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*Role of Private Equity in National Development: A Case
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Role of Private Equity in National Development: A Case Study of Zambia

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Abstract

Private equity (PE) is a crucial financing tool for business expansion and sector diversification in developing economies, such as Zambia. It improves efficiency, boosts financial performance, and supports job creation. The study analyzed PE's impact on Zambia's development, finding that PE-backed companies experience faster growth, improved governance, and competitiveness, particularly in the agriculture, infrastructure, and manufacturing sectors. However, barriers such as regulatory inefficiencies, shallow capital markets, and economic instability hinder the effectiveness of PE. To promote PE growth, the study recommends strengthening the legal and regulatory environment, expanding capital markets, encouraging institutional investor participation, and providing government incentives, as well as improving financial infrastructure.

Keywords: *Private Equity, Business Growth, Employment Generation, Sectoral Development, Regulatory Barriers*

1. Introduction

Zambia, a landlocked country in southern Africa, has experienced a mixed economic performance over the past two decades. The Zambian economy has gradually begun to diversify, shifting from reliance on copper mining to agriculture, manufacturing, and infrastructure development (Bassett and Fradella, 2022). However, despite this shift, many sectors continue to face challenges, particularly in accessing finance. The lack of access to finance, which is the most prevalent among small and medium-sized enterprises (SMEs), remains a significant barrier to business growth and, consequently, economic development.

PE has emerged as a possible solution to the country's financing gap. In contrast to loans or government grants, PE is a financing mechanism where private firms or individuals invest their money in return for equity stakes in companies (Lumbala, 2019). As Zambia strives to reduce its dependence on external aid and build a self-sustaining economy, PE plays a critical role in driving sustainable development by supporting the private sector, which, as seen in developed economies, is the primary driver of economic growth. In addition, it offers management expertise, strategy

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advice, and access to a broader network, which increases the performance of the business and facilitates long-term growth.

1.2 Research Problem

Despite growing recognition of PE as a driver of economic growth, Zambia's PE sector remains underdeveloped due to limited access to capital, regulatory barriers, and weak exit strategies. Conceptually, much of the literature views PE narrowly as a financing mechanism, overlooking its wider developmental contributions to governance, innovation, and sectoral transformation (Kaplan & Strömberg, 2009; Lerner & Leamon, 2023). Contextually, while research on PE in Africa has concentrated on markets such as South Africa, Nigeria, and Kenya, Zambia's distinctive environment, characterised by shallow capital markets, heavy reliance on copper exports, and institutional inefficiencies, remains underexplored (AVCA, 2024). Theoretically, frameworks such as financial intermediation and capital market development explain PE's role in bridging financing gaps (Schumpeter, 1934; Diamond, 1984; McKinnon, 1973) but fail to capture its dual function as both financier and strategic partner in underdeveloped markets like Zambia. Empirically, systematic studies on PE in Zambia are scarce, with evidence largely limited to small-scale case studies (Sakala & Hapompwe, 2023; Lumbala, 2019), unlike South Africa where PE activity is well documented (SAVCA, 2024).

In light of these conceptual, contextual, theoretical, and empirical gaps, this study examines the role of PE in Zambia's economic development, focusing on its contribution to business growth, employment generation, and sectoral transformation, while also identifying the challenges and opportunities that shape its effectiveness.

1.3 Research Objectives

This study examined the role of PE in Zambia's economic development, with a focus on its impact, challenges, and prospects. The specific objectives of the research were:

- (a) To assess the impact of PE on the growth of businesses in Zambia, particularly in terms of size, efficiency and financial returns.
- (b) To evaluate the contribution of PE to employment generation, particularly for SMEs and other growth-oriented industries in the country.

- (c) To analyze how PE supports sectoral development, particularly in agriculture, manufacturing and infrastructure.
- (d) To identify the opportunities and risks associated with PE investments in Zambia and derive insights from other African countries where PE has positively influenced economic growth.

1.4 Research Objectives

This study aims to contribute to policy discussion and strategic decisions that could enhance the effectiveness of PE as a financing mechanism for Zambia's economic transformation. The study holds significant policy and investment relevance for stakeholders in Zambia's PE ecosystem. For the government, the findings could serve as a foundation for policies for PE investments, particularly in high-growth sectors. A clear understanding of factors influencing PE investments will enable policymakers to create a more conducive regulatory environment, fostering business expansion and economic growth. For investors, the study provides insights into the potential returns and value propositions of investing in Zambia's PE market. It highlights key investment opportunities, such as the potential of the agriculture sector in driving Zambia's economic development, and it also provides meaningful returns for investors in the sector.

From an academic perspective, this research contributes to the existing body of knowledge on the impact of PE on economic development in Africa, particularly in Zambia. The conceptual framework guiding this study is based on three key perspectives, as illustrated in Figure 1, providing a structured analysis of its impact on economic transformation.

By addressing knowledge gaps in PE investment within emerging markets, this study aimed to enhance the understanding of how PE can drive economic growth, particularly in countries with developing capital markets like Zambia.

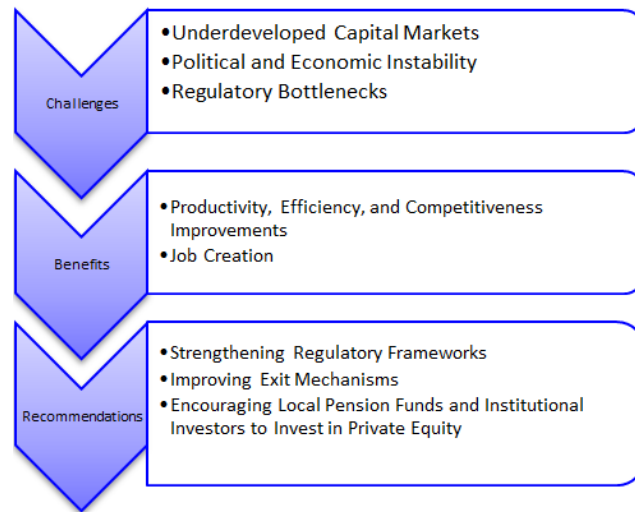


Figure 1. Conceptual Framework.

