

PROMOTING INCLUSIVE BUSINESS IN ZAMBIA

LANDSCAPE STUDY WITH POLICY RECOMMENDATIONS



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PREFACE

In March 2022 the Government of the Republic of Zambia launched the 8th National Development Plan (8NDP) running for a five-year period of 2022-2026, with the theme of “Socio-economic Transformation for Improved Livelihoods”. In the preface to the 8NDP, His Excellency, Mr. Hakainde Hichilema, the President of the Republic of Zambia, emphasized the need to look into a development that will bring growth and transform the lives of the majority of people in Zambia. To use his words “... We must not only aim at ensuring growth for its own sake, but we will pursue growth that transforms the livelihood of the people. Hence the theme of the Plan ...”.

The 8NDP outlines the persisting socio-economic challenges of our country, such as low economic diversification, high youth unemployment, high incidences of poverty and inequality, slow pace of decentralization, low education outcomes, and inadequate access to social services. To overcome these challenges under Vision 2030, the 8NDP calls for strategic interventions anchored on four strategic areas, and these include:

- a) Economic transformation and job creation,
- b) Human and social development,
- c) Environmental sustainability and
- d) Good governance.

Transforming the private sector to emphasise the deliberate design of economic development for creating a direct social impact on our people, particularly the poor and low-income people, is what Inclusive Businesses (IB) can bring. IB are commercially viable private sector business lines that create scaled-up, innovative and systemic, solutions for the relevant income or living standard problems of the poor and low-income people. This approach comes very timely for Zambia to help transform our economy and encourage the private sector to create jobs, goods and services relevant for the poor while achieving growth and good returns for our economy as well.

We would like to thank the Inclusive Business Action Network (iBAN) under GIZ and its consultants for championing this study and coming up with very concrete and mindful suggestions to make this transition for doing good and well at the same time happening.

The government of Zambia is interested in creating a dedicated IB strategy and institutional programme under the Zambia Development Agency (ZDA) and the Ministry of Commerce, Trade and Industry (MCTI) with a multi-stakeholder implementation approach. We appreciate the recommendations of the study on the institutional framework for implementing a better enabling environment for Inclusive Business in Zambia (the IBeeZ), including (1) IB Awareness Raising, (2) IB Accreditation, (3) IB Business Coaching, (4) Integrating IB in government SME development, poverty reduction and sectoral development programs, (5) linking to the Impact Investing agenda, and closely cooperating with NABII on this, (6) establishing a Risk Reduction and Social Innovation Fund for unleashing funding from impact investors, (7) looking into smart and relevant tax and procurement incentives that will not challenge the government's income basis, (8) promoting IB Impact Monitoring and Reporting, and (9) establishing a close regional exchange on IB where Zambia could take the lead in Southern Africa and, together with Nigeria, perhaps for the rest of the continent.

As a concrete step going forward after this excellent study, ZDA is establishing an Inclusive Business Secretariat and requesting further funding from the *Investment Climate Reform* facility of the European Community for helping to institutionalize the IBeeZ program in early 2023.

Albert Halwampa,
Acting Director General, Zambia Development Agency

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We thank the companies interviewed and the 18 firms that we found IB eligible. We found very innovative business models that are creating solutions for the poor and we are grateful for their openness to share their business innovations. Thanks go particularly to the Chief Executive Officers (CEOs) of ABC Bikes (Bisoborwa Akunoobere Badr), Buffalo Bicycles (Chikwenyu Brian Moonga), COMACO (Dale Lewis), Dytech Limited (Alan Chanda), Good Nature Agro (Carl Jensen), Kukula Agro Finance and Kukula Solar (Francis Mbewe), Little Sun (Muyunda Munyinda), Live Clean (Abigail Kalebwe Chishala), Mwabu iSchool (Davison Kapakyulu), Medeem Land Rights (Peter Lungu), Nature's Nectar (Katherine Milling), PremierCon Starch Company (Lubasi Yuyi), Seba Food (Gaurav Vijayvargiya), Vyazala Crops Limited (Allan Mbale), WiDEnergy Africa Limited (Liliane Munezero Ndabaneze), and Wuchi Wami Limited (Harry Malichi)

The policy recommendations are based on the suggestions from the companies and the various stakeholders in government, business associations, impact investors, IB facilitators and development partners. Particularly, we would like to thank the National Advisory Board for Impact Investment (NABII), their chairperson (Dr. Austin Mwape) and management team (Peter Chintu and Audrey Hamayanda-Zulu) for (a) championing the linkage between Inclusive Business (IB) and Impact Investing, for (b) making IB a dedicated pillar of the NABII work, and for (c) heading the discussions to establish the proposed IB Risk Reduction and Social Innovation Fund. Thanks also go to the colleagues at BongoHive (Simuunza Muyangana), SNV (Bwalya Champo and Francis Chikonde), MentorMe (Elias Chipimo) and Agova (Indiana Barden) who led the discussion on the IB business coaching and mentoring tool, and from KPMG (Mafipe Chunga) who provided innovative insights on IB tax incentives.

Special thanks go to the consultant team who made this landscape study and the process for setting up an IBeeZ strategy going forward a great success. We appreciate particularly the valuable inputs of Laurian Haangala on the policy side, assisted by Samantha Siavwapa, Nsangu Siwale and Janet Nachimata for the company engagement and Dr. Armin Bauer who inspired the team and provided valuable guidance from his vast international IB experience.

Also appreciated is the support of my iBAN colleagues Markus Dietrich, Jeannine Claes and Birte Rau.

Bonn, Germany, in December 2022

Dr. Christian Jahn, Executive Director, Inclusive Business Action Network (iBAN)

EXECUTIVE SUMMARY

In late 2020, the Zambia Development Agency (ZDA) under the Ministry of Commerce Trade and Industry (MCTI) approached the Inclusive Business Action Network (iBAN), a global programme implemented by GIZ and financed by BMZ, to undertake a landscape study on Inclusive Business in Zambia. The study was to (a) adapt the international discussion on Inclusive Business (IB) to the Zambia context, (b) profile good IB cases in the country, (c) assess the enabling environment for IB, (d) make recommendations for a strategic programme going forward to promote such enterprises, and (e) build ownership for initiating a programme for promoting a better enabling environment for Inclusive Business in Zambia (IBeeZ).

Inclusive Businesses (IB) are commercially viable private sector business lines that create scaled-up, innovative, and systemic solutions to the relevant income and living standard problems of the poor and low-income people living at the base of the socio-economic pyramid (BoP). Some IB business lines also deliberately contribute to the climate and environmental agenda, while creating impact for the poor. In Zambia, the people at the base of the socio-economic pyramid (BoP) are the bottom 60% income groups with household income less than ZMW¹ 4,000 (about \$230), while the very poor are those below ZMW 800 (about \$50) and the poor are those between ZMW 800 and ZMW 2,000 (about \$120). IBs directly and intentionally engage the BoP by creating sustainable income above the market rate or offering relevant and affordable goods and services for living standard improvement. IB business models are typically found in medium-sized companies (in Zambia with annual revenues of between \$0.3 and \$3 million), but also by bigger companies and smaller ones; micro-enterprises with revenues of less than \$0.05 million would mostly not qualify as IB but find their role in value chains of IBs. IBs are found in all sectors. In Zambia, there are many IB firms in agribusiness, off-grid energy but also in social and municipal services. IB differs from mainstream businesses in their deliberate design for direct impact on the BoP (no assumed trickle-down or impact through others). They also differ from NGO-driven social enterprises in their commercial orientation and scale of impact, and corporate social responsibility work and philanthropic work (CSR) in their core business orientation, commercial viability and growth, as well as emphasis on wide and deep social impact. While IB differs from green business, some IB also achieve deliberate impact on climate and the environment. In IB models social impact drives business return and such companies that do good. As IB creates triple wins for the BoP (through poverty reduction and better living standards), for business (new markets and good commercial return opportunities) and society (economic transformation), governments are interested in specifically promoting such IB companies.

The study looked at over 140 firms and found 18 real and potential Inclusive Business models with a consolidated revenue of ZMW 595 million (ca \$44.1 million) in 2021 and a social reach of more than 3 million poor and low-income people (or 860,000 households) in 2021. It found strongly growing and highly innovative IB business lines with good revenues and wide and deep social reach by providing e-school books, transport services, solar systems, relevant products in e-commerce, access to land rights, and particularly in agrobusiness. Many more IB businesses may emerge when companies are better recognized and encouraged to do good while doing well.

The assessment of the enabling environment for IB proved the high relevance of IB in the context of the new government's emphasis on promoting private sector solutions to improve income, reduce poverty and enhance the living standards of the poor and low-income people. Many stakeholders in government, business associations, impact investors, business facilitators and development partners found the IB concept highly relevant for achieving the objectives of the new National Development Plan, the new Small and Medium Enterprise Development Policy, and the Green Economy Strategy.

1 Exchange rate as of 21.11.2022: 1 ZMW = 0,058 EUR = 0,060 USD

Discussions with key stakeholders and a series of participatory workshops and seminars, including the first-ever national IB Forum for Zambia created support for the 10 key recommendations of the study to go forward with a programme for implementing a better enabling environment for Inclusive Businesses in Zambia. This IBeeZ strategy comprises the following 10 recommendations:

1. Endorsing of a dedicated IBeeZ Strategy and lean institutional framework for its implementation under a multi-stakeholder and public-private partnership approach,
2. Financing of IB Advocacy activities in close cooperation with business associations,
3. Setting up of a formal IB Accreditation system jointly implemented by 5 government agencies and 3 business associations;
4. Creating funding for dedicated IB Business Coaching and Mentoring and developing relevant IB-BCM tools that help transform mainstream businesses, social enterprises, and CSR work to IB models, initiatives and activities:
5. Integrating IB in government SME development, poverty reduction and sectoral development programs.
6. Creating smart and relevant tax and procurement incentives for accredited IB companies that will not challenge the government's income basis;
7. Bridging the Green Business and Corporate Social Responsibility agenda
8. Linking IB to the Impact Investing Agenda by making it part of the demand pillar of the National Impact Investing Board (NABII) and creating a Risk Reduction and Social Innovation Fund for unleashing impact investing in inclusive and green businesses
9. Co-financing Impact Monitoring and Reporting; and
10. Establishing a regional exchange programme on IB where Zambia could take the lead in Southern Africa and together with Nigeria perhaps for the rest of Africa.

ZDA and MCTI committed to working with other government agencies (like the Ministry for Small and Medium Enterprise Development, the Ministry for Green Economy and Environment, and the Ministry of Finance) as well as private sector associations and development partners to establish an IBeeZ Technical Assistance Facility and an IB Investment Fund. ZDA is committed to mobilizing further support for helping to institutionalize the IBeeZ program in early 2023.

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ABBREVIATIONS, ACRONYMS AND TERMS

ADB	Asian Development Bank
AfDB	African Development Bank
AGS	Accelerating Growth for SMEs in Zambia (programme for SME development financed by Finland)
AVPA	Africa Venture Philanthropy Alliance
BDSPPAZ	Business Development Service Providers Association of Zambia
BMZ	German Ministry for Economic Cooperation and Development
CEEC	Citizens Economic Empowerment Commission
CGIAR	Consultative Group for Integrated Agrarian Research
COMACO	Community Markets for Conservation, Zambia
CSR	Corporate Social Responsibility
DBZ	Development Bank of Zambia
EC	European Commission
ESCAP	United Nations Economic and Social Commission for Asia and the Pacific
EUR	Euro, currency of the European Union. The \$ to € exchange rate as per 26 November 2022 was \$1 = €0.961
€	see EUR
FCDO	Foreign and Commonwealth Development Office, new oversight agency of UK Aid (formerly DfID)
FSD	Financial Sector Deepening
GB	Green Businesses, i.e. companies that address problems of the environment and climate change
GIZ	Deutsche Gesellschaft für Internationale Zusammenarbeit GmbH (German International Cooperation Agency)
IAP	Innovations Against Poverty, a former IB program jointly financed by UK and Sweden
IB	Inclusive Business
IBAN	Inclusive Business Action Network, a global programme implemented by GIZ and financed by BMZ
IBee	enabling environment for Inclusive Business

IBeeZ	Programme for creating a better enabling environment for Inclusive Business in Zambia
IB stakeholder	institution that is generally supportive to the IB discussion or should have a reason to get involved in the IB discussion.
IB champion	person or institution strongly advocating and leading IB promotion; IB champions can be among all stakeholders.
IB focal point	person officially designated by IBee relevant (oversight) body of government or business association to represent the institution in the IB discussions.
ICA	Investment Capital Africa, a match-making organization arranging impact capital
IDC	Industrial Development Corporation of Zambia
ICR	Investment Climate Reform programme of the EC for African, Caribbean and Pacific states
IFC	International Finance Corporation (private sector arm of the World Bank)
ILO	International Labour Office
JICA	Japan International Cooperation Agency
KfW	Kreditanstalt für Wiederaufbau, German Development Bank
LSCM	Living Standard and Consumption Monitoring report
MCTI	Ministry of Commerce Trade and Industry
MoFNDP	Ministry of Finance and National Development Planning
MGEE	Ministry of Green Economy and the Environment
MoA	Ministry of Agriculture
MoTS	Ministry of Technology and Science
MSMED	Ministry of Small and Medium Enterprise Development
NABII	National Advisory Board for Impact Investing
NTBC	National Technology Business Centre
PROSPERO	not for profit company in Zambia providing investments and advisory services to companies and institutions, financed by UK Aid

SB	sustainable business, i.e. companies that create solutions at the same time for poor people, the environment and/or climate and for commercial viability self-financing
SIDA	Swedish International Development Agency
SME	Small and Medium Enterprise
SNV	the Netherlands' Development Agency
TA	Technical Assistance
UNCDF	United Nations Capital Development Fund
UNDP	United Nations Development Program
UNIDO	United Nations Industrial Development Organization
USAID	United States Agency for International Development
USD	United States Dollar (\$)
VAT	Value Added Tax
WWF	Worldwide Fund for Nature
ZBAN	Zambia Business Angel Network
ZACCI	Zambia Association of Chambers of Commerce and Industries
ZAM	Zambia Association of Manufacturers
ZANACO	Zambia National Commercial Bank Plc
ZMW	new Zambian Kwacha
ZFAWIB	Zambia Federation of Associations of Women in Business
ZDA	Zambia Development Authority
ZIIS	Zambia Impact Investment Summit
ZPPA	Zambia Public Procurement Authority

In this report \$ is referred to USD. An exchange rate of \$1 = ZMW 17.2 was used.

1. THE iB STUDY'S BACKGROUND AND RATIONALE

1.1 THE CONTEXT AND OBJECTIVES

1. **IB policy works in many countries:** Since 2012, various countries worldwide, particularly in Asia, have engaged in Inclusive Business (IB) scoping and landscape studies. Reports on IB landscape studies are available for Bangladesh, Cambodia, China, Indonesia, Kenya, Malaysia, Myanmar, Pakistan, Philippines, Tajikistan, Viet Nam (2x) as well as for ASEAN and APEC regions, and are currently being prepared for Nigeria and Zambia.² In 2020, the ASEAN economic ministers endorsed the “Guidelines for Promoting Inclusive Business in ASEAN”³ and some countries in the region as well as in Africa have set up or are going to set up IB promotion programmes and strategies. The implementation of these landscape studies was supported by the Asian Development Bank (ADB), the United Nations Economic and Social Commission for Asia and the Pacific (ESCAP), and the Inclusive Business Action Network (iBAN), a global programme implemented by GIZ and financed by the German Federal Ministry for Economic Cooperation and Development (BMZ).⁴
2. **Initiating the Zambia Landscape Study:** Following South-South dialogues on IB since 2019, Nigeria and Zambia requested support to undertake IB landscape studies and policy recommendations. In late 2020 the Zambia Development Agency (ZDA) under the Ministry of Commerce Trade and Industry (MCTI) requested the Inclusive Business Action Network (iBAN) to implement such a study with the following objectives:
 - a. adapt the IB concept to the Zambian environment,
 - b. prepare a market assessment of IB business cases and profile such IB business lines,
 - c. assess the enabling environment for IB in the country,
 - d. develop policy recommendations for an IB promotion programme going forward, and
 - e. help with ownership building for IB support.⁵
3. **The process for gaining study results:** iBAN then followed up with two half-day knowledge seminars for ZDA (in December 2020) and for ZDA and other government agencies (in January 2021). Due to delays attributed to COVID-19, the iBAN consultant support

2 With more than 1,500 titles, the Inclusive Business Action Network has perhaps the largest database on Inclusive Business world-wide: www.inclusivebusiness.net.

3 The *Guidelines for the Promotion of Inclusive Business in ASEAN* emphasize 12 strategic recommendations, including (1) establishing a dedicated IB strategy and program, (2) institutionalizing IB promotion under a multistakeholder implementation approach, (3) doing specific IB accreditation and registration, (4) IB awareness raising, (5) financing dedicated IB business coaching and mentoring for companies, (6) establishing investment incentives, (7) reducing investment risks of impact investors, (8) promoting IB in public procurement, (9) targeting IB in existing private sector and other development programs, (10) linking IB to the social enterprise and corporate social responsibility agenda, (11) monitoring and reporting on IB results, and (12) engaging in regional exchange on IB knowledge and innovation. See: <https://asean.org/wp-content/uploads/2021/09/6.-ASEAN-IB-Promotion-Guidelines-Endorsed-at-the-52nd-AEM.pdf>

4 A former phase of iBAN was also co-financed by the European Union (EU).

5 For easy reference we abbreviate in this report IB for Inclusive Business, IBeeZ for the policy recommendations for a better enabling environment for Inclusive Business in Zambia, and IBeeZ consultant team for the 3 experts delivering the landscape study.

commenced their work in November 2021. A consultant team was formed composed of a local IB policy expert, a local IB company expert, and an international IB expert, with two colleagues helping with the administrative arrangements and the international consultant serving both as back-stopper. The consultant team first held an internal orientation workshop to clarify the research direction and methodology. Thereafter, they prepared a longlist and shortlist of possible IB companies from Zambia to be interviewed, and a list of possible stakeholders for the policy discussion. They then conducted further background research on the companies and institutions relevant to the IB discussion, and finally arranged interviews with 25 potential IB companies and 38 stakeholders from government, business associations, impact investors, facilitators and development partners.

4. **Participatory engagement of multiple stakeholders:** The team formulated initial recommendations and discussed them with ZDA. These initial results were then shared in 5 half-day seminars in July 2022 with various stakeholders, and further revised by incorporating comments and holding follow-up conversations. The findings were again shared in September 2022 in an IB seminar at the 2nd Zambia Impact Investing Summit (ZIIS) and on 20 October 2022 at the first IB Forum for Zambia. Comments on the strategic way forward with IB were incorporated in the draft report (November 2022) and after endorsement by ZDA as executing agency for the study, the report was finalized and jointly published by iBAN and ZDA at the end of December 2022.
5. **IBeeZ programme endorsed and its institutionalization lined up:** During the IB Forum and a follow-up discussion with ZDA (November 2022) the recommendations for a strategic programme to promote a better enabling environment for Inclusive Business in Zambia (the IBeeZ strategy/initiative) were endorsed and a commitment was achieved by multiple stakeholders to go forward with implementing IBeeZ from 2023 onwards. As the iBAN programme closed at the end of 2022, iBAN ensured two ways forward to institutionalize IBeeZ:
 - 1) the National Advisory Board for Impact Investing (NABII) made IB a dedicated feature of its demand pillar and
 - 2) ZDA will propose a project to the Investment Climate Reform (ICR) programme financed by the European Union (EU) and other partners for institutionalising IBeeZ between January and September 2023. The ICR project would allow for further discussions with development partners to set up technical and financial assistance support for IBeeZ implementation beyond 2023.

1.2 THE RATIONALE FOR PROMOTING PRIVATE SECTOR SOLUTIONS TO EFFECTIVELY REDUCE POVERTY AND SPUR ECONOMIC TRANSFORMATION IN ZAMBIA

6. **Persisting socio-economic challenges:** Zambia is a country of about 18.9 million people in Southern Africa. While it experienced rapid growth in early years due to copper exports, today the country faces major economic and social problems. The economy is not very diversified, experiences high fiscal pressures and external debts as well as high inflation (about 12% in 2022 and averaging at 13.8% between 2019 and 2023), population growth is high, the national per capita income is low (\$1,121 in 2021) and low real GDP growth of only 1.4% between 2019 and 2022. The government's new development strategy (2022-2026), launched in March 2022 stands under the motto of "Socio-economic Transformation for Improved Livelihoods". The 8NDP outlines the persisting socio-economic challenges in Zambia including low economic diversification, high youth unemployment, high incidences of poverty and inequality, slow pace of decentralization, low education outcomes, and inadequate access to social services. According to the new World Bank data, the poverty headcount in 2015 is estimated for 2022 at 62.4% at a poverty line of \$2.15 per capita per day at purchasing power parity of 2017,

with 79% of the population under the new \$3.65 threshold for lower middle-income countries and 91% under the threshold for upper middle-income countries (\$6.85).⁶ While the economic policy of the new government is lauded and shows some positive effects. The newest development plan emphasizes a private sector driven growth which directly benefits the poor and low-income people.

7. **A new role for the private sector:** The New Dawn government coming into power in September 2021 emphasized the need for socio-economic transformation. This should be mainly driven by a new type of private sector that creates not only growth and business return but at the same time social impact for poor and low-income people and the planet (the environment and climate). The 8NDP lays out the role of the private sector and calls for more public-private partnerships. Unfortunately, it does not specifically refer to Inclusive Business, nor Green Business, because the IB discussion was nascent in Zambia when the 8NDP was formulated. Similarly, the Industrial Policy of 2018 has no reference to IB. However, the new Ministry for Small and Medium Enterprise Development (MSMED) may take into consideration the topic of Inclusive and Green Business in the new SME policy, to be launched in early 2023.
8. **Inclusive businesses can bring transformation and creates triple wins:** Inclusive Businesses (IB) can have a special role in this “transformation” towards better income opportunities and more relevant provision of goods and services to enhance the living standards of the poor. IB solutions are also relevant for linking inclusive and green sustainable business, creating new resources through impact investing, achieving an innovative pro-poor growth dynamic, and emphasizing good public-private sector solutions. IB are typically innovative companies engaged in larger value chains, have good growth potential and are sizeable enough to create visible impact for poor and low-income people. By not compromising on business returns, not on direct social impact and by emphasizing growth and value addition, Inclusive Businesses create triple wins for the poor, for business and society (and government).

Figure 1: IBs create triple wins for the poor, for business and society

Inclusive Business – a triple win



6 Data are from: World Bank (October 2022) Macro-Poverty Outlook for Zambia. <http://documents.worldbank.org/curated/en/099532510142233958/IDU0893222b70ed63046e20b1e10330830937fc6>

9. **Why the government should to engage in IBeeZ:** While companies increasingly set up IB lines due to good reasons of profit-making and contributing to society, the number of companies doing so is still very small. To achieve more mainstream business transformation into IB they need to be encouraged by giving them recognition. Some targeted incentives would also help companies set up such business lines that do well by doing good. Furthermore, the new private sector emphasis of the government may not yield appropriate development results if companies that could contribute to such are not specifically identified, highlighted and incentivized. To this end, if the government aims to make the private sector the driver of change for more inclusive and sustainable development, it could create a movement for Inclusive Businesses, do advocacy, recognition, clearly identify such partners, and build an appropriate incentive structure around such firms. Going IB means also focusing on companies that bring meaning to results for people (and climate) rather than emphasizing much broader small and medium enterprise or general sector developments.

1.3 THE INCLUSIVE BUSINESS CONCEPT

10. **The IB concept calls for relevant solutions for the poor's income and living standard problems:** Inclusive Businesses are commercially viable business lines of private sector companies, that create scaled-up innovative, and sustainable, income or living-standard solutions for the relevant problems of the poor and low-income people (the BoP). There are also other definitions,⁷ but most are similar and all emphasize the scale of impact, intentional BoP engagement, relevant and measurable BoP solutions, as well as commercial viability and core business orientation as IB characteristics.⁸
11. **Engaging the poor is not enough to qualify as IB:** While mainstream companies often source from the poor and sometimes also sell to them (in addition to the better off), they are not deliberately designed to create scaled-up solutions for the BoP. For example, the solid waste informal sector and nearly all agrobusinesses engage the poor as either consumers or suppliers. But they often pay remuneration that perpetuate poverty. Similarly, many companies that emphasize their sales to the better-off also cover the poor, but mostly their products are not specifically designed to be relevant and affordable to the poor. Only those companies that engage the BoP in ways that substantially increase their income (above the market rate) or provide relevant and affordable products and services to them would qualify as IB. Such types of companies are usually the exception rather than the rule. Engaging the BoP as suppliers or as consumers are the most effective ways of designing IB models.
12. **Targeting the poor and low-income people, not necessarily the extremely poor:** While IB provide solutions for the poor and the IB concept can be used as a poverty reduction programme, it is not suitable to address the vulnerability of the extremely poor. IB typically target the people at the base of the socio-economic pyramid (BoP). These are the very poor, the poor, and the low-income people, with the latter being the major target groups for IB firms. In fact, most companies find it easier to work with low-income and poor groups than with the extremely poor. Many IB companies, however,

7 For example, the G20 definition of 2016 emphasizing more BoP engagement in value chains of IB companies by defining Inclusive businesses as companies that “provide goods, services, and livelihoods on a commercially viable basis, either at scale or scalable, to people living at the base of the pyramid (BoP) making them part of the value chain of companies as suppliers, distributors, retailers, or customers”. See G20 (2015): The Inclusive Business Framework.

8 The 4 Inclusive Business Features (1) intentional BoP engagement, (2) pursuing financial viability, (3) scaling the business model, and (4) Measuring and managing impact. They were developed by a in 2021 by a group of institutional IB experts composed of ADB, IFC, iBAN, UNDP-BCTA, OECD and external experts, including ZDA. See iBAN/UNDP (Sept 2021): Inclusive Business Features. <https://www.inclusive-business.net/node/5434>.

also sell to or source from better-off income groups; they would qualify as IB, if the majority of their value chains are the BoP or if the BoP comprise a substantial number of the poor in a country. Hence the need to properly assess the share and composition of the BoP in a company's value chain. Depending on the socio-economic status of a country (typically measured by GDP per capita) the BoP are in the bottom 20-40% (B20-B40) income groups. For poor countries like Zambia, the BoP is composed of the bottom 60% income groups. These are the people below the new international \$2.30 poverty line.⁹

13. **What is the appropriate BoP threshold?** Most poverty data is calculated by constructing international or national poverty lines based on per capita expenditure data based on international purchasing power parities and based on surveys that are typically a bit out of date. For Zambia, that data was used (and others like the minimum wage) and calculated more practical monthly household income for the very poor, the poor and the low-income people. The proposed thresholds were compared to international and national poverty data and verified in discussion with the companies interviewed. We postulate that the BoP threshold for low-income households in Zambia at ZMW 4,000, while the very poor are those below ZMW 800 and the poor those between ZMW 800 and ZMW 2,000. Basically, in Zambia, the BoP would comprise the bottom 75% of the population, the poor the bottom 60% and the extreme poor the bottom 40%. This is comparable to the \$3.65, \$2.15 and \$1.5 international poverty lines in purchasing power parity of 2017. For more information see the discussion on poverty below.¹⁰
14. **The direct and tangible impact matters.** To qualify as IB, such solutions must be created by the company deliberately and achieved through direct tangible impact chains, and not through trickle-down assumptions. Similarly, the social impact should be systemic and relevant for changing the poverty situation. For example, an agro-business company that sources its products from traders cannot guarantee that the farmers have income increase above the market price. The only way to do that is by that business creating income opportunities above the market rate (the poverty line) thereby changing the poverty situation of the poor and in a geographical area.
15. **Two routes to impact, Five BoP engagement modes, and Three IB types:** The IB literature distinguished 2 routes to social impact (i.e. income and living standard), 5 BoP engagement modes (i.e. engaging the BoP as a supplier, consumer, retailer or distributor, labourer, or shareholder) and 3 IB approaches (i.e. IB model, SE initiative, IB activity). Companies that are not relevant for poverty reduction or projects and initiatives that are not commercially viable cannot qualify as IB and would be categorized as either mainstream business, NGO-driven social enterprise or traditional CSR work.
16. **Two IB routes to impact the BoP:** IB companies directly engage the BoP in their value chains by creating either sustainable income solutions above the market rate, or by offering (selling) relevant and affordable goods and services for living standard improvements.

9 According to the new international poverty line in purchasing power parity of 2017, 61.4% of the Zambia people were below the \$2.3 per capita per day expenditure poverty threshold, 48.4% below \$1.5, and 77.5% below 3.86.

10 In 2018 the World Bank introduced a dynamic poverty concept based on the socio-economic status of countries, measured by GDP per capita. In September 2022, the World Bank then adjusted the purchasing power parity estimates from 2011 to 2017 standards, and increased the international poverty lines for very poor countries from \$1.9 per capita per to \$2.15, for lower middle-income countries from \$3.2 to \$3.65, and for upper middle-income countries from \$5.5 to \$6.85. The respective poverty headcount for Zambia are estimated at 62.3% (\$2.15), 78.5% (\$3.65) and 91.2% (\$6.85). These calculations are based on the 2015 Living Standard and Consumption measurement Survey with forecasts for 2022. The government, in the 8th development plan, refers to a poverty incidence of 54.4% in 2015 (down from 62.8% in 2006) with extreme poverty persistently high at 41-43%.

Figure 2: The Characteristics of Inclusive Businesses

IB company characteristics

Definition	Inclusive Businesses are commercially viable business lines of private sector companies that deliberately create scaled-up, innovative, and systemic impact for the relevant income and living-standard problems of the poor and low income people				
4 IB features	1. Engaging the base of the economic pyramid (BoP) intentionally, 2. Pursuing financial viability, 3. Scaling the business model, 4. Measuring and managing impact				
2 routes to impact	income increase (more than the market rate, more than before, more than others)			living standard improvement (relevant, affordable, accessible goods and services)	
5 BoP engagement modes	supplier	distributor/retailer	laborer	consumer	shareholder
3 IB and 3 other company types	mainstream business	Inclusive Business			corporate social responsibility (CSR) work
		IB model (medium or large IB business line with large impact)	SE initiative (for-profit SE + small IB)	IB activity (piloting CSR as core business line)	
		real and potential IBs matter both for transformation			NGO driven social enterprise

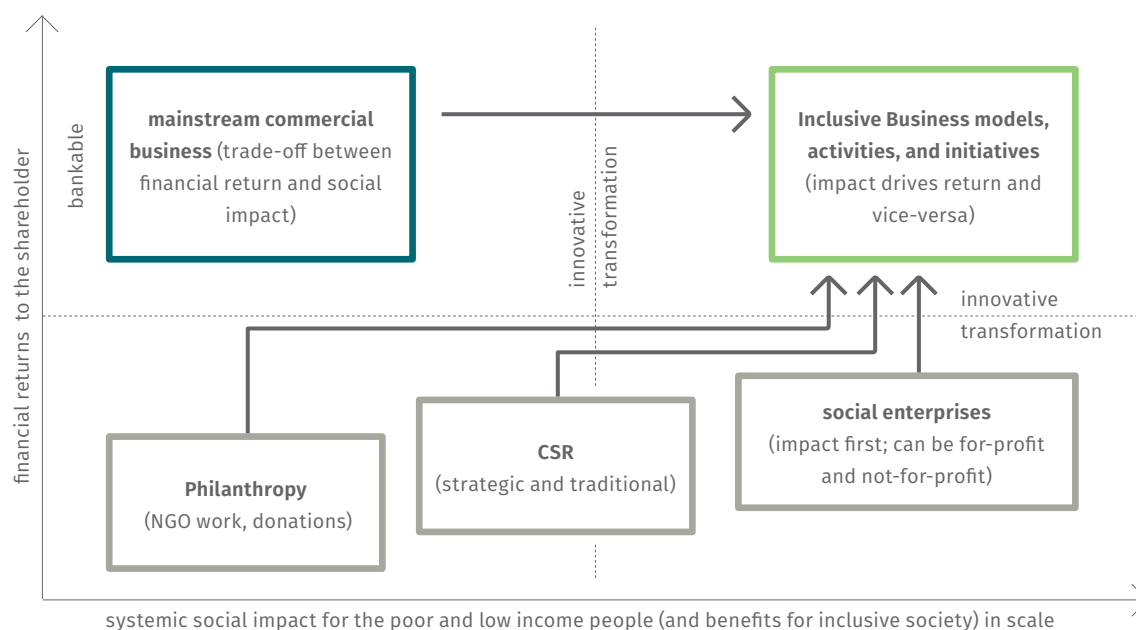
- **Companies that provide income opportunities** for the BoP typically engage the poor in their supply chain. The formal employment of such companies is often very small compared to the value chain engagement. For example in agribusiness, a company may have a processing factory with 100 employees, but source from 10,000 or more smallholder (BoP) farmers. For the IB discussion the number of value chain engagements matters (suppliers, retailers, distributors and consumers), not so much the employment. To have a systemic impact such income must be substantially more than before, more than the market rate (note that the market rate for the poor is the poverty line) and more than competitors. The company must prove that in a medium term it can bring people on a sustainable basis out of income poverty. An income increase does not necessarily mean paying a premium price for what the poor supply. Often income increase is created by companies through a combination of measures, such as enhancing yield, lowering input costs, increasing the value of the produce, fostering better sales, paying favourable prices for the products sourced from the BoP, covering BoP risks and their costs etc. As can be seen, for IB companies to be effective for the BoP, they apply many business innovations beyond simply training or organizing input suppliers. Income-generating IB firms are typically in agribusiness, manufacturing or crafts; also business models in tourism, trade, technical training, and some financial services aim at creating income.
- **Similarly in living standard models**, the goods and services bought by the poor need to be directly relevant to the BoP, affordable to them, and accessible to them. The company also need to address the risks of consuming such products on a sustainable basis. Different to the general belief, IB companies provide high-quality products, often their products are expensive but business and payment innovations (e.g. pay-as-you-go models) make the product affordable for the BoP, they are often made accessible through e-commerce or ensured after care service, and the relevance of the products is deliberately screened resulting in only a few products being sold to the poor and those products often being adjusted to the poor's needs and affordability. IB companies providing living standard improvement are typically in sectors such as health, education, water, housing, insurance, household energy, fintech and transport.

- **Sometimes, companies address both income and living standard objectives.** For example, an agrobusiness may increase the income of the poor by sourcing from smallholders, and it may also improve the living standard by selling nutritious food to another group of BoP.
17. **How IB differ from mainstream business and other company types:** IB differ from mainstream business in their deliberate design for direct impact among the BoP (no assumed trickle-down or impact through others). They also differ from NGO-driven social enterprises in their commercial orientation and scale of impact and corporate social responsibility work and philanthropic work (CSR) in their core business orientation and emphasis on large and deep social impact. While IB differs from green business, some IB also achieve deliberate impact on climate and the environment. IB create triple wins for the BoP (through poverty reduction and better living standards), for business (new markets and good commercial return opportunities) and for society (economic transformation), governments are interested in specifically promoting such IB companies.
 18. **IB is mostly done by medium-sized businesses, never by micro-enterprises:** IB business models are typically found in medium-sized companies (in Zambia with annual revenues of \$0.3-\$3 million), but also in bigger companies and smaller ones. Micro-enterprises with revenues <\$0.05 million would mostly not qualify as IB. IB can be found in all sectors; in Zambia, there are many IB firms in agribusiness, off-grid energy but also in social and municipal services. The company size matters in the IB discussion, because the larger the company the larger the potential social impact and the potential economic contribution. In the IB literature company size thresholds focus on revenue only as employment and asset data are misleading to capture the value chains of companies. In line with recommendations for business associations and development partners, the study also suggests to adjust the definition of SMEs in the new SME Policy and focus more on a) purposeful companies with social and environmental benefits for society, b) broaden the revenue categories, and c) clearly state the challenges of the government to support comprehensively the micro-enterprises
 19. **IB are typically innovative:** To work in the markets of the poor and make sizeable commercial returns, IB companies need to be innovative in reducing business and BoP risks. While innovations are mostly along business innovations and less so along technology innovations, many IB companies have introduced digital tools to streamline their business and reduce customer or supplier risks. There are many ways of reducing risks and enhancing innovation in a company. Helping companies to adapt innovation from international learning to the local condition in specific sectors and companies and designing IB business models where impact drives return (and vice-versa) is the purpose of IB transformation coaching (see appendix).
 20. **Sustainable business:** IB companies can also have an impact on climate and the environment. However, green businesses without direct positive effects on the poor would not qualify as IB.; only companies that create deliberate social impact while improving at the same time the environment and the climate would qualify as Inclusive Businesses. Sometimes IB companies enhance their social and commercial impact by deliberate green business design features. For example, in Zambia, an agribusiness in the honey sector planted new fruit trees to create an additional income source for its farmers, at the same time enriching the quality and quantity of its honey production and contributing to CO₂ reduction through new tree plantation. Another company also in the honey sector made arrangements with local communities not to cut trees to make beehives or for firewood in the forest where the beehives are located.
 21. **IB and women empowerment:** Some IB companies have design features that deliberately empower women. For companies, it is easier to achieve women empowerment than broader societal gender equality. Also, the ownership of a company by either men or women is not a determining factor for achieving women empowerment; rather it is the business innovations the company is pursuing. Examples of IB companies with direct women empowerment features in Zambia are DyTech (new employment oppor-

tunities used particularly for women), Meddeem (landrights also also for women), and WID energy (women as distributor of solar home systems).

