THE LANDSCAPE FOR IMPACT INVESTING IN SOUTHERN AFRICA
ACKNOWLEDGMENTS

This project was funded with UK aid from the UK Government though the Department for International Development’s Impact Programme. The Impact Programme (www.theimpactprogramme.org.uk) aims to catalyze the market for impact investment in sub-Saharan Africa and South Asia.

The Bertha Center at the University of Cape Town contributed to this report by providing access to their database of active impact investors operating across sub-Saharan Africa.

We would also like to thank Susan Balloch and Giselle Leung from the GIIN for their guidance throughout the research process and contributions to this report. We would further like to thank the tireless Open Capital Advisors (OCA) research team—Neal Desai, David Loew, Rodney Carew, Holden Bonwit, Katie Bach, Sarah Ndegwa, Elijah Ndarua, Joel Muli, Getrude Okoth, and Charles Njugunah—for their work interviewing impact investors, ecosystem players, and entrepreneurs, conducting rigorous data collection under tight timelines.

We would especially like to thank our interview participants. Without their key insights this report would not have been possible. We include a full list of interviewees in the Appendix.

For any questions or comments about this report, please email Rachel Bass at rbass@thegiin.org.

GIIN Advisory Team

Abhilash Mudaliar, Research Manager
Kimberly Moynihan, Senior Associate, Communications
Rachel Bass, Associate, Research

Open Capital Advisors

Annie Roberts, Partner
Nicole DeMarsh, Principal
# COMMON ACRONYMS

<table>
<thead>
<tr>
<th>Acronym</th>
<th>Full Form</th>
</tr>
</thead>
<tbody>
<tr>
<td>AFD</td>
<td>Agence Française de Développement (French Development Agency)</td>
</tr>
<tr>
<td>AfDB</td>
<td>African Development Bank</td>
</tr>
<tr>
<td>BIO</td>
<td>Belgian Investment Company for Developing Countries</td>
</tr>
<tr>
<td>BoP</td>
<td>Base of the Pyramid</td>
</tr>
<tr>
<td>CEPGL</td>
<td>Communauté Économique des Pays des Grand Lacs (Economic Community of the Great Lakes Countries)</td>
</tr>
<tr>
<td>COMESA</td>
<td>The Common Market for Eastern and Southern Africa</td>
</tr>
<tr>
<td>CSR</td>
<td>Corporate Social Responsibility</td>
</tr>
<tr>
<td>DFI</td>
<td>Development Finance Institution</td>
</tr>
<tr>
<td>DFID</td>
<td>The Department for International Development (United Kingdom)</td>
</tr>
<tr>
<td>EIB</td>
<td>European Investment Bank</td>
</tr>
<tr>
<td>ESG</td>
<td>Environmental, Social, and Governance</td>
</tr>
<tr>
<td>FDI</td>
<td>Foreign Direct Investment</td>
</tr>
<tr>
<td>FMCG</td>
<td>Fast-Moving Consumer Goods</td>
</tr>
<tr>
<td>FMO</td>
<td>Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden N.V. (Netherlands Development Finance Company)</td>
</tr>
<tr>
<td>GDP</td>
<td>Gross Domestic Product</td>
</tr>
<tr>
<td>GIIRS</td>
<td>Global Impact Investing Ratings System</td>
</tr>
<tr>
<td>GIZ</td>
<td>Gesellschaft für Internationale Zusammenarbeit (German Agency for International Cooperation)</td>
</tr>
<tr>
<td>HDI</td>
<td>Human Development Index</td>
</tr>
<tr>
<td>ICT</td>
<td>Information and Communication Technology</td>
</tr>
<tr>
<td>IFAD</td>
<td>International Fund for Agricultural Development</td>
</tr>
<tr>
<td>IFC</td>
<td>International Finance Corporation</td>
</tr>
<tr>
<td>IMF</td>
<td>International Monetary Fund</td>
</tr>
<tr>
<td>LP</td>
<td>Limited Partner</td>
</tr>
<tr>
<td>MDG</td>
<td>Millennium Development Goal</td>
</tr>
<tr>
<td>MFI</td>
<td>Microfinance Institution</td>
</tr>
<tr>
<td>MSME</td>
<td>Micro, Small, and Medium-Sized Enterprises</td>
</tr>
<tr>
<td>NGO</td>
<td>Non-Governmental Organization</td>
</tr>
<tr>
<td>OFID</td>
<td>OPEC Fund for International Development</td>
</tr>
<tr>
<td>OPIC</td>
<td>Overseas Private Investment Corporation (United States)</td>
</tr>
<tr>
<td>PE</td>
<td>Private Equity</td>
</tr>
<tr>
<td>PPA</td>
<td>Power Purchasing Agreement</td>
</tr>
<tr>
<td>PPP</td>
<td>Purchasing Power Parity</td>
</tr>
<tr>
<td>PTA</td>
<td>Preferential Trade Area Bank</td>
</tr>
<tr>
<td>RFP</td>
<td>Request for Proposal</td>
</tr>
<tr>
<td>SACCO</td>
<td>Savings and Credit Co-operative</td>
</tr>
<tr>
<td>SGB</td>
<td>Small and Growing Business</td>
</tr>
<tr>
<td>SME</td>
<td>Small and Medium-Sized Enterprises</td>
</tr>
<tr>
<td>SOE</td>
<td>State-Owned Enterprises</td>
</tr>
<tr>
<td>TA</td>
<td>Technical Assistance</td>
</tr>
<tr>
<td>UN DESA</td>
<td>United Nations, Department of Economic and Social Affairs</td>
</tr>
<tr>
<td>UNCTAD</td>
<td>United Nations’ Conference on Trade and Development</td>
</tr>
<tr>
<td>USAID</td>
<td>The United States Agency for International Development</td>
</tr>
<tr>
<td>VAT</td>
<td>Value-Added Tax</td>
</tr>
<tr>
<td>VC</td>
<td>Venture Capital</td>
</tr>
<tr>
<td>WASH</td>
<td>Water, Sanitation, and Hygiene</td>
</tr>
<tr>
<td>WHO</td>
<td>World Health Organization</td>
</tr>
</tbody>
</table>