This paper aims to fill the existing knowledge gap and address the current literature on PE, particularly in emerging markets such as Zambia. This explains why this study is designed to contribute to this area of expertise and provide an understanding of how PE can be used for economic transformation in countries with emergent capital markets.

2. Literature Review

2.1 Conceptualizing Private Equity in Developing Economies

PE refers to investments in private companies or assets, typically with the goal of value creation and long-term capital appreciation. According to Montchaud (2014), PE is commonly defined as equity funding procured from private individuals or groups to support businesses or initiatives that aim to achieve high revenue in the mid to long-term period. It entails investing money in a company in return for a stake and even a voice in the running or operations of that firm. This type of equity financing differs from a bank loan, as it involves an equity stake in exchange for Capital used to finance an expansion, restructuring, or other innovation. Unlike the public market, PE is an investment in the private market with less liquidity but also better return potential.

International Finance Corporation (IFC) notes that PE can serve as an essential source of Capital, particularly for high-growth companies in emerging economies (IFC, no date). Private or institutional investors make PE investments, typically in exchange for either majority or minority

ownership and a say in strategic decisions. In developing countries like Zambia, where access to bank financing or public markets is often limited, PE presents an alternative funding source that can drive economic growth by boosting private sector growth and business expansion.

2.2. Private Equity and National Development

In emerging markets, the role of PE in national development has been widely acknowledged as a provider of long-term Capital. This Capital is, above all, an essential ingredient for business expansion, innovation, job creation, and broader economic and sectoral development (Lerner and Leamon, 2023). PE investors differ from traditional financiers in that they are more participatory in contributing to business growth, enhancing governance, and improving efficiency (Kaplan and Strömberg, 2009).

However, the extent of PE's developmental impact varies by sector, regulatory environment, and market maturity level. To understand the overall impact of PE on national development, it is essential to examine its specific mechanisms for driving national development. The following are among the five areas in which PE spurs economic growth.

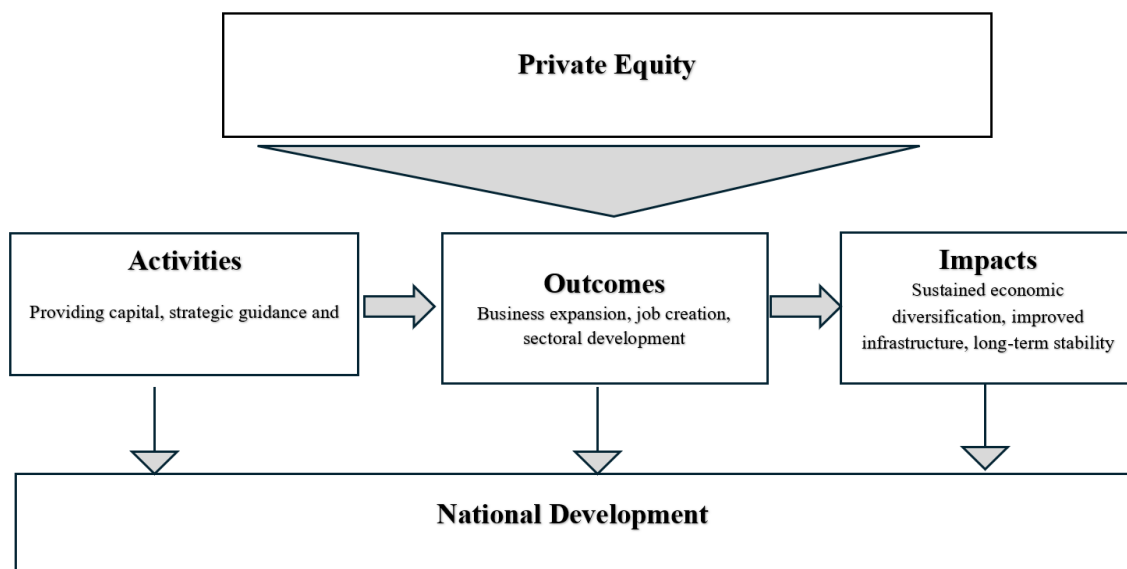


Figure 2: PE contributes to national development

Figure 2 illustrates how PE contributes to national development by facilitating business expansion, employment creation, and sectoral growth. This progression, from investment activities to long-term economic transformation, aligns with insights from previous studies (Kaplan and Strömberg, 2009; Lerner and Leamon, 2023). It highlights PE's role in financing high-potential firms, fostering innovation, and enhancing economic resilience through diversified investments.

2.2.1. The Role of PE in Capital Mobilization

PE plays a crucial role in national development, as it provides financing to companies with high growth potential that face significant challenges in securing financing for business expansion from traditional sources of funding. In emerging economies, businesses often face challenges such as underdeveloped banking infrastructure, stringent collateral requirements, and conservative lending practices (Beck, Demirgüç-Kunt and Maksimovic, 2005). PE addresses these issues by offering expansion capital to such companies, thereby driving economic growth and enhancing firm competitiveness (Lerner and Leamon, 2023).

