



Zambia: open for business

Growth business view:
Building a positive growth story and
engaging investors

Report

April 2021



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Growth business view - building a positive growth story and engaging investors

Dear Colleague

Impact Capital Africa is delighted to be partnering with Prospero to deliver a series of virtual events over the course of 2021 entitled Zambia: Open for business.

After a difficult year for Zambian business and investment, we're working with leaders in the market to help power Zambia to recovery in 2021. These events are run on a small scale with hand-picked participants to facilitate a highly discursive session with actionable outcomes.

This second roundtable gathered together founders and CEOs from some of Zambia's most exciting growth businesses as well as a select number of investors and credit entities, to talk about how Zambian businesses can survive the current storm and position themselves for growth.

This report summarises the key discussion points and issues raised by the roundtable participants. Covering the impact of COVID on the Zambian economy and growth businesses, we review how the pandemic has compounded existing economic difficulties and what this means for the short and long term investment prospects. We also summarise the strategies SMEs have deployed in mitigating risk, accessing new sources of funding or debt, and re-thinking their business models to maintain cashflow.

Finally, we address the importance of maintaining relationships with investors and stakeholders throughout this tough period, and how to balance the optimism of a growth story with the pragmatism of dealing with market risk.

Impact Capital Africa is committed to supporting the deployment of private capital into Zambian businesses, and to driving both economic growth and achievement of the sustainable development goals.

With this in mind we are expanding our network of impact investors, increasing the amount of investment-readiness support we give SMEs within the ICA pipeline, and conducting virtual pitching events to help businesses drive forward towards their longer term goals.

Please get in touch to find out how you can get involved in our upcoming activities.

Kind regards,

The ICA Team



5 key take-aways: Summarising the main points

1

Evaluate both the macro and the micro

On a macro scale, the short term picture for the Zambian economy and businesses isn't great. Currency depreciation, inflation and COVID restrictions are impacting growth. However, if you focus on the micro, there have been remarkable examples of creativity, flexibility and innovation from individual businesses and new opportunities are being carved out by strong leadership teams across many sectors.

2

Funding needs are changing

Although some businesses are looking for longer-term capital investments in the near future, most Zambian SMEs are focussing on cashflow for the next six months at least. Grants and concessional funding in the short term are needed to help growth businesses to not just survive, but to deliver impact in their communities and plan for longer term growth when economic conditions improve.

3

Tackling risk

Accepting and planning for risk is increasingly critical, not just in terms of business continuity, but also when dealing with investors and potential shareholders. While the level of risk in Zambia may make some investors uncomfortable, the ability of a growth business to identify and plan for a range of scenarios will put them in a stronger position when dealing with potential investors.

4

Zambia is still a great place to do business

Macro-economic situation aside, Zambia is still a great place for international investors to do business. With strong and functioning judiciary and regulatory systems and almost every market vertical under-served, there is huge opportunity for both businesses and investors who can take a longer view and bring innovation to the table.

5

The higher the risk, the higher the impact

If impact capital was needed in 2019, before the massive devaluation of the Kwacha, Zambia's bank default and the effects of COVID 19, then it will be essential in 2021. For investors who focus on the SDGs, there has never been a better time to make a difference with capital deployed. Zambian growth businesses are well positioned to bring significant and lasting changes to the communities they serve.



How has COVID affected growth businesses in Zambia?