# COMMON TERMS

<table>
<thead>
<tr>
<th>Term</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Early-stage business</td>
<td>Business that has begun operations but has most likely not begun commercial manufacture and sales</td>
</tr>
<tr>
<td>Focus countries</td>
<td>Countries under study wherein non-DFI impact investors are most active, namely Madagascar, Malawi, Mozambique, South Africa, Zambia, and Zimbabwe</td>
</tr>
<tr>
<td>Growth-stage business</td>
<td>Company has a functioning business model, and its current focus is developing new products / services or expanding into new markets</td>
</tr>
<tr>
<td>Mature business</td>
<td>Profitable company with a developed and recognizable brand</td>
</tr>
<tr>
<td>Non-focus countries</td>
<td>Countries covered by the study but that have limited non-DFI impact investor activity, namely Angola, Botswana, Lesotho, Mauritius, Namibia, and Swaziland</td>
</tr>
<tr>
<td>Venture-stage business</td>
<td>Sales have begun but cannot sustain the company’s operations. The business model is still being aligned with the realities on the ground</td>
</tr>
</tbody>
</table>
ZAMBIA

STRONG ECONOMY WITH OPPORTUNITIES, BUT SMALL TOTAL MARKET
TABLE OF CONTENTS

About this Report ................................................................. 2
Introduction ............................................................................... 3
Country Context ........................................................................ 4
  Gross Domestic Product ......................................................... 4
  Foreign Direct Investment ....................................................... 6
  Inflation and Exchange Rates .................................................. 7
Supply of Impact Investing Capital ............................................. 8
  Broader Investing Landscape ................................................... 9
  Impact Capital Disbursed ......................................................... 10
  Investments over Time ............................................................. 10
  Sector ....................................................................................... 11
  Deal Size .................................................................................. 13
  Instrument ............................................................................... 14
  Local Presence ......................................................................... 16
  Standards for Tracking Impact ............................................... 16
Demand and Need for Impact Investing Capital ...................... 16
  Development Context ............................................................... 16
  Entrepreneurs .......................................................................... 17
Enabling Impact Investing: The Ecosystem ............................... 19
  Regulatory Considerations ...................................................... 19
  Ecosystem Players .................................................................... 24
Challenges and Opportunities for Impact Investors .................. 25
ABOUT THIS REPORT

MOTIVATION

The impact investing industry has grown in prominence over the last decade, and impact investors globally have developed substantial and particular interest in sub-Saharan Africa, given the region’s strong potential for investments to drive positive social and environmental impact. Despite strong interest, relatively little research has examined impact investing markets at the country level within the continent. This type of granular information is essential to investors currently operating in the region or considering investments there in the future.

This study provides detailed information on impact investing activity across 12 countries in Southern Africa. For each country, the report examines impact investing capital disbursed at the time of data collection in mid-2015 (by sector, size, and instrument), analyzes key trends in the industry, and describes the challenges and opportunities available for social enterprises and impact investors. Political and/or economic circumstances may have changed since initial data collection.

SCOPE

As defined by the GIIN, impact investments are “investments made into companies, organizations, and funds with the intention to generate social and environmental impact alongside a financial return.” A commitment to measuring social or environmental performance is considered a hallmark of impact investing. Investors who do not meet this definition have not been included in this report’s analysis.

Development finance institutions (DFIs) are important actors in the impact investing landscape, providing large amounts of capital both through direct impact investments and through indirect investments through other impact capital vehicles. Because of their large size and unique nature, this report analyzes DFI activity separately from the activity of other types of impact investors.

METHODOLOGY

This report relies heavily on primary research, including more than 60 interviews with local and international impact investors, social enterprises, ecosystem players, and government institutions. The research team also examined publicly available primary information, including analyzing investor documents and reviewing organizational websites and press releases to compile a comprehensive database of impact investing activity across all 12 countries in Southern Africa. Overall, this report includes data regarding the activities of 25 DFIs and 81 non-DFI impact investors, totaling over 8,600 transactions including substantial activity from DFIs based in South Africa.

More detailed information on methodology and scope is provided in the ‘Introduction & Methodology’ chapter. All chapters of this report can be found at www.thegiin.org.
INTRODUCTION

Unlike many of its neighbors, Zambia has enjoyed peace and stability since gaining independence in 1964. Boasting relatively well-functioning institutions, the country has experienced rapid economic growth over the last decade and has attracted some of the highest flows of impact capital in the region.

Despite these positive trends, access to capital remains a key constraint for businesses in Zambia. Government borrowing is crowding out private lending by commercial banks, and, despite the large inflows of impact capital in aggregate, much of this capital has targeted housing and financial services or has been placed in large-scale projects by DFI s.

