TSEGAMLAK SOLOMON & ASSOCIATES

MONTHLY LEGAL UPDATE

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This month's legal update marks June 20th, World Refugee Day — a timely reminder of the legal protections owed to displaced persons and the ongoing need to uphold their rights through national and international law.

Top Update

Directive SBB/94/2025: Comprehensive Licensing Framework for Domestic and Foreign Banks under Ethiopia's New Banking Proclamation

This Directive establishes a comprehensive framework for the licensing, renewal, and regulatory oversight of domestic and foreign banks, including representative offices, in alignment with Ethiopia's new Banking Business Proclamation No. 1360/2025.

What's Covered this Month?

Welcome to the June 2025 edition of the TSA Legal Update! This newsletter brings you key legal developments to help you stay informed and navigate the evolving legal landscape.

In this issue, we cover:

1. Directive SBB/94/2025: Comprehensive Licensing Framework for Domestic and Foreign Banks under Ethiopia's New Banking Proclamation

Following the enactment of the new Banking Business Proclamation No. 1360/2025, the National Bank of Ethiopia (NBE) has issued Directive No. SBB/94/2025, repealing Directive No. SBB/56/2013 and providing comprehensive procedures for licensing and renewing banking businesses and representative offices. This Directive details specific requirements for foreign and domestic banks across licensing, minimum capital, ownership, governance, and compliance processes.

Key Provisions:

Scope and Coverage: The directive covers licensing of domestic banks, foreign bank subsidiaries, foreign bank branches, and representative offices, as well as the annual renewal procedures for these entities.

Minimum Paid-Up Capital: A threshold of ETB 5 billion applies equally to foreign bank subsidiaries and branches. Unlike domestic banks, foreign entrants must remit the full amount upfront into a blocked account.

Three-Stage Licensing Process:

- **Pre-Application Phase:** Requires appointment of project managers, submission of board resolutions, business strategy summary, ownership structure, and a no-objection letter from the home supervisory authority. A non-refundable investigation fee of ETB 100,000 is payable.
- **Application Phase:** Requires full business plan, organizational chart, data localization commitment, signed MoU with home regulator, and a licensing fee of ETB 500,000. The NBE is expected to respond within 90 days of complete submission.
- **Operational Phase:** Licensed entities must begin operations within 12 months and ensure readiness of premises, staffing, IT systems, insurance, and internal controls.

Foreign Representative Offices: Foreign banks may open representative offices upon satisfying new licensing conditions, including submission of detailed documentation, proof of a USD 100,000 deposit for annual operations, and a licensing fee of USD 1,500 and an investigation fee of USD 500. These offices must not engage in banking business and must renew licenses annually with a fee of ETB 100,000. Existing representative offices licensed by the Ministry of Trade and Regional Integration must re-license with NBE within six months.

Shareholding Caps and Investor Types:

- Strategic investors may acquire up to 40% in domestic banks.
- Aggregate foreign ownership is capped at 49%.
- Natural persons are limited to 7% direct, and 15% aggregate (direct and indirect) ownership (excluding strategic investors).
- Juridical persons are limited to 10% direct, and 20% aggregate (direct and indirect) ownership.
- Combined holdings by natural and juridical persons cannot exceed 20%.

License Renewal: Licenses must be renewed annually between July 1 and September 30 upon payment of the respective license renewal fee as prescribed in the Directive. Supporting documents are required, but no repeat of initial approval procedures is necessary.

Revocation and Enforcement: Licenses may be suspended or revoked for non-commencement within 12 months, operational cessation exceeding 30 days, insolvency, or regulatory non-compliance. The NBE may revoke licenses without notice in urgent or public interest cases.

Implications

The directive sets a unified regulatory framework for domestic and foreign banks in Ethiopia, raising entry thresholds and compliance standards. Foreign subsidiaries and branches face strict vetting and full capital remittance, while representative offices now fall under NBE oversight. It clarifies ownership limits and licensing, but uncertainty remains around capital requirements for foreign equity in existing banks. Further NBE guidance is expected.

2. Franco Valuta Imports Officially Phased Out: Final One-Month Grace Period Nearing Expiry

As of July 05, 2025, the final grace period allowed for completing imports of commercial goods under Ethiopia's Franco Valuta scheme will come to an end. This concludes a phased rollback of an exceptional forex policy that had temporarily permitted the importation of goods using foreign currency sourced outside the formal banking system.

Initially, the Franco Valuta scheme was tolerated as part of short-term macroeconomic adjustments aimed at easing supply constraints during periods of acute foreign currency shortage. The policy enabled importers to bring in goods using their own forex holdings, often obtained outside of the National Bank's allocation framework. However, the scheme raised concerns over transparency, exchange control compliance, and long-term macroeconomic risks.

