

ETHIOPIA'S SPECIAL ECONOMIC ZONES PROCLAMATION: ADVANCING ECONOMIC GROWTH AND FOREIGN DIRECT INVESTMENT

Background

The House of People's Representatives recently approved the Special Economic Zones Proclamation No. 1322 /2024 ("*SEZ Proclamation*", or "*Proclamation*"), on April 18, 2024. This Proclamation aims to attract foreign investment, foster economic growth, and encourage the manufacturing industry. By establishing designated areas with streamlined rules and incentives, the Government seeks to provide an attractive environment for investors, marking a significant development in Ethiopia's efforts to stimulate economic growth.

A Special Economic Zone (SEZ) is a geographical area designated by the Ethiopian Investment Board. SEZs offer business-friendly policies, streamlined trade procedures, reliable infrastructure, on-site amenities like one-stop shops, and special incentives like tax breaks. They can cater to various sectors, specializing in areas like industry parks, free trade and logistics zones, science and technology parks, service parks, and agriculture and livestock zones. This flexibility allows Ethiopia to tailor SEZs to specific industries and promote economic growth across diverse sectors.

Scope of Application

The SEZ Proclamation applies uniformly throughout Ethiopia, encompassing all activities conducted within Special Economic Zones (SEZs) or associated with them. It equally applies to all individuals involved in any SEZ-related activity. This comprehensive coverage ensures consistency and fairness in the implementation of the SEZ Proclamation.

Foreign investment is permitted in SEZs, subject to exceptions for specific reserved areas and prohibited activities stated under the investment laws of the country. In addition, Foreign and domestic financial service institutions are allowed to operate in SEZs under the regulation of the National Bank of Ethiopia (NBE), which implements tailored reforms to enhance the attractiveness and effectiveness of SEZs.

Authorities

The Ethiopian Investment Board (Board) is responsible for overseeing the establishment and development of SEZs. This includes setting policies, approving applications, and resolving disputes. The Ethiopian Investment Commission (EIC) implements these policies and issues licenses to businesses operating in the zones. It also manages land use and infrastructure within the zones.

Designation Process for SEZs

The designation of SEZs in Ethiopia follows a well-defined process. Private developers, governments, or Public-Private Partnerships will submit applications to EIC for the establishment of SEZs. The EIC evaluates these proposals based on factors such as feasibility studies, job creation potential, and infrastructure access. Within 30 days, the EIC assesses the applications and provides recommendations to the Board, which grants final approval within another 30 days. The entire process, including application completeness checks and decision communication, must be completed within a maximum of 90 days. Rejected applications can be resubmitted, and significant modifications to designated SEZs require Board approval. Detailed designation requirements and procedures will be provided in a separate directive.

Flexibility in SEZ Designation

The Board offers flexibility in designating SEZs. SEZs can be established as multi-purpose sites accommodating various sectors, including industry, trade, logistics, and services, all operating under a unified set of regulations. Alternatively, specialized SEZs can be designated, focusing solely on activities related to free trade zones, industrial parks, service parks, or specific sectors. While the Proclamation outlines general designation principles, the Board retains the authority to establish geographical limitations or other standards for SEZ locations in specific cases.

Minimum Capital Requirement and Investment Permit

SEZ development requires a minimum capital requirement of USD 75 million, it can be financed through evidenced capital, debt, or equity access. The Board may adjust the minimum capital requirement based on specific sector characteristics through directives or specific decisions.

Before obtaining an investment permit, developers must enter into an agreement with EIC, covering various elements such as land boundaries, financial and environmental obligations, project timelines, and construction site safety measures. Enterprises operating within SEZs must also sign agreements with EIC, addressing production, export, employment, worker management, training, and technology transfer.

Land Allocation and Transfer

SEZ developers must allocate a minimum of 75 hectares of land for development, with exceptions made in exceptional cases based on project characteristics. The land allocation should prioritize production, services, infrastructure, and related buildings, while accounting for residential and common-use facilities. Specific matters related to SEZ land, such as land registration, leasing, building standards, and utility supply, will be addressed in a directive issued by EIC.

Businesses seeking to establish an SEZ may need to acquire developed or undeveloped land from various sources. Approval from the Board or EIC is required for the transfer of developed land within an SEZ, except for authorized entities. SEZ operators and enterprises can possess and manage land upon approval of the agreement and issuance of the investment permit.