Figure 3: IB can be made and IBee need to encourage business transformation

**Inclusive Business - the private sector's contribution to a society that leaves nobody behind
(no trade-off between the business bottom line and benefits for the poor and low-income people)**



22. **Transitioning mainstream businesses to IB models, and social enterprises and CSR to IB initiatives and IB activities:** The IB literature distinguishes 3 approaches of IB companies, i.e., (1) IB models (companies with business models achieving larger social impact, typically sponsored by medium or larger firms with good commercial returns.), (2) SE initiatives (for-profit social enterprises that achieve some scale or relevance in social impact and have a growing business model) and (3) IB activities (corporate social responsibility work that scales in impact and becomes a core business line with sustainable commercial return). An effective strategy to promote IB is aiming at creating a sizeable social solution package for the income poverty and living standards of the BoP as well as sustainable and growing contributions of the private sector to economic development. Microenterprises and grant-financed development projects or NGO activities cannot achieve this. The development of new enterprises is risky as many fail. However, the change of entrepreneurial spirit to do good while doing well was found to be easier in existing companies than in start-ups. Medium-sized companies have a larger potential for innovation and change than resources restricted, smaller companies or large companies' bureaucracies. Inclusive business promotion, therefore, targets the transformation of existing mainstream businesses, NGO-driven social enterprises and corporate social responsibility activities towards commercially viable companies that create scaled-up and relevant solutions for the BoP. This transformation of potential IB companies is at the core of IBeeZ.
23. **In summary,** inclusive development and poverty reduction require a supportive private sector. A new business class is emerging worldwide, with entrepreneurs that do well by doing good for society. But while there is money to made at the base of the pyra-

mid, the transition towards more and better IB needs to be encouraged to come out of its niche. With the new government focus on private sector-driven more inclusive and effective pro-poor development engagement based on creating better income opportunities and living standards for the poor and low-income people, while establishing safety nets for the extremely poor, the IB landscape study for Zambia comes timely. Zambia has very innovative IB models in agribusiness, off-grid energy, trade, fintech, transport, and social and municipal services. Many more companies need to be encouraged to make their transition to IB understanding that doing well by doing good is a new market opportunity and often tallies with managements' desire to give back to society. While innovative IB models can be found in many African economies, Zambia could become the first country in the region with a dedicated IB promotion strategy. Zambia could show the way for other economies in Africa on how to make the economic transition through more meaningful private-sector investments.

1.4 THE STUDY APPROACH (OVERVIEW)

24. **The study had three distinguished parts,** a) the IB analysis of companies, company interviews, and IB ratings based on agreed quantitative and qualitative criteria and benchmarks, b) the analysis of the enabling environment and the position of stakeholders towards IB, including an analysis of development partners' programmes IB features can be linked to, and c) the development of and ownership building for policy recommendation to promote IB going forward. A summary of the IB rating template is in Figure 4 below; more information on the study methodology is in [Appendix 1](#).

Figure 4: Rating the IB companies

The IB accreditation system - summary of criteria and rating

	weight	sector benchmark	actual achievement	agreed rating (1-6)	scoring (rate x weight)
The IB strategic intent (route to impact, BoP engagement mode, understanding B40 problems, relevance of the business for the B40)					
The commercial return	40%				
Company (size, profitability, bankability)	10%				
The IB business line (revenue, growth, business risks, operational cost recovery and profitability)	20%				
Company governance	5%				
ES safeguard standards	5%				
The social impact of IB model	46%				
reach (beneficiaries, targeting, women empowerment)	19%				
depth and relevance	15%				
systemic change for poverty reduction and inclusion (sector, geographic, gender, relevance, BoP risks)	12%				
Innovation	14%				
business	5%				
technological	3%				
social (CSR, ...)	3%				
environment	3%				
Total	100%				
The rating (scoring)			maximum possible	minimum eligible to qualify as IB	actual scoring
IB strategic intent (understanding route to impact, BoP engagement mode, relevance of business model for BoP solution)			6,00	3,00	
overall scoring			6,00	3,20	
business (commercial + business and technology innovations)			2,88	1,30	
social (social impact + social innovation and CSR)			2,94	1,50	
innovation (sum of innovation)			0,84	0,40	
governance			0,30	0,15	
ES safeguard			0,30	0,15	

Note: Companies close to the minimum thresholds may qualify as "potential IB" and receive IB business coaching to make the company a real IB. Real IB companies receive access to public incentive programs. For broadening the IB initiative and results for society, it is more important to focus on the companies that can actually transition into IB.

2. THE RELEVANCE OF IB FOR ZAMBIA

2.1 THE ECONOMIC AND BUSINESS ENVIRONMENT FOR IB IN ZAMBIA

25. **Concerns over macroeconomic instability.** After independence, the country focused mainly on the development of the mining sector (copper) which determined most of the country's income. From 2015 onwards economic growth declined to 2.5% on average between 2015-2021, down from 8% in 2006, and 6% on average between 2010 and 2014. This is lower than the population growth rate (2.9%) resulting in the country slipping into the category of a low-developed country with a GDP per capita of only \$1,019 in 2022, for the first time since it entered the group of lower middle-income countries in 2011. The economic decline since 2006 was mainly due to the rapid drop in copper prices and major droughts. The impact of the COVID-19 pandemic in 2019-2020, and the large external and internal debt stock (\$126 billion in 2021). In 2021 the country experiences a deep contraction (-2.8% GDP growth), high inflation (25%) and the strong depreciation of the Kwacha (from 4.2 to the USD in 2006 to meanwhile 16.5), and large fiscal deficits (14.5% of GDP in 2021) and internal and external debts (the debt situation worsened from 22% of GDP in 2006 to 119% in 2021). 2022 saw a moderate recovery with GDP growth expected to be 2.4% and inflation down to 12%. Improvements are fueled by restoring macro-economic stability through the IMF Extended Credit Facility arrangement combined with deep debt restructuring under the Official Creditor Committee's Common Framework and major structural reforms by the New Dawn government with regards to the removal of market distortions in agriculture, energy and petroleum products, fiscal reforms and improved public spending efficiency, economic transformation and diversification and better targeted and more social spending, especially for the massive expansion cash transfer safety net.¹¹
26. **Zambia's economy is historically characterized by little diversification, low productivity and little value addition:** The 3 key sectors are mining, agriculture and manufacturing.
- For decades, the mining sector was the prime focus of any government policy. Nevertheless, despite major public investments going into that sector, and even though 80% of the export earnings come from there, mining contributes only 14% to Zambia's GDP and contributes very little to employment and consumes 60% of the country's electricity.
 - On the other side, the agriculture sector, which 70% of the rural population is dependent on, is contributing only 6% to the GDP due to low sector productivity, high dependence on rain-fed production, and high vulnerability to climate shocks.
 - The manufacturing sector is little diversified, produces often low-quality products, imports many products required for daily life, has rudimentary value and supply chains, and shows very low productivity and value addition. Companies show very shallow forward and backward linkages if at all any, and the sector contributes little to national value addition and export earnings.¹² The sector is dominated by the food and beverage industry (33% of the industry revenue) and most products in that sub-sector are of low-value addition.
27. The literature mentioned **further challenges that hinder socio-economic development** in Zambia. These include a large backlog of conflict resolutions at the local level, the small market and limited purchasing power due to high poverty incidence, the local

11 Data are from the 2022 IMF program, the 8NDP and from various economic updates of the World Bank.

12 The 8NDP expects the share of manufacturing in export earnings to increase to 55% (2026) from currently 44%, but it does not properly say how this can be achieved.

content focus and high costs of importing necessary technology, and a tax structure which does not favour growth in investments

28. **The new development plan (2022-2026)** emphasizes economic transformation and job creation to a more active role of the private sector to increase production, value addition and diversification of goods and services. The 8NDP is in line with the Zambia Vision 2030 of “Becoming a Prosperous Middle-income Country by 2030”.¹³ It identified agriculture, mining, tourism, and manufacturing sectors as the key drivers of the economy and calls for new strategic investments in energy, transport, and water as well as digital transformation and social sectors and skills development. The 8NDP emphasizes the need to establish a “diversified, balanced and cohesive industrial sector” that can absorb, particularly the rapidly growing number of young¹⁴ and poor people in cities and rural areas. However, the plan is not very concrete on which type of companies would create new productive income opportunities for the poor and what the government and the private sector should do to overcome the high youth unemployment rate (17.4%, 2021) and particularly the very high informal and low productive (and hence low earning) employment in rural areas (86% informality of company registration and employment) in the rural economy and 67% in the urban areas).
29. **Industrial transformation needs other types of industries:** Earnings in the agriculture and manufacturing sectors are low, and very few companies offer income opportunities above the poverty line as the market rate. While in the past economic growth was driven by the mining sector and industries that were not labour intensive, the issue for the future may be less the number of people engaged in a company as labourers, but more so the number of poor- and low-income suppliers of a company and the income those suppliers achieve. Achieving income way above the market rate and reducing the risks of BoP in the value chains of the company so that people can come out of poverty is the core objective of Inclusive Businesses that achieve impact through income increase.

2.2 IB AND SME DEVELOPMENT

30. **SMEs can help transform the economy if the focus is on medium-sized enterprises:** According to 2017 data from Zambia investments cited in the draft SME policy, SMEs are 97% of all businesses, create 8% of the GDP and generate 88% of employment (including the informal sector). However, only 8.3% of the formal credit goes to such firms. Banks and recently also government support agencies like CEEC complain about the weak business cases for financially sustainable investments and the high rate of non-performing loans to micro and small enterprises. Of the estimated 1.2 million enterprises in the country, the government estimates that only 110,508 companies were formally registered (and paid taxes). Most of the enterprises are micro-establishments in the informal sector, being mostly self-employed family establishments, with very small revenue, very small numbers of people engaged in value chains, and typically for very low-paid income opportunities keeping people in poverty. Most of these MSMEs are in trade and about 68% are registered in Lusaka and Copperbelt regions. 45% of all enterprises are registered under women’s and 35% under men’s names only, while the remaining is under both ownership. Women-led enterprises are particularly in the

13 A prosperous middle-income country is internationally perceived as a country with a per capita national income of \$4,000-\$11,000. While Zambia may most probably move back to the status of a lower middle-income country (L-MIC), it is unlikely that it will achieve the upper middle-income status (U-MIC) in only 8 years, as this would imply quadruple its national income in a very short time span, without really having the basis for so much economic growth, pro poor distribution, and effective population control. The global thresholds for lower MIC is a gross national income of \$1,036, for U-MIC it is \$4,045 and for high income country (HIC) it is 12,535.-

14 The 8NDP gives the figure of 46% of population are below 15 and 80% below 35. The population growth is very high at 2.8% per annum.

micro and small enterprises groups. While the number of micro and small companies is large, their contribution to GDP is very small. For poverty reduction through IB, it is more relevant to engage the poor in value chains of medium-sized and larger enterprises that, due to higher value addition, can also pay better the people they source from or provide higher relevant goods and services to the markets of the poor. Such companies are also dynamic, innovative and open to transforming the socio-economic environment of the markets of the poor.

- 31. The development potential of SMEs is not emphasized in the 8NDP:** The 8NDP has no separate elaborated chapter on SME development. However, it briefly suggests the need for more access to finance and the establishment of a credit guarantee for SMEs, as well as more appropriate better business development services for SME companies. However, the upcoming new SME policy may lay out the country's clear strategic vision on how to develop SMEs. The study suggests inputs from an IB perspective, as summarized in [Appendix 2](#). It was particularly suggested to
- a) focus the SME definition on revenue only, as under a value chain oriented approach employment in a company and the company's assets do not matter much for achieving development results on income generation among and the provision of relevant goods and services for the BoP, and
 - b) deliberately include the concept of purposeful business (inclusive businesses and green businesses and companies designed for achieving women empowerment) in the IB policy with the recommendation to prioritize such companies in the support programs. More information is in [Appendix 2](#).

2.3 CORPORATE SOCIAL RESPONSIBILITY (CSR) APPROACHES ARE NOT SUSTAINABLE AS NOT DESIGNED FOR CORE BUSINESS LINES

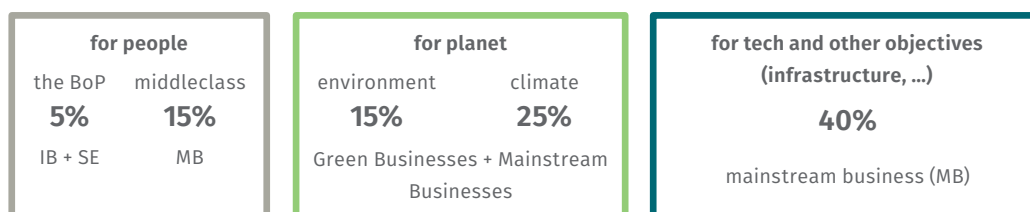
- 32. The country has a strong giving culture.** This is also reflected in companies of any size helping poor people in their local environment. However such philanthropic "giving", while being relevant for the immediate people, is small in scale, perhaps not always based on best knowledge on what works and what not, and hence not a sustainable contribution of the private sector to poverty reduction. Corporate social responsibility (CSR) activities are mostly done by mining companies (for more information, see the sector discussion below).
- 33. Reluctance to transform traditional CSR in core business IB activity:** Most of the large mines use a small share of their earnings for diverse corporate social responsibility (CSR) activities such as scholarships, housing improvements, philanthropic giving in case of needs, and livelihood programmes. However, such CSR is typically not part of core business and the approach is very traditional. The landscape study interviewed 4 large mines but while it found CSR programs it could not find any IB activity in their work. While two CSR programs with good potential to become a core business were identified, some reluctance in the willingness to transform the traditional CSR into an IB business line was experienced. Some further business coaching may be offered to explore this further; however such business coaching may be better addressed to the commercial part of the management than the CSR department.

2.4 IMPACT FINANCING IS ONLY EMERGING

34. **Expensive capital and high financial risks.** The country has 18 commercial banks with 320 branches, all targeting established and larger businesses and not lending to SMEs at scale. In addition, the country has 40 non-bank financial institutions, of which only 5 are dedicated MSME lenders. Ticket sizes of banks are rather large for most SMEs and access to capital is both limited and expensive for them. The central bank interest rate stands at 9%, interbank and retail interest rates are around 16%, and the lending rates in microfinance institutions is around 25%. SME financing is small, insufficient, and double biased with small grants (also from government agencies) being given to micro-enterprises and some other funds more to medium-sized enterprises. While there is some funding available for agrobusiness, projects in health, housing, education and water and sanitation have major problems finding institutional investments. Particularly financing from agencies like CEEC has issues with repayments and there are large non-performing loans in this sector.

Figure 5: The global impact investing landscape - share of IB in impact investing is very small

Mainstream investing (\$165 trillion worldwide in 2016 and \$112 trillion in 2021)
impact investing (\$1.1 trillion worldwide in 2022; only 1% of global assets under management)



35. **Impact financing is a rapidly increasing asset class worldwide.** Impact investing (II) is defined as investments made to generate positive and measurable social and environmental impact alongside financial returns. It is done by fund managers (ca. 63% of total portfolio), foundations (11%) development finance institutions (5%), family offices (4%), banks, pension funds and insurance companies, NGOs, religious institutions, and high net-worth individuals. While impact investing is still a small share (about 1%) of the total 112,3 trillion assets under management globally (down from \$165 trillion in 2016), the asset class is rapidly growing. According to the 2022 Global Impact Investing Annual Survey, assets under management are estimated at \$ 1.164 trillion in 2021, rapidly increasing from \$0.715 in 2020, \$0,077 in 2015 and 0,01 in 2010.¹⁵ Most of these investments are in OECD countries with Africa having only a very small part. By thematic orientation, only a small part is for investments in poor people which would be relevant to inclusive business. A review of 274 impact investors found that 67% expect risk-adjusted above-market returns, 18% market returns and 15% below-market returns. Of these 21% outperform their return expectations, 78% are in line with them and only 1% underperform. Figure 5 above gives an overview of the II global landscape.
36. **Like worldwide, also in Zambia private equity and venture capital are emerging; however, it is still a very small asset class.** Between 2013 and 2021. Zambia accounted for 8% of all private equity deals in Southern Africa (by value and 12% by volume)¹². The 2019 Impact Investing Landscape by NABII states that there are 98 impact investors and 33 development finance institutions active in Zambia which had investments of about \$580 million between 2015 and 2019, of which 19% were in financial services, 22% in agriculture and agro-processing, 7% in renewable energy and health care each, 6%

¹⁵ Global Impact Investing Network (October 2022) Sizing the Impact Investing Market.

in technology, 4% in education, 3% in water and sanitation solutions, 2% in infrastructure and the remaining 30% in trade, tourism and other services. Most of the capital demand is for debts and 57% was for a combination of debt and equity. While the number of companies having received impact funding nevertheless seems high (\$120 million per year) and perhaps overstated due to the broad impact investing definition used, total capital demand for impact investing based on 503 businesses screened was estimated more than 4 times the amount provided (\$2.9 billion), indicating a) the low quality and the small number of bankable business proposals, and b) the high-risk perception of impact investors for actually making the deals.

37. **The Impact financing industry is nascent and needs more visibility.** There are a few impact investors in Zambia, serving the market by being based there or from outside. Their total investment is very small, being estimated at maximum \$10 million per year for 3-5 deals¹⁶. While globally impact investing made a huge jump worldwide from \$10 billion in 2010 to \$36 billion (2012) and \$77 billion (2015) to \$715 billion in 2020 and hit \$1.1 trillion in 2022, most of the funding goes to climate and general development purposes and the share of impact investing is still small, especially in Africa and Zambia. More awareness, deal opportunities and dedicated investment promotion for non-frontier markets like Zambia are necessary to increase impact investing. However, once done, impact investing can become a game changer for development finance in the private sector.
38. **Financial products for IB:** The AGS programme under Finland Development Aid published a study on financial services and products for MSMEs, with data requested from 53 finance and technical assistance-providing institutions (14 banks, 20 microfinance institutions, 12 business development partners and 7 development finance institutions)¹⁷ as well as 20 MSMEs in the agrobusiness, mining, forestry, renewable energy and circular economy sectors. The study found that the most popular financing products for banks and larger institutions were term loans and overdrafts and the most popular financing products for micro-finance institutions were invoice discounting and order financing. While MFIs had a larger share in the MSME markets than banks and charge significantly higher interest rates, this has not resulted in high profits for MFIs (15% EBT margins for MFIs compared to 21% on average for banks). A summary of the credit products is in [Appendix 3](#).
39. **The National Advisory Board for Impact Investing (NABII) is key for promoting more awareness, policy support and in the end also funding to the industry:** To accelerate the growth and effectiveness of the impact investing industry, the NABII was established in 2019 as a non-profit organization created to accelerate the growth and effectiveness of the impact investment ecosystem in Zambia. NABII is a platform focusing on the coordination, facilitation, promoting and catalyzing of private sector impact investments. NABII works on 5 strategic pillars to:
 1. bring more impact capital to the country and impactful businesses (supply pillar);
 2. enhance the quality of investment requests for impact capital for medium-sized companies in diverse sectors while reducing the concessional and grant funding for start-ups and early-stage businesses (demand pillar);

¹⁶ The study's estimates, verified in discussion with NABII.

¹⁷ However, only half of the 35 financial services providers approached in the AGS study wanted to be interviewed and 4 of the 17 interviewed did not agree to publish their data. Study participants were 8 banks (Stabic, Standard Chartered, DBZ, Zanaco, FNB, AB Bank, Indo Zambia Bank and InvestTrust Bank) 9 microfinance institutions (Inde Credit, Lupiya, EFC, BFC, Finca, Premier Credit, LOLC Finance, IZWE, and ELPE Finance), 8 business development partners (ZICTA, ZDA, MSMD, ZATP, ZABS, CEEC, ZCGC and ZRA), 17 development finance institutions (AGS, Prospero, JICA, MUSIKA, GIZ, Market Connect, UNCDF), ___ impact investors (Kukula Finance, JICA, Goodwell, ZBAN, Self Help Africa, LendaHand, IFDC) and 3 Zambian Ministries and their agencies (MGEE, MoST, MSMED)

3. facilitate the exchange of impact capital with financial intermediaries such as wholesalers, social stock exchange, impact bonds, and outcome funds (intermediary pillar);
 4. catalyse regulations, policies and initiatives to promote impact investments in thematic areas (such as Inclusive Business, Green Business, and Women Empowerment) or priority sectors (such as renewable energy) between the supply and demand side (the policy pillar);
 5. coordinate with ecosystem support players (business advisors, legal practitioners, auditors, entrepreneurship support organizations, incubators and innovation hubs) to promote more relevant business development services (the ecosystem pillar).
- 40. Implications for IBeeZ:** Zambia needs to attract proactive investors to commit to early-stage growth capital. The desired investor types to achieve more funding for IB are venture and private equity capital, foundations, angel investors and crowdfunding platforms. Furthermore, patient local capital (including pension funds) needs to be encouraged to invest in IB. To unleash available impact capital, rather than establishing a new impact fund which would only widen the supply of funds or concentrate on investment matchmaking between, an innovative scheme to reduce the perceived investment risk and test innovations and dedicated business coaching for potential IB (rather than start-ups) are needed. A programme to promote a better enabling environment for Inclusive Businesses would not work without more opportunities for IB companies to get financing. The impact investing industry understands the risks in the markets of the poor better than banks or the government and is also more open to providing risk sharing commitments and long-term patient finance. The active engagement of the NABII and its championing of the IB-RRSIF can become a game changer for the IB discussion in Zambia. Hence the need for close cooperation with NABII.

2.5 POVERTY AND UNMET SOCIAL NEEDS THE PRIVATE SECTOR CAN TARGET

- 41. Zambia persistently has a very large number of poor and very poor people.** The latest official poverty estimates for Zambia were done as part of the 2015 Living Conditions Monitoring Survey (LCMS)¹⁸ which estimated 54.4% of the total population, basically unchanged from the 54.7% incidence in 2010 and 62.8% in 2006. Poverty is mainly a rural phenomenon where 76.5% live in poverty, compared to 23.3% in urban areas. Since 2015 the World Bank estimates that - due to pro-rich government policies¹⁹, COVID-19, major droughts, slowing growth and high population increase (2.9% in 2021)- poverty increased to an estimated 57.6% in 2020 (10.7 million people), 2.3 million more than in 2015. About 40.8% of the population were extremely poor (with income less than \$1 a day at 2011 purchasing power parity) and 13.6% were moderately poor. The 8NDP, while referring to the 2015 poverty incidence of 54.4% 5 does not set a target for poverty reduction by 2026. However, with the population increased between 2015 and 2021 by 21.9% (3.1% per year) from 15.5 million people to 18,9 million, lower per capita income and a growth pattern favouring the better off, poverty increased between 2015 and 2019 by 0.4 million per year, between 2019 and 2020 by another 0.7 million people, and the number of the poor will likely increase further in the coming years. The World Bank predicts that poverty will “remain above the re-pandemic level” with an incidence

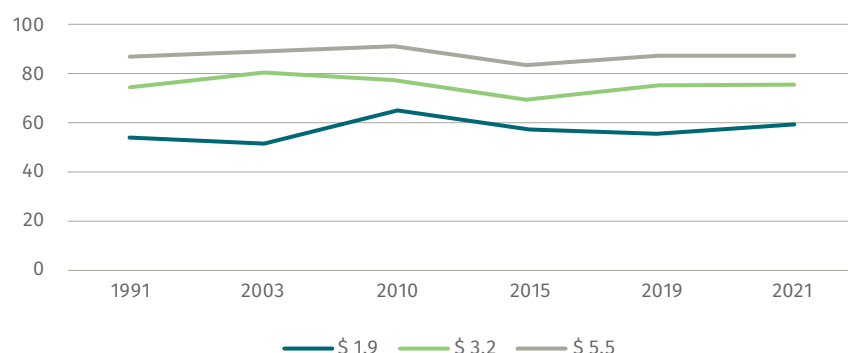
18 The 2022 LCMS was just conducted and results are expected to come out in early 2023. These data will also be the basis of the upcoming new poverty assessment by the World Bank.

19 With a Gini coefficient of 0.571 (2015), up from 0.556 in 2010, Zambia is one of the most unequal countries in the world. The Gini index worsened particularly between 2002 (0.41) and 2004 and is slightly increasing since then. Between 2015 and 2029, growth benefitted mainly the wealthier urban households, while the 60% rural poor saw household consumption declines of 3% per year and in urban areas 2.5%. See World Bank (March 2021): Poverty and Social Safety Net Response in Zambia.

Figure 6: Persistently high poverty incidence in Zambia

Poverty Incidences in Zambia (World Bank)

(PovCalNet Oct 2021, and World Bank April 2021 COVID Update)



around 60%²⁰, hence not going back. Poverty is very persistent in Zambia, owing to macroeconomic policies that favour the better off and not the poor. For decades, more than half of the population live in extreme poverty.

42. **Very high vulnerability:** The poverty incidence is much higher if the self-perception index is used. In 2015, an estimated 40.7% of the population (53,5% in rural and 23.9% in urban areas) rated itself as very poor, 43,8% as moderately poor or low-income (38.8% in rural and 50.4% in urban areas) and only 15,5% as non-poor (7.8% in rural and 50.4% in urban areas). Interesting is the high incidence of moderately poor in urban areas, pointing to large social deprivation and low living standards (especially due to their housing situation in the slums) and the problems of finding well-paid jobs. The World Bank conducted High-Frequency Phone surveys during COVID-19 times (2019-2022). They found that more than half of the households they interviewed experienced significant erosion of income due to price increases and lack of jobs; Furthermore, food security deteriorated and hunger increased from 36% to 39% in urban and from 33 to 53% in rural areas.²¹
43. **Poverty challenges differ in rural and urban areas:** In the cities, the incidence of poverty is much lower (25,8% for 2020) than in the villages (80,2%), and it is more related to unemployment, as well as bad housing conditions. In rural areas, poverty is due to low-income opportunities, and problems in accessing social services. [Figure 8 below](#) shows that poverty in rural areas is going up while in the cities it is coming down slightly. In 2015, poverty was particularly high in the Western provinces (82.2%), followed by Luapula (81.1%), Northern (79,7%), Eastern (70.0%), Muchinga (69,3%), North-western (66.4%), Southern (57,6%) and Central (56,2%), while the incidences on the Copperbelt (30.8%) and in Lusaka (20,2) were substantially lower. [Figure 7 above](#) shows the poverty increases in provinces, and. A new living standard survey will be conducted by the statistical office in cooperation with the World Bank in early 2023.
44. **COVID-19 and the implications of the Russian war on Ukraine and the disruption of global value chains due to the COVID strategy of China further increased poverty.** The latest (October 2022) Macro Poverty Outlook rising poverty between 2019 and 2022 (from 61.1% to 62,3% as per the international poverty line of \$2.15 in 2017 PPP) which will only slightly decline to 61,8%.

20 World Bank (Oct 2022): Macro Poverty Outlook

21 World Bank (Oct 2022): Zambia Poverty and Equity brief.

Figure 7: Post COVID poverty by geographical region

Post COVID poverty in Zambia and its geographical distribution

	Increase in poverty incidence by province based on 2011 PPP (2)				national poverty incidence (3)			population in 2015 in million people (4)	estimated poverty incidence (\$2.15) based on 2017 PPP (3)						
	2015-2019	average 2015-2019	2019-2020	average per year 2015-2020	2015	2019	2020		2015	2019	2020	2021	2022	2023	2024
Central	2,5%	0,50%	1,2%	0,28%	56,2			1,5							
Copper	0,2%	0,04%	1,9%	0,32%	30,8			2,4							
Eastern	3,0%	0,60%	1,0%	0,27%	70,0			1,8							
Luapula	1,8%	0,36%	0,8%	0,19%	81,1			1,1							
Lusaka	-0,8%	-0,16%	3,7%	0,59%	20,2			2,8							
Muchinga	1,3%	0,26%	0,9%	0,19%	69,3			0,9							
Northern	2,3%	0,46%	1,3%	0,29%	79,7			1,3							
North Western	2,8%	0,56%	1,2%	0,29%	66,4			0,8							
Southern	2,9%	0,58%	1,9%	0,41%	57,6			1,9							
Western	0,9%	0,18%	1,2%	0,23%	82,2			1,0							
Total Zambia	1,4%	0,28%	1,8%	0,35%	54,4%	55,8%	57,6%	15,5	61,4%	61,1%	62,5%	62,4	62,3	62,0	61,8
rural					76,5%	79,4%	80,2%								
urban					23,3%	22,8%	25,9%								
Total population					10,7				15,4	18,0	18,5		18,9		

Sources: (1) Various World Bank publications, including results of the telephone surveys during COVID time. (2) World Bank (Mar 2021): Poverty and Social Protection Response to COVID 19 in Zambia. (3) LCMS 2015. (4) Zambia Statistical Office

Figure 8: Rural and urban characteristics of poverty in Zambia

Incidence of poverty in Zambia

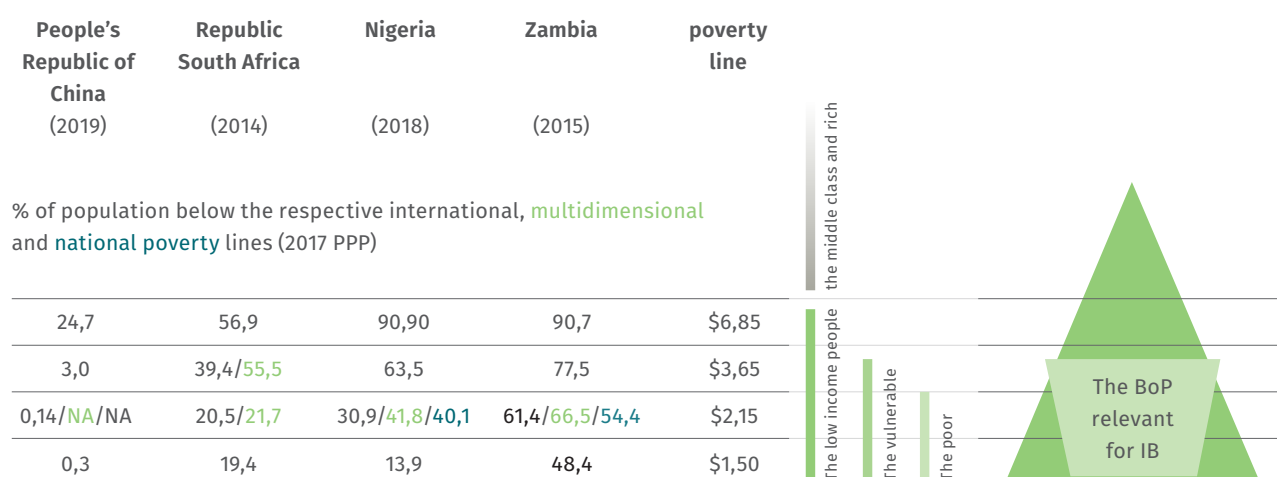
	2006	2010	2015	2019	2020	2021	2022	2023	2024
Poverty incidence as per national poverty line	62,8	60,5	54,4	55,8	57,6				
rural		77,9	76,5	79,4	80,2				
urban		27,5	23,3	22,8	25,8				
extreme poor	42,7	42,3	40,8						
moderately poor	20,1	18,2	13,6						
poverty incidence as per new international poverty line (in 2017 PPP)									
\$2,15 international poverty line (former \$1,9)		66,2	61,4	61,1	62,5	62,4	62,3	62,0	61,8
\$3,65 international lower middle-income poverty line (former \$3,2)		79,8	77,5	77,4	78,6	78,6	78,5	78,3	78,1
\$6,85 international upper middle-income poverty line (former \$5,5)		91,6	90,7	90,6	91,4	91,3	91,2	91,1	90,9
multidimensional poverty measure			66,5						
population (million people)	12,2	13,6	15,5	17,9	18,4	18,9			
rural	7,6	8,2	9,0	10,0	10,2	10,4			
urban	4,5	5,4	6,5	7,9	8,2	8,5			
number of poor people (million)	7,6	8,2	8,4	10,0	10,7				

sources: LCMS 2015; 8th National Development Plan; World Bank (Mar 2021): Poverty and Social Safety Net Response in Zambia to COVID 19; World Bank (Oct 2022): Macro Poverty Outlook; Ministry of Finance and National Planning: 8th National Development Plan

45. **The international poverty line:** In 2018 the World Bank introduced a dynamic poverty concept based on the socio-economic status of countries, measured by GDP per capita. The respective poverty thresholds were set at \$1.9, \$3.2 and \$5.5 per capita expenditure per day, based on the 2011 purchasing power parity. In September 2022, the World Bank then adjusted the purchasing power parity estimates from 2011 to 2017 standards, and consequently increased the international poverty lines for very poor countries from \$1.9 per capita to \$2.15, for lower middle-income countries from \$3.2 to \$3.65, and for upper middle-income countries from \$5.5 to \$6.85. The respective poverty headcount for Zambia is estimated at 62.3% (\$2.15), 78.5% (\$3.65) and 91.2% (\$6.85) and comparative numbers for other countries are in Figure 9 below. These calculations are based on the 2015 Living Standard and Consumption measurement Survey with forecasts for 2022. The World Bank is currently doing a new Living Standard Measurement survey and a poverty assessment, but data is not yet available. The government, in the 8NDP, refers to a poverty incidence of 54.4% in 2015 (down from 62.8% in 2006) with extreme poverty persistently high at 41-43%; it does not give targets for poverty reduction by 2026.

Figure 9: International, national and multidimensional poverty lines in comparison

The BoP – Countries have different poverty incidences; BoP focuses on the bottom 40-60%



Note: Poverty data are calculated from World Bank estimates in PIP update 8 Nov 2022 (purchasing power parity 2017)

46. **Multidimensional poverty:** The LCMS provided various indicators of deprivation in Zambia. For example, in 2015 estimated 30.4% of the country's households (and 48% of the bottom 40%) have at least 1 child not enrolled in school, 24.4% of the adults (and 55% of the bottom 40%) have not completed education, 34.4% have no access to drinking water, 60% have no access to at least limited standard sanitation, and 69.2% had no access to electricity. Income opportunities, food security, education²², health, water, sanitation, housing and financial services are key sectors with a huge market scope IB companies can engage in. In addition to the expenditure-focused (monetary) international poverty line, the World Bank also established a new multidimensional

22 An AFDB survey showed that despite the mantra of free education for all in 2020 more than one third of all primary schools and 92% of secondary schools rely on fees to finance their operations. Referred to in Chronic Poverty Advisory Network (June 2021): The Future of Zambia Poverty to 2060.

poverty line, where it calculated the level of income and social deprivation of households. The six indicators showing deprivation are weighted as follows: income spent 33,3%, child education 16,6%, adult education 16,6%, drinking water 11,1%, sanitation 16,6% and electricity 16,6%. In summary, in Zambia in 2015, 66.5% of people lived in multidimensional poverty and 61.4% in monetary poverty.²³ The World Bank is also using a relative poverty line defined as a household receiving 50% less than the average household income; the average household annual income in Zambia in 2019 was USD 311.00, down from \$350.00 in 2017.