On November 07, 2024, the Ministry of Finance formally terminated the Franco Valuta authorization for commercial goods. A short grace period of two working weeks was granted for importers who had already initiated procurement under the scheme to submit valid documentation to the Ethiopian Customs Commission and finalize entry procedures. This abrupt closure triggered objections from affected businesses, many of whom argued that they had acted in good faith under a previously tolerated regime and could not complete transactions or shipments within the allotted two-week window. They maintained that goods already in transit or in the procurement pipeline were stranded and at risk of regulatory limbo.

In response to these concerns, the Ethiopian Customs Commission requested formal clarification from the Ministry of Finance. The Ministry, recognizing the merit of the argument and the transitional ambiguity, issued a final letter dated June 5, 2025. In this communication, it granted a one-month extension solely to those importers who had already secured Customs' acceptance of their supporting legal documents during the earlier two-week grace period. These importers were authorized to complete customs formalities and bring in the goods by no later than June 5, 2025.

The Ministry made it explicitly clear that this is the final and non-renewable deadline. Once the grace period expires, any commercial goods financed through Franco Valuta and not yet cleared will be considered non-compliant, and no further exception requests will be entertained. This effectively concludes the Franco Valuta import scheme for commercial purposes in Ethiopia. All future import transactions must rely exclusively on forex sourced through formal banking channels in accordance with the rules set by the National Bank of Ethiopia.

3. Customs Commission Enforces Ban on Border Entry of SKD/CKD Fuel Vehicle Parts

On June 9, 2025, the Ethiopian Customs Commission issued a circular to its operational branches instructing them to prohibit the border entry of fuel vehicle parts imported in Semi Knocked Down (SKD) and Completely Knocked Down (CKD) form. The instruction was issued to implement a policy communicated by the Ministry of Finance in its letter dated May 15, 2025.

The Ministry of Finance, in its May 15 letter, determined that the continued importation and local assembly of fuel-powered vehicles from SKD and CKD parts was undermining the government's established ban on fully built fuel vehicle imports. The Ministry specifically ordered that this loophole be closed by extending the import ban to include disassembled vehicle parts, thereby aligning enforcement practices with the overarching environmental and industrial policy objectives under the Climate Resilient Green Economy (CRGE) strategy.

The Customs Commission's letter, therefore, requires that the prohibition be extended to cover SKD and CKD fuel vehicle parts. The measure applies to automobiles, three-wheeled vehicles, and motorcycles falling under HS Code 8703 and HS Code 8711. Excluded from the scope of this restriction are ambulances, electric vehicles, electric motorcycles, and hybrid motor vehicles.

All customs control units, including border posts and inland branches, are expected to implement this instruction in full. As a result, importation of SKD/CKD fuel vehicles is now explicitly barred unless exempt, and this has direct implications for investment planning. Investors in the automotive sector must pivot to electric or hybrid vehicle assembly to remain compliant. Investment licenses tied to fuel vehicle assembly now face regulatory obsolescence and should be reviewed in light of the new restrictions

4. Customs Commission Now Requires Full and Clear Import Documents

On May 13, 2025, the Ethiopian Customs Commission issued a letter requiring all customs stations to enforce stricter rules on the import documents submitted for customs valuation. This comes in response to repeated problems with unclear or incomplete paperwork from importers, which has made customs valuation unreliable and inconsistent.

From now on, customs officers will not accept documents that do not give complete and specific information about the goods being imported. For example, commercial invoices must describe the goods being packed in a clear and detailed manner, including the exact number of goods, their weight, size, unit of measurement, and any other relevant details that contribute to accurate excise and tax valuation.

Vague references such as simply stating "package", "box", "pallet", "bundle", and "carton" without specifying the content will no longer be accepted. The packing list must match the invoice in every detail, including type and quantity of packaging, and the valuation declaration form must include all relevant information such as the transaction price, applicable adjustments, and freight and insurance costs.

If these documents are not fully and properly completed, the customs system will reject the declaration outright. Customs offices are instructed to return such declarations without processing them. This requirement takes effect immediately, and no exceptions will be made.

Importers are advised to double-check their documentation processes and make sure that every form they submit includes all the necessary information. Those who continue to submit vague or incomplete documents should expect delays or rejections. The Customs Commission emphasized that this move is intended to support fair trade, reduce undervaluation, and help speed up the process for those who follow the rules.

This change is legally based on the Customs Proclamation and the existing directive on customs valuation, aligning with international standards. It’s a clear signal that Ethiopia is tightening its customs system, and importers need to respond accordingly.