Rights & Obligations

The SEZ Proclamation sets out a clear framework of rights and obligations for various stakeholders involved in the development and operation of SEZs, including developers, sub-developers, operators, enterprises, and end-users.

- SEZ developers and sub-developers will enjoy a range of rights, including the ability to design and develop SEZs, sub-lease land to enterprises, contract with third parties, and benefit from tax and customs duty exemptions. However, they will also have responsibilities such as developing infrastructure, providing services, and ensuring responsible and sustainable operation of the SEZs.
- SEZ operators will have the right to manage and promote SEZs, enter into agreements with third parties, and charge for utilities and services. However, they will be obligated to operate in compliance with the law, maintain SEZ assets and utilities, provide non-discriminatory services, and ensure security within the SEZs.
- SEZ enterprises will enjoy rights such as the freedom to invest, tax and customs duty exemptions, acquisition of land, and import and export of goods. However, they will

also be bound by obligations, including adhering to stipulated development timelines, compliance with applicable laws, providing favourable working conditions, and submitting quarterly reports to the EIC.

- SEZ end-users, including residents and third-party service providers, will be entitled to obtain special economic zone end-user status and receive an identity card issued by the SEZ developer or operator upon obtaining a permit from the EIC. They will be obliged to respect the rights and obligations of other SEZ end-users and comply with all relevant laws and regulations.

Incentives

SEZ Investors are entitled to the following benefits:

- SEZ investors enjoy a range of tax incentives, including exemptions from customs duties, value-added tax (VAT), and other taxes on imported machinery, equipment, construction materials, and vehicles. They are also exempted from income tax for a specific period and receive reduced income tax rates afterward.
- Customs procedures within SEZs are simplified, with provisions for customs warehouses, customs control zones, and temporary importation regimes. The Ethiopian Customs Commission will issue separate directives to provide detailed procedures and guidelines for customs operations within SEZs.
- Investors have the right to freely repatriate their capital, profits, dividends, and other eligible payments in convertible foreign currency.
- They have the right to lease land, access utilities, and hire local and foreign employees.

However, they are obliged to comply with Ethiopian laws, regulations, and standards and fulfill their financial and contractual obligations. They are also encouraged to promote technology transfer, adopt environmentally sustainable practices, prioritize local employment, and contribute to the development of local industries.

Enhanced Worker Rights

The SEZ Proclamation also addresses labour issues, stating that workers within SEZs shall be entitled to the rights and benefits provided by the labour laws of Ethiopia. The Proclamation emphasizes the importance of respecting workers' rights, including fair wages, safe working

conditions, and social security. Ethiopia's SEZ follow national labour law but allow zone-specific contracts.

The SEZ Proclamation establishes a cooperative labour affairs committee within each zone. This committee, comprised of government representatives, zone developers, businesses, and employee representatives, will ensure worker rights are protected, prevent labour disputes, and promote knowledge transfer within the SEZs. The committee will prioritize dialogue and alternative dispute resolution mechanisms to address worker concerns and maintain industrial peace. EIC will oversee the committee's activities.

Further, the government will expedite visas and work permits for foreign personnel in the zones. The Proclamation details residency within Ethiopian SEZs. Foreigners staying over 90 days must register as residents with EIC. Residency grants rights like living within the zone and forming committees, but also carries obligations such as paying taxes. EIC can revoke residency for non-compliance or misrepresentation.

The Board has the authority to allocate land for employee residential quarters, considering various factors such as project compatibility, contribution to housing shortages, financial capacity, and regulatory agreement. The maximum size of land for employee squatters should not exceed 10% of the total land area within the SEZ.

Penalty

The SEZ Proclamation empowers EIC to enforce penalties for violations of the proclamation. These penalties will be outlined in a separate directive issued by the Board. In cases of non-payment, EIC has the authority to auction the property of non-compliant developers, operators, enterprises, or residents.

Conclusion

The Special Economic Zones Proclamation represents a significant step toward attracting foreign direct investment, stimulating economic growth, and promoting industrialization. By providing a conducive and attractive business environment, streamlined regulations, and a range of incentives, the Government aims to position Ethiopia as a competitive destination for investment and technological advancement. The SEZ Proclamation is expected to boost job creation, enhance export capacity, transfer technology, and foster the development of domestic industries, ultimately contributing to the country's overall economic development.