Research indicates that firms receiving PE investment experience remarkable improvements. A study by Robinson & Sensoy (2016) found that in emerging markets, companies that receive PE investments often demonstrate greater revenue growth and asset expansion than those not supported by PE investments. Additionally, due to increased Research and Development (R&D) investment and patent output, companies that are recipients of PE investments frequently exhibit enhanced innovation. Moreover, PE investments contribute to improved management structures and operational efficiencies, which ultimately strengthen business performance and long-term sustainability (Robert, Harris, Jenkinson and Kaplan, 2014).

Furthermore, analyses have demonstrated that PE investments often outperform traditional financing models. Research provided evidence that PE funds have consistently outperformed public market equivalents, generating higher returns and greater resilience during economic downturns (Robert, Harris, Jenkinson and Kaplan, 2014). Further, PE-backed firms benefit from stronger financial performance and stability, particularly in markets where traditional financing

is constrained. These findings highlight the crucial role of PE in driving business growth and fostering broader economic development in emerging economies.

2.2.2. PE and Job Creation in Emerging Markets

PE also plays a significant role in job creation, particularly in high-growth industries such as agriculture and agribusiness, technology, infrastructure, and manufacturing (Invest Europe, 2024). PE-backed firms create employment directly by funding business expansion that requires additional labour and indirectly through supply chain linkages and service sector development (Davis *et al.*, 2014).

Empirical studies have shown that PE investments lead to increased job growth in target companies. Davis et al. (2014) found that US PE-backed companies created approximately 2% more jobs in just two years following the buyout, primarily through increased greenfield job development. Likewise, Invest Europe (2024) established that PE and venture capital investments created over 450,000 jobs in Europe in 2022, representing a 7.2% increase in growth rate compared to a 2% employment growth rate in non-PE-backed companies.

Furthermore, Jobs for the Future (JFF)(2024) highlights that PE investments are key drivers of workforce expansion, particularly in developing economies where job creation is a national priority. The report found that companies funded by PE investors employed around 12 million workers in the United States by 2020, an increase of around 3 million jobs since 2018. PE investments lead to job quality improvements through labour training, up-skilling programs, and better governance practices, facilitating labour stability in the long term (Davis *et al.*, 2014).

2.2.3. PE and Sectoral Growth: Expanding Key Industries

Aside from assisting individual companies, PE is also instrumental in sector development, most notably in priority sectors such as agriculture and agribusiness, infrastructure, renewable energy, telecommunications, technology, and financial services. These sectors have relatively long-horizon investments that traditional banks and public capital markets cannot offer.

Agriculture and Agribusiness

PE has been revolutionary in agriculture by providing finance to agribusinesses, improving supply chains, and spurring technological advancement. A study by Beck et al (2005) further highlights that PE investments in agricultural production have encouraged efficiency and modernization in developing economies, increasing productivity and market competitiveness.

Infrastructure and Energy

Infrastructure is one of the most capital-intensive sectors, and in most cases, it requires extensive long-term Capital. Kaplan & Strömberg, (2009) assume that PE has been crucial in funding mega-infrastructure projects in emerging economies, predominantly in transportation systems, communication infrastructure, and power generation. PE firms, in most cases, partner with government agencies through public-private partnership (PPP) initiatives to finance gaps in core infrastructure.

Technology and Financial Services

PE has played a crucial role in facilitating the adoption of technology and promoting financial inclusion. Mobile payment systems, mobile banking products, and fintech startups have been fueled by venture capital and PE in emerging economies (Gompers and Lerner, 2001). Tech companies funded by PE have been described by (R. S. Harris, Jenkinson and Kaplan, 2014) as having faster growth rates and penetration rates than conventionally funded companies.

2.2.4. Private Equity as a Catalyst for Economic Diversification

The diversification of economies is necessary to reduce dependence on commodity exports, particularly in economies that have been heavily reliant on natural resources. Natural resources have been over-relied upon by most economies in sub-Saharan Africa, including Zambia.

PE investments foster diversification in economic growth by spurring growth in non-traditional sectors such as manufacturing, Information and Communication Technology (ICT), healthcare, and consumer products. Research by the World Bank reveals that PE investments in emerging economies have a key role in expanding economic growth beyond commodity-related sectors to drive growth in potential-generating sectors such as finance and technology (World Bank, 2023).

Similarly, research indicates that PE-backed companies in emerging economies diversify sooner and achieve better positions in non-commodity segments compared to non-PE-backed companies, as PE provides the necessary Capital and expertise to drive operations to scale in these segments (Impact Entrepreneur, 2023).

2.2.5. Challenges and Future Prospects of PE in National Development

Despite its benefits, PE investments in emerging economies face several structural and macroeconomic challenges that hinder their full potential. One of these hindrances is regulatory obstacles, such as unclear laws and red tape, which discourage PE investments while inhibiting fund operations (Lerner and Tag, 2013). Furthermore, limited exit opportunities due to underdeveloped capital markets limit the ability of investors to earn a return through an initial public offering (IPO) or sales by trade buyout investments, thereby reducing the attractiveness of PE (Black and Gilson, 1998). Macroeconomic threats in the form of exchange fluctuations, political uncertainty, and inflation magnify uncertainty in investments in emerging economies, making investments in PE in emerging economies relatively risky compared to developed economies (Gompers, Kaplan and Mukharlyamov, 2022).

The future for PE in emerging markets remains favourable as efforts to mitigate these risks are being explored. Governments and financial institutions can significantly mitigate risks associated with PE investments by enhancing regulatory clarity, fortifying capital markets, and establishing incentive frameworks for long-term investment (Bernstein, Lerner and Mezzanotti, 2019). By confronting these obstacles, emerging economies can enhance PE participation, thereby promoting economic growth, job creation, and sectoral advancement.