The macroeconomic environment creates further challenges, with regular nationwide power outages, inconsistent government policy, high fiscal deficits, and a depreciating currency. In addition, Zambia remains heavily dependent on copper mining: the recent global decline in copper prices has rippled throughout its economy. Despite a growing middle class, nearly 75 percent of the population continues to live on less than USD 1.25 per day.¹

Despite these challenges, opportunities exist for impact investors with long-term investment horizons. Although management costs are high relative to available deal size and the investment-ready pipeline is limited, there is opportunity in Zambia for early investors who remain invested for long enough to capture long-term growth, particularly if these investors are able to fund multiple capital rounds at increasingly larger amounts.

COUNTRY CONTEXT

In the regional context, Zambia is generally considered to have a robust and stable economy. Copper mining is central to the national economy. Mining is primarily focused on a region known as the “Copperbelt,” which borders the Democratic Republic of the Congo (see Figure 1) and encompasses both the North Western and Copperbelt Provinces.

Fig. 1. Map of Zambia

Gross Domestic Product

Zambia has seen strong economic growth in recent years, averaging 9.6 percent growth in gross domestic product (GDP) at purchasing power parity (PPP) year-on-year since 2005 (see Figure 2). GDP currently stands at USD 61 billion in PPP terms, making it a relatively strong regional economy. Interviewees noted that growth has slowed in 2015, but, as of this writing, official statistics have yet to report on any slowdown.

3 Ibid.

---

4 • THE LANDSCAPE FOR IMPACT INVESTING IN SOUTHERN AFRICA
GDP per capita (PPP) has grown by approximately 75 percent since 2005, rising to USD 4,064 in 2014 and making Zambia a “middle-income” nation according to the IMF. Growth has been primarily concentrated in manufacturing, mining, and construction, with copper accounting for 70 percent of the country’s export earnings and nine percent of formal employment. The economy’s dependence on copper for export exposes it to exogenous influences. Any shifts in the price of copper ripple through the broader Zambian economy.

The services sector accounts for nearly 55 percent of GDP, more than five times the contribution of the agricultural sector. Nevertheless, the agricultural sector employs more than 70 percent of the population, and the sector grew by six percent in 2014 due to a strong maize harvest.

---


7 Ibid.


Foreign Direct Investment

Zambia continues to attract foreign direct investment (FDI), with net FDI inflows growing by nearly 27 percent from 2011 to 2013 (see Figure 3). In 2013, Zambia had the third-highest FDI inflows in Southern Africa at USD 1.8 billion, which were also the highest FDI inflows among the 16 landlocked developing countries in Africa.

Zambia’s single largest source of FDI investments in 2013 was Australia, accounting for 16 percent of all FDI inflows (see Figure 4). In terms of industry, FDI has predominantly focused on mining, construction, and services.

---

Inflation and Exchange Rates

Between 2009 and 2013, the Zambian Kwacha (ZMW) maintained relative stability against the US Dollar (see Figure 5), but the currency has depreciated sharply since 2013. Driven in part by reductions in global copper prices, the Kwacha experienced a particularly steep drop in the second half of 2015, reflecting both a strengthening US Dollar and a weakening Zambian Kwacha. This depreciation has complicated efforts to disburse debt in local currency, as shifts in foreign exchange can significantly alter the ultimate cost of the instrument, and cause fluctuations in the returns available to investors.

The central bank has set a target inflation rate of 6.5 percent. In 2014, inflation was slightly above this target, at just under eight percent.\(^{16}\) Interviewees noted that this rate increased in 2015, though, as of this writing, this has yet to be reported by official statistics.

**SUPPLY OF IMPACT INVESTING CAPITAL**

As with the rest of the region, the vast majority of Zambia’s impact capital is from development finance institutions (DFIs) making investments into large-scale projects in energy, financial services, and extractive industries. With over USD 1.7 billion in DFI capital disbursed through more than 100 deals, Zambia is the second-highest recipient of DFI capital in Southern Africa (Figure 6). Still, the gap between Zambia and the highest recipient is significant: international DFIs have deployed more than USD 9.7 billion into South Africa, or nearly six times the amount received by Zambia, which stands in addition to USD 14.5 billion invested by domestic South African DFIs. Zambian companies have not received any investment from domestic or regional DFIs.

Zambia is also the third-highest recipient in the region of non-DFI impact investor capital, after South Africa and Angola, with more than USD 157 million disbursed through 58 deals (Figure 7). However, as with DFI disbursements, these figures lag far behind South Africa, which has received more than 30 times (roughly USD 4.8 billion) the amount of non-DFI capital as has Zambia.

Despite fairly robust aggregate numbers, particularly relative to the rest of the region excluding South Africa, social enterprises in most sectors in Zambia still struggle to source impact capital. Only a handful of impact investors have local offices, and fully USD 92 million of the USD 157 million disbursed by non-DFI impact investors has been placed into financial service providers and housing projects. Of the remaining approximately USD 65 million, more than USD 40 million was placed in just three investments. As a result, only some USD 25 million was disbursed to the social enterprise landscape more broadly.

**Broader Investing Landscape**

Access to capital remains constrained in Zambia. The country’s 19 commercial banks hold the vast majority—roughly 90 percent—of the financial sector’s assets. As of December 2013, commercial banks held approximately USD 5.7 billion in total assets, nearly two-thirds of which were held by the top five banks.