5. Federal Public Bodies Now Required to Accept Payments from All Licensed Providers

In a move poised to recalibrate how public institutions interact with Ethiopia's expanding digital payment ecosystem, the Ministry of Finance has issued Directive No. 1069/2025, compelling all federal entities to open their payment channels to any financial service provider licensed by the National Bank of Ethiopia (NBE). Far from a mere administrative instruction, the directive signals a deliberate policy shift toward broadening financial access, fostering competitive neutrality among payment providers, and embedding interoperability into government financial systems. Grounded in the Licensing and Authorization of Payment Instrument Issuers Directive and the Federal Government Financial Administration Proclamation, this measure marks a significant step toward building an open, inclusive, and technology-driven public revenue collection framework.

What's Required Now

All federal institutions, ministries, agencies, and other public bodies funded by the government must accept payments through any of the following, provided the provider is licensed by the NBE:

- Debit and credit cards
- Prepaid instruments
- Mobile wallets
- Internet and mobile banking

Bank or non-bank fund transfers

Importantly, public offices may not limit or refuse payments based on the identity of the licensed service provider. So long as the provider is authorized by the NBE and meets regulatory standards, the payment must be accepted.

System Integration and Implementation Timeline

Public bodies are required to integrate their systems with authorized payment gateways to ensure that they can actually receive such payments. They have 90 days from the directive's issuance to complete all technical and administrative arrangements. Additionally, institutions must report their progress every 30 days until full compliance is achieved.

Compliance Oversight and Institutional Responsibilities

The directive prohibits public bodies from rejecting any valid payment instrument solely based on who issued it, provided the issuer is licensed by the National Bank of Ethiopia. It also requires that public institutions receive the full amount payable to them without deductions, regardless of transaction costs. The Ministry of Finance's Inspection Department will oversee implementation, with authority to request information or conduct inspections, while the Treasury Department is available to provide technical or operational support as needed.

6. Foreign Investor Participation in Previously Restricted Trade Sectors Now Regulated by New Investment Board Directive

In a strategic turn aimed at revitalizing Ethiopia's trade and investment landscape, the Ethiopian Investment Board has issued Directive No. 1082/2025 to govern foreign investor participation in export, import, wholesale, and retail trade sectors that were historically reserved for domestic actors. This reform, introduced following the limitations of the now-repealed Directive No. 1001/2024, reflects a recalibration of policy priorities: enhancing service quality, addressing market inefficiencies, and boosting the country's integration into global trade networks. The new directive signals a transition from protective exclusivity toward regulated openness, with a view to attracting credible foreign capital while maintaining clear regulatory safeguards

The Directive opens participation in selected export trades, including raw coffee, oilseeds, pulses, khat, hides and skins, livestock, poultry, and forest products, to foreign investors, provided they submit a comprehensive due diligence report verifying business integrity, financial standing, and compliance with international standards on illicit activities. This same verification framework applies to import trade activities, excluding fertilizer and petroleum, and to wholesale trade, except in fertilizer distribution, where foreign investors may either import directly or source goods domestically. Retail trade, traditionally the most protected domain, is now open to foreign participation, conditioned upon a minimum paid-up capital of USD 2.5 million and due diligence conducted by a recognized verification agency. In exceptional cases, the Board may authorize participation in single-brand retail trade ventures with lower capital thresholds.

Institutional enforcement is equally structured. The Ethiopian Investment Commission retains responsibility for receiving applications, vetting compliance, and issuing permits and registrations, while the Ministry of Trade and Regional Integration oversees business licensing and consumer protection. A permanent inter-agency committee, chaired by a Board appointee and composed of all key economic regulators, will monitor outcomes and policy alignment.

7. Foreign Investor Service Fees Hiked Under New EIC Directive

The Ethiopian Investment Board has issued Directive No. 1053/2025, significantly increasing service fees charged by the Ethiopian Investment Commission (EIC), particularly for foreign investors operating in Free Trade Zones. The Directive, which came into force in June 2025 following its publication on the websites of the Ministry of Justice and EIC, is grounded in Article 23 of the Special Economic Zone Proclamation No. 1322/2024. It introduces a detailed schedule of revised fees covering 67 distinct services rendered by the Commission. The changes are framed as part of a broader effort to modernize service delivery, align fees with administrative costs, and enhance regulatory oversight, particularly in Free Trade Zones, where greater service infrastructure and institutional support are expected. This marks a clear policy shift from low-cost investor facilitation to a cost-reflective pricing model tied to service intensity and procedural complexity.

