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Green Bonds and Impact Investment as Catalysts for ESG Advancement in Zambia: Opportunities, Challenges, and Policy Pathways

Dr. Sidney Kawimbe

ZCAS University, School of Business

https://orcid.org/0009-0006-1039-5757

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Abstract

Purpose: This study explores how green bonds and impact investments contribute to advancing Environmental, Social, and Governance (ESG) objectives within Zambia's evolving financial landscape. It responds to the country's exposure to climate vulnerability, energy insecurity, biodiversity loss, and persistent socio-economic challenges, positioning sustainable finance as a key mechanism for mobilizing long-term capital toward inclusive and low-carbon development pathways.

Methodology: The study employs a qualitative analytical approach based on a review of policy frameworks, regulatory instruments, and market evidence related to sustainable finance in Zambia. Particular attention is given to the Zambia Green Finance Taxonomy (ZGFT), early green bond issuances, and selected impact investment initiatives, assessing their alignment with national development priorities and ESG principles.

Findings: The analysis finds that green bonds finance renewable energy, climate-resilient infrastructure, and environmental conservation while delivering social co-benefits such as employment and community development. Impact investments complement these outcomes by supporting health, education, and biodiversity projects, strengthening governance and measurable ESG performance. Nevertheless, regulatory fragmentation, limited technical capacity, and weak project-preparation mechanisms continue to constrain market scalability in Zambia's context.

Unique Contribution to Theory, Policy and Practice: The study contributes to sustainable finance theory by extending ESG and impact investment analysis to a climate-vulnerable, lower-income economy. From a policy perspective, it underscores the importance of regulatory harmonization, capacity building, blended-finance approaches, and project-preparation facilities to de-risk investments. Practically, it offers insights for policymakers, investors, and development partners seeking to position Zambia as a regional leader in sustainable finance, leveraging green bonds and impact investments to enhance climate resilience and inclusive economic growth.

Keywords: *Green Bonds, Impact Investment, ESG Finance, Zambia Green Finance Taxonomy, Sustainable Development*

1. Introduction

Sustainable finance has rapidly transitioned from a peripheral idea to a core component of global development agendas, driven by the recognition that traditional financing mechanisms alone cannot address the interconnected crises of climate change, inequality, and environmental degradation. Globally, policymakers, investors, and international institutions are increasingly integrating environmental, social, and governance (ESG) criteria into financial decision-making to support long-term sustainability goals. In Africa, sustainable finance is viewed not simply as a mechanism for environmental protection but as a strategic tool for achieving economic resilience and inclusive growth. Recent data indicates that sustainable debt issuance in Africa reached record levels in 2024, although total volumes remain low relative to continental development needs and represent less than 1 % of global sustainable debt markets. Renewables and other green projects account for a significant share of these flows, underscoring their importance in the continent's transition to low-carbon economies.

Zambia, like many countries in Sub-Saharan Africa, faces the complex challenge of advancing socioeconomic development while protecting its natural resources and strengthening climate resilience. Persistent climate vulnerability, energy shortfalls, deforestation, and rural poverty place pressure on the nation's development pathways. In response, innovative financial instruments such as green bonds and impact investments have emerged as promising approaches to mobilize capital for sustainability-oriented initiatives. Green bonds are debt securities where the proceeds are dedicated to projects with explicit environmental benefits, such as renewable energy, sustainable agriculture, or water conservation. In 2023, Zambia issued its first green bond, signalling the beginning of a domestic green finance market that seeks to finance energy infrastructure and other climate-responsive investments.

Beyond financing infrastructure, Zambia's sustainable finance ecosystem is evolving through policy innovation. In December 2025, the Government launched the Zambia Green Finance Taxonomy (ZGFT), a standardized framework to define and classify environmentally sustainable economic activities. This taxonomy aligns with international norms and helps reduce greenwashing risk by providing clarity on what qualifies as "green" within national contexts. By doing so, it aims to build investor confidence and catalyze both domestic and international capital flows into credible sustainable projects. Despite these advances, barriers to scaling sustainable finance persist. Institutional weaknesses, limited awareness among investors, and underdeveloped capital markets constrain the broader uptake of green bonds and impact investment strategies.