2.3. Theoretical Frameworks

The study utilizes two theoretical frameworks to explain the contribution of PE in emerging economies. The frameworks are financial intermediation and Capital Market Development theory.

2.3.1. Financial intermediation Theory

Financial intermediation theory, as formulated in early research by Schumpeter (1934) and later improved by Kennedy et al (1960), asserts that PE firms act as a middle link between businesses

and financial markets, providing funds in instances when debt instruments are not feasible. Diamond (1984) later emphasized that financial intermediaries, as exemplified in this context by PE firms, play a key role in dealing with information asymmetry and reducing transaction costs, thus making capital allocation more efficient.

In the majority of developing economies, including Zambia, challenges persist regarding access to finance due to high-interest charges and stringent collateral demands (Kaulu *et al.*, 2023). Businesses in Zambia continue to face severe financing constraints, as commercial banks, which dominate the credit market, maintain risk-averse lending strategies, resulting in a misalignment with the financing needs of businesses. One source of alternative funds is PE, which is usually paired with advisory and guidance in managing businesses and is thus becoming a viable alternative for company expansion.

Moreover, PE investments facilitate long-term economic growth by addressing funding gaps in high-potential enterprises. For example, since 2021, Zambia's rising debt service obligations have severely constrained private sector credit, as increased government borrowing has crowded out lending to businesses, limiting their access to finance and stifling economic growth (World Bank Group, 2024). This has resulted in a decline in private sector investment, exacerbating macroeconomic instability and reducing job creation opportunities. During such periods, PE plays a vital role by providing long-term Capital, which traditional funding sources cannot offer, thereby enhancing business productivity.

2.3.2. Capital Market Development Theory

The Capital Market Development Theory emphasizes the significance of well-functioning financial markets in promoting economic growth by mobilizing savings, enhancing liquidity, and facilitating efficient capital allocation (McKinnon, 1973; Shaw, 1973). However, in many emerging economies, capital markets remain underdeveloped, illiquid, and inaccessible, thereby limiting their ability to provide businesses with the necessary financing or expansion (Demirguc-Kunt and Levine, 1996). In such environments, PE emerges as a critical alternative financing mechanism, bridging the gap between capital demand and the limitations of traditional banking and public capital markets.

Empirical research suggests that highly advanced capital markets enhance access to funds for longer durations, enabling enterprises to expand their businesses, invest in research and development, and introduce new products (Levine, 1999). In economies with shallow, illiquid, and risk-averse capital markets, such as Zambia, enterprises are unable to raise funds through traditional means, including IPOs or bond issuances. PE investors bridge this gap by providing patient Capital, managerial expertise, and advisory know-how for enterprises to expand in an environment where regular capital markets are not able (Lerner and Leamon, 2023).

In Zambia, for instance, the Lusaka Securities Exchange (LuSE) remains underdeveloped and dominated by a small number of firms, making it difficult for SMEs and high-growth companies to access public equity markets. As a result, many businesses turn to PE and venture capital investments as alternative funding sources. PE firms provide not just Capital but also strategic governance, risk management expertise, and operational improvements, helping businesses scale efficiently despite structural financial constraints (Kaplan and Strömberg, 2009).

Furthermore, PE investments enhance capital market development by preparing companies for future listings, improving transparency, and increasing corporate governance standards (Robert Harris, Jenkinson and Kaplan, 2014). By injecting private Capital into high-potential firms, PE investors create a pipeline of companies that may eventually access public markets, thereby strengthening the broader financial ecosystem. This cycle of private investment leading to public market readiness has been observed in multiple emerging economies and aligns with the broader objectives of capital market development (Robinson and Sensoy, 2016).

2.4. Empirical Evidence from Other African Countries

PE has demonstrated its ability to support significant economic impacts in emerging economies, such as those in Southern Africa. South Africa serves as a role model for how a developed PE market can be a key driver in providing access to finance, creating jobs, and fostering business growth. However, in Zambia, the PE market is still in its developing phase due to factors such as regulatory gaps, market capital constraints, and macroeconomic risks, all of which are critical factors that need to be addressed to foster PE growth. This section begins with an analysis of the

PE markets in South Africa, which is the most developed in the region and then proceeds to analyze Zambia's current investor environment and changes required to achieve full PE potential.

2.4.1. South Africa: A model for PE investments

PE has played a crucial role in developing some of the most vital sectors in South Africa. Notably, the portfolio companies of South Africa ranked first among the Southern African Countries by deal volume between 2022 and 2023, with 201 deals totaling USD3.5 billion (AVCA, 2024). Information technology significantly benefited from PE in reforming the information sector to increase productivity. Moreover, the financial sector and industries also gained Capital to enhance their technological advancements and production lines. In addition, South African firms receiving PE funding were relatively less vulnerable during economic downturns than those in other countries, as the funding sources also provide strategic management inputs and connect them to the markets. While operating in the South African environment, which is characterized by political hurdles, PE has provided a cushion against some of the risks associated with operating in this environment (Deloitte Africa, 2024).

The position and participation of PE in national development have been even more marked because the country boasts more developed financial institutions. The PE industry is relatively developed, and over the past few years, South Africa has boasted some of the largest PE firms in Africa (SAVCA, 2024). Statistics by the South African PE and Venture Capital Association (SAVCA) indicate that PE investment increased to a record ZAR 28.1 billion in the financial year 2023 to help diversify the country's economy (SAVCA, 2024). The financial services, energy, and telecom industries have been the primary beneficiaries of PE investments, which not only enhanced the competitiveness of these sectors but also created employment opportunities for thousands of people. Thus, the market is highly effective in PE exits due to the numerous IPOs and trade sales that have been completed in South Africa. The success of PE in the country has borne fruit as investors in the other SADC members use South Africa as a model for PE activities in the region (Amungo, 2020). These examples demonstrate the positive impact of PE on national development and hold essential lessons for Zambia on how to develop its PE environment.

