



LEGALNEWSLETTER

Eighth Edition

We are pleased to share the eighth edition of our newsletter, where we bring you timely and insightful updates on important legal changes in Ethiopia.

May-June 2025, Vol.8

Welcome to the Eighth Issue of Our Newsletter!

Contents:

In this edition, we present a concise overview of key legislative developments from May and June 2025 that may be of relevance or may have an impact on your business. Accordingly, the key legislation covered in this issue are:

- Dematerialization of Government and NBE Securities Directive
- Recovery Plan of Banks Directive
- Investment Incentives Implementation Directive
- Foreign Investors' Participation in Restricted Trade Sectors Directive
- Ethiopian Investment Commission Service Fee Rates Directive
- Licensing and Authorization of Payment Instrument Issuer (Amendment) Directive
- Property Tax Proclamation
- Requirements For Licensing and Renewal of Banking Business Directive
- Income Tax Proclamation
- Draft Directive on Risk-Based Capital Adequacy Requirements

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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LEGAL UPDATES

A. Dematerialisation of Government and National Bank of Ethiopia (NBE) Securities

Background

The NBE has issued “Dematerialisation of Government and NBE Securities Directive NO./MFAD/001/2025”, effective as of 30 June 2025. The Directive requires dematerialisation- conversion of existing physical securities of government and NBE securities into electronic form-which is essential for enhancing efficiency and integrity of the securities market.

The NBE issues securities as an agent of the Ministry of Finance (hereinafter the Ministry) and on its own behalf. Securities issued by NBE as an agent of the Ministry are referred to as government securities while those issued by NBE on its own behalf are referred to as NBE securities.

Key Features of the Directive

- **Scope of Application**

This Directive shall apply to all debt securities of Government and NBE, whether traded on a licensed securities exchange or in an over the counter (OTC) market. The Directive complements an earlier Directive issued by Ethiopian Capital Market Authority (ECMA) that requires dematerialisation of all publicly offered securities including securities of state-owned enterprises.

- **Stakeholders in the Dematerialisation Process**

The stakeholders in the dematerialisation process include issuers, security holders(investors), Central Securities Depository (CSD), and CSD Members. Issuers in this context refers to the NBE that issues securities on its own behalf, and the Ministry on whose behalf securities are issued by the NBE. The NBE also operates the CSD which provides a system for central handling of securities which permits or facilitates the registration, clearing and settlement of securities transactions or dealings in securities without the physical delivery of certificates. CSD Members are intermediary institutions having authorized access to the CSD who shall open and administer securities accounts for themselves and their clients.

- **The Dematerialisation Process**

The transition of securities represented in physical certificates to electronic record form at the CSD shall follow a structured process of documentation and verification to ensure accurate transfer of ownership records.

The NBE, in coordination with the Ministry, will gather and examine all existing records of securities holders. It will then verify that the total issued securities align with the outstanding debt ledgers to ensure consistency between issued securities and recorded investor holdings, a process termed as reconciliation.

The NBE shall notify all securities holders the initiation of dematerialisation along with instructions for submitting relevant documentation to CSD Members. Securities holders shall submit their physical certificates to CSD Members who shall forward the collected forms and certificates to the CSD operator at NBE. A CSD Member shall open and maintain securities accounts for themselves and their clients and keep CSD Member assets distinct from client assets. The accounts would be Segregated Client Accounts (Opened in the name of a Beneficial Owner), Nominee Accounts (Opened in the name CSD Member acting on behalf of one or more Beneficial Owners), and Omnibus Accounts (Opened in the name of a CSD Member, consolidating multiple Beneficial Owners' securities into a single account).

The CSD shall send the collected certificates to the Ministry for verification. Upon verification by the Ministry, the CSD shall credit the investor's securities account with the corresponding NSIN/ISIN and ticker details. The CSD shall notify securities holders and CSD Members of successful dematerialisation.

The NBE stores the dematerialised physical securities for a minimum of two years, after which it shall, in consultation with the Ministry, deface and destroy the physical certificates to prevent misuse.

- **Legal Effect of Dematerialised Government and NBE Securities**

The NBE shall determine and declare the official date on which dematerialisation takes effect. Dematerialised securities are legally recognised, valid, and enforceable financial instruments. Title transfers shall occur electronically through book-entry transactions within the CSD system. The electronic records maintained by the CSD registry shall serve as definitive proof of ownership and transactions and claims. Securities of the same class, type, and rights issued by the same issuer are interchangeable in the market without affecting their value.

- **Effect of Non-Dematerialisation**

Five years after the declaration of dematerialisation, all securities represented by physical certificates that have not been tendered for dematerialisation shall be automatically transferred to a special account administered by the Ministry at the CSD registry. All distributions, interest payments, or other benefits accruing to such securities shall be irrevocably transferred to the special fund account and shall not be refunded or paid to the securities holder unless such holder provides both reasonable and legally valid justification for non-compliance.

B. Directive on the Recovery Plan of Banks

Background

The National Bank of Ethiopia (NBE) has introduced a landmark directive titled Recovery Plan of Banks Directive No. SBB/93/2025 (“The Directive”), the first of its kind in Ethiopia, which took effect on 13 May 2025. This Directive marks a significant step in the country's approach to banking sector risk management, requiring all banks to establish robust recovery planning frameworks. The Directive aimed at making banks always ready to respond to and address severe stress without supervisory interventions and restore financial and economic viability by themselves.

Key Provisions:

- **General Requirements**

Banks must establish the necessary arrangements and processes to enable effective recovery without external intervention. The Directive outlines the key components that must be included in a bank’s recovery plan, which include:

- Strategic and Governance Analysis
- Core Recovery Elements (recovery triggers and indicators, scenario analysis, recovery options, operational contingency plan, communication and disclosure plan)
- Implementation Strategies

The level of detail and depth in the plan should be proportionate to the bank’s size, interconnectedness, and overall complexity. With regards to interest free banks their recovery plan must adheres to the shariah requirements.

- **Strategic and Governance Analysis**

The Directive requires bank’s recovery plan to include a strategic analysis covering its legal and financial structure, intra-group connections, business model, core business lines, critical functions, and shared services. It must also define a governance framework with clearly assigned roles and responsibilities for operational staff, senior management, and the board of directors.

