The African Private Capital Association

L&R

LEGAL & REGULATORY BULLETIN

ISSUE #12 | SEPTEMBER








LETTER FROM THE CHAIR



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Dear Reader,

It is a pleasure to welcome you to the latest edition of AVCA's Legal and Regulatory Bulletin. Each edition is an opportunity to reflect on the issues that matter most to our community, and this one comes at a time when Africa's private capital markets continue to develop with real energy and momentum.

This edition begins with the question of where the next wave of African private capital may come from, including the potential to mobilise pension capital in Nigeria, Ghana and Kenya, and the licensing and repatriation issues that can affect deployment. We then consider a recurring issue in cross-border transactions: non-resident capital gains tax and the different approaches African jurisdictions take to taxing offshore disposals of local assets.

This edition also brings together a broad range of country-focused perspectives. We consider the key sectors presenting opportunities in Tanzania, including fintech, infrastructure, agribusiness and tourism, alongside practical points for investors to consider before committing capital. We also look at Mauritius' anti-money laundering reforms and their implications for transparency and fund structuring, and provide an overview of the legal, regulatory and tax considerations relevant to private capital investment in Zambia.

Fund structuring and exits remain central themes for many of our markets. We examine Uganda's limited liability partnership regime and its implications for fund structures, before turning to Nigeria, where continuation funds and GP-led secondaries are becoming increasingly relevant in a market where traditional exit routes may be limited. We assess the continued expansion of Kenya's capital gains tax regime and the implications for investors structuring and exiting Kenyan investments.

We close by looking at areas where regulation is opening new frontiers, including Kenya's developing carbon markets framework, Rwanda's licensing regime for virtual asset businesses, and Ethiopia's draft collective investment scheme rules, which could establish a framework for locally domiciled private equity and venture capital funds.

My hope is that this edition provides not only practical insight, but also a useful prompt for conversation within the AVCA community as we continue to support the growth and resilience of private capital across Africa.

As ever, we would welcome your feedback. If there is a topic you would like us to cover in a future edition, please do let us know by emailing AVCA Member Services at memberservices@avca.africa.

Thank you for reading, and I hope you enjoy the edition.

Jennifer Chimanga,

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ISSUE #12 | September

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AVCA – The African Private Capital Association is the nexus of private capital in Africa, championing and enabling private capital investment in Africa.

As the pan-African industry body, AVCA plays a significant role as an effective change agent for the industry and acts as the trusted independent source of information, insight, and intelligence inspiring investor confidence; making the case for both commercial returns and impact of private capital in Africa.

AVCA represents a community of capital allocators, investors, fund managers, advisors, entrepreneurs and professional services committed to our shared vision of a prosperous Africa that is sustainable, inclusive, and innovative.

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PRIVATE CAPITAL INVESTMENT IN ZAMBIA: ESSENTIAL LEGAL, REGULATORY AND TAX CONSIDERATIONS

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Introduction

As Zambia continues to position itself as an attractive investment destination within Southern Africa, prospective investors must have a thorough understanding of Zambia's legal, regulatory, and tax framework to ensure compliance, mitigate risk, and support the efficient execution of commercial transactions.

This article provides an overview of the key considerations that private capital investors are likely to encounter when investing in Zambia, covering market entry requirements, the principal regulatory authorities, tax obligations, exchange controls, and sector-specific regulatory approvals.

1. Private Capital Activity in Zambia

Private capital investment activity in Zambia has experienced significant growth in recent years, driven by Zambia's expanding economy, the restructuring of its external debt, abundant natural resources, and increasing opportunities across diverse sectors such as mining, agriculture, energy, technology, infrastructure, and financial services. This upward trajectory has attracted considerable interest from private equity firms, venture capital funds, institutional investors, and high-net-worth individuals seeking to establish or expand their presence in Zambia.

2. Market Entry Considerations for Foreign Investors

Investors entering the Zambian market are likely to encounter a range of legal and regulatory considerations at the point of market entry and transaction structuring.

