DADIMOS & PARTNERS LLP

LEGAL NEWSLETTER

January- February 2025, VOL. 6

Sixth Edition

We are pleased to present the sixth edition of our newsletter.

This newsletter is our way of staying connected with you, our valued clients, and partners, and ensuring you have the information and insights you need to navigate the ever-evolving Ethiopian legal landscape.

Welcome to the Sixth Issue of Our Newsletter!

In this edition, we present a concise overview of key legislative developments from January and February 2025 that may impact your business.

Specifically, we highlight three significant updates:

- One newly enacted regulation.
- Updates on two laws recently been gazetted, which we previous reviewed in volumes 2 of our Newsletter while they were in draft form, including the Banking Business Proclamation due to its landmark significance, although it was published in March 2025.

Accordingly, the key legislation covered in this issue a are:

A. The Amended Investment Incentive Regulation

B. The National Bank Establishment Proclamation

C. Banking Business Proclamation

We value your feedback, so please don't hesitate to reach out to us with any suggestions or topics you would like us to cover in future editions.

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A. ETHIOPIA AMENDS INVESTMENT INCENTIVE REGULATION

Background

Ethiopian Investment Commission ("EIC"), issued an amendment titled as "Amendments to the Investment Incentive Regulation" ("The Regulation") on January 14, 2025, introducing key changes to tax exemptions, customs duties, and mining incentives...

The amendment raises employment thresholds for tax exemptions, permits duty-free importation of certain vehicles, and allows additional benefits for strategic mining operations.

Key Changes Introduced

- ***Higher employment thresholds for income tax exemption to stimulate job creation:*** the amendment significantly raises the eligibility threshold for income tax exemption incentives granted to investors that facilitate overseas employment for qualified Ethiopians. Under the previous Regulation exemptions were granted on a tiered basis, starting with a one-year exemption for employing 100 to 300 individuals, and scaling up to three years for those employing over 501 workers. The amendment significantly raises these thresholds. The new framework requires a minimum of 2,000 to 3,000 employees for the initial one-year exemption, while the highest tier -a three-year exemption- applies only to businesses employing more than 5,000 Ethiopians.

- ***Exemptions of Motor Vehicles from Custom Duties:*** Under previous Regulation, the Ministry of Finance ("the Ministry") could grant total or partial exemptions from custom duties for vehicles used in investment projects by way of a Directive, except for pickup and station wagon vehicles. While this structure remains largely unchanged, a new sub-article introduces a notable exception. Subject to approval by the Ethiopian Investment Board, the Ministry may now grant duty-free importation of pickup and station wagon vehicles. This exemption specifically benefits companies operating in the mining, petroleum, agriculture, tourism, and construction sectors in remote areas of Ethiopia. By allowing duty-free access to these vehicle types under certain conditions, the amendment aims to support investment in geographically challenging regions.

- ***New Authority to Grant Incentives for Mining Sector Investment:*** The amendment empowers the Ethiopian Investment Board to grant additional benefits to companies engaged in strategic mining and petroleum operations. It also provides that exemptions from customs duties and taxes granted under agreements signed before the amendment's effective date remain in effect, preserving incentives for existing investments.

B. National Bank of Ethiopia Establishment Proclamation Comes Published

The Ethiopian Federal Government officially published the National Bank of Ethiopia Proclamation 1359/2025 (“The Proclamation”) on February 4, 2025. This Proclamation introduces key changes that were previously outlined in Volume 2 of our newsletter when the bill was in draft form. These include the expansion of the NBE's powers and duties, such as issuing short-term debt instruments for open market operations, and licensing foreign exchange dealers. The Proclamation also establishes a higher capital requirement for the NBE, increasing the paid-up capital to 10 billion Birr, up from the previous 500 million Birr.

In terms of governance, it details the appointment process and qualifications for the NBE’s leadership, including the Board of Directors, Governor, and Vice Governors. Furthermore, the Proclamation prohibits the NBE from providing direct loans to the government, except in cases of temporary overdraft or force majeure, and transfers the oversight of franco-valuta imports from the Ministry of Finance to the NBE. These changes reflect the government’s efforts to enhance the NBE's regulatory and supervisory functions, ensuring greater financial stability and independence.

For detailed information please see Volume 2 of our newsletter.

C. New Milestone: Banking Business Proclamation Comes into Effect

The House of People’s Representatives has enacted the amendment of Banking Business Proclamation No. 1360/2015 (“The Proclamation”) in March 2025. The Proclamation amends Proclamation No. 1159/2019. This landmark legislation represents a pivotal shift in Ethiopia's economic landscape, primarily by liberalizing the banking sector to welcome foreign investment. Previously, only Ethiopians and foreign nationals of Ethiopian origin could participate in the banking industry. By opening the banking sector to foreign investment, the Proclamation aims to foster economic development by attracting foreign expertise and capital.

We have provided a legal update on the draft of the Banking Business Proclamation in the second edition of our legal newsletter. The enacted version reflects a change from the draft, specifically regarding the shareholding limit. While the draft stipulated that individuals could directly own up to 5% of a bank’s prescribed shares, this has now been increased to 7%. Apart from this adjustment, there are no other significant differences between the draft and the final Proclamation.

For detail information please see Volume 2 of our newsletter.

ABOUT US

Dadimos & Partners LLP is a premier, full-service law firm in Ethiopia. From commercial and corporate law, including cross-border M&A, to banking and finance, international arbitration, tax, competition, intellectual property, employment, and non-profit law, we deliver legal solutions tailored to meet our clients' diverse needs. Our team is composed of lawyers with wide-ranging expertise, rich local and international experience, and in-depth knowledge of the law.

We blend Ethiopian legal expertise with global perspectives.

Our vision of modern legal practice forms the foundation of our innovative, reliable, and results-oriented legal advice and support.

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