- ▶ The biggest issue for Zambian businesses is that COVID has compounded existing problems in the Zambian economy. Rather than being able to deal with the fallout from COVID or work on stabilising the economy, Zambian business leaders and politicians are dealing with the effects of both at the same time.
- ▶ Businesses are finding their clients are trapped between currency depreciation and inflation, making equipment twice as expensive as it was a year ago. Many have had to assess their operations, scale back product offerings, reduce contract terms or shrink portfolios to manage risk and maintain cashflow.
- ▶ The roundtable participants agreed that 2021 would be a tough year overall, but pointed out that there would be some growth in the market in the second half of the year driven by commodity prices. The overall feeling was that the second half of the year would be more positive, notwithstanding the elections.
- ▶ There has been a slowdown in lending from banks in Zambia, to both businesses and individuals. The depreciation of the Kwacha is one of the biggest problems faced by Zambian businesses, which is having a knock-on effect on food prices and inflation.
- ▶ For sectors such as agriculture, which are highly seasonal, access to debt services has been more critical than ever to help bridge the gap between harvests.
- ▶ Supply chains have been disrupted by border closures and transportation issues as a result of COVID-19.
- ▶ In mining, the supply chain has been highly disrupted, with supplies of imported components and equipment supplied by OEMs seriously impacted. The closure or slowdown of many Zambian mines has had a huge knock on effect in the mining value chain and surrounding communities.
- ▶ There is still opportunity in the market. Adaptive entrepreneurs are responding positively. Those who produce essential goods continue to see high demand, and sectors like ICT and education are benefitting as schools and businesses adapt to the new environment.

IT'S NOT ALL BAD NEWS

'We're seeing a reducing demand for products paired with increased costs because of currency depreciation. It's not a great story in terms of the macro picture.

At the micro level is where you see better stories.'

Zambian bank



What solutions have worked so far?

- ▶ Many Zambian growth businesses have been looking at alternative forms of funding to help them survive the worst of the pandemic. Focus has largely shifted away from growth financing, with many hoping to revert to growth plans in 2022.
- ▶ Cashflow has become a critical issue as a result of currency depreciation. For those companies whose payment terms have traditionally been up to 90 days, their invoice terms have been shortened dramatically, or they have even requested payment from customers up-front, which has helped to tackle some of the cashflow issues they face.
- ▶ Businesses with a hard currency income have been at a distinct advantage over the last year, finding it easier to navigate the additional currency-related difficulties of the pandemic.
- ▶ For those organisations who support local communities through credit facilities, partnering with, for instance, deposit taking institutions like banks who can better manage the cost of capital, has been a route to risk mitigation.
- ▶ Another method of financial risk mitigation discussed by participants was that of payment in kind. Most common in the agricultural sector, this method (where applicable) allows more flexibility for both businesses and their customers.
- ▶ Supply chain issues have flagged new business opportunities. For example, a supplier to the mining sector noted that 2020 was a very tough year, with supply chain difficulties and FX changes impacting cash receipts from long term contracts. However, they have developed a proposal to hold critical goods in bonded warehouses thereby delivering supply chain continuity for the mines but with month-to-month supply contracts at prices that can reflect the current exchange rate.
- ▶ Businesses needed to find ways to continue meaningful engagement with partners, stakeholders and customers while respecting social distancing and travel restrictions. An example was given of work usually conducted with rural chiefs, who were reluctant to meet face to in Lusaka, where COVID rates were much higher. The business was able to use technology solutions to complete their work remotely and maintain social distancing.
- ▶ Some participants noted that they have found international investors and donors to have a higher appetite for risk than Zambian banks, and will continue to pursue relationships with overseas entities for funding.

ADAPTIVE ENTREPRENEURS CAN FIND OPPORTUNITIES

‘Ironically the pandemic presented a bit of an opportunity as Zambia was already in a tough situation economically. COVID has given us an opportunity to access new types of funding which we wouldn’t have been able to before.’