Additionally, while green bonds can attract environmentally targeted capital, their effective deployment requires robust monitoring, reporting, and governance mechanisms to ensure transparency and measurable impact. In the case of impact investing—which seeks financial returns alongside quantifiable social or environmental outcomes—the challenge lies in defining impact metrics that are consistent, verifiable, and aligned with stakeholder expectations. Scholars note that while instruments like green bonds can mobilize finance for sustainable development, inadequate public–private partnerships and policy frameworks often limit their effectiveness, particularly in climate-vulnerable economies. To strengthen sustainable finance outcomes in Zambia, multi-pronged policy approaches are needed. These could include capacity-building for financial institutions, integration of ESG risk assessment into regulatory frameworks, and incentives that reduce the cost of sustainable investment issuance. Further, aligning national development strategies with international sustainability standards and facilitating private sector engagement will help unlock the full potential of green finance. If effectively implemented, these pathways could ensure that sustainable finance contributes meaningfully to Zambia's economic growth, climate adaptation, and social inclusion goals.

2. Literature Review

Sustainable finance has emerged as a critical area of academic inquiry and policy development, defined broadly as the integration of environmental, social, and governance (ESG) criteria into financial decision-making to support sustainable development outcomes. Systematic reviews of the field show that sustainable finance has expanded significantly over the last decade, driven by global climate commitments, investor demand for ESG alignment, and the recognition that traditional financial models are insufficient to address pressing environmental and social challenges. Research highlights four thematic areas within sustainable finance: ESG value creation, the role of green bonds, the development of ESG ratings, and associated risks such as greenwashing and inconsistent standards. These studies underscore that while sustainable finance is gaining traction globally, substantial gaps remain in regulatory coherence and impact measurement (Zairis et al., 2024).

Research specific to sustainable finance mechanisms such as green bonds also identifies both opportunities and barriers. Green bonds are debt instruments designed to finance projects with environmental benefits, including renewable energy, climate adaptation, and sustainable infrastructure. Literature indicates that green bonds have rapidly expanded in global markets due to heightened environmental awareness and regulatory support, though challenges persist around defining "green" criteria, ensuring transparency, and avoiding greenwashing. Empirical studies also suggest that green bonds can influence corporate governance and investor behavior by signalling long-term environmental commitment.

Zambia's experience reflects these broader patterns while also presenting unique national dynamics. The issuance of Zambia's first green bond in 2023 marked a significant milestone for the country's sustainable finance landscape, demonstrating early adoption of market-based climate finance instruments. Analysts argue that green bonds can play an important role in channeling capital toward climate-resilient infrastructure and sustainable development goals, particularly in contexts with recurrent climate shocks like droughts and energy shortfalls. However, effective deployment requires robust market frameworks, credible impact reporting, and policy coordination to attract both domestic and international investors. Complementing market instruments, recent policymaking in Zambia has focused on building a supportive institutional foundation for

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sustainable finance. The launch of the Zambia Green Finance Taxonomy (ZGFT) in December 2025 represents a critical advancement in articulating clear, science-based criteria for what constitutes "green" investment activities. Taxonomies serve to reduce uncertainty, enhance transparency, and limit the risk of greenwashing by providing a common framework for regulators, financial institutions, and investors. Such frameworks are increasingly recognized as essential to scaling sustainable finance markets, particularly in emerging economies where standardization has lagged.

2. 1 Conceptual Framework: Sustainable Finance Instruments in Zambia

The conceptual framework for sustainable finance instruments in Zambia centers on the growing need to channel financial resources toward projects that support environmental protection, social development, and long-term economic resilience. As the country confronts challenges such as climate vulnerability, limited access to green capital, and the need for inclusive growth, instruments like green bonds, sustainability-linked lending, and impact investment vehicles are emerging as important tools for mobilizing funding. These mechanisms help align Zambia's financial sector with national development priorities and global sustainability commitments, creating pathways for both public and private stakeholders to invest in responsible and future-oriented initiatives. This framework highlights how sustainable finance can strengthen Zambia's transition toward a more resilient, climate-aware, and socially inclusive economy.

