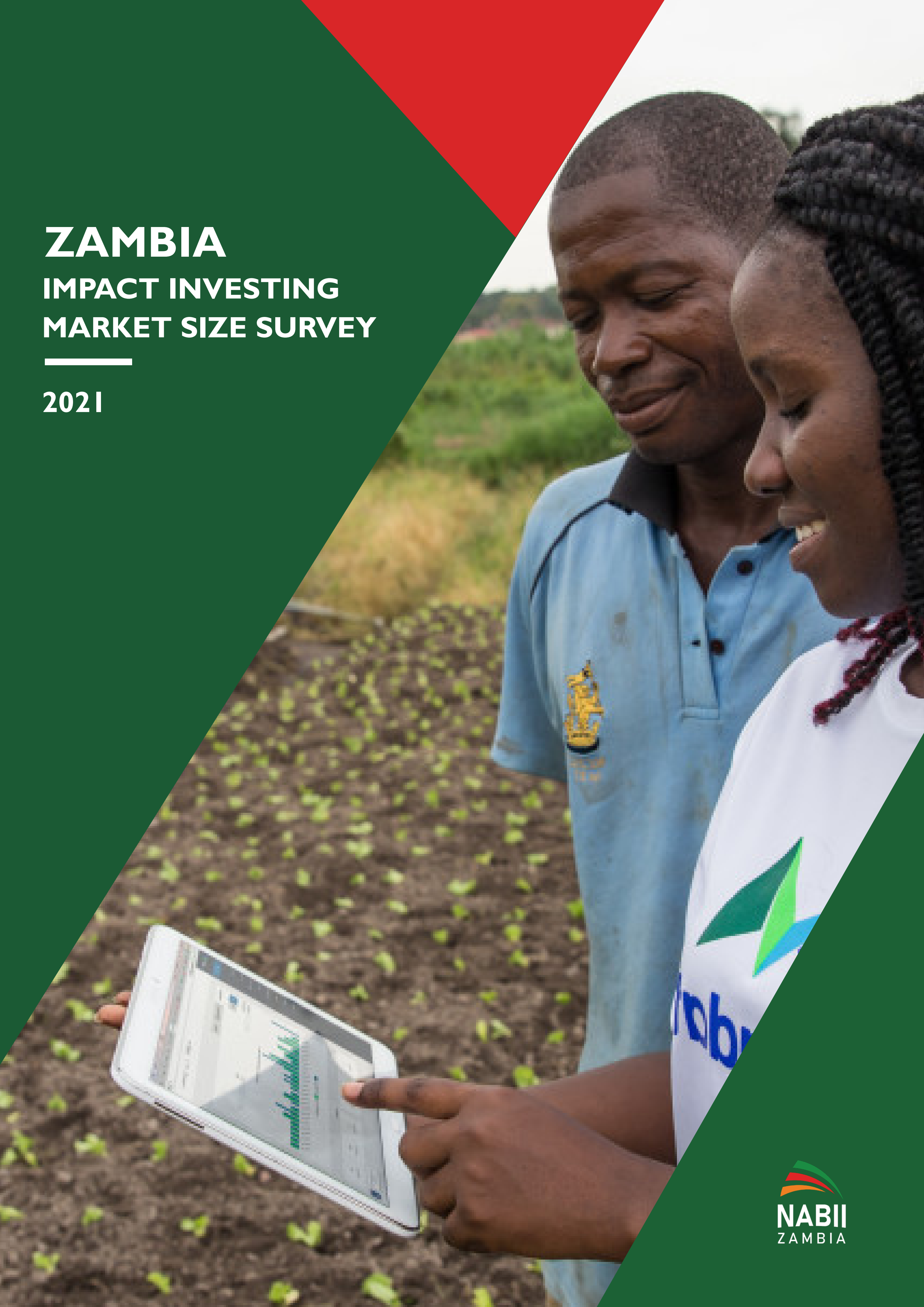
ZAMBIA
IMPACT INVESTING MARKET SIZE SURVEY

2021



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Reviewers

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About National Advisory Board for Impact Investing Zambia

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

Executive Summary

This report is a follow-up study building on the previous Zambian Landscape for Impact Investing baseline study.