- 47. The BoP thresholds: for the Zambia IB discussion:** International and national poverty lines are expenditure-based and focus on data from 2015 projected by using purchasing power parities of 2017. Such data is old, emphasize individual expenditures often in \$ a day terms, not monthly household income based, and difficult to understand for companies. They also do not distinguish between poor, very poor, and low-income clients of companies, with targeting the BoP in the value chain of an IB company being an important feature of the IB accreditation criteria. To arrive at meaningful thresholds for the poor, they cannot simply be multiplied by the current exchange rate. Based on experiences from other countries, separate thresholds were calculated specifically for the IB discussion considering monthly household income in national currency for different BoP groups. The thresholds were piloted with IB companies and found to be appropriate for the IB discussion. Basically, in Zambia, the BoP would comprise the bottom 60% of the population, the poor the bottom 40% and the extreme poor the bottom 20%. This is comparable to the \$3.65, \$2.15 and \$1.0 international poverty lines in purchasing power parity of 2017. In national currency, this study suggests the BoP threshold for low-income households in Zambia at ZMW 4,000, while the very poor are those below ZMW 800 and the poor those between ZMW 800 and ZMW 2,000.²⁴ See also Figure 10 below.

Figure 10: The BoP thresholds for the Zambia IB discussion

The BoP thresholds for the Zambia IB discussion

		very poor	the poor	the low income	the better-off
BoP income thresholds per household per month, ZMW					
country (urban + rural)		< 1000	< 2500	< 4500	> 4500
	in current USD	58	145	262	> 270
rural		< 800	<2000	<4000	> 4000
	in current USD	47	116	233	> 230
urban		<1500	< 3000	< 5000	> 5000
	in current USD	87	174	291	> 300

23 More information is given under a sub-page of the World Bank's Poverty and Inequality Platform (PIP) at <https://www.worldbank.org/en/topic/poverty/brief/multidimensional-poverty-measure>.

24 See also the forthcoming position paper on "Calculating the BoP thresholds for Inclusive Business" by Bauer et al, to be published.

48. **Government poverty reduction programmes prioritize cash transfers to the poor.** These programmes have been effective in protecting more people falling into poverty due to COVID-19 and the economic crisis. That is the reason why under the new IMF stabilization programme, the expenditure for cash transfers is more than doubled from 0.7% of GDP in 2020 to 1.6% by 2025, and the number of beneficiaries is increased from 0.7 million (6% of all households) to 0,994 million (by 2022) and their monthly benefits raised from ZMW 90.00 to ZMW 110.00 (\$6.4); also the provision of food packages is increased from currently 80,000 per year to 298,000 in 2022. However, cash transfer programmes are not designed to reduce income poverty and as non-economic programmes not affecting the income opportunities of the poor they are not sustainable to bring people out of poverty. Some countries have therefore complemented their cash transfer approach to poverty with programmes for income generation. Learning from history such new programs are more designed either as public work programmes or through integrating the poor into value chains of inclusive businesses, rather than as low-paying self-employment programmes where all investment risks remain with the poor.

2.6 MARKET OPPORTUNITIES FOR COMPANIES TRANSITIONING TO IB BUSINESS LINES

49. **Unmet needs are not yet market potential:** With high monetary and social poverty and low finance potential by the government, there are lots of relevant needs of the poor and low-income people than can be addressed by the private sector. However, given the high incidence of the extremely poor, the real market potential is substantially restricted by the low purchasing power. To make money in the markets of the poor without exploiting the Zambian people, the private sector needs to come up with highly relevant and affordable products, while at the same time offering good income opportunities.
50. **More IB solutions can be made:** The landscape study found a selection of companies with innovative, relevant, affordable and accessible business lines that address the social needs of the poor, such as in solar energy, transport services, education, nutrition, public sanitation, and trade. In particular, it found innovations to create income above the market line, especially in agribusiness and fintech. But there is much more potential both in those sectors as well as in sectors currently not yet explored such as housing, water, health, insurance, training and job placement, tourism, manufacturing and crafts, the circular economy, and even in mining. Some of those investment opportunities – especially in agribusiness, water and energy – could also be designed to achieve at the same time climate and environmental solutions alongside the impact on poor people. To unleash this potential, more awareness of relevant IB business models, business coaching for transforming mainstream companies into IB, and investment incentives are needed.

2.7 IMPLICATIONS FOR IBEEZ

51. **Currently, the private sector contributes little to poverty reduction.** Most investments do not create income opportunities for the poor above the market rate, the market potential for goods and services to the poor is not yet fully explored, and CSR is not upscaled and made sustainable to become relevant for systemic poverty reduction. Also, the impact investing industry needs to be more encouraged to target more investments in green and inclusive business. To date, the government does not yet have a focused strategy to deliberately encourage the private sector to be more relevant for the markets of the poor. Unleashing the potential of IB requires more awareness building, business coaching, more recognition for and knowledge exchange between companies doing IB, and a deliberate government and multi-stakeholder commitment to encourage IB through appropriate incentives. With a new emphasis on the Green Economy, Zambia can also well connect the green and the inclusive business agenda.

3. iB BUSINESS LINES IN ZAMBIA – FINDINGS FROM THE COMPANY ASSESSMENTS

3.1 FINDING AND RATING POTENTIAL iB COMPANIES

52.

Methodology for IB company selection: For the IB business assessment concrete criteria for longlisting, shortlisting and interviewing potential IB companies were used. For shortlisting available background information available from websites, literature, development partners and investors’ reports etc. were assessed. Shortlisted companies were then interviewed and the interview results were documented and vetted by the companies. At the end of each company interview, the companies were allowed a self-rating on some broad IB eligibility criteria. Thereafter, the interviewed companies were team-rated based on 32 weighted criteria and 90 sector- and company-size-specific benchmarks. A summary of the IB accreditation system is in [Appendix 1](#). The rating was done with a focus on the IB business line only (not always the whole company), but for some commercial (e.g. bankability) and governance-related questions, in addition, the performance of the total company was rated. The criteria comprised qualitative and particularly quantitative targets for strategic IB intent, adhering to ESG standards, commercial viability (revenue, growth, bankability, profitability, addressing business risks), social impact (in terms of reach, targeting, women empowerment, depth of impact, the systemic contribution of the impact for the BoP including gender impact) and innovation (business, technology, social, environmental). It was found that in most cases the companies’ self-rating and the experts’ rating were very consistent with each other, indicating a good understanding of the companies and high relevance of the criteria.
53.

As part of the landscape study, 18 IB companies were found. To arrive at a sizeable number, the consultant team looked at 217 potential IB companies and did further background research to shortlist 53 firms. Of this, 26 companies were interviewed. Many more companies were approached for interviewing, but some interviews could not be set up due to time constraints or problems in accessing the firms, or companies were not interested in participating in the study. Of the 26 interviewed companies 25 were rated. Of these 13 were found to be ready for IB accreditation and an additional 5 could be accredited as potential IB.²⁵ We assume that much more IB companies would either already exist in Zambia or would like to transform into IB; hence the need for IB advocacy and awareness, as well as IB business coaching. [Figure 11](#) below gives an overview of the companies assessed in different stages.

Figure 11: Number of companies assessed

Number of companies					
longlisted	shortlisted	interviewed	rated	found IB ready	
				real IB	potential IB
217	53	26	25	13	5

25

54. 18 IB companies were found so far in the first round of assessment: The 3.2 IB Company Types

3.2 CHARACTERISTICS OF THE IB FIRMS IN ZAMBIA

55. IB is in all sectors, among all company sizes, and has a strong social and economic impact. Of those 18 IB companies,

- By company size, 7 IB business lines were undertaken by small firms. 8 by medium-sized firms and 3 by larger firms.²⁶
- By sector, 7 companies were in agrobusinesses, 2 in trade, 1 in sanitation, 1 in nutrition cum agrobusiness, 1 in education, 2 in transport, 3 in off-grid energy, and 1 in fintech.
- By route to impact, 8 companies had models that create sizeable income for the BoP above the market rate and 10 addressed the living standards of the poor. Two companies are doing both.
- By BoP engagement mode, 13 business lines engage the BoP as consumers of goods and services, 6 as suppliers, and 3 have mixed models. There are no distributor, retailer, labourer or shareholder models.
- By IB approach, 13 companies were IB models (medium or large companies with large social impact) and 5 SE initiatives (smaller companies with smaller social impact transforming from social enterprises into IB). The study sought out for CSR that could be made into core IB activity, and various mines were interviewed; however it found little interest in transforming CSR into IB activity. It seems that mines would rather continue their traditional small-scale CSR, than make this part of their core business and scale up the social impact and commercial viability. This is related to both misunderstanding on (a) the side of the companies' managements on what social responsibility needs to comprise to be sustainable and achieve systemic impact for the BoP, and (b) the preferences of the CSR management for grant-driven work rather than sustainable and scaled up business related activities than can become core-business lines of the mother company.
- By social impact on people, the 18 companies achieved a total consolidated social reach of 896,000 households (more than 3 million poor and low-income people).²⁷ Systemic poverty reduction is more than reach; it is a combination of the number of BoP people reached, the direct social impact on their income or living standards improvement, and the systemic contribution to poverty such investments are achieving. While one can compare the social impact of individual companies, it is difficult to aggregate such beyond reach. Note that the analysis in this study does not give a comprehensive picture of the social impact of potential IB companies in Zambia; it is rather a glimpse of the potential IB market. However, imagine if today only 8 companies can provide income opportunities above the market rate to 180,000 poor and low-income households, and 10 companies can provide relevant and affordable goods and services to 2.2 million people, how much more can be achieved by transforming more companies into IB.

26 Company size benchmarks were set by revenue only, with \$0.05-\$0.3 as small (less than 5 million ZMW), \$0.3-\$1.2 as medium (less than ZMW 20 million) and >1.2 as large firm.

27 Note however that while the reach of companies can be aggregated, the impact is sometimes different to compare (e.g. toilet use versus income opportunities of farmers); also further analysis will need be done in the report to distinguish impact on households and on people. Only reach impact for the BoP is counted as it is more difficult to aggregate social depth between sectors.

- **By economic impact:** The 18 companies achieved in 2021 a total consolidated revenue of ZMW 607 million (ca \$45 million). The average size of the 18 businesses is about ZMW 34 million (more than \$2 million), so IB these are small companies or social enterprises. All IB companies have good growth and profitability perspectives. The realistic growth through 2025 of many IB business models is substantial; some companies would double or even triple their revenues. Most of them are bankable and some are interested in approaching new equity or debt investors. As IB companies are typically formal, achieve good profits, and have good corporate governance structures, all this revenue (and profit) is taxable income for the government.
- **Green business:** 10 of the 18 companies (56%) could be classified as IB and Green Business (GB). Of this, 6 had deliberate design features to create a positive impact not only on poor people but also on climate and 4 on the environment. There are some very interesting examples, like an agrobusiness planting fruit trees to enhance honey quality and business productivity and create additional income sources for the poor, or a company selling drought-resistant seeds.
- **The study also found that women empowerment impact** goes beyond women's ownership of a company. Only 1 of the 18 IB companies was women-led, but 5 had direct women empowerment impact. Women ownership of companies does not guarantee that the company management also pursues women empowerment for the people in the value chain of the company. 2 of the 18 companies in the sample have deliberate women empowerment features in their business lines, and an additional 5 have a more indirect trickle-down impact. Women empowerment is not a feature for mainstreaming in all companies, and gender equality beyond equality-related safeguards (equal pay for women and men etc) is not a strategic objective achievable by private sector engagements.

56. Comparing IB with mainstream business: If the IB business lines are compared with companies that do not qualify as IB, the latter's social reach is much lower and the depth of social impact too. Also, company sizes are typically smaller and commercial viability is also. The average IB rating of the IB business lines is 3.54, substantially higher than the non-IB companies with 2,36.

57. Some very good IB examples: There are outstanding and highly innovative business models in Zambia which are giving examples worldwide in the IB discussion. A summary of these IB companies is in Appendix 4. In case the government wishes to formally accredit and then award these companies and needs further information, such information and the proposed detailed rating can be provided. A summary of each company (with the firms' consent) can be found in Appendix 3 of this report. Here are a few examples of very interesting IB business cases from Zambia:

- Buffalo Bicycles supplies high-quality bicycles to the rural poor and low incomes mainly for productive transport means. The company compensates the expensive bicycles through innovative payment features making them affordable to the poor, delivering them to the poor and low-income, and guaranteeing service and repair parts.
- Dytech is a honey company which planted fruit trees so that the honey production is of higher quality, farmers have additional income opportunities as the company is processing and marketing the fruits into fruit juices, and the environment is improved by new tree plantations.
- Good Nature Agro produces high-quality seeds that are drought resistant and guarantee its farmers high income and access to finance.
- Kukula Agro Finance, a fintech company providing agro-input financing and cash against flexible commodities repayment

- Kukula Solar provides innovative pay-as-you-go financing for solar systems esp. for productive use (e.g. solar pumps)
- Medeem is a company creating land rights for the poor in communal land, thereby substantially enhancing the productive use of land.
- Mwabu is a company addressing the severe shortage of schoolbooks by having designed affordable and specific tablet-based learning materials typically used by 12 children of different families in rural areas.
- Onyx is an e-trading company selling only proofed and relevant products for the poor, addressing affordability, and accessibility.
- Seba Foods is a large agribusiness focusing on nutrition products replacing expensive meat consumed by the poor. The company has a large reach both in its soya sourcing as well as in its food sale.
- While these are just a few examples of highly innovative IB business lines in Zambia, other companies (such as AB Bikes, COMACO, Nature's Nectar, PremierCon, Vyazala, WiDEnergy, Wuchi Wami) also do very good things for the BoP, while doing good for themselves (and the economy).

58. Much more IB likely. This landscape study is not a complete market overview; it only provides examples having scoped initially the IB market. Many more companies may be there or could be encouraged to transform into IB business lines: The study suggests that IB assessments should go on starting in 2023. It is expected that with more awareness about IB in Zambia, with the establishment of a deliberate policy for promoting such companies, and with incentive programs being set up, more IB companies will emerge. A formal IB accreditation systems will help encouraging openness to transform more companies into IB.

3.3 SECTOR ASSESSMENT

3.3.1 IB in Agribusiness

59. Agrobusiness is a key IB sector. IB in Agribusiness are companies that directly source from BoP farmers (i.e. not through traders) or sell to them input products such as seeds, or to other consumers nutritious foods. To qualify as IB, agrobusinesses need to provide income opportunities above the market rate (as the market rate for the poor is the poverty line and paying only the market rate would give them jobs that would remain the poor in poverty). Income above the market rate is typically achieved by higher productivity and value addition which is then passed on to the farmers through increased prices, more yield, and reduced investment risks. Most IB agrobusiness are engaging the poor as suppliers, but some also engage them as consumers (e.g. seed companies or companies with apps for farmers). As the route to impact for IB in agrobusiness is through income increase – no matter whether they engage the BoP as supplier or consumer, in the end it is important to analyze whether farmers can generate income above the market rate (say at least 10% more). To achieve this IB companies – also in agrobusiness – are typically highly productive and commercially very viable thereby contributing to economic growth and making this more inclusive by passing on the benefits of growth to the farmers.

60. Agrobusiness form nearly half of the IB cases: In the initial longlist list of potential IB companies about 40% of all companies were agribusinesses. At the end, 10 of the 25 interviewed firms and 8 of the 18 IB ready companies were agrobusinesses. From those 8 agrobusinesses for accreditation. 3 companies were small, 2 medium and 3 large. 6 firms qualifies as IB models and 2 as IB initiative; there was no IB activity. 7 companies

emphasized income generation for the BoP and 1 improving the living standards (nutrition) as their main objective. 5 firms engaged the poor as suppliers, 1 as consumers, and 2 bought from the BoP and sold to them. The average IB scoping was 3.56, slightly higher than the average of all 18 proposed firms for accreditation. Interestingly 6 of the 8 IB agribusiness in this study (75%) achieved direct climate and environmental impact, of which 3 addressed climate issues and 3 environmental issues; this is a relatively high number. Only 4 companies (50%) had deliberate features for women empowerment and when looking at the companies concrete business model there is scope for improvement. The 8 agribusiness firms created in 2021 a revenue of ZMW 263 million (or \$28,9 million, \$3.6 on average), but the projected growth for some of the firms through 2025 is substantial. Together the 8 agrobusinesses benefitted BoP 52,000 households.

61. **There are some outstanding examples** among the 8 IB accredited agribusiness, such as Dytech (a medium sized honey company planting fruit trees to enhance productivity and diversify the farmers income), or Seba Food (a soya company engaging in comprehensive farming in their sourcing and at the same time selling affordable nutritious food to farmers and other customers), or Good Nature Agro a seed company emphasizing climate resistant new varieties and engaging particularly women in the seed production.

3.3.2 IB in Manufacturing, Crafts, and Mining

62. **No IB in mining so far, but traditional CSR:** Mining contributes the major share (73% in 2021) in export earnings and foreign direct investment (\$3.3 billion), but its share in GDP is still relatively small (14,8%). The sector is characterized by and dominated by 18 large mines and a large number of informal artisans and small miners. Overall the sector is not very diversified, has low productivity and value addition, and contributes little to employment. For the government, the sector remains important due to its foreign exchange earning (in 2021 this was \$8,3 billion) capacity and hence the 8NDP foresees an 85% increase in the copper output from 0.87 million metric tons in 2020 to 1.5 million in 2026.²⁸ The landscape study assessed two mining companies on their CSR work. It was found that there was little interest so far in transforming traditional CSR (grant-based, non-sustainable, small impact in reach) toward IB activities serving as pilots for core-business lines of companies. This is even though both mining companies maintained CSR that is scalable to IB activities, such as a CSR activity with women in the precious stone making which could be scaled up into a core business line (albeit small) of the mining company, or a livelihood CSR which could be scaled up in cooperation with an agrobusiness company. But there was little interest so far in the management of the CSR team to transform a commercially viable core business. In both examples, further awareness raising, encouragement including from the government and the CSR Network, focused IB business coaching as well as closer links to the commercial management of the company may trigger a change. In another case an IB company in agrobusiness is selling its produce (cassava starch) to a large mining company; here the company could not engage in deeper value-addition activities, because the mine developed a starch processing facility by itself.
63. **IB in crafts:** There are some small companies and social enterprises in Zambia producing handicraft products, especially for tourists. Many of those projects are run more on an NGO-driven social enterprise approach, some also qualify as mainstream business, given their low contribution to enhance the poor's earning in a systematic way. There are some opportunities to support those small social enterprises transforming into larger IB initiatives. IB specific business coaching can help doing so. However, given the actual small tourism industry (despite of the natural beauty of the country), overall, the IB opportunities in the craft sector remain limited.

64. **IB in manufacturing is very limited also.** Zambia has a very shallow production capacity and most value-added products and technologies are imported. Given the small market, the low technology base, the limited technical skills of workers and the weak entrepreneurial culture, there is not much comparative advantages at this stage in Zambia's manufacturing sector. In addition, IB business lines in manufacturing will typically engage the poor as labourers in the companies, without creating larger value backward or forward linkages. Moreover, given the low technical training capacity in Zambia, workers may be engaged by the companies on a low productive and low pay model. However, it may be worthwhile in preparation of finding more companies for the proposed IB accreditation to look deeper into possible IB models in manufacturing, crafts and tourism.

3.3.3 IB in Municipal Services

65. **Providing municipal services to all its people is among the core tasks of local government.** It represents a tangible and direct link of the municipality administration with the citizens. Access to these services and the quality of their provision strongly influence the social, economic, and environmental performance of a city as well as urban development. These services are provided either by the municipality or by an external agent on behalf of the municipality in terms of a service delivery agreement. In major cities and towns in Zambia, delivery of these services is highly compromised due to the inadequate capacities of the municipalities. With the ever-growing urban populations, many municipalities have continued to lack the capacity to provide water and sanitation services, and solid waste management among others. For example, the 2015 household Living Conditions Measurement Survey found that only 47.4% of households in urban areas had detached houses, 27% lacked improved toilets (in rural areas even 86%), and in rural areas 45% lacked safe drinking water facilities. Similarly in urban areas still 66% used firewood and charcoal for cooking (in rural areas even 98%), and 32% had no access to grid-based electricity (in rural areas even 96%) and the provision of cooking and lighting energy.
66. **Service providers play an increasing role:** To address capacity challenges, municipalities subcontract the private sector to provide various services on their behalf while levying user fees on the citizens. However, due to the low and inefficient services coverage, the potential for private sector engagement in municipal services, especially in urban and semi-urban areas, is large, there are not many companies yet. We were particularly surprised not to find more companies offering low-cost housing and water solutions for the BoP. There is a huge market opportunity but to catch this as a business, the private sector needs to come up with more innovative, cost-effective, and area-targeted business solutions. In addition, the public sector (municipalities) needs to enhance their willingness to outsource such services to the private sector, and show a stronger commitment to procuring such services through IB business companies.
67. **Providing public toilets and washing facilities for municipal markets:** One such area that has been outsourced in Lusaka and Solwezi is the provision and management of water and sanitation facilities in urban low-income/high-traffic areas like markets in the cities. During the study, one company in the sector was identified, interviewed, and assessed as an IB model. This company provides/offers to the public clean toilets and showers, portable water for various uses in the markets, convenience shops within the facilities supplying sanitation-related hygiene products (toilet cleaners and sanitary towels) as well as handwashing and sanitation stations. The company engages the low-income (BoP) people as consumers, servicing over 1,350 daily toilet visits by marketers, traders and the public visiting the markets and/or urban low-income places. The route to impact for this company is improving living standards for low-income people, who in some cases come from households with no water-borne toilet facilities. At scale within a few years, the company expects to improve their profitability with a wider reach in impact.

3.3.4. IB in Social Services

68. **Education is officially free, but its access and quality is compromised:** The Zambian education system has a 7-5-4 structure, namely 7 years at primary, 2 and 3 years at junior and higher secondary respectively (including technical training), and 4 years at university for undergraduate studies. While Zambia has achieved near universal primary school completion, for children in the early years, the coverage of care, learning and education services remains persistently low. Many pupils, especially girls, remain disadvantaged, with some dropping out and poorer levels of transition to junior and secondary levels. The World Bank's Poverty and Equity Brief (Oct 2022) and the LCMS 2015 show that in 2015 about 30% of the households had at least one school-aged child not enrolled in school, school attendance in secondary school in rural areas is only 32% and 60% for urban areas. The same survey shows that in urban areas 33% of all households prefer private schools because of the low quality of public schools. This is to some extent attributed to the challenges faced by teachers especially in rural areas, among them a lack of adequate and relevant up-to-date teaching materials/tools and resources.
69. **Technical training and job placement of the youth is not yet much explored by the private sector:** While the private sector is in the education market – mostly for the better off, very few companies engage in education solutions for the BoP. Engaging from the private sector side in basic education is a challenge when the government is expanding its provision of schools and teachers also to the poor areas. However, there is much more scope in technical training and job placement for the youth, a sector not yet much explored in Zambia. Another area for the private sector to engage in education for the poor is by using industry 4.0 innovations.
70. **Using digital technology to broaden access:** In supplementing government efforts to improve the quality of basic education, especially at the primary level, private sector entities are coming up with innovative ideas that help improve educational outcomes by using appropriate technology to support teachers and make available necessary resources and study materials to the learners. This technology is suitable even for untrained teachers and for large class sizes and/or low resources and it can be used even in the most challenging of rural areas. One company in the sector that was interviewed and assessed has an IB model that helps poor children in accessing schoolbooks digitally when such books are not available in print or are too expensive to buy. At the time of its inception, the company was amongst the first developers and deployers of educational content on tablet devices. The company engages the BoP as consumers reaching tens of thousands of teachers and hundreds of thousands of learners, mostly in rural public schools. Their route to impact is improving living standards evidenced by improved literacy skills, numeracy skills, reduced dropout rates and/or improved progression rates. The company has ambitious growth plans by 2025.
71. **Scope for e-health solutions:** The study did not find IB companies in the health sector. There is a big challenge for private companies to reduce health costs while maintaining quality; typical solutions to this challenge are no fringe - large scale - low-cost solutions – cross-subsidization model. For example, an eye hospital chain in India is doing a million cataract surgeries a year at \$6 a patient, while the market price is \$230, and the company is doing so on a commercially viable business model. The business model was recently also installed in Mexico and is also successively active in Nigeria. Most probably, health IB solutions would focus on insurance (see above), or on e-health (to reach out to the largely rural countryside). In Myanmar for example, an e-health company not only provide advice through accredited doctors free of charge for poor people but also arranged with the Ministry of Health they allow for prescribing certain essential medicine which the Ministry of Health then paid directly to the pharmacy the online prescription was issued to. Business coaching and business-to-business linkages can help companies learn from others and come up with appropriate solutions. Zambia can provide a good market for IB innovations.

3.3.5 IB in FinTech and Insurance

72. **Many microfinance institutions provide financing to the very poor, mostly in the informal sector.** While the central bank has registered 37 microfinance institutions²⁹, microfinance as capital for developing the country has not yet taken off in Zambia, albeit it has transformed some impoverished communities, especially in the rural areas. Most microfinance institutions use the group lending approach (initially piloted by Grameen bank in Bangladesh) to reduce their investment risks. But lending to the poor – mostly engaged in short-term trading activities rather than producers – is not enough to qualify them as IB, as the final costs, easy availability, appropriateness of the financial product and use of the services by the BoP matters matter for IB eligibility. The study did not have sufficient time to look at the products of the microfinance but it can be assumed that depending on their financial products relevant to the BoP as well as their lending to SMEs, some of the MFI would also qualify as IB.
73. **Commodity financing for IB companies:** However one of the companies in the study is a financial institution that goes much beyond micro-finance or traditional SME financing, proving as a financial institution's credit to farmers in exchange for selling their products at times when prices are high, thereby reducing farmers' marketing risk, reducing their storage costs, wave their exposure of enforced encashment of harvest for paying back debts at low prices and even advice farmers on proper agro inputs. In a way, it is a finance company acting like an IB agribusiness but without creating value addition through the production of a new good. In a cash-scarce economy with long-term financing needs for agricultural inputs, the financial products of the company are very relevant not only for farmers but also for small aggregators and even for small agrobusinesses in the value chains of larger firms.
74. **Insurance for the poor is still underdeveloped:** Pro-poor private sector innovations for catastrophic health issues of the poor will not develop without a functioning insurance industry. Most insurance companies focus on car, property and life insurance and some have health insurance for the better off.³⁰ Affordable health insurance for the poor at prices of perhaps \$10 a year per person with limited but useful coverage for hospitalization, eventually with medicine, is so far not available in Zambia. Particularly health insurance and to some extent also asset and crop insurance, is a very relevant financing product to reduce the risk of BoP. The insurance market for the poor in Zambia is still highly underdeveloped. This is not due to the limited market size (small countries like Cambodia with less population have a much more elaborate insurance market), but perhaps more because of challenges on the private sector side to come up with appropriate business models. However, there is a big market potential for insurance companies to reach out to the markets of the poor.

3.3.6 IB in Transport and Energy

75. **Major transport challenges call for climate-smart solutions:** Only 17 per cent of Zambia's rural population lives within 2 km of a proper paved road with nearly 7.5 million rural residents remaining unconnected to the country's existing road network. There is little infrastructure if any outside of main cities and towns, and travel and transportation are a huge challenge, particularly in rural areas. Mobility options for people,

29 The 37 registered financial institutions is in addition to 17 registered banks, 7 leasing agencies, 74 money changers, 7 liquidated institution and 1 development finance institution – all registered under the Central Bank, as well as the 33 authorized capital market players and funds registered under the Security Exchange Commission. See: <https://www.boz.zm/registered-non-bank-financial-institutions.htm>.

30 Large insurance companies in Zambia serving this market include firms like ZSIC General Insurance, Madison General Insurance, Sanlam Life Insurance, A Plus General Insurance, Prudential Life Assurance, Mayfair Insurance, Swan Insurance, Advantage Insurance.

goods and services are limited. The negative social effects of these poor services are far-reaching especially as they impact marginalized women, poor rural farmers and girls attending school. Improving access and mobility includes not only developing appropriate, affordable transport infrastructure and services but also overcoming the social, economic, political, and physical constraints that women, men and children face. Waiting for the time when Zambian people become rich enough to buy fuel-based transport vehicles is perhaps not the solution to the current problems. However, offering steady transport vehicles which do not have fuel costs (such as bicycles) and can transport goods to markets or bring people to their work, have a large impact on the income of the rural poor.

76. **Design transport vehicles that reduce the poor's risks:** The study revealed two companies with innovative business models targeting the specific needs of the poor. While there are many motorcycle and bicycle companies in the Zambian markets, these two stand out in the deliberate design of their business model to bring a solution to the poor. Both companies do not only provide the bicycle or motorcycle through installment payment (typically 24-36 months) and thus ensure affordability, but they also offer specifically designed transport vehicles suitable for the rough roads in rural areas, with large carrying capacity, guarantee parts and repair and deliver the bicycles and motorcycles to the endpoint which saves large costs for the poor. The bicycle company also has developed specific sidecars for transporting sick people and pregnant women to health centres. The bicycles are used by teachers (mainly women) to get to their work, by women and men to bring produce to the market and by parents to ride their and neighbours' children to school. These uses show a direct impact on income increase, school attendance, and child or mother health, and they have direct women empowerment and gender equality impact. The companies demonstrated far-reaching social impact as they provided transportation and mobility solutions to poor and low-income people, especially in rural areas. Both companies showed good growth potential by 2025.
77. **The scope to invest in off-grid electrical lighting is being used by the private sector, but cooking energy is still missing.** As per the 2015 living standard survey, 46% of the population (71% in rural areas) use torch lights 11% candles and 1% kerosine for lighting, while only 31% have electricity connections. Cooking energy is even more traditional, with 51% of the national households (85% in rural areas) using firewood and 33% charcoal (59% in the cities). Innovative businesses have come up with solutions to close this gap by providing and improving access to renewable and affordable off-grid lighting energy, particularly in rural areas. While Zambia has some solar home companies, solutions for improved cooking stoves are much fewer.
78. **Affordable business models through pay as you go and good service models give IB companies the comparative advantages:** While all household energy companies enhance the living standards of the poor and low-income people, some companies also address income opportunities by offering solar irrigation pumps and solar egg incubators. IB companies operating in this space engage the poor and low-income people as consumers. Some companies with direct distributor models find challenges in providing enough income opportunities, especially for the women when they are not also trained as mechanics. Successful IB companies always make their products affordable through the pay-as-you-go (PAYG) leasing or rent-to-own (RTO) model, where the poor and low-income people make a small regular payment towards the final purchase price of the products. In our study we looked at 6 energy companies, finally interviewed 3 and rated them as IB models or initiatives having met the minimum benchmark thresholds. They all have high impact, great innovations and show good growth/scale-up potential by 2025.

3.3.7 IB in Trade, Tourism, and other Services

79. **Traders sell to the poor and so engage the poor as consumers (or source from them), but very few would as IB business lines.** the key criteria that distinguish IB from a mainstream business are selling only relevant products at affordable (not necessarily cheap) prices, bringing the goods to the areas of BoP use, reducing distribution costs which are on-charged to the poor's final buying price, and providing maintenance for the products and guaranteeing that products purchased can also be used properly. In our study, we rated one innovative e-commerce company as IB because it fulfils all the above-mentioned criteria. The company currently sells solar products for productive use as well as high-quality bicycles to the BoP, ordered through an app, delivered in bulk to accessible distribution points (e.g., through cooperatives) and making prices affordable through staggered payment systems. The sales model of this e-commerce company and especially its strong focus on only selling quality products that are relevant for the poor (and thereby reducing the consumption risks of the poor) form a very interesting approach. This company could also be a very good conduit for the sale of new products from IB firms. With an eyeglasses company a discussion was started to change their distribution model by engaging with the e-commerce company and so make the company more commercially viable by substantially expanding the social reach.
80. **Little IB scope in tourism:** Tourism is a core sector in the development planning of the country. IB models in tourism would engage the poor as suppliers (and not as consumers, as the poor cannot afford tourism). As most tourism companies make business by reducing input costs, they do not contribute to visible income increases for their suppliers. An IB focused tourism business would need to emphasize high-paying customers and large and well-paid value chains (food suppliers, tourism guides, etc.); the little impact would be achieved through direct employment models, which can be found only in 5 star-tourism establishments but are there mostly on low pay for the BoP basis.
81. **IB for government services:** A very interesting business model was developed by a company helping the BoP with registering land rights in communal lands. While there are a few such land rights companies, only one was found to offer services with high relevance for the poor due to its very high degree of enforceability, the affordable price structure, and the highly participatory and result oriented decision-making process. In other countries governance-related services for the BoP include legal services to work through the bureaucracy and business and private conflict resolution mechanisms, and accounting services for mom and pop shops, to give a few examples. We can see innovations around such services also being an interesting case for IB; the challenge however is to ensure the scale of such IB consumer models that engage the poor in buying advice.

3.4 IMPLiCATIONS FOR POLiCY SUPPORT FROM THE PRiVATE SECTOR PERSPECTiVE

82. **There are IBs in Zambia and more can be made.** The study shows that there are good IB models in Zambia, many business owners embrace the IB concept even if they do not yet know how to make good IB business models, and many more may come up if either properly assessed or encouraged to make the transition from mainstream business social enterprise or tradition corporate social responsibility to an IB model, initiative, or activity. The study assumes that with an IB programme being established the number of IB companies can be quadrupled (at least) in the coming 4 years. Also, the impact on poor people (through social reach and social depth) and the economy (through revenue and growth as well as tax payment of the companies) would be substantially increased. The key to such success is however not to focus on micro-enterprises or new companies but to encourage the transformation of existing mainstream businesses into inclusive businesses.

- 83. The market potential is large but needs specific product lines:** Given the large incidence of poverty and vulnerability in Zambia, the low capacity of the public sector to deliver services to the poor, also given the high innovation capacity of dynamic entrepreneurs in Zambia and their strong wish to do good while doing well, there is a big market potential for IB. The market potential is somewhat restricted by the low purchasing power of the poor, suggesting that income models engaging the poor as suppliers (like in agribusiness) may have much more potential than goods and service models engaging the poor as consumers. And when goods and services are provided, it is smart when companies address actual income problems (for example by providing bicycles that carry products to markets, or by providing climate-smart inputs for farming, or by providing nutrition products the production of which are sourced from the poor and smallholder farmers. While most of the IB companies are currently in agrobusiness, other BoP markets are not yet explored, especially in training and job placement, insurance and health, fintech, housing, waste management and circular economy, and also in tourism focusing on tourists from abroad. Other sectors such as IB solutions for basic education, nutrition, water and sanitation, trade, and handicrafts may remain a niche for IB investments given the low population in Zambia and the low purchasing power of the middle class.
- 84. Financing is not the main impediment and needs to be unleashed:** The analysis also shows that while financing schemes for IB are important to create more such IB enterprise, the key entry would be IB-focused business coaching and recognition. Recognition and visibility would be encouraged by establishing a formal IB accreditation system and widely advocating going IB. Within the finance industry not the additional provision of capital through funds or SME schemes is the key blockage, but the lack of innovative business models and the risk perception of the investors.
- 85. More and better IB is also possible with smart incentives.** Incentives on the value added and import tax (not on the corporate tax) stand out as key recommendations from companies and business associations. To design them smartly, they need to be (a) targeted to accredited IB companies only, (b) designed to encourage new investments by using the tax savings for IB expansion, and (c) be targeted to companies that would increase the corporate tax base and thus off-set or even broaden the government finance burden for such companies.
- 86. Mainstreaming IB is not the right approach but targeting IB under existing programmes can be:** While conducting the study many companies came forward claiming that they are IB. However more analysis showed that many of them lacked commercial viability, were often not designed for creating relevant impact for the BoP or assumed impact through trickle-down logic that does not hold truth nor results at the end. Hence the need to do clear accreditation and recognition. Even development partners that claim to promote IB often supported companies that under a more stringent analysis would not qualify as IB. The study, therefore, recommends not to mainstream IB but to leave the approach as a separate instrument for encouraging the private sector to do well and do good at the same time. A way forward would be however to assess existing programs on their possibility to be implemented by potential IB and then set targets in those programs for IB. If proper IB accreditation would be done, such targets would help encourage more companies to make the transition to IB.

4. THE ENABLING ENVIRONMENT FOR IB

87. **IB needs a better enabling environment:** While Inclusive Businesses are private sector companies, the business returns of such companies ensure the sustainability of such firms. However, the number of investments is still relatively small, and further IB investments may be restricted if no specific environment is created to enable more companies to go the IB route. This chapter assesses the stakeholders and policies that can contribute to a more conducive enabling environment for IB in Zambia.