2.4.2. Lessons for Zambia

The South African experience offers three key pointers that Zambia should address to enhance PE market development. First, a well-developed and fully functional stock exchange is essential to provide clear exit strategies, such as IPOs and secondary sales, and to provide liquidity for PE investors, which is currently lacking in Zambia's nascent capital markets. Secondly, there is a need for a well-developed legal system to support PE investments. The legal system in South Africa reduces uncertainty and attracts domestic and foreign PE funds. Lastly, industrial diversification is a necessity. The diversification in South Africa, away from core businesses in the industry towards technology, services, and alternative energy, is a trend that Zambia can adopt to enhance investor confidence and economic resilience.

2.4.3. Zambia's Investment Climate in PE

Despite its potential, Zambia's PE market remains constrained by regulatory inefficiencies, underdeveloped financial markets, and economic instability. These issues create an unpredictable investment environment, deterring both local and foreign investors.

(i) Regulatory and Institutional Barriers

It is essential to have an investor-friendly regulatory system to draw in PE investments. However, Zambia is hindered by cumbersome bureaucracy, delayed approvals, and unstable regulatory systems. Long processing times in approvals and ambiguous policies towards investments discourage PE companies by introducing uncertainty. Poor contract enforcement systems discourage international investments. As compared to South Africa, where incentives in taxation and organised fiscal policy encourage extensive participation by PE in large projects, Zambia does not have incentives that encourage PE's long-term growth. Although the Zambian government has implemented measures to simplify the business registration process and reduce the cost of doing business in the country, the country remains ranked 85th out of 190 countries on the Ease of Doing Business Index (World Bank Open Data, no date).

(ii) Limited Capital Market Depth

It is necessary to have a liquid and deep capital market to facilitate exits from PE companies' investments. Zambia's illiquid and relatively small capital market does not support exits by investors.

In recent years, the government and other key stakeholders have been making efforts to develop the capital market in Zambia. However, the stock exchange market remains relatively small and illiquid. As the current listings in the LuSE reveal, exit opportunities for PE firms, including IPOs and trade sales, are scarce. As of December 2022, only five stocks were quoted on LuSE, indicating that the capital markets in Zambia are yet to develop commercially. The lack of liquidity and limited exit opportunities hinder firms, especially PE firms, from achieving the intended return (Chun Tie, Birks and Francis, 2019; Lusaka Securities Exchange, 2024).

(iii) Macro Economic Stability

Macroeconomic uncertainty is among the significant threats to PE investing in Zambia. Fluctuations in the value of Zambia's currency, the kwacha, make returns on investments unreliable, thereby magnifying the exposure of PE companies to risk. Furthermore, the Zambian economy is highly dependent on earnings from copper exports, making the country sensitive to fluctuations in commodity prices (Chizonde, 2016). These risks increase the perceived risk of PE investments in Zambia, deterring investors from engaging in such investments.

3. Research Methodology

3.1. Study Design

This study employed a mixed-methodology approach, integrating qualitative insights from stakeholder surveys and secondary data with quantitative elements from structured survey responses and financial reports. The qualitative analysis utilized a grounded theory and thematic approach, while content analysis was applied to the secondary data. Triangulation was employed to validate the findings by cross-referencing different data sources.

3.2. Data Collection Sources

This study utilized both primary and secondary data sources to examine the role of PE in Zambia's economic development. Primary data was collected through a survey administered to 22 key stakeholders using Google Forms. The respondents included PE fund managers, institutional investors, policymakers, and businesses that have received PE investments, ensuring diverse insights into investment trends, business growth, and regulatory challenges. The survey included both structured and open-ended questions, allowing for both quantitative assessments and qualitative insights into the impact of PE on Zambia's economy.

Secondary data was gathered from institutional reports, financial databases, and policy documents from sources such as the Zambia Development Agency (ZDA), the African Development Bank (AfDB), and industry analyses. These sources provided critical insights into sectoral investment trends, PE growth, and regulatory influences on the investment climate. By integrating both primary and secondary data, the study ensured a comprehensive understanding of PE's contributions and challenges in Zambia.

3.3. Sampling Strategy

A purposive sampling approach was used to ensure that only key stakeholders with direct experience in PE investment participated in the study. The sample consisted of five PE fund managers actively investing in Zambia, six representatives from PE-backed businesses, five policymakers overseeing financial regulations, and six institutional investors involved in co-financing PE projects. This selection was guided by the need to obtain insights from decision-makers, regulators, and beneficiaries of PE investments, ensuring balanced perspectives on both opportunities and challenges in the sector.

The total sample size of 22 respondents was deemed sufficient for the research, as it ensured representation across key investment roles while allowing for in-depth analysis. The selected participants were individuals with significant industry experience, providing valuable insights into the impact of PE, regulatory barriers, and investment trends in Zambia.