For foreign bank branches, the recovery plan must describe how local operations are integrated into the parent bank’s recovery framework, summarise submissions to the home regulator, and include copies of any written undertakings or guarantees issued by the parent bank.

The recovery plan must be reviewed by the bank’s internal audit, risk, and compliance units for data accuracy and consistency with overall strategy. It must be approved by the board of directors or, in the case of foreign branches, endorsed by the regional or global head office.

- **Recovery Triggers and Indicators**

Recovery indicators are defined as a quantitative and qualitative measures used to detect a bank's financial deterioration, based on early warning and recovery thresholds set by the Directive. On the other hand, recovery triggers may include decline in capital and liquidity ratios, declining profitability, deposit withdrawals, funding pressures, public debt increases, adverse GDP forecasts, and interest rate changes.

The Directive requires banks to establish a recovery framework that outlines indicators, triggers, thresholds, actions, and activation conditions, ensuring timely monitoring, escalation, and implementation. This framework should detect early signs of stress and include less severe early warning indicators. Banks must also calibrate indicators to assess their effectiveness and conduct scenario analysis to test their reliability. Additionally, if a recovery indicator is breached, the bank must notify NBE within five working days, along with details of the breach, escalation process, analysis, and actions taken.

- **Recovery Option**

The Directive obliges banks to develop and maintain a credible, flexible, and actionable set of recovery options. These should address restoring capital and liquidity, reducing leverage and risk, securing diverse funding sources, preserving business continuity, and minimising contagion risk without relying on policy intervention. Recovery options should be diverse and include preparatory measures and a communication and disclosure plan for both internal and external stakeholders. For foreign bank subsidiaries, support from the parent entity may be considered only if contractually committed or stated in the group recovery plan submitted to the home supervisory authority.

- **Reporting Requirement**

Banks must submit their initial recovery plan to the NBE within eight months of the Directive's effective date and update it annually within three months after the financial year-end. The NBE will review and assess the plan, and if deficiencies are found, the bank must submit a revised version within two months. Non-compliance with the rules set in the Directive may result in a penalty ranging from 50,000 to 100,000 birr and possible administrative measures.

C. A Directive Issued to Implement Investment Incentives

Background

The Ministry of Finance issued Directive No. 1064/2025 (“The Directive”) in May 2025 to implement investment incentives under Regulation No. 517/2022 (as amended). The Directive establishes a reporting system to clearly identify the conditions under which incentives are granted, determine investor liabilities, and assess government revenue forgone due to tax holidays.

Key Provisions:

• Tax Holiday Eligibility

The Directive outlines the conditions that must be fulfilled to benefit from income tax holiday provided under Regulation No. 517/2020 (as amended). These include:

- Submitting an investment license in an eligible investment field.
- Providing a business license issued by the appropriate government body.
- Presenting a letter of support from the relevant federal or regional investment authority confirming the completion of the investment and requesting grant of income tax holiday.

Financial Statement Requirement

The Directive requires an investor granted a tax holiday to submit financial statement within the time frame specified, failure to do so will subject the investor to administrative penalty under the tax administration proclamation unless the failure is due to force majeure or other justifiable circumstances beyond the investor’s control.

Tax Holiday for Special Economic Zones (SEZs)

The Directive grants tax holidays to various entities involved in Special Economic Zones (SEZs). Specifically, developers, sub-developers, SEZ administrators, and enterprises within SEZs are entitled to these benefits. For investments in Addis Ababa or its surrounding areas, the tax holidays are 10 years for developers, 7 years for sub-developers, and 5 years each for administrators and enterprises. In contrast, investments made in other regions of the country qualify for longer tax holidays: 15 years for developers, 10 years for sub-developers, and 7 years for administrators and enterprises.

Ground for Revocation of Tax Holiday

The Directive stipulates that tax holiday granted for an investor shall be revoked by the Ministry of Finance if:

- It was acquired based on false or fraudulent information or documents.
- It's confirmed that the investment activity for which the investment license was granted has been terminated.
- The investor has failed to submit a complete financial statement to the Tax Authority or has not fulfilled other obligations.

The Directive requires an investor whose tax holiday has been revoked to pay taxes that were previously exempted, along with any applicable interest and penalties

When it comes to the cancellation procedure, the Ministry of Finance shall notify the investor of the tax holiday cancellation and state the reasons. The investor will have 10 days to submit an explanation and may file an appeal within 30 days of receiving the notice.

• Implementation of Incentives for the Expansion /Upgrading and Processing of Grain Products

The Directive outlines the incentives available for grain processing activities such as mixing, grinding, boiling, blending, or chemical processing. This incentive excludes simple changes in grain shape and the processing of

injera, bread, and home-prepared foods (*baltena* products). An investor who qualifies for an income tax holiday under the Regulation No. 517/2022 (as amended) and Investment Expansion/Upgrading Directive No.941/2023 will not lose this benefit if production volume declines during the relief period due to economic or administrative reasons. The investor is also entitled to a refund of any advance income tax paid on imported goods during the expansion period.

- **Importation of Capital Goods and Construction Materials Exempt from Custom Duties**

Investors may import tax-free only the capital goods listed in a separate document annexed to the Directive as Annex 2). The Annex was not publicly available for review at the time of this writing. Importation is allowed only if the goods are not available locally in sufficient quantity, quality, or at a reasonable price. If purchased domestically, duties and taxes on inputs used to produce the goods will be refunded by the Customs Commission.

The Directive also provides lists of specific construction materials that can be imported on duty and tax-free. These include:

- Construction steel
- Doors and windows, including their accessories
- Glass
- Steel structures
- Ceramic materials, limited to use in educational institutions, hotels, and hospitals.
- Aluminium materials, limited to use in educational institutions, hotels, and hospitals.

- **Transitional Provisions**

Finally, the Directive outlines transitional arrangements which provide that investors who have been granted incentives under relevant pre-existing legislation will continue to benefit from those incentives.

D. Foreign Investors' Participation in Restricted Trade Sectors Directive

Background

The Ethiopian Investment Board has issued a directive titled “Directive to Regulate Foreign Investors’ Participation in Restricted Export, Import, Wholesale and Retail Trade Investments No. 1082/2025 (“The Directive”) in June 2025. The Directive has repealed and replaced Directive No. 1001/2024 (“Previous Directive”). We have covered the Previous Directive on [Volume 1](#) of our legal newsletter. The Directive aims to attract foreign capital by easing restrictions and promoting a more liberalised trade environment. The Directive shifts the focus from strict financial thresholds to verifying investor integrity.