These banks, however, are often unwilling to lend to businesses due to the high returns available on lower-risk government loans. Specifically, the Bank of Zambia caps commercial lending rates at roughly 24 percent annually, while the yield on a 364-day Treasury bill from the Bank of Zambia was almost 22 percent as of August 12, 2015. Given that the pricing is comparable, commercial banks often choose to invest in Treasury bills rather than issue loans to the private sector.

Still, bank lending to the private sector has not completely stopped. Some banks have continued to make private sector loans at rates below the cap as long-term investments in their customers’ businesses. In response to the cap, some banks have also increased fees, service charges, and other absolute costs in order to raise the effective interest rate on loans without violating the interest rate cap. Even when willing to lend to the private sector, however, banks require substantial collateral and have minimum turnover thresholds, which prevent many businesses from being able to access financing.

---

18 Ibid.
20 Bank of Zambia, http://www.boz.zm/. Research suggests that significant government spending in recent years has driven up yields on government debt.
21 Open Capital Interviews.
22 Ibid.
Microfinance institutions (MFIs) enjoy a higher cap on lending rates, which the Bank of Zambia set at 42 percent annually in January 2013. For other non-bank financial institutions (NBFIs), effective annual interest rates are capped at 30 percent. However, both MFIs and NBFIs have much less available capital than the commercial banks, and the high interest rates, along with stringent collateral requirements, limit the practical utility of this capital for many businesses.

Beyond these sources of capital, there are limited options for external financing, whether debt or equity. Interviewees were able to identify only a handful of local funds that actively placed capital in the country. There are high-net-worth individuals who invest in local businesses, but they have limited scale and can be difficult to attract as investors without a pre-existing relationship.

Interviewees identified the main alternative sources of capital for growing businesses (other than business cash flow) as strategic acquisitions or investments by large corporations either entering Zambia or already in-country. Interviewees noted several large companies aggressively acquiring in their sectors in order to create horizontally diversified companies.

**Impact Capital Disbursed**

Zambia is one of the largest targets for impact investing activity in Southern Africa, largely due to robust DFI activity. DFIs have deployed more than USD 1.7 billion through 105 deals. Meanwhile, Zambia has received more than 10 percent of all non-DFI impact investing deals in the region (58 deals in total), through which investors have deployed more than USD 157 million. Despite these large aggregate disbursements, enterprises in most sectors in Zambia still struggle to source impact capital, as described above.

**Investments over Time**

While limited data prevent detailed conclusions regarding non-DFI impact investing in Zambia, what public information is available about non-DFI deals demonstrates that there has been modest interest in Zambia from non-DFI impact investors over the past decade.

Historically, DFIs have demonstrated strong interest in Zambia, with more than 30 percent of deals taking place before 2005 (see Figure 8). Notwithstanding this long-term interest, DFI activity has notably increased since 2011. Lower numbers in 2015 can be attributed to the timing of data collection in mid-2015, which does not capture the full extent of 2015 activity for both DFIs and non-DFI impact investors.

---


FIGURE 8. DFI IMPACT INVESTMENTS BY YEAR

**Notes:** Average deal sizes may not equal displayed capital disbursed divided by deal sizes. Capital disbursed rounded to nearest million, except where less than 1 million (rounded to nearest 100,000). Average deal sizes rounded to nearest 100,000.a
Source: Open Capital Research

### Sector

Non-DFI impact investing in Zambia is heavily focused in a few sectors (see Figure 9). Financial services constitute nearly 40 percent of deals by these investors. Of 22 deals in financial services, 18 were in just four companies (a commercial bank and three MFIs). Similarly, housing investments comprise just over another 40 percent of non-DFI impact investor capital disbursed, with a single investment accounting for nearly 70 percent of the total in this sector. Taken together, housing and financial services account for more than 55 percent of non-DFI impact investor deals and almost 60 percent of disbursements. Agriculture accounts for roughly 25 percent of both deals and total capital disbursed. Notably, though, two deals account for almost 80 percent of all the non-DFI impact investor capital disbursed in agriculture. All in all, non-DFI activity has been focused in a few sectors and a handful of companies.
### FIGURE 9. NON-DFI IMPACT INVESTMENTS BY SECTOR

<table>
<thead>
<tr>
<th>Sector</th>
<th>Capital Disbursed (USD Millions)</th>
<th>Number of Deals</th>
</tr>
</thead>
<tbody>
<tr>
<td>Housing</td>
<td>7.1</td>
<td>9</td>
</tr>
<tr>
<td>Agriculture</td>
<td>2.8</td>
<td>15</td>
</tr>
<tr>
<td>Financial Services</td>
<td>1.2</td>
<td>23</td>
</tr>
<tr>
<td>ICT</td>
<td>3.1</td>
<td>3</td>
</tr>
<tr>
<td>Extractives</td>
<td>3.2</td>
<td>1</td>
</tr>
<tr>
<td>Energy</td>
<td>1.5</td>
<td>1</td>
</tr>
<tr>
<td>Other</td>
<td>0.4</td>
<td>2</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>0.2</td>
<td>1</td>
</tr>
<tr>
<td>Unknown</td>
<td>2.6</td>
<td>3</td>
</tr>
</tbody>
</table>

Notes: Average deal sizes may not equal displayed capital disbursed divided by deal sizes. Capital disbursed rounded to nearest million, except where less than 1 million (rounded to nearest 100,000). Average deal sizes rounded to nearest 100,000.