3.4. Data Collection and Analysis

3.4.1. Primary Data

Primary data from the survey was analyzed using a refined grounded theory approach, following the methodology described in Figure 3 (Chun Tie, Birks and Francis, 2019). This process involved defining key constructs, open coding for recurring themes, axial coding to establish relationships between themes, and selective coding to refine core insights. Key thematic patterns, such as the impact of PE on job creation, business expansion, and exit challenges, were extracted and aligned with findings from secondary sources. The approach involved six steps as follows:

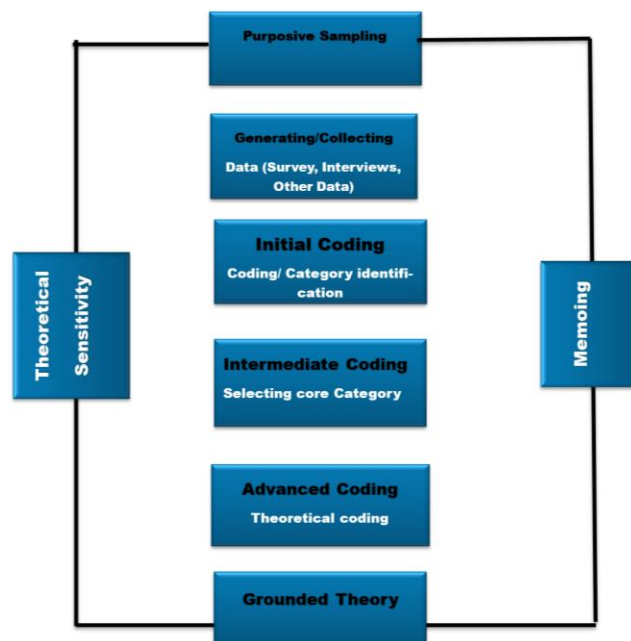


Figure 3. Chun Tie et al. (2019) employed a grounded theory approach.

3.4.2. Secondary Data

For secondary data, a content analysis approach was employed to identify investment trends, policy influences, and shifts in sectoral funding. Reports from ZDA, AfDB, and financial industry sources were systematically reviewed to highlight patterns in PE investment flows, regulatory constraints, and emerging opportunities. The integration of primary and secondary data enabled a comparative validation of the findings, thereby strengthening the overall analysis.

4. Findings and Discussion

This section synthesizes secondary data gathered from institutional and industry reports, analyzing it in conjunction with primary data from PE fund managers, policymakers, and investors in Zambia. The section presents an analysis of the PE landscape, sector distribution, business growth, employment trends, and investment challenges. Secondary data provides a broad perspective on the global economic environment by highlighting macro-level trends, such as investment in agriculture, energy, and infrastructure industries. In contrast, primary data presents key concerns, including operational and regulatory issues within these industries. These findings are incorporated into the discussion to evaluate PE's contribution to Zambian economic development and to highlight some challenges. Lessons can be drawn from South African PE, considering it is more developed than Zambia, which would help enhance the Zambian PE investment climate.

4.1. Private Equity Landscape in Zambia

Over the past decade, the PE landscape in Zambia has shown significant growth potential. The country, with its developing economy and investment-friendly policies, is attracting an increasing number of PE firms, both local and foreign. In 2022 alone, Zambia recorded a surge in PE deals, with a year-on-year increase of approximately 4.67%, resulting in total investment of United States Dollars (USD) 13 million across various sectors (AVCA, 2024). The country's strategic location as a hub for trade in Southern Africa, its rich resource endowment, and the development of infrastructure have contributed to this growth.

The major PE firms that are investing in Zambia include Goodwell Investments, Affirma Capital, and Renew Capital, among others. At the same time, other international firms have also expressed their interest in investing in Zambia (Writer, 2024). Such firms have helped provide Capital in various areas like agriculture, energy, infrastructure, and manufacturing industries.

Regarding the respondents' opinions on the contribution of PE to the Zambian economy, the survey results were positive. More than two-thirds of the respondents indicated that PE has enhanced the flow of Capital to the most promising companies. Nevertheless, 48% of the respondents in the survey expressed concerns about the business environment in Zambia, citing inefficient business regulation and exit barriers that hinder long-term investment.

4.2. Sectoral Distribution of PE Investments

Most PE funding targets agriculture, energy and infrastructure segments, which aligns with Zambia's economic agenda. Agriculture is the most funded industry by PE in 2021, absorbing 35% of the PE funding, and its firms, such as AfricInvest and Norfund, invest in agribusiness to increase production, adopt the new method of farming, and strengthen the supply chains (Norfund, no date). The sectoral distribution of PE investments in Zambia reflects the country's structural characteristics and business potential based on natural resources. Given its significant impact on the economy, agriculture has not been left behind when it comes to the attractiveness of PE. For instance, the funding of PE has been dominated by agricultural investments, with 35% of the funding allocated in 2021 (Norfund, 2021). This is in response to Zambia's efforts to revitalise agriculture and enhance food security. Some of the PE firms that have actively invested in this sector include AfricInvest and Norfund, which invest in agribusiness firms to enhance productivity, introduce new technologies in farming, and develop a robust supply chain (Africa Private Equity News, 2021).

The other primary industry benefiting from PE investment is the energy sector, particularly in renewable energy. By encouraging the diversification of energy sources, such as solar resources, the Zambian government has made the energy sector more attractive to PE international investors. In 2024 alone, a total of K 22.4 billion worth of investment pledges were made in the energy sector, with a focus on large-scale solar and hydropower projects (Sichula, 2019).

Additionally, manufacturing has gained interest, particularly with the recent government focus on increasing manufacturing productivity. Nevertheless, this sector continues to be less funded compared to the agriculture and energy industries. However, despite being less attractive for PE investments, it continues to draw interest from PE players like Altree Capital (Pty) Ltd, which has provided funding to firms in this sector to improve manufacturing efficiency and penetrate export markets in the region, thereby transforming Zambia's manufacturing capacity (AVCA, 2024).