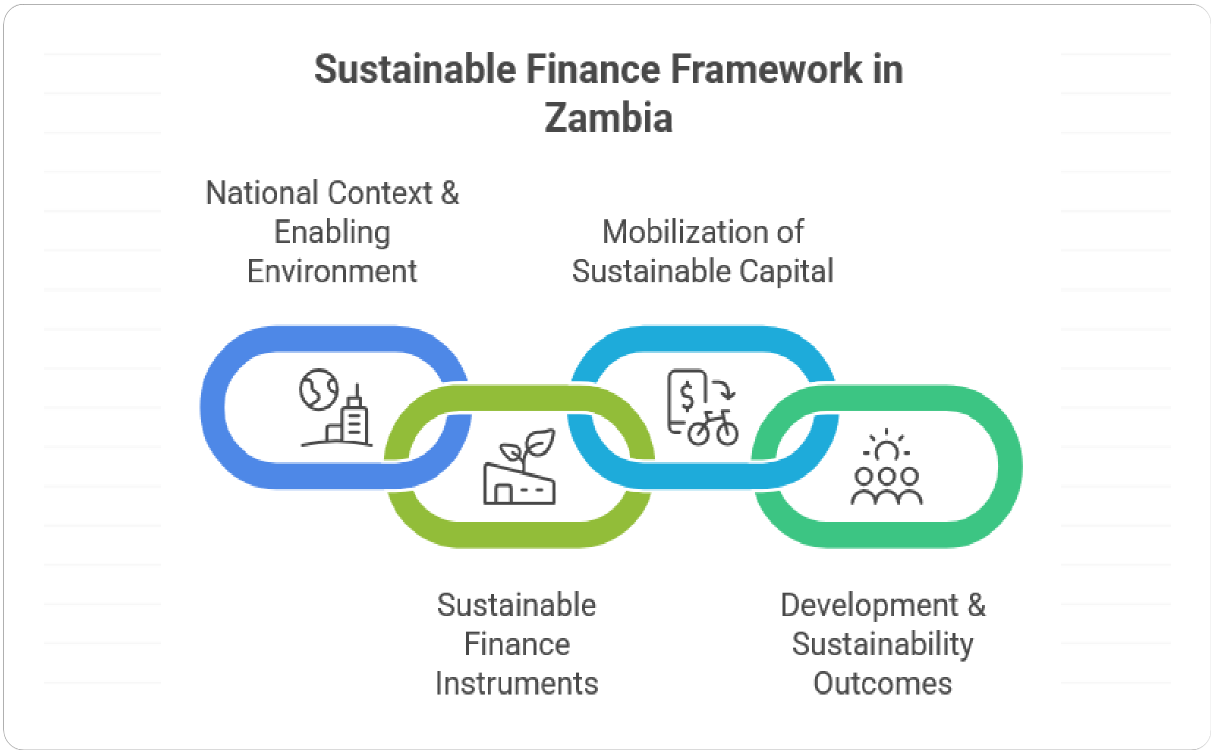

Figure 1: Framework for sustainable Finance in Zambia, (Source: Author)

Sustainable finance is rapidly becoming a cornerstone for achieving long-term economic growth while addressing environmental and social challenges. In Zambia, this approach integrates a blend of financial instruments with development principles tailored to the country's unique context. The framework for sustainable finance in Zambia emphasizes the strategic use of financial tools to mobilize capital toward initiatives that support renewable energy, sustainable agriculture, and other green projects. Guided by core sustainable development values, this framework aligns investments with Zambia's specific challenges and opportunities, ensuring that financial flows contribute to resilient and inclusive growth. Central to this effort is robust stakeholder collaboration, bringing together government, private sector, and civil society to foster shared responsibility and coordinated action. This comprehensive approach aims to not only enhance environmental outcomes but also to promote social inclusion and good governance, positioning Zambia to effectively leverage sustainable finance as a catalyst for its development priorities.

