DADIMOS & PARTNERS LLP

Welcome to the Eleventh Issue of Our Newsletter!

Eleventh Edition

We are delighted to present the tenth edition of our newsletter, featuring insightful updates on recent legal developments shaping Ethiopia's regulatory landscape.

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Dear Clients and Colleagues,

We are pleased to resume our newsletter after a six-month pause. During this period, we continued to follow legal and business developments closely and shared our insights through other publications and platforms.

Going forward, we are considering a complementary approach: brief alerts on significant legislative and regulatory developments as they arise, alongside this bi-monthly newsletter as a consolidated overview.

Our recent publications include:

- **Ethiopia: Law and Practice and Trends and Developments,** Chambers & Partners – Investing In…2026: an overview of Ethiopia's investment climate, regulatory framework and market trends.
- **Ethiopia Investment Incentives Regulation No. 586/2026**, Mondaq: key changes under the new investment incentives framework and practical implications for investors.
- **Doing Business in Ethiopia**, Legal 500 Q&A: a structured guide to corporate governance, licensing, taxation and sector-specific requirements.
- **Quarterly Advance Tax Misapplied, Viable Businesses at Risk**, Addis Fortune: an op-ed on the implementation of Ethiopia's quarterly advance tax regime.

In this issue, we summarise selected legal and regulatory developments from the past two months and briefly comment on their practical significance for businesses and investors.

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. New Regulatory Framework for Franco Valuta Imports

Introduction

The National Bank of Ethiopia (NBE) has issued Directive No. FVD/01/2026 on Imports on Franco Valuta, which entered into force on 29 May 2026. The Directive establishes, for the first time, a comprehensive and standalone regulatory framework governing Franco Valuta transactions in Ethiopia. Franco Valuta refers to the importation of goods for which no foreign exchange from the domestic banking system is required.

Prior to the issuance of this Directive, such transactions were governed by a single sub-article of the broader Foreign Exchange Directive No. FXD/01/2024, an arrangement which the NBE has now considered inadequate to address the scale, complexity and risks associated with such transactions. The Directive appears to be motivated by three principal considerations: the strategic value of Franco Valuta arrangements in facilitating trade and investment without drawing on national foreign exchange reserves; the risks of misuse, misreporting and illicit financial flows arising under the previous fragmented framework; and the need for greater transparency, institutional accountability and technology-enabled monitoring.

Key Changes

1. Expanded and Codified List of Eligible Users

The Directive expressly identifies the categories of persons and entities that may utilise Franco Valuta arrangements. Eligible categories now formally include licensed domestic investors, diaspora investors, foreign investors, manufacturing and industrial enterprises, development projects of strategic importance, religious and government institutions receiving grants, diplomatic missions and international NGOs. This codification enhances legal certainty and removes the ambiguity that previously existed as to eligibility.

2. Separate Regimes for Investment and Trading Use

The Directive draws a clear distinction between investment and manufacturing use (Article 6) and trading and commercial use (Article 7). Investment and manufacturing use covers capital goods, machinery, spare parts, raw materials, technology equipment, energy and infrastructure goods, trade fair items and other goods approved by the NBE. Trading and commercial use covers wholesale and retail goods imported by FDI and diaspora traders, imports into special economic zones and free trade zones, and permanent or temporary re-export arrangements.

3. Formalised Documentation Requirements

Article 9 now requires a specific set of documents for Franco Valuta authorisation, namely: a pro forma or commercial invoice; shipping documents (bill of lading, air waybill or equivalent); and an investment or trade licence, subject to the exemptions applicable to embassies, NGOs and certain other entities. The annex to the Directive further specifies, for each of 24 categories of goods, the permitted FOB value in US dollars and the supporting documents required.

4. Mandatory Digital Recording

Article 10 introduces a digital control requirement. The Ethiopian Customs Commission is now required to use, or integrate with, the Foreign Exchange Monitoring and Orchestration Unified System to record and report all Franco Valuta imports. This marks a significant shift away from manual or paper-based oversight towards a real-time, technology-driven compliance framework.