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 7 impact sectors: Financial Services; Renewable Energy; Real Estate; Agriculture; Food and Agro-Processing; Waste Management and Tourism.

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.

he 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. The total amount of loans offered to Zambia from the DFIs totals $681 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. 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. 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. 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.

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). Impact Deals (including DFI projects), 2019-2020: 28 (42). Estimated Impact Investing Market Size, 2019-2020: $703.17 Mn. Average deal size (Mn) (Impact Enterprise only), 2019-2020: $3.04 Mn. Average deal size (impact) (including DFIs) (Mn), 2019-2020: $17.15 Mn.

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. The average deal size for impact deals in 2019-2020: US$2.83 Mn. The main type of capital provided by impact investors isGrowth capital (60%) with seed capital being the second largest type at 28%.

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%. When it comes to the investment done by DFIs the major sector recipient is renewable energy by a very wide margin.

It can be concluded that "economic stability" is indeed the major risk factor for impact investors to consider when deciding to invest in Zambia. Impact investments generated on average at around 2.7% return on investment (RoI).

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Many of the impact investors investing in Zambia over the 2019 – 2020 period share common approaches in providing solutions to society's biggest challenges. A significant proportion of investors recorded to have invested in Zambia between 2019 and 2020 focus on addressing SDGs 1, 2 and 8.
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+.

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.

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
BOZ	Bank of Zambia
CAGR	Compound annual growth rate
DFC	US International Development Finance Corporation
DFI	Development Finance Institutions
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 Investment
IFC	International Finance Corporation
IICS	Impact Investing Climate Survey
IIX	Impact Investing Exchange
IMM	Impact Measurement & Management system
IMP	Impact Management Project
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
SDGs	Sustainable Development Goals
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

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.

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).

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 an indicator of market size. To estimate the size, the study analysed a database of self-identified impact orientated investing organizations all investing in Zambia and their AUM.

1.1. Scope & Methodology

1.1.1 Scope

The ZIIMS used the below criteria for screening of impact investors:

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

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).

1.1.2 Methodology

To estimate the current supply of capital allocated to impact investing in Zambia, the study examined aggregate impact investing AUM as the indicator of market size in Zambia. The study used the following steps in the process:

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 study 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)
4. Estimating the AUM of organizations for which AUM figures were unknown
   - The study 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 study did not capture the proportion of the universe which might not have been captured in our database by extrapolation of the overall market size.

1.1.3 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 have shared AUM information based on their own definition of impact investing, 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'.

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.

1.1.4 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.

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.

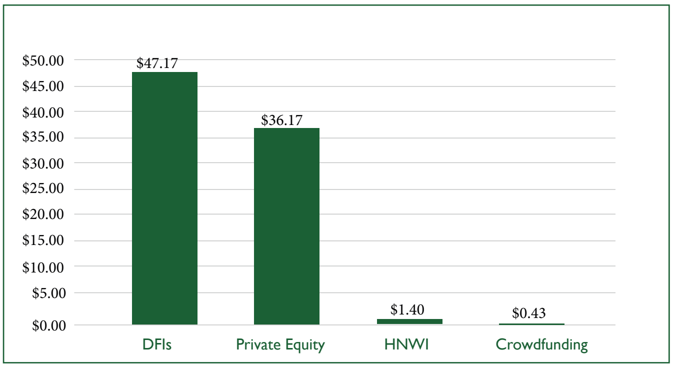
These Core Characteristics of Impact Investing complement the GIIN's existing definition of impact investments, which are *"investments made with the intention to generate positive, measurable social and environmental impact alongside a financial return."*

1.2 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).