Source: Open Capital Research

By contrast, DFIs have been active in a broader range of sectors, though they have paid most attention to energy, financial services, and extractives (see Figure 10). This activity is led by investments in hydroelectric power, commercial banks, and copper. In addition, most of the manufacturing investments were in plants that serve extractive industries, with an average deal size of more than USD 35 million (more than twice as large as the average DFI deal size across the region).
**Deal Size**

The majority of non-DFI impact investments in Zambia are under USD one million. A further 30 percent of deals (less than 20 deals) are between USD one million and USD five million (see Figure 11). Interviewees report that it is difficult to find deals of this size and to develop a robust deal portfolio with tickets of this size. Reflecting their larger capital amounts, deals over USD five million account for more than 60 percent of all capital disbursed.

**FIGURE 11. NON-DFI IMPACT INVESTMENTS BY DEAL SIZE**

Notes: Average deal sizes may not equal displayed capital disbursed divided by deal sizes. Capital disbursed rounded to nearest million, except where less than 1 million (rounded to nearest 100,000). Average deal sizes rounded to nearest 100,000.

Source: Open Capital Research
By contrast, DFI investments are much larger, averaging more than USD 16 million per deal. More than half of all DFI deals and more than 90 percent of DFI capital disbursed is through deals larger than USD 10 million.

**FIGURE 12. DFI IMPACT INVESTMENTS BY DEAL SIZE**

<table>
<thead>
<tr>
<th>CAPITAL DISBURSED (USD MILLIONS)</th>
<th>NUMBER OF DEALS</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt; 1m</td>
<td>18</td>
</tr>
<tr>
<td>1-5m</td>
<td>20</td>
</tr>
<tr>
<td>5-10m</td>
<td>11</td>
</tr>
<tr>
<td>10-20m</td>
<td>22</td>
</tr>
<tr>
<td>20-50m</td>
<td>26</td>
</tr>
<tr>
<td>&gt; 50m</td>
<td>8</td>
</tr>
</tbody>
</table>

Notes: Average deal sizes may not equal displayed capital disbursed divided by deal sizes. Capital disbursed rounded to nearest million, except where less than 1 million (rounded to nearest 100,000). Average deal sizes rounded to nearest 100,000.

Source: Open Capital Research

**Instrument**

Non-DFI impact investors in Zambia generally use traditional debt and equity instruments when placing capital. Debt instruments account for more than 50 percent of all deals, which aligns with statements by interviewees who noted that many entrepreneurs in Zambia do not fully understand equity or are reluctant to give up even partial control of their company in exchange for capital. Nonetheless, when equity deals do take place, they are larger, so nearly 60 percent of capital disbursed by non-DFI impact investors is through equity placements.
By contrast, known DFI investments overwhelmingly use debt instruments. Debt accounts for more than 80 percent of known deals and almost 90 percent of all known DFI capital disbursed.
Local Presence

There are only six non-DFI impact investors with a local presence in Zambia. Those with staff based in country report a significant advantage sourcing deals. Interviewees stressed the very high costs of due diligence on a fly-in, fly-out model given the limited pipeline of investment-ready businesses. For the same reason, interviewees also stressed the importance of local knowledge and context.

Standards for Tracking Impact

As is true across Southern Africa, impact investors in Zambia do not use a specific standard for measuring impact. Instead, they report tailoring impact tracking structures to each investment, allowing them to reduce the administrative burden on their portfolio businesses and focus on the metrics that are most meaningful in context.

DEMAND AND NEED FOR IMPACT INVESTING CAPITAL

There is strong demand for impact capital in Zambia. With limited access to capital from banks, MFIs, NBFIs, or private funds, businesses have difficulty accessing the credit they need to grow. Despite recent progress, moreover, Zambia faces significant development gaps that create opportunities for businesses to fill key needs while also realizing financial returns.

Development Context

Zambia is ranked 143rd out of 187 on the United Nations Human Development Indicators (HDI) index.25 With a score of 0.55, Zambia remains well below the global average of 0.69, despite recent improvements of its indicators. Its low score is attributable to the country’s poor performance in key developmental indicators (see Table 1), especially income level metrics. Though Zambia’s GDP per capita places it as a “middle income” country, nearly 75 percent of the population lives on less than USD 1.25 per day, compared to the global average of about 25 percent.26

---


26 Ibid.
TABLE 1. SELECTED ZAMBIA DEVELOPMENT INDICATORS

<table>
<thead>
<tr>
<th>DEVELOPMENT INDICATOR</th>
<th>Zambia</th>
<th>Regional Average</th>
<th>Global Average</th>
</tr>
</thead>
<tbody>
<tr>
<td>HDI SCORE (RANKS 143rd OF 187 COUNTRIES)</td>
<td>0.55</td>
<td>0.55</td>
<td>0.69</td>
</tr>
<tr>
<td>GDP PER CAPITA (USD)</td>
<td>3,925</td>
<td>6,874</td>
<td>17,975</td>
</tr>
<tr>
<td>UNEMPLOYMENT RATE (%)</td>
<td>13</td>
<td>13</td>
<td>6</td>
</tr>
<tr>
<td>POPULATION BELOW USD 1.25 / DAY (%)</td>
<td>74</td>
<td>51</td>
<td>25</td>
</tr>
<tr>
<td>UNDER-FIVE MORTALITY (PER THOUSAND BIRTHS)</td>
<td>89</td>
<td>75</td>
<td>47</td>
</tr>
<tr>
<td>POPULATION WITH SOME SECONDARY EDUCATION (%)</td>
<td>35</td>
<td>41</td>
<td>59</td>
</tr>
</tbody>
</table>