5. Strengthened Enforcement and Penalties

Article 11 identifies three categories of contravention: misuse of Franco Valuta arrangements, false declarations, and the circumvention or avoidance of applicable controls. Consequences under Article 12 may be imposed cumulatively and include monetary penalties, confiscation of goods and criminal liability under NBE Proclamation No. 1359/2025. The availability of criminal sanctions indicates that the NBE regards compliance with this framework as a matter of significant regulatory importance.

B. Amendment to Foreign Exchange Directive No. FXD/01/2024

Introduction

On 25 May 2026, the National Bank of Ethiopia issued Foreign Exchange Directive No. FXD/05/2026, amending the principal Foreign Exchange Directive No. FXD/01/2024. The amendment was issued pursuant to Article 6(2) and (17) and Article 39 of the NBE Establishment (Amended) Proclamation No. 1359/2025. It forms part of the NBE's broader effort to relax foreign exchange administration, ease the burden of doing business and strengthen business confidence in Ethiopia's ongoing foreign exchange reform.

This development should also be read alongside our earlier client insight on Foreign Exchange Directive No. FXD/04/2026. As discussed in that insight, FXD/04/2026 introduced a broader set of operational foreign exchange reforms, including changes relating to dividend repatriation, external borrowing, service-export earnings retention, bank-issued foreign exchange guarantees and forward exchange rate usage. FXD/05/2026 is materially narrower in scope. More specifically, the amendment decentralises foreign exchange administration by delegating to commercial banks the authority to approve certain import-related payment modalities, namely letters of credit on acceptance and cash against documents on acceptance, without prior NBE approval. It also introduces greater flexibility for importers holding foreign currency or retention accounts in relation to the timing of goods orders and shipment initiation.

Key Changes

1. Bank Authorisation for Letters of Credit on Acceptance

Commercial banks are now authorised to approve letters of credit on acceptance for institutions holding foreign currency accounts, including retention account holders. Previously, such arrangements required NBE authorisation. A letter of credit on acceptance is a deferred payment instrument payable on a specified future date upon presentation of conforming documents.

2. Bank Authorisation for Cash Against Documents on Acceptance

Commercial banks are similarly authorised to approve cash against documents (CAD) on acceptance arrangements for institutions holding foreign currency accounts, including retention account holders, without prior NBE approval. Under such an arrangement, the exporter's bank releases the shipping documents to the importer only after the importer has formally accepted a time draft or bill of exchange.

3. Pre-Approval Ordering and Shipment Initiation

Institutions holding foreign currency accounts, including retention account holders, may now order goods or initiate shipment before obtaining bank approval. Payment processing remains subject to the submission and verification of all required documents. This is a significant operational improvement for importers, as it removes the previous requirement to await bank approval before placing or initiating orders and aligns the treatment of retention account holders under both Annex 2 and Annex 6 of the Principal Directive.

C. Public Notice on Rationalisation of Fees and Charges on Letters of Credit

Introduction

On 25 May 2026, the National Bank of Ethiopia issued a Public Notice on FX Directive Amendment and Rationalisation of Fees and Charges on Letters of Credit. The principal significance of the Notice, for present purposes, lies in the rationalisation of fees and charges applicable to letter of credit transactions in order to align them more closely with international practice. The Notice also introduced the amendment to Foreign Exchange Directive No. FXD/01/2024 discussed in section B above.

Rationalisation of LC Fees

The NBE observed that fees and charges applied by commercial banks to foreign exchange-related letter of credit transactions had remained inconsistent with prevailing international practice. In response, the NBE has undertaken a rationalisation of such fees and charges. All banks have been instructed to apply fees and charges on letter of credit transactions on an annualised and pro rata basis, calibrated to the tenor of the relevant letter of credit. The applicable annual rate must not exceed the maximum limit previously prescribed by the NBE.