Figure 1: AUM (Impact Deal Aggregate) by Organization type

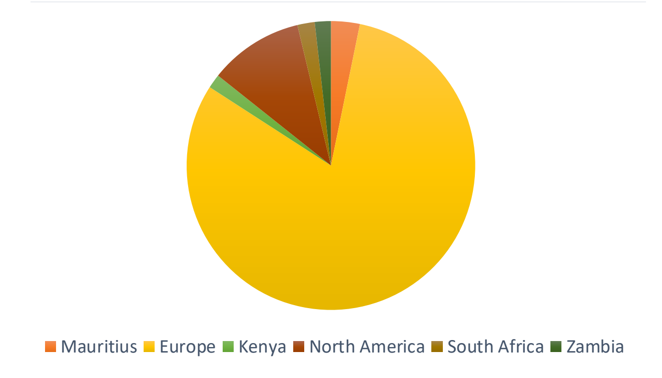


Source: 4IP Group's calculations based on ZIIMS database.
Note: N = 23 all organizations in database.

The ZIIMS surveyed also global **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 2.

Figure 2: Organizations' headquarter location, based on Amount (Million, USD)



Source: 4IP Group, compilation.

1.3 Peer Group Definitions

In this study, following the Symbiotics & Canopy 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.

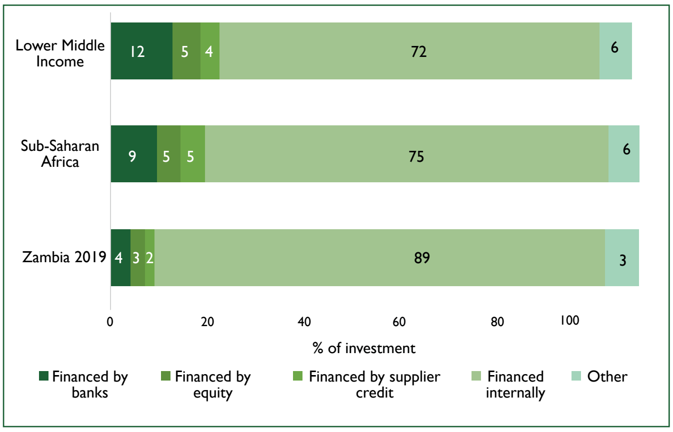
2. Trends in the Impact Investing Market

2.1 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.

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 3: Sources of financing for purchases of fixed assets



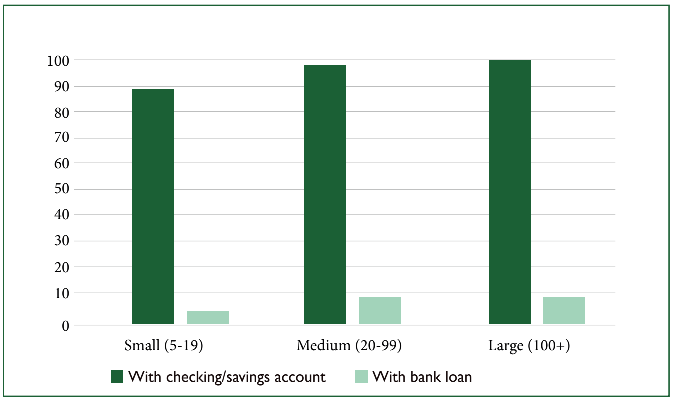
Source: World Bank, 2020:7.

Figure 4 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 4: 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 NBFI 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).

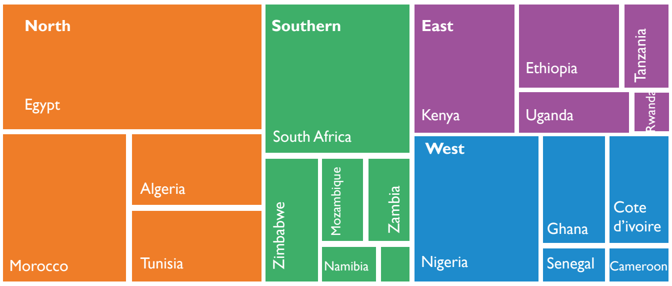
2.2 Investment Trends

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[1]. With such a favourable long-term economic outlook, growing middle class, and new massive market under the "world's largest free-trade area (i.e. AfCFTA)," the AVCA(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.