Key Changes in the Directive

The Directive substantially eases the regulatory requirements for foreign investors seeking to engage in Ethiopia’s export, import, wholesale, and retail trade sectors.

• Removal of Stringent Entry Conditions

Under the Previous Directive, entry barriers were high. For example:

- Export Trade (Raw Coffee): Investors were required to have track record of procuring raw coffee worth at least USD 10 million annually for the past three years, or—if new to the market—submit a purchase order of at least USD 12.5 million.
- Import Trade: Investors were required to be manufacturers, agents of manufacturers, or exporters of at least 50% of their local production. Applicants who do not fall into these categories were required to commit to importing goods worth at least USD 10 million annually through an agreement with the relevant authority.
- Wholesale Trade: Applicants were obligated to invest in modern marketing infrastructure and logistics systems.
- Retail Trade: Investors were required to develop large-scale retail spaces—e.g., supermarkets (minimum 2,000 m²), hypermarkets (minimum 5,000 m²), or giant retail stores (exceeding 10,000 m²).

These requirements were widely viewed as restrictive and difficult to fulfil and hinder the attraction of foreign investment in the targeted sectors.

• New Due Diligence-Based Requirements

The Directive abandons the above requirements and, instead, primarily requires foreign investors to submit a comprehensive due diligence report. This report may be prepared by the investor or by a recognised national or international verification agency and must include, at a minimum:

- Verification through national or international databases to ensure the investor is not listed under sanctions or other restrictive lists recognised by the Government of Ethiopia.
- Assessment of the investor’s potential or past involvement in illicit activities, particularly money laundering, drug trafficking, or terrorism financing, in line with internationally accepted standards; and
- Assessment of the investor’s business integrity and financial standing.

• Minimum Capital Requirement for Retail Trade

In addition to the due diligence requirement, foreign investors seeking to operate in retail trade must meet a minimum paid-up capital threshold of USD 2.5 million, either in cash or in kind.

• Clarification on Wholesale Trade Permits

The Directive contains a provision (Article 7(2)) which states that a wholesale trade permit holder may sell:

- Products it has imported through an import permit, or

- Products acquired from domestic producers.

A foreign investor holding an import permit need not obtain a wholesale permit to distribute the imported products; an investor importing goods under a valid import permit is presumed to be doing so for wholesale purposes. Therefore, no separate wholesale permit is required for the investor to wholesale those imported goods.

Conclusion

The Directive represents a shift toward a more facilitative regulatory framework for foreign participation in Ethiopia's investment sectors. By easing entry requirements and focusing on investor integrity and capacity through due diligence, the Government aims to strike a balance between safeguarding national interests and encouraging foreign investment.

E. EIC Service Fee Rates Directive

Background

The Ethiopian Investment Board has issued a new directive titled “Ethiopian Investment Board Directive on Fee Rates Payable for Services Provided by the Ethiopian Investment Commission No.1053/2025” (“The Directive”) in June 2025. Its issuance is mandated by Article 23 of the Special Economic Zone Proclamation No.1322/2024.

Key Points of The Directive

The Directive sets forth the specific service fees that the Ethiopian Investment Commission (EIC) is authorised to levy for services rendered for both the One Stop Shop and designated Free Trade Zones. The EIC is statutorily empowered to establish, administer, and oversee "one stop services" within each SEZ. This centralised platform is designed to serve as a singular point of access for various applications and facilitation services for SEZ end-users. The Directive comprehensively delineates a wide array of services for which fees are applicable, logically categorised by their area of provision.

Within the One Stop Shop, various investment-related services are subject to specific charges. Herein below are the fee structures:

Service Types		Fee (USD)
Issuance of new investment permits, permits for expansion, upgrading, renewal, change, amendment, or substitution,		50 per service
Services pertaining to business or company name registrations, including alteration, amendment, or substitution of trade names		50 per service
Document notarisation and authentication, such as the notarisation or amendment of Memorandum/Articles of Association, and notarising Shareholders' Resolution/Minutes		25
Construction and design approvals entail several distinct fees:	Services Support Letters	155
	Notarisation of land development agreements and the issuance of title deeds for SEZ enterprises	50
	Design approval for SEZ and construction and use permit inside SEZ	150
	Bill of Quantity (SEZ) approval	100.
Work permit fees	Issuance	100
	Renewals	80
	Substitutions or cancellations	50
	Late renewal or cancellation	50
Business licenses	Issuance of a new or expansion license	100
	Renewals	75

	Amendments or cancellations	50.
Other services	Customs duty-free permissions	20 per request
	Many other services (support letters to various offices; income tax holiday permits; permission for transferring capital goods, vehicles, and construction materials; the transfer of raw materials via a Voucher System, Duty Drawback Service, Loss Carried Forward, and other juridical services)	25 each

Concurrently, service fees are significantly higher for investors operating within Free Trade Zones such as Dire Dawa. The issuance of a new investment permit in these zones costs USD 1,000, which includes company name registration, facilitation for the opening of a foreign exchange accounts, and notarization of organizational documents. Other services, such as investment permit expansion or upgrading, and their renewal, each cost USD 500. Issuance of a new work permit is also USD 500, while its renewal is USD 300. Construction design approval is USD 500, and a new business license is USD 1,000. These fees are notably five times higher than their counterparts offered through the standard "One Stop Shop" facilities. For any services not explicitly listed for FTZs, the fee rates from the general One Stop Shop schedule apply.

F. Licensing and Authorisation of Payment Instrument Issuer (Amendment) Directive

Background

The National Bank of Ethiopia has issued a directive titled "Licensing and Authorisation of Payment Instrument Issuer (Amendment) Directive No. ONPS/10/2025," ("The Directive") in May 2025, which amends Directive No. ONPS/09/2023. The Directive lays down the framework for supporting nationwide digital economy that ensures fair competition, protects consumers, and maintains the integrity of electronic money transactions. It seeks to foster interoperability, accelerate the adoption of instant payments, expand digital transactions, and promote financial inclusion.