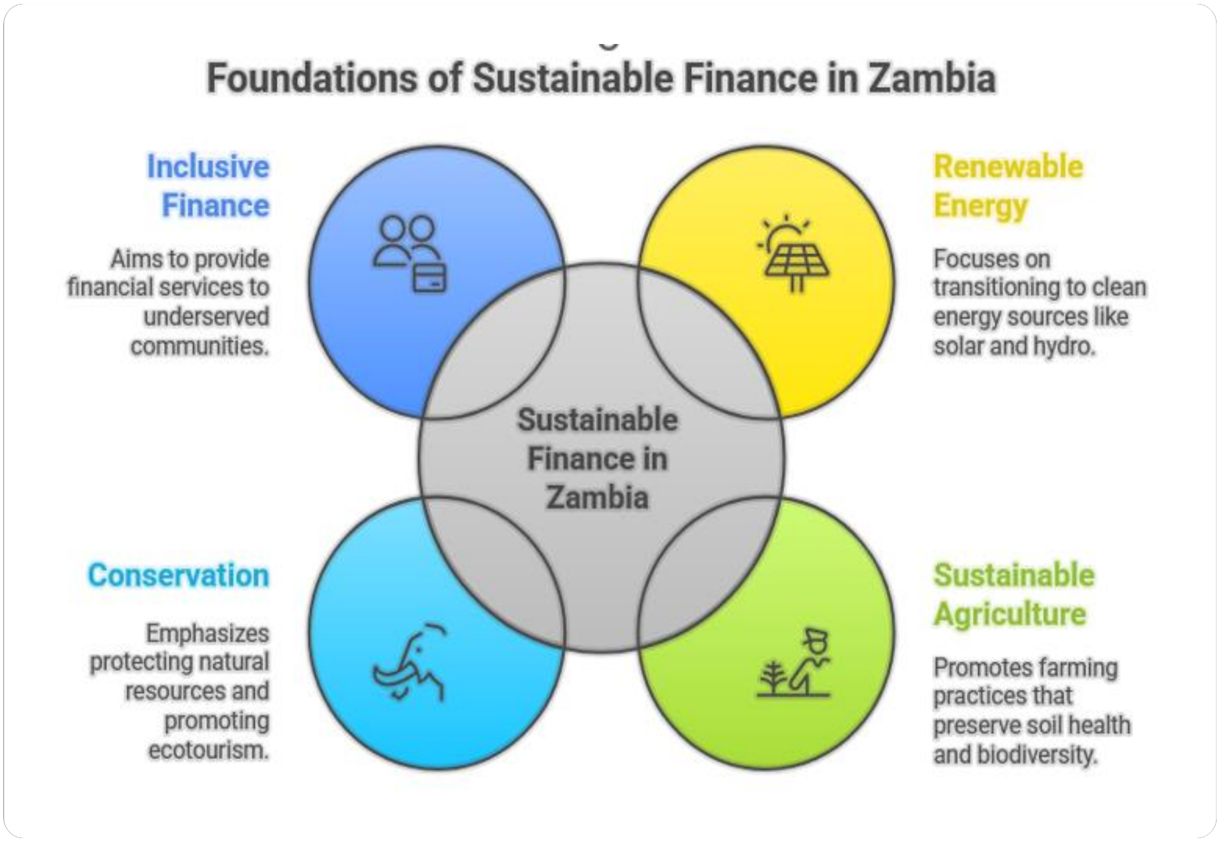

Figure 2: Foundations of Sustainable Finance in Zambia, (Source: Author)

2.1 Sustainable Finance

Sustainable finance refers to financing approaches that systematically incorporate ESG considerations into investment and lending decisions. Key instruments include green bonds, social bonds, sustainability-linked loans, and impact investments. In developing economies such as

Zambia, sustainable finance provides capital while supporting international commitments like the Sustainable Development Goals (SDGs) and climate agreements.

2.2 Green Bonds

Green bonds are debt instruments whose proceeds are dedicated to environmentally sustainable projects, including renewable energy, sustainable agriculture, water management, waste treatment, clean transport, and climate-resilient infrastructure. Transparency and accountability are fundamental, as issuers report on fund utilization and environmental outcomes.