Zambia also sits well below global averages in health outcomes, with child mortality rates almost double global averages.\(^{27}\)

Only 35 percent of the population has some secondary education, compared to the global average of nearly 60 percent. School attendance rates have increased as a result of recent government focus on education, with education now comprising over 17 percent of total government expenditures.\(^{28}\)

Education outcomes are critical for Zambia’s future due to its disproportionately young population. Nearly 46 percent of the population is under the age of 15, and approximately 66 percent is less than 24 years old.\(^{29}\)

**Entrepreneurs**

Businesses from a range of impactful sectors, including agriculture, energy, healthcare, education, housing, and water, sanitation, and hygiene (WASH) are seeking capital across the spectrum of business stages, from seed to maturity. Currently, the majority of businesses are start-up and early-stage businesses, with fewer venture-stage or mature companies.\(^{30}\)

---


30 Open Capital interviews.
Access to capital is the primary challenge facing businesses in Zambia. As discussed above, commercial banks are often unwilling to lend to the private sector, and even when willing to lend, banks frequently have high collateral requirements. This latter hurdle can be particularly restrictive, as much of the land in Zambia remains under a traditional land tenure system without formal documentation. Interviewees report that banks will typically not accept such land as collateral.

Beyond these issues related to collateral, high interest rates also pose a challenge. Most lenders charge rates close to the interest rate cap of 24 percent. Microfinance institutions offer substantially higher interest rates, capped at 42 percent, which makes MFI loans poorly suited for longer-term capital needs.

Last, but not least, businesses face high distribution costs in Zambia. Though there are concentrations of people in Lusaka and the Copperbelt, much of the country is very sparsely populated; the overall population density is just 18.7 people per square kilometer. For businesses outside of Lusaka and the Copperbelt, this limits the potential market and increases costs of distribution, especially to rural populations.

Though roads between major cities are good, the network of infrastructure outside these main arteries remains poor. In addition to roads, the national electrical grid has limited reach, with 78 percent of Zambians lacking electricity. The grid experiences load shedding for up to 10 hours a day, which restricts processing and manufacturing operations in much of the country and raises costs for all businesses that must operate on generators using fuel transported over long distances. Difficulties with infrastructure in much of Zambia are compounded by the lack of a large-scale mobile money or electronic banking system. Though these systems have begun to emerge, businesses still rely on cash for most transactions. As businesses grow, reliance on cash increases the risk of theft and can become inefficient.

---

31 Open Capital Interviews.
Businesses also find it challenging to source human capital. The entrepreneurial landscape is still young. Some interviewees expressed the opinion that there is less entrepreneurial drive in the Zambian population than in other parts of the region. For those that are starting businesses, identifying talent can be challenging. That said, other interviewees strongly disputed the notion that there is a lack of human capital in Zambia, stating that the population is relatively well-educated, with many capable managers available.

Despite these difficulties, however, there are opportunities for entrepreneurs in Zambia. In particular, interviewees noted a growing entrepreneurial landscape in agriculture, with an increasing number of farmers and small agro-processors. In addition, entrepreneurs can take advantage of the growing middle class in Zambia that increasingly demands consumer goods, as well as a large export market to the Democratic Republic of the Congo that requires basic goods and services. More detail on opportunities by sector is provided in the “Challenges and Opportunities for Impact Investors” section, below.

ENABLING IMPACT INVESTING: THE ECOSYSTEM

Regulatory Considerations

Zambia has reasonably well-functioning institutions and a generally open regulatory environment, as described below. The World Bank currently ranks Zambia 111th of 189 countries in its “Ease of Doing Business” index. However, recent policy changes, also described below, have contributed to investor concerns over policy inconsistency.

Several aspects of Zambia’s regulatory environment are particularly relevant to entrepreneurs and impact investors planning to place capital in the country:

• **Policy inconsistency**: The government of Zambia recently enacted several sharp and notable shifts in national policy. For example, in October 2014, the government announced that it was replacing all profit taxes on copper mining operations with increased mineral royalties (to 20 percent for open-cast mines, up from six percent). This change went into effect in January 2015, then, in July 2015, the policy was reversed, returning to a 30 percent corporate tax on profits while reducing the mineral royalty to nine percent, still higher than under the previous policy.

---

39 Open Capital Interviews.
40 Ibid.
43 Ibid.
Similarly, the government recently revoked the export permit for maize and maize products.\(^{45}\) The government also changed its policy on VAT returns for exports, increasing the requirements: the government now demands proof of sale, rather than just proof of export as solely required before.\(^{46}\) They subsequently reversed this requirement in February 2013. In addition, the government introduced and then later reversed policies prohibiting the use of foreign currency as legal tender for domestic transactions and allowing the Bank of Zambia to monitor international transactions.\(^{47}\)

These rapid changes reflect instability and unpredictability in the policy environment, and are expected to continue until the next general election in September 2016. Though the situation has stabilized in recent months, government policy could change both before and immediately after the election.\(^{48}\)

**Conflict:** Zambia has generally not experienced significant conflict or political unrest since independence. Those conflicts that have emerged have been resolved through non-violent avenues, such as the courts, whose decisions are normally upheld.\(^{49}\) Outside of this norm, there have been two failed attempts to overthrow the Zambian government, in 1990 and 1997.\(^{50}\) The government swiftly put down these coup attempts. Zambia is perceived to be a peaceful and stable country compared to the region.