Key Changes in the Directive

• Introduction of key definitions

The Directive introduces definitions for essential terms that were previously not defined. These key terms are:

- "Two-factor authentication": defined as a two-layer payment authentication process by which the user confirms the transaction by using two different security verification methods, including but not limited to Personal Identification Number (PIN), system generated One Time Password (OTP), biometric, etc.
- "Direct shareholding": defined as shareholding in a licensed payment instrument issuer by a person directly on his own name, or jointly with his spouse, or with a person who has not attained the age of legal majority related to him by the first degree.
- "Instant payment system": refers to a real-time low-value payment system other than an Automated Clearing House (ACH) owned operated by the national switch that allows financial institutions to transfer funds instantaneously across all financial service providers, payment instruments (other than cheques), and payment channels at any time.
- "Interoperability": defined as the technical or legal compatibility that enables a payment instrument issuer's system or service to be used in conjunction with other payment instrument issuers' systems or services.

By introducing definitions for these previously undefined terms, the Directive strengthens interpretive consistency and reduces room for misapplication.

• Increased paid up-capital requirement and capped investors' stake in a payment instrument issuer

The Directive increases the minimum paid-up capital requirement for payment instrument issuers from Birr 50 million to Birr 100 million (or the equivalent in an acceptable foreign currency). It also introduces limits on investor ownership: an individual investor may hold no more than 40% of the total subscribed capital directly, and the aggregated direct and indirect shareholding could be no more than 60%. Yet, these limitations do not apply to investors that are government entities, telecom operators, payment instrument issuers, or payment system operators. Overall, this represents a notable shift from the previous regulatory framework, which did not impose any ownership restrictions.

• Easing Experience Requirements for Executive Appointments

The Directive revises the eligibility criteria for executive leadership at licensed payment instrument issuers. Specifically, it lowers the minimum work experience required for Chief Executive Officers (CEOs) and Senior executive officers. Under the new framework, the required experience for CEOs of non-government-owned enterprises has been reduced from 10 years to 7 years, with at least 3 years in managerial capacity. For senior executive officers at government-owned enterprises, the threshold has similarly been lowered from 8 years to 7 years.

These changes represent a modest easing of the previous standards, aimed at broadening the pool of eligible candidates while maintaining the expectation of experienced and capable leadership in the sector.

• Two-Factor Authentication Now Required for Transaction exceeding Birr 5,000

The Directive maintains the single-factor authentication requirement, typically a user-created personal identification number (PIN), for transactions up to Birr 5,000. However, to enhance security, it now mandates two-factor authentication for electronic money transactions exceeding Birr 5,000, a significant reduction from the previous Birr 15,000 threshold. This adjustment significantly tightens security controls by extending enhanced authentication to a broader range of transactions, thereby offering users greater protection against fraud and unauthorised access.

- **Expanded Limits for Level 2 Electronic Money Accounts**

While the Directive continues to require payment instrument issuers to establish two tiers of electronic money accounts, it now significantly increases the transaction and balance limits for Level 2 accounts.

Previously, Level 2 accounts were capped at daily balance of Birr 75,000, and a daily transaction limit of Birr 150,000. The Directive raises these limits to a daily balance cap of Birr 150,000 and an aggregate daily transaction limit of Birr 300,000, inclusive of person-to-person (P2P) payments.

Additionally, the National Bank may grant exceptional authorisation for transactions exceeding these limits when related to international inward remittances, utility payments, bulk payments, government services (taxes), fuel purchases, and airline tickets.

On the other hand, Level 2 accounts are now subject to specific daily person-to-person transfer caps of Birr 75,000 and a daily payment cap of Birr 250,000 for transactions with merchants via electronic accounts, including mobile banking and through the standardised Ethiopian QR code system.

- **Strengthening of interoperability and system integrity**

The Directive strengthens interoperability and system integrity with key requirements:

- Wallet-to-wallet interoperability must be enabled via the national switch or a licensed switch operator.
- QR code payments must comply with Ethiopian Interoperable Payment QR standards and remain interoperable through the National Switch.
- All financial institutions offering digital financial services must participate in the instant payment system operated by the national switch.
- Payment service interoperability must only occur via the national switch or a licensed switch operator.
- Bank-to-electronic money (wallet) and vice versa fund transfer services transfers require a risk management framework, including two-factor authentication, real-time KYC validation, recipient identity visibility, and risk-based transaction limits.
- System security audits must be conducted by payment instrument issuers every six months and reported to the National Bank.

- **Transitory Provisions**

The Directive introduces a transition framework to allow payment instrument issuers time to align with the revised regulatory requirements. Key transitional provisions include:

- Existing licensed payment instrument issuers with paid-up capital below Birr 100 million must increase it to this amount by June 2027.
- Issuers in the licensing process must meet capital and shareholding requirements within two years of obtaining their license.
- All other provisions must be complied within six months of the Directive's effective date.

G. Property Tax

Background

The House of Peoples' Representatives (HPR) has enacted a new legislation titled, "Property Tax Proclamation No. 1365/2025" ("The Proclamation") on March 26, 2025. The Proclamation replaced the Urban Land Rent and Houses Tax Proclamation No. 80/1976 and its amendment Proclamation No. 161/1979. The Proclamation introduces a new taxation system on urban land use rights, buildings, and land improvements, aiming to promote equitable wealth distribution among urban residents while generating revenues to meet the expanding service and facility needs of their fast-growing resident population.

The FDRE Constitution does not explicitly assign property tax authority to either the Federal Government or Regional States. Nevertheless, a joint decision by the House of Federations and the House of People's Representatives, rendered on 11 January 2023, vested the Federal Government with the power to enact framework legislation on property tax. The Proclamation is enacted based on that authority. It authorises the Council of Ministers to set the national property tax standards. Concurrently, regional and federal city governments are tasked with enacting and implementing detailed legislation concerning the imposition, collection, and administration of property tax within their respective jurisdictions.

Key Features of the Proclamation

- **Scope of Application**

The Proclamation applies to all urban areas in Ethiopia. These urban areas are municipally established cities or places with a population of 2,000 or more, where at least 50% of the workforce is engaged in non-agricultural activities.

- **Principles and Categorisation of Property Tax**

In assessing, rating, collecting, and determining tax base, the tax administration must take equity, accuracy, consistency, transparency and other principles into account, before imposing property tax.