2.3 Impact Investment

Impact investment targets both financial returns and measurable social or environmental impact. Investments may include clean energy, climate-smart agriculture, education, healthcare, gender empowerment, and community development. Impact investors may accept lower financial returns in exchange for substantial social or environmental benefits, often utilizing blended-finance models to optimize impact.

2.4 ESG Outcomes and Measurement

Table 1: Key ESG Metrics for Sustainable Finance Instruments

Dimension	Key Indicators	Examples in Zambian Context
Environmental	GHG reductions, renewable energy capacity, biodiversity impact	Solar mini-grids, reforestation, water conservation
Social	Job creation, education access, health outcomes	Community clinics, school solar projects, agriculture training
Governance	Transparency, stakeholder engagement, ESG reporting	Third-party verification of green bond, public disclosure of impact reports

Effective sustainable finance depends on robust ESG measurement frameworks. Environmental metrics include greenhouse gas emission reductions, biodiversity preservation, and water conservation. Social metrics measure job creation, poverty alleviation, and improved access to services. Governance metrics focus on transparency, stakeholder accountability, and compliance with ESG standards. Reliable ESG reporting is critical to prevent greenwashing—projects labeled as “green” without tangible impact.

3. Zambia’s Sustainable Finance Landscape

3.1 Regulatory and Institutional Developments

A major milestone in Zambia’s sustainable finance sector is the launch of the Zambia Green Finance Taxonomy (ZGFT) in December 2025. This science-based framework classifies environmentally sustainable activities across sectors such as energy, agriculture, waste, transport, water, forestry, tourism, and mining. By providing clear standards, the ZGFT enhances transparency, prevents greenwashing, and strengthens investor confidence. The taxonomy aligns with international frameworks (EU, South Africa, Kenya), improving Zambia's competitiveness in sustainable finance markets. UNDP's BIOFIN initiative has supported taxonomy development, capacity building, and ecosystem strengthening.

3.2 Market Activity and Early Green-Bond Issuances

Zambia has begun demonstrating the practical use of green bonds. CEC Renewables issued a first tranche of USD 53.5 million in 2023 and a second tranche of USD 96.7 million in 2024, contributing to a USD 200 million green-bond program. By 2025, Zambia raised approximately USD 150.2 million via green bonds for solar and climate-resilience projects, including expansions in Riverside and Itimpi, Kitwe. These milestones mark Zambia as one of the first African countries to mobilize private-sector capital through green bonds.

Table 2: Early Green Band issuances in Zambia

Issuer	Year	Amount (USD Million)	Purpose
CEC Renewable	2023	53.5	Solar power, climate resilient infrastructure
CEC Renewables	2024	96.7	Expansion of solar generation capacity
Various Projects	2025	150.2	Solar energy, water management, climate adaptation

3.3 Awareness of Nature-Related Risks

BIOFIN Zambia's April 2025 report on nature-related financial risks highlighted that over 90% of Zambia's financial portfolios depend heavily on ecosystem services. Recognizing these dependencies enables financial institutions to integrate environmental risk in lending and investment decisions, creating demand for biodiversity-supporting financial instruments.

4. Opportunities Offered by Green Bonds

4.1 Renewable Energy and Climate Resilience

Zambia's reliance on hydroelectric power exposes the country to climate-induced energy disruptions. Green bonds enable diversification into solar and other renewable energy sources, strengthening energy security and reducing hydropower dependence.

4.2 Sustainable Agriculture and Biodiversity Conservation

Green bonds aligned with ZGFT standards can finance sustainable agriculture, reforestation, and biodiversity preservation, addressing deforestation and land degradation while supporting environmentally friendly livelihoods.

4.3 Capital Mobilization for Infrastructure and Environment

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ZGFT's clear standards and transparency attract domestic and international investors. Green bonds offer financing beyond traditional aid or concessional loans, supporting infrastructure and environmental projects with measurable impact.

4.4 Social Co-Benefits

Environmental investments financed through green bonds often generate social benefits, such as employment creation, improved public health, and enhanced community livelihoods.