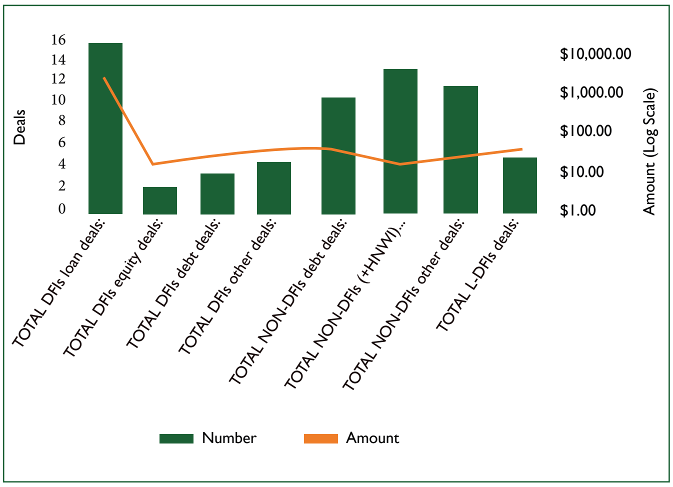
[1]There are four different types of foreign investment. These are Foreign Direct Investment (FDI), Foreign Portfolio Investment (FPI), official flows, and commercial loans. However, a global platform capturing, channelling and promoting investment projects aiming to achieve the SDGs through impact investment has not 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 5: 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.

Figure 6: Impact Investing Deals and amounts of deals in Zambia, 2019-2020



Source: 4IP Group, calculations.

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.

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. 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 Bn. This brings the total actualized investments for 2015-2019 to USD 5.2 Bn according to the Zambian Landscape for Impact Investing report.

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 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 2.4 below)[2].

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

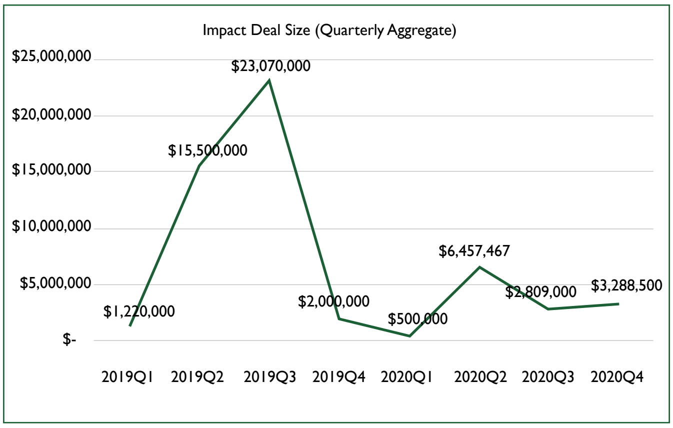
Although quite small when compared to the size of the DFIs' market, the Non-DFIs market is on the contrary much more diverse, with 4 investors located in Zambia and the rest are located in 12 other countries. Zambia itself and UK are the places where most money are invested from. South African based 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[3].

2.3 Impact Investing Market Size

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 7).

Figure 7: Existing and Potential Trends in the Zambian Impact Investing market (2019-2020)



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

[2]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

[3]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 1: 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	2020	Q2	$2.19	Proparco	Debt	Financial Services	ABSA Bank	1,8
Total (2019-2020)			$618					
Total 2020			$509					
Total 2019			$109					