The Proclamation applies to all land use rights, whether acquired through leasehold or old possession, as well as on any improvements made to the land and on ownership of buildings. Tax assessments are based on land use classifications defined under federal urban planning laws, while buildings are categorised by urban land grade, area type, service provision, and use of infrastructure and municipal services, with additional classifications set by regional laws.

- **Tax Rate, Method and Time of Payment**

Local property tax must reflect the estimated annual capital expenditure needs in relation to the total assessed value of taxable land use rights, improvements, and buildings. To ensure macroeconomic stability and balanced development, the Council of Ministers, based on studies by the Ministry of Finance, will set minimum and maximum tax rates through Directive. Until then, urban land use tax will range from 0.2% to 1% of the taxable value, while the tax on buildings and land improvements will range from 0.1% to 1%. These rates will be applied gradually over four years, starting at the lower limit. Regional governments will grade, sub grade and set specific rates within this range, considering land use and building classifications. The amount of tax payable may vary depending on periodic property consumer price index adjustments and the annual assessment and rating of the property.

Tax payments may be made annually or quarterly, either in full or in instalments, within the fiscal year from July to June, as determined by Regional Legislation. Payment rescheduling is allowed only in exceptional cases, as per the procedures to be laid down by regional laws. Individuals with proven, no income may defer payment until transferring their property, subject to an agreement. In such cases, only the property tax from the last two years is payable.

- **Annual Schedule**

The annual property tax rating schedule of a City Administration will be adopted by its Council, where

such a body exists, or by another final urban authority designated by regional legislation. This schedule will consider the total taxable value of all properties listed in the applicable valuation roll, the total assessed value of tax-exempt properties and goodwill contributions expected in lieu of tax, and the component factors relevant to property tax calculation.

The schedule will outline the tax rates for each land use and building category. It will also include the estimated value of goodwill contributions made in place of property tax by exempt entities, such as Federal and Regional Governments, Federal agencies, and Charitable Institutions. Before its adoption by the Council or the designated urban authority, the annual schedule of property tax rating shall be made available for public scrutiny and hearing for a period of 60 days.

- **Tax Exemptions**

Property tax exemptions apply to residential buildings occupied by low-income families as their primary residence, land and buildings used by religious institutions for religious or cemetery purposes, urban land used exclusively for agricultural activities, and properties used by organisations that provide free social services to the public.

Land and buildings owned by the Federal government, bilateral or multilateral intergovernmental organisations, and properties dedicated for public use are likewise exempt, unless specifically excluded by the Ministry of Finance. However, such entities may be required to make compensatory goodwill contributions in place of property tax, with additional exemptions and requirements determined by regional legislation.

- **Priority Status**

Financial institutions or other lenders may only grant loans using property as collateral by having obtained a tax clearance certificate from the relevant City Government body confirming that all due taxes on the property have been paid. If a financial institution provides a loan without securing this certificate, it will lose priority rights over the asset.

- **Penalty**

A person liable for Property Tax who fails to pay by the deadline, without submitting a complaint to the tax review committee or appealing to the tax appeal tribunal will face penalties. A 5% administrative penalty is applied on the next working day after the due date, with an additional 2% for each month or part thereof the tax remains unpaid.

The total penalty imposed will not exceed 100% of the property tax owed by the taxpayer. However, once the penalty reaches this limit, the taxpayer shall remain liable to pay interest on the outstanding amount at a rate exceeding 3% above the average lending interest rate of Commercial banks, until the full payment is made. The imposed administrative penalty may be waived by the relevant tax official or review committee, in line with a Directive issued by the Regional Tax Authority.

- **Dispute Resolution**

Disputes related to property tax are addressed through a structured two-tier system. Taxpayers who are dissatisfied with assessments or administrative decisions may first seek amendment through a Tax Review Committee and, if necessary, submit a further appeal to the Tax Appeal Tribunal and subsequently to the Courts.

- **Tax Review Committee**

A tax review committee is designated by the relevant City Administration to handle complaints related to property tax. Members of the review committee are appointed by the cabinet of the urban area based on the recommendation of the head of the respective tax authority. This tax review committee is accountable to the head of Tax Authority.

In addition, to handling complaints, the Committee reviews general valuation roll data translation and tax calculations carried out by the Tax Authority to ensure fairness, accuracy, and completeness in line

with the requirements of the Proclamation. The Committee shall only entertain, and review complaints submitted to it within 21 days of receipt of tax notice or receipt of the copy of the relevant part of the valuation roll.

- **Appeal Tribunal**

A taxpayer who objects to the decision of Tax Review Committee or a relevant official may file a written appeal with the Property Tax Appeal Tribunal. This Tribunal, composed of two legal experts, is accountable to the executive body of the respective city, region, zone, or woreda administration. Members serve a two-year term. The Tribunal may confirm, reduce, or annul any tax assessment or valuation roll based on facts and applicable law, and may issue decisions. It may also request additional evidence from the taxpayer, the Tax Authority, or other relevant entities.

For an appeal to be accepted, the taxpayer must provide evidence of a deposit equal to 50% of the disputed amount, excluding any penalties and interest, paid to the Tax Authority. Additionally, the appeal must be submitted to the Tribunal within 30 days from the date the taxpayer received the tax notice, a copy of the relevant part of the valuation roll, or the decision of the review committee, whichever occurs last.

- **Judicial Review and Burden of Proof**

A party dissatisfied with the Tribunal's decision may appeal to the High Court within 30 days on grounds of legal error. Once this Court hears the case, determines the question of law, and renders its decision, it will refer the matter to the Tax Appeal Tribunal. Further appeal could also be directed to the Supreme Court within 30 days of the High Court's ruling. However, an appeal to the Supreme Court requires prior payment of the full tax liability determined by the High Court.

The burden of proof lies with the appellant, who must show that the assessment is excessive, contains errors or omissions, or that the authority's decision is incorrect.

- **Transitional Provisions**

The collection of building and land taxes will continue under the repealed laws and the existing valuation system until regional governments enact property tax legislation in line with this Proclamation. However, this transitional arrangement will not extend beyond March 26, 2027. The Proclamation clearly set that its applicability is just prospective (endorsed its non-retroactivity): the repealed laws will remain applicable, without time bounds, for the collection of un-paid urban land and building tax, as well as related administrative penalties, incurred prior to the Proclamation's effective date.