4.1 THE STRATEGIC COMMITMENT FOR IB IN THE 8TH NATIONAL DEVELOPMENT PLAN, THE SME POLICY AND THE GREEN BUSINESS STRATEGY

88. **The role of the private sector in delivering income and goods and services for the BoP is not sufficiently emphasized:** The study assessed key government policies for economic development and poverty reduction. It found that the role of the private sector in delivering solutions for the poor and low-income people is not sufficiently emphasized, neither in the new 8NDP, in the industrial strategy, nor the draft SME policy, nor the poverty reduction programs of the country. While there is a reference to the private sector, it is seen more as a financier for infrastructure projects under public-private partnership arrangements, or as a generator of rather formal employment. Also, the contribution of the private sector is more assumed with an understanding that the private sector will generate growth that then trickles down to the poor. A direct linkage is not established, and an in-depth analysis of the private sector's potential to create well-paid income opportunities (as against formal jobs) in the value chains of companies is missing. Also, the role of the private sector in delivering relevant, affordable and accessible goods and services for the poor and low-income people is not analysed in detail.

89. **IB can contribute to SME development** While the new SME policy was not yet out by the closing of this report, the following recommendations were made in discussions with MSMED and through written up inputs to the new strategy. These recommendations were strongly supported by development partners and business associations:

(a) The strategic objectives of the new SME policy may emphasize the importance of purposeful (inclusive and green) businesses to create development results for the poor and the planet.

(b) The SME definition could align more with recent international state-of-the-art discussions, including

- ✓ (i) focus on revenue (rather than employment or assets),
- ✓ (ii) broaden the ceilings for the company sizes,
- ✓ (iii) emphasize innovation and dynamic growth orientation of the SME sector,
- ✓ (iv) caution the role of the micro-enterprise sector both from a financial sustainability perspective as well as from a systemic social impact view, and
- ✓ (v) suggest strategic policy recommendations to target dynamic and purposeful SMEs only, rather than companies by size or sector.

(c) The document may follow a result-oriented outline for SMEs in general and GB and IB in particular creating development results for poor and low-income people and the planet (through climate change and environmental impact) at the same time.

It was also suggested to include in the new policy a deliberate discussion on the need to upgrade productivity of SMEs, as only productive SMEs would be able to pay better than the market rate. Many SMEs also need to import machinery and pre-products for securing commercially viable and competitive goods and incentives need to be given to IB in particular to reduce costs for import taxes and levies.

- 90. Local content strategy less relevant for the IB discussion:** The MSMED and business associations (especially ZAM) are currently finalizing the new local content strategy. The Ministry suggested that local content focus could be a natural link for the IB discussion. Confirming that many IB have their base in the local economy, specifically use local inputs and are highly innovative in substituting costly external inputs, and all IB adhere to environmental and social safeguard practices and good governance principles, it needs to be considered that in the Zambian economy many SMEs also need to import high-quality and well-priced machinery and pre-products for securing value addition through commercially viable and competitive goods and services. Furthermore, most IB companies serve the local markets or directly source from there. The issue is therefore not to push companies to use local materials or technologies when they are not competitive, but to encourage companies to create value addition for Zambian people, especially the poor. To work in the markets of the poor without exploitation and with high commercial viability, such companies need to create value addition and be highly innovative. A local content strategy may investigate programmes how to ensure such results for the poor, rather than emphasizing nationality of business ownership only.
- 91. The role of the private sector in systemically changing poverty is barely emphasized.** Poverty reduction programmes in Zambia emphasize social protection tools (e.g. through cash transfers), self-employment of the poor encouraged through microfinance and grants, and trickle down the assumption that growth will trickle down to the poor. However, the current programs do not comprise innovative suggestions to either (a) stimulate the private sector to provide affordable, relevant and well-accessible goods and services for the poor, or (b) to set up IB business lines that integrate a large number of poor in companies' value chains in a way that people can earn substantially more than the market rate,³¹ more than before, more than without such IB companies, and more than working or mainstream companies. The study found very good examples of companies doing this already, but they are not part of the poverty reduction or food security programs. For more successful poverty reduction (and eventually also less budget spending for safety net programs) leveraging the contribution of Inclusive Businesses would be very helpful. For example, a certain percentage of self-employment funding could be allocated for companies engaging the poor in the value chains and paying well.³²
- 92. Budget targeting for IB:** One of the recommendations of our study is that development programmes financed by the government, development partners and NGOs may wish

31 The market rate for the poor is the poverty line. Companies that pay market rates employ the poor but keep them poor. However, for creating income opportunities more than the prevailing market rate, companies must be very productive and highly innovative. Most mainstream companies do not innovate in the markets of the poor, but IB companies do and reduce the poor risks alongside the firms own business risk (doing well while doing good).

32 Similar discussions to emphasize IB as a poverty reduction program and reduce social assistance spending was also in other countries like Pakistan. For example, in 2018 a new poverty reduction and social protections strategy was drafted de-emphasizing unconditional cash transfers and self-employment programs in favour of IB, public works and conditional cash transfers. However, due to the political economy of cash transfer as vote catching programs and due to changes in the government, they were not implemented.

to go through their programmes and see where IB companies could deliver better and more to the poor. Such type of budget targeting to IB was done in other countries. While integrating IB in ongoing programmes is important, a dedicated IB support initiative with special funding for technical assistance work (ca. \$2-3 million over 4 years) and for investments (maybe \$20 million over a 5 year investment period) would however be most effective.

93. **Promoting IB and the Green Economy together.** Zambia established a new ministry for Green Economy and the Environment (MGEE). The Ministry acknowledges the need for collaboration to create a better enabling environment for a more Inclusive and Green economy with private sector engagement. The Permanent Secretary (PS) MGEE explained the need for creating a positive impact for people and the planet, going beyond “do no harm” (safeguard) approaches, and involving the private sector in creating income and living standard solutions for the poor. The ministry suggests that medium-sized enterprises – due to their business innovation capacity, closeness to the market, and local orientation – are perhaps best equipped to create change for the poor and for the planet at the same time. The Permanent Secretary stated that green businesses cannot be financially sustainable if they are not focusing also on solutions for people, because in the end people buy products and services from private sector companies and the government cannot maintain environmental or climate services in a resource-restricted economy. Hence the need to create more value-added livelihoods and jobs based on a smarter and more sustainable use of the natural resources. The IB landscape study found 10 of the 18 IB examples that do good for people and the environment at the same time; some examples are outstanding, such as a honey company planting fruit trees to enhance the productivity of honey, create additional income sources for its poor farmers, improve soil and biodiversity, and absorb CO2 emissions. There is more scope in bringing the green and the inclusive business closer in agrobusiness, circular economy, energy and transport, and the tourism and environmental conservation/biodiversity agenda. Such a green and inclusive economy would attract new investments that benefit not only Zambia but also the Southern African region. It was therefore suggested to use IB accreditation also for green business accreditation and apply similar support features (like business coaching, smart tax incentives, and risk reduction financing) to GB and IB alike. It is therefore also suggested to include the MGEE in the IB oversight board and the IB accreditation committee. MGEE also established an IB focal point to align with the IB discussion. Furthermore, MGEE is planning to do more advocacy on GB and IB and approach development partners to set up a sustainable business programme for promoting private sector engagements that help the environment by setting up solutions for poor people.
94. **Transforming CSR and social enterprises into IB activities and initiatives should be an integral part of a strategy for IB and SME development going forward. is still unexplored.** Larger companies in Zambia, especially in the mining sector, run corporate social responsibility programmes. However, they are not part of their core business and therefore financially not sustainable and rather small in impact. Transforming such traditional CSR work into Inclusive Business activities would be a way forward to sustain financing and increase reach and deepen the way how such activities make a systemic difference for the poor. The CSR Network, an NGO providing business advisory services to CSR programmes would be interested to engage more in such discussion. Similarly, the social enterprise discussion in Zambia is rather nascent, with very few social enterprises in existence, no policy to promote such entities, companies being more interested in engaging as Inclusive Business³³, and a social enterprise network not much active. This is a good opportunity for integrating the social enterprise discussion in the IB work and so upscale impact and business return and viability of such engagements. In 2021, BongoHive, a business facilitator in Zambia, was tasked

33 Like in many other countries the social enterprise concept is perceived as small enterprises, mostly grant financed, that are designed not to make much profit. Such orientation actually restricts the potential of companies doing good in scale while doing well and being financially sustainable.

to run the Social Enterprise Academy. The program provides advisory services mainly to start-ups. BongoHive is actively involved in developing an IB business coaching and mentoring tool for transforming - among others – existing for-profit social enterprises to SE initiatives and in the future IB models by scaling up their social impact and improving their commercial return.

4.2 IBEE STAKEHOLDERS, CHAMPIONS AND FOCAL POINTS IN ZAMBIA³⁴

95. Strong support for a dedicated IBeeZ initiative going forward: Most institutions interviewed showed strong support for the rationale of establishing a programme to support IB. Some agencies also identified dedicated IB focal points; an indicative list is in [Appendix 5](#). [Figure 12 below](#) shows a list of institutions that showed interest in the IB discussion, and those with strong interest are marked with *. Some agencies also identified dedicated IB focal points; an indicative list is in [Appendix 5](#). The study engaged with 39 institutions in Zambia comprised of

- 9 government agencies (MoA, MCTI + ZDA, MFNDP, MGEE, MoST + NTBC, MSMED + CEEC)
- 5 business associations (ZACCI, ZAM, ZCSMBA, ZFAWIB, EuroCham)
- 5 impact investors (ICA, IDC, NABII, Prospero, UNCDF) and various banks and SE financing program
- 11 business facilitators (AgDevCo, Agova, BDSPAZ, BongoHive, CGIAR, CSRNZ, MentorMe, MUSIKA, Impact Hub Lusaka, KPMG, SNV) and
- 10 development partners (AGS-Finland, AFDB, EU, GIZ, Irish Aid, SIDA, Prospero-UK Aid, UNDP, UNIDO, World Bank).

4.2.1 IB Champions in the Government

- 96. The Ministry of Commerce Trade and Industry (MCTI) and the new Ministry of Small and Medium Enterprise Development (MSMED) and their implementing agencies (ZDA and CEEC) are the key government bodies for moving forward with IB development.** The MCTI, being responsible for industrial policies, is committed to taking the lead as – executing agency - in setting up an IB promotion programme and wishes to work closely with MSMED on its implementation to the Zambia Development Agency (ZDA) as IBeeZ coordinating agency.
- 97. The Zambia Development Agency (ZDA) under MCTI was the most active government agency calling for becoming the executing agency for carrying an IB program forward.** However, given that the mandate for SME development moved to the new MSMED, and given that many IBs are medium-sized local firms to whom attracting foreign investments is not so relevant, this study recommends that an executing agency system is formalized where ZDA works in close cooperation with MSMED. It is therefore recommended to be the executing agency of an IB promotion programme going forward,³⁵

³⁴ An IB stakeholder is an institution that is generally supportive to the IB discussion or should have a reason to get involved. An IB champion is a person or an institution strongly advocating and leading IB promotion; IB champions can be among all stakeholders. An IB focal point is a person officially designated by IBeeZ relevant (oversight) body of government or business association to represent the institution in the IB discussions.

³⁵ Having been the executing agency for the IB landscape study and having show good commitment on IBeeZ implementation, ZDA is well suited for this role.

Figure 12: IB actors in Zambia

Actors and potential IB champions in Zambia

government	business associations	impact investors	business facilitators	Development Partners
* CEEC	** ZACCI	ABSA	AACE	* AfDB
* MCTI	** ZAM	AECF	AFE (Action for Enterprises)	* EC
* MGEE	* ZCSMBA	AgDevCo	* AgDevCo	* FCDO / UK Aid
* MoA / MFL	** ZFAWIB	Amano Capital	* Agova	* Finland-AGS
MoCDSW	EuroCham	AVPA	Ande	GIZ
* MoFNDP		* Baraka Finance	* BDSPAZ	ILO
MoGender		DBZ	BIF	* IrishAid
MoHI		Elah Capital	** BongoHive	JICA
MoLF		EZCF	BEPZ-EAZ	* SIDA
MoLSP		FSD	CGIAR	UNDP
* MoTS		Goodwell Invest	* CSR Network	* UNIDO
* MSME		IAP	IAP (SNV)	* USAID
* NTBC		ICA	IDE	* World Bank
provincial government		* IDC	Impact Hub Lusaka	
* The President's Office, Economic Adviser		* IFC	* KPMG	
** ZDA		Impact Capital Africa	** MentorMe	
ZPPA		* IndeCredit	* MUSIKA	companies see separate list
		** Inside Capital	PWC	
		* Kukula Capital	SEED	
		* MUSIKA	** SNV	
		NABII	WEAC	other experts
		Oiko Credit	WWF	
		* One Acre Fund	ZBiDF	
		* Opele Capital	ZBiDF	
		* Open Capital Adviser		
		* PIGA		
		Prospero		
		RaboBank		
		* Shelter Afrique		
		UNCDF		
		ZANACO		
		ZBAN		
		Zenga Venture		

and Citizen Economic Empowerment Commission (CEEC) to be the co-chair. To this end, ZDA and CEEC may jointly set up an IBeeZ secretariat (in ZDA) with ZDA as chair, coordinate on implementation issues and have monthly meetings at a working level for exchange on how to push the IBeeZ agenda forward and implement the work plan endorsed by the IBeeZ board.

98. The Ministry of Small and Medium Enterprise Development (MSMED) is a new ministry, established in September 2021, with the purpose of encouraging the private sector to create viable jobs and relevant services for the poor and low-income people. MSMED has the full responsibility for developing industrial policies and programmes for the SME sector and would not be a ministry focusing only on the micro-enterprises³⁶ or livelihoods for the youth. The leadership of the ministry explained that it wishes to see companies create sizeable and relevant social and economic impact, which would require scale, innovation, growth and commercial viability. Against this background, the IB concept and the proposed IBeeZ strategy are of high interest to MSMED and it expressed IB engagement through

- establishing an official IB focal point,
- being interested to be represented in the IB steering board and
- considering to include IB in the new SME strategy and through smart recommendations for the Local Content Strategy.
- consider IB incentives; and showing interest to coordinate with the MGEE and advocate for tax, finance and business coaching incentives being rendered to both green and inclusive business;
- considering on a workshop for SMEs on IB, perhaps in April-May 2023; and
- showing interest to play an active role in implementing IBeeZ by doing an MSMED budget analysis for targeting a part of available funding and support programmes from development partners to IB type of businesses.

99. The Citizens Economic Empowerment Commission (CEEC) is an agency under MSMED. It is relevant for IB financing, IB business coaching, and the issuing of IB priority procurement letters. The study recommends that CEEC may wish to:

- co-chair at the working level (and on behalf of MSME) the IB secretariat together with ZDA;
- be engaged (on behalf of MSMED) in the IB accreditation committee, and do IB readiness assessments for companies in its portfolio that can then be recommended to IB transformation coaching and IB accreditation;
- adopt the IB business coaching tool in its training programmes for SMEs and micro-enterprises;
- create a special window for IB financing in the CEEC finance programmes and set a target of a minimum of 10% of investments (over 2 years starting 2023) in IB; and

³⁶ Micro-enterprises form the majority of all companies in Zambia, but contribute only little to economic value creation, innovation, and decent income opportunities. Most micro-enterprises are own-account activities with low productivity and low-paid self- or family employment. Micro-enterprises can be in the value chain of inclusive businesses, but given their small social reach and low commercial revenue they would barely qualify as IB.

- refer to IB in the procurement incentives and develop targeted priority numbers for IB procurement³⁷.

100. The Ministry of Green Economy and the Environment (MGEE) is very interested in learning from the IB concept for its Green Business initiative: The Ministry of Green Economy is a new government body. It was established to not only look at environmental safeguards and climate policies but also to link this to economic development. Hence, MGEE is very important for a discussion that combines private sector approaches to the environmental and climate change with solutions for poor people's income and living standards. Emphasizing green business to create direct results for poor people is an important milestone for creating more businesses with triple sustainability purpose, i.e. for the planet, for people and business viability. To this end,

- MGEE would be included in the IB steering board and the IB accreditation committee.
- MGEE suggested that special Green Business (GB) accreditation criteria be developed and this be linked to the IB accreditation approach,
- MGEE further insisted that IB promotion programmes would be eligible for all businesses that are green and inclusive,
- MGEE will target parts of its funding to support such sustainable businesses (SBs), and
- MGEE will also do more advocacy for transforming traditional GB into SB.

101. The National Technology Business Center (NTBC) is a is a statutory body under the **Ministry of Technology and Science (MoTS)**, in operation since April 2022, to assist in the transformation of new ideas, commercialization of innovations, and the adaption of technologies into products and new businesses that are financially viable, to contribute to industrialization, economic development and job creation. NTBC provides technology innovation and transfer, intellectual property promotion, and business development support to companies. Knowing about the innovative character of IB companies, NTBC is particularly interested in such companies. It committed

- prioritizing a share of its portfolio companies (we suggest 5-10%) under its Technology Business Development Fund to be IB by 2025, as well as
- using aspects of the IB business coaching transformation tool in its business incubation work for MSMEs.
- NTBC would also be part of the advisory board and the IB accreditation committee.

102. The Ministry of Agriculture and Livestock (MAL) is the government agency for promoting agricultural production and food security by providing policy guidance and support programmes to farmers and agro-businesses. MAL is organized into various departments for Agriculture, Co-operatives, Policy and Planning, Livestock, Veterinary Services, Fisheries, Agrobusiness and Marketing, Human Resources and Administration; in addition, MAL maintains the Zambia Agriculture Research Institute and the Seed Control and Certification Institute as adjoining bodies. Relevant for the IB discussion is only MAL's work with agribusinesses, not most of the work which is with farmers. The IB discussion is of high importance to the ministry, because having more and better IB would result in a stronger contribution to poverty reduction, rural growth, stronger value chains and enhanced aggregator arrangements from smaller firms and farmers

³⁷ CEEC issues procurement preference reference letters. In 2021 about 1288 such letters were issued. However CEEC has no clear overview how many SMEs got procurement contracts through the various government agencies, as such reference letters do not necessarily need to be informed.

to larger IB companies, and better food security. Although there is still little awareness about IB, the ministry wishes to get involved in the IB programme more systematically. To this end, the ministry

- Nominated an IB focal point that can follow the discussion in the IB advisory board and the IB champions meeting.
- Expressed its desire to be part of the IB accreditation committee.
- Wishes to do awareness raising on IB business cases and what innovations agrobusinesses engage in to reduce business and BoP risks.
- Showed interest in joining the IB business coaching design work and engaging – through joint funding – a specific IB business coaching expert for agrobusinesses.
- Suggested dedicated IB market development programmes including using IB accreditation (like a fair-trade seal) in classifying products from IB agrobusiness in local and foreign markets, and doing specific trade fairs for IB businesses.

103. The Ministry of Finance and National Development Planning (MFNDP) could play a key role in the IB initiative by perhaps

- Becoming a member of the IB board;
- Setting up smart IB tax incentives
- Supporting the establishment of the IB Risk Reduction and Social Innovation Fund for Impact Investors, serve on the investment committee of that fund, and
- Promoting sector-wide IB impact monitoring and linking this to the SDG results reporting of the country.

4.2.2 IB Champions in Business Associations

104. The Zambia Chamber of Commerce and Industry (ZACCI) is the umbrella organization of business associations in Zambia, representing several businesses across the country and all sectors of the economy. ZACCI is engaged in industrial policy advisory to the public sector, advocacy and knowledge sharing, business mentorships, and actively supports SMEs through the facilitation of business linkages. ZACCI's membership ranges from large to medium and small enterprises. It has 8 regional chambers (Ndola, Kitwe, Lusaka, Kabwe, Northwestern, Luapula, Mazabuka and Livingstone); 29 district chambers; 10 sector associations; and 6 academic institutions. ZACCI is also a key member of the Zambia Private Sector Alliance, an apex body of private sector associations in Zambia, which includes the Zambia Chamber of Mines, Zambia Association of Manufacturers (ZAM), the Zambia Tourism Association, the Pensions and Insurance Association and the Zambia National Farmers Union (ZNFU). ZACCI welcomed the IB discussion as highly relevant for Zambia and expressed its strong interest in promoting the adaption of an IBeeZ strategy. To this end, ZACCI agreed to

- Arrange a discussion on IB in the public-private sector forum.
- Nominated its executive director (Phil Daka) as the IB focal point.
- Become a member of the proposed IBeeZ Advisory Board and the IB accreditation committee.

- Support closer cooperation between MCTI/ZDA and MSMED/CEEC on jointly coordinating the IBeeZ initiative under a multi-stakeholder approach
- Use the IB readiness tool to recommend companies for possible IB accreditation and IB business coaching
- Help widen the IB accreditation criteria to also include Green Business;³⁸
- Do IB awareness as part of its future programme and prepare specific leaflets on IB; and
- Support the IBeeZ in its discussion with the government and especially with MFNDP on tax and procurement incentives for IB firms.
- Assuming the government follows this study's recommendation to establish a coordinating unit under the IBeeZ secretariat under MCTI and MSMED and thus ensure not only public-private -dynamics but also smooth implementation and fund flow arrangements of the IBeeZ technical assistance facility, ZACCI could establish a such unit for coordinating IBeeZ together with ZDA/MSMED and under close involvement of multiple stakeholders as implementing agencies.

- 105.** The **Zambia Association of Manufacturers (ZAM)** is the main business association representing companies in the manufacturing and other economic production sectors in Zambia. Established in 1985, ZAM's membership comprises a broad range of manufacturers from over 18 manufacturing sub-sectors, including small, medium-sized, and large manufacturers. ZAM provides a forum to network and dialogue with Government and other stakeholders in creating an enabling conducive business environment. By promoting the interests of the manufacturing sector through policy advocacy, dialogue, lobbying and strengthening productivity and competitiveness in the industry. ZAM facilitate the growth of an efficient and modern manufacturing sector in Zambia to attain a 20% contribution to GDP by 2030. The association provides various business support services and is involved in policy dialogue with the government on various topics. While admitting that the concept of Inclusive Business is not much known among its members, ZAM found the idea of creating triple wins through high commercial returns for business, large and deep social impact for the poor and low-income people, and transformative change for society the economy very interesting and timely. Going forward ZAM wished to be more involved in the IBeeZ agenda, especially by
- established an IB focal point, and being on the IB advisory board and the IB accreditation committee
 - strongly promoting the inclusion of IB in the discussion on the local content strategy
 - doing awareness raising on IB and purposeful businesses or the new SME policy.
 - using the IB business coaching tool and surveying selected members on their IB readiness
 - discussing the specific inclusion of IB in the local content strategy, for which ZAM and MSMED are the major custodians, and
 - support MCTI and MSMED in lobbying for specific IB tax and procurement incentives

38 ZACCI is implementing a program with the Catholic Relief Service on private sector engagement for environmental sustainability and will use this program for emphasizing sustainable business.

- 106.** The **Zambian SME association (ZASMED)** may also wish to get more involved in the IB discussion, and it could be considered to make it part of the accreditation committee and a member of the steering board, as well as do advocacy work through ZASMED.
- 107.** The **Zambia Federation of Associations of Women in Business (ZFAWIB)** was founded in 1993 as a non-profit organization. It is a national umbrella body for the 55 affiliated women entrepreneur associations in Zambia with a very diverse membership of 10,000-100,000 individuals or groups, including women's clubs, businesswomen, women empowerment projects etc. The federation works on 5 programmatic areas, including advocacy, entrepreneurship training (business coaching), market access facilitation, support in accessing finance, and policy advocacy and network building for the promotion of women's rights. ZFAWIB also runs 2 cooperatives in agriculture (Sumbala with a production capacity of 2 metric tons per day) and for garment manufacturing. ZFAWIB supported the establishment of an IB programme under MCTI in close cooperation with MSMED and MGEE. To enhance visibility and ensure quick implementation it suggested bringing the IB topic to the President's office and committed to helping to arrange respective meetings. ZFAWIB is interested in becoming an active partner in the IBeeZ initiative by
- Nominating an IB focal point and being represented in the IB board and the IB accreditation.
 - Doing IB advocacy, and IB business coaching for its members
 - Involvement in impact reporting on women empowerment including launching specific knowledge products on women empowerment through IB.
 - Lobbying the adaption of smart tax (with a focus on import tax and value added tax) and procurement incentives for accredited IB companies and giving tax incentives retroactively as an investment incentive, based only on the provision of expanding investment in IB and on the impact already proven (rather than claimed for the future). ZFAWIB mentioned the example of the former "Enterprise Development Board"³⁹, which created a tax break (3 years urban and 5 years rural) for companies that were officially registered.
- 108. In sum, business associations are particularly important for IB awareness and IB ownership.** They are a close partner of the IBeeZ. Three business associations are of particular importance, i.e., the Zambia Association of Chambers of Commerce and Industries (ZACCI), the Zambia Association of Manufacturers (ZAM), the Zambia Federation of Associations of Women in Business (ZFAWIB), and eventually also the Zambia Chamber of Small and Medium Business Associations (ZCSMBA). These 3-4 business associations are suggested to
- Have a permanent seat on the IB advisory board
 - Be represented in the IB accreditation committee
 - Play a leading role in awareness raising on IB and receive some funding for IB promotion under the proposed technical assistance facility for IBeeZ implementation,
 - Do IB readiness assessment among their members to recommend companies for IB accreditation; and
 - Engage in policy work to lobby for establishing specific investment incentives for IB.

³⁹ With the establishment of the new MSMED the Minister of Small and Medium Enterprise Development (Honorable Elias Mubanga) dissolved the Citizens Economic Empowerment Commission (CEEC) Board in November 2021 based on the arguments that the old Board does not have formal representation of civil society and the youth. The minister wishes to constitute a new CEEC.

4.2.3 IB Champions and Stakeholders in the Impact Investing and Financing Industry

- 109. While there are a good number of impact investors active in Zambia, most funding for SMEs still comes from banks and government programs.** The three NABII reports on the impact investing landscape in Zambia (2019, 2020, and 2021) provide good overviews of impact investing in the country. The studies show the investment priorities for agrobusiness, followed by renewable energy and financial services. It also states the low deal flow in Zambia, the relatively low average investment size, the emphasis on growth stage companies (66%) vis a vis start-ups (18%), the exit challenges for equity investments, weak corporate governance, and the low quality of proposals, and the lack of impact investing specific policy, regulation and incentivization. While there is the appetite to invest in impact deals in Zambia this needs to be converted into more actual investments made. Funding for IB and SME projects typically comes mainly from government banks like DBZ or ZANACO, from agribusiness finance programs with MoAL, MSMED/CEEC and MCTI supported by AfDB, EC or World Bank, or from programmes of development partners such as AGS (financed by Finland), Prospero (UK financed), the Innovation Against Poverty Fund (financed by Sweden), UNCDF, or SEED (Adelphi) USAID or ZATP (World Bank).
- 110. Match-makers dominate the impact investing scene:** The number of impact investors actually providing funds is small. Most supporters are so-called “matchmakers” providing business advisory services to companies to access funding. Often this is in form of grant financed investment readiness advices ending with pitching in front of possible investors, but not arranging the actual investment. IB companies that wish to get financing get engage with such facilitators or approach funding agencies directly. A good example is Impact Capital Africa (ICA), one of the companies that help with matchmaking between IB companies and impact investors. It links growth-oriented African businesses with impact investors and promotes deals, Ticket sizes for raising capital is between \$0.25 and \$10 million and between 2018 and 2021 ICA has closed 21 deals Africa-wide worth \$80 million (38% of the 55 total deals proposed to impact investors). In Zambia, in 2022 the ICA work was financed by IBAN's investment readiness programme and 15 deals were pitched this year.
- 111. The National Advisory Board for Impact Investing (NABII) becomes closely involved in the IB agenda.** NABII was established in 2019 as a national network for promoting impact investing in Zambia by (1) accelerating finance supplies, (2) promoting better demand up-take for available finance, (3) encouraging intermediaries (like pension funds or bonds) to provide financing to the impact investing industry, (4) create a better enabling environment for impact investing, and (5) create favourable policies and regulations that govern impact investments. In 2022 NABII made a deliberate decision to make Inclusive Business the key work area of its demand pillar. Since then, NABII also became the main champion to promote the establishment of the proposed Inclusive Business Risk Reduction and Social Innovation Fund (IB-RRSIF) to unleash funding from impact investors. It is also proposed that NABII has a permanent seat on the IBeeZ Board and the IB-RRSIF investment committee.
- 112. Going forward with IB financing under IBeeZ,** these institutions and development partners showed some interest to finance a programme for IB or include IB in their ongoing cooperation programmes. To get more concrete results in IB targeting after the government has officially adopted the IBeeZ strategy, four activities are necessary:
- 1) impact investors and development partners as well as government agencies need to assess their past portfolio to see which companies have been supported that would qualify as IB and then bring those companies to IB accreditation,
 - 2) the partner organizations need to be encouraged to commit to allocating a certain percentage of their future investment in IB companies,

3) a good but simple and cost-effective impact monitoring system needs to be agreed on and reporting supported.

4) impact investors need to be encouraged to unleash more funding into IB deals by (a) providing dedicated IB business coaching to firms with potential IB to make better proposals and b) taking first loss risk in the investment of impact investors (see the further discussion on the IB Risk Reduction and Social Innovation Fund in chapter 5.2.8 and [Appendix 10](#)).

4.2.4 IB Champions and Stakeholders among Business Facilitators

113. **There are multiple facilitators interested in the IBeeZ initiative** (see Figure 12 above). Some of them are particularly relevant for engaging in the IB business coaching work, such as BongoHive, the CSR Network, MentorMe, SNV and BDSPAZ. Others are more relevant for engaging in policy work, such as KPMG on tax incentives.
114. **BongoHive** is a facilitator involved in business coaching in technology, entrepreneurship, and innovation. It also has various programmes for start-ups and pre-startups as well as small, growing enterprises and corporates, mostly in the digital solutions space. As an ecosystem builder, BongoHive is also in the sharing of information and knowledge. Furthermore, BongoHive is a licensed trainer under the Social Enterprise Academy in Zambia. BongoHive is an important ally in the IBeeZ discussion. It is the co-chair of a working group that adapts the IB business coaching tool to the Zambian conditions. BongoHive is particularly interested in implanting specific IB business coaching and awareness-raising activities, once the IBeeZ programme is funded.
115. **The Business Development Service Providers Association of Zambia (BDSPAZ)** is a membership association founded in 2011. It currently has about 150 members of which 50 are paid up. These core members pay a one-time entry fee of ZMW 750 / ZMW 1,500 for individual members or company members respectively and a yearly fee of ZMW 375 / ZMW 750 respectively. Among other objectives, BDSPAZ aims at establishing an independent BDS Providers (Consultants) accreditation body and introducing regular training updates, which would include the IB topic in training modules. It was suggested to engage with the MSMED and help them prepare the new SME policy and strategy with a strong focus on IB and green business. Some members of the BDSPAZ were actively involved in the IB discussion and wished to become accredited consultants for IB business coaching. To ensure better consultant inputs, BDSPAZ suggested IB certification of consultants and training in the IB-BCM tool. As a first step, BDSPAZ leadership suggested hosting a workshop with its members to explain the business coaching tool. It was also suggested that BDSPAZ could help with involving micro and small enterprises in the value chains of large businesses (for example under ZDA's Business Linkage Programme).
116. The **Zambia CSR Network** is non-profit organization established in 2018 providing consultancy services (research and data management) to corporates, sharing good practices and promoting network exchange, running annual CSR awards, and implementing CSR projects for companies and multinational organizations. While most members of the CSR network run traditional CSR activities, the head of the network strongly emphasizes the need to move away from a donation-driven approach towards long-term development purpose by transforming traditional CSR activities into Inclusive Business activities, thereby making CSR part of the core business of a company, enlarging social impact, and enhancing commercial viability. The CSR network supports the development of a dedicated IB strategy, the idea of setting up a proper IB accreditation system, supporting IB-related business coaching and mentoring, further IB knowledge sharing and advocacy, and special incentives for IB (esp. tax incentives). To get more involved in the IBeeZ initiative

- the CSR Network nominated its executive director as the IB focal point.
 - It proposed doing specific IB advocacy as part of its CSR awareness programme, such as
 - ✓ preparing a background note titled “From CSR to IB activity: doing better with more sustainable financing”
 - ✓ running a separate IB activity award in conjunction with its normal CSR award
 - ✓ enhance branding of sustainable CSR and IB-A financing
 - ✓ hosting a seminar with selected CEOs (not the CSR managers) on upgrading CSR into commercially viable IB business lines
 - The CSR network explained why it is not in favour of a specific CSR law, as this would cement very small philanthropic giving without much systemic poverty impact. Rather, it is interested in supporting tax incentives for business lines of companies that transform their CSR to IB activity.
 - It also suggested a consolidated CSR Network and IBeeZ follow-up with a few companies that would probably be interested in transforming their traditional CSR work to IB activity (IB-A), such as
 - ✓ First Quantum Minerals (a mining company providing minerals to women to produce the jewellery. The mining company also helps with the marketing and sale of the produce),
 - ✓ Lubambe Copper Mines (a mining company working with rural communes to produce face masks and vegetables to be used in the mines and its canteen),
 - ✓ Buffalo Bicycles (providing special incentives for poor families to hire-purchase bicycles for children in remote areas attending schools, and cross-subsidizing this through the proceeds of the company otherwise and with partnership contributions from large corporates and mines),
 - ✓ Maamba Collieries (commissioned in July 2016 as the country’s largest coal mining concession, operates the only coal-fired Thermal Power Plant in Zambia, and adopts modern, eco-friendly mining and processing methods. Under a separate programme in cooperation with the World Wildlife Fund (WWF) AFR100 programme, the company also provides for a 2 million hectare reforestation programme to cover its CO₂ emissions; while it is doing this currently through CSR practices it wished to transform this into a core business line through transforming it into an IB activity or even a new income generating IB model).
- 117. KPMG** is a global business consulting firm providing strategic, business plan, legal, and accounting, advice to companies (mostly larger) and doing excellent knowledge work on economic issues. In Zambia, KPMG was involved in preparing a highly innovative draft position paper on smart incentives for accredited IB. The emphasis of the position paper is finding a way that the proposed tax incentives for IB companies can address at the same time the budget constraints of the country. KPMG will continue its involvement in the position paper on tax incentives for IB.
- 118. MentorMe** is a business facilitation firm in the impact economy space (a) helping mentoring enterprises on financial opportunities in the markets of the poor, (b) promoting access to affordable finance, supply chain financing, and investment facilitation to local businesses and (c) coordinating stakeholder support for enabling environment business development.

- Together with BongoHive and SNV, Mentor Me champions the adaptation of the IB business coaching tool to Zambian conditions.
- MentorMe will also do further IB advocacy through the Zambia Business Angels Network (ZBAN)⁴⁰, and engage in the discussion on smart tax incentives for accredited IB.
- Mentor Me is also interested in the proposed IB Risk Reduction and Social Innovation Fund for impact investors and will foster – together with NABII – discussion with the angel investors network on their possible co-financing.
- Furthermore, MentorMe suggested closer cooperation of the IB agenda with the National Technology Business Council (NTBC) to encourage IB business lines in the new start-up act and the early-stage venture capital fund and recommend tech start-ups for IB accreditation.
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119. Self Help Africa is a leading international development charity based in Ireland working with small-scale farming and growing family-farm businesses. In Zambia, it received \$370,000 (about 22% of its funding) from Irish Aid. The organization is also active in Ethiopia, Malawi, and Kenya and on regional programmes in West Africa, and 9% of its total funding is for Zambia. Projects are on supporting 3,000 farmers to adapt to climate change in the Kafue basin, supporting community-based seed enterprises and crop improvement in 6 provinces, co-financing and managing the EU-supported **Enterprise Zambia** project for livelihood improvement of 650,000 smallholder farmers through 25-45 growth-oriented agrobusiness SMEs. Other programs are on financial associations, humanitarian aid, technologies for better nutrition, recovery among drought-affected households, poultry production upscaling, and COVID-19 impact mitigation.