Although there are few PE firms in Zambia, the number of investments made has gradually increased (AVCA, 2024). According to the Zambia Development Agency, information shows that PE investments in Zambia increased by more than double between 2015 and 2023, and the

agricultural value chain sector was the most favored sector for investment (Zambia Development Agency, 2023). The results of the survey are similar to those from the secondary data, where 72% of respondents agreed that the most attractive sector for using PE funds is agriculture. Moreover, 60% of the respondents argued that the renewable energy sector is growing, particularly due to the increased diversification of energy sources in Zambia. However, 45% argued that manufacturing is still underfunded in terms of PE investment due to the shortage of patient Capital and unsuitable industrial policies.

4.3. Impact of Private Equity on Business Growth

PE investments have and continue to make a significant contribution to shaping Zambia's business landscape, particularly in the targeted sectors and companies where such investments are being made. Secondary sources report that businesses supported by PE experience remarkable improvement in productivity, growth, and competitiveness. Survey responses affirm this, as 78% agreed that PE investments had prompted businesses to expand, and 65% had successfully entered new markets. Further, 72% of businesses recorded at least a 30% increase in revenue after receiving PE investments.

Beyond financial contributions, PE investors influence business strategy and operations. For instance, Atree Capital (Pty) Ltd, a company operating in agro-processing in Zambia, made a USD 60,000 investment in Nature's Nectar. This money was strategically utilized to adopt an inclusive model for women beekeepers, aiming for 50% female participation, thereby improving its market standing in the region (AVCA, 2024). Furthermore, the business has been able to operate with much more efficiency than before because of the Capital that has been channeled. The PE investors are usually more than just financial backers. They influence business strategies, try to optimize processes, and introduce the firm to regional markets.

4.3.1. Expansion of Businesses Receiving Private Equity Funding

PE investments have contributed significantly to Zambia's businesses' growth and development. A good case in point is Copperbelt Energy Corporation (CEC), a self-generating electricity transmission and distribution company in the Copper-rich province of Zambia, listed on the Lusaka Securities Exchange. In 2024, Affirma Capital took a leading position by investing USD 145

million in CEC, which had also received investments from Norfund and Kommunal Landspensjonskasse. The significant funds have enabled CEC to develop better infrastructure, thereby enhancing its ability to supply electricity to mine sites in Zambia and the Democratic Republic of the Congo (African Business, 2024).

Another indicative case is Good Nature Agro (GNA), a Zambian agribusiness enterprise. Goodwill invested USD 8.5 million in equity in GNA in 2024 in partnership with Oikocredit and Global Partnerships/Eleos Social Venture Fund. The investment has facilitated GNA's expansion, and since then, it has assisted some 30,000 small-scale farmers in Southern Africa. The funds have played a central role in scaling up the installation of advanced farm technology and supply chain resilience, thereby enhancing GNA's market share and competitive advantage (Writer, 2024).

The above illustrative cases demonstrate the contribution of PE investments towards supporting enterprise improvement and expansion in Zambia. They are consistent with findings in surveys that 78% of enterprises have expanded their businesses through the opening of branches, manufacturing units, or service units, thanks to the support received from PE investments. In addition, 65% of enterprises had accessed new domestic and foreign marketplaces following investments, validating.

4.3.2. Productivity, Efficiency, and Competitiveness Improvements

PE investments have played a significant role in increasing productivity, efficiency, and competitiveness in Zambia. A good case in point is Golden Lay Limited, which enhanced its output capacity and achieved cost savings after being invested in by the Aureos Southern Africa Fund (ASAF) and subsequently the African Agriculture Fund (Phatisa). The company's application of new farming techniques and streamlining of supply chains yielded cost savings and increased market share.

Goldenlay's social and corporate programs, such as staff accommodation, healthcare improvement, and school assistance, complemented employees' productivity and reputation as a company, thereby enhancing its competitive advantage (Private Equity Wire, 2012). This second finding aligns with research from surveys, wherein 81% reported introducing new technology,

69% increased efficiency, and 61% achieved a 15% improvement in cost savings following a PE investment.

These findings confirm that PE-backed enterprises outcompete their competitors in terms of technology adoption, streamlined processes, and enhanced market presence, thereby improving economic and industrial competitiveness in Zambia.

4.3.3. Private Equity and Job Creation

PE investments have contributed significantly to generating jobs in Zambia, particularly in manufacturing, farming, and energy. As research undertaken by Chanda and Sikombe (2022) reveals, the Zambian PE industry is driving economic advancement in areas such as job creation, innovation, tax payments, and business expansion.

Survey responses also affirm this, with 70% of respondents indicating that support from PE investments enabled them to implement new training programs for employees, and 58% hiring at least 25% more staff. In addition, 64% of businesses reported being encouraged towards gender inclusion as a result of PE funds, leading to increased female staff and the implementation of skill-based training programs.

The above findings affirm the significant contribution of PE in ensuring better labour market prospects, sustainable and balanced growth, and promotion of Zambia's economy.

4.4. Challenges Facing Private Equity in Zambia

The study identified some key limitations to the growth of PE in Zambia. The findings revealed that unpredictability in the economy ranked as a top concern and as a deterrent for 62% of survey participants. The volatility introduced by Zambia's frequent policy reforms and dependency on copper exports deters longer-term investments. Regulatory hurdles are equally daunting. Delays in approval, unpredictable taxation policies, and insufficiently established legal frameworks are identified as key deterrents to PE activity for at least 52% of investors. The obstacles complicate the deal structure and execution, discouraging both foreign and domestic investors. A streamlined

regulatory system, coupled with some tax policy reforms, would go a long way in generating investor confidence.

An equally urgent concern is exit constraints, as Zambia's immature capital market and limited IPO opportunities hinder investor exits. Exits are highly problematic for 57% of respondents, who cite challenges in securing IPOs, trade sales, or secondary buyouts, resulting in extended holding periods. By comparison, South Africa's Johannesburg Stock Exchange (JSE) has a well-developed exit market, and this is one area in which Zambia can improve its market development.