H. Requirements For Licensing and Renewal of Banking Business and Representative Office Directive

Background

The National Bank of Ethiopia (NBE) has issued Directive No. SBB 94/2025, titled "Requirements for Licensing and Renewal of Banking Business and Representative Office" ("The Directive"), in June 2025. The Directive, previously previewed in a draft form in [Volume 7](#) of our legal newsletter, contains a few notable changes.

Key Changes in the Directive

- **Shareholding limits for strategic investors**

The Directive clarifies that the 40% direct shareholding limit for strategic investors applies exclusively to new domestic banks. The Draft Directive, however, had a broader scope, applying this limit to investments in both existing and new domestic banks.

- **Licensing and Renewal Fees for foreign bank subsidiaries, branches, and representative offices**

The Draft Directive set the licensing and renewal fees for foreign bank subsidiaries, branches, and representative offices in Ethiopian Birr (Birr). The Directive now specifies these fees in United States Dollars (USD). Accordingly, for example, the Directive sets the investigation fee at USD 2,500 and the licensing fee for a foreign bank subsidiary or branch at USD 150,000.

I. The Income Tax Amendment Proclamation

Background

The Ministry of Finance has released the *Income Tax (Amendment) Proclamation No. 1395/2025*, which revises *Proclamation No. 979/2016*. Although it has not yet been published in the *Federal Negarit Gazette*, the Ministry confirmed that this is the final version as enacted by Parliament. The amendment generally aims at enhancing revenue collection by adjusting tax rates to reflect current economic conditions, expanding the tax base, and enhancing tax administration.

Key Changes Introduced

- **Income Tax on Digital Content Creation is Introduced**

The amendment introduces a new tax base targeting digital content creation. Income generated from digital content creation is defined as an income obtained by a person or body in cash or in kind from creating, distributing or selling digital media or products through video sharing services, social media platforms, voice transmission podcast services and live transmission platforms. The amendment also provides an illustrative list of revenue streams constituting taxable income from digital content creation.

Income from digital content creation may be categorised as either Business Income (Schedule C) or Other Income (Schedule D). The activity will qualify as Business Income if it is conducted regularly with a profit motive or meets other criteria set by directives—considering factors such as revenue amount, transaction frequency, content type, and business purpose. If these conditions are not met, the income will fall under (Schedule D).

The amendment establishes a dual reporting system: Online platforms that facilitate payments to Ethiopian-based digital content creators and digital content creators themselves must report the annual gross income of each creator if it exceeds the legally defined threshold. The proposed changes mark a significant step toward integrating the digital economy into the tax framework.

- **Income from Digital Services is introduced as additional list of Ethiopian-Sourced Income**

Income derived from the provision of digital services in Ethiopia by a person who is not a resident of Ethiopia shall be treated as income sourced in Ethiopia. What amounts to digital service in Ethiopia by a non-resident service provider is yet to be defined. The definition simply states that "Digital Service" means a service that involves digital content, as shall be defined by a regulation to be issued by the Council of Ministers. The rate of income tax and the mode of payment shall be determined by Council of Ministers Regulations, but the rate can-not exceed five (5) percent).

- **Criteria for Permanent Establishment Status in Ethiopia is Revised**

The amendment includes key revisions to the elements of a permanent establishment status, primarily by reducing the required period of stay in Ethiopia for tax liability. Businesses providing services, such as technical and consulting services, through employees or other workers as well as those engaged in economic activities related to construction and associated work that lasts more than 91 days in a single tax year or within any consecutive one-year period will be regarded as having a permanent establishment. This marks a substantial reduction from the previous 183-day threshold and is intended to broaden the scope of taxable presences.

The amendment also elaborates rules regarding provision of technical services through permanent establishment. It defines "technical service" as services with technical, administrative, or advisory characteristics and includes provision of accounting services, audit services, economic services, financial services, legal services, administrative services, engineering services, architectural services, consultancy services, surveying services, information technology services, and similar others. The definition and illustrative list of services offer greater clarity and aims to close loopholes that previously led certain service providers to operate in an environment of legal ambiguity.

- **Capital Gain Taxes (CGT) on Offshore Indirect Asset Transfers (OIT) Introduced.**

A new provision has been introduced addressing offshore indirect transfers of assets—situations where a transaction in one country effectively results in the transfer of assets located in another. This typically arises in cases involving multinational corporations, where the sale of a foreign parent entity indirectly leads to the transfer of ownership in subsidiaries operating across different jurisdictions. The proposed rule aims to ensure that Ethiopia receives its fair share of tax revenue from such transactions, particularly when a foreign corporate transfer involving an entity affiliated with an Ethiopian company results in the indirect sale of a stake in that Ethiopian business. However, not all offshore transactions will trigger a tax obligation. To qualify, the transfer must be considered significant—defined as the disposal of 20% or more of an ownership stake within a 365-day period—and more than 50 percent of their value, directly or indirectly involve transfer of Ethiopian-based assets.

- **Revised Categorisation of Income Taxpayers and Record-Keeping Obligations.**

Under the existing Proclamation, taxpayers were categorised into category A, B, and C based on their legal structure and annual turnover. The amendment revises this categorisation by eliminating Category C and consolidating taxpayers into two groups:

Category A: bodies /legal entities/ and individuals with an annual income of Birr 2 million or more; and

Category B: Individuals with an annual income below Birr 2 million. This revised categorisation has implications for record-keeping, reporting timelines, and formal compliance requirements.

Under the new framework:

- Category A taxpayers are required to maintain books of accounts.
- Category B taxpayers are classified as small taxpayers and are exempt, except those engaged in professional services, from formal bookkeeping obligations.

The change can simplify tax administration while maintaining proportional compliance obligations based on the taxpayer's scale and capacity.

- **Income Tax brackets and Rates are Revised**

The amendment introduces revisions to income tax brackets and rates across various income schedules. The changes include notable adjustments outlined below.