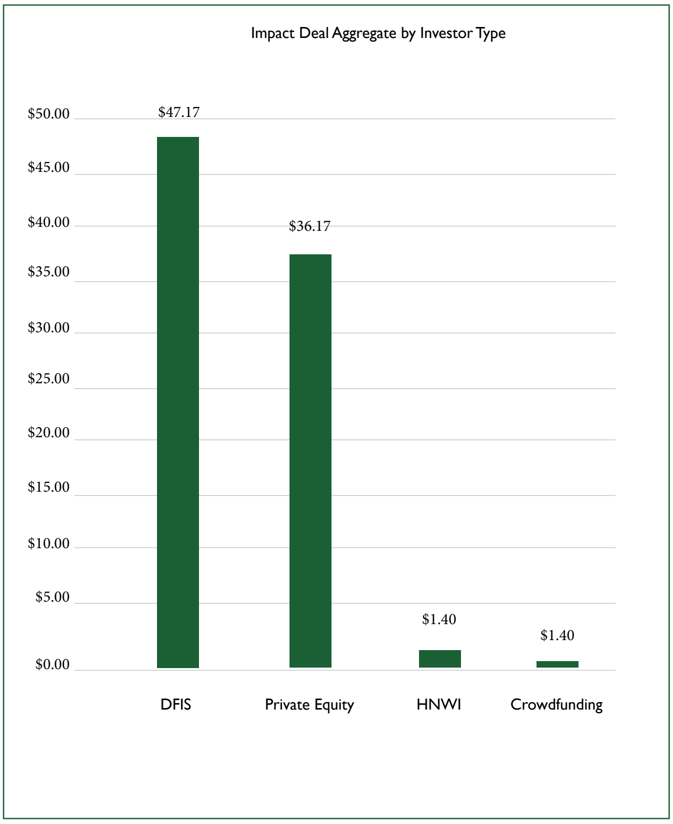
Source: 4IP Group, 2021.
Notes: * DBSA 2020 project name: The Mulembo Lelya Hydro Electric Power Limited (MLHEPL) is intending to exploit the hydro power potential to meet some of the anticipated energy demand within Zambia, the DRC and the Southern Africa Power Pool (SAPP)[4]. ** The DFC portfolio in 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[5].

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,

- 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 8).

Figure 8: AUM by Investor type n = 23; figures represent direct investments only, as of the end of 2020



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

2.4 Investment Prospects, 2021-22

In the medium-term, FDI flows, including impact investment, are expected to increase in the agriculture, construction, energy, manufacturing, 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.

[4]Source: https://www.dbsa.org/projects/mulembo-lelya-hydro-power-plant-zambia accessed 19th of Aug 2021.

[5]Source: https://www.usaid.gov/sites/default/files/documents/FINAL_DCA_Fact_Sheet_2021.pdf

3. Investment Fund Management Landscape

3.1 Overview of Impact Investors

3.1.1 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 . 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 2).

Table 2: 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 (51i)
Number of Deals	123		
FUM	$2.4Bn		$3.671Bnii
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 Mniv
Average deal size (impact) (including DFIs) (Mn)	5.47		$17.15 Mnv
Median AUM			$1.08Mn
Impact Investment / FDI	2.95%[vi]		[vii]

Sources: NABII (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 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:

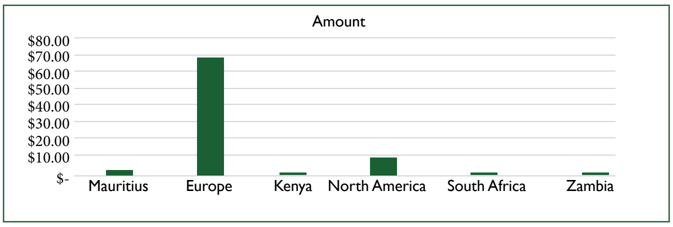
1. Fund management (holding the regulatory license for running the fund, overseeing other functions, and usually managing the risk and compliance requirements.
2. Fund administration (running the administrative, accounting, legal, tax and audit functions).
3. Fund distribution (selling the fund to investors 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[6].

3.3 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 man.

Figure 9: Regional/Country Origins of the Investment managers (Million, USD)



Source: 4IP Group, compilation and calculation.

[6] 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.

4. Financial Metrics

4.1 Financial Instruments

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 Zambia landscape for Impact Investing (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.

4.1.1 Private Equity 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 3).

Table 3: 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: NABII, 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 COVID 19 has led to investors adopting an investment approach with smaller average ticket sizes.

Table 4: 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$33 Mn	US$33 Mn	US$35.74 Mn	US$29.41 Mn
Avg deal size	US$3.29 Mn	US$3.33 Mn	US$3.2 Mn	US$3.3 Mn	US$3.3 Mn	US$3.57 Mn	US$2.26 Mn

Sources: NABII, 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 Preferences

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).