**Land ownership:** Zambia does not recognize freehold ownership. Instead, land may be held as customary land or as leasehold, with leases up to 99 years.\(^{51}\) Customary land, in general, cannot be leased or held by international parties. To be leased, it must be converted into leasehold land.\(^{52}\) The process of converting customary into leasehold land in Zambia is usually drawn-out and expensive, involving a physical survey of the land by the Commissioner of Lands and the consent of the local traditional leader and of any other person affected by the lease. This process

---


47 Ibid.


can take as long as three years.\textsuperscript{53} Foreign nationals can opt to apply for a 14-year lease for land that is not surveyed.\textsuperscript{54} While holding a 14-year lease, applicants may choose to apply for a 99-year lease on the same land.\textsuperscript{55}

In order for foreign nationals to hold leasehold land, they must meet at least one of the following conditions: (a) be a permanent resident of Zambia, (b) meet the Zambian Development Authority’s (ZDA’s) definition of an investor,\textsuperscript{56} (c) be a company registered under the Companies Act with at least 75 percent local shareholding, (d) be seeking a lease of less than 14 years, or (e) be granted a concession or right under the National Parks and Wildlife Act.\textsuperscript{57} Leasehold land may revert to government ownership if it is ruled to be underdeveloped after five years.\textsuperscript{58}

- **Government and private sector:** No sectors are reserved for the government.\textsuperscript{59}

Currently, 27 wholly state-owned enterprises remain, spread across a range of sectors, including financial services, mining, energy, and communications. In 2014, the Zambian government created the Industrial Development Corporation as a holding company for the shares in each state-owned enterprise, structuring the Corporation as an investment company with a mandate to manage the enterprises efficiently and to promote jobs and industrialization within the country.\textsuperscript{60} Now, the Industrial Development Corporation is actively taking steps to manage the portfolio of state-owned enterprises. Private enterprises and parastatals are generally allowed to operate on the same terms;\textsuperscript{61} however, some private companies complain about the lack of a level playing field when competing with parastatals for concessions and licenses.\textsuperscript{62}

\begin{itemize}
\item \textsuperscript{54} Ibid. Requirements for a 14-year lease are a sketch plan of the land as well as the consent of the local traditional leader and any other person affected by the lease.
\item \textsuperscript{55} Ibid.
\item \textsuperscript{60} About Us,” Industrial Development Corporation, accessed October 6, 2015, http://www.idc.co.zm/about-idc.
\end{itemize}
Exit opportunities / restrictions on exits: There are no restrictions on investment exits in Zambia.\(^{63}\)

Forex controls: All foreign exchange controls in Zambia were abolished in 1994.\(^{64}\) The Bank of Zambia does monitor the movement of funds in and out of the country.\(^{65}\) Foreign investors may repatriate 100 percent of net profits and dividends, capital investments, interest, management fees, royalties, and technical fees. Expatriates are also allowed to remit wages.\(^{66}\)

Required local shareholding: For most sectors, local ownership is not required,\(^{67}\) nor are there foreign ownership restrictions on the Lusaka Stock Exchange.\(^{68}\) However, some sectors do have restrictions on foreign ownership. Prior to entering the market, internationally licensed mobile phone operators are required to offer 10 percent of their shareholdings to Zambians on the Lusaka Stock Exchange.\(^{69}\) In addition, the government only issues broadcasting licenses to companies with at least 75 percent local shareholding.\(^{70}\) Foreigners with a small-scale mining license are required to have 75 percent local ownership.\(^{71}\)

Government incentives for investors: Zambia offers a range of incentives to encourage both foreign and local investment.\(^{72}\) Companies investing USD 500 thousand or more in priority sectors and projects in the Multi-Facility Economic Zone will normally receive incentives including: \(^{75}\)

---


66. Ibid


71. Ibid.


• Tax exempt dividends for the five years following the first declaration;74
• Tax exempt profits for the first five years profits are made. For the sixth, seventh, and eighth years, 50 percent of profits are taxable, and 75 percent of profits are taxable in the ninth and tenth years;75
• Customs duty exemptions for capital goods, machinery, and raw materials for five years;76
• Deferred VAT on some machinery and equipment;77 and
• Ability to claim a 100 percent improvement allowance for capital expenditures on improvements and infrastructure.78 This accounting treatment makes these capital expenditures tax deductible, reducing taxable income over the term of the lease.79

Investors interested in these incentives are required to apply to the sixteen-member Zambia Development Agency (ZDA) board, which usually makes a decision in 30 days.80

Ecosystem Players

There is a limited investment ecosystem in Zambia, though government efforts to support entrepreneurs and grants from technical assistance (TA) funders, such as USAID and DFID, have resulted in a growing pool of incubators.81 Many of these new service providers are in agriculture or technology.82

75 Ibid.
76 Ibid.
81 Open Capital Interviews.
82 Ibid.
However, there are few advisors who can provide tailored business support outside of incubators and accelerators. Interviewees noted that this was a significant impediment to deploying capital, as it limited the pipeline of investment-ready businesses. Instead, some impact investors interviewed noted that they must first invest in providing support and technical assistance to potential investee companies using in-house staff in order to prepare these businesses for capital.
CHALLENGES AND OPPORTUNITIES FOR IMPACT INVESTORS

Interviewees have split opinions on the Zambian market. Some interviewees stressed the opportunities available, noting the lack of presently available capital alongside Zambia’s general peace and stability, growing middle class, well-functioning institutions, and strong GDP growth. By contrast, others drew attention to significant uncertainty generated by the recent policy instability, the regular power shortages, the large fiscal deficits, a depreciating currency, and a lack of entrepreneurial spirit among Zambians.