This rationalisation is intended to ensure that letter of credit-related charges is more competitive and more closely aligned with international pricing practice. It may reduce transaction costs for importers and exporters, enhance the competitiveness of Ethiopia's trade finance environment, and support the credibility and effectiveness of the ongoing foreign exchange reform programme.

D. Ethiopia's Strategic Investment Guarantee Framework

Introduction

Ethiopia has introduced a new investment protection framework aimed at attracting large-scale strategic investments and strengthening investor confidence. According to news reports, the regulation received approval from the Council of Ministers on March 2, 2026. The regulation gives the federal government a more direct role in supporting selected projects considered nationally important. The framework is designed to make high-value projects easier to finance by reducing uncertainty for investors and lenders, transforming government support from a political commitment into a formal legal arrangement.

The regulation applies only to projects classified as 'strategic' by the Council of Ministers and the Ethiopian Investment Board. These projects are expected to include investments in infrastructure, industrial development, logistics, energy, technology transfer, and other sectors critical to national economic growth.

Key Features of the Framework

1. Government Risk Protections

A central feature of the framework is the government's authority to provide legally binding protection against certain state-related risks. If government decisions or actions significantly harm an approved investment under conditions specified in the agreement, investors may be entitled to compensation. The amount and method of compensation are determined in advance through negotiated agreements, reducing uncertainty in the event of disputes.

2. Ministry of Finance as Central Administrator

The Ministry of Finance becomes the primary institution responsible for negotiating and administering these arrangements. This places the ministry at the centre of a new risk-sharing model, under which it may issue legally binding compensation commitments to investors involved in government-approved strategic projects.

3. Long-Term Public Purchasing Arrangements

The framework also introduces long-term purchasing agreements involving public institutions and state-owned enterprises. Under these arrangements, designated public entities may commit to purchasing goods or services from strategic projects over a specified period, creating predictable demand and revenue streams, particularly for sectors such as power generation, manufacturing, transport, and industrial production.

4. Safeguards on Public Finances

To safeguard public finances, the regulation allows the government to establish limits on its financial exposure, conduct risk assessments before approving commitments, and create reserves or budget allocations to meet potential future obligations. The Ministry of Finance is additionally required to disclose outstanding guarantees, potential liabilities, and payments made under the framework, strengthening oversight and accountability.

5. Limits on Investor Protection

The regulation also sets clear boundaries on investor protection. Compensation is not automatic and may be denied where losses result from investor misconduct, serious negligence, contractual breaches, or failure to meet financing and implementation requirements. This reflects an effort to balance investor protection with safeguards against misuse.

Practical Implications

By providing a clearer legal structure around government commitments, Ethiopia seeks to reduce the political, regulatory, and institutional risks that often discourage lenders and investors. Compensation commitments may help strategic projects secure financing, improving access to domestic and international capital for large-scale infrastructure and industrial developments. The framework also enhances predictability — a factor that investors often value as highly as financial incentives. By defining obligations, valuation methods, and dispute-resolution mechanisms in advance, the regulation may reduce conflicts and uncertainty surrounding major investments.

From a competitiveness standpoint, the policy could strengthen Ethiopia's position in attracting regional and international investment. Many developing economies compete aggressively for strategic capital, particularly in infrastructure and industrial sectors, and structured government guarantees may help Ethiopia present itself as a more reliable destination for long-term investment. The long-term success of the framework, however, will ultimately depend on maintaining fiscal discipline, transparent governance, and consistent enforcement.

E. VAT Refund

Introduction

In April 2026, the Ministry of Revenues enacted VAT Refund Directive No. 1132/2016 (the "Directive"), replacing VAT Refund Directive No. 148/2011 (the "Previous Directive"). The Directive introduces new eligibility criteria and enhanced compliance requirements. It is intended to align the VAT refund regime with VAT Proclamation No. 1341/2024 and its implementing regulations, while also establishing clearer procedures for the administration of VAT refunds, including documentation requirements, processing timelines and special refund procedures.