Supply of Impact capital allocated to high Impact Sectors

The ZIIMS finds 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 5).

Table 5: High Impact Sectors

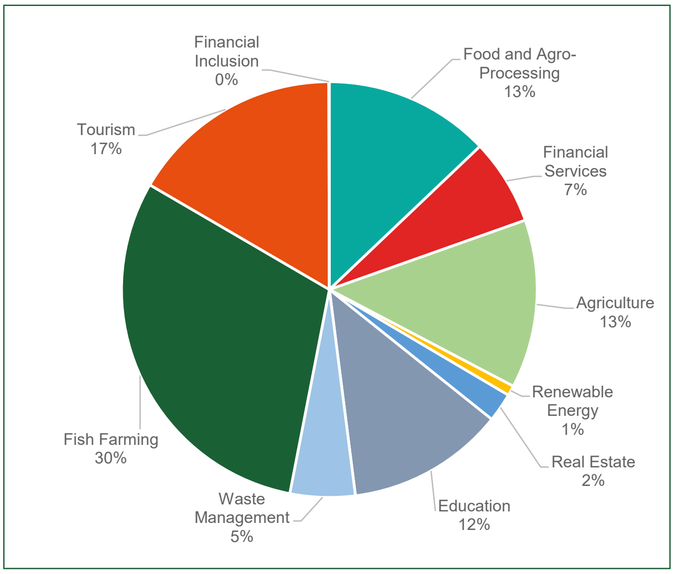
High Impact Sector	2019	2020
Financial Services	28%	13%
Agriculture	19%	30%
Food & Agro-Processing	13%	8%
Real Estate	7%	4%
Renewable Energy	4%	11%
Tourism	4%	11%
Aqua Culture		20%
Waste Management		3%

Sources: 4IP Group, 2021, calculations.

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[7]. 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 10: 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.

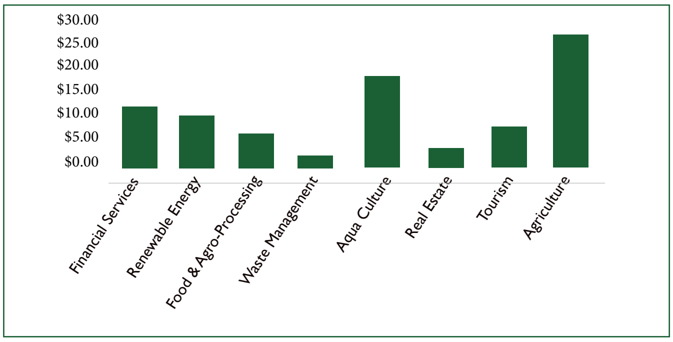
Sector Activity (Completed deals)

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.

[7] 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.

Deal Distribution Across Sectors

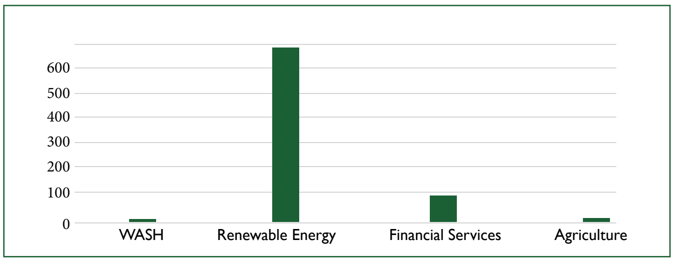
Figure 11: Sector analysis of Impact Capital flowing to Impact Enterprises, 2019-2020



Sources: 4IP Group, 2021, calculations.

In the period covered by the 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 followers the same patters 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 12).

Figure 12: 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.

4.2 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.

- 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, Nigeria (28) and Egypt (23). Kenya is quite further behind, with 11 active investors so far this year, none of which are in the Top 20 in terms of number of deals, including from our ZIIMS sample.

The US is home to more investors involved in deals 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 (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.

23 impact investors covered by the 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[8].

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 CO_2.

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[9].