120. The Netherlands' development organization SNV started its operations in Zambia in 1965. In alignment with Zambia's Vision 2030 and the 8NDP, SNV provides services in the Agriculture, Energy and Water, Sanitation & Hygiene sectors. Since 2010 SNV is globally a strong promoter of the IB agenda. It runs the Innovation against Poverty (IAP) programmes financed in its second phase by SIDA.⁴¹ IAP is a specialised fund that challenges private sector companies to innovate products, services and business models that benefit people living in poverty (PLIP) while delivering commercial benefits for the private sector. renewable energy, and WASH sectors in Cambodia, Ethiopia, Uganda, or Zambia. The programme pays significant attention to gender and environmental sustainability as part of its screening criteria. It provides companies with tailor-made advisory services, including mentorship from impact investors, thus helping them develop and roll out their inclusive business idea. During Round 1 (2017 – 2021), IAP disbursed in the 5 countries EUR 3.2 million to 35 contracted companies; in April 2021, IAP selected additional 21 companies, with a total committed grant size of approximately EUR 3.8 million. IAP funding ranges from €50.000 up to €200.000 per

40 The head of MentorMe is also the executive director of the newly established Zambia Business Angels Network (ZBAN).

41 The first phase of the IAP program was financed by Sweden and UK and managed by SNV in partnership with IB Sweden and BoP Inc.

company, not exceeding a maximum of 49% of the total required investment, In Zambia the SNV invested in 5 companies, 2 of them being proposed for IB accreditation.⁴² SNV is actively engaged in the discussion on the IB business coaching tool and wishes to avail later funding under an IBeeZ business coaching component. SNV is also considering aligning its private sector work more to the IB approach and bring companies to official IB accreditation.

4.2.5 The Crucial Role of Development Partners

121. **No dedicated IB support program so far:** Many bilateral and multilateral official development institutions are very active in Zambia. Some of them emphasize the importance of the private sector dialogue (such as AfDB, EU, Finland, Germany, Ireland, Sweden, UK, UNIDO, USA, World Bank) and see the IB initiative very favorable. So far, however, none has a dedicated IB program for companies nor for creating at the policy level a better enabling environment for such firms. However, in effect some of their development assistance is supporting IB. It is for this reason, that selected development partners are interested in linking up their ongoing and new assistance programs to the IB discussions.
122. **The African Development Bank (AfDB)** has committed since 1971 more than US \$1 billion to Zambia, mainly support towards public sector infrastructure projects in transport (47% of committed funds), agriculture (14%), industry, water and sanitation (8%), energy, education and health (7%), the financial sector (6%), the environment (4%) and multi-sector (primarily general budget support). The predominant financing modalities are through project loans and grants (about 33%), but there are also some investments directly in private sector firms (ca. \$150 million to date). AfDB also supports non-lending economic and sector work. IB relevant projects are on agrobusiness industries, mini-grids and renewable energy, food security, women entrepreneurship and skills training, AfDB is generally interested in the IB agenda both under a country as well as regional focus. To this end AfDB could
 - emphasize IB under its work with ZDA and the Public-Private Partnership Unit to improve the business environment, commercial competitiveness, and capacity building to promote bankable partnerships,
 - target IB investments in its livestock infrastructure (SLISP; 2021), agrobusiness (2022), cashew infrastructure (CIDF, 2022), aquaculture, smallholder out-grower (CSOP), renewable energy, food security (ZEFPF, 2022) women entrepreneurship (2022), women business financing (AFAWA), and skills development and entrepreneurship portfolio with the Zambia National Commercial Bank (ZANACO); and
 - consider becoming the leader of the IB discussion and support the proposed IBeeZ technical assistance facility and the IB Risk Reduction and Social Innovation Fund for impact investors. Preliminary discussions on this have already been held with AfDB but need to be followed up by a concrete government request.
123. **The new Cooperation Programme for Private Sector Development of the European Union (EU)** emphasizes an enabling environment and SME support for economic diversification, green and inclusive private sector-driven growth that is sustainable and works for people (esp. the poor) and deliberate investment in the circular economy. Within that framework, it was found that Inclusive Business could be included as a deliberate modality going forward, especially since the EU has just finalized its new Country Cooperation Program 2023-2027, emphasizing agrobusiness, private sector and

42 For more information see the IAP website: <https://snv.org/project/innovations-against-poverty-iap>.

SME development, social sector investment and good governance. It was discussed and recommended that the EU could

- take a leading role in championing IB discussions as a member of the private sector development partner working group. In particular, the working group could initiate discussions on (a) integrating IB and GB into the new SME strategy, (b) link the IB and the green economy agenda; (c) establishing a dedicated technical assistance facility and a fund to reduce impact investors risks, and (d) creating specific smart incentives (including tax and procurement) for accredited IB (and GB).
- support IB and GB accreditation, and particularly help the MGEE adapt the IB accreditation to Green Business;
- fund specific IB business coaching under its own programmes;
- promote regional exchange on IB (and GB) in Africa, for example with Nigeria.
- enhance the ticket sizes under the *Enterprise Challenge Fund* (ECF), thus creating a larger tangible social impact by focusing more on medium-sized IB companies. The ECF is an EU-funded programme implemented by Self-Help Africa. The programme aims to invest between 2020 and 2025 about \$26 million in 40 agrobusinesses benefiting 150,000 smallholders and creating 8500 full-time jobs. The program has a specific focus on climate-smart land management.⁴³
- Finally, the EU could support the forthcoming proposal from the government of Zambia – through ZDA - to the Investment Climate Reform Program (ICR) facility to finance assistance for institutionalizing the IBeeZ initiative in 2023. Under its global programs the EU financed the Investment Climate Reform Program (ICR) as a technical assistance for promoting economic reforms in selected countries of Africa, the Caribbean and the Pacific regions. The government of Zambia – through ZDA - plans to apply to the ICR facility to finance assistance for institutionalizing the IBeeZ initiative in 2023.

124. The **Accelerating Growth for SMEs (AGS)** in Zambia program is financed by the government of **Finland** and implemented in cooperation with the MSMED. It helps promote the business development (business development services, acceleration, match-making, co-creation, and market access to and from Finland) of MSMEs and start-ups including grant investments in such firms, as well as with ecosystem development for SME growth. Until 2021 the AGS program was under the Ministry of Commerce Trade and Industry (MCTI) but since 2022 it has moved to the MSMED as executing agency. The programme works in 6 sectors (agrobusiness, circular economy, energy, ICT, mining and its supply chains, and education and skills). It also promotes policy development for SMEs, for example by supporting the new Ministry for SME Development (MSMED) in developing an SME strategy. As per the annual report 2021, the AGS programme provided business training to 296 companies (80% of them women-led), and accelerated 102 of them. It invested mainly in very small firms with ZMW 6 million (\$350,000) of grants for 155 deals creating revenue of 14 million (\$0,81 million). AGS is interested to collaborate with the IBeeZ agenda, and the following entry points are suggested to be pursued, among others:

43 In three investment rounds the program so far invested in 20 companies, some also qualifying as IB (*) and others perhaps qualifying also (#), such as : Alliance Gineries, Agriserve Agro ASBA Resources, CHC Commodities, Chimphembea Trust, Chisamba Ranching and cropping, Community Markets for Conservation Ltd. (COMACO)*, Copperbelt Forestry, Continental Ginnery, Export Trading Corporation, Farm Depot#, Good Nature Agro*, Kariba Harvest , Mount Meru Millers, New Rotations Farming, Saro Agro, Seba Foods*, Stark Ayres Zambia, Steward Globe Ltd – Afriseed #.

- Integrating IB in the new SME policy and seeing to it that specific IB targeting will happen in the MSMED and CEEC investment and technical assistance programmes. For example, AGS could finance a study on MSMED/CEEC and MCTI/ZDA financed services can be targeted to IB and what budget allocations would be made for this.
- AGS could finance some advocacy work in IB through business associations, and support the establishment of a multi-stakeholder IB website for Zambia.
- AGS could support MSMED in its co-chairing role for the IBeeZ and thus foster more orientation of the MSMED towards growth-focused and productivity-oriented SMEs that bring large social (and environmental) impact for poor people, rather than on micro-enterprises
- AGS could commit to financing IB business coaching and IB accreditation. Business coaching would cost about \$120,000 per year and IB accreditation \$60,000.
- AGS could also engage in the IBeeZ discussions on smart tax incentives for accredited IB companies, where the VAT and import tax savings would be mandated to be used by the company into reinvesting in the business while expanding social reach and depth.

125. Irish Aid is a development partner with a global development budget (all government approach) of about EUR 1 billion in 2021 of which about 60% go through multinational channels. The key thematic areas of Irish Aid are humanitarian aid, climate action, gender equality and governance. By sector, education and agribusiness / rural livelihoods are priorities. By geographical region, Irish Aid is heavily concentrated in Africa, with Zambia having received about \$5 million in 2021 in bilateral development funding. In Zambia, Irish Aid has programmes in primary education, agribusiness and agriculture. Together with the EU, Irish Aid is also a funder of **Self Help Africa** (see above). Irish Aid is principally interested in supporting the IB agenda.⁴⁴ To make this more concrete and given the limited funding potential, Irish Aid could consider financing under the IBeeZ for:

- the IB accreditation rounds (\$60,000 per year)
- the business coaching work (\$120,000 per year),
- enhancing the share of IB businesses in the *Enterprise Zambia* investments, and
- doing proper impact assessments on potential and real IB-selected companies. Such studies would also institutionalize impact measurement and reporting in companies. A company study would cost about \$30,000, and a sector study about \$120,000.
- In a more systemic way and given Irish Aid's strong Team Europe and multinational cooperation approach, Irish Aid could consider partnering with AfDB or the EU to set up a trust fund for the proposed IB technical assistance facility or co-invest in the Risk Reduction and Social Innovation fund.

126. The Swedish International Development Agency (SIDA) is involved in Inclusive Business discussions globally since 2013. Among others, it finances the Innovation against Poverty Fund, implemented in Zambia and two other countries in Africa as well as Cambodia, and cooperated with the Asian Development Bank (2015-2017) on its IB initiative. With an annual cooperation programme of about \$50 million, SIDA is the second biggest bilateral development partner in Zambia after USAID (\$290 million). SIDA's priorities in Zambia are democracy, health, the environment and the economy. The

⁴⁴ For more information see the Government of Ireland (Oct 2022): Irish Aid Annual report 2021.

organization is currently preparing its new country partnership strategy 2023-2025, expecting that while the sectors may be confirmed, there will be some further focus in the cooperation on areas where SIDA can make a difference vis-à-vis other development partners. Purposeful businesses could be a such driver of change for SIDA's market system development approach. SIDA's work on economic cooperation circle around market system development and comprise support for (1) the agrobusiness facilitator and grant investor MUSIKA⁴⁵; (2) financial sector deepening, esp. through supporting financial saving groups for women and digital finance, and for schooling financing, (3) a cooperation with UNCDF on a credit guarantee mechanisms for SMEs through 5 banks, (4) the Beyond the Grid (and new clean cooking) programme providing incentive financing upon rural household connection⁴⁶; (5) work on climate-smart agriculture, in cooperation with SNV; (6) the TechnoServe program for supporting innovations in a limited number of medium-sized agrobusinesses; (7) exploring a business case for health interventions with particular focus on family planning, and (8) selective policy work including the possibility to provide technical assistance on better enabling market systems with a pro-poor focus. Going forward, ZDA may wish to have follow-up discussions with SIDA to co-finance aspects of the forthcoming IBeeZ, esp.

- If funds are available and subject to whether or not SIDA wishes to take a leading role in IBeeZ implementation, SIDA could also finance a technical assistance facility to promote IB accreditation, IB business coaching, IB policy work, IB awareness, IB impact monitoring, and regional exchange on IB. Such a facility would cost about \$3 million for 4 years of implementation. If funds for consolidated assistance to IBeeZ are not available, SIDA could support
- Policy work, including
 - ✓ A study on prioritizing IB in public procurement, including a budget analysis of selected relevant ministries (especially in social and municipal services such as health, nutrition, education, insurance, services (housing, water and sanitation, household energy) on what services can be procured through the private sector of which how much through IB
 - ✓ Follow-up work on the tax position paper
 - ✓ Support to MSMED and CEEC to target IB in their business coaching and financing programs
 - ✓ A study on the link between IB and GB and how MGEE could establish an SB accreditation system, and finance IB and GB accreditation going forward every year.⁴⁷
- Cooperation with NABII to establish the IB-RRSIF and an expansion of the cooperation with UN-CDF to include also the proposed IB Risk Reduction and Social Innovation fund; and
- Establishing a fund in ZDA for supporting IB business coaching through specifically trained IB business service providers

- 127. The United Nations Capital Development Fund (UN-CDF)** works in Zambia to promote accessible financial services for underserved and vulnerable groups, especially for the youth, women, MSMEs and refugees. With funding from SIDA, UNCDF is establishing a \$20 million guarantee facility for MSMEs. Discussions were held with UNCDF and suggestions made to

45 MUSIKA was recently evaluated, recommending some adjustment to enhance social impact and emphasizing more market forces in their investments.

46 So far already 1 million customers have been connected through this program.

47 IB accreditation would cost about \$50,000-\$60,000 per year.

- Target in this guarantee facility a certain percentage of investments in accredited IB companies, and perhaps
- Add – if possible – a component on the proposed IB-Risk Reduction and Social Innovation Fund for impact investors as a pilot in the guarantee facility to further upscale under larger funding through multilateral development banks or EC. SIDA and EC may be approached to add financing for this pilot.

128. The **United Nations Development Program (UNDP)** is – since 2012 - a strong supporter of the IB agenda through its global Business Call to Action (BCtA) programme.⁴⁸ BCtA arranges commitments of companies to provide support to SDGs, prepares impact case studies on companies and sectors, and engages in knowledge and policy work on IB promotion. The programme is under the Financial Sector Hub of UNDP. In Zambia, there is so far no specific IB focus in the UNDP programme. However, UNDP's Inclusive Growth and Equity unit has various programmes the IB discussion could be linked to, such as:

- Launching a study with company examples and policy recommendations on private sector solutions through IB and GB for achieving the SDGs
- Supporting work on IB prioritization in public procurement as a background study for the reform of the procurement law the government is envisioning in 2023;
- A study on IB targeting in the 2023 budget under an output-based budgeting logic for mapping SDG investment;
- Work on institutionalizing IB accreditation through the involvement of the Bureau of Standards under the Ministry of Commerce Trade and Industry (MCTI). The IB accreditation system could be introduced there;
- Including IB impact monitoring under the SDG reporting work in cooperation with MFNDP;
- Supporting the MGEE to link up green businesses to the IB accreditation system; and
- Do awareness raising among UN agencies and others on IB

129. The **United Nations Development Industrial Development Organization (UNIDO)** country partnership program for Zambia emphasizes policy work, manufactural value addition, industrial skills development, and decentralized energy solutions. In 14 ongoing projects (8 national and 6 regional) UNIDO spends about \$11,5 million, leveraging additional investments of \$21.4 million. UNIDO does not have an IB focus in its Zambia work. However, it is interested in following the business coaching discussions to use the tool in its capacity-building work with companies. Going forward, UNIDO may wish to commit a certain percentage of its planned skill development work to be trained using the IB business coaching tool, thereby enhancing the awareness of entrepreneurs for achieving growth and business return by designing for social impact.

130. The **Foreign and Commonwealth Development Office (FCDO)** and former **UK Aid** was a strong promoter of the IB agenda globally in the past. Under its private sector development focus, in 2020, UK Aid established **Prospero**, a programme that partners with leading private sector players, government agencies and business associations to design synergistic initiatives that support business model development, promote transformative financial services, attract quality investors and foster enabling business and investment environments. Prospero is involved in food and agriculture, mining and

48 See: <https://www.businesscalltoaction.org/>

mining services, and tourism and hospitality. Apart from technical assistance it also provides business and investment services to its clients. Ticket sizes range from \$0.25 million to \$10 million for growth-oriented companies that have been in existence for 2 years and above.⁴⁹ Many companies supported are women-led. Since 2020 50 SMEs have been invested in. Prospero also supported the establishment of NABII. FCDO and Prospero are interested in the IBeeZ and consider exploring opportunities to support it,

- either through targeting its Prospero programme more towards IB, or
- through setting up a separate support programme under IBeeZ. Such a specific programme could comprise financing – with about \$3 million for 4 years of implementation – the IBeeZ technical assistance facility covering, awareness raising, accreditation, business coaching, policy and knowledge work, impact monitoring and regional exchange (esp. with Nigeria) on IB.
- If funding is available FCDO could also engage in the IB risk reduction and Social Innovation Fund.

- 131. The United States Agency for International Development (USAID)’s 2019–2024 Country Development Cooperation Strategy** aims to advance Zambia’s journey to self-reliance and make progress toward the ultimate objective of ending Zambia’s need for development assistance. USAID emphasizes enterprise-driven private sector growth, good governance, and increased resilience among its vulnerable citizens. USAID assistance in Zambia focuses on (1) effective, citizen-responsive governance; (2) rural poverty reduction and sustainable natural resource management; (3) SME development with a focus on agribusiness, (4) quality health, water and sanitation, and social protection services; and (5) primary education. The 2019-2024 country strategy foresees investments of the amount of \$1.9 billion and thus makes USAID with ZMW 5.5 billion (\$0.34 billion) annually the largest bilateral development partner of Zambia. One of the programmes USAID is financing is EDGE, an accelerator for SMEs in agrobusiness, which also has potential IBs in its portfolio. While USAID in its global work is familiar with the concept of Inclusive Business (private sector-driven investments that do good while doing well), its work in Zambia is not yet emphasizing this cross-cutting result orientation; nevertheless, its work in agrobusiness is very relevant for IB discussion. USAID is interested in enhancing the role of IB in its SME work, bringing companies from its portfolio to IB accreditation, and applying the IB business coaching tools.
- 132. The World Bank’s country partnership framework with Zambia (2019-2024)** aims at reducing regional disparities and catalyzing private sector investment. Projects are for social protection (cash transfers), health and COVID-19 response, agrobusiness development and smallholder and poor farmers livelihood support, reducing infrastructure gaps (electricity, water and sanitation), particularly in rural areas, financial inclusion, basic education and boosting girls enrollment in secondary education, women livelihood opportunities, climate resilience, and programmes for pro-poor fiscal policies and macroeconomic reforms and stability. Since 2018, the World Bank is financing with MCTI \$40 million Zambia Agribusiness and Trade Program (ZATP) to promote growth and market linkages in agrobusinesses. The program finances investments to farmer groups (on average \$39,000 per farmer group of 400 members), SMEs (70% matching grant, on average \$25,000 per company) and export businesses. To date 55,000 farmers, 52% of them women, and 193 firms (target by 2024 = 240)⁵⁰ have been directly benefitting from ZATP, 2,500 direct jobs created, and \$6 million private sector financing unleashed (in addition to bank financing). A \$50-100 million follow-up programme is in preparation and this could focus on IB and GB type of companies (purposeful businesses), rather than on all SMEs or at least target a certain percentage of investment

⁴⁹ For more information, see (www.prospero.co.zm)

⁵⁰ The 240 firms comprise about 5% of the total 4,800 viable agrobusinesses in the country

(say 40%) to IB. The programme could also include a component for building a better enabling environment for IB including a technical assistance component (for IB accreditation, awareness raising, business coaching, policy work and impact monitoring) and an IB risk reduction fund for unleashing finance from impact investors. The World Bank may also wish to use the IB readiness assessment tool to recommend companies under ZATP for accreditation and sponsor – under ZATP – a certain amount of business coaching expenditure (e.g. 20%) specifically for potential an real IB.

4.2.6 Implications for IB Policy Support

133. **IBeeZ action plan can summarize the multi-stakeholder commitments:** The above analysis shows that a multiple-stakeholder approach is best to implement the IBeeZ recommendations. Various partners would be interested in policy work, business coaching, impact monitoring, IB accreditation and in financing the IB Risk Reduction and Innovation Fund. However, the general commitment needs to be transformed into concrete agreements. To this end, it is recommended that after the endorsement of the IBeeZ strategy, the government develops an IBeeZ action plan soliciting the various commitments of various donors in a single document.
134. **A dedicated implementation program needs to be financed.** While mainstreaming IB under existing programmes can help target private sector support to purposeful companies, higher commitment will be achieved by having a dedicated strategy and funding mechanism. To this end, it is proposed that a technical assistance facility worth about \$3 million (for 4 years of implementation) and an IB Risk reduction and Social Innovation Fund for impact investors worth about \$20 million for 6 years of implementation be established.

5 STRATEGIC RECOMMENDATIONS FOR PROMOTING IB IN ZAMBIA

5.1 LEARNING FROM SOUTH-SOUTH COOPERATION

135. **South-south exchange on IB policy promotion since 2016:** Inclusive Business as private sector investment started as a concept in Latin America with IFC and IADB being the main promoter since 2007. The concept then spread to Asia and Africa. Since 2012 the Asian Development Bank (ADB) promoted policy work on Inclusive Business and this was further followed up by support from ESCAP and iBAN for the ASEAN region. Since 2014 various countries in ASEAN established dedicated programmes and strategies to promote Inclusive Business. In 2016 the ADB did the first global conference on IB where also the African Development Bank participated. ASEAN established a system for regular exchange among its economies in 2017. The ASEAN economic ministers also approved the Guidelines for promoting Inclusive Business in 2020. Since 2019 ASEAN and Africa held regular exchanges on IB promotion as part of the ASEAN Inclusive Business summits, and in 2022 for the first time also Zambia participated in that south-south exchange.
136. **The suggestions in the ASEAN policy guide are also relevant for Zambia:** Following the 12 recommendations in the ASEAN IB policy guidelines, and the various experiences in implementing IB policy promotion, IB policy recommendations were developed for Zambia as part of this landscape study and discussed with the government and other stakeholders. ZDA and MCTI as executing agencies of the landscape study generally endorsed those recommendations and are now looking into a programme for implementing policy support for creating a better enabling environment for Inclusive Business in Zambia (the IBeeZ). The features of those recommendations are outlined below.

5.2 THE IBEEZ POLICY RECOMMENDATIONS FOR ZAMBIA

137. **10 strategic IBeeZ recommendations:** In the discussion with the various stakeholders and IB champions, 10 strategic recommendations emerged for a policy going forward with IBeeZ. These are
1. Integrate IB in key policies and bridge to the green growth agenda (8NDP, SME, Green Growth, local content);
 2. Endorse a dedicated IBeeZ strategy and institutional setup;
 3. Do IB awareness raising and advocacy, esp. with business associations, and encourage the transformation of CSR to IB-A;
 4. Establish an official IB accreditation and run it annually;
 5. Create an IB Business Coaching and Mentoring facility;
 6. Build smart IB incentives, esp. on tax (import, VAT), prioritizing IB in public procurement;
 7. Target IB in existing programs and allocated a budget of government and development partners;

8. Establish dedicated IB finance mechanisms, esp. a Risk Reduction Fund for impact investors (IB-RRSIF) and link to the Impact Investing agenda;
 9. Promote sound impact monitoring and reporting;
 10. Engage in regional IB exchange with Nigeria and champion the IB agenda for Southern Africa.
138. These recommendations are further discussed below.

5.2.1 Recommendation 1: Reflect IB in key policies and bridge to the green growth agenda (8NDP, SME, green growth, local content)

139. **Reflect IB in strategic documents, esp. the SME policy and the strategy for a green economy:** Most institutions and firms welcomed the proposal of going forward with a deliberate support program, strategy and action plan for building a better enabling environment for IB in Zambia (the IBeeZ), including strategic references in development documents (such as the 8NDP, the SME strategy, the Green Economy strategy and the local content initiative), a dedicated IBeeZ program or strategy, and a suiting institutional structure. Inclusive Business is by its essence a key instrument to deliver major results in the 8NDP. While because of timing it was not possible to introduce the term in that document and make a direct link, the study strongly suggests integrating the concept of IB in the new SME policy and the Green Economy strategy.
140. **Of particular relevance is the new SME policy.** Here it is suggested not only discussing sector focus but the results orientation of SME support. Green business and inclusive business, in addition to business creating innovations for people and the planet as well as for the economy, would be the three main performance results areas of such a strategy.
141. **Connect IB to the green economy strategy:** The Ministry of Green Economy expressed that a green business could not be sustainable if it is not also emphasizing its impact on poor people. Hence the IB and the Green Business (GB) agenda have many things in common and the Ministry of Green Economy is interested in cooperating with any IB program going forward. In particular, it is interested in using the IB accreditation system to perhaps establish also a green business accreditation system. It was agreed that MGEE engages in the IB rating and the possible broadening of the environmental criteria in that rating. MGEE also nominated a focal point for the IB discussions going forward and for linking them to the GB agenda. The European Union and other development partners showed interest in supporting such emphasis. A concrete step forward, as also requested by MGEE, could be the development of a GB accreditation system, similar to the IB accreditation system.
142. **IB and the local content strategy:** MSMED and ZAM are the custodians of a new strategy to promote local content. Both are very much interested in linking up to the IB agenda. While most IB companies source locally and sell in the national market, some are also doing exports. However, the Local Content Strategy is an approach to promote the origin of products while IB is an approach for enhancing impact for poor and low-income people through private sector investments. While the two agendas have many things in common, one should not mix them or subsume IB under local content. Further discussion on how to link IB to the local content strategy is needed, and ZAM, as a good promoter also of the IB agenda, could champion such discussions.
143. **Scale up CSR, especially of mines to IB activities:** Most of the 18 large Zambian mining companies run CSR programs, some of them quite sizeable. However, the approach followed is very much project-specific emphasizing scholarship, some livelihood programs and some local infrastructure development. The actual spending on these pro-

grams is relatively untransparent, and the social impact is narrow in reach, and depth and does not contribute much to social transformation. The schemes are financially not sustainable and completely depend on grant inputs from the mother companies. Expenditures in those programs are fluctuating a lot. In the landscape study, a deliberate approach was made to encourage some companies to transform their traditional CSR activity into IB activities and make this part of the core business. There is no database on which company is doing what type of CSR, and also the CSR Network does not have this overview. During the landscape study, some reluctance was felt to transform traditional CSR into IB activity, especially on the side of the CSR implementing departments. There are discussions in Zambia to mandate large companies to do CSR; however, instead, the study would rather suggest a) a good overview study on CSR in Zambia – perhaps commissioned to CSR network, and b) concrete IB transformation business coaching to explore the possibility for transforming CSR into IB activities.

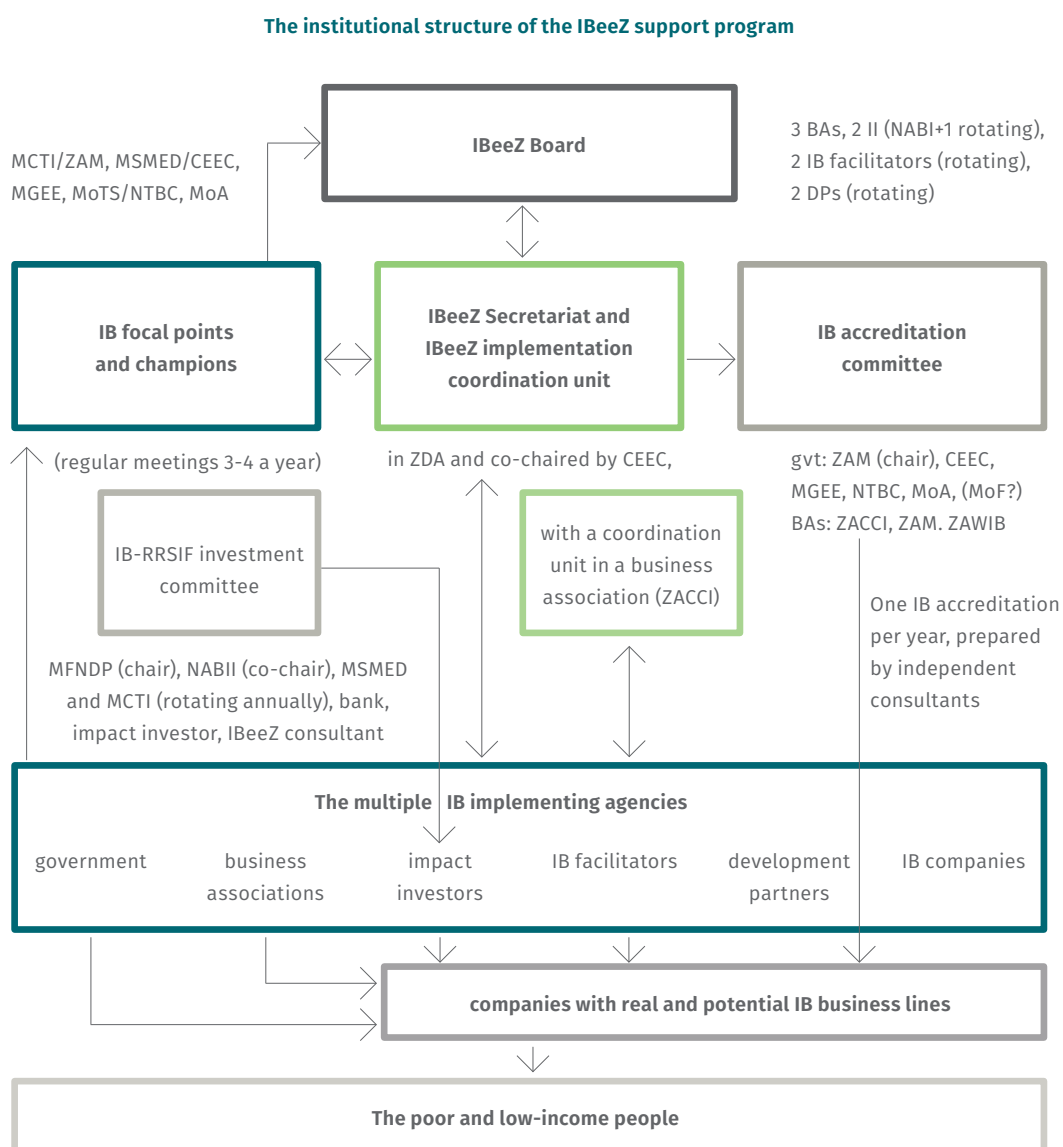
5.2.2 Recommendation 2: Endorse a dedicated IBeeZ strategy and institutional setup

144. **Endorse a dedicated IBeeZ strategy and action plan for implementation:** While integrating IB into other policies is highly relevant, the most effective for the visibility of the IB agenda would be an official government endorsement of an IBeeZ strategy. Going forward, the MCTI confirmed its interest to approve a dedicated IBeeZ strategy and set up the proper institutional arrangement. The strategy would also need a concrete action plan for the multiple stakeholders involved to implement the strategy. While this landscape study makes the key recommendations for such a strategy, its actual formulation and endorsement could be prepared in early.
145. **Set up an appropriate institutional mechanism for IBeeZ support** (see Figure 13 above): The institutional setup should be officially endorsed and publicly communicated. Stakeholders recommended a multi-dimensional institutional setup comprised of
 - an IB oversight IBeeZ advisory board with representatives from government, business associations, facilitators, impact investors, companies and development partners;
 - an IB secretariat in government with perhaps a private sector-driven coordination unit;
 - an IB accreditation committee composed of 4 government agencies and 3 business associations;
 - an IB-RRSIF investment committee; and
 - IB focal points and champions in various agencies would meet regularly to exchange and provide recommendations for IBeeZ.
146. **The multi-stakeholder IBeeZ Board** will provide strategic guidance on policy directions and oversee the IBeeZ initiative. It could establish dedicated working groups for specific topics. The Board would be composed of representatives from government (5), business associations), companies (2 rotating), investors (1 rotating plus NABII), IB facilitators (2-3 rotating), and Development partners (2 rotating plus the financiers of the IB-RRSIF⁵¹ and IB-TAF⁵²). The members would be officially nominated. The Board

51 IB-RRSIF stands for Inclusive Business Risk reduction and Social Innovation Fund. The details and mechanism of the IB-RRSIF are described further below. Such IB-RRSIF would cost about \$20 million for making over 5 years co-investments with impact investors in up to 65 deals.

52 IBeeZ TAF stands for technical assistance facility to implement the IBeeZ. It would finance work on IB awareness raising and knowledge, B accreditation, IB business coaching, background and coordination for creating IB policy incentives, IB impact assessments, and regional IB exchange. Such IBeeZ-TAF would cost about \$2-3 million over 4 years.

Figure 13: The proposed institutional setup for IBeeZ



would be a decision-oriented body with about two meetings per year. It would endorse the annual work plan with a strategic 2-3 years rolling implementation framework.

147. **ZDA as executing agency with MSMED/CEEC as co-chair:** There was a detailed discussion with multiple stakeholders on the best executing agency for a programme going forward, and both the new Ministry for SME Development (MSMED) or the Ministry of Commerce Trade and Industry (MCTI) were suggested. Given that (a) IB is not focused only on small or medium enterprises but also comprises large firms, (b) IBee is about transitioning companies and the industrial development system, (c) MCTI has with ZDA a well-established implementation agency which runs many government programmes while the institutional setup in MSMED is still being reformed, (d) the strong ownership by ZDA, (e) with the new government, ZDA having been reformed to an investment board and its SME promotion work being transferred to the MSME, and (f) with most actions under IBeeZ implementation being outsourced to third party implementing

agencies, most of them outside of the government, most stakeholders suggested making ZDA and in concrete, the enterprise development department in ZDA) the executing agency for an IBeeZ program and MSMED (or CEEC) the co-chair.

148. **IBeeZ coordinating unit for programme implementation:** To reflect the public-private partnership character of the IBeeZ, it was suggested to coordinate the IBeeZ programme through a business association. This unit would be an official part of the IBeeZ secretariat and would provide general coordination functions of the IBeeZ-technical assistance facility, including the actual day-to-day coordination (including outsourcing to service providers as endorsed by the Secretariat's government agencies). This coordination unit would be housed in a business association. Having the government as executing agency and a business association as coordinating the secretariat would give stronger private sector ownership for the public-private partnership approach of IBeeZ. The NABII considers integrating IB in the demand pillar of its impact investing work. To this end, it could work with the coordination unit to technically support the IBeeZ secretariat (especially on finance-related issues).

149. **IB accreditation committee:** Transparently identifying IB among so many other companies is a key for targeting incentives to such companies. In other countries, an IB accreditation committee is set up to endorse the identification of companies with dedicated IB business lines. Given that IB promotion requires both government and private sector ownership, it is recommended that such IB accreditation committee is composed of 12 members, including 6 representatives (1 each) from the government (i.e. MCTI/ZDA, MSMED/CEEC, MFNDP, MoA, NSTB/MoST, and MGEE) 4 representatives of business associations (ZACCI, ZAM, ZFAWIB, ZCSMBA) and eventually also one from the impact investing industry (NABII), and the consultant preparing the accreditation background documents and working for the secretariat.

150. **IB-RRSIF investment committee:** With the establishment of the IB-RRSIF a lean investment committee will be set up to make the final investment decision based on the proposals coming from the impact investing industry. This committee would be comprised of 7 representatives from MFNDP (chair), NABII (co-chair), a bank or impact investor (rotating every two years), MCTI and MSMED as executing agency (annually rotating), and the investment consultant under the IBeeZ secretariat.

151. **IB focal points and champions:** In addition, dedicated IB focal points should be officially nominated at the request of the executing agency in multiple government and business associations, while other institutions (impact investors and business facilitator bodies) would identify IB champions. Regular meetings (say 3-4 per year) should be held with those IB focal points and champions to discuss concrete recommendations for implementing the IBeeZ programme going forward and informing the IBeeZ Board accordingly.

152. **Action plan and piloting in early 2023:** After general endorsement of the IBeeZ strategy by ZDA/MCTI by the end of 2022,
 - the institutional setup proposed would be firmed up and
 - an initial action plan for multi-stakeholder contributions to IBeeZ being prepared in early 2023, and
 - initial activities for piloting especially business coaching would be done from January to July 2023.
 - Parallel to this, funding arrangements would be firmed up.
 - Thereafter IBeeZ implementation will be scaled up from August 2023 onward, initially in a 4-5 years programme.