What's Changed?

The Directive replaces the previously modest fee structure with a new schedule that differentiates charges based on whether services are provided through the EIC's general One Stop Shop (OSS) or within designated Free Trade Zones such as Dire Dawa. While service fees under the OSS now range between 15 and 200 US dollars, investors operating in Free Trade Zones face significantly steeper costs, with some fees reaching as high as 1,000 dollars.

The issuance of a new investment permit in Free Trade Zones, for example, is now set at 1,000 dollars, inclusive of related registration and documentation services. Similarly, work permits and business licenses in these zones now cost between 500 and 1,000 dollars, approximately five times higher than their OSS counterparts. These examples are illustrative; the overall adjustments extend across a broad range of services affecting administrative approvals, investor registration, construction facilitation, association filings, and other procedural transactions that fall under the EIC's mandate.

Implications

Foreign investors, especially those planning operations in Free Trade Zones or Special Economic Zones, should anticipate higher upfront and ongoing compliance costs under the new regime. The Directive introduces a significant financial layer to the administrative side of investment establishment and licensing. Investors are advised to adjust cost models accordingly, and review project feasibility assumptions where applicable.

8. New Excise Marking Directive Tightens Compliance for Excisable Goods

The Ministry of Finance has issued Excise Markings Management Directive No. 1072/2025, establishing a stricter regime governing the marking, traceability, and control of excisable goods in Ethiopia. Issued pursuant to Articles 29 and 42(2) of the Excise Tax Proclamation No. 1186/2020, the directive repeals and replaces Excise Stamp Management Directive No. 1004/2024. It signals a renewed enforcement push to curb illicit trade, promote tax compliance, and enhance transparency in the movement of excisable goods, with clear implications for manufacturers, importers, distributors, and retailers.

What's Changed

The directive introduces a system of unique identifiers (UIs), which must now be affixed, physically or digitally, on all excisable goods distributed or imported into Ethiopia. Operators are granted the choice to print UIs directly on packaging or to affix physical stamps provided by an authorized markings provider, which may include a designated third-party supplier. Applications for markings must be submitted at least 60 days before the planned production or importation, and the Tax Authority is required to respond within five working days. Excise markings are now mandatory for legal market entry, and operators must prepay the required fees before issuance.

The system also imposes strict record-keeping and verification obligations. Licensed operators must maintain detailed monthly records of received, used, damaged, and reconciled markings. Transfers of markings between units under the same entity require prior authorization. Return of unused markings is compulsory under specified conditions, including business closure. Downstream actors in the supply chain, distributors, wholesalers, and retailers, are required to verify the authenticity of markings prior to engaging in trade. Following a formal notice by the Tax Authority, all entities must cease transactions involving unmarked goods within 120 days.

Implications for Businesses

The directive introduces substantial operational and compliance burdens across the excisable goods supply chain. Affected businesses must promptly assess internal systems for traceability, integrate UI application protocols, and prepare for third-party audits. Failure to comply will trigger penalties under the Excise Tax Proclamation or the Tax Administration Proclamation. Given the 120-day compliance window following official notice, manufacturers and importers are advised to align their processes and inventories with the new requirements without delay.

9. Revised Excise Management Directive Establishes Stricter Licensing and Oversight Regime

In a renewed push to modernize excise tax administration and assert regulatory control over high-risk supply chains, the Ministry of Finance has introduced Excise Tax Management System Directive No. 1071/2025. Issued under Article 42(2) of the Excise Tax Proclamation No. 1186/2020, the directive repeals and replaces Directive No. 251/2020 and redefines the licensing, surveillance, and compliance obligations for all excisable goods operators. The new directive establishes a more rigorous licensing, monitoring, and compliance framework for all persons engaged in the production, importation, and handling of excisable goods.

What's Changed?

The directive introduces a mandatory licensing regime for manufacturers, importers, and handlers of excisable goods, prohibiting any excisable activity without a valid excise tax license. Licenses now function as formal agreements with the Tax Authority, and any breach may result in criminal liability. While existing operators are recognized as licensed, they are required to transition to a revised licensing format in accordance with the new framework.

Operators must strictly conduct activities within approved premises. Modifications to physical layout, production plans, or risk profiles must be pre-approved, and site plans must be visibly displayed. New security obligations include access control systems, CCTV, alarm installations, physical barriers, and the designation of a safety officer whose identity must be registered with the Authority. The directive also allows for remote surveillance installations such as cameras, scanners, and meters. Operators bear the full cost of connectivity and must facilitate uninterrupted monitoring.