There are a variety of challenges related to placing capital effectively in Zambia. Several of these, such as the lack of sufficient investment-ready deal flow and the difficulty of managing currency risk, are shared across much of the region, as described in detail in the Executive Summary. Additional challenges specific to Zambia include:

• **Policy inconsistency:** Frequently cited as the single largest impediment to foreign investors, the government of Zambia recently enacted several sharp shifts in policy. These have led to a sense that national policy is unpredictable, as described in detail above. Though some interviewees noted that the situation has improved recently, most interviewees expect this instability in the policy environment to continue until the next general election in September 2016. Some also disputed that this instability was relevant outside of the mining sector, but most noted that abrupt policy changes relevant to the overall economy remain possible.

• **Few advisory or business-support service providers:** The intermediary and business advisory landscape in Zambia is limited. As a result, businesses facing challenges have few options to source expert advice and intensive support in order to professionalize. There are few venues (e.g., incubators) at which impact investors may meet well-prepared entrepreneurs and few intermediaries that can provide reliable, high-quality deal flow. Instead, impact investors must generate leads independently, which restricts the deal pipeline, increases costs, and privileges impact investors who have a strong local presence.

• **High management costs relative to deal size:** Zambia’s vast geography and poor infrastructure raise the cost of making investments. Close oversight is required across the lifetime of an investment, from due diligence through exit. Though similar efforts are required across the region, Zambia’s geography and poor infrastructure in particular result in higher costs for this in-person supervision. These challenges are particularly acute in Zambia because of the available deal sizes. Interviewees noted that most entrepreneurs required capital under USD one million. Profitably serving the sub-USD one million market is generally difficult, and the high management costs in Zambia make doing so particularly challenging, especially for investors with shorter time horizons. Investors with longer-term horizons may be able to capitalize on the growth of their portfolio companies over time to cover these management costs.
Despite these challenges, there are opportunities for impact investors with the correct structure and focus to operate effectively in Zambia and to leverage return-seeking investments to drive job creation, economic development, and opportunities for disadvantaged populations. Many of these opportunities, such as using technical assistance or other grant facilities to build a pre-investment pipeline and establishing a local presence, are common across the region and are described in additional detail in the Executive Summary.

Impact investors specifically interested in Zambia have opportunities related to an extended investment time horizon. Where possible, interviewees saw value in making time horizons longer to benefit from the economy’s forecasted growth. The concentration of sub-USD one million investment opportunities can limit potential profit on shorter investment timelines, particularly in light of the high associated management costs. However, there is opportunity in Zambia for patient capital, and investors are beginning to recognize this opportunity.

Interviewees mentioned strong investment opportunities in nearly every sector of the Zambian economy, including:

- **Agro-processing:** Despite strong fundamentals and a number of small-scale agro-processors, there remains ample opportunity for commercial-scale and domestic value addition in most agricultural value chains. A growing middle class and export markets increasingly demand processed agricultural products. Zambia’s large geography also presents opportunities to establish small agro-processing facilities near primary production.

- **Primary agriculture:** Given Zambia’s abundance of arable land and rainfall, primary agriculture offers significant potential for successful investments, including opportunities in staple crops, horticulture, and poultry. Furthermore, declining or unstable production in its neighboring countries creates opportunities for Zambia to export agricultural produce.

- **Renewable energy:** Given recent power shortages and a national electrical grid that reaches only three percent of the rural population, there are many opportunities for micro-grid and off-grid solutions, as well as large-scale power production, in both hydroelectric and solar energy. Zambia currently generates virtually all of its power hydroelectrically, limiting the direct environmental impact of new, large-scale renewable projects. Nevertheless, such plants could improve the national grid, reducing the use of diesel generators.

---

83 For example, a local venture firm is starting a new incubator fund, in conjunction with DFID, focused on Zambia’s Solwezi area. The fund will provide around USD 150 thousand in first-stage financing for each business, along with strong hands-on management involvement. The local venture firm will consider successful businesses for larger, second-stage financing, providing the incubator fund with a profitable exit and realizing long-term value from growth for the investor.

• **Consumer goods:** Zambia has a growing middle class fueled by strong GDP growth. As this segment grows, there are opportunities to produce consumer goods to target this market. Though near-term growth may slow, it may be expected to rebound in the mid- and long-term and fuel increasing demand for consumer goods. Producing consumer goods generates local employment and provides new products and services to the local market.

---

ABOUT THE GLOBAL IMPACT INVESTING NETWORK

The Global Impact Investing Network (GIIN®) is a nonprofit organization dedicated to increasing the scale and effectiveness of impact investing. The GIIN builds critical infrastructure and supports activities, education, and research that help accelerate the development of a coherent impact investing industry. For more information, see www.thegiin.org.

30 Broad Street, 38th Floor, New York, NY 10004 USA
+1.646.837.7430 | info@thegiin.org | www.thegiin.org