5.2.3 Recommendation 3: Do IB awareness raising and advocacy, esp. with business associations, and encourage the transformation of CSR to IB-A

153. **Support business associations to do IB advocacy:** Business associations especially ZACCI (national chamber), ZAM (manufacturers), ZFAWIB (women), and ZBAN (business angels), as well as NABII, have a strong buy-in into the IB discussion. They are particularly interested and well-equipped to do IB awareness-raising work, in addition to other stakeholders. Awareness raising and knowledge work would be financed through the IBeeZ technical assistance facility (the IBee-TAF) but implemented through multiple stakeholders and financed on request to the IBeeZ secretariat by the implementing agencies on a case-by-case basis.
154. **Develop a stakeholder website on IBeeZ:** Government agencies and development partners as well as other IBeeZ stakeholders have programmes for SME and value chain development, poverty reduction and other programmes relevant to IB. It is suggested that they integrate IB reference in their work. Of particular importance is creating dedicated IB sections on their websites. It is suggested that those references are linked to a common IBeeZ website under the IBeeZ secretariat set up in early 2023.
155. **Encourage transformation of CSR to IB-A.** Given the large CSR spending in the mining industry, it is also suggested that IBeeZ makes a deliberate attempt to work with the Zambia CSR Network to encourage companies with CSR work transforming this philanthropic giving in more development oriented (and commercially viable) IB activities.

5.2.4 Recommendation 4: Establish a formal IB accreditation system done jointly by the government and business associations

156. **Set-up official IB accreditation:** Selected stakeholders from multiple agencies participated in IB rating and very much welcome the proposed setting up of an official IB accreditation system. As explained in [Appendix A1](#), IB accreditation would be jointly done by government and business associations once a year, based on transparent criteria and professional third-party company assessments. IB accreditation would cost about \$50,000 per year and could be financed under the IB-TAF.
157. **Use the companies identified under the IB landscape study as 1st round of official accreditation:** The companies identified in the landscape study were already recognized by iBAN and ZDA as IB companies during the IB Forum held on 20 October 2022. It is suggested that those companies are officially recognized in a press note from ZDA (as executing agency for the study and IBeeZ going forward, and later officially accredited by the IB accreditation committee.
158. **IB accreditation and awarding should then follow up as a regular annual event,** best towards the end of each year.
159. **Use IB accreditation preparation for transformation coaching:** Apart from having a tool to target support to IB companies and raise awareness on IB results, the background work for IB accreditation (company interviews) can also be used by the companies to enhance efficiency, reduce costs, and improve effectiveness and impact. This would be particularly effective when discussions with companies are linked to the IB readiness assessment tool (see below) and when during such company interviews concrete advice on the business model is being given by experienced consultants.⁵³

53 The IBeeZ consultant team did so in various cases, and companies highly appreciated those insights.

5.2.5 Recommendation 5: Create an IB business coaching and mentoring facility and source it adequately

160. **Finance dedicated IB business coaching and mentoring (IB-BCM).** Finding IB business lines is fine, but more important is engaging with companies that would like to transform into IB and recognising companies that already do IB without knowing. The final success of an IBeeZ initiative lies in the number of companies that were made IB and in the social and commercial impact those companies achieved. A set of 4 business coaching and transformation tools was developed in other countries⁵⁴, and a working group was composed to adapt this to Zambian conditions.
161. **IB business readiness is a self-assessment tool for companies** to see how they fit into the IB discussion and can also be used by portfolio organizations (banks and investors, development partners, government agencies, business associations and business facilitators) to screen their portfolios for potential IB companies. The self-assessment tool can also be used to recommend companies for possible interviewing for IB accreditation.
162. **Applying the IB transformation tool is of higher importance from a results perspective.** This tool is a composition of concrete advice for business facilitators to help companies make the transition towards IB. This would apply to mainstream businesses (from MB to IB-M), companies with corporate social responsibility (CSR) activities (from CSR to IB-A), and NGO-driven social enterprises (from SE to SE-I).
163. **Deep dive business coaching** would apply only to companies that have established large IB businesses and which want to substantially expand their social reach and depth or need to enhance their commercial viability. Such a deep dive would cost about \$20,000 per case.
164. In addition, the **IB mentorship tool** will be adapted. The focus of this tool is mainly on business associations which have mentorship programmes.
165. **Set up a concrete funding mechanism for IB business coaching:** Many institutions already committed to using the IB-BCM tool and development partners expressed in-

Figure 14: Cost estimates for IB business coaching and mentoring

Cost estimates for IB business coaching and mentoring (all in USD)

	cost per company	number of companies	subtotals	cost per year
IB self assessment	300	200	60.000	12.000
IB transformation advice (for potential IB cases only)	7.000	40	280.000	56.000
IB deep dive (for real IB cases only)	20.000	20	400.000	80.000
IB mentoring (for potential and real IB business cases only)	500	100	50.000	10.000
Total estimates (4-5 years implementation period)			790.000	197.500

54 The IB Coaching and Mentoring Guide can be downloaded at: <https://www.inclusivebusiness.net/node/5986>

terest to investing in it. However, to get concrete funding, commitments from development partners and government agencies need to transfer into real agreements. [Figure 14 below](#) provides an overview of costs for a 4-years program going forward with IB-BCM. Such a programme would cost per company about \$300 for readiness assessment, \$7,000 for transformation assessment, \$20,000 for deep dive and \$500 for business coaching. A comprehensive programme for IB business coaching would cost about \$200,000 per year over a 4-5 years implementation frame.

- 166. Training and certification of IB-BCM consultants required:** In the meanwhile, it is suggested that IBeeZ does further briefing and training on the IB-BCM toolkit, and set up a dedicated IB-BCM certification for individual consultants. Only such certified consultants would be used to implement the activities under IB-BCM.

5.2.6 Recommendation 6: Build smart IB incentives on import and value added tax, and prioritize IB in public procurement

- 167. Smart investment incentives for accredited IB:** Zambia has investment incentives for firms. Most of them are either related to industrial zones, or large companies in selected sectors (esp. mining and agriculture). Most companies however do not receive those incentives, because there are too many companies for the broad sector- or company size-based incentives. It is therefore suggested not to mainstream IB incentives, but create separate incentives targeted only to accredited IB companies. There are two types of incentives relevant for accredited IB: 1) tax incentives focusing on value added tax and import tax (but not on corporate tax), and 2) procurement incentives for providing social and municipal services.

- 168. Establish smart tax incentives that serve as investments while broadening the government's tax revenue:** It was clearly stated that given the macroeconomic condition of Zambia, only smart incentives that do not reduce the income opportunities for the government would have a chance to be endorsed. Companies suggested that paying corporate tax is mostly not their problem. However, some firms have big issues with import tax and with value added tax.

- For example, given that there is little indigenous technology in Zambia, the bicycle company, the i-school company and some others would have to import their goods for the poor and sell at high rates because of the high import tax. Since those products are of high social value for society, one can well argue that accredited IB companies should pay lower tax rates. This is also because of the high innovation orientation of such companies.⁵⁵
- Companies and business associations suggested a smart tax incentive which would function as an investment stimulus into business growth. To this end companies would provide the normal (VAT and import) tax in year 1 and get a 50% discount in year 2 (on an already higher revenue), provided it is re-investing this funding into expanding the social reach and deepening results for the poor through its business.⁵⁶
- Finally, to adhere to the need of broadening the tax base, tax incentives must prove that in the end more companies will pay more tax to the government. The position paper made some initial analysis along those lines, showing that the official recognition of IB and providing smart tax rebates would incentivise such com-

55 For example, tradition production of schoolbooks is tax exempted, but electric schoolbooks not. Similarly agrobusiness is tax exempted but companies providing nutritious products for the poor are not.

56 Such a system has been piloted for example in an IB project in China financed by th Asian Development Bank.

panies not to split their business to avoid tax payments. The fact that IB companies have strong revenue growth also suggests that government can broaden its tax base by encouraging more such specific companies and supporting their growth.

169. **Tax incentives must further broaden the tax base of the government.** Given the budget constraints and the need to broaden the tax base, tax incentives will only be supported by the Ministry of Finance (and the IMF) if they prove to increase the availability of taxable companies by creating in a short timeframe more profitable companies with higher revenue growth. An initial position paper on incentives for IB (focusing mainly on tax) was drafted and it makes the case for how the budget can increase its revenue while giving smart tax incentives being used as investments in the growth of companies. It also makes the case that corporate taxes are less important for encouraging companies to engage in IB business lines.
170. **Go beyond a position paper on tax incentives:** An initial position paper was prepared on the tax incentives by a small working group and this will be finalized in early 2023 after further discussions with government agencies and especially the Ministry of Finance. Some government agencies (especially MGEE and MSME) and particularly business associations (ZACCI, ZAM, ZFAWIB) and development partners (e.g. AfDB, Germany, EU, Finland/AEG, IrishAid, SIDA, World Bank) found these ideas highly interesting. However, clearer leadership would be required by a government agency and a business association to make tax incentives happen. Official participation of MCTI and MSMED in finalizing the position paper on tax could be the first step.
171. **Establish IB incentives, especially with regard to tax and procurement.** Another key incentive suggested by companies is related to public procurement. It is proposed that selected government agencies commit to buying x% of their goods and services from accredited IB companies. The rationale is that such companies have a stronger impact on poor people and the planet. CEEC suggested that the procurement letters provided by them could be an instrument to emphasize IB, but such recommendations are not yet sufficient to guarantee public demand from private sector IB companies and a mechanism to better observe actual results needs to be established.

5.2.7 Recommendation 7: Target IB in existing programs and allocated budget of government and development partners

172. **Not mainstreaming:** IB is a dedicated company type. Only a few companies (maybe 100-200) would qualify as IB over a 4-5 year period. However, their impact will be very large. IB can therefore not be mainstreamed to all companies and a dedicated IB support program is needed to create a better enabling environment for such companies doing well while doing good.
173. **Target IB in development programmes.** While mainstreaming is perhaps not a good approach, specifically assessing development budgets on their IB implementation potential and setting up specific targets for IB implementation is recommended as an effective way forward. To this end, it is recommended that a study be done in 2023 on the possibilities for IB targeting in selected government programmes, such as SME promotion, poverty reduction, and sectoral programmes (agribusiness, housing, and later, education, health). Such exercises would go through the budgets of different agencies (and perhaps also include programmes of development partners in Zambia) and identify areas where services could be delivered by IB companies.⁵⁷ The targeting would also identify the rough percentages of amounts that can be targeted for IB

⁵⁷ For example IB could be a component of the follow up ZATEP program under MCTI – or its proposed follow up program – to target IB as a certain percentage of the SMEs in agrobusiness and other sectors country-wide.

implementation. Such budget targeting would also be linked with identifying concrete outputs/outcomes for achieving impact with the poor. The exercise could help governments rationalize their budget (as IB can often achieve targeted impact with less amount of money as input).⁵⁸ The results could then also be used to prioritize public procurement to selected IB (and Green Businesses) implementation of public programs.

5.2.8 Recommendation 8: Support the financing of IB by establishing a dedicated IB finance mechanism to reduce investment risks of impact investors (IB-RRSIF) and link this to the Impact Investing agenda

174. Unleashing financing for IB would mean encouraging more impact investments:

There are various SE funds available in Zambia, and impact investors are interested in placing funds in good businesses. As II works in the markets of the poor which is less understood by banks, impact investors have a special role to play in providing financing. However, both banks and impact investors continuously raise two impediments in that available funds cannot be placed: 1) the lack of appropriate business proposals for which business coaching and piloting innovations can help make a difference, and 2) the assumed risk in the markets of the poor. It is therefore proposed to establish a risk reduction and social innovation fund for impact investments in Zambia. This IB-RRSIF can be established either as a national fund or – to hedge investment risks – also as a regional body covering also Zambia.

175. Two components: The IB-RRSIF would have two components and more information on the IB-RRSIF is in [Appendix 11](#).

- The first component is to reduce assumed investment risks by providing upfront co-investment with an impact investor (say 20:80 share). This co-investment would be given on a concessional loan basis to impact investors and a guarantee will be added that if the investments have commercial problems due to unforeseen events (e.g. droughts, COVID-19) but the social impact is happening the government share would transform into a grant. An example is an investment in a housing company where the poor need to restructure their mortgages due to COVID-19; in this case, the social impact (housing for the poor) remains working but the impact investors would balance some financial losses due to the restructuring of the mortgages, and this would then be covered by the fund as a grant.
- The second component is a grant component where a social innovation would be tested, and the tested financing would transform into a grant provided the impact investor will upscale the investment after the piloting up. An example is a water company that wishes to pilot whether its last-mile connection features can be expanded to remote households outside of the villages.

176. The fund would make about 65 investments over 5 years, and implement somewhat fewer innovation pilots. It would cost in total about \$20 million which would be financed by a sovereign concessional loan (or grant) of a multinational development bank or a bilateral/multilateral development partner supporting the government of Zambia. Funding decisions would be made by an investment board (no expensive fund manager), and the IB-RRSIF could be placed either as a budget line under the Ministry of Finance or under the Development Bank of Zambia.

⁵⁸ As part of the IB study for Malaysia an initial budget targeting was done for the SME promotion programs of various government agencies. The analysis also comprised initial calculations on the budget and additional GDP contribution of such IB targeting.

- 177. Align with NABII on the impact investing agenda:** Inclusive Business and impact investing are closely related. While impact investing follows a broader approach of placing funding for development impact (including, people, planet and technology), IB emphasises the development impact for poor people plus environmental and climate impact in investments that also serve income or living standard solutions for the BoP. Impact investing focusing on IB and GB (sustainable businesses) may have a higher development impact than investments in companies achieving tech or infrastructure objectives or serving the interest of the middle class. To this end, bringing the IB agenda closer to the II agenda ensures a higher development impact on the society (and the distribution impact on the economy. It is because of this reason that the NABII committed to making Inclusive Business the main work area of its demand pillar and including the IB-RRSIF in the capital supply pillar of its work. NABII also volunteered to support the work of the IB-RRSIF investment board.

5.2.9 Recommendation 9: Promote sound impact monitoring and reporting

- 178. Support impact assessment and reporting at three levels:** A programme going forward with IBee promotion in Zambia should also have a dedicated component funding for impact assessment at the company, sector and national levels and reporting accordingly.
- At the company level, selected impact assessment would be cost-shared with companies and reporting guidelines established as well as capacity build to do impact monitoring and setting up reporting systems.
 - At the sector level, various thematic studies on impact assessment and innovative IB examples will be financed.
 - The component will also comprise some funding bi-annual reporting, and annual IBeeZ exchange (regular IB Forum).

5.2.10 Recommendation 10: Engage in regional IB exchange with Nigeria and establish leadership on IB policy promotion in Southern Africa

- 179. Engage in regional exchange on IB:** IB policy promotion is actively discussed in Africa and Asia. The 5th ASEAN IB summit (26+27 October 2022, held in Cambodia) had a special session on south-south dialogue on IB. Nigeria, which undertook a similar landscape study and policy work, participated in the Zambia IB Forum and is interested in exchanging further with Zambia. It is recommended that Zambia explores becoming a sub-regional leader for the IB discussion in Southern Africa and joins Nigeria and perhaps the African Development Bank to establish a regional dynamic on IB promotion in Africa.

5.3 THE NEXT STEPS FORWARD

- 180. Principal endorsement by MCTI and MSMED sought:** To move forward MCTI – in collaboration with MSMED – needs to give a principal endorsement of the recommendations, perhaps by early 2023. As a concrete step forward and to show its commitment, MCTI may wish to establish the IB accreditation committee and do the first IB accreditation in early 2023 by focusing on the companies assessed in this study. This would give a clear signal on the government’s commitment to go forward with IBeeZ.
- 181. Establish IBeeC-TAF and IB-RRSIF for financing Inclusive Business policy and investments:** In addition to integrating IB into existing programmes, establishing two dedicated funds for IBeeZ promotion is proposed. Having such dedicated funds is most probably more effective than only mainstreaming IB in ongoing (or new) programmes as a separate IBeeZ initiative would have clear performance indicators and an action plan for implementing IBeeZ. It is therefore recommended to establish two funding mechanisms under IBeeZ, one for the technical work on the enabling environment for IBeeZ and the other for facilitating investments in IB companies.
- **Technical assistance for a comprehensive IB promotion program:** It is recommended to set up a technical assistance facility (the IBeeZ-TAF) to promote key dimensions of the IBeeZ strategy, such as IB awareness raising, IB accreditation, IB business coaching, IB policy and knowledge work, IB impact monitoring and regional exchange on IB. Such IBeeZ-TAF need to be financed through a grant (or various grant contributions). It would cost about \$2.5 million for 4-5 years of implementation. The study sought out interest among development partners (such as AfDB, Germany, EU, IrishAid, SIDA, UK Aid, and World Bank) to finance IBeeZ-TAF or its components. However, concrete steps forward would require official government commitment and request. It is suggested that the proposed executing agency (MCTI), maybe supported by MSMED and MFNDP establishes such contacts with the above-mentioned agencies. While ZDA would be the executing agency for the IB-TAF (and MSMED/CEEC the co-chair) it is proposed to institutionalize fund flow arrangements in a way that reflects the true public-private-partnership character of the IBeeZ, i.e. having a coordinating agency outside of government, eventually through ZACCI. The proposed fund flow arrangement is in [Appendix 12](#).
 - Of particular relevance for promoting more investments in IB is the establishment of the **IB Risk Reduction and Social Innovation Fund (IB-RRSIF)**. Such a fund would be used for co-investments (10-30% of the deal size) with impact investors IB-RRSIF to a) reduce investment risks and b) pilot innovations for scaling reach and depth in IB companies to later upscale under the impact investors’ funding. A discussion group was set up to prepare the concept paper for the IB-RRSIF by mid-October and held a separate roundtable discussion as part of the 2nd Zambia Impact Investing summit organized by NABII. NABII also indicated its interest to serve in the IB-REAIIF investment board. It is calculated that an IB-RRSIF of \$20 million for 65 deals would unleash investments from impact investors in the amount of \$95 million. The fund would be established as a revolving fund and deducting the first loss risk financing and the innovation grants about 55% of the fund could be replenished in 5 years. The investment features of the fund are summarized in [Appendix 6](#), and more information on the IB-RRSIF is in a separate paper currently being finalized.
- 182. Target IB investments under selected new programs of development partners** After the general endorsement by the government, development partners and government agencies can already assess their existing programmes on the possibilities for targeting to achieve results through IB companies and prioritize such firms.

6. SUMMARY AND CONCLUSION

183. The study found that **Zambia has IB companies**, which offer financial returns and social impact at scale, as well as many stakeholders, which are interested in promoting a way forward to encourage more companies making the transition towards going good while doing well.
184. **There is a good ownership** to promote IB through the outlined policy recommendations and infrastructure in both Ministry of Commerce Trade and Industry as well as Ministry of SME Development, and their key implementation agencies, ZDA and CEEC. Outside of the government, the National Impact Investing Board (NABII), the 3 key business associations, and a few business facilitators are the key champion for promoting IB. Development partners are interested in the concept but have not yet come up with a dedicated program to support IB, albeit IB type of companies are part of their SME development and agri-value chain programs.
185. **Tangible support from development partners under an IBeeZ program** is important to move the IB agenda forward. This support can take the form of a dedicated IBee technical assistance facility (IBee-TAF) and an IB risk reduction and social innovation fund (IB-RRSIF). To be effective, the two programs should be equipped with sufficient funding (\$3 million and \$20 million for a 5 years program), with dynamic experts and a multi-stakeholder implementation structure anchored in a true public private partnership institutional framework.

APPENDICES

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METHODOLOGY OF THE STUDY

Policy recommendations under the involvement of multiple stakeholders: The IB landscape study was requested by the Zambia Development Authority (ZDA) under the Ministry of Commerce Trade and Industry (MCTI). The study was done through intermittent inputs from 3 consultants between November 2021 and October 2022 using a highly participatory approach.

- After two initial IB seminars with ZDA and with government and business associations explaining the features and rationale of the IB concept.
- Two half-day workshops clarified the IB concept among the consultant team and laid the foundation for the company assessment and policy interviews. The workshops also agreed on the rationale for the BoP thresholds and company sizes by sector, as well as the criteria, weights and benchmarks for the company rating and the benchmarks.
- **Participatory inputs to recommendations on IB incentives, IB business coaching and IB** The findings of the study are based on background reading, multiple interviews with 32 companies and 38 stakeholders (and more than 100 experts and colleagues) from government, business associations, impact investors, facilitators and development partners.
- The consultant team solicited strategic policy recommendations through 5 stakeholder workshops, organized in cooperation with ZDA. These were on 28 May (North-Western region of Zambia) and 11-14 July 2022, with business associations and business facilitators (11 July 2022), Impact investors (12 July 2022), development partners (13 July 2022) and government agencies (14 July 2022) in Lusaka.
- In addition the team held - together with NABII - a roundtable discussion on Inclusive Business and Impact Investing during the 2nd Zambia Impact Investing Summit on 13 September 2022.
- It also organized the first IB Forum for Zambia (20 October 2022).
- Finally, the team established 3 working groups on (1) IB financing, (2) IB incentives, and (3) IB business coaching. The working groups are coming up (by early 2023) with initial position papers on IB tax and procurement incentives, on a risk reduction and social innovation fund (IB-RRSIF), and IB readiness self-assessment and IB transformation coaching.
 - The selection of IB companies was in three steps, i.e. longlisting about 215 firms, shortlisting 46, interviewing 24, IB rating of 23 firms, and finally coming up with 14 real and 4 potential IB companies for which detailed company assessments and ratings are documented. The 18 IB companies are ready for official IB recognition by the government and business associations.
 - Some recommendations were detailed in discussion with local stakeholders for which 3 working groups on 1) IB business coaching, 2) IB financing and 3) IB incentives were formed. These working groups aim to complete their position papers by early 2023.
 - The study also comprised ownership building among multiple stakeholders and initial discussion for multi-stakeholder implementation and financing.

- The study report was drafted in October-November 2022 and will be published by December 2022.
- After completing the study iBAN arranged the possibility for follow-up work on institutionalizing the strategic recommendations under a project financed by the Investment Climate Reform Facility (ICR) financed by the European Commission. It also collaborated with National Advisory Board on Impact Investing (NABII) to integrate IB promotion in the workstream of its demand of capital pillar.
- It is hoped that based on these recommendations, the government of Zambia – through ZDA/MCTI - will establish by mid-2023 and then implement a dedicated programme for promoting an enabling environment for Inclusive Business for Zambia (IBeeZ).

186. For the company analysis, a composite rating tool was used to identify companies with real and potential IB models. A similar tool has also been used in other countries in both IB landscape studies and IB policy recommendations. It is the basis for official IB accreditation done jointly by the government and business associations. The tool assesses the performance and growth of companies against 30 transparent criteria and 90 sector-specific benchmarks. The criteria are weighted, and the actual scoring was initially discussed by 2-3 experts and a consensus rating was achieved. The rating is based on the company results assessed against benchmarks and weights pre-agreed upfront for all sectors and company sizes. The company rating was tested with the participation of various stakeholders, and at the end of the company interviews, IB firms were also asked to do a self-rating of summary criteria; the results of the self-rating were mostly very consistent with the rating later done by the consultants. A summary of the IB accreditation tool rating system is in [Figure A1-1 below](#).

Figure A1-1: Rating the IB companies.

The IB accreditation system - summary of criteria and rating

	weight	sector benchmark	actual achievement	agreed rating (1-6)	scoring (rate x weight)
The IB strategic intent (route to impact, BoP engagement mode, understanding B40 problems, relevance of the business for the B40)					
The commercial return	40%				
company (size, profitability, bankability)	10%				
The IB business line (revenue, growth, business risks, operational cost recovery and profitability)	20%				
Company governance	5%				
ES safeguard standards	5%				
The social impact of IB model	46%				
reach (beneficiaries, targeting, women empowerment)	19%				
depth and relevance	15%				
systemic change for poverty reduction and inclusion (sector, geographic, gender, relevance, BoP risks)	12%				
Innovation	14%				
business	5%				
technological	3%				
social (CSR, ...)	3%				
environment	3%				
Total	100%				
The rating/scoring			maximum possible	minimum eligible to qualify as IB	actual scoring
IB strategic intent (understanding route to impact, BoP engagement mode, relevance of business model for BoP solution)			6,00	3,00	
overall scoring			6,00	3,20	
business (commercial + business and technology innovations)			2,88	1,30	
social (social impact + social innovation and CSR)			2,94	1,50	
innovation (sum of innovation)			0,84	0,40	
governance			0,30	0,15	
ES safeguard			0,30	0,15	

Note: Companies close to the minimum thresholds may qualify as "potential IB" and receive IB business coaching to make the company a real IB. Real IB companies receive access to public incentive programs. For broadening the IB initiative and results for society, it is more important to focus on the companies that can actually transition into IB.

METHODOLOGY FOR THE CERTIFICATION (AND ACCREDITATION) OF INCLUSIVE BUSINESSES

Accreditation is at the core of any incentive for IB companies: For any support to private companies, the public hand (government) needs good reasons and transparent criteria for identifying the right companies. Typically, support to private sector companies is rationalized by arguments like priority sectors, earning foreign exchange through export, or being located in priority areas. Inclusive Business add a fourth dimension, namely the tangible and deliberate (not trickle-down) impact on improving the income or living situation of the poor and low-income people. As Inclusive Business investments can be found in all sectors, all geographical areas, and are not necessarily export oriented (although some are), they form a separate category for investment support. However, the social result orientation of the IB business line and the social impact the business will have needs to be proven ex-ante as a deliberate approach in the business model (design for impact and business return). Of the many companies existing in the Zambia economy, only few would probably qualify as following Inclusive Business models, initiatives or activities, although many might work with the poor or sell to them. But these few companies can have large and highly relevant social impact for society; hence the importance to identify such companies and promote them or encourage new IB companies.

Benefits of IB accreditation for the private sector: As self-claiming of social impact is not a good practice and would result in market distortion, a clear and transparent system needs to be set up to certify IB business lines of a company. Accrediting such companies through a public-private-partnership mechanism would give them branding⁵⁹ and recognition, and thus further help their business case. The IB accreditation can also be linked to incentives given by the government (such as business coaching, financing, tax and trade, investment, sale and procurement prioritization and other incentives). Furthermore, IB accreditation will help companies approaching impact investors, especially if such accreditation is linked to summary write-ups on the business case and its social impact.

Principles of IB certification: The key principles of such accreditation system are outlined below:

- **Voluntary** accreditation: The IB accreditation will be on voluntary basis.
- Accrediting **new business lines**: To encourage the private sector creating new business models, the accreditation would be based on the new investment of a company, rather than long existing investments.⁶⁰ Furthermore, only the IB related business line would be accredited, not the whole firm, as companies might have various business lines of which perhaps only one is IB.

59 For example, companies can tap into new markets of fair trade, and often have advantages against their competitors when they can prove how they help poor people. This is also relevant for export markets. IB accredited companies may also have advantage in accessing finance from the impact industry, get public procurement contracts, and substantially enhance their branding as a responsible business doing not only well but also good..

60 For business reasons investments that are less than 2-3 years old at the time of rating would qualify as new.

- Same criteria and weights but different targets for small and larger firms: While the IB accreditation will be done for business lines that are for-profit, such firms can be small or medium-and large sized.⁶¹ The company size will be determined by revenue criteria only, with small companies and for-profit social enterprises being defined (in the Zambian context) as having annual revenues of \$0.1-\$0.5 million (ZMW 1.5-8 million), medium sized companies from \$0.5-\$3 million (ZMW 8-50 million), and larger companies above \$3 million (>ZMW 50 million). Companies with revenues smaller than \$0.1 million (ZMW <1.7 million) will normally be considered as non-eligible for IB accreditation.⁶² All three company categories will be assessed against the same criteria; however, the set targets for the criteria will reflect the company size.
- Targeting the poor and low-income people: Inclusive business models, activities, and initiatives are designed to create solutions for the lower income groups (the bottom 40%). IB models seldom target only the extreme poor (bottom 10-20%), rather they focus more on the low-income people among the BoP. Sometimes, they also include the better-off in their business models, although to qualify as IB the majority of impact needs to be achieved (target) for the BoP. Thus, the impact rating tool will assess the share of the poor and low-income people (should be at least 51%) in the business solutions, based on the main engagement mode of the IB business line. Agrobusiness companies, for example might sell to high-income households in foreign markets, but the impact they achieve is with the supplying poor and low-income farmers mainly. A health provider might offer its services also to be better-off thereby cross-subsidizing the same quality service provided to the poor. The very poor households are classified in rural areas as those with household income of less than ZMW 1000 (<\$50) poor with household income of ZMW 1,000-2500 (< ZMW 150), and low income with income of less than ZMW 5000 (<\$300); for urban areas the thresholds are higher and for rural areas smaller. These numbers tally roughly with the international poverty lines of \$1, \$1.9 and \$3.2 per capita expenditure per day.⁶³
- Considering growth: The business plan of a company will be assessed based on its past 3-years results and its future projections (3-5 years).
- Incentives based on results: For possible IB incentives given by the government or the IB support program (such as business coaching and technical assistance, financing, investment, procurement, etc.), the company and the government will sign an IB agreement stating the progress in achieving the respected social impact, and incentives will be given according to implementing those commitments.
- Reassessing impact: The initial accreditation will be re-assessed every 2-3 years, and incentives will be released accordingly. However, all companies passing the IB threshold will be given the IB initial accreditation seal upfront, which can be used for branding. Also business coaching is one of the incentives that can be given upfront.

Criteria for the IB accreditation tool: A transparent tool and assessment technique will be used to identify IB business lines. The tool will be comparable between sectors and

61 Employment criteria will not be used because the IB accreditation is related to the social purpose of the business model, and many companies achieve this not through direct employment, but through job and income creation through supply chains and distribution channels, and through the delivery of relevant service and goods by involving the low-income people as customers. Some companies also have business models where they involve the poor as shareholders. There can also be a mix of these 5 engagement modes.

62 The size thresholds for IB business lines may be further adjusted later. Note that the threshold for the IB business line and that of the whole company may not always be the same.

63 According to the World Bank and based on 2015 poverty figures in 2018 about 58.3% of the population have expenditures of less than \$1.9, further increased by COVID to estimated 60.7% in 2021.

different company sizes. To this end criteria will apply to all companies and sectors. However different targets and benchmarks for fulfilling the criteria will be used for smaller and larger companies and for different sectors. [Figure A1-1](#) summarizes the rating system and [Figure A1-2](#) gives the detailed rating benchmarks for IB eligibility. The criteria will be weighted on their importance for the IB discussion; criteria and weights are shown in [Figure A1-2](#) and the benchmarks are in [A1-3](#).

Independent technical assessment: The accreditation is based on initial recommendations done through a solid and independent technical assessment of the business, its deliberate social and the innovation to create systemic solutions for the BoP. The initial assessment is done through an independent third parties (consultant) is done based on transparent criteria and benchmarks assessing three key business dimensions (i.e. business case and financial returns, social impact, and innovation to achieve poverty reduction). The assessment (and accreditation) is based on the following principles:

- The business case and the strategic intent: An assessment of the strategic IB intent of the company will clarify (a) the route to impact (either income increase or living standard improvement of the BoP), (b) the BoP engagement mode (supplier, consumer, distributor, labourer, shareholder), (c) the company management's understanding of the systemic problem of the poor, and (d) how the company management will address this systemic poverty problem management.
- The commercial viability and financial returns: The accreditation methodology will allow assessing the business case based on financial criteria such as revenue and scale, profitability (including capacity to serve the operational and investment costs), addressing business risks, and bankability. This brief assessment will be done for both the company as well as the IB business model. Assessing the business case is important to get information about the financial sustainability, scale, and growth perspectives of the investment. The commercial assessment will also comprise an analysis on how the company complies with ESG safeguard standards and how it is governed.
- The social impact through reach, depth and contributions to systemic change for the poor: The accreditation system would go beyond criteria of lives touched (reach) and add criteria on how deep the benefits are and what systematic change the business line is bringing for the relevant problems of poverty and exclusion. The social impact assessment consciously goes beyond "reach" to document the actual use of the benefit to create visible improvements on the outcome of BoP people's life. and how it changes the poverty situation in a country, sector or geography.
- The business and social innovation: IB companies need to be very innovative to address the risks when working with the poor and to achieve high returns while often having small unit margins (due to the low consumption power of the poor). There establish business innovations which often covers the risks of the poor on their own costs, thus further helping the poor. Apart from business and technological innovations, IB companies often also apply social and environmental innovations. These innovations will be assessed on their relevance for the business case to finally create good results for the poor.

The rating thresholds: For evaluating the information, a composite rating tool will be used: IB companies have small, medium or larger impact on the poor, and their impact can derive from various factors such as strong or weak business case, large or small social impact, and high or low innovation.

- To better clarify the range of impact and do justice to the diversity of business lines offered by the private sector, the impact assessment tool is based on a composite rating tool that qualifies between high, medium, and small achievements,

then rates those (1-6), and can thus determine where a company stands on an inclusiveness scale.

- The IB rating is a combination of weighted (in percent) quantitative and qualitative criteria, with benchmarks for different sizes of enterprises, a result rating of 1-6 (indicating high, medium and low impact), and a final scoring of the IB assessments.
- In the case of Zambia, the maximum weight for commercial viability was set at 40% (of which 10% for the company and 20% for the IB business lines commercials, as well as 5% each for adhering to company governance and environmental and social safeguards), for social impact at 46% (of which 19% for social reach and targeting, 15% for social depth, 12% for systemic change contribution) and for IB relevant innovations at 14% (of which 5% for business innovations, and 3% each for technology, social and environmental innovation).
- Companies will have to pass different thresholds for qualifying as IB. IB eligibility thresholds comprise the minimum score for total rating (3.2 = 53% of total possible scoping of 6.0), for business impact (minimum 1.3 = 40%), for social impact (minimum 1.5 = 51%), for transformation impact (minimum 0.8 = 53%), for governance and environmental and social safeguard (minimum 1.13 = 55% each) as well as for the IB strategic intent (minimum rate of 3). Graph 2 below summarizes the IB eligibility rating score thresholds, showing for being eligible as IB in Zambia we suggest making some compromises on the commercial viability and also the expected social impact can be just slightly higher than the median.
- Companies that pass the agreed eligibility thresholds will be eligible for IB accreditation, while those slightly lower than the eligibility threshold but with strong IB potential may be rated as potential IB with the option to graduate into real IB once business changes are being implemented

Figure A1-2: The IB rating eligibility thresholds

IB eligibility thresholds

	maximum score possible	minimum (for IB eligibility)	
		score	in % of maximum
strategic intent	6,00	3,20	53%
overall	6,00	3,20	53%
business (commercial + business and technology innovations)	2,88	1,30	45%
social (social impact + social innovations and CSR)	2,94	1,50	51%
innovation (sum of all 4 innovation areas)	0,84	0,40	48%
governance	0,30	0,15	50%
environmental and social safeguards	0,30	0,15	50%

- Other companies not meeting the required thresholds are rated as mainstream business, NGO-driven social enterprise or traditional CSR with not potential to transition into IB.

The process of assessing a business line: The IB rating is voluntary for the companies.

Companies that wish to be accredited as an IB will first be judged on an IB readiness assessment.⁶⁴ Thereafter, potential IB companies would need to fill up a summary IB questionnaire and agree on an 2 hours interview with a technical expert (third party). The technical expert will initially screen the business line and prepare a succinct write-up (1-2 pages) with data and recommendations for the IB accreditation committee. This information will then be the basis for the final IB rating of the accreditation committee. Companies will be informed about the decision, the write-up will be shared on a confidential basis, the detailed IB rating will not be shared, and a summary write-up will be prepared in consent with the company for further publication.

The four steps for assessing and accrediting an IB business line are further described below:

- First, an IB readiness assessment looks at (a) the company's strategic intent, (b) its deliberate planning for achieving BoP impact (through raising income or improving livings standards of the poor), (c) its BoP engagement mode (as consumer, supplier, labourer, distributor or shareholder), (d) its size and growth potential for solving BoP problems, and (e) its commercial viability. The readiness assessment has 20 questions, and can be done in 15 minutes per company, given that appropriate information is available. The IB readiness assessment can also be done by business association and other stakeholders, or by companies themselves and results in recommending companies for the formal IB accreditation process. The concept note and criteria to prepare IB readiness assessments can be shared separately.
- Independent and in-depth IB assessment: Companies that consent their interest in being IB accredited will be examined through an in-depth interview and follow up criteria. Thereafter an initial IB rating is done. This initial assessment is done by an independent (third party) technical consultant, engaged by the executing agency for the IB initiative in Zambia. It is purely done based on technical criteria.
- Formal IB accreditation: The recommendations of the technical consultant will be proposed to the IB accreditation committee for final decision. The IB accreditation committee is composed of representatives from government and business associations, and meets twice a year. The decision is consensus based and relates to transparent criteria and benchmarks as described below. The final decision of the IB accreditation committee relates to whether a business line would qualify as (a) potential or real IB, or (b) whether it is rather a mainstream business, NGO driven social enterprise or implementing a traditional CSR).
- IB award and incentives: To enhance branding and recognition, IB accredited companies will be recognized in an official IB award ceremony, hosted jointly by government and business association, and widely publicized through media. The companies are requested to publicize their IB business line, for which a specific content structure is provided. Going forward with IB accreditation, the executing agency of the IB initiative will provide some technical assistance on impact monitoring and reporting. Companies with IB accredited business lines may have access to different incentives under the IBeeZ (enabling environment for Inclusive Business in Zambia) support program.