In terms of production control, manufacturers are now obligated to install product authentication systems approved by the Tax Authority and ensure equipment is regularly tested. Finished goods must carry specific labels indicating their designated market, such as "FOR USE IN ETHIOPIA" or "DUTY FREE." Raw materials used in production must be secured and properly recorded, subject to inspection and verification by the Tax Authority.

Implications for Operators

The directive introduces extensive compliance duties, elevating the regulatory burden on licensed operators. The Tax Authority is granted broad surveillance powers and new enforcement tools to track inputs and outputs across the production chain. Violations, including unauthorized production, diversion, or tampering with surveillance systems, may lead to license cancellation, financial penalties, or criminal prosecution under the Excise Tax Proclamation. Operators are advised to reassess their operational and legal compliance mechanisms to avoid exposure under the new regulatory regime.

10. Repeal of Mandatory Treasury Bond Purchase Requirement: Shift in Monetary Policy Approach

Effective June 30, 2025, the National Bank of Ethiopia (NBE) issued Directive No. MFAD/TRBO/002/2025 to repeal the Treasury Bond Purchase Directive No. MFAD/TRBO/001/2022. The repealed directive had required commercial banks to purchase treasury bonds equivalent to 20 % of their gross loan disbursements, thereby serving as a mechanism for indirect monetary control and budget financing.

Transition:

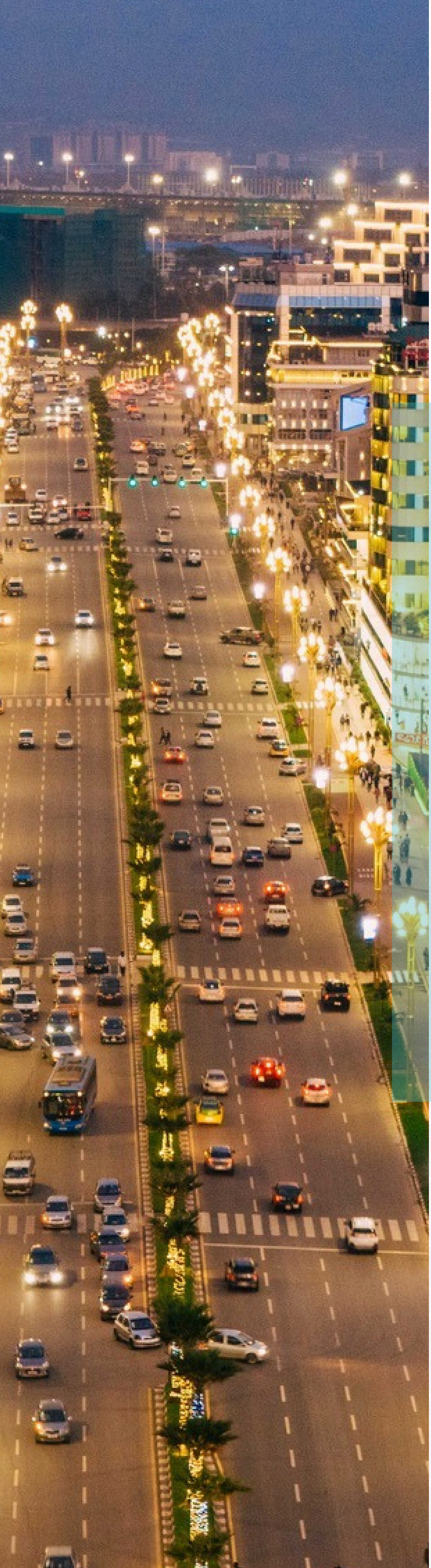
- Despite the repeal, any outstanding treasury bond purchase allotments for June 2025 made pursuant to Article 5 of the repealed directive remain enforceable. Each bank must settle such purchases no later than July 15, 2025.
- Treasury bonds that were issued prior to June 30, 2025, or those issued in relation to the June 2025 allotments, will continue to be governed by the provisions of the repealed directive.

Implications:

The repeal signifies a major policy reversal in the NBE's approach to indirect monetary financing and regulatory control over bank lending. While the mandatory bond subscription regime is now discontinued, the legacy instruments and final obligations for June 2025 are ring-fenced under the prior rules.

The change potentially relieves banks of a significant liquidity drain going forward, though the settlement deadline of July 15, 2025 for June's outstanding allotments still imposes short-term capital planning requirements.

Banks and financial institutions must ensure full compliance with the transitory obligations and monitor for further monetary policy adjustments that may follow this repeal.



Contact Us

www.tsegasolomon.com

+251-926 354 220

tsolomon@tsegasolomon.com

Africa Avenue, Getu Commercial Center, 6th Floor

Addis Ababa