Key Points

1. VAT Refund Eligibility, Withholding Mechanism and Pre-Registration Input VAT Refund Framework

1.1 VAT Refund Eligibility Threshold and Processing Period

The Directive seeks to align the refund regime with Article 49(1) of VAT Proclamation No. 1341/2024, which provides that a registered taxpayer is entitled to a refund where more than 50 per cent of the value of taxable supplies in an accounting period consists of zero-rated supplies, and that such refund is to be processed within one calendar month. In line with that framework, the Directive raises the eligibility threshold from the previous 25 per cent requirement and shortens the refund processing period from 45 days under the Previous Directive.

1.2 VAT Withholding and Two-Month Set-Off Mechanism

The Directive provides that, where VAT is withheld by withholding agents or by the buyer, the amount of VAT shown on the tax invoice or receipt must first be credited against VAT payable on taxable supplies for a period of two months. Where, after that set-off period, an excess credit remains, the taxpayer becomes entitled to claim a refund, which the tax authority must process within 45 days of submission of the refund request.

1.3 Pre-Registration Input VAT Refund Treatment

The Directive allows a taxpayer registered for VAT to claim input VAT incurred prior to registration in respect of trading goods acquired within six months before registration and capital goods acquired within three years before registration.

Such input VAT must first be credited against VAT payable or collected on taxable supplies during the relevant accounting period. Where a credit balance remains after that set-off, the excess becomes refundable, and any refund arising from pre-registration input VAT must be processed by the tax authority within one month of submission of the refund request.

2. Rules on Input VAT Refund Based on Taxable Activity Ratios

The Directive introduces three classifications for determining the entitlement of a registered person engaged in both taxable and exempt activities to deduct or obtain a refund of input VAT incurred on the purchase of goods and services during an accounting period.

Where input VAT is attributable to both taxable and exempt supplies, entitlement is determined by reference to the ratio of taxable supplies. Under the Previous Directive, input VAT was not refundable where the ratio of taxable supplies was below 0.90. Under the current Directive, where the ratio is 0.95 or above, the registered person is entitled to a full deduction and refund of input VAT, subject to confirmation in accordance with the Proclamation. Where the ratio is between 0.05 and 0.95, the registered person may be entitled to a partial deduction or refund, subject to verification and approval by the tax authority. Where the ratio is below 0.05, the input VAT incurred is neither deductible nor refundable.

3. Accelerated VAT Refund System

The Directive redefined the "Accelerated VAT Refund System" as a system under which a registered direct or indirect exporter selected by the Ministry of Industry is entitled to receive a refund of VAT incurred on locally purchased inputs used for export production even before the export of the goods. This differs from the Previous Directive, under which selection by the Ministry of Industry was not expressly stated as a requirement.

Accordingly, the taxpayer must present an approval certificate issued by the Ministry of Industry, together with original VAT invoices for domestic input purchases, tax debit notes, credit notes and, where applicable, evidence of reverse VAT payments. In addition, the taxpayer must provide proof that the goods have been exported, including customs declarations, transport or shipping documents, bank payment records and evidence confirming receipt of foreign currency. The taxpayer is also required to maintain records demonstrating the linkage between the input VAT incurred and the exported goods, as well as the contract of sale with the foreign buyer.

The Directive further provides that taxpayers benefiting from the accelerated refund system remain subject to audit and verification, including at least annual audits by the tax authority. Where it is determined that a refund was improperly granted, the taxpayer is required to repay the amount received.

4. Restrictions on Cash Transactions

The Directive restricts the availability of VAT refunds for transactions settled in cash. Accordingly, for transactions carried out on or after 8 July 2025, where the cash trading limit of ETB 50,000 (fifty thousand birr) applies, tax refund claims exceeding that threshold must be supported by valid transaction receipts. Where a refund is claimed in cash in breach of this requirement, the refund application will not be accepted.