Who is doing the IB rating and the IB accreditation? Based on the initial (independent) assessment, a team of IB focal points from 4-5 government agencies and 4-5 business associations (the IB accreditation committee) will do the actual rating and endorse the accreditation

64 An IB readiness assessment was also developed for initial self-assessment of the IB readiness.

of the proposed companies. In addition, an IB readiness assessment tool was developed (Appendix 3) which could be used by companies for their initial self-assessment and by business associations and other stakeholders for assessing the IB readiness of their clients or members.

Composition of the IB accreditation committee: IB accreditation can principally be done by either government, by business associations, or by an independent agency such as NGO or research institute (as in the case of most environmental and fair-trade standards). Accreditation by business associations alone are not encouraged, because there is the danger of accrediting members only, and the results might lack the government endorsement. Accreditation by government alone might lack ownership by the private sector especially if such accreditation is mainly linked to branding. Accreditation by external agencies might not be accepted by the business nor the government and can be questioned on its transparency. Therefore, it is suggested that Zambia is setting up a joint accreditation system with inputs from government (ministries of industry, SME development, ZDA, finance, agrobusiness) and business associations (ZACCI, ZAM, ZWEA and the CSR or social enterprise network), and CCC, CWEA, FASMEC, YEAC, and CSSEN (for commercial social enterprises) is set up. The accreditation committee is chaired by the executing agency of the IBeeZ initiative. The actual accreditation will be prepared by the IBeeZ secretariat and the technical inputs (company interviews, write up of the IB business line, initial analysis and rating) will come from an independent (third party) consultant.

IB accreditation template

name of company (IB objective)			
location head office:		impact areas (districts):	
sector (subsector), IB business line:			
Date of interview:		Date of rating:	

SDG contribution (please tick): __ SDG 1 (income poverty), __ SDG 2 (hunger), __ SDG 3 (health), __ SDG 4 (education), __ SDG 5 (gender), __ SDG 6 (water), __ SDG 7 (energy), __ SDG 8 (decent work), __ SDG 9 (infra+industry), __ SDG 10 (equality), __ SDG 11 (cities), __ SDG 12 (responsible production+consumption), __ SDG 13 (climate change), __ SDG 14 (life in water), __ SDG 15 (life on land), __ SDG 16 (peace), __ SDG 17 (global partnership)

IB business line or whole company?			
IB strategic intent / commitment:			
Understanding route to impact (if multiple please indicate %):		living standard (100%) + income (__%)	
Understanding B40 engagement mode (if multiple, indicate %)		supplier, consumer, distributor, ... (%)	
IB type IB (IB-I, IB-A, IB-M), IB potential, other (MB, CSR, NGO-IB)			

		sector benchmark	company actual	company self-rating	rating 1
The commercial return	40%				
company	10%				
size	4%				
profitability	3%				
bankability	3%				
IB model	20%				
revenue (today)	5%				
growth (3 years)	6%				
addressing business risks	5%				
profitability	4%				
Company governance	5%				
ES safeguard standards	5%				
The social impact of IB model	46%				
reach	19%				
beneficiaries	8%				
targeting	7%				
women empowerment (engagement+empowerment)	4%				
depth and relevance*	15%				
for income models	15%				
before - after	4%				
market rate and competitor	6%				
sustainability for B40, addressing the B40s' risks	5%				
for living standard models	15%				
relevance of product (incl. Income increase)	6%				
affordability of product	4%				
delivery mode and how the company addresses risks of the poor	5%				
systemic change for poverty reduction and inclusion	12%				
sector impact	4%				
geographical impact	3%				
gender	2%				
relevance and transformation	3%				
Innovation	14%				
business	5%				
technological	3%				
social (CSR, ...)	3%				
environment	3%				
Total	100%				

challenges and suggestions:

Comment:

Suggestion for possible IB agreement can it be made IB or not ?

To qualify as an IB business lines, companies must achieve at the same, (a) an overall rating > 3.2, (b) a business rating > 1.3, (c) a social impact rating > 1.5, (d) an innovation rating > 0.4, (e) a governance rating of minimum 0.15, and (f) a ES rating of minimum 0.15. Companies close to the required thresholds with high strategic intent (4 and more) could qualify as potential IB.

IB strategic intent and understanding		minimum	3,20	
Total		minimum	3,20	
business (commercial + business and technology innovations)		minimum	1,30	
social (social impact + social innovation and CSR)		minimum	1,50	
innovation (sum of innovation)		minimum	0,40	
governance		minimum	0.15	
ES safeguard		minimum	0.15	

*if a company has 2 routes to impact, the rating is in % to actual impact contribution

	geographical region / province:	location (rural/urban)	
	exchange rate (USD : Kwacha)	17,2	

strategic intent	weight	rating 1	rating 2	rating 3	joint scoring
rate IB commitment (social)	22%				0,00
rate understanding of route to impact	25%				0,00
rate BoP engagement	23%				0,00
impact drives return (and vice versa)	30%				0,00

[illegible]

0,0		0,0		0,0		0,0
0,00		0,00		0,00		0,00
0,00		0,00		0,00		0,00
0,00		0,00		0,00		0,00
0,00		0,00		0,00		0,00
0,00		0,00		0,00		0,00
0,00				0,00		

Figure A1-4: Benchmarks for rating IB business lines

Rating benchmarks

			small company
impact rating			small (1-2)
The commercial return		40%	
company		10%	
size	million \$	4%	0,1-0,3
profitability			
gross	%	2%	1-5%
net	%	1%	1-3%
bankability			
history of serving outstandign loans	quantitative / qualitative	1%	
number and quality of institutional financiers	quantitative	1%	
access to finance	qualitative	1%	
the IB business line		20%	
revenue (current year)	million \$	5%	0,05-0,2
growth (3 years)			
past		3%	<30%
future		3%	<20%
addressing business risks	qualitative	5%	
profitability			
gross	%	3%	3-5%
net	%	1%	1-3%
company governance	qualitative	5%	
environmental and social safeguards	qualitative	5%	
The social impact		46%	
reach of beneficiaries		8%	
impact through higher income			
agrobusiness			30-100
manufacturing, crafts, mining			20-50
trade, services			100-300
IT and communication services for incoem generation			300-1000
training and job placement			100-300
fintech			300-1,000
impact through living quality			
education			50-100
health			100-500
insurance			300-2000
energy			300-1000
WASH connection			50-300
social housing			50-250
IT related services			300-1000
targeting		7%	
B60 (poor and low income)			55-70%
B40 (poor and very poor)			35-50%
B20 (very poor)			5-15%
women empowerment		4%	
% women	impact more important than participation		<25%
% poor and low-income women			<20%
relevant impact	qualitative + quantitative		
depth and revenance		15%	
for income models		15%	
income increase - more than before (3-5 years)		4%	20-50%
income increase - compared to market rate		3%	5-15%
income increase - compared to other firms (same sector)		3%	5-10%
sustainability of income increase	qualitative	5%	
for living standard models		15%	
relevance of the product for the BoP core problems of being poor		4%	
affordability (not only a function of price)		4%	
accessability and delivery		3%	
sustainability, reliance and after care service		4%	
systemic change contribution		12%	
sector	qualitative + quantitative	3%	
geographical area	qualitative + quantitative	3%	
poverty	qualitative + quantitative	2%	
gender	qualitative + quantitative	2%	
transformation	qualitative + quantitative	2%	
Innovation relevancefor BoP and poverty reduction		14%	
business innovations		5%	
technolofy innovations		3%	
social + CSR		3%	
environmental and climate (beyond safeguards)		3%	

[illegible]

Figure A1-5: BoP benchmarks for social reach

The BoP thresholds, as used in our study IB eligibility thresholds

internat. poverty definition: expenditure per capita per day (USD, PovCalNet)		the very poor		the poor	the low-income
	2011 PPP	\$ 1.0	\$1.9	\$3.2	\$5.5
	2017 PPP	1,32	2,15	3,65	6,85
% of population (2015,)		36%	61%	78%	91%
the Zambia discussion		the BoP			
		very poor	the poor	the low income	the better-off
BoP income thresholds per household per month, ZMW					
country (urban + rural)		< 1000	< 2500	< 4500	> 4500
	in current USD	58	145	262	> 270
rural		< 800	<2000	<4000	> 4000
	in current USD	47	116	233	> 230
urban		<1500	< 3000	< 5000	> 5000
	in current USD	87	174	291	> 300

Notes: (1) Data for the international poverty lines are from PovCalnet (upload January 2022) and the Poverty and Equality database (upload November 2022) of the World Bank. The data are for 2015. (2) The thresholds for the Zambia IB discussions are agreements among the consultants, verified in discussions with companies and multiple stakeholders.

Figure A1-6: Benchmarks for company sizes in Zambia

IB size (by annual revenue)

	micro	small	medium	large
ZMW (million)	< 2	2-8	8-50	>50
USD (million)	< 0.1	0.1-0.5	0.5-3	>3
international discussion (USD)	< 0.3	0.3-1.0	1-5	> 5
	does not qualify as IB	IB-I, IB-A	IB-M (IB-A)	IB-M

Figure A1-7: Characteristics of IB in the international and Zambian context

International characteristics of IB

	NGO driven social enterprise	traditional CSR	Inclusive Business			mainstream commercial companies
			SE initiative	IB activity	IB model	
commercial setup and impact						
revenue (million USD)	0.01-1.0	0.01-0.1	0.5-3.0	3-300	1-50	1-500
suggested thresholds for Zambia	0.01-1.0	0.01-2	0.05-0.3	0.1-0.5	> 0.5	> 0.02
growth	none	none	small-high	little	medium-high	none-large
typical return expectations	<0%	none	<3-5%	0-5%	8-30%	5-30%
use of profit	none	none	reinvesting and for shareholders	reinvesting	reinvesting and for shareholders	own, shareholders
financing	grants	grants	risk reduced impact capital, some grants, some commercial	grants, own company investments (some commercial)	impact capital, commercial, own capital	own capital, commercial
typical investment needs (million USD)	<0.1	<0.05	0.1-1.0	0.5-3.0	0.5-30 (or more)	0.2-500 (sometimes more)
typical investor	development partners, social organizations, NGOs, some angel investors	company itself	own/friends, angel investors, some impact investors	company's own financing, investor	impact investors, venture funds, development banks, banks, own financing	banks, venture and investment funds, own financing, development banks
suggested thresholds for Zambia	0.02-1.0	0.05-0.5	0.05-0.1	0.1-2	0.1-10.0	
commercial orientation	no-low		low-medium	medium	medium-high	medium-high
social impact						
social reach	small (<100)		small-medium (50-300)	small-medium (300-2000)	medium-large	not intended
suggested thresholds for Zambia	<100	<100	50-300	300-2000	>300	
impact on society	small		small-medium	medium-large	medium-large	not designed for impact
social transformation	not aimed at (sometimes achieved at very small scale)	not aimed at (sometimes betterment for poor achieved at household or village level)	small intent	small intent with view to upscale big	strong intent	not aimed at
addressing	social needs first		social and business needs at the same time			business needs only (mainly)
sectors /typical in Zambia						
market size						
estimated number of entities in Zambia						
examples						

SUGGESTIONS FOR INCLUDING IB IN THE NEW SME POLICY

The current MSME definition emphasizes revenue, employment⁶⁵ and asset investments⁶⁶. The 2018 national industrial policy defines micro-enterprises as firms with a revenue of ZMW 150,000 (equivalent today to about ZMW 250,000; ca. \$15,000) employment of up to 5 people, and asset investments of up to \$8,000. Small enterprises are defined as companies with revenue of up to ZMW 300,000 (today's value of about ZMW 500,000 is ca. \$30,000), employment of up to 50 persons and assets of up to \$15,000.00. Medium enterprises are defined as companies with revenues up to ZMW 800,000 (today's value of about ZMW 1.3 million, equivalent to about \$80,000), employment up to 100 people and assets up to \$80,000.00. The current and suggested SME thresholds for micro, small, medium and large companies in Zambia under an IB focused perspective are in [Figure A2-1 below](#).

These ceilings are very low and not according to international standards. Experts as well as representatives from business associations and managements of companies explain that these ceilings are set low because of political reasons to link support for micro-enterprises to corporate tax incentives. As a result, many growing companies split their firms into separate units or restrict revenue growth and investment to avoid being taxed. Hence, the definition is restricting growth and investment and the transformation of mainstream small businesses into purposeful medium size companies. There is an urgent need to change the SME thresholds allowing for larger company ceilings and emphasizing revenue and growth while understanding that development results are created in productive value chains (and seldom in direct employment) for which investment sizes may be marginal, given new opportunities through the digital revolution.

From an IB perspective it is therefore suggested to define SME purely oriented on revenue and de-linking incentives from the company sizes focusing only on development results while prioritizing purposeful business.

In late 2021 the government created a new ministry for Small and Medium Enterprise Development (MSMED) and transferred the functions for SME development from the Zambia Development Authority (ZDA) to the new ministry. MSMED is currently finalizing a new policy for SME development which will replace the earlier 2009 SME strategy.⁶⁷ The previous SME policy was found very traditional with an SME definition emphasizing more employment (rather than

65 In the international development discussion what really matters here is not employment but (a) good income opportunities for people in the value chain and (b) the reach of sale of relevant goods and services to the poor and low income people).

66 With industry 4.0 and the IT revolution, small investments can have large impact. Hence the size of investment does not say much about the size of a company. Most important is the revenue of the company.

67 The earlier SME policy was found very traditional with a SME definition emphasizing more employment (rather than value chain engagement), small investment sizes, and neglecting productivity and the creation of well-paid income opportunities and the delivery of relevant and affordable goods and services for the poor and low income people. SME support policies are not targeted to companies that bring specific development results but to all companies as long as they belong to the MSME sector. The support programs cluster among entrepreneurship development, access to markets, business development services, finance, business information and business infrastructure. There is no clear priority which of the million companies should get what services first, and the total support envelope is rather small, resulting in very few companies getting support and support given not linked to development outcomes achieved. Similar observations are for the 2021 draft new SME policy the consultant was asked to comment on.

Figure A2-1: SME thresholds

SME and IB company definition ceilings

	micro		small		medium		large	
	million K	USD	million K	USD	million K	USD	million K	USD
The official MSME definition								
revenue (million Kwacha)								
average 2018	150.000	14.361	300.000	28.722	800.000	76.592	>800.000	>76,592
in 2022 value	247.008	14.361	494.016	28.722	1.317.377	76.592	>1.317.377	>76,592
employment (number of people)	< 6		6-50		51-100		> 100	
investment (Kwacha)								
average 2018	80.000	7.659	150.000	14.361	500.000	47.870	500.000	47.870
in 2022 value	131.738	7.659	247.008	14.361	823.360	47.870	823.360	47.870
The proposed company size ceilings for the IB discussion								
revenue (2022)	In the IB discussion revenue is the only relevant criteria for distinguishing company sizes. To be relevant for impact investing, the ceiling of eligible revenues must be substantially increased over the current MSME definition.							
	800.000	50.000	5.000.000	300.000	800.000	76.592	800.000	76.592
	micro-enterprise would typically not qualify as IB		IB business lines can be sponsored by small, medium or large enterprises. The company size can be important for the size of social impact.					
employment (number of people)	The IB discussion does not have benchmarks on employment, but emphasizes number of people in the value chain and number of people as customers. Those numbers (esp. For customers) are sector specific and separate benchmarks need to be set by business line							
investment (Kwacha)	The IB discussion does not have investment benchmarks. Ibs are aiming development results for poor and low-income people. Given new opportunities through digital solutions, such results can be achieved with low or large investment.							

Note: The average exchange rate conversion for \$1 in 2018 was K 10.445, while for 2022 it is \$1=ZMW 17.2

value chain engagement), small investment sizes, and neglecting productivity and the creation of well-paid income opportunities and the delivery of relevant and affordable goods and services for the poor and low-income people. SME support policies are not targeted to companies that bring specific development results but to all companies as long as they belong to the MSME sector. The support programmes cluster among entrepreneurship development, access to markets, business development services, finance, business information and business infrastructure. There is no clear priority on which of the million companies should get what services first, and the total support envelope is rather small, resulting in very few companies getting support and support given is not linked to development outcomes achieved.

The current draft MSME Policy suggests 9 strategic areas for support (entrepreneurship development, innovation, product and service standards, access to markets, business development services, access to financing, business infrastructure, better enabling environment, and better representation of MSME interests). It suggests an interesting structure for IB policy recommendation, namely (1) promote capacity [entrepreneurship development, innovation and technology, product and service standards], (2) facilitate access [market opportunities, business development services, business information services, appropriate business financing, operating premises and business infrastructure], and (3) and creating operating an appropriate operating environment (enabling environment, representation of MSMEs interest).

The new MSME policy could benefit from integrating key features emerging in recent SME and development discussions, particularly (a) emphasizing the need for productivity enhancement, growth and scaling, (b) the deliberate design for achieving social and environmental impact, esp. through inclusive businesses (IB) and green businesses (GB), (c) reflecting new developments in the international SME discussions and as emerged in the Zambia institutional context, and (d) reflecting the purpose of IB development also in the SME definition and focus particularly on a sector-specific revenue-based definition, downplaying employment⁶⁸ and investment⁶⁹. Such revenue-based SME definition should also give more room to small and medium-sized companies, as the development impact of micro-enterprises is rather small both from an economic as well as from an impact perspective.

To integrate IB in the new SME policy a focus could be laid on a) purposeful companies with social and environmental benefits for society, b) broaden the revenue categories, and c) state the challenges of the government to support comprehensively the micro-enterprises. Under an IB view, SME development could emphasize a transformation and productivity-oriented definition of IB through revenue characteristics:

1. the strategic focus on promoting the growth of economic, social and environmental impact over the increasing number of companies;
2. the need for engaging in purposeful companies such as Inclusive Businesses and Green Businesses;
3. the role of the MSME sector in economic transformation needs to be properly laid out indicating specific sector opportunities and value chains;
4. the consideration of Industry 4.0 and digital innovations;
5. the importance of promoting innovation and transformation in existing business lines rather than over-emphasizing start-ups;

68 While the number of jobs is an important consideration in the formal sector, in economies that are determined by a large urban and particularly rural informal sector (also in agriculture and trade) the number of jobs per MSME establishment is less relevant than the number of people in the value chains of such firms. The international IB discussion also emphasizes (a) good income opportunities for people in the value chain and (b) the reach of sale of relevant goods and services to the poor and low income people). Most IB models in developing and emerging economies engage the poor as either suppliers or consumers, and there are very few IB models engaging the BoP as laborers.

69 With industry 4.0 and the IT revolution, small investments can have large impact. Hence the size of investment does not say much about the size of a company. Most important is the revenue of the company.

6. MSMED may also wish to clarify how far the policy would include strategic recommendations for prioritizing policy implementation with regards to enabling environment, technical assistance, incentives, and financing, among others.

Based on these observations and recommendations, Figure A2-2 below summarizes the design framework for a possible new SME strategy for achieving sustainable growth through purposeful businesses.

Figure A2-2: Proposed design framework for a new SME policy that achieves sustainable growth through purposeful businesses

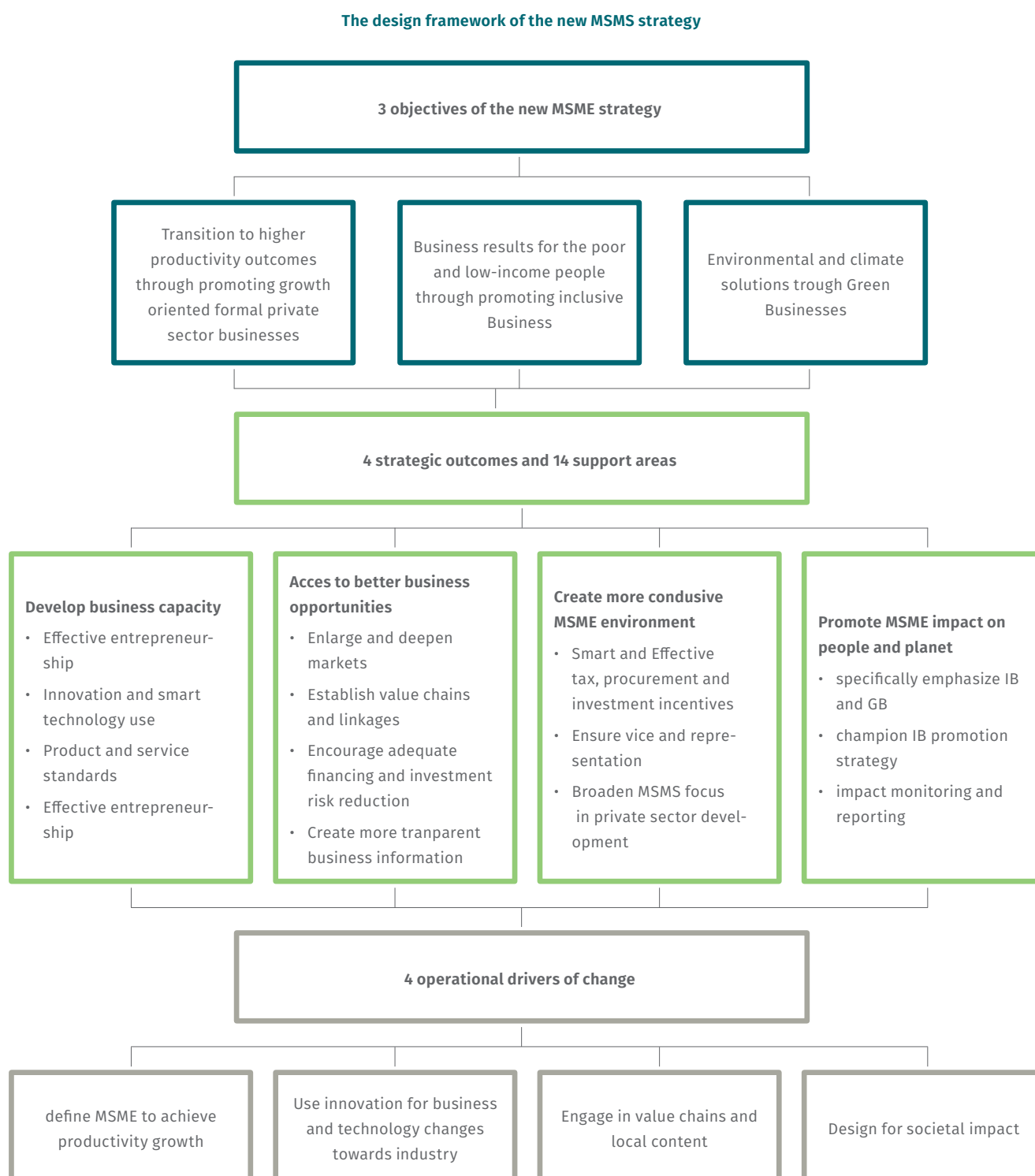


Figure A3: Financial products relevant for IB investments in Zambia

Financial products and services offered in Zambia

	providers interviewed	underwriting	average fee	interest rate	loan size (million ZMW)	collateral
Invoice discounting	10 (3 banks, 6 MFIs, 1 dev. inst)	0 - 10%	3%	7% pm (MFI), 1.8% (banks)	0.15-12	mortgage on real estate, white book, director guarantee, off taker agreement, charge on receivables
purchase order financing	10 (2 banks, 8 MFIs)	0 - 10%	5%	1.8% pm (bank), 8.3% pm (MFIs)	0.15 - 5.0	real estate, fixed charge on asset, director's guarantee, charge on receivables
overdrafts						
working capital financing	9 (5 banks, 4 MFIs)	0 - 8%	MFIs > bank loans	2.5% pm for banks, 6.5% pm for MFIs	0.15 - 12	real estate mortgage, off-taker agreement, motor vehicle, title deed, charge on asset
collateralized term loans	16 (8 banks, 6 MFIs, 2 II)	14%	4%	30% (banks), 56% (MFIs), 12% II/DFIs	0.15 - 500	mortgage on real estate, charge on asset, land property
equity financing	4 (1 bank, 3 II)	5-15 years investment horizon, average 8 years			2,000-collateral value	
guarantees	DBZ, ZCGC, UNCDF					
investment grants	NTBC, Prospero, ZICTA, MUSIKA, JICA, Market Connect, Self-Help Africa, UNCDF					
technical assistance	AGS, ZABS, CEEC, ADevCo, JICA, Self Help Africa, ZDA, MUSIKA, GIZ. UCDF, TechnoServe, AMSCO					
business advisory services	ZDA, DBZ					
market access	AGS, MUSIKA, ZATP, MSMED, Prospero, B2B, ZDA					
networking events	ZFAWIB, AGS, Prospero, ZDA, Infratel					

Source: NABII 2021

PROFILES OF COMPANIES WITH IB BUSINESS LINES

The following write-up provides a summary of the 18 IB business cases in Zambia, highlighting commercial performance (in terms of revenue, growth, profitability, bankability, addressing business risks, company governance, environmental and social safeguards), social impact (reach, targeting, depth of impact, systemic transformation contribution, women empowerment), innovations for the poor (business, technology, social, environmental and climate-related), and strategic IB intent of the company to design for the impact that then drives business return.

ABC Bikes sells motorcycles to rural and semi-urban poor and low-income people. Motorcycles are mostly used for income-generating activities. The company differs from other motorcycle companies by offering flexible payment plans while guaranteeing repairs and availability of service and repair parts. In 2022 the company will achieve a revenue of ZMW 12 million (\$0.7 million) and serves 300 BoP households (60% of its sales). The company plans to grow to ZMW 50 million by 2025.

Buffalo Bicycles supplies high-quality bicycles to the rural and peri-urban poor and low-income mainly for productive transport means. The company subsidises the full cost of the durable but expensive bicycles through innovative payment features making them affordable to the poor, delivering them to the poor and low-income, and guaranteeing the availability of service and repair parts. The company expects revenue of ZMW 106 million in 2022 (\$6.1 million) and plans to grow to ZMW 170 million by 2025. In 2021 it sold 20,500 bicycles and is estimated to turnover 25,000 by 2025. About 80% of its customers are BoP.

COMACO is a Zambian company that is made up of a farmer extension department, a carbon department, and a business department, backed up by a finance and administration department. COMACO has a large NGO driven program on farmers training, environmental conservation and wildlife protection, and about 54% of its income come from such grants; this part would not be seen as IB and the following analysis only focuses on the commercial business line. The business department purchases crops for cash in its operating areas from 60,000 smallholder farmers, transport these crops to central storage sites and manufactures products under the *Its Wild!* brand. These *Its Wild!* products are distributed and sold locally and internationally at a turnover of ZMW120 Million per year as at end of 2021. COMACO purchase crops from smallholder farmers to the value of 3.5 million USD yearly to support the manufacture of the *Its Wild!* brand. The business department is important to the COMACO model as it offers secure fare prices for crops grown and recommended, allows the farmers to gain financial incentives for the input from the extension department and sees greater synergy between the carbon departments goals, the farmer, and the sales of the *Its Wild!* brand. The company has leveraged donor funding for its extension work. The carbon department has recently shared 3,2 million USD with communities for carbon credits. COMACO support 200,000 farmers either with crop market, carbon benefit or extension services.

Dytech is a honey company which plants fruit trees for better quality honey production, giving farmers additional income opportunities as the company processes and markets the fruits into fruit juices, and the environment is being improved by new tree plantations. In 2021 the company had revenue of ZMW 6.5 million (\$0.4 million), expected to grow to \$1.5 million by 2025. It is expecting to work with 30,500 farmers (2025), up from 9,750 in 2022 and 5,700 in 2021. The company is a highly innovative and very good IB model in agrobusiness as it addresses many BoP risks and creates substantial income increases for the BoP.

Good Nature Agro produces high-quality agricultural seeds that are drought resistant and guarantee its farmers high income and access to finance. In 2022 the company is expecting a revenue of ZMW 155 million (\$9 million), sourcing from 26,200 farmers and selling seeds to additional 131,200 farmers. The company has specific BoP targeting and women empowerment features. By paying premium prices and providing comprehensive farmers' coaching and inputs, the company creates high income (increases three times more than maize farmers) for the farmers in its value chains. Like many other companies, this is an excellent example of IB in agrobusiness.

Kukula Agro Finance is a very innovative fintech company providing cash against flexible repayment via commodities. The company is actively involved in lending and/or providing agricultural inputs to 1,500 farmers (up from 800 in 2021) and is projected to grow to 5,000 in 2025. About 70% of the farmers it is working with are BoP. In 2022 the company had a lending of ZMW 34.4 million (\$2 million), up from ZMW 8.6 million (\$0.5 million) in 2021 and is projected to grow to ZMW 170 million (\$10 million) by 2025. The company has good and flexible pricing. Commodity finance is a highly relevant product design for the BoP.

Kukula Solar provides innovative pay-as-you-go financing for solar systems especially for productive use (e.g. solar pumps, solar egg incubators), in addition to household consumptive use (solar cookers, solar lights). The focus of the company on the productive use of energy (rather than purely solar home systems) is a good addition to the market and brings the company certain comparative advantages of selling multiple times to the same customers. Like other successful solar companies, Kukula Solar offers rent-to-own payments, is close to its client and engages local technicians for guaranteed maintenance services. For 2022 the company is expecting a revenue of ZMW 37.8 million (\$2.2 million), up from \$0.3 million in 2019 and \$1.8 million in 2021. The company plans to grow to \$27.4 million by 2025. In 2021, the company sold to 27,400 customers, 92% of them being from the BoP income groups.

Little Sun is a solar home company with a revenue of about ZMW 5 million (\$0.3 million in 2022), and a very good plan for business growth (\$0,035 million in 2019, \$0.1 million in 2021, \$0.8 million in 2023, and \$2 million in 2025). In 2022 the company will sell to about 4,300 rural households of which 70% are low-income and 4% poor people, while the remaining is better off. The company's strategy is to reduce the sale of solar home systems in its portfolio from currently 90% to 75% by 2025 and add new product lines instead.

Live Clean is a sanitation company, that provides public toilets and water for hand and vegetable cleaning in public markets, currently in 2 Zambian cities. The company is breaking even in 2022 and targets to achieve net profitability of 15% by 2025. An additional innovative business feature is the renting of advertisement space at the toilets thus substantially increasing commercial viability. Currently, the toilet facilities have 400-450 visitors per day per site, hence 0.77 million visitors per year, of which it is estimated 60% of the market customers and 5% of the traders in the markets are poor, 35%/25% are low-income people and 35%/70% are from the better off income groups. The price is very affordable at ZMW 3 per toilet use and ZMW 10 per bucket of water for dish, hand, and vegetable washing. In 2021 with its 5 sites the company had a revenue of about ZMW 2 million (\$0.1 million), and it wishes to expand to 10 sites by 2025.

Medeem is a company creating land rights for the poor in communal land (mostly traditional chief lands, some urban lands), thereby substantially enhancing the productive use of land. While there are various land rights companies in the country, Medeem is special by offering better prices and particularly more secured land contracts and doing so in a highly participatory and conflict-avoiding interactive process with the traditional leaders and the villagers. In 2021 the company had revenue of ZMW 4.5 million (\$0.8 million) and is expecting ZW 15 million (\$0.9 million) by 2025. The company broke even by 2021 and expects profitability of 7% in 2022 and 30% in 2025. In 2021 the company made 10,000 land contracts and it is expecting 20,000 by 2025. 55% of its customers are very poor, 30% poor and 10% low-income households.

Mwabu is a very interesting company addressing the severe shortage of schoolbooks in the country. Instead of selling oriented schoolbooks, the company has designed affordable and specific tablet-based learning materials. This substantially reduces schoolbook costs. The tablet is designed around a big screen allowing 12-15 children of different families in rural areas to use the tablet at a go. The company sells its application licenses to individuals and group distributors such as NGOs, further reducing the costs for the poor. The company introduced flexible rent-to-own payment systems allowing the otherwise expensive tablet to be affordable even for the poor who typically engage in purchase agreements. The company, in its sale strategy and to reduce distribution costs, goes particularly to NGOs and government agencies. In 2022 the company will have a revenue of ZMW 35 million (\$2 million), up from ZMW 29 million (\$1.7 million) in 2021. By 2021 cumulatively the company sold 38,000 tablets and additional 2,975 licenses, which were used by about 250,000-550,000 learners of school grades 1 to 7. The company is geographically concentrated and has so far served 500-700 schools in Zambia. A key problem for the company is the high import and value added taxes making the product much more expensive than necessary and thus challenging the growth of private sector solutions to government development objectives. Mwabu is a company that would benefit a lot from smart tax incentives and public procurement prioritization as proposed under the IBeeZ.

Nature's Nectar is a honey company working in the North-Western, Eastern and Copper-belt provinces of Zambia producing mainly for export to the USA, the Republic of South Africa, and the EU. The company has a revenue of ZMW 6 million (\$0.35 million) in 2021 and is expecting to grow to ZMW 29 million (\$1.7 million) by 2025. By 2021 the company sourced from over 2000 honey farmers, up from 200 in 2018 and projected to engage 5,000 farmers by 2025. 100% of the honey suppliers are from the BoP community, and currently, Nature's Nectar has over 24,000. To save the forest, the company has an agreement with the chiefs it works in to supply sustainable and long-lasting beehives to farmers. Nature's Nectar trains farmers on the management of these long-lasting beehives and then pays a premium to farmers for honey produced to incentivize sustainable production practices. The use of these long-lasting beehives enhances their environmental and climate impact by placing beehives in protected areas agreed on with communities and saving indigenous trees being cut to make traditional bark beehives. The use of these hives also improves honey quality which therefore also justifies the premium price being paid to farmers. Nature's Nectar also works with 50% female farmers, a deliberate impact point to ensure females can participate in a typically male-dominated activity.

Onyx is an e-trading company selling only proven and relevant products for the poor. The company addresses the affordability, and accessibility of the products by offering rent-to-own payments and bringing the products to common distribution places. It reduces its distribution costs by working mainly with cooperatives and other similar groupings. The business model is to aggregate demand through e-commerce, concentrate on quality and BoP relevance, assemble products, and distribute to intermediaries close to the customer. The company is open to distributing products from other IB companies and shoulder transport costs if the products are relevant and affordable for the poor. In 2021 Onyx had revenue of ZMW 2.2 million (\$0.13 million) and will achieve ZMW 3.4 million (\$0.2 million) in 2022 and ZMW 8.6 million (\$0.5 million) in 2025. In 2021, the company had 5,700 customers and it is expected to grow to 10,500 by 2025. About 15% of the customers are from the very poor, 45% from the poor, 30% from low-income and 10% from better-off income groups. 85% of the customers are women.

PremierCon is an agrobusiness in the Northwest of the country buying cassava to make starch for the nearby mining companies. With about 9,000 MT of produce, the company will make revenue of ZMW 127 million (\$7.4 million) in 2022 and is expected to grow to ZMW 251 million (\$14.6 million) in 2025. The company sources from about 4,500 (2022) farmers, up from 353 in 2021 and will substantially increase its sourcing to 15,000 by 2025. Most of those farmers are very poor and poor, and the company is paying a premium price. The company could pay the farmers much better if it could further process the starch as the mining companies do; however, at the moment this is not possible because it is a cartel-like market. By attempting to do so, the company would immediately lose its customers and hence its

profitability. However, to increase income for the poor in its supply chain (and higher profitability for the company) it wishes to go in that direction.