Foreign investors should note that certain sectors of the Zambian economy have restrictions that promote local Zambian citizen participation and economic empowerment. These restrictions may affect ownership structures, licensing requirements, and investment eligibility, and include, *inter alia*, the following:

2.1 Land Ownership Restrictions

2.3.1 Under Zambian law, non-citizens are generally prohibited from acquiring and holding land in Zambia unless they qualify under prescribed exceptions. A foreign investor may acquire land where:

a) The entirely foreign-owned company holds an investment licence issued by the Zambia Development Agency **(the "ZDA")**; or

b) The foreign investor holds less than 25% of the issued share capital of a Zambian-incorporated company and the remaining shareholding is owned by Zambian citizens or a Zambian company that is wholly owned by Zambian citizens.

It is therefore prudent for investors to carefully consider land ownership requirements when structuring investments involving, inter alia, real estate, agriculture, industrial facilities, logistics hubs, or mining projects.

2.2 Mining Sector Restrictions

The mining sector remains a cornerstone of Zambia's economy and continues to attract substantial private capital. However, mining rights over areas exceeding 6.68 hectares and up to a maximum of 1,000 hectares may only be granted to companies classified as:

a) Citizen-owned companies, wherein at least 50.1% of equity is owned by Zambian citizens;

b) Citizen-influenced companies, wherein 5% to 25% of equity is owned by Zambian citizens and Zambian citizens have significant control of the management of the company; or

c) Citizen-empowered companies, wherein 25% to 50% of equity is owned by Zambian citizens. Additionally, artisanal mining licenses and gold panning licences are reversed exclusively for Zambian citizens or cooperatives comprised entirelt of Zambian citizens, and small-scale mining operations may only be conducted through citizen-owned, citizen-influenced, or citizen-empowered companies.

> The mining sector remains a cornerstone of Zambia's economy.

Private equity investors seeking exposure to the mining sector should carefully assess ownership structures, local participation requirements, and licensing eligibility at the outset of any transaction.

2.3 Local Content Requirements in The Mining Sector

Recent regulatory developments have further strengthened local participation requirements within Zambia's mining industry. The Geological and Mineral Development (Local Content) (Preference for Goods and Services in the Mining Sector) Regulations, 2025, Statutory Instrument No 68 of 2025 (the "Local Content Regulations"), require mining companies and mining-related businesses to promote local participation in procurement activities. By 30 June 2026, mining and mining related companies must reserve at least 20% of their annual procurement budget for core mining goods and services supplied by entities in which at least 25% of the equity is held by Zambian citizens or Zambian-incorporated companies that are wholly owned by Zambian citizens.

Accordingly, investors and acquirers contemplating investments in the mining sector should assess the target's level of compliance with the Local Content Regulations as part of pre-transaction due diligence and incorporate appropriate obligations in their investment structures. Given the imminence of the 30 June 2026 deadline, non-compliance may expose mining companies to regulatory sanctions and commercial risk.

3. Key Regulatory Authorities

Several regulatory institutions play important roles in overseeing investments and M&A activity in Zambia:

3.1 Patents and Companies Registration Agency ("PACRA")

PACRA serves as Zambia's corporate registry and is responsible for the incorporation, registration, and regulation of companies. Investors establishing special purpose vehicles, limited companies, or acquisition structures will interact extensively with PACRA throughout the investment lifecycle.

Corporate transparency has become an increasingly important area of compliance for investors operating in Zambia. Companies incorporated in Zambia are required to declare their beneficial ownership information to PACRA, which information must be adequate, accurate, and up to date.

Beneficial owners generally include natural persons who ultimately own or exercise significant control over a company, whether directly or indirectly through intermediary entities. A person is generally considered a beneficial owner if they hold, directly or indirectly, at least 5% of the shares in or voting rights of the company, or if they otherwise have the right to exercise, or actually exercise, significant influence or control over the company's management or policies.

3.2 Competition and Consumer Protection Commission (the "CCPC")

The CCPC is responsible for maintaining competitive markets and reviewing transactions that may affect competition in Zambia. Competition law considerations frequently arise in acquisitions or joint ventures.

The Competition and Consumer Protection Act No 24 of 2010 (the "Competition Act"), prohibits agreements, decisions, or concerted practices that have as their object or effect the prevention, restriction, or distortion of competition in the Zambian market. The Competition Act further prohibits certain categories of horizontal agreements between enterprises operating at the same level of the market on a per se basis, including price-fixing arrangements, market allocation agreements, and collective refusals to deal.