- **Schedule A (Employment Income)**

Previous income brackets (in Birr) and rates		The new income brackets (in Birr) and rates	
0 –600	0%	0 -2,000	0%
601-1650	10%	2001-4000	15%
1,651-3,200	15%	4001-7000	20%
3,201-5,250	20%	7001-10,000	25%
5,251-7,800	25%	10,001-14,000	30%
7,801-10,900	30%	Over 14,000	35%
Over 10,900	35%		

- **Schedule B (Rental Income Tax)**

The rate of rental income tax applicable to a body remains same, at 30%, but the rates of rental income tax applicable to an individual is revised so as to match rates for employment income tax, except that the income brackets are based on annual earnings instead of monthly. See the table below.

Previous income brackets (in Birr) and rates		The new income brackets (in Birr) and rates	
0 -7,200	0%	0-24,000	0%

7,201-19,800	10%	24,001-48,000	15%
19,801-38,400	15%	48,001-84,000	20%
38,401-63,000	20%	84,001-120,000	25%
63,001-93,600	25%	120,001-168,000	30%
93,601-130,800	30%	Over 168,000	35%
Over 130,800	35%		

o **Schedule C (Business Income)**

The rate for business income tax applicable to a body remains same, at 30%, but the rates of business income tax applicable to an individual is revised which matches rates for rental income tax (see the table above). However, there are significant exceptions provided for some taxpayers that could have been taxed under schedule C.

The first exception concerns the exemption of Limited Liability Partnership (LLP) from the flat rate 30% corporate taxation. With respect to LLP, the amendment adopted what is commonly referred to as the pass-through taxation system. The LLP shall not be subject to corporate income tax, rather it shall withhold tax from income distributed to its members. The LLP shall withhold when it pays dividend to members in accordance with the income tax rate applicable to individual taxpayers under Schedule "C" (see the table above) and remit such tax to the tax authority.

The second exception to corporate income tax stipulates that, irrespective of the legal form under which it is established, a "Collective Investment Scheme" shall not be subject to corporate income tax, rather it shall withhold dividend tax on profits distributed to its shareholders in accordance with the rules regarding dividend tax under "Schedule D".

The third exception concerns Category B taxpayers under schedule C. Category B taxpayers are not required to keep books of accounts, and they shall pay tax based on total gross income. The tax rate structure is as follows:

Annual gross receipts/gross income/ in Birr	Tax rate
0-100, 000	2%
100, 001-500, 000	3%
500,001-1,000,000	5%
1,000,001-1,500,000	7%
1,500, 001- less than 2, 000, 000	9%

However, there is an exception to this exception: professional service providers are not allowed to benefit from this simplified tax scheme. The list of professional services include accounting; architectural; consulting; construction; engineering; financial, economy and investment professional; healthcare; and legal services. These professional service providers are required to maintain books of account required for Category "A" taxpayers even though, based on their annual turnover, they are under category "B".

o **Schedule D (Other incomes)**

Most of the rates for Schedule D income sources are revised.

- For Non-Residents earning Ethiopian source income, the tax rate changes are as follows:
 - o Insurance premiums, from 5% to 15%.
 - o Royalties, from 5% to 10%;

- Dividends, from 10% to 15%;
- Interests from saving deposit, from 5% to 10%;
- Management fee and technical service fee, remains same, at 15%.
- Non-resident entertainers, from 10% to 15%.
- On the newly introduced tax on digital service, up to 5%, the exact amount to set by regulation.
- For Ethiopian residents earning Ethiopian source income under Schedule D, the tax rates changes are as follows:
 - Royalties, from 5% to 10%; but royalty from artistic and cultural works remain at 5%.
 - Dividends, from 10% to 15%.
 - Interest remains same (5% from deposits, and 10% for interest from other sources). Yet interest income of a financial institution obtained from deposit of money in another financial institution and other taxpayers who derive interest income from sale of goods or services on credit shall pay shall be subject to tax under "Schedule C-business income tax"
- Income from winning at games of chance, from 15% to 20%;
- Gains on disposal of investment assets (share and bonds), reduced from 30% to 15%.
- Undistributed profit of a body or profit not reinvested, from 10% to 15%.
 - Profit is taxable if it is not distributed or reinvested or remitted to the foreign company operating under permanent establishment within 12 months following the end of the tax year. Reinvestment is when the body uses its net profit to increase the shares of shareholders and increases its capital.
 - The use of dividends due to shareholders to pay for prior subscribed capital (call on shares) is, in principle, not deemed reinvestment, and as such not exempted. However, the Ministry shall issue a directive to determine the amount and type of support to be provided to shareholders which shall be deemed reinvestment and hence exempted.
- Repatriation of Profit, from 10% to 15%.
 - The tax on remittance of a profit by permanent establishment to the foreign company shall not be paid if a tax is already paid for non-remittance within 12 months (see above)

- **Few additions to the list under Schedule 'E' – Exempt Income**

The amendment provided three additional lists of non-taxable/exempted/ incomes. These are:

- Premium collected by the Ethiopian Deposit Insurance Fund;
- Premium collected by existing companies from the issuance of new shares;
- Dividend paid by any company to a company in Ethiopia which directly or indirectly held 12.5% of the voting right and has controlling share in the first mentioned Company"

- **Minimum Alternative Tax (MAT) is introduced**

The amendment introduces Minimum Alternative Tax (MAT) to capture a portion of earnings as early as possible. Under this provision, if a taxpayer's reported annual tax liability is less than 2.5% of its

annual gross income, the taxpayer will be required to pay a minimum tax of 2.5% of its annual gross income. This payment above the actual reported tax would constitute an advance paid to the government which would be credited against future tax liabilities of the taxpayer within the next 5 years. Save two exceptions: those under liquidation due to bankruptcy and those under debt restructuring, MAT applies to all persons earning business income including those privileged with tax holidays.

- **Turnover Tax is Repealed**

The amendment provides that “Turnover Tax Proclamation No. 30812002 and its amendments” are repealed. The explanatory note provided by the Ministry describes the move as being part of the scheme toward simplified taxation system for category B taxpayers, who would otherwise have to collect, report and pay turnover tax in addition to their income tax liability. The revenue that could have been collected as turnover from these small taxpayers is now presumed to have been compensated by the income tax to be paid on their gross receipt as stipulated above.