4.3 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 to 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 particularly it comes to impact risk, only interviewed DFIs have confirmed 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

[8]Sources: https://www.goodwell.nl/ ; https://triplejump.eu/about-us/; and https://www.oikocredit.coop/en/.
[9]Sources: https://www.silverstreetcapital.com/our-story; https://www.linkedin.com/company/bettervest-gmbh/.

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+.

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.

The ZIIMS Survey finds that all surveyed non-DFIs believes in the task of Impact Measurement. Some of the reasons mentioned are the following: Its 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 in indicator that financial resilience is increasing for example.

When it comes to the ESG screening methods used, the following where 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.

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.

6. Investees

6.1 Zambia Impact Investing Market Size Survey

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.

The Survey finds 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.

Table 6: Investees, 2019-2020

No.	Impact Investor	Investee	Deal Type	Deal Size	Deals
1	IFC	Protea Hostels	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
8	FMO	Yalelo Fish	Debt	$10.50	8
9	Enygma Ventures	PremierCredit	Equity	$0.65	9
10	Enyma Ventures	Lupiya	Equity	$1.00	10
11	Private Infrastructure Investment Group (InfraCo)	GreenCo Services	Equity	$0.50	11
12	Private Infrastructure Investment Group (InfraCo)	Western Power Company	Equity	$2.04	12
13	Africa Trust Group Fund	Sage Valley Foods	Equity	undisclosed	13
14	Triple Jump Bv	Rent 2 Own	Equity	$2.22	14
15	Africa Agriculture Trade Investment Fund (AATIF)	Mt. Meru Millers	Debt	$5.00	15
16	Amano Capital	ComGrow	Equity	$0.04	16
17	Amano Capital	Lusaka Grocery Delivery	Debt	$0,05	17
18	BetterVest	WidEnergy Africa	Equity	$0.43	18
19	Marc Menase	Zazu Africa	Equity	$1.40	19
20	Musika	Nature's Nectar	Debt	$0.25	20
21	Rabo Bank	Zambia Potato Company	Debt Debt	$2.70	21
22	Shelter Afrique	Zambia Hime Loans	Equity	$1.34	22
23	Proparco	Seed Co Group	Debt	$12.50	23
24	Oikocredit	Undisclosed	Debt	$7.31	24
25	Thirty30 Capital	Commodity Trading Company (name undiclosed)	Equity	$0.45	25
26	Thirty30 Capital	Agro-business (name undisclosed)	Equity	$0.25	26
27	Silverlands II	Zamseed	Equity	$5.03	27
28	Zenga Ventures	Undisclosed	Debt	$0.50	28
	Total	$85.17			28
	NON-DFIs				15
	DFIs				8

Source: 4IP Group, compilation.

7. Challenges and opportunities to the growth of the impact investment market

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.

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.

COVID-19 Pandemic

Zambia recorded its first COVID-19 cases on March 18, 2020, and the number of daily new cases peaked in early August 2020. According to the AfDB, 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).

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.

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. However, the proposed abolishment of VAT and its replacement with GST, Governments domestic and foreign borrowings were reported as not supportive to investment.

7.3 Policy Recommendations

Government Policies and Measures to Promote Growth and Investment

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.

Putting Zambia at the heart of SDG financing in Southern Africa

The Zambian financial authorities need to substantially strengthen their support to the impact nvesting sector by improving its enabling environment, in order to secure, grow and mainstream this practice in within both the AfCFTA and the Triparite-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).

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.

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. Other policy recommendations

- 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.

Appendix: Surveyed Impact Investors

No.	Investor
1	Zenga Venture Fund
2	SIDI
3	AHL Venture Partners
4	FMO
5	Norfund
6	Africa Trust Group & Enygma Ventures
7	OikoCredit
8	Silverstreetcapital.com
9	African Development Bank
10	AgDevCo
11	Goodwell Investment
12	DFC
13	CDC
14	InfraCo Africa
15	EIB
16	Norfund
17	Facility for Energy Inclusion (FEI)
18	IFU
19	Thirty30 Capital
20	Kukula Capital
21	Zebu Investment Partners
22	IFC

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