Investors undertaking acquisitions, joint ventures, or strategic partnerships should assess potential competition law implications during the due diligence phase.

Merger Control

Merger control approval is a critical component of many investment transactions in Zambia. Where a proposed merger meets the prescribed financial threshold of ZMW40 000 000, the parties are generally required to obtain prior approval from the CCPC before implementing the transaction. Failure to obtain approval where required can result in the transaction being declared null and void, exposing parties to significant legal and commercial risk. Private equity sponsors should therefore incorporate competition law analysis into transaction planning at an early stage.

3.3 Zambia Revenue Authority ("ZRA")

The ZRA is the statutory body responsible for administering and collecting taxes in Zambia. The ZRA plays a central role in investment transactions, including transaction structuring, tax compliance, transfer pricing, and exit-related tax planning. Investors incorporating a company in Zambia are required to obtain a Taxpayer Identification Number ("TPIN"), as a Zambian-incorporated company will be deemed tax resident in Zambia and will therefore be subject to applicable Zambian tax laws, reporting requirements, and compliance obligations from the date of incorporation.

3.4 Securities and Exchange Commission ("SEC")

Where a transaction involves a publicly listed company or a takeover of a listed entity, the SEC oversees compliance with Zambia's securities laws and capital markets regulations.

4. Tax Considerations for Private Capital Investors

4.1 Corporate income tax ("CIT")

The standard CIT rate in Zambia is 30%, computed on taxable profits, and applies to entities whose annual turnover exceeds ZMW5,000,000 (approximately US$212 767). Entities with an annual turnover of above ZMW12,000 (approximately US$511) up to ZMW5,000,000 are subject to turnover tax at a rate of 5%, while entities with an annual turnover of ZMW12 000 or less are subject to turnover tax at 0%.

Following recent amendments to the Income Tax Act, Chapter 323 of the Laws of Zambia (the "**ITA**"), companies are also subject to a Minimum Alternative Tax ("**MAT**") at the rate of 1% calculated on their total turnover, to the extent that the company's annual turnover exceeds ZMW5,000,000. The MAT paid in a charge year may be credited against the company's income tax liability for that year, with any excess credit carried forward for a maximum of five subsequent charge years.

Zambia provides certain sector-specific CIT incentives, including a reduced CIT rate of 15% for the first five profitable charge years for companies undertaking public-private partnership projects as designated special purpose vehicles. Private equity investors should assess the availability of applicable tax incentives at the outset of a transaction.

4.2 Withholding tax ("WHT")

Payments such as dividends, interest, royalties, management fees, commissions, and certain payments to non-resident contractors are subject to WHT in Zambia. The currently applicable WHT rates are set out in the table below:

Type of payment	WHT rate (Zambian residents)	WHT rate (Non-residents)
Dividends	15%	20%
Interest	15%	20%
Royalties	15%	20%
Management / consultancy fees	15%	20%
Commissions	15%	20%
Payments to non-resident contractors	N/A	20%
Reinsurance premiums paid to non-Zambian recipients	N/A	20%

The WHT exposure on outbound payments to non-resident investors may be mitigated where an applicable double taxation agreement ("**DTA**") is in force between Zambia and the country in which the recipient resides. Zambia has concluded DTAs with a number of countries, and investors should assess DTA availability when planning the repatriation of income from their Zambian investments. For example, under the DTA between Zambia and the United Arab Emirates, WHT on dividends, interest, and management fees paid to UAE-resident recipients may be reduced to 5%. To access DTA relief, the Zambian-incorporated company must apply for and obtain a limited deduction directive from the ZRA.

4.3 Value added tax ("VAT")

VAT on the supply of taxable goods and services in Zambia is charged at the standard rate of 16%. Every entity engaged in the supply of taxable goods and services in the course or furtherance of a business in Zambia, whose annual taxable turnover exceeds ZMW800,000 (approximately US$34,043) in any 12 consecutive months, is required to register for VAT with the ZRA, submit VAT returns, and remit any VAT collected. Returns with 10 or more transactions must be submitted electronically and any VAT payable must be remitted to the ZRA within 18 days following the end of the relevant month.