5. Special privileged organisations

The category of privileged organisations has been expanded to include entities benefiting from VAT privileges under international agreements, in addition to diplomatic missions, consular offices, foreign governments and eligible international organisations previously recognised under the Previous Directive. Such entities are required to pay VAT at the time of purchase and may subsequently apply for a refund. However, the Directive introduces a minimum invoice threshold of ETB 100 and prescribes a one-month processing period for such refund claims.

6. Refund Claims Following Tax Authority Decisions and Interest on Delayed VAT Refunds

Where a decision has been issued by tax audits, investigation audits, service audits or other relevant work units, the taxpayer must submit a formal refund request within six months of that decision. The tax authority must process and issue the refund within 45 days of submission of the refund request.

The Directive further provides that a taxpayer is entitled to interest where the tax authority fails to process a refund within the prescribed time limit. The applicable interest rate is to be determined by reference to the highest commercial bank lending rate of the preceding quarter. However, such a claim is admissible only where it is supported by a court decision, and the taxpayer must submit the claim within six months of the date of that decision.

A. End of CBE's Monopoly Over Export Permit Issuance for China-Bound Goods

Introduction

The National Bank of Ethiopia has introduced a significant policy reform affecting the processing of exports destined for the People's Republic of China. As announced in a public notice published on the official website of the National Bank of Ethiopia on 26 May 2026, all licensed commercial banks operating in Ethiopia are authorised to issue export permits, process documentary credits, and provide related banking services for goods exported to China. The reform marks a significant step in the liberalisation and modernisation of Ethiopia's financial and trade sectors, reflecting a shift away from a centralised model of export service delivery and toward a more competitive banking environment that offers exporters greater choice and accessibility.

Background and Key Change

Prior to this reform, exporters shipping goods to China were required to process export permits and related banking transactions exclusively through the Commercial Bank of Ethiopia (CBE), pursuant to arrangements connected to the broader economic and financial cooperation framework between Ethiopia and China. Under the new directive, the NBE has removed this exclusivity. Licensed commercial banks are now permitted to issue export permits, process documentary credits and provide related export banking services for China-bound exports, while continuing to comply with Ethiopia's existing foreign exchange, export and trade finance regulations.

Practical Implications

The policy change is expected to generate benefits for exporters, financial institutions, and the broader economy. For exporters, the reform provides greater flexibility in selecting financial institutions that best meet their operational, financing, and service needs. The availability of export-related services across multiple banks may help reduce processing delays, ease administrative bottlenecks, and improve the overall efficiency of export transactions, particularly for businesses trading with China, one of Ethiopia's most important export markets.

From the perspective of the banking sector, the reform creates new opportunities for commercial banks to expand their trade finance activities, attract new corporate clients, and diversify revenue streams. Increased participation in export financing may also contribute to the development of technical expertise and institutional capacity in trade-related banking services. More broadly, the measure has the potential to strengthen Ethiopia's export sector and enhance the overall ease of doing business.

B. Ethiopia Opens Freight Forwarding Sector to Foreign Investors

Introduction

According to media reports, the Ethiopian Investment Board announced on 25 May 2026 a significant policy shift aimed at liberalising Ethiopia's logistics and transport sector by opening the freight forwarding industry to foreign investors under a restricted participation framework. The reform represents a further step in Ethiopia's broader economic liberalisation agenda and reflects ongoing efforts to modernise the country's trade and logistics environment. The liberalisation follows a series of government measures designed to dismantle long-standing monopolistic structures in the transport and logistics sector, most notably the earlier decision to end the exclusive multimodal transport rights held by the state-owned Ethiopian Shipping and Logistics Services (ESLS).

Key Features of the Reform

Under the revised framework, the Ethiopian government has fully liberalized the freight forwarding sector, allowing foreign investors to operate independently without the requirement to form joint ventures with Ethiopian partners. The previous restriction that capped foreign ownership at 49% and required majority domestic participation has been removed. Foreign investors seeking to engage in freight forwarding operations must comply with the requirements set out under Investment Proclamation No. 1180/2020, including registration and obtaining an investment permit from the Ethiopian Investment Commission (EIC). The reform therefore introduces a controlled liberalisation model that allows foreign participation while preserving significant domestic involvement in the sector.