5. Role of Impact Investment

Impact investment complements green bonds by addressing social and governance outcomes alongside environmental ones. In Zambia, impact investments can be used to fund health, education, gender-inclusive enterprises, smallholder agriculture, and rural infrastructure. It can also be used to support biodiversity, conservation, and ecosystem restoration through blended finance as well as strengthen governance through transparency, stakeholder engagement, and accountability mechanisms.

Table 3: Examples of Impact Investment in Zambia

Sector	Potential Impact	Investment Type
Health	Improved rural clinics	Blended finance for community health care
Education	Solar-powered school, digital learning	Social impact bonds
Agriculture	Climate-smart agriculture for smallholders	Impact equity and concessional loans
Biodiversity	Reforestation and wildlife conservation	Conservation impact bonds

6. Challenges and Barriers

Key challenges limiting the growth of green bonds and impact investment in Zambia include issues such as limited Awareness where many financial institutions and project developers lack knowledge of sustainable finance instruments. There is also an issue in regulatory gaps where prior to ZGFT, Zambia lacked unified standards, increasing greenwashing risk. There is also issues to do with project pipeline deficit where few projects meet both ESG and financial viability criteria. High transaction costs in form of advisory, verification, and reporting requirements increase issuance costs as well as market risks which are volatility, currency fluctuations, and limited liquidity deter investors play a role in slowing progress.

7. Discussion

The early experience with green bonds and impact investment in Zambia illustrates both significant potential and systemic challenges. The ZGFT provides a credible foundation for environmental project classification, enhancing investor confidence and aligning domestic initiatives with international standards. Early green-bond oversubscriptions indicate strong market appetite, suggesting that investor demand exists despite a nascent market. However, the limited pipeline of bankable projects highlights the need for technical assistance, feasibility studies, and capacity-building programs. High issuance costs, regulatory gaps, and underdeveloped ESG reporting mechanisms could hinder scaling without targeted policy interventions. Moreover, integrating nature-related risk into financial decision-making is crucial for ensuring long-term resilience and avoiding environmental degradation.

Impact investment can fill social and governance gaps that green bonds cannot address alone. Blended-finance models, combining public and private capital, could expand both environmental and social impact while mitigating risk for investors. Strengthening local verification, ESG reporting, and project-preparation units will be critical for ensuring these instruments deliver meaningful outcomes. Comparative evidence from other African countries suggests that coordinated policy, regulatory clarity, and capacity-building efforts can accelerate sustainable finance uptake. Zambia is well-positioned to leverage these lessons, potentially becoming a regional leader in ESG-focused financing.

8. Conclusion

Zambia's sustainable finance landscape, anchored by the ZGFT and early green-bond issuances, offers a solid foundation for ESG-aligned investment. Green bonds and impact investment provide practical mechanisms to finance renewable energy, conservation, climate resilience, and social development while attracting domestic and international capital. Overcoming barriers such as limited awareness, high issuance costs, underdeveloped ESG reporting, and project pipeline constraints is essential. Coordinated policy measures, capacity-building initiatives, and stakeholder engagement can position Zambia as a regional leader in sustainable finance, delivering measurable ESG outcomes and supporting inclusive, climate-resilient development.

9. Policy Recommendations

To maximize the potential of green bonds and impact investment, Zambia should implement complementary strategies:

i. Consolidate the ZGFT: Mandate its adoption across all relevant institutions, accredit local verifiers, and enforce ESG disclosure.
ii. Build ESG & Impact Measurement Capacity: Establish national reporting standards, provide training, and adopt recognized global frameworks.
iii. Develop a Pipeline of Bankable Projects: Support feasibility studies, PPPs, and technical assistance for high-impact projects.
iv. Integrate Nature-Risk in Financial Decision-Making: Require ecosystem risk assessment, develop nature-smart financial products, and include ESG in supervision frameworks.

v. Mobilize Investors: Promote Zambia as a credible destination for sustainable finance, engage DFIs, multilateral partners, and organize impact investment forums.
vi. Incentivize Sustainable Finance: Introduce tax breaks, concessional financing, and results-based incentives to encourage early adoption.
vii. Capacity Building and Education: Establish national training programs and university curricula on green finance, ESG integration, and impact measurement.

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