Seba Foods is a large agribusiness focusing on nutrition products made from soya replacing expensive meat consumed by the poor. The company benefits the poor both by engaging them in supplying soya and other products and by selling to them nutritional soya products. In 2021 the company engaged about 2,000 farmers in its supply chain and will increase this to 12,000 in 2025. 90% of the supplying farmers are BoP and 45% of them are women. On the sales side, the company sells in Zambia and abroad. For Zambia, it estimates about 1.3 million customers, 80-90% of them being BoP and 60% of the consumers being women. In the supply model, the company practices comprehensive agrobusiness contract farming substantially increasing farmers' income (30% more than other farmers in the same field), paying a 10% premium, and reducing farmers' risks by providing drought-resistant seeds from Good Nature Agro. The company will double its already large revenue (about \$20 million in 2022) by 2025. Most of the growth going forward will come from sales of soya meat and new product lines like soya milk in the USA, Republic of South Africa, and EC markets.

Vyazala is a fish processing company buying all fish from its contract farmers, providing cold chains and markets. While the company pays the final market price, fish farmers with Vyazala have about 40% higher income than other fish farmers. However, for most of the farmers fish farming alone (a part-time job only) is not sufficient to bring them out of poverty. This is because the company shoulders the farmers' risks of selling in unknown markets (time, transport costs, spoilt products, fish processing) and producing on its risks (Vyazala provides quality feed inputs, and advises on fishpond construction and management). The social reach of the company is still relatively small (100 farmers in 2021), but the company is targeting 1,000 contract farmers by 2025. In 2021 the company had revenue of ZMW 3,7 million (\$0.2 million) and it is aiming at ZMW 39 million (\$1.7 million) in 2025. The company, while viable, is still having some challenges with its profitability.

WID Energy is an IB initiative (social enterprise) offering solar home systems. The company sells through 600 rural sales (38% of them being women) agents being in immediate contact with the customers (95% of them being BoP and 90% being women) all over the country (no geographical focus) substantially increasing distribution costs. It has 10 service centres in 4 provinces. As a result, distribution costs are high, and the company only served 2,700 customers (2019) which is projected to increase to 10,000 by 2025. The products are of high quality and the pay-as-you-go system makes them affordable for the poor. The company has a revenue of ZMW 10,6 million (\$0,6 million) in 2022, up from ZMW 7,5 million (\$0.4 million) in 2019. The company has set overambitious growth targets through 2025. While the company has challenges in commercial viability, the management confirmed that the double emphasis on providing income for women by distributing solar home systems, and the low product diversification are constant challenges for the company's business return, sustainability, and growth.

Wuchi Wami is a honey company in the North-West of the company producing about 200 MT of honey every year. The company work currently (2022) with 544 honey farmers (40% of them being women) and wishes to scale this to 10,000 by 2025. The annual income of the farmers is relatively low (500 ZMW per bucket of 40 kg honey harvest = 17 kg processed honey) although the company substantially increased the productivity of the beehives (formerly, 3 hives were necessary to fill 1 bucket of honey, now only 1 hive is needed) and pays premium price compared with other competitors. Although honey farming brings some needed cash into rural communities, this income is not sufficient to bring the very poor honey farmers out of poverty. In 2021 the company had revenue of ZMW 1.8 million (\$0.1 million) and it hopes to increase this five times to about ZMW10 million. The company was rated as a potential IB due to its strong IB intent, but low commercial viability, social results, and minimal business innovations.

Many more IB likely: Note that the Landscape Study is not a complete market overview; it only provides an example of the IB market. Many more companies may have or could be encouraged to transform into IB business lines: IB assessments should go on starting in 2023, and more companies can be found, especially when IB is better known in Zambia; A deliberate policy for promoting such companies is established; Strategic messaging is given and finally, incentive programmes are set up. We recommend institutionalizing and finding more IB companies by setting up a formal IB Accreditation System and creating IB public incentives for such accredited IB companies.

APPENDIX 5

IB Stakeholders, Focal Points and IB Champions (selection)

IB Focal Points and Champions

	IB focal point	position	alternate IB focal point
Government			
MCTI	Jonas Anthony Mulongati	Permanent Secretary	
ZDA	Gabriel Musokotwene	Director Enterprise Development	Albert Halwampa
MSMED	Yvonne Mpundu	Permanent Secretary	Bernadette Ngulwa
CEEC			Muna Munansagu
MoAL			Vincent Malate
MFNDP			
MGEE	John Msimuka	Permanent Secretary	Epharim Chtima
NTBA			Succeed Mubanga
Cabinet			
Business Associations			
ZACCI	Phil Daka	Executive Director	
ZAM	Sopani Muzumara	Executive Director	Lewis Chimfwembe
ZAWIB	mureen Sumbwe	Executive Director	
Impact Investors			
NABII	Austin Mwape	chair	Peter Chintu
others			
Business Facilitators			
BongoHive	SimunzaMuyangana	Director Entrepreneurship	
Agoda	Indiana Basden		Heather
BDSPAZ	Obed Mbuzi	President	Sylvia Mutaless
CSR Network	Lee Muzala		
Impact Hub Lusaka			
MentorMe	Elías Chipimo		
SNV	Bwalya Champo		Francis Chikonde
Development Partners			
AFDB			
AGS/FinAid	Ernest Muwamba		
EC			
FCDO/Prospero			
IrishAid			
SIDA			
UNIDO			
World Bank			
USAID			
Other experts	Laurian Haangala	IBeeZ consultant	Nsangu Siwale

Note that this list is based on interviews during the landscape studies. The list needs to be completed, adjusted and formalized through official nominations of focal points, once the IBeeZ initiative actually starts to be implemented.

SUMMARY OF THE iB FORUM ON 20 OCTOBER 2022

The **1st Zambia Inclusive Business Forum** was held on 20th October 2022 in Lusaka with 66 in-person and 7 online participants; a total of 168 stakeholders were invited to join the discussions.

In its opening remarks, the PS-MCTI explained why Zambia should engage in the IB discussion and how it fits into the context of the new 8th National Development Plan. Thereafter, iBAN clarified the IB concept and how it is discussed in Asia and Africa.

The three parallel company sessions brought out the various business and social innovations of companies with IB business models in Zambia. In total, 18 IB companies had a consolidated revenue of ZMW 595 million (ca \$44.1 million) in 2021 and a social reach of more than **3 million** poor and low-income people in the country. These IB companies are innovative and show strong growth projections through 2025. A summary of information on the companies' IB business lines is in the attached note.

Going forward, the consulting team presented the key recommendations to establish a programme for an enabling environment for Inclusive Businesses in Zambia,

Key stakeholders then discussed those policy recommendations, especially concerning the institutional structure, IB incentives (esp. on smart taxation), IB financing, the need for IB accreditation, and IB business coaching. The discussion confirmed the need for close cooperation between MCTI and MSMED, for ZDA as executing agency (in collaboration with CEEC) to come up with a concrete IB support program going forward, and for MSMED to specifically incorporate the IB topic (as a purposeful business) in the new SME policy.

In the closing, the IBeeZ consultants laid out the next steps forward, comprising of:

- MCTI officially confirming its interest in engaging with IBeeZ and setting up the proposed institutional framework with a Board, an IB Accreditation Committee, a Secretariat and IB Focal Points and Champions in multiple stakeholders
- Government and Business Associations doing official IB Accreditation of the 18 companies that have so far been identified and rated as IB and institutionalizing this to encourage more companies to become IB
- ZDA making initial preparations for a technical assistance facility in support of IB
- The 3 established working groups finalizing the position papers on IB-Risk Reduction and Social Innovation Fund, IB Business Coaching and IB Tax Incentives by year-end
- ZDA and NABII preparing an official request to the Investment Climate Reform (ICR) facility of the EC for a small follow-up project to set up the institutional arrangements for an IB Support Program in Zambia, and
- iBAN and the IBeeZ consultants finalizing and publishing the IB Landscape Study for Zambia by December 2022.

THE iB BUSINESS COACHING AND MENTORING (iB-BCM) TOOL

The IB business coaching toolkit: A working group comprised of the IBeeZ consultants, Bong-oHive, MentoMe, SNV, UNIDO and Agora was formed to prepare a business coaching toolkit for Zambia. The toolkit was initially developed by iBAN consultants for Cambodia and should be adjusted to become more focused for practical use in the Zambian context.⁷⁰

Traditional business coaching is either one-on-one business advisory services for mostly larger companies to address commercial challenges of a (mostly large sized) company, or it is general training courses for start-up and small (or even micro) businesses on how to set up a business → emphasis on pitching. Traditional business coaching typically miss addressing (a) how a business can increase its social impact on the poor and low-income people, (b) how business returns thrive impact and vice versa, and (c) how to transition existing business lines into IB models, activities or initiatives.

In contrast, **Inclusive Business focused coaching and mentoring (IB-BCM)** is more for existing medium-sized companies that wish to transition their business to IB to have more impact on the BoP and thus focuses on transformation of a business plan of an existing company, rather than building up new start ups. It emphasizes innovations to maximize or improve social impact through business return, and business returns through widening social impact. The final purpose is helping a company to set up (or improve) a new IB business line; hence IB transformation coaching has to be highly practical (one-on-one) to be relevant for companies and achieve concrete results in developing a viable business plan. The [Figure A9-1](#) below shows the rationale for IB-BCM.

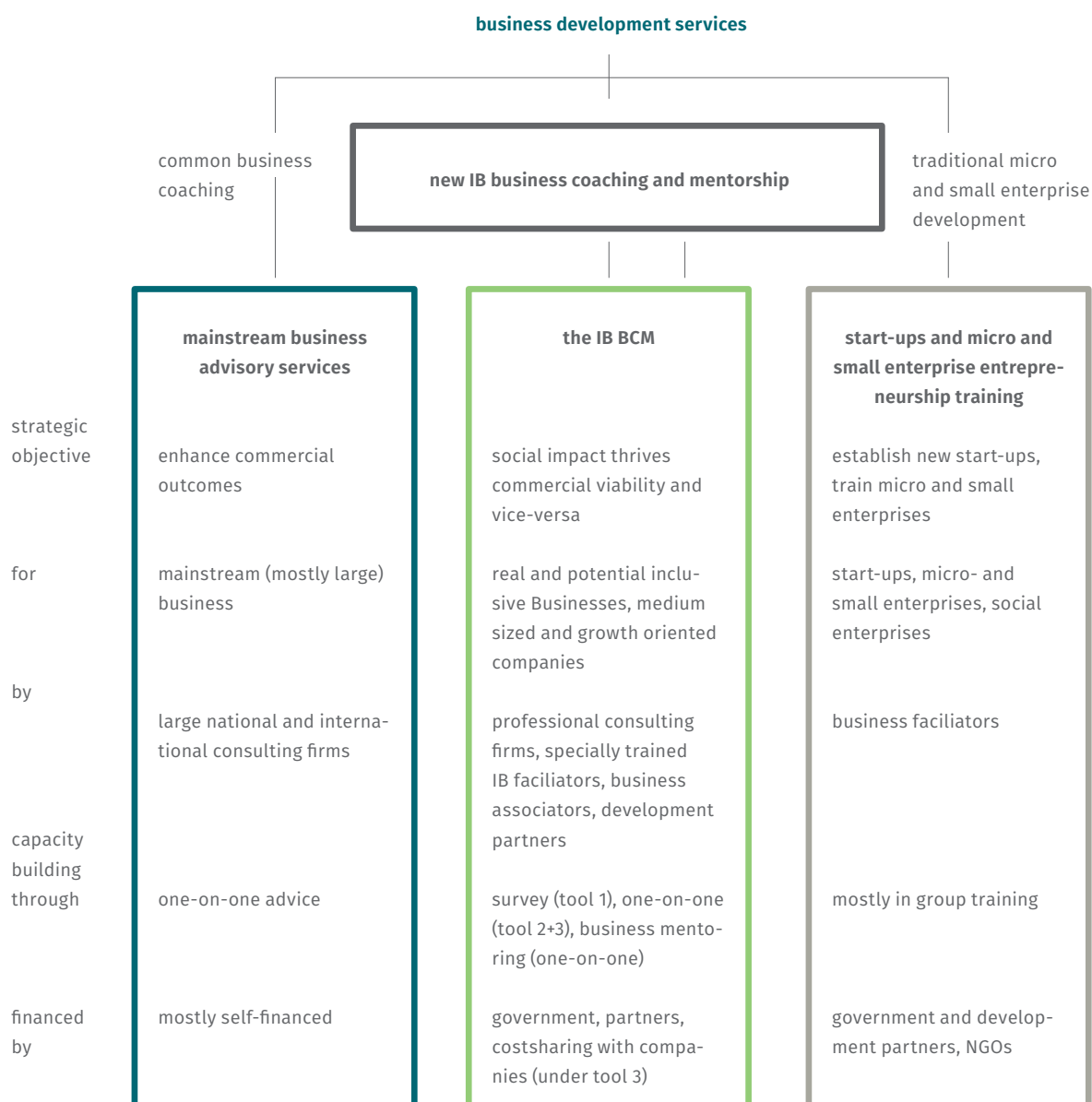
Four components with an emphasis on IB transformation advice: The proposed IB-BCM tool has 4 components, i.e. 1) IB readiness assessment for companies and portfolio organizations, 2) IB transformation advice for specialized IB consultants, 3) financing of deep dive assessment for market expansion, value chain development, enhancing commercial viability as well as other specific aspects of business development, and 4) IB mentoring

The IB-BCM -self assessment tool is for companies to quickly assess the business potential to become an IB. It can also be used by impact investors, governments, development partners and business facilitators to check the companies in their portfolio on the IB readiness. It can also be used as a basis for a questionnaire among members of business associations. The tool is based on a simple questionnaire and can be implemented in 30-40 minutes or so.

- **The IB readiness criteria:** The scope of the IB readiness assessment is based on actual achievements of the companies with regards to commercial viability, social impact, and innovation to create systemic transformation. The assessment comprises a very brief assessment of the company's strategic intent, the route to BoP impact (either income opportunities above the market rate or improving the living standards), the BoP engagement type (supplier, consumer, distributor/retailer, labourer/worker or shareholder), the business line's commercial viability, as well as some other key aspects of relevance for qualifying as IB. Business associations and others may also be interested in doing IB readiness awards and use the same tool.

⁷⁰ The IB Coaching and Mentoring guide can be accessed here: <https://www.inclusivebusiness.net/node/5986>

Figure A7-1: Rationale for and Components of IB-BCM



- **Two assessment steps for IB readiness.** The tool needs to be simple and do not go into details of the business, its social impact and its innovations for the BoP (as the proper IB accreditation criteria do). Rather, general questions will be asked as outlined in the flow-chart given in Appendix 1. There are two steps for the readiness assessment: First an assessment on questions to be answered with yes or no (first page), and second more qualitative and quantitative questions.
- **IB readiness award:** Business associations could use the IB readiness assessment for awarding companies. However, as there will be an official IB award for officially accredited companies, business associations may wish to clarify that the award they give is only for potential IB readiness, and should not be confused with the official IB award given jointly by government and business associations.

The IB-BCM transformation tool is a guide for consultants to help companies making a transition towards IB. Typically such business plan oriented transformation advice would require consultant inputs between 1-5 person-days. The IB-BCM transformation tool would be structured as following:

The IB-business mentoring tool is for business associations or government agencies that facilitate programs of business mentorship. It is a combination of the readiness and transformation tool, emphasizing advice to IB companies (not consultants) involved in doing the mentorship and perhaps a retainer consultant backstopping such mentorship.

The structure and content of the IB-BCM toolkit is given below.

Background and Rationale

- What is IB and its emphasis in the IB-BCM discussion:
 - ✓ BoP solution focused, not mere BoP engagement
 - ✓ Business innovations to reduce BoP risks
 - ✓ Designing for realistic growth in a 3-5 years horizon
- Give rationale for IB-BCM as being something different than traditional BC because it is an advice where social impact drives business return and vice versa
- The objectives of the tools:
 - ✓ IB readiness: for self-assessment and portfolio assessment
 - ✓ IB transformation:
 - for business consultants to help companies making the transformation in their business plan;
 - for companies with existing real or potential IB lines (not start ups), emphasis on growth for relevant BoP solution);
 - The 4 transformation results: MB → IB, P-IB → R-IB, SE → SE-I, CSR → IB-A
 - ✓ IB deep dive: for consultants to help IB companies scaling.
 - ✓ IB mentoring: for business associations
- Refer to IBeeZ work
- Refer to IBAN IB-BCM in Cambodia and ASEAN and its 4 sub-tools: IB readiness, IB transformation, IB deep dive, IB business coaching
- Refer to IBAN online course with its 14 methodologies⁷¹

The IB readiness assessment tool

- Summary, incl. purpose etc.
- then reference to appendix

71 The e-learning course "Developing and Scaling Inclusive Business models" can be accessed here: <https://www.inclusivebusiness.net/IB-training/online-course/developing-and-scaling-inclusive-business-models>

The IB transformation tool

1. What is the IB business currently
 - ✓ Describe business
 - ✓ Route to impact
 - ✓ BoP engagement
 - ✓ Commercial context of the IB business
 - ✓ The social impact:
 - ✓ Current status of innovation
2. Envisioning the future IB business:
 - ✓ What are the core challenges of the current IB business
 - ✓ what direction does the company want to change it?
 - ✓ Matrix
3. Key advice for key problems, with examples from the literature
 - Key principles (in reference to the IB Unicorn from Hystra)⁷²
 - ✓ Direct impact
 - Offer a holistic yet frugal value proposition that reduces risks of the BoP:
 - address all BoP problems comprehensively (example: Jain irrigation, Dy-Tech, Kennemer Foods),
 - but focus only on those that are relevant for the BoP stakeholders in your business (e.g. Patrimonio Hoy);
 - deemphasize costs and think in affordability (e.g. Buffalo Bike, OneAcre-Fund...)
 - emphasize on business solutions where you can make money on a sustainable basis (e.g. Grameen Shakti)
 - ✓ Design a sustainable delivery system:
 - plan in limited resources
 - minimize use of limited resources
 - leverage unlimited resources available
 - design for environmental and climate solutions where possible
 - ✓ Ignite an exponential growth engine:

72 <https://www.hystra.com/our-insights/creating-inclusive-business-unicorns>

- A company may be profitable but does not grow
- A company may grow but does not create a solutions for the huge BoP market
- Create direct network effects; the importance of satisfied customers
- Make use of indirect networks
- Make sure that social impact drives business return
- Advice for enhancing social impact
 - ✓ Advice for expanding reach
 - For income models: improving supply chains and increasing suppliers
 - For living standard models: improving product relevance, holistic problems etc.
 - ✓ Advice for improving targeting of suppliers and customers: can the share of the BoP be increased, can the poor and very poor as share of the BoP be increased, can you have more BoP engagement by broadening sale to better off?
 - ✓ Advice for enhancing women empowerment and gender equality: what are tangible women empowerment results beyond training and share of women engagement
 - For income models: enhancing earning of women
 - For living standard models: enhancing product relevance for women use
 - ✓ Advice for expanding depth
 - For income models: more yield, better rice, reducing input costs, guaranteeing market and sale, earning of distributors, adding new income sources related to the core business (e.g. intercropping, examples of DyTech, Kenner Foods, Jain irrigation)
 - For living standard models: relevance of product, affordability beyond price, accessibility, after care service, last mile connection, cross subsidies, ...
 - ✓ Enhancing systemic relevance: geographic concentration, sector, influencing poverty situation, addressing BoP risks (holistic)
 - ✓ Enhancing climate and environmental impact of the IB business, if possible
 - ✓ How to make the CSR (if any) more a core business line to increase scale of impact, sustainability of financing and add to business value
- Strengthen commercial viability and scale
 - ✓ Achieving the first million (\$) Getting to the 2nd million (\$)
 - ✓ Advice for cost reduction without challenging impact on BoP, focus on costs in the production and delivery process
 - ✓ Advice for sales and distribution

- ✓ Advice for sourcing
- ✓ Advice on enhancing profitability: sector benchmarks, distinguish gross and net, can profit be used to expand social reach and depth
- ✓ Advice for improving bankability and access to relevant finance
- ✓ Improve sale and branding, and use direct BoP involvement as marketing tool
- Planning for environmental and climate impact
 - ✓ Improving ES standards (if required)
 - ✓ Improving governance

A program implementing IB business coaching and mentoring would cost about \$0.35 million for 4 years implementation. Figure A7-2 below shows how IB-BCM can be implemented and what financial resources are required to support it.

Figure A7-2: Features of IB-BCM program and its costs

The IB business coaching and impact assesment tool in 4 components

tools	IB readiness assesment	IB transformation	IB deep dive	IB mentorship
for whom?	business associations, development partners	consultants who discuss with mainstream business and social enterprises the way to transform their business; facilitators (for start-ups)	consultants	business associations, companies
by whom?	companies, BA/DPs/II (portfolio assesment)	IB-BCM trained consultants, facilitators	consultants with some IB-BDM training	business associations, companies to company
how?	survey, company feedback	key questions for transformation		2 years mentorship with regular monthly follow ups
capacity building instrument	one-on-one, portfolio analysis	one-on-one	one-on-one	one-on-one
work input for experts (person-days)	0.2-0.5	1-5	10-25	5-15 times 1-2 hours each over many 1-2 years
pilot testing	help analysing firms and portfolios	3 firms	1-2 firms	2-3 groups
sope under IBeeC-TAF	up to 60	up to 40	up to 10	up to 5
available finance under IB-TAF (USD)	60.000	100.000	150.000	50.000

THE INCLUSIVE BUSINESS RISK REDUCTION AND SOCIAL INNOVATION FUND (IB-RRSIF)

A **working group** was created by the IBeeZ consultant team and championed NABII to finalize a proposal for establishing an Inclusive Business Risk Reduction and Social Innovation Fund (IB-RRSI) and discuss it with government (MCTI, MSMED, MFNDP) and development partners (e.g. AFD, EC, FCDO, SIDA, UNCDF, WB) for financing.

The rationale for IB-RRSIF: In discussions with impact investors various observations were made to address unleashing of impact investing.

1. There is enough funding available and no need for fresh funds. However available funding is not placed because of three main reasons:
2. The Proposed deal is not good enough for an investment (also from a social impact perspective); this can only be addressed through more focused IB business coaching.
3. Even if an impact investor is nearly ready to invest it will not do so until it is 100% convinced about how the company would mitigate the investment risks. A guarantee would not help giving the investor the confidence and upfront co-investment would build trust.
4. In some cases, the business risks are assumed by the impact investor, because of missing pilot testing of the proposed business and BoP innovations.
5. An Inclusive Business Risk-Reduction (RR) and Social-Innovation (SI) Fund (IB-RRSIF) would address these risks in one go. The features of the IB-RRSIF are summarized below

Sharing risks of impact investors and piloting innovation of IB companies: The IB-RRSIF would be a fund that co-invest in IB deals proposed by impact investors with 10-25% of the investment size, thereby sharing investment risk, enhancing impact innovations and unleashing potential (but not yet placed) funding of the IB industry. The IB-RRSIF investment would have two components and not always both components are needed in one deal. (1) a co-investment risk sharing component and (2) a grant component for piloting scaling and deepening of social reach.

Typical investments from the IB-RRSIF would be between \$0.05 and \$0.5 million (depending on the company and total deal size), and the SI component would be between \$0.05 and \$0.2 million. A total IB-RRSIF of \$20⁷³ million (of which maybe 15% are for the SI component, 8% for covering the risk default, and 1% for a lean fund management) would unleash estimated \$100 million investments of impact investors.

Fund size: A fund making over 4-5 years 25 small, 25 medium and 15 large sized investments in 65 deals would cost a total of \$20 million. Of this total costs, \$10.75 (54%) would be invested in the risk reduction component, \$6.84 (34%) in the social innovation component, \$0.51 million (3%) for the fund management, and \$1.9 million (10%) is reserved for contingencies. The IB-RRSIF would unleash \$75 million from impact investor and a total investment of \$95 million. This would otherwise not come through (or only a small share of it).

73 We assume an exchange rate of \$1 = ZMW 17.2.

The risk sharing component (IB-RR)

- **The assumption for the investments in the RR component** are given in the table below. We assume 65 investment sin total of which 25 deals would be closed each with small and with medium sized companies and another 15 with large companies. Average investment size of the impact investor would be \$0.3, \$1.0 and \$3 million for the respective small, medium and large firms and the additional RR share from the fund would be between \$0.1 and \$0.3 million depending on the company size
- **Why not a guarantee?** Different to a guarantee, the risk sharing component would be an up-front co-investment between government (the fund) and the impact investor. In case a deal achieves pre-identified social impact targets but turns into commercial problems, the government share would transform into a grant.⁷⁴ Otherwise, it would be repaid by the impact investor into a revolving fund for new IB investments. and would cover only the social impact of the risks.⁷⁵
- **Definition of externalities:** There will be transparent criteria when the RR share is being transformed into a grant and these will be detailed upfront in the co-investment agreement

The social innovation component (IB-SIF)

- **IB innovation grant only for selected deals:** For some deals a grant will be added to the RR investment deal, to pilot innovations for expanding and deepening social impact. This grant (\$0.05-\$0.2 million depending on the total investment size of the respective deal) will be given to the II to directly pass on to the company to create direct benefits for the BoP by piloting an investment component that would increase reach and deepen social impact.⁷⁶ It cannot be used as a technical assistance or for design costs.

Other features for establishing the IB-RRSIF

- **Fund management:** No expensive fund manager is needed, as investment decisions should be made by the investment committee. NABII expressed its interest to represent the II industry in the IB-RRSIF investment committee. Other members would perhaps be the MFNP, MCTI, MSME, perhaps a bank (or the Central Bank) and eventually a business association, in addition to an external expert. The fund can be managed under the Ministry of Finance, by a development bank, or through a separate financial institution. The pros and cos in the Zambia context still have to be discussed.
- **Investment committee instead of fund manager:** As the due diligence for the deals would be done by the impact investors, the fund would not need a fund manager; rather a lean investment committee and a third-party investment assessor double checking the proposals from the impact investors would be sufficient to run the fund. The third party (consultant) would also have some funding for doing impact assessment and further investment preparation work.

74 The definition of these externalities would be clearly specified, but applied in a flexible way to allow relevant business innovations.

75 For example, a housing company delivers quality living to the BoP. But when COVID came, many customers lost their job and needed to restructure their mortgage payments. The impact investor makes some commercial loss because of longer repayment and this would be covered by the government payment in the IB-RRSIF, because the social impact is achieved and will remain so.

76 For example, a water company is doing already last mile connections in villages. However, it wants to pilot mechanism to cross-finance the connection to very poor household on the outskirts of villages. To test this and later upscale, the eater company would need a small grant up to \$0.2 million). Note that the SI component is not to do CSR work and upscaling must be part of the company's business plan vetted by the impact investor to achieve more growth in revenue and profit as well as larger and better social impact for the BoP.

- **IB-RRSIF cooperation partners:** A set of 10-15 impact investors would be pre-identified for its eligibility to access the IB-RRSIF funding. The endorsement of deals is on a case by cases basis and done by the investment committee; no pre-identified amount targeting to specific impact investors will be done. About 15% of the allocation would be kept for impact investors which are not pre-identified.
- **Investment partners:** The fund would best be established through a development bank as a public sector loan with a strong grant component to the government. The IBeeZ team had discussions with AFDB, EC, SIDA, and World Bank to perhaps establish such fund either as a stand-alone development project or as a component under future programs.

The sustainability of the fund is given by the repayment of the deals into a revolving fund. We assume that 80-90% of the RR component will be returned.

- However, considering the grant expenditures for the SI component and the administrative costs (including contingencies), we calculate a replacement rate of 54% if no interest for the cost of capital is charged. It should be clear that the IB-RRSIF is a development investment and commercial return expectations should not be maximized as in other private sector considerations. However, given that most public development funding for private sector companies in Zambia is given on grant basis and is not targeted at companies that guarantee large social impact for society, the IB-RRSIF is a good alternative of traditional SME lending and livelihood or poverty reduction schemes.
- Furthermore, the IB-RRSIF is a smart way for the government to unleash II capital which otherwise would not even come through. So if we calculate the non-recoverable costs of the IB-RRSIF against the lost capital from impact investors (\$75 million), one dollar invested in the IB-RRSIF generates \$3.8 of social investments in the economy. That is a pretty good social rate of return of 375% over 4-5 years (or 75% per year).
- The financial rate of return of the investments (i.e. the impact on economic growth and tax potential) is also very large. This is because IB companies have high profitability and all pay good corporate tax. We also see IB investments typically having high growth rate. We can calculate the rate of return for the economy further. This will only insist that the Treasury would loose a lot of tax opportunities if these investments in IB would not come through. For the ministry of Finance, the IB-RRSIF pays off very well.
- But this will only happen, if the IIs are not paying high interest rate and the costs of capital need to be reasonable. We would strongly argue for offering the RR financing at low interest rates (maybe even lower than guarantee fees). Hence the fund is clearly a development vehicle and need financing from development partners or multilateral development banks. The investment should be replenished all 5 years, but less external additional funding would then be needed.
- The IB-RRSIF can also be established as a regional fund to hedge investment risks between countries

Figure A10 below shows the key investment features of the proposed IB-RRSIF. Depending on the available funding and risk appetite these features can be changed.

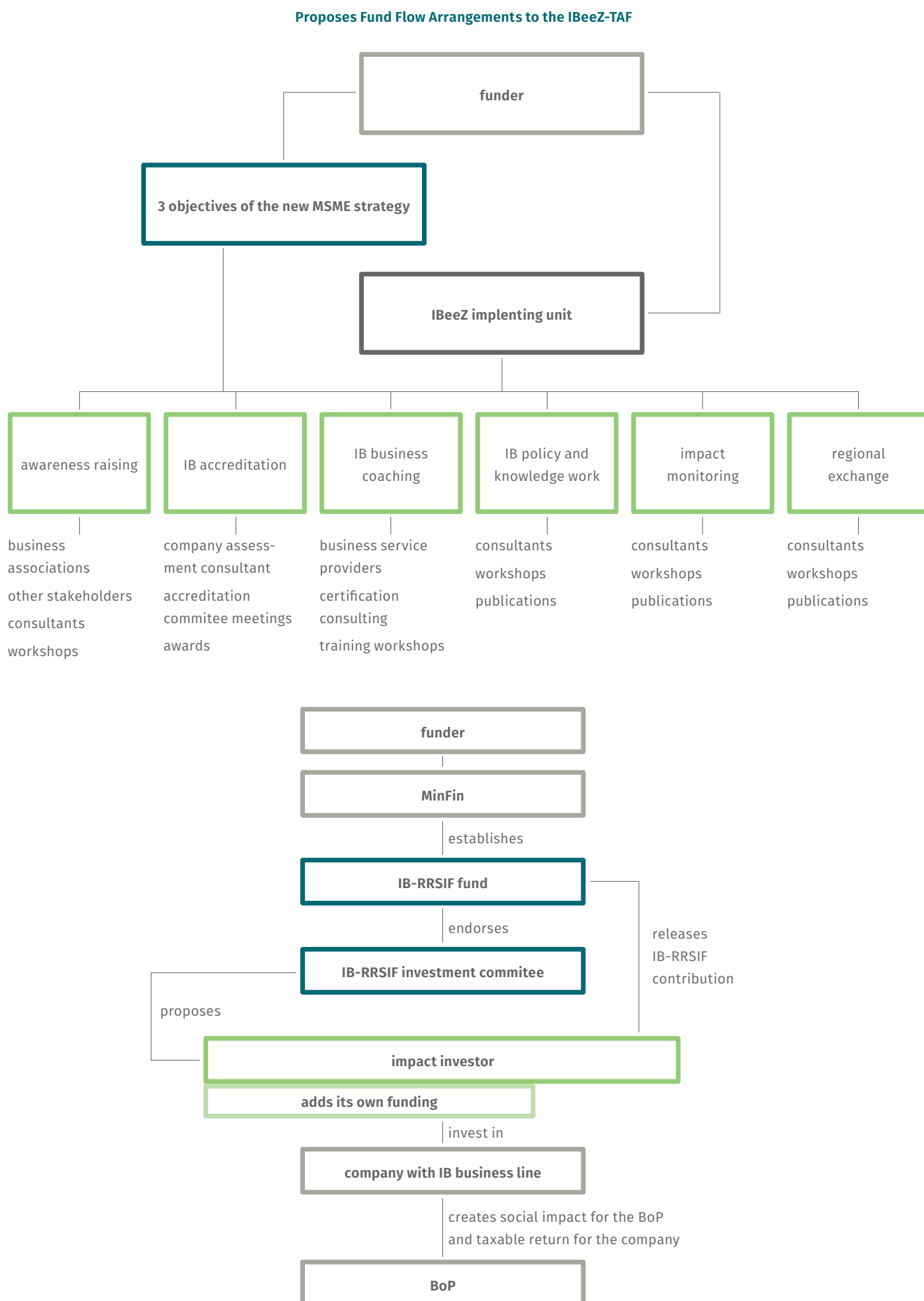
Figure A11 shows the different fund flow arrangements for the IB-Risk Reduction and Social Innovation Fund (IB-RRSIF) to unleash funding from impact investors into IB, and for the IBee-Technical Assistance Facility (IBee-TAF) to finance advocacy business coaching, accreditation, knowledge and policy work, impact assessments and regional exchange for a program to support a better enabling environment for IB companies to grow and deliver more and better social impact (IBee).

Summary of the proposed IB-RRSIF for Zambia

	investment size			Total / average	
	small	medium	large	%	
investments					
number of deals made in 4-5 years	25	25	15	65	
average deal size financed by impact investor (million \$)	0,3	1,0	4,0	0,0	
total investments unleashed (million \$)	7,5	25,0	60,0	92,5	
The IB-RRSIF					
the risk reduction component				23,0	
risk reduction share per deal (%)	20%	15%	10%		
total RR-investment by the IB-RRSIF (million \$)	1,5	3,8	6,0	11,3	49%
actual investment financed by the impact investor (millon \$)	6,0	21,3	54,0	81,3	
the social innovation component					
number of deals with SI co-financing	12	15	10	37	
total SI investment (million \$)	1,2	3,0	3,0	7,2	31%
management fees (million \$)				2,50	11%
contingencies (million \$; to be used for investments, not for administration)				2,05	9%
The sustainability of the IB-RRSIF					
the risk reduction component					
percent of non-performing IB-RR investments	15%	10%	5%		
amount (million \$)	0,23	0,38	0,30	0,90	8%
total funding available in the 2nd rounds and sustainability rate				mio. \$	sus. rate
assuming 0% interest payment (optional)				12,40	54%
assuming 3% interest payment (prefered)				13,41	58%
assuming 5% interest payment (possible)				14,09	61%
assuming 8% interest payment (not advisable from a development perspective)				15,10	66%
assuming 10% interest payment (not advisable from a development perspective)				15,78	69%

Notes: (1) The IB-RRSIF is structured as a revolving fund and 40% of the initial investments may be replenished after 5 years. (2) The sustainability of the IB-RRSIF can be enhanced by reducing the number of investments in the grant-financed innovation component. (3) The sustainability is much higher under a more dynamic reinvestment perspective, as impact investors - when reinvesting in the company - will cover increased funding and risks initially piloted under the IB-RRSIF. (4) The details of the design features need to be further discussed with the Ministry of Finance and the development partner financing the IB-RRSIF.

Figure A9: Proposed fund flow arrangements for IBeeZ-TAF and IB-RRSIF



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Inclusive Business Action Network (iBAN)

The Inclusive Business Action Network (iBAN) is a global initiative supporting the scaling and replication of inclusive business models. Through its strategic approach iBAN supports companies with tailor-made investment readiness programmes and develops national inclusive business policy strategies with policymakers. On a global level iBAN manages the largest online knowledge platform (www.inclusivebusiness.net) on inclusive business. iBAN creates a space where evidence-based knowledge transforms into learning and new partnerships. With its focus on promoting the upscale of inclusive business models and consequently improving the lives of the poor, iBAN is actively contributing to the achievement of the United Nations Sustainable Development Goals. iBAN is funded by the German Federal Ministry for Economic Cooperation and Development. It is implemented by the Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH. An earlier phase of this project (01/2017 – 12/2021) was supported by the European Union.

- <https://www.inclusivebusiness.net>



Zambia Development Agency (ZDA)

The Zambia Development Agency (ZDA) is Zambia's premier economic development agency with a multifaceted mandate of promoting and facilitating trade, investment and enterprise development in the country. The Agency is also responsible for building and enhancing the country's investment profile for increased capital inflows, capital formation, employment creation and growth of the Micro, Small and Medium Enterprise (MSME) Sector.

- <http://www.zda.org.zm/>

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