Potential Benefits

Increased competition and foreign participation may help reduce logistics and transportation costs, which have historically constrained the competitiveness of Ethiopian businesses engaged in international trade. The reform may also facilitate smoother operations for foreign companies already active in Ethiopia. Many international investors rely on integrated logistics systems and established freight forwarding networks, and allowing foreign participation may improve efficiency, service quality, and supply chain predictability. The liberalisation could additionally support Ethiopia's efforts to accede to the World Trade Organization (WTO), as opening previously restricted sectors to competition and foreign investment aligns with market-oriented reforms commonly encouraged during WTO accession negotiations.

Concerns and Challenges

Despite these potential advantages, the reform also presents challenges for domestic operators. A key concern is the limited access to financing available to local logistics companies. Domestic businesses may struggle to compete with foreign companies that possess stronger financial resources, technical expertise, and established international networks. The long-term success of the policy will depend on the government's ability to balance market liberalisation with effective support mechanisms for domestic operators, including improved access to finance, strengthened technical capacity, and measures to ensure fair competition.

C. Ethiopia Adopts New Energy Policy Targeting Cost Recovery, Tariff Reform and Expanded Power Access by 2028

The Council of Ministers approved a draft National Energy Policy on 26 May 2026 aimed at overhauling Ethiopia's power sector as part of the country's broader economic reform agenda. According to media reports, the policy seeks to enable state-owned electricity institutions to cover their operational costs by 2028 through a gradual revision of electricity tariffs based on detailed studies and actual service costs. It also proposes replacing blanket subsidies with a targeted support mechanism designed to protect low-income and vulnerable consumers from the impact of rising costs.

The draft policy outlines broader ambitions to expand electricity access, attract private investment, and increase foreign exchange earnings from the energy sector. Alongside ongoing electricity exports to neighboring countries, the government aims to boost revenue through new opportunities in the sector while accelerating the development of Ethiopia's energy resources. Although hydropower will remain central to power generation, the policy calls for greater investment in wind, solar, geothermal, natural gas, and biomass projects. It also encourages private sector participation in electricity generation, transmission, and distribution, while seeking to significantly expand electricity coverage through both grid-connected and off-grid solutions.

D. Draft Insurance Business Proclamation Proposes Sweeping Reforms to Licensing, Regulation, and Foreign Investment

A draft amendment to the Insurance Business Proclamation proposes far-reaching changes to the structure, regulation and ownership framework of Ethiopia's insurance sector. Among the most significant proposals is the separation of insurance licensing categories: the draft would prohibit an insurer holding a standard insurance business licence from simultaneously engaging in reinsurance business and would require a separate licence for the provision of Takaful insurance services. The draft also proposes the establishment of a new autonomous regulator, the Ethiopian Insurance Regulatory Authority, to assume supervisory functions currently exercised by the National Bank of Ethiopia (NBE), which has overseen the insurance sector alongside banking and other financial institutions for three decades. The proposed Authority would be led by a seven-member board, including representatives of the NBE and the Ethiopian Capital Market Authority, and would be responsible for issuing licences and enforcing compliance across the sector.

The draft further indicates that the insurance sector is next in line for liberalisation as part of Ethiopia's broader economic reform agenda. If enacted, foreign insurers would be permitted to establish partially or wholly owned subsidiaries in Ethiopia or to acquire shares in existing Ethiopian insurers, following the precedent set by the Banking Business Proclamation of early 2025. The draft limits "strategic" foreign investors to a 40 per cent shareholding in any insurer, while "non-strategic" foreign nationals may hold up to 10 per cent of subscribed shares. It also contains provisions governing mergers and acquisitions, including a power for the Authority to compel a statutory merger in order to rescue financially distressed insurers. Although industry observers have welcomed the principle of an autonomous regulator, concerns have also been raised regarding the financial sustainability and institutional capacity of a new standalone authority for what remains a relatively small and nascent industry.

ABOUT US

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