Lessons derived from South Africa's PE market reflect how sector diversification, better regulations, and the inclusion of institutional investors can improve Zambia's PE landscape. Spurring pension funds and insurance funds to invest in PE, as in South Africa's Pension Funds Act, Regulation 28, can be a secure source of funds. Zambia's National Pension Scheme Investment Regulations of 2017 shift towards opening up pension funds for investments in PE, non-listed equities, and socially targeted investments in specified limits is a welcome move that reflects serious steps towards improving the PE investing environment.

Generally, addressing these hindrances in the context of reforms in policies, deepening capital markets, and diversified investments will be instrumental in solidifying Zambia's PE ecosystem and unlocking its potential for economic growth.

5. Conclusion and Recommendations

5.1. Summary of Key Findings and Overall Study Insights

This study offers a comprehensive analysis of the role of PE in Zambia, examining its impact on business growth, job creation, and sectoral development, while also identifying the key challenges that limit its full potential.

PE has proven to be a catalyst for economic transformation, particularly in the agriculture, energy, and manufacturing sectors. Investment flows into these sectors have enabled businesses to scale operations, adopt new technologies, and expand market reach. The study finds that PE investments

have significantly contributed to employment growth, with many firms reporting increased workforce size, improved skills training, and initiatives promoting gender inclusivity.

Despite these positive contributions, several constraints hinder the full realization of PE's benefits in Zambia. Political and economic risks, particularly policy uncertainty and over-reliance on copper exports, deter long-term investors. Regulatory inefficiencies, including bureaucratic hurdles and inconsistent tax policies, create additional barriers to growth. One of the most pressing issues is the difficulty in exiting investments due to the underdeveloped LuSE and limited IPO opportunities. The findings indicate that Zambia's PE market is still relatively young, with limited large-scale success stories, which further discourages new investors.

A comparison with South Africa's PE market highlights potential strategies for Zambia's improvement, including the establishment of stronger regulatory frameworks, increased participation by institutional investors, and sectoral diversification.

The survey results support these findings:

62% of respondents identified political instability and policy uncertainty as major deterrents to investment. 52% of investors cited regulatory barriers, including lengthy approval processes and inconsistent taxation. 57% of investors expressed difficulty in exiting investments, mainly due to capital market constraints and limited IPO opportunities. 68% of respondents suggested that Zambia emulate South Africa's policies, tax incentives, and investor-friendly regulations.

54% noted that increased institutional investment engagement, as seen in South Africa, could boost local capital financing.

5.2. The Role of Private Equity in Zambia's Economic Transformation

PE has played a critical role in diversifying Zambia's economy and reducing dependency on copper exports by strengthening investments in agriculture, energy, and manufacturing. In agriculture, PE-backed firms such as AfricInvest and Norsad Capital have enhanced food security, increased productivity, and expanded access to regional markets. In the energy sector, PE investments have supported the development of renewable energy projects, such as solar farms and small-scale

hydropower plants, which are crucial for meeting Zambia's growing energy demands. While manufacturing remains relatively underfunded, PE has supported businesses in the food processing, textiles, and construction materials sectors, furthering Zambia's industrialization agenda and export diversification.

5.3. Addressing Major Challenges Facing PE Growth in Zambia

Although PE has positively impacted Zambia's economy, several key obstacles need to be addressed for it to reach its full potential:

5.3.1. Political and Economic Risks

Policy instability and economic fluctuations deter PE investments, particularly due to Zambia's reliance on copper exports and exposure to commodity price volatility.

High political uncertainty, particularly during election cycles, creates a volatile investment environment.

5.3.2. Regulatory Barriers

Inefficiencies in business registration, inconsistent tax policies, and delays in approvals hinder investment attraction.

Zambia ranks 84th globally in the World Bank's Doing Business Report (2021), lagging behind regional peers.

Unclear investment policies reduce investor confidence, further limiting PE capital flows.

5.3.3. Exit Challenges

Underdeveloped capital markets and a weak secondary market restrict PE firms' ability to exit investments profitably. The lack of IPO opportunities on the Lusaka Stock Exchange (LuSE) discourages long-term investments. Few local buyers are capable of acquiring PE-backed firms, further complicating exit strategies.

5.4. Practical Policy Recommendations

To unlock Zambia's PE potential, the following policy measures should be implemented:

5.4.1. Strengthening Regulatory Frameworks

Streamline business registration and approval processes to enhance ease of doing business and, in addition, establish a clear, stable tax policy to eliminate investor uncertainty. Additionally, improving legal protections and enforceable investment contracts can create a more predictable market environment.

5.4.2. Encouraging Institutional Investment in Private Equity

Encourage local pension funds and insurance companies to allocate a portion of their assets to PE investments. Zambia's National Pension Scheme Authority (NAPSA) can act as a lead institutional investor in stabilizing PE financing. South Africa's Regulation 28 model should be studied as a blueprint for Zambia to strengthen institutional investor participation.

5.4.3. Improving Exit Mechanisms

Strengthen the Lusaka Stock Exchange (LuSE) to attract more listings and enhance market liquidity. This can be achieved by introducing tax incentives and regulatory support for IPOs to improve exit options for PE firms.

6. Final Thoughts

PE remains a powerful tool for economic development, business growth, and employment creation in Zambia. However, to fully unlock its potential, Zambia must enhance its regulatory environment, strengthen institutional investor participation, and improve capital market infrastructure. By implementing these reforms, Zambia can attract more local and international PE investors, positioning itself as a key investment hub in Southern Africa. A robust PE ecosystem will not only drive business expansion and job creation but will also support long-term economic stability and financial growth.

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