- **Strengthened rules concerning employees working for international organisations and in Ethiopian embassies abroad**

The amendment requires the Tax Authority to collaborate with the Ministry of Foreign Affairs, to establish a system for collecting lists and addresses of employees working in international organisations and foreign diplomatic missions or consular offices of Ethiopia. The Ministry of Foreign Affairs must compile and submit employee data to the Tax Authority within a designated timeframe, ensuring accurate taxation of these individuals.

Additionally, government agencies responsible for issuing or renewing work permits for foreign employees in Ethiopia must immediately notify the Tax Authority details including the type of work permit issued and duration of stay.

- **Restriction on cash-based transactions is introduced**

To ensure tax compliance and reduce risks of tax evasion, the law imposes stricter rules on cash payments. Taxpayers must make payments via bank deposits, including checks, bank drafts, or electronic transfers. Payments exceeding 50,000 Ethiopian Birr (ETB) in a single day cannot be made in cash except upon authorisation by the National Bank of Ethiopia or the Ministry.

Failure to abide by this restriction entails consequences both for the payer and the recipient:

- Cash Payments exceeding 50,000 ETB to a single individual within one day will not be considered deductible
- Any taxpayer accepting cash payments exceeding the prescribed limit shall be subject to an administrative penalty equal to the excess amount received.

These new tax administration measures aim to strengthen enforcement, enhance compliance, and close gaps in tax reporting.

- **Withholding tax rates and thresholds are increased**

Bodies having legal personality (government agencies, non-profit organisations, for profit organisations other than micro enterprises, non-governmental organisations) and individual taxpayers as determined by “Directive No. 145/2019” are required to withhold tax from payments to suppliers of goods and services, for payments above a specified threshold. The changes in this regard are as follows:

- The withholding tax rate is increased from 2% to 3%;
- The threshold for supply of goods has become Birr 20,000, from Birr 10,000.
- The threshold for supply of services is increased from Birr 3, 000 to Birr 10,000.

- **A shift from annual tax declaration and payment to quarterly payments**

The previous income tax proclamation has set the rule for annual declaration and payment of Schedule

B and C income taxes, for all categories of A, B, C taxpayers. It was only category C taxpayers who were optionally allowed to report and pay biannually.

Accordingly, Category "A" and Category "B" taxpayers are required to make advance tax payments equal to 25% of the tax paid in the immediately preceding tax year, within 30 (thirty) days following the end of each quarter. The final annual tax declaration must incorporate adjustments based on the taxpayer's books of account, deducting the quarterly advance payments. If the total advance payments exceed the final tax liability, the excess amount shall be refunded. While the shift from annual to quarterly compliance enhances government revenue flow, it may increase the administrative and financial burden on taxpayers.

J. Draft Directive on Risk-Based Capital Adequacy Requirements

Background

The National Bank of Ethiopia (NBE) has issued a draft directive titled, "Risk-Based Capital Adequacy Requirement on Banks Directive No. SBB/xx/2025" ("The Directive") in May 2025, set to replace SBB/9/95 ("The Previous Directive") and Article 5.5 of SBB/78/2021. The Directive aims to strengthen the banking sector's stability by aligning capital requirements with international standards (Basel II and III). It will apply to all NBE-licensed banks and consolidated bank groups in Ethiopia, excluding insurance companies.

Key Points in the Directive

- **Minimum Capital Adequacy Requirements**

The earlier Directive No SBB/78/2021 mandated a minimum capital to risk-weighted assets ratio of 8% for all licensed banks. In contrast, the Draft Directive introduces a more detailed, multi-tiered capital structure. It mandates minimum capital adequacy ratios of 7.5 percent for Common Equity Tier 1 (CET1) capital, 9.5 percent for Tier 1 capital, and 11.5 percent for total capital, all calculated as a percentage of risk-weighted assets. Furthermore, it specifies a CET1 trigger point of 5.125 percent for loss absorption mechanisms, a significant addition aimed at enhancing resilience.

- **Credit Risk RWA Calculation**

The Previous Directive employed a simpler approach, assigning fixed risk weights such as 0 percent for government-backed claims, 20 percent for short-term bank loans, 50 percent for residential mortgages, and 100 percent for other investments. Conversely, the Draft Directive introduces a far more detailed and risk-sensitive framework. On-balance sheet items now feature varied risk weights based on counterparty and asset type. For instance, foreign sovereign exposures can range from 0 percent to 150 percent, bank claims from 20 percent to 150 percent, and specialised lending from 80 percent to 130 percent. Residential mortgages are set at 35 percent, while defaulted exposures can be 100 percent or 150 percent depending on provisions.

For off-balance sheet items, the Draft Directive introduces Credit Conversion Factors (CCFs) ranging from 10 percent for cancellable commitments to 100 percent for direct credit substitutes, with OTC derivative CCFs varying from 0.0 percent to 15.0 percent. Credit risk mitigation is also more complex, involving an 8 percent currency mismatch haircut and a 20 percent collateralised risk weight floor.

- **Capital Requirements to Market Risk and Operational Risk**

Unlike The Previous Directive, which lacked explicit details on capital requirements for market and operational risks, the Draft Directive significantly expands the scope by introducing explicit requirements for these categories, notably adopting the Basel III standardised approach. For market risk, the capital charge is derived from components with specific multipliers (e.g., 1.30 for interest rate risk, 3.50 for equity risk). This means different risk types contribute differently to the overall capital requirement. Specific risk charges for qualifying securities range from 0.25 percent to 1.60 percent, reflecting varying sensitivities to individual issuer risks, while general market risk for interest rates includes disallowances up to 100 percent to capture broader market movements.

Equity risk carries an 11.5 percent charge, with an additional 2 percent for diversified index contracts, acknowledging extra risk in complex portfolios. Foreign exchange risk also has an 11.5 percent capital charge on the overall net open position, and commodity risk includes a 15 percent charge on the net position plus an additional 3 percent on gross positions, reflecting the volatility of these assets.

For operational risk, the Draft Directive adopts a standardised approach using Business Indicator (BI) marginal coefficients that increase with size, ranging from 12 percent for smaller BIs to 18 percent for larger ones (e.g., exceeding Birr 105 billion). This tiered approach ensures that capital requirements scale with a bank's operational complexity. The Loss Component (LC) is calculated based on historical losses, with a minimum threshold of Birr 20,000 for including loss events, ensuring that past operational failures directly influence future capital needs.

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