*Business entrepreneur,
Agricultural value chain
supplier*



The role of investor engagement in 2021

- ▶ Although funding cycles have changed, growth businesses still need to maintain investor engagement. In fact, this has become a more complex task as they need to engage a broader group of investors and stakeholders to access different funding opportunities and negotiate terms on existing relationships.
- ▶ Roundtable participants talked about the importance of effectively deploying any grant money they have received, focussing on setting up services or solutions which add value for their customers on terms which improve cashflow. As banks tighten overdraft facilities or even refuse to renew them, moving customers onto new payment terms is increasingly critical.
- ▶ Much of the immediate focus from investors is on adapting debt structures to support the needs of growth businesses. There is a recognition that this is a difficult period which needs a different type of debt structure to help, and it is harder to mobilise capital from lenders both in Southern Africa and internationally.
- ▶ Participants who are involved in lending in Zambia commented that the quality of applications is affecting many lending decisions. For banks who have a responsibility to their depositors, the imperative to make good lending decisions is contributing to a reluctance to extend or even maintain credit. Engaging with banks, giving a full picture of the business and plans for the future as well as showing a good awareness of risk is an important part of the engagement arsenal of growth businesses.
- ▶ The Zambian commercial bank participating in the discussion mentioned that they are trying to migrate some clients onto a Bank of Zambia medium-term financing programme which, after a slow start, has developed a bit of steam. Both banks and investors have to balance their responsibilities to stakeholders with their need to help their clients.
- ▶ In terms of working with existing investors, participants talked about the importance of trust when restructuring or implementing payment holidays. Growth businesses with a history of transparency and flexibility are in a stronger position to negotiate different terms with their shareholders.
- ▶ Growth businesses commented that due diligence has been increasingly stringent over the last two years, with the burden of proof needed doubling or possibly even tripling. For SMEs without a strong financial team this puts a huge stress on management. The role of a CFO has become more critical than ever.

BE READY FOR THE FUTURE

‘Right now Zambian businesses need to focus more on short term working capital. You’ve got to survive but at the same time you have to have one eye on the future and prepare for coming out of this. Be ready to scale when the opportunity comes around.’

*Business entrepreneur,
Hospitality and facilities
management*



Telling a growth story

- ▶ Overall, the participants in the roundtable found reasons to be optimistic about investment in Zambia, particularly in the longer term. Zambia's potential has always been clear in terms of access to land, reliable water stocks and a strong judiciary and regulatory structure.
- ▶ For the business leaders taking part in this roundtable, who have either grown up in Zambia or spent much of their lives here; Zambia is a blank slate of opportunity. Many markets are under-served and those with existing competition are often still lacking fundamentals in terms of business practice, process optimisation or customer care. Although these are taken for granted in other markets, they represent low hanging fruit for businesses looking to launch in Zambia. This potential needs to be better explained to investors, particularly while they can't visit the country and experience it first hand.
- ▶ Participants agreed that stakeholders are concerned by the level of risk in Zambia at the moment, but that this has not been a complete deterrent.
- ▶ Business leaders talked about the focus of their 'growth story' when communicating with investors. While some highlight the importance of focusing on longer term plans and potential, they agreed that it's equally important to present a realistic picture of the current state of play and acknowledge the risks in the market as well as their strategies to mitigate their impact on the business.
- ▶ Growth businesses highlighted that if risk has increased, the potential for impact has increased as well. Lower valuations and currency depreciation have resulted in the potential for a better 'bang for your buck' in terms of impact capital, as well as an acute need for funds which will benefit the economy and Zambian communities.
- ▶ Impact investors expect challenges and are aware of the risks in African markets. Businesses need to be open about the challenges and risks they face mitigation measures they have put in place as well as highlighting future possibilities.

ZAMBIA OFFERS INVESTORS LOW HANGING FRUIT

'Fundamentals of good business practice - all the basics which everybody takes for granted in competitive environments - those things are very loose and fluid in Zambia. So if [investors] partner with local people who understand the local markets can see those gaps, but don't have the wherewithal, then real opportunities are there. We need to explain this better to investors.'

*Business entrepreneur,
Hospitality and facilities
management*

INVESTORS NEED MORE DATA AND NARRATIVES

'The more communication we have from the SMEs we currently work with, the more data I can get. Not just about risk but also impact; not just output and outcomes but narratives about the impact on the entrepreneur, their community and job creation. I look for this increasingly from the SMEs we work with.'

International investor





Can the ICA team help you?

Speak to us for details about
consultancy services, partnerships
and sponsorship opportunities

Contact tiffany@impactcapafrica.com

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