

# NEW DIRECTIVE OPENS RESTRICTED INVESTMENT AREAS TO FOREIGN INVESTORS

## Background

The Ethiopian Investment Board issued a new directive effective March 2024, titled "Directive to Regulate Foreign Investors' Participation in Restricted Export, Import, Wholesale and Retail Trade Investments No. 1001/2024" (hereafter "the Directive"). The Directive lifts the restrictions previously placed on foreign investors engaging in export, import, wholesale, and retail trade in Ethiopia, and establishes a regulatory framework governing their participation.

It aims to foster sustainable economic growth while safeguarding domestic interests by providing a structured framework for foreign investor participation in select sectors. The Directive outlines the key requirements and conditions for their involvement promoting a balanced approach to economic development.

## Scope of Application

The directive applies to foreign investors seeking to establish or operate businesses in previously restricted trade activities within Ethiopia.

## Authorities

Ethiopian Investment Commission (EIC) is the primary point of contact for foreign investors. Handles investment applications, verifies compliance, and processes registrations and permits. Collaborates with the Ministry of Trade on investment agreements.

Ministry of Trade and Regional Integration (MoTRI) ensures fair competition by monitoring anti-competitive practices and protecting consumer rights. Issues business licenses and regulates trade practices under the Directive.

## Foreign Investor Participation

### A. Export Trade

Foreign investors require an investment permit and business license to engage in export trade. Obtaining an Export Trade Investment Permit requires fulfilling specific conditions in addition to any minimum capital, competence, and other standards mandated by separate regulations. Export trade permit requirements vary depending on an investor's history of procuring goods from Ethiopia.

- **Investors with Prior Experience:** Minimum purchase requirements exist. For example, coffee exporters must demonstrate a \$10 million USD annual purchase

average for the past three years, with a commitment to maintain that level. investors that export Khat, Pulses, Hides, Skins, Forest Products, and Poultry, need to demonstrate an average annual purchase of at least \$1 million USD (khat and pulses) or \$500,000 USD (hides, skins, forest products, and poultry) for the past three years, with a commitment to maintain that level for the permit year. However, in livestock there are no prior experience or permit-linked contractual commitment conditions for exporting livestock.

- **Investors with No Prior Experience:** there are two alternative paths to qualify for an Export Trade Investment Permit. The first option involves demonstrating an established market and submit a purchase order contract with a minimum value that varies depending on the specific goods. For raw coffee, the minimum value is \$12.5 million USD. Oilseeds require a minimum of \$7.5 million USD, while khat and pulses each necessitate a minimum of \$1.5 million USD. Finally, hides, skins, forest products, and poultry combined require a minimum purchase order value of \$750,000 USD. The second option applies to other export trade products covered by the Directive. In this case, investors can demonstrate an established market and submit a purchase order contract for a minimum of \$500,000 USD.

To maintain an Export Trade Investment Permit, foreign investors must comply with agreed-upon conditions. Permit renewal requires verification of this compliance by relevant authorities. Failure to comply can lead to permit suspension, revocation, and loss of associated benefits.

## **B. Import Trade**

Ethiopia allows foreign investors to participate in import trade, except for fertilizer and petroleum. Investors need to demonstrate relevant experience, capacity, or market connections. Categories qualifying for permits include manufacturers of the imported product, agents of established manufacturers, and existing Ethiopian manufacturers exporting at least 50% of production. Other potential investors shall submit a detailed business plan and commit to importing goods valued at a minimum of \$10 million annually. Permit renewal requires adherence to stipulated conditions.

## **C. Wholesale Trade**

Foreign investors can now participate engage in wholesale trade activities of goods within Ethiopia, excluding fertilizers imports. They can sell products they import or those purchased from Ethiopian manufacturers. Permits requires a Written Approval from a designated government body and a Contractual Commitment to build modern marketing infrastructure and establish efficient logistics systems.

The MoTRI will provide details on minimum marketing infrastructure standards in a separate manual.

### **C. Retail Trade**

Foreign investors can participate in retail trade by building supermarkets (minimum 2,000 sqm), hypermarkets (minimum 5,000 sqm), or giant retail spaces (exceeding10,000 sqm). The Government is expected to develop a definition of store types and consider granting permits to smaller, single-brand stores on a case-by-case basis.

## **Conclusion**

The Directive opens previously restricted trade sectors to qualified foreign investors, aiming to boost competition, improve service quality, and enhance efficiency. It is hoped that these changes will lead to a stronger domestic economy and the potential for Ethiopia to achieve sustainable growth and successful integration into the global market.