4.4 Property transfer tax ("PTT")

PTT is charged at the rate of 8% on the transfer of property in Zambia. "Property" for PTT purposes, includes land in Zambia; shares in a Zambian-incorporated company (or shares in an offshore company that directly or indirectly holds at least 10% of the shares in a Zambian company); and intellectual property such as patents and trademarks.

PTT is a significant transactional cost that applies to both direct asset transfers and indirect share transfers. Private equity investors should factor PTT into deal pricing and structuring, particularly for acquisitions involving Zambian land or significant Zambian assets held through a share structure.

4.5 Pay as you earn ("PAYE") and skills development levy ("SDL")

Companies that engage employees in Zambia must register for PAYE with the ZRA and deduct PAYE from employees' emoluments at graduated rates of 0%, 20%, 30%, and 37% depending on monthly income levels. PAYE returns must be filed and remittances made by the 10th day of the following month. SDL at the rate of 0.5% of gross emoluments is payable by employers whose annual turnover is ZMW800,000 and above and is a tax-deductible expense for the employer.

4.6 Transfer pricing

Transactions between related or associated entities are subject to Zambia's Income Tax (Transfer Pricing) Regulations, Statutory Instrument No 21 of 2000, as amended from time to time, which are broadly consistent with OECD transfer pricing principles. All controlled transactions must be conducted at arm's length. Companies whose annual turnover is ZMW50,000,000 (approximately US$2,127,660) and above are required to maintain contemporaneous transfer pricing documentation on an annual basis. Failure to maintain such documentation may result in penalties of up to ZMW32,000,000 (approximately US$1,361,702) in addition to further interest charges.

5. Exchange Controls and Repatriation of Funds

There are generally no exchange control regulations in Zambia and no restrictions on the repatriation of profits outside Zambia. This is a significant advantage for foreign investors seeking to remit dividends, loan repayments, management fees, and other returns on their Zambian investments to offshore holding structures.

Zambia does not currently have thin capitalisation rules that would restrict the debt-to-equity ratio of Zambian-incorporated companies. However, the deductibility of interest expense is subject to an earnings-stripping limitation as a deduction is not permitted on gross interest expense that exceeds 30% of the company's tax EBITDA in any charge year. Disallowed interest may be carried forward for up to five subsequent charge years, subject to the same 30% tax EBITDA cap in each year.

6. Sector-Specific Regulatory Approvals

Beyond competition law approval, certain sectors require additional regulatory clearances before any transaction may be completed.

(a) Banking and Financial Services

Transactions involving banks, financial institutions, payment service providers, and other regulated financial businesses are governed by the Banking and Financial Services Act No 7 of 2017 and supervised by the Bank of Zambia.

(b) Mining

Transactions involving the acquisition, transfer, or restructuring of mining rights are subject to the Minerals Regulation Commission Act No 14 of 2024 and oversight by the Minerals Regulation Commission.

(c) Insurance

Acquisitions and investments involving insurance companies are regulated by the Insurance Act No 38 of 2021 and supervised by the Pensions and Insurance Authority.

(d) Energy

Transactions involving energy generation, transmission, distribution, petroleum, and related activities are regulated under the Energy Regulation Act No 12 of 2019 and supervised by the Energy Regulation Board.

Depending on the nature of the sector and the transaction, investors may be required to obtain prior approvals, submit notifications, or satisfy post-completion reporting obligations to one or more of the above regulators.

Conclusion

Zambia continues to offer compelling opportunities for private equity and venture capital investors across a range of sectors. The country's stable investment framework, strategic location, abundant natural resources, and growing economy position it as an attractive destination for long-term capital deployment.

However, investors must carefully navigate the legal, regulatory, and tax framework governing private capital investment in Zambia. Key areas of focus

include compliance with local ownership and participation requirements, the competition law and merger control regime, corporate income tax and withholding tax obligations, property transfer tax on acquisitions, transfer pricing, and sector-specific regulatory approvals.

Early engagement with legal, tax, and regulatory advisers can significantly reduce transaction risk, facilitate regulatory approvals, and enhance the prospects of a successful investment. For private capital investors seeking sustainable growth opportunities in Africa, a well-structured and compliant investment strategy remains essential to unlocking Zambia's considerable investment potential.

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